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Moody's High-Yield Covenant Database

Packaging Bond Covenants Offer Below Average Protection

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» **A review of 19 packaging deals reveals that they have weaker than average covenant packages compared to North American non-financial corporate issuers.** The average Covenant Quality (CQ) score for the packaging company bonds was 3.97 on our five-point scale with 1.0 denoting strong covenant protection and 5.0 denoting the weakest protection. This compares with an average of 3.76 for 980 non-financial corporate bonds in Moody's High-Yield Covenant Database. Covenant quality is below the North American average even when controlling for rating category. The sector's weak score reflects the negative impact of seven high-yield lite bonds, partially offset by strong scores for five issues for one issuer, Reynolds Group Holdings.

» **Significant impact of one major issuer highlights risks.** The average CQ score deteriorates significantly when excluding Reynolds, the largest, most acquisitive and most highly levered issuer in the segment. The overall CQ score weakens to 4.38 with significant deterioration in the restricted payments and structural scores offset by a slight improvement in the investments score. Some of the deterioration can be explained by the higher percentage of secured debt in the sample issued by Reynolds, but both the secured and unsecured component scores for the company are stronger across the board.

» **High-yield lite deals concentrated in Ba-rated issuers.** Following the trend in North America, the high-yield lite deals were concentrated in the Ba-rated issuers including Ball Corp, Silgan Holdings, Sealed Air Corp, and Crown Holdings.

» **Weakest covenants relative to North American averages are structural subordination and change of control.** The packaging bonds in the database provide significantly weaker than average protection for structural subordination and change of control with average scores of 3.58 and 3.35 respectively versus North American averages of 2.77 and 3.06. The average scores weaken even further when the Reynolds bonds are excluded.

» **Strongest covenants relative to North American averages are lien subordination and restricted payments.** The packaging bonds in the database provide stronger than average protection for lien subordination and restricted payments with average scores of 2.97 and 3.33 respectively versus North American database averages of 3.73 and 3.45. However, while the lien subordination score remains above average when excluding Reynolds at 3.41, the restricted payments score deteriorates substantially to below average at 4.28.

About Moody's Covenant Quality Database and Covenant Scoring

Moody's High-Yield Covenant Database contains covenant data for more than 1,500 bonds issued globally since January 2010. It includes the key contents of Moody's Covenant Quality Snapshots, which provide pre-sale and post-sale analysis of the strengths and weaknesses of covenant packages, and it adds information such as book runners, private equity sponsors, credit ratings, loss given default and the use of proceeds—about 150 data points in all.

The database includes Moody's Covenant Quality (CQ) Scores, which assess the degree of protection that a bond covenant package offers to investors. We provide an overall CQ score for a covenant package, as well as individual numerical scores that indicate the level of protection in six key risk areas: cash leakage, investments in risky assets, leveraging, liens subordination, structural subordination and event risk (change of control). CQ scores are a weighted average of the scores in these six key risk areas, and they are assigned according to a five-point scale, with CQ1 representing the most protective covenant packages and CQ5 the weakest packages. The scoring range for the six key risk areas is 1.0 (strong) to 5.0 (weakest).

The database and CQ scoring provide the analytical basis for our new Covenant Quality Index, a three-month rolling average of CQ scores with monthly data and commentary tracking trends in covenant protection.

For more details, please see our Covenant Quality Scoring Criteria and Frequently Asked Questions.

Packaging Sector's Covenant Packages are Weaker than North American Average

The North American packaging sector on average offers bond investors slightly weaker covenant protection than the average covenant packages for non-financial corporate issuers. We analyzed 19 packaging deals that were priced between January 2011 and October 2013 from nine packaging manufacturers. All issuers are domiciled in the US except Reynolds (B3 stable), which is domiciled in New Zealand. Reynolds accounted for five of the 19 deals reviewed.

The average CQ score for the 19 packaging company bonds we reviewed was 3.97 on our five-point scale with 1.0 denoting strong covenant protection and 5.0 the weakest protection. This compares with an average of 3.76 for 980 non-financial corporate bonds in Moody's High-Yield Covenant Database.[1]

The sector's weak score reflects a negative effect from seven high-yield lite deals partially offset by five strong scores for one issuer - Reynolds. The packaging sector has a high percentage of high-yield lite deals - approximately 37% compared to approximately 18% in the overall database (see Exhibit 1 below).

