Credit Markets: 2012 Review and 2013 Outlook

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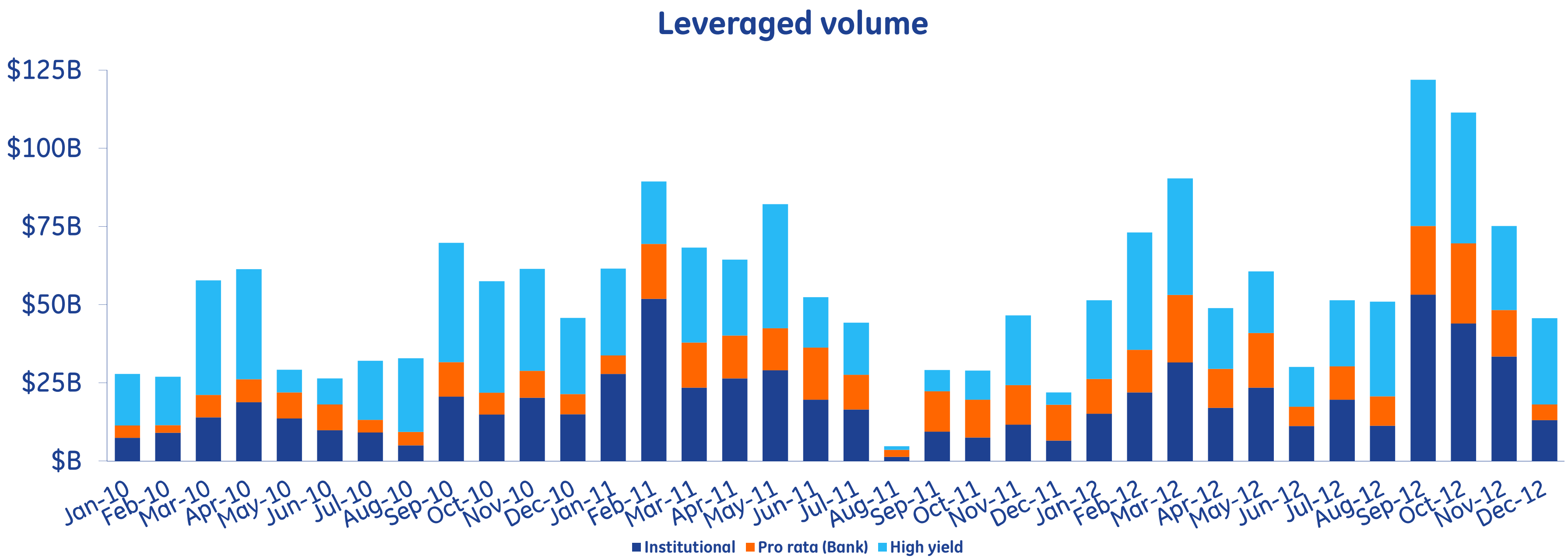
2012 Overview

- Robust lender liquidity and investor demand resulted in a banner year for the leveraged finance market
- 2012 volume finished at ~$812B ($465B loans and $346B high yield), surpassing the previous peak of $679B in '07



as of 12/31/12 [Source: S&P LCD]

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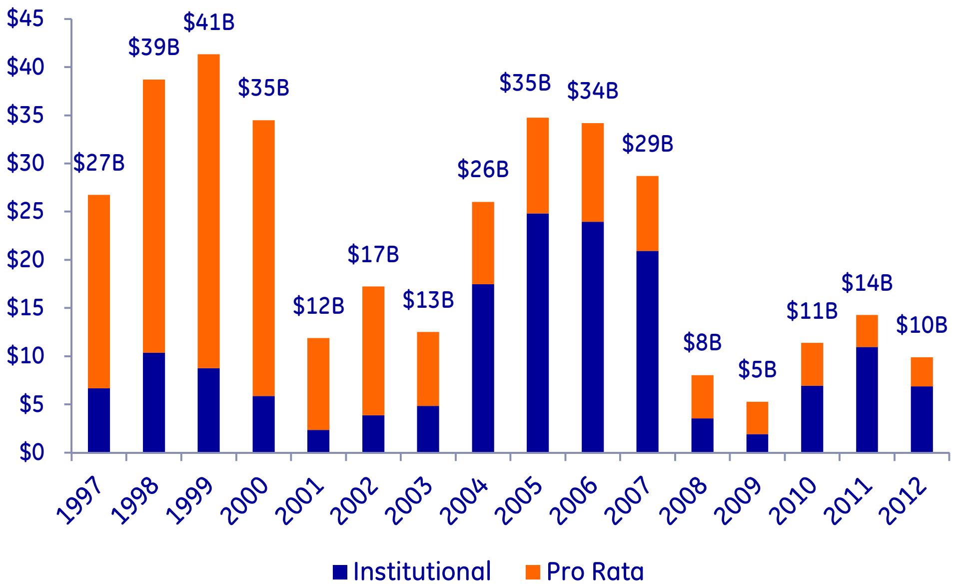
Middle Market Overview

