Structuring

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Agenda

1. Overview

1. Perspective

1. Creating the structure

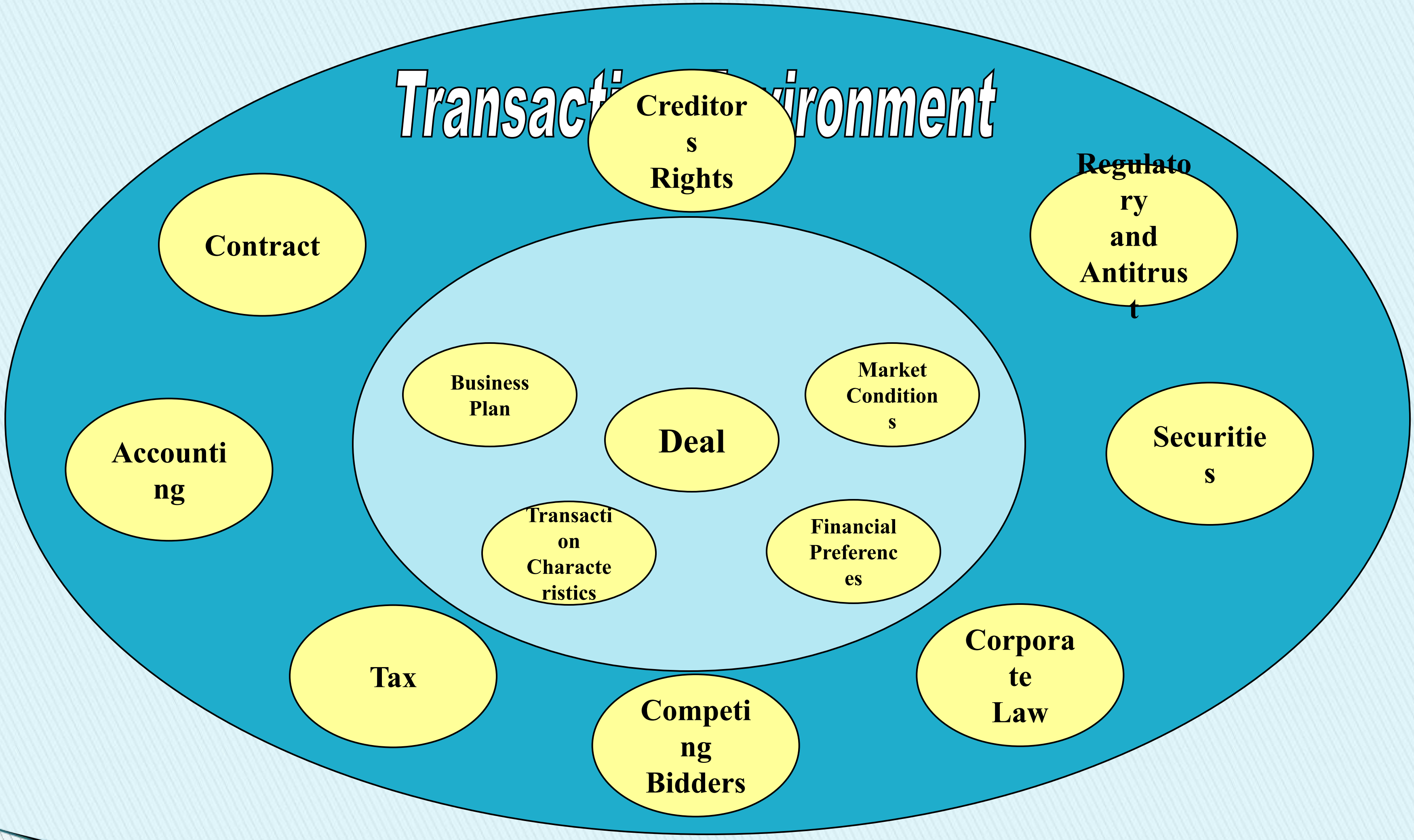
1. Covenants

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

<u>Business Considerations</u>:
- •Strategic Plans
- •Growth Plans
- •Management
- •Business Risk (Cash Flow Volatility)

<u>Financial Preferences</u>:
- •Dilution
- •Control
- •Risk Tolerance
- •Flexibility
- •Exit Needs

<u>Deal</u>
- •Maturity
- •Amortization
- •Seniority
- •Security
- •Covenants
- •Prepayment
- •Cost
- •Liquidity
- •Size

<u>Financial Characteristics</u>:
- •Sources and Uses
- •Operating Cash Flows
- •Leverage
- •Liquidity
- •Seasonality
- •Timing

<u>Market Conditions</u>:
- •Depth
- •Pricing Requirements
- •Structural Needs
- •Cycle
- •Liquidity

What do you want?

How to get what you need!

What can you get?

