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Leveraged Finance

NEWS, ANALYSIS AND COMMENTARY

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Precision Drilling Considers Bond Refinancing

BY DAVID HOLLEY

Precision Drilling may refinance C$200 million of 6.5 percent notes due March 2019 and $650 million of 6.625 percent securities that mature in November 2020, said Chief Financial Officer **Robert McNally** in a June 3 telephone interview.

Robert McNally

The Canadian dollar bonds will likely be refinanced in U.S. dollars, said McNally. While the company would like to have part of its capital structure in Canadian dollars, lack of high-yield market liquidity may prevent it doing a “significant deal in Canada,” he said.

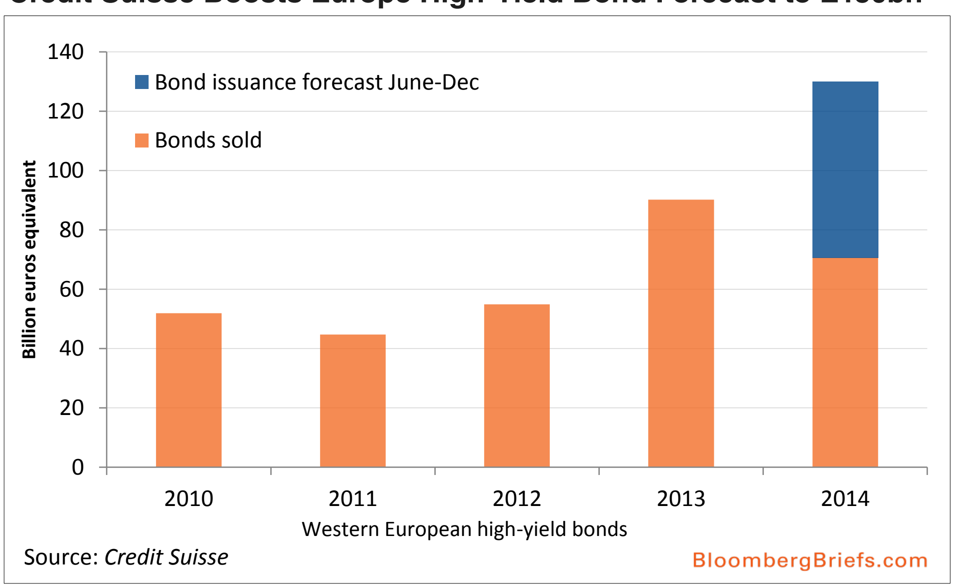
Precision will consider repaying some debt rather than refinancing if it does not receive as much demand for new rigs in 2015 as expected, said McNally.

The drilling rig contractor for the energy industry’s 6.5 percent notes can be called at 103.25 in March 2015, compared with 105.9 cents on the dollar June 5. The 2020 can be redeemed at 103.313 eight months later, down from 107.25 cents on the dollar June 3.

Precision doesn’t plan to issue new debt to lock in low rates because it hopes to achieve investment grade by the time it refinances next year. Benchmark rates may stay flat for the next few quarters before they “have to creep up,” McNally said.

BLOOMBERG BAROMETER JAMES CROMBIE

Credit Suisse Boosts Europe High-Yield Bond Forecast to E130bn



Credit Suisse raised its forecast for Western European high-yield bond issuance to 130 billion euros in 2014 from 110 billion euros expected initially. It boosted the total return outlook to 7 percent from 5.5 percent. Credit Suisse cut the loans total return outlook to 5 percent from 6 percent.

WEEK AHEAD

JACOBS DOUWE EGBERTS
June 11: London meeting, approximately 7.6 billion euro loan for M&A, refi

WORLD TRIATHLON
June 11: Meeting, up to $220m 7Y 1L TL

HEALOGICS
June 11: Meeting for $400m 1L, $200m 2L

ROVI
June 12: Meeting for $700m TL

JACOBS DOUWE EGBERTS
June 13: New York meeting, approximately 7.6 billion euro loan for M&A, refi

SELECTA GROUP
June 13: Roadshow ends for 550 million euro 6NC2.5 bonds in euros, CHF

INSIDE

QUOTE OF THE WEEK

“Losses from the next leveraged finance default cycle may be significantly worse than in previous cycles – particularly as fiscal and monetary support is likely to be more limited and corporates shift from core bank relationships to capital-market funding.”

— Dominik Meyer, an analyst at Vontobel, in a client note on European high-yield June 10

MARKET NEWS

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Precision seeks a higher credit grade so that it can lower borrowing costs, said McNally.

"We're at least hopeful that we'll get to an investment-grade rating in the next year or a bit longer," McNally said. "If we're able to do that, I think that our cost of capital will decline enough that even if the rate environment isn't quite as good, we'll still be better off."

Adding to its international business, more consistent cash flow and adding more tier-one drilling machines this year and next will help the company establish credentials for investment-grade, McNally said.

Rig contracts, such as the nine it is adding this year and the 12 more next year, typically last for three to four years and provide "highly predictable cash flows," McNally said.

Precision is rated Ba1 by **Moody's** and BB+ by **S&P.** The Calgary-based company would need to improve profitability compared with peers, while managing costs and maintaining stable operations throughout the cycle, to receive a ratings boost, wrote S&P analysts **Michelle Dathorne** and **Aniki Saha-Yannopoulos** in a March 25 note.

Precision has a ratio of net debt to Ebitda of 1.95, below the average 2.25 ratio of North American oil and gas drilling companies with more than $100 million of debt, Bloomberg data show. The 63 oil and gas drillers worldwide have an average ratio of 1.94.

Free cash flow is estimated to be $283.3 million in 2015, turning positive again for the first time since 2010, according to analyst estimates compiled by Bloomberg. Ebitda is estimated at $950.2 million for 2015, more than twice the $434.9 million it recorded in 2010, according to Bloomberg data and analyst estimates.

Clearwater Paper Mulls November Bond Refinance

Clearwater Paper may refinance a $375 million bond when a prepayment penalty falls in November, according to Chief Financial Officer **John Hertz**.

"The math would say you refinance it" if the bonds were callable immediately, Hertz said. "It's callable in November and we're monitoring the rate environment."

Clearwater's $375 million 7.125 percent bond due November 2018 can be called at 103.563 percent in November, according to data compiled by Bloomberg.

The company is evaluating whether to refinance the 7.125 percent debt after the November call date, or if it may be worth paying a penalty to refinance now so it can tap the market while benchmark rates are low, Hertz said in a June 4 telephone interview.

The Spokane, Washington-based tissue and paperboard maker sold $275 million of 4.5 percent notes due February 2018 in June 2013.

