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European Rental Association Convention 2009
Current trends in the debt markets

May 26 2009

Overview of the debt markets

- Significant deterioration in banks' books since late 2008

Banking crisis

Stage 1 – Cracks | **Stage 2 – Containment** | **Stage 3 – Panic** | **Stage 4 – Meltdown** | **Stage 5 – New world order**

June 2007: Sub-prime problems first surface in the US

September 2007: Bank of England provides emergency support to Northern Rock

February 2008: Northern Rock nationalised

September 2008: Collapse of US investment bank Lehman Brothers

October 2008: Landsbanki collapses and is nationalised by the Icelandic government

February 2009: RBS announces losses of c.£7.5bn

March 2008: Bear Stearns acquired by JP Morgan Chase at $2 per share

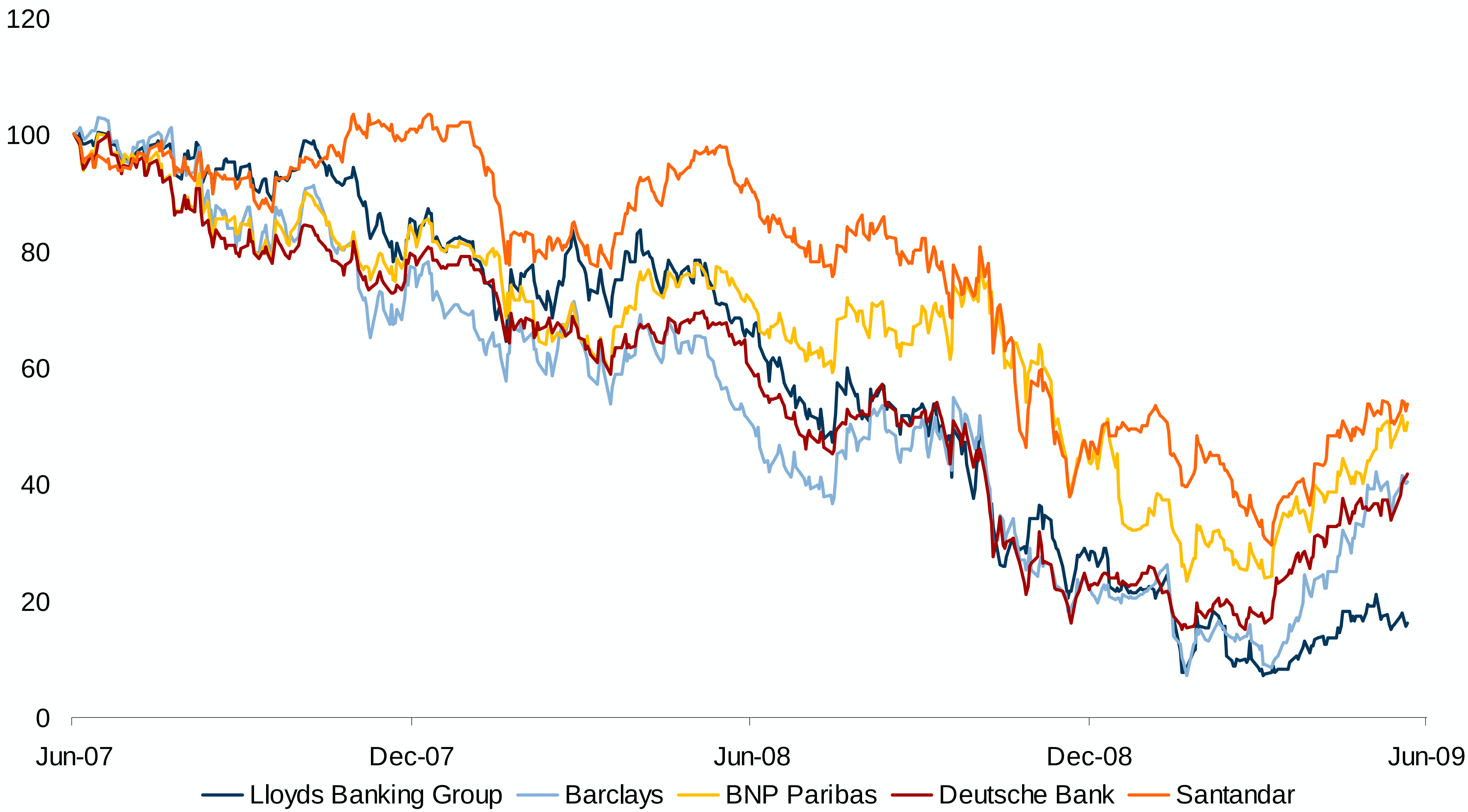
Source: Datastream

Overview of the debt markets

- Significant deterioration in banks' books since late 2008

- Banks under increasing capital, regulatory and political pressure
  - share price performance

