

Private Equity Investing in the Current Credit Environment

January 2009

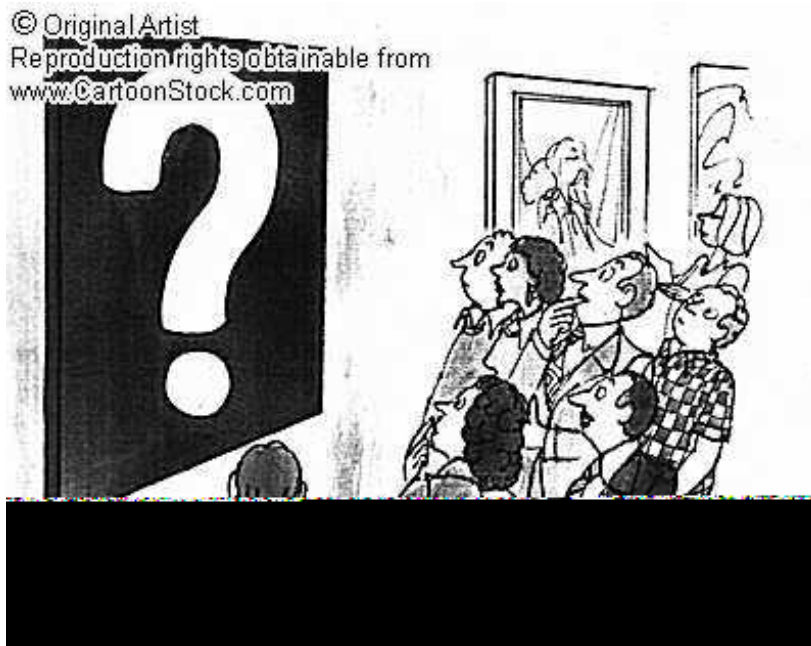
Vik Sawhney

▶ **The unprecedented credit-related turmoil that began in the summer of 2007 continues:**

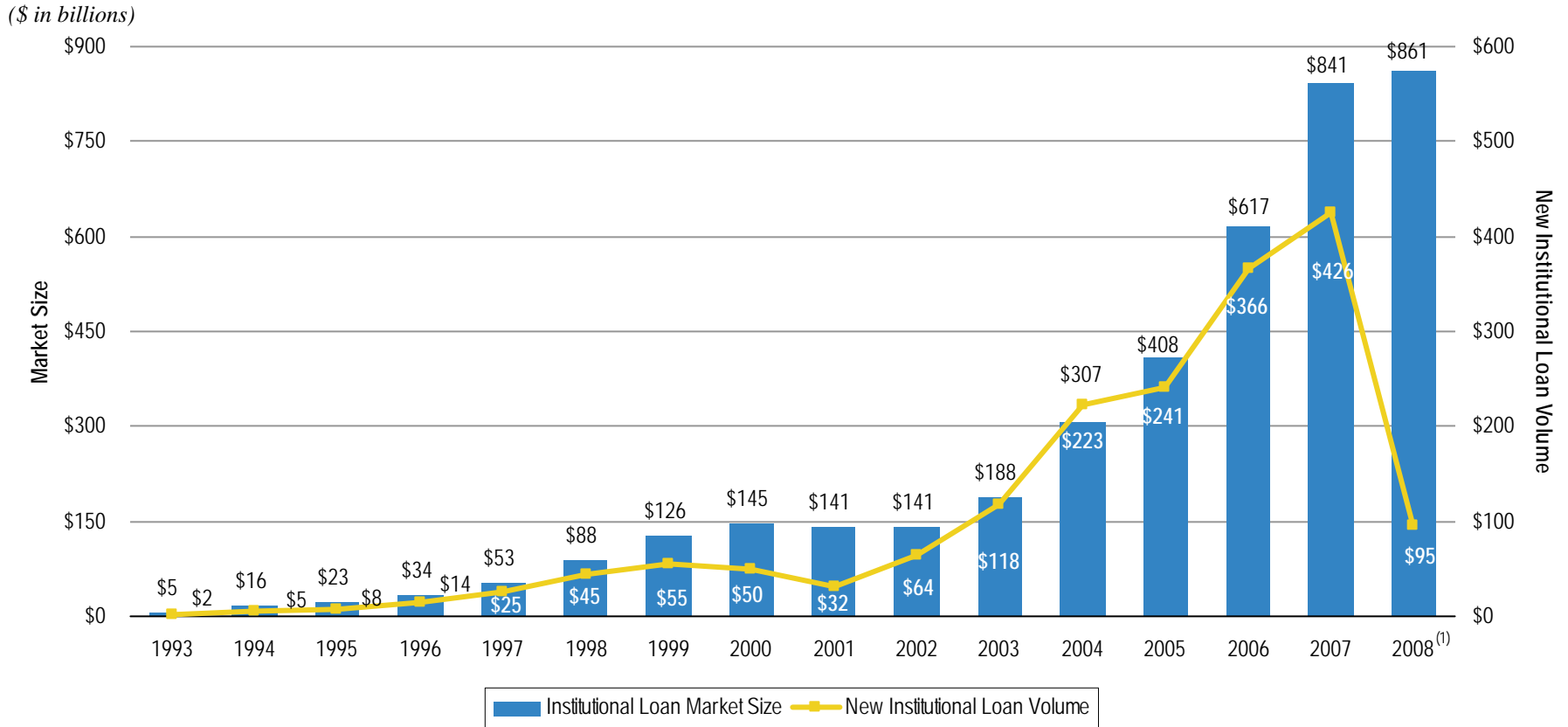
- Collapse in residential mortgage market
- Unwinding of structured credit and hedge fund forced selling
- Evaporation of liquidity and dramatic repricing of risk
- Bank consolidation
- Recession...