[1] All data as of Oct 31, 2013.

EXHIBIT 1

Packaging CQ Scores Versus North American Corporates

	North America	Packaging
Overall CQ score	3.76	3.97
CQ score sxcluding HY-Lite	3.48	3.37
% of HY-Lite deals in the sample	18.3%	36.8%

Source: Moody's High-Yield Covenant Database

Even when controlling for ratings, packaging deals offer lower than average protection as indicated in Exhibit 2. As expected, covenant protection increases for lower-rated bonds.

EXHIBIT 2

CQ Scores by Rating Category

	North America	Packaging
Ba (at issuance)	4.29	4.33
B (at issuance)	3.61	3.79
Caa (at issuance)	3.42	3.65

Source: Moody's High-Yield Covenant Database

The weaker than average scores primarily reflect the strong cash flow of the metal packaging segment, need for consolidation in the fragmented plastic segment and high percentage of rated company sales to more stable food and beverage end markets (about 70%). The weaker than average scores also reflect the level of private equity ownership in the sector.

The metal packaging companies operate in an oligopolistic industry with relatively stable operating margins and a long track record of generating strong free cash flow, which gives investors more comfort in accepting weaker covenant packages. Metal packaging companies also have strong cost pass-through provisions in their contracts, strong liquidity and relatively moderate leverage.

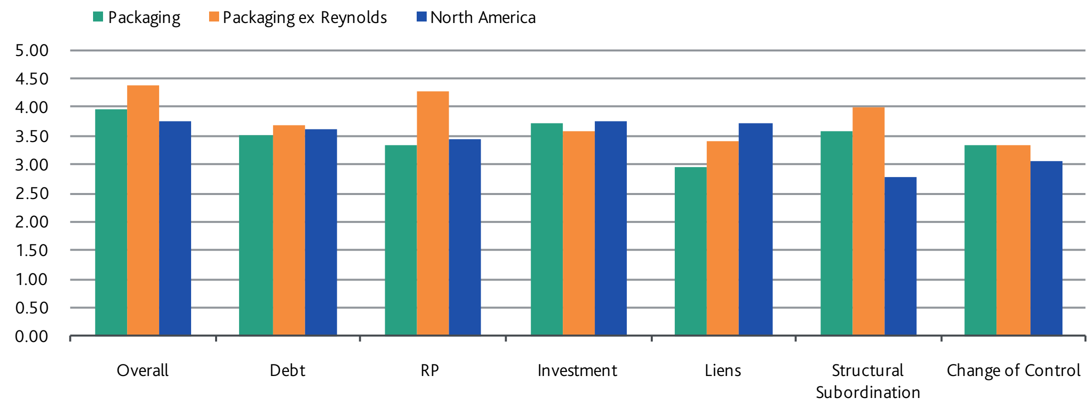
The plastic packaging segment is fragmented and competitive and in need of further consolidation. Plastic packaging manufacturers are significantly smaller than their suppliers and customers and need to increase their scale to improve both negotiating and buying power.

Significant Impact of Reynolds Highlights Risks in Sector

The average packaging CQ score deteriorates significantly when excluding Reynolds to 4.38 from 3.97 compared to the 3.76 North American average as illustrated in Exhibit 3.

EXHIBIT 3

CQ Scores for Packaging Companies Versus North America Corporates



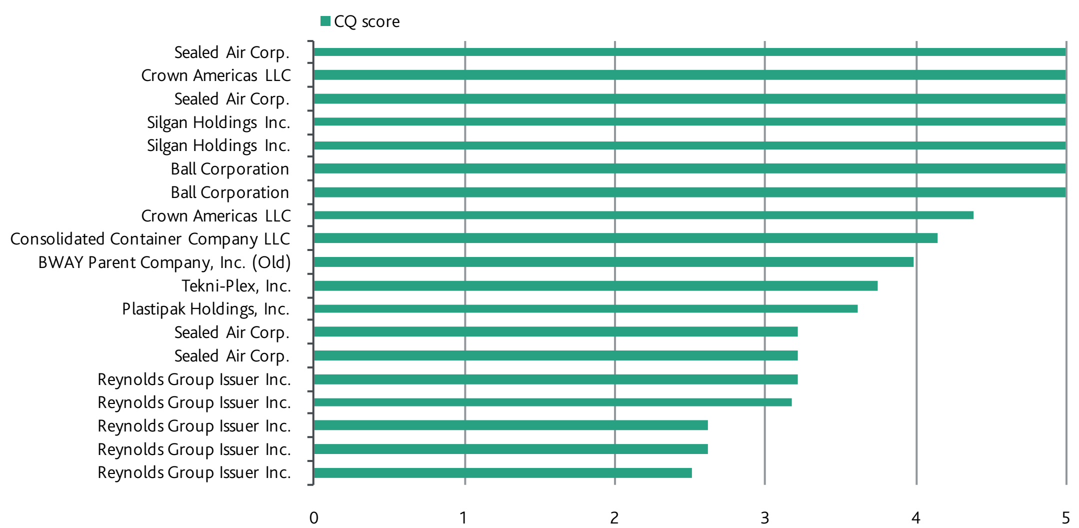
Source: Moody's High-Yield Covenant Database

