Citi Research

High Yield & Leveraged Loans: Seasonal Picks

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High Yield & Strategy Outlook

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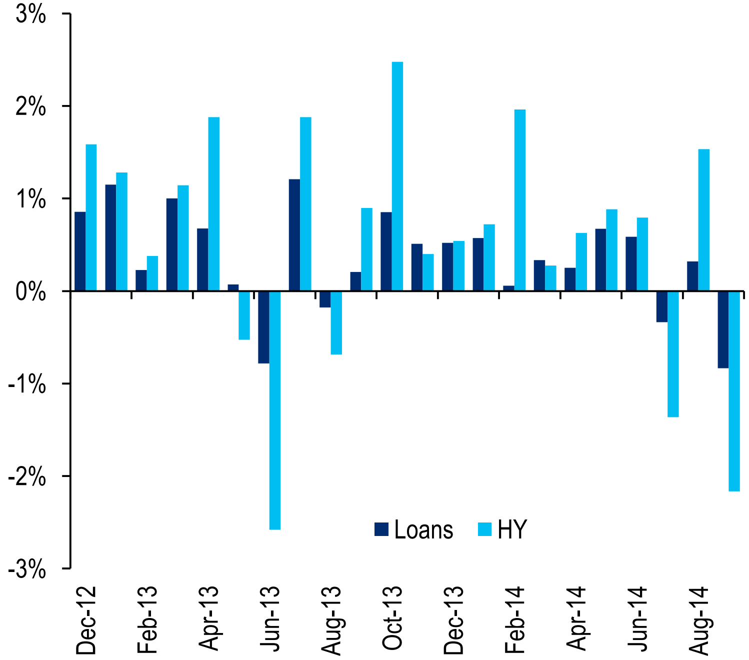
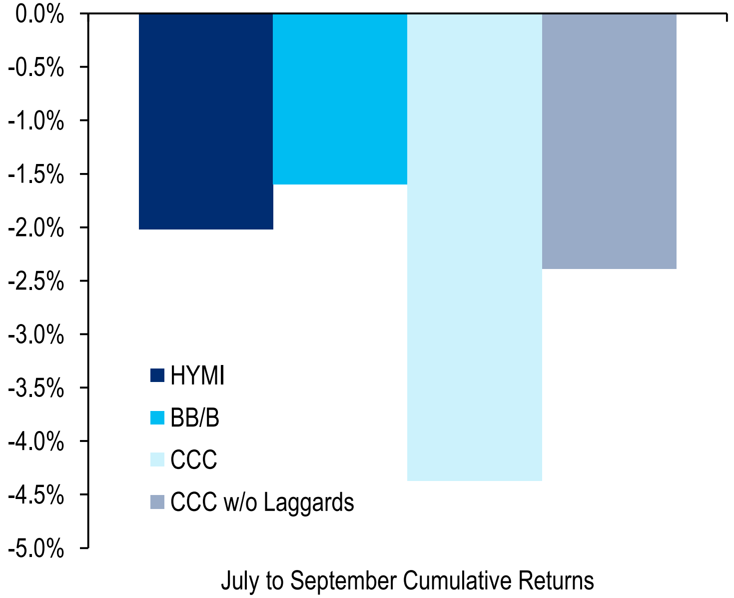
High Yield & Loans Suffered Their Worst Month in Over a Year

HY/Loan Monthly Returns



Source: Citi Research, Yield Book, As of 9/30/2014

Triple-C's Lagging, Led by a Few Decliners



Source: Citi Research, Yield Book, As of 9/30/2014, triple-C laggards include 9 issuers

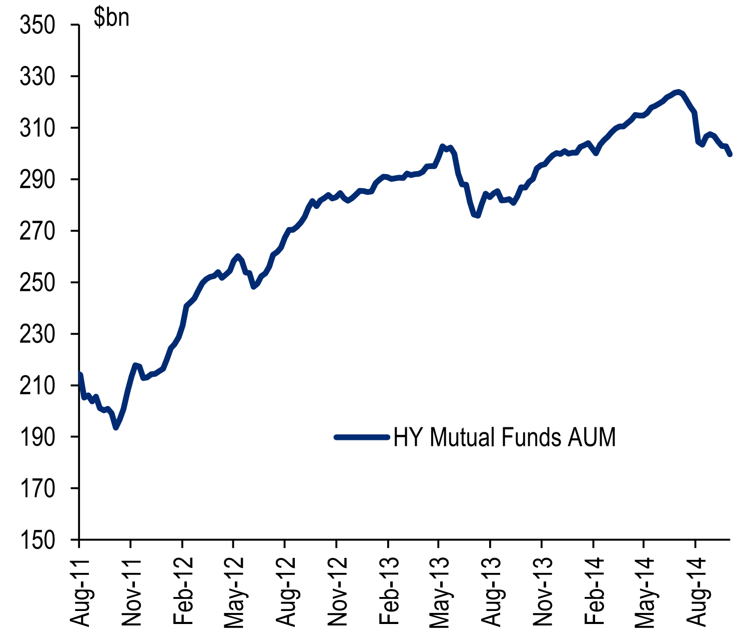
- September was the worst month for high yield and leveraged loans since June 2013 and May 2012 respectively
- Triple-C bonds lagged the broader market but that underperformance was mostly driven by a few issuers

