



Market Trends

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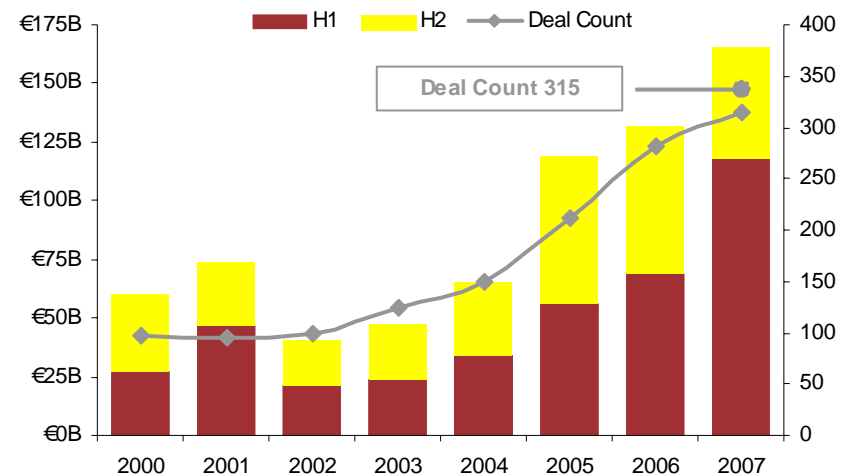
European Leveraged Finance

European Leveraged Loan Market



- The last 5 years: unprecedented growth and favourable conditions
 - Record volumes
 - Declining prices & aggressive structures
 - New investors
- Total leveraged loan annual volume for 2007 recorded €165.5bn, up 26% from 2006
- Jumbo transactions were a significant driver of this boom
 - The 10 largest transactions of the year representing about 23% of total volume.
- However in July 2007, market conditions deteriorated significantly

First lien Leveraged Volume and Number of Deals



Source: S&P LCD

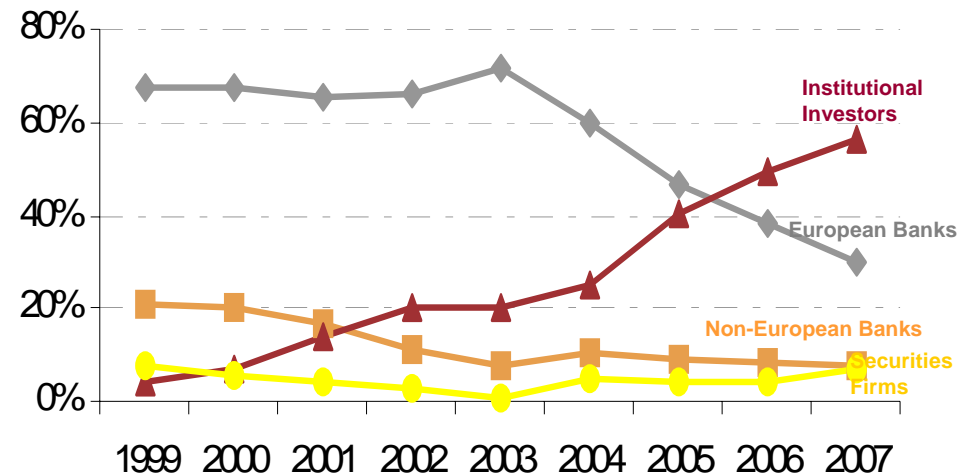
- 2007 volumes still reflect the aggressive market from H1.

