

Morgan Stanley Credit Partners L.P.

Weekly Market Update

September 10, 2012

Weekly Leveraged Finance Update

Week Ended September 7, 2012

• High Yield:

- YTD Issuance: \$234Bn, 3% above YTD 2011
- Fund Flows: +\$201MM
- Index Yield: 5.50%

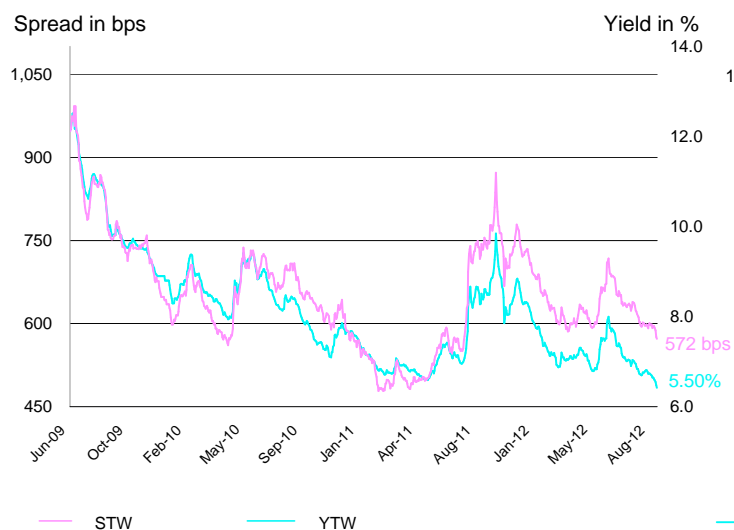
• Leveraged Loans:

- YTD Issuance⁽¹⁾: \$257Bn, 12% below YTD 2011
- Fund Flows: +\$112MM
- Index Yield: 6.37%

Leveraged Finance Market Commentary

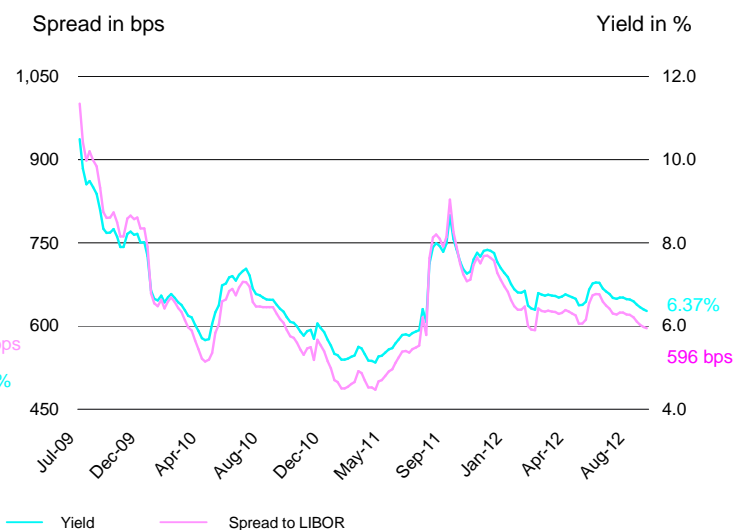
- High-Yield CDS index, HY18: 100.00, up 2.13 (2.2%)
- High-yield bond index: 103.58, up 0.28 (0.3%)
- Leveraged Loan CDS index, LCDX18: 100.47, up 1.35 (1.4%)
- Leveraged loan index: 98.43, up 0.23 (0.2%)
- 17 issuers priced \$9Bn of HY globally, YTD volume is \$234Bn, 3% above YTD 2011
- No loans broke for trading. YTD loan volume is \$257Bn, 12% below YTD 2011
- HY fund flows: positive \$201MM, 13th consecutive inflow totaling \$11.1Bn
- Loan fund flows: positive \$112MM, 12th consecutive inflow totaling \$1.7Bn
- 2 CLOs priced this week for \$773MM. YTD CLO volume is \$24.8Bn

LTM High Yield Index STW and YTW



Source Morgan Stanley

LTM Leveraged Loan Index STW and YTW



Source Bloomberg, LCD

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Market Commentary

• Six3 Systems held bank meeting

- Six3 Systems launched a \$310M recapitalization loan, consisting of a \$50M, five-year revolver and a \$260M, seven-year term loan B
- Proceeds will go towards refinancing debt and repaying preferred equity held by the sponsor GTCR
- In April, Six3 acquired Ticom Geomatics. Six3 provides strategic solutions to U.S. Government agencies in the intelligence, defense, and civilian communities

