

New Issue Market Developments

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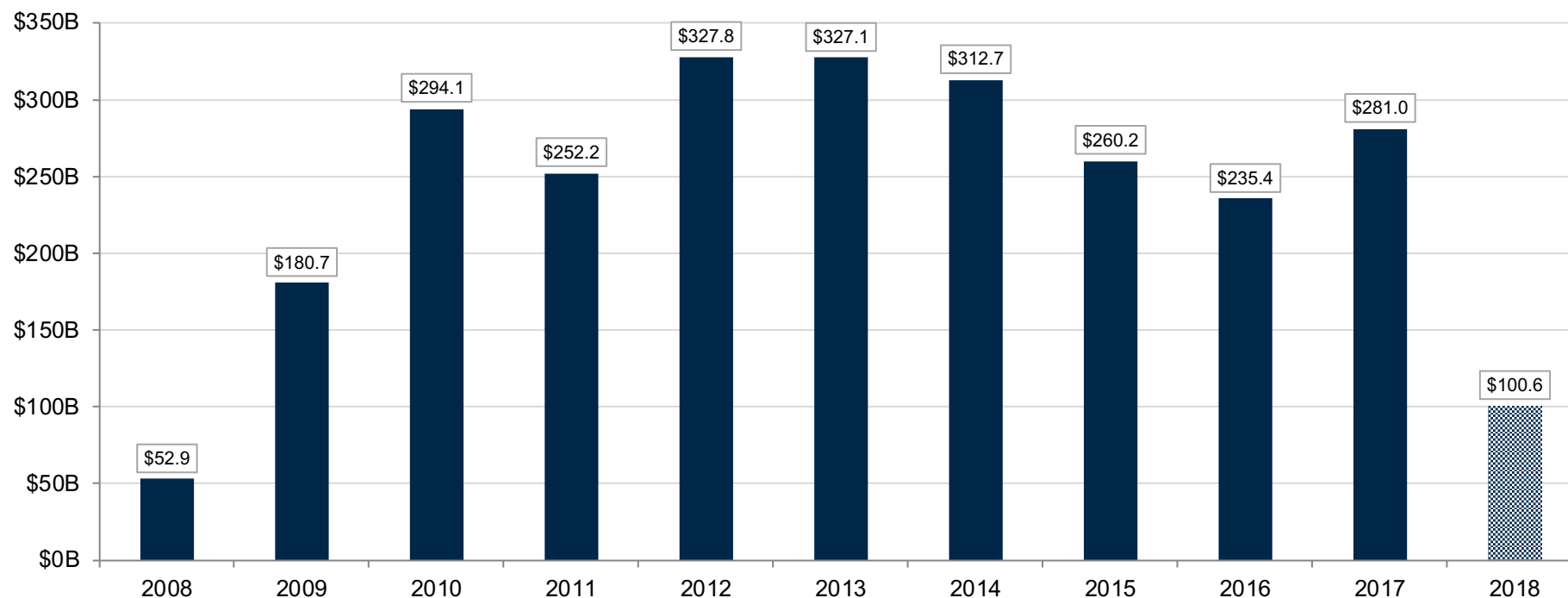
Credit Agricole CIB

| Key Topics / Trends

- ❖ Lower high yield new issue volume
- ❖ Continued strength of leveraged loan market
- ❖ Return of volatility
- ❖ *Some* investor friendly dynamics at play
- ❖ Energy sector returns to capital markets en masse
- ❖ Healthy M&A / LBO environment but fewer mega-deals
- ❖ Impact of tax reform

