

# Structuring

Joseph V. Rizzi  
Amsterdam Institute of Finance  
May, 2008

# Agenda

- 1. Overview**
- 1. Perspective**
- 1. Creating the structure**
- 1. Covenants**

# Overview

# Transaction Framework

## ***Strategic Issues***

- Do I make the acquisition?

## ***Valuation***

- How much do I pay?

## ***Tactics***

- How do I make the offer?

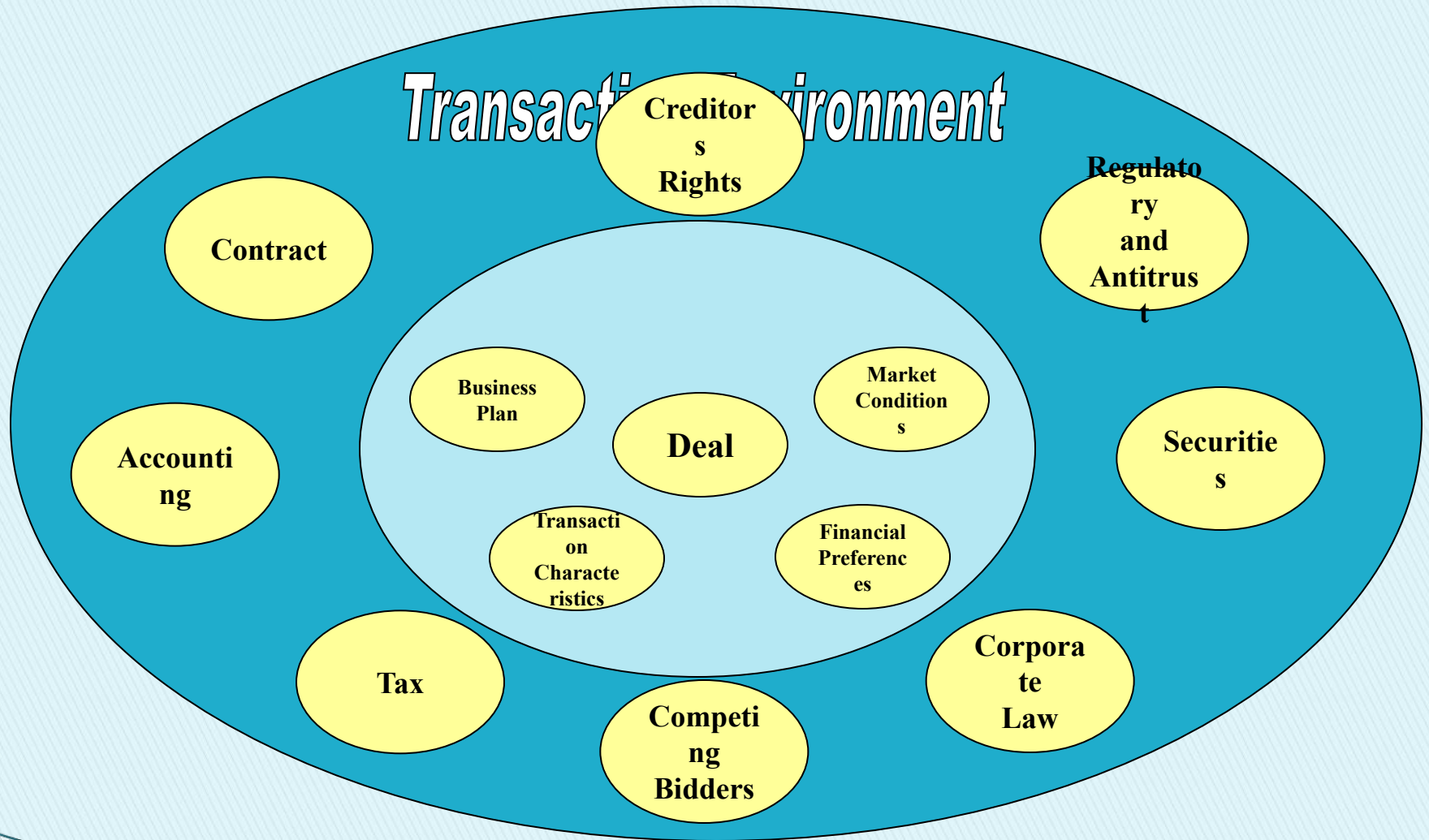
## ***Financing***

- How do I pay?

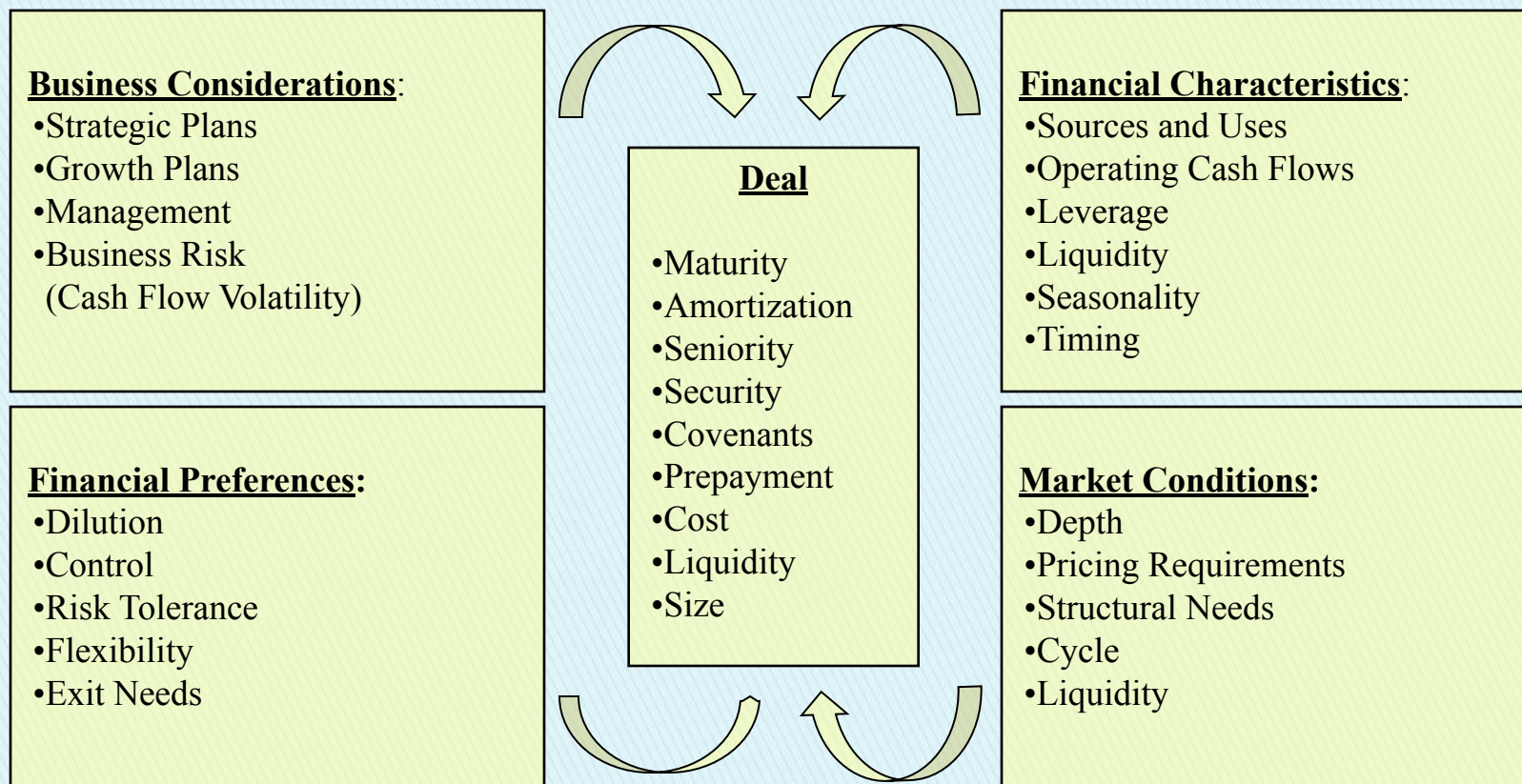
## ***Integration***

- Implementation of acquisition

# Transaction and Structuring Overview



# Structuring Environment



**What do you want?**

**How to get what  
you need!**

**What can you get?**

# Different Menu



**Bull Market Menu**

- Holding Company PIK
- Tranche Term Loans
- Covenant Light
- High Yield Debt
- Bridge Loans
- Second Lien
- Hybrid Preferred
- Cross Lien Facilities
- Asset Carve-outs
  - OPCO/PROPCO
  - Recapitalizations

**Issuer Friendly**

As the credit curve shifts,  
the menu that is available  
to  
Issuers / Arrangers  
changes



**Bear Market Menu**

- Stretch Senior
- Seller Notes
- Senior Notes
- Private Placements
- Equity
- R/C Lite
- Mezzanine
- Smaller

**Investor Friendly**

# Financing Approaches

## Left Hand Side Financing

Based on the cash flow of a specific asset pool.

Some examples include:

- Asset Based Lending
- Factoring
- Leasing
- Project Finance
- Securitization

## Right Hand Side Financing

Based on the cash flow of the entire company.

