STATE OF THE MARKET TODAY AND WHAT TO EXPECT TOMORROW

Thomson Reuters LPC’s Third Annual Middle Market Loan Conference
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From 40,000 feet…

- Global lending activity drops off after reaching record levels
- M&A-related lending picks up, then trails off, leaving lender budgets unmet

U.S. Leveraged lending

- Dearth of supply with no end in sight?
- Loan mutual fund outflows slow while CLO issuance roars on!
- What’s next? Pro rata market share keeps growing, regulatory takes a toll

U.S. Middle Market

- Issuance trails off as refis slow and M&A stalls
- Lenders do not meet budgets and competition heats up
- Banks navigate through Leveraged Lending Guidance
- What’s next? Market’s outlook for terms and conditions
2014 Global loan issuance reached $4.27T record, up from $4T in 2013

Global Loan Issuance

Source: Thomson Reuters LPC
AT $750B, 2014 GLOBAL M&A LOAN ISSUANCE WAS UP 40% VS. 2013

GLOBAL M&A LENDING

- Americas
- EMEA
- Asia-Pacific (excl. Japan)
- Japan (beg. '06)

May 6, 2015 TRLPC 3rd ANNUAL MIDDLE MARKET LOAN CONFERENCE

SOURCE: THOMSON REUTERS L.P.
U.S. M&A LENDING REACHED $457B IN 2014, RANKING 2ND BUSIEST BEHIND 2007’S $471B
U.S. LOAN VOLUME SURPASSED $2.1T IN 2014, JUST SHY OF 2013’S $2.14T RECORD

U.S. LOAN ISSUANCE

(Source: Thomson Reuters LPC)

May 6, 2015
U.S. NEW MONEY LENDING FELL TO $141B IN 1Q15

U.S. LOAN ISSUANCE – NEW MONEY ONLY

SOURCE: THOMSON REUTERS LPC
AT $740B, 1Q15 GLOBAL LOAN ISSUANCE FELL 30% VS. 4Q14 AND 20% VS. 1Q14
U.S. SYNDICATED LENDING FELL TO TWO AND A HALF YEAR LOW IN 1Q15

U.S. SYNDICATED LOAN ISSUANCE

SOURCE: THOMSON REUTERS LPC
**But, new money as share of lending inched up to 40%, a six year high**

NEW MONEY AS A SHARE OF OVERALL U.S. SYNDICATED LENDING

![Graph showing new money share of lending from 2004 to 2015](image-url)
LEVERAGED LENDING S/D IMBALANCE PERSISTS

“What really surprised me last quarter was CLO issuance and how strong demand was for loans. But, without new supply, this could set the stage for opportunistic deals in 2Q.”

“CLO issuance shocks me. I thought with risk retention and volatility at year-end... but, equity buyers seem to be coming back and mangers will be given time to articulate a strategy and implement .”

- Two loan investors
LEVERAGED FINANCE IN LINE WITH FORECASTS AT $1.25T IN 2014; EXPECTED TO BE DOWN IN 2015

LEVERAGED LOAN AND HIGH YIELD BOND ISSUANCE

May 6, 2015

TRLPC 3rd ANNUAL MIDDLE MARKET LOAN CONFERENCE

SOURCE: THOMSON REUTERS LPC, TRLPC’S QUARTERLY LENDER SURVEY
2015 Outlook: Leveraged new money is expected to approach $400B, refis down to $430B

LEVERAGED LENDING: NEW MONEY

- Issuance ($Bils.)
- Lev. new money vs. LPC Survey Estimate

LEVERAGED LENDING: REFINANCINGS

- Issuance ($Bils.)
- Lev. refinancings vs. LPC Survey Estimate

SOURCE: THOMSON REUTERS LPC, TRLPC’S QUARTERLY LENDER SURVEY
Leveraged Loan Issuance fell with lack of new issue & fewer opportunistic refinancings

1Q15 Leveraged refinancings fell below $60B for the first time in 3 years

Leveraged New Money fell to $70B in 1Q15

Source: Thomson Reuters LPC
NEAR-TERM OUTLOOK FOR SPREADS & ISSUANCE

SURVEY: WHERE ARE INSTITUTIONAL SPREADS & LOAN ISSUANCE HEADED?