Liquidity



- Deepening liquidity with strong support from investors...
- ... before market correction in July 2007:
 - US sub-prime mortgage defaults impacted CLO / CDO liquidity
 - Investors pulled back from new deals with stretching conditions
 - CLO model under pressure
- New leverage issuance overhang at record levels
 - More than \$90bn in the US and €55bn in Europe awaiting to launch

Primary Market by Broad Investor Type



Source: S&P LCD

Impact on the market



Price evolution of European LevX senior index



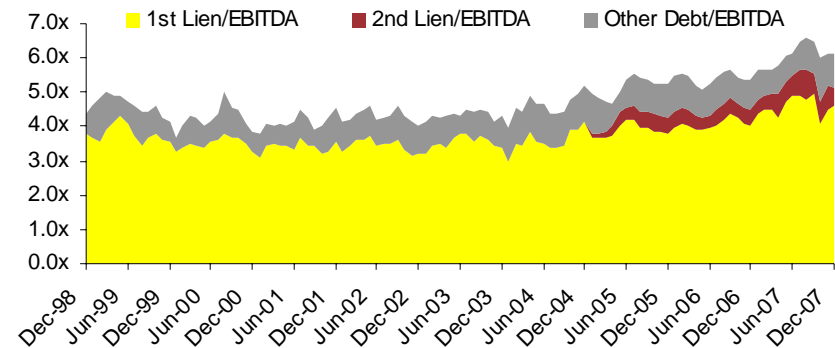
- All assets hit by the crisis, irrespective of credit quality
 - Liquidity-based crisis driven by increased cost of funding & negative sentiment
 - Unprecedented sell-off in loans reflecting market technicals rather than fundamental credit concerns
 - European leveraged loan index (Lev-X senior) traded at 93.5% as of 30 July versus 101% prior to summer.

Structures and Leverage



- 2007 average debt ratio of 5.5x still reflecting the H1 aggressive market (vs 5.4x for 2006)
- Before market correction, successful highly leveraged syndications: Phadia(9.5x), PagesJaunes(9.1x), Quick(6.4x)
- LBO transactions
 - Average equity component of LBO transactions at 33.6% (vs 33.7% in 2006)
 - Acquisition multiple rose with price-to Ebitda of 9.32x for 2007 (vs 8.42x for FY2006)

Rolling-Three Month Average Pro Forma Debt/EBITDA Ratio



Source: S&P LCD

Excludes Broadcasting, Cable & Telecom loans prior to 2002.