Some examples include:

- Bank Debt
- Public Bonds
- Mezzanine
- Preferred Stock
- Common Stock



# Perspective

# Structuring Perspective

- Capital Market Specific Factors
- Credit Specific Factors
- Customer Objectives
- Valuation

# Market Specific Factors

- Acceptable leverage levels
  - Interest Rate
  - Amortization
  
- Acceptable tenor of senior debt
  
- Asset coverage
  
- Size of issue

# Structuring Issues

- Public Debt vs. Private Debt
  - Relative Value Analysis
  
- Domestic vs. International Issuance
  
- Fixed vs. Floating Rate Debt
  
- Long vs. Short Term
  
- Loans vs. Bonds

# Credit Specific Factors

- Amount of available cash flow
- Reliability of cash flow
- Credibility of projections

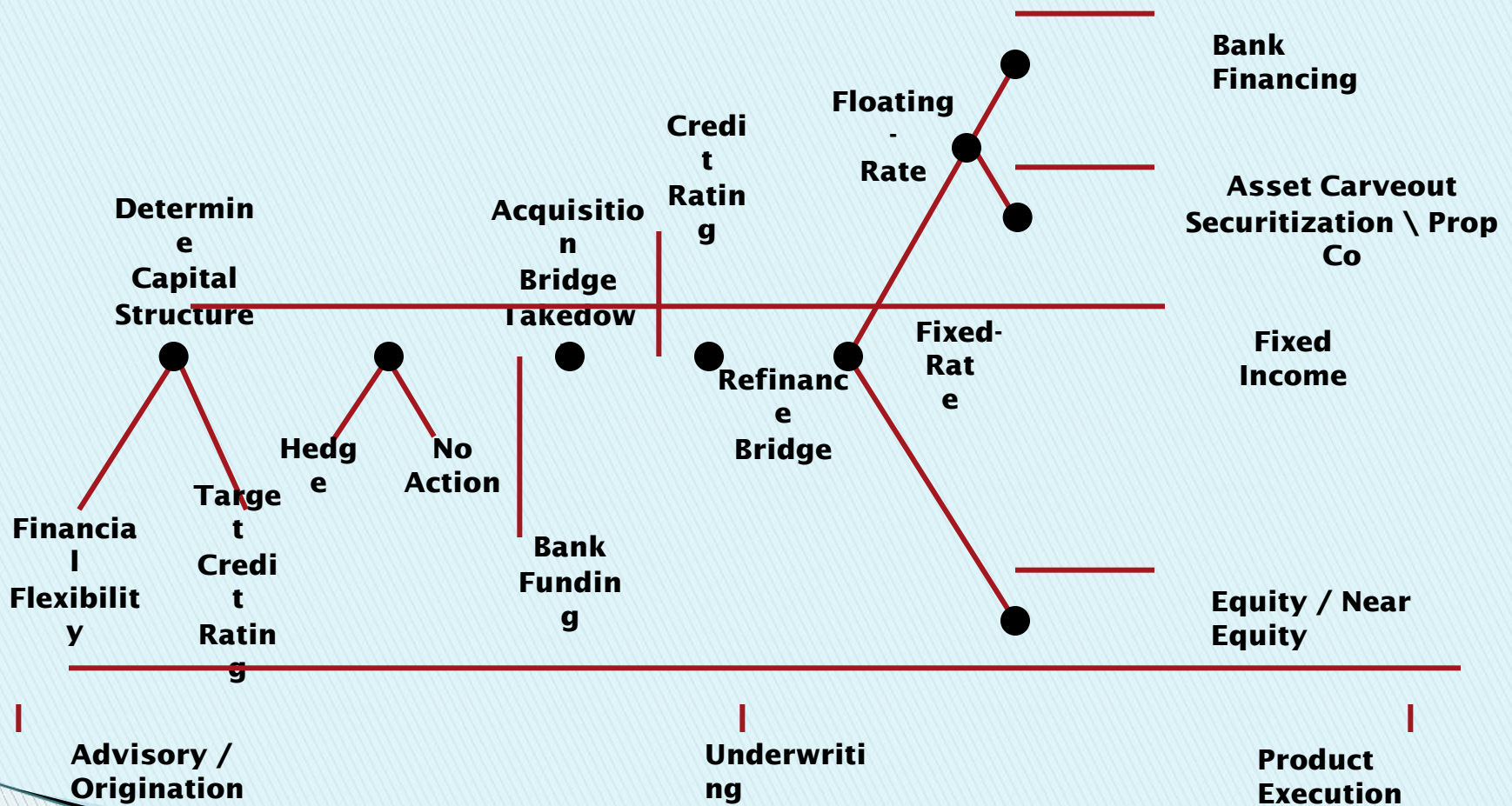
# Issuer Objectives / Impact (1)

<u>Issue</u>	<u>Impact</u>
<b>Disclosure</b>	<b>Public issues require disclosure of sensitive information</b>
<b>Ratings</b>	<b>Ratings impact of financing over existing debt</b>
<b>Timing</b>	<b>Urgency favors private relationship sources (e.g. Banks)</b>
<b>Covenants</b>	<b>Impact operating flexibility</b>
<b>Seniority</b>	<b>Impacts intercreditor issues</b>
<b>Security</b>	<b>Consider impact on other creditors (incl. suppliers)</b>
<b>Currency</b>	<b>Match with assets</b>
<b>Maturity</b>	<b>Long-term versus short-term mix</b>

# Issuer Objectives / Impact (2)

<b><u>Issue</u></b>	<b><u>Impact</u></b>
<b>Amortization</b>	<b>Affects duration of debt</b>
<b>Callability</b>	<b>Flexibility</b>
<b>Obligor</b>	<b>Raises intercreditor issues</b>
<b>Accounting</b>	<b>On- or Off-balance sheet</b>
<b>Tax Implications</b>	<b>Instrument and location of interest tax shield</b>
<b>Diversification</b>	<b>Investor appetite</b>
<b>Fixed / Floating</b>	<b>Interest Rate Risk (IRR)</b>
<b>Liquidity</b>	<b>Default Risk</b>

# Critical Path & Decision Framework





# Creating the Structure

# Creating the Capital Structure

- Rule of Thumb Measures
  - Balance Sheet Model
  - Cash Flow Model
  
- Detailed Model
  - Matching markets to the need
  - Reverse inquiry
  - Projections (amortization capability)

# Deal Financial Arithmetic

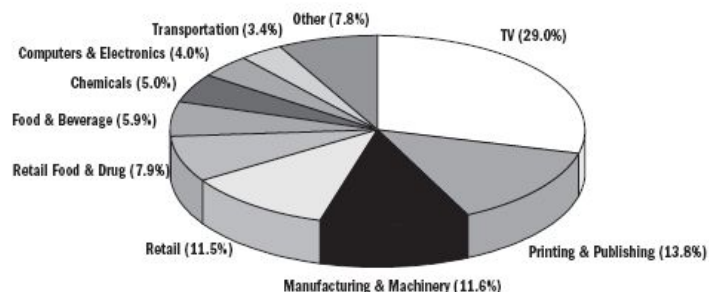
LHS (value)	Transaction	RHS (Claims)
(A) Income / DCF FOCF = NOPAT - (WCI + T + CAPEX) WACC Ke - Rf x 2 or CAPM Debt = ref rate + spread	(A) Mechanics Issues Tax Legal Accounting Regulation Focus Form Payment	(A) Concerns Ratings targets Market availability - menus IRR MDC
(B) Relative Value Comps Multiples Trading Transaction	(B) Purchase Price Multiple	(B) Funded Debt Multiples (FDX)
(C) Breakup Value	(C) Value Allocation Vp = PreBid Trading + Premium Vr = PreBid value + Synergy NVA <sub>s</sub> = Premium - Synergy	(C) Framework R/C - tied to BB Senior (SDX) TL/A (amortization tied to projections) 3 - 4X FLL 0.5 - 1X SLL T/LB SDX - T/LA Other Debt FDX - SDX Equity PPX - FDX Subject to IRR constraint

# Netherlands LBO

## Volume by Industry

### Netherlands LBO

Volume by Industry



Statistics are a rolling 12 month basis.