Nothing Fundamental Has Changed But Technicals Are Shifting

Downward Trend of Yields Broken

Source: Citi Research, Yield Book, Yield to Worst for Citi High Yield Market Index, As of 10/3/2014

Investor Base Shifting Away from the Fed-induced Flows

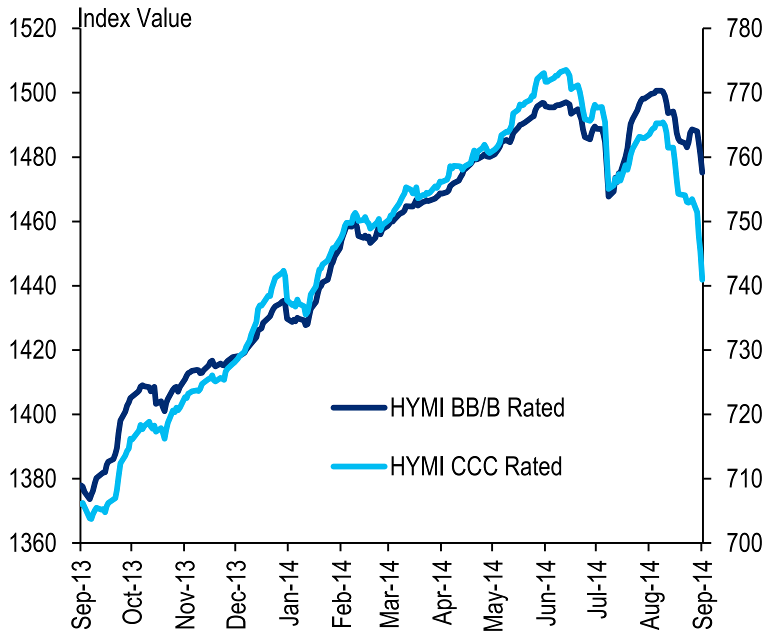


Source: Citi Research, Lipper, Including weekly and monthly reporting mutual funds, As of 10/1/2014

- For the first time over the past few years, the market followed a selloff with a deeper selloff. In other words, the peak in yields in September, eclipsed August's peak
- As the Fed gets closer to the initial rate hikes, we'd expect outflows from investor groups that benefited from the Fed's extraordinary accommodation