Share price since June 2007 – selected European banks



Source: Datastream

Overview of the debt markets

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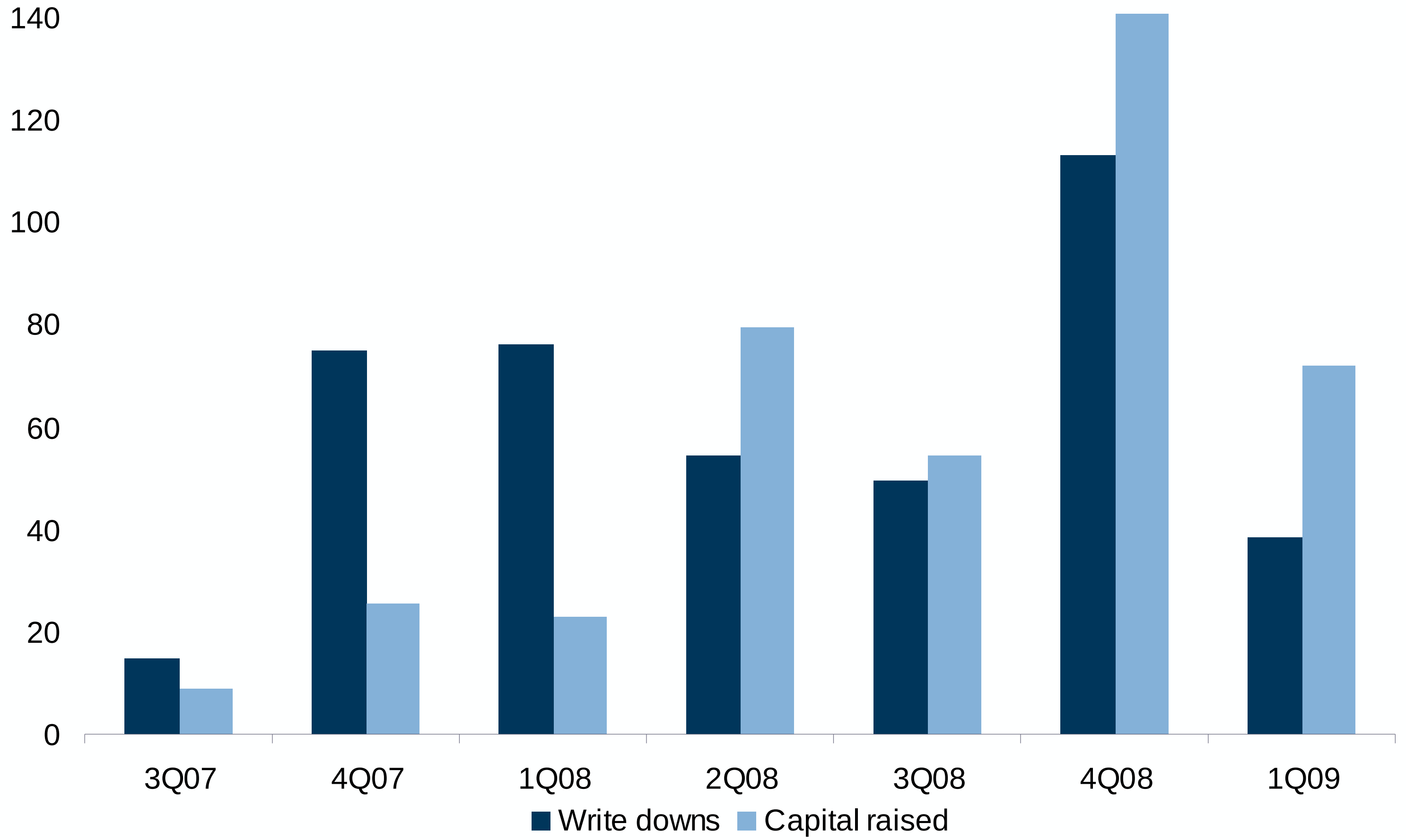
  - share price performance
    - reduction in asset base

