

# Cross-Market Commentary

## from Standard & Poor's

Market, Credit and Risk Strategies

### Payment-In-Kind Bonds Continue To Boom After Private Equity's Bust

**Michael Thompson**  
Managing Director  
Market, Credit, and Risk Strategies  
(1) 212-438-3480  
michael\_thompson@standardandpoors.com

**Richard Peterson**  
Director  
Market, Credit, and Risk Strategies  
(1) 212-438-1083  
richard\_peterson@standardandpoors.com

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After years of playing a minor role in the fixed-income market, payment-in-kind (PIK) bonds rebounded in conjunction with the mergers and acquisitions and private equity surge before the credit crisis began. PIK bonds, which give issuers the option to pay bond coupon interest with additional higher-yielding debt rather than cash, emerged in the late 1980s as a way for issuers to finance leveraged buyouts. Because they often carry higher interest burdens than other forms of debt and offer additional debt in lieu of cash payments, it's of little surprise that PIK debt was only a sliver of the overall fixed-income underwriting volume for much of the past two decades. Just 38 PIK bonds were priced in the 1990s.

However, the private equity boom of 2005 to 2007 brought on a rebound in PIK activity. According to Capital IQ data, 92 issues were completed in that three-year period. Of those, at least 55 of those individual tranches were priced in 2007 alone. Since the start of 2008, 55 PIK issues were completed, matching the full-year 2007 results.

Even after that boom became a bust, 22 of the 62 PIK issues currently trading have more than doubled in value this year. Based on Capital IQ data, the top-performing PIK issue in 2009 is a seven-year maturity issued by Umbrella Acquisition Inc., a subsidiary of private-equity owned Univision Communications Inc., in March 2007. It was trading at \$12.50 at the close of last year and now changes hands above \$81. A private equity group including Madison Dearborn Partners, Inc.; Providence Equity Partners, Inc.; Texas Pacific Group; Thomas H. Lee Partners, L.P. and others agreed to acquire Univision from Grupo Televisa SA and Venevision for a consideration of \$11.3 billion in cash in June 2006.

Also exhibiting robust rebounds were issues by real estate services company Realogy Corp., which advanced more than 470% this year, and a seven-year issue by television operator Newport Television LLC, which climbed to more than \$35 currently from less than \$8 at year-end 2008.

On the flip side, just six currently trading PIK issues have given up ground this year. Building products company Atrium Cos.' \$169.5 million four-year maturity, which matures in December 2012, led with an 88.5% drop in the value. It tumbled to \$1.50 from \$13 this year.

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For those seeking some upside potential from the leading performers profiled below, several are expected to mature by the end of 2012. Among these are issues by Metals USA Holdings Corp. and American Achievement Group Holding Corp., which are both trading under par even after this year's run-up. Their current lowest yields to maturity are 21.6% and 46.3%, respectively.

### Payment-In-Kind Bonds' Leading Gains In 2009

Issuer	Offering date	Maturity date	Coupon rate (%)	Offering amount (mil. \$)	Price as of Dec. 31, 2008 (\$)	Price as of Oct. 28, 2009 (\$)	Price change, year-to-date (%)
Umbrella Acquisition Inc.	March 1, 2007	March 15, 2015	9.75	1,500.0	12.50	81.50	552.0
Realogy Corp.	Jan. 9, 2008	April 15, 2014	11.00	550.0	11.50	66.00	473.9
Realogy Corp.	April 6, 2007	April 15, 2014	11.00	550.0	11.50	66.00	473.9
Newport Television LLC	May 5, 2008	March 15, 2017	13.00	200.0	7.63	35.38	363.9
Noranda Aluminum Holding Corp.	May 13, 2008	Nov. 15, 2014	7.16	220.0	16.00	54.50	240.6
Noranda Aluminum Holding Corp.	June 5, 2007	Nov. 15, 2014	8.58	220.0	16.00	54.50	240.6
Freescale Semiconductor Inc.	July 9, 2007	Dec. 15, 2014	9.13	1,500.0	23.00	74.50	223.9
Freescale Semiconductor Inc.	Nov. 16, 2006	Dec. 15, 2014	9.13	1,500.0	23.00	74.50	223.9
ServiceMaster Co.	July 22, 2008	July 15, 2015	10.75	1,150.0	31.00	99.50	221.0
American Achievement Group Holding Corp.	Aug. 8, 2008	Oct. 1, 2012	14.75	150.0	24.00	71.00	195.8
UCI Holdco Inc.	Nov. 19, 2007	Dec. 15, 2013	8.30	257.0	17.00	50.00	194.1
UCI Holdco Inc.	Dec. 15, 2006	Dec. 15, 2013	12.49	235.0	17.00	50.00	194.1
Momentive Performance Materials Inc.	Dec. 20, 2007	Dec. 1, 2014	10.13	300.0	31.00	82.50	166.1
Metals USA Holdings Corp.	Jan. 22, 2008	July 1, 2012	6.29	300.0	28.00	73.00	160.7
Metals USA Holdings Corp.	June 29, 2007	July 1, 2012	10.73	300.0	28.00	73.00	160.7
Allison Transmission Inc.	Oct. 12, 2007	Nov. 1, 2015	11.25	550.0	39.50	99.00	150.6
Catalent Pharma Solutions Inc.	March 6, 2008	April 15, 2015	9.50	565.0	38.00	86.50	127.6
Catalent Pharma Solutions Inc.	April 4, 2007	April 15, 2015	9.50	565.0	38.00	86.50	127.6
Sequa Corp.	June 9, 2008	Dec. 1, 2015	13.50	211.4	32.00	69.63	117.6
Noranda Aluminum Acquisition Corp.	May 13, 2008	May 15, 2015	5.41	510.0	34.00	70.25	106.6
Noranda Aluminum Acquisition Corp.	May 10, 2007	May 15, 2015	6.83	510.0	34.00	70.25	106.6
Hawker Beechcraft Acquisition Co. LLC	Jan. 2, 2008	April 1, 2015	8.88	398.0	34.00	68.63	101.8

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