

## Robust leveraged loan volume during Q2 despite some easing relative to 2013...

- Retail flows turned negative for the first time since 2012
- Clearing yields widened as buy-side leadership shifted from loan mutual funds to CLO vehicles
- Repricing activity slowed to \$7.3 billion, a 2.5-year low
  - Includes \$3.2 billion of resyndicated paper and \$4.1 billion executed via amendment
- New-issue volume was \$152.9 billion, including \$113.5 billion of institutional tranches, down from \$163.9 billion (\$117.0 billion institutional) during Q2 2013
- Leveraged loan volume totaled \$322.0 billion through 1H14 versus \$352.9 billion during 1H13
  - Institutional loans contributed 75.2% of overall new-issue volume during 1H14
- Dividend-related loans reached \$18.3 billion during Q2
  - Private equity firms accounted for 84% of dividend-related loan volume during Q2
- Rise in loans outstanding over past 18 months is due to strong new-money loan supply and the sluggish pace of bond-takeout activity
- Second-lien volume rose to \$12.4 billion during Q2, a post-credit-crunch high
  - For issuers, M&A was the most popular use of second-lien loans, at 51%, followed by dividend recaps, at 26%
- Covenant-lite paper accounted for 61.6% of institutional loan volume during 1H14
  - Wider cushions resulting in covenant-lite “in drag”
- High-yield volume soared to a record \$104.3 billion during Q2

## ...M&A and LBO volume activity on the rise...

- M&A related loan volume remained considerable, at \$64.6 billion total, \$54.6 billion of which was institutional
- Through the first half of 2014, M&A volume totaled \$132.9 billion which is the largest six-month figure of the post-credit-crunch era
- LBO loan volume reached \$27.4 billion during Q2, up from \$10.2 billion during Q2 2013
- Use of leverage continues to rise
  - Second-lien market has somewhat disintermediated mezzanine debt with many middle market transactions including virtually no junior debt

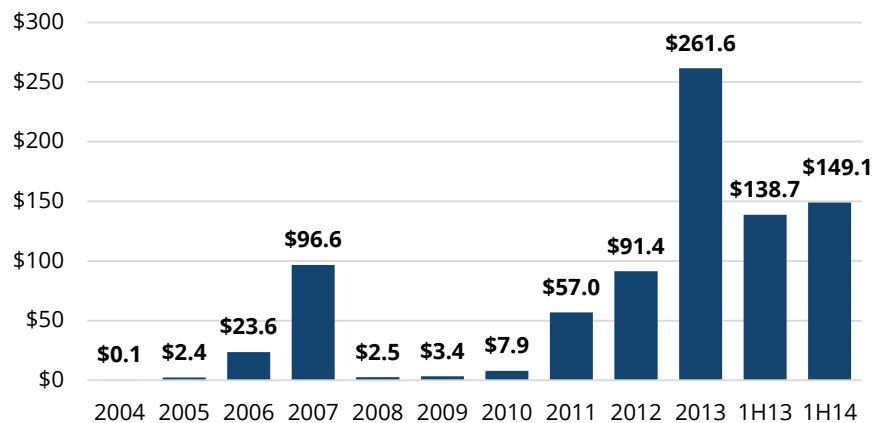
## ...Positive outlook for loan activity during the remaining months of 2014

- Screening activity is robust and pipeline of deals is building
- Private equity firms have stepped up efforts to acquire platforms and make add-on acquisitions
- Arrangers see more action among speculative-grade corporate and energy-sector issuers that may result in M&A-related loans
- However, increased regulatory scrutiny, along with high equity prices, could continue to depress public-to-private transactions
- Expect recap volume to endure as private equity firms continue to tap into loan market liquidity to reload deleveraged issuers
- Record-low rates and ongoing demand

## Covenant-Lite Loans Increase Share of New Issues

- While total leveraged loan volumes fell during 1H14, covenant-lite loans held their ground
- Covenant-lite loans accounted for over half of institutional loan issuances during 1H14
- Continued strength in sales of second-lien debt and loans to fund dividends and LBOs
- Sign that investors are getting pushed out on the risk curve as historically low treasury yields pull down returns on forms of credit

