



Small-Cap High-Yield Outlook

Wednesday, May 4, 2010

8:00 AM – 9:15 AM

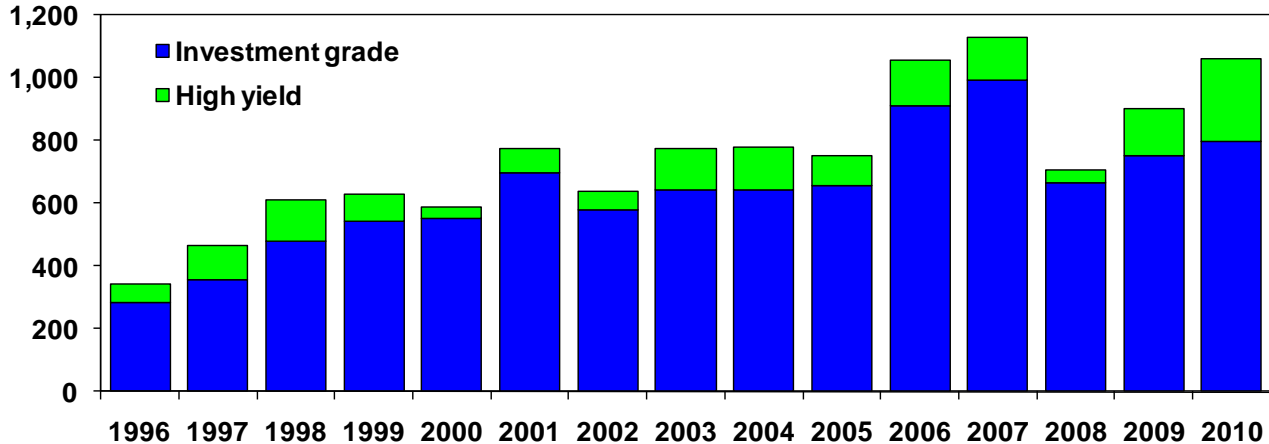
Corporate bond issuance in the United States



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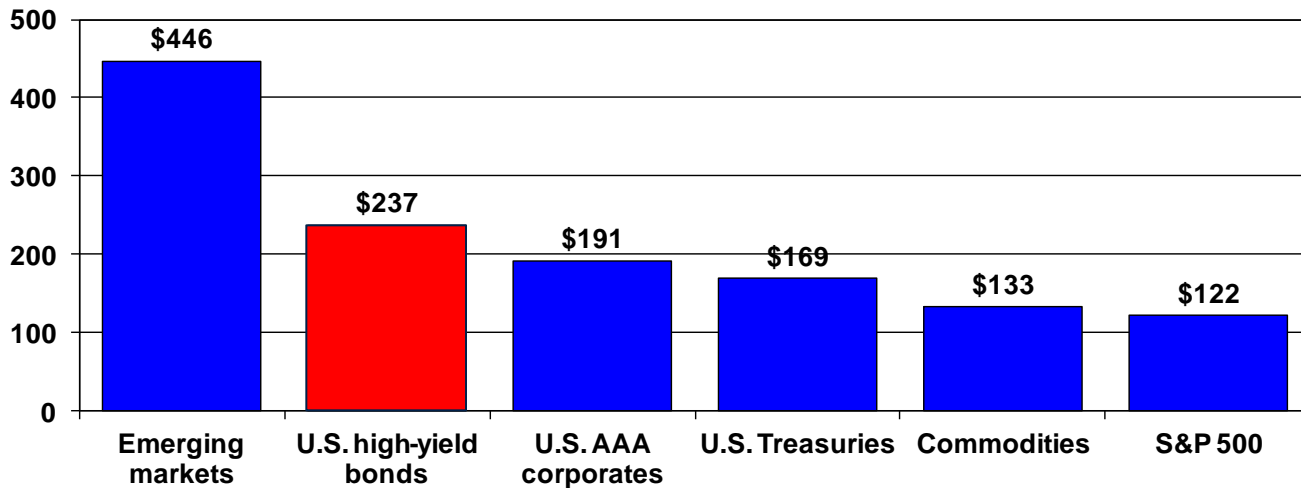
1996 to 2010

US\$ billions



Investment returns for selected asset classes

As of March 2011, a \$100 investment made in December 2000 gives you:



High-yield market drivers

U.S. economic trends

Interest rate trends

Corporate developments

Demand

New issue supply

Yield spreads

Expected default rates

Market liquidity



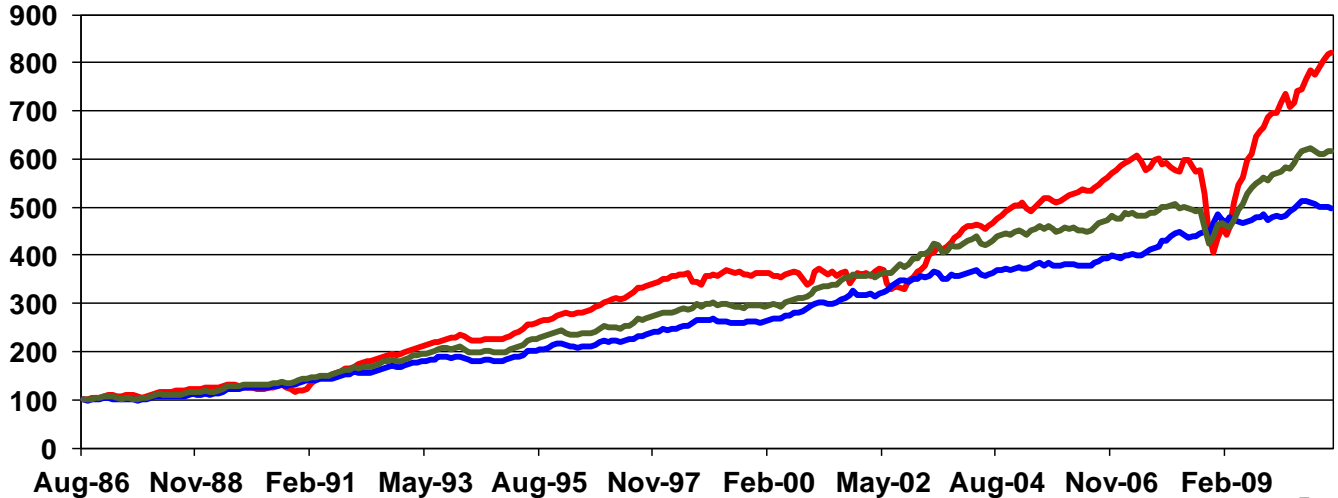
**High-yield
market
drivers**

Total return index 1986 to 2011

High yield hit by credit crunch but now more robust than ever

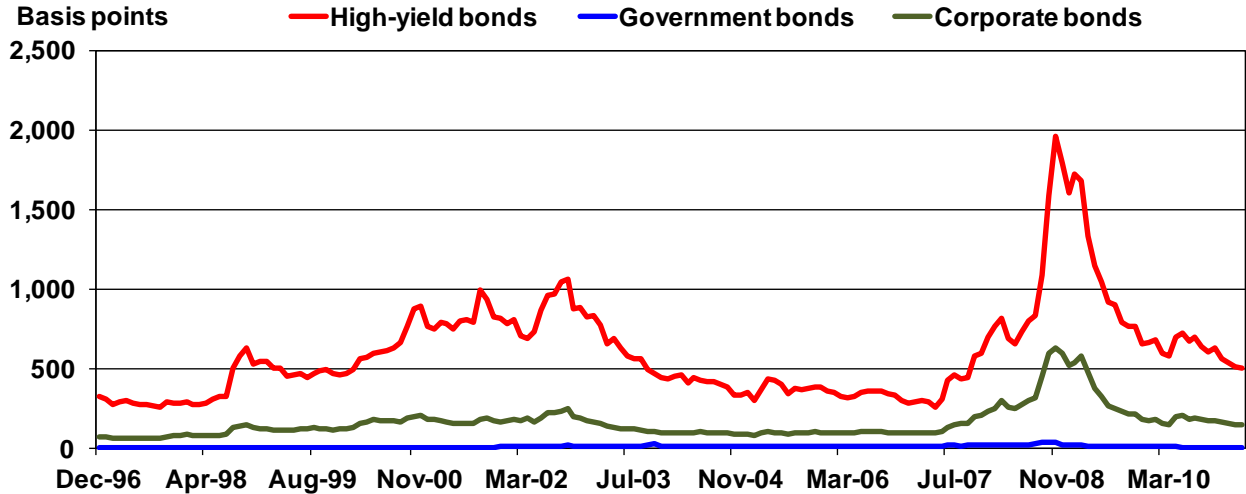
Index, March 1980 = 100

— High-yield bonds — Government bonds — Corporate bonds



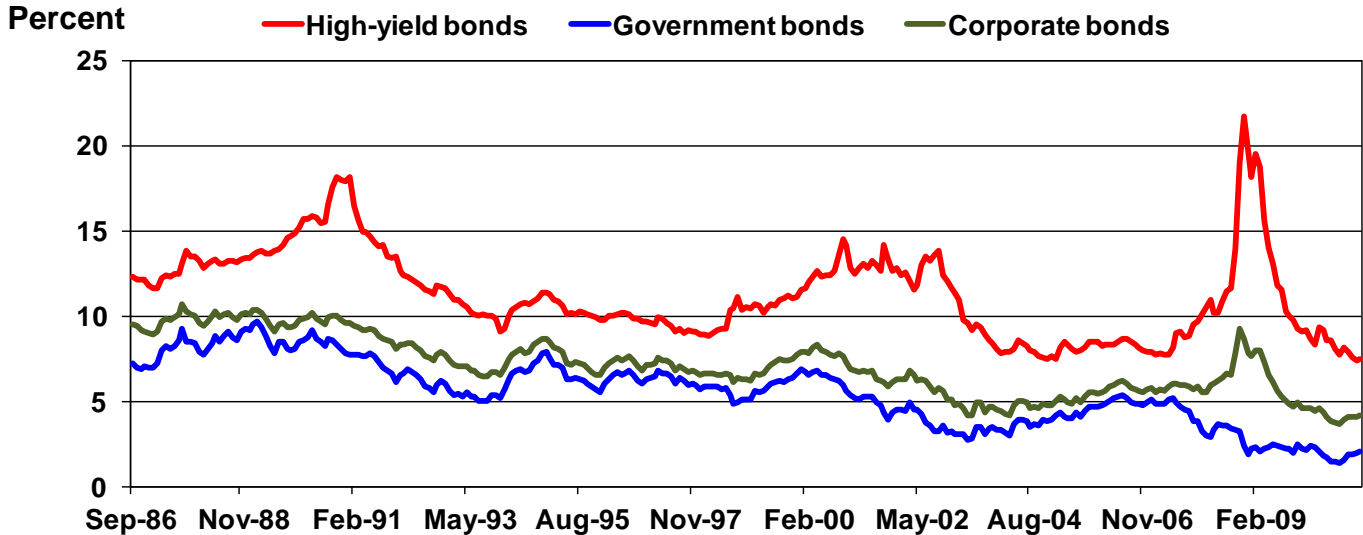
Spread to worst (STW) 1996 to 2011

Spreads spiked during credit crunch but have now subsided



Yield to maturity 1986 to 2011

High yield spiked multiple times more than corporates during crisis



