WELLS FARGO SECURITIES

Understanding Acquisition Financing in Today's M&A Market

February 12, 2016

Conor Byrne
Director
(704) 410-1048
conor.byrne@wellsfargo.com

Together we'll go far

Select 2015 and YTD2016 Closed Underwritten/Bridge Activity (red denotes M&A Advisory)

Silicon Valley Division

Omnicell

$400 Million Credit Facilities

Sole Lead Arranger & Bookrunner

New York Tri-State Division

ICE

$3.65 Billion Bridge Facility

Joint Lead Arranger & Joint Bookrunner

South Texas Division

Quanex building products

$310 Million Term Loan B

Left Lead Arranger, Left Bookrunner & Admin. Agent

Greater LA Division

dts

$175 Million Credit Facilities

Sole Lead Arranger & Bookrunner

New England Division

Beacon Roofing Supply, Inc.

$700 Million ABL Credit Facility
$450 Million Term Loan B
$300 Million Senior Notes

Left Lead Arranger, Left Bookrunner, Joint Lead Arranger, Joint Bookrunner & Admin. Agent

Southern Ca Coastal Division

On Assignment

$975 Million Credit Facilities

Left Lead Arranger, Left Bookrunner & Admin. Agent

New England Division

Houghton Mifflin Harcourt

$800 Million Term Loan B

Joint Lead Arranger & Joint Bookrunner

Southern Ca Coastal Division

RBC Bearings

$550 Million Credit Facilities

Left Lead Arranger & Bookrunner

Eastern Division

Rite Aid

$1.8 Billion Bridge Facility

Joint Lead Arranger & Sole Bookrunner

Silicon Valley Division

Impax

$485 Million Credit Facilities

Joint Lead Arranger & Joint Bookrunner

Greater LA Metro Division

alorica

$500 Million Credit Facilities

Joint Lead Arranger & Joint Bookrunner

Midwest Division

Regal Beloit

$1.75 Billion Credit Facilities

Joint Lead Arranger & Joint Bookrunner

Underwritten financing, also commonly referred to as "committed" financing, is capital provided by a bank (or group of banks) in event driven situations (i.e. M&A)

Underwritten financing is most commonly utilized when an acqurior does not have sufficient liquidity to execute the purchase of an M&A target, thereby creating a financing uncertainty and increasing M&A execution risk

To eliminate uncertainty, the acquiror can ask banks to commit capital and guarantee certain terms in advance of either (i) the final bid or (ii) closing the acquisition

Committed capital provides certainty of financing to the seller, which reduces execution risk, and significantly mitigates market risk for the buyer

Given the balance sheet risk incurred by banks, underwritten financing normally requires higher fees when compared to uncommitted, best-efforts debt syndications