Secured and unsecured bonds from Reynolds have the strongest CQ scores as illustrated in Exhibit 4. Additionally, Reynolds deals account for five of the 19 deals in the sample. The company is the largest, most highly levered issuer in the packaging sector and accounts for about $17.9 billion of the $48 billion of outstanding debt in the industry as of September 30, 2013. Reynolds' strong covenant protection reflects the company's high leverage (approximately 7.5 times EBITDA including Moody's standard adjustments) and weak free cash flow resulting from its debt financed acquisition spree. In addition, the company is solely owned by financier Graeme Hart.

Notably, the only difference between the component scores for Reynolds secured and unsecured deals is the much stronger scores for liens on the secured notes.

EXHIBIT 4

Packaging Issuers Ranked by Covenant Quality Scores



Source: Moody's High-Yield Covenant Database

High-Yield Lite Deals Concentrated in Ba-Rated Issuers

Following the trend in North America, the high-yield lite deals in the packaging sector were concentrated in the Ba-rated issuers, a sign that investors are comfortable with weaker protection at the higher end of the high-yield rating category.

The high-yield lite deals were issued by three metal packaging manufacturers Ball Corp (Ba1 stable), Crown Holdings (Ba1 stable) and Silgan Holdings (Ba1 stable) and one plastic packaging manufacturer Sealed Air Corp (Ba3 stable).

Packaging Bonds Weaker than Overall Corporate Group in Most Categories

Restricted Payments

The restricted payments covenant limits management's ability to direct excess cash flow to distributions to shareholders. This covenant seeks to limit cash leakage and thus provides some additional accumulation of asset value to support debt servicing. This limits the risk that the enterprise will become undercapitalized. The restricted payments score accounts for 25% of the overall CQ score.

The packaging sample's overall average restricted payments score of 3.33 is slightly stronger than the North American database average of 3.45. The strong score reflects average restricted payment carve outs of 6.8% compared to the North American database average of 7.8%. The strong score also reflects the very low carve outs for Reynolds. However, 46% of the packaging companies in the sample use growth baskets that allow the carve-outs to grow over time compared to 25% for the North American database average.

Excluding Reynolds from the sample, the average restricted payments score deteriorates to 4.28 and average carve outs increase to 11.2%. In addition, half of the packaging companies in the sample excluding Reynolds use growth baskets that allow the carve-outs to grow over time

Notably, the weakest restricted payments score is for a public company - Crown Holdings. The strongest score, excluding Reynolds, is for a private equity-owned firm - BWAY, a subsidiary of BOE Intermediate Holding Corporation.

Crown's weak scores reflect its position in a fairly consolidated segment of the packaging market (metal cans), reasonable leverage and history of strong free cash generation. The strong scores for Reynolds and BWAY reflect higher leverage and financial aggressiveness. BWAY had completed a leveraged buyout with a financing package that included a PIK toggle note. Reynolds had embarked on a series of debt financed acquisitions which increased leverage to over 7.0 times and left the company with very little free cash flow.

Many packaging companies have relatively more stable cash flow due to more stable end markets and contractual cost pass-throughs which allow them to dedicate more cash flow to shareholder initiatives. The rated sector overall generates approximately 70% of sales from food and beverage packaging and passes through volatile raw material costs albeit with a lag.