Different Menus

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

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

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

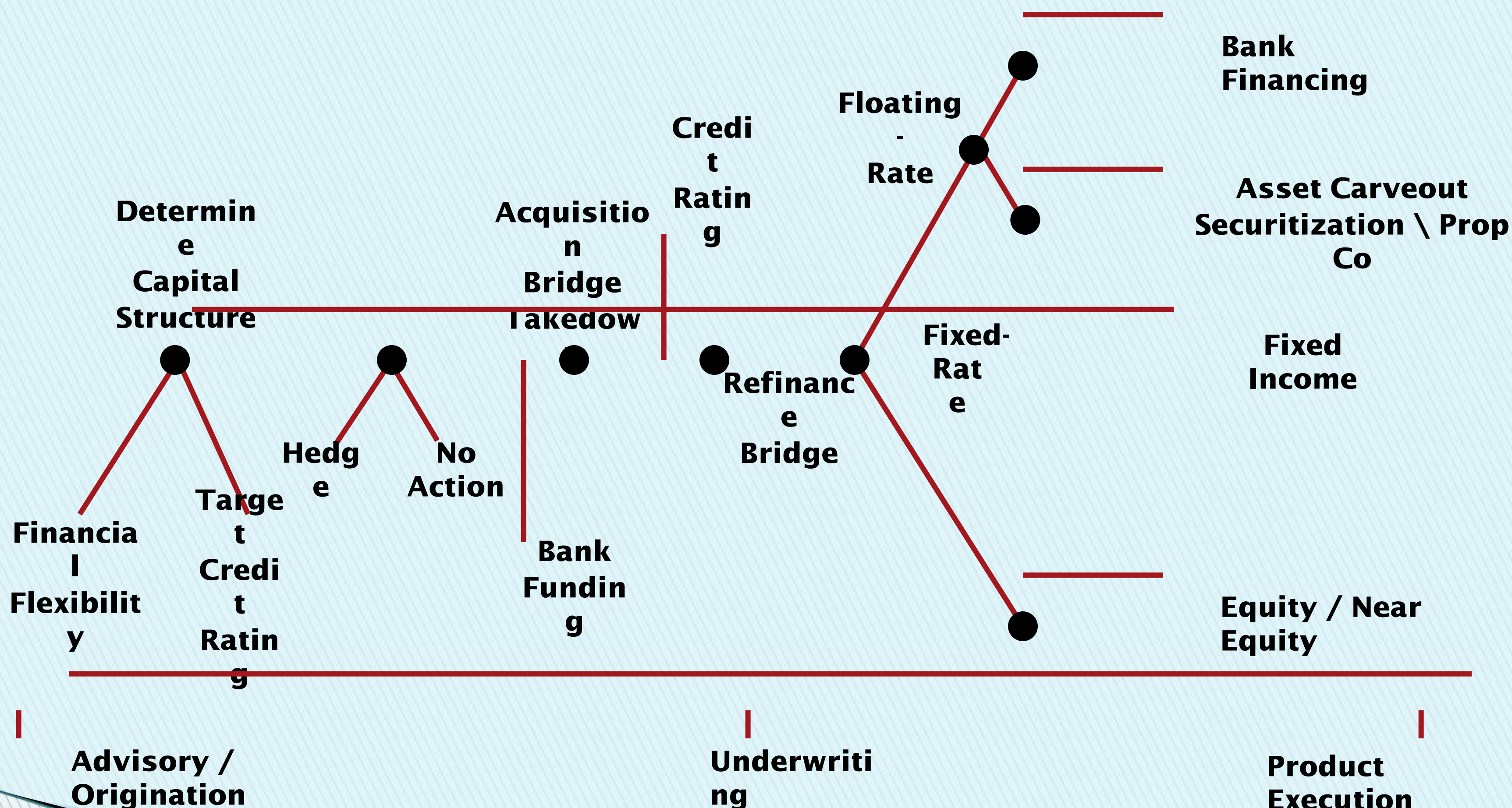
Issuer Objectives / Impact (1)

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

Issuer Objectives / Impact (2)

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

Critical Path & Decision Framework



Creating the Structure

Creating the Capital Structure

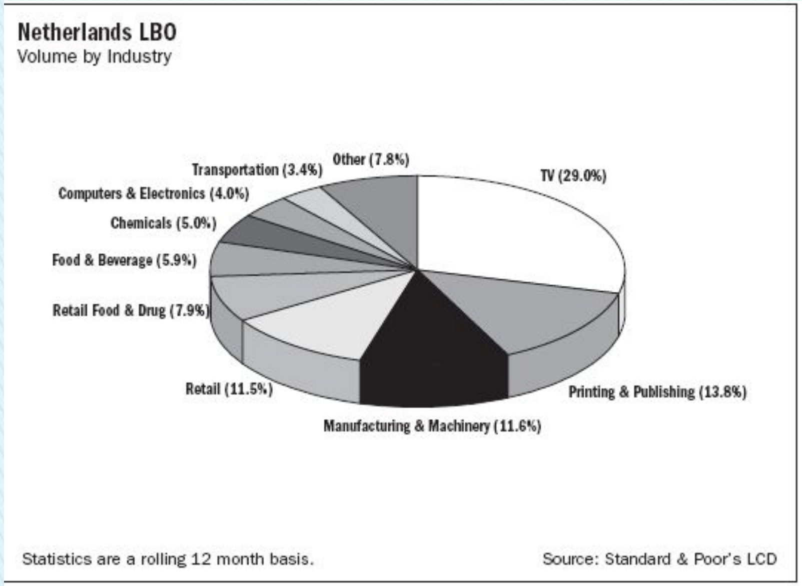
- Rule of Thumb Measures
  - Balance Sheet Model
  - Cash Flow Model

- Detailed Model
  - Matching markets to the need
  - Reverse inquiry
  - Projections (amortization capability)

Deal Financial Arithmetic

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

Netherlands LBO
Volume by Industry



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 Trailing				
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

	Trailing Pro Forma				Estimated Current Year				Projected Year 1			
Regional Lending Financial Ratios	Avg	Max	Min	StDev	Avg	Max	Min	StDev	Avg	Max	Min	StDev
Debt / EBITDA	6.6	8.7	4.4	1.6	7.3	10.9	4.6	2.1	5.9	8.1	3.9	1.5
Sr Debt / EBITDA	5.2	6.5	3.7	0.9	5.7	8.2	4.3	1.3	4.7	6.2	3.7	0.9
EBITDA / Cash Interest	2.5	4.9	1.5	1.1	2.3	3.6	1.4	0.7	2.5	4.3	1.6	0.8
EBITDA - Maint. Capex / Interest	2.0	3.7	1.4	0.7	1.8	2.4	1.3	0.4	2.1	3.0	1.4	0.5
EBITDA - Capex / Interest	1.9	3.7	0.8	0.9	1.6	2.4	1.1	0.5	2.0	3.0	1.4	0.5
Adj CreditStats												
Debt / Adj EBITDA	6.6	8.7	4.4	1.6	7.3	10.9	4.6	2.1	5.9	8.1	3.9	1.5
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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

