

GOLD SHEETS

Vol XXIV, No. 5

A Thomson Reuters LPC Publication

February 1, 2010

5 THINGS TO KNOW

1 Warner Chilcott pulled its repricing bid after it failed to convince majority lenders in its bank loan to consent to the amendment. p. 2

2 Over 50 lenders piled onto Del Monte's \$1.1 billion pro rata deal. p. 15

3 Citi is arranging a \$500 million CLO for Fraser Sullivan. p. 3

4 Carmike Cinemas, Chemtura, Great Point Power and Summit Materials have all cut pricing on their financings. p. 17

5 Scientific Games returns for another amendment. p. 17

A turning point? Promising end to 2009 offers high hopes for middle market lending in 2010

— by Diana Diquez

2010 began with optimism in the loan market, a dramatic shift in sentiment compared to the start of 2009 when the market was still in a state of paralysis. While the primary loan market did not open up until late in 3Q09, by year end, conditions had improved dramatically, setting the stage for a potentially faster-than-anticipated recovery in 2010.

In the middle market (overall deal size <=\$500 million and borrower sales size <=\$500 million), 4Q09 issuance reached \$25.8 billion, its highest quarterly level since 3Q08. This level is up 37% from 4Q08, the first year-over-year increase in quarterly loan issuance since 3Q07. Despite its triumphant finish, issuance is still far off from historical highs. At \$71 billion, 2009 middle market lending is the lowest level since Thomson Reuters LPC began tracking the middle market in 2000 (Fig. 1).

Fifty-eight percent of lending activity

came from amendments and refinancings, but the pace of these financings decreased significantly by year end (Fig. 2). In 1Q09, 74% of middle market lending came from amendments, with the bulk of it coming from majority vote amendments. Given the dire state of the loan market at the beginning of the year, companies and arrangers avoided putting existing bank groups at risk by opening up the deals to 100% vote amendments. In 4Q09, amendments still made up a hefty 47% of middle market lending, but the majority were done via 100% votes and just a fraction through majority vote amendments.

Both sponsored and non-sponsored lending showed signs of recovery in 4Q09, but issuance was still down in both market segments for the year. At \$58 billion, non-sponsored issuance fell 26% from 2008's level. Sponsored issuance took a bigger hit and fell 42%

(NON-SPONSORED cont'd on p. 18)

Interested in Advertising
in the
Thomson Reuters LPC
2010 Annual

Contact Natalie Bonelli

at
646-223-5235

natalie.bonelli@thomsonreuters.com

BSL GRID

Applic. Rating	Avg. Undrawn	Min. Undrawn	Max. Undrawn	Avg. Fully Drawn (LIB spread + Ann + Usage)	Avg. Fac Size (\$Mils.)
364-day					
AA	15.83	-	37.50	120.83	3,167
A	15.63	10.00	25.00	95.49	1,102
BBB	40.00	32.50	50.00	233.33	632
Multi-year					
AA	N/A	N/A	N/A	N/A	N/A
A+	N/A	N/A	N/A	N/A	N/A
A	N/A	N/A	N/A	N/A	N/A
A-	N/A	N/A	N/A	N/A	N/A
BBB+	N/A	N/A	N/A	N/A	N/A
BBB	N/A	N/A	N/A	N/A	N/A
BBB+	41.67	37.50	50.00	195.83	1,816.67
BBB	50.00	37.50	62.50	259.38	281.25
BBB-	50.00	45.00	55.00	325.00	375.00

Due to the lack of adequate deal flow, the multi-year revolver of some rating categories will not be posted until such time when there are sufficient deals to report.

Thomson Reuters LPC uses the 3-5 latest transactions in each ratings category. The credits represent syndications that were not substantially under- or over-subscribed. Agent and syndications fees are not included. **Leveraged BSL Grid available at www.loanconnector.com**

WHAT TO WATCH

- Rent-A-Center is announcing quarterly results today. Also this week: Archer Daniels Midland, ADP, Burger King, Bunge, CB Richard, Comcast, Lear Corp, Manitowoc, Penn National Gaming and UPS.
- H&R Block has rescheduled its bank meeting to Wednesday.
- Bank meeting for IMS Health's \$2.275 billion LBO financing is set for Thursday.
- Commitments are due tomorrow on CB Richard's extension facility, and Wednesday for Westfield.
- Sources from agent banks said a wave of refinancings for investment grade names is expected this month.