Clearwater, rated BB with a positive outlook by **S&P** and Ba2 by **Moody's**, plans to maintain a junk rating rather than seek investment grade by cutting debt, Hertz said. "When you issue 'high-yield' debt at 4.5 percent, that feels OK," Hertz said.

Clearwater will also consider adding a term loan A or B into its capital structure, he said.

Clearwater's total debt to Ebitda was 3.22 as of March 31, while its net debt ratio was 2.81, Bloomberg data show.

CLO FOCUS

■ **New York Life** issued a $412.5 million CLO that pays the lowest yield spread of the year on the most senior piece of the fund. The deal's $256 million Aaa rated slice yielded 140 basis points over Libor. The average spread on AAA pieces was 150 basis points in May, according to **Wells Fargo**. At the top of the market in 2007, AAAs yielded as little as 23 basis points. Issuance of CLOs has picked up following an early 2014 slump after the Volcker Rule said banks can't invest in CLOs that own bonds. There have been $49.2 billion of deals raised in the U.S. this year, after $82 billion were sold in all of 2013, according to **RBS**. "Supply, regulation and complexity," are why CLO AAA spreads have been so wide this year," said **Dave Preston**, a CLO analyst at Wells Fargo. He declined to comment on whether the trend of lower yields would last. An FDIC requirement put in place in April 2013 has contributed to the increase in yields, because it says banks with more than $10 billion in assets that buy CLOs must designate them as "higher-risk" holdings. The recent surge in CLO issuance has allowed investors to be selective and choose not to buy a deal if rates are too low, Preston said. **JPMorgan** boosted its annual 2014 CLO forecast to as much as $100 billion, the highest on record.

(*See Page 6 for CLO pricings*.)

— Kristen Haunss, Christopher DeReza

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MARKET NEWS

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The company plans to maintain a ratio of debt to Ebitda of 2.5 to 3.5, Hertz said. To reach investment grade, Clearwater would have to cut debt and use more equity in its capital structure, which is a more expensive form of funding, Hertz said.

Clearwater is attempting to improve its Ebitda margin to about 15 percent, Hertz said. It was about 10 percent at the end of 2013, down from 12 percent a year earlier, according to data complied by Bloomberg.

Clearwater is investing in operations such as making improvements in its paper machines to boost efficiency.

— David Holley

Interface Chose PIK Bonds for Cash Expansion Options

Interface Security Systems chose to issue PIK bonds last month to give it the alternative of conserving cash that may be used to expand, said CFO **Ken Obermeyer.**

The electronic security system provider sold $115 million in PIK notes May 27 that pay 12.5 percent in cash and have the option of paying 14.5 percent in the form of extra debt. The Earth City, Missouri-based company was willing to offer a higher coupon to keep its options open, Obermeyer said in a June 2 telephone interview.

"It gave us the flexibility we were looking for," Obermeyer said.

Interface expects to pay interest on the PIK notes with cash, Obermeyer said. The company has no plans to issue more debt over the next two years, he said.

Proceeds of the securities, issued by Interface's holding company, are being used to complete contracts that will result in about $2.7 million of recurring monthly revenue, as well as expansion as the company seeks more commercial business, Obermeyer said.

The PIK bond, sold at 98 cents on the dollar, traded at 99.3 cents on the dollar June 9. Investors in the new offering included a mix of lenders from the bond sold in 2013 and new lenders, he said. **Imperial Capital** was the sole underwriter.

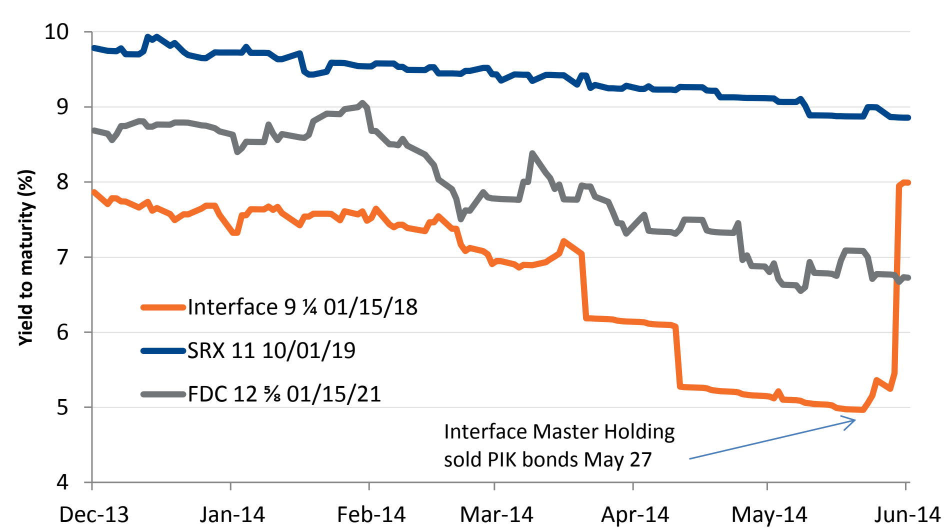
Interface also has $30 million outstanding on a $40 million revolver, Obermeyer said.

Interface, which is majority owned by **SunTx Capital Partners**, sold $230 million of 9.25 percent notes due January 2018 last year.

The 9.25 percent notes traded at 103.875 cents on the dollar June 4, down from 109.375 cents on the dollar before the offering, according to prices quoted by Bloomberg.

— David Holley

Interface Security Yield Jumped After May PIK Bond Sale



Source: *Bloomberg LP*

BloombergBriefs.com

DEAL WATCH

- **Apollo** raised a $1.5 billion CLO, the largest fund formed in the U.S. this year. **JPMorgan** arranged the deal, which includes a $930 million Aaa slice that pays a coupon of 143 basis points over Libor.

- **Caesars Entertainment**'s battle with some of its bondholders intensified when an investor group filed a notice of default against a unit of the casino company, which is weighed down by $23.4 billion in debt. The bondholders, who include **Appaloosa** and **Oaktree**, own 30 percent of Caesars Entertainment Operating second-lien, 10 percent bonds due in 2018. The filing escalates the conflict between Caesars, which has objected to the transfer of casinos and other properties from the operating unit, Caesars' largest subsidiary, to other entities. "The company believes that the claims in the notice are baseless," said Stephen Cohen, a spokesman for Caesars. The filing named 13 investors, who also include **Canyon Capital, Caspian Capital** and **Contrarian Capital**.