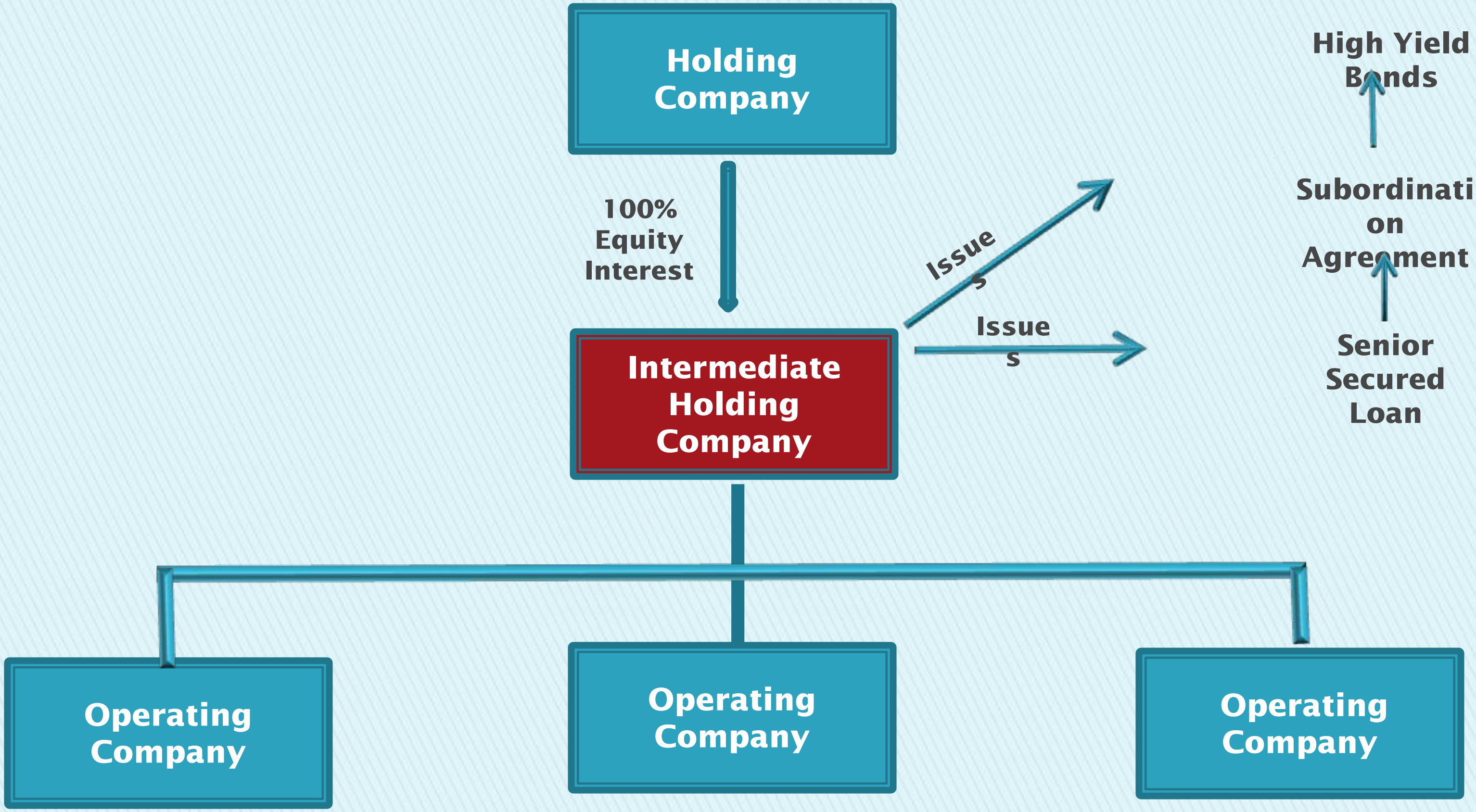
Subordination

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

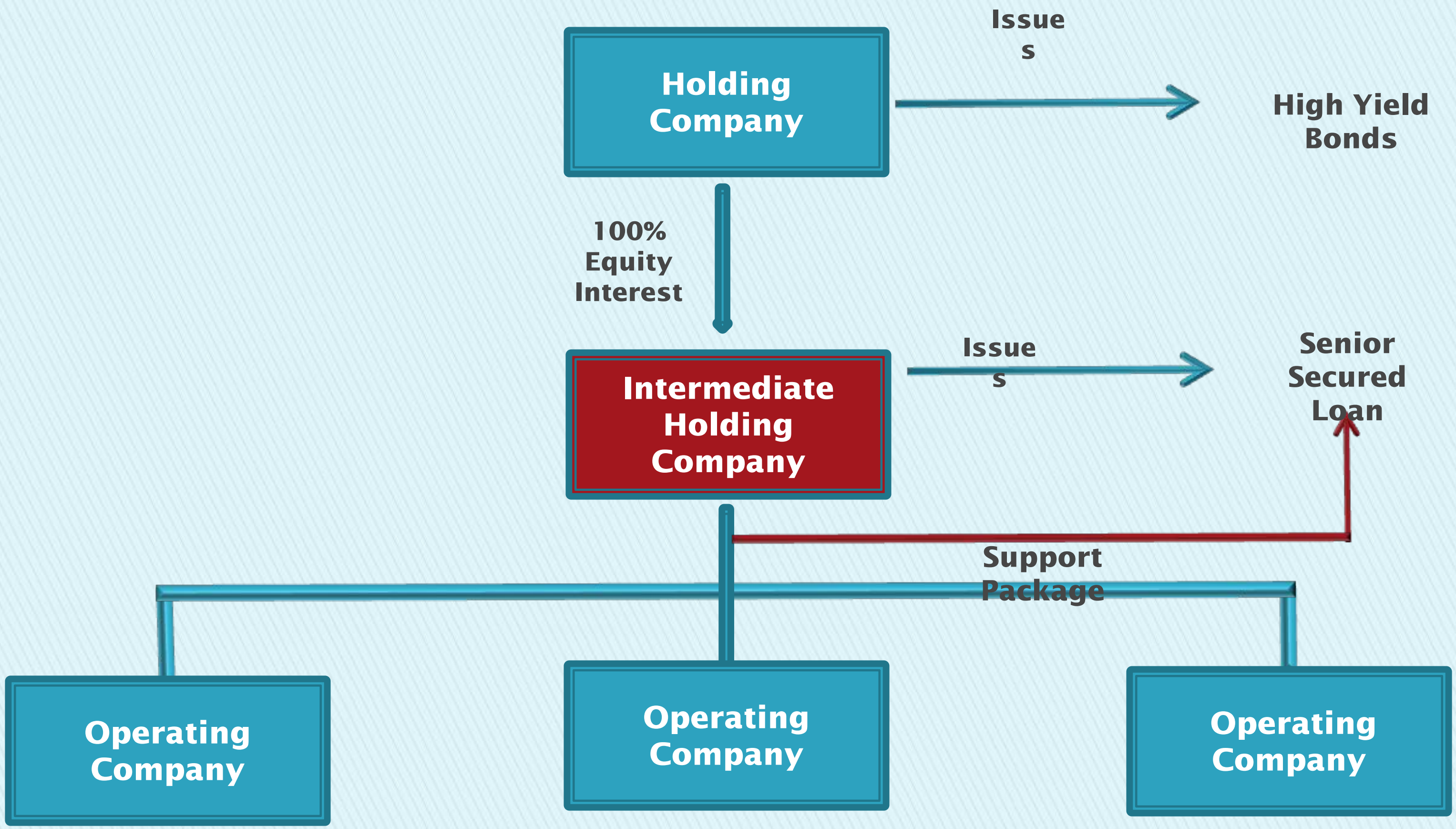
EURO High Yield investors to date have not been as vocal as senior bank lenders, viewing the issue