- ▶ **How will the current credit environment impact private equity in the near term?**
 - Continued dearth of large, "plain vanilla" LBOs
 - Once in a lifetime debt purchasing opportunities
 - Lower leverage, lower TEV deals
 - Structured deals – who needs new debt?



Historical Leveraged Loan Volume



Note: Includes \$US-denominated non-investment grade fully drawn institutional term loans (TLbs, TLcs, TLds delayed-draw, and other tranches held by institutional investors).

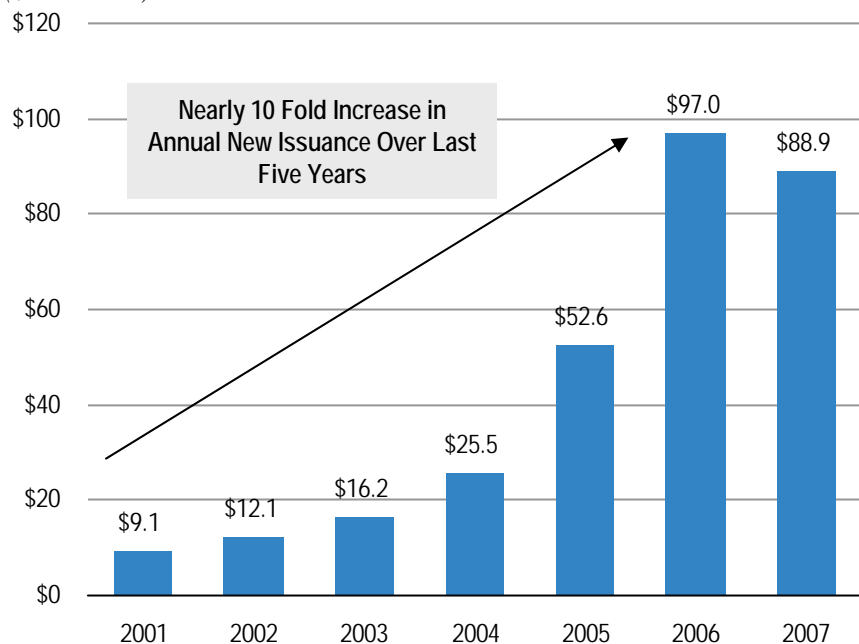
Source: Credit Suisse, LPC.

