Citi Research

High Yield & Leveraged Loans Outlook & Top Ideas

September 5, 2014

Manish A. Somaiya
Autos, Industrials & Services
manish.somaiya@citi.com
(212) 816-9799

James P. Finnerty
Chemicals & Homebuilders
james.p.finnerty@citi.com
(212) 816-9599

Jenna Giannelli
Retail & Gaming
jenna.giannelli@citi.com
(212) 816-4244

Marisa B. Moss
Energy
marisa.b.moss@citi.com
(212) 816-6797

David Phipps
Telecom/Media/Tech
david.phipps@citi.com
(212) 816-7022

Richard C. Yu
Metals/Mining, Coal, & Packaging
richard.c.yu@citi.com
(212) 816-7009

Murali Ganti
Healthcare
murali.ganti@citi.com
(212) 816-7698

Kevin Ziets
Consumer Products
kevin.ziets@citi.com
(212) 816-2704

Michael H. Anderson
Credit Strategy
michael.henry.anderson@citi.com
(212) 723-3819

Table of Contents

Link to Citi's Loan Initiation Publication (Sep 4)

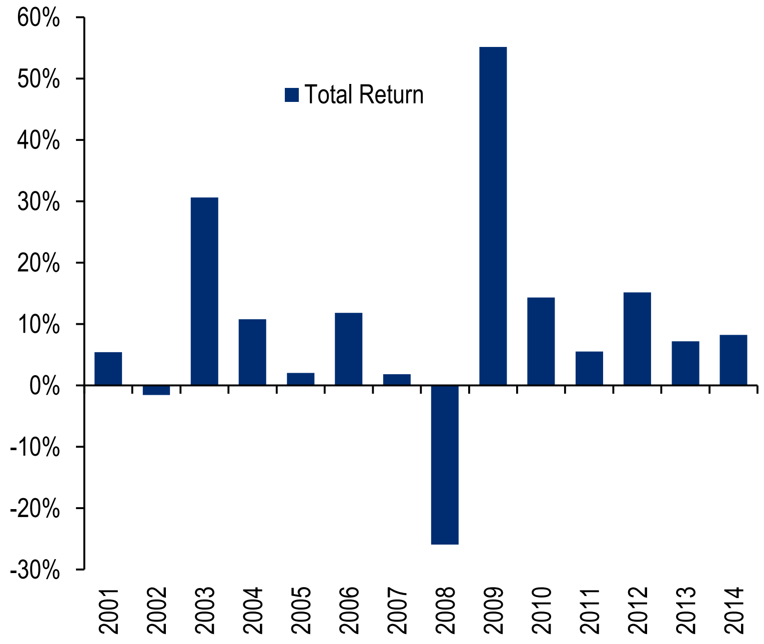
High Yield & Strategy Outlook

Michael H. Anderson
Credit Strategy
michael.henry.anderson@citi.com
(212) 723-3819

An Impressive 2014 So Far…

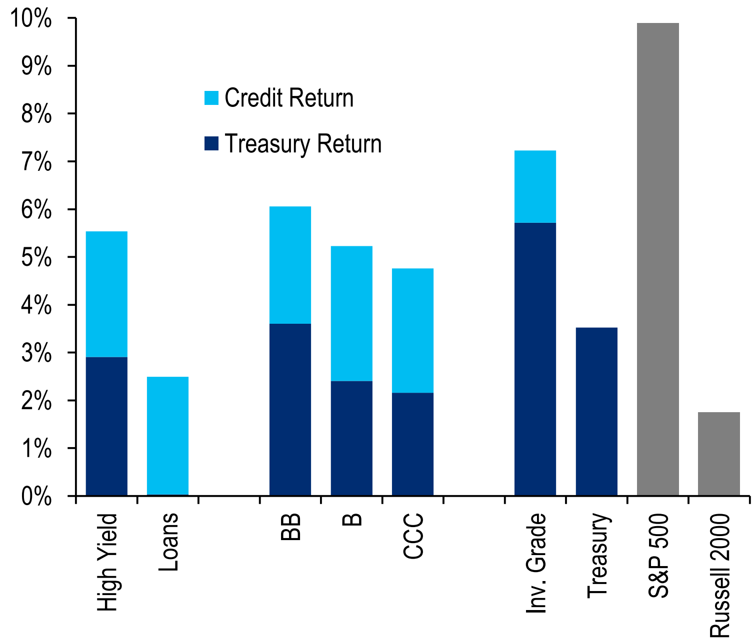
…But duration accounts for much of the performance.

HY Annual Returns Historically



Source: Citi Research, Yield Book, 2014 return is annualized, As of 8/31/2014

HY Returns YTD vs. Other Assets

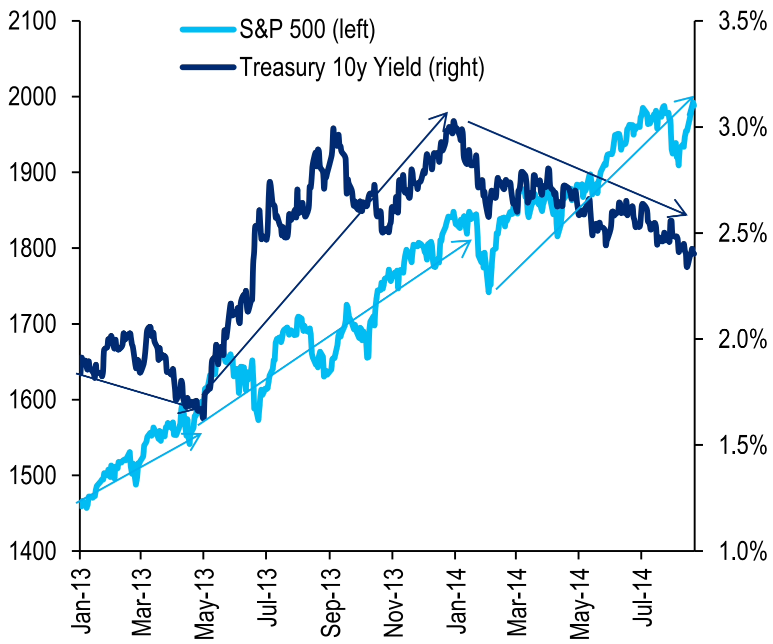


Source: Citi Research, Yield Book, Bloomberg, As of 8/31/2014

Can the Equity/Treasury Dichotomy Persist?

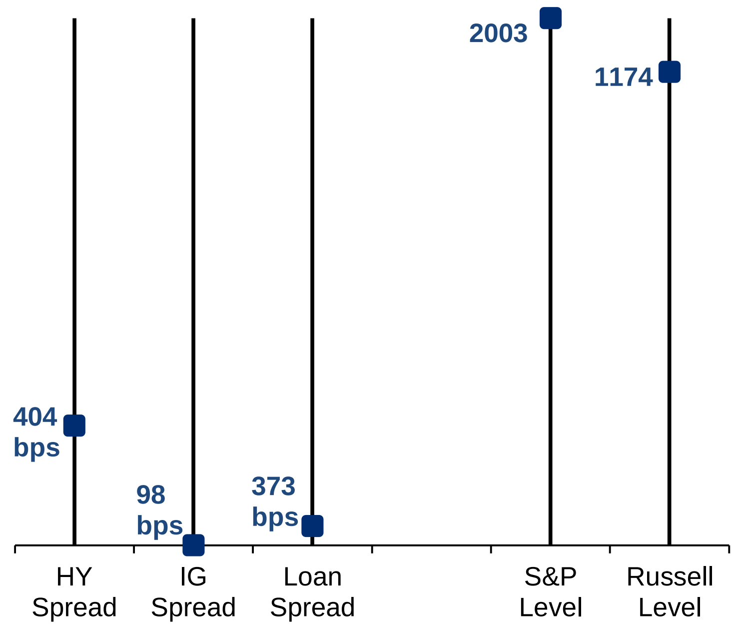
Treasury yields are at one-year lows while equity indices continue to reach new highs.

10-year vs. S&P 500



Source: Citi Research, Bloomberg

Credit Spreads Near Post-Crisis Low

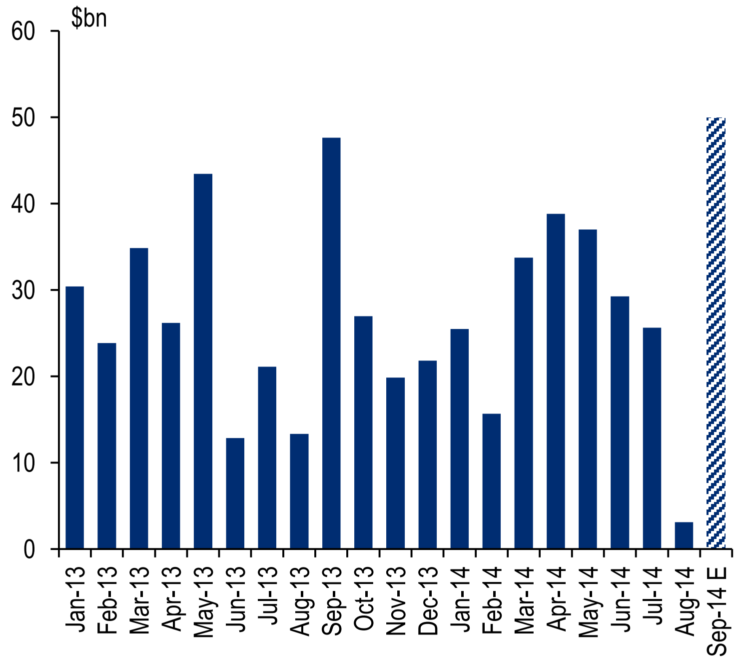


Source: Citi Research, Yield Book, Bloomberg, As of 8/31/2014

Supply on The Rise

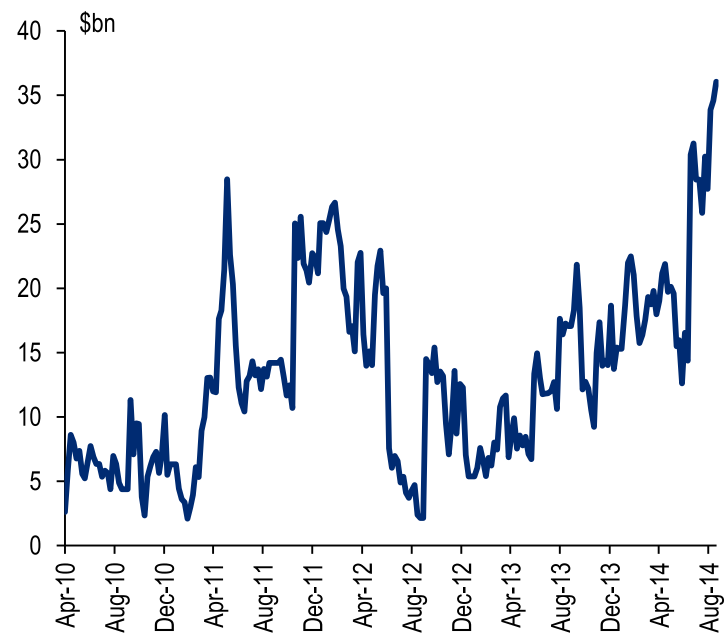
The high-yield pipeline hit a post-crisis high in August with M&A on the rise.

High Yield Issuance



Source: Citi Research, S&P LCD

High Yield Forward Pipeline

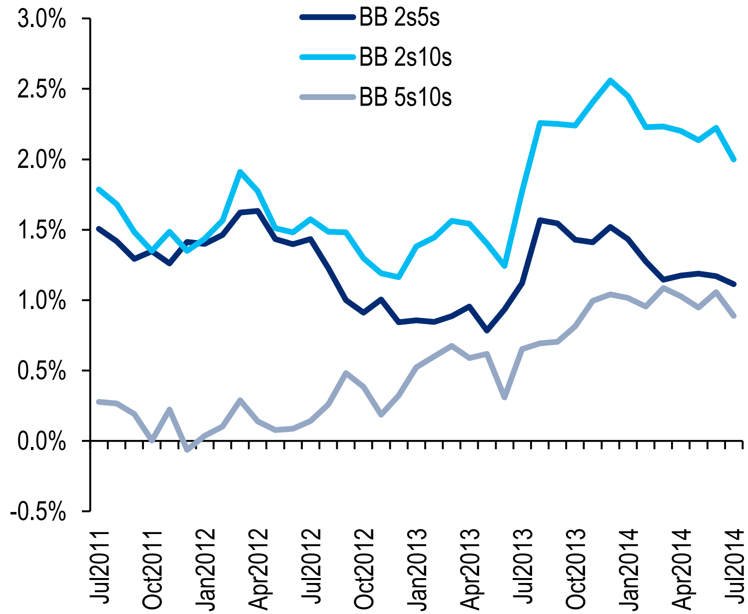


Source: Citi Research, S&P LCD

Watch the Yield Roll-down Trade Disappear

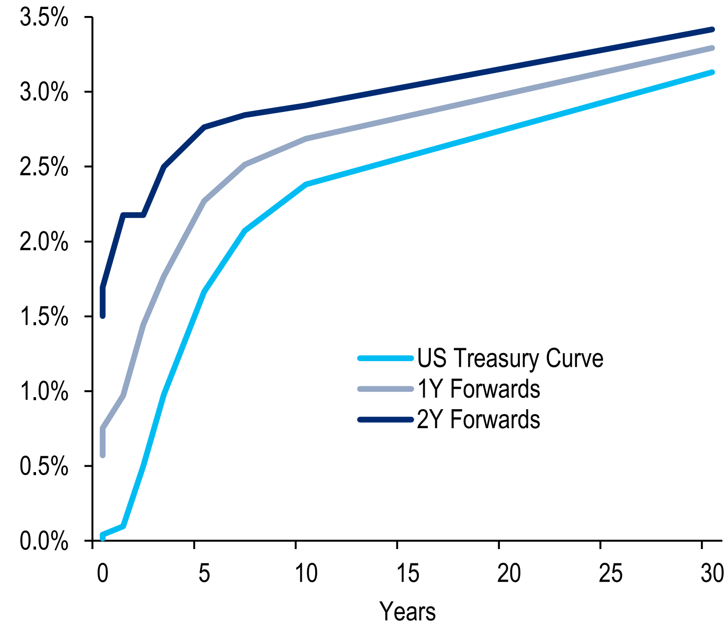
Roll-down has been a valuable source of performance for the market but the forward Treasury curve indicates a flatter environment.

