

Current Update on Debt Markets

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Session 5B: Private Equity Track

Moderator: **Deloitte.**

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Panelists:



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Manulife Financial



Securities

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Head of Credit Origination Investment
Banking, TD Securities



Canadian Western Bank

- Schedule I Bank established 1984, providing a full range of business and personal banking services across the four Western provinces with total assets in excess of \$10 billion. Small to mid-market General Commercial lending focus, with specialization in equipment finance, real estate, oil & gas, and syndicated lending.

Canadian Western Trust.

- With over \$4 billion of assets under administration, CWT offers personal and corporate trust solutions for retirement, trustee and custodial needs.

Valiant Trust

- Specializes in corporate trust, stock transfer and employee plan services for public and private corporations and income trusts.

Canadian Direct Insurance.

- Provides auto and home insurance at competitive rates for residents of AB and BC. CDI offers customers friendly and informed service via the telephone or Internet and through select auto insurance brokers in BC.

Adroit Investment Management.

- Founded in 1993, Adroit focuses on discretionary wealth management for individuals, corporations and institutional clients. Assets under management are approximately \$1 billion.

www.cwbankgroup.com



Canadian Imperial Bank of Canada (CIBC)

- CIBC is a leading North American financial institution with more than 140 years of serving clients in Canada and around the world. Through its two distinct business lines - CIBC Retail Markets and CIBC World Markets - CIBC provides a full range of products and services to almost 11 million individual, small business, corporate and institutional clients

CIBC Commercial Banking

- A full function Commercial Bank providing a comprehensive suite of financing (including senior debt solutions in the form of operating and term loan facilities and subordinated debt), cash management and advisory products to middle market companies across Canada
- CIBC Commercial Banking focuses on clients with sales of \$5 to \$500 million and also targets specific industries

CIBC Leveraged Finance

- A dedicated group focused on providing full-service, integrated senior and subordinated debt lending solutions for Private Equity Sponsors as well as Commercial Banking clients with sophisticated credit requirements (i.e., Event Financing)
- Responsible for structuring and syndicating senior and subordinated debt underwritings across the Commercial Bank (typically with underwritings between \$25MM and \$150MM)
- National Mandate with three offices (Toronto, Montreal, Vancouver) and 16 professionals

CIT Group

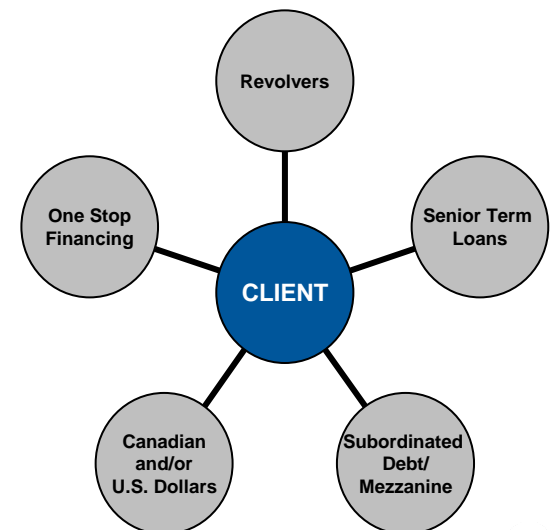
- A bank holding company with more than \$60 Billion in managed assets and a member of the S&P 500 and Fortune 500
- Maintains leadership positions in aerospace, equipment and rail leasing, small business and middle market lending, vendor financing and factoring

CIT Canada

- A leading commercial finance company serving Canadian clients for over 20 years
- Offers industry-leading solutions through its key business units: Corporate Finance, Equipment Finance, Vendor Finance, Energy and Infrastructure Finance, and Healthcare Finance

CIT Corporate Finance, Canada

- Provides both secured and cash flow based loans on private equity backed and unsponsored event driven transactions
- Focus on mid-market companies with EBITDA of \$10 million to \$50 million
- Will co-underwrite, lead or participate in \$50 million to \$250 million debt facilities, with hold positions ranging from \$10 million to \$30 million
- Will provide stand alone senior debt or **one-stop financing solutions** in Canadian and /or U.S. dollars



JPMORGAN CHASE & CO.