Source: Standard & Poor's LCD

### NETHERLANDS LBO

Observations: 9	Avg	Max	Min	StDev
Sample Age (Months)	8.19	11.04	2.61	2.67
Pro Rata Spread (E+)	212.50	225.00	200.00	12.50
Weighted Avg Institut. Spread (E+)	257.64	300	225	26.10
Deal Size (€MM)	556.21	2,225.00	210.00	647.83
Pro Rata Term (Yrs.)	6.64	7.00	4.00	0.99
Institutional Term (Yrs.)	7.97	8.50	5.00	1.13

#### Pro Forma Tralling

Revenues (€MM)	677.25	1,332.00	282.70	490.63
EBITDA (€MM)	89.63	258.20	31.00	70.49
Adj EBITDA (€MM)	89.63	258.20	31.00	70.49

Regional Lending Financial Ratios	Trailing Pro Forma			
	Avg	Max	Min	StDev
Debt / EBITDA	6.6	8.7	4.4	1.6
Sr Debt / EBITDA	5.2	6.5	3.7	0.9
EBITDA / Cash Interest	2.5	4.9	1.5	1.1
EBITDA - Maint. Capex / Interest	2.0	3.7	1.4	0.7
EBITDA - Capex / Interest	1.9	3.7	0.8	0.9
<b>Adj CreditStats</b>				
Debt / Adj EBITDA	6.6	8.7	4.4	1.6
Sr Debt / Adj EBITDA	5.2	6.5	3.7	0.9
Adj EBITDA / Cash Interest	2.5	4.9	1.5	1.1
Adj EBITDA - Maint. Capex / Interest	2.0	3.7	1.4	0.7
Adj EBITDA - Capex / Interest	1.9	3.7	0.8	0.9

Estimated Current Year				
Avg	Max	Min	StDev	
7.3	10.9	4.6	2.1	
5.7	8.2	4.3	1.3	
2.3	3.6	1.4	0.7	
1.8	2.4	1.3	0.4	
1.6	2.4	1.1	0.5	

Projected Year 1				
Avg	Max	Min	StDev	
5.9	8.1	3.9	1.5	
4.7	6.2	3.7	0.9	
2.5	4.3	1.6	0.8	
2.1	3.0	1.4	0.5	
2.0	3.0	1.4	0.5	

Source: April 2008 EuroStats;  
www.lcdcomps.com

# Financing Need As a Starting Point

- Purchase Price
  - Minimum/Maximum
  - Recapitalization Dividend
- Debt Refinancing
  - Callability
  - Premiums
  - Tax Issues
- Expenses
- Other Uses

# Structuring Framework

## Senior Secured

### First Lien

- Revolver
  - Tied to advance against current assets
  - Crossing liens
- Term Loan A
  - Macro: Ratio of 3-4x EBITDA
  - Micro: Amortization analysis tied to cash flow in years 1-7
- Term Loan B
  - Senior debt ratio less Term Loan A amortization

### Second Lien

- Macro: 0.5-1x EBITDA
- Limited amortization
- Longer term
- Can also be covenant lite

### Senior/Subordinated Unsecured

- Other Debt
  - Total Debt/EBITDA less Senior Debt/EBITDA
- Equity
  - Funding need less Total Debt/EBITDA

# Sizing the Revolver

- Current Asset approach
  - Use standard advance rates
    - Accounts Receivable 80%
    - Inventory 60%
    - PP&E 40%
  - Consider the following factors
    - Seasonal Needs
    - Future Working Capital Growth
    - Unexpected Liquidity Needs

# Sizing the Term Loans

- Term Loans = Maximum Senior Debt - Revolver
- Focus is on Free Operating Cash Flow
- Market conditions also dictate the maximum tenor of the loan and the amount required to be amortized in the first five years
- Acceptable asset coverage is also a consideration in determining the size of the term loans



# Add-On Term Loans

- Typical bank financings as structured as follows:

**Revolving Credit**

**Term Loan A (amortising)**

**Term Loans B & C (bullet/balloon)**

Large unfunded revolvers are seldom used today due to the fact that it is capital unfriendly to banks and companies don't like to pay for unused commitments.

In the interest of keeping flexibility for the long term, additional indebtedness baskets should be negotiated upfront. This allows companies to access either the bank or bond markets under their existing credit agreements and saves the costs of having to refinance.

# Junior Capital

- Long Term Debt = Max Total Debt - Max Senior Secured Debt
  - Senior unsecured
  - Sub Debt
  
- Equity:
  - Equity = Total Uses - Max Total Debt
  - Common
  - Hybrids

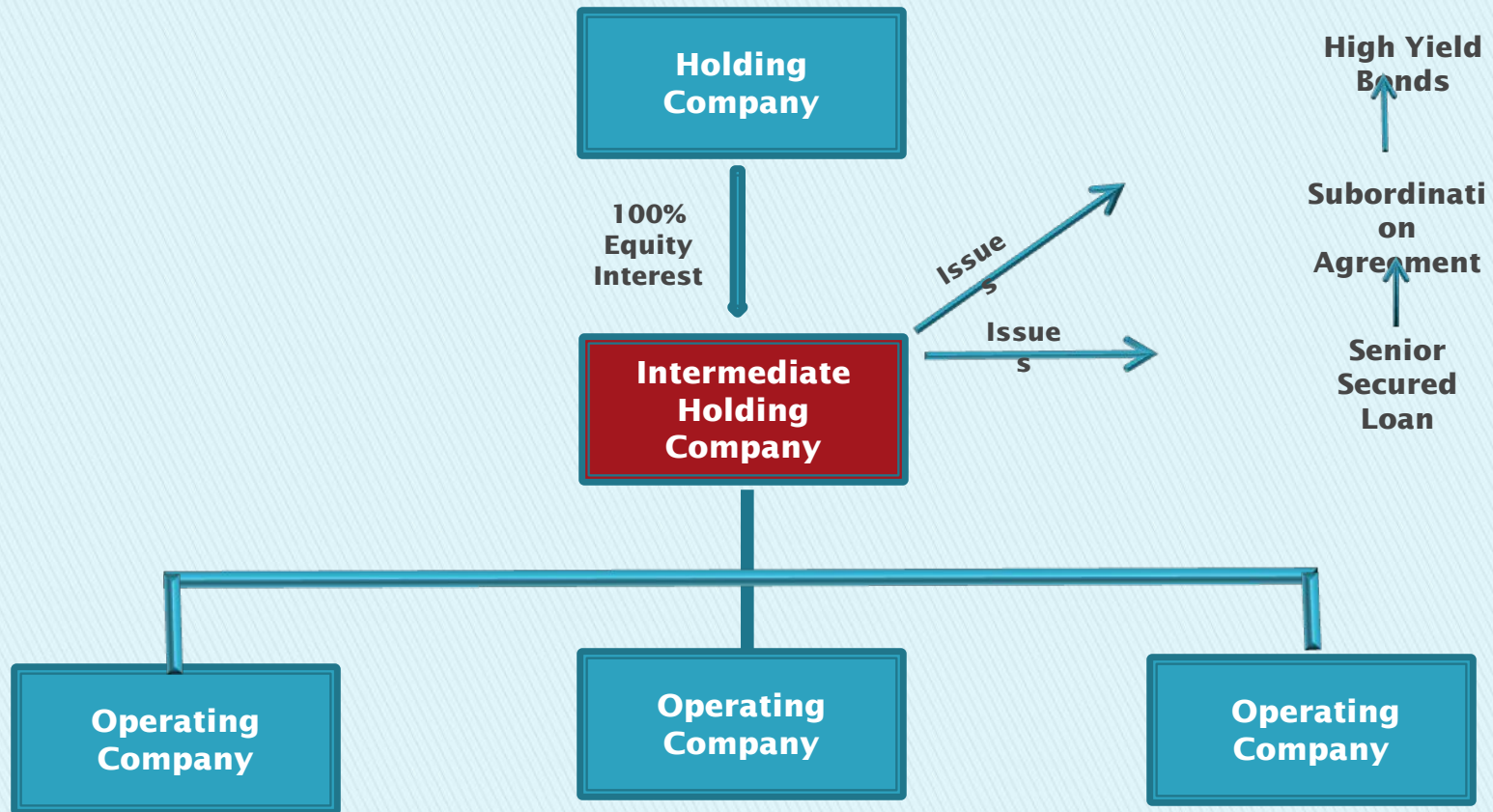
# Subordination

Senior lenders are concerned with the implications of having high yield investors at the table during a restructuring.

