

C\$ High Yield Market

The Emergence and Sustainability of the Asset Class

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Table of Contents

1. Emergence of C\$ High Yield Market
2. US\$ vs C\$ High Yield Market
3. C\$ High Yield Investor Universe
4. Building the C\$ High Yield Market
5. Case Studies
6. Q&A

Emergence of C\$ High Yield Market

History of the Canadian High Yield Market

C\$ High-Yield Market continues to develop

- The C\$ High Yield market stalled in 1998 as the income trust structure became the financing vehicle of choice for lower-rated issuers

➤ Trust Units satisfied Canadian investor appetite for income generating assets

Settle	Issuer	Amount	Coupon	Maturity	DBRS	S&P	Moody's
11-Feb-10	Corus Entertainment Inc.	\$500.0	7.250%	10-Feb-17	BBB(L)	BB	
18-Jan-10	Videotron Ltee	\$300.00	7.125%	15-Jan-20	BBB(H)	BB-	Ba2
18-Nov-09	Cascades Inc.	\$200.0	7.75%	15-Dec-16	BB(H)	B+	Ba3
27-Oct-09	Superior Plus LP	\$150.0	8.25%	27-Oct-16	BB(H)	BB-	
26-Aug-09	Baytex Energy Trust	\$150.0	9.15%	26-Aug-16		B	B3
18-Aug-09	Fairfax Financial Holdings Ltd	\$400.0	7.500%	19-Aug-19	BBB(L)	BBB-	Ba2
7-Jul-09	Viterra	\$300.0	8.500%	7-Jul-14	BBB(L)	BB+	Ba1

24-Oct-07	Sherritt International Corp	\$225.0	8.250%	24-Oct-14	BB(H)		
1-Aug-07	Saskatchewan Wheat Pool Inc.	\$200.0	8.500%	1-Aug-17	BB(H)	BB	
22-May-07	GMAC	\$300.0	6.000%	25-May-10	BBB(L)	BB+	Ba1
22-May-07	GMAC	\$500.0	BA+145	22-May-09	BBB(L)	BB+	Ba2
15-Mar-07	Iron Mountain Nova Scotia Funding Company	\$175.0	7.500%	15-Mar-17		B	B3
2-Mar-07	Shaw Communications	\$400.0	5.700%	2-Mar-17	BBB(L)	BB+	Ba1
9-May-06	Shaw Communications	\$300.0	6.150%	9-May-16	BB(H)	BB+	Ba2
28-Dec-05	Saskatchewan Wheat Pool	\$100.0	8.000%	8-Apr-13	B(H)	B	
18-Nov-05	Sherritt International Corp	\$98.5	7.875%	26-Nov-12	BB(H)		
16-Nov-05	Sherritt International Corp	\$175.0	7.880%	26-Nov-12	BB(H)		
28-Jul-05	Shaw Communications	\$450.0	6.100%	16-Nov-12	BB(H)	BB+	Ba2
20-Jun-05	GMAC	\$100.0	6.200%	30-Jul-07	BBB	BB	Baa2e
20-Jun-05	GMAC	\$60.0	6.150%	20-Jun-07	BBB	BB	Baa2e
13-Jun-05	Ford Credit Canada	\$200.0	5.550%	20-Jun-07	BBB(L)	BB+	Baa2e
8-Jun-05	Ford Credit Canada	\$250.0	5.800%	15-Jun-07	BBB(H)(-)	BB+(-)	Baa2(-)
3-Jun-05	Ford Credit Canada	\$250.0	5.900%	1-Jun-07	BBB(H)(-)	BB+(-)	Baa2(-)
1-Jun-05	Ford Credit Canada	\$75.0	6.300%	1-Jun-07	BBB	BB+	Baa2e
30-Nov-04	Rogers Wireless	\$460.0	7.625%	15-Dec-11		BB	Ba3
30-Nov-04	Rogers Cable	\$175.0	7.250%	15-Dec-11		BB+	Ba3

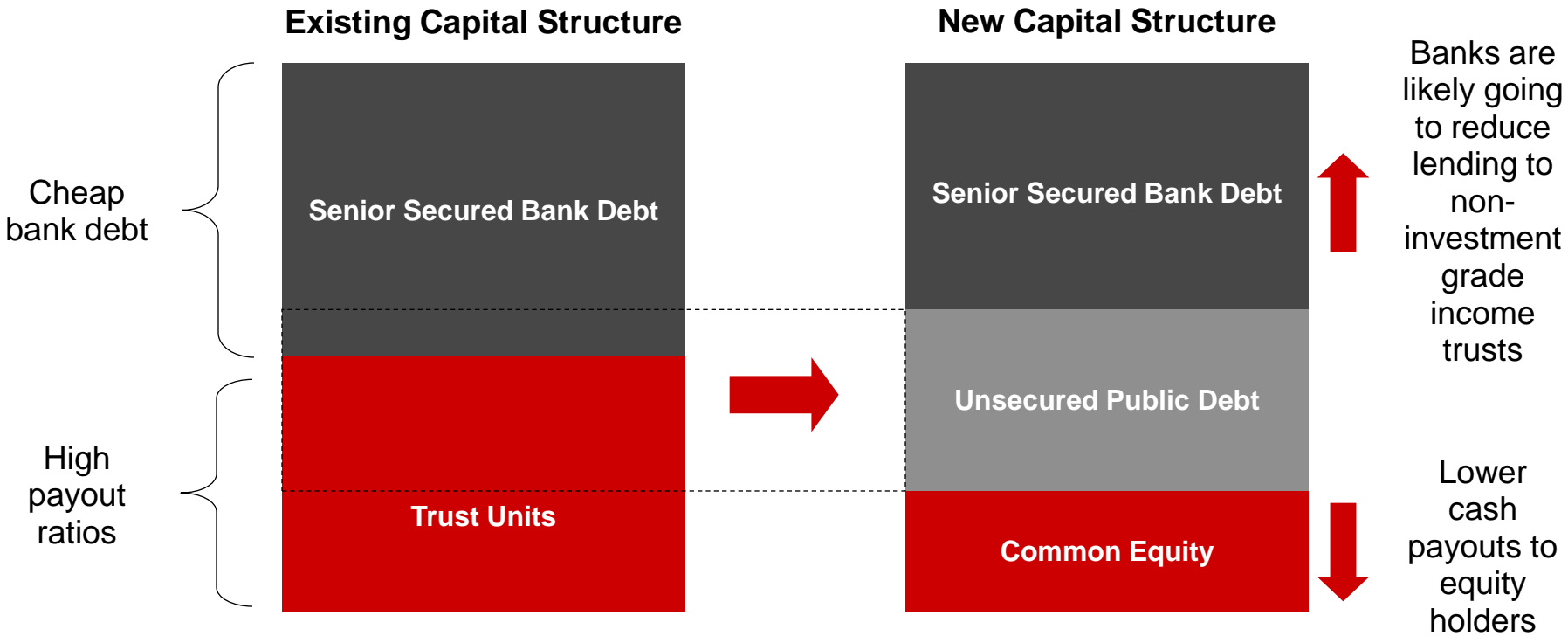
2009 saw a resurgence in the Canadian High Yield market with C\$1.2 billion issued in 2H09, and C\$800 million 2010 YTD

