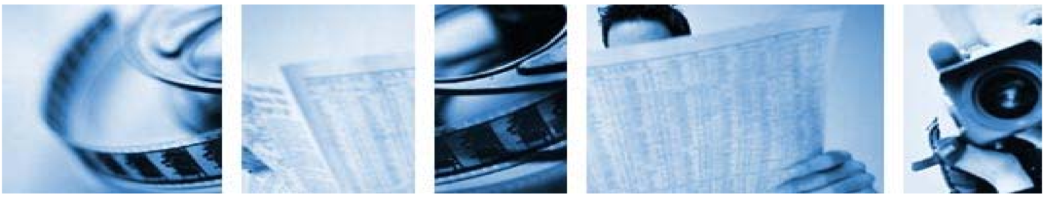

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Could you please tell us about your work? The process you follow?

- I am responsible for a portfolio of 16 names, half of which are initial ratings and half are updates as part of my monitoring responsibilities. The bulk of our work actually originates from requests made CDO or CLOs funds such as your CLO funds [nom du CLO]
- I analyse XXX credits, and I am responsible for the entire rating process of credits within my portfolio. Typically, I begin by the information memorandum. I go through the IM rapidly to get a sense of the sort of business I am dealing. I read the due diligence carried out on the company's operating activities and industry in which it competes. I look at the proposed sources and uses of funds, their spread in bps, the proposed capital structure and financial covenants. On the basis of this reading, I then proceed to building a cash flow models, starting with the bank and management proposed base case, and then construct a stress case, in words a situation which seems unlikely but a level beneath which we do not expect the company fall. Then, based on the industry and legal jurisdiction, I also the complete a recovery analysis, which allows to estimate the likely recovery values the different creditors of this company can expect to receive based on their respective ranking in the capital structure. Finally, once I completed my analysis, I present my recommendation to a credit committee, where I expected to argue and possibly defend my position.

What are ideal characteristics of an LBO?

- Need to possess attributes that translate into recurring non-volatile core operating cash flows to support substantially increased financial leverage. Such business would have for example:
- Embedded contractual relationships with customers, high barrier to entry (specialised consultancies: enery or environmental consultancy)
- Positive market dynamics (aging population), positive longer term trends in government policies, element of property backing. (Private hospitals)
- Loyal customer base, few available substitutes and protected from sudden change in fashion (Niche retail: bouffe de luxe pour des animaux domestiques – mais non pas des enfants.)
- Specialist manufacturing: high technology and strong established relationship with end-users (Manufacturer of medical gases dans un créneau trop petit pour intéresser les plus grandes entreprises comme Air Liquide par exemple)
- Little competition and consistent high cash generation (Leisure: pub chain focussed on secondary sites, which did not attracted big players)

What is an LBO?

- Tool and financial structure that allows to concentrate the ownership of a company in the hands of a restricted number of investors and to minimise taxation by injecting a large amount of debt into the capital structure.
- The leverage that can be supported depends on the sustainability of CFs, liquidity of the markets, cost of debt funding, precedent of financing structures, ability to sell non-core assets, ability to reduce operating costs.

What interests you about leveraged finance?

- First, I like that the analytical work needed in LF transactions is challenging because the companies involved have a complex capital structures and lead to a credit quality deterioration often bringing them to the brink of financial distress. And that in itself makes the work really rewarding because it requires one to fully understanding the critical credit factors that govern the company and that imposes a high degree of accountability that you get from looking an environment grade company.

- Another aspect, which drew me to LF is the competitive nature of the business, which add a dimension of excitement to the job. For example, since LF is such high revenue business, all aspects of winning business has become fiercely competitive. And this begins from the moment a bank tries cement establish a relationship with an investor and then when has to back on the PE house to win the bid to buy the targeted firm.

Why do you want the role of LF analyst?

- Fundamentally, I'm drawn to this role because I am interested in nature of leverage finance, the intensity of its work, and because I want to gain exposure to the actual execution.
- I am also drawn to the role because it also involves dealings with people, communication both within the team but also with external parties. I think that have the right attributes and the necessary presence to easily establish good relationships with people. And so, I'm drawn to the role because it would involves meeting with clients, helping a team prepare its presentations to win new business and possibly with some years of experience to work on nurturing or building relationships with PE houses.

What do your think the role will involve?

- First, it would be a junior role and as such it would be a support role.
- I would be expected bring good core credit and modelling skills and a reasonable understanding of leverage finance structures.
- Specifically, the junior analyst is there to support you in deal execution **-** to complete credit and financial analysis, create cash-flow models, determine debt capacity and undertake due diligence on the company and competitive landscape, prepare your pitch presentation.

Why do you want to work for us?