Double-B Cash Curves



Source: Citi Research, Yield Book

Treasury Future Curves



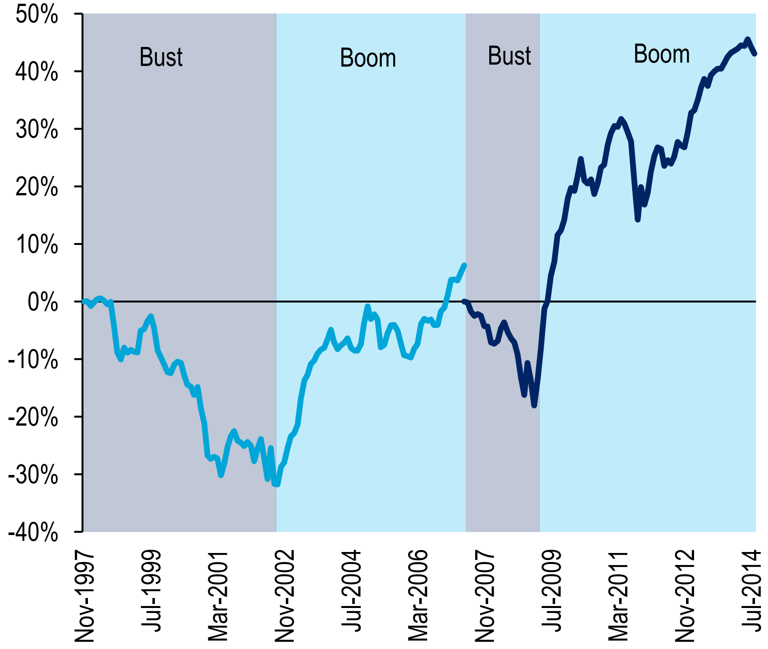
Source: Citi Research, Bloomberg

- With cash curves steep and yields depressed, roll-down has been a major contributor to total returns recently
- A flatter Treasury curve will affect short duration in two ways. First it should reduce demand for short-duration high yield. Second, unless spreads compress meaningfully, short HY bond yields should rise

We Remain Underweight Triple-C Bonds

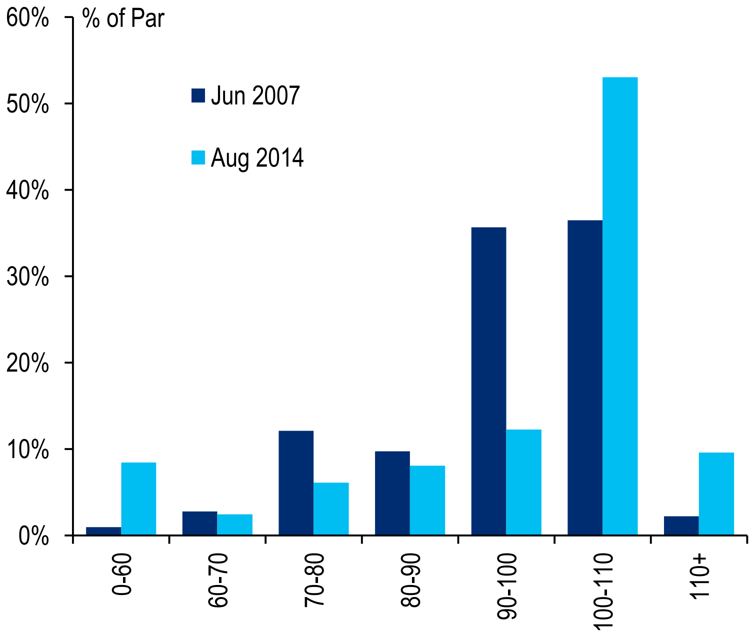
Triple-C paper have enjoyed a very good stretch over the past cycle. Further gains will be challenging.

Cyclical Cumulative Returns: CCC-Rated vs. HY



Source: Citi Research, Yield Book

Triple-C Price Distribution Now vs. 2007



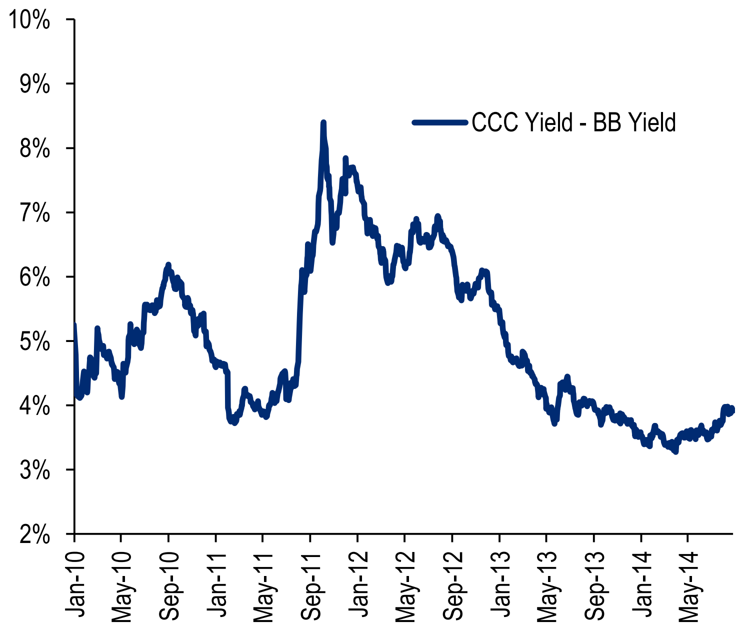
Source: Citi Research, Yield Book

- Relative to prior cycles, the current cycle has seen triple-C bonds perform extremely well
- At this point, we are concerned about the price distribution in the category. Unlike the pre-crisis peak in June 2007, more than half of today's triple-C bonds are priced above par and susceptible to the potential for distress

We Remain Underweight Triple-C Bonds *(cont'd)*

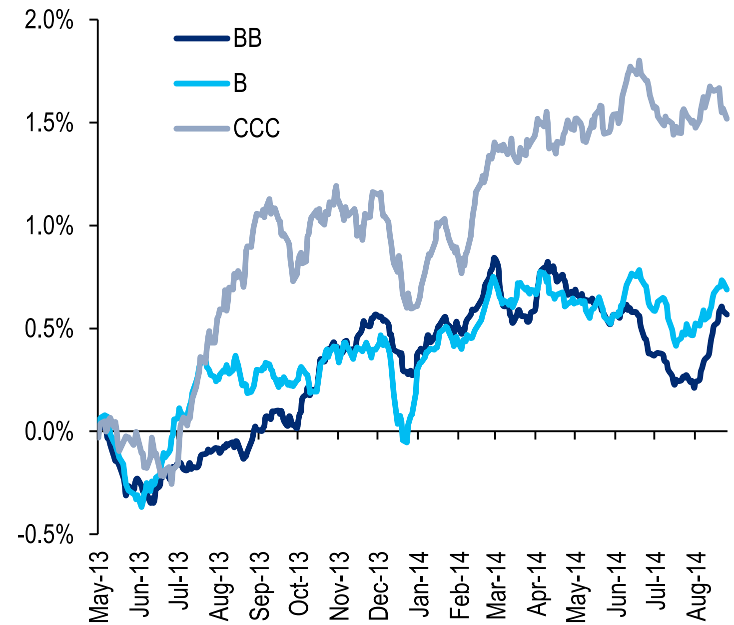
Valuations have compressed since we published "Time to Buy Triple-C's" in September 2012.

Triple-C vs. Double-B Yield Differential



Source: Citi Research, Yield Book

Net Positioning by Credit Quality



Source: Citi Research, TRACE

- The spread between double-B and triple-C credits is near post-crisis tights
- Based on our estimate of TRACE volumes, we believe portfolios are long beta risk, triple-C paper being one way to express that view

High Yield & Leveraged Loan Research

Manish A. Somaiya
Autos, Industrials & Services
manish.somaiya@citi.com
(212) 816-9799

Jenna Giannelli
Retail & Gaming
jenna.giannelli@citi.com
(212) 816-4244

David Phipps
Telecom/Media/Tech
david.phipps@citi.com
(212) 816-7022

Murali Ganti
Healthcare
murali.ganti@citi.com
(212) 816-7698

James P. Finnerty
Chemicals & Homebuilders
james.p.finnerty@citi.com
(212) 816-9599

Marisa B. Moss
Energy
marisa.b.moss@citi.com
(212) 816-6797

Richard C. Yu
Metals/Mining, Coal, & Packaging
richard.c.yu@citi.com
(212) 816-7009

Kevin Ziets
Consumer Products
kevin.ziets@citi.com
(212) 816-2704

Summary of Credit Views

Below we summarize key credit views across our high yield and leveraged loan coverage universe.

Sector	Bank Loan	High Coupon	Relative Value	Short Duration	Total Return	Sell
Autos, A&D, Industrials, & Services	NAV L+450bp/1.25% 1st Lien TL B 2017	BBDBCN 7.750% Sr Nts 2020	FDC L+350bp/no floor 1st Lien TL B 2017 vs. FDC 7.375% Sec Nts 2019	--	ALGSCO 8.500% Sec Nts 2018	--
Chemicals & Homebuilders	--	--	TROX L+300bp/1.00% 1st Lien TL 2020 vs. TROX 6.375% Sr Nts 2020	HXN 8.875% 1.5 Lien Nts 2018	BRP 6.500% Sr Nts 2020 BRP 6.125% Sr Nts 2022	CHMT 5.750% Sr Nts 2021
Consumer Products	SVMSTR L+325bp/1.00% 1st Lien TL B 2021	ARMAUT 9.25% Sr Notes 2018	--	SVMSTR 7.000% Sr Nts 2020 SVMSTR 8.000% Sr Nts 2020	--	RDEN 7.375% Sr Nts 2021 GUN 7.875% Sr Nts 2020
Energy – Exploration & Production	EPENEG L+350/1.00% 2nd Lien TL B2 2019 EPENEG L+275/0.75% 2nd Lien TL B3 2018	MHR 9.750% Sr Nts 2020	--	SD 8.750% Sr Nts 2020	CHAPAR 7.625% Sr Nts 2022	--

Sources: Citi Research

Summary of Credit Views *(cont'd)*

Continued from previous page…

Sector	Bank Loan	High Coupon	Relative Value	Short Duration	Total Return	Sell
Healthcare	DVA L+275bp/0.75% 1st Lien TL B1 2021 IAS L+325/1.25% 1st Lien TL B2 2018	--	--	CYH 8.000% Sr Nts 2019 CYH 7.125% Sr Nts 2020	CYH 6.875% Sr Nts 2022	--
Metals & Mining, Packaging	ACI L+500bp/1.25% 1st Lien TL 2018	--	--	APAM 7.750% Sr Nts 2018	ANR 7.500% 2nd Lien Nts 2020	--
Retail & Gaming	RAD L+475/1.00% 2nd Lien TL T1 2020 MGM L+250/1.00% 1st Lien TL B 2019	CLE 8.875% 2nd Lien Nts 2019 BYD 9.000% Sr Nts 2020	--	PRTY 8.750% HoldCo Notes 2019 PNK 7.500% Sr Nts 2021	BONT 8.000% 2nd Lien Nts 2019	JCG 7.750% HoldCo Nts 2019 TRIBAL 9.750% Sr Nts 2021
Technology, Media, Telecom, Cable & Satellites	TIME L+325bp/1.00% 1st Lien TL B 2021	AMD 7.750% Sr Nts 2020 WIN 7.750% Sr Nts 2021	FSL L+375bp/1.25% 1st Lien TL B5 2021 Vs. FSL 5.000% Sr Sec Nts 2021	--	--	--

Sources: Citi Research

Sector Outlook – Autos, Industrials, & Services

- **Aerospace:**
  - Global passenger traffic grew 5.9% y-o-y through 1H14, supportive of improved aftermarket orders and commentary thus far in 2014; IATA predicts airlines are on track to record a profit of ~$18bn in 2014 (on slightly improved margins)
  - Boeing and Airbus maintain strong backlogs (7-8 years worth of revenues) and book-to-bill is likely to remain above 1x; Bombardier's CSeries entry-into-service target likely to be in focus (currently 2H15)
- **Autos:**
  - North America light vehicle SAAR surged to 17.5mm units in August, up 5% y-o-y, representing the highest level since 2006; moreover, pricing remains strong (up 3% y-o-y in August); Citi sees 17mm+ SAAR through 2018 based on increased scrap rates
  - European passenger car registrations improved off the lows, gaining 6.5% YTD (vs. 2013); China volumes up y-o-y, while India market remains flat
  - Global auto suppliers are experiencing a resurgence of strategic M&A, with potential for further announcements in 2H14
- **Industrials:**
  - ATA Truck Tonnage Index increased 1.5% in July to 130.5; the all-time high recorded in November 2013: 131.0
  - In addition, robust freight volumes, and rising rates have helped continue the strong commercial vehicle order momentum throughout the seasonally slower summer months; August Class-8 orders up 30% y-o-y; YTD orders at ~350K SAAR; builds expected to remain above 275K through 2018
    - Medium duty (Class 5-7) net orders in August equated to SAAR of 207K, in-line with full-year forecasts
  - European heavy truck registrations have increased 6% YTD, but overall growth mixed. Pre-buy associated with Euro-VI implementation more pronounced in UK (registrations down 27% YTD); medium duty registrations are up 2% YTD across Europe
  - In construction, the recovery in developed markets is mixed, while emerging markets remain soft
    - NA demand for AWPs remains robust, which is offset by weak Crane demand (as noted by MTW & TEX)
    - European construction demand still below peak; Australia mining industry remains soft
- **Equipment Rentals:**
  - Following years of declines, US non-residential recovery still in early innings of growth (7% y-o-y growth YTD; +8% anticipated in 2015)
  - Strong fixed income investor appetite for rental paper spilling over into equity markets as sponsors assess exit timing (Neff Rental filed S-1 in Sep 2014); meanwhile, industry consolidation remains topical, especially among the regional players
  - HERC spin-off potentially delayed beyond 1Q15 owing to recent accounting & operational challenges ($2.5bn of new debt anticipated at HERC)
- **Payments:**
  - US consumer confidence near pre-crisis highs owing to various factors including surging stock market, rising home prices, and improving job market
  - Strategic activity to remain topical following Fleetcor's $3.5bn acquisition of Comdata (12x multiple) and FDC's $3.5bn equity infusion (11.7x multiple)

Sources: Citi Research, Bloomberg, ACT Research, ATA, ACEA, Company Reports, U.S. Census Bureau