Drivers of C\$ High Yield Debt Market:

- The dissolution of the income trust market in January 2011
- US\$ Yankee issuers looking to refinance in desired currency
- Assets under management in Canada (Buy-Side)
- Shift in demand to higher yielding fixed income product
- Global high yield funds looking to add new C\$ product to their portfolios
- Evident success of recent C\$ high yield issues

Income Trust Obsolescence and the reduction of Senior Secured Bank Debt

- Traditional income trusts are capitalized with a large amount of senior secured bank debt provided by a syndicate of Canadian Schedule I Banks and a large amount of "equity"
- This structure will no longer be tax efficient as equity holders cannot take advantage of interest payment tax shields



Income Trust Leveraged Recapitalization

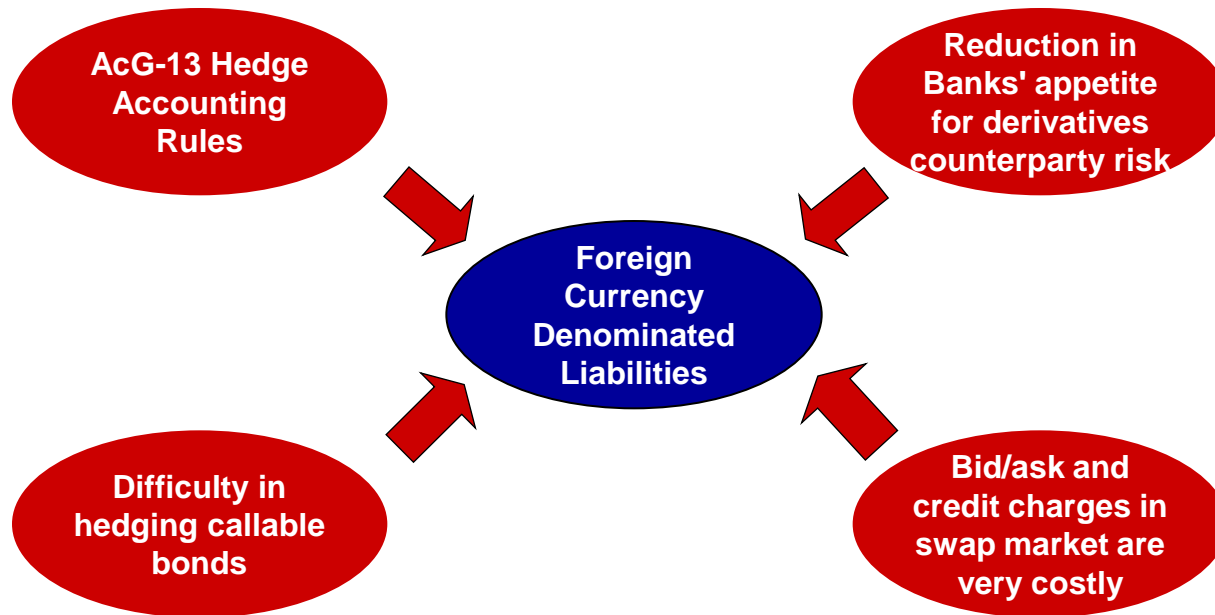
- Many income trusts need to add leverage and reduce senior secured bank facilities and to do so may need to tap the public high yield markets

Income Trusts



Canadian Yankee Issuers

- A number of Canadian corporations issue high yield debt in the US\$ market
- With the exception of certain commodities producers, many Canadian corporations have revenue denominated in C\$ and generally prefer to have C\$ denominated liabilities
- In many cases, funding in C\$ can be cheaper compared to funding in US\$ as was the case in 2009-H2



Increasingly difficult for non-investment grade companies to swap US\$ liabilities to C\$

Refinancing of Yankee debt

- Canadian corporations without a business requirement for US\$ are natural candidates for C\$ high yield issuance

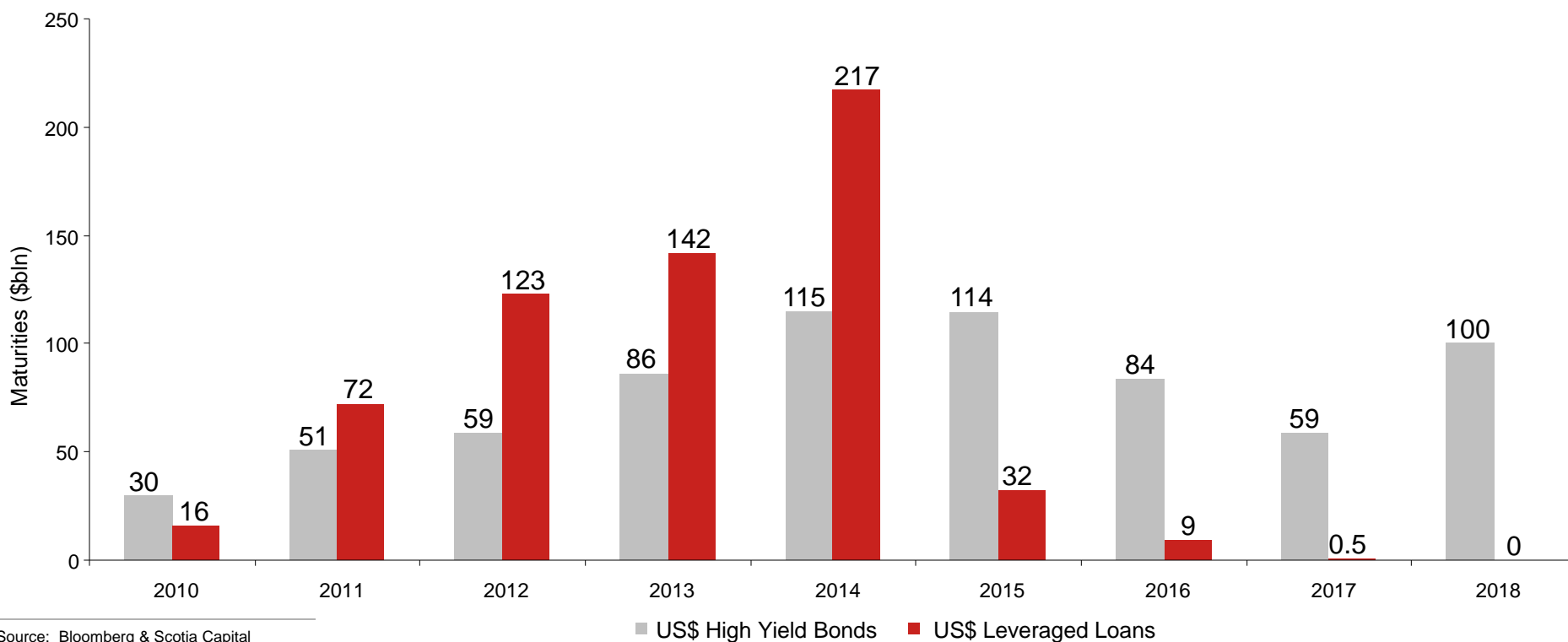
Yankee High Yield Issuers



Upcoming US\$ Maturities

- Upcoming refinancing bubble requires issuers to pre-fund approaching maturities
 - It is debatable whether a viable Term B Loan market will reappear in the US to refinance maturing debt

