

Finding Opportunities in Restructuring in the Year Ahead

Wednesday, April 28, 2010; 11:00 AM - 12:15 PM

Moderator:

Irwin Gold, Co-Chairman; Co-Head, Financial Restructuring Group, Houlihan Lokey

Speakers:

Christopher Jacobs, Senior Analyst, Western Asset Management Company

Marc Rowan, Co-Founder and Senior Managing Director, Apollo Global Management LLC

Alan Schwartz, Executive Chairman, Guggenheim; Chairman, Robin Hood Foundation

Doug Teitelbaum, Managing Partner, Bay Harbour Management



Irwin Gold's slides

Credit bubble

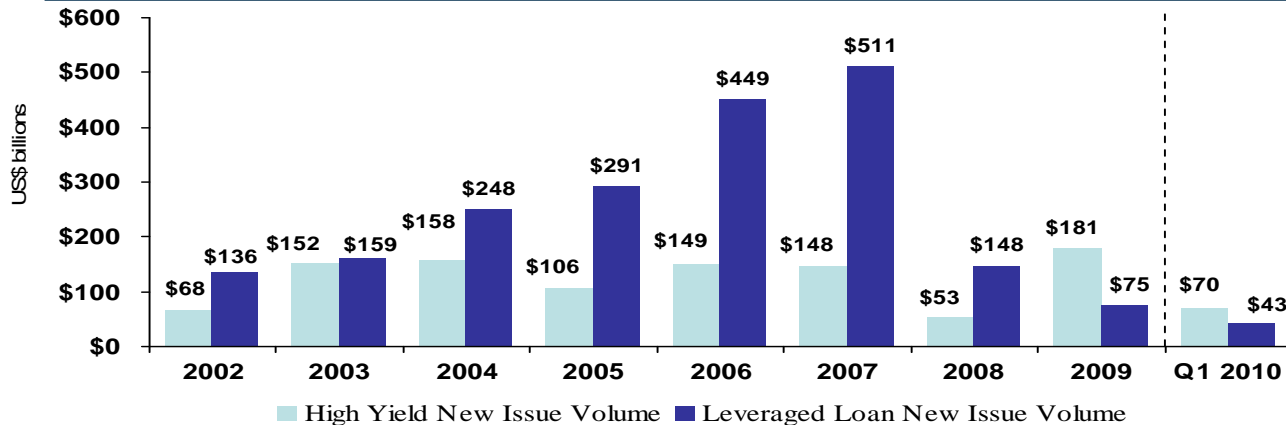


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Unprecedented New Debt Issuance from 2003 through 2007

High Yield and Leveraged Loan New Issuances

(\$ in billions)



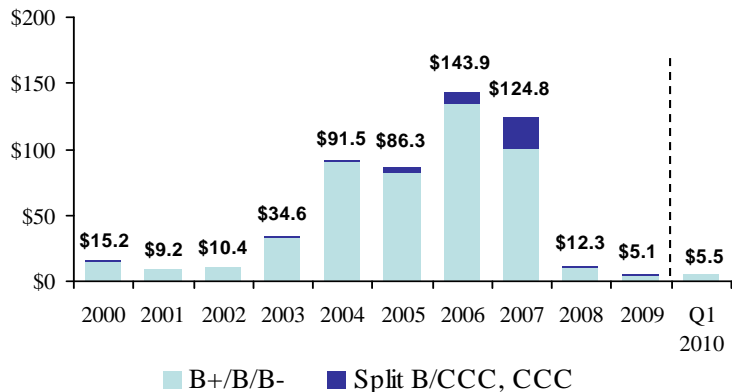
Sources: S&P LCD as of Q1 2010 and JP Morgan North American High Yield Research

Note: Data reflect domestic issues only

Credit bubble (cont.)

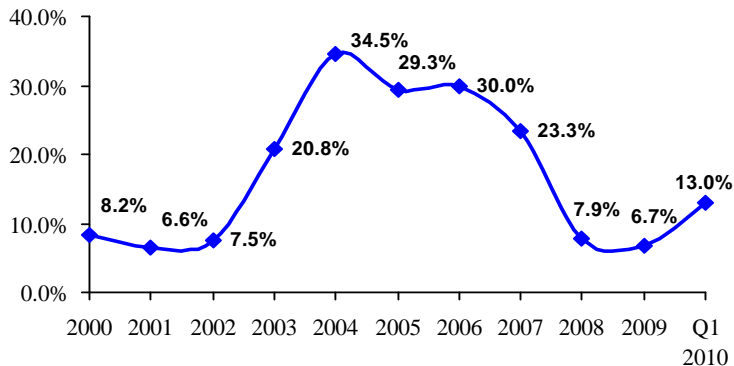
Substantial Deterioration in Credit Quality from 2003 through 2007

B+ Rated and Below New Issuances
(\$ in billions)



Source: S&P LCD

B+ Rated and Below New Issuances as a % of Rated Leveraged Loan New Issuances



Source: S&P LCD

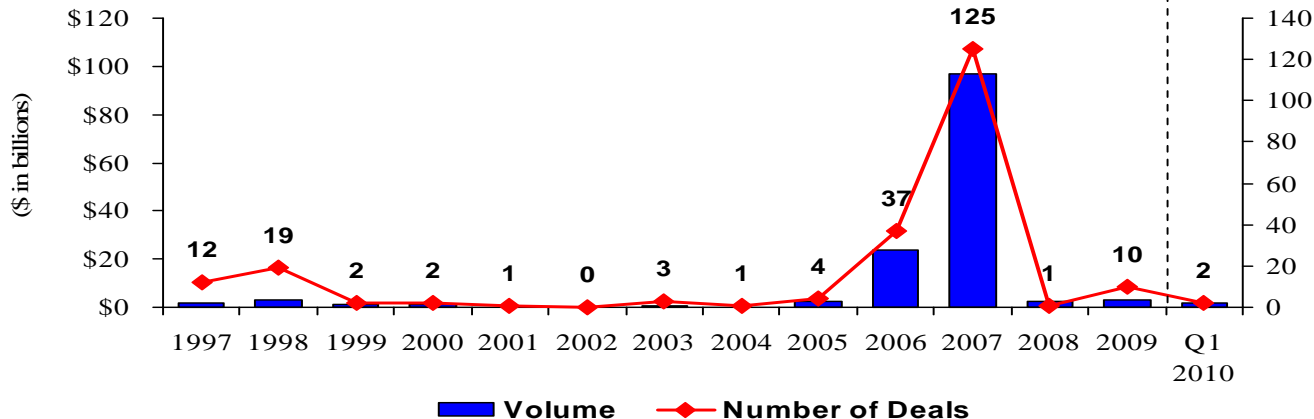
Note: Data reflect domestic issues only



Credit bubble (cont.)

Fewer Lender Protections

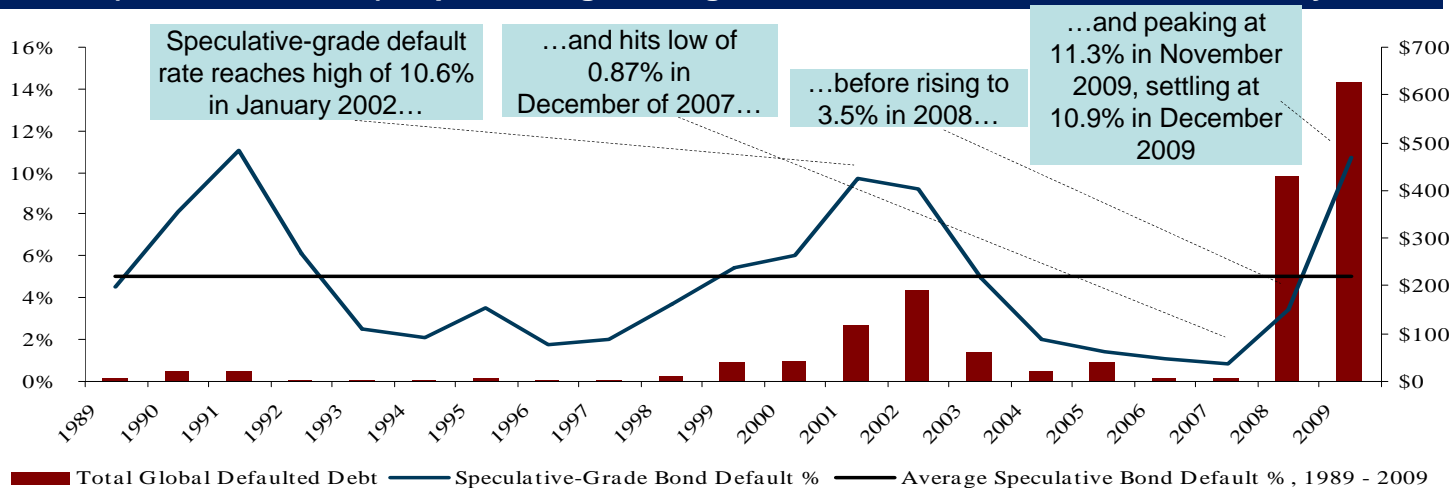
Volume and Number of Covenant-Lite Loans (\$ in billions)



Peak defaults in 2009

Expected Consequence of the End of the Easy Credit Environment...Record Default

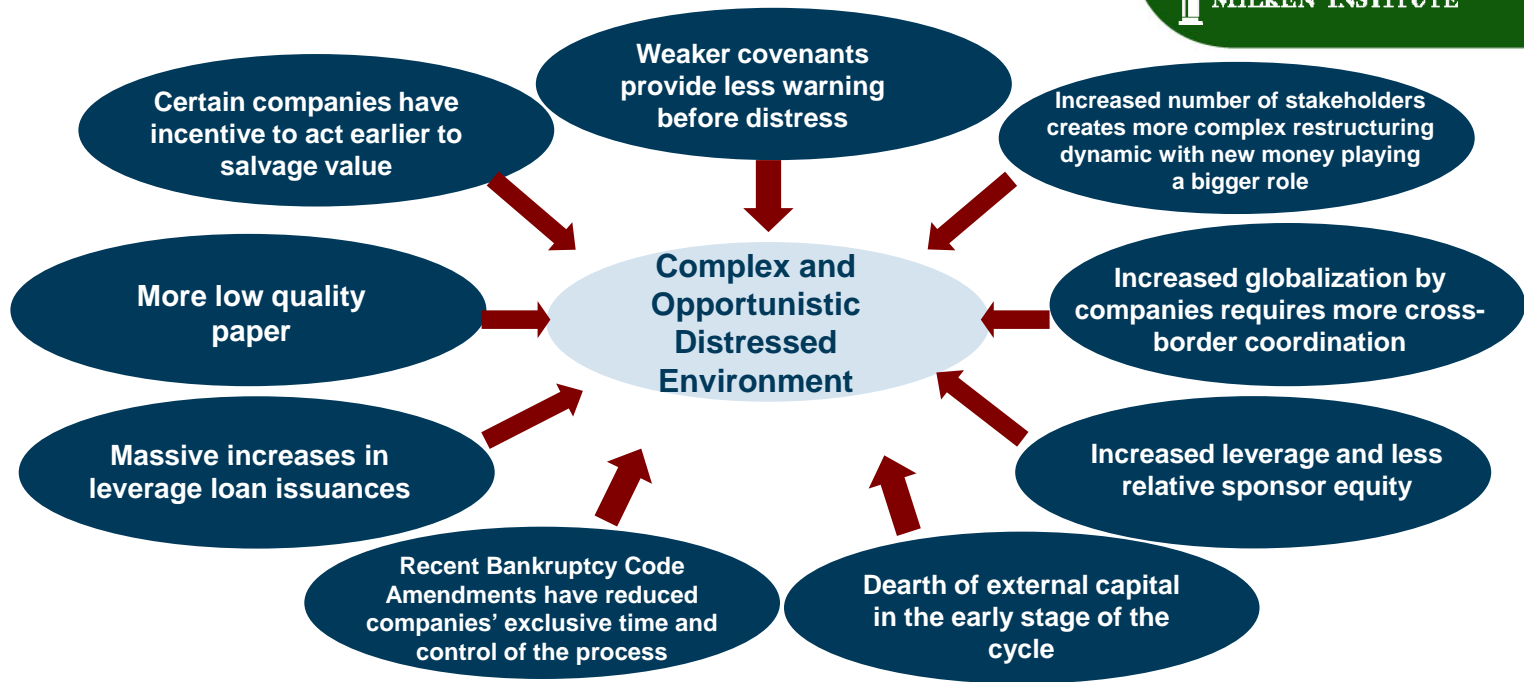
The amount of global defaults skyrocketed in 2009 to over \$625 billion of defaulted debt (bonds and loans), representing the largest universe of defaulted debt in history



Recent (2008-2009) distressed cycle dynamics



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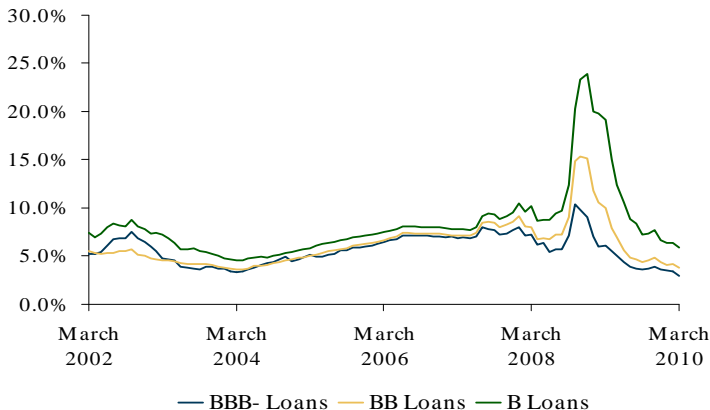
Bankruptcy has become a more acceptable restructuring implementation alternative



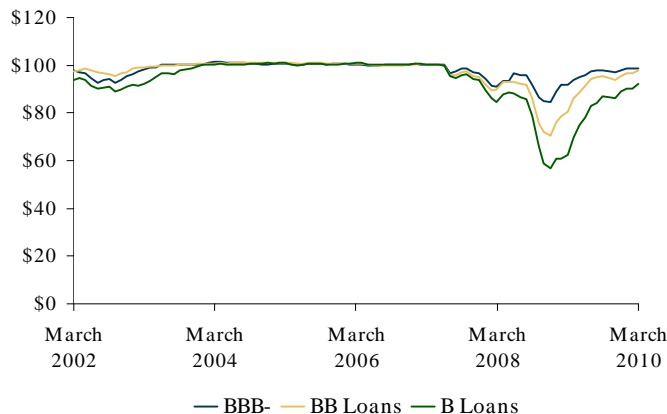
Dramatically improved tone...

Improved Debt Prices Beginning in the Second Quarter of 2009

Average Secondary Spreads by Rating



Average Secondary Prices by Rating



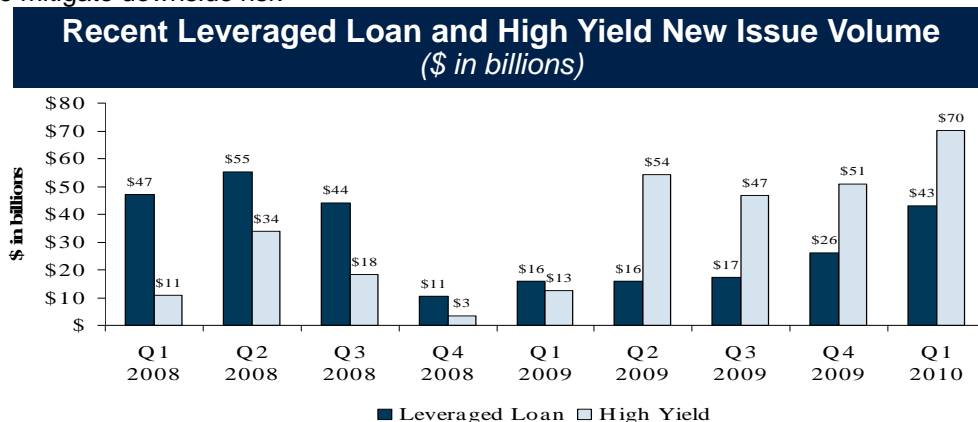
Source: S&P LCD

Note: The current 3-month LIBOR is used to calculate the yield

Creating greater refinancing/restructuring options

Capital Structure Alternatives for Overleveraged Companies Have Evolved as Credit Markets Have Thawed Beginning in the Second Quarter of 2009

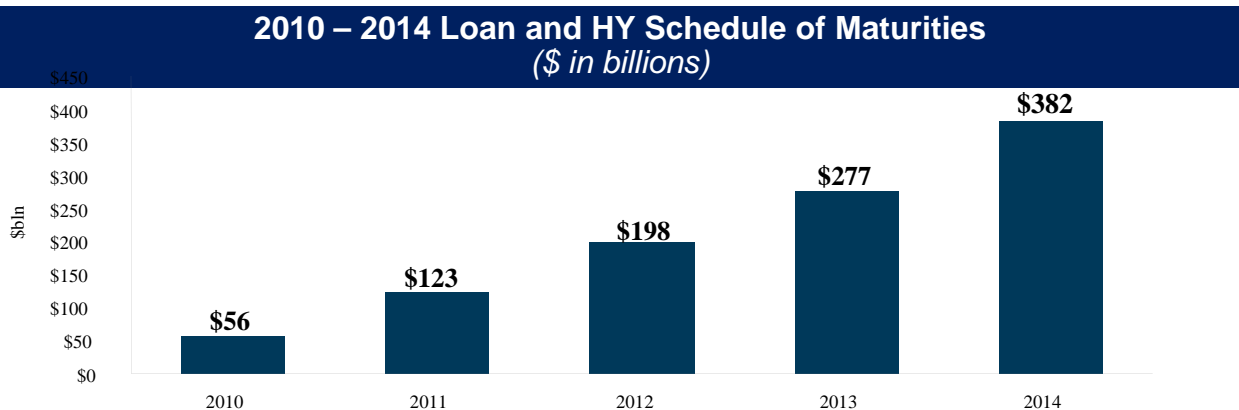
- The market has seen an increase in amend-and-extend and refinancing transactions, especially in high yield refinancing of leveraged loans
- As market conditions have improved, companies have been less able and /or willing to opportunistically implement market-based, discounted exchange offers, which largely capitalized on creditors' negative market perceptions and their desire to mitigate downside risk



Source: S&P LCD through Q1 2010, reflects B+ and below and unrated issuances

Looming debt maturities

- While current conditions have improved, there is less certainty around what the next few years will hold for distressed / restructuring markets
- However, with greater than \$650 billion of domestic maturities in 2013 and 2014, many believe another restructuring wave is looming
- Commercial real estate problems could further complicate broader distressed/restructuring market dynamics as there are over \$700 billion of commercial mortgage-backed securities outstanding and an additional \$1.7 trillion of commercial mortgages and construction loans held by banking institutions



Source: S&P; data as of January 1, 2010.

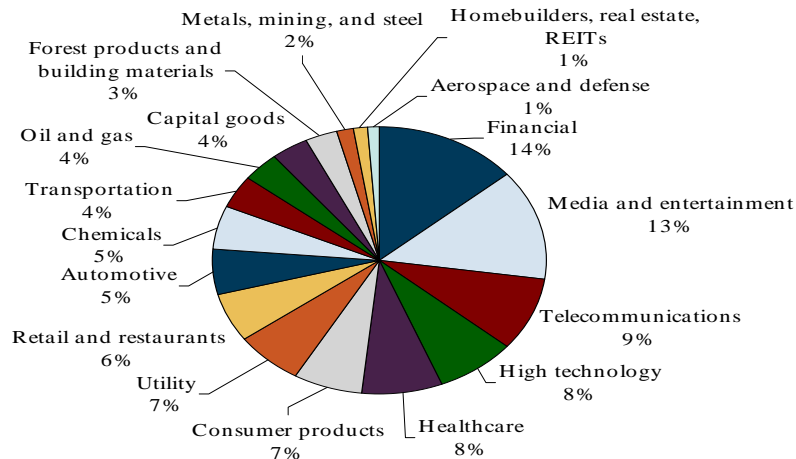
Note: Revolving facilities are counted at committed amount

Summary of 2010-2014 maturities



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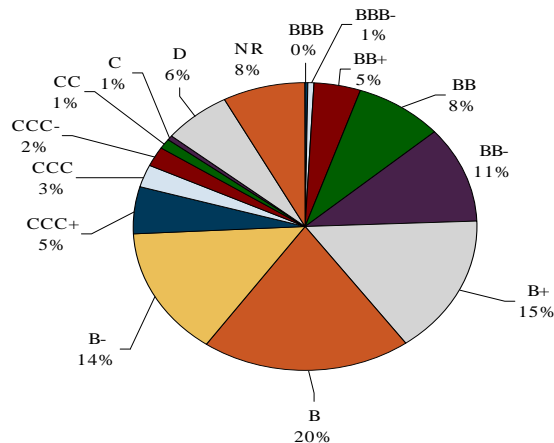
2010-2014 Loan and HY Maturities by Industry



Source: S&P

Note: data as of January 1, 2010; revolving facilities are counted at committed amount

2010-2014 Loan and HY Maturities by Rating



Source: S&P LCD

Note: data reflects issues rated BBB and lower listed on an index

Where do we go from here?...

- Defaults Expected to Decline in the Near-Term, Long-Term Forecast Unclear
 - J.P. Morgan forecasts the leveraged loan and high yield default rates will fall to 4.0% and 2.0%, respectively, by the end of 2010
 - Altman projects a high yield default rate of 6.70% for 12 months ending December 31, 2010, noting the potential for additional economic stress in 2010 and / or 2011
- Deals – Less Leverage, More Equity
 - Transactions being done are more conservatively structured, smaller, and reflect more expensive debt terms
 - Leverage levels for LBOs have fallen to less than 4.5x total leverage with average senior leverage of approximately 3.0x, down from 6.0x and 5.0x, respectively, at their peak in 2007
 - LBO equity contributions reached a record high of 43% in 2008
 - However, inflows to loan funds have been growing steadily, which has created a strong demand for new debt, pushing down yields
- **While current conditions have improved, are markets putting off the inevitable restructuring wave?**

Marc Rowan's slides



What people were saying...

“First came *Freescale’s* ugly private equity deal. Now the chipmaker has lost its CEO—and its bearings”

— *Business Week* 4/3/08

“At *Univision*, High Leverage Creates Drama”

— *New York Times* 8/20/08

“*Hilton* Buyout: Debt-heavy purchase Came in Waning Days of Deal Boom. Hotel-Market Slump Darkens the Outlook”

— *Wall Street Journal* 11/5/08

“*Clear Channel* Debt Sparks Investor Skepticism”

— *Wall Street Journal* 2/11/09

“Texas-Sized Losses: *TXU Corp.*, the biggest leveraged buyout in history, is coming under increasing strain”

— *Wall Street Journal* 3/4/09

“Analysts: *Harrah’s* plan might not stave off bankruptcy”

— *Las Vegas Sun* 4/13/09

“*Intelsat*: The Last of the LBO High Wire Acts”

— *Wall Street Journal* 2/5/08

“*HCA* is a distressed debtor”

— *Reuters* 2/24/09

“In the history of the latest private equity bubble, the \$11.76 billion acquisition of *SunGard Data Systems...* is the milestone”

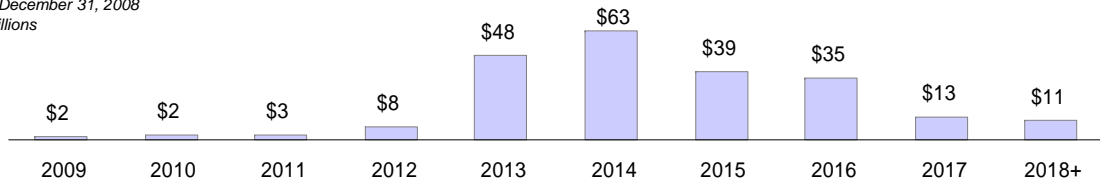
— *New York Times* 4/4/08



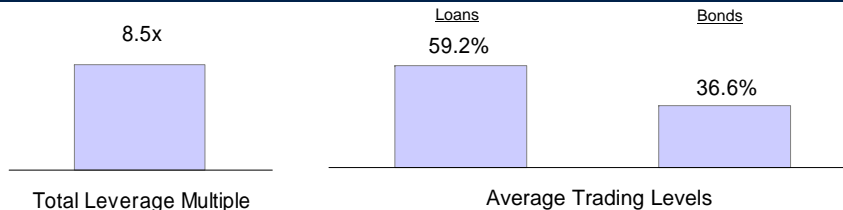
... and with Good Reason

Aggregated Maturities of Top 15 LBOS 2005 – 2007

As of December 31, 2008
\$ in billions



Weighted Averages of Top 15 LBOs⁽¹⁾



(1) Weighted averages based on TEV of original LBO investment.

* Top 15 LBOs of 2005-2007 include: Alliance Boots, Clear Channel, Dollar General, First Data, Freescale, Harrah's, HCA, Hilton, Intelsat, Nielsen, Servicemaster, SunGard, TXU, Univision and US Foodservice

Equity was underwater...

LBO	Date	TEV	Purchase Multiple	Original		Mark to Market Current Equity
				Equity	Debt	
TXU	10/01/07	\$43.5	10.2x	\$8.5	\$35.0	n/a
HCA	07/24/06	33.1	7.6x	4.8	28.3	n/a
Harrah's	01/25/08	30.0	10.4x	6.1	23.9	n/a
First Data	09/24/07	29.0	12.0x	5.6	23.4	n/a
Hilton	10/24/07	26.9	16.4x	5.6	21.3	n/a
Clear Channel	07/30/08	26.7	10.7x	3.2	23.5	n/a
Alliance Boots	06/27/07	24.5	12.8x	7.6	16.8	n/a
Freescale Semiconductor	12/04/06	19.7	8.4x	8.2	11.5	n/a
Intelsat	02/04/08	16.4	9.7x	1.5	14.9	n/a
Univision	03/29/07	14.0	17.2x	4.0	10.0	n/a
SunGard Data Systems	08/11/05	11.8	10.0x	3.9	7.9	n/a
Nielsen	03/08/06	11.0	11.4x	3.4	7.6	n/a
Dollar General	07/06/07	7.5	11.4x	2.8	4.7	n/a
US Foodservice	06/26/07	7.3	12.7x	2.2	5.1	n/a
Servicemaster	07/24/07	5.7	12.0x	1.4	4.3	n/a
		\$307.1	11.5x	\$68.9	\$238.1	?

Average Equity % = **24.9%**

Average S&P Decline Since LBO Avg. Close* = **-43.4%**

* Average LBO Close date is May 16, 2007. Average S&P decline is from May 16, 2007 through April 27, 2009, one year ago.

What a difference a year makes

Recent re-financings for once-troubled buyouts



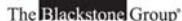
- Completed over \$8.6 bn of re-financings across six transactions since December 2008
- Retired remaining near-term maturities with \$750 mm offering in April 2010



- Refinanced approximately \$4 billion of near-term maturity bank debt with secured notes in 2009 and 2010 YTD
- Extended maturities from 2013 to 2017-2020



- Completed amend-and-extend transaction in June 2009
- Transaction pushed out \$2.7 bn of bank debt maturities from 2014 to 2016



- Issued \$5.3 bn in high-yield notes in March and April 2010
- Extended 2013 and 2014 maturities to 2018; partially paid down 2012 revolver



- Issued \$2.5 bn in bonds in December 2009 to repay bank debt due August 2010
- Deal pushed out 2014 and 2016 maturities to 2017



- Reached deal to reduce debt by almost \$4 bn in April 2010
- Remaining maturities pushed out two years from 2013 to 2015



- Issued \$545 mm of notes due 2014 in June 2009
- Proceeds used to fund a par tender offer for \$500 mm of secured notes due 2011



- Issued \$500 mm of bonds due 2019 in December 2009
- Proceeds used to repay \$400 million of junior bonds due 2017

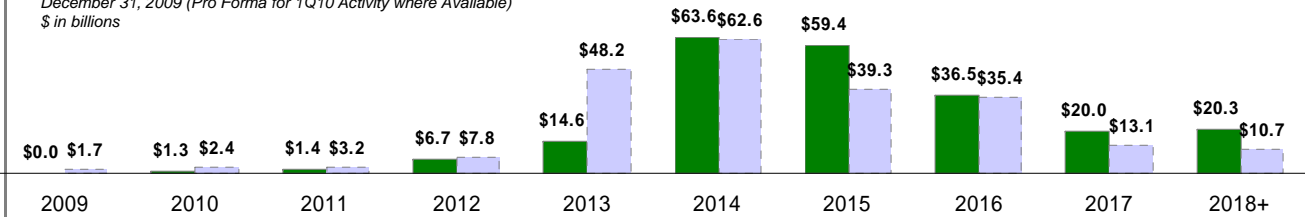


- Issued \$500 mm of new Senior Secured Notes due 2020 in January 2010
- Proceeds used to repay near term maturities

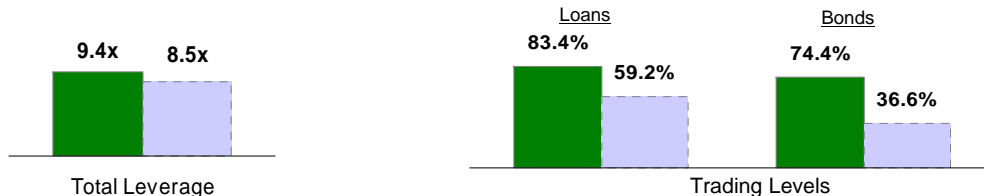
Back in the black

Maturities of Top 15 LBOS 2005 – 2007

December 31, 2009 (Pro Forma for 1Q10 Activity where Available)
\$ in billions



Weighted Average of Top 15 LBOs⁽¹⁾



■ as of December 31, 2009 ■ as of December 31, 2008

(1) Weighted averages based on TEV of original LBO investment.













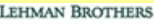


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Some were not so lucky...

Selected recent distressed for control transactions



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Bankrupt Company	Fulcrum Security
 – Aleris (pending)	Bank Debt
 – Charter Communications	Bonds
 – Chemtura (pending)	--
 – Chrysler	Bank Debt
 – CIT	Bonds
 – Cooper Standard (pending)	Bonds
 – Education Media	Bank Debt
 – General Growth Properties	Equity
 – General Motors	Bonds
 – Herbst Gaming	Bank Debt
 – Integra Telecom	2nd Lien
 – Lear Corp.	Bonds
 – Lehman Brothers (pending)	Bonds
 – LyondellBasell	Bank Debt
 – Masonite	Bank Debt

Bankrupt Company	Fulcrum Security
 – Nortek	Bonds
 – Panavision	2nd Lien
 – Panolam	Bonds
 – Riverdeep	Bank Debt/2nd Lien
 – SemGroup	Bank Debt
 – Six Flags	Bonds
 – Smurfit-Stone (pending)	Bonds
 – Spancion	Bonds
 – Stallion Offshore	Bonds
 – Station Casinos (pending)	--
 – SuperMedia	Bank Debt
 – Technicolor (pending)	Bonds
 – Tribune Co. (pending)	Bank Debt
 – Visteon (pending)	--
 – Washington Mutual (pending)	Bonds

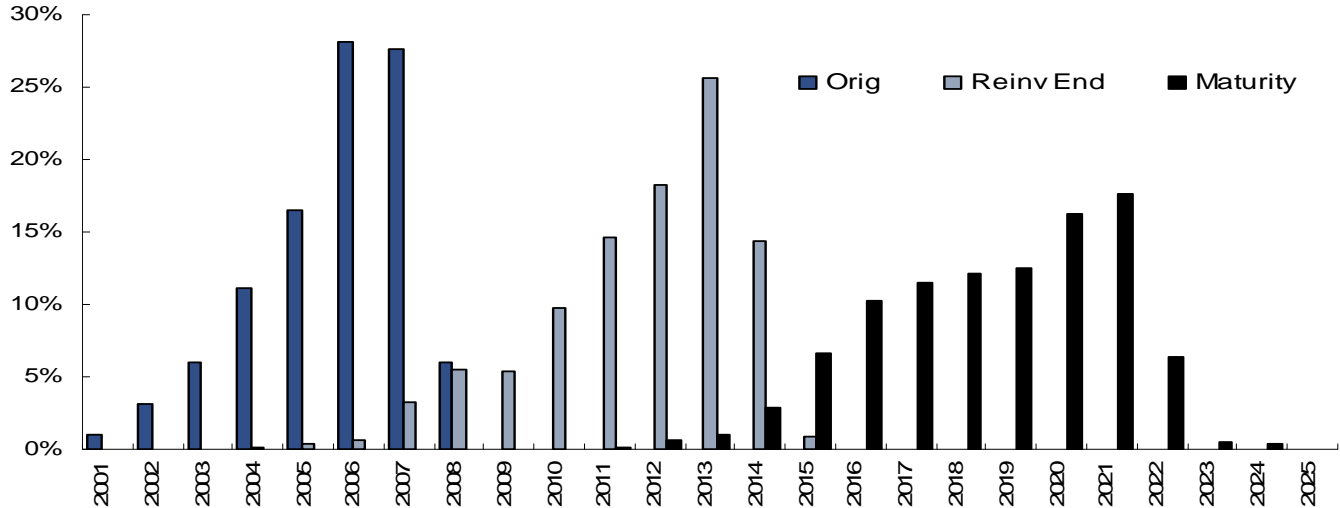
Key Opportunities

- Delayed Restructurings
- Real Estate Related
- Small/Mid Cap Restructurings
- Europe



Alan Schwartz's slide

CLO issuance, reinvestment period expiration, and maturity profile



Source: Citigroup