THOMSON REUTERS

2009 U.S. Traditional Middle Market Bookrunner Volume

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	Bank of America Merrill Lynch	\$5,500,467,290	117	23%
2	PNC Bank	3,573,091,608	109	15
3	Wells Fargo & Company	2,874,400,250	64	12
4	U.S. Bancorp	1,954,212,000	40	8
5	JP Morgan	1,673,954,119	38	7
6	General Electric Capital Corporation	974,468,667	23	4
7	BMO Capital Markets	674,583,333	15	3
8	SunTrust Bank	633,875,005	16	3
9	BNP Paribas SA	487,500,000	6	2
10	Mitsubishi UFJ Financial Group	469,998,744	11	2
11	KeyBank	465,645,053	13	2
12	Golub Capital	391,390,000	16	2
13	PrivateBancorp Inc	260,000,000	6	1
14	CIT Group Inc	235,833,334	9	1
15	Comerica	197,200,000	6	1
16	Societe Generale	190,000,000	4	1
17	BBVA	188,500,000	4	1
18	GMAC Commercial Finance	180,000,000	3	1
19	RBC Capital Markets	176,750,000	5	1
20	Regions Bank	161,300,000	3	1

Source: Thomson Reuters LPC

2009 U.S. Large Middle Market Bookrunner Volume

Rank	Bank Holding Company	Bookrunner Volume	# of Deals	Market Share
1	Bank of America Merrill Lynch	\$9,898,922,806	78	21%
2	Wells Fargo & Company	7,270,094,333	53	15
3	BNP Paribas SA	5,486,763,333	26	12
4	JP Morgan	5,299,999,499	39	11
5	PNC Bank	2,734,439,472	15	6
6	U.S. Bancorp	2,109,450,000	15	4
7	General Electric Capital Corporation	1,724,933,332	14	4
8	Credit Suisse	1,711,000,000	12	4
9	Citi	1,038,075,000	8	2
10	RBS	1,024,730,000	9	2
11	Mitsubishi UFJ Financial Group	982,500,000	7	2
12	Rabobank	708,950,000	3	1
13	RBC Capital Markets	691,250,000	8	1
14	Deutsche Bank	668,833,333	7	1
15	Goldman Sachs & Company	637,266,666	4	1
16	SunTrust Bank	625,833,333	6	1
17	Regions Bank	494,024,035	4	1
18	KeyBank	384,166,667	4	1
19	Cobank ACB	377,500,000	3	1
20	Capital One NA	320,000,000	1	1

Source: Thomson Reuters LPC

In turn, non-sponsored issuance of \$19.5 billion in 4Q09 was up 18% from 4Q08, and 34% from the previous quarter (Fig. 3). While most of the activity came from refinancings and amendments, M&A lending reached \$1.75 billion in 4Q09 topping the \$1.4 billion total reached in the first three quarters. For the year, M&A loan issuance was down 70% from 2008's \$10.4 billion.

Return of M&A is highly anticipated in 2010

Despite negligible figures in 2009, lenders expect that M&A will make a comeback this year.

"Companies are having M&A conversations and are out there evaluating options, and looking at who is underwriting," says one banker in the Southeast region.

Another lender says increased M&A activity will be driven by sellers that have waited too long and cannot afford to wait anymore, and from the fact that financing is now available for those buyers comfortable pulling the trigger. While some lenders are optimistic and say M&A could go through the roof this year, others are more cautious and say M&A will gradually come back in the non-sponsored arena.

Lenders also expect new dealflow to come from increased working capital and capex needs that will return as the economy heals. So far, however, most say they have not seen many companies ramping up their business.

Competition heats up – spreads tighten

With little new dealflow and increased liquidity in the market, lending was competitive and terms deteriorated. Most lenders say that there still is discipline and the loosening that has taken place in the middle market is far from that seen in the broadly syndicated loan market. But there are some that are surprised at how fast competition has come back and say it is just a matter of time before deals turn very aggressive.