- **Onex Credit Partners** aims to triple assets under management to $10 billion by the end of 2017, from $3.3 billion in 2013. It is planning a European CLO platform by the end of 2014 and will continue to expand its CLO business in the U.S., said Onex CEO **Michael Gelblat**. The company said in 2012 it was targeting $5 billion by the end of 2017. Onex plans to leverage the success of its U.S. CLOs. Onex, Canada's biggest buyout firm, estimates credit assets under management for 2014 of $4.7 billion. Gelblat didn't disclose the size of the CLO platform in Europe, but said he expected it to be smaller than in the U.S., which has a larger loan market. As a result, the U.S. CLO platform will probably be about three times the size of the European one when realized, Gelblat said.

DISTRESSED CREDIT FOCUS

SRIDHAR NATARAJAN

Nelson Seen Following Cengage in Restructuring; Distressed Exchange Predicted

Nelson Education, the textbook publisher backed by a division of Ontario's municipal pension fund manager and **Apax Partners**, is seen following its affiliate **Cengage Learning** with a distressed debt exchange that would impose losses on creditors.

The company's $285 million first-lien loan due July 4 is trading at 84.1 cents on the dollar, according to prices compiled by Bloomberg. Less than 3 percent of actively traded loans tracked by Bloomberg are quoted below 90 cents. The price of the Nelson loan indicates creditors will get less than what they were promised when they funded the publisher's 2007 buyout.

"The most likely outcome I see is a distressed exchange," said **Peter Adu**, a Toronto-based **Moody's** analyst. "They are definitely talking to lenders. They are still generating positive free cash flow and a refinancing buys them time to move to a digitized platform."

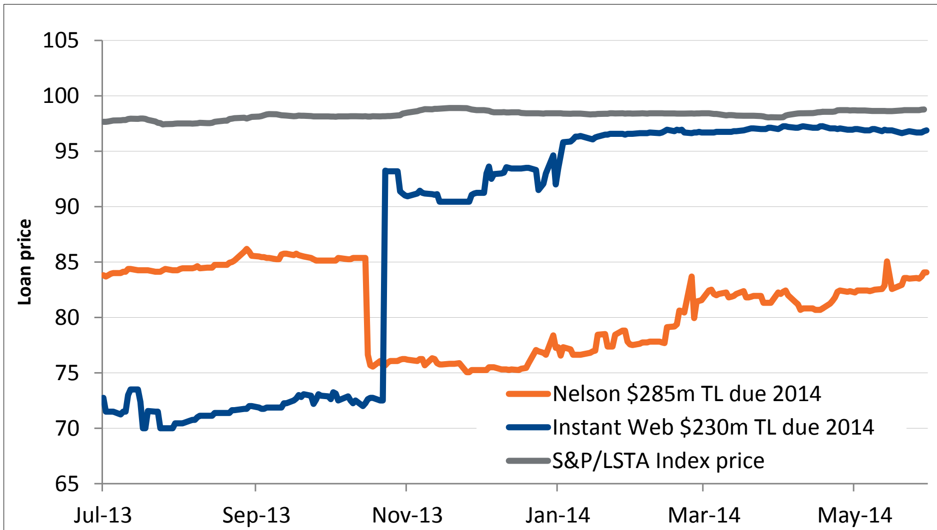
Nelson has battled declining government funding for pupils in kindergarten through 12th grade, even as its higher-education business confronts tightening student budgets and growing acceptance of online systems. The company shares common owners with Cengage, which completed a restructuring of its own this year, with lenders accepting writedowns of more than half their obligations, Adu said.

Nelson's ratio of debt to cash flow will climb to as high as 15 times for the fiscal year ending in June, almost triple the North American average leverage of 5.5 times, according to **S&P** credit analyst **Lori Harris**.

Sarah Rajani, a spokeswoman for Apax, declined to comment on the loan negotiations. Omers spokeswoman Lori McLeod didn't return a call.

Nelson was formed when **Thomson** sold its education publishing business to Apax and Omers for $7.75 billion in 2007. The Thomson divisions were carved into Cengage and Nelson to satisfy a Canadian requirement that a domestic company be part of the sale. The Canadian fund was left with majority ownership of Nelson, while Apax controlled the U.S. and international operations under the Cengage name.

Nelson Education Term Loan Trades Below Comparables



Source: *Bloomberg LP* LN348459 Corp <GO BloombergBriefs.com

The deal was funded with about $500 million in borrowings, with the sponsors contributing C$47 million ($43 million) in equity and C$94 million structured as "deeply subordinated" shareholder loans that are treated as equity by S&P, according to a June 2007 report.

The debt was packaged as a two-part offering, with a second-lien portion coming due in July 2015. The junior loan, which has about $152 million outstanding, was bid at 5 cents on May 30, according to prices observed by Markit.

"A lot of deals were pretty aggressive," Harris said of loan transactions in the mid-2000s.

The first-lien loan pay interest of 2.5 percentage points over Libor, and the second-lien portion is 6 percentage points over the benchmark.

Nelson's debt is rated Caa3 by Moody's and an equivalent CCC- by S&P.

Cengage filed for Chapter 11 protection in July and emerged from bankruptcy earlier this year after reaching a deal with lenders that eliminated more than $4 billion of $5.8 billion in funded debt and left first-lien creditors with most of the equity.

Restructuring terms probably will be more favorable for Nelson lenders as it "is a market leader in Canada and is in better shape than Cengage was when they did the restructuring," Adu said.

The Scarborough, Ontario-based publisher's sales are apt to show a fall of more than 10 percent in the year through June, primarily because of "soft" government spending and increased sales of used publications in the higher-education segment, Harris said. Its Ebitda is set to drop faster than revenue as it contends with fixed costs, she said in the report.

Houghton Mifflin Harcourt Publishing, the textbook publisher that went through bankruptcy and then came public in November, has been seeking to transform itself with forays into digital publishing.

In April, it announced a collection of tablet applications for primary schools and is increasing partnerships with companies such as **Apple, Amazon.com** and **Google**, according to CEO **Linda Zecher**.

That would be the direction in which Nelson will have to turn its business once it manages to ease the debt burden, according to Adu.

"They could look at a subscription model and save on printing and distribution cost," he said. "Cost structure wouldn't be as high as it is currently, and even if they become smaller, they can become more profitable."

Q&A

Sponsors Ramp Up Leverage, BDCs Get Aggressive in Middle-Market Lending

Private equity firms are increasingly omitting equity from add-on acquisitions, funding them with cash and debt alone, according to **Andrew McCune**, a partner in Chicago at **McDermott Will & Emery** covering middle-market private equity. McCune spoke with Bloomberg Brief's David Holley.

Q: How do you see M&A activity?

