MainStream Management
Creating Value, Driving Results

Thought Leadership Report
April 2012

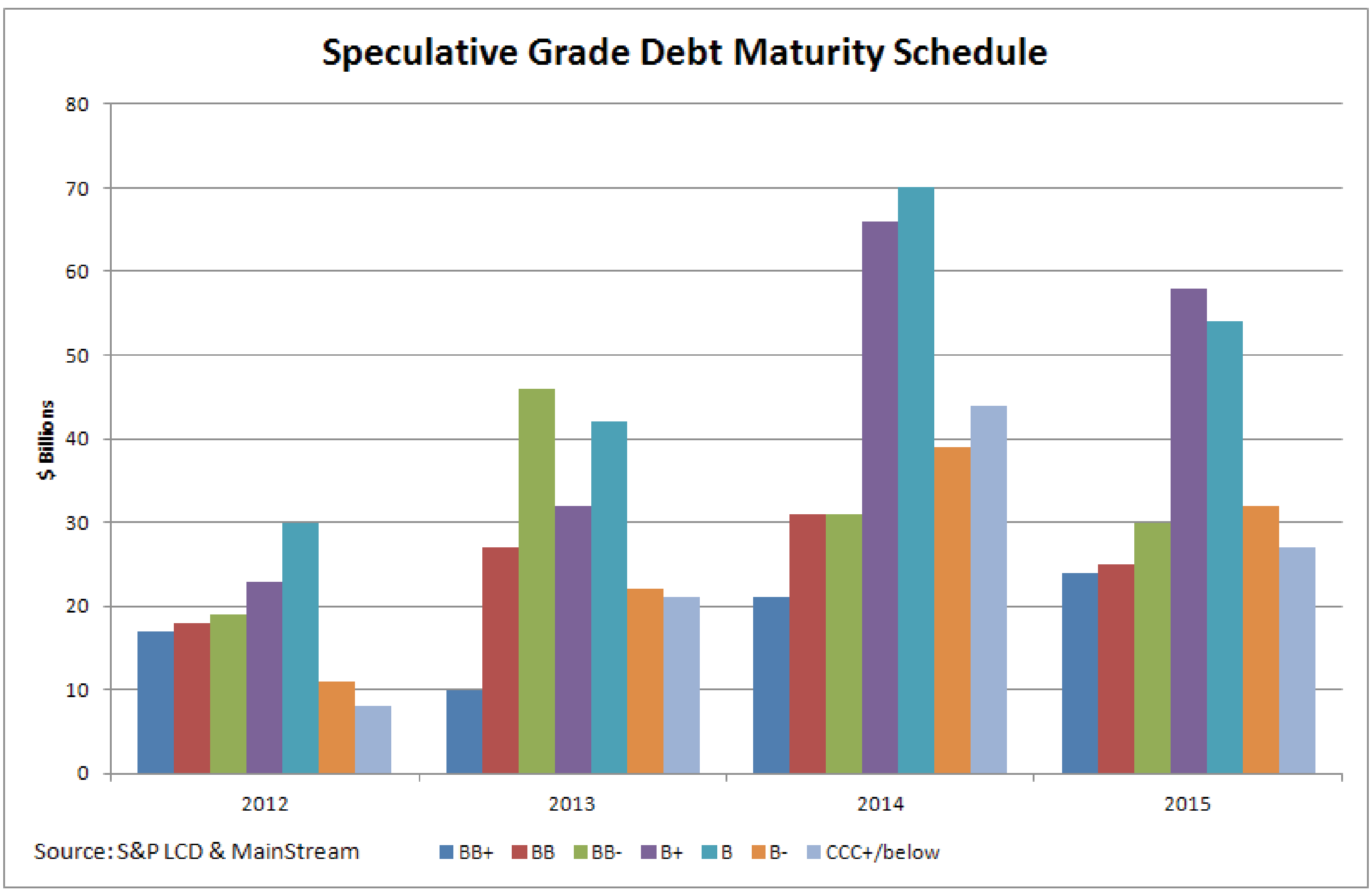
As We Approach the "Refinancing Cliff"

Eric D. Jenkins
Managing Director

Speculative-grade companies needing to refinance debt over the next few years should prepare for a bumpy ride. The corporate debt market will be facing a "refinancing cliff" as a significant and increasing amount of corporate bonds and corporate debt will come due over the next five years. Of the approximate $3 trillion in corporate debt set to mature, about 35% belongs to speculative-grade issuers and of that, about $390 billion is from companies with ratings between B and CCC.

With an uncertain high-yield bond market and the likelihood of a material reduction in the collateralized loan obligation (CLO) investments starting in 2013, there will likely be a significant funding gap between the refinancing needs of speculative-grade companies and available capital from traditional high-yield bond and leveraged loan funding sources. The funding gap will likely be most acute in the leveraged loan market given the diminishing capacity of CLO investments.