- The increase in volume seen in the broader market has not yet been evidenced in the middle market

- The primary use of funds for middle market new issue was LBO at 32%, Refinancing at 25% and Acquisitions at 18%

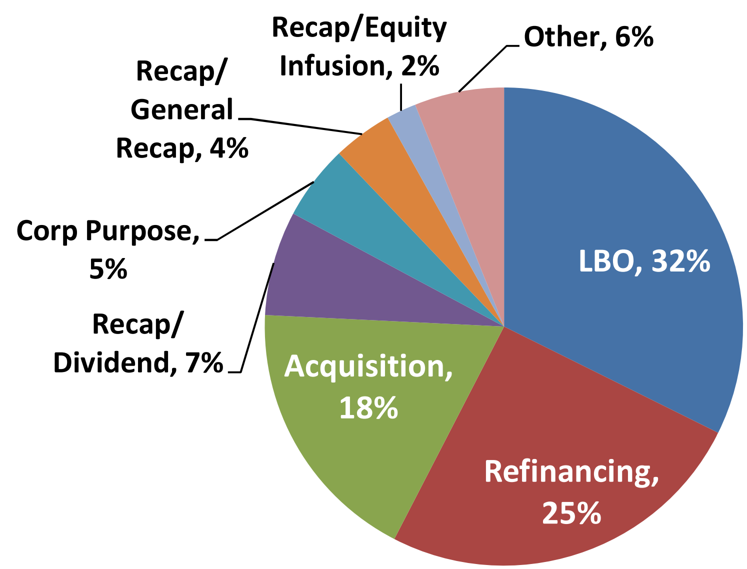
MM Volume by Year

(Middle Market Defined as $50MM or less of EBITDA)