A: If a sponsor has anything in their portfolio that is mature, close enough to mature, they're in the market or coming to market [to sell]. Many of the buyers are either other private equity firms willing to pay the price in this market or portfolio companies of other private equity firms, or strategics, who view this as an add-on.

Q: Are sponsors using more leverage?

A: The answer is pretty consistently yes. A few years ago, that would have required an equity contribution by the sponsor in order to make an add-on. Many of them are getting refinancings of the portfolio companies at the same time, which allow them to do the add-on pretty much for cash on the balance sheet and additional new debt. So there is no new equity.

Q: Are we near pre-crisis leverage?

A: It feels somewhat similar to those days. There seems to be a far greater tolerance for multiples of debt and a willingness to provide it by lenders. It doesn't seem like there's that sense of "we'll just assume everything is going to turn out and we'll underwrite on that basis." I think there's probably more diligence right now.

Q: How high are multiples?

A: North of six times debt is very common.

Q: How do you view covenant-light?

A: [It's] the price lenders have to pay to be chosen in what is a liquid debt market.

Q: Are covenant packages different?

A: I can't say there's a real sea change. There are a fair number of alternate financing sources who are aggressively offering uni-tranche financing, and will take kind of a blended rate, with an equity piece, a sub-debt piece and senior piece. That continues to be a motivating factor in the market.

Q: By alternate funding sources, do you mean BDCs?

A: Correct. They provide another source of liquidity, at what is oftentimes competitive pricing. Banks need to be cognizant of them if they're going to win loans.

Q: What pricing do BDCs offer?

A: They are more aggressive. Larger banks, they don't really want to end up owning and operating a company. That's not always true with some of the un-tranche lenders. If things went sideways, they might be happy to be more aggressive about taking control of a company.

Q: Where in the cycle are we?

A: Not quite the beginning, but still in the earlier stages of an extended market. If you talk to investment bankers, they say they have a large pipeline of companies to bring to market. The sponsors who are not paying up in auction these days are still sitting on their capital commitments. There's still going to be a time where they're still motivated to spend. There's going to be continued buyside demand.

Q: Where is the deal risk?

A: There are execution issues in buyers putting together a financing package. In the period after sellers agree to sell the company – and when the buyer can go out and find financing – sellers don't focus enough on making sure they try by contract to put as much discipline around the buyer progressing in the process as is probably prudent.

Q: What do you mean?

A: [Buyers] might come back and say, "Gee we're having a problem with our financing; we need to pay this much less or we need you to roll over this much in equity." From a seller's point of view, that's a bad surprise. You can do a lot to mitigate that surprise from happening.

Q: Does that actually happen much?

A: It happens with sufficient frequency that it's well worth protecting yourself from.

Q: What's does that mean for a seller?

A: There's less financing for the purchase price, so maybe they have to accept a smaller price or the deal falls apart. As a seller, you make sure you've got sufficient break-up fees to provide enough economic motivation to the buyer so it's worth it to them to make sure the financing is in place. You want to get as tight and binding as possible debt commitment and equity commitment letters, which are becoming more common.

Q: Who's new in the middle market?

A: Banks that were pretty much doing just commercial lending are pursuing more acquisition financing. A number of regional banks are more regularly informally going after larger credits together. CDOs and CLOs are back in the market.

AT A GLANCE

If you could live in any city, it would be: Paris

Favorite music: Anything of Springsteen, U2 and Black Keys

Hobby: Running

Recommended reading: Scandinavian detective novels by Jo Nesbo, Edward Glasser's Triumph of the City, Nate Silver's The Signal and the Noise

Favorite film: Casablanca, Lord of the Rings trilogy

If you could have another career, it would be: Chef or antique car restorer

Favorite food: A perfectly done bone-in strip steak

Favorite drink: A Cab that goes with my favorite food

LOANS

U.S. Institutional Loan Pipeline

BORROWER	SPONSOR	AMOUNT (M)	TENOR (YRS)	MARGIN (L+)	RANK	PRICE	L FLOOR	CALL PROTECT	UOP	LEADS	COMMIT DATE
Arizona Chemical	American Sec	730	7.0	350	1L	99.50	100	101 SC 12-Mo	Refi, div	GS/CS/JEF/STRH	9-Jun
Arizona Chemical	American Sec	150	8.0	650	1L	99.50	100	102/101	Refi, div	GS/CS/JEF/STRH	9-Jun
Extended Stay	-	375	5.0	475-500	1L	99.00	75	NC1/102 SC(6m)/101 SC	Refi	GS	10-Jun
Phillips-Medisize	Golden Gate	365	7.0	425-450	1L	99.00	100	101 SC 6-Mo	LBO	GS	11-Jun
Phillips-Medisize	Golden Gate	170	8.0	750-775	2L	99.00	100	102/101	LBO	GS	11-Jun
American Tire	TPG	420	4.0	475	1L	99.75	100	101-3/28/15	Refi	BAML	11-Jun
JC Penney	-	500	5.0	450-475	1L	99.00	100	101 SC 6-Mo	Refi	BAML/WF/JPM/BARC/GS	12-Jun
ConvergeOne	Clearlake	190	6.0	475	1L	99.00	100	101 SC 6-Mo	LBO	CS	12-Jun
ConvergeOne	Clearlake	80	7.0	800	2L	99.00	100	103/102/101	LBO	CS	12-Jun
Cons. Container	Bain	80	-	600	2L	98..00	125	103/102/101	GCP	Citi	12-Jun
Hillman	CCMP	610	-	375		99.00	100	101 SC 12-Mo	LBO	BARC/MS/GE	12-Jun
Wayne Fueling	-	285	7.0	400	1L	99.50	100	101 SC 6-Mo	GCP	Citi/UBS/CS/BNP	13-Jun
Wayne Fueling	-	100	8.0	725-750	2L	99.00	100	102/101	GCP	Citi/UBS/CS/BNP	13-Jun
Shearer's Foods	OTPP, Wind Pt	290	7.0	375	1L	99.50	100	101 SC 6-Mo	Acq	CS	16-Jun
Shearer's Foods	OTPP, Wind Pt	225	8.0	-	2L	99.0	100	102/101	Acq	CS	16-Jun
CST	Carlyle/PAI	470	7.0	375-400	1L	99.00	100	101 SC 6-Mo	LBO	DB/BAML/MIZ	17-Jun
CST	Carlyle/PAI	120	8.0	725-750	2L	99A	100	102/101	LBO	BAML/DB//MIZ	17-Jun
DaVita	-	3500	7.0	300-325	1L	99.50	75	101 SC 6-Mo	Refi	BARC/WF	17-Jun
Lion Copolymer	-	300	-	425-450	1L	99.50	100	101 SC 6-Mo	Refi	WF	18-Jun
V. Group	-	260	-	425-450	1L	99.00	100	101 SC 6-Mo	Div recap	RBC	18-Jun
V. Group	-	125	-	775-800	2L	98.50-99.00	100	102/101	Div recap	RBC	18-Jun
Bayonne Energy	ArcLight	500	7.0	375-400	1L	99.00	100	101 SC 12-Mo	Acq, refi	MS/MACQ/CA	18-Jun
Brickman	KKR	725	5.5	300	1L	99.00	100	101 SC 6-Mo	Acq	JF/MQ/MIZ/SM/NM/KKR	19-Jun
Gates Global	Blackstone	2490	7.0		1L	-		-	LBO	DB	19-Jun
Mergermarket	BC Partners	45	7.0	350	1L	-	100	-	Acq	UBS	-
Long Term Care	Stone Point	175	-	525-550	1L	99.50	100	101 SC 12-Mo	LBO	RBC	-
Creative Circle	Morgan Stan. PE	150	-	-	1L	-		-	Refi, div	SG	-
Creative Circle	Morgan Stan. PE	35	-	-	2L	-		-	Refi, div	SG	-
Ryman Hospitality	-	400	7.0	-		-		101 SC 6-Mo	Refi	DB/WF/JPM/BAML/USB	-

