

theWire

DEBT CAPITAL MARKETS
SECTOR NEWSLETTER

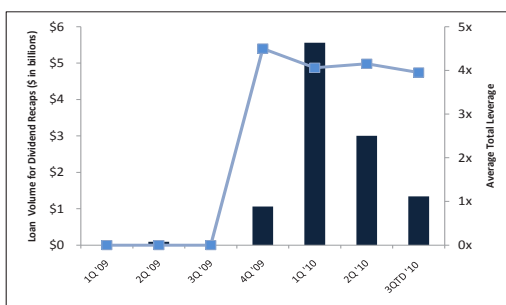
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2010 FINANCING TRENDS

Dividend Recaps

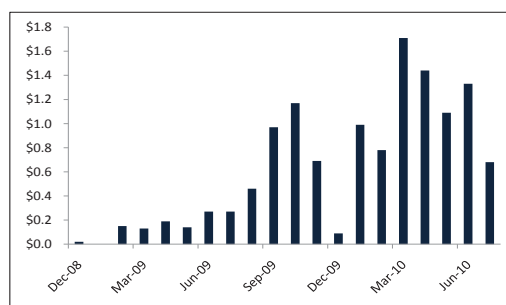
Having been left for dead in 2008 and 2009, dividend recaps re-emerged in 2010, and are expected to remain a fixture for some time as sponsors look to return cash to investors. Through June 30, 2010, the Leveraged Loan and High Yield Bond markets have issued 44 new dividend recap transactions, versus 13 total transactions in 2009.

Total Loan Market for Dividend Recaps



Source: Standard & Poor's LCD

Middle Market New Loan Issue Volume (\$ in billions)



Source: Standard & Poor's LCD

The volume of loans used for dividend recaps, as a percentage of total middle market loan volume, reached a record 28% for the four months ended April 2010. Standard & Poor's LCD reports that total loan volume backing middle market dividend recaps during this timespan was \$1.3 billion. This re-emergence has been largely driven by three factors: the desire of financial sponsors to return cash to their limited partners, the resurgence of favorable borrowing/lending conditions, and the anticipation of an increase in the tax rate for dividends. It should be noted that despite being referred to as a "dividend" recap, depending on the various facts and circumstances surrounding the transaction, such as the tax status of the entity involved, this distribution may or may not be treated as a "dividend" for tax purposes.

Middle Market Historical Average Dividend Recap Scorecard

	2010	2009	2008	2007	2006	2005
Deal Size (mm)	\$164.5					
Senior Leverage	3.2x	n/a	n/a	4.0x *	3.7x *	3.8x *
Total Leverage	3.5x	n/a	n/a	4.3x	4.1x	4.2x
First-lien spread	L+459	n/a	n/a	L+283	L+301	L+313
Size of Distribution (mm)	\$45.5	n/a	\$38.1	\$66.7	\$66.4	\$69.5

* Senior multiple includes second-liens

Selected 2010 Middle Market Dividend Recaps

	NuSil Technology	Multi Packaging	Scotsman Industries	Hoffmaster	TIDI Products	Potpourri Group	US Silica	Schumacher Group
Tranches (mm)	\$10 RC \$175 TLB	\$30 RC \$182.5 TLB \$17.5 mezz	\$30 RC \$115 TLB	\$30 RC \$65 2nd-lien	\$10 RC \$83.5 TL \$38.5 mezz	\$15 RC \$75 TL	\$35 ABL RC \$165 TLB \$75 mezz	\$50 RC \$75 TL
Senior Leverage	3.7x all senior	3.1x	3.3x all senior	3.4x	3.25x	2.8x	3.1x	n/a
Total Leverage	3.7x	3.4x	3.7x	4.7x	4.5x	3.8x	4.5x	n/a
First-lien spread	L+400	L+500	L+425	L+500	L+500	L+550	L+400	L+400
Sponsor	Quad-C	Irving Place, Jefferson Capital	Warburg Pincus	Kohlberg & Co.	Beecken Petty O'Keefe & Co.	ACAS	Golden Gate	none
Size of Distribution (mm)	\$100+	\$65	\$28	\$65	\$28	\$23	\$45	\$10
Arranger	JPM	Wells Fargo, UBS, Barclays	GE Capital / UBS	Credit Suisse	Madison Capital	GE Capital	BNP	GE Capital