- \$2.5 trillion in assets. Largest bank by market capitalization (\$130 billion).
- Operations in 100 countries. 220,000 employees. #1 in both equity and debt tables (2008).
- In 2008 acquired Bear Stearns and Washington Mutual .
- Canada – 40 year history in Canada, 1800 employees in 10 locations, 6 Lines of Business
 - Established Canadian presence in the mid-1960's. The first foreign bank established in Canada after changes to the Bank Charter in 1981
 - Credit exposure of \$12 billion to hundreds of Canadian entities and corporate deposit base of \$3.5 billion
 - Treasury Services including cash management provided to over 1,000 clients
 - 2005 – Acquired Sears Canada credit card operations, and we are now the Canadian credit card issuer of the Sears MasterCard® and Sears Private Label Card, the Marriott Rewards Platinum Visa® Card and the Chase Gold MasterCard. Over 3.5 million active accounts and \$2.5 billion in outstanding loans
 - Nov 2008 – Acquired full ownership of Chase Paymentech Canada – 50,000 clients, 250 employees.
 - Dec 2008 – Acquired UBS Canada's commodity group in Calgary – 30 senior staff.
 - 2007 to 2009 – Sole advisor on the (successful) ABCP resolution.
- #1 Financial Sponsor Group coverage bank.
- One Equity Partners – Completed over \$6 billion of equity investments in the past 7 years.
- J.P. Morgan Partners (spun out from Bank in 2006) – Completed \$15 billion of investments since 1984.

Manulife Financial

- Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Funds under management by Manulife Financial and its subsidiaries were C\$405Bn as at March 31, 2009.

Manulife Capital

- Manulife Capital established in 1998 to manage money exclusively for Manulife Financial
- C\$900MM under management
- Provide Subordinated Debt and Equity in the US and Canada
- Typical target investment range of \$10MM to \$50MM
- Financing for growth or event driven transactions:
 - Growth and capacity expansion
 - Balance Sheet recapitalization
 - Working Capital
 - M&A
 - Management buy-out
- Invest in later stage companies in traditional industries
- Provide ongoing financial and strategic support

TD Bank Financial Group

- 7th largest North American bank by market capitalization of US\$34.7 billion
- Acquired Commerce Bancorp, valued at US\$8.4 billion, in 2008
- TD Bank Financial Group offers a full range of financial products and services to more than 17 million customers globally

TD Securities

- TD Securities is the wholesale arm of TD Bank Financial Group, providing a wide range of capital market products and services to corporate, government and institutional clients in its key product groups:
 - Investment Banking
 - Capital Markets
 - Interest Rate, Currency and Derivative Products
- With 2,700 people in 14 offices around the world, TD Securities is a full service investment bank with a strong presence across North America offering integrated solutions, utilizing significant industry and product expertise