Write downs vs capital raised – European banks and brokers



Total write downs

$421.4bn

Total capital raised

$412.7bn

Source: Bloomberg

Overview of the debt markets

- Significant deterioration in banks' books since late 2008

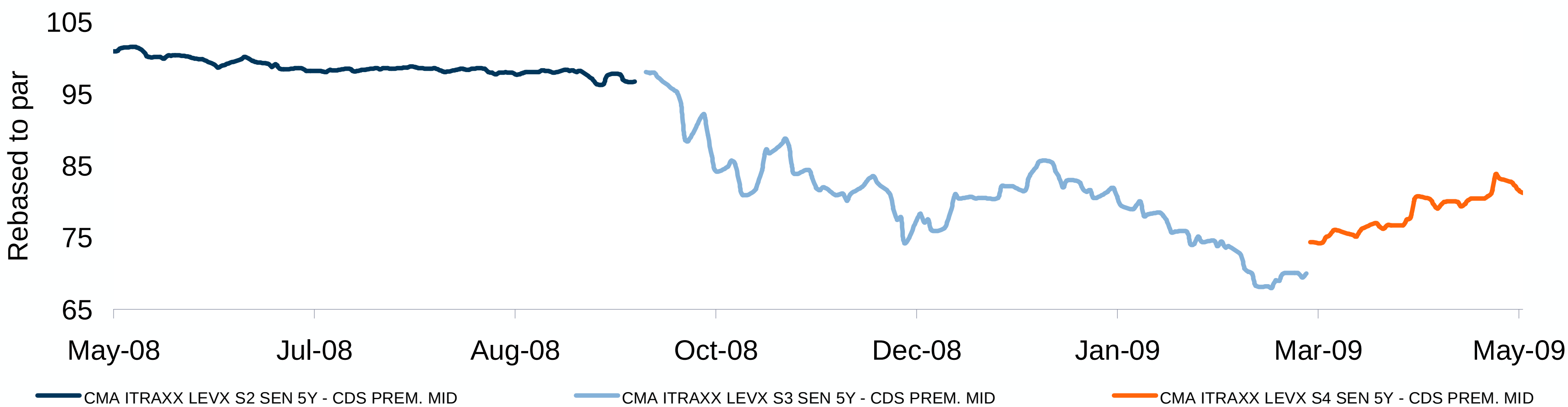
- Banks under increasing capital, regulatory and political pressure
  - share price performance
  - reduction in asset base
  - pressure to increase lending to credit worthy companies and individuals

- Limited activity in secondary debt trading market
  - mismatch of buyer / seller price expectations

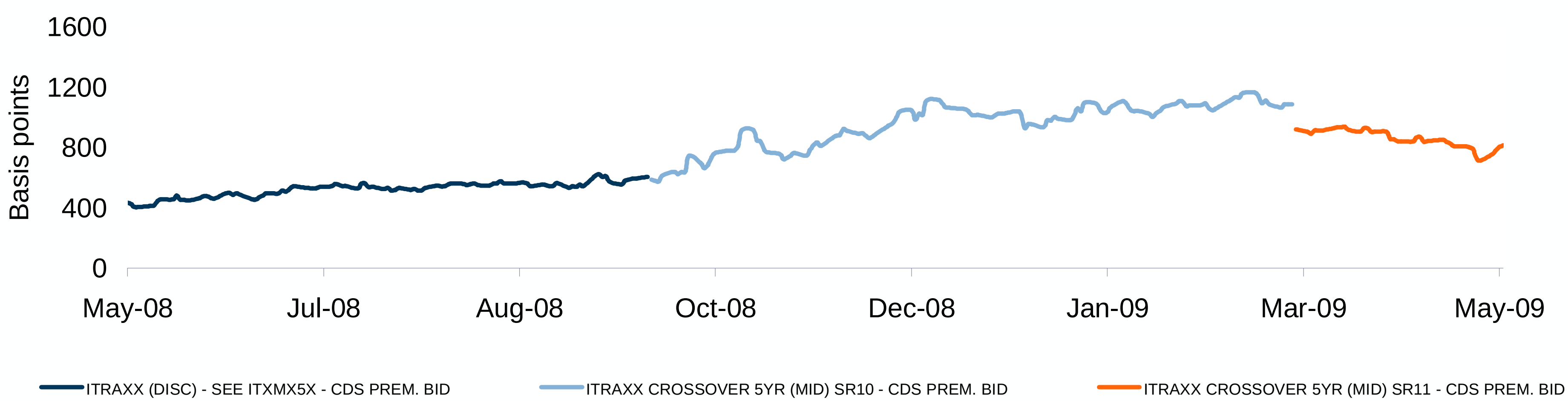
- No meaningful underwriting capacity
  - recovery only when pricing in secondary debt market improves