While the deals referenced above reflect companies squarely in the upper-end of the middle market, dividend recaps in the lower middle market (i.e. <\$20mm EBITDA) are just as prevalent. Generally, the terms of lower middle market deals are not made public; however, Livingstone has seen deals recently executed within the general parameters detailed below:

	Strong Credits High Growth & High Margins	Good Credits Modest Growth & Lower Margins
Senior Leverage	3.0x - 3.25x	2.5x - 2.75x
Total Leverage	4.0x - 4.25x	3.25x - 3.5x
Approx. Sr. Pricing	L+500 bps	L+550 bps

Terms and market interest are further impacted by the quality of the sponsor, the amount of cash distributed to shareholders, and the length of the investment period.

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DEBT CAPITAL MARKETS PRACTICE

RECENT DEAL OVERVIEW

Livingstone Makes the Grass Greener for Swisher Mower

Livingstone recently completed the successful recapitalization of Swisher Mower & Machine Company, Inc. ("Swisher") by Blackstreet Capital. Livingstone acted as the exclusive financial advisor to Swisher. Terms of the deal were not disclosed.

Swisher, based in Warrensburg, Missouri, is a leading niche manufacturer and distributor of branded lawn & garden power equipment and accessories.

Livingstone worked with Swisher to execute a comprehensive recapitalization process in an efficient time frame. The highly competitive process was a successful outcome for the Swisher's employees, shareholders, lenders and other constituents. Livingstone completed the transaction within 90 days of its engagement by Swisher.

"We are thrilled to have helped forge a partnership between Swisher and Blackstreet," said Livingstone Director Joe Greenwood. "The Swisher family and management team are to be commended for successfully navigating challenging market conditions, while positioning the Company to capitalize on several exciting growth opportunities."

Swisher represents the third special situations transaction closed by Livingstone in the last 12 months.



PRIVATE EQUITY OPPORTUNITIES: DISTRESSED BANK DEBT

There remain a plethora of distressed, middle market commercial loans in the portfolios (and balance sheets) of commercial banks and non-bank financial institutions, creating tremendous value opportunities for private equity groups...assuming they have knowledge of, and access to, these investment opportunities. Distressed loans can have a negative impact on a bank's earnings as well as its capital base, particularly if the loan is classified as "impaired", where the expected recovery is less than the amount of the outstanding loan. For these distressed situations, the banks desire an expeditious exit from these credit relationships, either through: (i) a simple refinance; (ii) a forced sale of the company; or (iii) a sale of the bank's debt.

This dynamic creates an opportunity for private equity firms to potentially purchase these assets at the par value (or a discount to par value in some instances) of the bank's outstanding indebtedness, which could lead to an attractive value play. There is no shortage of distressed institutional investors in the middle market scouring for these opportunities. The availability of capital (both equity and debt) for these types of investments has led to an improvement in recovery value for banks on the sale of their distressed assets, and generating an increased willingness on the part of the banks to bring new distressed credits to market.

Uncovering specific opportunities can remain challenging for private equity firms since their ability to directly communicate with the appropriate groups within the bank may be limited. Livingstone's Debt Capital Markets Practice maintains strong relationships and remains in constant communications with the nation's leading, middle market financial institutions, and would welcome an opportunity to speak with your firm further about the marketplace for distressed debt assets.

ABOUT LIVINGSTONE PARTNERS

Livingstone is a leading independent, international investment banking firm focused on M&A, capital raising and special situations transactions with transaction focus up to \$500 million. Across four principal offices in the U.S. and Europe, Livingstone's 60 corporate finance professionals specialize in eight key global sectors: Building Products & Services, Consumer, Environmental Services, Healthcare, Industrial, Logistics, Marketing Services, and media:tech. Livingstone was named "2010 Middle Market M&A Advisor of the Year" by Acquisitions Monthly.

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