HY Issuance Volume Down Significantly in 2018

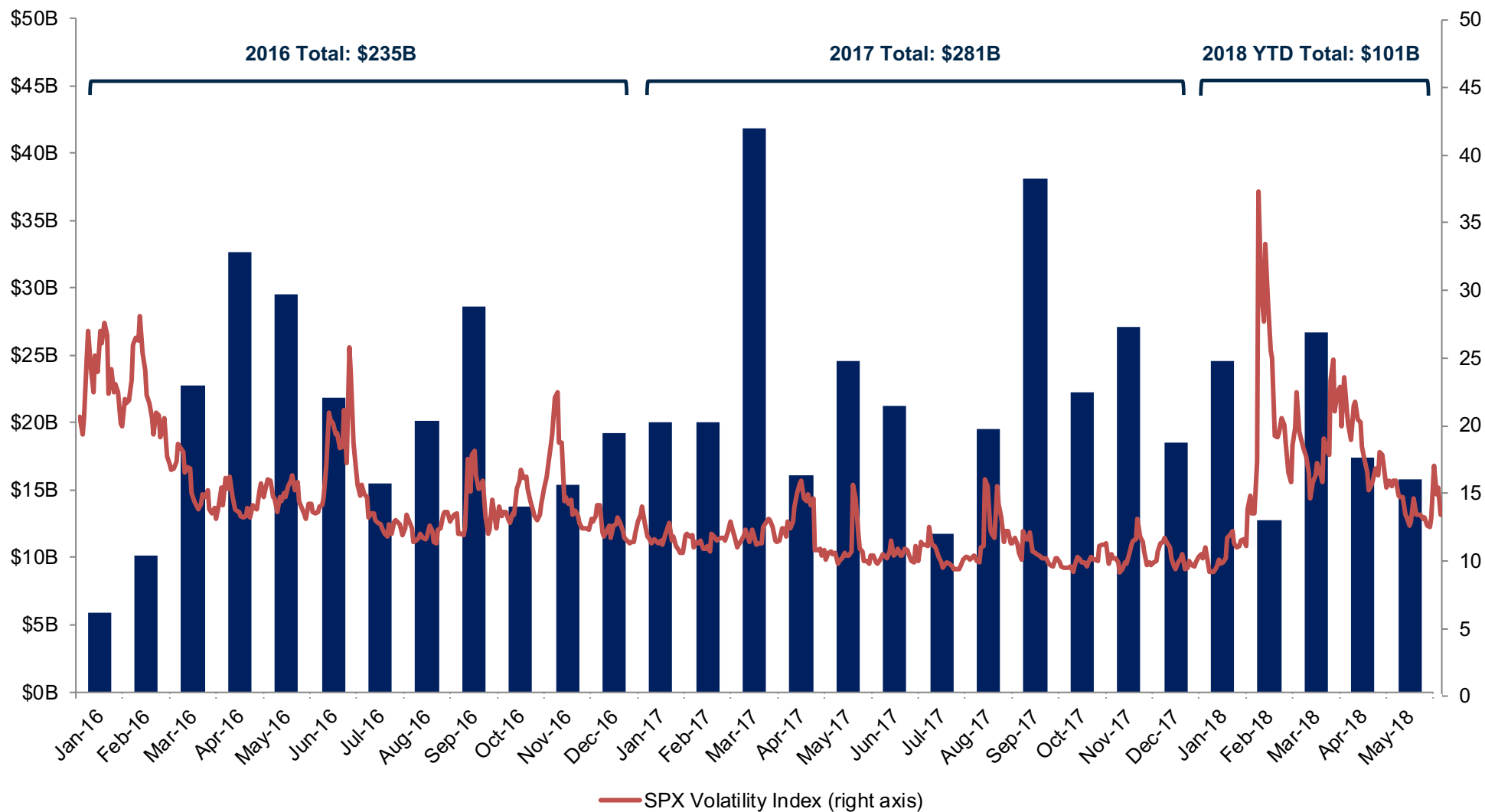
Yearly U.S. High Yield New Issue Volume



- ❖ US volume currently down ~23% Y-o-Y
- ❖ Month of May was slowest since 2010
- ❖ Consensus for 2018 total issuance is being revised towards ~\$250bn vs \$270bn-\$300bn+ by some dealer strategists

Return of Volatility Challenges Deal Environment

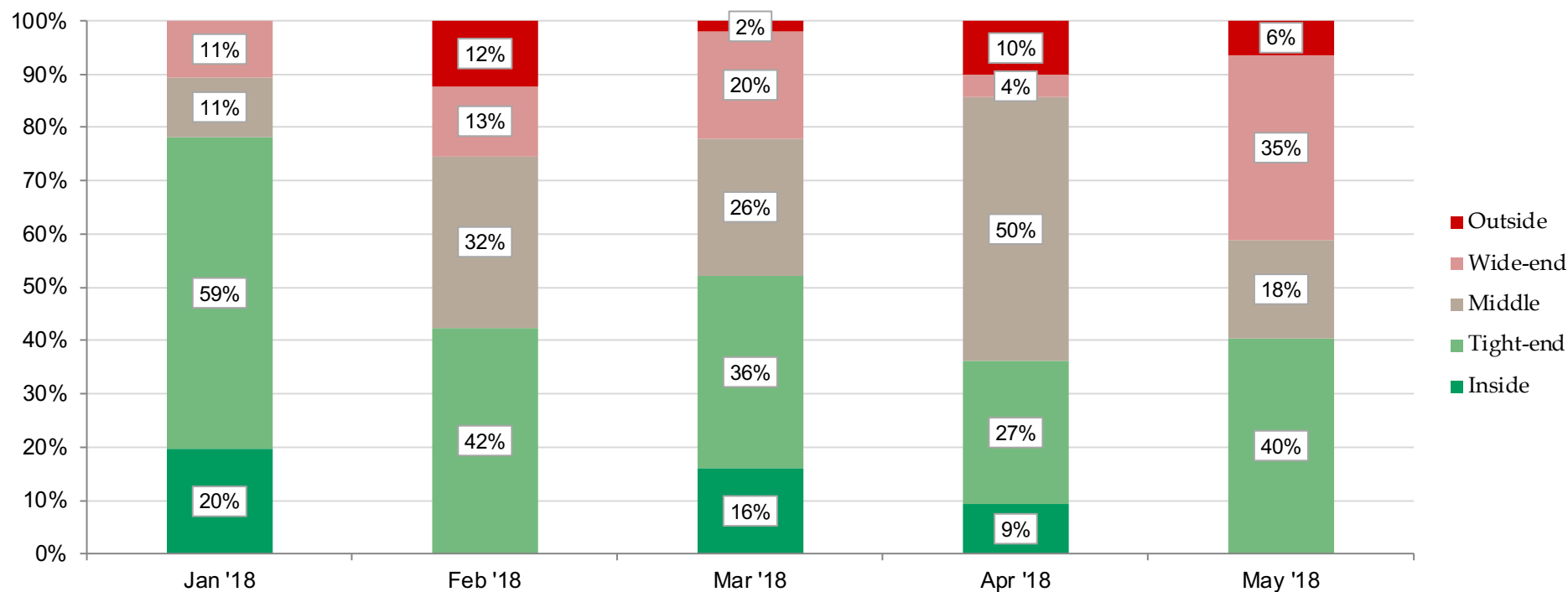
Monthly U.S. High Yield New Issue Volume