Credit Views – Autos, Industrials, & Services

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	Navistar (NAV) L+450bp/1.25% 1st Lien TL B 2017	Buy	B/Ba3	NM	101.000/5.37%[(a)]	• Fiscal 3Q results beat expectations (EBITDA of $133mm vs. loss of $74mm in prior-year-quarter) • Commercial truck industry outperforming expectations buoyed by increasing freight and higher pricing, high used truck prices, and replacement demand; YTD Class-8 SAAR at 336K rate • $1bn cash balance provides sufficient liquidity cushion as company continues operational turnaround • 101 hard call protection in place until 04/02/15 • NAV 2017 TL attractive vs. Goodyear L+375bp 2nd Lien TL due 2019 (trading above par, call protection expired)
High Coupon	Bombardier (BBDBCN) 7.750% Sr Nts 2020	Neutral	Ba3/BB-	4.3x	111.000/5.41%[(a)]	• BBDBCN notes cheap vs. HY aerospace names; 7.75% notes offer 90bp incremental yield vs. BB-rated Index and 10bp vs. B-rated index • Adequate liquidity: $3.9bn as of 2Q (including $2.5bn of cash) • 2Q results exceeded expectations (especially on EBITDA and FCF); FY14 guidance affirmed • CSeries EIS[1] target remains 2H15; management confirmed FTV-2[1] flight testing to resume in September 2014
Relative Value	First Data (FDC) L+350bp/no floor 1st Lien TL B 2017 vs. 7.375% Sec Nts 2019	Buy Neutral	B1/BB- B1/BB-	4.5x 4.5x	99.625/4.62%[(a)] 106.125/3.80%[(b)]	• 2017 term loans trade below par, yielding 4.62% on swapped basis and 3.88% unadjusted (offer side); attractive relative to Neutral rated 7.375% 1st lien bonds (2019), yielding 3.80% (bid side) • Solid 1H14 results: EBITDA up 13% y-o-y (on 350bp margin gain); driven by cost saving initiatives & volume growth • $3.5bn equity raise in July 2014 reflects 12x valuation; provides FDC with flexibility to delever and pursue strategic investments
Total Return	Algeco Scotsman (ALGSCO) 8.500% Sec Nts 2018	Buy	B2/B	5.2x	104.750/6.77%[(a)]	• ALGSCO notes offer the highest yields within rental coverage universe; 8.5% notes are 150bp cheap vs. the Citi B rated Index & 4½ points below April 2014 highs • 2Q results exceeded expectations (on revenue, EBITDA & FCF) owing to strength in modular spacing and core regional markets; 2H14 guidance better vs. market projections • Adequate asset coverage: 2nd lien priority (after ABL) on substantially all assets; Citi estimates 4Q15 secured leverage at 4.9x • ALGSCO 10.75% senior notes (YTW 10.5%) also attractive

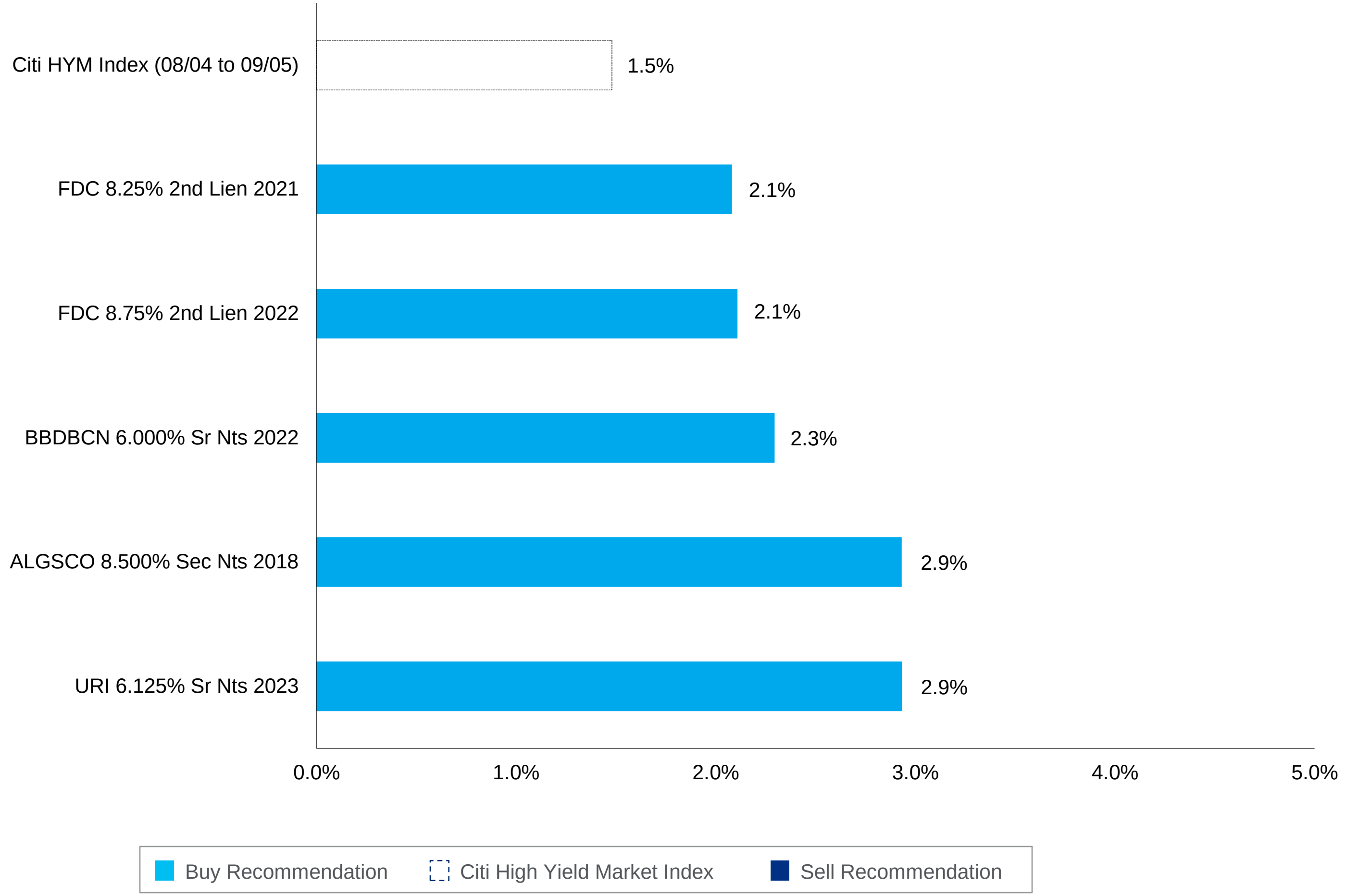
Source: Citi Research; Pricing Levels as of Sep 4, 2014.
(1) EIS = Entry-into-service; FTV-2 = Flight test vehicle 2
(b) = bid; (a) = ask

August 2014 Ideas: How Did We Perform?

Autos, Industrials, and Services.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Chemical

- **Demand to Improve**
  - Citi economists forecast global GDP growth of 2.8% (3.3% at beginning of year) and 3.4% in 2014 & 2015 respectively vs. 2.5% in 2013
  - Global GDP growth had fallen for 3 consecutive years since breaking 4% in 2010
  - Chemical revenue has historically grown at a multiple of GDP (closer to 1.0x in developed markets & 2.0x in developing markets)
- **Product Specific Highlights**
  - **Bromine:** Supply additions combined with demand headwinds drive challenging fundamental outlook
    - Key HY player: CHMT
  - **Chlor-Alkali:** Impact of housing rebound, low-cost natural gas, closures not enough to offset supply additions
    - Key HY players: AXLL and OLN
  - **Epoxy Resins:** Expect new capacity in Asia to weigh on major players (HUN & HXN, note epoxy is a larger % of HXN sales)
  - **Lithium:** Secular growth story driven by increased use of lithium batteries in portable devices and hybrid vehicles (ROC)
  - **Silicones:** Recovery to be pushed out as supply additions outweigh demand gains, which are limited by less robust growth in China
  - **Titanium Dioxide (TiO_2):** Price recovery may be delayed as DD may look to maximize volumes ahead of mid-2015 spin
    - Key HY players: HUN, ROC and TROX
- **IG Ratings Potential**
  - Multiple companies may attain IG ratings over the medium term (2014-16) (i.e. ASH, CE, NCX and ROC)
- **M&A**
  - Expect more M&A as companies seek to sell non-core assets while others act as consolidators (i.e. TROX)

Sources: Citi Research, Company Reports

Sector Outlook – Homebuilding

- **Recovery Still Intact**
  - LT housing recovery continues to have strong footing driven by reduced supply, employment growth and low rates
- **Price Increases to Slow**
  - We expect price increases to be less robust in 2014 (mid-single digits) as affordability is pressured by 2013 price increases
- **Order Growth Slowing**
  - Order growth will be less robust than the past couple of years
- **Higher Lot Prices to Filter Through**
  - Builders who have bought more land recently (as % of total) at risk of more extreme margin compression
- **Gross Margins**
  - Decelerating ASP growth combined with higher costs (land and labor) could pressure margins
- **Land Risk Up**
  - HBs have had to buy more raw land due to lack of finished lots and reduced ability to option lots
- **Raising Capital**
  - Expect continued capital raises (debt & equity) as builders seek to expand balance sheets
- **M&A**
  - M&A risk up as borrowing costs remain extremely low and builders look to enter new areas and build scale in existing geographies

Sources: Citi Research, Company Reports

Credit Views – Chemicals & Homebuilding

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Relative Value	Tronox (TROX) L+300bp/1.00% 1st Lien TL 2020	Buy	Ba2/BB-	0.4x	100.250/3.95%[(a)]	• Good yield for highly rated TL with almost 0x net leverage • 101 call protection until Apr-15 • Prefer TL to Sell-rated unsecured notes due 2020 (B2/BB-), which are offered at ~$103.5 for a yield of just 5.37% and carry 2.4x turns more net leverage • Elevated M&A risk is a concern • Permitted Liens in bonds governed by 2.0x net secured leverage ratio
	Tronox (TROX) 6.375% Sr Nts 2020	Sell	B2/BB-	2.8x	102.500/5.66%[(b)]	
Short Duration/ High Coupon	Momentive Specialty (HXN) 8.875% 1.5 Lien Nts 2018	Buy	Caa1/CCC+	6.2x	104.125/5.63%[(a)]	• Shortest maturity in HXN capital structure • Callable currently at 104.438; steps down to 102.958 in Feb-15
Total Return	Brookfield Residential Properties (BRP) 6.500% Sr Nts 2020 6.125% Sr Nts 2022	Buy Buy	B2/BB- B2/BB-	4.2x 4.2x	106.750/4.70% 104.250/5.26%	• BRP generates superior margins, has the support of a large investment grade parent (BAM; Baa2/A-), and double the land supply of its nearest public peer. See initiation: We're Down with BRP - Initiating with an Overweight • BRP 20s YTM is 10bp > Neutral rated KBH 20s (B2/B) which trade at a higher dollar price ($114) and has higher leverage and lower margins • BRP 22s YTW is 60bps > Citi HY HB index; YTM is 100bp > than neutral-rated DHI 22s (Ba1/BB)
Sell	Chemtura (CHMT) 5.750% Sr Nts 2021	Sell	B1/BB-	1.9x	103.000/5.04%[(b)]	• Bonds up 4 points since Dec-13 despite weaker credit profile post asset sales • Increased event risk (M&A or reward shareholders) • Bonds have limited covenant protection • Fundamental headwinds in bromine; head of IEP division recently resigned after posting weaker than expected 1H14 results

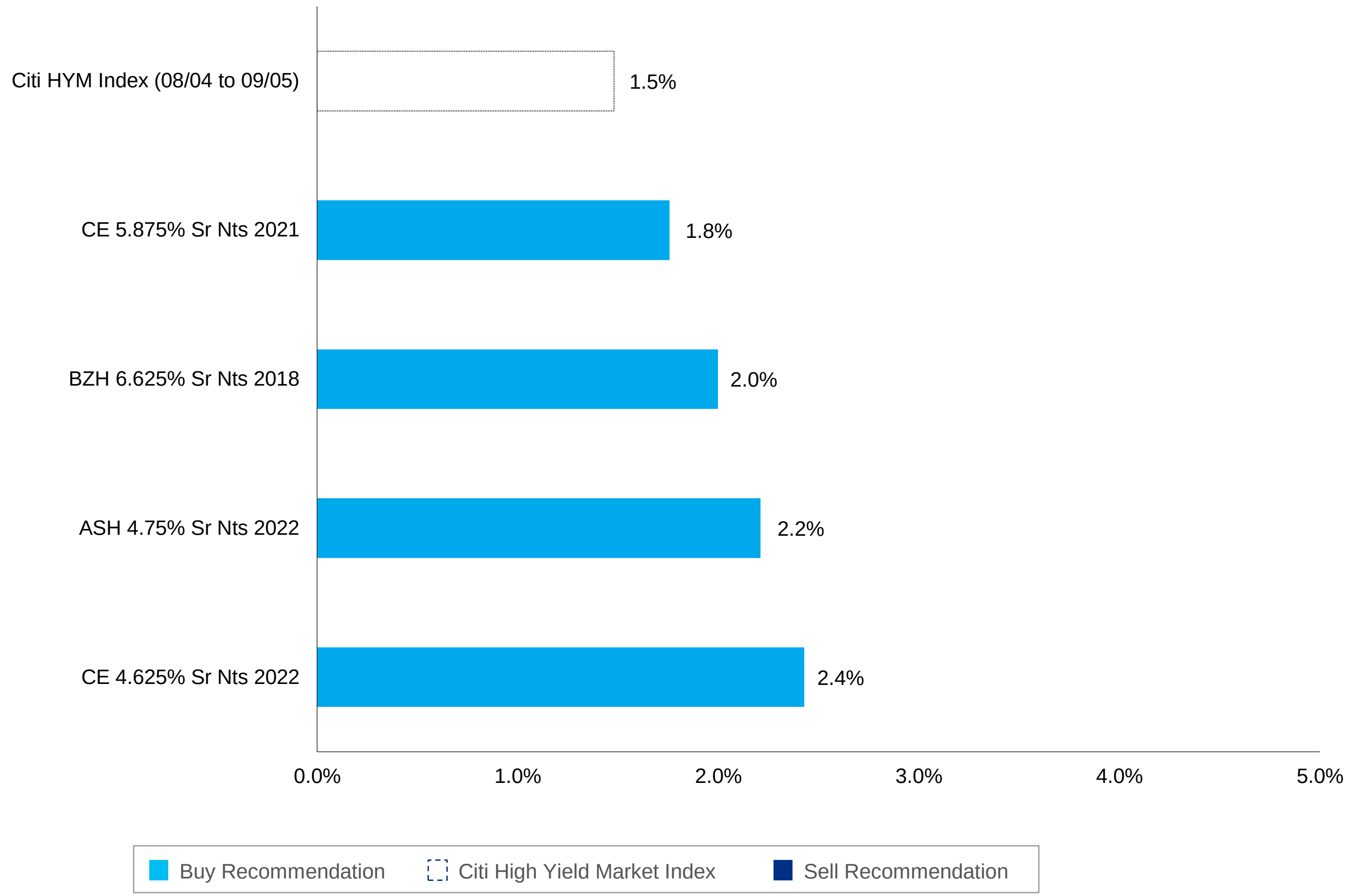
(a) = ask; (b) = bid
Source: Citi Research; Pricing Levels as of Sep 4, 2014.

