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Year-End 2009 European Speculative-Grade Default Rate Falls From Third-Quarter 2009 Peak

Primary Credit Analyst:
Paul Watters, CFA, London (44) 20-7176-3542; paul_watters@standardandpoors.com

Secondary Credit Analysts:
Blaise Ganguin, Paris (33) 1-4420-6698; blaise_ganguin@standardandpoors.com
Alexandra Krief, Paris (33) 1-4420-7308; alexandra_krief@standardandpoors.com

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After the economic tumult of the past 18 months, the default curve for overleveraged companies may have reached a turning point: Analysis by Standard & Poor's Ratings Services shows the trailing 12-month default rate among European speculative-grade issuers has fallen from the record high recorded in the third quarter of 2009. The default rate among industrial companies that are either rated publicly or reviewed privately by us fell to 12.8% at the end of the fourth quarter of 2009, from 14.2% at the end of the third quarter of 2009. What's more, we anticipate that the default rate will continue to decline, toward 8.7%, by the end of 2010.

However, we anticipate that many vintage leveraged buyouts (LBOs) from 2005-2008 will still need to be restructured. And while many lenders might be able to buy time and improve the economics of existing loans by amending covenants in the near term, we fully expect debt restructurings to gather pace, especially as the 2013-2015 refinancing horizon comes into view in 2011-2012. So even with gradual improvements in the economic outlook, we believe that the steady pace of consensual restructurings will likely continue for several more years, thereby maintaining the default rate above the 4% average reported in Europe this cycle.

This report reviews the full-year 2009 default pattern for our portfolio of over 700 European speculative-grade industrial companies that we either rate publicly or review privately within our credit estimate portfolio. Our main findings are that:

- The headline default rate (by number) for the 12 months to end-December 2009 fell to 12.8% from a revised 14.2% at the end of the third quarter of 2009.
- A total of 96 European speculative-grade companies defaulted in 2009. These companies carried €60.3 billion of outstanding funded debt.
- The cumulative rate of defaults (by number) between September 2008 and December 2009 is 16.3%, comprising 123 companies with total outstanding debt exposure of €87.7 billion.
- There was a sharp fall in the number of companies defaulting in the fourth quarter of 2009--16 companies, with total outstanding debt of €9.5 billion--down from 28 companies defaulting on €14.4 billion in the third quarter of 2009.
- The equivalent 12-month default rate by value was 8.2% at the end of the fourth quarter of 2009, down from 10.9% at the end of the third quarter.
- By country, the highest number of defaults in 2009 occurred in Germany (18) and the U.K. (18), followed by France (16). We believe this reflects the size of these countries' economies and the fact that 62% of the speculative-grade companies in our dataset are based in these countries.
- Limiting the results to the seven largest countries in Europe, Spain and Italy had the highest default rates in 2009, at 22.7% and 18.8%, respectively. The U.K. had the lowest default rate in this group at 9.4%, in contrast to 2008, when the U.K. had the highest default rate.
- The consumer discretionary and manufacturing sectors contributed significantly to the increase in the overall default rate in 2009, reflecting the spread of recession. This follows the early and severe impact of the recession on the highly cyclical sectors of real estate and development, chemicals, and autos in 2008.
- Looking forward in our base-case scenario for year-end 2010, we project that the default rate could fall further to

8.7%. This corresponds to 55 companies (see "A Tepid Recovery Will Strain European Corporate Credit Quality In 2010," published Dec. 4, 2009, on RatingsDirect).
- In our view, economic recovery is unlikely to be strong enough to enable many LBOs to grow back into their existing capital structures and so, as financial covenants tighten, the risk of balance sheet restructurings and selective defaults will persist. As a result, we expect that over the next couple of years, the default rate will remain higher than the 4% average reported over the course of this cycle in the European leveraged finance market.

The Pattern Of Defaults Is Changing

The pattern of defaults that we have witnessed over this cycle is markedly different to previous default cycles. A record of 96 speculative-grade industrial entities in Europe (covering the EU-27 plus Iceland, Norway, and Switzerland) defaulted in 2009, of which only 16 defaulted in the last quarter. In contrast, 40 companies defaulted in the final three months of 2008 following the intensification of the credit crisis in September 2008. As a result, the trailing 12-month default rate fell to 12.8% at the end of 2009 from a (revised) 14.2% at the end of the third quarter. This outcome for the second half of 2009 was within the range of 11.7% (base case) and 14.7% (downside case) that we projected for the end of 2009 in early April 2009 (see "Leveraged Buyouts Are Fueling Surging Defaults In Western Europe," published April 8, 2009.

As we see it, the reasons for this changing default pattern include:

- The vulnerability of LBOs due to their overleveraged financial risk profiles;
- The severe lack of external financing from the fourth quarter of 2008 through the first quarter of 2009;
- The unprecedented volatility in secondary market loan pricing in Europe; as well as
- The preference of senior lenders for minimizing their (unrealized) losses.