In 2007, CLOs represented over 70% of the $540 billion in leveraged loan investments. However, by 2010 CLO purchases of leveraged loans plummeted to approximately 41% of only $240 billion in leveraged loan investments. CLOs multi-year trend of decreasing involvement in the leveraged loan market will likely continue as they exit their reinvestment period over the next three years. While high yield and



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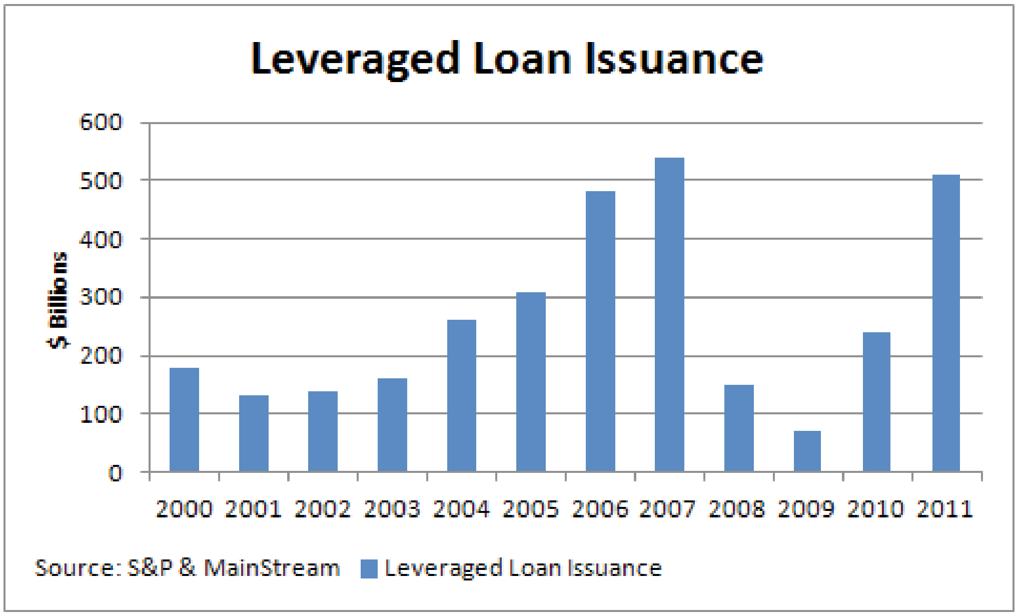
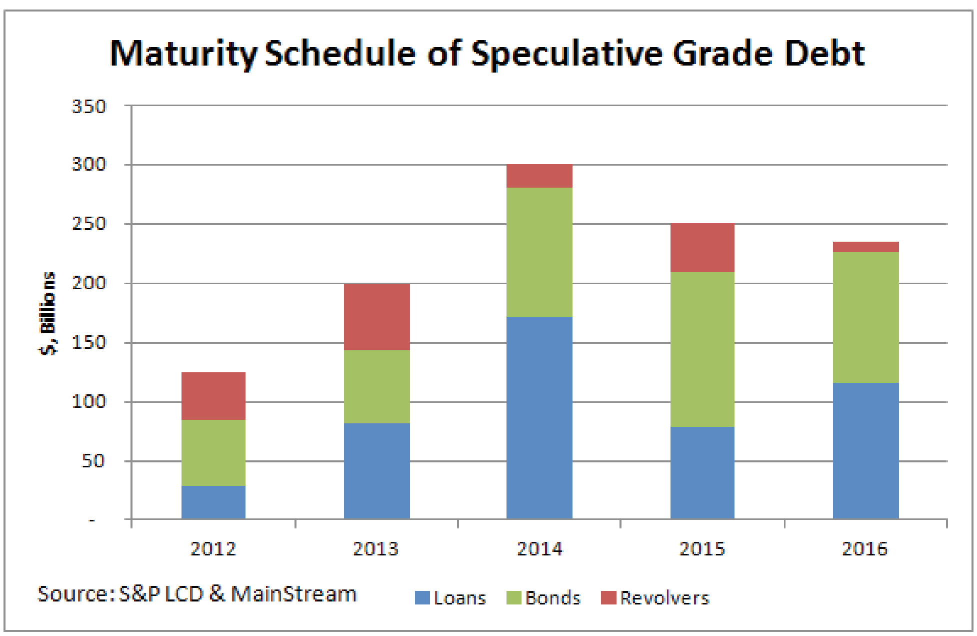


The outlook of success for any particular speculative company's refinancing will be dependent on several variables including its maturity schedule, the refinancing needs of corporations as a whole, and the company's underlying fundamentals. Economic factors such as unemployment and government regulation will also have an impact on corporations financing capabilities. MainStream believes good companies with good capital structures will likely be able to refinance, amend and extend or access other avenues of capital. However, good companies with either poor liquidity or bad balance sheets may not be so lucky. These companies may default and be forced into bankruptcy, need to reorganize, or simply liquidate. As we approach the "refinancing cliff," it is imperative that speculative companies take appropriate steps to

hedge funds may be able to meet the refinancing requirements of the high-yield bond market, it is unlikely they will be able to fully offset the funding needs in the leveraged loan market created by the diminishing CLO investments. If there is a lack of sufficient funding then many speculative companies will be facing an uncertain future.