• United Central readies cov-lite loan

- United Central Industrial Supply launched \$435M in covenant-lite senior secured credit facilities
- The deal is split between a \$50M, five-year revolving credit, a \$285M, six-year term loan B and a \$100M, 6.5-year second-lien term loan
- The TLB is priced at LIB+550 with a 1.25% Libor floor and 98.5 OID
- The second lien loan is talked at LIB+950 with a 1.25% Libor floor and 97.5 OID
- Proceeds are to fund the acquisition of GHX Holdings
- Senior leverage is 3.9 times and total leverage is 5.25 times
- United Central Industrial Supply is a diversified supplies and services distributor. American Securities is the financial sponsor

• CPG International sets talk for \$355M M&A loan

- CPG International had a bank meeting to launch a \$355M first-lien term loan to back its acquisition of Timbertech and refinance debt
- The seven year loan is talked at LIB+500 with a 1.25% Libor floor and an OID of 99
- A \$110M, five-year ABL revolver rounds out the financing
- The facility will benefit from 101 repricing protection
- AEA Investors-owned CPG International supplies building products primarily in the residential, commercial, and industrial markets primarily in the United States, Canada, and Latin America

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Market Commentary

- **Ikaria launches \$125M dividend recap loan**

- The five year loan is talked at LIB+650 with a 1.5% Libor floor and a 98 OID. The loan will benefit from 101 soft call protection for one year
- Ikaria is a biotherapeutics company that manufactures and supplies in-hospital treatments for respiratory diseases

- **Ollie's Bargain Outlet readies \$300M buyout loan; sets bank meeting**

- Ollie's Bargain Outlet is on deck with a \$300M LBO loan. A bank meeting is set for September 12
- The deal is split between a \$75M asset based loan and a \$225M term loan. The ABL facility will be funded at \$25M
- Proceeds are to support CCMP Capital Advisors' \$700M buyout of the closeout, surplus and salvage merchandise retailer from financial sponsor Karp Reilly
- Together, new and rollover equity equal \$465M. Leverage is in the low to mid four times range
- A mid-single B rating is expected

- **Sabre's LBO term loan bid ahead of OID after deal closure**

- Sabre Industries' new \$125M, six-year term loan was bid 99.25 ahead of its OID
- The TL priced at LIB+575 with a 1.25% Libor floor and a 98.5 OID. Final pricing came richer than previous talk of LIB+500-525, with a 1.25% Libor floor
- The term loan's size was also decreased from the original launch of \$130M

