

## Anatomy of a Loan Transaction



April 26, 2016



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# What? Overview of a Syndicated Loan

## Section I

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# What is a loan syndication?

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- A loan syndication is a process as much as a product.
  - It is a facility provided to a Borrower by more than one lender or group of lenders under the terms of a single document.
  - The credit facility is structured, arranged and managed by one or several commercial or investment banks known as the Lead Arranger or Agent.
  - The Lead Arranger facilitates a financing by bringing together, and negotiating on behalf of, the banks and the client.
  
- The client pays the Lead Arranger a fee for this service and this fee is determined based on the following:
  - Size of financing
  - Complexity
  - Underwritten vs. Arranged
  - Risk rating of Borrower
  
- After closing, the Administrative Agent administers the financing.



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# How? The Loan Syndication Process

## Section II

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# Preliminary Stage & Selecting a Lead Arranger

Week of:      Event:

## Preliminary Stage

- There is an opportunity for a Borrower to access capital via the syndicated loan market  
*Possible situations include: more than one bank is currently providing multiple credit facilities to a Borrower, financing needs exceed an individual lender's capacity, a major acquisition requires new capital, the spin-off of a major division or subsidiary would require separate financing or a recapitalization*
- Lenders begin to conduct due diligence and work with the Borrower to determine the appropriate financing structure
- **The Borrower selects a Lead Arranger based on the proposed financing structure and the Lead Arranger's distribution strategy and capabilities**
- Lead Arranger continues to conduct due diligence and sends the Borrower a list of due diligence requests

Choosing a partner & capital provider should involve important considerations that go beyond the proposed terms and conditions

*Selecting a Lead Arranger*

1. Stability of the financial institution
2. Company is an important and high profile client for the Bank
3. Understands Company's business merits and business strategy
4. Prompt decision making and the Company has access to key decision makers
5. Trusted partner who looks out for the best interest of the Company



# Distribution Strategy

Week of:      Event:

Week 1  
(cont'd)

- Lead Arranger and the Borrower discuss which lenders to approach to create the optimal lender group and finalize a distribution strategy

Week 2

- Lead Arranger contacts potential lenders and invites them to the Lenders' Meeting
- Lead Arranger distributes the Term Sheet and the Financial Projection Model to potential lenders to gauge preliminary interest
- Lead Arranger continues to draft the CIM
- Lead Arranger's counsel begins drafting the Credit Agreement

*Lead Arranger manages documentation / negotiation with the Borrower, Borrower's Counsel and the Lead Arranger's Counsel*

(\$ in millions)

	Lenders	Existing Allocation	# Invited	Targeted Commitment
Existing Lenders	Lead Arranger	\$80		\$100
	Lender 1	\$80		\$100
	Lender 2	\$50	6	\$35
	Lender 3	\$50		\$50
	Lender 4	\$50		\$50
	Lender 5	\$25		\$35
New Lenders	Lender 6		4	\$50
	Lender 7			\$45
	Lender 8			\$45
	Lender 9			\$35
<b>TOTAL</b>		<b>\$335</b>	<b>10</b>	<b>\$545</b>

- Leverage titles and fees to encourage lenders to commit to the credit facility
- Lender titles include:
  - Administrative Agent (functional title, usually the Lead Arranger)
  - Syndication Agent (generally a non-functional title)
  - Documentation Agent (generally a non-functional title)
- Can also have multiple Joint Lead Arrangers

# Borrower Considerations for Potential Lenders

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- The Lead Arranger works with the Borrower to identify financial institutions to participate in the credit facility and provide the client with an optimal bank group to service the Company.
- Borrower considerations for identifying a potential lender are:
  - Relationship History: Lender’s calling effort on the Borrower, current or potential ancillary business, lender’s institutional knowledge of the Borrower
  - Balance Sheet Strength: Lender’s ability to commit capital and the stability of the financial institution
  - Credit Approval Track Record: Lender’s comfort with the Borrower’s industry and history of supporting both new and existing relationships
  - Market Presence: Lender’s geographic locations and targeted coverage areas
  - Capabilities and Product Offerings: Lender’s treasury management capabilities, alternative capital raising capabilities, industry specialization and international presence

# Lender Participation Considerations

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- **Lenders evaluate their participation and level of capital commitment to a Borrower based on the following considerations:**
  - Borrower's Credit Profile: Credit rating based on several factors including: profitability, cash flow, leverage, industry outlook, liquidity
  - Credit Facility Structure: Covenants, collateral, tenor
  - Bank / Client Relationship: History with the Borrower, ability to cross sell (e.g., treasury management, wealth management etc.), access to key decision maker on the management team, geographic proximity to the Borrower and industry verticals
  - Profit Model: Tenor, pricing, risk rating, outstandings, etc.
  - Title/Role: Credit agreement title, Joint Lead Arranger fee potential
  - General Market Trends: Overall bank appetite, high yield and equity markets volatility and default rates
  - Regulatory Constraints: Leverage lending guidelines and Basel