Is the market heading for trouble again?

Covenants loosening and leverage increasing

- Previously common restrictive covenants
 - Debt incurrence
 - Restricted payments
- Quality of transactions now show signs of deterioration (to 2007 levels)
 - Multiples increasing
 - Proceeds used for cash-outs
 - Increase in holdco dividend deals

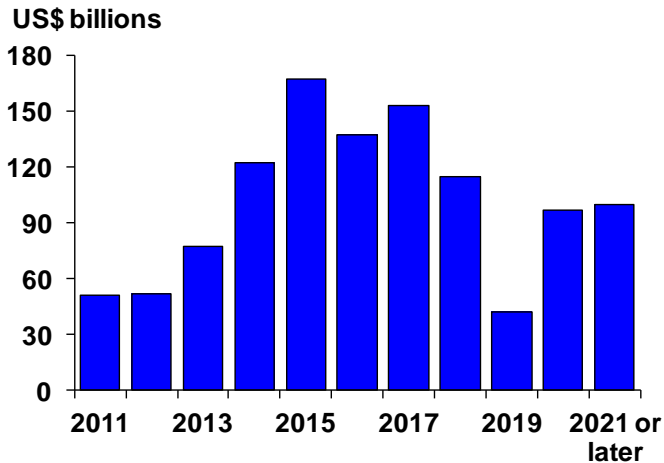


Chipping away at the maturity walls

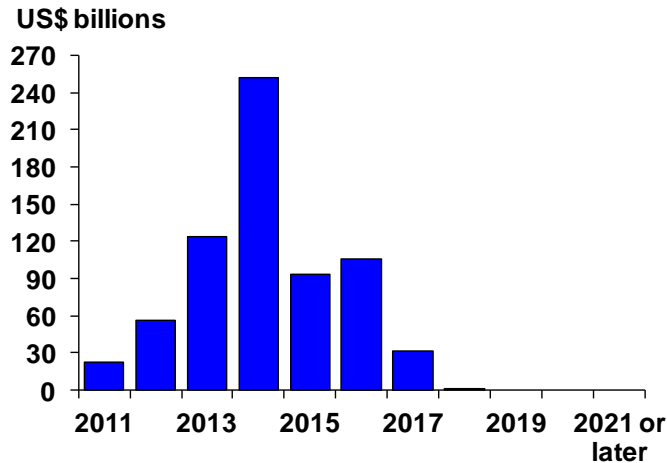


Outstanding loans by maturity, as of Dec. 2010

High-yield bonds



Institutional leveraged loans



Source: JP Morgan.

Chipping away at the maturity walls

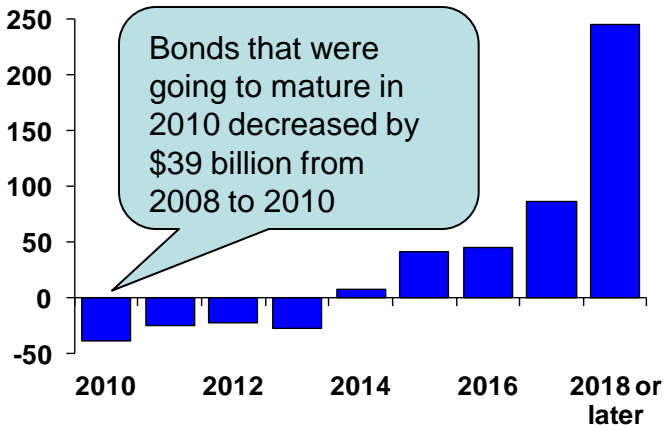
Change in maturities, Dec. 2008 to Dec. 2010



