TM capital
An M&A International Inc. firm

CELEBRATING 25 Years 1989–2014

Leveraged Lending Market Report
Quarterly Commentary
Q1 2014

Strong growth in leveraged loan volume during Q1...

- Leveraged loan volume grew to $161.8 during Q1 primarily due to strong M&A and recap activity
  - Despite strong quarter-over-quarter growth, new-issue loan volume was below levels seen in Q1 2013
- New-issue activity was down 14.4% overall and 15.1% versus Q1 2013
- Refinancing volume fell in Q1 because there were fewer near-term maturities for issuers to push out and the primary market remained issuer friendly during Q1
- Clearing yields remained roughly in the same range as in Q1 2013, with BB loans slightly above the historical tights of last April and single-B loans slightly below
  - However, in Q1 2013, clearing yields were significantly lower than the prior year, creating future repricing candidates
- Repricing activity was $86.7 billion, comprising $17.9 billion of resyndicated loans and $68.8 billion of spread amendments, up from $68.8 billion during Q4 2013, but below record highs during Q1 2013
- Share of CLOs in the primary institutional loan market grew to a post-credit-crunch high of 58% due to strength of muscular CLO formation, slowing retail inflows and regulatory pressures on banks

...M&A market drives loan market and issuer friendly structures persist...

- M&A-related loan volume grew to a post-2007 high of $65.9 billion, including $53.5 billion of institutional tranches
  - Platform acquisitions drove the growth, namely jumbo loans including Community Health Systems ($6.6 billion), Ziggo ($2.4 billion) and Global Payments ($2.3 billion)
- LBO volume was not as strong as M&A volume, with $42 billion of new deal volume through Q1, down 21% from Q1 2013
  - Headwinds in LBO market due to high asset prices, wide EBITDA margins and regulatory challenges
- While LBO volume was down, private equity firms were not sitting idle, with $16.9 billion of dividend-related recap loans being issued during Q1, the highest amount since Q2 2013
- Corporate issuers were largely on the sidelines with regard to recaps during Q1
- Second-lien loan volume soared to $11.3 billion, the second largest quarterly total ever
- Covenant-lite structures accounted for 60% of new-issue flow

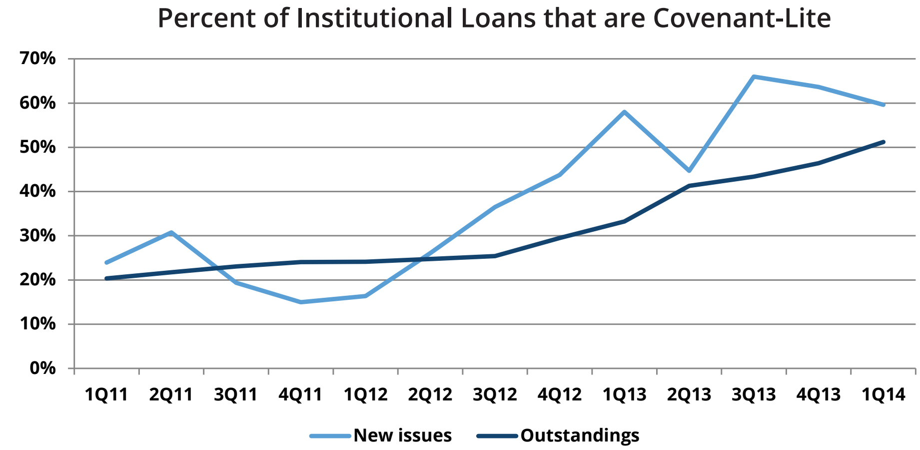
...There continues to be support of the loan market from banks despite some pressures.

- Recently, demand from banks has been supported by ongoing low default rates, historically low funding costs from the Fed, record deposit levels from investors and pressure to build net interest margin
- However, banks faced regulatory pressures during Q1 and there are fewer low-leverage situations for banks
  - Share of leveraged loan volume with 6x or greater total leverage grew to 28% in Q1
- Many expect U.S. Treasury rates to rise as the Federal Reserve winds down its QE program
- Spreads could compress in response because price in the high-yield market is essentially topped out