⁽¹⁾ As of 9/30/2008.

Demand from CLO's and hedge funds, which accounted for over 80% of the demand for new leveraged loans, has disappeared.

Annual CLO Issuance⁽¹⁾

(\$ in billions)



Ownership of Leveraged Loans Over Time⁽²⁾

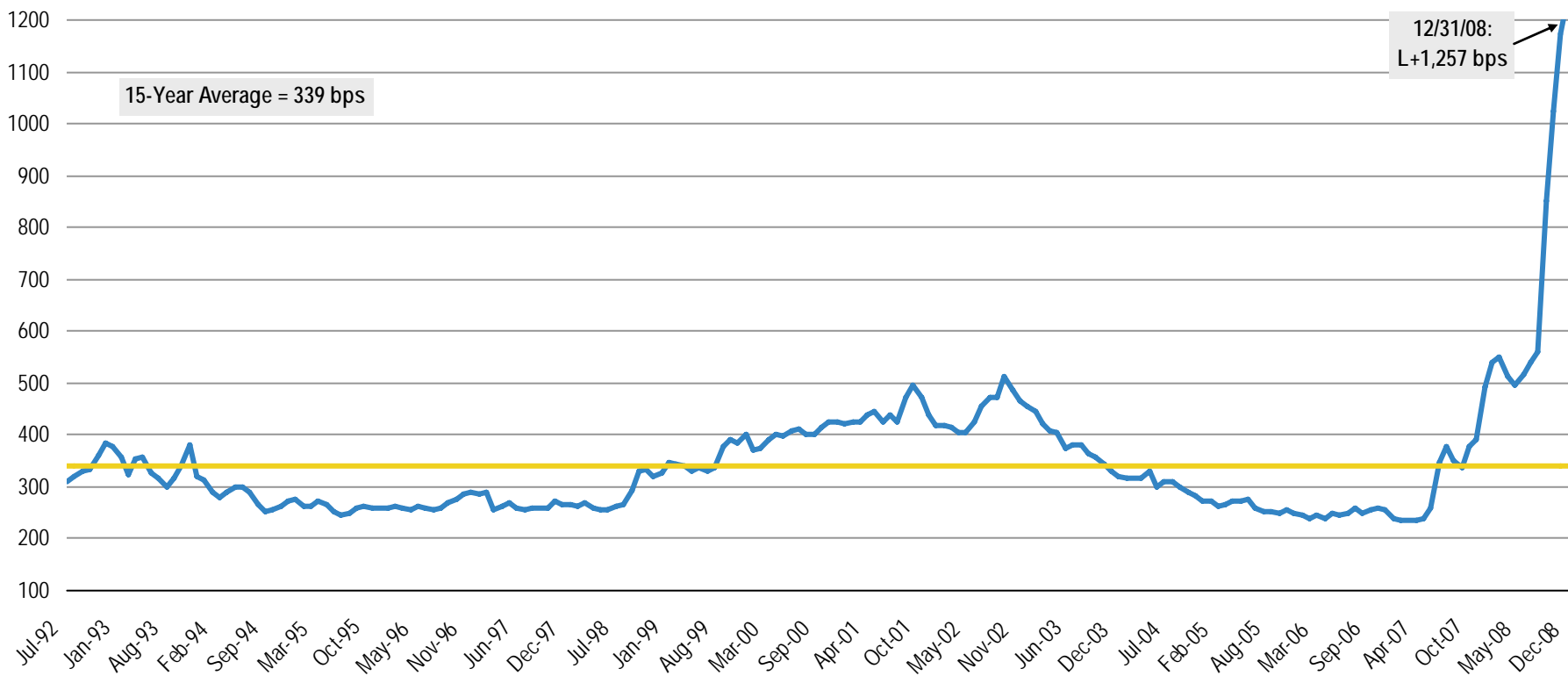
(by Investor Type)