% of respondents

% change in 2Q15 vs. 1Q15

Spreads

Issuance

SOURCE: THOMSON REUTERS LPC’S QUARTERLY LENDER SURVEY
LEVERAGED PRO RATA SHARE GROWS

LEVERAGED FINANCE: ISSUANCE DROPS TO TWO AND A HALF-YEAR LOW

PRO RATA SHARE OF LEVERAGED LENDING

Issuance ($Bils.)

Pro Rata Lev. Loans
Institutional Loans
HY Bonds

Pro rata share of leveraged (%)
CLO issuance reached monthly record in March

ANNUAL CLO ISSUANCE

SURVEY: CLO issuance estimates for 2Q15

CLO issuance reached record in March

2Q15 CLO issuance estimates

Source: Wells Fargo Securities, Thomson Reuters LPC
CLO AUM SURPASSED $400B THROUGH APRIL

U.S. CLO AGGREGATE PRINCIPAL BALANCE BY VINTAGE

CLO Aggregate Principal Balance ($ Bils.)

<=2008  2009-2013  2014/15

SOURCE: THOMSON REUTERS LPC COLLATERAL
CLOs & Retail Loan Funds AUM grew to $540 billion through April.

Outstandings by Investor Type:

- CLOs
- Loan Funds (mutual funds & ETFs)
- Other

Assets Under Management ($B):

- CLOs
- Loan Funds

Source: Thomson Reuters LPC, Lipper, LPC Collateral
Loan fund flows turned positive in March and April while yields fell.

SINGLE-B PRIMARY LOAN YIELDS VS. LOAN FUND FLOWS

PRIMARY MARKET YIELDS CONTINUE TO SLIDE

INSTITUTIONAL TERM LOAN YIELDS

Monthly
Quarterly

PRIMARY LOAN YIELDS

1st-Lien
2nd-Lien
1st-Lien w/o 2nd-lien

B, BB YIELDS

Yield (3-year term)

Yield (3-years)

1st-Lien
2nd-Lien
1st-Lien w/o 2nd-lien

SOURCE: THOMSON REUTERS L.P.
Leverage comes down; institutional middle market LBOs are more conservative than BSL

AVG. TOTAL DEBT TO EBITDA: MM VS. BSL LBOs

AVG. EQUITY CHECKS: MM VS. BSL LBOs

Institutional MM
Broadly Syndicated

Avg. Total Debt to EBITDA (x)

Avg. Equity contributions

SOURCE: THOMSON REUTERS LPC
SURVEY: OUTLOOK ON LEVERAGE

LEVERAGE LEVELS HAVE BEEN TIGHTENING; WHAT DO YOU EXPECT IN 2Q?

WHEN STRUCTURING A LEVERAGED LOAN IN TODAY'S MARKET IS IT MORE DIFFICULT TO...

Find a bank to back a deal and bring it to market

Add investors once the deal is in the market

% of survey respondents

0% 20% 40% 60% 80% 100%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Loosening Stability More tightening% of survey respondents
SURVEY: DEAL FLOW OUTLOOK

RELATIVE TO 1Q15, IN 2Q15 DO YOU EXPECT THE INSTITUTIONAL CALENDAR TO:

- Go down
- Stay the same
- Go up

WHAT WILL BE THE PRIMARY DRIVERS FOR DEAL FLOW?

- Mix of new money and select refinancings
- Opportunistic refinancings / repricings
- M&A

% of survey respondents

SOURCE: THOMSON REUTERS LPC
SECONDARY MARKET IS HIGHLY BID AS DEMAND FOR ASSETS OUTPACES SUPPLY

The share of loans bid at par or higher climbed sharply in recent weeks to over half of all multi-quote term loans.
MM VOLUME WAS FLAT IN 2014 BUT NEW MONEY WAS UP 24% AND BUDGETS GREW

MM: ANNUAL LOAN ISSUANCE

IS YOUR 2015 BUDGET LARGER OR SMALLER THAN 2014 FOR MIDDLE MARKET LENDING?

SOURCE: THOMSON REUTERS LPC, TRLPC'S QUARTERLY SURVEY
Mounting pressure? Survey showed more liquidity, bigger holds in 2015

How much more capital are you allocating to lend in the MM in 2015?

How are your hold levels changing this year?

**YOY Percentage change**

**% of respondents**

**Banks**

**Non Banks**

**SOURCE: THOMSON REUTERS LPC**
Coming off a record year, issuance plummeted in 1Q15

QTRLY. SPON. VS. NON-SPON. MM ISSUANCE

ANNUAL SPON. VS. NON-SPON. ISSUANCE

SOURCE: THOMSON REUTERS LPC
93% of respondents came up short against lending goals in 1Q15

DID YOU REACH YOUR 1Q15 LENDING GOAL?