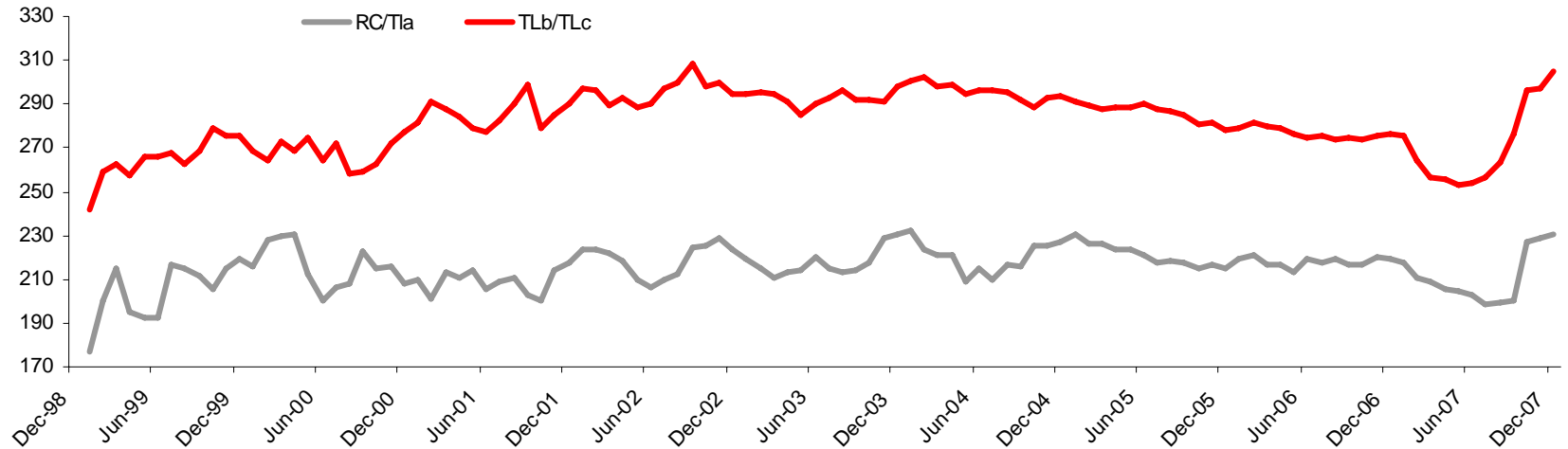
Structures and Leverage

- Market became less standardised – hybrid junior debt and varying senior structures
- Junior Mezzanine
- Pay if you can (“PIYC”); Pay if you want to (“PIYW”)
- PIK Loans; PIK Notes
- Notes driven structures
- B/C Senior Structures
- “Infrastructure” style financings
- Where is the market going? Pre-crunch? Post crunch?

Pricing



Average New Issue Institutional Spreads



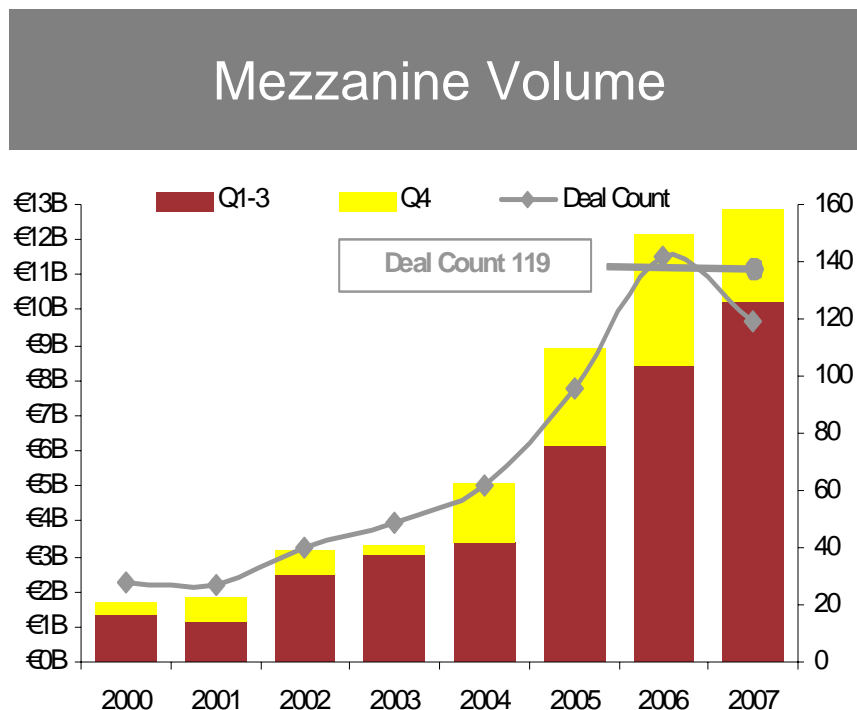
Source: S&P LCD

- Liquid market in H1 2007 resulted in increasing use of reverse flex and development of US-style syndication
- The liquidity crunch in the second half of this year changed that landscape: reverse flexes disappeared and upward flexes took over (about 27 upward flexes on institutional and second-lien tranches)

Mezzanine



- Mezzanine volumes in 2007 recorded an all time high of €12.8bn from 119 transactions (vs €12.2bn & 142 in 2006)
- Large mezzanine transactions, €606m for ProSieben and €545m for Elis (average size €108m FY2007)
- Early 2007 has seen several transactions refinanced to remove the mezz
- Post credit crunch
 - Re-emergence of mezz as subordinated instrument of choice
 - Increase in pricing: 4Q2007 average spread of E+941 vs E+876 for FY 2007 and E+935 for FY 2006