Investor Type	1998	2007
CLOs / CDOs	10.4%	59.0%
Distressed / Hedge Funds	3.8%	23.0%
Total	14.2%	82.0%
Prime Loan Funds	36.3%	10.0%
Money Managers & Foreign Banks	27.7%	-
Insurance / Financials	21.8%	8.0%
Total	100.0%	100.0%

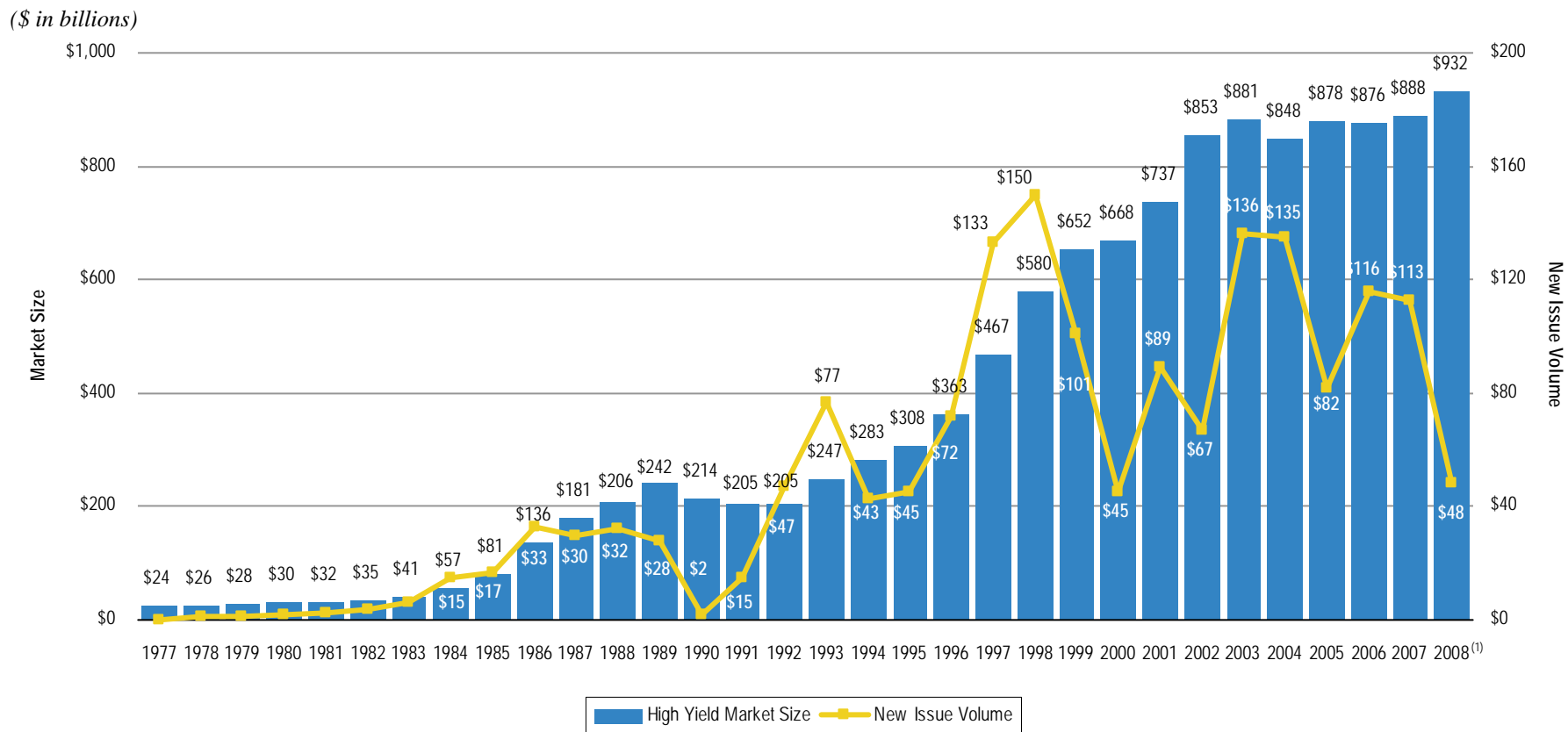
⁽¹⁾ Source: Goldman Sachs.

