Leveraged Finance
U.S.
Special Report

Covenant Analysis of Largest Speculative Grade Issuers

How Close to the Breach?

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Introduction

Fitch Ratings reviewed the largest issuers of leveraged loans and high yield bonds on an aggregate basis to determine how close these companies were to breaching the most restrictive covenant contained in their credit agreements or bond indentures (see the Covenant Analysis table on page 2). Because of a lack of public disclosure, several of the largest issuers of speculative grade debt were excluded from the analysis, including Education Media and Publishing Group Limited, Georgia-Pacific LLC, and SABIC Innovative Plastics Holding BV. Included in the study is a liquidity analysis of each company and a maturity schedule through 2012 (see the Liquidity/Maturity table on page 3) to reflect each company's ability to meet its debt obligations irrespective of its financial covenants given the recent profusion of "amend and extend" agreements.

In the majority of cases, the most restrictive covenant is a combined leverage ratio test (total debt/EBITDA) or a senior secured leverage ratio test (secured debt/EBITDA). For one company, MGM MIRAGE, the most restrictive covenant is a minimum EBITDA test, while for AES Corporation (AES) it is an interest coverage ratio test (based on parent-level recourse debt). Several companies in the study had no material financial covenants at all, including Biomet, Inc.; DISH Network Corporation; Ford Motor Company; Freescale Semiconductor, Inc.; Rite Aid Corporation; Tenet Healthcare Corp. (with the exception of a fixed charge coverage ratio test which is in effect if revolver availability is $100 million or less); and Toys "R" Us, Inc.

After identifying the most restrictive financial covenant, Fitch analysts calculated consolidated EBITDA on a LTM basis for each company and applied the most restrictive covenant to determine how much EBITDA would have to decline before breaching the covenant. Fitch then sorted the data in the order of those companies closest to breaching the tightest covenant to those farthest from a breach.

Results

As reflected in the Covenant Analysis table, Fitch estimates that the three speculative grade companies closest to a covenant breach are Realogy Corporation (Realogy), Chesapeake Energy Corporation (Chesapeake), and Frontier Communications Company (Frontier). For Realogy, an estimated 3.8% decline in EBITDA would result in a breach of the company's 5.35x secured net leverage ratio test, which steps down to 5.0x at Sept. 30, 2009. However, Fitch notes that Realogy recently issued a $650 million second-lien term loan C facility, a portion of which will be used to reduce first-lien debt. For Chesapeake, EBITDA would have to decline approximately 7.5% before its 3.75x leverage ratio test would be breached, while Frontier could sustain an estimated 12.6% decline in EBITDA before breaching the 4.5x consolidated leverage test.

Aside from the previously noted companies with no financial covenants, large speculative grade issuers farthest from a covenant breach include First Data Corporation, whose EBITDA would have to decline nearly 52% to breach its secured leverage ratio test; Qwest Communications International, Inc., which could sustain a 48.4% EBITDA decline and AES, which could incur a 45.0% decline.

Covenant Analysis — Estimated Percentage Decline in EBITDA to Breach Tightest Covenant