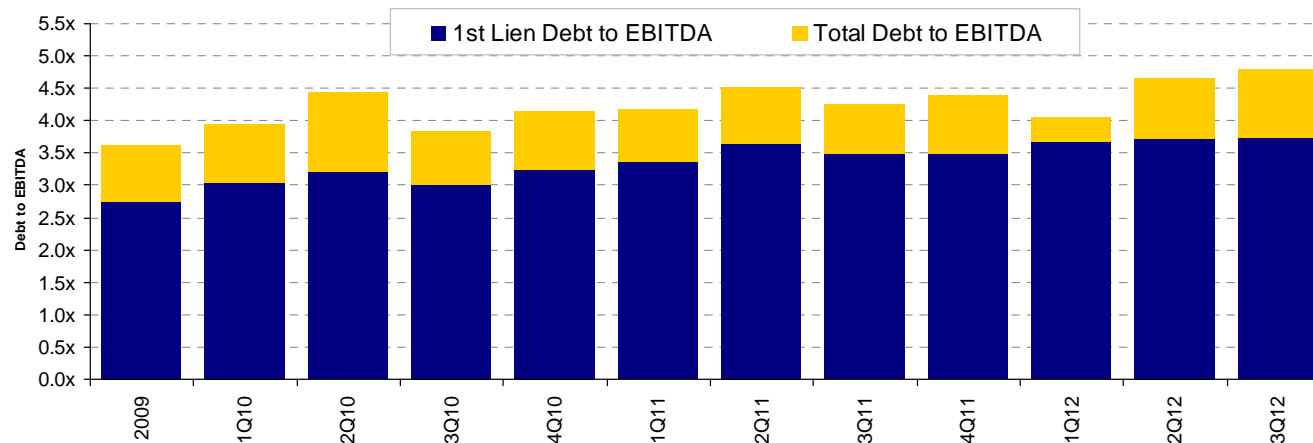
Weekly Leveraged Finance Update

Week Ended September 7, 2012

- Middle market leverage multiples creep up in 2012

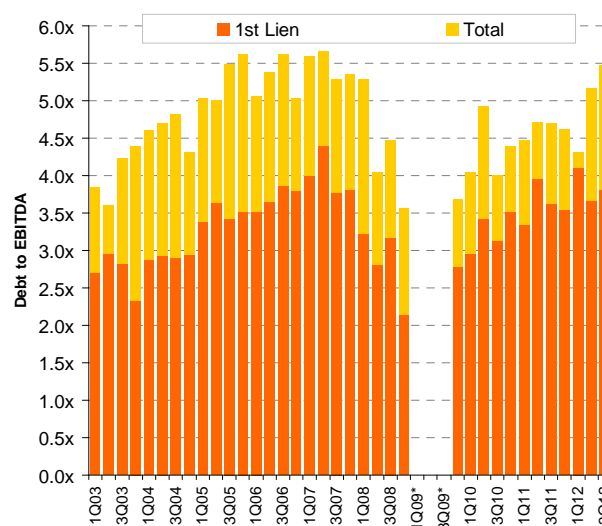
- Leverage levels on LBO deals in 3Q12 are averaging close to 5.5 times

Average debt to EBITDA for middle market deals



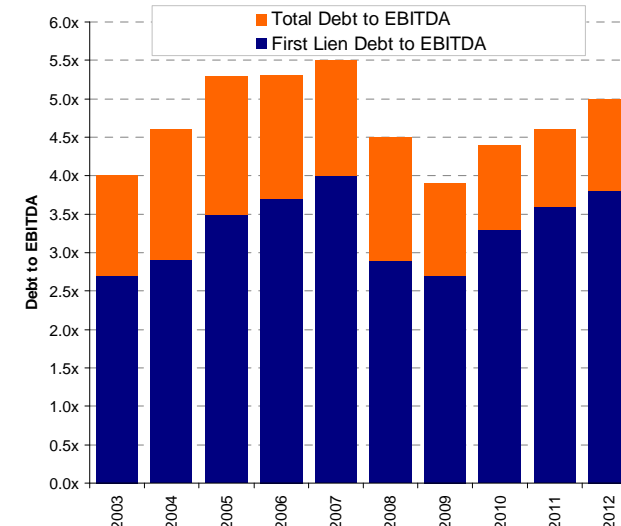
Source: Thomson Reuters LPC

Quarterly average debt to EBITDA for MM LBOs



Source: Thomson Reuters LPC

Annual average debt to EBITDA for MM LBOs



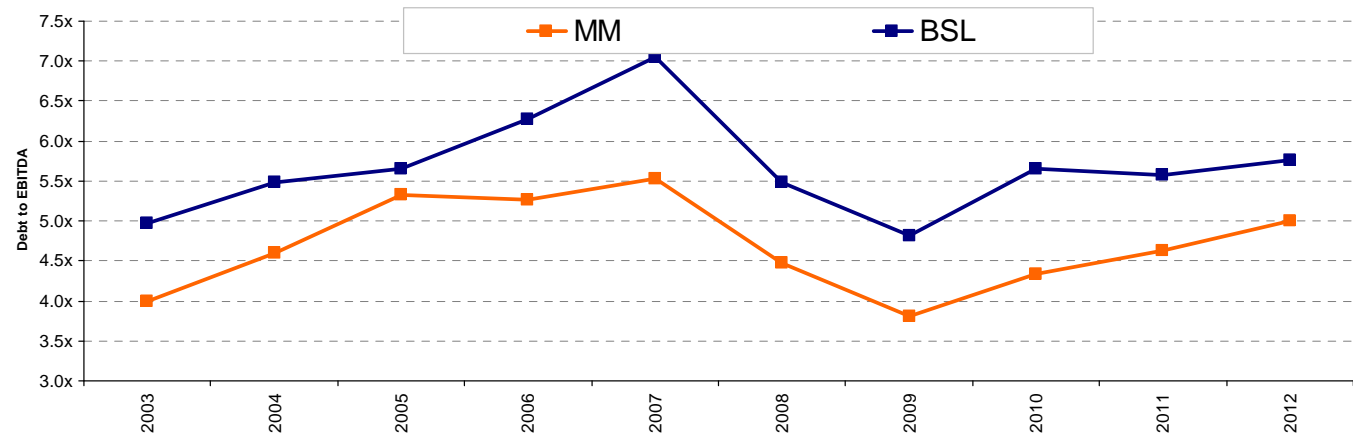
Source: Thomson Reuters LPC

Weekly Leveraged Finance Update

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- Leverage levels are increasing more dramatically for MM LBOs in 2012 relative to broadly syndicated LBO deals