Source: Credit Agricole CIB as of 6/5/18, Bloomberg

2018 New Issue Market Temperature

Monthly U.S. High Yield New Issue Pricing vs Talk (% of deals)



Priced Transactions

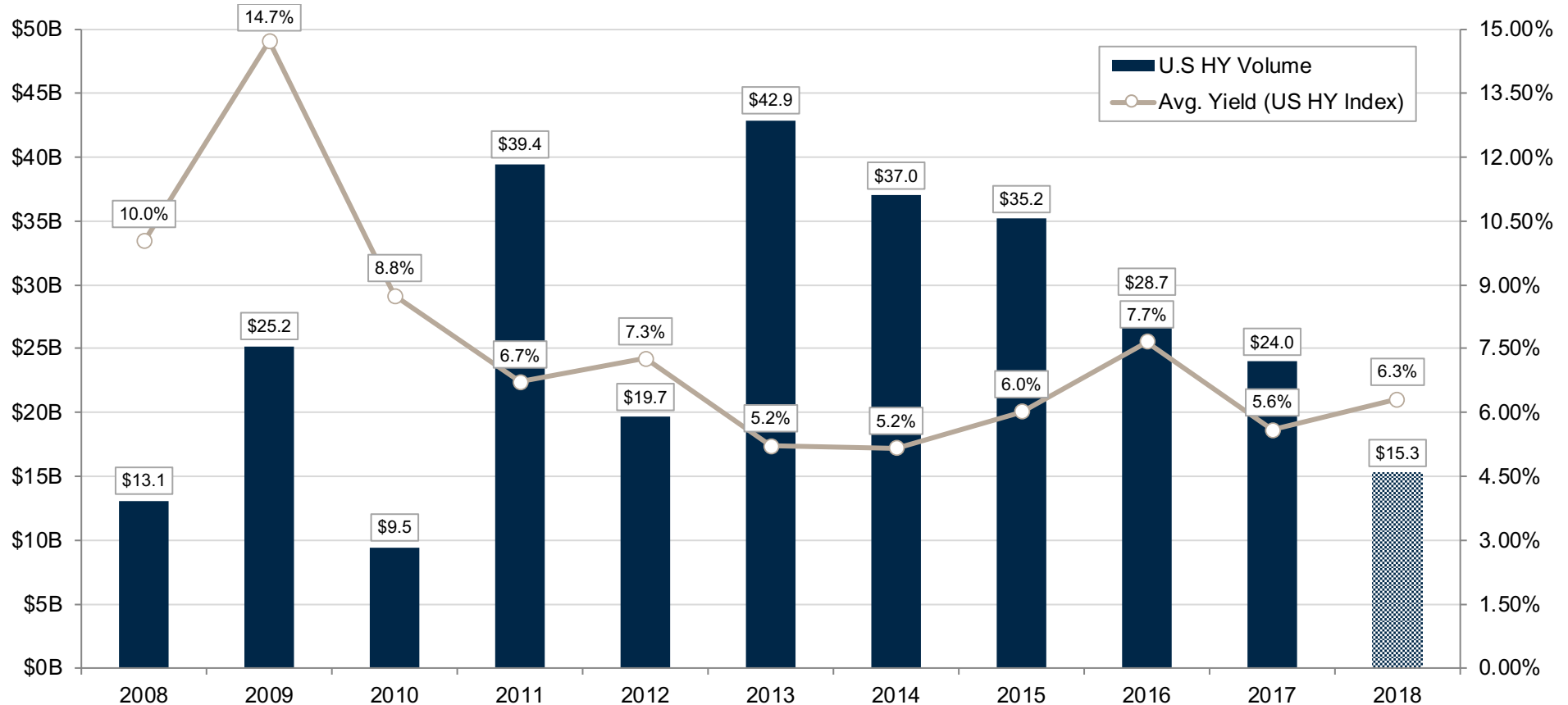
Volume (\$B)	\$24.5	\$12.8	\$26.7	\$17.4	\$15.8
Deals (#)	31	21	43	30	32

