

# Morgan Stanley Credit Partners L.P.

Weekly Market Update

August 13, 2012

# Weekly Leveraged Finance Update

Week Ended August 10, 2012

**High Yield:**

- YTD Issuance: \$213Bn
- Fund Flows: +\$809MM
- Index Yield: 6.75%

**Leveraged Loans:**

- YTD Issuance<sup>(1)</sup>: \$245Bn
- Fund Flows: +\$159MM
- Index Yield: 6.60%

**Leveraged Finance Market Commentary**

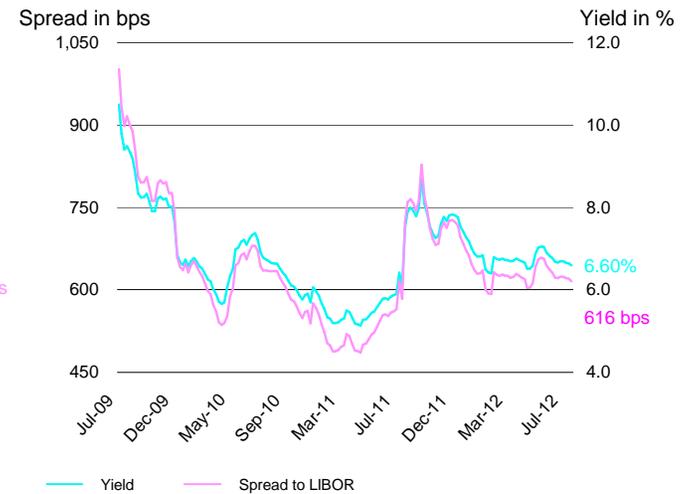
- High-yield CDS index, HY18: 97.88, up 0.31 pts (0.3%)
- High-yield bond index: 103.28, up 0.43 pts (0.4%)
- Leveraged loan CDS index, LCDX18: 99.13, down 0.25 pts (0.3%)
- Leveraged loan index: 98.34, up 0.45 pts (0.5%)
- 22 issuers priced \$14.7Bn of HY globally, YTD volume is \$213Bn, down 5% vs. YTD 2011
- 15 loans broke for trading for \$6.8Bn. YTD loan volume is \$243Bn, 16% below YTD 2011
- HY fund flows: positive \$809MM, ninth consecutive inflow totaling \$9.0Bn
- Loan fund flows: positive \$159MM, eighth consecutive inflow totaling \$1.2Bn
- 4 CLOs priced this week for \$1.4Bn. YTD CLO volume is \$21.5Bn

**LTM High Yield Index STW and YTW**



Source Morgan Stanley

**LTM Leveraged Loan Index STW and YTW**



Source Bloomberg, LCD

1. Includes Priced and Announced Institutional and Pro-Rata Tranches

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## Market Commentary

### • **Homeward Residential cuts pricing on \$300M loan**

- Homeward Residential (fka American Home Mortgage Servicing) cut pricing on its \$300M term loan
- The loan is now talked at LIBOR + 675 bps with a 1.5% LIBOR floor and a 97.5 OID
- At launch, the loan was talked at LIBOR + 700 bps with a 1.5% LIBOR floor and 96 OID
- The loan will fund the redemption of preferred stock by owner Wilbur Ross
- The facility comprises a \$75M revolving credit and a \$300M term loan B
- AHMSI, the thirteenth largest mortgage servicer in the country, is based in Coppell, Texas

### • **CDC Consona's new M&A loans atop OID on trade entry**

- CDC Consona's \$250M acquisition term loans are above original issue after freeing to trade earlier this week
- The \$150M term loan B is straddling par, opening at 99.25-100.25, after selling at OID of 99
- The \$100M term loan A is quoted 99-100, atop its 99 OID
- Pricing on the TLB came at LIBOR+600 bps with a 1.25% LIBOR floor, while the TLA firmed at LIBOR + 550 bps with a 1.25% LIBOR floor
- A \$10M, five-year revolving credit rounds out the credit facility
- Net leverage is expected to be 2.8x