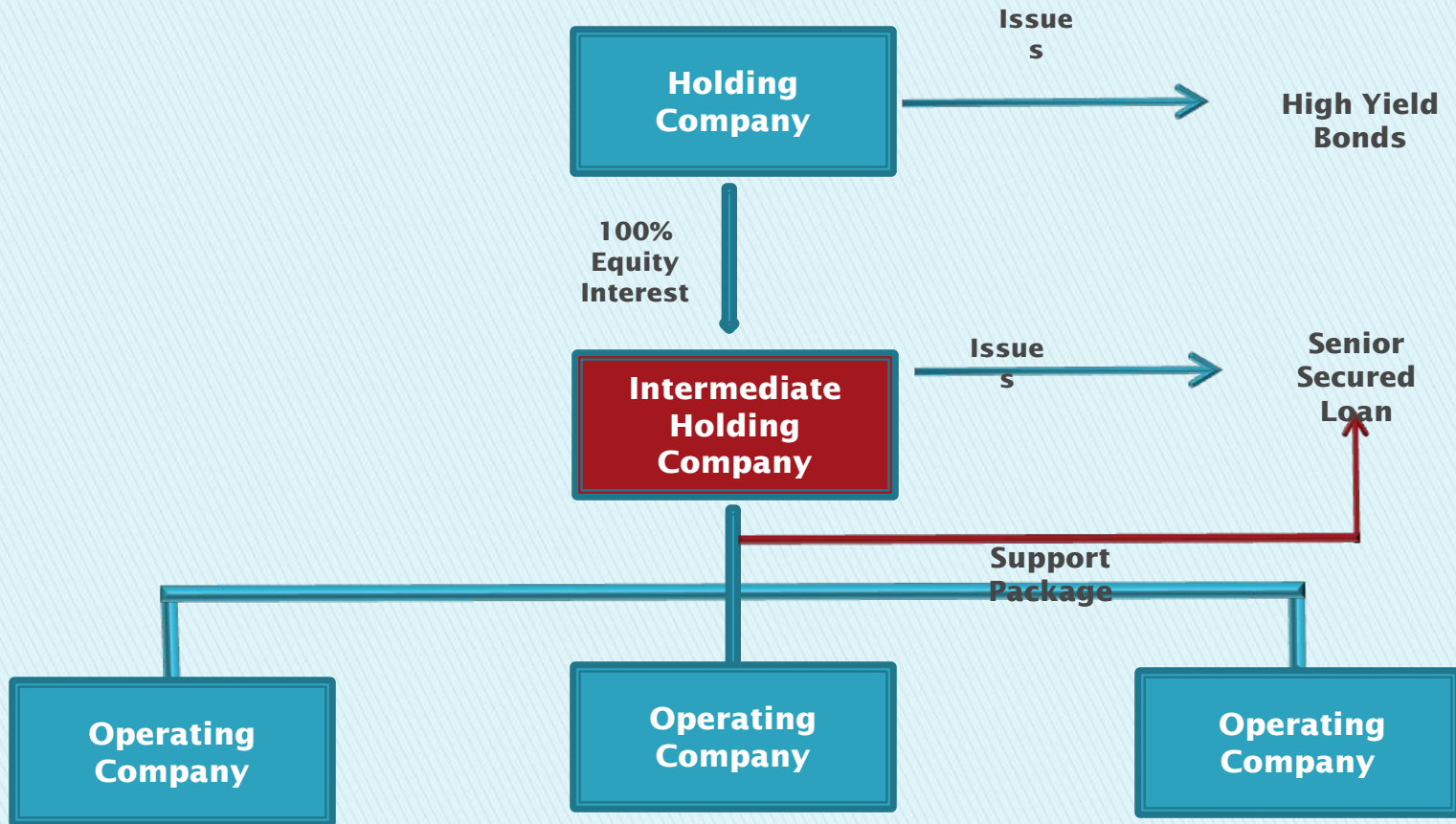
EURO High Yield investors to date have not been as vocal as senior bank lenders, viewing the issue as one of pricing rather than principle.

All other things being equal, sophisticated investors will probably price structural subordination at 60-120 bps.

# Contractual Subordination



# Structural Subordination



# Fixing Broken Deal

- ▣ Retranche
- ▣ Increase Pricing
- ▣ Lower Leverage
  - Lower Purchase Price
  - Seller Paper
  - Increase Equity
- ▣ Senior Notes to cover Amortizing Loans
- ▣ Term Loan Carve-Out
- ▣ Asset Sales
- ▣ Second Lien
- ▣ Debt covenants

# Covenants

# Covenants - Fundamentals

- PURPOSE: maintain the original deal
  
- WHY
  - Agency problem due to asymmetric information
  - Adverse Selection
  - Moral Hazard
  
- FOCUS
  - Asset Substitution
  - Cash Control
  - Payment and asset priority



# Covenants – Categories and Approach

- Categories
  - Affirmative
    - The maintenance, preservation and insurance of corporate assets and the compliance of environmental, ERISA and other laws by the company
  - Negative
    - Limit or prohibit the company from undertaking certain actions which would lower the overall credit quality or damage a potential secondary repayment source
  - Financial
    - Provide an early warning for deteriorating operating performance
  
- Approach
  - Maintenance (Preserving the credit)
  - Incurrence (Maintaining relative priority of claim)

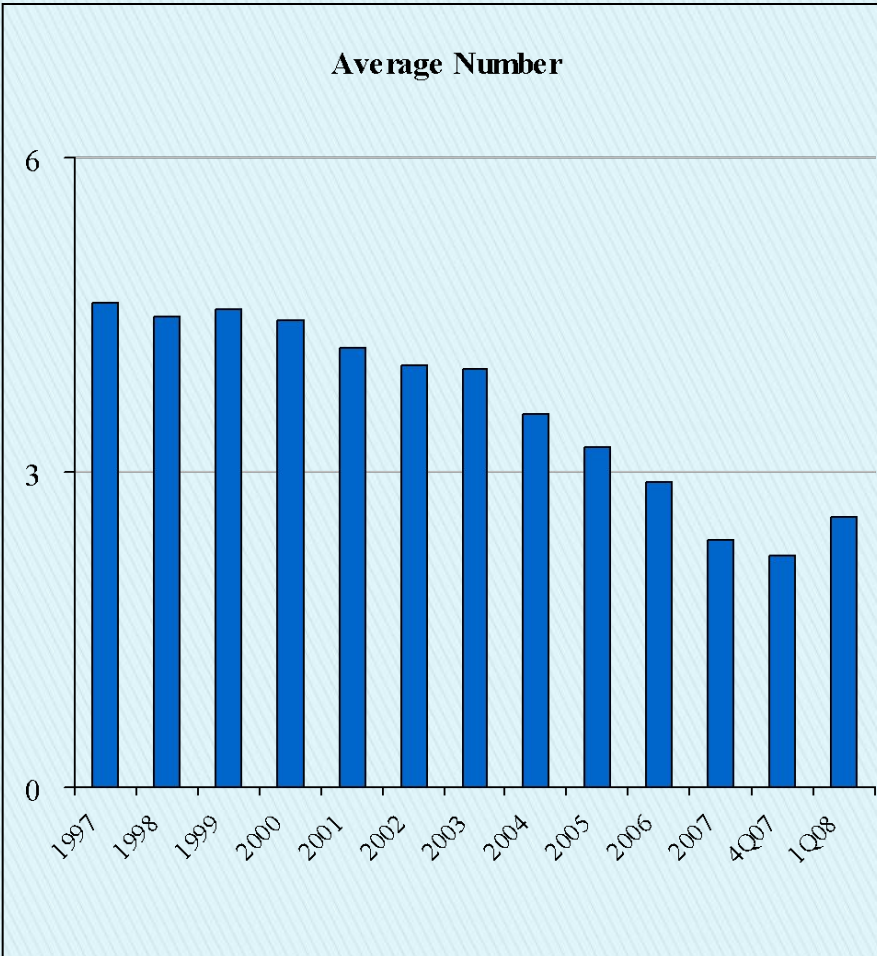
# Structuring Covenants

- There are no standard covenants.
- They must be tailor fit for each deal and loan structure.
- The steps in structuring the covenants are:
  - Identify the risks (Business, Financial & Structural)
  - Select Covenants to monitor the risks
    - Need to prioritize the risks to monitor because it will be impossible to monitor every risk
    - The time and costs to monitor the covenants must be considered (i.e. sometimes one covenant can cover multiple risks)
- Set Appropriate Levels
  - Want the covenants to trigger a warning before any principal or interest payments become delinquent. Need to factor in any seasonal needs to the covenant levels.

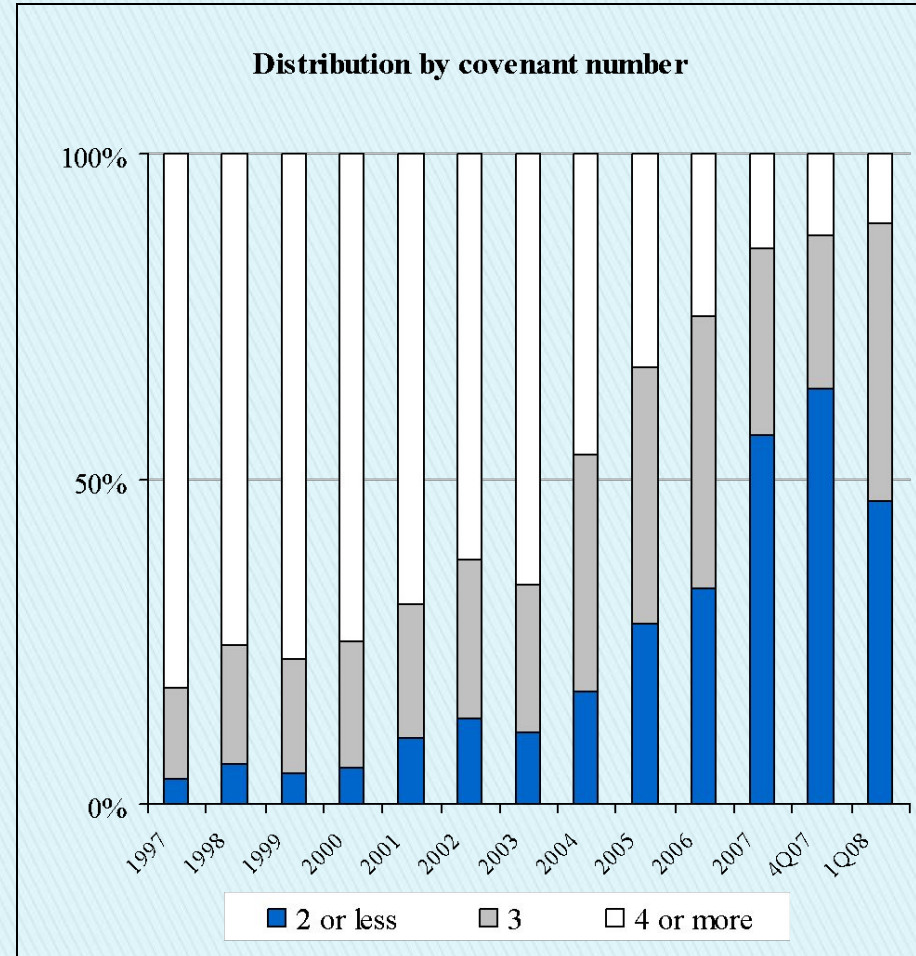
# First-lien leveraged loans covenant statistics: Average number and distribution