# Lenders' Meeting Overview

Week of:      Event:

**Week 2**      **Lead Arranger begins drafting the Lenders' Meeting presentation**  
 (cont'd)

**Week 3**      **Initial draft of the Credit Agreement sent to the Lead Arranger for review**  
*The Lead Arranger's counsel uses a standard form for a syndicated credit facility and incorporates the agreed upon terms from the Term Sheet*

▪ Lead Arranger and the Borrower finalize the CIM & Lenders' Meeting presentation and distribute to lenders

**Week 4**      **Lenders' Meeting**

▪ Lead Arranger invites potential lenders to a meeting / conference call which typically lasts 1 - 2 hours. This meeting provides an opportunity for potential lenders to meet the management team and learn about the Borrower's history, strategy, financial performance and the proposed credit facility.

## Borrower Presentation:

- Transaction Overview
- Company Overview
- Business Strategy
- Financial Overview

## Lead Arranger Presentation:

- Credit Facility Overview
- Transaction Economics
- Timeline
- Q & A

**Company Overview**

- Founded April 14, 1990
- Heritage & Culture For:
  - Innovation and Self-Perfom as the Means of Cost Competitiveness
  - Quality of Product and Services
  - Financial Strength
  - Technical Capability
  - Safety Leadership
  - Broad Geographic Operations
- Specialized in complex since 1990
  - Thousands constructed and finished reservoirs

**Business Strategy**

- Establish a network of operating districts focused on complex projects:
  - Structures
  - Water intake works
  - Military infrastructure
  - Manufacture of components for these projects
- COMPLEX issues:
  - Advanced engineering (three dimensional)

**Financial Overview**

	2011	2012	2013	2014
<b>Revenue (Million)</b>				
Total Revenue	\$ 248.0	\$ 243.0	\$ 248.0	\$ 248.0
Cost of Revenue	\$ 188.0	\$ 188.0	\$ 188.0	\$ 188.0
Gross Profit	\$ 60.0	\$ 55.0	\$ 60.0	\$ 60.0
Operating Expenses	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
Operating Income	\$ 20.0	\$ 15.0	\$ 20.0	\$ 20.0
Other Income (Expense)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Income Tax Expense	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0
Net Income	\$ 18.0	\$ 13.0	\$ 18.0	\$ 18.0
Other	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>Adjusted Earnings</b>				
Adjusted Earnings	\$ 18.0	\$ 13.0	\$ 18.0	\$ 18.0
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Other	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0

**Summary of Terms and Conditions**

- Borrower:** Company A (the "Company" or the "Borrower")
- Securities:** All existing and acquired domestic subsidiaries
- Joint Lead Arranger:** PNC Capital Markets LLC
- Administrative Agent:** PNC Bank, National Association
- Credit Facility:** \$400,000,000
- Term:** 360 days
- Maturity:** March 25, 2015
- Term Loan Amortization:** 1% per year
- Letters of Credit:** \$25,000,000
- Swing Loans:** \$25,000,000
- Advance Commitment:** \$25,000,000
- Interest Option:** \$50,000,000
- Collateral:** Secured

**Syndication Timeline**

March 2014

Week	M	T	W	T	F	S	S
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**Questions & Answers**

# Commitments, Closing & Funding

Week of:	Event:
Week 4 (cont'd)	<ul style="list-style-type: none"> <li>Draft of the Credit Agreement is sent to the Borrower for review</li> <li>Lead Arranger and the Borrower negotiate the Credit Agreement</li> </ul>
Week 5	<ul style="list-style-type: none"> <li>Lead Arranger and the Borrower respond to due diligence questions from lenders</li> </ul> <p><i>Lead Arranger manages due diligence process with the lenders and follows up with lenders to answer any questions after the Lenders' Meeting as they go through their credit approval process</i></p> <ul style="list-style-type: none"> <li>Lead Arranger and the Borrower finalize the Credit Agreement</li> </ul>
Week 6	<ul style="list-style-type: none"> <li>Lead Arranger and the Borrower continue to respond to due diligence questions from lenders</li> <li>Lenders prepare credit write-ups and conduct committee decisions at their respective institutions</li> </ul>
Week 7 - 8	<ul style="list-style-type: none"> <li>Lender commitments are due</li> </ul> <p><i>Commitments are typically due two weeks from the Lenders' Meeting to allow lenders sufficient time to complete their respective adjudication processes</i></p> <ul style="list-style-type: none"> <li>Lead Arranger announces the final allocations to the credit facility</li> </ul> <p><i>Lead Arranger works with the Borrower to determine the appropriate allocations if the Lead Arranger raises more than the targeted amount (i.e., the credit facility is oversubscribed)</i></p> <ul style="list-style-type: none"> <li>Lead Arranger distributes the Credit Agreement to all lenders via an online distribution website</li> <li>Lenders provide comments to the Credit Agreement</li> <li>Signature pages due from lenders</li> <li>Closing and funding</li> </ul> <p><i>The Lead Arranger facilitates a transfer of funds on the Borrower's behalf to close and fund the facility</i></p>