Source: *Bloomberg LP* *LSRC <GO>*

CLO Market: Apollo Global Raised $1.5 Billion CLO With JPMorgan, Biggest of 2014

PLACEMENT AGENT	COLLATERAL MANAGER	SIZE	AAA TRANCHE	AAA COUPON	NOTES
Deutsche	Ochs-Ziff	$600m	$115m	L+149bp	May price this week
BAML	Alcentra	$415m	$250m	L+150A	Expected to price this week
JPMorgan	Apollo	$1542m	$930m	L+143bp	Deal is largest CLO YTD
Natixis	Cerberus	$145m	$35m	L+250bp	Cerberus AUS Levered II L.P. legal final June 2022
BNP	CIFC	$621m	$375m	TBD	45% ramped, expected to be 75% ramped at closing
Deutsche	American Capital	$619m	$374m	L+151bp	WAL is 5.5 yrs. Aa2 $50m tranche priced at L+210bp
Morgan Stanley	Oak Hill	$777m	$464m	L+147bp	Increased from $622m, priced at par
JPMorgan	BlueMountain	$555m	$340m	L+145.5bp	Increased from $513m, $315m AAA
Wells Fargo	Newstar	$409m	$194m	L+175bp	Mid market, priced at par
BAML	NY Life	$413m	$256m	L+138bp	DM 140bp
GreensLedge	Kingsland	$481m	$297m	L+150bp	Legal final: July 24, 2026
Goldman Sachs	PineBridge	$465m	$280m	L+148bp	Priced at par, stated maturity: July 15, 2026
Credit Suisse	Kramer Van Kirk	$620m	$378m	L+155bp	$67.5m AA priced at L+215bp
Citi	3i Debt	$617m	$257m	L+150bp	Priced at par, maturity: July 15, 2026
Morgan Stanley	Napier Park	$626m	$291m	L+141bp	DM 151, price 99.5

Source: *Bloomberg LP* *All new issue U.S. CLOs since May 23.*

U.S. LEVERAGED LOAN INDEX RETURNS BY SECTOR

BLOOMBERG DATA

The **JPMorgan** Leveraged Loan Index climbed for a sixth consecutive week, returning 18 basis points for the week ending June 5 to hit a fresh high value of 145.46. For the second straight week, all 21 industry sectors generated positive returns. Broadcast was the top performing industry group, gaining 33 basis points, while consumer products came in second, returning 26 basis points. Food and beverage was the laggard, with a 10 basis point return on the week.

— Spencer Cutter, Bloomberg Data Analyst

JPMorgan Leveraged Institutional Loan Index-Sector Returns and Characteristics

June 5, 2014

SECTOR	JP MORGAN TICKER	STW (BP)	YTW (%)	TOTAL RETURN, % [1,2]			
				1 WEEK	1M	3M	YTD
Automotive	JLLIAUTO	352.05	5.02	0.21	0.52	1.01	1.43
Broadcast	JLLIBRDC	425.17	5.93	0.33	0.59	1.52	3.20
Cable/Satellit	JLLICBLE	305.63	4.82	0.16	0.45	0.64	1.31
Chemicals	JLLICHEM	361.92	5.16	0.17	0.55	1.06	1.81
Consumer Prod.	JLLIPROD	394.95	5.57	0.26	0.26	0.61	1.63
Diverse Media	JLLIDVMD	515.83	6.72	0.20	1.03	2.18	3.36
Energy	JLLIENER	456.78	6.20	0.18	0.54	1.09	2.37
Financial	JLLIFINL	420.76	5.78	0.15	0.53	0.92	1.82
Food & Bev	JLLIFDBV	325.77	4.98	0.10	0.46	0.74	1.38
Gaming/Leisure	JLLIGAME	434.57	6.08	0.12	0.44	0.98	1.09
Healthcare	JLLIHLTH	370.99	5.28	0.15	0.55	0.92	1.60
Housing	JLLIHOUS	359.37	5.37	0.17	0.49	1.05	1.90
Industrials	JLLIINDU	374.51	5.40	0.18	0.50	0.99	1.77
Metals/Mining	JLLIMETL	407.69	5.56	0.13	0.60	0.83	1.57
Paper & Pack	JLLIPAPR	376.08	5.43	0.12	0.44	0.84	1.52
Retail	JLLIRETL	406.97	5.69	0.17	0.52	0.72	1.44
Services	JLLISERV	443.70	6.05	0.18	0.50	0.77	1.38
Technology	JLLITECH	385.06	5.49	0.18	0.55	1.12	1.86
Telecom	JLLITLCM	346.43	5.25	0.17	0.54	1.00	1.60
Transportation	JLLITRAN	384.14	5.22	0.19	0.42	1.00	1.87
Utility	JLLIUTIL	671.43	8.16	0.25	2.33	6.48	7.81
1L Leveraged Loans	JLLILLI	409.01	5.71	0.18	0.62	1.25	2.01
2L Leveraged Loans	J2LILLI	841.79	10.2	0.22	0.88	2.18	3.97
Loan Only	JLLILNOY	431.78	6.00	0.16	0.57	1.20	2.09
Loan & Bond	JLLILNBD	392.17	5.49	0.18	0.65	1.27	1.97
Libor Floor	JLLILFLR	391.12	5.59	0.17	0.55	0.99	1.72
No Libor Floor	JLLINLFL	560.76	6.76	0.24	1.18	3.18	4.28
Cov-Lite	JLLICOVL	367.00	5.42	0.18	0.54	0.92	1.55
Not Cov-Lite	JLLINCVL	458.46	6.05	0.18	0.71	1.60	2.49
Domestic	JLLIUS	411.60	5.72	0.18	0.63	1.28	2.04
International	JLLIINTL	385.23	5.60	0.15	0.44	0.84	1.74
BB	JLLIBB	300.93	4.65	0.16	0.45	0.74	1.08
Split BB	JLLISBB	362.23	5.26	0.17	0.57	1.08	1.75
B	JLLIB	429.92	5.95	0.17	0.59	1.10	2.03
Split B	JLLISBCC	848.00	9.75	0.38	0.75	4.94	7.49
Not rated	JLLINR	697.84	8.37	0.18	0.63	1.89	3.66
US LEVERAGED LOAN INDEX	JLLILLI	409.01	5.71	0.18	0.62	1.25	2.01