Sources: S&P LCD, TM Capital

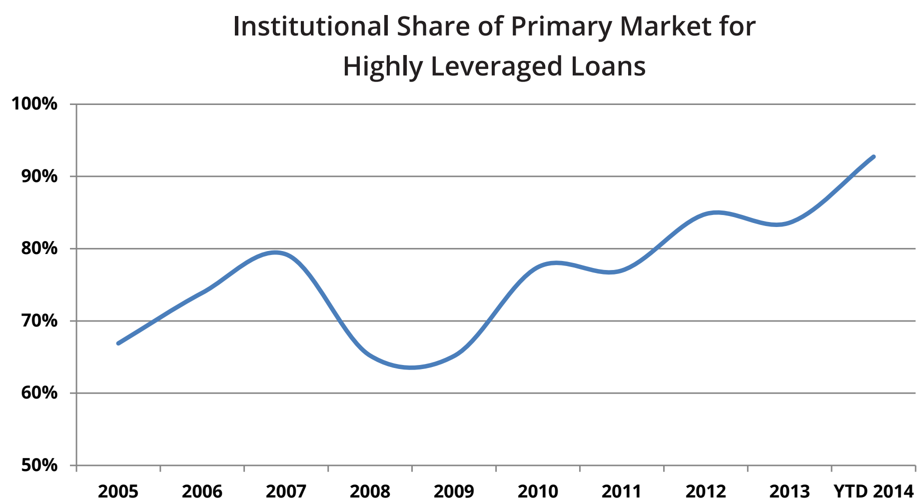
Loan Environment Remains Issuer Friendly

- CDX, a credit default swap index, is down near levels seen in 2007
- Covenant-lite structures accounted for 60% of new-issue flow
- Default rate fell to 1.02% based on number of loans
- Many believe Fed may wind down its QE program
- Fed pullback, in our view, is a sign that a recession is unlikely to occur in the near-term



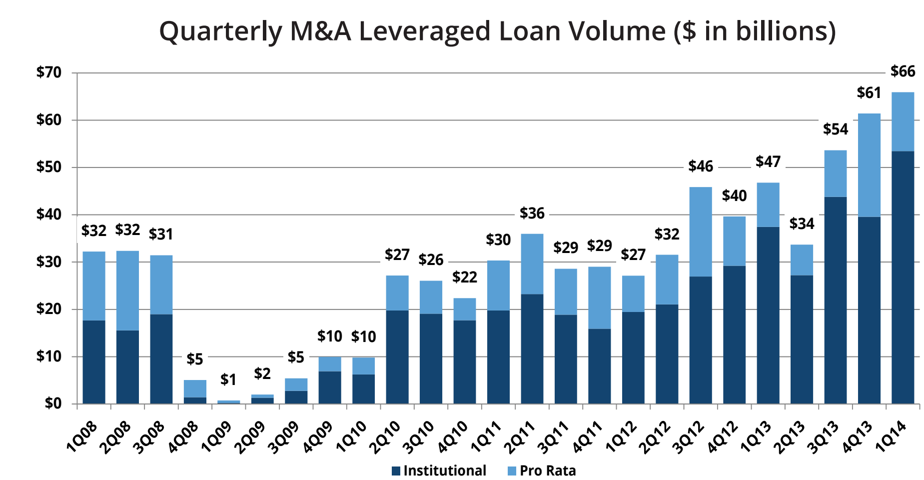
Banks Face Pressures

- Banks faced regulatory pressure regarding leverage
- OCC and Federal Reserve declared that if major banks funded new LBOs with greater than 6x EBITDA, they would have to consider them to be non-conforming loans and hold more cash against them
- Some banks are turning down over-levered deals
- Regulators will allow a highly leveraged deal to proceed as normal if a bank can show that either the company can pay off half its debt in seven years, or all of its first-lien loan in that period
- During Q1, banks played in higher quality, better rated loans for the most part
- Fewer low leverage situations for banks



M&A Volume Surged

- Robust M&A activity driven by several jumbo loans
- M&A and recap activity lifted leveraged loan volume
- Dividend-related recap loan volume was very strong
- LBO volume lagged