### • **FLY Leasing's new TL aloft issue price after trade entry**

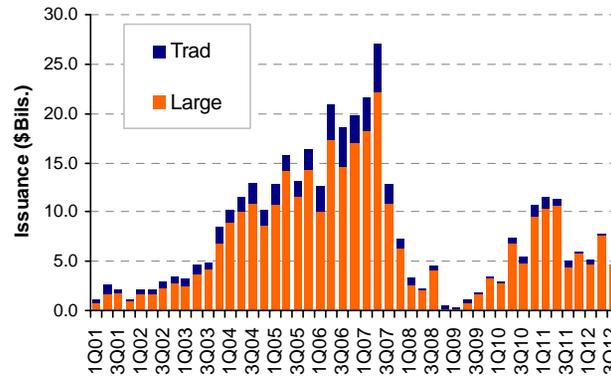
- FLY Leasing's \$395M senior secured term loan is 98.125-98.625 today, above its 96 original issue price, after allocating earlier this week
- The term loan cleared at a sweetened spread of LIBOR + 550 bps with a 1.25% LIBOR floor. Previously, the loan was talked at LIBOR + 500 bps with a 1.25% LIBOR floor
- The 96 OID also came wide of talk which began at the 98-99 range
- Lenders enjoy a 101 soft call protection. There is also amortization of 5%

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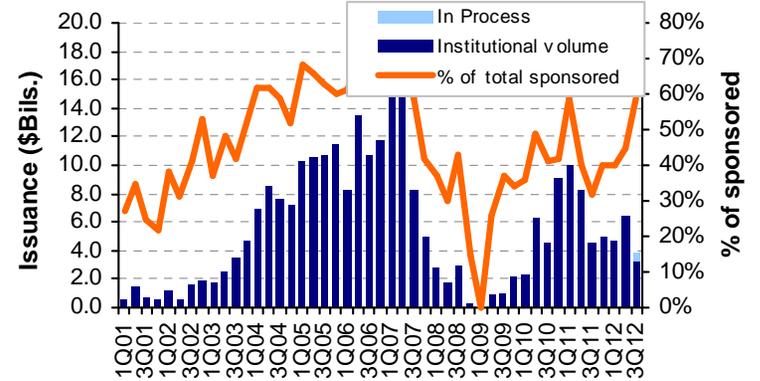
- Middle market institutional issuance reaches \$4.75B so far in 3Q12, \$3.2B of which is sponsored

## Middle Market Institutional Issuance



Note: 3Q12 data is current as of 8/8/12 and includes both completed and in process deals  
Source: Thomson Reuters LPC

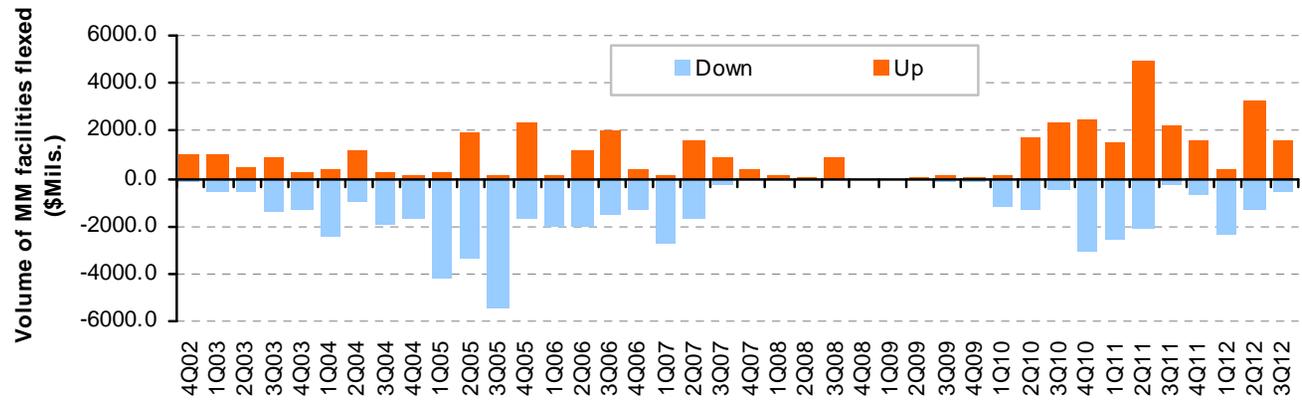
## Sponsored MM Institutional Issuance



Note: 3Q12 data is current as of 8/8/12 and includes both completed and in process deals  
Source: Thomson Reuters LPC