"Banks are willing to give in on pricing on deals that are good performers," says one banker. "If a deal risk-rates well, then pricing is not that important."

Spread expectations have certainly tightened somewhat. Heading into 1Q10, 45% of respondents say their minimum senior spread threshold was between 200-300bp. In 3Q09, the majority of respondents had a minimum

year-over-year to just \$13 billion.

But the story of the year was the return of liquidity into the loan market. A vast majority (88%) of respondents to Thomson Reuters LPC's Quarterly Middle Market Senior Lender Survey say that capacity increased in the middle market in 4Q09, relative to the previous quarter.

The large corporate loan market benefited from a robust high yield bond market that led to \$74 billion in paydowns, in turn, plowing liquidity back into the loan asset class. While some of this trickled into the middle market, the majority of middle market liquidity came from built-up cash throughout the year, improving bank operations, the pressure to meet year-end budgets and the return of some lenders to the middle market.

Banks look to put money to work

In the non-sponsored market, demand increased from regional banks, local banks and foreign banks.

"With very limited activity through the first nine months of the year, many institutions had fallen short of their lending goals and were scrambling to do deals," says one lender who focuses on the non-sponsored market.

Moreover, portfolios had shrunk dramatically.

"Not only did banks witness major runoffs, but there were also a lot fewer drawn credits due to the limited amount of economic activity which curtailed lending needs," says one banker.

So banks' appetite for loans increased dramatically in 4Q09, and dealflow improved somewhat.

spread threshold of 300-400bp (Fig. 4). Similarly, the majority of lenders expected a 1-2% Libor floor to help boost returns in 3Q09, compared to only 18% in 4Q09. Many banks see Libor floors as one of the first things to go away next year. Even so, some banks say the market overcorrected and returns remain attractive relative to pre-crunch levels.

Amendments have certainly provided banks with a mechanism to increase spreads in return for longer tenors and more flexible terms (Fig. 5).

Lenders say most of the spread compression has taken place in the smaller “clubby” side of the middle market. One northeastern lender says, “In that segment, not only do deals get circled with just two or three lenders, but also banks have very strong relationships with their clients and are stretching terms to maintain them.”

The non-sponsored market has always been a relationship lending space, but as the market collapsed, relationships and ancillary business moved to the top of lenders’ priorities. In 4Q09, there was some loosening on this front, but only up to the point where “a few deals could get done with the promise of ancillary business, whereas in the previous six to nine months it had to be signed upfront.”

So ancillary business remains important and is another pressure point for spreads, as some banks will sacrifice loan spreads for the business.

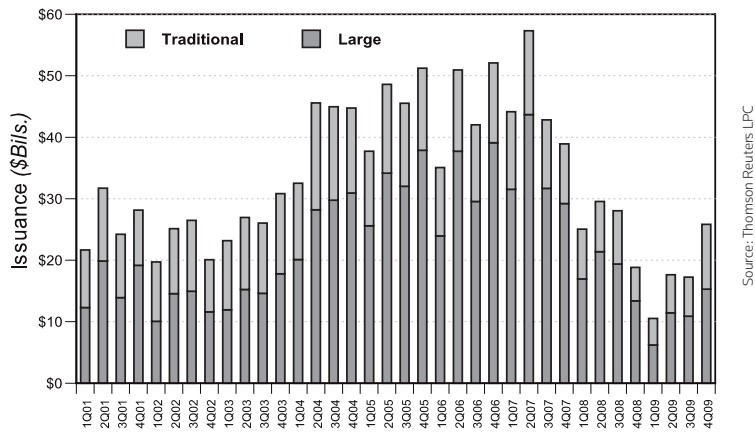
Pressure builds on structures

While spreads have receded, banks say structures are still fairly tight and that the non-sponsored middle market continues to be credit focused. Nevertheless, there has been a shift in leverage tolerance levels in the middle market. In 4Q09, 83% of survey respondents say they tolerated total leverage of 3 times and above, compared to a much lower 64% of respondents in 2Q09. Senior leverage levels have also stretched. In 2Q09, only 10% tolerated senior leverage of 2.5-3 times. At the end of the year, almost half of respondents say they will participate in deals that have senior leverage in that range.