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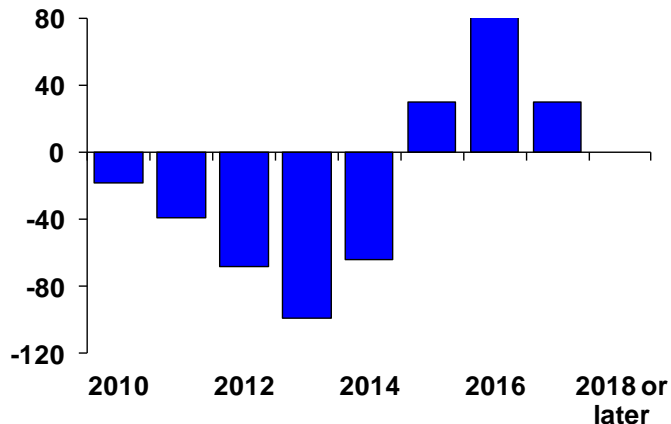
High-yield bonds

US\$ billions



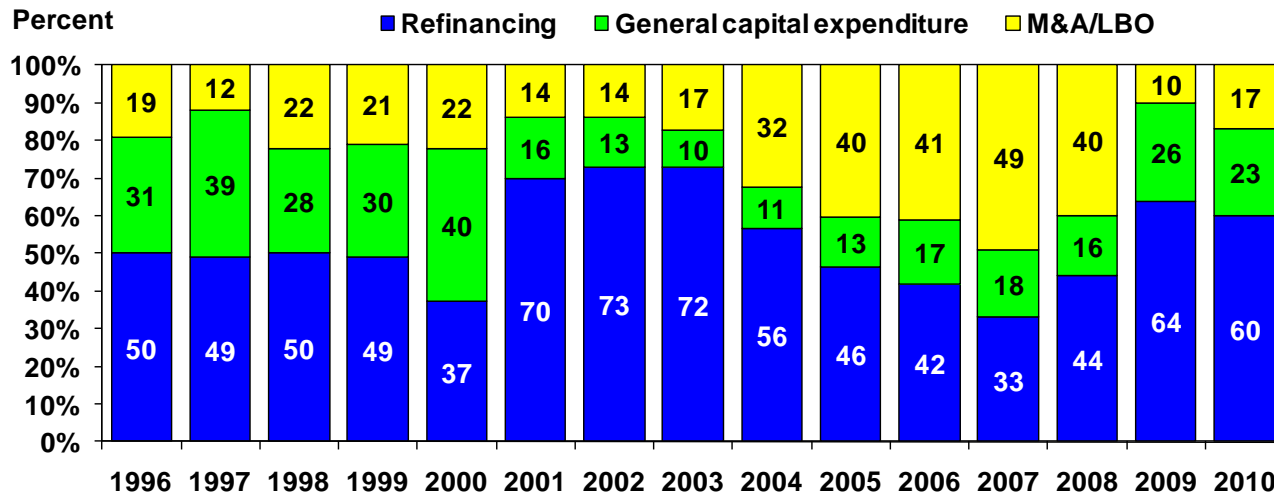
Institutional leveraged loans

US\$ billions



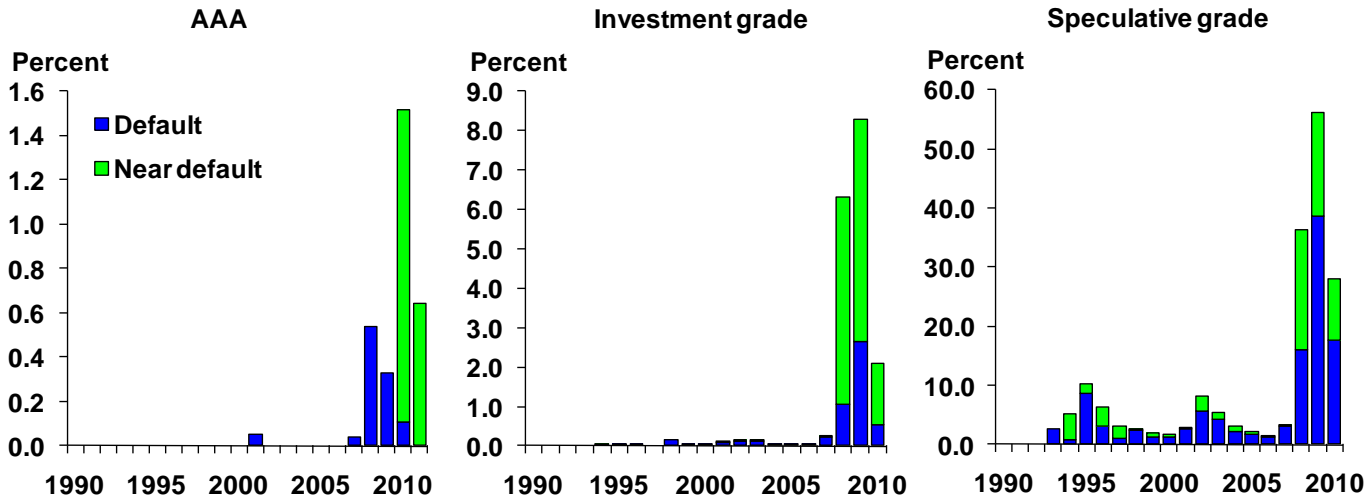
The credit cycle vs. high yield use of proceeds

Refinancing dominates issuance during recessions and early stages of recovery



Source: Fitch Ratings.

