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M&A Academy
Successful debt
refinancing strategies

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Agenda

Setting the scene

Debt refinancing update

What is debt?

Changing bank behaviour

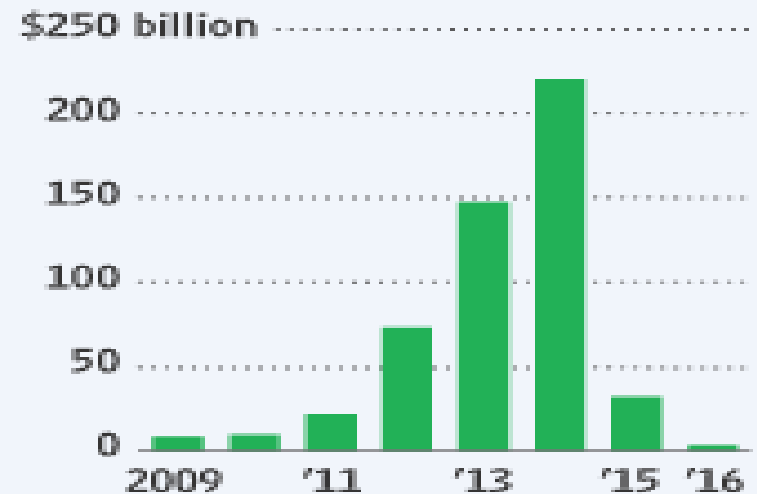
Some cases

Section 1

Setting the scene

Wall of Worry

Volume of leveraged loans scheduled to mature



Source: Standard & Poor's Leveraged Commentary & Data

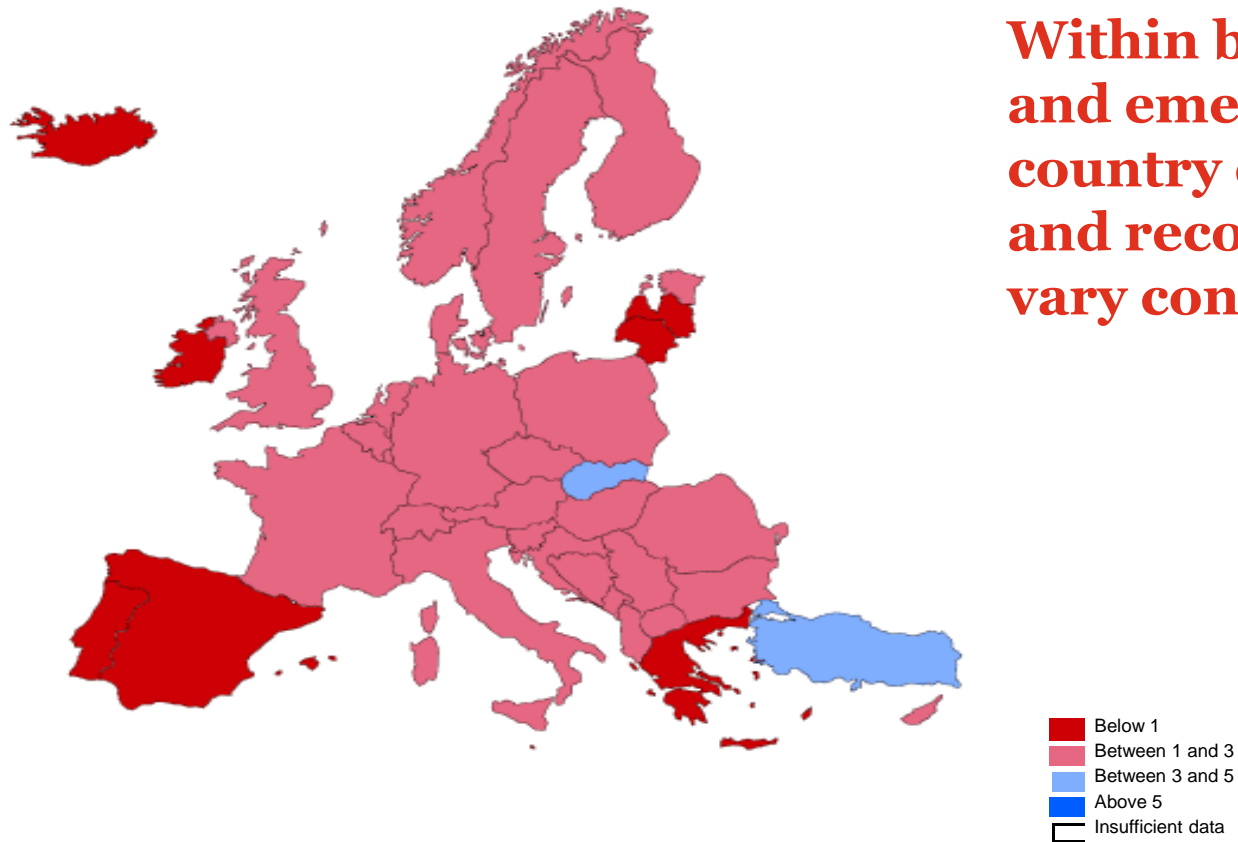
The current economic indicators for Belgium appear favourable for FY11