Secondary debt markets pricing

Leveraged loan pricing



Cross over credit pricing



Source: Datastream

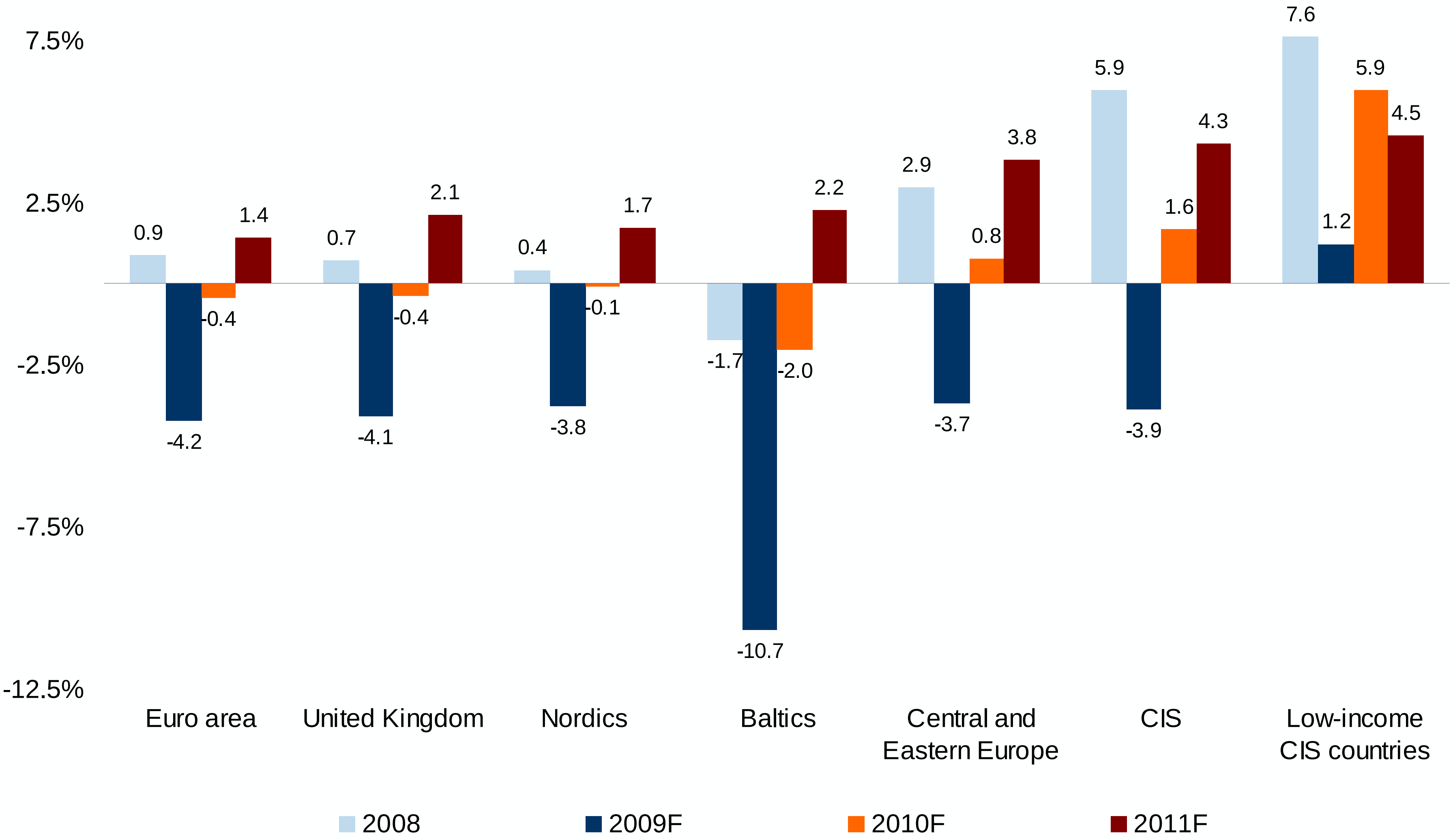
Overview of the debt markets

- Default rates expected to rise significantly
  - Moody's now forecast peak global default rates around the 14% mark

- Many financial restructurings ongoing – limited number completed post Lehmans failure in '08