Structured finance default rates fell in 2010



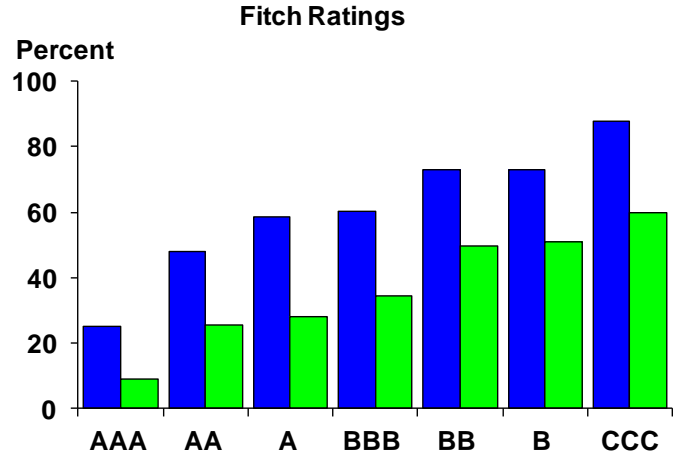
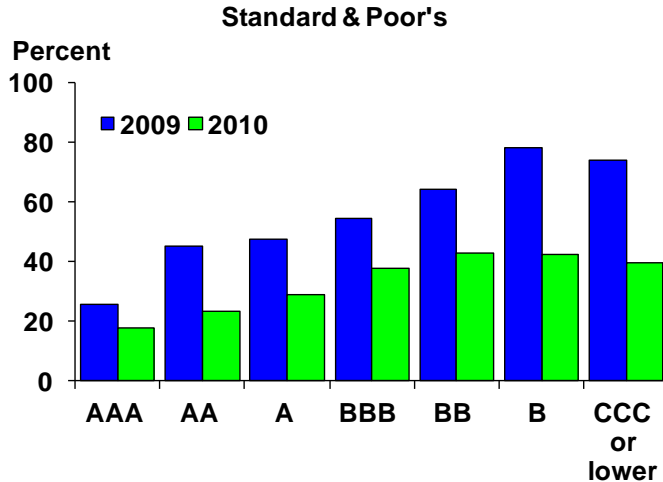
Source: Standard & Poor's.

Downgrades for structured finance products

2009 vs. 2010



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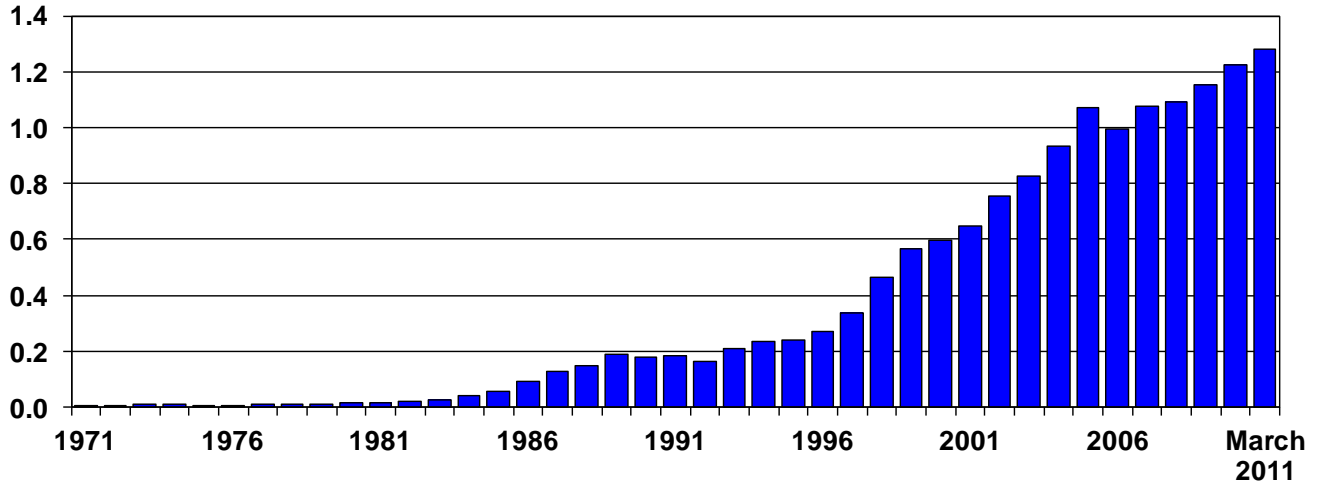


Sources: Standard & Poor's, Fitch Ratings.



