



Roynat Asset Finance

**Presentation to
Réseau Capital**

“The Road Ahead”

November 5, 2009



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Worst recession since the 1930's:

- 7 Million US jobs lost
- \$3.7 Million of wealth lost
- Sharpest downturn in housing, production and employment
- 4 quarters of economic contraction
- Major bankruptcies in the financial sector
- Global financial recession



- Much tighter credit
- All banks increasing pricing
- Relationship Managers had zero dollar loan targets
- Mezzanine / sub debt / equity financing – impossible to find
- Commercial Bank loan assets have shrunk



- Did not shut down
- Some lenders – GMAC / CIT CIBC / GE – adjusted their practices
- BMO remains a consistent lender
- TD / Bank of Nova Scotia entered the market

Facts:

- ABL in US down 12% in first half of 2009
- Leveraged loan market in US down 36% in first half of 2009
- ABL represented 22% of all leveraged loan activity in the first half of 2009 (vs. 14% in first half of 2008)



The General Market

- Commercial Banks seeing more “cracks” in portfolios, particularly smaller loans (under \$5 Million)
- At the same time, Commercial Banks need to increase assets
- Relationship Managers given loan targets for 2010
- Mezzanine / sub debt / equity financing – available

Asset Based Lenders

- Starting to evolve to a US model....



- 50%+ of all middle market borrowing facilities are ABL
- Increasingly large corporate facilities are adopting ABL structures as they convert from cash flow loan structures to secured transactions (21%)
- While there are over 1000 Asset Based Lenders in the US, 85% of the market is controlled by 5 major banks
- Despite the economic recession, ABL borrowings increased by 13% year over year in 2008



- Still growing in terms of market share; less than 10%
- At the height of the market, there were over 14 Asset Based Lenders in Canada
- Similar to the United States, ABL is becoming centralized and dominated by the Tier 1 Banks
- Key to this centralization is the ability to cross-sell a full range of other banking products and services



TIER 1 -

Bank of Montreal
Royal Bank of Canada
Bank of Nova Scotia
Toronto Dominion Bank
CIBC / CIT

OTHER -

GE Capital
Wells Fargo / Wachovia
JP Morgan
Bank of America
PNC
Accord Financial
Callidus Capital



“The Perfect Storm”

- Stupid rates / stupid structures
- Prime / Prime minus facilities
- Closing Fees: 0.15 – 0.25 basis points
- Unused Line Fees: 0.15 / 0.25%
- Aggressive structures:
 - Tight availability
 - High advance rates
 - Infrequent collateral audits
 - Waiving of appraisals



- Prime + 1-2 ½%
- Closing Fees: 0.80 - 1.25 basis points
- Unused Line Fees: 0.35 - 0.75 basis points
- Structured Over Formula Advances (SOFAs) becoming more prevalent

Example:

	Standard	SOFA	Result
A/R	85%	Additional 15%	100%
Inventory	90% of NOLV	Additional 10%	100% of NOLV

- Must have strong cash flow
- Be able to amortize the SOFA portion of the loan over a maximum 36 months



- Golden age for Asset Based Lending in Canada
- With tighter credit requirements in Commercial Banks, the ABLs will fill the gap created
- Evolution of different tiers
 - Bank ABL credits
 - Other ABL credits
- Good collateral / well structured transaction at reasonable returns = “For Now”





QUESTIONS



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