- Uncertainty in macro economic environment makes forecasting very difficult

GDP change by geography in Europe – historic and forward

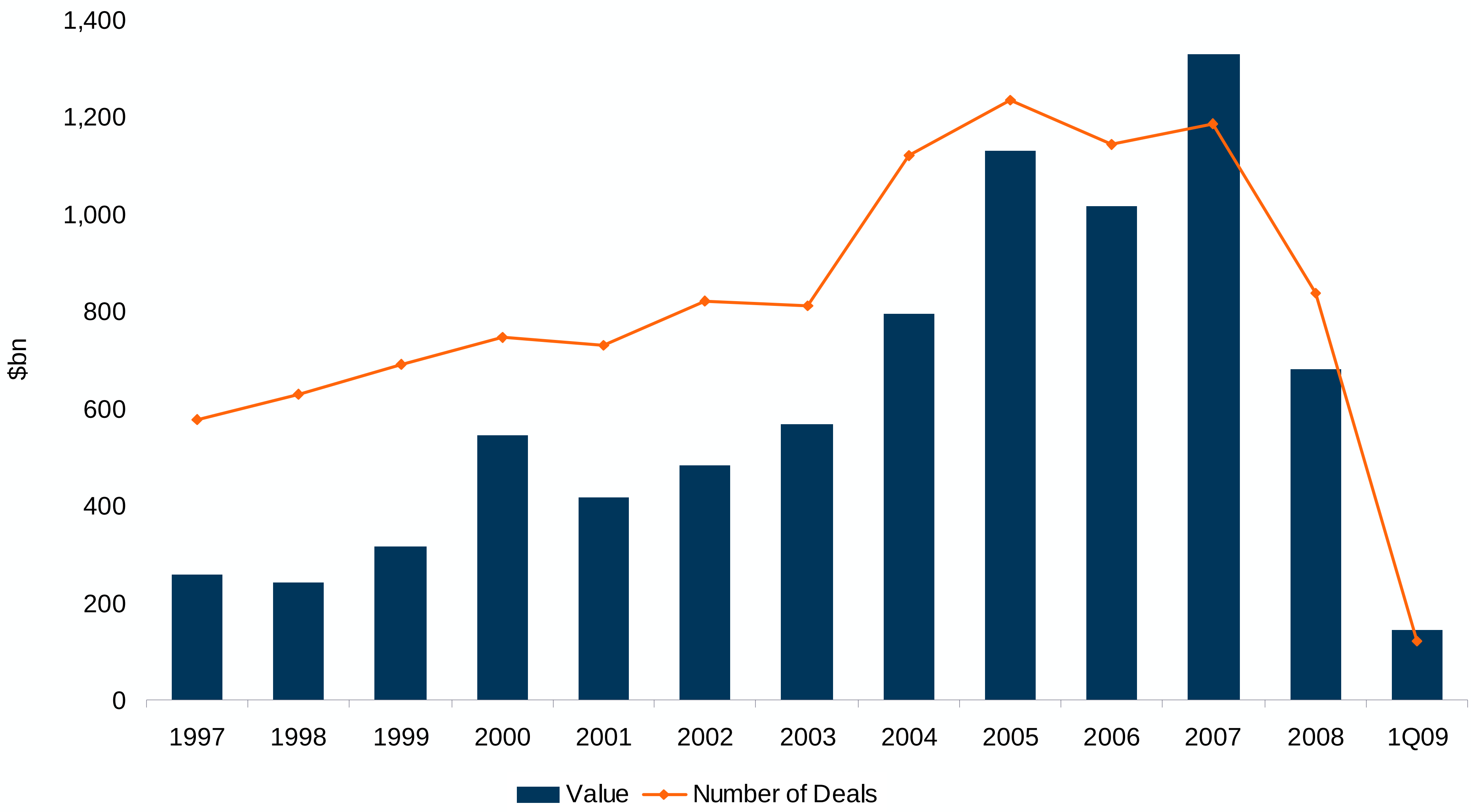


Source: IMF World Economic Outlook – April 2009

Overview of the debt markets

- Default rates expected to rise significantly
  - Moody's now forecast peak global default rates around the 14% mark
- Many financial restructurings ongoing – limited number completed post Lehmans failure in '08
- Macro economic environment uncertainty makes forecasting very difficult for companies, banks and sponsors
- First signs of increasing appetite for credit exposure – particularly for strong companies
  - very few comparables for benchmarking key deal metrics

Western Europe Annual Volume



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- First signs of increasing appetite for credit exposure – particularly for strong companies
  - very few comparables for benchmarking key deal metrics
- Attitude of banks
  - provisioning levels highly variable
  - lender relationships with Company becoming more important
    - key to ensure that banks achieve profitable return from relationship
    - banking nationalism

So what does this mean?