As the financial crisis started to hit home late in 2008, we saw a higher frequency of nontraditional default events (50% of all defaults in 2009; see chart 1), namely: standstill periods (where contractual payments were deferred); distressed exchanges to take advantage of low secondary-market prices for debt instruments; and most of all, consensual out-of-court debt restructurings that recognized the operational viability of many businesses under threat from excessive debt. While missed payments remain the most common cause of default for companies covered by this report (constituting 45% of the defaults in 2009), it is notable how few formal bankruptcy filings there have been (only 4%). We believe this is especially surprising considering the number of companies with complex capital structures where various debt instruments have been widely distributed to a diverse group of lenders.

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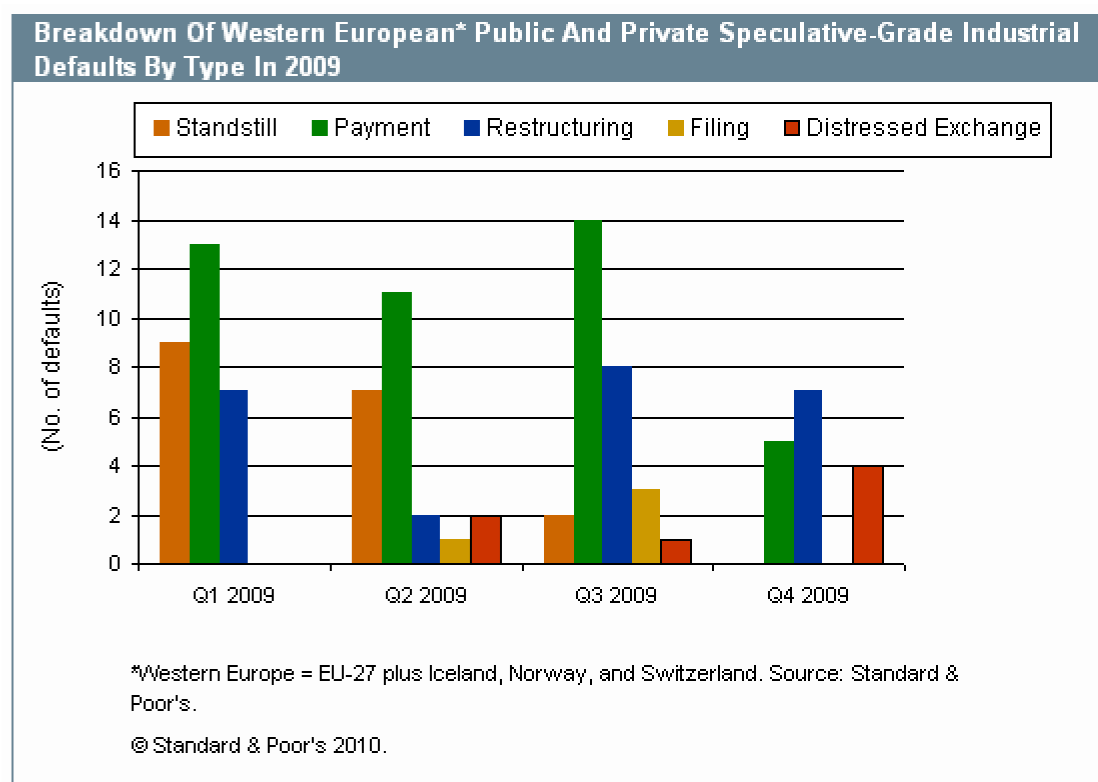
Chart 1



Fourth Quarter Sees Marked Decline In Defaults

Reviewing the number of defaults in the past five quarters, and with 27 defaults in the fourth quarter of 2008, we have only seen a material reduction in the number of defaults among speculative-grade companies from the third to the fourth quarters of 2009. Moreover, the lower count, concentrated in the private loan portfolio, reflected the lower number of payment defaults of this group (as shown in chart 1), while the number of restructurings remained relatively high.

We believe this almost certainly signals the turning point in this default cycle, most clearly illustrated by the trailing 12-month default rate for private credit estimates sliding back to 13.7% at year-end 2009 from 15.5% in the third quarter (see table 1). From our perspective, this reflects several factors, not least greater leniency from lenders prepared to amend covenants given a more favorable economic climate, mirrored by the improvement in secondary loan market prices. Of the loan facilities in Standard & Poor's Leveraged Commentary and Data's European Leveraged Loan Index (ELLI), 37.9% were priced higher than 90 at the end of 2009, compared with an unprecedentedly low 1.7% at the end of 2008. The upward trend remained intact at the end of February 2010, with 47.2% of ELLI's facilities bid above 90.

Turning from private credit estimates to the public high-yield market, our dataset includes all speculative-grade industrial entities rated by us in the EU-27 plus Iceland, Norway, and Switzerland. At the end of 2009, the 12-month speculative-grade default rate for this group was 9.6%, based on 16 defaults (see tables 1 and 2). This is higher than the European speculative-grade default rate published by Standard & Poor's Global Fixed Income Research (GFIR; for more details, see "Default, Transition, and Recovery: Global Corporate Default Update (Jan.