August 2014 Ideas: How Did We Perform?

Chemicals and Homebuilding.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Consumer Products

- **Economic Indicators**
  - Consumer indicators remain generally favorable with consumer confidence at or near multi-year highs, unemployment and jobless claims largely trending lower, and still positive y-o-y improvements in personal income and spending
    - Strong equity and housing prices likely buoying spending outlook, particularly for higher income channels and higher-ticket items
  - Consumer spending continues to tilt towards durables versus non-durables
- **Key Themes**
  - Destocking: Muted spending on household and personal care products, combined with channel shifts, have led most retailers to deploy aggressive inventory management policies; JAH, SPB, GUN, and RDEN have highlighted this impact on recent results (even in cases where their product lines performed well)
  - Competition: Unable to meaningfully grow the pie, consumer good companies are leaning more heavily on innovation, advertising, and promotional investments to capture share from competitors
    - This activity is most clearly visible in laundry care, where PG (Tide) and CHD (Arm & Hammer) have launched products in each others key price segments and have responded to heavy discounting by smaller players (Henkel & SUNPRD)
  - M&A: The frenetic pace of acquisition activity which defined late '13 and most of '14 has subsided in recent months
    - Companies are a bit more focused on tuck-ins and on integrating recent larger deals
    - Valuations and some companies reaching peak leverage levels has likely impacted transactions
    - Nonetheless, we believe most management teams remain open to further deals and that debt financing remains the preferred funding tool (note PBH's recent acquisition of Insight and HRG's recent offer for CENT)
  - Bifurcation: While consumer are value-conscious at all price points, several companies have cited improved spending at higher ticket levels (e.g., JAH, TPX)
  - Weather: Like last year, late break to spring/summer but then seasonal weather could allow clear down of inventories; also long winter could position winter sports (JAH) for good/early sell-in
- **Sector Preferences**
  - We would remain biased to housing/auto related goods (lawn/garden/pest, mattress, auto care) and less exposed to general household, personal care, beauty (fragrances) and sporting goods (firearms) at least until more definitive signs of lower promotional environment and clearing of excess inventories

Sources: Citi Research, Company Reports

Credit Views – Consumer Products

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	The ServiceMaster Company (SVMSTR) L+325bp/1.00% 1st Lien TL B 2021	Buy	B2/B+	3.3x	99.250/4.37%	• Leading market positions in high margin/retention pest control, home warranty, and franchised cleaning/restoration businesses; with stable performance and accretive tuck-in acquisitions • Strong 2Q performance and FY14 guidance, driven by pricing and acquisitions • Can issue bank debt to call bonds in '15; but governed by $450mm or 4.25x leverage; soft call protection for one year; 50bp MFN for life
High Coupon	Armored Autogroup (ARMAUT) 9.25% Sr Notes 2018	Buy	Caa2/CCC	6.8x	104.250/7.00%	• Although lev is high, sponsors recently purchased IDQHLD and indicated that a combination of the businesses could reduce PF leverage to high 5x; 2Q earnings reported strong for both companies • Bondholders have strong incurrence covenants, and sponsors have tipped hand regarding desire to combine businesses to maximize interest savings on refi of expensive IDQHLD debt • While sponsors shelved refi plans after bondholders (appropriately) balked at consent to release covenants, they could consider a refi of both IDQ and ARMAUT when bonds are callable this fall
Short Duration	ServiceMaster (SVMSTR) 7.000% Sr Nts 2020 8.000% Sr Nts 2020	Buy Buy	Caa1/CCC+ Caa1/CCC+	5.8x	107.000/4.80% 107.625/3.93%	• We project FCF >$200mm in '14, with only ½ yr of IPO deleveraging benefit; management says committed to using FCF for debt reduction • Expect leverage reduction of around 2x this year from high 7x to high 5x area; bulk already completed with the recent IPO • 8% Notes are most expensive debt in structure, callable in February '15; 7s callable in August '15
Sell	Elizabeth Arden (RDEN) 7.375% Sr Nts 2021 FGI Operating Co (GUN) 7.875% Sr Nts 2020	Sell Sell	B2/BB- B/B-	7.8x 5.5x	94.500/8.49% 105.750/6.08%	• Could see additional $5-7 correction to reach fair value (9-10% YTW) like other holiday-sensitive and/or fashion-oriented credits • Far worse than expected 4Q results. Executing long-term turnaround strategy in challenging environment with high lev and minimal FCF • Near-term normalization of demand following '13 surge combined with elevated cash outflows (restructuring, capex, product recall, class action settlement) likely to result in high leverage over medium term • Loan more attractive relative to bond, which only yields an extra 75bp for 1.7 turns of additional leverage

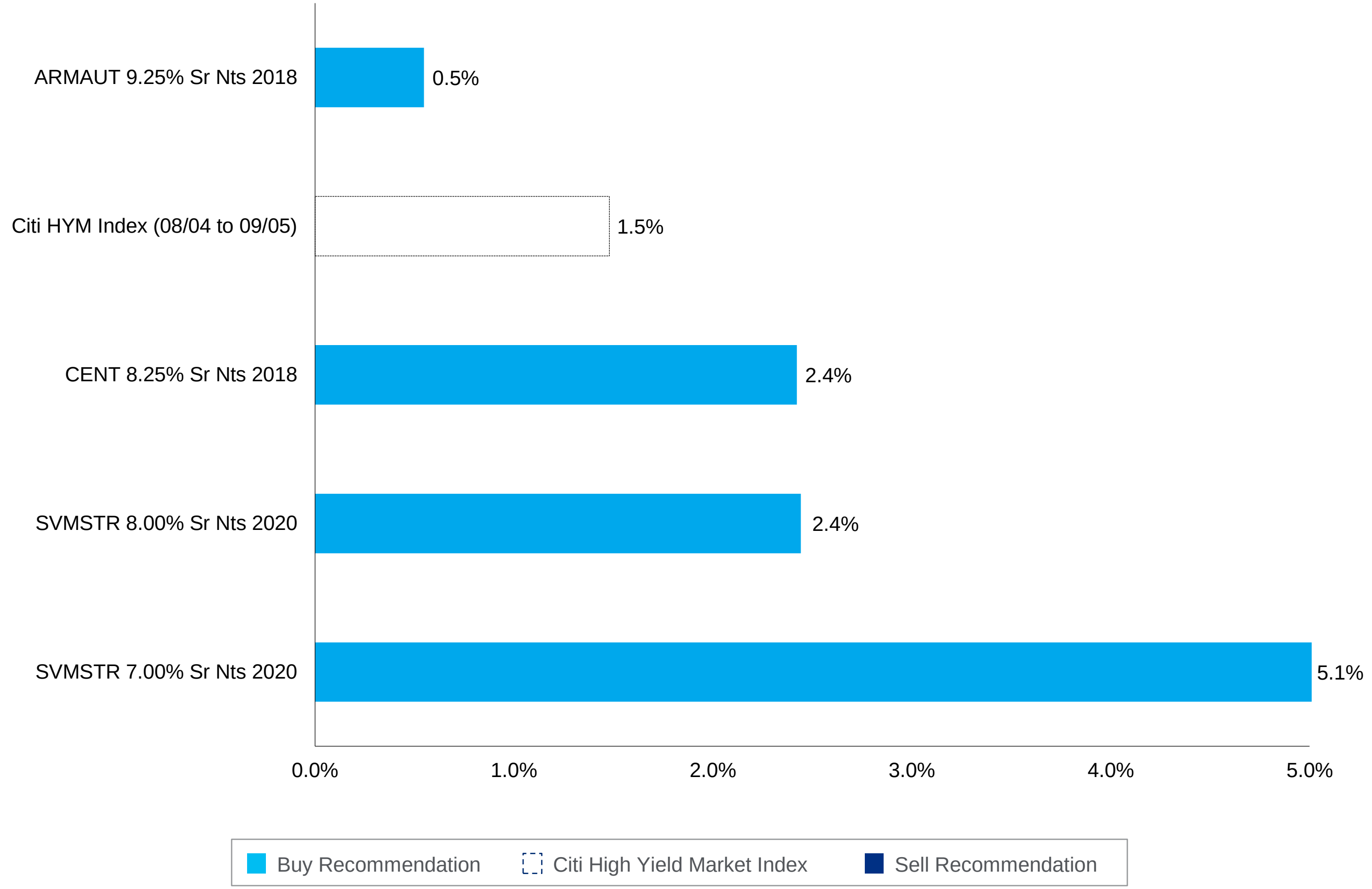
Source: Citi Research; Pricing Levels as of Sep 4, 2014.

August 2014 Ideas: How Did We Perform?

Consumer Products.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

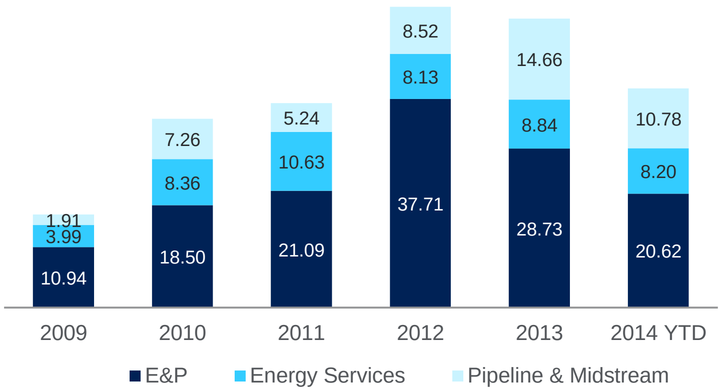
Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Energy

2014 YTD Energy Bond New Issue* ($ in Billions)



Best & Worst Performers – YTD**

Industry	Issue	Return	Industry	Issue	Return
Energy	ROCKIE 5.625% Sr. Nts. 2020	+23.8%	Energy	KWK 9.125% Sr. Nts. 2019	-11.6%
	CLLCN 8.5% 2nd Lien Nts. 2019	+23.4%		RAM GEN 12.5% Sr. Nts. 2019	-15.6%
	SIDDRI 9.75% Sr. Nts. 2019	+21.5%		KWK 11.00% Sr. Nts. 2015	-16.3%
	ROCKIE 6.00% Sr. Nts. 2019	+19.1%		KWK 7.125% Sr. Sub. Nts. 2016	-30.0%
	QRE 9.25% Sr. Nts. 2020	+16.5%		END 12.00% 2nd Lien Nts. 2018	-47.9%

Sector Takeaways & Outlook

- **M&A:**
  - The M&A environment has been active recently as companies focus on enhancing core areas either through non-core asset divestitures or acquisitions in core areas
  - We saw significant acreage or company acquisitions from BBEP, WLL, RICE, LINE, and EPENEG among others
- **Pricing:**
  - After the high NGL price realizations seen in 1Q14, which benefitted from weather, 2Q14 realizations dropped due to lower ethane, butane and propane prices. We expect the unfavorable NGL pricing environment to continue during 2H14
  - Realized oil pricing was higher sequentially ($91.07 vs. $90.21 in 1Q) while gas was lower ($4.51 vs. $5.09)
- **New Issue:**
  - Energy new issue has been strong so far in 2014, with $39.6BN of bond issuance through August 2014 vs. $35.3BN through August 2013
  - Loan issuance has been $17.2BN vs. $19.1BN y-o-y
  - We have already seen Energy issuance begin to ramp up in September and expect this to continue

Source: Bloomberg, Citi
*2014 YTD Energy Bond New Issue includes issuance until August 31, 2014
**Measured on a total return basis (Jun 2 – Aug 31, 2014 for Top Picks Performance and Jan 1 – Aug 31, 2014 for Best & Worst Performers)

Credit Views – Energy

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	EPENEG L+350/1.00% 2nd Lien TL B2 2019 L+275/0.75% 2nd Lien TL B3 2018	Buy Buy	Ba3 / B+ Ba3 / B+	3.3x	100.625/4.35% 99.625/3.60%	• Minimal refinancing risk as all-in coupon (margin+floor) of 4.5% (B2) and 3.5% (B3) is low compared to other second lien covenant-lite loans in the E&P space but YTM is attractive for secured paper. • EP Energy has attractively located acreage and recently increased their outlook. They are also transitioning into a higher oil percentage for production • Potential refinancing of higher coupon bonds would reduce overall cost of debt for the company • Secured debt asset coverage of 4.6x (based on YE 2013 PV-10 of $8.93BN). Company has maintained ~$2.0BN of liquidity over the past six quarters
High Coupon	Magnum Hunter Resources (MHR) 9.750% Sr Nts 2020	Buy	Caa1 / CCC	5.0x	108.750/6.92%	• We believe that MHR may tender for the Notes given the high coupon and long time until first call (May 2016). Assuming they exercise the equity claw the blended tender price is $114.072 at December 15, 2014. This represents an annualized total return of 26.6% and a return of 7.2% in 3.5 months • We believe that the company may sell their Bakken assets, which would transition them into a pure play Appalachian company • Additional upside could come from the monetization of Eureka Hunter Pipeline in 2015 • MHR expects to report results from their Stewart Winland wells this month, which should be encouraging given the production rates from their other wells

Source: Citi Research; Pricing Levels as of Sep 4, 2014.