Source: *JPMorgan Leveraged Loan Indices*

Notes:
1)Monthly and YTD performance data represents periods up to the current date.
2)*Green* / *red* color coding represents performance ranking of the top/bottom three sectors in the period.

JLLI INDEX <GO>

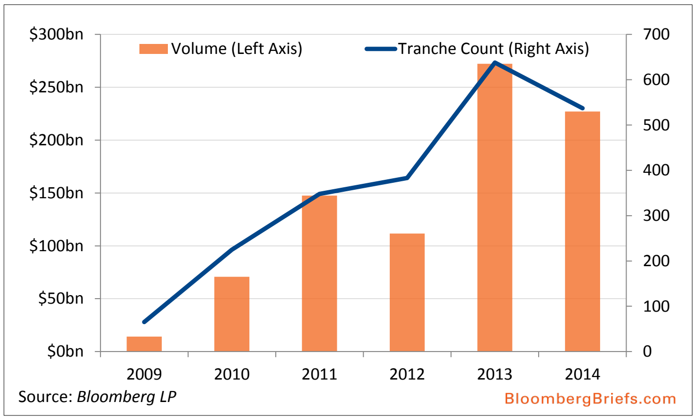
U.S. LOANS

LARA DEKE, BLOOMBERG DATA ANALYST

U.S. institutional loan issuance in the first four months of 2014 failed to match last year's brisk pace, though volume was still the second highest for a comparable period on record. Second-lien stood out, as investors took on more risk to get extra yield and volume hit an all-time high for a January-April period.

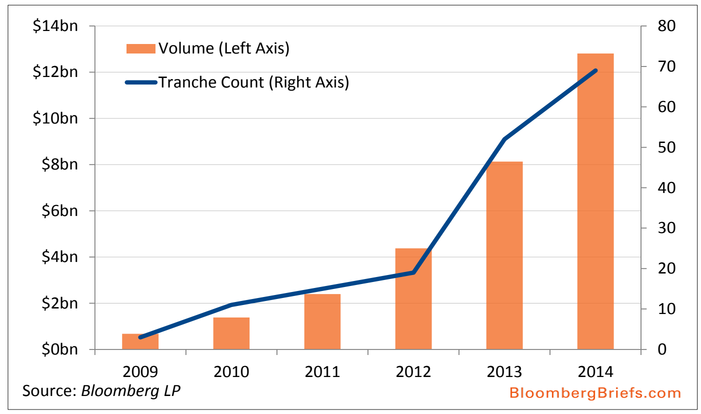
Continuing last year's trend, U.S. borrowers did a greater proportion of transactions with covenant light structures. They also took advantage of growing appetite for floating rate assets to sell deals at tighter margins.

Volume Fell Vs 2013, Second Highest Jan.-April



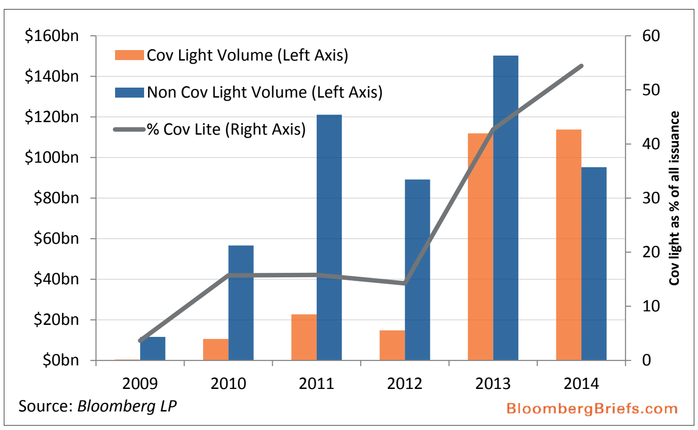
Total volume of U.S. loan issuance was just over $227 billion in the Jan.1-April 30 period. This was 17 percent lower than the record set in 2013, still more than double the corresponding period of 2012.

Second-Lien Issuance Jumped to Record



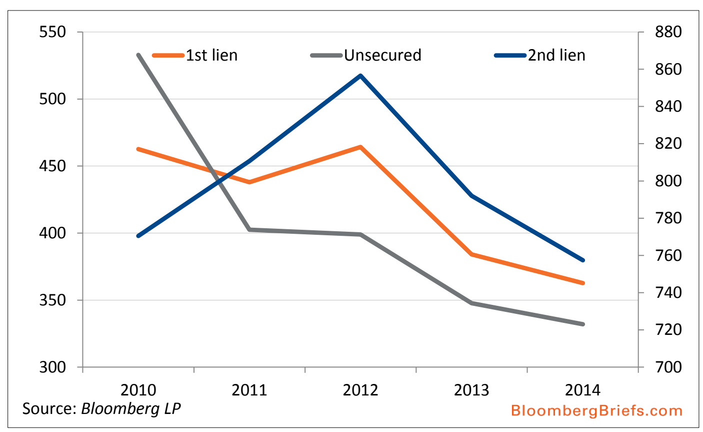
Second-lien loan issuance jumped to $12.8 billion from 69 transactions in the first four months, up from $8.1 billion from 52 deals in the corresponding period of 2013.

Covenant Light Became Dominant Structure



More than half the institutional loans issued in the first four months were covenant light, at $114 billion in volume. This marked the first Jan.-April period in which covenant light accounted for more than 50 percent.