EXHIBIT 5

Restricted Payments Comparison

	North America	Packaging	Packaging ex Reynolds
RP % of total assets	7.8%	6.8%	11.2%
% using growth RP baskets	25.0%	46.2%	50.0%

Source: Moody's High-Yield Covenant Database

Risky Investments

The investments covenant limits management's ability to direct cash flow to risky investments. Risky investments increase the volatility of a company's asset value, raising the value of levered equity, which benefits from the potential upside returns at the expense of creditors. Thus, management has a natural disposition to pursue risky investments, particularly as leverage increases, in order to maximize shareholder value. This investments score accounts for 10% of the overall CQ score.

The packaging sample's overall average risky investments score of 3.73 is roughly in line with the North American database average of 3.77. The average score reflects total investment carve out as a percentage of assets of 7.1% compared to the North American database average of 8.1%. Additionally, approximately 67% of companies in the packaging sample allow for the reinvestment of asset sale proceeds in any asset, including working capital, rather than just long-term assets versus the North American database average of 65%.

Excluding Reynolds, the packaging sample's average risky investments score improves to 3.57 making it the only score which improves when Reynolds is excluded. The improvement reflects a declinein the reinvestment of asset sale proceeds in any asset to 43% of companies from 67%.

The score is heavily skewed by strong scores for two issues for Sealed Air which were used to finance the company's large acquisition of Diversey, a company in a completely different line of business -. Diversey is a provider of chemical-based cleaning solutions and equipment while Sealed Air manufactures primarily resin-based packaging for food, medical and protective end markets. The debt-financed acquisition resulted in the downgrade of Sealed Air to Ba3 from Baa3.

Reynolds' weak scores reflect its acquisitiveness, leading role as an industry consolidator and focus on acquisitions in the plastic segment. Reynolds' acquisitiveness has been solely focused on plastic packaging companies and the company has publicly stated that it is not interested in acquisitions in any other segment.

Excluding Sealed Air, most scores in the sample are weak reflecting the industry fragmentation, need for consolidation and potential benefits from mergers and acquisitions.

EXHIBIT 6

Risky Investments Comparison

	North America	Packaging	Packaging ex Reynolds
Investment carve-outs % of total assets	8.1%	7.1%	8.4%
% asset sale reinvestment in any asset	65.0%	67.0%	43.0%

Source: Moody's High-Yield Covenant Database

Debt Incurrence

Debt incurrence covenants are intended to reduce the risk of an issuer increasing debt that is not adequately supported by cash flow following the bond issuance. Such additional debt would increase the issuer's financial risk. This risk area accounts for 25% of the overall CQ score.

The packaging sample's overall average debt incurrence score of 3.5 is slightly better than the North American database average of 3.63. The average score reflects total debt carve-outs as a percentage of assets of 17% compared to the North American database average of 26.3%. Additionally, the sample average cushion under the $1 debt incurrence ratio test is 1.37 times adjusted EBITDA compared to the North American database average of 2.4 times.

Excluding Reynolds, the average debt incurrence score deteriorates to 3.68 reflecting an increase in total debt carve outs as a percentage of assets to 23.5%. The deterioration also reflects an increase in the cushion under the debt incurrence ratio test to 2.0 times EBITDA.

Private equity owned Consolidated Container Company LLC had the weakest score in the packaging sample reflecting the high percentage of carve-out and cushion under the fixed charge coverage covenant. Reynolds' strong scores reflect its lower than average carve-outs and less cushion under the $1 debt incurrence ratio test.

EXHIBIT 7

Debt Incurrence Comparison

	North America	Packaging	Packaging ex Reynolds
Debt % of total assets	26.3%	17.0%	23.5%
Average cushion under covenant	2.46x	1.37x	1.99x