*Note: This timeline can be adjusted or expedited based on situational circumstances.*



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# Why? The Benefits of a Syndicated Loan

## Section III

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# Advantages of Syndicated Loans

<b>Agent Expertise</b>	<ul style="list-style-type: none"><li>▪ Lead Arranger is capable and experienced at raising capital and acts as the primary interface with the Company</li><li>▪ Lead Arranger facilitates the financing by working with the Borrower to select potential lending partners and subsequently manages all interactions with the lenders</li></ul>
<b>Negotiation &amp; Documentation</b>	<ul style="list-style-type: none"><li>▪ Lead Arranger develops a term sheet that provides the best deal for the Borrower and maximizes the chances of success in the market</li><li>▪ Lead Arranger negotiates with lenders on the Borrower's behalf</li><li>▪ Lead Arranger facilitates any amendment or waiver on the Borrower's behalf</li><li>▪ Syndicated loan structure is drafted under one single credit agreement using a standard document</li></ul>
<b>Develop Lender Relationships</b>	<ul style="list-style-type: none"><li>▪ Syndicated loans provide access to funds significantly exceeding the capacity that any individual lender can offer and optimizes access to additional capital to support future growth needs</li><li>▪ Banks are more comfortable with a syndicated deal from a credit perspective and willing to provide more flexible terms due to:<ul style="list-style-type: none"><li>– Pro Rata Risk Sharing</li><li>– Pro Rata Profitability</li><li>– Pro Rata Receipt of Proceeds</li><li>– Pro Rata Collateral Interests</li><li>– Common Legal Obligations</li><li>– Common Events of Default</li><li>– Mutually Agreed Upon Amendments</li><li>– No Advantaged Positions</li></ul></li><li>▪ A diverse lender group can also provide access to additional services including non-credit products, capital markets expertise and other financial solutions</li></ul>
<b>Administration</b>	<ul style="list-style-type: none"><li>▪ Lead Arranger manages the day-to-day funding activity and utilizes state-of-the-art technology including a web-based distribution portal to increase efficiency and minimize costs</li></ul>



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# When? Types of Syndicated Deals & the Cost

## Section IV

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# Types of Syndicated Deals

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## **Underwritten Option**

- The Lead Arranger guarantees that the entire amount of the requested credit facility will be available at closing. The Lead Arranger may syndicate all or a portion of the credit facility amount prior to closing.
- Underwriting risks include: the adequacy of pricing and structure and event/market risk. The Lead Arranger can mitigate this risk by the inclusion of “flex language” which allows the Lead Arranger to modify specific terms of the credit facility after launching the transaction.
- Borrowers typically need an underwriting when timing is critical or as a competitive tool to win an acquisition mandate.

## **Arranged (Best-Efforts) Option**

- In a best-efforts transaction, the Lead Arranger only commits to a portion of the credit facility.
- The transaction is then marketed to other lenders to raise the remaining commitments. If the full amount of the financing is not raised, the Lead Arranger is not obligated to close on the full amount of the requested financing.

**Key Considerations: Fees, Requirement for Certainty of Dollars and “Market Flex” language**

# Cost to Borrower Based on Deal Type

## Recurring Costs

**Drawn Margin**

Actual interest rate charged on direct borrowings, typically quoted as basis points over LIBOR. Borrowers will have a Base Rate or Prime Rate option.

**Commitment Fee**

Actual interest rate charged on unused borrowings. Quoted in basis points.

**Administrative Agent's Fee**

Annual fee paid to the Administrative Agent to cover the costs associated with the administration of the credit facility.

## One Time Costs

**Underwritten Deal**

**Underwriting Fee**

One-time fee payable to the Lead Arranger to provide the total amount of the credit facility at closing (in lieu of the Closing and Arrangement fees).

**Arranged Deal**

**Arrangement Fee**

One-time fee payable to the Lead Arranger for structuring, documenting and distributing the credit facility.

**Closing Fee**

One-time fee payable to the lender group at closing based on final allocations.