Excludes covenant-lite deals

Average Number



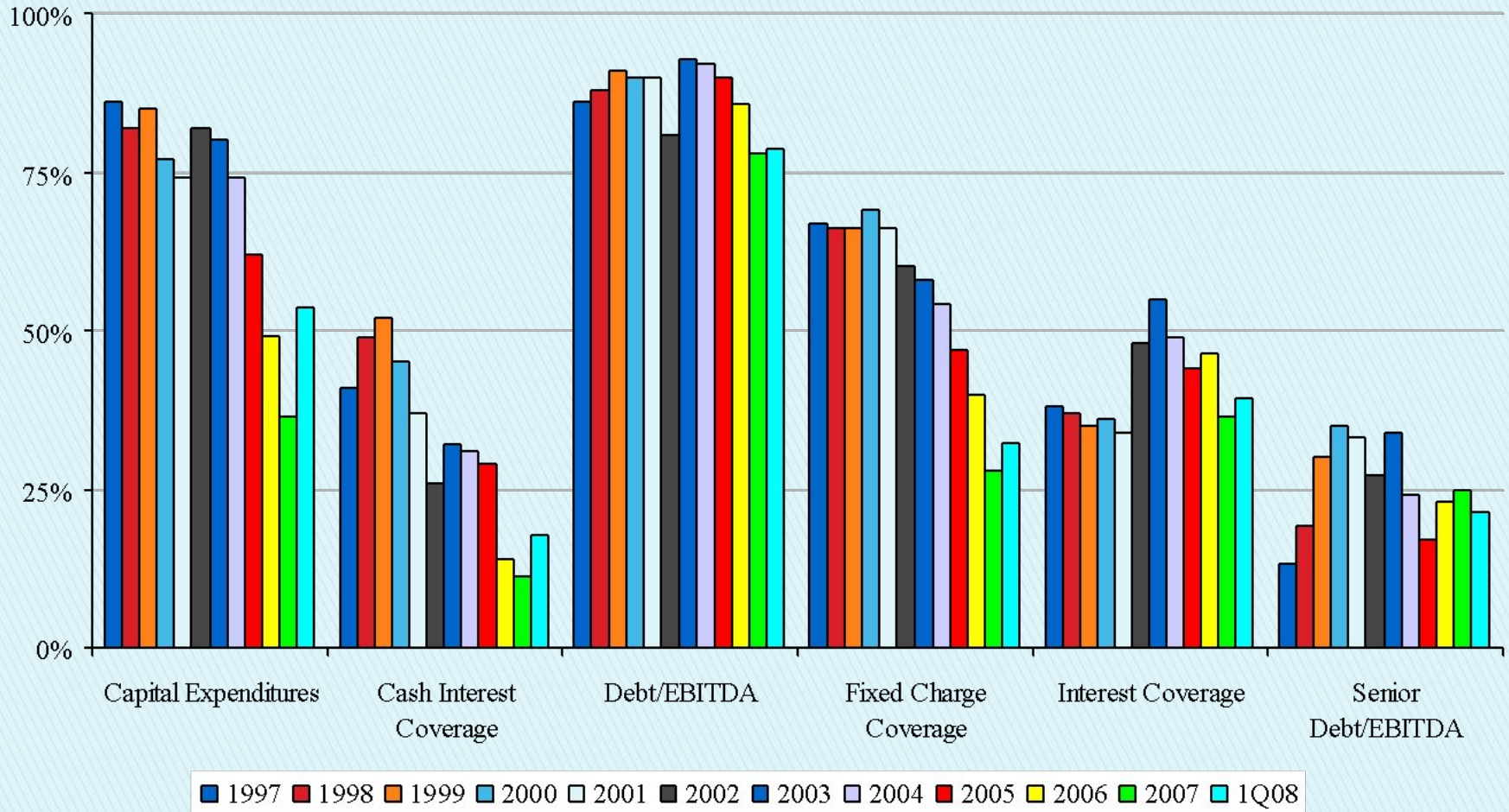
Distribution by covenant number



Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. [www.lcdcomps.com](http://www.lcdcomps.com)

# Incidence of key covenants in first-lien leveraged loans

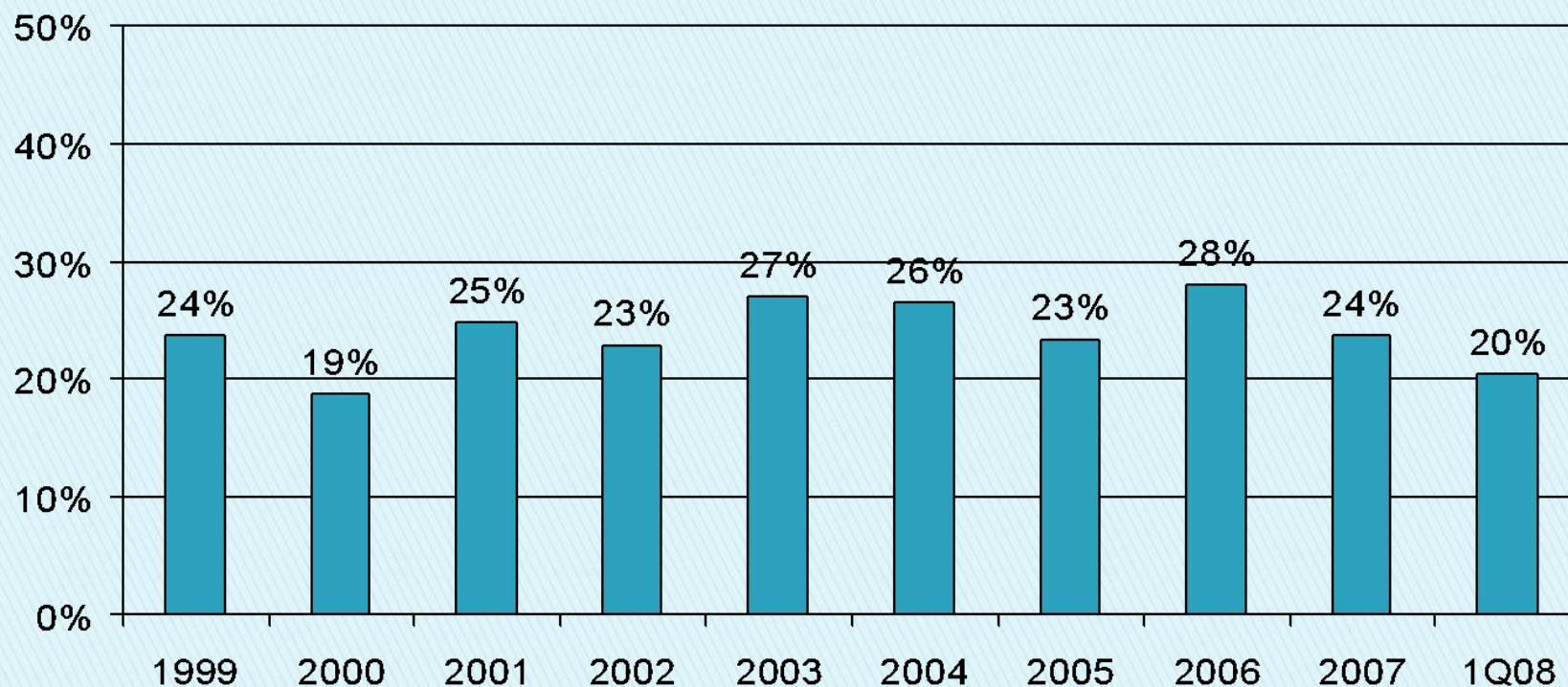
Excludes covenant-lite deals



Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. [www.lcdcomps.com](http://www.lcdcomps.com)