Source: Moody's High-Yield Covenant Database

Liens Subordination

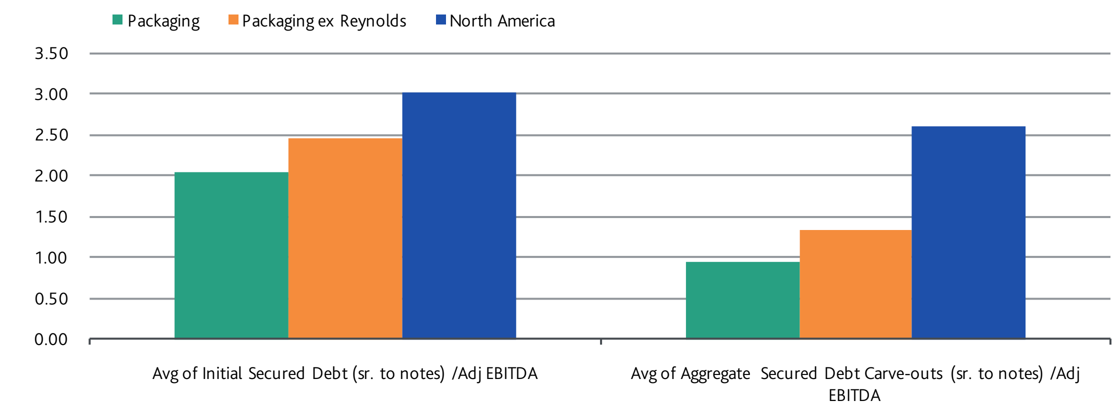
The liens covenant seeks to protect bondholders from the risk of subordination that would result from the issuer obtaining financing secured by collateral ranking senior to any collateral backing existing bonds. This risk area accounts for 20% of the overall CQ score.

The packaging bonds in the sample provide significantly stronger protection for liens than North American database average with an average score of 2.97 compared to the North American database average of 3.73. Secured issues are 21.1% of the packaging sector sample compared to the North American database average of 20.3%. The stronger scores for the sample reflect the lower amount of secured debt that is senior to the bonds at the time of issuance and smaller secured debt carve-outs that are senior to the bonds. The packaging bonds in the sample have an average initial secured debt senior to the bonds of 2.05 times adjusted EBITDA compared to the North American database average of 3.01 times. The packaging bonds in the sample also have average aggregate secured debt carve outs that are senior to the bonds of 0.94 times adjusted EBITDA compared to the North American database average of 2.61 times. The lower levels of initial debt senior to the bonds and secured debt carve-outs which are senior to the bonds provide better collateral coverage for existing issues.

Excluding Reynolds, the liens score deteriorates to 3.41, but remains above the average even though secured issues decline to 7.1% of the total (well below average). Additionally, average initial secured debt senior to the bonds increases to 2.45 times adjusted EBITDA and average aggregate secured debt carve-outs that are senior to the bonds increases to 1.33 times adjusted EBITDA.

EXHIBIT 8

Packaging Bonds Provide Better Protection for Liens



Source: Moody's High-Yield Covenant Database

Secured issues by Reynolds and Tekni-Plex Inc. have the highest liens scores at 1.25 and 2.2 respectively. Their secured position in the capital structure offers more protection to bondholders than the liens covenants on unsecured packaging bonds. Excluding the secured debt, the liens scores in the sample range from 2.50 to 4.75 and the differences are issue specific. For example, Sealed Air's strong 2.50 score reflects its publicly-stated goal of paying down the outstanding term loans and restoring the company's investment grade rating.

Structural Subordination

Structural subordination refers to different avenues by which a company can push bondholders further down in the priority of claims within the capital structure and redirect free cash flow away from bondholders. Protection against structural subordination can be achieved through financial covenants and provisions, for example, a debt incurrence ratio test. In general, weaker structural subordination scores reflect a lack of guarantees from some subsidiaries, the higher percentage of assets and debt held by non-guarantor subsidiaries and the ability of non-guarantor subsidiaries to incur additional debt. This risk area accounts for 10% of the overall CQ score.

The packaging bonds in the database provide significantly weaker than average protection for structural subordination with a sample average score of 3.58 compared to the North American database average of 2.77. The packaging sector's weak overall score primarily reflects the high percentage of non-guarantors that can incur additional debt. Non-guarantors hold 24% of assets compared to the North American average of 26%. However, 100% of issues in the packaging sample allow non-guarantors to incur debt under the $1 debt test compared to the North American database average of 63.3%.

Excluding Reynolds, the structural score for the sample deteriorates to 4.0 reflecting an increase in the percentage of assets held by non-guarantors to 42%. The deterioration reflects an increase in the number of unsecured issues. Secured issues are 7.1% of the sample excluding Reynolds versus 21.1% for the overall packaging sample and 20.3% for the North American database average. Unsecured debt offerings would typically be offered at the holding-company level, or just below at the first level of operations. These unsecured offerings do not typically receive guarantees from all of the operating companies below the issuer. This lack of guarantee would allow for debt to be issued at the operating level that is structurally senior to bondholders' unsecured debt.