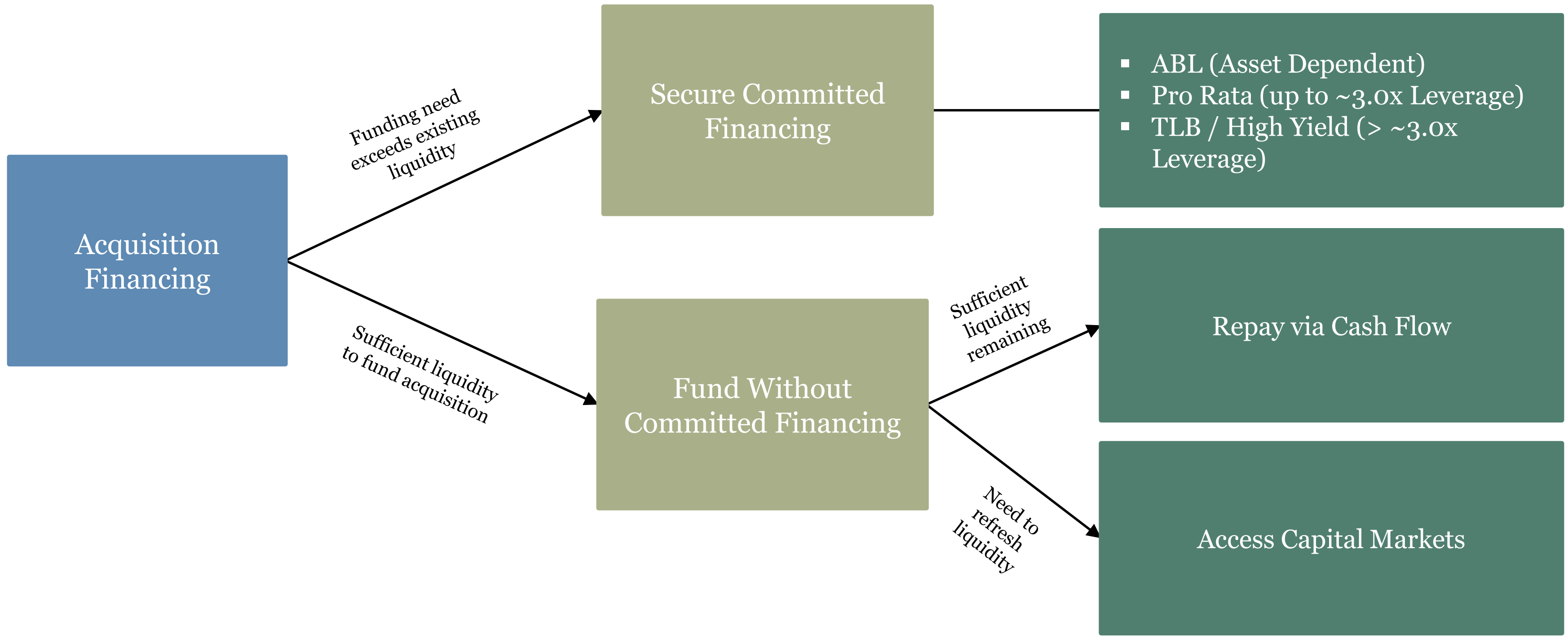
Acquisition Financing: Fully Underwritten vs. Best Efforts Alternatives

- There are two general approaches in consummating the financing related to an acquisition:

	Fully Underwritten Financing	Best Efforts Financing
Description	▪ Utilize a fully underwritten financing commitment to support acquisition needs and refinance existing facilities ▪ Banks would provide a financing letter indicating 100% certainty of closure	▪ Arrange on a best efforts basis financing to support acquisition needs and refinance existing facilities ▪ Banks would provide a financing letter indicating confidence in the ability to deliver full financing amount
Rationale	▪ Maximize certainty of execution for total capital structure ▪ Multiple options for “take-out” ▪ Seller may require committed financing	▪ Certainty of execution decreases; approach acquisition with financing contingencies in case financing cannot be completed at satisfactory terms ▪ Generally utilized by better credits with existing bank group or with other resources available
Financing Considerations	▪ Most expensive strategy in terms of fees, but Company generally assured of financing ▪ Underwriter banks at risk for any upfront fees payable to syndicate banks, beyond an agreed amount ▪ Limited price and structural flex	▪ Least expensive strategy in terms of fees, but Company is at risk for the upfront fees payable to the syndicate banks ▪ Company is at risk that total financing need is not filled out ▪ Unlimited price and structural flex ▪ More sophisticated sellers don’t typically allow financing outs in the current environment

Highest ← **Cost of Capital & Certainty of Financing** → **Lowest**

Acquisition Financing Execution Alternatives



Committed / Underwritten Financing

- ✓ Provides financing certainty to support acquisition
- ✓ Reduces exposure to market volatility
- ✓ Maintains liquidity
- X More expensive relative to fees

Fund With Existing Liquidity

- ✓ Provides easy access to capital at closing of acquisition
- ✓ Cheaper than committed / underwritten financing
- ✓ Utilizes existing bank relationships
- X Reduces liquidity (although temporarily)
- X Remain subject to capital market volatility