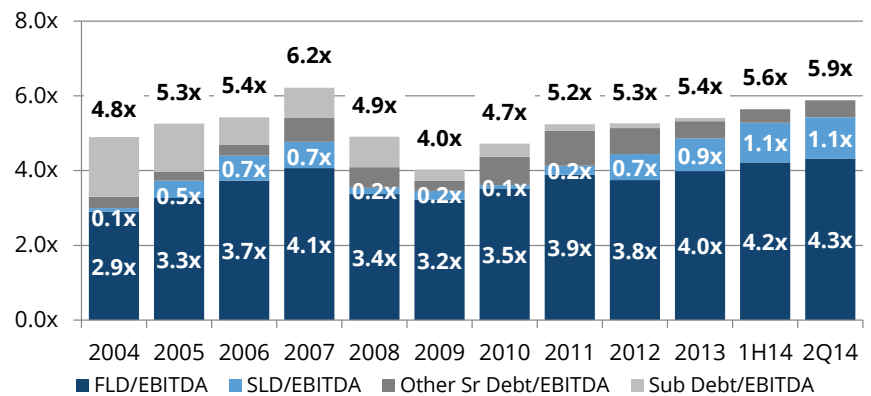
New-Issue Volume of Covenant-Lite Loans (\$ in billions)



## Issuer Friendly Environment Continues

- Corporate confidence growing and lender behavior becoming more aggressive
- Structure and terms are looser than they were earlier in the credit cycle, when liquidity was scarce and the economy was fragile
- Loan issuers are achieving higher-than-average leverage multiples, but levels are well inside the peak readings of the past
- Today's low borrowing costs offset higher leverage by bolstering coverage ratios

Average Leverage of Large LBOs



## Strengthening Economy Could Lead to Reduced Support from Fed

- Market for U.S. stocks and fundamentals remain strong
- Steady drop in the unemployment rate
- Inflation environment remains stable
- Fed has been providing significant support through very low interest rates and is currently debating a change in its policy in response to the strengthening economy
- We are clearly approaching the time where the Fed will raise short-term interest rates and reduce the stimulus it has supplied since the financial crisis

10-Year Treasury Rate

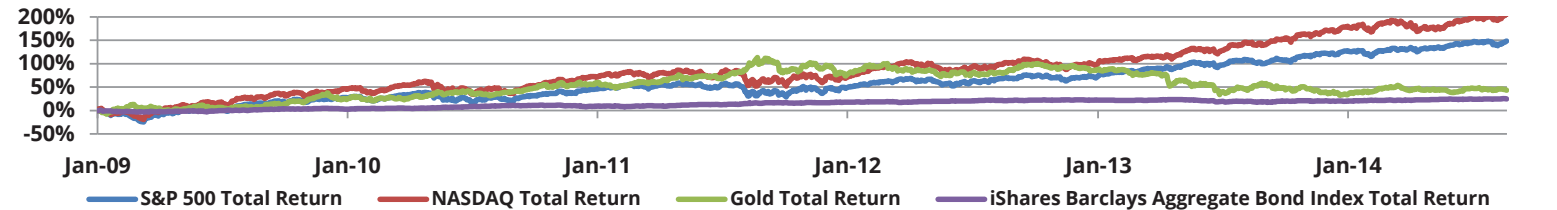


## Key Market Indicators

	Jul 2013	2014				Jul 2013	2014			
		Apr	May	Jun	Jul		Apr	May	Jun	Jul
<b>Indices</b>										
10-Year Treasury	2.60%	2.67%	2.48%	2.53%	2.58%	Total Spread	503.7	483.6	512.8	472.4
DJIA	15,500	16,581	16,717	16,827	16,563	YTM	5.29%	5.08%	5.36%	4.96%
S&P 500	1,686	1,884	1,924	1,960	1,931	<b>New-Issue Deal Flow</b>				
NASDAQ	3,626	4,115	4,243	4,408	4,370	Monthly Volume (\$ in billions)	44.9	54.7	38.0	63.8
iShares Barclays Aggregate Bond Index	107.1	108.5	109.4	109.4	108.9	Monthly Number of Loans	111	154	105	149
<b>Total Return*</b>						YTD Volume (\$ in billions)	397.3	223.7	262.0	385.5
10-Year Treasury	(0.91%)	0.95%	1.67%	(0.22%)	0.26%	YTD Number of Loans	848	582	687	836
DJIA	3.66%	0.40%	1.33%	0.75%	(2.20%)	<b>Lagging 12-Month Default Rates</b>				
S&P 500	4.51%	0.03%	2.36%	2.07%	(2.05%)	By Number	1.65%	1.01%	0.99%	0.83%
NASDAQ	5.64%	(3.56%)	2.97%	4.00%	(1.94%)	By Principal Amount	2.02%	4.64%	4.60%	4.41%
iShares Barclays Aggregate Bond Index	0.13%	0.98%	1.03%	(0.06%)	(0.13%)	<b>Average Credit Statistics on Highly Leveraged Loans</b>				
<b>Commodities</b>						Lev Thru First-Lien Debt	3.4x	3.8x	4.1x	3.7x
Crude Oil	\$105.03	\$99.74	\$102.71	\$105.37	\$98.17	Lev Thru Senior Debt	4.2x	5.0x	5.1x	5.0x
Natural Gas	\$3.45	\$4.82	\$4.54	\$4.44	\$3.84	Total Debt / EBITDA	4.3x	5.0x	5.2x	5.0x
Gold	\$1,313	\$1,296	\$1,246	\$1,322	\$1,282	<b>Institutional First-Lien Statistics</b>				
<b>Currencies</b>						% of Tranches with Floors	97.3%	97.7%	100.0%	97.5%
EUR in USD	\$1.33	\$1.39	\$1.36	\$1.37	\$1.34	Libor Floor Level (bps)	104	99	98	98
USD in JPY	\$98.28	\$102.11	\$101.78	\$101.29	\$102.77	% Flex Down	31%	9%	22%	41%
USD in CNY	\$6.13	\$6.26	\$6.25	\$6.22	\$6.17	% Flex Up	11%	17%	15%	6%
GBP in USD	\$1.52	\$1.69	\$1.68	\$1.71	\$1.69					