- Upward price pressure continues to outweigh downward flex in the middle market

## Middle Market Flexes

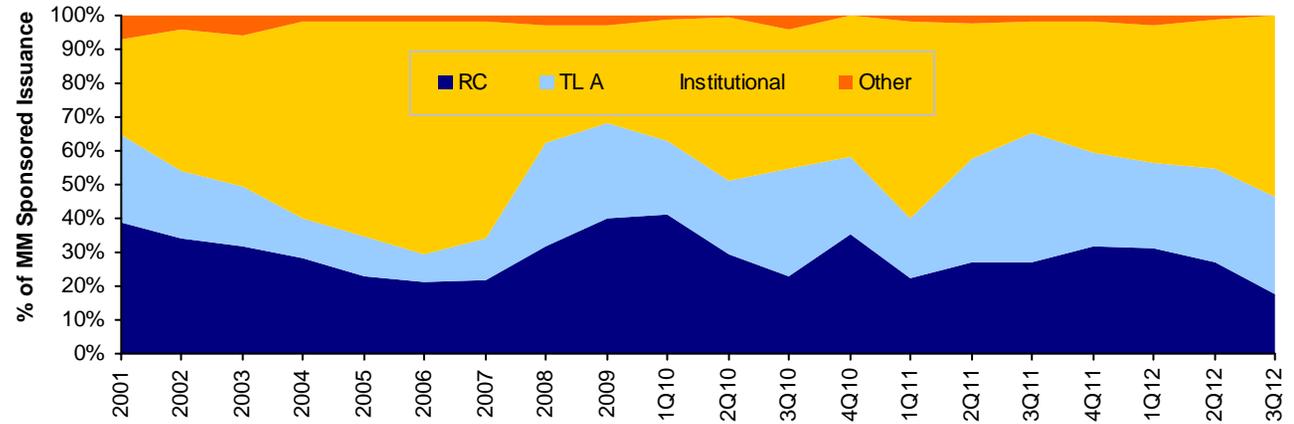


Source: Thomson Reuters LPC

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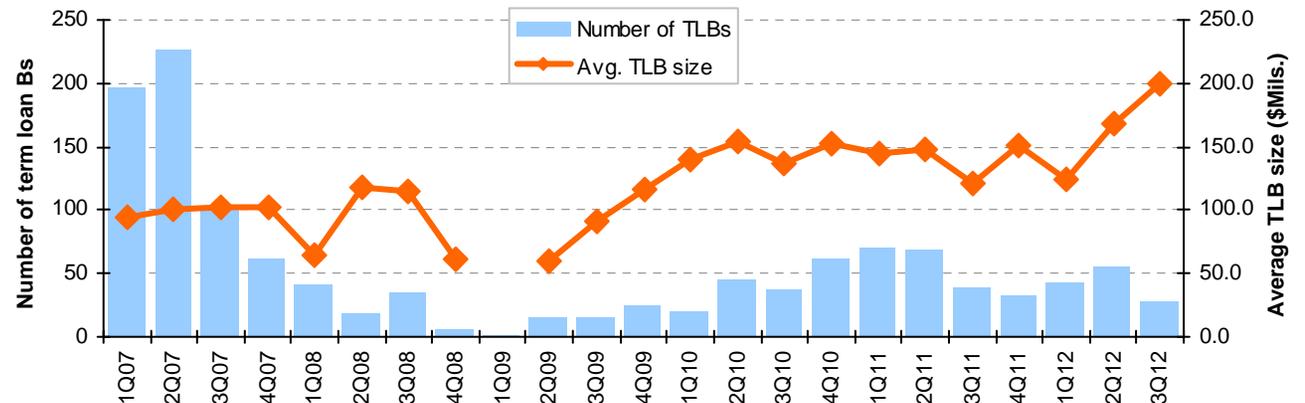
Week Ended August 10, 2012

## Breakdown of Sponsored Issuance



Note: 3Q12 data is current as of 8/8/12 and includes completed deals only  
Source: Thomson Reuters LPC.

