

Preliminary Default Among Speculative-Grade Western European Companies Increases To 13% In Year To End-September 2009

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LONDON (Standard & Poor's) Nov. 4, 2009--Standard & Poor's Ratings Services said today that its speculative-grade default rate (by number) among Western European companies increased further in the third quarter of 2009, to a preliminary rate of 13.1% for the 12 months to end-September 2009.

This default rate falls within the 11.7%-14.7% range of outcomes that we projected for the end of the year (see "Leveraged Buyouts Are Fueling Surging Defaults In Western Europe," published April 8, 2009, on RatingsDirect). While this is an increase on the upwardly revised default rate of 11.4% at the end of the second quarter of 2009, the pace of increase has slowed. The default rate accelerated to 9.2% in the first quarter of 2009, from 5.3% at the end of 2008, representing a 74% increase. The default rate subsequently rose to 11.4% at the end of the second quarter, a 24% increase, while the latest rise of 13.1% represents a 15% increase.

This means that 96 companies in our dataset, with total outstanding funded debt of €68.9 billion, have defaulted over the past 12 months. This breaks down into 15 publicly rated companies, with total outstanding debt of €36.4 billion, and 81 private companies with credit estimates, whose outstanding debt amounted to €32.5 billion.

In our view it is highly probable that the default rate for this cycle will have peaked in the third quarter of 2009. We base this view on the economic stabilization that is evident in Europe, and the banks' success in strengthening their balance sheets, which has improved the funding options for the lower-rated corporate credits. We believe it quite likely that the preliminary 13.1% third-quarter default rate could be revised upward in coming weeks as we receive more private companies' third-quarter performance reports.

Thereafter, we believe it highly possible that the default rate, particularly for rated entities, will start to unwind in the fourth quarter of 2009, a trend that we believe will continue throughout 2010. One important reason we see is that senior lenders are now much more inclined to reset covenants rather than impose the more radical balance sheet surgery that was more evident in the second quarter. We anticipate that the 12-month default rate at year-end will slip back toward 11%-12%. This would translate into 12-19 further defaults in the fourth quarter of 2009.

The default rate for the third quarter combines that of our public speculative-grade companies (those companies with long-term ratings of 'BB+' and below) of 10.4% with the 13.8% rate for our private credit estimates. At the end of September, 11.2% of the total portfolio (excluding defaults) had a corporate credit rating or credit estimate of below 'B-'. The dataset underpinning our default analysis covers 733 corporate speculative-grade ratings and credit estimates relating to companies based in Western Europe. (Western Europe: EU-27 plus Norway, Switzerland, and Iceland).

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