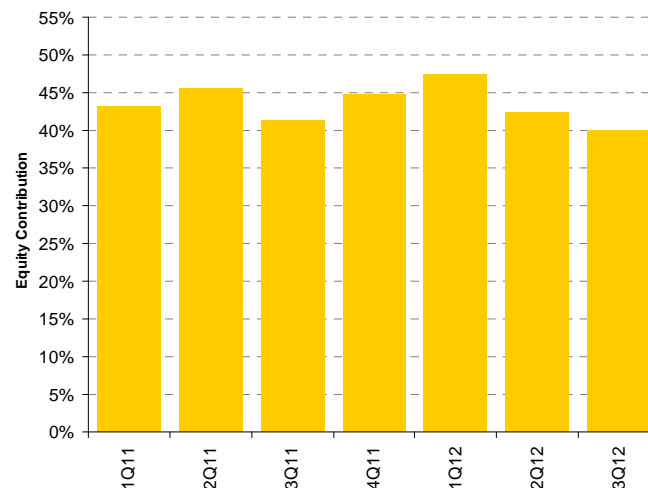
Debt to EBITDA comparison: Broadly syndicated vs. MM LBOs



Source: Thomson Reuters LPC.

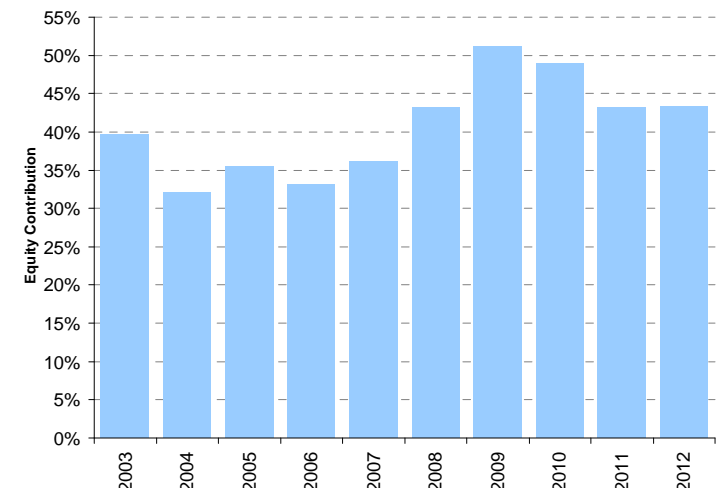
- Equity contributions for MM LBOs drop to 40% on average in 3Q12 from 43% in 2Q12 and 47% in 1Q12

Quarterly equity contribution for MM LBOs



Source: Thomson Reuters LPC

Annual equity contribution for MM LBOs

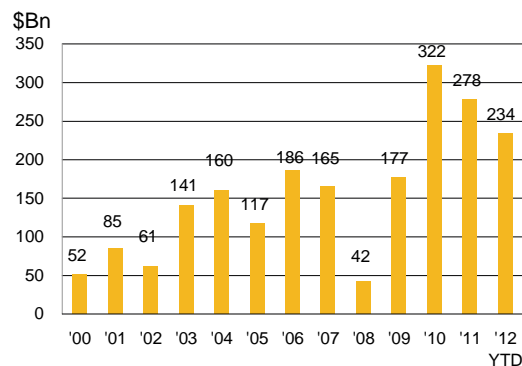


Source: Thomson Reuters LPC

Weekly Leveraged Finance Update

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Historical HY New Issuance Volume by Year