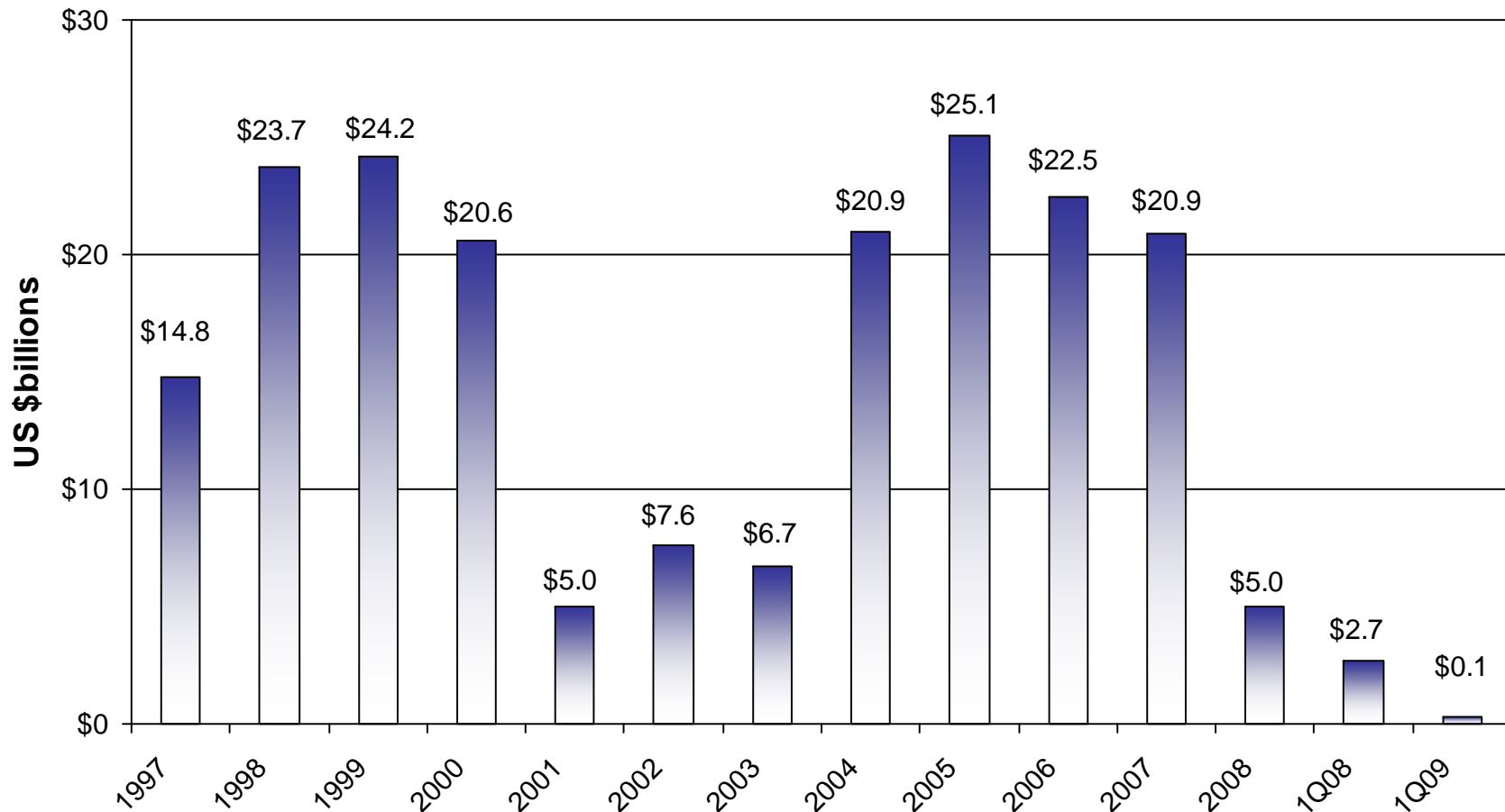
The Debt Environment: Q1 2009

- Mid-Market loan volumes down dramatically
- Credit environment far more conservative
- Spreads up appreciably, but borrowing costs down
- Default rates rising
- Smaller number of active Lenders
- Liquidity is king

Sponsored Middle-Market Volume By Year

(Issuers with EBITDA of \$50 Million or Less)