GDP growth for Belgium is expected to be around 2.3% in 2011 (latest estimates available)

- For the Eurozone, extensive monetary policy measures and general government aid supported the recovery of the economic growth. These measures have been reduced in H2 2010, resulting in a reduction of the growth in the last quarter of 2010, however with a recovery in the first quarter of 2011;
- The Belgian economic recovery was further driven by:
 - The economic recovery of its three main trade partners Germany, France and the Netherlands. Especially the GDP growth in Germany is an important influence for the Belgian economy.
 - Strong rise in export figures for the Belgian Economy
 - Increase in domestic demand, mainly driven by local investments

However, Europe is facing an uneven recovery...

Average Real GDP Growth during 2010–11

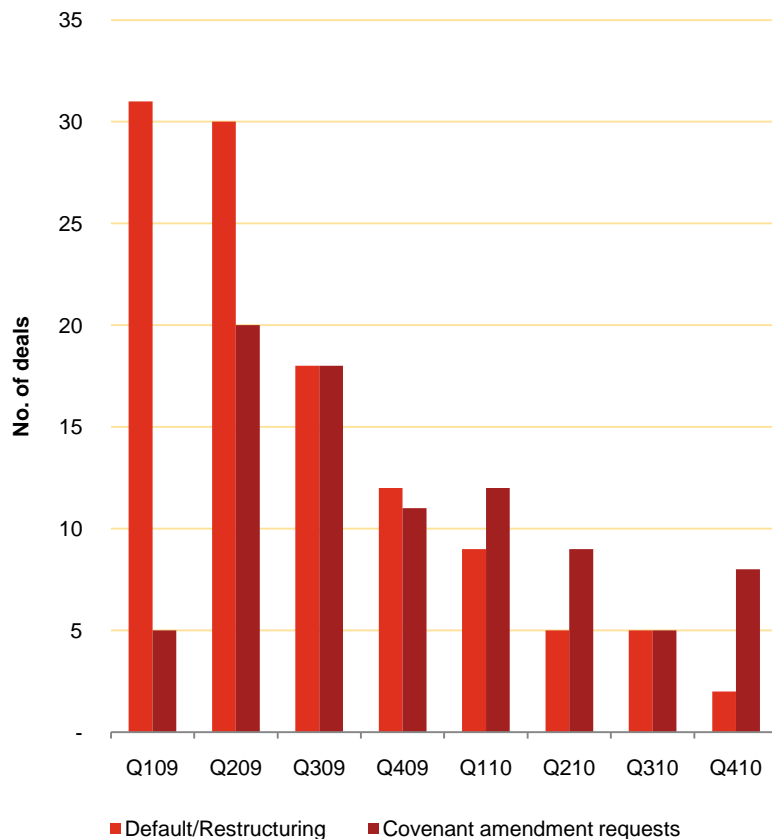


Within both advanced and emerging Europe, country experiences and recovery prospects vary considerably

Source: IMF, World Economic Outlook April 2010

Overall restructuring of distressed debt peaked during FY09 and continued during FY10