Sources of Debt Capital

	Asset-Based (ABL)	Bank Pro Rata	Institutional Term Loan	High Yield Bonds
Amortization	None	Straight-line or step-up amortization for term loans	Minimal (typically 1% per annum with bullet maturity)	None
Tenor	3-5 years	3-5 years	5-7 years	7-10 years
Security	Secured	Secured or unsecured	Secured	Secured or unsecured
Covenants	1; possibly springing based on availability	1-2	Covenant Lite or Total Leverage	Incurrence based
Investors	Banks	Banks	Institutional investors, CLOs, and insurance companies	Mutual funds, insurance companies, ETF's and pension funds
Prepayment Flexibility	Prepayable without penalty	Prepayable without penalty	Generally payable at par	Non-callable for half of the facility life; then declining premiums
Pricing	LIBOR-based	LIBOR-based	LIBOR-based; Floor typical	Fixed Rate
Time to Market	4-6 weeks	4-6 weeks	6-8 weeks	6-8 weeks
Advantages	▪ Favorable execution for companies significant asset value, primarily A/R & inventory ▪ Provides high degree of covenant flexibility at attractive cost ▪ High prepayment flexibility	▪ Favorable execution for companies with bank relationships and higher rated credits ▪ Attractive pricing influenced by relationships and subject to performance grid ▪ More lenient collateral monitoring (if secured) and reporting ▪ High prepayment flexibility	▪ Can provide debt capacity in excess of asset collateral ▪ Flexible covenants and longer duration ▪ Nominal amortization ▪ Generally high prepayment flexibility	▪ Long-term, patient capital ▪ Typically unsecured and increases total debt capacity ▪ Maximum financial flexibility as no maintenance covenants or amortization ▪ Very deep market / broadens investor base
Issues for Consideration	▪ Requires collateral appraisals / monitoring / reporting ▪ Debt capacity tied directly to assets	▪ Maintenance covenants ▪ Term loan amortization ▪ Size / depth of market dependent upon relationships ▪ Return on Capital emphasis makes "ancillary" business important	▪ Higher cost of capital ▪ Ratings required ▪ Pricing driven by ratings and relative value ▪ Debt not held by relationship banks	▪ Higher cost than bank debt ▪ Non-call periods / less prepayment flexibility ▪ Requires ratings / public reporting ▪ Only available to larger companies

If an Underwrite, When Do I Engage With My Lending Sources?

The underwriting and syndication process is structured to work in parallel with a client's M&A process, leveraging overlapping materials and timing events to coordinate and streamline both processes

Due Diligence (2 – 3 weeks)

- Banks perform customary due diligence on the Target in partnership with the client
  - Financial Due Diligence
  - Business / Customer Due Diligence
  - Legal Due Diligence
- Banks can leverage the client's diligence process of the Target
  - Attend Management Presentation
  - Provide list for incorporation with client due diligence list
  - Leverage any 3rd party work completed (i.e. accountants, attorneys, consultants)

Bank Commitment (1 – 2 weeks)

- After satisfactory completion of diligence process, Banks should be prepared to provide committed financing for the acquisition
- Commitment papers to be submitted with final bid and executed in conjunction with Definitive Purchase Agreement to provide certainty of financing

Bank Syndication Process

Marketing Documents (Weeks 1-3)	▪ Preparation of Confidential Information Memorandum ("CIM") and Lender Presentation ("LP")
	  ▪ Bank to circulate a draft of the CIM and LP to client
	  ▪ Bank to finalize CIM and LP after receiving comments / feedback from Company
	▪ Begin drafting Credit Agreement

Bank Meeting (Weeks 4-5)	▪ Screen potential Lenders
	▪ Draft Credit Agreement circulated to the Company
	▪ Set-up bank meeting to allow Lenders to interact with client management
	  ▪ Invite active investors and Company relationship lenders
	  ▪ Post CIM and LP to SyndTrak
	▪ Lender meeting (in New York if inviting institutional investors)

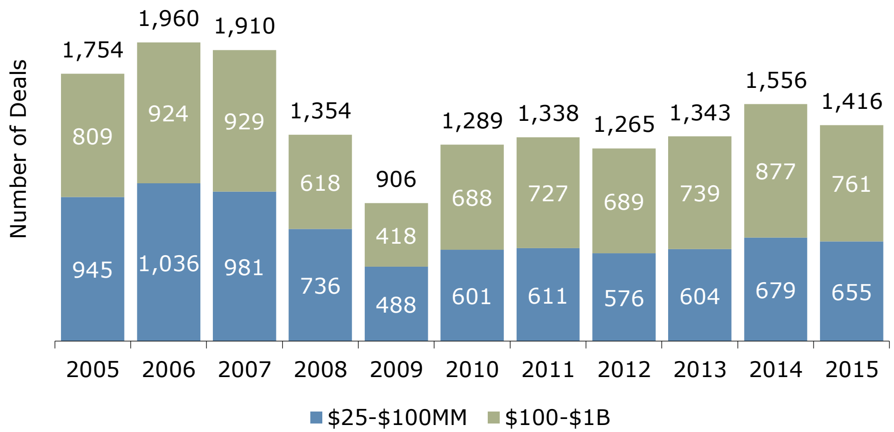
Commitments (Weeks 6-9)	▪ Bank responds to Lender questions ▪ Finalize Credit Agreement ▪ Distribution of loan documentation to lenders ▪ Two week timeframe for commitments
Closing (Weeks 10-11)	▪ Documentation review ▪ Close and fund transaction