Source: S&P LCD

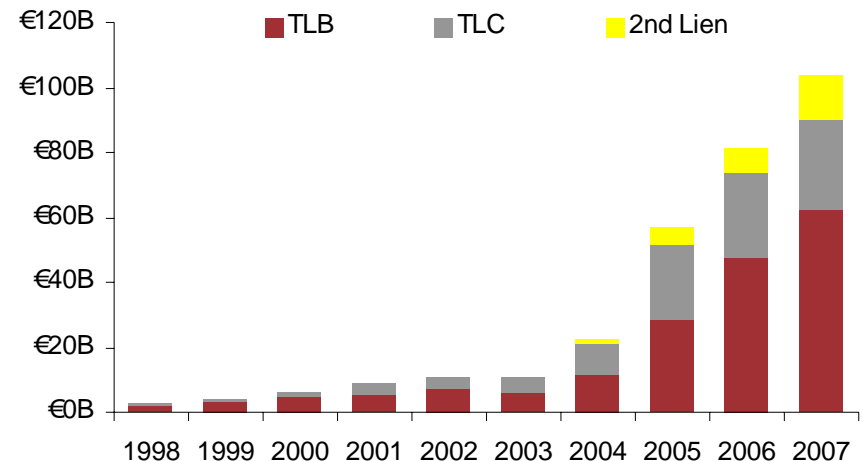
Note: Numbers exclude Bridge/Mezz transactions.

Second Lien



- Record breaking issuance of second lien in 2007
 - Total volume of €13.6bn from 127 transactions (48% of all LBOs) up 72.4% from 2006
 - National Grid Wireless and ProSieben, with tranches over €500m & Alliance Boots £1.0bn.
- After July 2007, 2L levels declined and spreads widened
 - Declining demand, almost nil now
 - 3 month average spread varied: E+497 for Q4 2007 compared to E+459 for the FY2007 (E+514 in 2006).

European Institutional Market Volume for Senior Loans



Source: S&P LCD

- Second Lien volumes below mezzanine from Oct 2007

What does this mean for the future ?



- New deals need to take into consideration the following:
 - The 'relative' value disconnect between primary and secondary yields
 - LevX index of leveraged loans hitting a record low of 90.21% on 20 February 2008
 - European arranging banks have chosen to focus on financings of mid-cap LBOs with a higher likelihood of finding liquidity
 - Bank investors are returning as the core buyers of leveraged loans with fund market liquidity marginal reducing the debt quantum for a single transaction
 - Less predictable hit-rates and smaller commitment levels in expectation of full allocations
 - Longer syndication processes and early interaction with other banks, no or very low sub-underwriting appetite ("club deals")
 - Relationship focus returns – ancillary business
 - Traditional mezzanine funds open for business, but predominantly for classical mezzanine not PIK

What does this mean for the future ?



- More 'bank' friendly structures being proposed, such as greater use of amortising TLA
- Leveraged multiples and credit metrics more conservative levels – leverage ratios between 1.5x - 2.0x lower, interest cover ratios of 2.0x or higher
- An increase - 250/300/350bps for TL A/B/C. And re-emergence of mezzanine at an enhanced pricing level and reduced use of second lien
- Tighter structures and documentation. **WAIVERS ARE EXPENSIVE TO GET!**

Legal Doc: before liquidity crunch



- Financial covenants
 - Headroom pushed to an all time high
 - Longer covenant testing periods
 - Covenant retries
 - Equity cures
 - Covenant lite
- Other covenants
 - Loose cash sweep
 - Ability to pay dividends
 - Proceeds from disposals not necessarily used to repay debt
- Loose change of control clauses
- Weaker voting rights for the lenders
- “Yank the bank” and “Snooze it you lose it” clauses
- Toggles and Accordeon facility

Legal Doc: post liquidity crunch



- Financial covenants
 - Headroom back to 20-25% on Management case
 - Full set of covenants
 - Limitation / end of equity cures
- Other covenants
 - Tight cash sweep
 - Limitations on dividends
 - Proceeds from IPO/disposals to repay debt
- Tight change of control clauses
- No portable financing
- Limited “Yank the bank” clauses
- No toggles / Accordeon
- Transferability language (free vs sponsor’s consent)