⁽²⁾ Source: JP Morgan.

Leveraged loans trading at highest spreads in history.



Source: Credit Suisse Leveraged Loan Index.



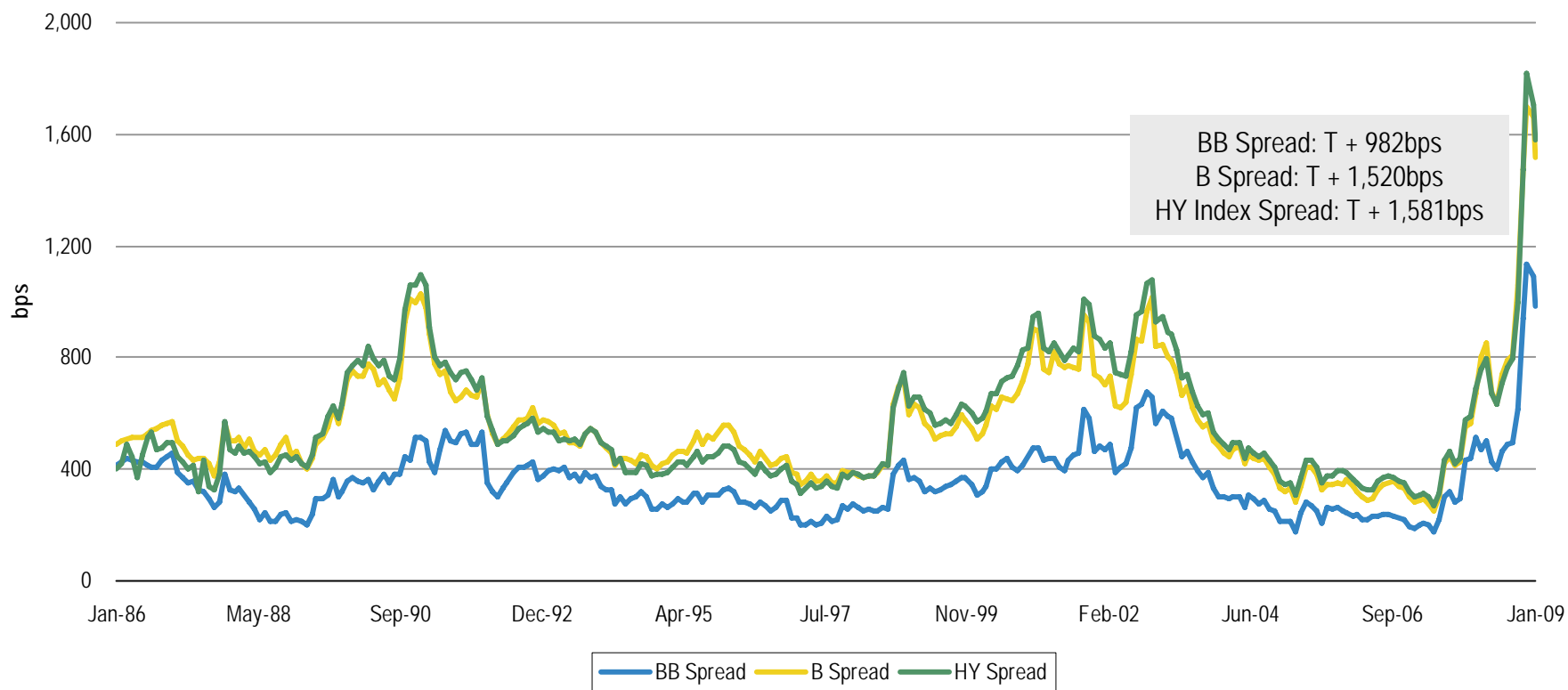
Note: Includes non-investment grade \$US-denominated straight corporate debt. Floating-rate and convertible bonds and preferred stock are not included.

⁽¹⁾ YTD as of November 28, 2008.



Source: Credit Suisse, as of 1/15/09.