Credit Views – Energy

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Short Duration	SandRidge Energy (SD) 8.750% Sr Nts 2020	Buy	B2/ B-	2.5x	106.000/3.83%	• SD is focused on driving efficiencies, lowering costs and aiming for leverage below 3.0x (currently at 3.5x). • They should be able to sustain production growth and there is still upside remaining in the bonds. • SD reduced 2014 production guidance by ~1.1MMBoe due to deferment issues that could be made up in 2015. • Ample liquidity of over $1.6BN at end of 2Q14 and potentially could monetize their saltwater disposal system. • Notes callable in January 15, 2015 (at $104.375)
Total Return	Chaparral Energy (CHAPAR) 7.625% Sr Nts 2022	Buy	B3/B-	3.4x	108.000/5.70%	• The notes have recovered most of the price drop since the late June/ July market sell-off • However even if the notes were to recover to $108.5, the price pre-sell off, investors would get a return of 2.9% by year-end (annualized return of 8.5%) • CHAPAR has been selling non-core assets to focus on their Mid-Continent operations and their tertiary recovery operations provide stable cash flows to complement their horizontal drilling. Company also has the potential to IPO

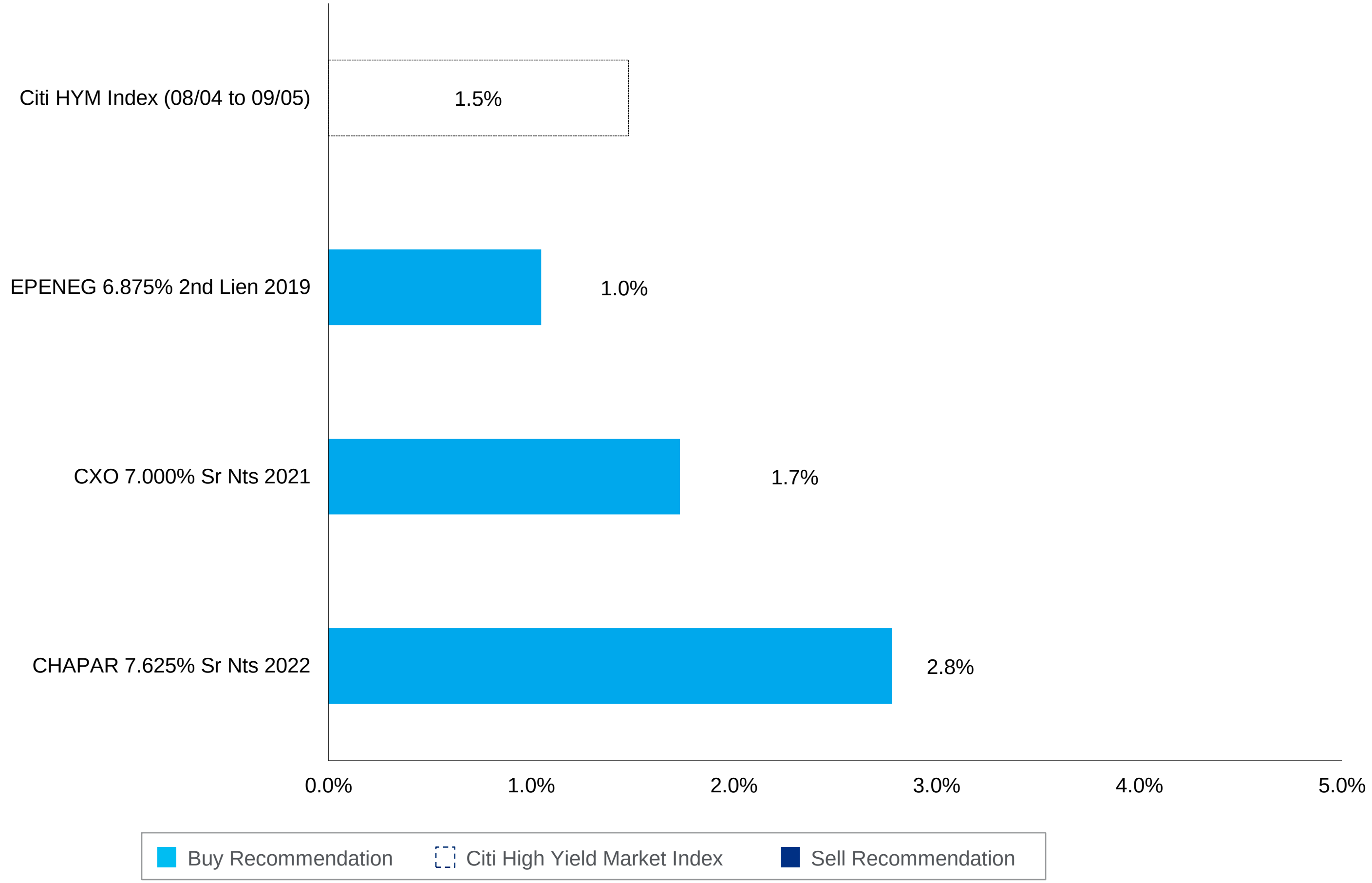
Source: Citi Research; Pricing Levels as of Sep 4, 2014.

August 2014 Ideas: How Did We Perform?

Energy.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Gaming

- **Credit Fundamentals to Remain Broadly Stable in 2014**
  - We expect high yield gaming credit fundamentals to remain largely stable in 2014, with our sector average leverage ending the year at 6.4x, flat vs. FY13
  - We expect some issuers to have deteriorating credit profiles including MTR Gaming Group (MNTG), Penn National Gaming (PENN) and Mohegan Tribal Gaming (TRIBAL)
  - Issuers with improving credit profiles are those benefitting from more favorable gaming industry fundamentals for those with Las Vegas and Macau exposure (I.e. BYD, MGM, STACAS) or benefitting from the flow through of acquisition synergies (PNK)
  - Average leverage across our universe has been somewhat stable since the end of FY12, after ticking up over a half-turn as a result of industry consolidation (BYD in FY12 and PNK in FY13) and debt-funded growth (WYNN)
- **Destination Markets Continue to Outperform, New Supply and Competition Weigh on Regionals**
  - The commercial casino market generated $37.7bn in gaming revenue in 2013 up 1.0% vs. 2012
  - The y-o-y increase was primarily due to the addition of new capacity, which in nearly every major market cannibalized existing gaming revenues (the largest y-o-y increases were in Ohio (+155.7%), Maryland (+98.2%)
  - Of the remaining 21 states with commercial casinos in the US, 13 experienced revenue declines
  - Las Vegas, one of the only true destination markets in the US, and the largest measured by gaming spend, has outperformed with continued positive revenue growth
  - Atlantic City has been one of the worst performers impacted by increased capacity, weather, and its inability to attract destination gamers, resulting in four announced closures
  - Themes in 2Q included ongoing weakness at the low end, relative strength in VIP / higher-end play, lower trip frequencies, and ongoing shift in preference for non-gaming amenities
- **Relative Value Tight vs. Broader Market; Focus on Higher Quality Names; Those with Catalysts**
  - Sector Yield Tight vs. Broader Indices; Underperforms YTD: The Gaming sector trades 40bp inside the HY market at a YTW of 5.0% when stripping out Caesars, Lodging and Leisure names from the index. Total return performance has been lackluster YTD, underperforming the broader HY market by nearly 80bp
  - New Supply, Refi Activity Could Dampen Demand for Secondary: Large gaming new issue currently in-market (Scientific Games) and issuers with refi candidates in the next twelve months (BYD, MTR, PNK, ISLE, STACAS) could dampen interest in secondary trading for the balance of 2014
  - Equity Market Valuations Lend Support to Credit Markets: Our high yield gaming universe is supported by nearly three turns of equity cushion, with an average EV/EBITDA multiple of 9.5x based on our FY14 estimates. Sector multiples have expanded as the S&P 500 Gaming and Leisure subsector trades at a forward EV/EBITDA multiple of 12.8x, up from 11.4x at FY13 and vs. the 10-year average of 9.5x

Sources: Citi Research, Company reports

Credit Views – Gaming

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW[1]	Citi View
Bank Loan	MGM Resorts (MGM) L+250/1.00% 1st Lien TL B 2019	Buy	Ba2/BB	1.5x/5.4x	100.000/3.50%	• Loans provide very attractive value vs. the 8.625% Sr. Notes due 2019 (YTW 4.0%): Nearly 4x leverage differential leverage for just 50bp less yield • MGM is one of the most diversified, free cash flow generative gaming operators in our universe that continues to benefit from favorable Macau and Las Vegas fundamentals vs. regional gaming peers • Numerous development initiatives underway including the MGM National harbor in Maryland, improvements to the Bellagio and re-banding of THEhotel into a Delano, and potential in Springfield, MA license present upside to earnings.
High Coupon	Boyd Gaming (BYD) 9.000% Sr Nts 2020	Buy	B3/CCC+	7.0x	$108.500/6.33%	• We estimate Boyd will generate over $170mm of basic free cash flow in 2014, that we anticipate will be used to further delever the balance sheet • We believe the company will take advantage of near-term call dates for the Borgata and Peninsula bonds and in December 2014 for the Boyd 9.125% bonds. We think these transactions could save the company upwards of $40mm in annual interest
Short Duration	Pinnacle Entertainment (PNK) 7.500% Sr Nts 2021	Buy	B2/B+	7.3x	107.750/3.67%	• We prefer the 7.5% Sr. Notes trading YTC vs. the 8.75% Sub Notes at a YTC of 2.9% despite our view they will be refinanced together • We are Overweight PNK given deleveraging prospects in 2014, disciplined balance sheet approach and newer projects online that will help offset upcoming competitive pressures
Sell	Mohegan Tribal Gaming Authority (TRIBAL) 9.750% Sr Nts 2021	Sell	B3/CCC	6.3x	107.000/8.00%	• TRIBAL generates over 80% of its EBITDA from one property, Mohegan Sun, that has felt both secular and competitive pressures in recent quarters. Potential upcoming competition in Mass and New York, uncertainty as to whether they will win the Boston license, and a series of stub maturities in the next couple of years keep us cautious • At an 8.0% YTW, we think investors are being asked to take on outsized risk for the compensation offered. We'd rather earn less in credits with positive catalysts and better business diversification that will still allow us to outperform the market (I.e. Boyd 9.0% Notes '20)

Source: Citi Research; Pricing Levels as of Sep 4, 2014. Note 1: Bid Side in the case of Sells.

Sector Outlook – Healthcare

- **Hospitals/Acute Care & Regulatory Updates**

  - Investor Sentiment Remains Bullish on the Hospital Sector
    - ACA contributions continue to support fundamentals
    - EV multiples continue to trade at peak levels in the backdrop of an improving macro-economy, lower levels of uninsured (particularly in Medicaid expansion states) and recovering inpatient and surgical volumes
  - Credit Markets Remain Open
    - Markets remain open for investors looking to go long hospital risk
    - Paltry yields remain particularly vexing for investors as issuers who continue to take advantage of market conditions from addressing maturing capital structures (LifePoint), refinancing high coupon debt (Tenet) and engaging in wholesale recapitalizations (UHS)
  - Upbeat Guidance
    - Against the backdrop of a strong operating quarter, most companies either raised or were cautiously optimistic on guidance for 2H14. ACA related contributions to EBITDA for the quarter surpassed expectations as uninsured volumes declined and Medicaid admissions grew
    - While 3Q is expected to be a seasonally slower quarter, most companies are generally upbeat for 2H14
  - Fundamentals Will Continue to Drive the Sector
    - Fundamentals will continue to perform particularly as the ACA continues to take hold
    - We maintain our thesis that more states will expand Medicaid post-midterms and that volume related tailwinds will persist. We note the next open enrollment period runs from November 15th, 2014 to February 15th , 2015
  - Clear Regulatory Runway; Congress Focused on Midterms
    - Most regulatory proposals have been addressed earlier in the year, and final pricing on acute and post-acute care services for the upcoming year has already been set by CMS. Congress is now squarely focused on the midterm elections

Sources: Citi Research, Company Reports

Credit Views – Healthcare

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	DaVita Healthcare Partners (DVA) L+275bp/0.75% 1st Lien TL B1 2021	Buy	Ba1/BB	1.3x	99.625/3.56%	• Attractive relative value to 5.750% Senior Notes due 2022; Give up 40bps in yield but reduce leverage by 1.8x • 101 call protection through December 2014 • Leading market position, stable cash flows and low capex requirements • While we acknowledge that the company may increase its secured leverage should it call its 6.625% Senior Notes due 2020 (a scenario we view as likely) we believe this has largely been priced in
Bank Loan	Iasis Healthcare (IAS) L+325/1.25% 1st Lien TL B2 2018	Buy	Ba3/B	2.7x	100.000/4.50%	• Highest yielding loan in our coverage universe • Attractive as a short-term loan as investors continue to view global refinancing as main catalyst • Strong asset coverage through the secured level • Growth in HealthChoice business diversifies revenue base and positions the company to take advantage of ACA related growth in the longer term
Short Duration	Community Health Systems (CYH) 8.000% Sr Nts 2019 7.125% Sr Nts 2020	Buy Buy	B3/B- B3/B-	6.0x (PF) 6.0x (PF)	108.750/3.70% 108.250/4.10%	• 8% notes are callable on 11/15/2015 and 7.125% notes are callable on 7/15/2016. We believe the company will look to refinance these notes at first call given their high coupons and management's track record as a serial refinancer in both the bank and bond markets.
Total Return	Community Health Systems (CYH) 6.875% Sr Nts 2022	Buy	B3/B-	6.0x (PF)	106.000/5.57%	• Robust fundamentals will continue to drive the sector • Strong presence in Pennsylvania is a meaningful catalyst in light of the state's recent decision to expand Medicaid. Approximately 11% of the company's bed count and 13% of the company's top line is generated from Pennsylvania; we anticipate ~40bp spread tightening over 12-18 months • HMA integration remains on track with management raising its synergy estimates from $200mm to $250mm over two years

Source: Citi Research; Pricing Levels as of Sep 4, 2014.