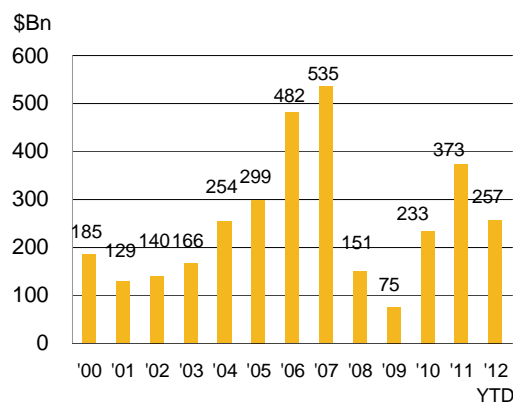
Source Morgan Stanley, Thomson SDC

2012 High Yield Issuance

Trade Date	Issuer	Sponsor	Purpose	Amount (\$MM)	Rating	Yield
9/7/12	HUB International Ltd	Apax Partners	Refinancing	740	CCC+/Caa2	8.125%
9/7/12	Tesoro Corp	Not Sponsored	Acquisition	350	BB-/B1	5.875%
9/6/12	Claire's Stores Inc	Apollo Management	Refinancing	625	B/B3	8.490%
9/6/12	HealthSouth Corp	Not Sponsored	Refinancing	275	BB-/B1	5.750%
9/6/12	HudBay Minerals Inc	Not Sponsored	Project Financing/Misc.	500	B/B3	9.500%
9/6/12	Starz Encore Group LLC	Not Sponsored	Refinancing	500	BB/Ba2	5.000%
9/5/12	Carrizo Oil & Gas Inc	Not Sponsored	Refinancing	300	B/B3	7.500%
9/5/12	Catalent Pharma Solutions Inc	Blackstone Group	Refinancing	350	B/Caa1	7.875%
9/5/12	Digicel Ltd	Not Sponsored	Refinancing	1,500	NR/Caa1	8.250%
9/5/12	QEP Resources	Not Sponsored	Acquisition	650	BB+/Ba1	5.250%
9/5/12	Sally Beauty Holdings Inc	Clayton, Dubilier & Rice	Corp Purpose	150	BB+/Ba3	4.772%
9/5/12	SLM Corp	Not Sponsored	Corp Purpose	500	BBB-/Ba1	4.875%
9/5/12	SLM Corp	Not Sponsored	Corp Purpose	300	BBB-/Ba1	3.875%
9/5/12	Smurfit Kappa Group	Madison Dearborn Partners	Refinancing	300	BB/Ba2	4.875%
9/5/12	Verisk Analytics Inc	Not Sponsored	Refinancing	350	BBB-/Ba1	4.220%
9/4/12	American Axle & Manufacturing	Not Sponsored	Refinancing	550	B/B2	6.625%
9/4/12	Rock-Tenn Co	Not Sponsored	Refinancing	350	BBB-/Ba1	3.630%
9/4/12	Rock-Tenn Co	Not Sponsored	Refinancing	350	BBB-/Ba1	4.127%

Source LCD

Historical LL New Issuance Volume by Year



Source Morgan Stanley, S&P LCD

2012 Leveraged Loan Issuance

Launch Date	Issuer	Sponsor	Purpose	Deal Size (\$MM)	Rating	Spread
9/7/12	Burger King Corp	Not Sponsored	Refinancing	1,875	BB/Ba3	L+225-300
9/7/12	CNO Financial Group Inc	Not Sponsored	Refinancing	700	B+/Ba3	L+400-425
9/7/12	Essar Steel Algoma	Not Sponsored	Refinancing	350	B-/NR	L+750
9/7/12	Payless ShoeSource	Golden Gate Capital	LBO	275	B+/B1	L+600-625
9/7/12	Payless ShoeSource	Golden Gate Capital	LBO	250	NR/NR	NA
9/6/12	AOT Bedding Super Holdings	Advent International	LBO	225	NR/NR	NA
9/6/12	AOT Bedding Super Holdings	Advent International	LBO	1,233	NR/B1	L+425-450
9/6/12	CPG International Inc	AEA Investors	Acquisition	355	NR/NR	L+500
9/6/12	CPG International Inc	AEA Investors	Acquisition	110	NR/NR	NA
9/6/12	FoxCo Acquisition LLC	Oak Hill Capital Partners	Recap/Dividend	715	NR/NR	L+450-475
9/6/12	Ikaria Holdings Inc	New Mountain Capital	Recap/Dividend	125	NR/NR	L+650
9/6/12	Par Pharmaceutical Companies Inc	Texas Pacific Group	LBO	980	B+/B1	L+425-450
9/6/12	Par Pharmaceutical Companies Inc	Texas Pacific Group	LBO	150	B+/B1	NA
9/6/12	Six3 Systems	GTCR Golder Rauner	Recap/Stock Repurchase	310	B+/NR	L+500
9/5/12	Nuveen Investments Inc	Madison Dearborn Partners	Refinancing	435	B/B2	L+550
9/5/12	Nuveen Investments Inc	Madison Dearborn Partners	Refinancing	190	B/B2	L+550
9/5/12	United Central Industrial Supply	American Securities Capital Partners	Acquisition	285	NR/B2	L+550
9/5/12	United Central Industrial Supply	American Securities Capital Partners	Acquisition	100	NR/Caa2	L+950
9/5/12	United Central Industrial Supply	American Securities Capital Partners	Acquisition	50	NR/B2	L+550
9/4/12	Precision Drilling Corp	Not Sponsored	Corp Purpose	850	NR/NR	L+200

Source LCD

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>