# Year One Debt/EBITDA Headroom as a Percentage of Covenant Level for LBOs

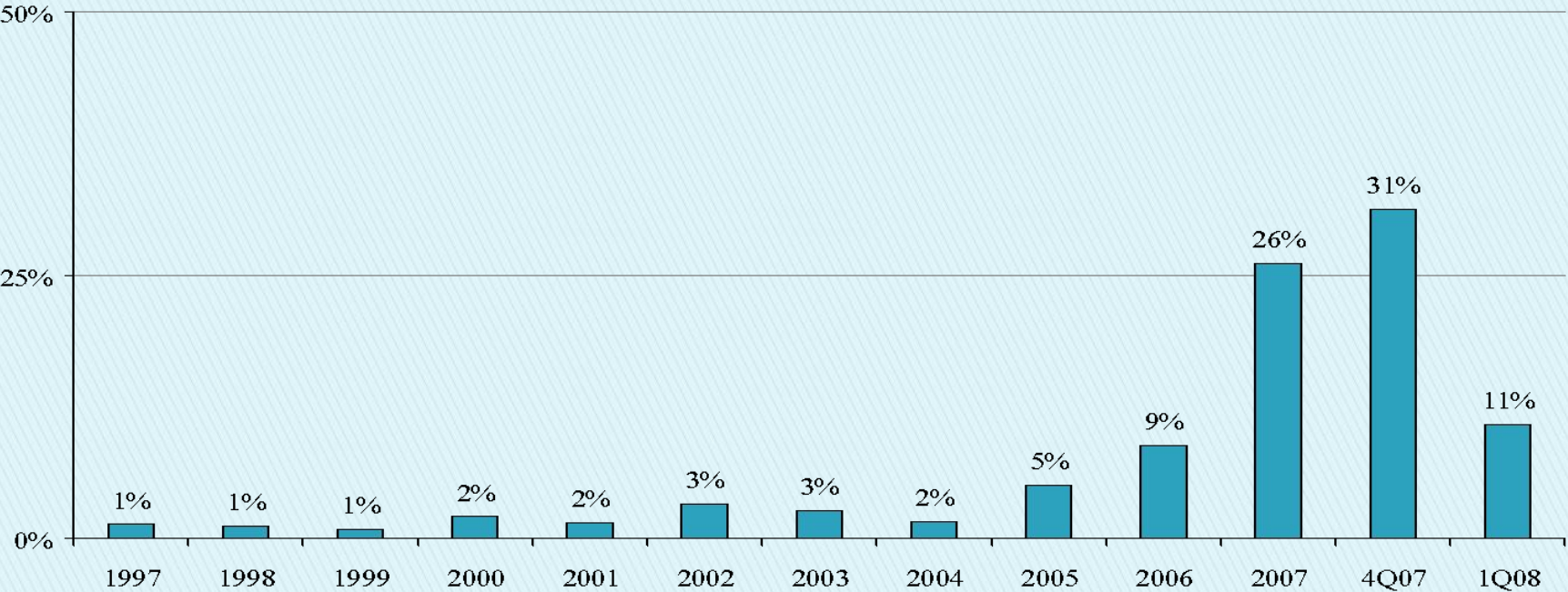
1999 – 1Q08



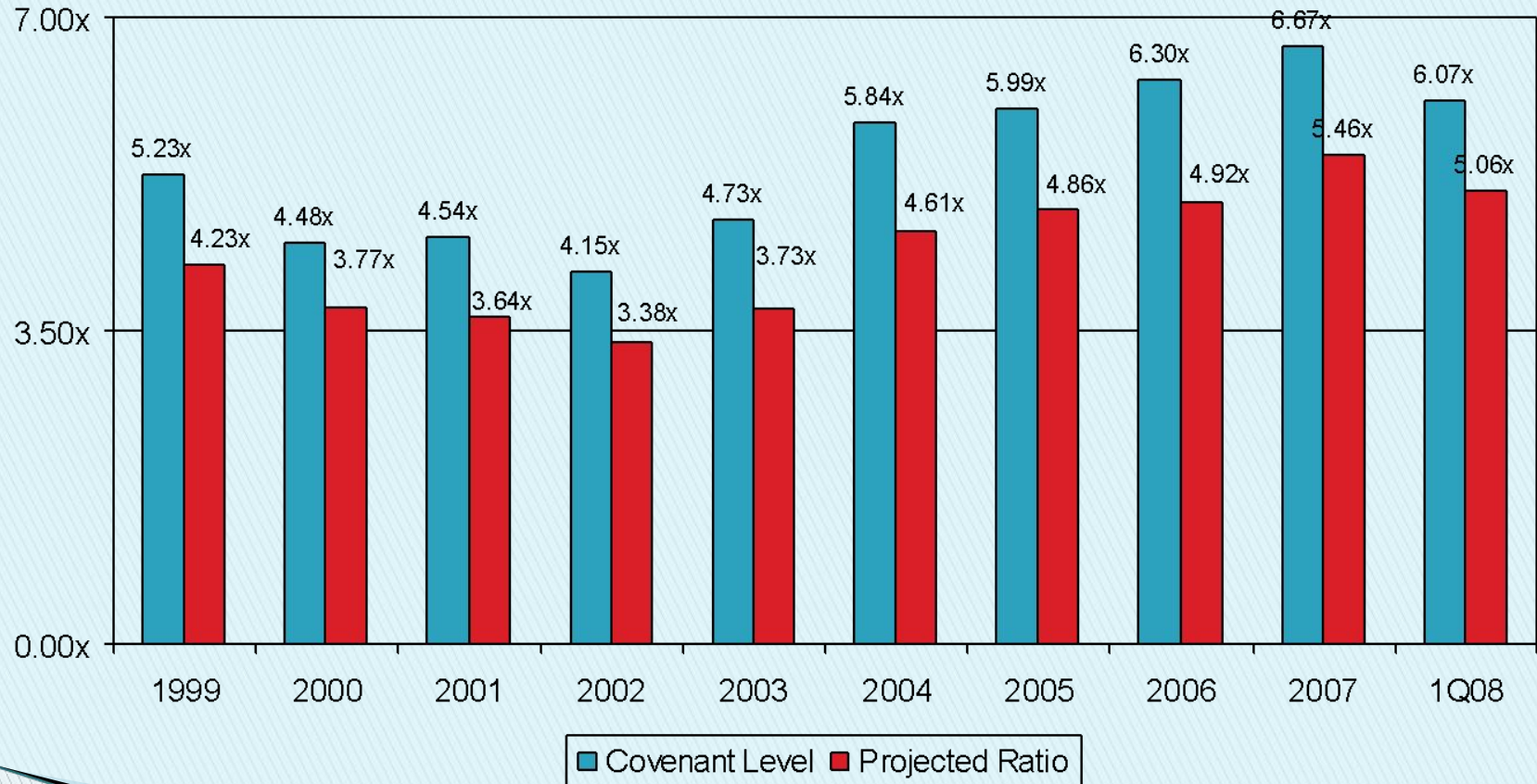
Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. [www.lcdcomps.com](http://www.lcdcomps.com)

# Percent of First-lien leveraged loans with one maintenance finance covenant

Excludes covenant-lite deals



# Average Debt/EBITDA Covenant Level and Projected Ratio for LBOs 1999 – 1Q08



# Covenant Levels and Issues

- Covenants are negotiated between the lender and borrower.
- Covenant levels will affect the loan pricing (ie pricing will increase for a “loose” covenant package).
- Other covenant issues include releases, voting rights and baskets.

Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. [www.lcdcomps.com](http://www.lcdcomps.com)



# Conclusion

Translating Capital Structure and Debt Capacity  
into a Detailed Financing Structure.

# Project Gear

# Project Gear - Facts

- Potential deal for a company in auction.
- Private automotive parts company based in Europe.
- Our client, financial sponsor (RCC) looking to bid on the transaction.
- May use this transaction as a platform.
- Valuation range is 6x-8x EBITDA (or 63mm-84mm). A number of bidders.
- The sponsor has a successful buyout fund (returns exceed 25% p.a.)
  
- Avoidable private company expenses net of other adjustments are a maximum of 1 mm per annum.
- Contracts/Relationships with OEMs should preserve sales and markets provide future achievable 5% growth. Could be as high as 10%.
  
- Currently sales/assets mostly within Europe, in major economies.
- Opportunities for growth through acquisition.

# Project Gear - Facts

<b>Results</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Sales	850.0	930.0	907.0	939.0
EBITDA	87.0	93.0	91.0	105.0
EBITDA Margins	10.24%	10.00%	10.10%	11.10%
Capex	30.0	30.0	30.0	30.0
Working Capital	16.20%	13.20%	12.30%	12.80%

# Project Gear - Facts

Current Balance Sheet:	
Cash	9.0
Receivables	70.0
Inventory	65.0
Other Current Assets	23.0
	<u>167.0</u>
Net PPE	201.0
Goodwill	34.0
Other Long Term	13.0
	<u>415.0</u>
Current Liabilities	47.0
Bank Debt	92.0
Other LT Liabilities	8.0
	<u>147.0</u>
Equity	<u>268.0</u>