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# What to Expect from the Loan Market Today

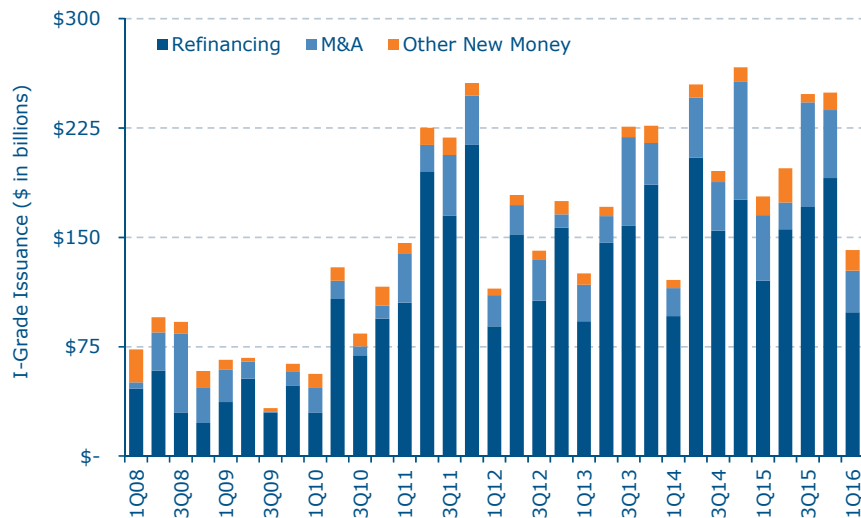
## Section V

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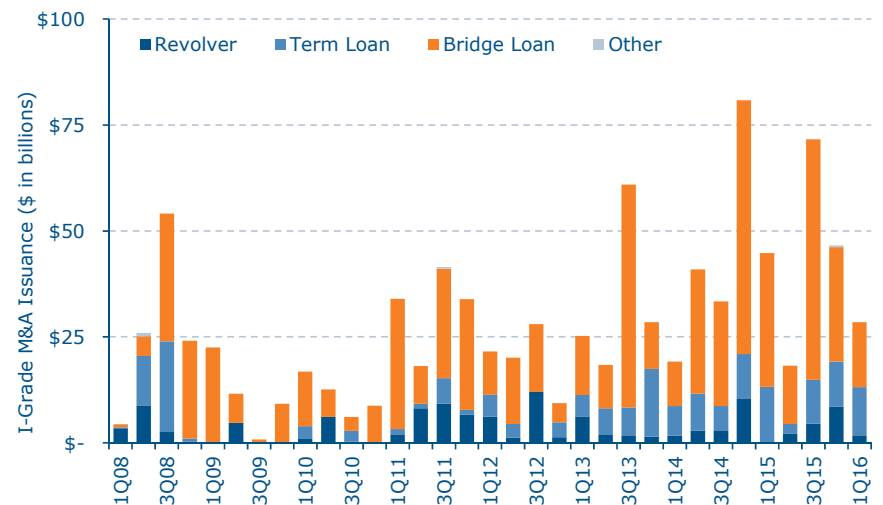
# Market Slow Down Impacts I-Grade Issuance

- Investment grade (“I-Grade”) loan issuance saw a steep decline in the first quarter of 2016, down 21% year-over-year and 43% compared to the fourth quarter of 2015, reaching a two-year low of \$141 billion for the quarter.
- The reduction in I-Grade lending was driven by a 48% decline in refinancings which fell from \$191 billion in 4Q15 to \$99 billion in 1Q16 and a 39% decline in M&A lending which fell from \$47 billion in 4Q15 to \$28 billion in 1Q16.
  - Two bridge loan financings accounted for \$11.4 billion or approximately 40% of M&A volume in 1Q16: Abbot Labs’ \$9 billion bridge backing its acquisition of Alere Inc. and Sysco Corporation’s \$2 billion backing its acquisition of Brakes Group.
- Despite a slow down in 1Q16, 30% of investment grade issuance represented new money, roughly on par with 1Q15.
- Overall, volatility in the capital markets impacted sentiment in the I-Grade loan market which resulted in slowing demand and increased selectivity on the part of investors.