Pulled Transactions

Volume (\$B)	\$0	\$0	\$1.4	\$0	\$0.4
Deals (#)	0	0	3	0	1

Lowest May New Issue Volume Since 2010

Historical Month of May U.S. High Yield Volume vs Index Yield



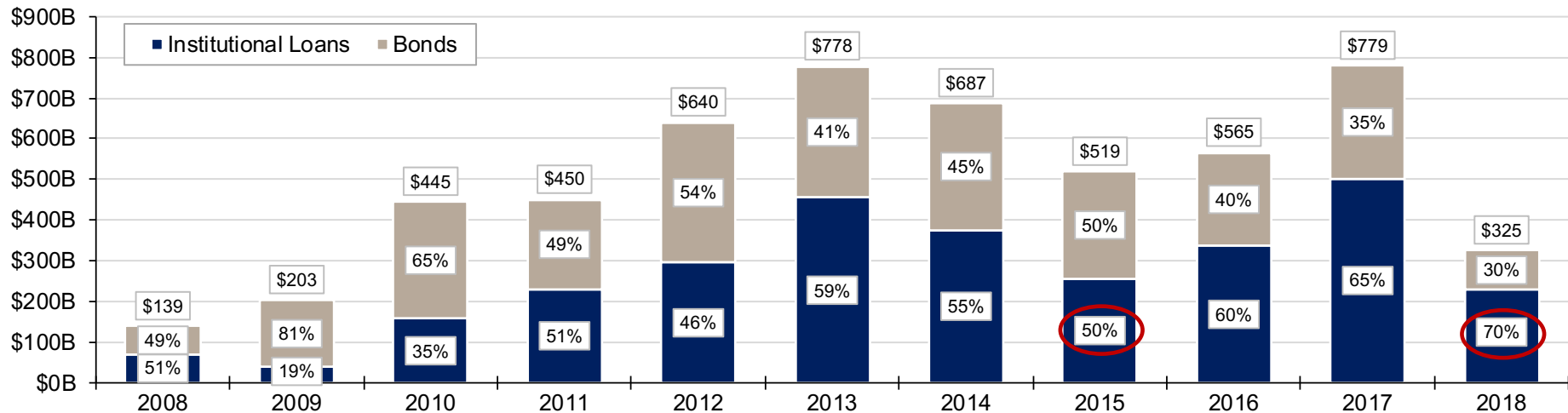
- ❖ May is historically one of the more active months for issuance but volumes have declined six consecutive years
 - ❖ Fewer opportunities for issuers to attractively refinance vintage '13-'15 callable paper
- ❖ HY index averaged 6.3% in May 2018, significantly inside of May 2016 when deal volume was nearly double with average index yield of 7.7%
 - ❖ However May 2016 median yield at issue was 5.7% vs 6.7% on deals pricing in May 2018

Source: Credit Agricole CIB, Average monthly YTW % of ICE BofAML High Yield Master II Index

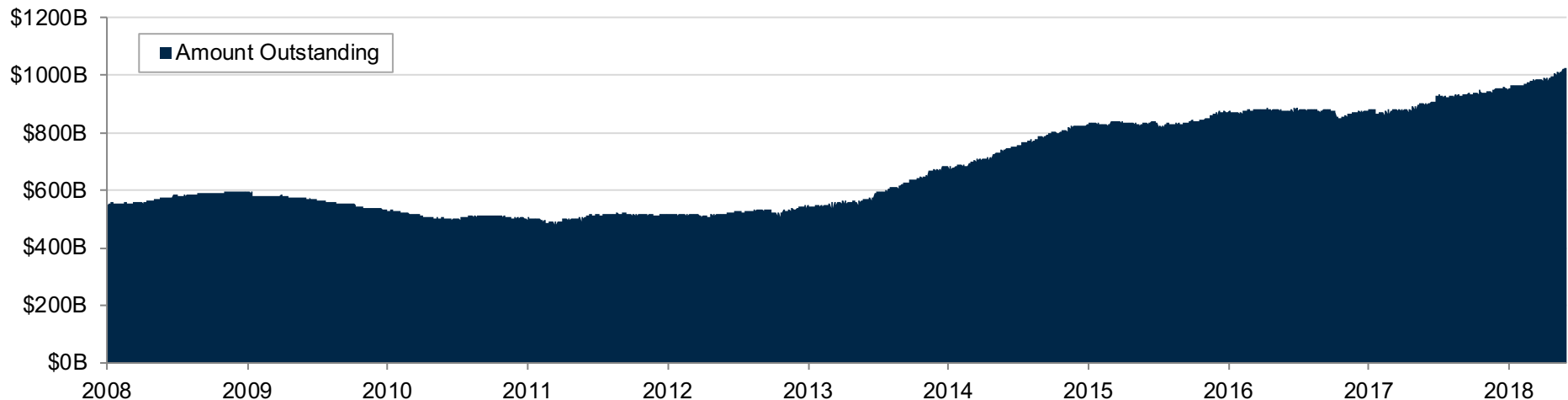
Leveraged Loan Market Continues to Take Bigger Piece of the Pie