EXHIBIT 9

Packaging Bonds Offer Less Protection Against Non-Guarantor Debt

	North America	Packaging	Packaging ex Reynolds
Assets held by non-guarantors	26.4%	42.0%	24.0%
% of non-guarantors that can incur debt	63.3%	100.0%	100.0%
% of secured issues in the sample	20.3%	21.1%	7.1%

Source: Moody's High-Yield Covenant Database

Within our packaging sample, unsecured notes issued by BWAY Parent Company, Inc., a subsidiary of BOE Intermediate Holding Corporation, offered minimal protection against structural subordination, with a score of 5.0. The notes were issued by a holding company of a metal packaging producer and lacked operating company guarantees on the issue date. In addition, BWAY's non-guarantors had the ability to issue debt under the debt incurrence test. Unsecured notes issued by Crown Americas LLC, a subsidiary of Crown Holdings, also had the weakest structural protection score of 5.0. Crown Americas is a domestic subsidiary of Crown Holdings, which has significant assets and debt overseas at non-guarantor subsidiaries.

On the other end of the spectrum, Consolidated Container Company LLC had the best structural subordination protection with a score of 2.25. The notes benefited from subsidiary guarantees, minimal initial structural subordination and a cap on the ability of non-guarantor subsidiaries to incur additional debt.

Change of Control

This covenant attempts to limit event risk arising from a change in ownership due to a sale of the company or sale of substantially all of the company's assets. It provides bondholders with the option to reconsider their investment in the bonds in light of the new ownership or, as is often the case, a more highly leveraged capital structure and more aggressive financing strategy generally. This area accounts for 10% of the overall CQ score.

The packaging issues in the sample had a significantly weaker than average change of control score of 3.35 compared to the North American database average of 3.06. Excluding Reynolds, the score remains the same. The weak score indicates a weaker than average protection against unforeseen corporate change that can alter the issuers' credit profile, such as change in ownership and management due to a merger. The score is based on the number and type of "standard" events that can trigger a change of control put option. The more standard events present, the lower the score and higher the protection for investors.

Among packaging issuers in the sample, the three private equity owned plastic packaging manufacturers Tekni-Plex Inc, BWAY and Consolidated Container Company have the weakest change of control protection scores. The significantly weaker scores for issues of private-equity-owned firms reflect the priorities of their owners, who are motivated to maintain flexibility in their options to exit their investment. The publicly held firms, Sealed Air and Crown Holdings, have higher than average scores reflecting investors desire for protection against a leveraged buyout.

Appendix A: CQ Scores for US Packaging Company Bonds

Issuer	Description	Initial Rating	Overall CQ Score	Debt Score	RP Score	Investments Score	Liens Score	Structural Score	Change of Control Score
Crown Americas LLC	$700m 6.25% Senior Notes due 2021	Ba3	4.38	3.65	5.00	5.00	4.75	5.00	2.7
Reynolds Group Issuer Inc.	$1000m 6.875% Sr. Secured Notes due 2021	Ba3	2.62	3.35	2.00	3.95	1.25	3	3.35
Reynolds Group Issuer Inc.	$1000m 8.25% Sr. Notes due 2021	Caa1	3.18	3.35	2.00	3.95	4.00	3	3.35
Reynolds Group Issuer Inc.	$1500m % Sr. Secured Notes due 2019	Ba3	2.62	3.35	2.00	3.95	1.25	3	3.35
Reynolds Group Issuer Inc.	$500m % Sr. Notes due 2019	Caa1	3.22	3.35	2.00	3.95	4.00	3	3.35
Sealed Air Corp.	$750m 8.125% Sr. Notes due 2019	B1	3.22	3.4	4.10	2.40	2.50	3.75	2.30
Sealed Air Corp.	$750m 8.375% Sr. Notes due 2021	B1	3.22	3.4	4.10	2.40	2.50	3.75	2.30
Ball Corporation	$750m 5% Sr. Notes due 2022	Ba1	5.00						
Ball Corporation	$1000m 4.000% Senior Notes due 2023	Ba1	5.00						
Tekni-Plex, Inc.	$480m 9.75% Senior Secured Notes due 2019	Caa1	3.74	3.70	4.50	4.10	2.20	3.75	5.00
Consolidated Container Company LLC	$250m 10.125% Senior Notes due 2020	Caa1	4.15	4.55	4.05	3.90	4.75	2.25	4.30
Silgan Holdings Inc.	$500m 5% Senior Notes due 2020	Ba2	5.00						
Silgan Holdings Inc.	$300m 5.500% Senior Notes due 2022	Ba2	5.00						
Reynolds Group Issuer Inc.	$3250m 5.75% Senior Secured Notes due 2020	B1	2.51	2.9	2.00	3.95	1.25	3	3.35
BWAY Parent Company, Inc. (Old)	$335m 9.5% Senior PIK Toggle Notes due 2017	Caa1	3.98	3.05	3.80	4.10	4.50	5.00	4.55
Sealed Air Corp.	$425m 6.5% Senior Notes due 2020	B1	5.00						
Crown Americas LLC	$1000m 4.5% Senior Notes due 2023	Ba2	5.00						
Sealed Air Corp.	$425m 5.25% Senior Notes due 2023	B1	5.00						
Plastipak Holdings, Inc.	$375m 6.500% Senior Notes due 2021	Caa1	3.62	4.00	4.40	3.1	2.65	4.50	2.30
Sector			**Overall CQ Score**	**Debt Score**	**RP Score**	**Investments Score**	**Liens Score**	**Structural Score**	**Change of Control Score**
Packaging Average			3.97	3.50	3.33	3.73	2.97	3.58	3.35
Packaging ex Reynolds			4.38	3.68	4.28	3.57	3.41	4.00	3.35
North America			3.76	3.63	3.45	3.77	3.73	2.77	3.06