WHAT FACTORS CONTRIBUTED TO THIS?

- **Those who fell below goals attributed to:**
  - Lack of volume
  - Issuance less than anticipated
  - Available deals outside of risk tolerance
  - Too much competition
  - Drawn out closings
  - Leveraged Lending Guidance
  - Aggressive structures
  - Low allocations
  - Tight pricing
  - Lack of event driven financings

- **Those who met goals attributed to:**
  - Set a very low budget
  - Strong relationships

In 4Q14, 45% of respondents said they were able to reach their lending goal. Roughly 60% of non-banks were able to put enough money to work.

However in 1Q15, over 90% of both banks and non-bank respondents were unable to meet their desired lending target.
After increasing in 2014, non-sponsored M&A lending was negligible in 1Q15
WHAT IS YOUR OUTLOOK ON THE U.S. MACROECONOMIC PICTURE IN 2015?

WHAT IS YOUR VIEWPOINT ON THE U.S. ECONOMY IN 2015?

- Strength: expecting accelerated growth
- Modest Strength: slow and steady, varied by sector
- Modest Weakness: cracks in issuer/sector performance
- Weakness: Defaults & amendments pick up

WHAT IS YOUR OUTLOOK FOR NON-SPONSORED M&A IN 2015?

- Remain relatively unchanged: Only a few deals now and then
- Increase: M&A plans will materialize
- Decline: Issuers are more cautious given global economic...

Each quarter, lenders’ expectation for M&A grows. 75% of respondents said that M&A plans will materialize for corporates in 2015.

Furthermore the vast majority of respondents believe the U.S. economy will show slow and steady growth.
SPONSORED NEW MONEY AND REFIS DROP Q-O-Q AND Y-O-Y TO $6.2B AND $2.7B RESPECTIVELY

SPONSORED: QUARTERLY

New money  Refinancing

SPONSORED: ANNUAL

New Money  Refinancing

SOURCE: THOMSON REUTERS LPC
1Q15 ACTUAL RESULTS VS. LENDERS’ EXPECTATIONS

WHAT IS YOUR EXPECTATION FOR VOLUME IN 2Q15?

1Q15 ISSUANCE GROWTH EXPECTATIONS

ACTUAL RESULTS

COMMENTARY

- Heading into 1Q15, bulk of lenders believed non-sponsored issuance would rise +5-15%, however volume actually plummeted 54%
- On the sponsored side, responses were split between moderate growth and relatively flat, and volume actually dropped 49%
- Heading into 2Q15, majority feel both non-sponsored and sponsored volume will grow modestly given such a weak first quarter
LEVERAGE COMES DOWN FOR SMALLER ISSUERS; CLIMBS FOR LARGER WITH 1ST/2ND LIEN STRUCTURES

LEVERAGE & EBITDA BY CAPITAL STRUCTURE

Avg. Senior Leverage  Avg. Junior Leverage  Average EBITDA

Debt to EBITDA

All Senior  1st Lien / Mezz  Unitranche  1st Lien / 2nd Lien

Avg. EBITDA ($Mils.)

2013 4Q14 1Q15 2Q14 3Q14 4Q14 1Q15 2013 4Q14 1Q15 2Q14 3Q14 4Q14 1Q15 2013 4Q14 1Q15 2Q14 3Q14 4Q14 1Q15

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Pricing varies widely across segments of the middle market

Quartely Middle Market Term Loan Yields (3-Year)

- MM Institutional TL Yield
- MM Private Deal TLA
- MM Private TLB
- Unitranche*
- MM Private Second Lien
- Mezz (Cash)
- Mezz (Cash + PIK)

May 6, 2015

Source: Thomson Reuters LPC
REGULATORY BACKDROP: WHAT'S IN STORE FOR 2Q15?
WHAT WAS THE BIGGEST CHANGE IN THE MM IN 1Q15?

**BIGGEST CHANGE: NON-BANK RESPONDENTS**
- Lack of volume
- Increase in CLO issuance
- Demand far outweighed supply
- Increased competition
- Lack of LBO opportunities
- Price has improved slightly
- Larger presence of unitranche
- Low quality opportunities

**BIGGEST CHANGE: BANK RESPONDENTS**
- Leverage Lending Guidance continues to drive decision making
- Banks adverse to high leverage levels
- Deceleration of loan issuance
- Losing deals to non-regulated players

WHAT WILL BE THE MOST IMPORTANT THEME IN 2Q15?