- ❖ Leveraged loans saw record issuance in 2017 and the momentum has carried into 2018
 - Total share of leveraged issuance has grown from 50% in 2015 to 70% 2018 YTD
 - Total amount of leveraged loans outstanding has eclipsed \$1.0 trillion, nearly doubling since 2010

Yearly U.S. Leveraged Finance Volume



U.S. Institutional Loan Outstandings



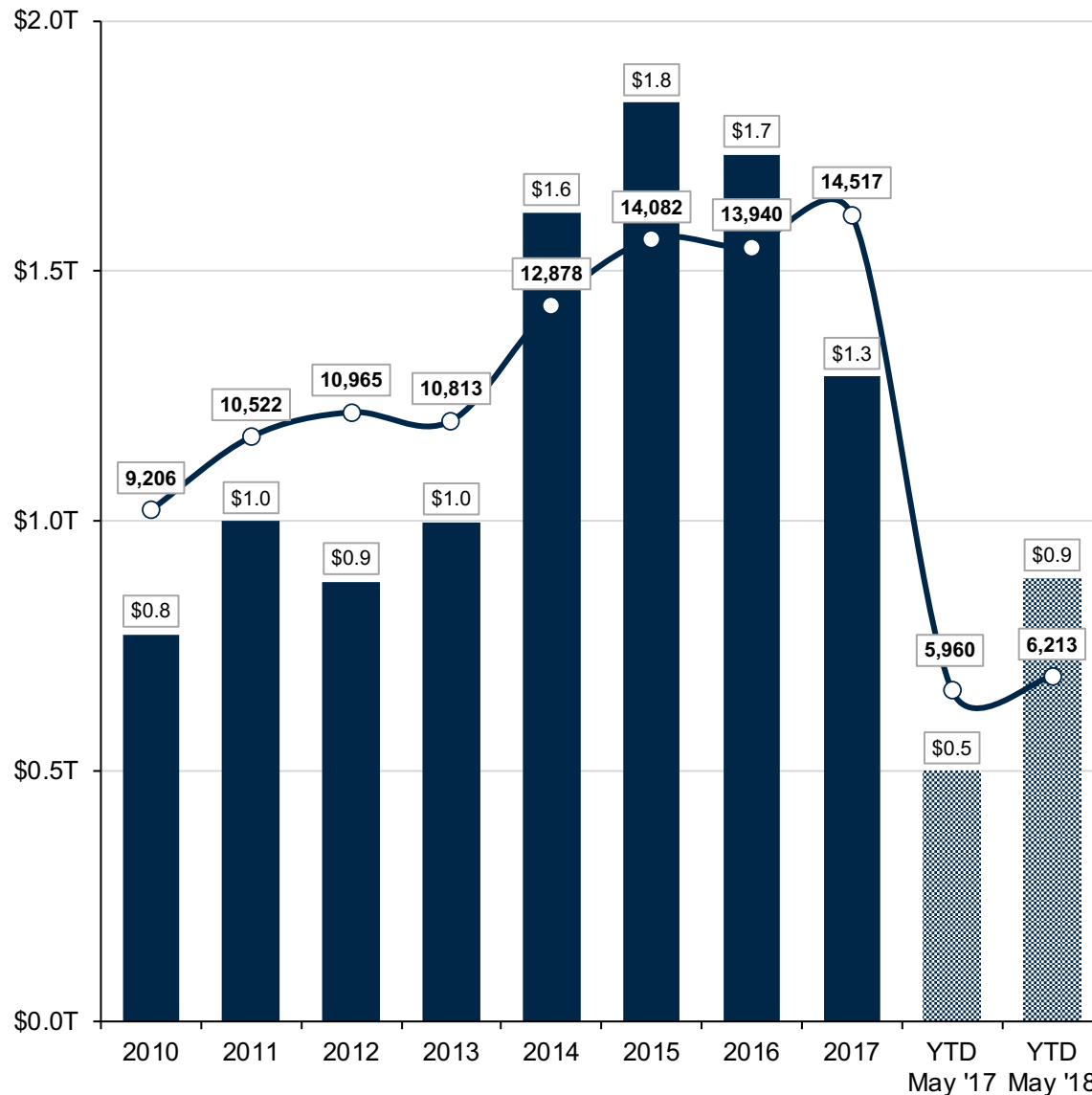
Source: Credit Agricole CIB, LCD, Thomson Reuters