Source: S&P LCD

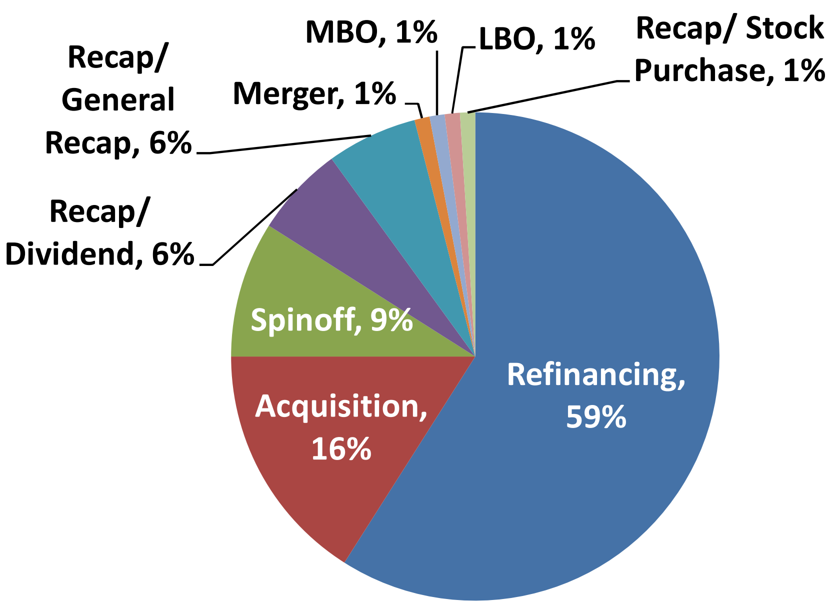
MM Volume by Purpose



Source: S&P LCD

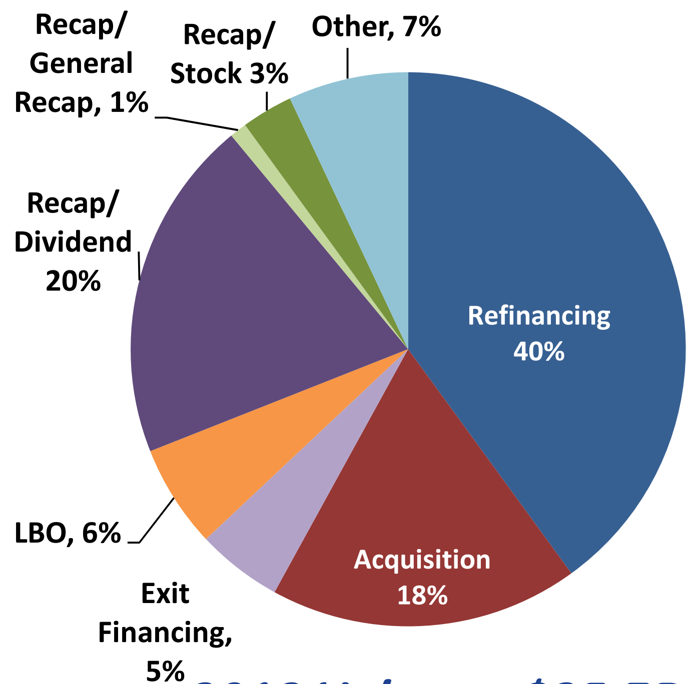
Media Volume by Purpose

- Media Volume increased to approximately $26 billion in 2012 from $25 billion in 2011



2011 Volume: $24.9B

[Source: S&P LCD]