Sources: S&P LCD, TM Capital

Leveraged Lending Market Report
March 2014

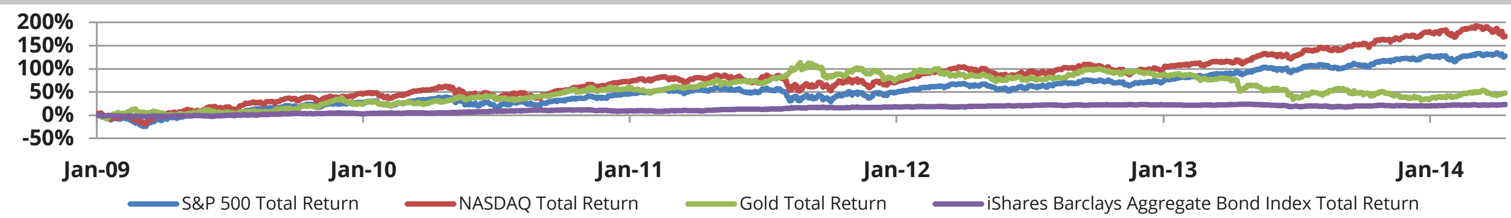
Key Market Indicators

	Mar 2013	Dec 2013	2014 Jan	2014 Feb	2014 Mar
Indices					
10-Year Treasury	1.87%	3.04%	2.67%	2.66%	2.73%
DJIA	14,579	16,577	15,699	16,322	16,458
S&P 500	1,569	1,848	1,783	1,859	1,872
NASDAQ	3,268	4,177	4,104	4,308	4,199
iShares Barclays Aggregate Bond Index	110.5	106.0	107.9	108.2	107.8
Total Return*					
10-Year Treasury	0.07%	(1.88%)	3.77%	0.47%	0.07%
DJIA	3.60%	3.19%	(5.19%)	4.34%	0.93%
S&P 500	3.51%	2.52%	(3.46%)	4.57%	0.84%
NASDAQ	3.17%	2.97%	(1.69%)	5.15%	(2.45%)
iShares Barclays Aggregate Bond Index	0.06%	(0.56%)	1.54%	0.38%	(0.15%)
Commodities					
Crude Oil	$97.23	$98.42	$97.49	$102.59	$101.58
Natural Gas	$4.02	$4.19	$4.94	$4.61	$4.37
Gold	$1,598	$1,202	$1,240	$1,322	$1,284
Currencies					
EUR in USD	$1.28	$1.38	$1.35	$1.38	$1.38
USD in JPY	$94.20	$105.15	$102.25	$102.09	$102.95
USD in CNY	$6.22	$6.05	$6.06	$6.15	$6.22
GBP in USD	$1.52	$1.66	$1.65	$1.68	$1.67

*Includes dividend / interest payments, when applicable

	Mar 2013	Dec 2013	2014 Jan	2014 Feb	2014 Mar
Average New-Issue Pricing - B+/B					
Total Spread	500.7	452.0	434.1	470.1	442.9
YTM	5.34%	4.85%	4.61%	4.98%	4.69%
New-Issue Deal Flow					
Monthly Volume ($ in billions)	62.2	34.6	53.8	49.9	64.9
Monthly Number of Loans	122	84	143	124	155
YTD Volume ($ in billions)	188.7	606.7	53.8	103.6	168.5
YTD Number of Loans	360	1,318	142	267	422
Lagging 12-Month Default Rates					
By Number	1.83%	1.61%	1.17%	1.16%	1.02%
By Principal Amount	2.21%	2.11%	1.88%	1.86%	1.21%
Average Credit Statistics on Highly Leveraged Loans					
Lev Thru First-Lien Debt	3.8x	3.3x	3.9x	3.8x	3.9x
Lev Thru Senior Debt	4.7x	4.7x	5.0x	4.8x	5.0x
Total Debt / EBITDA	4.9x	4.8x	5.0x	4.9x	5.0x
Institutional First-Lien Statistics					
% of Tranches with Floors	95.2%	100.0%	99.0%	98.2%	98.0%
Libor Floor Level (bps)	110	100	93	99	97
% Flex Down	30%	31%	38%	21%	18%
% Flex Up	5%	11%	2%	8%	9%