- Mid-Market leveraged loan volumes down dramatically

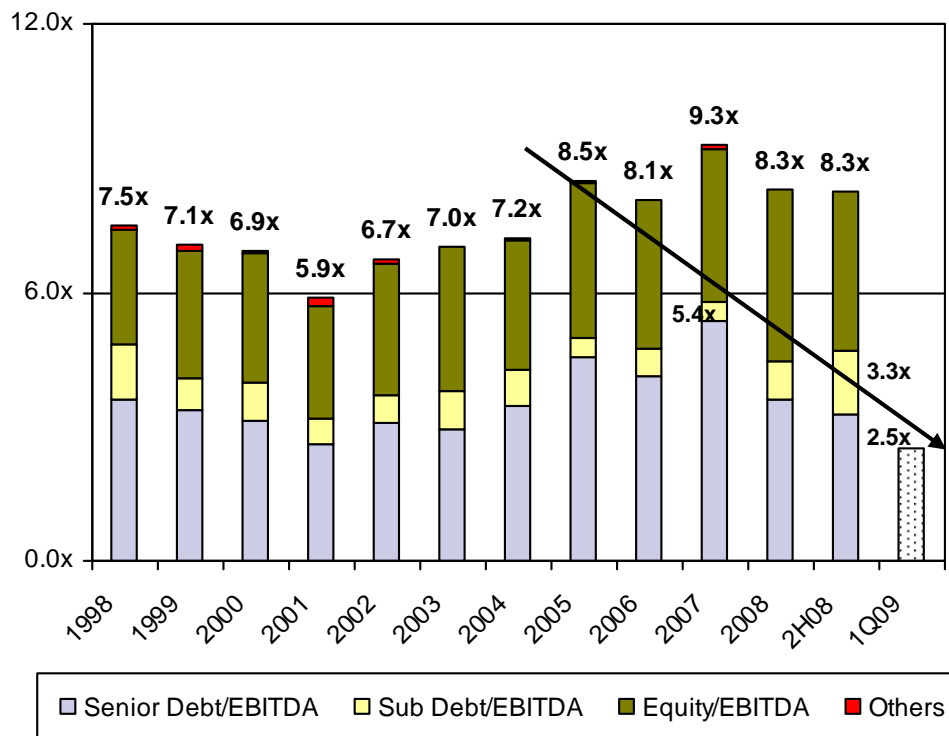


Source: www.lcdcomps.com

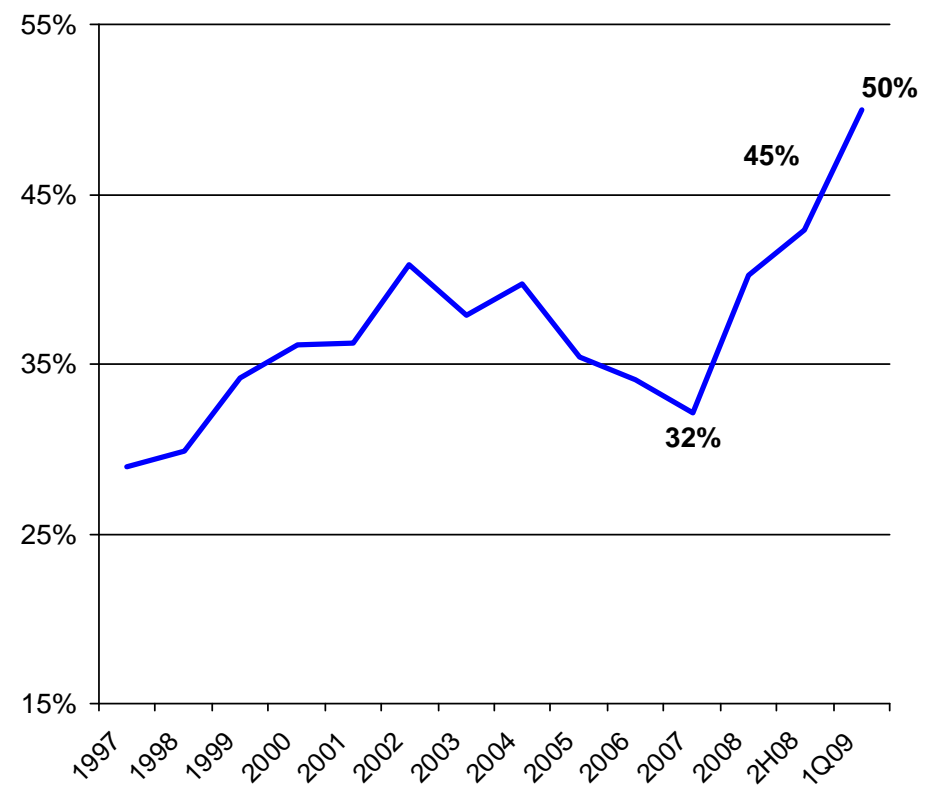
Average Purchase Price and Equity Contribution by Sponsors (for Mid-Market Deals with EBITDA of \$50 Million)

- Senior leverage has dropped 54% (5.4x to 2.5x) since 2007
- Equity requirements have risen 56% (32% to 50%)

Purchase Price Breakdown



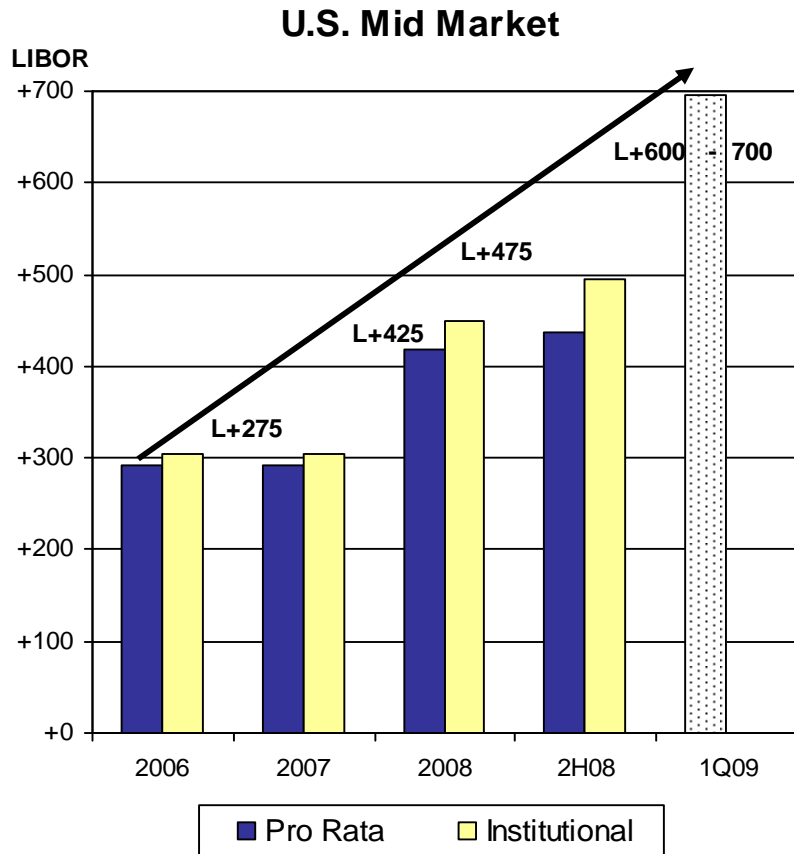
Equity Contribution



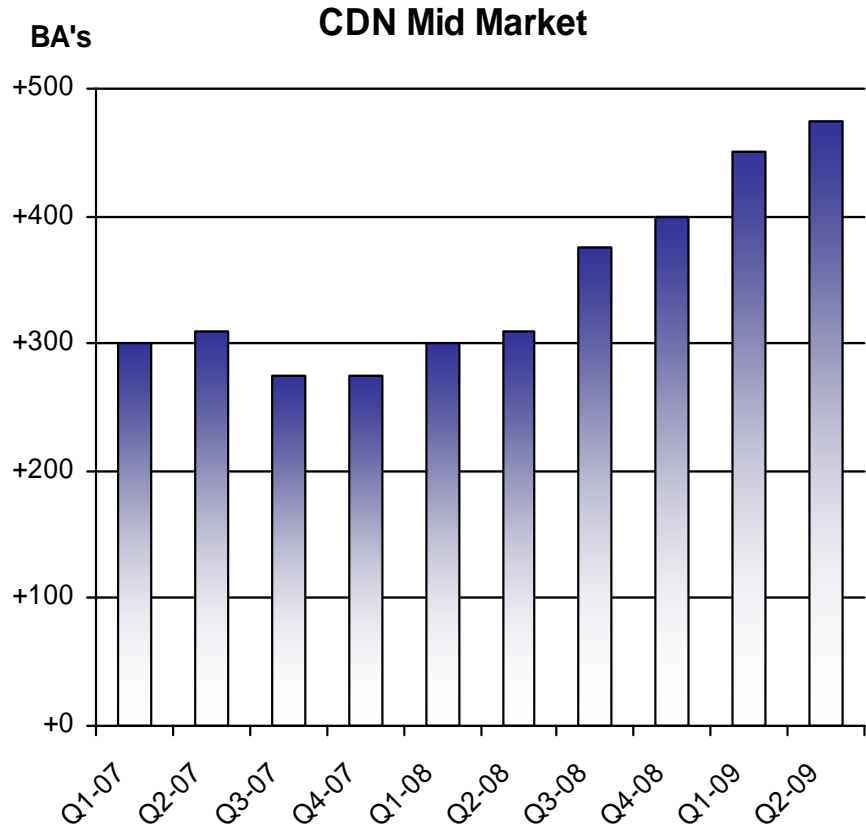
Source: www.lcdcomps.com

Average Spreads of Sponsored Transactions (for Borrowers with EBITDA of \$50M or Less)

- U.S. spreads rose 145% from 2007 to 2009, from L+275 to L+600/700
- CDN spreads rose 80% from 2007 to 2009, from BA + 250 to BA + 450/600



Source: www.lcdcomps.com

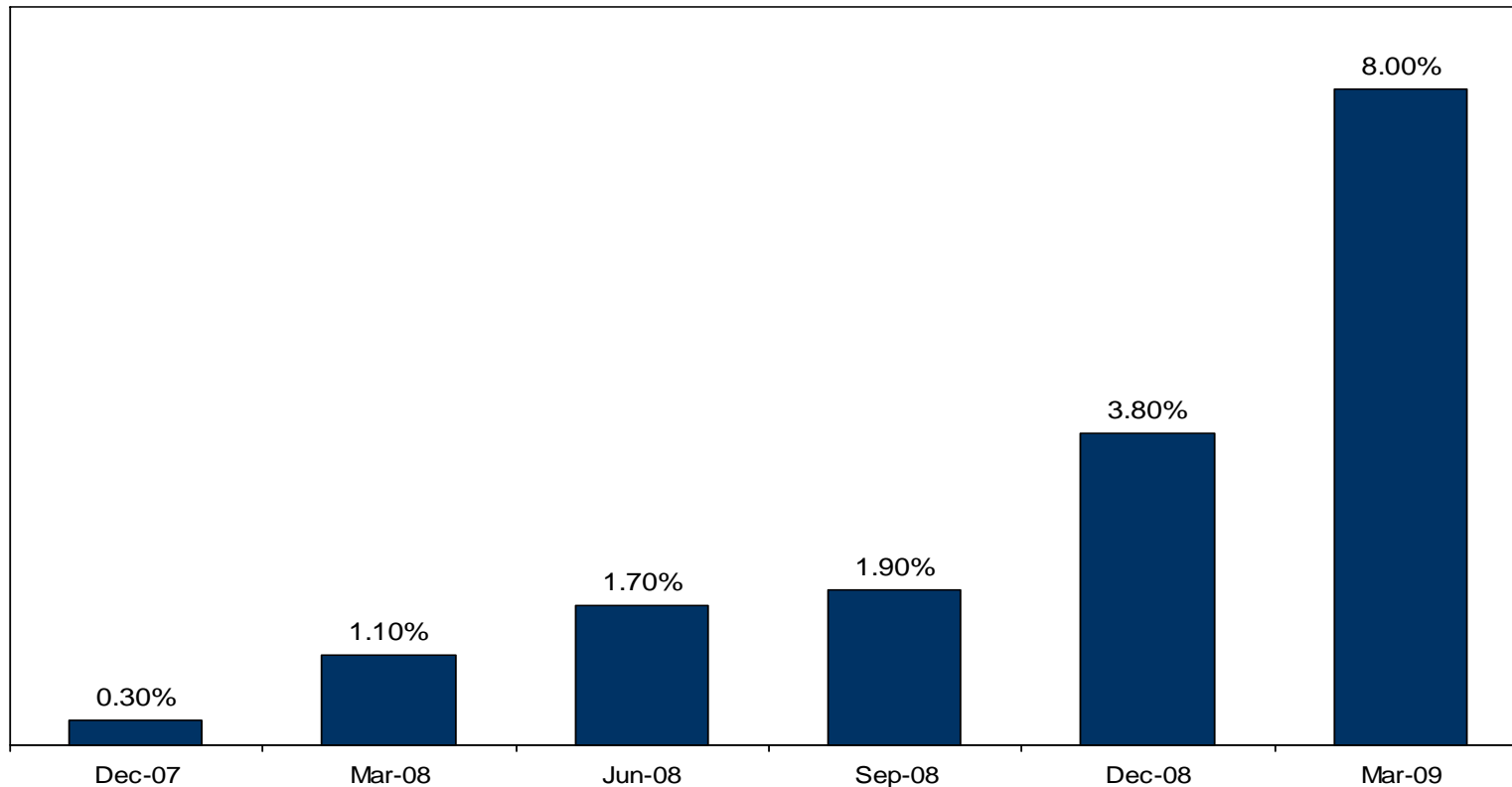


Source: CIBC

Leveraged Loan Market: U.S. \$585 Billion (1Q09)

- Default rates have risen dramatically since 2007

Default Amounts (as a % of Leverage Loans Outstanding)



Source: S&P's Leveraged Commentary & Data

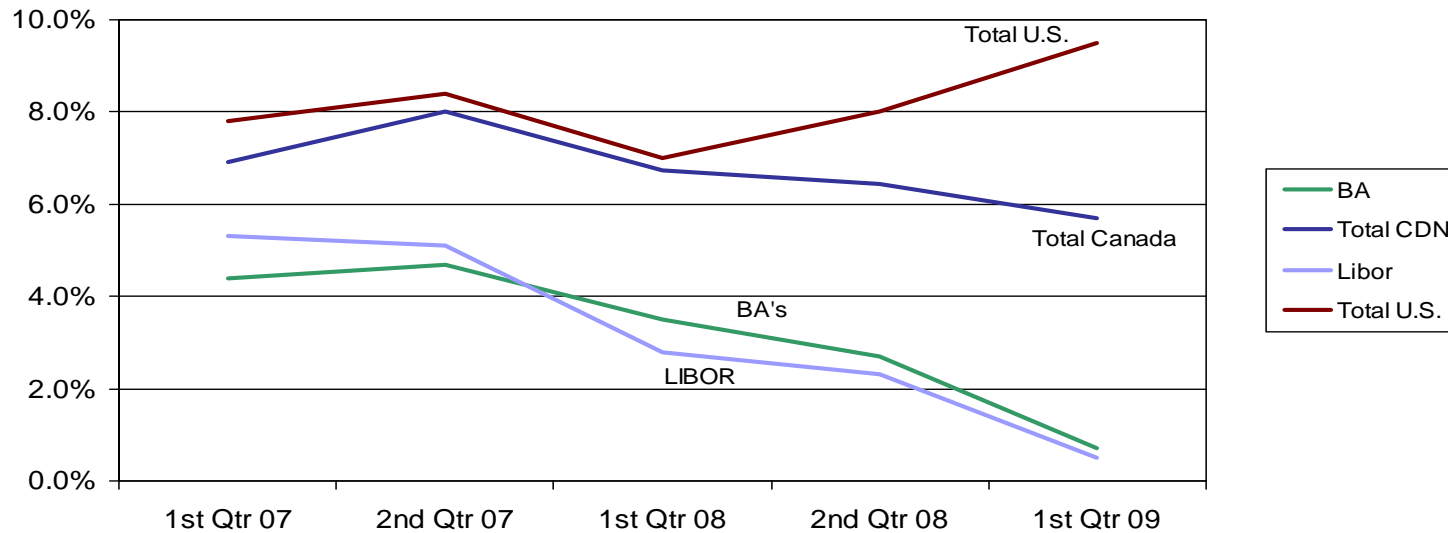
Changing Environment

	Canada		<u>U.S.</u>
	<u>Prior to July 2007</u>	<u>May 2009</u>	<u>May 2009</u>
M&A Activity	Strong	Weak	Weak
Buy-Out Activity	Robust	Low	Low
Credit Metrics <ul style="list-style-type: none"> • Leverage <ul style="list-style-type: none"> - Senior Debt - Total Debt • Term to Maturity • Bank Hold Limits 	3x to 4x EBITDA 4x to 5x EBITDA 5 Years \$35 to \$50 million	2.5x to 3.0x 3.0x to 4.0x 2 to 4 Years \$20 to \$40 million	2.0x to 2.5x 3.5x to 4.0x 3 to 5 Years Reducing
Purchase Price Multiples	High 7x to 10x EBITDA	Falling 5x to 8x EBITDA	Falling 5x to 8x EBITDA
Equity Contribution	Reducing 30% to 40%	Increasing 40% to 60%	Increasing 40% to 60%

Changing Environment: Cost of Debt (BB/BB-)

	Canada		U.S.
	Prior to July 2007	May 2009	May 2009
<ul style="list-style-type: none"> • Spreads - Senior Debt - Sub Debt 	BA + 250 to 300 14% to 17%	BA + 450 to 600 16% to 20% (Warrants?) Call Protection (Sub)	L + 600 to 700 16% to 20% (Warrants?) Call Protection (Sub)
<ul style="list-style-type: none"> • Transaction Fees - Senior Debt - Sub Debt 	0.75% 2%	1.0% to 2.0% 2.0% to 2.5%	2.5% to 3% 3%
<ul style="list-style-type: none"> • Floors 	N/A	Not Yet	2% to 3%

Cost of Senior Debt



Restructurings Are The Norm

2007

- Frothy markets
- Low pricing: BAs 2.5% to 3.0%
- High leverage: Senior 3.0x to 4.0x
 Total 4.0x to 5.0x

But with deleveraging covenants

2009

- Economy in recession
- Revenues and EBITDA – flat at best to historical
- **Covenant defaults occurring (not deleveraging to plan)**
- Covenant resets / waivers required
- But at what cost?

Debt Markets: From Train Wreck to ??

The Now

- Canada and U.S. in recession
- Liquidity very tight
- Small number of active lenders / Hold levels down
- Credit Environment (2007 to 2009) from frothy to conservative
 - Spreads up dramatically, borrowing costs are down
 - Leverage conservative
 - Tighter Covenants
 - Shorter Loan maturities
- Loan defaults and write-downs growing

Where to?

- Eventually the debt environment will swing back:
 - Bank appetite for leveraged loans will grow
 - Foreign financial institutions will come back to the Canadian market
 - Mezz and equity funds will get anxious to put capital to work;
 - The economy will stabilize; and
 - Many will forget the mistakes of the past