Margins Hit New Low, Second Lien Fell Most



The margin on first-lien loans averaged 363 basis points over Libor in the first four months, down from 384 basis points a year earlier. Spreads on second-lien transactions fell to 757 basis points from 792 basis points.

EUROPEAN LOANS

LUKE REEVE, BLOOMBERG DATA ANALYST

Western Europe Leveraged Loan Pipeline

BORROWER	SPONSOR	AMOUNT (M)	TENOR (YRS)	MARGIN (L+)	SENIORITY	L FLOOR	UOP	LEADS	COMMIT DATE
Ahlsell	CVC	SEK 3000	6	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	EUR 115	6	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	NOK 2175	6	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	EUR 55	7	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	EUR 343	7	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	EUR 132	7	400	1L	-	Acq/LBO/Refi	NOR	-
Ahlsell	CVC	SEK 1000	6	400	1L	-	Acq/LBO/Refi/Capex	NOR	-
DE Master Blenders	JAB Holdin	EUR 7500	-	-	1L	-	Acq/Refi	BAML, MS, JPM	-
Memora Inversiones	3i	EUR 197.4	-	-	1L	-	Acq/LBO/Refi	BOI, ING, MIZ	-
Parques Reunidos	Arle Capital	EUR	5	500	1L	-	LBO/Refi	RBS, MS	-
Parques Reunidos	Arle Capital	EUR	5	500	2L	-	LBO/Refi	RBS, MS	-
ALL3MEDIA	Permira	GBP 290	7	425	1L	100	Acq	BAML, JPM	-
ALL3MEDIA	Permira	EUR 100	8	725	2L	100	Acq	BAML, JPM	-
Com Hem	BC Partners	SEK 3500	5	250	1L	-	Acq/LBO/Refi	NOR	-
Vivarte	Charterhouse	EUR 800	6	-	1L	-	Acq/LBO/Refi	-	-

Source: *Bloomberg LP*

LSRC <GO>

Western Europe Leveraged Loans Signed May 27-30

BORROWER	SPONSOR	AMOUNT (M)	TENOR (YRS)	MARGIN (L+)	RANK	UOP	LEADS	SIGNED
Sport Group	IK Investment Partners Ltd	EUR 91	7	425	1L	Acq/LBO/Refi	NIBC, SEB, UNI	5/30/2014
Sport Group	IK Investment Partners Ltd	EUR 39	6	375	1L	Acq/LBO/Refi	NIBC, SEB, UNI	5/30/2014
Sport Group	IK Investment Partners Ltd	EUR 5	6	375	1L	Acq/LBO/Refi	NIBC, SEB, UNI	5/30/2014
Synam	CVC	SEK 650	6	375	1L	Acq/LBO	SEB, NOR, SWED, DAN	5/27/2014
Synam	CVC	SEK 1850	7	425	1L	Acq/LBO	SEB, NOR, SWED, DAN	5/27/2014
Synam	CVC	SEK 350	6	375	1L	Acq/LBO/Capex	SEB, NOR, SWED, DAN	5/27/2014
Nets Holding	Advent, ATP, Bain	NOK 2440	7	350	1L	Acq/LBO	DAN, DB, JPM, MIZ, NOR, NYK, UBS	5/21/2014
Nets Holding	Advent, ATP, Bain	EUR 910	7	350	1L	Acq/LBO	DAN, DB, JPM, MIZ, NOR, NYK, UBS	5/21/2014
Agrokor	-	EUR 485	4	950 Cash/10.5% PIK	1L	Acq/GCP/Re-cap/Div	DB	5/21/2014

Source: *Bloomberg LP*

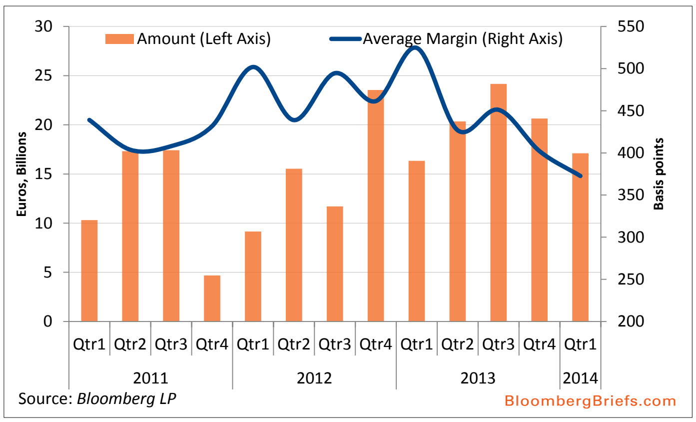
LSRC <GO>

EUROPEAN LOANS

LUKE REEVE, BLOOMBERG DATA ANALYST

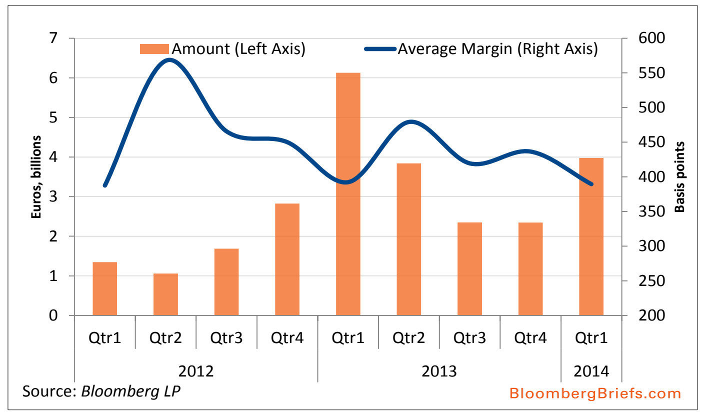
European issuance volume in Q1 2014 was slightly higher year-on-year, though less than in the preceding three quarters. The average margin dropped to 373 basis points, down from 402 basis points in the prior quarter and 524 basis points a year earlier. European entities continued to tap the U.S. loan market, with almost 4 billion euros of issuance, almost double the Q4 total, though less than the 6 billion euros issued in Q1 2013. The average margin for Europeans in the U.S. was 389 basis points, the lowest in two years. Refinancing was the dominant use of proceeds, though less prominent than in the prior four quarters.