U.S. high-yield corporate bonds outstanding

US\$ trillions

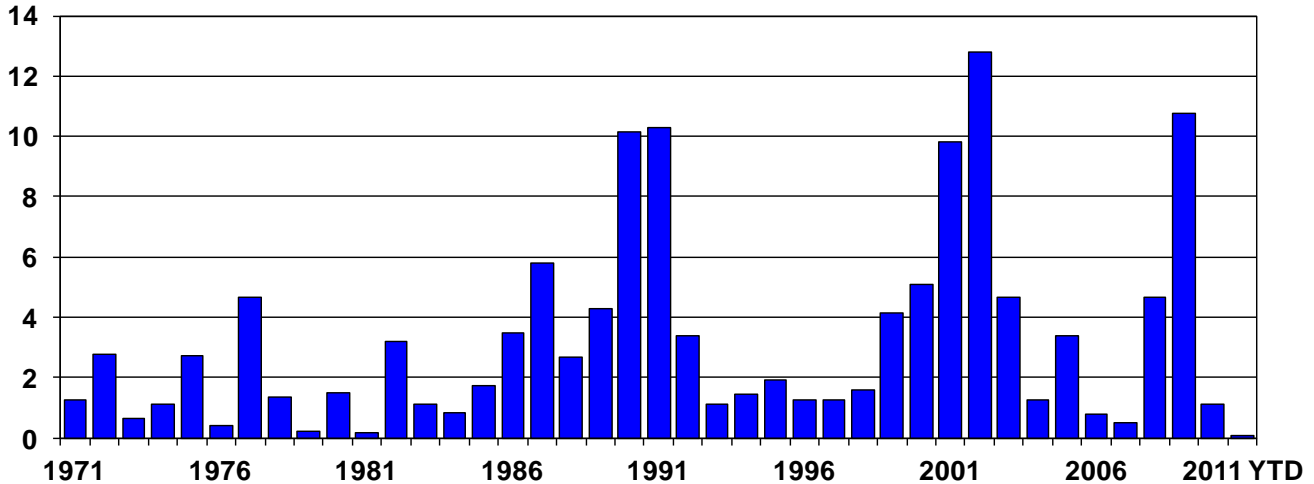


Source: Edward Altman.



U.S. high-yield default rates

Percent



Source: Edward Altman.



Mitch Julis
Co-Chairman and Co-CEO
Canyon Partners LLC

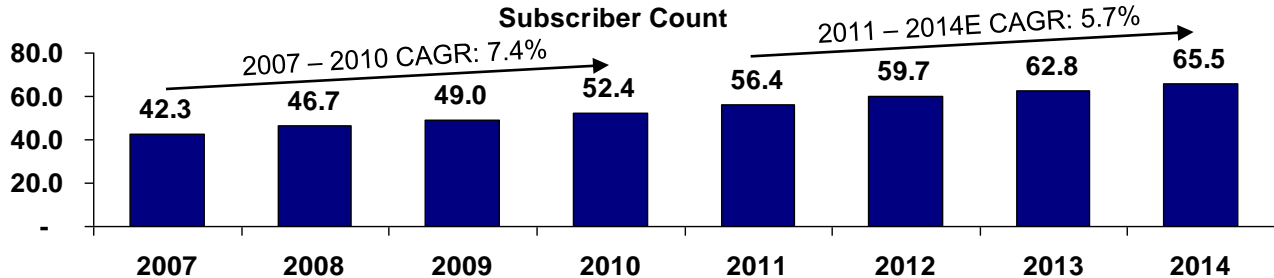
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TV One investment overview

Anticipate the opportunity

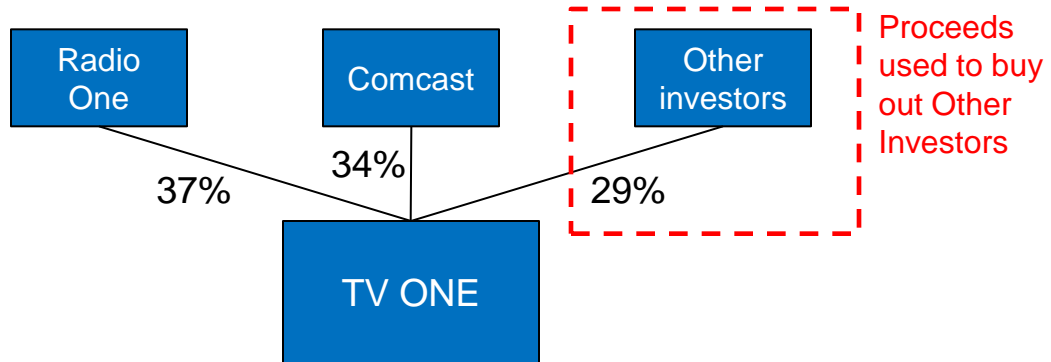
- #2 cable network targeting African-Americans, reaching 52 million homes
- Owned by Radio One (37%), Comcast (34%), DirecTV (10%), Financial (15%) and Other (4%) investors