# PMD Stats

	Jan-00	Feb-00	Mar-00	Month Ended 4/6/00	Month Ended 4/13/00		Jan-00	Feb-00	Mar-00	Month Ended 4/6/00	Month Ended 4/13/00
<b>Average New-Issue Spread – by Pro Forma Debt/EBITDA</b>						<b>CreditStats</b>					
<b>Pro Rata (Excludes Media/Telecom)</b>						<b>Average Credit Statistics (excluding Media/Telecom/Retail)</b>					
						<b>All Loans</b>					
5.00x-5.99x	L+300	L+300	NA	NA	NA	Debt/EBITDA	4.2x	4.2x	4.2x	4.3x	4.2x
4.00x-4.99x	L+293	L+288	L+288	L+289	L+294	Sr Secured Debt/EBITDA	3.6x	3.1x	2.8x	2.9x	3.0x
3.00x-3.99x	L+273	L+266	L+263	L+267	L+270	EBITDA/Cash Interest	2.9x	2.7x	2.9x	2.7x	2.7x
						EBITDA-Capex/Cash Interest					
						2.0x 2.2x 1.9x 1.9x 2.0x					
<b>Institutional (Excludes Media/Telecom)</b>						<b>Loans \$500M or More</b>					
5.00x-5.99x	L+358	L+358	NA	NA	NA	Debt/EBITDA	4.8x	4.4x	4.8x	4.8x	4.5x
4.00x-4.99x	L+355	L+349	L+354	L+356	L+348	Sr Secured Debt/EBITDA	3.8x	2.4x	2.7x	2.9x	2.7x
3.00x-3.99x	L+345	L+342	L+350	L+350	L+346	EBITDA/Cash Interest	2.4x	2.7x	2.6x	2.4x	2.5x
						EBITDA-Capex/Cash Interest					
						1.5x 2.1x 1.4x 1.3x 1.3x					
<b>Average New-Issue Spread – by Bank Loan Rating (1)</b>						<b>Loans \$250-499M</b>					
<b>BB/BB-</b>						Debt/EBITDA					
Pro Rata	L+235.0	L+227.8	L+245.8	L+243.2	L+238.6	Sr Secured Debt/EBITDA	4.0x	4.1x	4.5x	4.7x	4.1x
Institutional	L+291.7	L+276.1	L+302.4	L+300.0	L+295.8	Sr Secured Debt/EBITDA	3.6x	3.3x	3.7x	3.1x	4.0x
						EBITDA/Cash Interest					
						2.6x 2.7x 2.2x 2.1x 2.8x					
						EBITDA-Capex/Cash Interest					
						1.7x 2.2x 1.8x 1.5x 2.2x					
<b>B+B</b>						<b>Loans \$100-249M</b>					
Pro Rata	L+298.2	L+275.0	L+292.9	L+300.0	L+300.0	Debt/EBITDA	4.0x	4.1x	3.7x	3.7x	4.0x
Institutional	L+344.6	L+321.0	L+351.6	L+361.1	L+366.7	Sr Secured Debt/EBITDA	3.6x	3.2x	2.7x	2.8x	3.1x
						EBITDA/Cash Interest					
						2.6x 2.8x 3.2x 3.1x 2.9x					
						EBITDA-Capex/Cash Interest					
						2.1x 2.2x 2.1x 2.3x 2.2x					
<b>Avg New-Issue Fee For a \$10M Commitment To Highly Leveraged Loans</b>						<b>Loans Less Than \$100M</b>					
Pro Rata Tranches	40.6 bp	30.2 bp	26.2 bp	25.0 bp	26.2 bp	Debt/EBITDA	3.9x	4.0x	3.8x	3.7x	3.6x
Institutional Tranches	31.7 bp	20.9 bp	17.0 bp	16.9 bp	18.8 bp	Sr Secured Debt/EBITDA	3.4x	3.4x	3.2x	3.1x	3.0x
						EBITDA/Cash Interest					
						3.4x 2.5x 3.2x 3.0x 3.1x					
						EBITDA-Capex/Cash Interest					
						2.5x 2.0x 3.0x 2.8x 2.9x					
<b>% of Institutional TLs with</b>						<b>% of Highly Leveraged Loans with Pro Forma Debt/EBITDA of 6.00x or Higher</b>					
Pricing Grids	42%	58%	44%	37%	38%	\$250M or Higher	0%	10%	8%	6%	7%
Prepayment Fees	8%	8%	7%	11%	12%	\$100-\$249M	0%	8%	0%	0%	0%
						Less Than \$100M					
						0% 0% 0% 0% 0%					
<b>New-Issue Deal Flow</b>						<b>Average Secondary Bid Levels by DLJ Loan Index (2)</b>					
Volume of Loans (\$ in Billions)						All Loans					
Pro Rata	6.98	8.47	12.36	11.98	12.25	Par Loans*	99.31%	99.23%	NA	NA	NA
Institutional	2.99	5.36	9.42	8.24	6.96	Par Institutional Loans*	99.52%	99.48%	NA	NA	NA
Total	9.97	13.83	21.77	20.22	19.22	% Below 90% of Par	6.78%	6.23%	NA	NA	NA
						* Those trading at 95% of par and higher					
Number of Loans											
With Institutional Paper	12	28	34	34	31						
All Loans	23	42	54	50	46						
Leveraged loans tracked by PMD excluding amendments and existing tranches of add-ons											
<b>Average New-Issue Spread of Leveraged Loan</b>											
Pro Rata	L+290.2	L+250.7	L+226.9	L+235.5	L+245.7						
Weighted Avg Institutional	L+355.0	L+334.8	L+323.1	L+321.1	L+316.1						
Source: Portfolio Management Data, except where indicated											
(1) Source: Portfolio Management Data/Standard & Poor's											
(2) Source: Donaldson, Lufkin & Jenrette											

# Project Gear - Quick Analysis

<b>Potential Value</b>	<b>EBITDA (105) x 7</b>	<b>=</b>	<b>735.0</b>	
<b>Max Debt</b>	<b>Total 4.2x</b>	<b>=</b>	<b>441.0</b>	
	<b>Senior Drawn 3.0x</b>	<b>=</b>	<b>315.0</b>	
	<b>Implied Junior Debt/Mezz</b>	<b>=</b>	<b>126.0</b>	<b>(good size !)</b>
<b>Required Equity</b>	<b>(735.0 - 441)</b>	<b>=</b>	<b>294.0</b>	<b>(Large, tranching ?, returns ?)</b>
<b>CF Analysis</b>	<b>EBITDA</b>	<b>=</b>	<b>105</b>	
	<b>Working Capital (13%)</b>	<b>=</b>	<b>0</b>	<b>(no growth, but need liquidity)</b>
	<b>Capex (half discretionary)</b>	<b>=</b>	<b>(15)</b>	
	<b>Interest</b>	<b>=</b>	<b>(35)</b>	
	<b>Tax (105 - 15 - 35) * 35%</b>	<b>=</b>	<b>(16)</b>	
	<b>FOCF/ Amortization ability</b>	<b>=</b>	<b>39</b>	

Amsterdam Institute of Finance 6 year amort = 234, 7 year amort = 273, 8 year amort = 312

# Project Gear - Quick Analysis

<b>Liquidity sizing</b>	<b>Receivables 70mm x 80%</b>	=	<b>56</b>	
	<b>Inventory 65mm x 50%</b>	=	<b>33</b>	
	<b>R/C sizing</b>		<b>99</b>	<b>(say 100)</b>
	<del><b>Liquidity availability 50% actual working capital = 50% x 13% x 939 = 61</b></del>			
<b>Structure</b>	<b>R/C (100 / min 61 undrawn)</b>		<b>39.0</b>	
	<b>Term Loans</b>			<b>Total 315 - 39 = 276</b>
	<b>A 5 years x 25</b>		<b>125.0</b>	<b>Tenor 276/39 = 7.1 yrs</b>
	<b>B 6 years (3x 5 + 55.0)</b>		<b>70.0</b>	<b>Heavy back end needed</b>
	<b>C 7 years (3x 6 + 63.0)</b>		<b>81.0</b>	
	<b>Total Senior secured</b>		<b>315.0</b>	<b>(facilities 376)(3.6x/4.8x)</b>
	<b>Subordinated/Mezzanine</b>		<b>126.0</b>	
	<b>Total Debt</b>		<b>441.0</b>	
	<b>Total Equity / Preferred etc.</b>		<b>294.0</b>	<b>(Rollover ?)</b>
	<b>Capital Structure / Value</b>		<b>735.0</b>	



# Project Gear - Base Case

Assumptions : 8 % growth

Margins gradually improve to 14%

Allow 1 mln addbacks

Capex 3.0% / Working Capital 12.8% / Tax 35%

Results :       Senior Debt pays off in 5 years (Term loans quicker)  
                  Net cash position by year 8-9  
                  Equity returns strong (until cash builds) based on 7x exit  
                  Room for acquisitions / growth / recapitalization

# Project Gear - Base Case

## Free Cash Flow

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	Growth	8.0%	1014.1	1,095.2	1,182.9	1,277.5	1,379.7	1,490.1	1,609.3	1,738.0	1,877.1	2,027.2
EBITDA Margin			11.3%	12.0%	13.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
EBITDA			114.1	131.4	153.8	178.8	193.2	208.6	225.3	243.3	262.8	283.8
Add-Backs			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capex		3.00%	(30.4)	(32.9)	(35.5)	(38.3)	(41.4)	(44.7)	(48.3)	(52.1)	(56.3)	(60.8)
Working Capital		12.8%	(9.6)	(10.4)	(11.2)	(12.1)	(13.1)	(14.1)	(15.3)	(16.5)	(17.8)	(19.2)
FOCF pre-tax			75.0	89.2	108.1	129.4	139.7	150.8	162.8	175.7	189.7	204.8
Tax pre interest		35.0%	29.6	34.9	41.8	49.5	53.5	57.7	62.3	67.3	72.6	78.4
FOCF			45.4	54.3	66.3	79.9	86.2	93.1	100.5	108.4	117.1	126.4

## Amortizability

Opening Debt			441.0	433.1	414.6	381.7	331.7	270.6	197.1	110.0	11.4	(96.1)
Senior Int		7.50%	23.6	22.0	19.6	16.1	11.3	5.7	-	-	-	-
Subord Interest		11.00%	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Interest Income		4.00%	-	-	-	-	-	-	(0.5)	(4.0)	(4.3)	(4.7)
Repayment			(45.4)	(54.3)	(66.3)	(79.9)	(86.2)	(93.1)	(100.5)	(108.4)	(117.1)	(126.4)
Closing Debt			433.1	414.6	381.7	331.7	270.6	197.1	110.0	11.4	(96.1)	(213.3)

