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Debt Capital Markets

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Debt Capital Markets

McColl Partners' Private Capital Solutions Group has the requisite experience to deliver optimal results to its clients, having raised over \$2.0 billion of senior debt, subordinated debt, and preferred equity in the last three years. Examples of past advisory transactions include a senior debt raise to provide for facilities expansion and growth capital for a rapidly growing janitorial/sanitation distribution and linen services company, a mezzanine raise to fund a buyout of a minority shareholder and to provide growth capital for an established, high-growth carbonated beverage company, and a senior debt, mezzanine debt, and minority equity raise for a consolidator of distribution companies.

McColl Partners' Private Capital Solutions Group leverages significant industry expertise to achieve premium outcomes for clients, with an emphasis on establishing long-term relationships. The Private Capital Solutions Group has also established a reputation for creating innovative financing structures and completing complex situations.

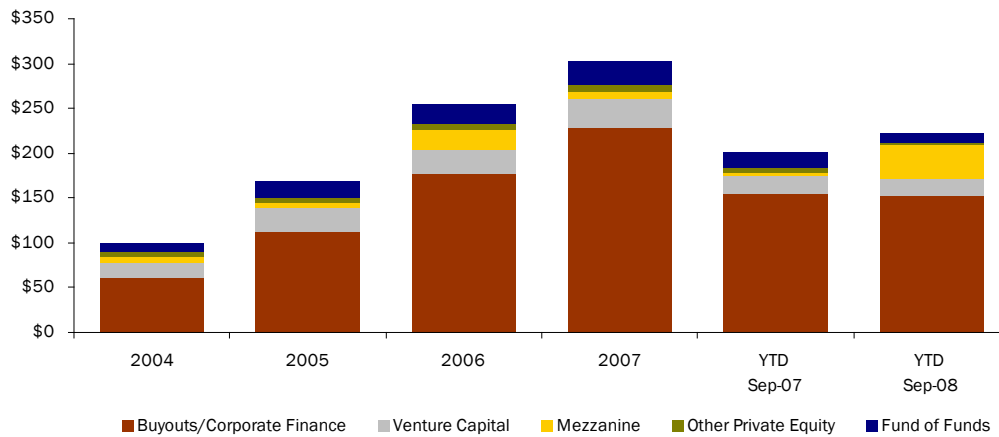
The aggressive and overly abundant credit that characterized the first half of 2007 has been replaced by the conservative and more restrictive credit markets of today. Over the past several years, the expansion of "institutional" purchasers that included collateralized loan obligations ("CLO"), hedge funds, and prime/high-yield funds pushed the leveraged loan and second lien markets to what proved to be unsustainable heights. By 2007, these "institutional" purchasers accounted for 79% of the market, up from only 25% in 1995. The dramatic increase in institutional demand for credit products created a yield-hungry competitive landscape that significantly drove down the cost and terms of leveraged buyout ("LBO") financings underwritten by investment banks and other originators. As a result, equity contributions in middle market LBO transactions averaged a low of 30% for the 2005 to 2007 time period.

Fast forward a year and the middle-market landscape has changed considerably. Liquidity issues in the debt markets in the wake of the credit crunch have severely curtailed the leveraged cash flow lending market. Hedge Funds and CLOs that crowded the market in recent years have dramatically pulled back, which has resulted in an absence of senior debt that is especially noticeable in cash flow deals for companies below the \$10 million earnings before interest, taxes, depreciation, and amortization ("EBITDA") mark. In contrast, asset-based lenders in the middle-market remain active and are not dependent upon institutional investors. However, their appetite for loans not tied to a borrowing base or specified piece of collateral ("Airballs") has significantly diminished and, when available, carry significantly reduced amortization periods of less than two years. This reluctance to lend outside of the asset base is indicative of the current risk-averse lending environment and a shrinking universe of lenders. The phenomenon is amplified in larger asset-based credits. As one major asset based lender remarked, "In larger deals, regardless of the quality of the credit, if the deal is syndicated, you are at the mercy of the terms required by the last guy in and the syndicate list is getting shorter."