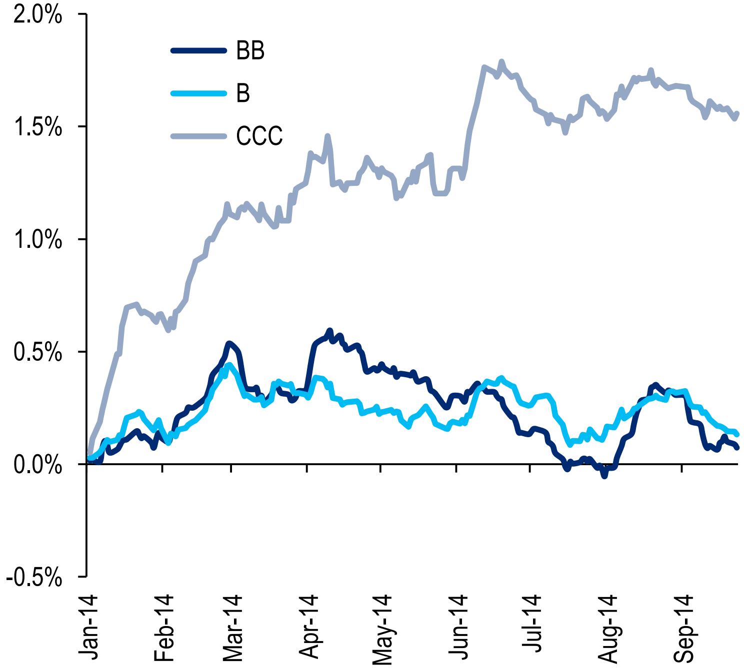
We Remain Underweight Triple-C Credits

CCC vs. BB/B Index Values Begin to Diverge in July



Source: Citi Research, Yield Book

Net Positioning by Credit Quality

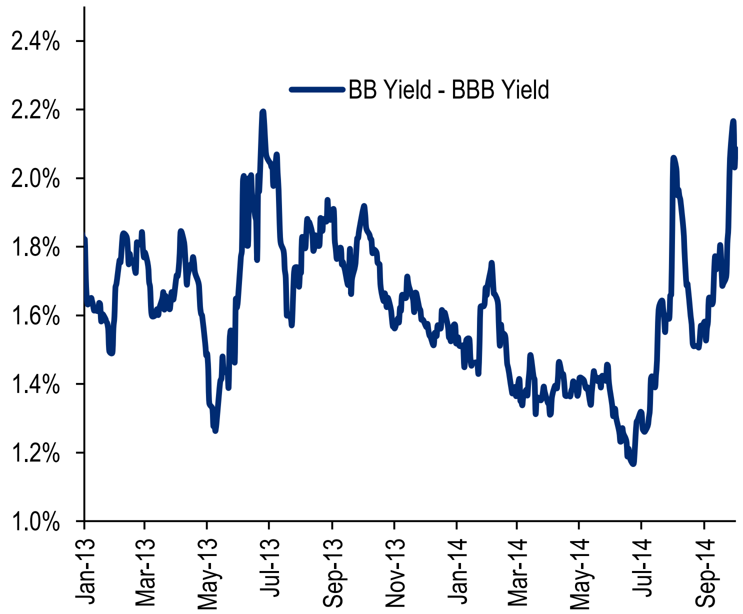


Source: Citi Research, TRACE. Cumulative trading volume as a % of total notional outstanding for that rating

- Relative to recent selloffs, triple-C's lagged the broader market by a wide margin from July through September
- In addition, we believe investors remain long triple-C risk and the market is more at risk of triple-C underperformance than triple-C outperformance

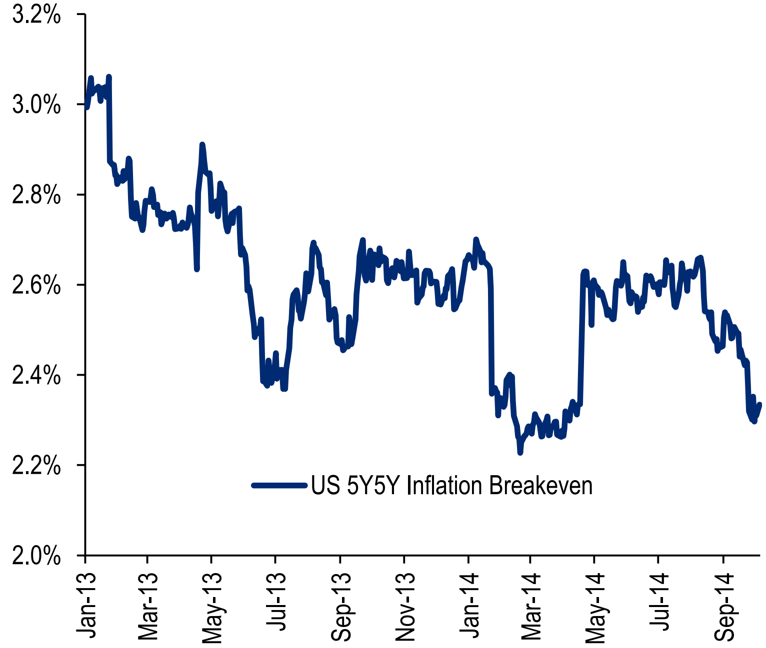
Select Double-B Bonds Should Find Support from IG

Double-B vs. Triple-B Yield Differential



Source: Citi Research, Yield Book, As of 10/1/2014

Declining US Inflation Expectations



Source: Citi Research, Bloomberg, US 5y5y Inflation

- Double-B vs. triple-B yield differential is back to levels last seen during Taper Tantrum, making double-B paper attractive to crossover buyers
- In addition, rates shouldn't pose a significant headwind for high-quality paper as declining inflation expectations and falling treasury yields in other developed economies support the US Treasury market

High Yield Top & Bottom Performers

Top Performers

Sept 3 – Oct 3

Sept. 2 - Oct. 3 Return		
Rank	Bond	Total Return
1	EGN 7.125% due 2028	128.05%
2	EDMC 15% due 2018	28.23%
3	RTSX 9.875% due 2017	22.31%
4	DSWATE 10% due 2021	12.31%
5	ATHL 7.375% due 2021	10.32%
6	USCR 8.5% due 2018	9.08%
7	DELL 5.4% due 2040	7.21%
8	ATHL 6% due 2022	5.74%
9	ROCKIE 7.5% due 2038	4.64%
10	DELL 6.5% due 2038	4.41%