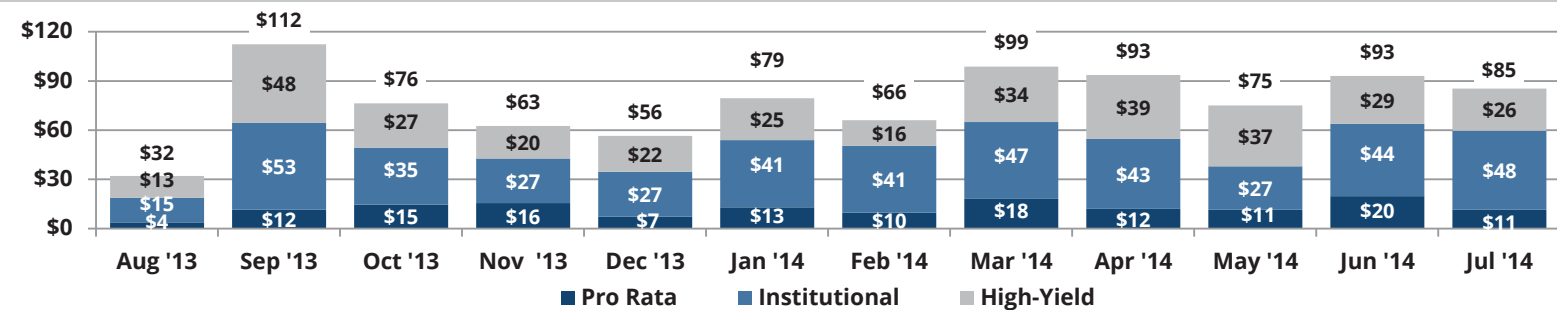
\*Includes dividend / interest payments, when applicable

## Stock Market Performance\*

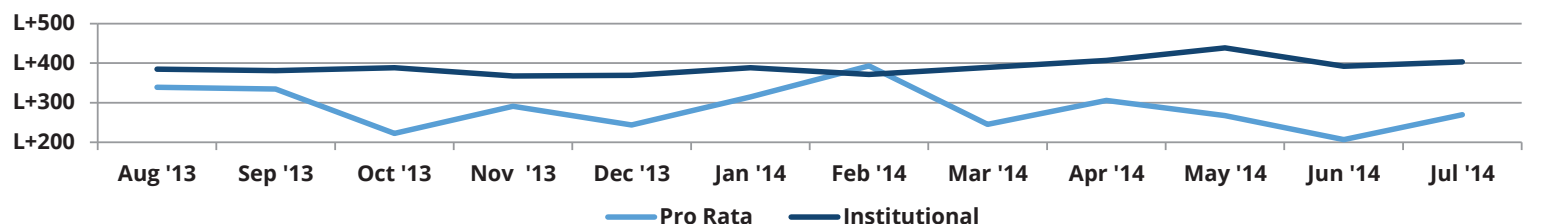


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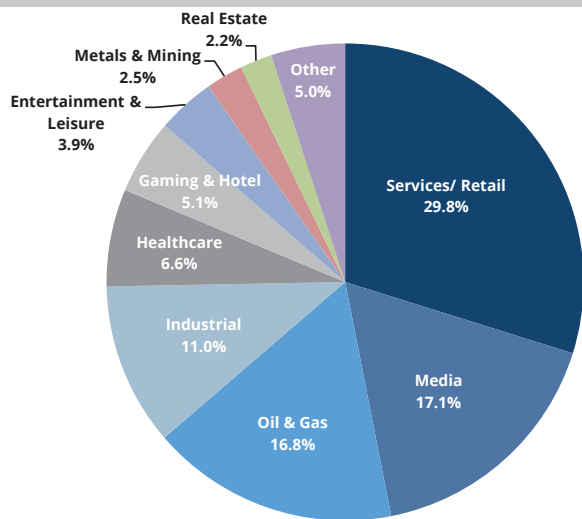
## U.S. Leveraged Finance Volume - Bank Debts and Bonds (\$ in billions)