The leveraged loan market is expected to have approximately $70 billion come due in 2012, rising to $140 billion in 2013, and $200 billion in 2014. This compares to high-yield bond scheduled maturities of approximately $60 billion in 2012 and 2013, rising to over $100 billion in 2014. Media, financials, and telecom are the sectors with the greatest financial need, with approximately $148 billion, $99 billion, and $85 billion in speculative grade debt coming due through 2015, respectively.



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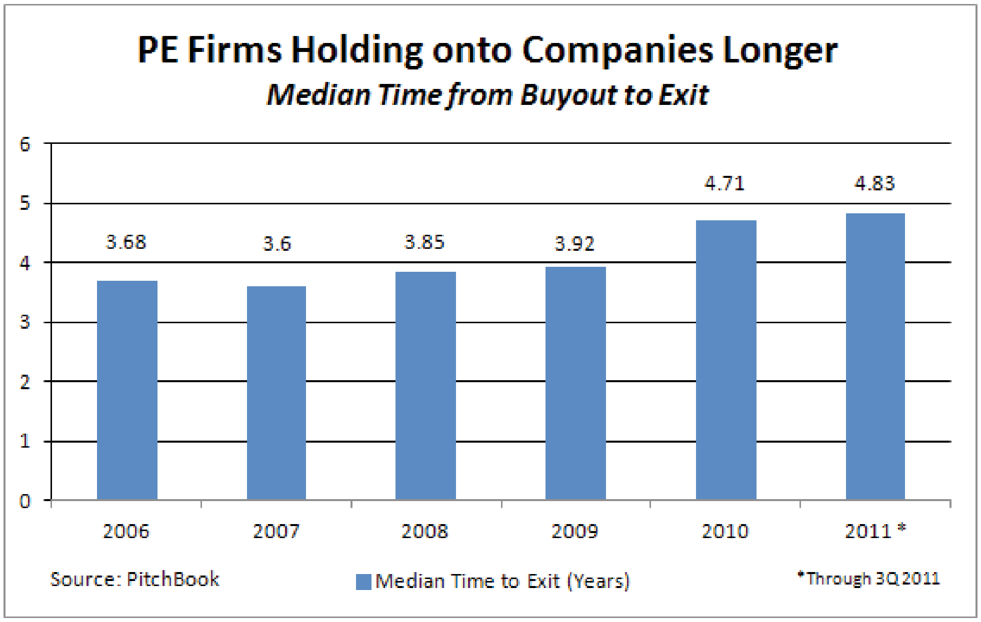

prepare for the eventual refinancing challenges that lie ahead. This also holds true for their financial sponsors and lenders who are facing their own set of challenges. Private equity firms are being forced to hold onto their investments for longer periods of time with 75% of their investments having been held for more than 4.5 years, reaching a median time from buyout to exit standing at 4.8 years as compared to less than 4 years in 2009. Less liquidity and lower valuations are impacting investment returns. As such, private equity firms must increasingly rely upon improving the portfolio companies operating results with a keener eye on sustainability and growth. This is particularly true for their more speculative investments that face refinancing needs over the next few years. The need to make correct investment decisions, or rather not make bad investment decisions, has never been greater given the trend of longer investment duration.

Existing lenders to speculative issuers whose maturities are within the next few years may be facing unattractive alternatives that may have been avoided if certain preventative actions had been taken earlier on. Faced with industry consolidation, a weak economy, and the need to reduce expenses to relieve margin pressures, lenders are left with having to do more with less. Taking preventative actions in anticipation of borrowers with high refinancing risks could be time well spent. We believe that speculative companies, their investors and their lenders need to get ahead of the curve in anticipation of the refinancing constraints likely to be faced over the next several years.

At MainStream, our suite of Advisory Services start with an objective holistic look at our clients' business including a clear eyed assessment of the viability of the business and the potential for refinancing or restructuring. The results of these reviews are sound business plans that are grounded with detailed analytics necessary to restructure, renew or develop new financing including assisting our clients in raising additional capital. Our strengths include working with companies to restructure overleveraged balance sheets, build unique restructuring constructs, and finding the right fit with investors and lenders. Our ability to support the work with senior and experienced financial professionals allows for faster, less costly and more effective results for our clients. The scope of our operational and capital markets capabilities and relationships allow us to provide optimal value for a diverse client base on a global scale.

For more information about MainStream, please email info@mainstreamllc.com or call 1 (877) 785-6888.