3 Month

3 Month Return		
Rank	Bond	Total Return
1	EGN 7.125% due 2028	128.05%
2	VRS 11.375% due 2016	59.51%
3	OSG 8.125% due 2018	39.24%
4	AAL 7% due 2018	32.71%
5	VRS 8.75% due 2019	19.34%
6	GM 6.25% due 2043	18.68%
7	APP 13% due 2020	18.14%
8	ROCKIE 7.5% due 2038	15.61%
9	MBI 0% due 2028	15.38%
10	KMI 7.8% due 2031	13.57%

6 Month

6 Month Return		
Rank	Bond	Total Return
1	MBI 0% due 2036	150.00%
2	EGN 7.125% due 2028	128.05%
3	NAVI 5% due 2018	56.58%
4	NAVI 5.19% due 2019	54.60%
5	NAVI 5.14% due 2016	46.30%
6	PPL 6% due 2036	45.61%
7	OSG 8.125% due 2018	39.24%
8	MBI 0% due 2028	34.69%
9	APP 13% due 2020	34.30%
10	LPI 9.5% due 2019	32.78%

YTD

YTD Return		
Rank	Bond	Total Return
1	MBI 0% due 2036	233.33%
2	EGN 7.125% due 2028	128.05%
3	VRS 8.75% due 2019	81.35%
4	VRS 11.375% due 2016	71.61%
5	NAVI 5% due 2018	56.58%
6	NAVI 5.19% due 2019	54.60%
7	NEENST 11% due 2018	47.43%
8	MBI 0% due 2028	46.67%
9	NAVI 5.14% due 2016	46.30%
10	PPL 6% due 2036	45.61%

Bottom Performers

Sept 3 – Oct 3

Sept. 2 - Oct. 3 Return		
Rank	Bond	Total Return
1	GYMB 9.125% due 2018	-50.35%
2	USINV 12% due 2020	-46.71%
3	WLT 9.875% due 2020	-40.81%
4	KWK 7.125% due 2016	-40.13%
5	USINV 10.5% due 2020	-39.60%
6	WLT 8.5% due 2021	-39.10%
7	WLT 11% due 2020	-36.19%
8	ACI 9.875% due 2019	-30.93%
9	ACI 7.25% due 2021	-30.87%
10	ALISCI 15.25% due 2020	-30.01%

3 Month

3 Month Return		
Rank	Bond	Total Return
1	CZR 6.5% due 2016	-59.34%
2	USINV 12% due 2020	-56.90%
3	KWK 7.125% due 2016	-55.21%
4	CZR 5.75% due 2017	-53.54%
5	USINV 10.5% due 2020	-52.29%
6	GYMB 9.125% due 2018	-52.24%
7	CZR 10.75% due 2016	-49.58%
8	WLT 8.5% due 2021	-44.65%
9	WLT 9.875% due 2020	-43.31%
10	CZR 12.75% due 2018	-40.16%

6 Month

6 Month Return		
Rank	Bond	Total Return
1	CZR 6.5% due 2016	-62.61%
2	GYMB 9.125% due 2018	-59.81%
3	CZR 5.75% due 2017	-59.80%
4	USINV 12% due 2020	-56.90%
5	KWK 7.125% due 2016	-55.20%
6	CZR 10.75% due 2016	-52.68%
7	USINV 10.5% due 2020	-52.29%
8	WLT 8.5% due 2021	-47.83%
9	EDMC 15% due 2018	-46.57%
10	WLT 9.875% due 2020	-45.48%

YTD

YTD Return		
Rank	Bond	Total Return
1	GYMB 9.125% due 2018	-60.63%
2	WLT 8.5% due 2021	-57.99%
3	USINV 12% due 2020	-56.90%
4	KWK 7.125% due 2016	-55.69%
5	CZR 6.5% due 2016	-55.62%
6	CZR 5.75% due 2017	-55.03%
7	WLT 9.875% due 2020	-54.32%
8	USINV 10.5% due 2020	-52.29%
9	CZR 10.75% due 2016	-47.91%
10	WLT 11% due 2020	-47.41%

Note: Returns calculated as of October 3, 2014.