- Bank appetite
  - Government owned banks under pressure to deploy capital in support of normal businesses
  - other domestic commercial banks – position varies from uncertain to keen to take advantage of limited competition
  - foreign banks – wholesale withdrawal to support domestic businesses, a form of capital protectionism
  - investment banks – no meaningful presence pending return of sufficient market appetite to allow underwritten deals
  - other funders – some liquidity particularly in asset backed market

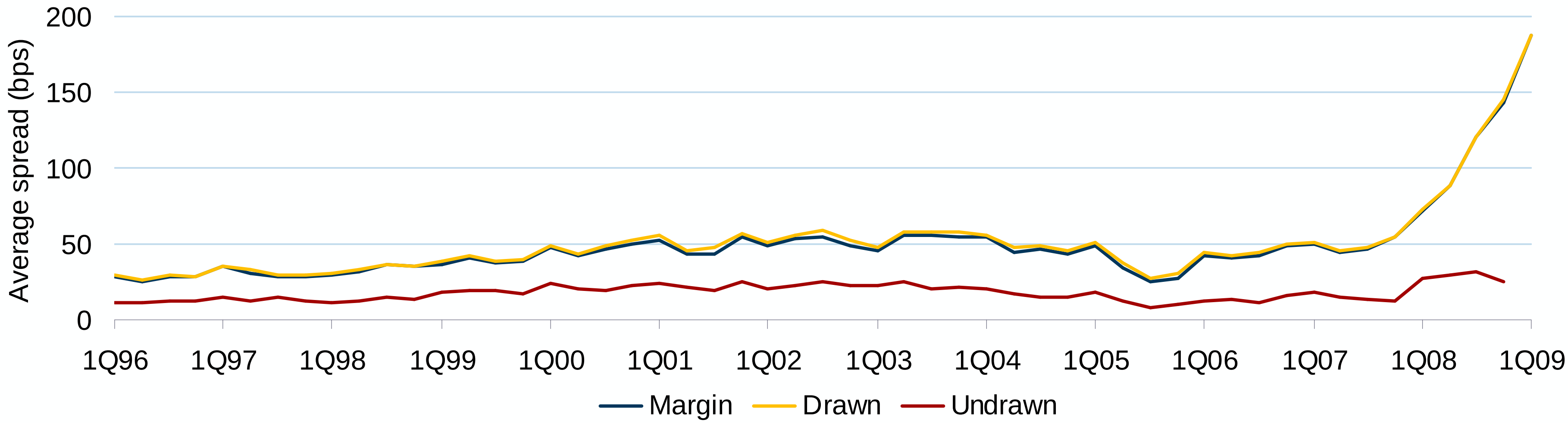
Current trends in the debt markets

So what does this mean?

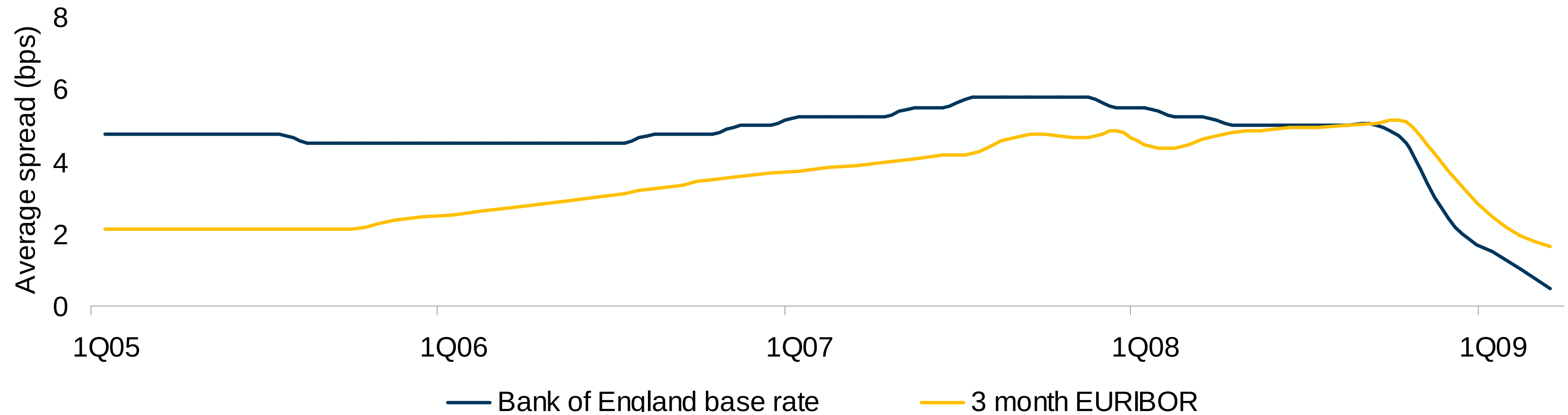
- Pricing
  - Corporates are now paying more for debt regardless of the underlying credit quality

Pricing

Investment grade loan pricing



Bank of England rate vs 3 month EURIBOR



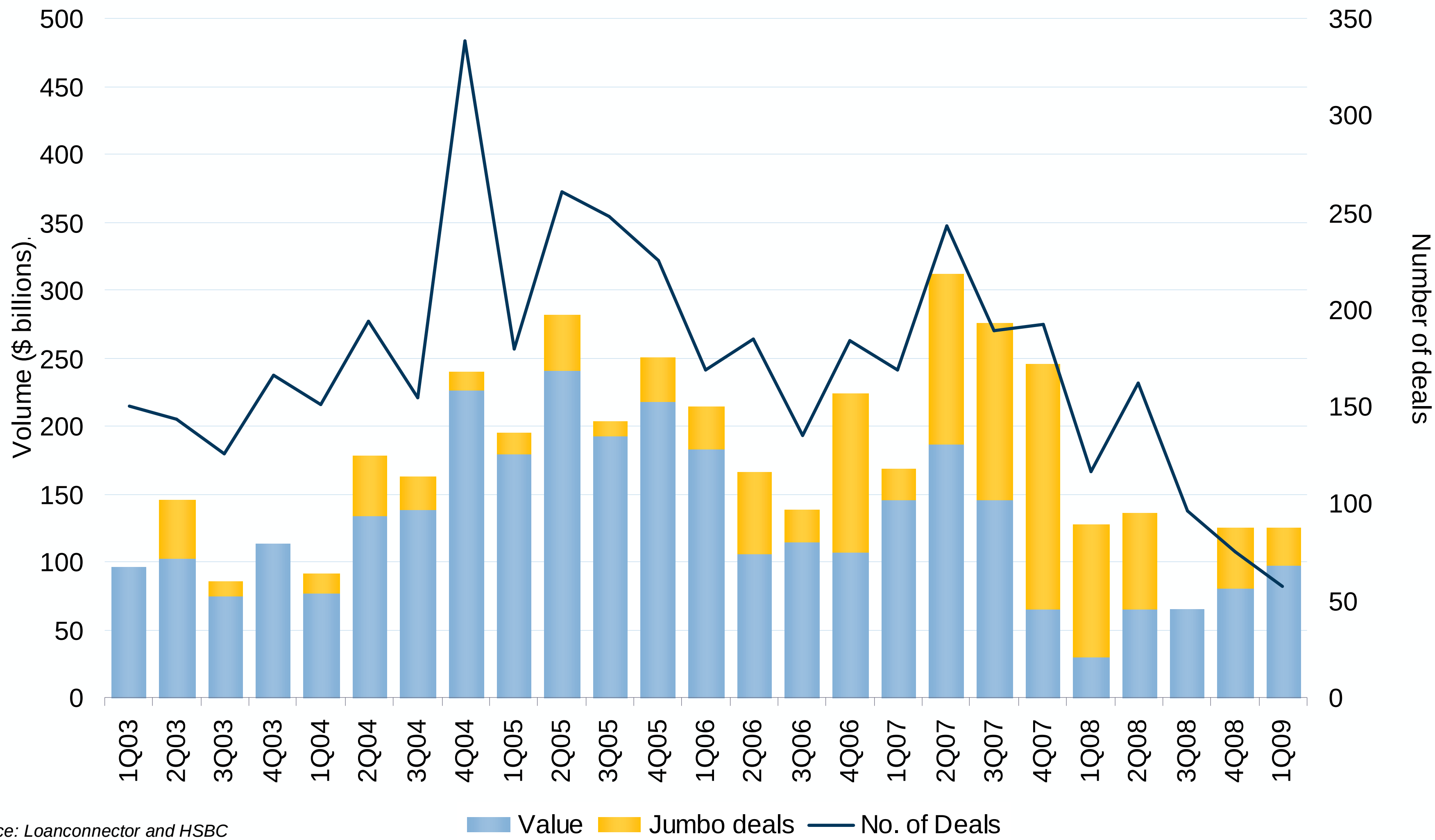
Source: Loanconnector market analytics; Datastream

So what does this mean?

- Pricing
  - Corporates are now paying more for debt regardless of the underlying credit quality

- Volumes
  - have fallen significantly
  - held up by companies needing to refinance

Western European non-leveraged syndicated loan volume



Source: Loanconnector and HSBC

So what does this mean?