Company	Tightest Covenant	Covenant Level	Estimated % Decline in EBITDA to Breach Covenant
Realogy Corporation[a]	Secured Net Leverage Ratio	5.35	3.8
Chesapeake Energy Corporation[b]	Leverage Ratio	3.75	7.5
Frontier Communications Company	Leverage Ratio (Several facilities)	4.50	12.6
Clear Channel Communications, Inc.	Net Secured Leverage Ratio	9.50	14.7
CSC Holdings, Inc.[c]	Revolver and Term Loan A Maximum Total Leverage	5.00	17.6
SUPERVALU Inc.[d]	Leverage Ratio	4.00	18.0
Sprint Nextel Corp.[e]	Leverage Ratio	4.25	22.5
Harrah's Entertainment, Inc.[f]	Senior Secured Net Leverage Ratio	4.75	22.0
Constellation Brands, Inc.	Leverage Ratio	5.50	23.0
Community Health Systems, Inc.[g]	Leverage Ratio	7.00	23.0
Univision Communications, Inc.[h]	Net Secured Leverage Ratio	11.75	25.1
SunGard Data Systems, Inc.[i]	Leverage Ratio	6.75	25.8
Windstream Corporation	Senior Secured Leverage Ratio	4.50	26.6
ARAMARK Corporation	Consolidated Secured Debt Ratio	5.25	28.0
The Nielsen Company B.V.[j]	Net Leverage Ratio	8.75	29.6
Texas Competitive Electric Holdings Company, LLC	Leverage Ratio	4.85	33.2
El Paso Corp.	Leverage Ratio	5.25	36.0
NRG Energy, Inc.	Consolidated Leverage	6.00	36.0
HCA Inc.[k]	Leverage Ratio	8.25	39.0
MGM MIRAGE[l]	Minimum EBITDA	900.00	40.0
Intelsat, Ltd.[m]	Secured Leverage Ratio	4.50	40.8
AES Corporation[n]	Interest Coverage Ratio on Parent Level Recourse Debt	1.30	45.0
Qwest Communications International, Inc.[o]	Leverage Ratio	6.00	48.4
First Data Corp.	Secured Leverage Ratio	7.25	51.9
Biomet, Inc.	No Material Financial Covenants	—	—
DISH Network Corporation	No Material Financial Covenants	—	—
Ford Motor Company[p]	No Material Financial Covenants	—	—
Freescale Semiconductor, Inc.	No Material Financial Covenants	—	—
Rite Aid Corporation[q]	No Material Financial Covenants	—	—
Tenet Healthcare Corp.[r]	No Material Financial Covenants	—	—
Toys "R" Us, Inc.[s]	No Material Financial Covenants	—	—

[a] For covenant calculation purposes, total secured debt nets available cash and permitted investments of $356 as of June 30, 2009. The senior secured net debt ratio steps down to 5.00:1:00 for the period ending 9/30/09.
[b] Fitch remains concerned about cash flow and liquidity levels at Chesapeake. High levels of CAPEX in the current low natural gas price environment are expected to result in minimal/negative free cash flow levels. Chesapeake continues to rely on asset sales, including proceeds from volumetric production payments (VPPs) to finance drilling requirements. While Chesapeake has no scheduled debt maturities until 2012, borrowing base redeterminations associated with the company's credit facility ($2.8 billion outstanding at 6/30/09) could create the potential for earlier debt reductions.
[c] Covenant test includes restricted group debt, undrawn face amount of LOC obligations, and CSC Holdings' guaranty of Newsday LLC's $650 million senior secured credit facility, which in aggregate Fitch estimates as of June 30, 2009 was approximately $9.1 billion. Restricted group annualized operating cash flow as of June 30, 2009 was approximately $2.2 billion.
[d] Company must maintain a maximum debt leverage of 4.0:1.0 through Dec. 30, 2009 and 3.75:1.00 for each fiscal quarter thereafter.
[e] Pro forma for $1.3 billion debt issuance in August 2009.
[f] This is a net leverage covenant and per amendments to agreement, excludes certain debt.
[g] Company can use the proceeds from qualified stock issuances to cure a breach of the financial covenants.
h[i] Covenant steps down to 11.25 beginning Sept. 30, 2009.
[i] Covenant tightens to 6.25x at 4Q09, which would imply a 19.9% decline to breach.
[j] Covenant steps down to 8.0x in October 2009.
[k] Investors have the right to cure breach of this covenant by making cash contributions which would be treated as additional EBITDA for covenant calculation purposes.
[l] Increases to $1.0 billion in 2010. Leverage and coverage covenants were waived.
[m] The Secured Leverage Ratio as described resides at the Intelsat Corporation operating subsidiary, not at the Intelsat, Ltd. parent subsidiary.
[n] Does not represent decline in EBITDA, but is based on Fitch's estimates of adjusted parent operating cash flows.
[o] Consolidated leverage covenant is at the Qwest Corp. subsidiary level and is only in effect when loans or LOC obligations are outstanding.
[p] Liquidity covenant requires Ford to maintain $4 billion in liquidity including cash, short-term VEBA assets and/or availability under its revolving credit facility.
[q] Company must maintain a fixed-charge coverage ratio of 1.05x through Feb. 2010 and 1.1x thereafter, but only if revolver availability becomes less than $175 million. Pro forma its June 2009 refinancing, Fitch estimates LTM fixed charge coverage ratio to be 1.15x. All else being equal, EBITDA at the 1.05x and 1.1x coverage would be 15% and 8% below LTM levels, respectively.
[r] Tenet does have a minimum fixed charge coverage ratio of 2.0x but this covenant is only in effect when availability on the revolver is $100 million or less.
[s] There are no consolidated ratio tests for Toys "R" Us, Inc. The company has a leverage test of 2.75x for Q1, Q2, Q3 and 4.0x for Q4 for the European operating companies, but there is no significant debt at that level except for the occasional revolver borrowing.
Source: Company filings, Fitch Ratings.