**MOST IMPORTANT THEME HEADING INTO 2Q15?**
- Will volume pick up?
- M&A activity
- How will banks navigate regulatory issues?
- Demand
- Will terms deteriorate if demand/supply imbalance continues?
- Banks vs. non-banks leverage divergence
- Seller valuation expectations need to come down
- Balancing risk and return
**How is banks’ leverage tolerance for sponsored deals changing due to LLG?**

**SPONSORED: SENIOR DEBT TO EBITDA**

- **1Q15**
- **2Q15**

<table>
<thead>
<tr>
<th>% of bank respondents</th>
<th>&lt; 3x</th>
<th>3x - 3.5x</th>
<th>3.5 - 4x</th>
<th>&gt; 4x</th>
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<tbody>
<tr>
<td>1Q15</td>
<td>20%</td>
<td>30%</td>
<td>35%</td>
<td>15%</td>
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<tr>
<td>2Q15</td>
<td>25%</td>
<td>35%</td>
<td>30%</td>
<td>20%</td>
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**SPONSORED: TOTAL DEBT TO EBITDA**

- **1Q15**
- **2Q15**

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<tr>
<th>% of bank respondents</th>
<th>&lt; 4x</th>
<th>4x - 4.5x</th>
<th>4.5 - 5x</th>
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<td>1Q15</td>
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<td>2Q15</td>
<td>25%</td>
<td>40%</td>
<td>20%</td>
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<td>10%</td>
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- **Senior Debt to EBITDA:** While 45% of banks will push leverage to the 3.5-4x area, majority of bank respondents are keeping senior leverage below 3.5 times.

- **Total Debt to EBITDA:** Fewer banks are willing to go above 5.5 times leverage in 2Q15. Responses continue to vary across the board based on bank size and risk appetite.
Non-bank lenders' leverage tolerance remains loose; majority willing to go above 4x by 5.5x

SPONSORED: SENIOR DEBT TO EBITDA

SPONSORED: TOTAL DEBT TO EBITDA

% of non-bank respondents

1st lien debt to EBITDA tolerance

Total debt to EBITDA tolerance

SOURCE: THOMSON REUTERS L.P.
**Banks’ Leverage Tolerance for Non-Sponsored Deals Shrinks Noticeably**

- Heading into 2Q15, no bank respondents said they would go above 3 times senior debt to EBITDA for corporate issuers.
- Fewer banks are willing to go above 4 times total debt to EBITDA relative to earlier quarters.
**What are the most important changes you have seen driven by Leveraged Lending Guidance?**

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<tr>
<th>AGGREGATED RESPONSES</th>
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<tr>
<td>- Continued refinement of the “box”</td>
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<td>- Expect banks to be more and more limited in the deals they can do</td>
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<td>- Banks will bid aggressively to lead, but not participate</td>
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<td>- Continued shift in dealflow to non-bank lenders willing to push leverage beyond 5 times</td>
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<td>- Hard and fast rules regarding leverage regardless of industry norms</td>
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<td>- Reduction in average overall leverage levels across the market</td>
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<td>- General level of uncertainty as regulators refine the Guidance</td>
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<td>- More competition for deals that are not levered</td>
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<td>- Quality deals, with proven cash flow, will access higher leverage and banks will be shut out</td>
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<td>- Unitranche proliferation</td>
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<td>- Tougher to place revolvers</td>
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<td>- Market continues to bifurcate</td>
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<td>- Banks capping out at 3 to 3.5 times senior leverage</td>
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<td>- Deals will become more opaque as they leave the visible syndicated route and go to shadow banks who take down entire deals</td>
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<td>- Incremental FDIC expense</td>
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<td>- Uncertainty and confusion for sponsors/issuers</td>
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HOW DO YOU EXPECT LEVERAGED LENDING GUIDANCE TO IMPACT LEVERAGED M&A VOLUME IN 2015?

- Majority of respondents believed heading into 2015 that Leveraged Lending Guidance would not hamper M&A activity.
- However, so far M&A levels have been disappointing. Overall leveraged M&A volume was down in 1Q15 to $55.2 billion, 22% lower than 4Q14 and 12% lower than 1Q14.