Source: Moody's High-Yield Covenant Database

Appendix B: US Packaging Bond Carve-Outs

Packaging Bond Carve-outs

Issuer	Description	Overall CQ Score	RP % of total assets	PI % of total assets	Debt % of total assets
Crown Americas LLC	$700m 6.25% Senior Notes due 2021	4.38	16.8%	9.5%	29.0%
Reynolds Group Issuer Inc.	$1000m 6.875% Sr. Secured Notes due 2021	2.62	0.9%	5.3%	8.9%
Reynolds Group Issuer Inc.	$1000m 8.25% Sr. Notes due 2021	3.18	0.9%	5.3%	8.9%
Reynolds Group Issuer Inc.	$1500m % Sr. Secured Notes due 2019	2.62	0.6%	5.3%	7.3%
Reynolds Group Issuer Inc.	$500m % Sr. Notes due 2019	3.22	0.6%	5.3%	7.3%
Sealed Air Corp.	$750m 8.125% Sr. Notes due 2019	3.22	9.6%	2.1%	12.1%
Sealed Air Corp.	$750m 8.375% Sr. Notes due 2021	3.22	9.6%	2.1%	12.1%
Ball Corporation	$750m 5% Sr. Notes due 2022	5.00			
Silgan Holdings Inc.	$500m 5% Senior Notes due 2020	5.00			
Tekni-Plex, Inc.	$480m 9.75% Senior Secured Notes due 2019	3.74	8.8%	14.5%	38.0%
Consolidated Container Company LLC	$250m 10.125% Senior Notes due 2020	4.15	9.8%	6.5%	37.0%
Reynolds Group Issuer Inc.	$3250m 5.75% Senior Secured Notes due 2020	2.51	0.5%	5.3%	7.3%
BWAY Parent Company, Inc. (Old)	$335m 9.5% Senior PIK Toggle Notes due 2017	3.98	6.0%	14.6%	18.4%
Sealed Air Corp.	$425m 6.5% Senior Notes due 2020	5.00			
Crown Americas LLC	$1000m 4.5% Senior Notes due 2023	5.00			
Sealed Air Corp.	$425m 5.25% Senior Notes due 2023	5.00			
Ball Corporation	$1000m 4% Senior Notes due 2023	5.00			
Silgan Holdings Inc.	$300m 5.500% Senior Notes due 2022	5.00			
Plastipak Holdings, Inc.	$375m 6.500% Senior Notes due 2021	3.62	17.7%	9.3%	17.5%
Sector		**Overall CQ Score**	**RP % of total assets**	**PI % of total assets**	**Debt % of total assets**
Packaging Average		3.97	6.8%	7.1%	17.0%
Packaging ex Reynolds		4.37	11.2%	8.4%	23.5%
North America		3.76	7.8%	8.1%	26.3%

Source: Moody's High-Yield Covenant Database

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