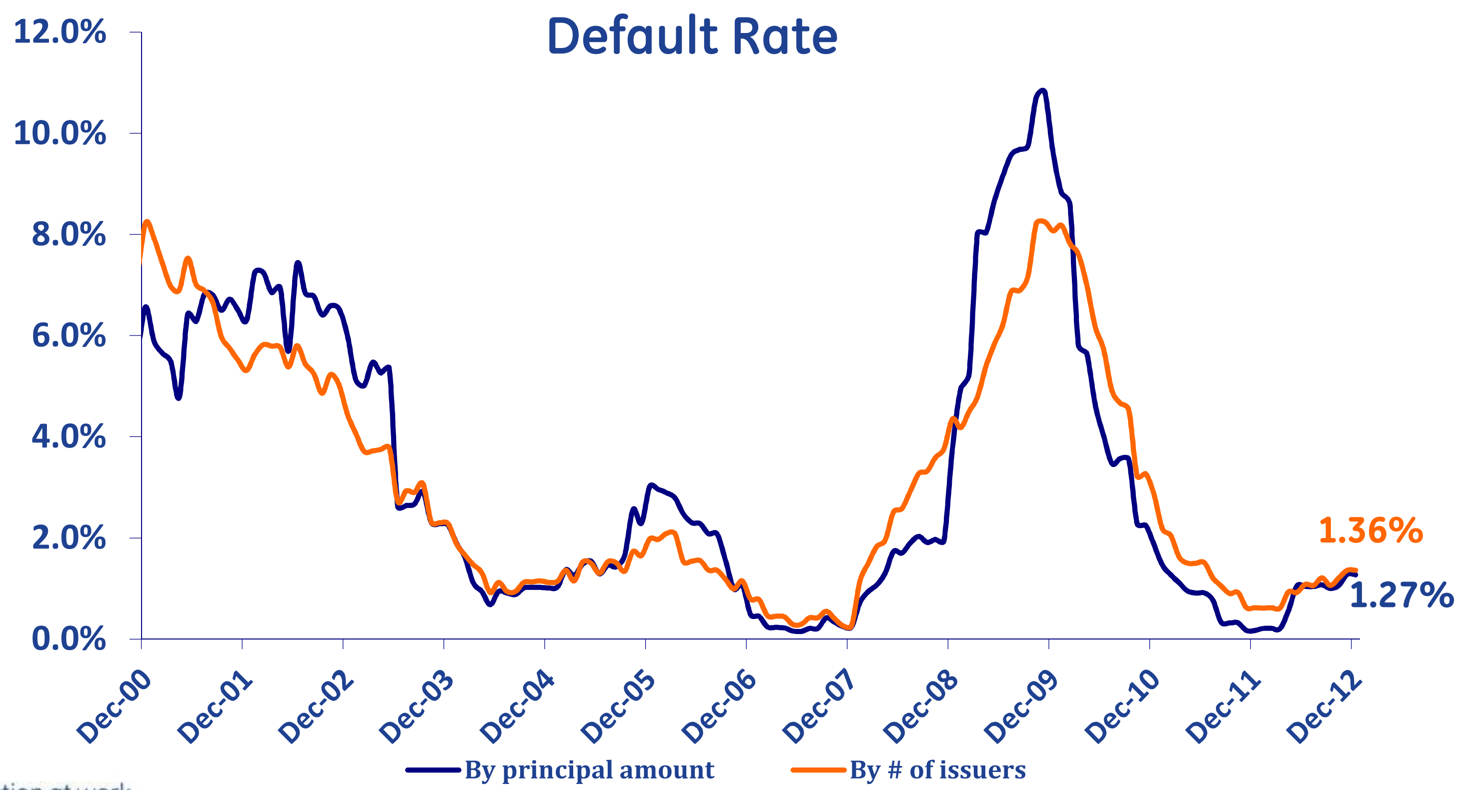


2012 Volume: $25.7B

[Source: S&P LCD]

Default Rate

- Loan default rates rose to 1.36% in Dec'12 from 0.62% at YE'11, but remain well below the historic average of 3.2%
- 80% of the defaulted loans are due to: Yell (phone books); Houghton Mifflin (text books); and Hawker Beechcraft (business jets)