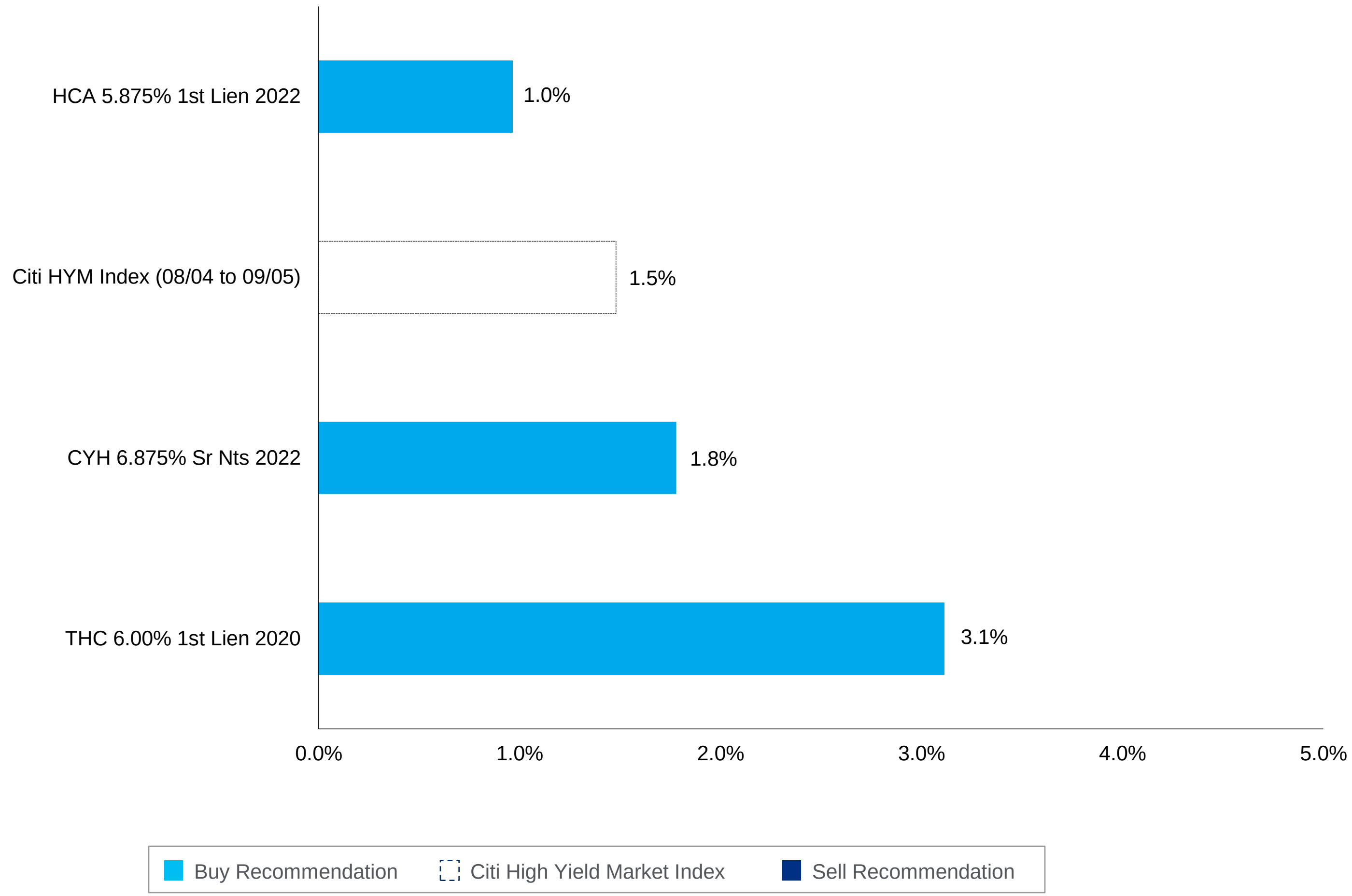
citi

August 2014 Ideas: How Did We Perform?

Healthcare.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Metals & Mining

- **Coal**
  - We expect met and thermal fundamentals to remain challenged during 2H14
  - Though there have been ~20mm tonnes of announced met production cuts thus far in 2014, we think more needs to be taken out. We expect met prices to remain low - the 4Q met benchmark should be in the mid $120's/tonne, up modestly from $120/tonne in 3Q14
  - Though thermal coal inventories have declined meaningfully, we think lower natural gas prices and rail service issues should prevent notable improvement in prices during 2H. We continue to think that the PRB will be better positioned when rail issues are resolved early in 2015
  - We expect coal producers to continue focusing on reducing costs and keeping capex at reduced levels

- **Steel**
  - Steel producers should benefit from an improving domestic economy, led by a strong auto market and a slowly improving construction environment
  - However, we do not expect sustained improvement in steel prices until demand grows more notably
  - Steel prices should continue to exhibit mini price cycle behavior we have seen over the last several years
  - Focus in the high yield steel space during 2H will be on the two large acquisitions announced several weeks ago

- **Iron ore**
  - We continue to expect iron ore to be oversupplied during 2H due to a significant increase in seaborne supply out of Australia and Brazil, which should easily outpace demand growth
  - Iron ore prices have fallen throughout 2014, reaching $87/tonne recently, down from $103 during 2Q, and a 2013 average of ~$135

- **Packaging**
  - We expect packaging demand to be relatively stable in 2H
  - EBITDA and cash flow generation should remain strong for the more established packagers like BLL, SEE, and OI
  - We expect to hear more from Reynolds as it explores strategic alternatives for three of its businesses

Sources: Citi Research, Company Reports

Credit Views – Metals & Mining

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	Arch Coal (ACI) L+500bp/1.25% 1st Lien TL 2018	Buy	B1/B+	4.7x	98.000/6.87%	• We expect ACI to benefit from slowly improving met prices and improving conditions in the PRB • We expect EBITDA to rise by ~45% in 2015 and for leverage through the term loan to decline to 3.8x by the end of 2015 • We believe there is significant asset coverage • We prefer the term loans to Neutral rated 7% senior notes due 2019 (offered at 71.750, YTW 15.61%) which have almost 17 turns more leverage • Liquidity is solid at $1.2bn
Short Duration	Aperam (APAM) 7.750% Sr Nts 2018	Buy	B3/B+	1.7x	106.250/4.18%	• Reported solid 2Q14 results on solid performance in all segments • Balance sheet continues to improve, with net leverage falling to 1.6x from 1.9x sequentially. We expect leverage to approach 1x by the end of 2014 • Management reduced its year end 2014 net debt target to $550mm from $650mm previously
Total Return	Alpha Natural (ANR) 7.500% 2nd Lien Nts 2020	Buy	B2/B	NA	97.750/8.14%	• We expect ANR to benefit from slowly improving met prices on the heels of recent production cuts • Net cash position through the 2nd liens; Net leverage should remain low for the next couple years, peaking at ~1.0x in 2016 • We believe there is significant asset coverage • The company has an extremely strong liquidity position of $2.4bn • We prefer the 2nd Liens to ANR term loan B, which is yielding ~4.40%

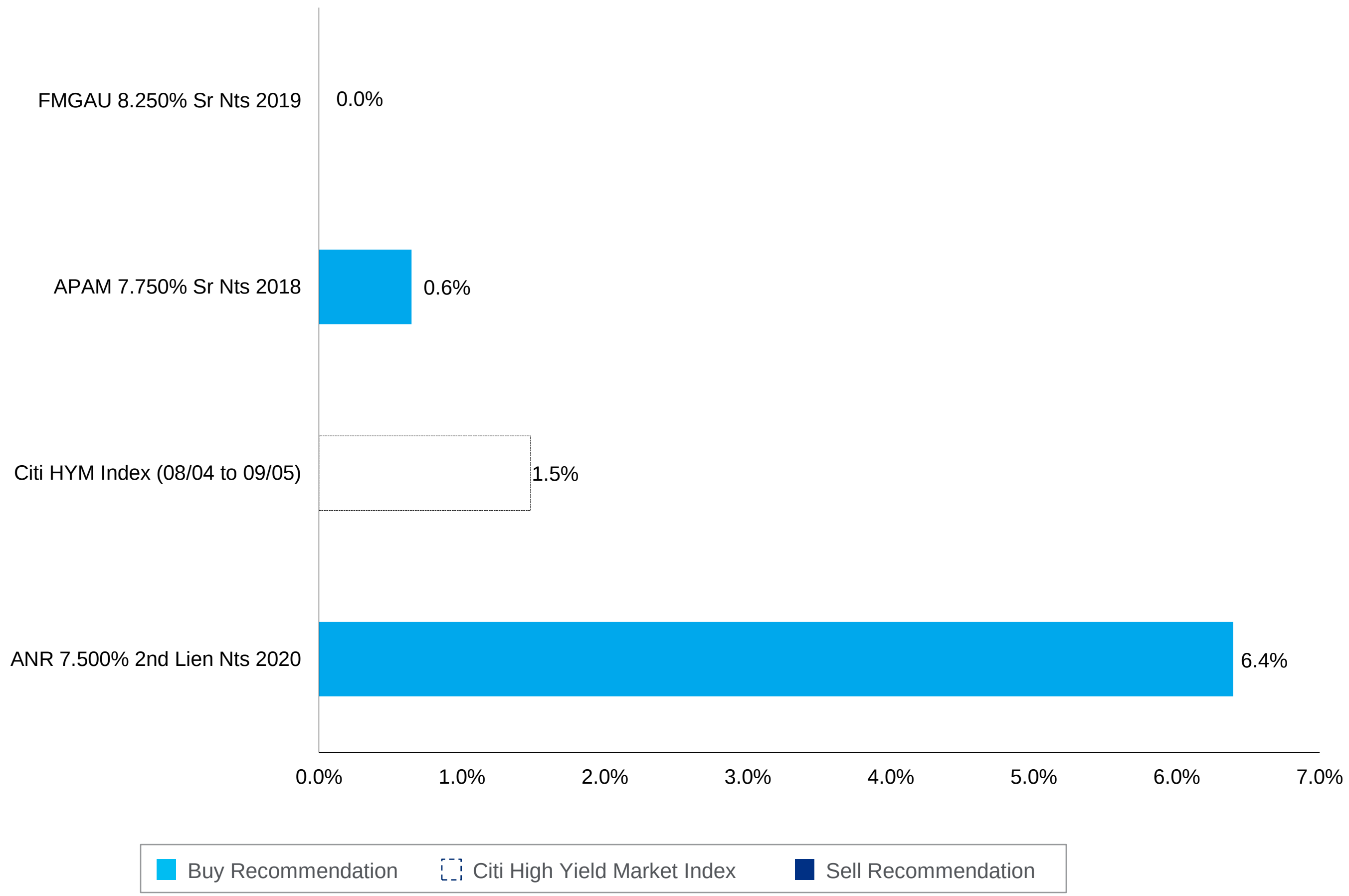
Source: Citi Research; Pricing Levels as of Sep 4, 2014.

August 2014 Ideas: How Did We Perform?

Metals & Mining.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Retail

- **Sales Trends Reflect Sequential Improvement in 2Q but Still Lackluster, Early Signs of BTS Encouraging**
  - Average retailer same-store sales increased 70bp y-o-y in 2Q14, reflecting the first in four quarters to see positive YoY same-store sales
  - Market estimates are calling for 1.0% and 2.3% y-o-y same-store sales growth in 3Q14 and 4Q14, respectively, reflecting further improvement
  - Early indications from most retailers suggest back to school sales and traffic are trending well, lending support to 3Q earnings
  - That said, mall traffic declines persist, down 4% y-o-y in August, leaving retailers to focus on driving conversion and omnichannel growth
- **Inventories Better Aligned Sales for 2H14; Should Bode Well for Margins**
  - 2Q14 reflected the first quarter since late 2012 when expected revenue growth entering 3Q outpaced inventory growth at quarter end (for example, average retailer inventories increased 1.5% YoY at 2Q14, lower than the street's expectation for 2.9% total revenue growth in 3Q14)
  - Gross margins contracted an average 56bp YoY in 2Q14 across the retailers we track, better than that seen in any quarter since mid 2013
  - We anticipate this trend will continue as retailers continue destocking to match customer demand and preferences into the holiday season
- **Leverage to be Nearly Flat y-o-y**
  - We model FY14 sector rent-adjusted leverage across our universe at 6.8x vs. 6.7x at FY13
  - IPOs Could Drive Deleveraging but May Push Into 2015/2016: There are a number of highly anticipated IPO's in the retail sector including PRTY, JCG, HOTT, PETC, JAS and MIK. BCFACT was the first to tap the equity market in 2013.
    - That said, we think this catalyst for sector deleveraging will be delayed into 2015/2016 given equity market multiples
- **Relative Value Could Support Sector Performance**
  - The High Yield retail sector trades at a YTW of 6.5%, 110bp wide the broad HY market and is the widest sector after Leisure & Gaming
  - Weak fundamentals year-to-date have led underperformance, with the sector +4.99% vs. the HY market total return of 5.43%
  - Our more favorable recommendations focus on those issuers with positive earnings tailwinds in 2H14 (CLE 1st and 2nd liens), event driven catalysts (TOY HoldCo notes on potential refi), longer dated bonds in higher-quality, cash flow generative names (long dated LB bonds, RAD 6.75% '21)
  - Our more bearish recommendations focus on issuers with fashion and competitive challenges, as well as inventory challenges that have pressured margins (GYMB, JCG)

Sources: Citi Research, Company Reports

Credit Views – Retail

	Issue	Rating	Moody's / S&P	Net Leverage[2]	Offer Side Price / YTW[1]	Citi View
Bank Loan	Rite Aid Corp (RAD) L+475/1.00% 2nd Lien T1 TL 2020	Buy	B2/B	2.6x/4.5x	102.250/5.31%	• Investors earn HY market yield to be in a 2nd lien piece of paper with moderate leverage and attractive coupon. We think the loan is attractive vs. the Sr. Unsecured 6.75% Notes '21 (YTW 5.1%) given better yield, security and lower leverage through the loan
High Coupon	Claire's Stores (CLE) 8.875% 2nd Lien Nts 2019	Buy	Caa2/CCC	6.8x	89.000/12.10%	• 2Q results exceeded expectations (especially on SSS and EBITDA EBITDA and FCF); FY14 FCF should be neutral to slightly positive • Operating momentum should continue into 2H14 with lapping of easy comps and benefits from new product initiatives • Comparable equity valuations support leverage through the notes
Short Duration	Party City Corp. (PRTY) 8.750% HoldCo Nts 2019	Buy	Caa2/CCC+	6.2x	102.750/6.79%	• Results have been impressive: 2Q net revenues increased 10.2% YoY while EBITDA increased 16.6% given margin expansion and the iParty acquisition. The PRTY structure is poised to benefit from a deleveraging event (I.e. IPO) in the near to mid term
Total Return	Bon-Ton Stores (BONT) 8.000% 2nd Lien Nts 2019	Buy	Caa2/CCC	5.3x	94.750/9.05%	• 2Q comps trended positive and gross margin performance has been strong given disciplined inventory management and pricing/mix strategies. We model $23mm of positive FCF in FY14 • Book value of tangible assets of $1.4bn (including $720mm inventory at 2Q14) is over 2x secured debt (ex-mortgage debt) outstanding.
Sell	J Crew Group (JCG) 7.750% HoldCo Nts 2019	Sell	CCC+/Caa1	6.0x	97.500/8.41%	• We prefer CLE 8.875% 2nd lien bonds that offer 370bp of incremental yield for less than a turn higher leverage, given our expectation for more favorable operating momentum at CLE in 2H14 • 1Q results vastly underperformed market expectations, with gross margin contracting 600bp YoY. We estimate 2Q EBITDA will decline over 21% YoY which may prove optimistic