## New-Issue First-Lien Spreads

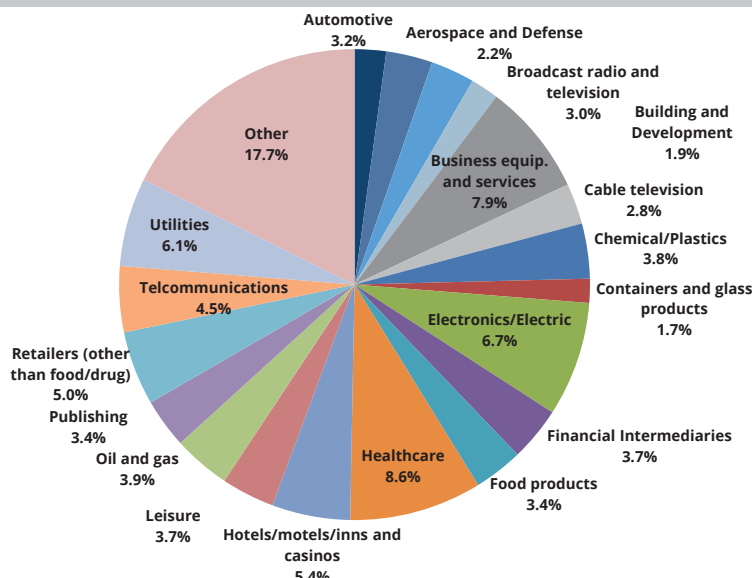


## New-Issue Loan Volume by Industry – 30 Days Ended 8/7/2014



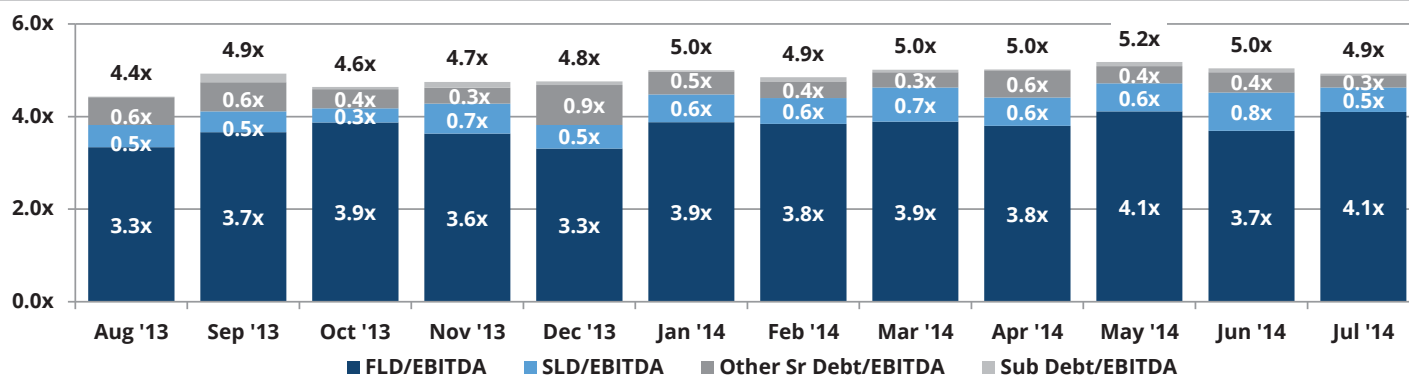
Total New-Issue Volume: \$62.2 billion (30 Days Ended 8/7/2014)

## Par Amount of Outstanding Loans by Industry – 8/1/14



Total Par Amount of Outstanding Loans: \$775.8 billion (8/1/2014)

## Average Debt Multiples of Highly Leveraged Loans



Sources: S&P LCD, TM Capital

## Recent TM Capital Financing Experience

a portfolio company of

has completed a recapitalization led by

has completed a management-led leveraged recapitalization with Senior Secured Credit Facilities provided by

and Senior Subordinated Notes by

\$75,000,000  
Senior Secured Revolving Credit Facility

provided by

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## About TM Capital

Celebrating our 25th year in 2014, 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](http://www.tmcapital.com).

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