## I-Grade Loan Issuance Declines



## M&A Lending Underwhelms

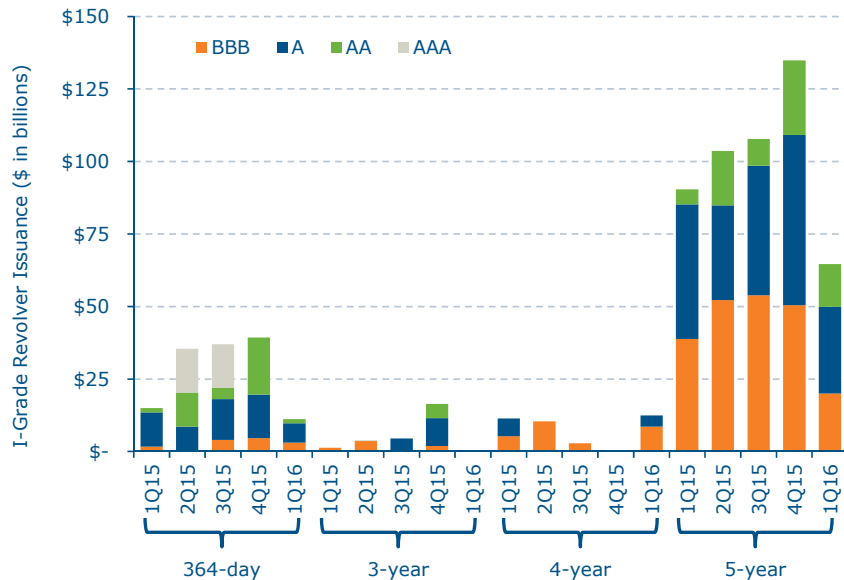


Source: Loan Pricing Corporation

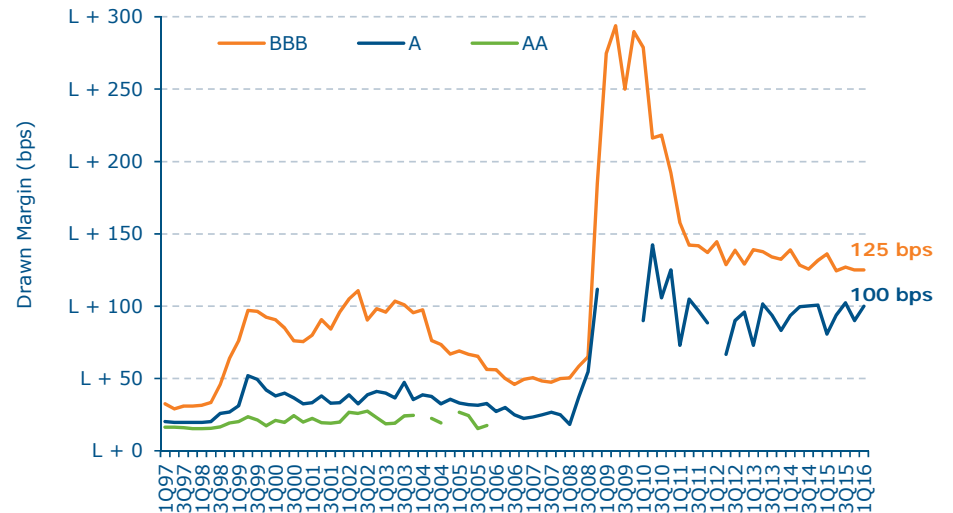
# I-Grade Tenors and Pricing Remain Stable

- Five-year tenors continue to dominate I-Grade revolver issuance, comprising 47% of I-Grade revolvers in 1Q16.
  - Lenders indicate that there may be more pressure to shorten tenors in 2016, though five-year tenors are expected to remain the market norm.
- Despite lenders' focus on returns, I-Grade pricing remained stable in 1Q16.
- 82% of lenders believe I-Grade pricing will remain stable in 2Q16, however, lenders expect that banks' increased cost of funds resulting from ongoing Basel adoption will continue to put pressure on returns.
- With I-Grade lenders increasingly focused on ancillary business and profitability of the overall relationship, issuers can expect some volatility in bank groups as lenders strategically exit select relationships while stepping up for core clients.