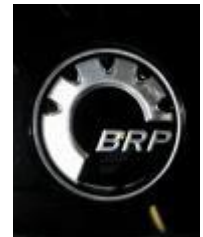
Upcoming US\$ High Yield Bond & Leverage Loan Maturities



Refinancing of US\$ Term Loan B

- Many Canadian companies tapped the US\$ Term Loan B market to finance prior to 2008 and may not be able to refinance
 - This could lead issuers to the high yield market

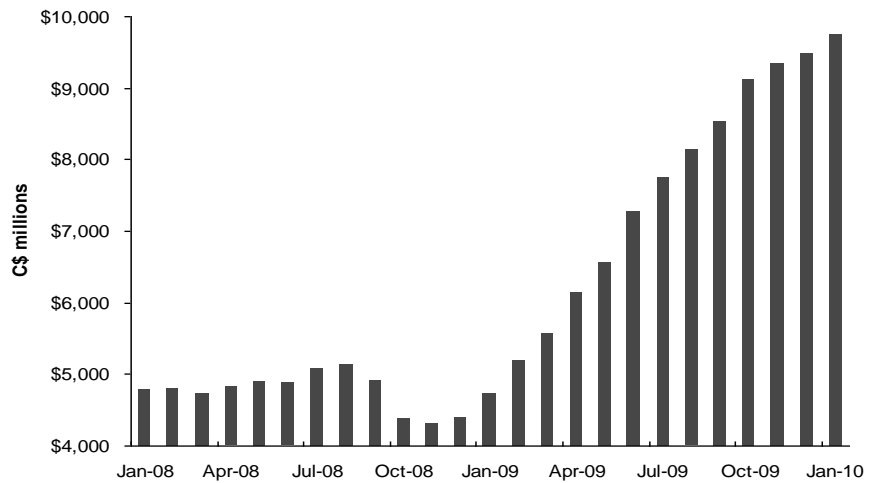
Term Loan B Refinancing



Growth in Mutual Fund Assets Under Management

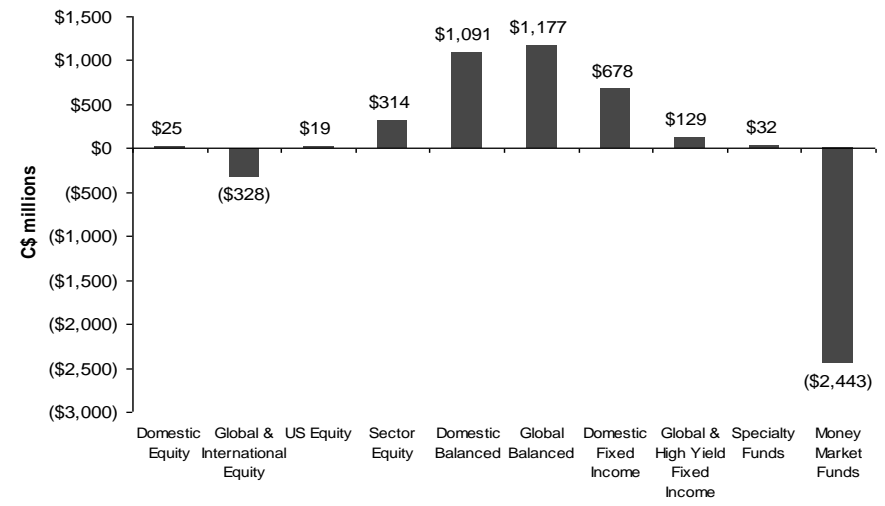
- High yield mutual fund flows can be a proxy for the overall demand of high yield
 - January HY fund net sales of C\$99.5M vs. money market fund net redemptions of C\$2.4B
 - Movement from equity assets into fixed income, with a focus on higher yields
 - High yield mutual fund assets grew 115.4% in 2009
- Assets under management continues to grow in higher yielding asset classes:
 - Canadian High Yield: AUM C\$9.75 billion (C\$20 billion total)
 - Canadian Dividend & Income: AUM C\$37.1 billion

Total Canadian HY Mutual Fund Net Assets



Source: IFIC

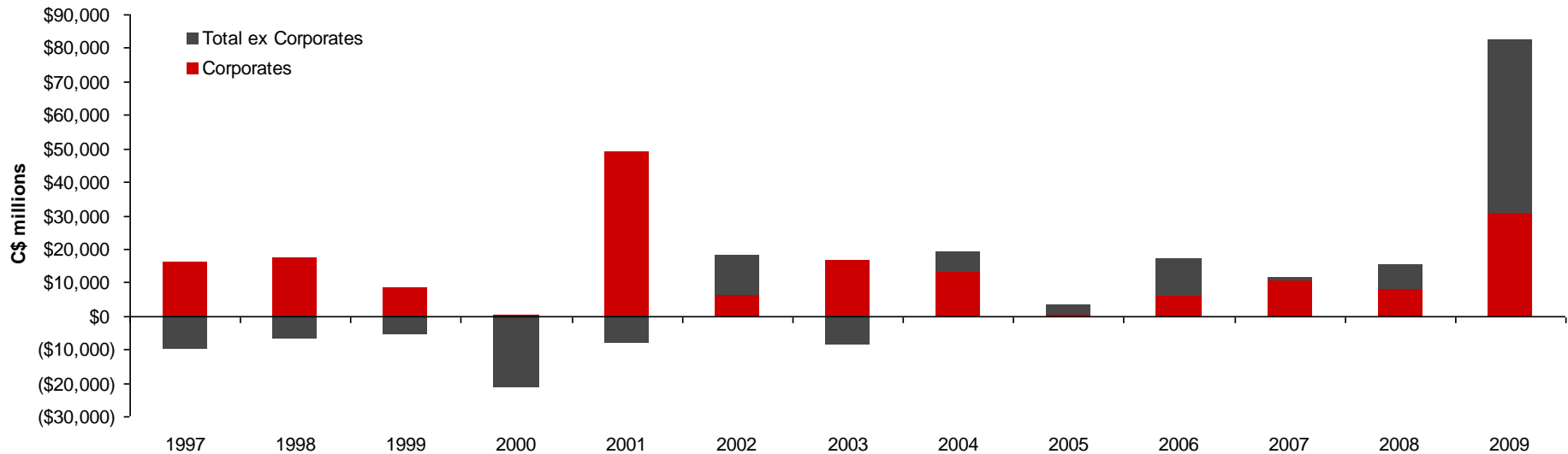
Mutual Fund Net Sales By Asset Class (January 2010)