Leveraged Loan Market Provides Increasing Borrower Flexibility

- ❖ Boosted by a surge of opportunistic deals and a spate of LBO credits, institutional new money issuance in the U.S. leveraged loan market jumped to \$66 billion in May, the most since the record \$78 billion in January 2017
 - Refinancing activity remains the main driver of leveraged loan activity, with a 71% share of issuance so far into the second quarter, in line with 2017
 - However, strong PE deal flow (add-on M&A / new LBO) is adding to overall market growth
- ❖ Best in class corporate borrowers currently clearing at L + 175 (~4.7% swap adjusted) vs L + 200 - 225 in 2017
- ❖ Approximately 80% of Term Loan B volume YTD is cov-lite, a record high
- ❖ Recent deals from Iron Mountain, Vistra Energy and Telenet highlights the increase in leveraged loans with maturities of greater than 7-years (at least 7 deals already this year)
- ❖ Banks increasingly providing flexible / friendly all senior backstops in lieu of high yield bridges

Robust M&A Environment but Primarily for Large Cap Multinationals

Yearly Announced & Completed US M&A Deal Volume (\$Tn / # of Deals)

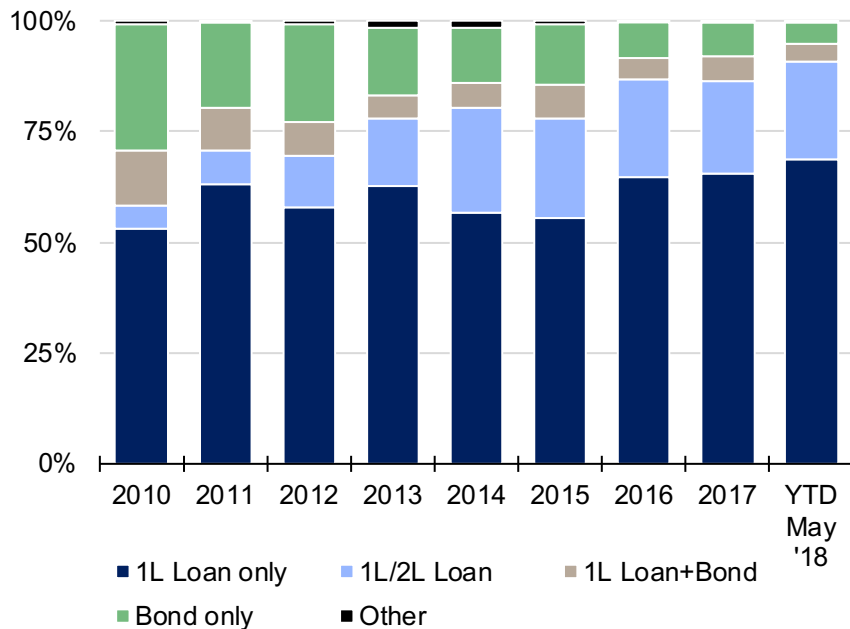


- ❖ **YTD growth in new M&A financing**
 - Strong deal flow among large cap multinationals boosted by tax reform
 - Most deals structured to preserve IG credit ratings
- ❖ **Lower volume from leveraged deals**
 - Fewer non-IG corporates willing to bet big at current valuations
 - Sponsors preferring smaller LBOs or add-on deals to capture value, primarily funded in loan market
- ❖ **Change-of-control portability increasingly keeping bonds in place**
 - e.g. Sprint / T-Mobile