- Pricing
  - Corporates are now paying more for debt regardless of the underlying credit quality

- Volumes
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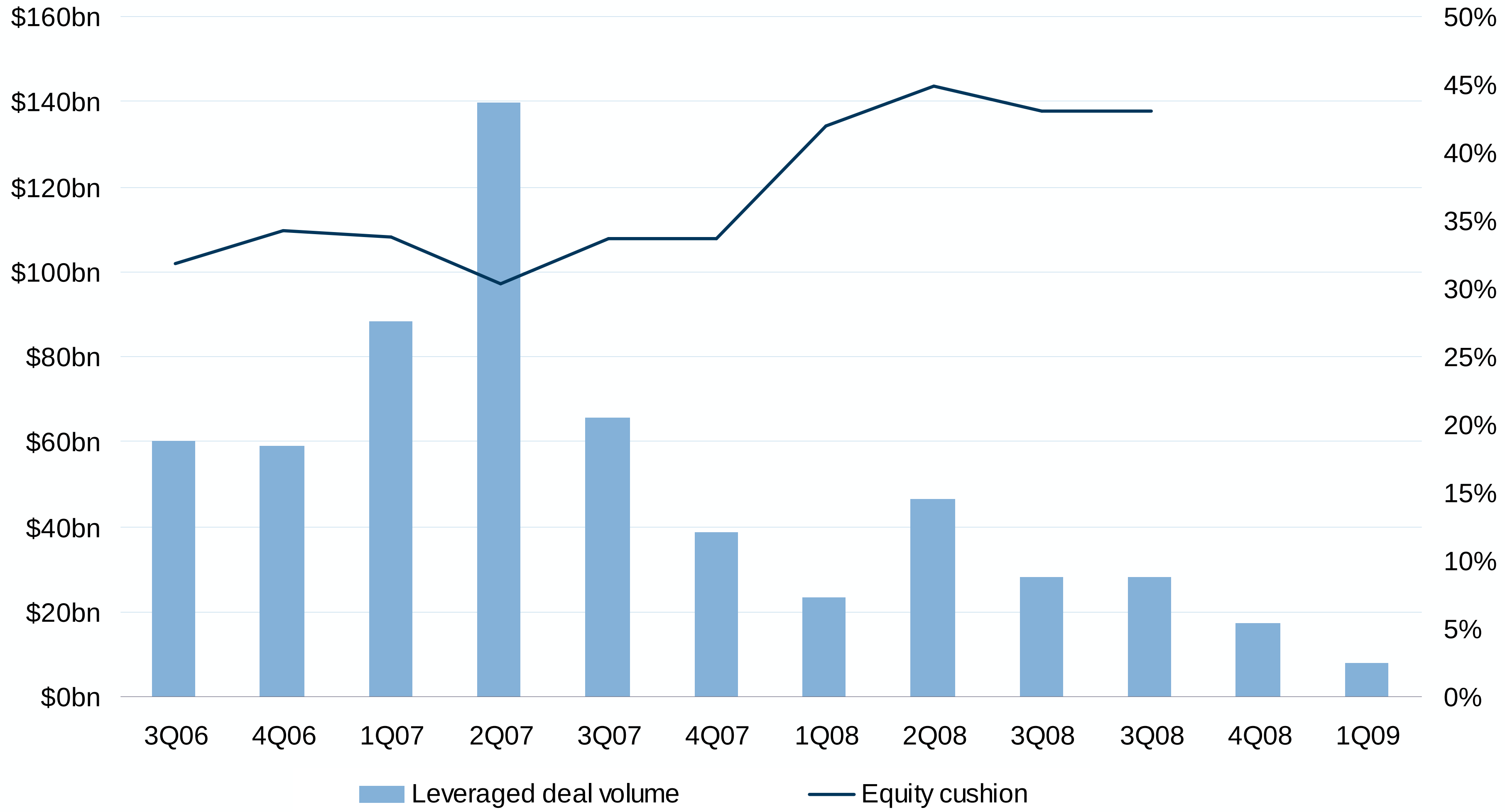
- Structure
  - structures are becoming increasingly conservative

Equity contribution levels and European leveraged deal volume



Source: Thomson Reuters

So what does this mean?

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What does this mean for the rental sector?

- Rental businesses are vulnerable to current market conditions unless debt properly structured
  - operational leverage
  - uncertainty as to length of downturn
  - ability to retain adequate liquidity

- Key credit issues for lenders when looking at rental businesses
  - ability to turn off capex
  - nature of rental assets
  - quality of management

- Debt structuring is crucial. Ensuring that the debt structure fits the business

- Rental businesses must accept that debt structures today will be very different to 2007-8
  - conservative credit approach and structuring
  - significant rise in pricing
  - no current underwriting capacity
  - relationship management and ancillary business are critical