Historical High-Yield Spreads



Potential distressed supply of over \$1 trillion compared to \$125 billion in 2002, which was the previous peak default level.

U.S. & European
(\$ in billions)

	Total Debt Issued 2005–2008 YTD	# Issues	Default Rate Ranges			Potential Distressed Par Amount	
Investment Grade Loans	\$4,554.8	5,290	2.0%	–	4.0%	\$91.1	\$182.2
Investment Grade Bonds	11,671.8	44,932	2.0%	–	4.0%	233.4	466.9
Leveraged Loans	3,644.8	7,195	7.0%	–	10.0%	255.1	364.5
High Yield Debt	566.2	1,508	7.0%	–	10.0%	39.6	56.6
Total	\$20,437.6	58,925				\$619.3	\$1,070.2

⁽¹⁾ Source: Houlihan Lokey.

The Private Equity Group has proven experience investing in debt securities. Examples include:

Transaction	Blackstone Investment	Investment Overview
Adelphia	BCP III & BCOM	<ul style="list-style-type: none"> ◦ Worked in partnership with Blackstone’s Restructuring Advisory Group to make investment in distressed public debt ◦ Understood and focused on industry-wide consolidation that brought financial distress to smaller companies
Charter	BCP III & BCOM	<ul style="list-style-type: none"> ◦ Worked in partnership with Blackstone’s Restructuring Advisory Group to make investment in distressed public debt ◦ At investment, BCP/BCOM correctly concluded that the market had exaggerated near term liquidity pressures
DeBartolo	BCP I	<ul style="list-style-type: none"> ◦ Investment in senior debt of diversified commercial real estate company ◦ Held debt over longer period as BCP believed in solvency
Kabel BW	BCP III & BCOM	<ul style="list-style-type: none"> ◦ Investment in subordinated debt of German cable operator ◦ Interpreted macroeconomic shifts as signaling a revitalization in German cable
Kabelnetz	BCP III & BCOM	<ul style="list-style-type: none"> ◦ Investment in debt securities of German cable operator
Primacom	BCP III & BCOM	<ul style="list-style-type: none"> ◦ Investment in subordinated debt of German cable operator in partnership with another leading private equity firm

Company A

Industry	Food and Beverage
Total Leverage	7.0x Debt/Leverage
Security	Second Lien TL
Leverage Ahead	5.7x Debt / EBITDA
Trading Price	50.000
Current Yield / YTM	20% / 26%
MOIC to Maturity	3.3x

Company B

Industry	Financial Technology
Total Leverage	6.0x Debt / EBITDA
Security	Senior Sub Notes
Leverage Ahead	5.0x Debt / EBITDA
Trading Price	60.000
Current Yield / YTM	17% / 22%
MOIC to Maturity	2.9x

Company A YTM Sensitivity

		Debt Purchase Price		
		30	40	50
Exit Price	40	34%	24%	17%
	70	38%	29%	22%
	100	41%	32%	26%