as one of pricing rather than principle.

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

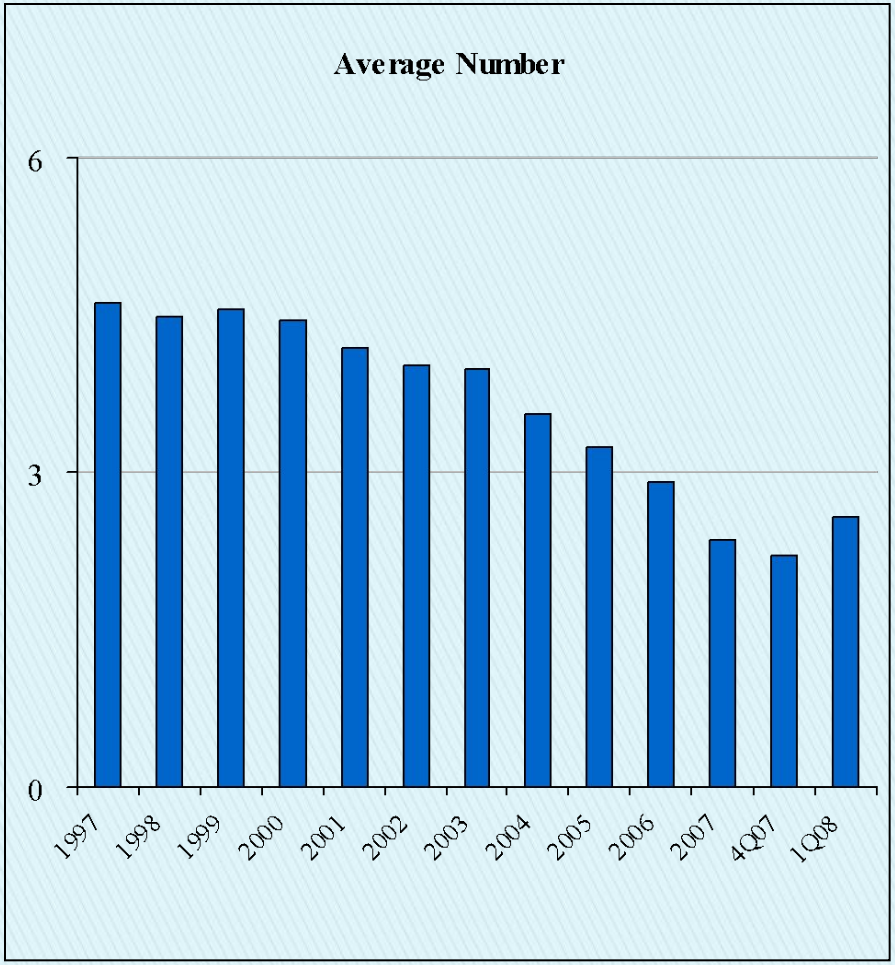
- Approach
  - Maintenance (Preserving the credit)
  - Incurrence (Maintaining relative priority of claim)