Situation overview

Precipitate the situation

- TV One needed \$120 million to buy in 29% of its equity not owned by Radio One and Comcast
- A limited buy-in period necessitated an accelerated timetable



Situation overview



Participate in the solution

- Canyon invested \$119 million in TV One in a private debt financing
 - 10% annual fixed rate cash coupon
 - Leveraged <4.0x on 2011E EBITDA
 - 5 Year maturity
- Comparable paper yields 6-7%
- Attractive cable property that should de-leverage dramatically over next 5 years through contracted subscriber fee increases



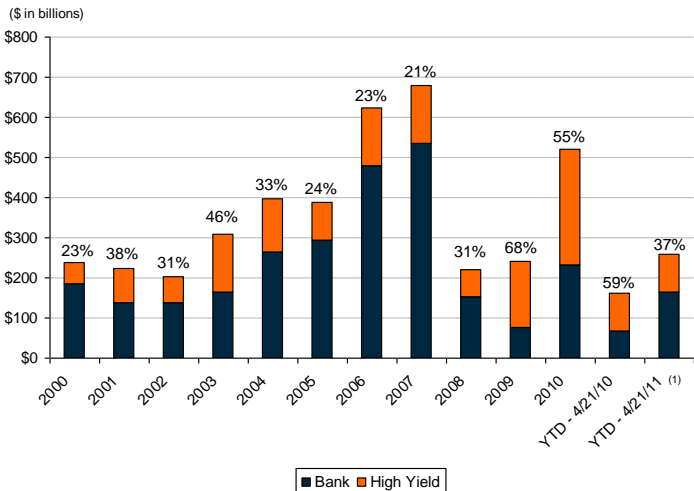
Chris Shepard
Executive Vice President,
Co-Head of Investment Banking
and Head of Capital Markets,
Imperial Capital

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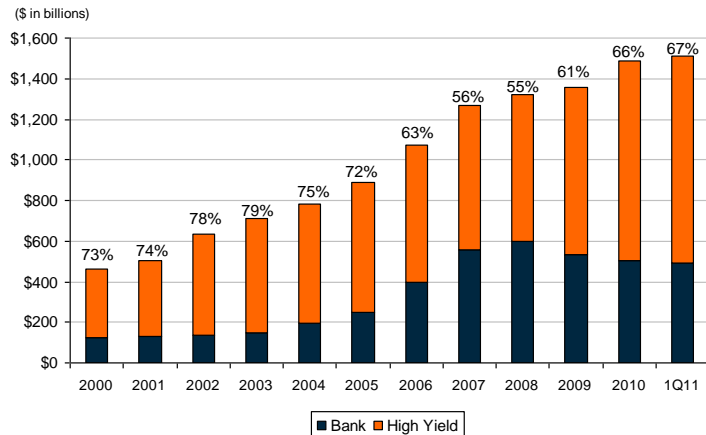
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Leveraged finance volume

Bank debt and high yield volume



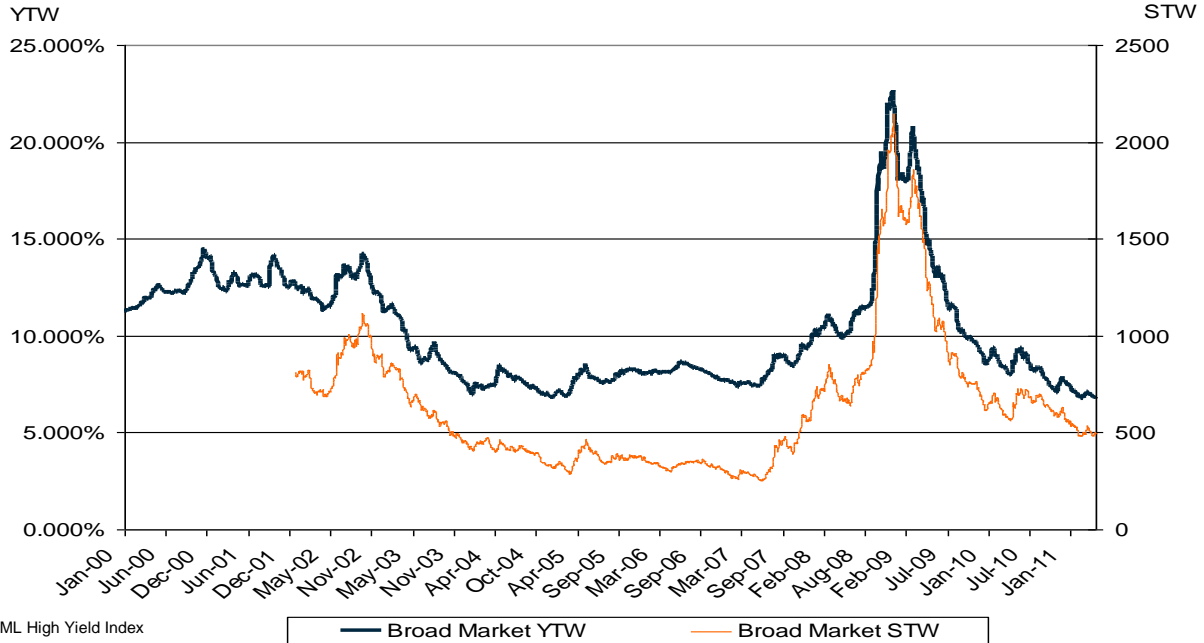
Total leveraged debt outstanding



Source: Standard and Poor's LCD.