Canadian Bond Purchases by Foreign Holders

- Canadian bonds continue to draw significant foreign investment
 - In 2009, non-residents acquired \$82.5 billion of Canadian bonds, while acquisitions of Canadian money market instruments slowed to \$665 million
- Net foreign purchases of Canadian corporate bonds spiked remarkably in 2009, with \$31 billion acquired versus \$8 billion in 2008
 - Monthly net foreign purchases have averaged \$2.7 billion


Annual Net Foreign Canadian Bond Purchases



Source: Stats Canada

Success of Recent C\$ High Yield Issues


- In February, Corus Entertainment Inc (BBB(L)/BB) issued C\$500M 7NC3 Notes (Senior Unsecured), coupon 7.25%
 - Upsized from C\$350 million, 3x oversubscribed, 57 institutional buyers
- In January, Videotron Ltee (BB(H)/BB-/Ba2) issued C\$300M 10NC5 Notes (Senior Unsecured), coupon 7.125%
 - Upsized from C\$200 million, 4x oversubscribed, 63 institutional buyers
- In November, Cascades Inc. (BB(H)/B+/Ba3) issued C\$200M 7NC4 Debentures (Senior Unsecured), coupon 7.75%
 - Upsized from C\$150 million, 35 institutional buyers
- In October, Superior Plus (BB(H)/BB-) issued C\$150M 7NC4 Debentures (Senior Unsecured), coupon 8.25%
 - 37 institutional buyers



C\$500,000,000
7 Year Senior Unsecured Notes
February 2010



C\$300,000,000
10 Year Senior Unsecured Notes
January 2010



C\$200,000,000 / US\$500,000,000
7 Year / 8 Year Senior Notes
November 2009



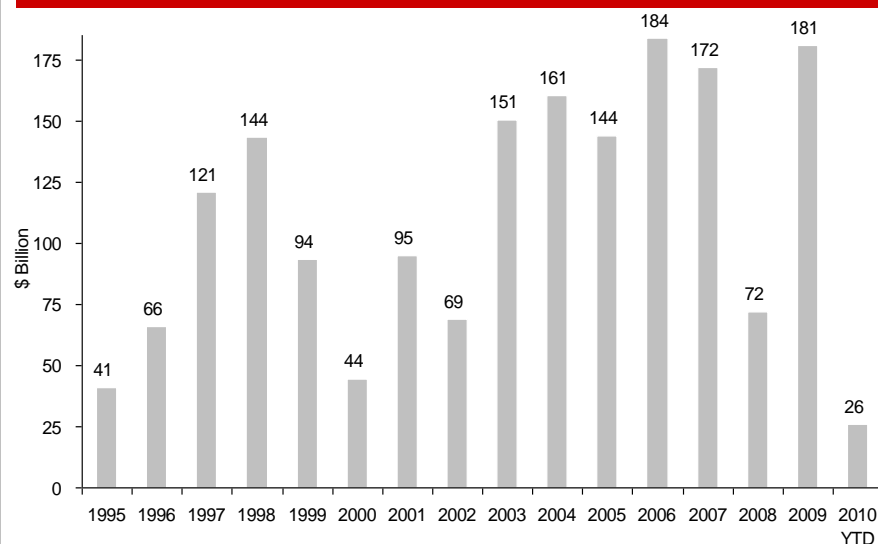
C\$150,000,000
7 Year Senior Unsecured Debentures
October 2009

US\$ vs C\$ High Yield Market

High Yield Market Conditions

- Current HY market resembles 2006 and 2007 in terms of:
 - Ample liquidity
 - Robust new issue volumes
 - More aggressive deal structures
- \$181 billion of 2009 issuance fell just short of 2006 all-time record
 - 373 transactions in 2009 (vs. 135 in 2008)
- Robust start to 2010 as \$26 billion of issuance has priced to date
 - Majority of transactions have been upsized, priced at the tight end or through price guidance and traded up in the secondary market
- Spreads have rallied significantly to early 2008 levels (currently +681 bps)
- We expect a continuation of an active and open primary market in 2010

Annual High Yield New Issuance



Credit Spreads Have Rallied Sharply

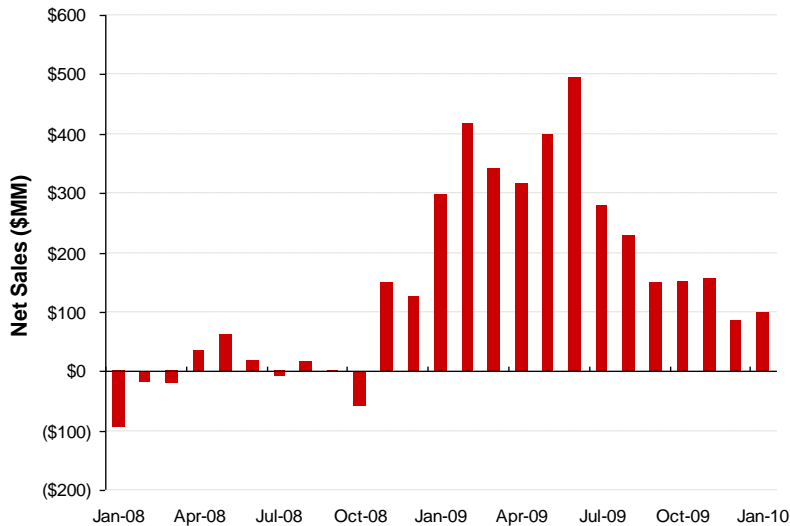


Canadian High Yield Market Conditions

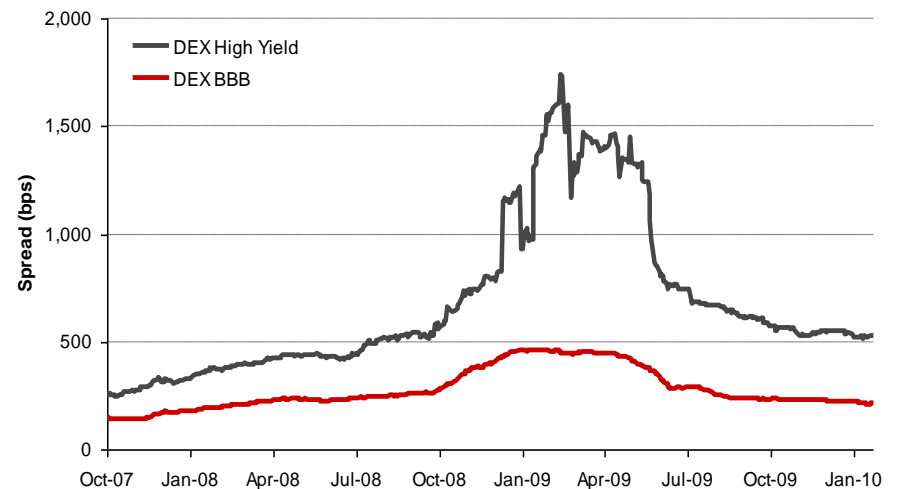
Canadian High Yield market continues to develop

