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High Yield Bonds Stay Hot in August

August is usually a desolate time in the high yield new issue market, with participants taking vacations and waiting for activity to pick up again after Labor Day. This August had its down time, but not before racking up record new issuance for the month and leaving investors confident that the market will stay frothy for the rest of the year.

While there has been just one bond offering priced since August 17, the month broke records for new issuance before it was half over. Issuers brought \$33.1 billion in high yield to market, according to a report published Aug. 23 by **Moody's Investors Service**. This was an increase over the \$27.7 billion priced in July. It also beat the August record of \$32.5 billion set in 2010.

By comparison, August 2011 saw just \$2.5 billion in new

deals priced, although Moody's noted that this is low, even by August standards.

It's not hard to understand why corporate borrowers keep coming to market: demand remains strong, financing cheap, and it's not clear how long this will continue to be the case, given macroeconomic uncertainty.

"The biggest issue, from an issuer's standpoint, is that there are a number of different scenarios that could take us out of this Goldilocks environment we're in, and borrowers don't want to be caught on the wrong side of that equation," said **Mark Howard**, head of U.S. credit strategy for **BNP Paribas**.

(See **HIGH YIELD** on page 4)

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PE Pipeline Seen Filling Up

Buyout activity, an important source of junk bond issuance, is running below last year's levels, at least when measured in terms of dollar volume. But market observers expect the pace to pick up post Labor Day, as dealmakers are motivated to move before the year ends.

Private equity firms have executed a total of 1,122 deals so far this year, \$117.4 billion worth, according to **Dealogic**. At the same point last year, LBO firms had inked 1,204 deals worth \$136.7 billion. The 2012 year-to-date total is the lowest since 2009, when only about \$47 billion

in deals had been signed by August (see chart, page 5).

"Despite this downturn in overall leveraged buyout deal flow this year, market participants are confident that the deal flow is poised to increase towards the end of the year," said **Chuck Yamarone**, a director in the capital markets group of **Houlihan Lokey**. "We expect activity levels to increase in the fourth quarter and into 2013, especially after we see some resolution of the current tax and fiscal

(See **PE PIPELINE** on page 5)

GIAC Revives French CBO Market

It took two years to complete, but the first French collateralized bond obligation since the financial crisis was finally launched in late July. The deal's portfolio comprises 19 bonds granted to as many small and medium-sized enterprises (SMEs).

As of July 2012, the portfolio's current balance was roughly €30 million.

Paris-based independent cooperative finance firm **Groupe GIAC** arranged

the €80 million (\$99.5 million) cash transaction. GIAC provides long-term financing to French companies.

GIAC is the originator, underwriter and manager of the CBO's assets and is sponsoring and managing the securitization structure through a wholly-owned fund management company.

Prior to 2008, GIAC completed six

(See **CBO** on page 6)

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PE PIPELINE

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uncertainty in Washington.”

Private equity firms are already scouting for more deals, according to market participants. “There’s definitely an uptick in private equity. We’re seeing it. In every deal that we’re looking at, there are numerous private equity funds at the table,” said **Theodore Koenig**, president and chief executive of **Monroe Capital**. “You’ve got a lot of dry powder still on the sidelines with these private equity funds, and it’s got to get invested.”

Koenig also points out that with lower tax rates scheduled to expire early next year, investors are motivated to get deals done this year so as not to face a higher tax penalty. “That won’t cause deals to happen,” he said, “but anyone who’s been on the fence about doing a deal will make sure the deal gets done before year end.” He also said that the debt markets are a much more welcoming place, with a large appetite in the market for higher-

yielding debt. “It’s a much more robust market,” he said.

At the moment there are at least six deals in the LBO pipeline to the high yield market with more than \$1.95 billion waiting to come to the primary market.

The newest private equity buyout in the high yield bond pipeline is the \$850 million buyout of **TPC Group** by **First Reserve Corp.** and **SK Capital Partners**. **Bank of America Merrill Lynch**, **Jefferies** and **Morgan Stanley** will provide \$850 million to finance the buyout. The debt package consists of a \$600 million bridge loan and a \$250 million asset-based revolver. It plans to raise \$600 million in senior secured bonds to take out the bridge loan (see Market Buzz, page 3). TPC Group is a specialty chemical provider with annual revenues of approximately \$2.7 billion.

Another recent entry is specialty retailer **David’s Bridal**, which **Clayton Dubilier & Rice** agreed to buy for \$1.05 billion (see Market Buzz, page 3). Bank of America Merrill Lynch, **Barclays**, **Gold-**

man Sachs and **Morgan Stanley** have committed to provide debt financing for the deal. The transaction is expected to close in the fourth quarter. Morgan Stanley is the lead bookrunner for the bond offering and Bank of America is leading the bank loan effort.

Cequel Communications Holdings plans to bring a \$500 million eight-year bond offering to the market to help finance its \$6.6 billion buyout by **BC Partners** and the **Canadian Pension Plan Investment Board**. **Credit Suisse** is the lead banker. **Par Pharmaceuticals** is planning to offer \$490 million in junk bonds and use it to back its \$1.84 billion buyout by **TPG Capital**. The banks overseeing that debt financing are Bank of America Merrill Lynch, **Deutsche Bank**, **Morgan Stanley**, **RBS** and **UBS**.

Wolverine Worldwide expects to sell \$375 million in bonds to support its joint purchase, along with **Blum Capital** and **Golden Gate Capital**, of **Collective Brands’ Performance + Lifestyle Group** (See PE PIPELINE on page 9)

BOOMING BUYOUTS...

| GLOBAL FINANCIAL SPONSOR ENTRIES SINCE 2006 | | | YTD GLOBAL FINANCIAL SPONSOR ENTRIES SINCE 2006 | | |
|---|------------------|---------------|---|------------------|---------------|
| Announcement Date by Year | Deal Value (\$m) | No. | Announcement Date by Year | Deal Value (\$m) | No. |
| 2006 | 696,299 | 2,753 | 2006 YTD | 368,571 | 1,760 |
| 2007 | 673,410 | 2,874 | 2007 YTD | 569,654 | 1,926 |
| 2008 | 191,562 | 2,214 | 2008 YTD | 168,430 | 1,568 |
| 2009 | 107,395 | 1,387 | 2009 YTD | 47,148 | 851 |
| 2010 | 210,349 | 1,774 | 2010 YTD | 125,255 | 1,110 |
| 2011 | 192,762 | 1,829 | 2011 YTD | 136,783 | 1,204 |
| 2012 YTD | 117,383 | 1,120 | 2012 YTD | 117,395 | 1,122 |
| Subtotal | 2,189,159 | 13,951 | Subtotal | 2,323,307 | 16,657 |
| Total | 2,189,159 | 13,951 | Total | 2,323,307 | 16,657 |

Source: Dealogic

...AND THE BONDS THAT SUPPORT THEM.

| GLOBAL FINANCIAL SPONSOR RELATED HIGH-YIELD BONDS SINCE 2006 | | | YTD GLOBAL FINANCIAL SPONSOR RELATED HIGH-YIELD BONDS SINCE 2006 | | |
|--|------------------------------|------------|--|------------------------------|------------|
| Deal Pricing Date by Year | Deal Value \$ (Proceeds) (m) | No. | Deal Pricing Date by YTD | Deal Value \$ (Proceeds) (m) | No. |
| 2006 | 68,868 | 106 | 2006 YTD | 28,111 | 61 |
| 2007 | 74,510 | 112 | 2007 YTD | 50,717 | 87 |
| 2008 | 28,966 | 35 | 2008 YTD | 24,428 | 30 |
| 2009 | 50,545 | 98 | 2009 YTD | 21,370 | 48 |
| 2010 | 100,957 | 208 | 2010 YTD | 52,270 | 110 |
| 2011 | 87,577 | 164 | 2011 YTD | 78,439 | 145 |
| 2012 YTD | 64,400 | 123 | 2012 YTD | 64,400 | 123 |
| Subtotal | 475,822 | 846 | Subtotal | 319,734 | 604 |
| Total | 475,822 | 846 | Total | 475,822 | 846 |

Source: Dealogic

MOST RECENT COMPLETED HIGH YIELD DEALS

| Issue Date | Issuer | Principal Am (\$mm) | Currency | Coupon % | Maturity | Moody Rating | Standard & Poor's Rating | Bookrunner(s) |
|------------|--------------------------------|---------------------|----------|----------|----------|--------------|--------------------------|---|
| 08/22/12 | Big Will Investments Ltd | 238.0 | US | 10.875 | 04/29/16 | NR | NR | Citi, UBS, Standard Chartered |
| 08/20/12 | VWR Funding | 750.0 | US | 7.250 | 09/15/17 | Caa1 | B- | Goldman Sachs, BofAML, Barclays, Citi, Deutsche Bank, JPMorgan |
| 08/17/12 | American Gilsonite Holding Co | 260.0 | US | 11.500 | 09/01/17 | B3 | B | BofAML, KeyBanc |
| 08/16/12 | ServiceMaster Co | 750.0 | US | 7.000 | 09/15/20 | B3 | B- | JPMorgan, Credit Suisse, Morgan Stanley, Barclays Bank, Deutsche Bank, Goldman Sachs, Citi, Natixis |
| 08/16/12 | Unisys Corp | 210.0 | US | 6.250 | 08/15/17 | B1 | BB- | Citi |
| 08/15/12 | Caesars Operating Escrow LLC | 750.0 | US | 9.000 | 02/15/20 | B2 | B | JPMorgan, BofAML, Citi, Credit Suisse, Deutsche Bank |
| 08/15/12 | IDQ Acquisition Corp | 45.0 | US | 14.000 | 10/01/17 | NR | NR | Jefferies |
| 08/15/12 | Scientific Games International | 300.0 | US | 6.250 | 09/01/20 | B1 | BB- | BofAML, Credit Suisse, JPMorgan, RBS, UBS, Deutsche Bank, Goldman Sachs, Jefferies |
| 08/15/12 | Tronox Finance LLC | 900.0 | US | 6.375 | 08/15/20 | B1 | BB- | Goldman Sachs, Credit Suisse, UBS Investment Bank |
| 08/15/12 | Taylor Morrison | 125.0 | US | 7.750 | 04/15/20 | B2 | BB- | Credit Suisse, Deutsche Bank, HSBC USA |
| 08/15/12 | Univision Communications | 625.0 | US | 6.750 | 09/15/22 | B2 | B+ | Deutsche Bank, BofAML, Barclays, Credit Suisse, Morgan Stanley, Wells Fargo |
| 08/15/12 | Live Nation Entertainment | 225.0 | US | 7.000 | 09/01/20 | B3 | B | JPMorgan, BofAML, Deutsche Bank, Goldman Sachs, Morgan Stanley, Wells Fargo |
| 08/14/12 | Concho Resources | 700.0 | US | 5.500 | 04/01/23 | B1 | BB+ | JPMorgan, BofAML, Barclays, Wells Fargo |
| 08/14/12 | DaVita | 1,250.0 | US | 5.750 | 08/15/22 | B2 | B | JPMorgan, Barclays, BofAML, Credit Suisse, Goldman Sachs, Morgan Stanley, SunTrust Robinson Humphrey, Wells Fargo |
| 08/14/12 | Graton Econ Dev | 450.0 | US | 9.625 | 09/09/19 | B3 | B | BofAML, Wells Fargo, Deutsche Bank, Credit Suisse |

Source: Thomson Reuters

PE PIPELINE

continued from page 5

for approximately \$1.23 billion. **JPMorgan** and **Wells Fargo** are the bookrunners. The deal is also being financed with a \$400 million term loan A, a \$500 million term loan B, and a \$200 million revolver.

And **United Technologies** subsidiary **Hamilton Sundstrand** is expected to come to market with a bond offering for its \$3.5 billion buyout by **BC Partners** and **The Carlyle Group**. **Credit Suisse**, **Citi**, **group**, **Deutsche Bank**, **Goldman Sachs** and **RBC** are the banks on the deal.

The market will likely be receptive so long as macroeconomic factors cooperate. "High yield doesn't exist in a vacuum," said **Todd Sycoff**, a managing director with **Gleacher & Co**. "To the extent

that the equity markets stay strong and [fund] inflows stay strong and rates stay low, then high yield can absorb an increase in private equity deals. But the high yield market is affected by other things. To the extent that flows are as strong as they've been, that's going to trump most other factors."

Private equity firms are also increasingly squeezing their portfolio companies for dividends, and junk bond deals to finance dividends are becoming more common. Junk-rated companies increased dividend payouts more than 10% in 2011 and the first quarter of 2012, according to a mid-July 2012 study published by **Moody's Investors Service**. In the first half of the year, private equity-backed companies launched at least 35 dividend deals worth more than \$11 billion, according to **Moody's**.

Clear Channel, which is owned by **Bain Capital Partners** and **Thomas H. Lee Partners**, paid a dividend of almost \$2.2 billion to shareholders, and **HCA** sold \$1.35 billion in new bonds in February to pay a dividend to shareholders, which include private equity firms **Bain** and **Kohlberg Kravis Roberts & Co**. More recently, **Energy Future Holdings** sold a two-part \$850 million (upsized from \$750 million) bond deal on August 10 in order to pay dividends to private equity owners **Kohlberg Kravis Roberts & Co**, **TPG** and **Goldman Sachs**.

But new or old, market players plan on there being a receptive debt market for buyout debt. "There are limited amounts of sellers in the market and lots of buyers," said **Koenig**. "That always leads to heat. More heat will come as the year progresses." —MS