High Yield & Leveraged Loan Research

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Summary of Credit Views

Sector	Autos, A&D, Industrials, & Services	Chemicals & Homebuilders	Consumer Products	Energy	Healthcare	Metals & Mining	Retail & Gaming	Telecom, Media, & Tech
Bond Ideas	**ALGSCO** 8.50% Sec Nts 2018 **GDI** 6.875% Sr Nts 2021 **NAV** 8.250% Sr Nts 2021	**AXLL** 4.625% Sr Nts 2021 4.875% Sr Nts 2023 **HXN** 8.875% 1.5 Lien Nts 2018 6.625% 1st Lien Nts 2020 **BZH** 5.750% Sr Nts 2019 7.500% Sr Nts 2023 **BRP** 6.500% Sr Nts 2020 6.125% Sr Nts 2022	**SVMSTR** 8.000% Sr Nts 2020	**MHR** 9.750% Sr Nts 2020	**THC** 8.125% Sr Nts 2022	**BTU** 6.250% Sr Nts 2021 **AKS** 7.625% Sr Nts 2021	**CLE** 8.875% 2nd Lien Nts 2019 **MGM** 6.625% Sr Nts 2021	**AMD** 7.500% Sr Nts 2022 **INTEL** 8.125% Lux Nts 2023 6.625% Jax Nts 2022
Term Loan Ideas	**FDC** L+350bp/no floor 1st Lien TL B 2017 **GDI** L+325bp/1.00% 1st Lien TL 2020 **NAV** L+450bp/1.25% 1st Lien TL B 2017	**TROX** L+300bp/1.00% 1st Lien TL B 2020	**PBH** L+350bp/1% Floor 1st Lien TL B 2021 **SVMSTR** L+325bp/1.25% Floor 1st Lien TL B 2021	**EPENEG** L+350bp/1.00% 2nd Lien TL B2 2019 L+275bp/0.75% 2nd Lien TL B3 2018	**IAS** L+325bp/1.25% 1st Lien TL B2 2018 **DVA** L+275bp/0.75% 1st Lien TL B2 2021	**ACI** L+500bp/1.25% 1st Lien TL B 2018	**PRTY** L+300bp/1.00% 1st Lien TL B 2019 **BYD** L+300bp/1.00% 1st Lien TL B 2020	**INTEL** L+275bp/1.00% 1st Lien TL B2 2019 **FSL** L+325bp/1.00% 1st Lien BL B4 2020 L+375/1.25% 1st Lien TL B5 2021

Sources: Citi Research

Credit Views – Autos, Industrials, & Services

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Algeco Scotsman (ALGSCO) 8.500% Sec Nts 2018	Buy	B2/B	5.2x	104.750/6.73%	• ALGSCO notes offer the highest yields within rental coverage universe; 8.5% notes are 70bp cheap vs. the Citi B Index & 5pts 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. expectations. New CCA contract should be earnings accretive(1) • Adequate asset coverage: 2nd lien priority (after ABL) on substantially all assets; Citi estimates 4Q15 secured leverage at 4.9x • ALGSCO 10.75% sr notes (YTW 11.0%) offers add'l upside. Within rentals, BLULNE 9.75% PIK notes also attractive on relative value basis (YTW 6.7%)
First Data (FDC) L+350bp/no floor 1st Lien TL B 2017	Buy	B1/BB-	4.5x	98.750/4.77%	• 2017 term loan trading near lowest level in 2014, yielding 5.04% on swapped basis (offer side); attractive relative to Neutral rated 7.375% 1st lien bonds (2019), yielding 4.45% (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
Gardner Denver (GDI) L+325bp/1.00% 1st Lien TL 2020 & 6.875% Sr Nts 2021	Buy Buy	B1/B Caa1/B-	5.0x 6.3x	98.625/4.51% 101.500/6.51%	• GDI poised to outperform peers, driven by growing demand for Energy related products (~30% revenue exposure); 3Q anticipated to be another exceptional quarter (3QE EBITDA of $125mm, +39% y-o-y) • 6.875% senior notes 5pts below early-September peak, now trades flat to SILIIA 7.75% sr notes (Neutral rated); differential likely to revert to GDI trading tighter owing to strong earnings and superior deleveraging profile • GDI L+325bp TL trades near its lowest level since issuance; solid asset coverage with public equity comps at 10-11x. Buy-rated Accudyne L+300bp TL also attractive. See to GDI (link) and Accudyne (link) initiation reports
Navistar (NAV) L+450bp/1.25% 1st Lien TL B 2017 & 8.250% Sr Nts 2021	Buy Buy	Ba3/B B3/CCC-	NM NA	100.875/5.42% 104.000/6.77%	• 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; September orders outpaced projections; YTD Class-8 SAAR at 330K+ units • $1bn cash balance provides sufficient liquidity cushion • We expect 8.25% notes to remain outstanding until Nov-2015 (call price 102.75), implying 7% IRR for a one-year piece of paper; see link to upgrade • NAV TL has 101 hard call protection in place until 04/02/15

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable.
(1) New four-year contract in Texas for Correction Corp. of America (CCA) should be accretive to 2015 earnings