- High yield mutual fund net inflows have been reported in the past 15 consecutive months
- Investor participation in transactions continues to be strong, with participation from a wide variety of accounts
- Demand for new issue product has been evident with recent issues being well received by the market
- Spreads have tightened by as much as 1,150 bps since February 2009

Total Canadian High Yield Net Sales



Average Canadian Credit Spreads



Key Differentials

US\$ High Yield Characteristics

The U.S. high yield bond market is advantageous to companies seeking to raise a large amount of debt:

Size

- Companies can typically raise significantly larger amounts in the U.S. high yield markets

Liquidity

- The U.S. high yield market provides rapid access for borrowers and an active secondary market for investors

Term

- The U.S. high yield market is comfortable with tenors extending to 10 years

U.S. secondary trading of high yield bonds is a well established and active marketplace

C\$ High Yield Characteristics

The C\$ high yield bond market provides superior funding opportunities for certain issuers:

- Companies can raise lesser amounts than available in the U.S. with no coupon penalty

- Recent issues have shown strong demand from investors, however, secondary market liquidity has historically been choppy

- The C\$ high yield market allows access to shorter tenors, with 5 and 7 year tenors favored

Canadian investors are increasingly looking for yield and are moving down the credit spectrum

The C\$ high yield market presents an attractive funding opportunity for issuers

- Simple and quick issuance process – short form prospectus or private placement offering memorandum
 - Canadian prospectus allows retail as well as institutional distribution
- Capitalizes on C\$ equity following and expands investor base while igniting future sources of capital
- Canadian dollar funding may eliminate need for swaps
- Lower transaction costs than U.S. market
- Smaller deal sizes achievable vs. U.S. public market with no coupon penalty
- Do not need to become a registered U.S. filer (i.e. Sarbanes-Oxley)

C\$ High Yield Investor Universe

Investor Landscape

- At least 104 different investors have participated in at least one CAD high yield transaction
- 3 Investors have participated in every CAD high yield transaction, 4 investors have participated in 6 of the transactions, and 25 investors have participated in at least 4 of the transactions
- ~27 investors make up 80% of the entire market and ~10 investors account for 50% of the market

	% of Notional	% of Cum. Notional	# of Investors	Average Ticket Size	Degree of Trans. Partic.	Type	Participation
Tier I	50.0%	50.0%	10	\$ 22,123	81.8%	Traditional HY managers	Lead orders, price "makers"
Tier II	30.0%	80.0%	17	\$ 8,692	60.6%	Larger Retail Investment Managers	Large chunky orders to fill out book with some price tension
Tier III	15.0%	95.0%	27	\$ 3,821	50.2%	Variety of Investors	Large # of smaller orders - price "takers"
Tier IV	5.0%	100.0%	50	\$ 1,194	35.7%	Hedge Funds + Small High Net Worth Firms	Late orders from Private Clients and Hedge Fund Deal Arbs
	100.0%		104		67.8%		

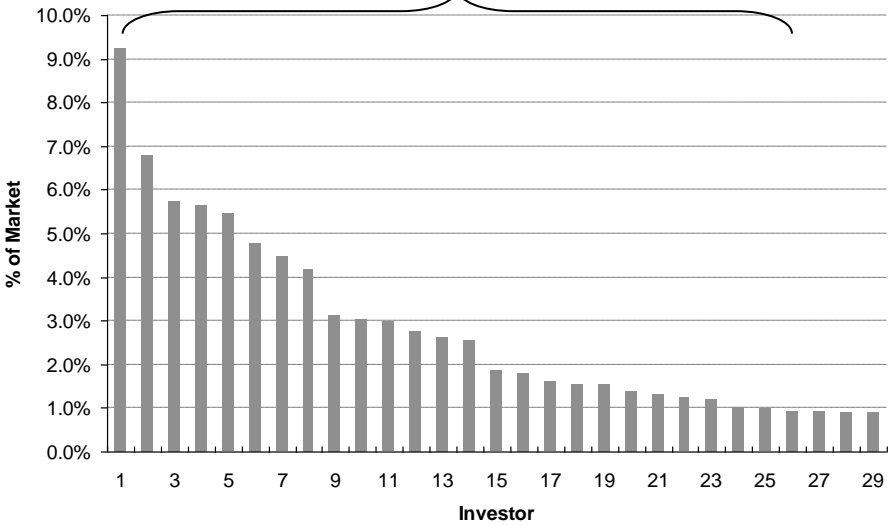
Investor Landscape (continued)

- Canadian high yield market is reasonably deep with a core group of 30 focused and engaged investors
- A core group of Canadian high yield “beta” investors has emerged in Canada