Illustrative Execution Timeline: Concurrent M&A and Financing Execution

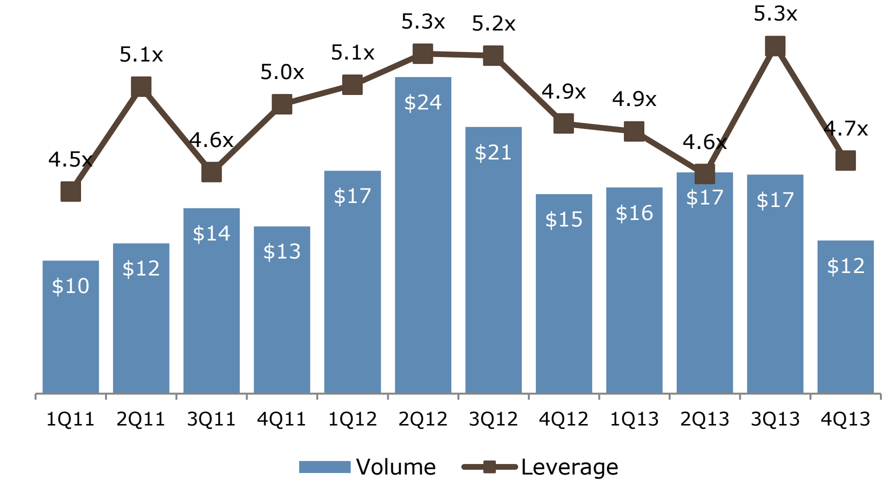
	Financing Events	M&A Events
Management Presentation		
Weeks 1-3	Due Diligence Draft and Finalize Commitment Letter (with Term Sheet) and Fee Letter	Client to Deliver Due Diligence Request to Target Client to Deliver Draft of the Stock Purchase Agreement
Final Bids Due		
Weeks 4-5	Draft Rating Agency Presentation (“RAP”) (as needed) Draft Marketing Materials Schedule Rating Agency meetings (as needed)	Complete Due Diligence Negotiate and Finalize Stock Purchase Agreement
Weeks 6-9	Execute final Commitment Letter and Fee Letter Finalize RAP and Meet with Ratings Agencies (as needed) Receive Final Ratings (as needed) Finalize Marketing Materials Finalize Credit Agreement Lender Meeting	Receive Board approval Execute Stock Purchase Agreement Announce Transaction via Press Release / Form 8-K (as needed) File HSR (as needed)
Weeks 10-11	Finalize Credit Agreement Commitments Due from Lenders Finalize Loan Documentation Close and Fund (in time with acquisition)	Receive HSR approval (as needed) Close Acquisition Announce Closing via Press Release / Form 8-K (as needed)

Middle Market M&A and Financing Markets Failed to Reach 2014 Levels

Number of M&A Transactions



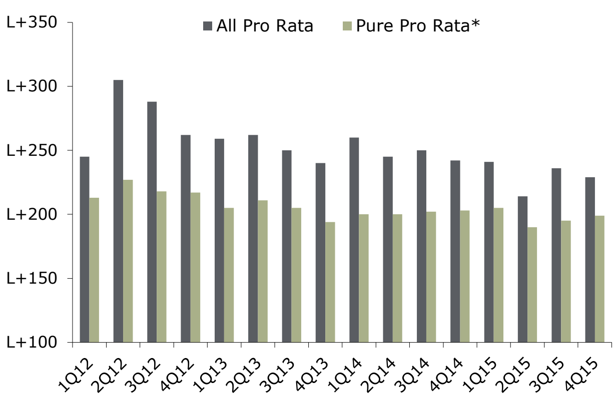
Debt Capital Raised for M&A Deals and Leverage[1]