Total Liquidity/Maturity Schedules

			Credit Facilities		Total	Maturity Schedule			
Company Name	**LTM FCF**	**Cash**	**Committed**	**Available**	**Liquidity**	**2009**	**2010**	**2011**	**2012**
AES Corporation	(403.0)	1,735.0	2,490.0	2,156.0	3,891.0	547.0	1,433.0	1,692.0	848.0
ARAMARK Corporation[a]	237.1	167.8	600.0	524.8	692.6	38.2	31.0	23.0	262.0
Biomet, Inc.	58.8	215.6	850.1	741.0	956.6	72.3	35.8	35.8	35.8
Chesapeake Energy Corporation[b]	(3,826.0)	554.0	3,960.0	819.0	1,373.0	0.0	0.0	0.0	2,834.0
Clear Channel Communications, Inc.[c]	219.7	1,497.5	2,000.0	20.4	1,517.9	69.5	481.2	958.1	622.4
Community Health Systems, Inc.[d]	501.2	268.8	750.0	660.8	929.6	29.5	61.4	49.9	48.6
Constellation Brands, Inc.[e]	331.0	17.0	900.0	706.0	723.0	251.0	171.0	403.0	613.0
CSC Holdings, Inc.[f]	408.7	406.9	6,475.0	1,340.1	1,747.0	302.2	312.5	1,487.2	3,674.3
DISH Network Corporation[g]	1,024.0	1,320.9	0.0	0.0	1,320.9	25.0	0.0	1,000.0	0.0
El Paso Corp.	(755.0)	800.0	2,800.0	1,500.0	2,300.0	0.0	255.0	683.0	2,531.0
First Data Corp.	240.0	768.0	1,769.4	1,634.9	2,402.9	64.4	193.3	174.6	138.8
Ford Motor Company[h]	(18,972.0)	21,560.0	11,298.0	580.0	22,140.0	1,044.0	989.0	10,394.0	310.0
Freescale Semiconductor, Inc.[i]	(390.0)	1,312.0	690.0	16.0	1,328.0	20.0	40.0	40.0	674.0
Frontier Communications Company[j]	143.5	454.1	250.0	250.0	704.1	1.9	7.2	869.5	184.5
Harrah's Entertainment, Inc.[k]	(884.5)	447.1	1,800.0	485.0	932.1	0.8	501.8	168.9	0.0
HCA Inc.[l]	1,145.0	450.0	4,000.0	2,359.0	2,809.0	3.5	748.0	555.0	4,073.0
Intelsat, Ltd.[m]	490.4	527.2	425.0	373.2	900.4	97.5	97.5	94.7	681.4
MGM MIRAGE[n]	448.6	221.4	3,600.0	1,500.0	1,721.4	161.5	1,079.0	4,652.7	544.7
Nielsen Company B.V. (The)	66.0	386.0	688.0	605.0	991.0	107.0	82.0	55.0	126.0
NRG Energy, Inc.	1,490.0	2,300.0	2,300.0	1,725.0	4,025.0	453.0	258.0	85.0	67.0
Qwest Communications International, Inc.[o]	1,239.0	1,796.0	910.0	910.0	2,706.0	562.0	2,168.0	2,151.0	1,500.0
Realogy Corporation[p]	369.0	356.0	750.0	4.0	360.0	16.0	32.0	32.0	473.0
Rite Aid Corporation[q]	467.7	136.5	1,000.0	812.8	949.3	13.0	25.9	14.8	14.8
Sprint Nextel Corp.[r]	3,478.0	5,909.0	4,500.0	1,500.0	7,409.0	18.0	4,373.0	1,667.0	2,770.0
SunGard Data Systems, Inc.[s]	374.0	508.0	1,145.5	734.0	1,242.0	0.0	0.0	22.5	316.5
SUPERVALU Inc.[t]	417.0	275.0	2,000.0	1,645.0	1,920.0	396.0	1,115.0	320.0	1,379.0
Tenet Healthcare Corp.	39.0	758.0	800.0	522.0	1,280.0	2.0	2.0	84.0	92.0
Texas Competitive Electric Holdings Company, LLC[u]	2,017.0	1,123.0	8,050.0	1,813.0	2,936.0	103.0	294.0	648.0	234.0
Toys "R" Us, Inc.	204.0	149.0	2,351.0	1,296.0	1,445.0	72.0	893.0	560.0	1,236.0
Univision Communications, Inc.[v]	58.3	334.5	600.0	0.2	334.7	0.0	139.7	193.9	102.4
Windstream Corporation[w]	309.8	245.4	500.0	493.2	738.6	17.0	24.0	283.3	27.5