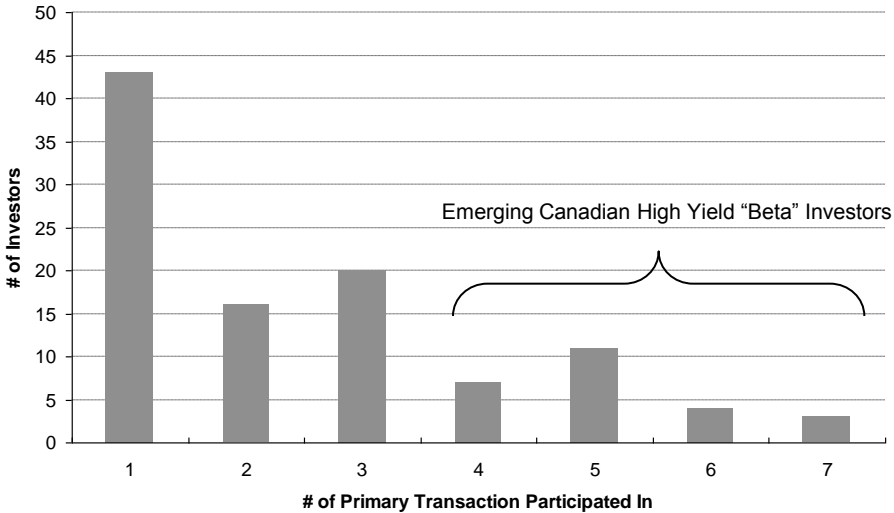
Breakdown of Market Participation

Top 30 Investors

“80”/”25” Rule applies in Canadian High Yield

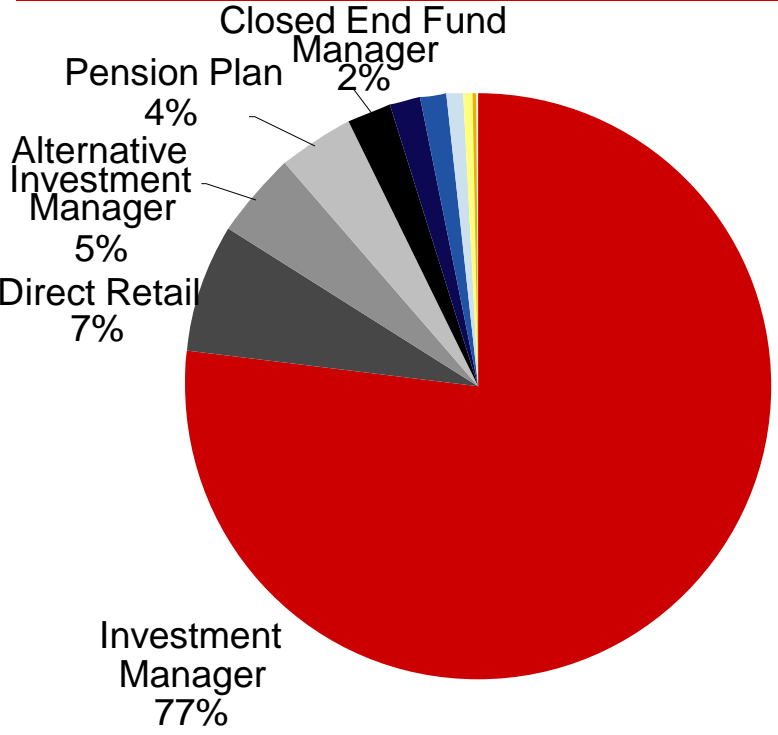


Frequency of Primary Issuance Participation

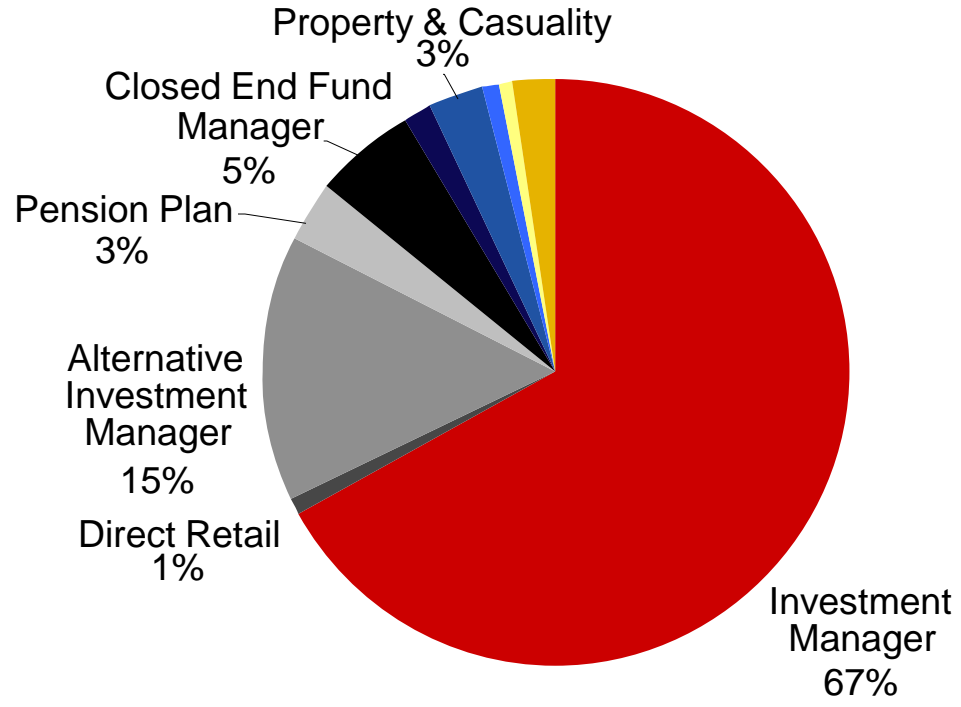


Canadian High Yield – Breakdown by Type of Investor

% of Notional - Primary Issuance



% of Investors

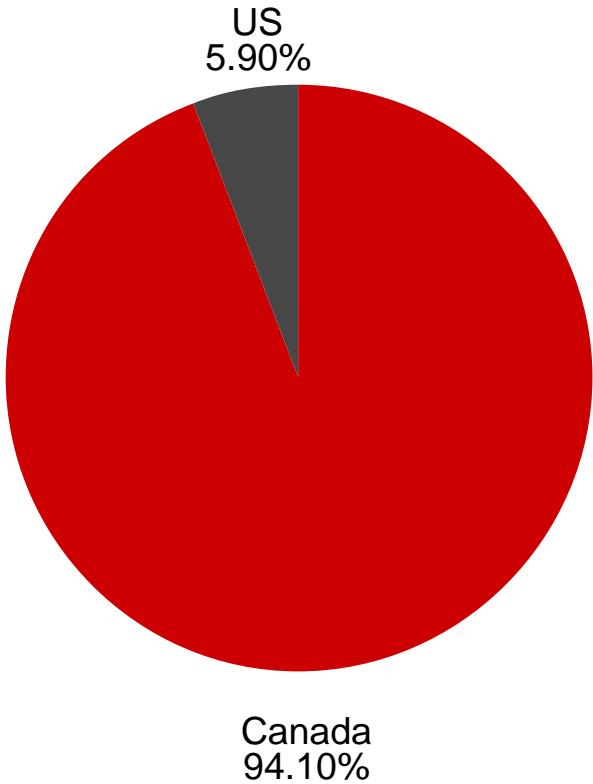


- Investment Manager
- Direct Retail
- Alternative Investment Manager
- Pension Plan
- Closed End Fund Manager
- Bank
- Property & Casualty
- Life Insurance
- Municipality
- Retail Brokerage