Company B YTM Sensitivity

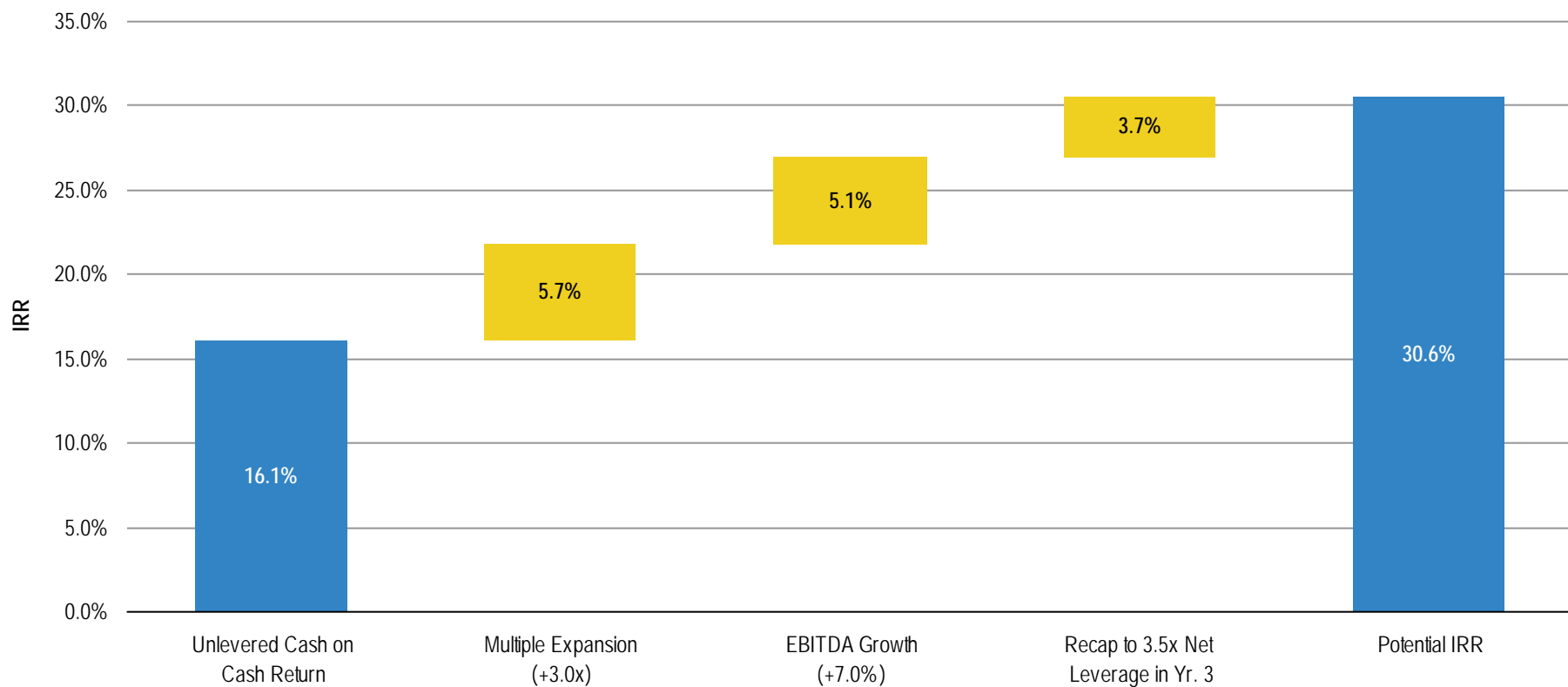
		Debt Purchase Price		
		30	40	50
Exit Price	40	36%	26%	19%
	70	39%	30%	23%
	100	42%	33%	27%

Note: These statistics are for illustrative purposes only and are not meant to be indicative of any fund performance or any potential transaction.

	Pre-Credit Crunch	Current Environment
Assumed / Actual Transaction Setup		
TEV / EBITDA	10.0x	6.5x
Total Debt / EBITDA	7.0x	3.0x
Average Cost of Debt	8.5%	10.1%
Exit Multiple	8.0x	8.0x
Investment Safety		
% Equity Capitalization	30.0%	53.8%
Year 1 Interest Coverage	1.9x	3.6x
Assumed Returns		
Gross IRR	18.9%	29.5%
Gross MOIC	2.4x	3.6x

Note: These statistics are for illustrative purposes only and are not meant to be indicative of any fund performance or any potential transaction.