Stock Market Performance



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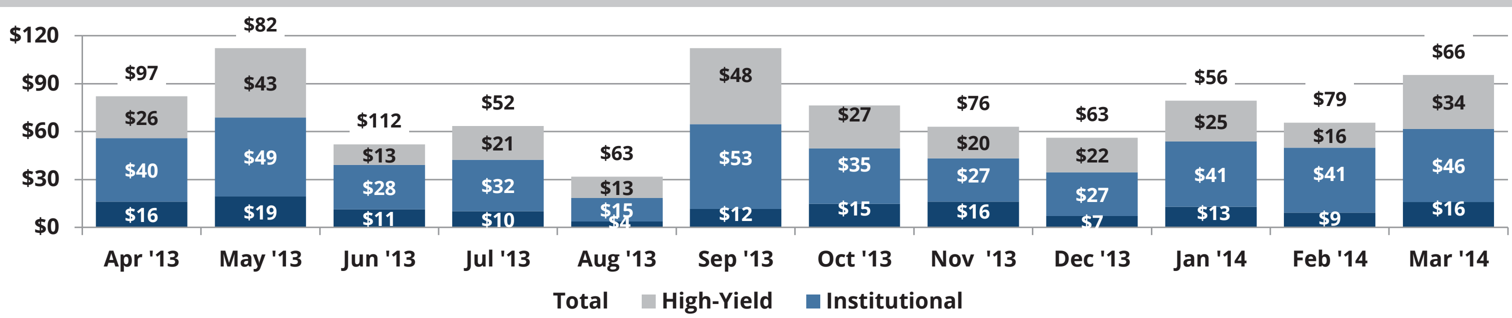
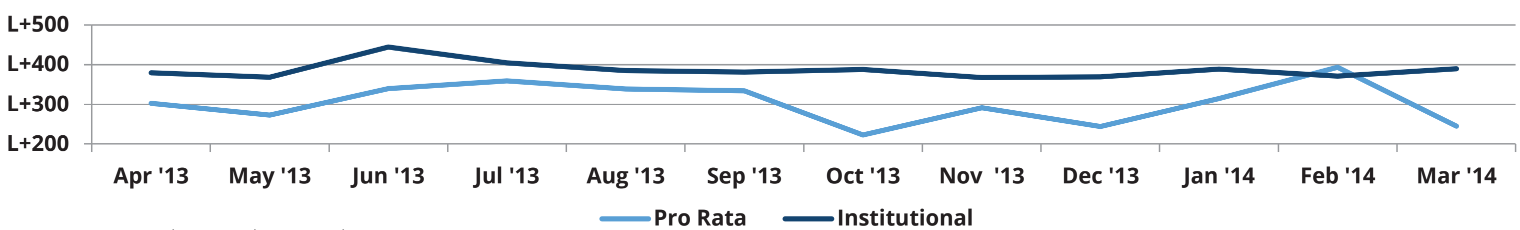
U.S. Leveraged Finance Volume – Bank Debts and Bonds ($ in billions)

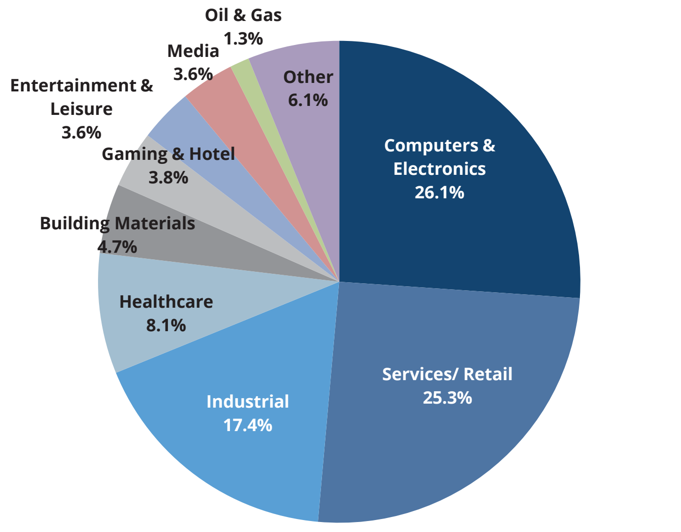


New-Issue First-Lien Spreads



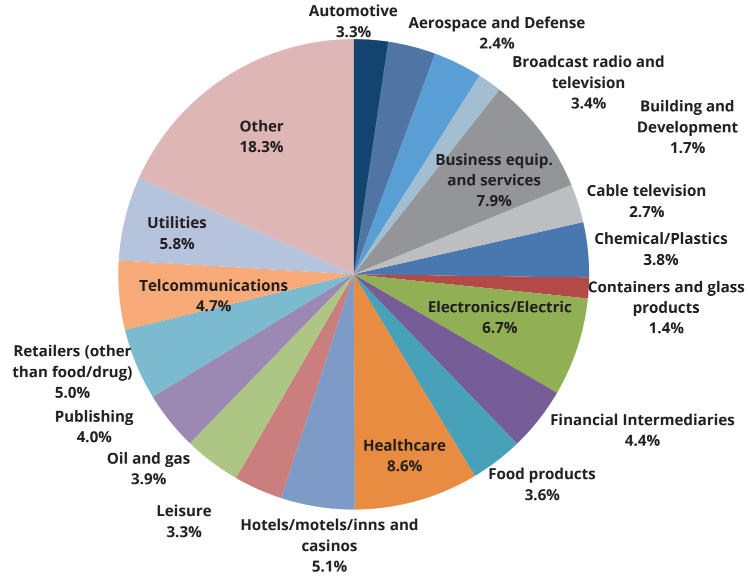
Sources: S&P LCD, Barclays Capital, TM Capital