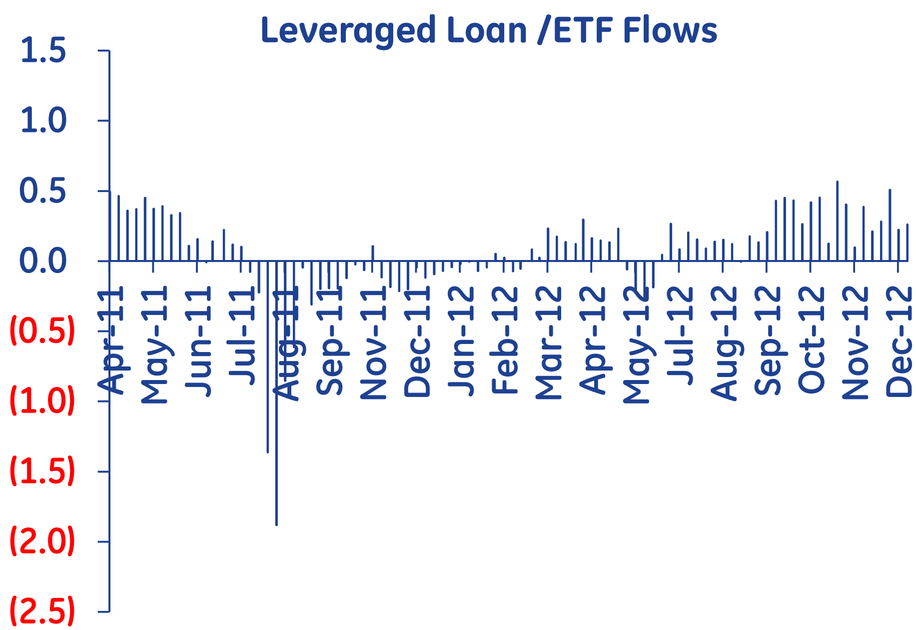
Source: S&P LCD

Fund Flows

Investor money continues to flow into Loan and High Yield Funds

Loan fund flows

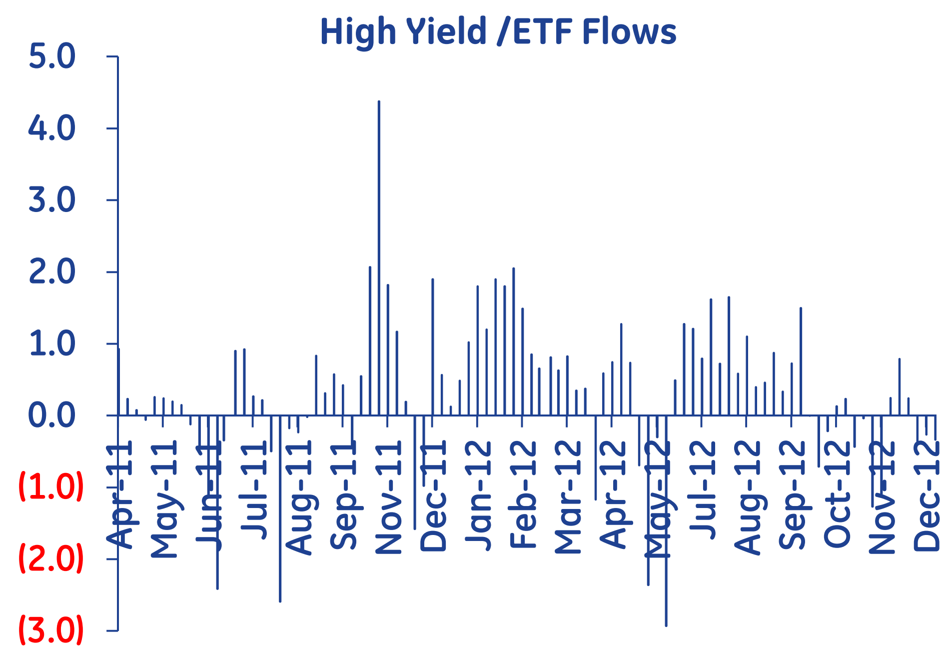
- Total inflows on weekly basis were $7.8B in 2012 and $6.5B in 2011 (ETF activity: 16% in 2012)



as of 01/02/13 [Source: S&PLCD/EPFR]

HY fund flows

- Total inflows on weekly basis were $22.6B in 2012 and $13B in 2011 (ETF activity: 33% in 2012)



as of 01/02/13 [Source: S&PLCD/EPFR]

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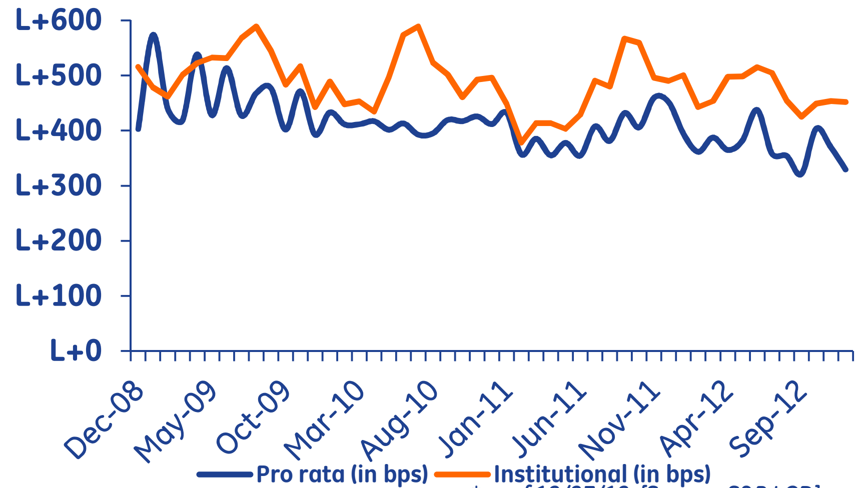
Pricing

Spreads tightening for the right borrower

	"BB"	"B"
Yields (%)	3.0-4.5	5.0-7.5
Spreads (bps)	325-450	350-550
Libor Floors (bps)	75-100	100-125
Upfront fees (bps)	25-100	0-150