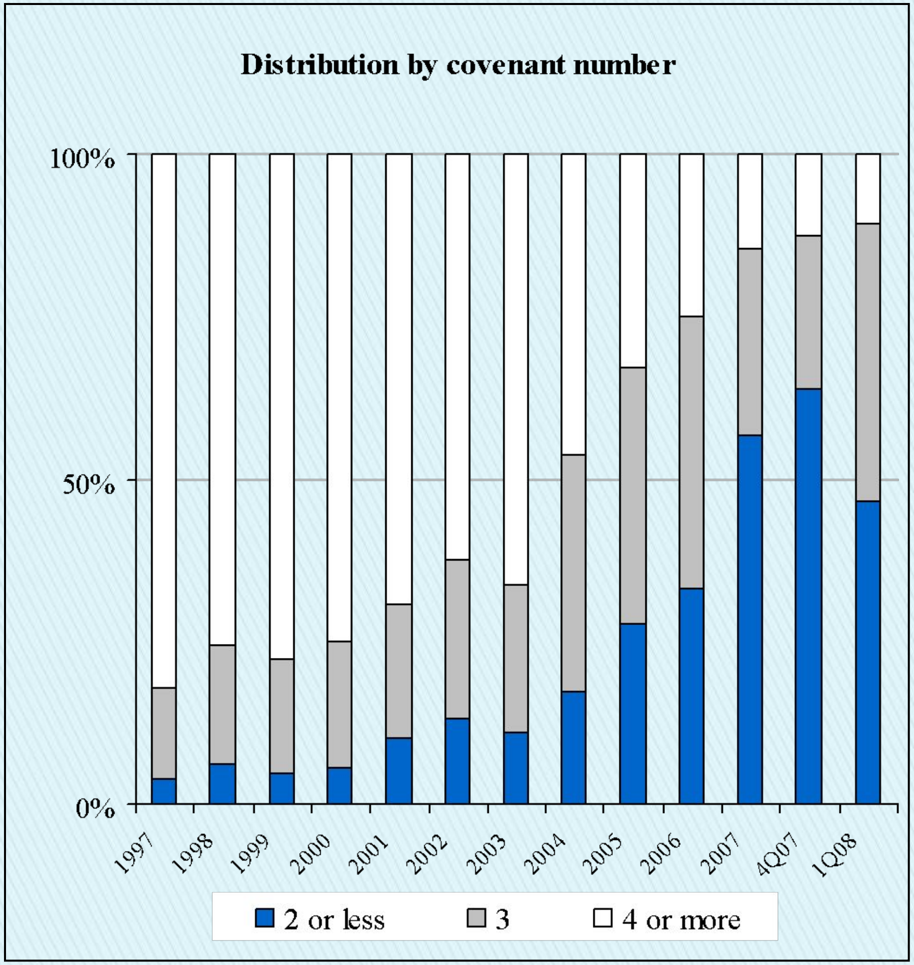
Structuring Covenants

- 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

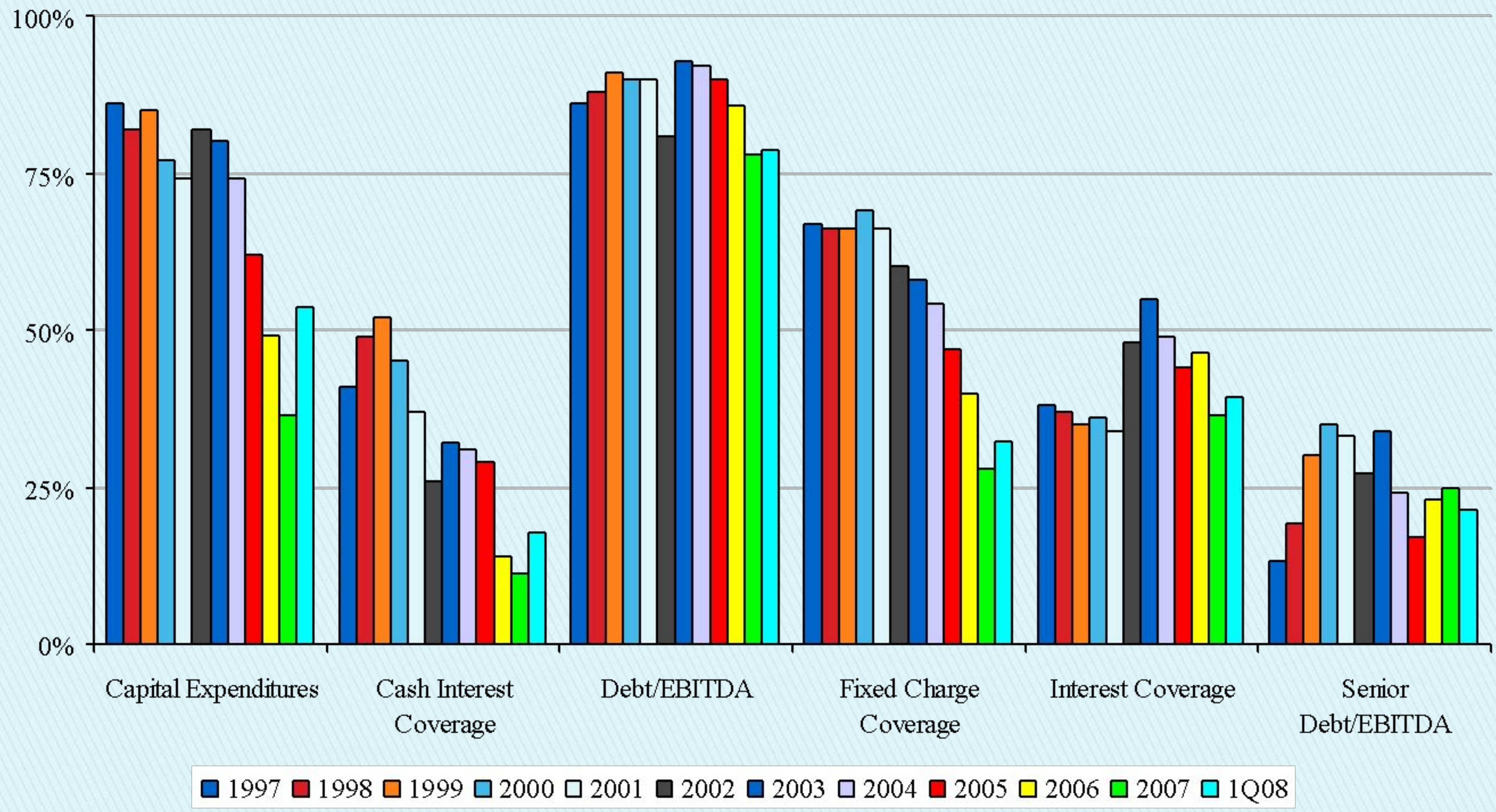
Excludes covenant-lite deals





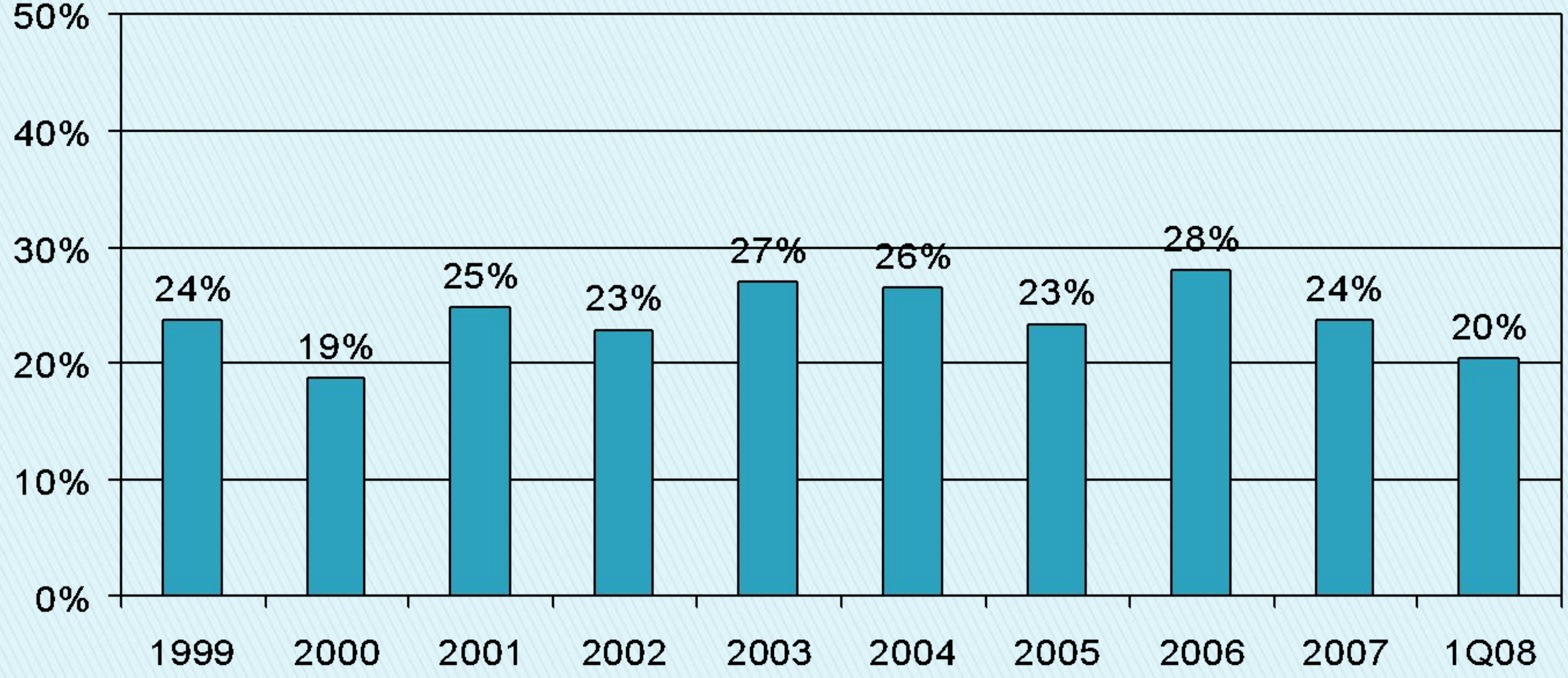