4-7, 2010) (Premium)," published Jan. 8, 2010). The reason for the difference is that our dataset excludes financial institutions and insurance companies. Also, we do not adopt GFIR's static-pool approach, but base our results on the average number of companies in the database over the period. (For more details on our survey analysis, see section head "Default Study Methodology" at the end of this article.)

Our data confirms that the default rate among private companies increased substantially more than among public issuers as the credit crunch took hold in the fourth quarter of 2008 (see chart 2). In our view, the private-loan-financed entities (mainly LBOs) were uniquely vulnerable to market turbulence from the fourth quarter of 2008 and through the second quarter of 2009 due to their highly leveraged capital structures and overreliance on strong growth, as well as ongoing liquidity support from lenders that were themselves highly leveraged. We see that even today, the availability of debt funding for LBOs remains limited: Banks are constrained by competing demands on their scarce capital and by greater political influence on their lending decisions; the latter further discourages new money financing for larger LBOs.

Nevertheless, economic and financial market conditions improved incrementally through the course of 2009. In the leveraged finance market, we saw that this improvement was reflected in senior lenders' greater willingness to approve requests to amend covenants on existing deals in return for fees and higher spread margins, even when leverage multiples remained excessively high. This is a marked change from the fourth quarter of 2008 and the first quarter of 2009, when an inability to compile business projections and the total lack of external financial support forced many companies to consider more severe remedies including standstills and balance-sheet restructurings.

Table 1

Speculative-Grade Trailing 12-Month Default Rate Among Western European* Companies

	Private Credit Estimates			Public Speculative Grade Ratings			Combined
	Number of companies¶	Number of defaults	Trailing 12-month default rate (%)	Number of companies¶	Number of defaults	Trailing 12-month default rate (%)	Trailing 12-month default rate (%)
2003	180	5	2.8	111	5	4.5	3.4
2004	263	4	1.5	126	2	1.6	1.5
2005	334	5	1.5	163	2	1.2	1.4
2006	461	8	1.7	185	4	2.2	1.9
2007	544	8	1.5	183	3	1.6	1.5
2008	607	35	5.8	171	5	2.9	5.1
Q109	600	25	9.8	169	4	5.3	8.8
Q209	593	21	12.7	168	2	6.5	11.3
Q309	588	22	15.5	167	6	9.6	14.2
Q409	582	12	13.7	167	4	9.6	12.8

*Western Europe = EU-27 plus Iceland, Norway, and Switzerland. ¶Average number in database over period. Source: Standard & Poor's.

Table 2

Summary of Publicly Rated Corporate Defaults In Western Europe* In 2009

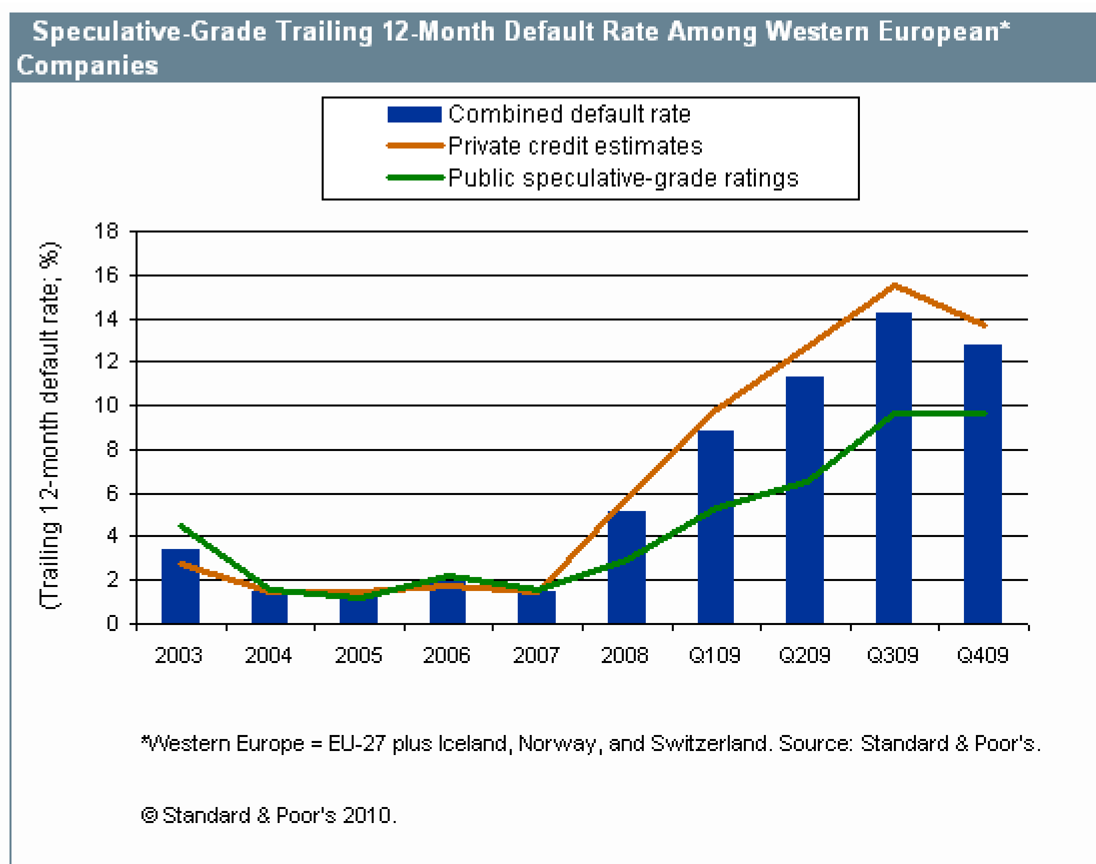
Company name	Country	Industry	Default date
Akerys Holdings S.A.	France	Real estate	Feb. 10, 2009
Castle HoldCo 4	Cayman Islands	Real estate	Feb. 17, 2009
Bite Finance International B.V.	Lithuania	Telecommunications	March 19, 2009
Sensata Technologies B.V.	Netherlands	Aerospace/auto/capital goods/metal	March 31, 2009
NXP B.V.	Netherlands	High technology/computers/office equipment	April 2, 2009