Credit Views – Chemicals & Homebuilding

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Axiall (AXLL) 4.625% Sr Nts 2021 4.875% Sr Nts 2023	Buy Buy	Ba3/BB Ba3/BB	2.4x 2.4x	98.000/5.00% 97.500/5.24%	• Positives : (1) Low Leverage, (2) Exposure to N. American housing (Building Products sales are split roughly 50/50 between the US & Canada), (3) Raw material advantage from cheap natural gas • We believe underwhelming results post the RMT transaction with PPG's commodity chemicals division (closed Jan-13) increases positive event risk (management change or M&A target)
Hexion (HXN) 8.875% 1.5 Lien Nts 2018 6.625% 1st Lien Nts 2020	Buy Buy	Caa1/CCC B1/CCC+	6.2x 3.4x	102.125/7.84% 102.000/5.99%	• We like the top part of this highly levered capital structure, which is expected to burn cash in next few years due to elevated CAPEX • HXN 1.5 Lien: High coupon/short-dated paper that could be refi target; call price steps down to 102.958 in Feb-15 (currently callable at 104.438) • HXN 1st Lien: Low leverage for 6.3% YTW (Citi HY Chems at ~6% YTW)
Tronox (TROX) L+300bp/1.00% 1st Lien TL B 2020	Buy	Ba2 / BBB-	0.4x/2.8x	99.750/4.05%	• 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 ~$101 for a yield of just 5.93% 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
Beazer (BZH) 5.750% Sr Nts 2019 7.500% Sr Nts 2023	Buy Buy	Caa2/CCC Caa2/CCC	12.3x 12.3x	96.500/6.63% 102.750/6.83%	• **Sector Outlook:** Low mortgage rates & improving economy (48 consecutive months of positive employment growth& unemployment rate < 6%) more than offset headwinds from tighter credit conditions & lack of income growth • Potential refi of short dated high coupon paper a positive catalyst • 5.75% of 2019: 150bp > KBH 19s (Net HB Debt/Cap of 86% vs. 75% for KBH); covenant light bonds are off ~4.5points since end of August; largest issue size in capital structure ($325mm) • 7.50% of 2023: 80 > Citi HY HB index; relatively better covenant package than 2019s offset by lower issue size ($200mm)
Brookfield Residential Properties (BRP) 6.500% Sr Nts 2020 6.125% Sr Nts 2022	Buy Buy	B2/BB- B2/BB-	4.2x 4.2x	104.750/5.22% 101.750/5.76%	• 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 on BRP here • BRP 20s YTM is flat to Neutral-rated KBH 20s (B2/B), which trade at a higher dollar price ($110) and has higher leverage and lower margins • BRP 22s YTW is 30bps > Citi HY HB index; YTM is 900bp > than Neutral-rated DHI 22s (Ba1/BB)

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable.

Credit Views – Consumer Products

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Prestige Brands Inc. (PBH) L+350bp/1% Floor 1st Lien TL B 2021	Buy	B1/BB	3.8x	100.125/4.5%	• Well diversified OTC healthcare company; outsourced business model = strong margins/FCF • Exceptional coverage with ample strategic interest and some OTC brands changing hands ~20x EBITDA; over 7 turns of cushion including bonds and public equity • Acquisitive, but loans offer 50bp MFN protection for life, 6mth soft call; accordion governed by 4x leverage test • Compelling rel val to bonds which pick up only ~50bp versus the curve adjusted yield of 5.7% in the loan, but are ~2x more levered
The ServiceMaster Company (SVMSTR) L+325bp/1.25% Floor 1st Lien TL B 2021 & 8.000% Sr Nts 2020	Buy Buy	B2/B+ Caa1/B-	3.3x 5.2x	98.75/4.5% 107.25/4.1%	• 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; continues to announce accretive tuck-ins (e.g., Canadian pest control acquisition) • Management committed to deleveraging. We are targeting year end leverage in the low 5.0x, and about 3.0x through the banks. We view the 5.7% curve adjusted yield as very attractive • Can issue debt to call bonds in '15; but governed by $450mm or 4.25x leverage; soft call protection for one year; 50bp MFN for life • Notes have over 4% yield to the 2/15 call and positive optionality if they stay out longer with over $3bn equity beneath them.
Freedom Group (GUN) 3rd Lien 7.875% Nts 2020 vs. **Elizabeth Arden (RDEN)** 7.375% Sr Nts 2021	Sell Sell	B3/B- B2*/B+	5.5x 7.9x	97.75/8.4% 88.75/9.8%	• For investors looking to call a bottom in names that have seen protracted selloffs, we note our preference for GUN vs RDEN at recent levels • Both companies face significant headwinds into calendar 2H14 due to difficult industry conditions and bloated channel inventories; although GUN enjoys a bit less seasonality • GUN's challenges largely relate to the industry surge last year, while RDEN's challenges reflect inherent volatility in its business due to a reliance on celebrity fragrances and significant competitive activity • GUN will likely end calendar '14 with trailing EBITDA well over $100mm (vs peak ~$240mm), a level at which it can generate FCF on a normalized basis, while RDEN's could end in the single digits (vs peak ~$150mm)

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable.