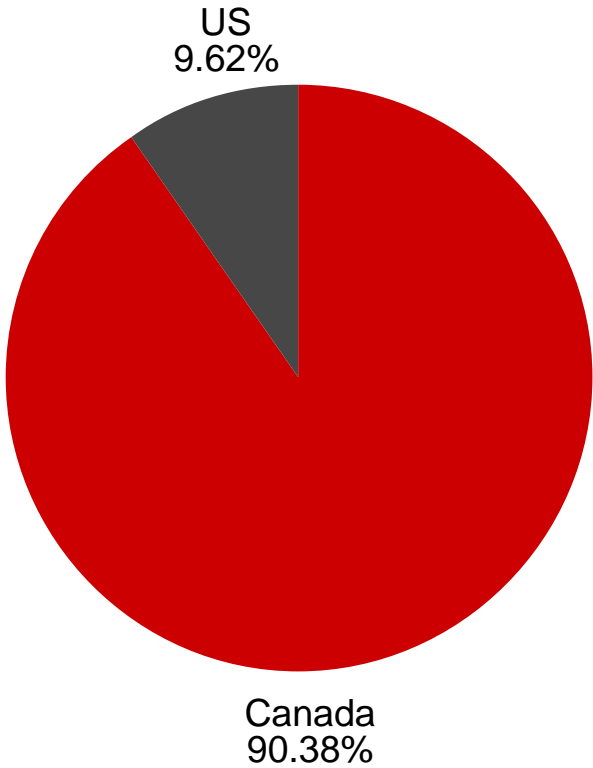
Buying has been dominated by investment managers who manage retail assets

Canadian High Yield – Breakdown by Country

% of Notional - Primary Issuance



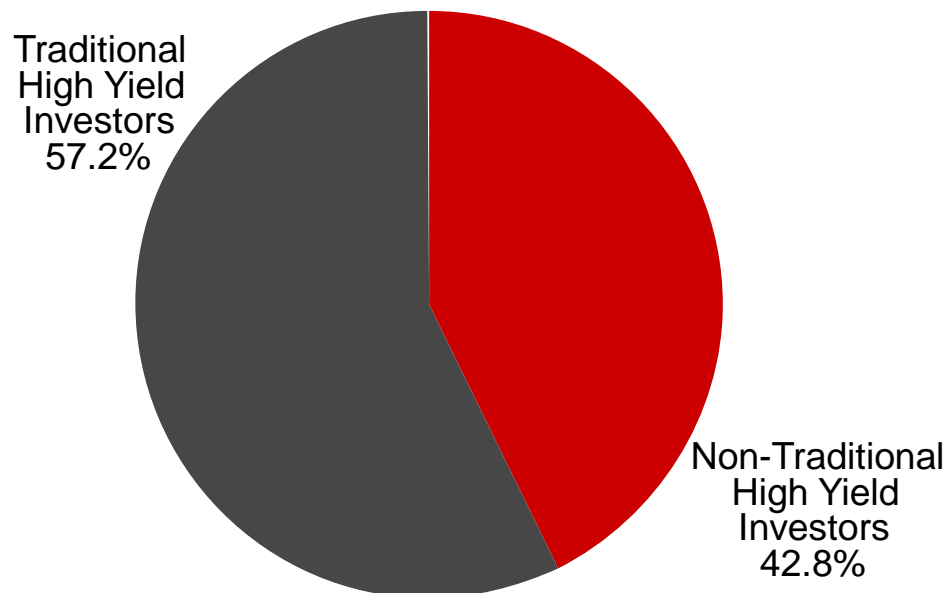
% of Investors



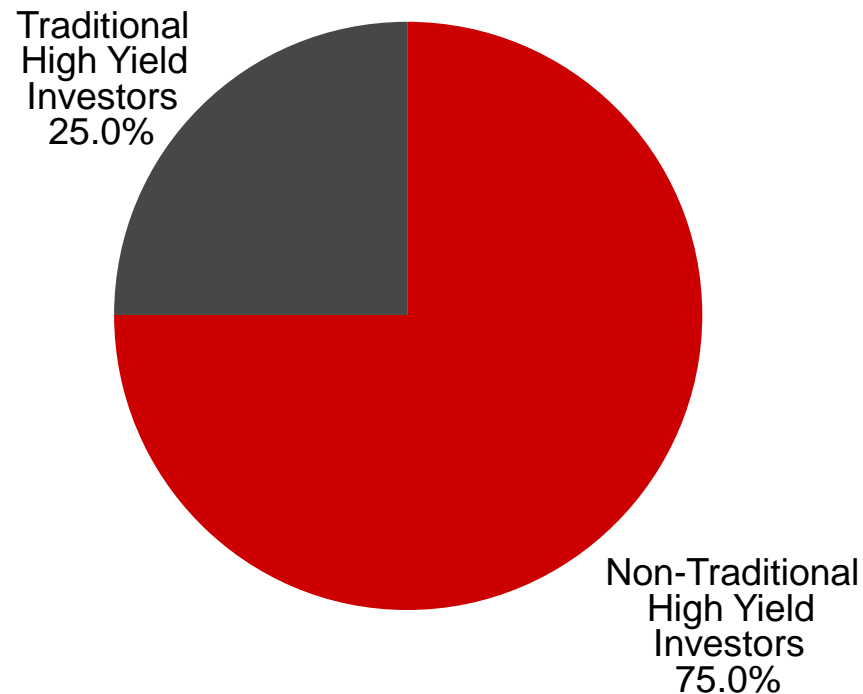
Majority of demand has been from Canadian investors but US investors have started to notice the market's development and participate in primary issuance

Canadian High Yield – % Traditional HY vs. Non-Traditional HY

% of Primary Issuance Face Notional



% of Investors



- Over 50% of transactions have been purchased by investors historically not involved in the high yield market
- Many smaller investors have been consistent participants in transactions
- Pension plans are beginning to allocate assets to C\$ high yield

Building the C\$ High Yield Market

Building the C\$ High Yield Market

- Lack of liquidity in secondary market could be detrimental to the sustainability of the C\$ high yield market
 - Infrequent secondary trading discourages investor participation in new issues
 - Some Canadian dealers have begun providing full-scale liquidity for this emerging market
- It is important that Canadian dealers become market makers for C\$ high yield credits
 - Financial institutions must act as principal and commit capital to C\$ high yield product in order for the market to succeed
- An increasing number of domestic dealers with dedicated C\$ high yield trading books will allow for superior secondary market support
 - Increased access to secondary supply with improved product pricing
 - Improved transparency for pricing of new issues
- As the C\$ secondary market continues to develop we anticipate that new issue sizes will grow and longer tenors will become acceptable

Case Studies

Corus Entertainment Inc Case Study

- On February 4, 2010, Corus Entertainment Inc (BBB(L)/BB) issued C\$500 million 7 non-call 3 Senior Unsecured Notes, coupon 7.25% (+445 bps), priced at par
 - The deal encompassed a three day roadshow (Montreal & Toronto) with fifteen 1-on-1s, two investor luncheons, and a national investor call
 - Issued by way of public offering via Supplement to Base Shelf Prospectus
 - Deal was upsized from C\$350 million due to significant investor demand (order book was more than 3x oversubscribed)
 - The offering was very well distributed with 57 institutional buyers from a variety of investor classes
 - The bonds traded at the break as high as \$101.25 (6.991% YTW)