(1) 2011E is calculated by annualizing 1Q11.

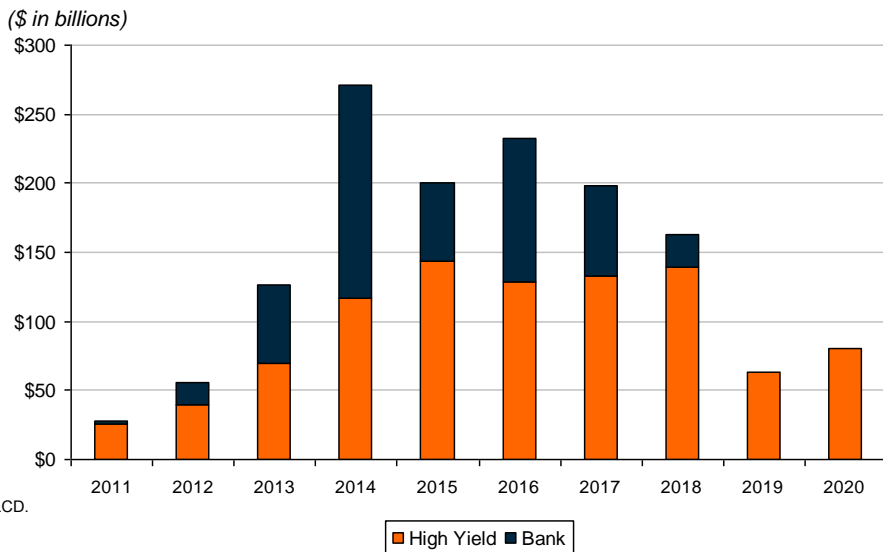
BoA market index – 2000 - Present



Source: BAML High Yield Index

Wall of maturities

Maturity profile of leveraged debt



Source: Standard and Poor's LCD.

Small capital structures have the majority of refinancing ahead of them

Maturity schedule by capital structure size

Size of capital structure	% total outstanding 2010 - 2012	% total outstanding 2013 - 2015
\$300mm or less	27.4%	59.7%
\$301mm to \$999mm	18.7%	57.5%
\$1bn to \$3bn	12.4%	53.8%
\$3bn and greater	16.6%	46.0%

Source: JPMorgan.



High yield issues summary - YTD

Number of High Yield Transactions⁽¹⁾

(\$ in millions)

< \$200⁽²⁾	34
\$200-\$399	127
=> \$400	124

Rating	YTM			Net Leverage @ Level		
	< \$200⁽²⁾	\$200-\$399	=> \$400	< \$200⁽²⁾	\$200-\$399	=> \$400
Ba1 - Ba3	6.938%	6.410%	6.893%	2.0x	2.4x	3.4x
B1 - B3	9.145%	8.443%	7.258%	3.9x	4.1x	3.5x
Caa1 and below	10.793%	9.906%	8.636%	4.2x	4.2x	5.2x

(1) Excludes Tack-On offerings below \$200 million.

(2) Average EBITDA for \$200 million and below issue is \$55 million.

Issuer considerations

Capital structure matters



- Long term permanent financing
 - No amortization (5-8 years)
 - Enhances credibility with creditors, customers, vendors and competitors (ratings)
- No maintenance covenants
- Maximizes operating flexibility
 - CapEx
 - Acquisitions
 - Restricted payments capacity
 - Simplified reporting (Quarterly vs. Monthly)
 - Tack-On offerings
- Access to the “public” market as a “private” issuer
 - Awareness in public capital markets
 - Valuable investor relationships

Investor considerations

Middle market high yield issues



- Structure determines behavior
 - Fund structure / "Pockets" of capital
 - Target benchmarks
- Illiquidity premium
 - Aftermarket liquidity ("orphaned" issues)
- Security structure
- Corporate governance
- Issuer stability
 - Smaller margin of error
 - More susceptible to exogenous shocks

Characteristics of middle-market high yield

Key differences between middle-market HY and large-market HY



- Offering size and yield
- Working capital facility
- Intercreditor implications
- Covenants
 - Debt
 - Liens
 - Reporting
- Restricted Payments / Permitted Investments



Large vs. middle market high yield issuances

	Big Deal	Small Deal
Size	\$500 million	\$150 million
Rate	7% - 8%	9% - 10%
Rating	B2 / B	B2 / B
Structure	Secured, unsecured, subordinated	Senior secured
Indenture	Highly standardized	Negotiated
Baskets	Multiple	Few (Bank debt, capital lease, general)
Liens	Unlimited - subject to secured ratio test	Generally limited
Restricted Payments	Greater flexibility	Narrow, specific allowances
Reporting	Registration rights / public	144A for life