Credit Views – Energy

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
EP Energy (EPENEG) L+350bp/1.00% 2nd Lien TL B2 2019 L+275bp/0.75% 2nd Lien TL B3 2018	Buy Buy	Ba3/B+ Ba3/B+	3.3x	101.250/5.07% 98.500/4.78%	• 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
Magnum Hunter Resources (MHR) 9.750% Sr Nts 2020	Buy	Caa1/CCC	5.6x (1)	106.5/7.65%	• We believe that MHR may tender for the Notes in 1Q15 given the high coupon, long time until first call (May 2016), and restrictive covenants (debt incurrence test). Assuming they exercise the equity claw, we estimate a blended tender price of $113.827 to a January 30, 2015 call date • This represents an annualized total return of 31.23% and a return of 9.36% in ~4 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 recently reported stellar well results from their Stewart Winland well, which is one of the largest wells in the region. The company is also making progress on getting air permits from West Virginia, after which the three Marcellus wells will start to flow to sales • Pro forma for the new $50MM RBL and $340MM and Lien term Loan, we think the company has adequate liquidity to fund capital programs. We believe MHR's borrowing base will increase with the addition of Utica and Marcellus reserves at year-end

Source: Citi Research; Pricing Levels as of Oct 6, 2014.

(1) Pro forma for new $50MM Sr. Secured RBL and $340MM Sr. Secured 2nd Lien TL, excludes Eureka Hunter debt.

Credit Views – Healthcare

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Tenet Healthcare (THC) 8.125% Sr Nts 2022	Buy	B3/CCC+	5.9x(1)	113.250/5.91%	• Well positioned in attractive markets to take advantage of ACA related growth. • Strong presence in Medicaid expansion states., currently 5 (AZ, CA, IL, MA and MI) representing 34% of its total beds • Continued growth in outpatient business representing almost a third of top-line • Momentum continues to favor hospitals • Attractive yields relative to the sector
Iasis Healthcare (IAS) L+325bp/1.25% 1st Lien TL B2 2018	Buy	Ba3/B	2.7x	100.250/4.42%	• Highest yielding loan in our coverage universe. • We continue to view the loan as an attractive short-term investment as global refinancing remains main catalyst • Strong asset coverage through secured level • Diversified revenue base particularly with growth in HealthChoice business positions the company to take advantage of longer term ACA related growth.
DaVita Healthcare Partners (DVA) L+275bp/0.75% 1st Lien TL B 2021	Buy	Ba1/BB	1.3x	99.500/3.58%	• Attractive yield relative to leverage • 101 call protection through December 2014 • Strong asset coverage through secured level • Leading market position, stable cash flows and low capex requirements • While the company may look to increase secured leverage should it decide to call its 6.625% senior notes due 2020 (a scenario we view as likely) we believe this has largely been priced in.

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable. (1) Based on $1.889BB 2014E PF EBITDA

Credit Views – Metals & Mining

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Arch Coal (ACI) L+500bp/1.25% 1st Lien TL B 2018	Buy	B1/B+	4.7x	91.000/9.24%	• The Arch term loan is down about 7 pts since beginning of September • Though we expect coal fundamentals to remain challenged, we do think met coal prices should rise on the heels of production cuts that should result in more balanced markets. We expect the PRB to benefit from resolution of rail service issues • We expect EBITDA to rise by more than 40% in 2015 and for leverage through the term loan to fall below 4.0x • We believe the loan has significant asset coverage • Liquidity is solid at $1.2bn
Peabody Energy (BTU) 6.250% Sr Nts 2021	Buy	Ba3/BB-	5.7x	94.000/7.35%	• We think that BTU bonds yielding 7.35% are attractive, as they trade wide of the Citi B index (yielding 6.07%) • BTU is relatively well positioned over the long term given its diversified business portfolio, with operations in the PRB and Australia • Though leverage should rise through the end of 2014, we expect it to decline to 5.3x by the end of 2015 • Liquidity is strong at $2.1bn and the company should be modestly cash flow positive in 2015
AK Steel (AKS) 7.625% Sr Nts 2021	Buy	Caa1/B-	7.1x	98.250/7.95%	• In 2015, we expect leverage to decline and for AKS to generate positive free cash flow as the company benefits from an improving domestic economy, lower capex and reduced pension contributions • We view AK Steel's recent acquisition of Severstal's Dearborn, MI assets positively, as it gives the company improved operational and logistical flexibility. AKS expects to realize $50mm in synergies as a result of the acquisition

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable.