Table 2

Summary of Publicly Rated Corporate Defaults In Western Europe* In 2009 (cont.)			
Thomson S.A.	France	Consumer/service sector	May 7, 2009
Safilo SpA	Italy	Consumer/service sector	July 3, 2009
CEVA Group PLC	Netherlands	Transportation	July 20, 2009
Confidential	Cyprus	Media and entertainment	July 27, 2009
Treofan Holdings GmbH	Germany	Health care/chemicals	July 29, 2009
ESCADA AG	Germany	Consumer/service sector	Aug. 14, 2009
Head N.V.	Netherlands	Leisure time/media	Aug. 14, 2010
VAC Holding GmbH	Germany	Capital goods	Oct. 12, 2009
Invitel Holdings A/S	Hungary	Telecommunications	Nov. 4, 2009
Delance Ltd.	Cyprus	Auto	Nov. 9, 2009
WIND Hellas Telecommunications S.A.	Greece	Telecommunications	Nov. 17, 2009

*Western Europe = EU-27 plus Iceland, Norway, and Switzerland. Source: Standard & Poor's Global Fixed Income Research: Global Bond Markets' Weakest Links And Monthly Default Rates, published Jan. 8, 2010, on RatingsDirect.

Chart 2



Outstanding Debt At Default Has Halved Over The Past Year

Outstanding debt on the balance sheets of defaulted companies declined sequentially over the last three quarters of 2009 (see chart 3). In the second quarter, outstanding debt at default was €19.0 billion; in the third, it was €14.4 billion; and in the fourth quarter it was €9.5 billion (see table 3). This takes the total amount of outstanding debt affected by default since the intensification of the credit crisis at the end of the third quarter of 2008 to €87.7 billion from the start of the fourth quarter of 2008 to the end of December 2009.

By value, the rate of default fell to 8.2% at the end of 2009 from 10.9% in the third quarter. This mainly reflects the removal of LyondellBasell Industries AF S.C.A. (€18.9 billion debt outstanding prior to its default in December 2008) from the 12-month running defaulted debt amount.

Meanwhile, our portfolio of private credit estimates shows fewer companies defaulting compared to prior quarters, while those that did had, on average, lower debt exposures than in previous quarters. In the fourth quarter of 2009, the average debt at risk amounted to €383 million compared with higher average balances of €421 million and €513 million in the third quarter of 2009 and the second quarter of 2009, respectively. Moreover, none of the private companies that defaulted in the fourth quarter of 2009 owed more than €1 billion of debt. Only three defaulted with more than €500 million of debt outstanding, compared with seven in the third quarter of 2009 and six in the second quarter of 2009. In our view, this was largely the result of a 'wait-and-see' attitude from lenders that were prepared to waive or reset covenants, being encouraged by signs of a pick-up in economic growth. The lack of near-term debt maturities also facilitated this response.