## 5-Year Revolver Tenors Continue to Dominate the Market



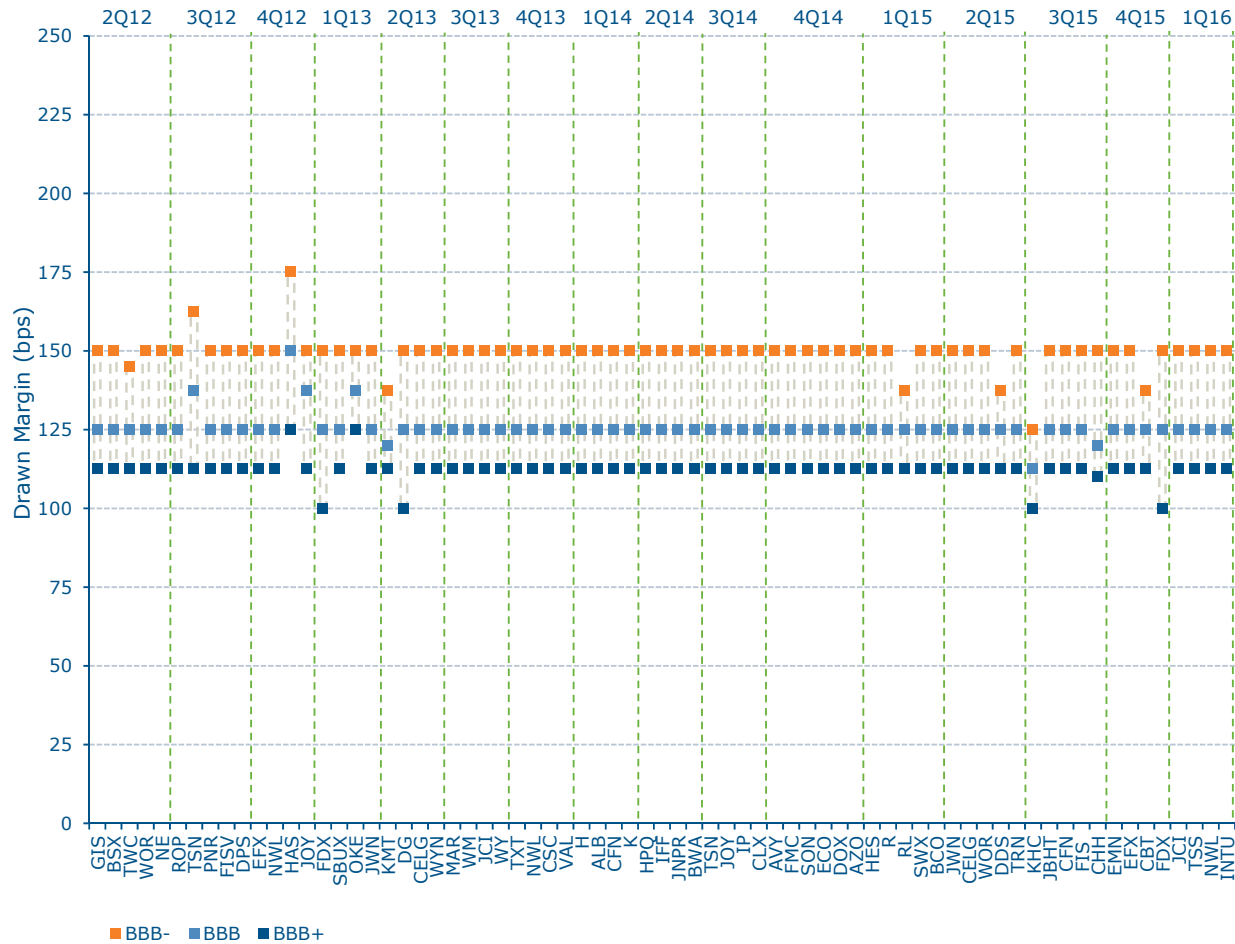
## Investment Grade Pricing Remains Stable