Credit Views – Retail & Gaming

Issue	Rating	Moody's / S&P	Total Leverage	Offer Side Price / YTW	Citi View
Claire's Stores (CLE) 8.875% 2nd Lien Nts 2019	Buy	Caa2 / CCC	7.0x	85.50 / 13.50%	• 2Q results exceeded expectations (especially on SSS, 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
Party City Holdings (PRTY) L+300bp/1.00% 1st Lien TL B 2019	Buy	B2/B	3.6x	98.50 / 4.41%	• Results have been impressive: 2Q net revenues increased 10.2% YoY while EBITDA increased 16.6% given margin expansion and the iParty acquisition. • PRTY is poised to benefit from a deleveraging event, which we believe is possible for PRTY vs. other pending/awaited IPOs in the retail sector
MGM Resorts Int'l (MGM) 6.625% Sr Nts 2021	Buy	B3/B+	6.3x	107.25 / 5.40%	• Numerous development initiatives underway including the MGM National harbor in Maryland, improvements to the Bellagio and re-branding of THEhotel into a Delano, and the Springfield, MA development. • Bonds have widened more than the market over the past month despite the company's deleveraging and cash generation. We prefer these to PNK's 7.75% Sr. Sub Notes (4.9% YTW; Neutral) despite MGM bonds longer duration given its bigger size and scale and exposure to attractive markets.
Boyd Gaming Corp. (BYD) L+300bp/1.00% 1st Lien TL B 2020	Buy	Ba3/BB-	4.0x	98.50 / 4.30%	• 2019 TL trades slightly below par, and remains below prior highs reached in Feb 2014, offering an attractive entry point. • 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 that could save the company upwards of $40mm in annual interest.

Source: Citi Research; Pricing Levels as of Oct 6, 2014. NM = not meaningful; NA = not applicable.

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

Issue	Rating	Moody's / S&P	Net Leverage	Offer Side Price / YTW	Citi View
Advanced Micro Devices (AMD) 7.500% Sr Nts 2022	Buy	B2/B	2.2x	103.125/6.97%	• The bond has sold off 6 points since August 29th • The 7.5% bonds are non-call and could benefit from positive fundamental improvements. The next callable bonds are the 7.75% bonds which are first callable August 1, 2015. The AMD structure provides several investment opportunities for shorter duration opportunities • Fundamentally, we model Y/Y sales & EBITDA improvement in 3Q & 4Q, and 2015 • Catalysts include: gaming console upside, dense server penetration, new business wins. We believe the gaming console market could be stronger in 2014 & 2015 as the market adopts this next generation. We think AMD could win new business as the company expands beyond PCs • PC market challenges remain for the overall market and AMD, but we think that is priced in already • Big one-time payments to GLOBALFOUNDRIES are behind the company
Intelsat (INTEL) 8.125% Lux Nts 2023	Buy	Caa2/B-	7.6x	106.250/6.93%	• Intelsat has a four-year backlog with minimal FX and commodity exposure • Intelsat's high leverage regularly creates bond price volatility when markets weaken. Intelsat has the greatest sales visibility for companies under coverage which gives us fundamental confidence to take advantage of attractive entry points. Bonds sold off four points from the peak in August • Intelsat-30 launch if successful could lead to upward 2015 sales & earnings revisions. We do not believe the satellite's sold-out capacity is factored in • Catalysts: Intelsat plans four additional satellite launches in 2H 2015; debt reduction remains a priority ($500 million in 2014, $300 million in 2015)
6.625% Jax Nts 2022	Buy	Caa1/B-	5.8x	103.750/5.90%	
L+275bp/1.00% floor 1st Lien TL B2 2019	Buy	Ba3/BB	1.4x	99.125/4.01%	
Freescale Semiconductor (FSL) L+325bp/1.00% floor 1st Lien BL B4 2020	Buy	B1/B	4.2x	99.000/4.46%	• Loans have traded down about a point and a half from August highs • Loans trade near the 5% 1st lien bonds due 2021 in price and yield. Swap into loans shortens duration and removes rising Treasury rate risk • Freescale fundamentals are driven by automotive and China mobile communications markets • Fundamentally, we model solid Y/Y EBITDA growth for the next six quarters. Even if growth rates are slowing, we would expect automotive and China mobile communications markets to remain relatively solid • FSL management continues to target leverage below 4x and has indicated they could issue equity to accomplish that goal
L+375bp/1.25% floor 1st Lien TL B5 2021	Buy	B1/B	4.2x	100.375/4.93%	

Source: Citi Research; Pricing Levels as of October 6, 2014.

Appendix A-1

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% of companies in each rating category that are investment banking clients	75%	63%	46%
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% of companies in each rating category that are investment banking clients	71%	79%	65%

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