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Chart 3

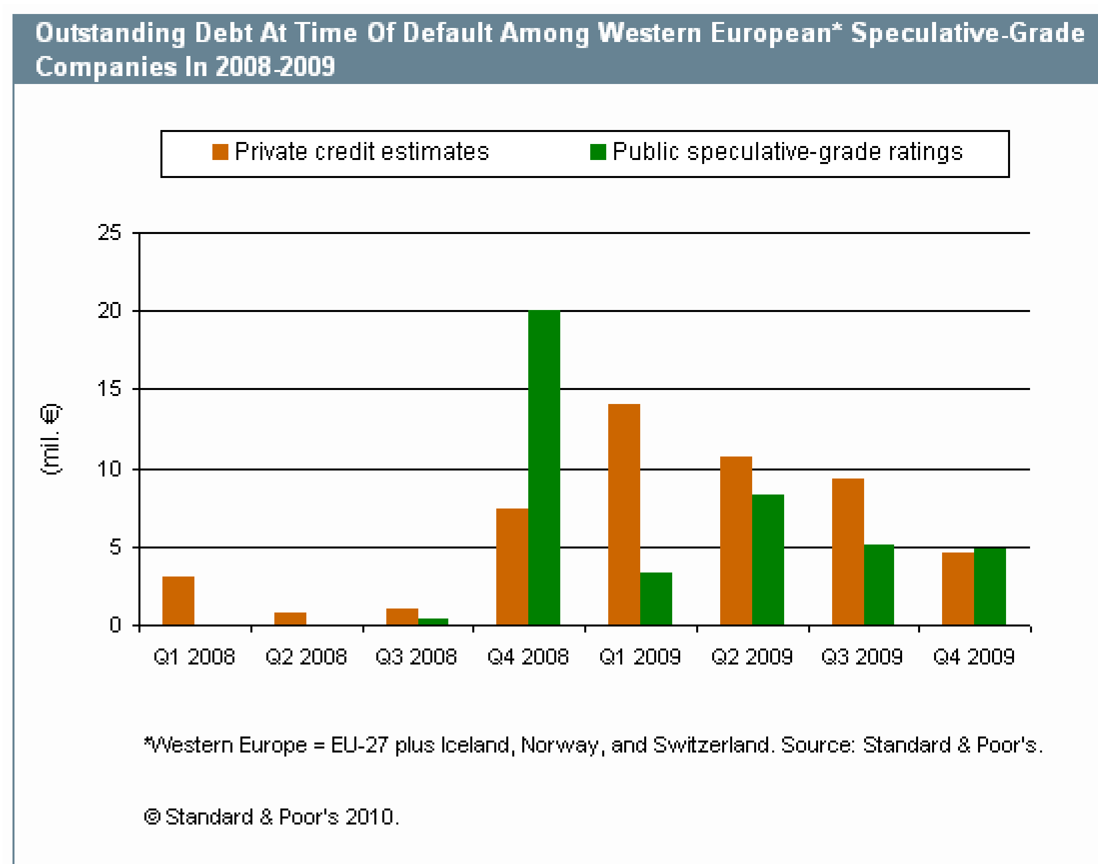

Table 3

Western European* Public And Private Speculative-Grade Defaults (By Value) In 2008-2009

	Private credit estimates			Public speculative-grade ratings			Combined	
Period	Number of defaults	Value (bil.€)	12-month default rate (%)	Number of defaults	Value (bil.€)	12-month default rate (%)	Value (bil.€)	12-month default rate (%)
Q1 2008	1	3.0	N/A	0	0.0	N/A	N/A	N/A
Q2 2008	5	0.7	N/A	0	0.0	N/A	N/A	N/A
Q3 2008	6	1.0	N/A	1	0.4	N/A	N/A	N/A
Q4 2008	23	7.5	3.4	4	20.0	5.6	N/A	4.5
Q1 2009	25	14.1	6.6	4	3.4	6.5	17.4	6.6
Q2 2009	21	10.8	9.4	2	8.2	8.8	19.0	9.1
Q3 2009	22	9.3	11.8	6	5.1	10.1	14.4	10.9
Q4 2009	12	4.6	10.6	4	4.9	5.9	9.5	8.2

*Western Europe = EU-27 plus Iceland, Norway, and Switzerland. N/A--Not available. Source: Standard & Poor's.

Refinancing Seen As The Main Long-Term Threat To Credit Quality

Nevertheless, in our opinion, this more lenient approach fails to address the longer-term risk to credit quality, namely, how highly leveraged companies can refinance the raft of maturing debt that starts to fall due from 2012

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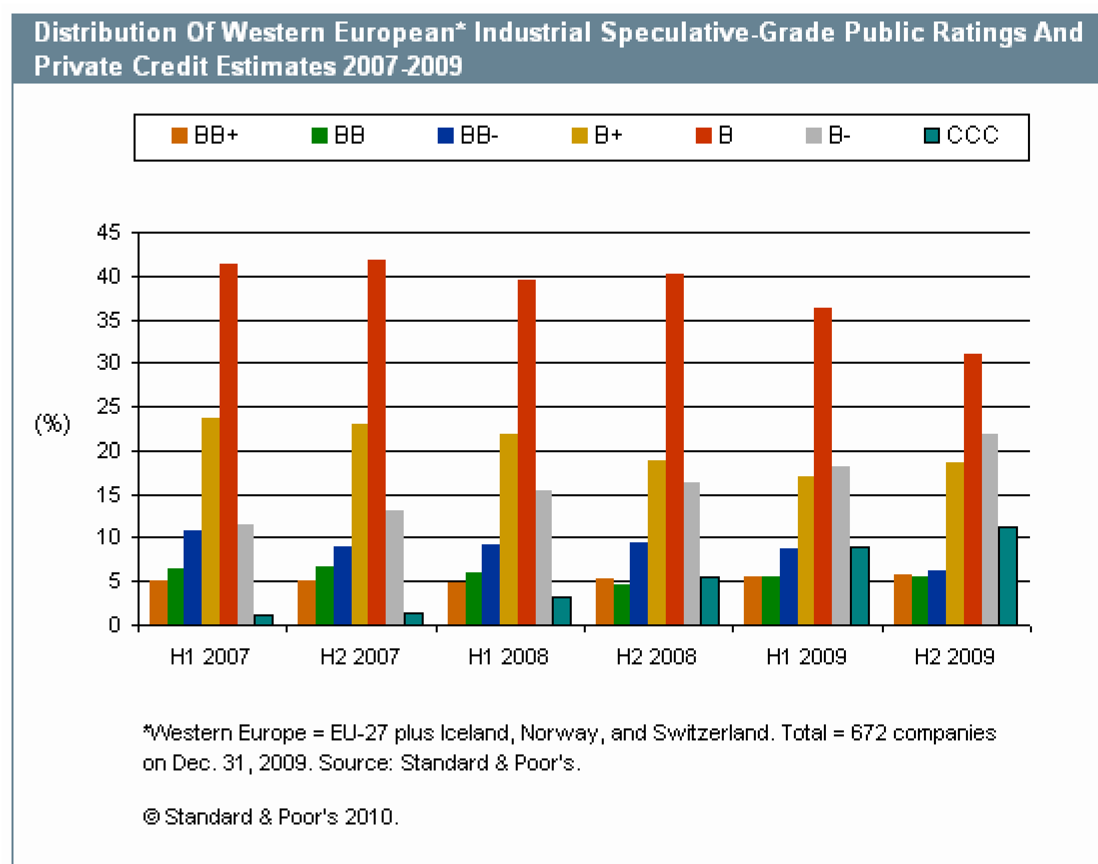
onward. In the absence of a strong recovery enabling companies to generate sustainable free cash flow to start deleveraging, or an equity injection from new shareholders to redeem debt, we believe the most likely outcome is an eventual write-down of debt to stabilize the capital structure. This view underpins our expectation that the current default cycle is likely to be attenuated in Europe due to the preponderance of overleveraged LBOs in the European leveraged finance market. In our opinion, this will likely result in the rate of default remaining above the 4% average default rate recorded in Europe (since 2003) for a couple more years.

Our prediction is reinforced by the downward migration in credit quality that we have seen through the course of 2009. Of our combined speculative-grade European industrial portfolio of rated issuers and private credit estimates, 32.9% were rated 'B-' or lower at the end of 2009, equivalent to 221 companies, up from 21.9% at the end of 2008 (see chart 4). Moreover, the 2009 figure includes many defaulted companies whose credit quality, despite debt restructuring, we consider remains very weak and exposed to the risk of a further default.

Chart 4



Defaults Spread Industrywide As Consumer Confidence Wilts

Breaking down the defaults by sector, we find a significant increase in default rates in almost all sectors, including the auto, homebuilders/real estate, and chemicals sectors, which were the hardest hit in 2008. The only exception is health care (see table 4). According to our observations:

- The recession spread into more sectors in 2009, with consumer-discretionary sectors suffering particularly severely from the loss in consumer confidence. For instance, retail and restaurants, and media and entertainment had 30 defaults, or almost one-third of the total, in 2009. This compares with only nine defaults, or 22.5% of the total, in 2008.
- Many homebuilding and real estate-related companies across a wide range of geographies continued to be distressed in 2009. Although the default rate in this sector doubled to 22% in 2009, six of the 11 defaults occurred in the first quarter, when we saw that market values were under the greatest pressure and the solvency of banks was under greatest scrutiny.
- The auto industry, already exposed to overcapacity and the difficulty of migrating toward greener technologies, was ill-prepared for the stall in demand in the fourth quarter of 2008, in our observation. This is reflected in nine defaults among auto suppliers in 2009, five of these occurring in the first quarter.
- In 2009, the health care sector continued to stand out as what we deem to be highly defensive, with a default rate of 1.7%--even lower than the 3.2% seen in 2008. The characteristics of this sector mainly reflect sustained demand for essential healthcare services and products and the flexibility of some health care companies to limit capital expenditure and manage working capital. We think this supports internal cash generation and the ability to maintain adequate liquidity.
- Companies operating in the oil and gas sectors also continued to show resilience despite the volatility in oil prices. We think this is partly because service providers are somewhat protected by the length of existing contracts and the material recovery in oil prices from $35-$40 per barrel in the trough of the pricing cycle in early 2009.
- The default rate among speculative-grade telecoms companies picked up from 3.4% in 2008 to 11.9% in 2009--nearly level with the average overall default rate of 12.8%. The three defaults here were all public ratings, with two emerging-market companies selectively defaulting following deeply discounted tender offers to buy back rated notes. The Greek telecommunications operator WIND Hellas Telecommunications S.A. (CCC+/Stable/--) failed to make junior note interest payments prior to restructuring its debt under U.K. insolvency law.

Looking to the future credit quality of LBOs (predominantly domiciled in the major European countries) over the next 12-18 months, we believe that those in the consumer-discretionary media and entertainment and auto sectors will continue to exhibit relatively high vulnerability to default (where a high proportion of companies in the sector are rated 'B-' or lower as at end-December 2009). In contrast, those companies in the highly cyclical chemicals and building and development sectors that have weathered the downturn now appear to be less vulnerable. Despite the health care sector, and to a lesser extent, the business equipment sector, having experienced relatively few defaults over the past two years, a good number of companies in these sectors have, in our view, credit issues to address.

Table 4

No. Of Defaults Among Western European* Speculative-Grade Companies By Industry Sector 2003-2009

	2003	2004	2005	2006	2007	2008	2009	Sector default rate 2008 (%)	Sector default rate 2009 (%)
Auto	0	1	0	5	2	4	9	9.8	24.3
Homebuilders/real estate	0	0	0	0	0	7	11	11.3	22.0
Retail/restaurants	1	0	4	4	1	4	14	5.1	19.4
Chemicals, packaging, and environmental services	0	0	1	1	1	7	9	10.6	16.1
Media and entertainment	2	1	0	2	2	5	16	4.5	15.1
Consumer products	1	1	0	2	2	5	9	7.1	13.4
Capital goods	0	1	0	0	1	1	6	1.8	13.0

Table 4

No. Of Defaults Among Western European* Speculative-Grade Companies By Industry Sector 2003-2009 (cont.)									
Telecommunications	1	0	0	0	0	1	3	3.4	12.0
Business equipment and services	0	0	0	0	1	1	7	1.4	11.9
Transportation	1	0	1	0	0	2	3	5.4	8.8
Health care	0	1	1	1	0	2	1	3.2	1.7
Oil and gas, exploration, and production	1	0	0	0	0	0	0	0.0	0.0
High technology	1	0	0	1	0	1	4	N.A.	N.A.
Metals, mining, and steel	0	0	0	0	1	0	3	N.A.	N.A.
Paper and forest products	0	0	0	0	0	0	1	N.A.	N.A.
Aerospace and defense	0	0	0	0	0	0	0	N.A.	N.A.
Utilities	1	1	0	0	0	0	0	N.A.	N.A.
Total	9	6	7	12	11	40	96	N.A.	N.A.

*Western Europe = EU-27 plus Iceland, Norway, and Switzerland. N.A.--Not applicable. Source: Standard & Poor's combined datasets.

Germany, Spain, And Italy Post Disproportionally High Default Rates

The default rate is higher in 2009 across all major European countries compared with 2008. Having said that, German, Spanish, and Italian companies contributed disproportionately to the number of defaults in 2009 (see table 5). Considering the default rate at a country level for the seven largest countries, in which we have more than 20 speculative-grade companies in our dataset, there is a wide divergence in the level of, and increase in, defaults in comparison to 2008. Our main observations from a country viewpoint are that:

- The default rates in Spain (22.7%) and Italy (18.8%) in 2009 were both the highest, and increased the most from 2008. This is mostly on account of missed payments, although three defaults in Spain were triggered by restructurings. It reflects the difficult operating conditions faced by many LBOs in these two countries. These conditions had a particular influence on consumer-facing companies, mainly in the consumer products, retail and restaurants, and media and entertainment sectors.
- The default rate was slightly higher than the 12.3% European average in Sweden (15.4%), Germany (14.4%), and The Netherlands (14.1%). Interestingly, all four defaults in Sweden, and all but one in Germany, were LBOs, a significantly higher proportion than the 83% of LBOs in our database. In The Netherlands, the average outstanding debt of defaulting companies was high at €1.36 billion, which probably explains why none of the defaults was due to missed payments, but to stakeholders proactively considering other work-out options such as restructuring or debt buybacks prior to an actual payment default.
- Six of the seven defaulters in Germany in the first quarter of 2009 were auto suppliers. This follows the severe setback suffered by the country's export-focused industrial base in the fourth quarter of 2008, with the auto sector and the auto supply chain being the most severely affected by the collapse in order books. The gradual recovery in global trade translated into a slowdown in the number of defaults through the remainder of 2009.
- Conversely, the large number of U.K. companies in our portfolio meant that although the number of defaults remained high in the U.K. (18), the U.K.'s 9.4% default rate in 2009 was lower than average and was the lowest of the seven major countries in our European database in 2009. Furthermore, there were no defaults among U.K. companies in the fourth quarter, suggesting to us that the combination of a gradual recovery and a more supportive stance by the U.K. clearing banks has provided some leeway for U.K. LBOs with unsustainable capital

structures.