Source: Loan Pricing Corporation

# Investment Grade Drawn Pricing Remains Stable

## Investment Grade Multi-Year Revolver Pricing Comparables

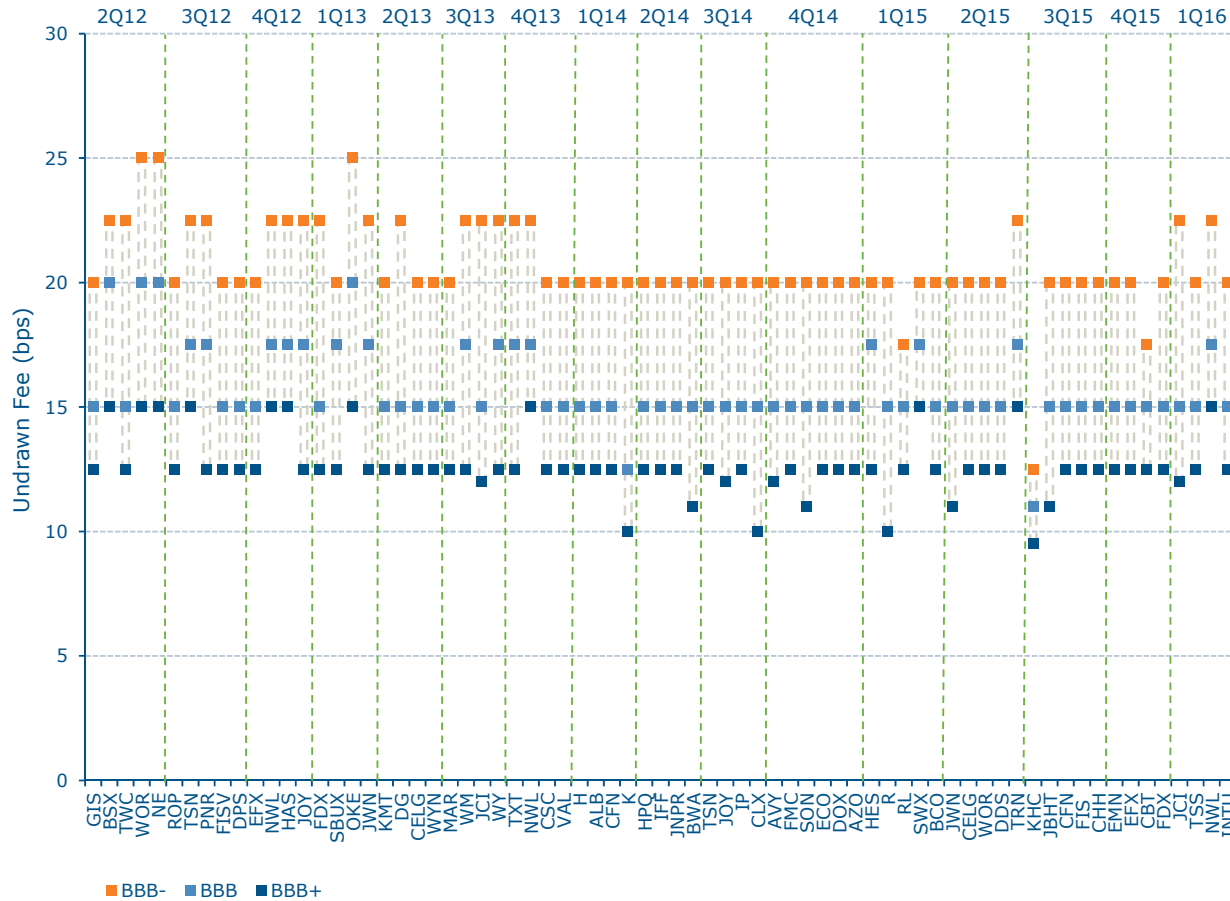


<b>2 Q 12</b>	GIS - General Mills BSX - Boston Scientific TWC - Time Warner Cable WOR - Worthington Industries NE - Noble Corp.	<b>2 Q 14</b>	HPQ - Hewlett-Packard IFF - Int'l Flavors & Fragrances JNPR - Juniper Networks, Inc. BWA - BorgWarner Inc.
<b>3 Q 12</b>	ROP - Roper Industries TSN - Tyson Foods PNR - Pentair Inc. FISV - Fiserv, Inc. DPS - Dr. Pepper Snapple	<b>3 Q 14</b>	TSN - Tyson Foods Inc. JOY - Joy Global IP - International Paper CLX - Clorox Co.
<b>4 Q 12</b>	EFX - Equifax Inc. NWL - Newell Rubbermaid HAS - Hasbro Inc. JOY - Joy Global	<b>4 Q 14</b>	AVY - Avery Dennison Corp. FMC - FMC Corp. SON - Sonoco Products ECO - Ecolab Inc. DOX - Amdocs Limited AZO - Autozone Inc.
<b>1 Q 13</b>	FDX - FedEx Corp. SBUX - Starbucks Corp. OKE - ONEOK, Inc. JWN - Nordstrom, Inc.	<b>1 Q 15</b>	HES - Hess Corp. R - Ryder System Inc. RL - Ralph Lauren Corp SWX - Southwest Gas Corp BCO - The Brink's Company
<b>2 Q 13</b>	KMT - Kennametal Inc. DG - Dollar General Corp. CELG - Celgene Corp. WYN - Wyndham Worldwide	<b>2 Q 15</b>	JWN - Nordstrom, Inc. CELG - Celgene Corp. WOR - Worthington Industries, Inc. DDS - Dillard's, Inc. TRN - Trinity Industries, Inc.
<b>3 Q 13</b>	MAR - Marriott Int'l WM - Waste Management JCI - Johnson Controls WY - Weyerhaeuser Co.	<b>3 Q 15</b>	KHC - The Kraft Heinz Company JBHT - J.B. Hunt Transport, Inc. FIS - Fidelity Ntl Info. Services CHH - Choice Hotels Int'l
<b>4 Q 13</b>	TXT - Textron NWL - Newell Rubbermaid CSC - Computer Sciences Corp. VAL - Valspar	<b>4 Q 15</b>	EMN - Eastman Chemical Corp. EFX - Equifax CBT - Cabot Corp. FDX - FedEx Corp.
<b>1 Q 14</b>	H - Hyatt Hotels ALB - Albemarle Corp. CFN - Care Fusion Corp K - Kellogg	<b>1 Q 16</b>	JCI - Johnson Controls Inc. TSS - Total System Services Inc NWL - Newell Rubbermaid Inc. INTU - Intuit Inc.