- Use of proceeds: To repay existing indebtedness

- Covenants include limitations on:

- Incurrence of Debt: May not incur additional indebtedness if the Total Debt to Cash Flow Ratio exceeds 4.5 times, except for permitted indebtedness including \$800 million under the Credit Agreement
- Restricted Payments: \$50 million + cumulative Cash Flow less 1.4x Consolidated Interest Expense
- Liens: Credit Agreement to a maximum of \$800 million Secured Debt + greater of (A) \$50 million or (B) 5% of Consolidated Total Assets

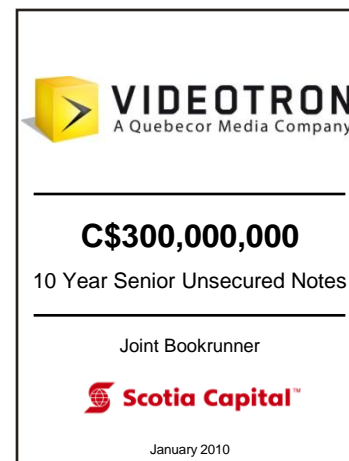
- Other Features

- Call Schedule – 2013 at \$103.625; 2014 at \$101.813; 2015 at \$101.208; 2016 and thereafter at \$100.000
- Equity Clawback – 3 year equity clawback for 35% at 107.25%
- Negative Pledge, Change of Control



Videotron Ltee Case Study

- On January 7, 2010, Videotron Ltee (BB(H)/BB-/Ba2) issued C\$300 million 10 non-call 5 Senior Notes (unsecured), coupon 7.125% (+348.9), priced at par
 - The deal encompassed a two day roadshow (Toronto & Montreal) with eight 1-on-1s, two investor luncheons/breakfasts, and a national investor call
 - Deal was upsized from C\$200 million due to significant investor demand (order book was more than 4x oversubscribed)
 - Priced at the tighter end of guidance – 7.250% area
 - Issued via a Confidential Offering Memorandum – 144A eligible
 - No registration rights (Videotron Ltee is not a Canadian reporting issuer)
 - The offering was very well distributed with 63 institutional buyers from a variety of investor classes
 - Deal broke at \$101.625 (6.860% YTW)
- Use of proceeds: repay bank debt and general corporate purposes
- Covenants include limitations on:
 - Incurrence of Indebtedness – May not incur additional indebtedness if the Consolidated Debt/Consolidated Cash Flow exceeds 5.5:1.0
 - Restricted Payments – Aggregate of 100% of Consolidated Cash Flow from October 1, 2003 less 1.5 times Consolidated Interest Expense; 100% of Capital Stock Sale Proceeds less proceeds used in connection with Investments/Hedging Obligations
 - General basket of \$30 million, Debt/Cash Flow < 5.0:1.0, payments of dividends to QMI
- Other Features
 - Call Schedule – 2015 at \$103.563; 2016 at \$102.375; 2017 at \$101.188; 2018 and thereafter at \$100.000
 - Equity Clawback 35% of the aggregate amount of Debentures at 107.125% of their principal amount using proceeds from a public equity offering
 - Negative Pledge, Change of Control



Cascades Inc Case Study

- In November 2009, Cascades Inc (BB(H)/ B+/Ba3) issued two-tranche C\$200 million million 7NC4 / US\$500 million 8NC4 Senior Notes with a coupon 7.75% (+497 bps / +490 bps) priced at \$98.67 / \$98.53 for yield of 8.00%

- Scotia Capital was awarded Joint Lead and Joint Bookrunner for both tranches, with top left position for the C\$ notes
- Cascades hosted a one day non-deal roadshow in Toronto on Tuesday, November 17, with six 1-on-1s and an investor luncheon
- A C\$150 million 7NC4 / US\$300 million 8NC4 deal was launched Wednesday, November 18, with a concurrent tender offer for a portion of the outstanding U.S. notes maturing 2013
 - C\$ Notes upsized to C\$200 million 7NC4, US\$ Notes upsized to US\$500 million 8NC4
- The offering was very well distributed with 35 Canadian institutional buyers

- Use of proceeds: partially fund the redemption of the U.S. notes maturing 2013, repay bank debt and general corporate purposes

- Covenants include limitations on:

- Incurrence of Indebtedness – May not incur additional indebtedness if the Consolidated Interest Coverage Ratio falls below 2.00 to 1.00, except for permitted indebtedness including full access to revolver and general basket of \$150 million
- Restricted Payments – Aggregate of: 50% of Consolidated Net Income, less 100% of Net Losses, plus 100% of Capital Stock Sale Proceeds
Carve-out for \$50 million in annual dividends
- Limitation on Liens – May not secure any indebtedness without equally and rateably securing the Notes

- Other Features

- Call Schedule – December 15, 2013 at \$103.875; December 15, 2014 at \$101.938; December 15, 2015 at \$100.00
- Equity Clawback – Prior to December 3, 2012 Cascades may redeem up to 35% of the aggregate amount of Debentures at 107.75% of their principal amount using proceeds from a public equity offering
- Change in Control – Acquiring greater than 50% of voting power will result in Cascades to re-purchase all outstanding Debentures at 101% of the principal amount



Superior Plus LP Case Study

- In October 2009, Superior Plus LP (BB(H)/BB-) issued C\$150 million 7 non-call 4 year Senior Unsecured Debentures with a coupon 8.25% (+513.1 bps) priced at par
 - The deal encompassed a two day roadshow (Toronto & Montreal) with ten 1-on-1s, two investor luncheons, and a national investor call
 - The bonds traded at the break as high as \$101.00 (8.037% YTW)
 - Issued via a Confidential Offering Memorandum
 - The offering was very well distributed with 37 institutional buyers from a variety of investor classes
- Use of proceeds: repay bank debt and general corporate purposes
- Covenants include limitations on:
 - Incurrence of Indebtedness – May not incur additional indebtedness if the Consolidated Debt/Consolidated EBITDA exceeds 5.0:1.0
 - Restricted Payments – Subject to being in accordance on the above incurrence test, 100% of Adjusted Operating Cash Flow (rolling four quarters) plus \$35 million
- Permitted Liens - Secured debt equal to the greater of \$900 million and 3.5x EBITDA; securitization facility not to exceed \$200 million; Capital Leases & SLBs up to \$50 million; PMOs \$50 million; general carve-out 10% Consolidated Tangible Assets
- Other Features
 - Equity Clawback 35% of the aggregate amount of Debentures at 108.25% of their principal amount using proceeds from a public equity offering
 - Negative Pledge, Change of Control



Q&A