Despite the turbulence in the senior debt markets, middle-market financings are getting done, due in large part to creative structures by mezzanine lenders and the willingness of private equity groups to "overequitize" transactions as they work to deploy the vast amounts of cash raised in recent years.

Figure 1 highlights the increase in capital inflows for private equity groups over the last five years.

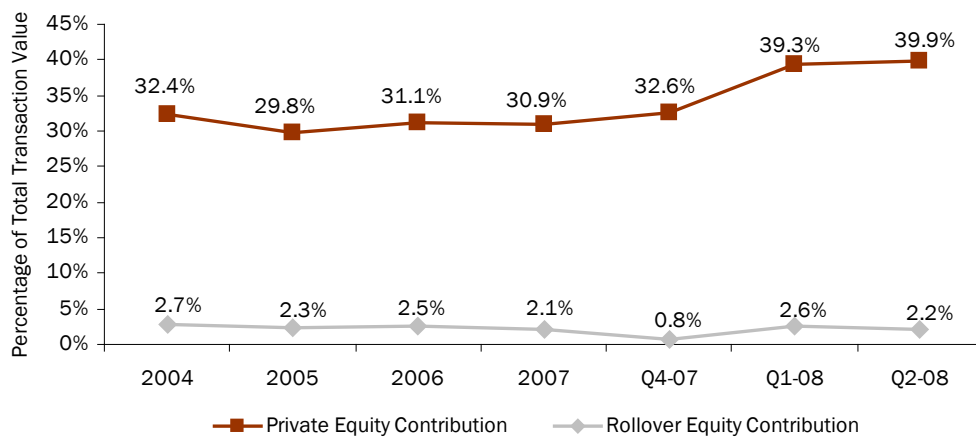
Figure 1: Private Equity Fundraising (\$ in Billions)



Source: Dow Jones, *Private Equity Analyst*.

Mezzanine firms are benefiting from the current market conditions that continue to constrain liquidity in the debt markets and are representing an increasing amount of the capital structure as private equity firms look to minimize equity contributions that are now averaging approximately 40% of the capital structure. Figure 2 illustrates the trend of increasing equity contributions in middle-market transactions. Additionally, mezzanine firms are aggressively taking advantage of non-sponsored opportunities in which they can deploy growth capital at mezzanine rates but assume senior risk for a significant portion of their investment. This is especially true in sub \$10 million EBITDA credits where the absence of senior debt in non-sponsored transactions is especially apparent.

Figure 2: Equity Contribution



Source: Standard & Poor's.

In summary, while the middle market has been significantly less impacted than the rest of the market, it has still felt the effects of the credit crunch. There is deal activity in the middle market primarily due to the availability of alternative sources of capital. In this environment, extensive knowledge of the market and relationships with the participants are crucial to getting deals done.



- INDEPENDENT
- UNBIASED ADVICE
- GLOBAL ACCESS
- CLIENT-FOCUSED RESULTS

McColl Partners provides investment banking services to owners and management of middle-market businesses and financial sponsors by combining experienced, dedicated professionals, unparalleled access to decision makers, and focused industry expertise.

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has obtained financing of \$20.0 million

Senior Debt Facility

McColl Partners acted as financial advisor to Brady Holdings.



has completed a

Private Financing

McColl Partners acted as financial advisor to Hobarama, LLC.




Maple Leaf Heritage Investments

has acquired



McColl Partners acted as financial advisor to Maple Leaf Heritage Investments.



has obtained financing of \$38.0 million provided by

Bank Syndicate

McColl Partners acted as financial advisor to Metro Cars.

McColl Partners' Private Capital Solutions Group combines significant industry expertise and extensive relationships to deliver innovative solutions to clients. McColl Partners' professionals work to deliver optimal results to fit each client's individual goals with an emphasis on long-term relationships.

For more information on how McColl Partners can assist your company, please contact:

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