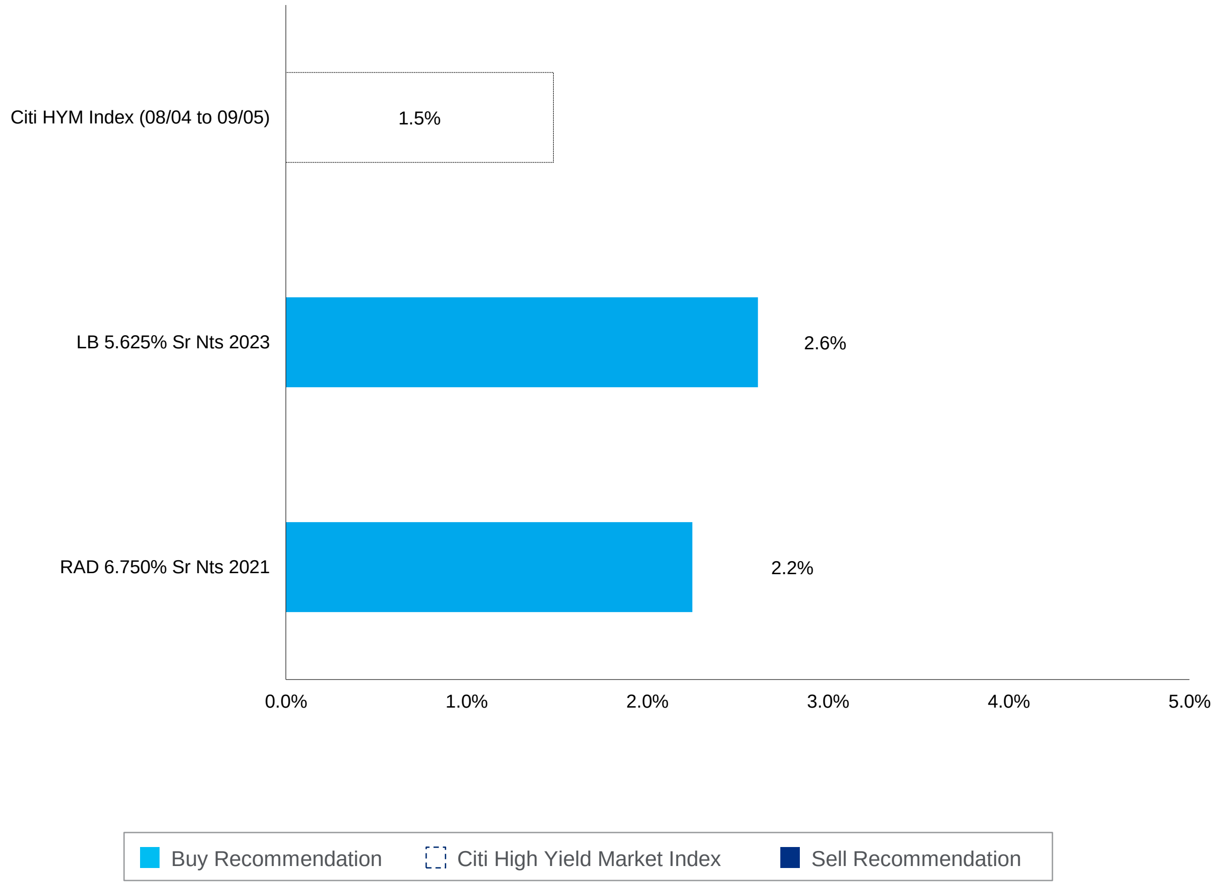
Source: Citi Research; Pricing Levels as of Sep 4, 2014. Note 1: Bid Side in the case of Sells. Note 2: Leverage metrics non-rent-adjusted.

August 2014 Ideas: How Did We Perform?

Retail.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Sector Outlook – Telecom, Cable/Satellites, Media, Technology

- **Telecom**
  - Event risk remains high within the telecom sector which can materially influence performance. Wire line and wireless operators provide high yield relative to our entire TMT coverage
  - Windstream plans to split into an OpCo + PropCo through a REIT transaction in 1Q 2015. Our model indicates leverage could decline about 20% at WIN OpCo where the bonds will remain. The company expects bank debt to "exchange" into the new PropCo. Peer Frontier is now considering the structure. CenturyLink indicated they had reviewed the structure, will watch WIN's execution and further evaluate
  - Wireless operators Sprint and T-Mobile were considered a likely consolidation until August when discussions ended. Since then, T-Mobile has drawn interest outside the U.S. as well as within
  - Wireless operator's interest in upcoming spectrum auctions could require pre-funding. We estimate $5-10bn valuation for 10-20MHz national spectrum. AWS auctions which begin in the fall could draw some interest, while the 600MHz auctions "scheduled" for mid-2015 could become the true contest
- **Cable & Satellites**
  - Cable continues to ramp up sales from broadband, business and advertising while experiencing revenue challenges for traditional video products
  - Broadband products carry high margins and users currently accept regular price increases. Programming costs are forecast to rise 8-12% for the industry in 2014-2015. Price increases for video service partially address the cost challenge
  - Satellite TV providers employ innovation in set-top boxes, content and price points to maintain subscribers
- **Media**
  - Ad markets softened at the end of 2Q on both a local and national level. Weather, Olympics and geopolitical factors were most often cited challenges. We expect political spending to positively impact 3Q (some) and 4Q (more) for media companies in 2H 2014, especially radio and TV
  - Newspaper and magazine companies continue to face secular headwinds and new monetization implementations. Industry leadership can reduce the pressure, but cost structures must remain highly variable
- **Technology**
  - Semiconductor growth remains attractive owing to solid underlying markets including: automotive, identification, and digital networking
  - Software revenue growth remains elusive as CIO's evaluate cloud offerings and push back on high margin license and maintenance fees
  - Services, too remain under pressure, though service businesses typically generate free cash flow which is creditor friendly

Sources: Citi Research, Bloomberg, Company Reports

Credit Views – Telecom, Cable/Satellites, Media, Technology

	Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Bank Loan	Time (TIME) L+325bp/1.00% 1st Lien TL B 2021	Buy	Ba1/BBB-	0.9x	100.000/4.25%	• One of the highest rated loans in our coverage universe • $2.5bn equity plus $700mm bonds cushion the loans which provides over 5x asset coverage • Magazine industry leader with cost reduction opportunities • Time generates material free cash flow which we estimate at over $200mm pro forma for the company's new $1.4bn debt
High Coupon	AMD (AMD) 7.750% Sr Nts 2020	Buy	B2/B	2.2x	106.000/5.09%	• We forecast year-over-year quarterly EBITDA improvement in 2014 and 2015 • Gross leverage now 3.9x with $2.2bn funded debt. AMD's $3.2bn market equity provides 2.0x asset coverage • AMD is working to introduce more successful products like its gaming chips (introduced 3Q 2013) • Bond is callable a year from now. More bullish investors could consider the non-callable 7.5% notes due 2022
High Coupon	Windstream (WIN) 7.750% Sr Nts 2021	Neutral	B1/B	3.9x	108.750/5.03%	• OpCo + PropCo transaction expected to close 1Q 2015. This transaction expected to reduce leverage 20% (about 0.7x) • PropCo will retain WIN bonds, but not the company's bank debt. We model higher free cash flow owing to reduced dividends and interest • This WIN bond has a high coupon and a relatively short first call on October 1, 2016
Relative Value	Freescale (FSL) L+375bp/1.25% 1st Lien TL B5 2021	Buy	B1/B	4.3x	100.750/4.86%	• Swap near even dollar into a floating rate instrument, for a similar yield. The B5 tranche is $494mm versus $500mm for 5% secured notes • We forecast secured leverage to improve 0.8x through 2015 • Potential refinancing of "high coupon" bonds could act as positive catalyst. FSL could also shift funding to unsecured debt (now about 20% of debt) • Management has stated a desire to reduce leverage below 3x over time. At Citi's Technology conference the CFO indicate the company could opportunistically issue equity to reduce leverage
	Freescale (FSL) 5.000% Sr Sec Nts 2021	Neutral	B1/B	5.1x	100.750/4.86%	

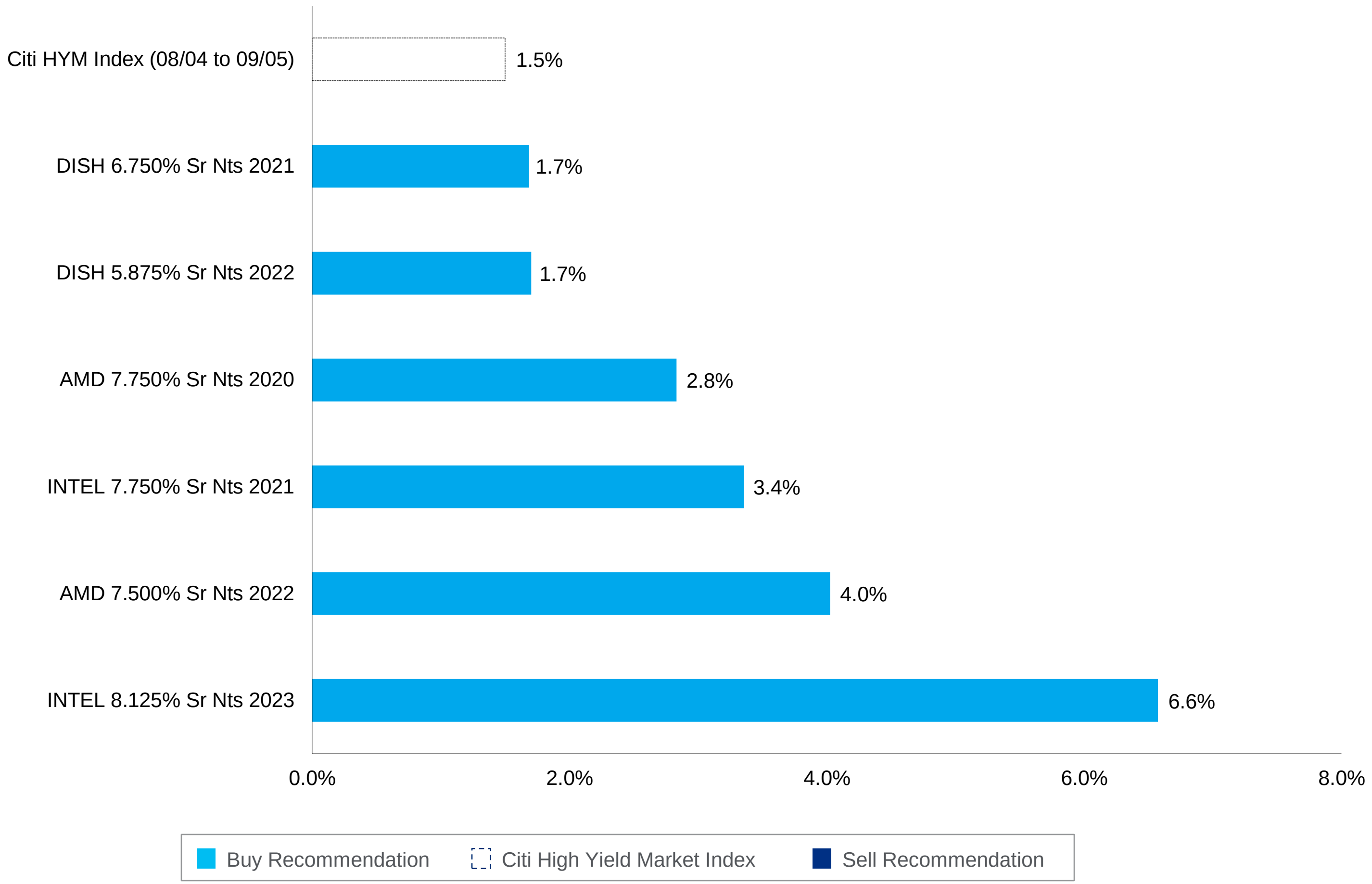
Source: Citi Research; Pricing Levels as of Sep 4, 2014.

August 2014 Ideas: How Did We Perform?

Telecom, Cable/Satellites, Media, Technology.

Individual Bond / Index Total Returns: Aug 4, 2014 – Sep 5, 2014

Link to Aug 4 publication



Note: Source: Citi, Bloomberg. Note: returns are not annualized.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sprint Nextel Corp. Due to Citi's involvement in SoftBank Corp.'s offer to acquire 70% stake in Sprint Nextel Corp. (the 'Company'), Citi Research restricted publication of new research reports, and suspended its rating and target price on October 15, 2012 (the 'Suspension Date'). Please note that the Company's price chart available on Citi Research's disclosure website, does not reflect that Citi Research did not have a rating or target price between the Suspension Date and July 11, 2013 when Citi Research resumed full coverage.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of T-Mobile US Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Manitowoc Co Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Claire's Stores Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Axiall Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Owens-Illinois Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Endeavour International Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of DaVita HealthCare Partners Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of L Brands Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Tenet Healthcare Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Rice Energy Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Concho Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of CenturyLink Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of MGM Resorts International

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of MOHEGAN TRIBAL GAMING AUTHORITY

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Boyd Gaming Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Arch Coal Inc

Due to Citi's involvement in Albemarle Corporation's acquisition of Rockwood Holdings Inc., Citi Research restricted publication of new research reports, and suspended its rating and target price on July 15, 2014 (the 'Suspension Date') on both companies. While Citi Research may continue to publish research the companies, it will not express a view about the proposed transaction, nor will its financial model(s) take into account the transaction. Additionally, Albemarle's price chart available on Citi Research's disclosure website, is current only through the Suspension Date and, accordingly, does not reflect that Citi Research suspended its rating and target price on the Suspension Date.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Frontier Communications Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of LifePoint Hospitals Inc

Citigroup Global Markets Inc. has entered into an Equity Distribution Agreement with Linn Energy,LLC and will be acting as Sales Agent,pursuant to which Linn Energy,LLC may issue and sell units representing limited liability company interests. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Linn Energy LLC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Brookfield Residential Properties Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Universal Health Services Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Bombardier Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Jarden Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of KB Home

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Magnum Hunter Resources Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Rite Aid Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Pinnacle Entertainment Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Chemtura Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Ashland Inc

A director of Citi serves on the board of Procter & Gamble Company. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Procter & Gamble Co

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of United Rentals Inc

Citigroup Global Markets Inc. is advising Huntsman Corporation in its acquisition of Rockwood Holdings, Inc.'s Performance Additives and Titanium Dioxide businesses. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Huntsman Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sealed Air Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Beazer Homes USA Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Time Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Alpha Natural Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of CHAPARRAL ENERGY INC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Advanced Micro Devices Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Terex Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Community Health Systems Inc

Due to Citi's involvement in Sprint Nextel Corp.'s offer to acquire shares of Clearwire Corporation's capital stock that it did not already own, in which Dish Network (the 'Company') submitted an unsolicited bid, Citi Research restricted publication of new research reports on the Company, and suspended its rating and target price of the Company on January 9, 2013 (the 'Suspension Date'). Please note that the Company's price chart available on Citi Research's disclosure website, does not reflect that Citi Research did not have a rating or target price between the Suspension Date and July 16, 2013 when Citi Research resumed full coverage. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of DISH Network Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of ServiceMaster Co

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Ball Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of HCA Holdings Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Whiting Petroleum Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of EP ENERGY LLC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Aperam SA. Citigroup Global Markets Limited is mandated as Joint Global Coordinator and Bookrunner to Aperam in relation to its announced up to US$300m convertible bond. Consequently, Citigroup is restricted from offering any view, rating or opinion on Aperam