New-Issue Loan Volume by Industry – 30 Days Ended 4/3/2014



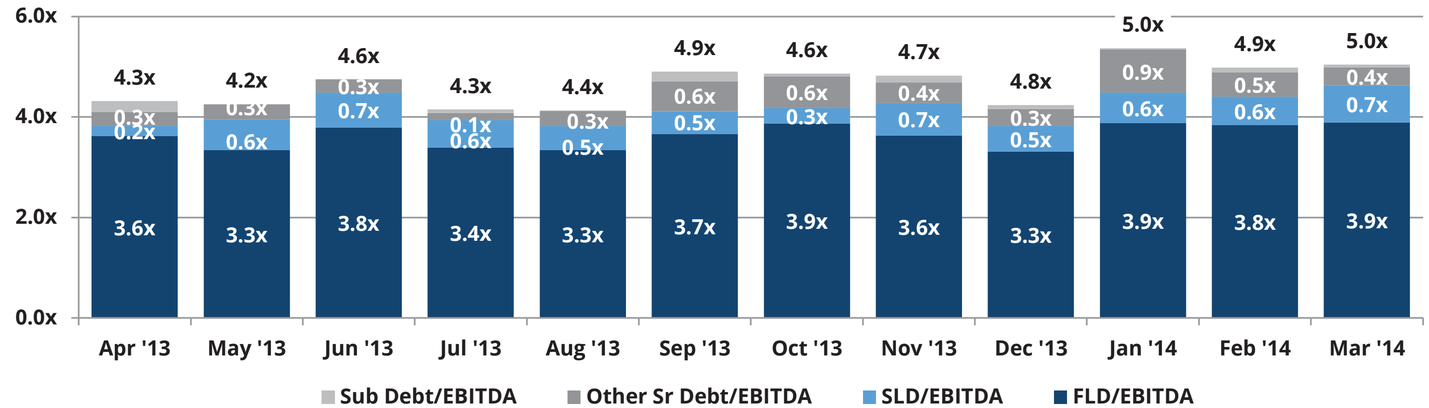
Total New-Issue Volume: $65.0 billion (30 Days Ended 4/3/2014)

Par Amount of Outstanding Loans by Industry – 3/28/14



Total Par Amount of Outstanding Loans: $712.0 billion (3/28/2014)

Average Debt Multiples of Highly Leveraged Loans



Sources: S&P LCD, TM Capital

Recent TM Capital Financing Experience

Climax
a portfolio company of
DeltaPoint Capital Management, LLC
has completed a recapitalization led by
Enhanced Capital

micrometrics
has completed a management-led leveraged recapitalization with Senior Secured Credit Facilities provided by
SunTrust
and Senior Subordinated Notes by
Westbury Partners

$75,000,000
Senior Secured Revolving Credit Facility
Fleet Laboratories
provided by
Wells Fargo

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About TM Capital

TM Capital Corp. is a partner-owned investment banking firm based in New York, Boston and Atlanta, which has completed over 250 transactions with a combined value in excess of $14 billion. Since 1989, we have advised clients navigating a full range of critical transactions, including complex mergers, acquisitions, debt and equity financings, minority and majority recapitalizations, restructurings, and advisory services including takeover defense, fairness and solvency opinions, valuations, as well as litigation support. We have built deep industry expertise in key sectors and our team regularly publishes research highlighting current and emerging trends in targeted industries and markets. TM Capital is a member firm of M&A International Inc., the world's leading alliance of mid-market investment banks with over 600 M&A professionals in 39 countries. Members have closed over 1,300 transactions totaling more than $75 billion in value over the past five years. For more information, visit www.tmcapital.com.

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