## Middle Market Institutional Term Loan Bs



Note: 3Q12 data is current as of 8/8/12 and includes both completed and in process deals  
Source: Thomson Reuters LPC

- Institutional loans make up 59% of sponsored volume in 3Q12, up from 45% in 2Q12

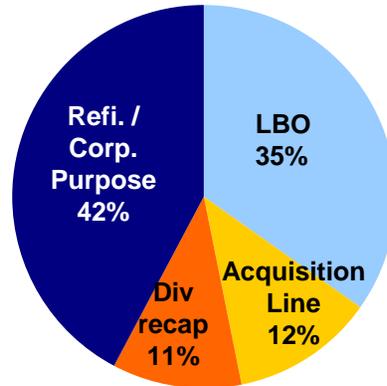
- Average mid-market TLB size increases to \$199M in 3Q12

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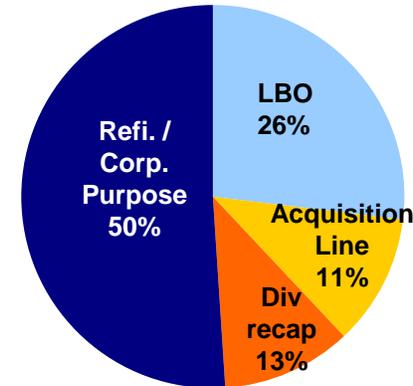
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- M&A is making up a higher share of deal flow compared to this time last year

2012 YTD Sponsored Issuance Breakdown By Purpose



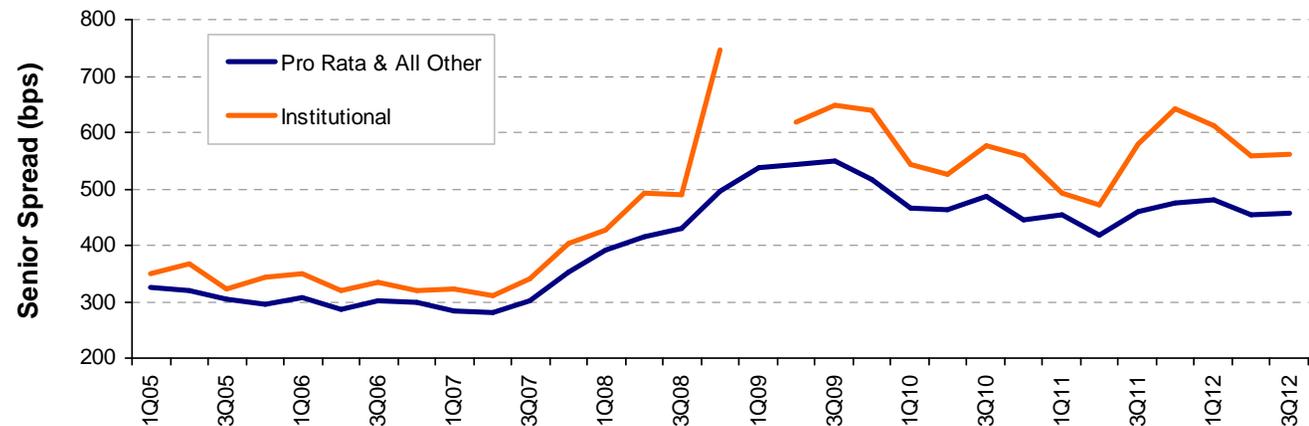
2011 Q1-Q3 Sponsored Issuance Breakdown By Purpose



Note: 3Q12 data is current as of 8/8/12 and includes completed deals only  
Source: Thomson Reuters LPC.

- Institutional spreads flatten in 3Q12

Senior Spreads For Sponsored Deals

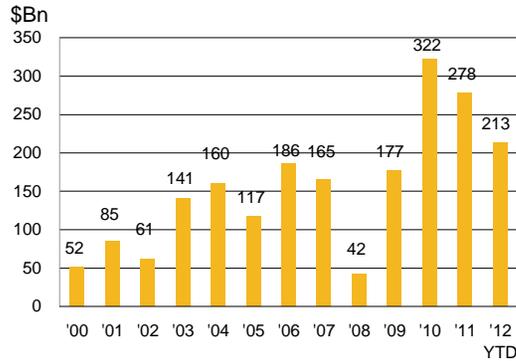


Source: Thomson Reuters LPC Collateral

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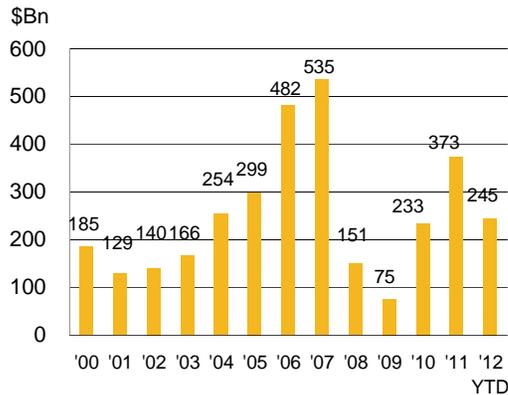
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## Historical HY New Issuance Volume by Year



Source Morgan Stanley, Thomson SDC

## Historical LL New Issuance Volume by Year



Source Morgan Stanley, S&P LCD

### High Yield New Issuance

Date	Issuer	Amount (\$MM)	Coupon	Price	Yield	Facility	Maturity	Facility Ratings	Industry	Use of Proceeds
8/10	H&E Equipment Services	530	7.000%	100.000	7.000%	Sr Nts	2022	B3/B+	Industrial	Refinance Bond Debt
8/9	Energy Future Intermediate	600	11.750%	102.250	11.295%	2nd Pri Sr Sec Nts	2022	Caa3/CC	Utility	Refinance Bond Debt
8/9	Energy Future Intermediate	250	6.875%	100.000	6.875%	1st Pri Sr Sec Nts	2017	Caa3/B-	Utility	Refinance Bond Debt
8/9	Nuance Communications	700	5.375%	100.000	5.375%	Sr Nts	2020	Ba3/BB-	Technology	General Corporate Purpose
8/9	Postmedia Network	250	8.250%	100.000	8.247%	1st Pri Sr Sec Nts	2017	Ba3/B+	Media	Refinance Bank Debt
8/9	Sprint Nextel Corp	1,500	7.000%	100.000	7.000%	Sr Nts	2020	B3/B+	Wireless Telecom	General Corporate Purposes
8/9	WaveDivision	250	8.125%	100.000	8.125%	Sr Nts	2020	Caa1/B-	Cable	LBO
8/9	Olin Corp	200	5.500%	100.000	5.500%	Sr Nts	2022	Ba1/B+	Industrial	Acquisition
8/9	PHH Corp	275	7.375%	100.000	7.375%	Sr Nts	2019	Ba2/BB+	Financial Services	Refinance Bond Debt
8/9	Lennar Corp	50	4.750%	100.000	4.750%	Sr Nts	2017	B2/B+	Home Building	General Corporate Purposes
8/8	Community Health Systems	1,600	5.125%	100.000	5.125%	1st Pri Sr Sec Nts	2018	Ba3/BB	Healthcare	Refinance Bank Debt
8/8	CCO Holdings (Charter)	1,250	5.250%	99.026	5.375%	Sr Nts	2022	B1/BB-	Cable	General Corporate Purposes
8/8	ServiceMaster	1,000	6.125%	100.000	6.125%	Sr Nts	2020	B3/B-	Services	Refinance Bank Debt
8/8	Frontier Communications	600	7.125%	100.000	7.125%	Sr Nts	2023	Ba2/BB	Wireless Telecom	Refinance Bank Debt
8/8	Sirius XM	400	5.250%	100.000	5.250%	Sr Nts	2022	B2/BB	Media	General Corporate Purposes
8/8	EP Energy	350	7.750%	100.000	7.750%	Sr Nts	2022	B2/B	Oil & Gas	Refinance Bank Debt
8/7	Iron Mountain	1,000	5.750%	100.000	5.750%	Sr Sub Nts	2024	B1/B+	Services	Refinance Bank Debt
8/7	Ally Financial	600	4.625%	102.875	3.564%	Sr Nts	2015	B1/B+	Financial Services	General Corporate Purposes
8/7	Stork Technical Services	338	11.000%	96.255	12.000%	Sr Nts	2017	B3/B-	Services	Refinance Bank Debt
8/6	MarkWest Energy	750	5.500%	99.015	5.625%	Sr Nts	2023	Ba3/BB	Oil & Gas	Refinance Bank Debt
8/6	Sandridge Energy	825	7.500%	99.500	7.570%	Sr Nts	2023	B2/B	Oil & Gas	Refinance Bank Debt
8/6	Sandridge Energy	275	7.500%	101.625	7.241%	Sr Nts	2021	B2/B	Oil & Gas	Refinance Bond Debt
8/6	Constellation Brands	650	4.625%	100.000	4.625%	Sr Nts	2023	Ba1/BB+	Food & Beverage	Acquisition
8/6	Advanced Micro Devices	500	7.500%	99.500	7.570%	Sr Nts	2022	Ba3/BB-	Technology	General Corporate Purposes

### Institutional Leveraged Loan New Issuance

Date	Issuer	Amount (\$MM)	Spread	Floor	OID	Yield	Facility	Maturity	Facility Ratings	Industry	Use of Proceeds
8/10	West Corp	970	4.500%	1.250%	99.250	5.938%	TLB-6	2018	Ba3/B+	Services	Dividend
8/10	Sabre Holdings	375	6.000%	1.250%	99.000	7.500%	Cov-Lite Add-on TLB	2018	B1/B	Transportation	Refinancing
8/10	Supervalu	850	6.750%	1.250%	97.000	8.750%	Cov-Lite TLB	2018	B1/BB-	Retail	Refinancing
8/10	Homeward Residential	300	6.750%	1.500%	97.500	8.875%	TLB	2017	B1/B+	Services	Dividend
8/9	Select Medical	275	3.750%	1.750%	97.000	6.250%	Add-on TLB	2018	Ba3/BB-	Healthcare	Refinancing
8/9	Avis Budget	200	3.250%	1.000%	99.000	4.500%	Add-on TLC	2019	Ba1/BB	Industrial	Refinancing
8/9	WaveDivision	500	4.250%	1.250%	99.000	5.750%	TLB	2019	Ba3/BB-	Telecom	LBO
8/9	Ceridian	342	5.750%	0.000%	98.500	6.125%	Add-on TLB	2017	B1/B-	Services	Refinancing
8/8	Presidio	385	4.500%	1.250%	99.500	5.875%	TLB	2017	Ba3/B+	Services	Refinancing
8/7	Blue Buffalo	350	5.250%	1.250%	98.000	7.000%	TLB	2019	B1/B+	Consumer	Dividend
8/7	FLY Leasing	395	5.500%	1.250%	96.000	7.750%	TLB	2018	B1/BBB-	Transportation	Refinancing
8/7	Essential Power	565	4.250%	1.250%	98.500	5.875%	TLB	2019	Ba2/BB	Utility	Refinancing
8/6	HUB International Ltd	75	4.500%	0.000%	99.500	4.625%	Add-on TLB	2017	B1/B+	Insurance	GCP
8/6	Husky Injection Molding Systems LTD	866	4.500%	1.250%	100.000	5.750%	Cov-Lite TLB (Repricing)	2018	Ba3/B	Industrial	Refinancing

## About Morgan Stanley Credit Partners

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### Key Facts

- Morgan Stanley Credit Partners is focused on executing privately negotiated corporate mezzanine debt investments
- Target investment size of \$20 million to \$65 million with the ability to partner with other investors to participate in larger transactions
- Seek to invest in a combination of subordinated debt and equity in the form of warrants or direct equity co-investment
- Typically focus on companies with EBITDA of over \$15 million, predominantly in the U.S. and Western Europe. Investments include capital for leveraged buyouts, debt refinancings, recapitalizations and acquisitions
- For more information, please visit our website at:  
<http://www.morganstanley.com/creditpartners>