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Endeavour International, Beazer Homes. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Sprint Communications Inc, T-Mobile US, Claire's Stores Inc, L Brands Inc, BreitBurn Energy Partners L P, Tenet Healthcare, Rice Energy Inc, Concho Resources Inc, MGM Resorts International, Lifepoint Hospitals, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., BOMBARDIER, Atlas Resource Partners, L.P., KB Home, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Beazer Homes, Time Inc, Alpha Natural Resources, J. Crew Group, Inc., Community Health Systems, Celanese Corp, SIDEWINDER DRILLING INC, HCA Holdings, Inc, Momentive Specialty Chemicals Inc, Aperam.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from ROCKIES EXPRESS PIPELINE LLC, Sprint Communications Inc, T-Mobile US, Owens Illinois Inc, Quicksilver Resources Inc, L Brands Inc, BreitBurn Energy Partners L P, IASIS Healthcare Corp, Tenet Healthcare, Navistar International Corp, Rice Energy Inc, Concho Resources Inc, CenturyLink, QR Energy LP, REMINGTON OUTDOOR CO INC, ALGECO SCOTSMAN GLOBAL FINANCE PLC, MGM Resorts International, Arch Coal, ROCKWOOD SPECIALTIES GROUP INC, Frontier Communications Corp, Lifepoint Hospitals, NOVA Chemicals Corp, Linn Energy, LLC, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., BOMBARDIER, Jarden Corp, Atlas Resource Partners, L.P., KB Home, Magnum Hunter Resources, Rite Aid Corp, Chemtura Corp, Ashland Inc, REYNOLDS GROUP ISSUER INC, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Sealed Air Corp, Prestige Brands Holdings Inc, Beazer Homes, Time Inc, Alpha Natural Resources, Windstream Holdings, Community Health Systems, Olin Corp, Celanese Corp, Servicemaster Company LLC, Ball Corp, HCA Holdings, Inc, Fortescue Metals Group Ltd, EP ENERGY LLC, Momentive Specialty Chemicals Inc, Aperam.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Sprint Communications Inc, T-Mobile US, BreitBurn Energy Partners L P, REMINGTON OUTDOOR CO INC, Frontier Communications Corp, NOVA Chemicals Corp, Linn Energy, LLC, Brookfield Residential Properties Inc., BOMBARDIER, Atlas Resource Partners, L.P., Huntsman Corp, Prestige Brands Holdings Inc, Alpha Natural Resources, Momentive Specialty Chemicals Inc.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from ROCKIES EXPRESS PIPELINE LLC, Sprint Communications Inc, T-Mobile US, The Manitowoc Company Inc, Owens Illinois Inc, Quicksilver Resources Inc, L Brands Inc, BreitBurn Energy Partners L P, IASIS Healthcare Corp, Tenet Healthcare, Navistar International Corp, Rice Energy Inc, Concho Resources Inc, CenturyLink, QR Energy LP, REMINGTON OUTDOOR CO INC, ALGECO SCOTSMAN GLOBAL FINANCE PLC, MGM Resorts International, MOHEGAN TRIBAL GAMING AUTHORITY, Arch Coal, ROCKWOOD SPECIALTIES GROUP INC, Frontier Communications Corp, Lifepoint Hospitals, NOVA Chemicals Corp, Linn Energy, LLC, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., SPECTRUM BRANDS INC, Universal Health Services, BOMBARDIER, Jarden Corp, Atlas Resource Partners, L.P., ARMORED AUTOGROUP INC, KB Home, Magnum Hunter Resources, Rite Aid Corp, Chemtura Corp, Ashland Inc, REYNOLDS GROUP ISSUER INC, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Sealed Air Corp, Prestige Brands Holdings Inc, Beazer Homes, Time Inc, Alpha Natural Resources, Windstream Holdings, J. Crew Group, Inc., Advanced Micro Devices, Terex Corporation, Community Health Systems, Olin Corp, Celanese Corp, DISH Network Corp, Servicemaster Company LLC, Ball Corp, HCA Holdings, Inc, Intelsat SA, Fortescue Metals Group Ltd, EP ENERGY LLC, Momentive Specialty Chemicals Inc, Aperam in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Endeavour International, Magnum Hunter Resources, L Brands Inc, Rite Aid Corp, Atlas Resource Partners, L.P., QR Energy LP, BreitBurn Energy Partners L P, Linn Energy, LLC, Prestige Brands Holdings Inc, Servicemaster Company LLC, ROCKIES EXPRESS PIPELINE LLC, Sprint Communications Inc, T-Mobile US, Owens Illinois Inc, Quicksilver Resources Inc, IASIS Healthcare Corp, Tenet Healthcare, Navistar International Corp, Rice Energy Inc, Concho Resources Inc, CenturyLink, REMINGTON OUTDOOR CO INC, ALGECO SCOTSMAN GLOBAL FINANCE PLC, MGM Resorts International, Arch Coal, ROCKWOOD SPECIALTIES GROUP INC, Frontier Communications Corp, Lifepoint Hospitals, NOVA Chemicals Corp, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., BOMBARDIER, Jarden Corp, KB Home, Chemtura Corp, Ashland Inc, REYNOLDS GROUP ISSUER INC, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Sealed Air Corp, Beazer Homes, Time Inc, Alpha Natural Resources, Windstream Holdings, Community Health Systems, Olin Corp, Celanese Corp, Ball Corp, HCA Holdings, Inc, Fortescue Metals Group Ltd, EP ENERGY LLC, Momentive Specialty Chemicals Inc, Aperam.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Sprint Communications Inc, T-Mobile US, The Manitowoc Company Inc, Owens Illinois Inc, Quicksilver Resources Inc, L Brands Inc, BreitBurn Energy Partners L P, IASIS Healthcare Corp, Tenet Healthcare, Navistar International Corp, Rice Energy Inc, Concho Resources Inc, CenturyLink, QR Energy LP, REMINGTON OUTDOOR CO INC, ALGECO SCOTSMAN GLOBAL FINANCE PLC, MGM Resorts International, MOHEGAN TRIBAL GAMING AUTHORITY, SUN PRODUCTS CORP, Boyd Gaming Corp, Arch Coal, ROCKWOOD SPECIALTIES GROUP INC, Frontier Communications Corp, Lifepoint Hospitals, NOVA Chemicals Corp, Linn Energy, LLC, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., SPECTRUM BRANDS INC, Universal Health Services, BOMBARDIER, Jarden Corp, Atlas Resource Partners, L.P., KB Home, Magnum Hunter Resources, Rite Aid Corp, Chemtura Corp, Ashland Inc, REYNOLDS GROUP ISSUER INC, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Sealed Air Corp, Prestige Brands Holdings Inc, Beazer Homes, Time Inc, Alpha Natural Resources, Windstream Holdings, J. Crew Group, Inc., Advanced Micro Devices, Terex Corporation, Community Health Systems, Olin Corp, Celanese Corp, Bon-Ton Stores Inc, Ball Corp, HCA Holdings, Inc, Intelsat SA, Fortescue Metals Group Ltd, EP ENERGY LLC, Momentive Specialty Chemicals Inc, Aperam.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: ROCKIES EXPRESS PIPELINE LLC, Sprint Communications Inc, T-Mobile US, The Manitowoc Company Inc, Owens Illinois Inc, Quicksilver Resources Inc, L Brands Inc, BreitBurn Energy Partners L P, IASIS Healthcare Corp, Tenet Healthcare, Navistar International Corp, Rice Energy Inc, Concho Resources Inc, CenturyLink, QR Energy LP, REMINGTON OUTDOOR CO INC, ALGECO SCOTSMAN GLOBAL FINANCE PLC, MGM Resorts International, MOHEGAN TRIBAL GAMING AUTHORITY, Arch Coal, ROCKWOOD SPECIALTIES GROUP INC, Frontier Communications Corp, Lifepoint Hospitals, NOVA Chemicals Corp, Linn Energy, LLC, Freescale Semiconductor Holdings, I

Ltd, Brookfield Residential Properties Inc., SPECTRUM BRANDS INC, Universal Health Services, BOMBARDIER, Jarden Corp, Atlas Resource Partners, L.P., ARMORED AUTOGROUP INC, KB Home, Magnum Hunter Resources, Rite Aid Corp, Chemtura Corp, Ashland Inc, REYNOLDS GROUP ISSUER INC, Procter & Gamble Co, United Rentals, Inc., Huntsman Corp, Sealed Air Corp, Prestige Brands Holdings Inc, Beazer Homes, Time Inc, Alpha Natural Resources, Windstream Holdings, J. Crew Group, Inc., Advanced Micro Devices, Terex Corporation, Community Health Systems, Olin Corp, Celanese Corp, DISH Network Corp, Servicemaster Company LLC, Ball Corp, HCA Holdings, Inc, Intelsat SA, Fortescue Metals Group Ltd, EP ENERGY LLC, Momentive Specialty Chemicals Inc, Aperam.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of BreitBurn Energy Partners L P, Elizabeth Arden Inc, Navistar International Corp, Concho Resources Inc, Frontier Communications Corp, Lifepoint Hospitals, Linn Energy, LLC, Freescale Semiconductor Holdings, I Ltd, Brookfield Residential Properties Inc., Pinnacle Entertainment Inc, Sealed Air Corp, Central Garden & Pet Co, Prestige Brands Holdings Inc, Community Health Systems, Olin Corp, Bon-Ton Stores Inc, DISH Network Corp, Fortescue Metals Group Ltd, Aperam.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Fixed Income Ratings Distribution

		Rating	
Data current as of 30 Jun 2014	**Buy**	**Hold**	**Sell**
Citi Research US High Yield Issuer Coverage	31%	58%	10%
% of companies in each rating category that are investment banking clients	70%	66%	43%
Citi Research US High Yield Issue Coverage	24%	63%	12%
% of companies in each rating category that are investment banking clients	78%	78%	59%

Guide to Citi Research High Yield Ratings: Coverage in the Citi Research High Yield universe is assigned a relative return based rating. Depending on the issuer under analysis ratings may be applied to either some or all of the issuer's debt securities, CDS or leveraged loans. These ratings and their definitions are:

Guide to Citi Research High Yield Issue, Leveraged Loan & CDS Ratings:

Buy (1): The analyst expects the six-month total return of the rated instrument to exceed the market value weighted average six-month total return for the analyst's sector or comparable sub-index of the Citi High Yield Market Index (for debt securities and CDS) or Citi Leveraged Loan Tracker (for leveraged loans). The Citi High Yield Market Index and Citi Leveraged Loan Tracker are both available at this site.

Neutral (2): The analyst expects the six-month total return of the rated instrument to be in line with the market value weighted average six-month total return for the analyst's sector or comparable sub-index of the Citi High Yield Market Index (for debt securities and CDS) or Citi Leveraged Loan Tracker (for leveraged loans). The Citi High Yield Market Index and Citi Leveraged Loan Tracker are both available at this site.

Sell (3): The analyst expects the six-month total return of the rated instrument to be below the market value weighted average six-month total return for the analyst's sector or comparable sub-index of the Citi High Yield Market Index (for debt securities and CDS) or Citi Leveraged Loan Tracker (for leveraged loans). The Citi High Yield Market Index and Citi Leveraged Loan Tracker are both available at this site.

Guide to Citi Research High Yield Sector/Issuer Portfolio Weightings:

Overweight (OW): Over the next six months, the recommended sector or issuer is expected to outperform the returns on the relevant index or benchmark based on valuation and methodology provided below;

Marketweight (MW): Over the next six months, the recommended sector or issuer is expected to perform in line with the returns on the relevant index or benchmark based on valuation and methodology provided below;
Underweight (UW): Over the next six months, the recommended sector or issuer is expected to underperform the returns on the relevant index or benchmark based on valuation and methodology provided below;
Under Review: Citi Research has suspended the investment rating for this issuer because there is not a sufficient fundamental basis for determining an investment rating. The previous investment rating is no longer in effect for this issuer and should not be relied upon. To satisfy regulatory requirements, we correspond 'under review' to Hold in our ratings distribution table. However, we reiterate that we do not consider 'under review' to be a recommendation.
For purposes of complying with ratings-distribution-disclosure rules, a Citi Research High Yield rating of Overweight is considered to correspond to a Buy recommendation; Marketweight and Neutral to a Hold recommendation; and Underweight to a Sell recommendation.
Valuation and Methodology: In Citi's High Yield Credit Research we assign a rating (Buy, Neutral or Sell) that, depending on the company under analysis, may be assigned to some or all of the company's debt securities. The rating is based on our credit view of the issuer and the relative value of its securities, taking into account the ratings assigned to the issuer by credit rating agencies and the market prices for the issuer's securities. Our credit view of an issuer is based upon our opinion as to whether the issuer will be able to service its debt obligations when they become due and payable. We may assess this by analyzing, among other things, the issuer's credit position using standard credit ratios such as cash flow to debt and fixed charge coverage (including and excluding capital investment). We also analyze the issuer's ability to generate cash flow by reviewing standard operational measures for comparable companies in the sector, such as revenue and earnings growth rates, margins, and the composition of the issuer's balance sheet relative to the operational leverage in its business.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Inc	Manish A. Somaiya; James P Finnerty; Jenna Giannelli; Marisa B Moss; David Phipps; Richard C Yu; Murali Ganti; Kevin Ziets; Michael H Anderson

OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to L Brands Inc, Tenet Healthcare, Rice Energy Inc, Concho Resources Inc, CenturyLink, MGM Resorts International, Frontier Communications Corp, Lifepoint Hospitals, Linn Energy, LLC, BOMBARDIER, Atlas Resource Partners, L.P., KB Home, Rite Aid Corp, Chemtura Corp, Ashland Inc, Procter & Gamble Co, United Rentals, Inc., Sealed Air Corp, Time Inc, Alpha Natural Resources, Olin Corp, Servicemaster Company LLC, Momentive Specialty Chemicals Inc, Aperam. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Endeavour International.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been

obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Bell Potter Customers: Bell Potter is making this Product available to its clients pursuant to an agreement with Citigroup Global Markets Australia Pty Limited. Neither Citigroup Global Markets Australia Pty Limited nor any of its affiliates has made any determination as to the suitability of the information provided herein and clients should consult with their Bell Potter financial advisor before making any investment decision.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch,

for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400051 Corporate Identity Number: U99999MH2000PTC126657 Tel:+9102261759999 Fax:+9102261759961. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital

markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 399 Interchange 21 Building, 18th Floor, Sukhumvit Road, Klongtoey Nua, Wattana ,Bangkok 10110, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This material may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA nor regulated by the FCA and the PRA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.
Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.
Citi Research generally disseminates its research to the Firm’s global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi’s proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author’s previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.
The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client’s individual preferences as to the frequency and manner of receiving communications from analysts, the client’s risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.
Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST