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The Current State of the European Leveraged Debt Markets



**Presented by Robin Menzel
at the Clear Capital
Credit Crisis Roundtable
13 May 2008**

Senior leveraged debt market still fragile

Loan market is suffering from deep seated liquidity unwind...

...this will increasingly cause credit issues

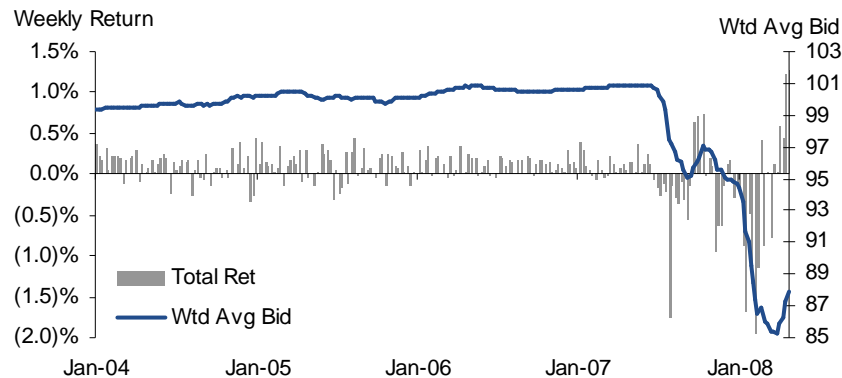
Approx €75 billion of European leveraged debt is still trading > 12% yield

- ~2/3 of is performing senior secured debt
- ~1/3 is performing subordinated debt

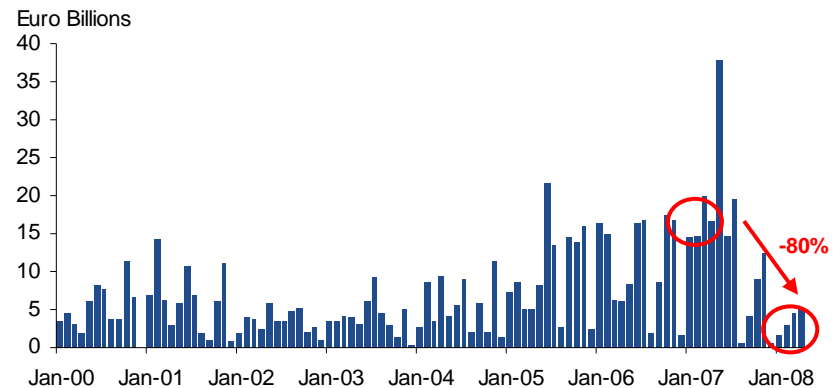
Market is still digesting an unprecedented leverage unwind

- Overhang of low value / high yielding secondary supply remains
- Weak technicals starting to feed through to credit issues
- Medium sized deals getting done but “slowly & very carefully”

European Snr Sec Lev Loan Performance*



European Snr Sec Lev Loan Issuance



* Historic ELLI average interest income is +11 bps per week
Source: S&P LCD issuance data through Apr-08 and ELLI (European Leveraged Loan index) through to 1-May-08

Subordinated Mezz market has taken some of the slack



While volume is down, mezz market remains open and cautiously active, risk-adjusted returns have risen

Mezz market shows some resilience

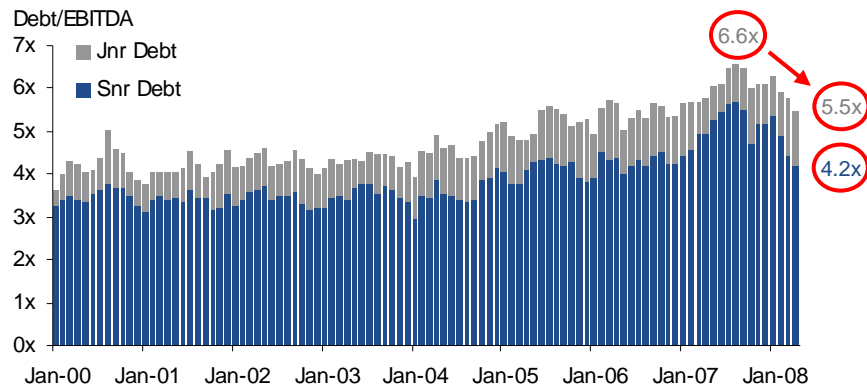
- Investor base generally used little leverage with longer-term funding
- Investors have been collecting more money¹
- With lower deal flow, investors still look to primary for diversification

Second Lien essentially gone with reduction in demand from leveraged funds

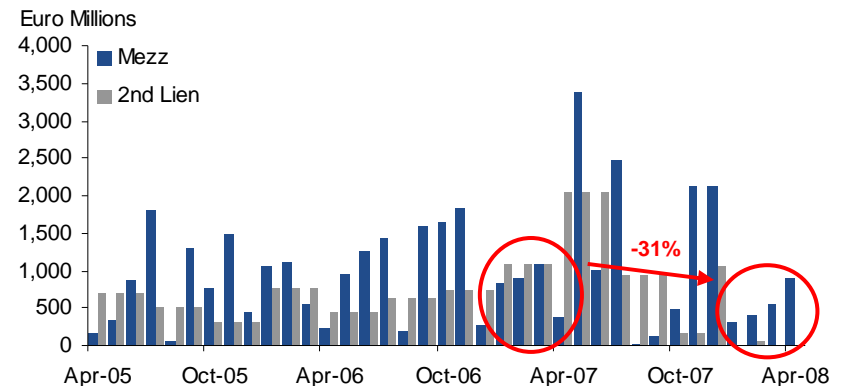
Risk-adjusted return costs to equity have risen

- Primary deals being structured at lower risk, with greater equity cushions
- Mezz pricing now E+10-12, with warrants more common for “difficult” deals

Average Net Debt Leverage of New Deals²



European Second Lien and Mezz Issuance



1. eg: Feb-08 £175m rights issue by Intermediate Capital Group plc
 2. Leverage is a rolling 3 month average taken from deals surveyed
 Source: S&P LCD survey data through Apr-08

Junior/High Yield debt market remains dead

*HY market
expected to remain
shut through Aug-
08*

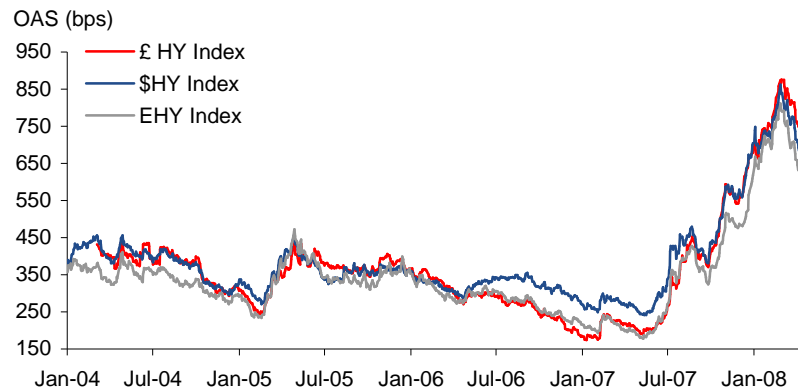
The high yield bond market sell off has been caught but in thin liquidity

- Recovery very fragile

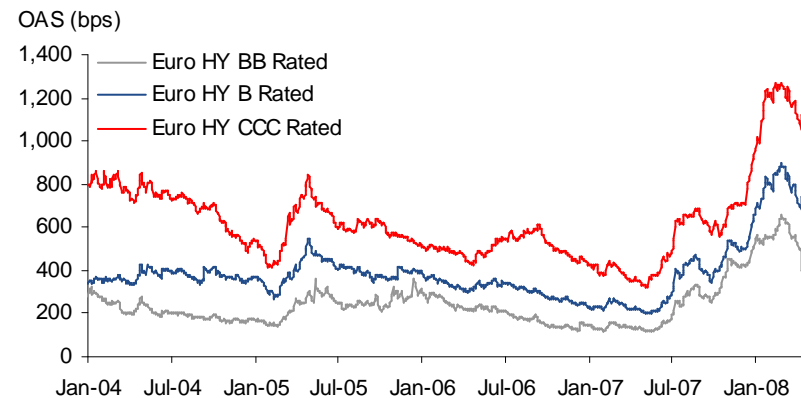
There have been no new issues in Europe since Jul-07 (Intergen)

- The European market remains firmly shut
- Bond bridges continue to be repacked into mezz market
- New issuance is being directly sold into private mezz market

Yield of Euro, Sterling and Dollar HY Indices*



Euro HY Yield by Rating*



* OAS = Option adjusted spread over government bonds in bps
Source: Merrill Lynch indices through 7-May-08

Covenant waivers more difficult to obtain

		Gala Coral Group Gaming & Gambling Oct-05 Leveraged Acq.	Sanitec Bathroom fittings Apr-05 Secondary LBO	Mach Mobile Telco Services 2005 LBO, Refi May-07
Waivers are expensive and require increasingly significant concessions by equity... ...smaller deals are being penalised even more than the large benchmark deals	Equity Injection	£125m	€70m inject.+ €15m g'tee ¹	0
	% of Total Financing	4.8%	8.3%	0.0%
	Senior Prepayment	£83m	€54m	
	% of Net Senior Debt	3.6%	5.2%	0.0%
	Multiple of EBITDA	0.2x	0.4x	0.0x
	Resultant Leverage			
	Net Senior Leverage	5.4x	na	na
	Net Senior & 2nd Lien Leverage	5.8x	5.1x	na
	Net Total Leverage through Mezz	7.2x	na	na
	Resultant Snr Cov Headroom			
Year 1	15.5%	15.0% ²	2Q08 +12.0% ³	
Year 2	17.5%	15.0% ²	2Q09 +12.0% ³	
Year 3	20.9%			
Waiver Cost				
Consent Fee	0.50%	0.25%	0.50%	
Senior Term A Margin Step-up	0.50%	0.25%	0.25%	
Senior Term B Margin Step-up	0.50%	0.50%	0.25%	
Senior Term C Margin Step-up	0.50%	0.50%	0.25%	
2nd L/Mezz Margin Step-up	0.75%	4.00% PIK	0.50%	
Waiver Approval Status				
Required Approval Threshold	66.6%	Interim (1Q08) 66.6%	assumed 66.6%	
Reported Approval Rate	75.0%	Interim (1Q08) passed	awaited by 28-May-08	
		Full (2Q08-FY10) 66.6%	awaited by 13-May-08	