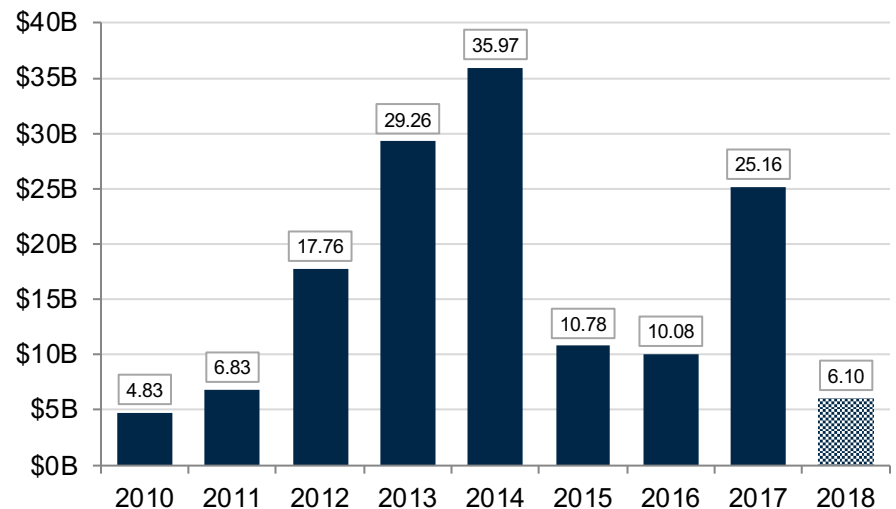
Private Equity Financing Trends

- ❖ 7x+ is the new 6x+
- ❖ EBITDA add-backs galore
- ❖ TLB market is preferred funding source to maximize financing needs for nearly all transactions
- ❖ Depth of second lien loan market is increasing with large “bond size” placements readily achievable
 - Average deal size approaching \$250MM with increasing number of \$400MM+ deals outstanding
 - 2L preferred by many sponsors to capture prepayability despite higher financing costs

Sources of Funding: U.S. Sponsored Borrowers



U.S. Second Lien Loan Issuance



Corporate Issuance Themes

U.S. High Yield Issuance by Sector

	2016	2017	2018
TMT	26.5%	13.8%	15.2%
Basic Materials	9.4%	18.3%	16.0%
Consumer, Cyclical	9.8%	10.2%	9.3%
Consumer, Non-Cyclical	14.6%	18.9%	13.9%
Energy	15.2%	17.1%	23.7%
Financial	2.3%	1.3%	3.8%
Healthcare	4.9%	7.0%	6.6%
Industrial	8.6%	4.7%	5.1%
Gaming/REIT/Lodging	8.7%	8.7%	6.5%

U.S. High Yield Issuance by Ratings Category

	2016	2017	2018
CCC	5.0%	10.0%	7.6%
Split B / CCC	7.3%	7.5%	8.4%
Single-B	30.3%	28.1%	36.0%
Split BB / B	18.1%	22.0%	16.2%
Double-B	32.3%	29.5%	30.3%
Split BBB / BB	6.4%	2.5%	1.5%

U.S. High Yield Issuance by Use of Proceeds

	2016	2017	2018
LBO	6.3%	4.3%	3.8%
Acquisition	14.4%	15.3%	13.0%
GCP	11.8%	9.3%	11.1%
Spin-off	4.8%	0.4%	1.3%
Refinance	62.5%	68.5%	67.8%
Dividend	0.2%	2.2%	2.5%

❖ Energy issuance driving volume in 2018

- 41 Oil & Gas and Energy-related issuers raising \$23.3B in HY financing YTD

❖ Decrease in refinancing volume from frequent, well known “market darling” issuers

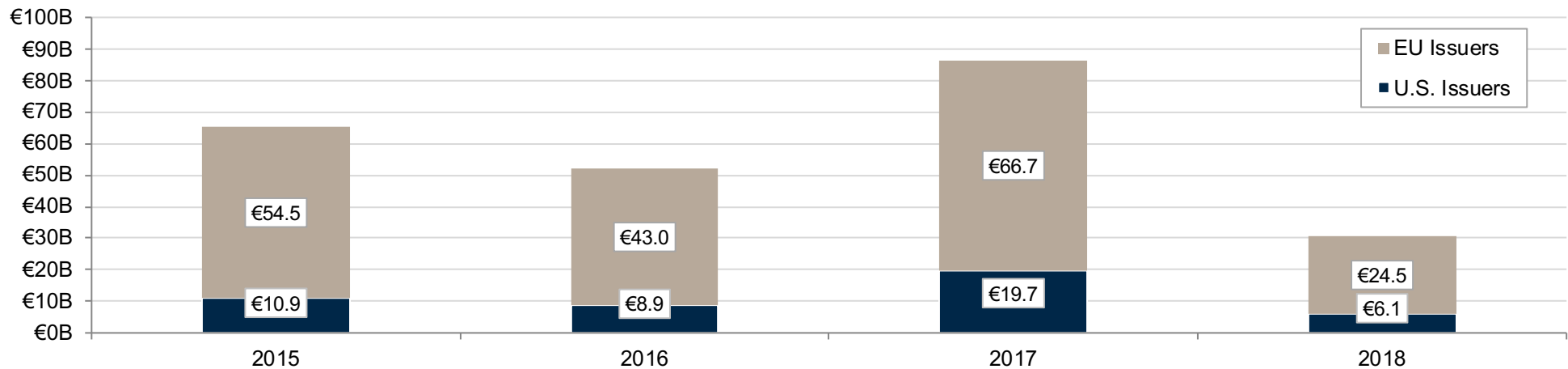
- NIC’s gapped wider in February to 30 – 62.5 bps, even for on the run names
- Less frequent / first time issuers on the rise; debut issuers represent c. 17% of YTD volume, vs c. 14% in 2017