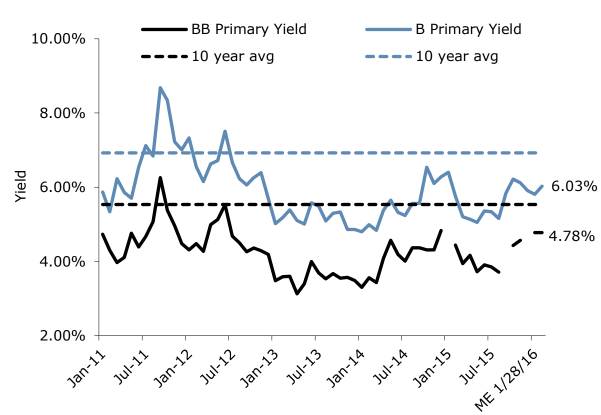
[1]Debt capital raised for companies with less than $150 million in EBITDA

Interest Rates Remain Below Multi-Year Averages

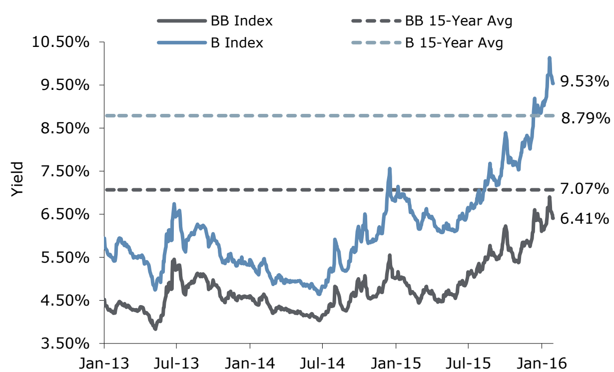
Pro Rata Bank Market



Institutional Market



High Yield Market



Note: Breaks represent lack of meaningful data points
Source: Wells Fargo Securities, S&P/LCD, BofA Merrill Lynch Global Index System, ThomsonOne

Appendix

Standard Underwritten Financing Mechanics

	Loan	HY Bridge / Bonds
Commitment Fee	• Not applicable to underwritten loans	• Fee paid to underwriter to commit to High Yield bridge • TBD % of commitment paid at signing
Arranger/ Underwriting Fee	• Fee paid to arranger to underwrite and syndicate the loan transaction • TBD % of total loan payable upon closing	• Fee paid to underwriter to syndicate takeout bond offering (a.k.a. Gross Spread) • TBD % of bond offering payable at closing
Maturity	• Life of the anticipated permanent loan • Revolver / Term Loan A – 5 years • Term Loan B – 6/7 years	• Bridge: 1 year from closing • Exchange/High Yield Notes: Life of anticipated permanent security
Ticking Fees	• Compensates underwriter for unfunded commitment between signing and closing • Varies based on length of commitment tail	• Compensates underwriter for unfunded commitment between signing and closing • Varies based on length of commitment tail
Pricing Flex/ High Yield Rate Caps	• Amount by which Arranger can increase yield (LIBOR spread / floor and OID) to achieve successful syndication • Typically constructed with a nominal rate cap or index-based mechanism	• Amount by which underwriter can increase bond coupon to achieve successful offering • Typically constructed with a nominal rate cap or index-based mechanism
Structural Flex	• Ability of underwriter to adjust loan structure to make it more attractive to banks / investors • Typically covers amortization, maturity, increasing up-front fees and ability to shift predetermined amount to a form of junior capital	• Ability of underwriter to adjust bond structure to make it more attractive to investors • Ability to shift execution to alternative structures or markets within the applicable rate cap limitations
Funding/ Takedown Fee	• Not applicable to underwritten loans	• Fee paid to underwriter if bridge must be funded by underwriters (i.e. cannot be sold to High Yield investors) • TBD % of commitment paid upon funding
Initial Rate	• Not applicable to underwritten loans	• Interest rate that bridge loan accrues once funded • TBD floating rate with periodic escalators through maturity up to rate cap
Rollover Fee	• Not applicable to underwritten loans	• Fee paid to underwriter upon bridge maturity and rollover into extended loans/exchange notes (typically same as underwriting fee/gross spread) • TBD % of commitment paid upon rollover