Higher Volume Issued at Lower Average Margin



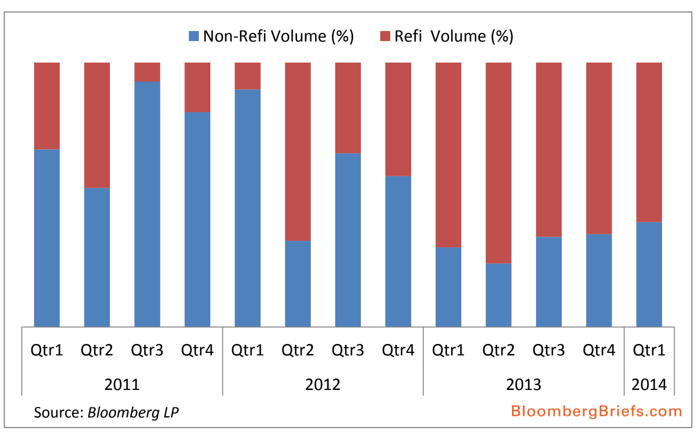
The first quarter saw European loan issuance of 17 billion euros, more than the 16 billion euros sold in Q1 2013, though down from 21 billion euros in the prior quarter. Average margin dropped to 373 basis points.

Europe Borrowers Boosted Sales Into U.S. Market



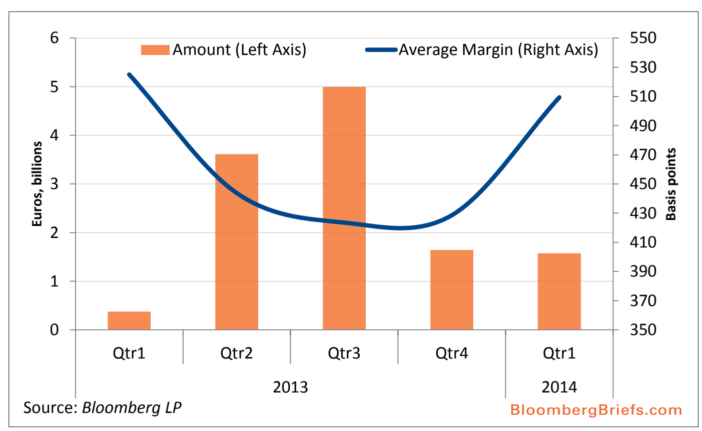
European issuers continued to tap the U.S. market, raising almost 4 billion euros equivalent in the first quarter, up from 2.4 billion euros in Q4. This was less than the 6.1 billion euros in the corresponding period of 2013.

Refinancing Amount Fell as Percentage of Deals



The percentage of loans raised to refinance debt fell to 60 percent in the first quarter, the lowest since Q4 2012. The percentage of deals used to refinance rose to a high of 76 percent in Q2 2013.

Dividend Volume Fell as Margin Increased



There were 1.6 billion euros of loans raised to pay dividends in Q1, down slightly from Q4 and up from $380 milllion euros in Q1 2013. Average margin on such deals was 509 basis points, up from 429 basis points in Q4.

EURO-DENOMINATED JUNK BOND TOTAL RETURNS BY SECTOR

BLOOMBERG DATA

The JPMorgan Euro High Yield Index rose 0.30 percent on a total return basis in the week to June 5. The yield to worst fell 7 basis points to 4.04 percent. Telecom was the top performing sector, with a 0.85 percent rise, while consumer products did worst, losing 1.34 percent. Senior secured debt outperformed other ranks with a return of 0.47 percent. By ratings, triple C bonds had the strongest week, with a 0.64 percent gain.

— Aselya Kerimkulova, Benedict Metuh, Bloomberg Data Analysts

JPMorgan Euro High Yield Index-Sector Returns and Characteristics

June 5, 2014

SECTOR	JP MORGAN TICKER	STW (BP)	YTW (%)	TOTAL RETURN, % [1,2]			
				1 WEEK	1M	3M	YTD
Automotive	CEURAUTO	296.03	3.16	0.18	0.42	1.48	5.34
Broadcast	CEURBRDC	353.00	3.62	0.28	0.71	1.88	5.45
Cable/Satellite	CEURCBLE	403.00	4.14	0.20	0.93	3.25	6.58
Chemicals	CEURCHEM	389.00	4.18	0.18	0.64	1.52	4.27
Consumer Prod.	CEURPROD	749.00	7.69	-1.34	-2.16	0.04	1.79
Diverse Media	CEURDVMD	651.00	6.64	0.38	2.67	6.96	18.34
Energy	CEURENER	411.00	4.35	0.17	0.58	1.64	3.16
Financial	CEURFINL	296.00	3.39	0.40	1.52	5.00	8.25
Food & Bev	CEURFDBV	452.99	4.70	0.13	0.85	2.36	3.92
Gaming/Leisure	CEURGAME	479.00	4.96	0.50	2.68	4.70	5.84
Healthcare	CEURHLTH	376.00	4.08	0.34	1.03	2.80	4.33
Housing	CEURHOUS	285.00	3.08	0.21	0.61	1.67	3.55
Industrials	CEURINDU	361.64	3.96	0.16	0.61	2.00	5.12
Metals/Mining	CEURMETL	355.00	3.81	0.65	1.96	3.74	2.95
Paper & Pack	CEURPAPR	425.87	4.54	0.15	1.15	2.96	6.04
Retail	CEURRETL	524.00	5.48	0.16	0.72	2.29	2.91
Services	CEURSERV	452.00	4.66	0.19	0.65	2.26	4.57
Technology	CEURTECH	329.29	3.51	0.02	1.07	3.51	6.68
Telecom	CEURTLCM	360.34	3.90	0.85	2.03	4.19	7.80
Transportation	CEURTRAN	523.00	5.41	0.24	0.48	2.04	5.14
Utility	CEURUTIL	300.00	3.29	0.14	0.81	2.08	6.00
Senior Secured	CEURSNSC	472.00	4.88	0.47	1.15	2.89	5.08
Senior	CEURSENR	329.00	3.58	0.20	0.89	2.50	5.31
Senior Sub	CEURSNSB	349.00	4.01	0.45	1.87	6.41	10.78
Junior Sub	CEURJRSB	455.00	4.63	0.03	1.97	3.46	6.98
Developed	CEURDM	371.00	3.98	0.31	1.07	2.97	5.72
Emerging	CEUREM	525.00	5.40	0.23	1.26	3.80	6.84
BB	CEURBB	243.00	2.74	0.16	0.71	2.14	4.47
B	CEURB	456.00	4.76	0.31	0.95	2.78	5.48
CCC	CEURCCC	785.00	8.00	0.64	2.03	4.92	8.50
Euro High Yield	**CEURHYI**	**378.00**	**4.04**	**0.30**	**1.08**	**3.01**	**5.77**

Source: *JPMorgan Bond Indices*

Notes:

1)Monthly and YTD performance data is as of last fully completed monthly period.

2)Green / red color coding represents performance ranking of the top/bottom three sectors in the period.