❖ Less duration is more defensible in uncertain pricing environment

- Only 18 deals (c. 13%) with maturity of 10+ years in 2018, vs 36 deals (c. 18%) this time last year

Rise of 'Reverse Yankee' Euro Issuance

European High Yield Reverse Yankee Volume

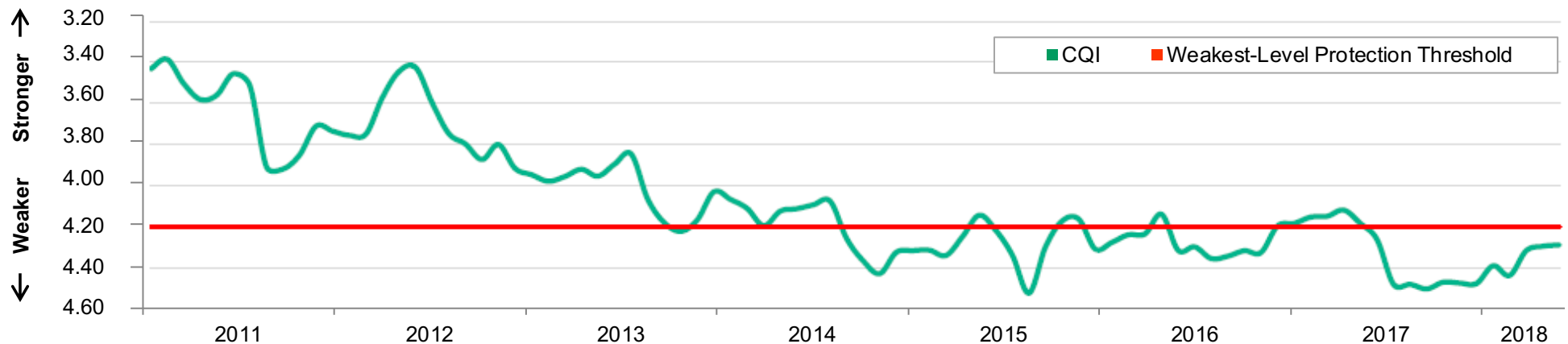


- ❖ **U.S. issuers with EUR funding needs have recently been attracted to the European market in 2017 due to the cost savings available**
 - Differential between the EUR tranches of cross-border transactions and the USD tranches has widened to 200+ bps in some cases
- ❖ **US borrowers have also been drawn to Europe to expand their investor base, as well as to capitalize on relatively more stable demand**
 - U.S. market is more susceptible to fund inflows and outflows affecting week-on-week demand
- ❖ **Overall 2017 was a record year for Reverse Yankee issuances in both the HY bond and Loan markets**
 - 36 HY bond deals have priced in 2017, vs 20 for 2016
 - Notable decrease thus far in 2018 given the bouts of volatility witnessed in the European markets throughout the course of the year but more deal flow is expected

Tug of War on Covenants

- ❖ Modest improvement in overall covenant scores but numbers don't necessarily tell the whole story
- ❖ HY-lite indentures represented 35% of total issuance in 2017 vs less and 15% in 2011
- ❖ Traditional HY indentures providing significant flexibility for secured debt capacity and restricted payments through multiple grower baskets, unlimited leverage-based governors and numerous loopholes
- ❖ Several recent deals have seen successful buy-side pushback on key covenants including attempts at CoC portability, though this has survived on others

Moody's HY Covenant Quality Index (2011 – Present)



Source: Credit Agricole CIB, Moody's High-Yield Covenant Database

Select Recent Transactions of Note



April 24, 2018

\$702MM 7.875% Sr Notes due 2025 (Caa1 / B+)

Community Adjusted EBITDA



May 18, 2018

\$1.0BN 7.750% Sr Secured Notes due 2026 (B1 / B)

1.125 lien



May 2, 2018

\$500MM 6.875% Sr Notes due 2026 (B3 / B-)

Tax reform



March 28, 2018

\$550MM 6.500% Sr Notes due 2026 (B2 / BB)

€550MM 4.000% Sr Notes due 2023

€250MM 4.750% Sr Notes due 2026

Cross border, HY-lite



ATOTECH

May 24, 2018

\$300MM 8.75%/9.5% Sr PIK Toggle Notes due 2023

(Caa1 / CCC+)

PIK toggle dividend recap