1. Further equity on call until 2014 callable on payment default, covenant breach or significant reduction in headroom or liquidity

2. Reduced from original ask of 17-18%

3. Current headroom unknown, waiver seeks additional 12% headroom for 12 months only

Source: Company announcements, news reports and A&Co estimates

Volumes so far more impacted than valuations

The “credit crunch” has yet to significantly drag down enterprise or equity valuations...

...so far more an issue of volume

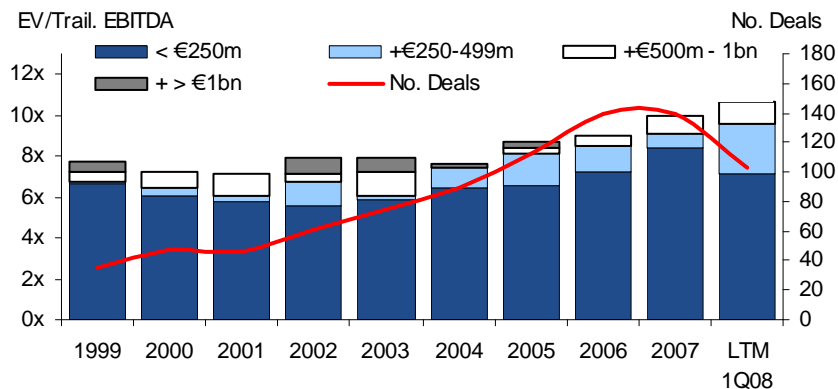
LBOs now more difficult (lenders sector selective & providing lower leverage)

- Debt underwriting capacity remains “bunged-up” with unsold deals
- Mega LBOs still impossible in Europe

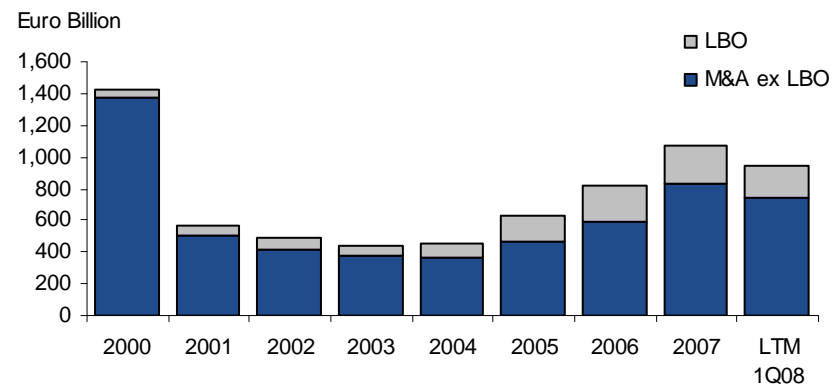
Valuation multiples have been slower to decline as

- Sponsors retain unprecedented liquidity/firepower to bridge the gap
- Strategic bid remain strong as equity valuations have been less affected and non-LBO corporate balance sheets generally healthy

LBO EV/EBITDA Multiples for Various Deal Sizes



M&A and LBO Volumes



Source: S&P LCD survey data for LBO Multiples & Deal numbers, Merger Market for M&A & LBO volume. All data for Europe only.

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Having started in 2002 we have now advised on / or placed over €3.5 billion of mid-market transactions



2007	2007	2007	2006	2006	2006	2005	2005
 Excellence in Service		 Seitoren Heimbetriebsgesellschaft mbH & Co KG	 BETEILIGUNGS GMBH				
€50m senior & €30m junior debt placement	€428m M&A & finance advisory	€28m debt placement	€52m senior & €15m junior refinancing placement	£116m senior placement supporting £115m aIPO on AIM	€44m debt placement for Hardmaterial LBOs	€123m senior, mezzanine & junior vendor debt advisory	debt advisory on a £50m private placement bond

Augusta & Co contacts

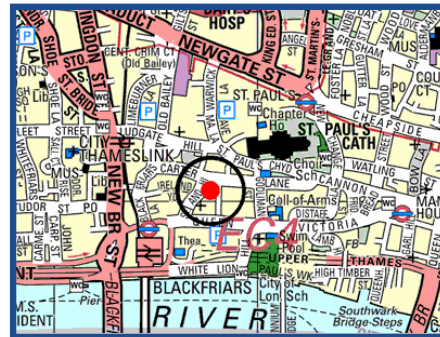


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