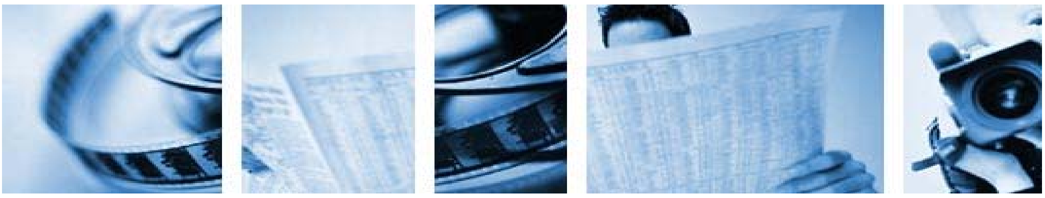
- I am drawn to your company because you a very respected group, and well established in this market
- I must say that I am also drawn to your team because its size. Ultimately, that means to me that (1) you benefit from a consistent flow of deals, and (2) that it's a very human scale. Which means I would not be thrown into a maze of people, which does happen in some banks.
- I also like that you're a pan-Europe player. Although, I happy to focus on UK market, the fact could allow me to use the understanding I developed about the effect of different jurisdiction of leveraged deals and my language skills could also be put to use.

What attract you to an MLA team?

- I want to gain a solid deal execution experience or at least in role which given some years of experience could lead to that.
- Of course, I recognise that there are other types of LBO related jobs (such as buy-side funds for example) but ultimately, they are about analysing and commenting on deals, as opposed structuring and creating transactions, which is what I want to do in the medium-term.

Why do you think the LBO markets are so active?

- One aspect that makes drive LBO is governance arbitrage. As a general statement, it can difficult for management to implement aggressive financial structures and operational strategies when a company is under public ownership. So when a company is taken over by a PE group, it is no longer constrained by regulatory scrutiny applied to listed companies.



- Another factor is the currently benign credit environment. The combination low interest rates and liquidity surplus is provided the necessary funds for the debt component needed to finance LBO transactions.
- Finally, PE houses too have succeeded is raising considerable resources, which allows them to bid aggressively for assets, often winning bids over trade buyers, who need to justify their acquisition costs their shareholders, who may not have the same risk appetite.

Do you have any question for us?

- Would is possible to know more about your expansion plans for leveraged finance team?
- I realise that your team operate across Europe and across industries, but is their specific that you favour and simply more involved in?
- I realise that each deal is unique, but if possible, could you describe ‘typical’ process for a transaction.

Could you explain how you would determine how you would determine the debt capacity of a credit?

- It is not something I have to do, but I have an understanding of how this is done. First, I would like to see the maximum non-amortisation (NAD) debt the company. FCF assuming no debt / interest = NA-debt. Then to establish a more precise relationship between NAD and Amortising Debt (AD), [NAD x interest = AD (interest + 1/term)]. So, if the relationship is 2-3 times. 3 dollar of non-amortising is approximately equal to 1 dollar of amortising debt, then your max NAD is 100, an you investors want 10 AD, this is the equivalent of 30 NAD, hence your structure would be 100-30=70NAD and 10AD.

Pricing?

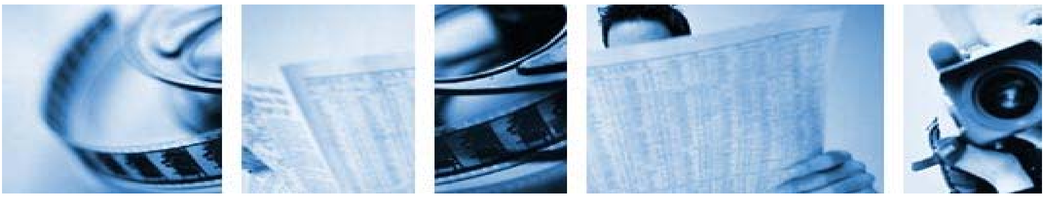
- Senior secured. (A:225, B275, C325 (50 basis difference per tranche), where pricing for the revolver is the same as the amortising Tranche A. Capex facility is priced 25 bps above tranche A but below B (because it is expected to be amortise, or prepaid so the risks are less than a non-amortising tranche)
- Mezzanine 4% cash, 4% PIK and warrants. Increasingly, however, its common to have increasingly to also a junior Mezz paid (PIK notes), and without attached warrants. Now, increasingly total price is 10% all in. Usually pricing is very standard, so any difference pricing, sometimes already indicative of either level of liquidity in the market but also level of perceived risk.

Revolver?

- Used for WC needs. I don’t expect a company which benefits from negative working capital to have a large revolver and it does, this could be seen a positive feature because it would supportive liquidity. Clause: annual clean-down requirement. To prevent it to be used as a source of long-term capital.

Structure?

- Tranche A, B, C. 2nd lien. Mezz, PIK notes and HY bonds.
- The letter tranches are senior secured debt. That rank above all creditors with regard to interest payment and liquidation proceeds in the case bankruptcy.
- 2nd lien a secured and senior to unsecured creditors (like the mezz, and HY bonds), but junior to the Tranche A, B and C.
- Mezz ranks junior to the senior secured and it’s contractually subordinated. Benefit from upstream guarantees. Covenants follow those of senior debt covenants.



- Junior Mezz or PIK (which pay entirely on an interest in entirely received on rolled up basis.) notes are deeply subordinated mezz, No upstream guarantees. And even rank behind trade creditors. Effectively, its equity. That is it only has an equity stake in remaining proceeds
- It the case of presence of HY bond (which unlike mezz pays fix, are structurally subordinated, has financial covenant not very restrictive), The HY does not.