[a] Company also has a $250 million receivables securitization facility with $17 million of availability.
[b] Available credit facilities include both the $3.5 billion Chesapeake secured credit facility as well as the $460 million midstream facility. Chesapeake's facility does contain borrowing base redeterminations which could also affect availability under the $3.5 billion secured credit facility.
[c] Maturities are pro forma for tender offer of its senior notes completed on Aug. 28, 2009.
[d] Maturity schedule as of 12/31/08. As of 6/30/09, company had drawn down an additional $200 million of its delayed draw term loan, repurchased and cancelled $121.5 million of the Notes due 2015, and paid down $110.4 million of its term loan facility.
[e] Maturities represent fiscal years 2010, 2011, 2012, and 2013 as estimated by Fitch and adjusted for year to date financing transactions.
[f] Maturity schedule excludes collateralized indebtedness and other debt.
[g] LTM ended 6/30/09. Includes approximately $1.2 billion in marketable securities; maturity schedule excludes capital leases.
[h] Company has approximately $13.4 billion of automotive debt that matures after 2012.
[i] Credit facility availability is net of $30 million of LOCs and $644 million drawn on facility; $20 million in 2009 maturities are scheduled in the second half of the year; 2012 maturities includes $30 million of LOCs under revolver.
[j] 2011 maturities reflect 1H09 debt retirements. Does not reflect pending September 2009 tender offer for certain 2011 maturities.
[k] Cash balance is net of an estimated $500 million of cage cash, which Fitch believes should not be considered a form of liquidity. In Sept. 2009, Harrah's issued $720 million of senior secured notes and was trying to launch a $750 million incremental term loan under the accordion feature of its credit facility.
[l] Estimated based on refinancing activity through August 2009; excludes $366 million of other secured debt (primarily capital leases) outstanding at 6/30/09; foreign currency denominated debt is presented in USD equivalents; assumes no further payment-in-kind options on the outstanding toggle notes.
[m] Maturity schedule as of 12/31/08.
[n] Cash balance is net of an estimated $190 million of cage cash, which Fitch believes should not be considered a form of liquidity; $3.6 billion revolver only. There is $2.2 billion in term loans for total credit facility of $5.8 billion. In Sept. 2009, MGM issued $475 million of unsecured bonds, a portion of which is likely to reduce the revolver balance and increase liquidity.
[o] In July 2009, Qwest increased the size of its revolver to $945 million; maturity schedule excludes capital leases.
[p] Does not include recent issue of $650 million second-lien term loan C facility.
[q] LTM ended 5/30/09. The liquidity profile is pro forma for the refinancing Rite Aid completed in June 2009 to replace its $1.75 billion credit facility and $145 million term loan due September 2010, as reflected in the company's S-4 filing dated Aug. 5, 2009.
[r] LTM ended 6/30/09. Maturities in 2010 reflect $2.0 billion in LOCs outstanding against credit facilities. Cash balance is pro forma for $1.3 billion debt issuance in August 2009.
[s] Free cash flow excludes the impact of receivables sold under off-balance-sheet securitization program. Committed facilities comprised of $829 million revolving credit facility and $316.5 million A/R securitization facility.
[t] Maturities represent fiscal years 2010, 2011, 2012, and 2013 as estimated by Fitch and adjusted for year to date financing transactions.
[u] Cash includes EFH cash. Total credit facility amount is $24.5 billion, which includes $16.45 billion term loan. Liquidity also includes unlimited capacity under Commodity Collateral Posting Facility, under which no amounts were outstanding as of 6/30/09. Maturities reflect those of TCEH only and assume amortization of the fully drawn $4.085 billion Delayed Draw Term Loan.
[v] Maturity schedule is pro forma for July 2009 refinancing.
[w] 2009 data reflects 1H09 debt retirements; 2011 does not reflect current request for extension of term loan or revolver to 2013.
Source: Company filings, Fitch Ratings.