

**L**ike other segments of Wall Street's credit markets, the private-placement market endured its share of peaks and troughs last year, with issuers, investors and agents vulnerable to the choppiness that marked 2009.

However, market participants in the world of private placements seem upbeat about what 2010 may bring. Some of that optimism hinges on expectations that a wider range of issuers will come to market with deals and that there will be a pickup in merger activity.

Private placements lagged the public market in 2009, but investors came back by mid-year, says a sell-side source who declined to be named.

Traditionally, the private-placement market picks up right after Labor Day, and though some were skeptical about an increase in transaction activity, 2009 seemed to follow that pattern.

If the last three months of 2009 were annualized, private-placement volumes would be at about \$40 billion, according to a source from another sell-side firm who declined to be named. But in reality, the total volume for 2009 was only about \$26 billion.

Last year, the credit market thaw was felt within the private-placement arena and some notable deals were completed.

One of the largest issues to be completed was an offering from Australian packaging company **Amcor Ltd.**

Using **Citigroup** and **JPMorgan** as agents, Amcor raised \$850 million through the sale of a multi-class issue.

The deal was sold in three tranches: a \$275 million seven-year tranche priced at 250 basis points above Treasuries for a 5.38% coupon; a \$300 million nine-year tranche at 250 basis points over Treasuries for a 5.69% coupon; and a 12-year \$275 million tranche priced at 260 basis points over Treasuries for a 5.95% coupon.

Quite a few deals were upsized after being oversubscribed this year, according to market sources. For example, Irish food

company **Kerry Group plc** launched a \$150 million deal but received interest for more than \$1 billion worth of debt.

The food company had **Manor Private Capital** and **RBS Securities** as their agents, and the deal that finally ended up being completed in November totaled \$600 million. U.K.-based beverage company **Britvic plc** also received interest of more than \$1 billion when it launched an issue that initially totaled \$150 million.

Using **Barclays Capital** and **RBS** as its agents, the company raised \$250 million.

Buy-side sources described 2009 as a

This year, observers say, the private-placement market could see less activity if banks step up their lending. Various Federal Reserve surveys of banks have shown that credit remains tight for a wide range of businesses because loan officers remain risk-averse.

In the meantime, dealmakers say the financial crisis has taught senior management at various corporations the merits of diversification when it comes to funding sources. While credit markets reopened last year, more than one company treasurer is sure to remember how many corners of the financial markets simply shut down in the months after the **Lehman Brothers'** bankruptcy.

This year, the type of issuers may change. In 2010, there likely will be a greater number of deals from companies with lower ratings, sources from both the buy side and sell side say.

In 2009, most private placements were done for companies with higher ratings, such as single-A or triple-B plus.

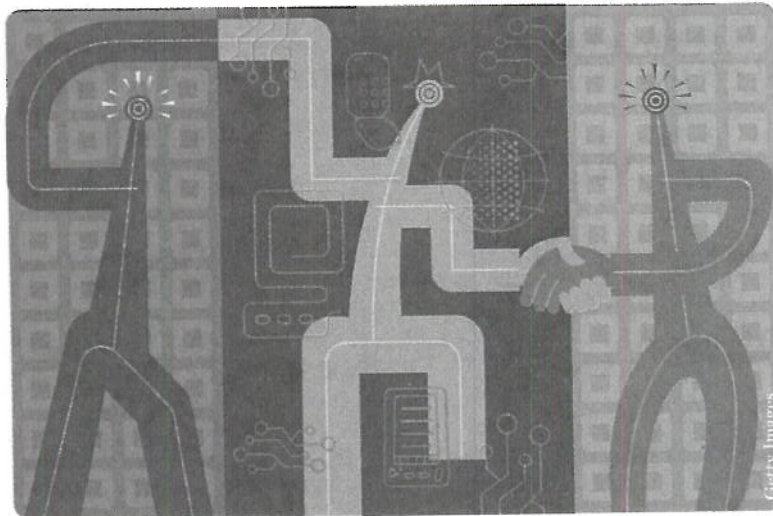
In 2010, there may be a greater appetite for risk, as in companies with triple-B or triple-B minus ratings, but sub-investment-grade companies could still have a hard time tapping this market. Indeed, even before the financial crisis, junk-rated companies turning to the private bond market was rare.

When it comes to new deals, private placements could benefit from an expected pickup in mergers and acquisitions. Last year, M&A fell, but corporate marriages are widely expected to increase in 2010.

Investment bankers broadly expected global M&A to rise some 20% to 30% this year from 2009's estimated \$2.3 trillion to \$2.5 trillion worth of transactions.

To pay for all those purchases, some corporate managers may turn to private placements.

Late last year, **Treehouse Foods** bought **Sturm Foods** for \$660 million, and it's possible Treehouse will turn to the private-placement market to raise funding to finance part of the deal.



year that saw a higher than average rate of amendments and covenant violations. But as the new-issue market picked up, the number of amendments fell, reaching its lowest level of the year in the fourth quarter. This trend is likely to continue into 2010, says a source with a buy-side firm.

According to this investor, the health of the private-placement market in 2010 will depend on two factors. The first is the overall interest rate environment; U.S. rates are low by historic standards but they have climbed from their recent lows. Some firms may have limited appetite for short-term deals with Treasury rates at their current levels, according to dealmakers.

Secondly, the public markets are now attracting issuers that have typically tapped the private markets.

For instance, Australian fertilizer maker **Incitec Pivot** chose a public offering to raise capital as opposed to turning to the private-placement market.