When it comes to tenor, structures have not shifted too much as most lenders say three years is still the norm. In 2009, tenors contracted significantly in the non-sponsored market. In the traditional middle market, the average tenor came down from 3.5 years in

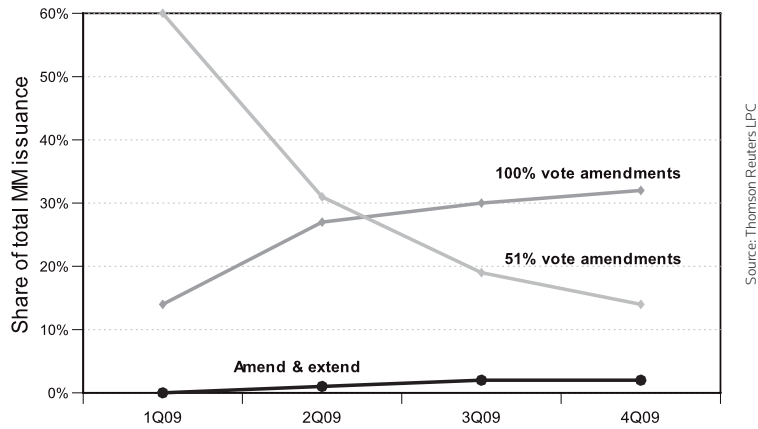
(NON-SPONSORED cont'd on p. 20)

Fig. 1: Middle market issuance down to \$71B in 2009



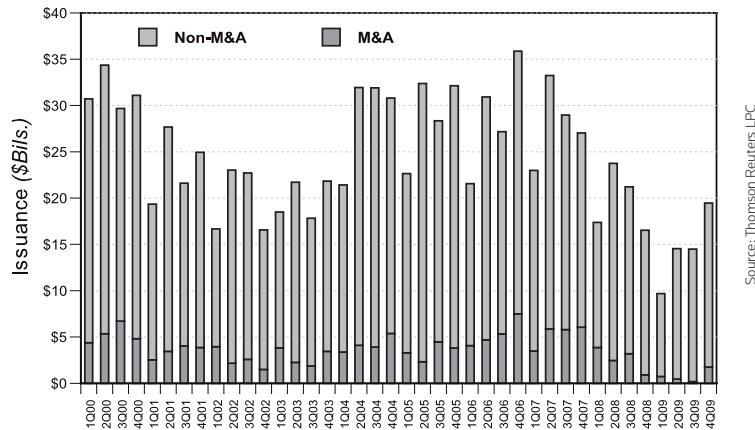
Source: Thomson Reuters LPC

Fig. 2: Amendments take center stage in 2009



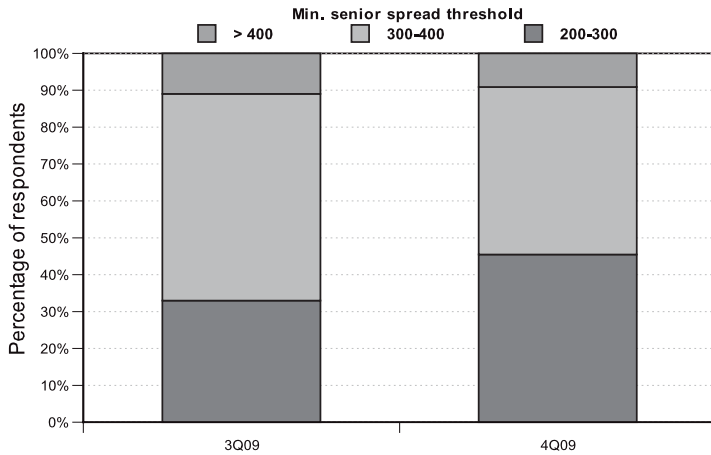
Source: Thomson Reuters LPC

Fig. 3: Non-sponsored issuance falls to a low of \$58B; M&A almost non-existent



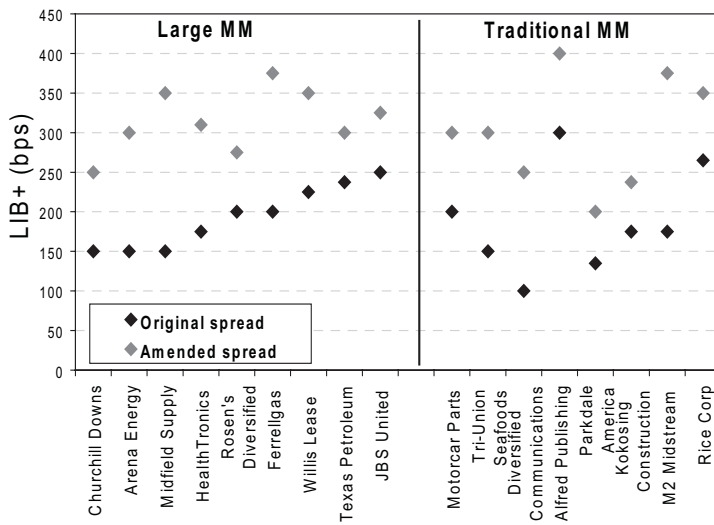
Source: Thomson Reuters LPC

Fig. 4: Minimum spread requirements down in 4Q09 in non-sponsored market



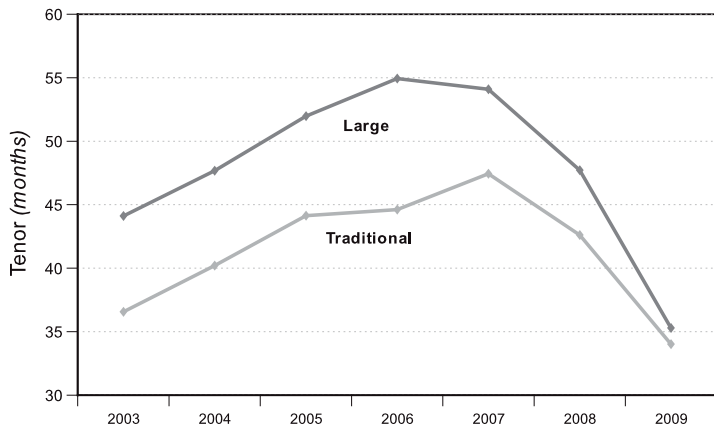
Source: Thomson Reuters LPC MM Senior Lender Survey

Fig. 5: Spreads up significantly on 100% amendments



Source: Thomson Reuters LPC

Fig. 6: Tenors tighten for non-sponsored multi-year revolvers in 2009



Source: Thomson Reuters LPC

2008 to less than three years in 2009. In the large middle market, the average maturity in 2009 was also less than three years, a lot shorter than the almost four-year average in 2008 (Fig. 6).

But some lenders say that tenors are also under pressure.

“We have heard a few five-year deals getting pitched, but we are not ready to go back to longer tenors,” says one lender.

While most lenders don’t see five-year deals making a comeback in the near future some see selective five-year deals getting done at the right price.

“We don’t like doing five year deals,” says one lender. “But if we are trying to win a deal in an industry that we like, and it is priced well, we might go for it”.

What happens next?

The end of last year marked the return of liquidity into the loan market and more is expected in 2010. Banks have aggressive budgets in 2010 and the question is – will dealflow be sufficient to meet the demand? Several lenders expect non-sponsored lending to pick up as the economy continues moving forward.

“Volume has to increase, we cannot invest deposits in T-bills forever”, says one lender.

But many risks remain, and some bankers are not sure there will be enough deals to satisfy increased appetite.

To this end, some are increasing hold levels.

“There is not enough new stuff out there, so we need to grab market share,” one lender explains. “One way we did that was by offering higher hold levels. For one deal we upped our previous commitment level from \$7 million to \$70 million; that is the way we will be able to win refinancings.”

However, others are concerned. Without a significant pick-up in new issue, credit terms will deteriorate.

“Credit committees continue to be in the driver’s seat,” says a banker. “It’s still hard to get aggressive structures approved, but if dealflow does not pick up significantly, there might be a shift from credit to revenue and the market will go back to very aggressive levels.”