Incidence of key covenants in first-lien leveraged loans

Excludes covenant-lite deals



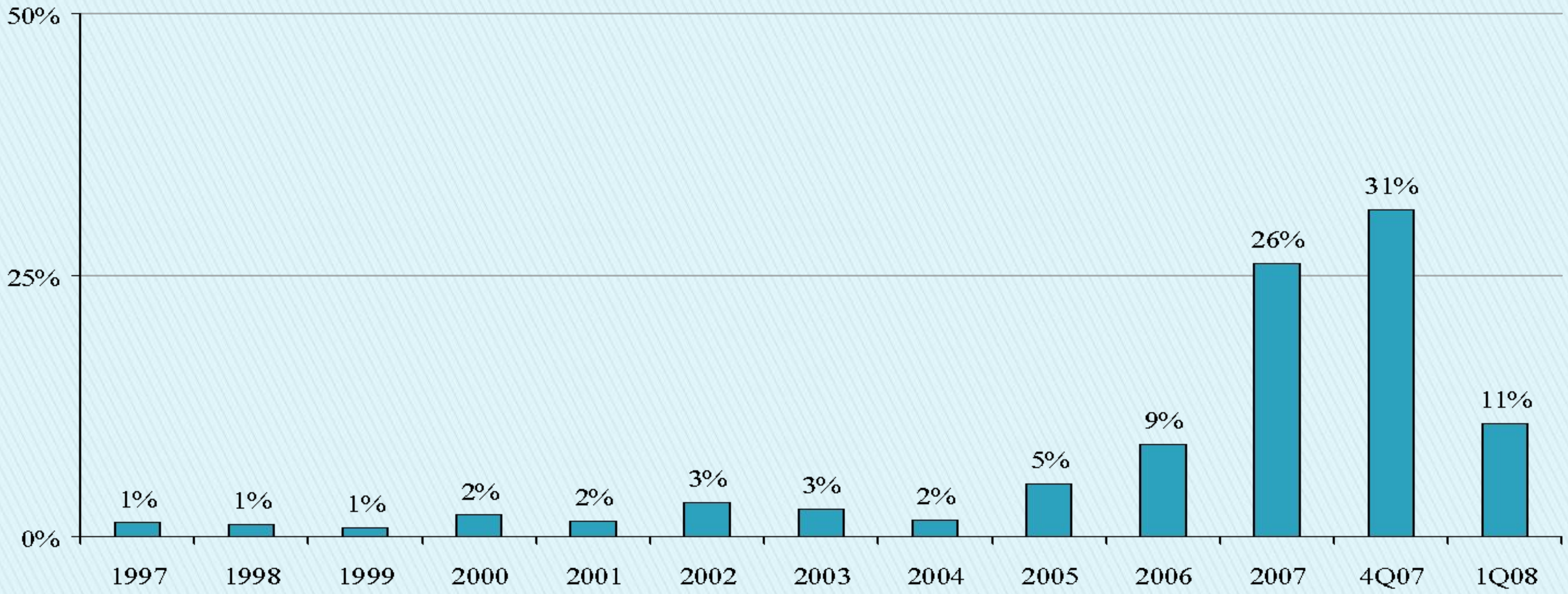
Year One Debt/EBITDA Headroom as a Percentage of Covenant Level for LBOs