Source: Loan Pricing Corporation, SEC Filings

# Investment Grade Undrawn Fees Remains Stable

## Investment Grade Multi-Year Revolver Pricing Comparables

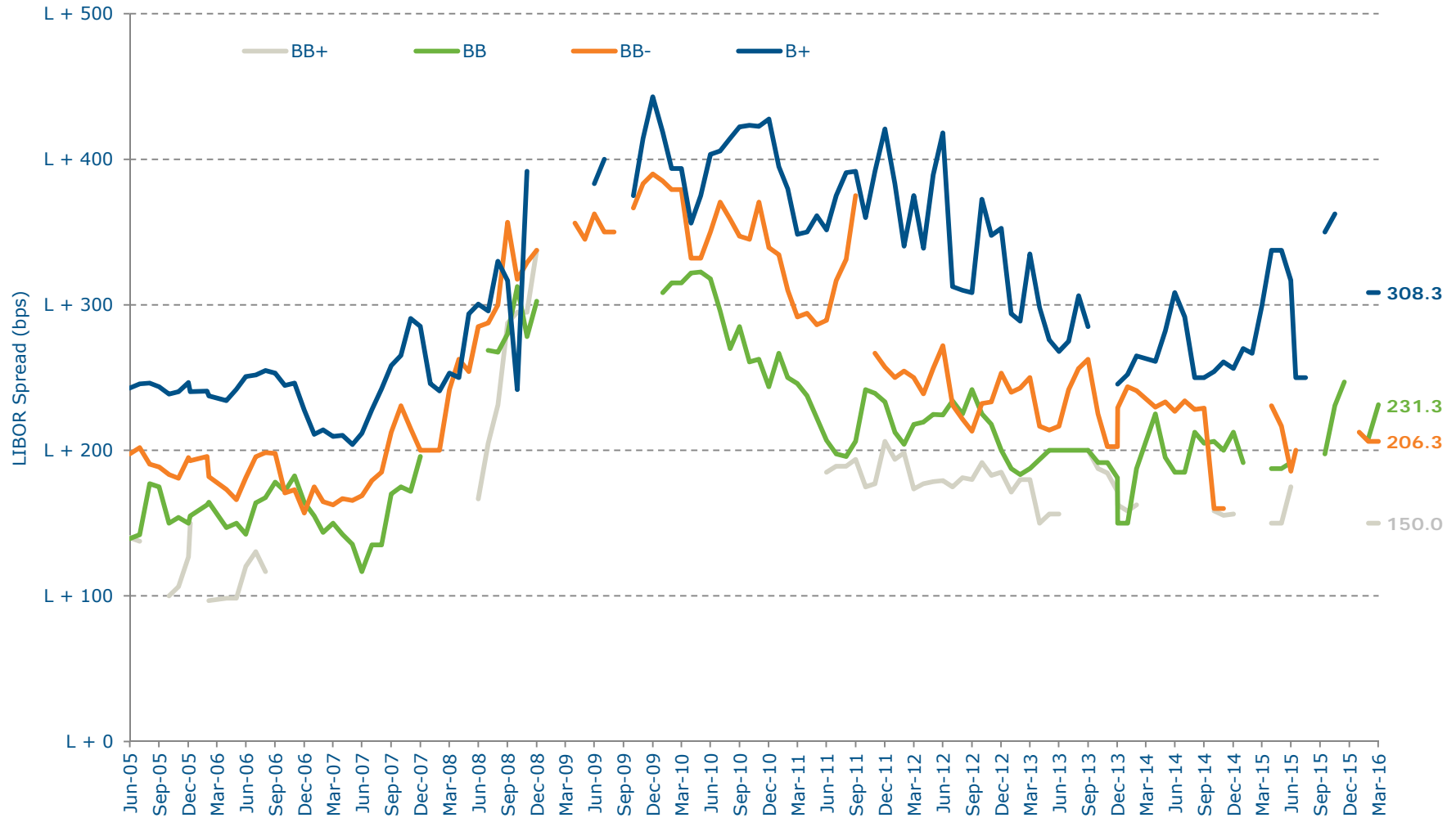


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Source: Loan Pricing Corporation, SEC Filings

# Pro Rata Spreads by Specific Rating

Rolling Three-Month New-Issue Pro Rata Spreads by Specific Rating



Source: S&P Capital IQ LCD.

# Standard Disclosure

PNC, PNC Bank, ACHIEVEMENT, PINACLE, Working Cash, ActivePay, Global Trade Excellence, Vested Interest, Midland Loan Services, Enterprise!, CMBS Investor Insight, Portfolio Investor Insight, Borrower Insight, Shared Servicing, PNC Riverarch Capital, and PNC Erieview Capital are registered marks of The PNC Financial Services Group, Inc. ("PNC"). PNC Retirement Solutions is a service mark of PNC.

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Not Insured By Any Federal Government Agency • May Lose Value**

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