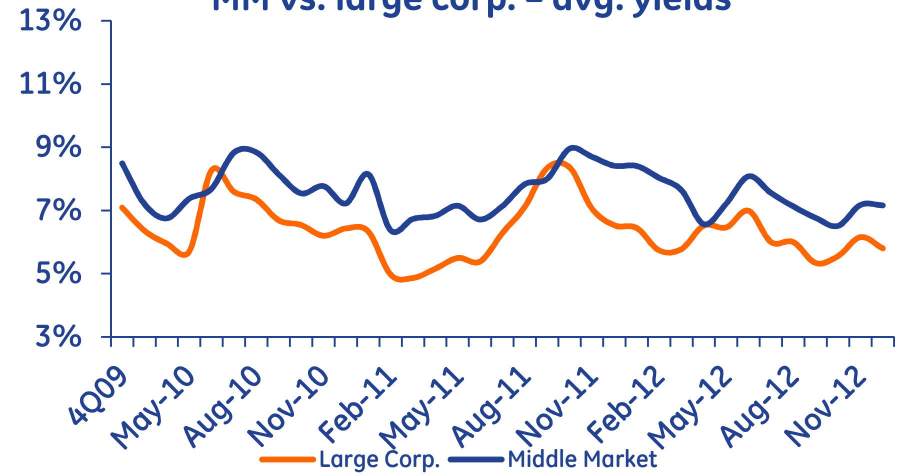
- Most "B" deals in market have soft call premiums of 100bps for year 1
- Most 2nd lien deals are yielding 10% to 12%, with upfront fees of ~200 bps for good credits, and prepayment fees at 103, 102, 101
- Mezzanine pricing is generally ~12%-15% (combination of cash and PIK) and are highly credit specific
- Pro rata deals with amortization and modest leverage are pricing in the L+350-450 area usually with no LIBOR floor

New issue first lien spreads



**as of 12/27/12 [Source: S&P LCD]*

MM vs. large corp. – avg. yields



**as of 12/31/12 [Source: Thomson Reuters LPC]*

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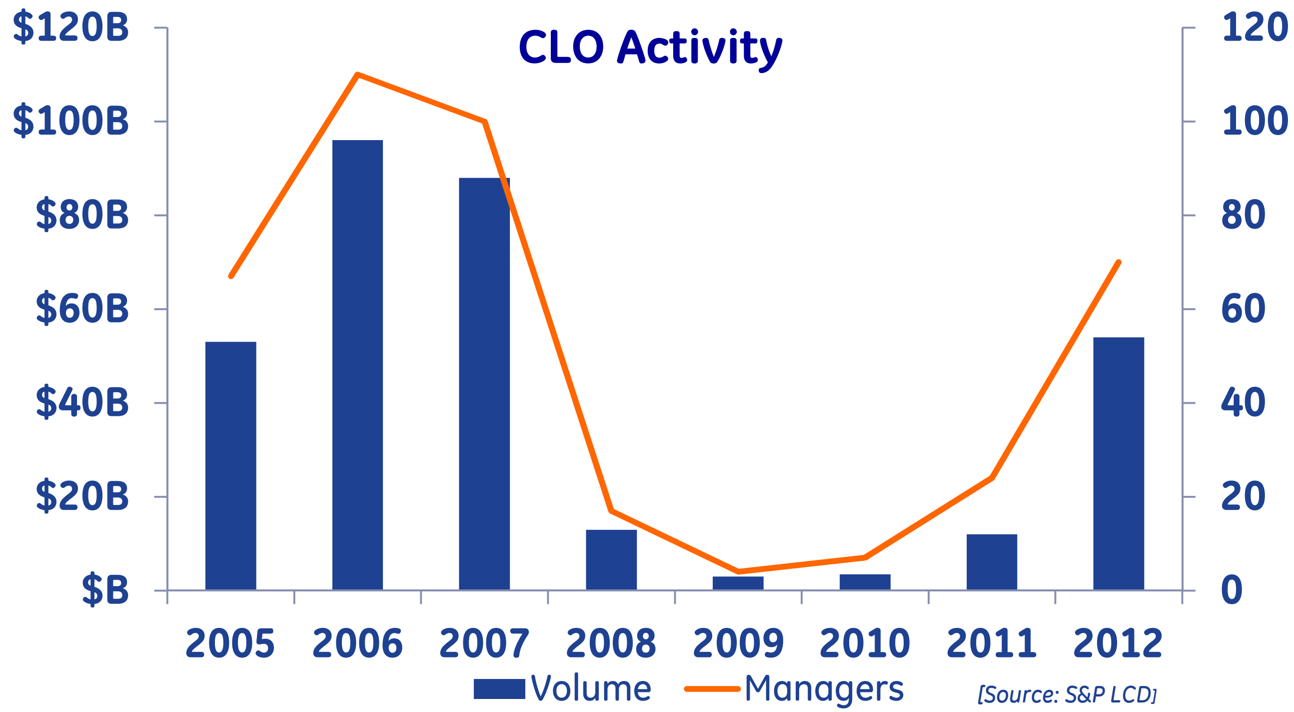
CLO Formation