1999 – 1Q08



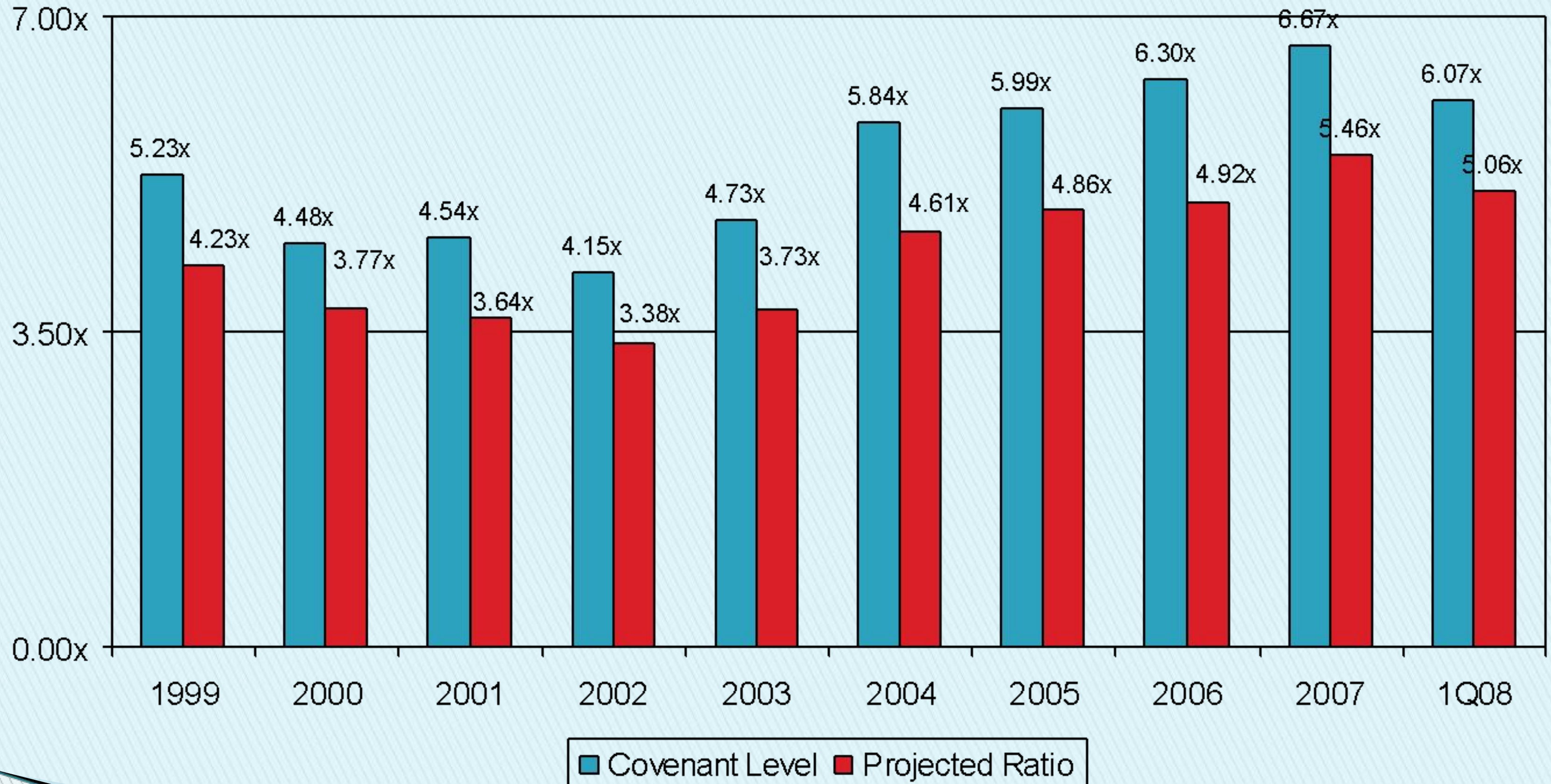
Percent of First-lien leveraged loans with one maintenance finance covenant

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.

