sycamore associates llc

custom treasury solutions

volume 2: issue 1

in this issue:

every turning leaf

And inside every turning leaf
Is the pattern of an older tree.
The shape of our future,
The shape of all our history.
And out of the confusion, where
The river meets the sea,
Something new will arise…….
Sting

We have been watching our past unfold before our eyes this spring and summer, in both the credit and public debt markets. Old themes have been written anew, and for those of us who were active in the 90s it felt at first like 1996-7 or 2006-7, all over again.

Yet the themes of relaxing lending standards, appetite for loans, and aggressive marketing by the banks are tempered by the confusion of the times. Mixed economic signals, high unemployment, the winds of political change in various geographies, and uncertainty over global economic strength and financial infrastructure provide a cautionary backdrop that permeates discussions of growth and expansion.

In this issue we will explore the themes we see playing out in real time, and provide suggestions on ways to move forward amidst the conflicting and volatile road markers. As this summer of plenty for borrowers turns to a chilly and economically choppy autumn, our clients need to be prepared for almost any "weather" with plans to succeed amidst the confusion.

quote of the week: *marcia banks*

"I've always said - if you have to talk about capital and how it's sufficient, you need more. Reality doesn't matter if the market perception is negative."

news from the shifting shores of bank pricing: borrowers rejoice!

The news is good for borrowers again. When we tally the first half numbers, we see that the first halfof 2011 was a very good quarter for borrowers, and that many more bank transactions and bonds were issued than in Q1 2010.
Loans were up more than 100% from Q1 2010, to a whopping XXXXX billion.
Along with bank loans, borrowers tapped the bond markets heavily in the first quarter as well, with investment-grade names having the greatest success. During the first quarter, markets also flirted again with high-yield issues for non-investment grade credit profiles, but the volatility of geopolitical events coupled with continued fits and starts to economic recovery made the high yield and IPO markets hit or miss. We expect that this will continue into the third quarter of 2011.

With all that said, commercial bankers have continued appetites for loans that remain unsatisfied, since most of the activity since Q3 2010 has been refinancing of existing commitments, repricing (lower), and extensions of tenor for existing credit facilities. M&A activity, while not moribund as in 2010, has been slow to gather steam (AT&T notwithstanding) and lenders continue to chase transactions with larger commitments than at any time since 2007-8. Concomitantly, terms are easing and the term covenant-lite is back in our vocabulary.

Here are some trends to follow or to consider if your firm is evaluating accessing the credit markets:

- In addition to pricing, consider structure. Now is a good time to ask for release of guaranties, relaxation of lien and investment baskets, and other limitations that prevailed during 2008-10
- Libor floors are quickly receding in the rear-view mirror
- Covenant flexibility is back and "acceptable" leverage levels are rising
- In the investment-grade space, tranching flexibility has returned to the bond markets

As always, terms are borrower-specific and heavily dependent on credit profile. Give us a call if you would like to discuss your specific situation. And go forth to negotiate knowing that borrowers have leverage once more.

international confusion: part 2

In May 2010 we attended a conference at which, on the second day, people stood around a TV screen and watched riots in the streets of Athens as the government considered austerity measures to address the potential for a debt default.

This May, we watched as the same countries in the news last year continue to struggle with the aftermath of the Eurozone bailout, and the debate continues over the measures necessary to prevent a further economic destabilization of the Eurozone economies.

We should say that these events will have continued implications for US-based multinationals, not least of which is the volatility around global bank appetites for debt, given regulatory concerns in the Eurozone. Elsewhere in this issue, Marcia Banks reports on her summer conversations with European banks and regulators, and whether we like it or not, regulation. bank capital, and return are back on the front burner, especially concerning the Eurozone institutions.

it's not 2008, yet

While we watch market events unfolding in real time, with all the rest of our clients and colleagues, we continue to believe that it is not a replay of 2008, yet.
Here are a few of the signs we are seeing:
- Actual client results (ie earnings) continue to be robust. Indeed, liquidity and efficiency in earnings are higher than in 2008
- No clients yet report volume declines, reduced forecasts, or layoffs. By this time in the fall of 2008 many clients reported orders that had been halved, had taken one or two RIF actions, and were instituting furlough Fridays
- The previous bullets suggest that many companies are well positioned to remain profitable at current low growth levels

The risks to this fragile stasis continue to be:
- Capital strains in Europe that escalate into liquidity crisis, putting enough pressure on credit and attendant costs that the system freezes up again
- Significant activity reductions beyond current levels and expectations

What we *can* say is that additional costs of borrowing currently experienced by various (primarily European) banks are flowing through to the US borrower market in the form of reduced commitments, increased pricing expectations, and premiums offered for dollar-denominated investments.

In the space of a month market volatility has dramatically changed lender attitudes, if not completely affected appetites. We will be watching closely and commenting often as we progress through the fall.