IRR Bridge

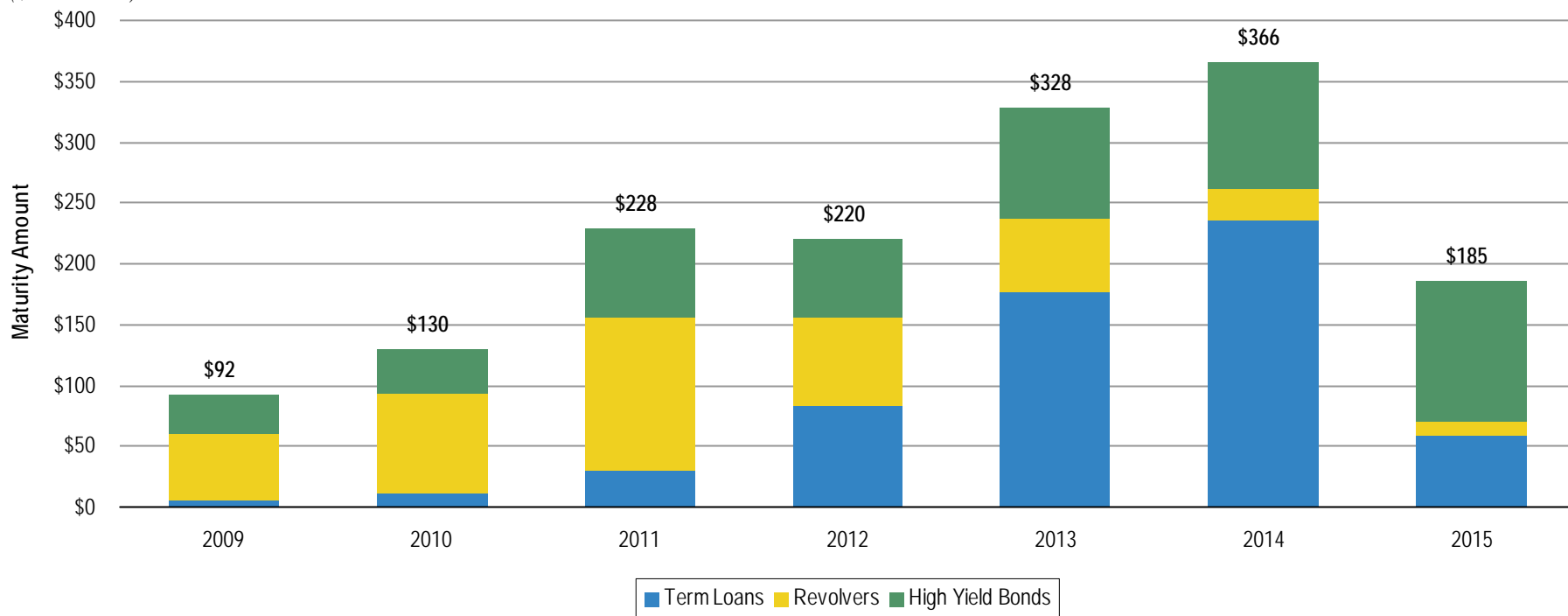


Note: Unlevered cash on cash return assumes setup multiple of 5.0x and FCF accumulated on the balance sheet come from 7.0% EBITDA growth.
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Record new issuance will lead to substantial debt maturities which may not be refinancible.

U.S. Loan and High Yield Bond Maturities⁽¹⁾⁽²⁾

(\$ in billions)



(1) Source: Deutsche Bank.

(2) Revolver Amounts Include Unfunded Portion.

▶ **Structure within Change of Control (COC) provisions**

- Existing leverage is long dated, cheap, covenant light
- Can invest up to 49% and create a new-LBO

▶ **De-leverage an existing levered credit**

- Again, take advantage of existing leverage benefits
- Existing lender base passes a waiver or an amendment
- Achieved through below-market purchase, amplifying de-leveraging affect and setting up deal at lower multiple

▶ **Assumption of leverage with asset sales or spins**

- Assets are sold or spun from the company accompanied with debt
- Accompanying leverage has similar existing benefits
- Original company has less debt
- Sponsors inject fresh equity that is not “out of the money” into the new company



“What we’re lacking are street smarts.
Does anyone here *not* have an MBA?”

Prospective investors should be aware that an investment in a private equity fund (the “Partnership”) involves a high degree of risk. The following is a summary of only certain considerations and is qualified in its entirety by the more detailed “Risk Factors and Potential Conflicts of Interest” set forth in the Private Placement Memorandum. Capitalized terms used below have the meanings set forth in the Private Placement Memorandum, which must be read carefully prior to investing in the Partnership.

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