- The situation in France deteriorated significantly in 2009 compared with 2008, with the default rate increasing from 2.7% to 11.1%. It is notable that France was the one country that saw a sharp increase in the number of defaults in the last three months of 2009. Six of the 16 fourth-quarter defaults were for French companies, although five of these were smaller companies with less than €500 million of debt outstanding at default. It is not clear to us whether this represents a more proactive stance being adopted by lenders and whether this pick-up in defaults will continue in coming quarters.

Table 5

No. Of Defaults Among Western European* Speculative-Grade Companies By Country In 2009

Country	Number of Companies	Number of Defaults		Country Default Rate (%)¶	
	2009	2008	2009	2008	2009
Spain	44	2	10	4.3	22.7
Italy	32	2	6	6.6	18.8
Sweden	26	1	4	3.7	15.4
Germany	125	6	18	4.4	14.4
The Netherlands	64	3	9	5.0	14.1
France	144	4	16	2.7	11.1
U.K.	191	15	18	7.3	9.4
Belgium	15	2	2	N.A.	N.A.
Cyprus	3	0	2	N.A.	N.A.
Greece	8	0	2	N.A.	N.A.
Hungary	6	0	2	N.A.	N.A.
Switzerland	16	2	2	N.A.	N.A.
Finland	8	1	1	N.A.	N.A.
Ireland	13	1	1	N.A.	N.A.
Lithuania	2	0	1	N.A.	N.A.
Luxembourg	9	0	1	N.A.	N.A.
Norway	9	0	1	N.A.	N.A.
Iceland	1	1	0	N.A.	N.A.
Total	N.A.	40	96	N.A.	N.A.

*Western Europe = EU-27 plus Iceland, Norway, and Switzerland. ¶Country default rate calculated where more than 20 companies in the database. N.A.--Not applicable. Source: Standard & Poor's combined datasets.

We See The Low Point In The Default Cycle As Still Some Way Off

While the combination of a gradual improvement in the economic outlook, low short-term interest rates, and stringent efforts by many companies to improve cash generation resulted in a substantial fall in the number of payment defaults at the end of last year, we think it's too early to anticipate default rates reverting to the low levels (about 1%-2%) that we saw in 2004-2007. We believe that many companies remain vulnerable to refinancing risk due to a high debt burden and many need an equity injection from either existing, or more likely, new shareholders, to repay debt in order to rebalance their capital structures. While we understand that a significant number of larger LBOs have obtained the necessary lender consents to facilitate an IPO, only a couple have obtained a listing to date.

We anticipate that the steady stream of debt restructurings that we have seen recently will persist over the next two

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years, due to a combination of factors, including: a relatively gradual and bumpy recovery with material variation between countries; a normalization of short-term interest rates; and a less forgiving stance from senior bank lenders. Improving capital ratios should enable senior bank lenders to lead restructurings to rebalance the overleveraged balance sheets of many 2005-2008 vintage LBOs. This underpins our view that, with over 30% of the issuers in our leveraged database rated 'B-' or below, the trailing 12-month default rate is unlikely to fall below 4% in the next two years.

Default Study Methodology

The scope of Standard & Poor's European leveraged finance market database

To arrive at the findings in this report, we regroup our corporate ratings into 17 standard industry classifications. We similarly regroup our private credit estimates, which we establish on the basis of information provided by third parties. Credit estimates are, for the most part, used to assess the asset pools of collateralized loan obligations. On Dec. 31, 2009, our speculative-grade universe in Western Europe comprised 174 speculative-grade public ratings on discrete groups or companies and 541 credit estimates. Geographically, these are spread across the 27 countries that make up the EU, as well as Iceland, Norway, and Switzerland.

Standard & Poor's definition of default

Standard & Poor's records a default when we see that a company fails to make a scheduled payment of principal or interest on any financial obligation, files for bankruptcy, or completes the restructuring of a financial obligation involving what we consider to be a distressed exchange offer meeting certain conditions (for more details on our general default definitions, please refer to "General: Corporate Ratings Criteria 2008," published April 15, 2008.

We record the date of default as the day that we assign a 'D' or 'SD' (selective default) to the publicly rated companies. For private companies, where a coupon or principal payment is not paid on time (after any relevant grace period elapses), then we record the default on that date. However, in the case of a debt restructuring, we record the default as having occurred either on the date a restructuring plan is implemented (if payments remain current) or on the date of the first missed payment, whichever happens earlier.

Due to the lags involved in receiving information relating to restructurings for private unrated companies, or to companies that defaulted after their ratings were withdrawn, it is not uncommon for us to revise default rates over time.

Related Research

"Default, Transition, and Recovery: Global Corporate Default Update (Jan. 4-7, 2010) (Premium)", Jan. 8, 2010

"A Tepid Recovery Will Strain European Corporate Credit Quality In 2010," Dec. 4, 2009

"Leveraged Buyouts Are Fueling Surging Defaults In Western Europe," April 8, 2009

"General: Corporate Ratings Criteria 2008," April 15, 2008

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

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