- Return of the CLO market was another dominant theme of 2012
- Managers inked 116 vehicles totaling $53.5B in 2012, a five year high, and more than 4x the $12.3B volume of 2011
- 69 managers created new vehicles in 2012, up from just 28 in 2011



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What’s Getting Done?

Case Study A

Provider of Information Services to Single Vertical Industry

- **Revenue / EBITDA:** $75MM-$100MM/$>50MM
- **Leverage:** >7.0x Total
- **Facilities:** $30MM RC, $230MM TL, $115MM SLTL
- **Pricing:**
  - ✓First Lien: L+525 @ 99, 1.25% floor, 101 Soft Call
  - ✓Second Lien: L+875 @98, 1.25% floor, 103/102/101
- **Ratings:** B/B3
- **Acquisition Multiple:** >14x

What's Getting Done?

Case Study A

Key Attributes

- Clear Market Leader with High Barriers to Entry
- Diversified Customer Base
  - ✓ No single customer accounting for more than 5% of billings
- High Renewal Rates/Significant Free Cash Flow
  - ✓ Saas-based subscription model
  - ✓ High annual renewal rates
  - ✓ High EBITDA margins and minimal CapEx

What's Getting Done?

Case Study B

Provider of marketing/customer acquisition solutions

- **Revenue / EBITDA:** ~$100MM /<$30MM
- **Leverage:** >2x Sr. / Total
- **Facilities:** $10MM RC, $40MM TL
- **Pricing:** L+500 @ 99, No LIBOR floor, 5 years
- **Amortization:** 5%, 7.5%, 10%, 10%, 10%, bullet
- **Purpose:** Dividend recapitalization

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What's Getting Done?
Case Study B

Key Attributes

- Strong Financial Performance
  - ✓ Revenue and EBITDA CAGR of >50% since 2009
- Free Cash Flow Characteristics
  - ✓ Low CapEx requirements drives meaningful FCF generation
- High Barriers to Entry
  - ✓ Company spent meaningful time and money to create proprietary sales platform and content management system
- Loan to Value
  - ✓ Post dividend, meaningful contributed equity still remaining in business

What's Getting Done?

Case Study C

Provider of marketing services

- **Revenue / EBITDA:** >$50MM / <$20MM
- **Leverage:** 2.50x – 3.00x Sr. / Total
- **Facilities:** $10MM RC, $40MM TL
- **Pricing:** L+525 @ 98.5, 1.25% LIBOR floor, 5 years
- **Amortization:** 1%, 3%, 5%, 5%, 5%, bullet
- **Acquisition Multiple:** >6.0x

What's Getting Done?

Case Study C

Key Attributes

- Diversified Customer Base
  - ✓ Thousands of clients that span multiple industries
  - ✓ Average tenure for top clients is >10 years
  - ✓ No customer accounts for more than 5% of revenue and no industry accounts for more than 25% of revenue
- Contracted Revenue / Visibility
  - ✓ By end of 1Q'12, majority of revenue was under contract
- Low Supplier Concentration
  - ✓ Company relies on numerous data providers from thousands of information sources

Key Takeaways

- Debt markets continue to be receptive to Media, Information, Marketing Services and Technology sectors
- Ample liquidity in the market
- Volatility remains low and financing window remains open
- Multichannel media platforms with diversified revenue streams continue to be more attractive than single solution models
- Increased activity in growth sectors, as well as improved performances in traditional media sectors, provide for a favorable financing environment

Looking Ahead to 2013

- Anticipate a slow start to issuance in 2013
- Technical conditions expected to remain positive ("issuer favorable") in early 2013
- Default rates expected to stay below historical averages
- Middle market activity expected to continue at a modest rate
- Financing opportunities will be available to growing, sustainable businesses in this space

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