Amort			21.8	32.3	46.8	63.8	74.9	87.4	100.5	108.4	117.1	126.4
Cum Amort			21.8	54.1	100.9	164.7	239.7	327.1	427.5	536.0	653.0	779.4

Senior Debt			315.0	293.2	260.9	214.1	150.3	75.3	-	-	-	-
Subordinated Debt			126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0
Cash on hand			-	-	-	-	-	(12.1)	(100.5)	(108.4)	(117.1)	(126.4)
Net Debt			441.0	419.2	386.9	340.1	276.3	201.3	113.9	25.5	17.6	(0.4)

Total Leverage (net)			4.20 x	3.64 x	2.92 x	2.20 x	1.54 x	1.04 x	0.54 x	0.11 x	0.07 x	0.03 x	na
Senior Leverage (net)			3.00 x	2.55 x	1.97 x	1.38 x	0.84 x	0.39 x	na	na	na	na	na

## Equity returns

EBITDA		105	115.1	132.4	154.8	179.8	194.2	209.6	226.3	244.3	263.8	284.8
Entry multiple			7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x
Enterprise Value		735.0	805.6	927.0	1,083.4	1,258.9	1,359.1	1,467.3	1,584.1	1,710.3	1,846.5	1,993.7
Less Debt/Add Cash		441.0	419.2	386.9	340.1	276.3	201.3	113.9	25.5	17.6	8.9	(0.4)
Equity value		294.0	386.4	540.1	743.3	982.7	1,157.8	1,353.3	1,558.6	1,692.7	1,837.6	1,994.1
Equity Return			31.4%	35.5%	36.2%	35.2%	31.5%	29.0%	26.9%	24.5%	22.6%	21.1%

# Project Gear - Downside

Assumptions : **0%** growth

Margins flat (slight decline) to **11%**

Do **not** allow 1 mln addbacks

Capex 3.0% / Working Capital **13%** / Tax 35%

Results : Senior Debt pays off slowly but still within 7-8 years

Term loan amortization still met

Equity returns weak

Limited room for acquisitions / growth / recapitalization

# Project Gear - Downside

## Free Cash Flow

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	Growth	0.0%	939.0	939.0	939.0	939.0	939.0	939.0	939.0	939.0	939.0	939.0
EBITDA Margin			11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
EBITDA			103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3
Add-Backs			-	-	-	-	-	-	-	-	-	-
Capex		3.00%	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)
Working Capital		13.0%	-	-	-	-	-	-	-	-	-	-
FOCF pre-tax			75.1	75.1	75.1	75.1	75.1	75.1	75.1	75.1	75.1	75.1
Tax pre interest		35.0%	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3
FOCF			48.8	48.8	48.8	48.8	48.8	48.8	48.8	48.8	48.8	48.8

## Amortizability

Opening Debt			441.0	429.7	416.4	401.2	383.7	363.9	341.6	316.6	288.6	257.5
Senior Int		7.50%	23.6	21.7	19.7	17.5	15.2	12.6	9.9	7.0	3.9	0.5
Subord Interest		11.00%	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Interest Income		4.00%	-	-	-	-	-	-	-	-	-	-
Repayment			(48.8)	(48.8)	(48.8)	(48.8)	(48.8)	(48.8)	(48.8)	(48.8)	(48.8)	(48.8)
Closing Debt			429.7	416.4	401.2	383.7	363.9	341.6	316.6	288.6	257.5	223.1

Amort			25.2	27.1	29.1	31.3	33.7	36.2	38.9	41.8	44.9	48.3
Cum Amort			25.2	52.3	81.4	112.7	146.4	182.6	221.5	263.3	308.2	356.5

Senior Debt		315.0	289.8	262.7	233.6	202.3	168.6	132.4	93.5	51.7	6.8	-
Subordinated Debt		126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0
Cash on hand		-	-	-	-	-	-	-	-	-	-	(41.5)
Net Debt		441.0	415.8	388.7	359.6	328.3	294.6	258.4	219.5	177.7	132.8	84.5

Total Leverage (net)		4.20 x	4.03 x	3.76 x	3.48 x	3.18 x	2.85 x	2.50 x	2.13 x	1.72 x	1.29 x	0.82 x
Senior Leverage (net)		3.00 x	2.81 x	2.54 x	2.26 x	1.96 x	1.63 x	1.28 x	0.91 x	0.50 x	0.07 x	na

## Equity returns

EBITDA		105	103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3	103.3
Entry multiple			7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x
Enterprise Value		735.0	723.0	723.0	723.0	723.0	723.0	723.0	723.0	723.0	723.0	723.0
Less Debt/Add Cash		441.0	415.8	388.7	359.6	328.3	294.6	258.4	219.5	177.7	132.8	84.5
Equity value		294.0	307.2	334.3	363.5	394.8	428.4	464.6	503.5	545.3	590.3	638.6
Equity Return			4.5%	6.6%	7.3%	7.6%	7.8%	7.9%	8.0%	8.0%	8.1%	8.1%

# Project Gear - Worst Case

Assumptions : **0%** growth **AND** LBO/other causes lead to **significant lost sales** in yr 1  
(loss of >10% of sales in year one follow by >5% in year 2 because of  
inability to respond)

Margins decline to **9% and then 8.5%**

Do **not** allow 1 mln addbacks

Capex **4% (committed on lower sales / respond to issues)**

Working Capital **13%** / Tax 35%

Results : Senior Debt (**increases / no liquidity** by yr 2-3)

Never in net cash position

Equity returns gone - **Need for new equity !**

No flexibility

# Project Gear - Worst Case

## Free Cash Flow

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	Growth	0.0%	800.0	750.0	750.0	750.0	750.0	750.0	750.0	750.0	750.0	750.0
EBITDA Margin			9.0%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
EBITDA			72.0	63.8	63.8	63.8	63.8	63.8	63.8	63.8	63.8	63.8
Add-Backs			-	-	-	-	-	-	-	-	-	-
Capex		4.00%	(32.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Working Capital		13.0%	18.1	6.5	-	-	-	-	-	-	-	-
FOCF pre-tax			58.1	40.3	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
Tax pre interest		35.0%	14.0	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
FOCF			44.1	28.4	21.9	21.9	21.9	21.9	21.9	21.9	21.9	21.9

## Amortizability

Opening Debt			441.0	434.4	441.9	455.5	469.0	482.5	495.9	509.4	522.8	536.1
Senior Int		7.50%	23.6	22.1	21.6	21.6	21.6	21.5	21.5	21.5	21.4	21.4
Subord Interest		11.00%	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Interest Income		4.00%	-	-	-	-	-	-	-	-	-	-
Repayment			(44.1)	(28.4)	(21.9)	(21.9)	(21.9)	(21.9)	(21.9)	(21.9)	(21.9)	(21.9)
Closing Debt			434.4	441.9	455.5	469.0	482.5	495.9	509.4	522.8	536.1	549.4

Amort			20.4	6.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Cum Amort			20.4	26.8	27.1	27.5	27.8	28.2	28.7	29.1	29.6	30.2

Senior Debt			315.0	294.6	288.2	287.9	287.5	287.2	286.8	286.3	285.9	285.4	284.8
Subordinated Debt			126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0
Cash on hand			-	-	-	-	-	-	-	-	-	-	-
Net Debt			441.0	420.6	414.2	413.9	413.5	413.2	412.8	412.3	411.9	411.4	410.8

Total Leverage (net)			4.20 x	5.84 x	6.50 x	6.49 x	6.49 x	6.48 x	6.47 x	6.47 x	6.46 x	6.45 x	6.44 x
Senior Leverage (net)			3.00 x	4.09 x	4.52 x	4.52 x	4.51 x	4.50 x	4.50 x	4.49 x	4.48 x	4.48 x	4.47 x

## Equity returns

EBITDA		105	72.0	63.8	63.8	63.8	63.8	63.8	63.8	63.8	63.8	63.8	
Entry multiple			7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	7.00 x	
Enterprise Value		735.0	504.0	446.3	446.3	446.3	446.3	446.3	446.3	446.3	446.3	446.3	
Less Debt/Add Cash			441.0	420.6	414.2	413.9	413.5	413.2	412.8	412.3	411.9	410.8	
Equity value			294.0	83.4	32.0	32.4	32.7	33.1	33.5	33.9	34.4	34.9	35.4

# Project Gear - Responses (How & When)

- Year 2007 - Probably waive with revised management plans
  
- Year 2008 - Probably amend and tighten up :
  - Refinance ?
  - Reporting ?
  - Asset Sales ?
  - Inter-creditor ?
  
- Year 2009
  - No improvement
  - No liquidity

□ WHAT NOW ?

Enterprise Value	=	7x	6x
Debt	=	446	383
<b>???????</b>			

# Disclosure

This information has been prepared solely for informational purposes and is not intended to provide or should not be relied upon for accounting, legal, tax, or investment advice. The factual statements herein have been taken from sources believed to be reliable, but such statements are made without any representation as to accuracy or completeness. Opinions expressed are current opinions as of the date appearing in this material only. These materials are subject to change, completion, or amendment from time to time without notice and CapGen Financial is not under any obligation to keep you advise of such changes. All views expressed in this presentation are those of the presenter, and not necessarily those of CapGen Financial.