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

Results	2003	2004	2005	2006
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
	167.0
Net PPE	201.0
Goodwill	34.0
Other Long Term	13.0
	415.0
Current Liabilities	47.0
Bank Debt	92.0
Other LT Liabilities	8.0
	147.0
Equity	268.0

PMD Stats

	Jan-00	Feb-00	Mar-00	Month Ended 4/6/00	Month Ended 4/13/00
Average New-Issue Spread – by Pro Forma Debt/EBITDA					
Pro Rata (Excludes Media/Telecom)					
5.00x-5.99x	L+300	L+300	NA	NA	NA
4.00x-4.99x	L+293	L+288	L+288	L+289	L+294
3.00x-3.99x	L+273	L+266	L+263	L+267	L+270
Institutional (Excludes Media/Telecom)					
5.00x-5.99x	L+358	L+358	NA	NA	NA
4.00x-4.99x	L+355	L+349	L+354	L+356	L+348
3.00x-3.99x	L+345	L+342	L+350	L+350	L+346
Average New-Issue Spread – by Bank Loan Rating (1)					
BB/BB-					
Pro Rata	L+235.0	L+227.8	L+245.8	L+243.2	L+238.6
Institutional	L+291.7	L+276.1	L+302.4	L+300.0	L+295.8
B+/B					
Pro Rata	L+298.2	L+275.0	L+292.9	L+300.0	L+300.0
Institutional	L+344.6	L+321.0	L+351.6	L+361.1	L+366.7
Avg New-Issue Fee For a $10M Commitment To Highly Leveraged Loans					
Pro Rata Tranches	40.6 bp	30.2 bp	26.2 bp	25.0 bp	26.2 bp
Institutional Tranches	31.7 bp	20.9 bp	17.0 bp	16.9 bp	18.8 bp
% of Institutional TLs with					
Pricing Grids	42%	58%	44%	37%	38%
Prepayment Fees	8%	8%	7%	11%	12%
New-Issue Deal Flow					
Volume of Loans ($ in Billions)					
Pro Rata	6.98	8.47	12.36	11.98	12.25
Institutional	2.99	5.36	9.42	8.24	6.96
Total	9.97	13.83	21.77	20.22	19.22
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					
Average New-Issue Spread of Leveraged Loan					
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

	Jan-00	Feb-00	Mar-00	Month Ended 4/6/00	Month Ended 4/13/00
CreditStats					
Average Credit Statistics (excluding Media/Telecom/Retail)					
All Loans					
Debt/EBITDA	4.2x	4.2x	4.2x	4.3x	4.2x
Sr Secured Debt/EBITDA	3.6x	3.1x	2.8x	2.9x	3.0x
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
Loans $500M or More					
Debt/EBITDA	4.8x	4.4x	4.8x	4.8x	4.5x
Sr Secured Debt/EBITDA	3.8x	2.4x	2.7x	2.9x	2.7x
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
Loans $250-499M					
Debt/EBITDA	4.0x	4.1x	4.5x	4.7x	4.1x
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
Loans $100-249M					
Debt/EBITDA	4.0x	4.1x	3.7x	3.7x	4.0x
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
Loans Less Than $100M					
Debt/EBITDA	3.9x	4.0x	3.8x	3.7x	3.6x
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
% of Highly Leveraged Loans with Pro Forma Debt/EBITDA of 6.00x or Higher					
$250M or Higher	0%	10%	8%	6%	7%
$100-$249M	0%	8%	0%	0%	0%
Less Than $100M	0%	0%	0%	0%	0%
Average Secondary Bid Levels by DLJ Loan Index (2)					
All Loans					
Par Loans*	99.31%	99.23%	NA	NA	NA
Par Institutional Loans*	99.52%	99.48%	NA	NA	NA
% Below 90% of Par	6.78%	6.23%	NA	NA	NA

*Those trading at 95% of par and higher

Project Gear - Quick Analysis

Potential Value	**EBITDA (105) x 7**	**=**	**735.0**	
Max Debt	**Total 4.2x**	**=**	**441.0**	
	Senior Drawn 3.0x	**=**	**315.0**	
	Implied Junior Debt/Mezz	**=**	**126.0**	**(good size !)**
Required Equity	**(735.0 – 441)**	**=**	**294.0**	**(Large, tranching ?, returns ?)**
CF Analysis	**EBITDA**	**=**	**105**	
	Working Capital (13%)	**=**	**0**	**(no growth, but need liquidity)**
	Capex (half discretionary)	**=**	**(15)**	
	Interest	**=**	**(35)**	
	Tax (105 – 15 – 35) * 35%	**=**	**(16)**	
	FOCF/ Amortization ability	**=**	**39**	
	6 yea[illegible]rt = 234, 7 year amort = 273, 8 year amort = 312			

Project Gear - Quick Analysis

Liquidity sizing	Receivables 70mm x 80%	=		56	
	Inventory 65mm x 50%	=		33	
	R/C sizing			99	(say 100)
	Liquidity availability 50% actual working capital = 50% x 13% x 939 = 61				

Structure	R/C (100 / min 61 undrawn)		39.0	
	Term Loans			Total 315 – 39 = 276
	A 5 years x 25		125.0	Tenor 276/39 = 7.1 yrs
	B 6 years (3x 5 + 55.0)		70.0	Heavy back end needed
	C 7 years (3x 6 + 63.0)		81.0	
	Total Senior secured		315.0	(facilities 376)(3.6x/4.8x)
	Subordinated/Mezzanine		126.0	
	Total Debt		441.0	
	Total Equity / Preferred etc.		294.0	(Rollover ?)
	Capital Structure / Value		735.0	

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	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	8.9	(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 <u>weak</u>
<u>Limited room</u> for acquisitions / growth / recapitalization

Project Gear - Downside

				2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Free Cash Flow													
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

Assumptons : **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)
<u>Never</u> in net cash position
Equity returns gone - **Need for new equity** !
<u>No flexibility</u>

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	411.4	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
???????			

Disclosure

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