Distressed leveraged loans

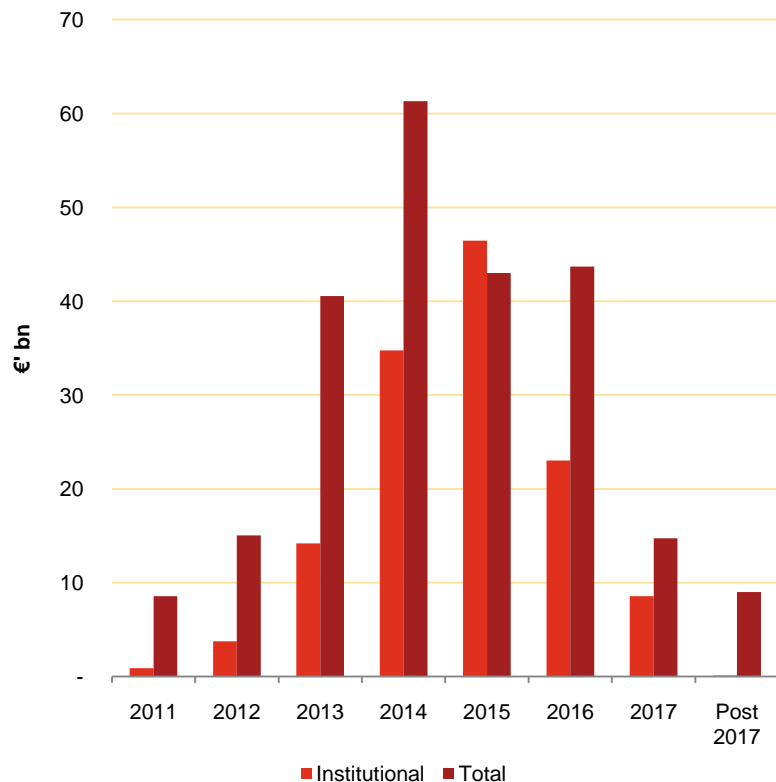


Source: S&P LCD

- While restructuring cases clearly peaked during FY09 we see an increase again as from Q4 FY10
- The number of high profile cases in Belgium appears limited but we estimate that there have been more smaller cases which are not public
- Outlook: Looming maturities and wavering economic conditions by 2012 will probably result in a new increase in distressed loans across Europe

Companies across Europe will face important refinancing requirements as the “wall of Debt” is approaching

European leveraged maturities - institutional v total debt



Source: Loanconnector

- The refinancing movement will reach its peak in 2014
- As a result of the 2009 crisis, not only companies' profits have declined but balance sheets have deteriorated, which has a negative impact on the underlying security position and thus the risk profile of the loan for the lenders
- Lenders will typically endeavour to obtain more guarantees, but the actual economic value of the underlying asset base is lower

Pre-crisis risky lending back in fashion

Pre-crisis risky lending back in fashion

By Nicole Bullock in New York

Controversial lending practices that proliferated ahead of the financial crisis have made a comeback this year as investors flock to corporate debt that offers either higher yields or the promise of being pegged to potentially rising central bank interest rates.

So-called covenant-lite loans that strip all safeguards for investors, dividend deals in private equity-controlled companies, and a faded class of instruments, payment-linked note sales, were widely criticized as part of the easy lending that led to the credit crunch.

Although they resurfaced as financial markets recovered, the past few months have seen a surge in such deals as market conditions moved in favour of corporate borrowers.

"These [structures] are red flags for weakening creditworthiness and they create a vulnerable market," said Don Fara, vice-chairman of Lazard Frères, a money manager. "The current environment in terms

US private equity dividend deals*



* Source: Dealog, PE Dealog, Dealog, Dealog, Dealog

of deal structure is very poor." Since the start of the year, "covenant-lite" loans have totalled almost \$97bn in the US, compared with 2007's full-year tally of \$107bn and 2008's \$94bn, the second-biggest year.

Such loans typically exclude a provision that triggers a default if the company's EBITDA deteriorates.

Lenders worry that a postponed default could lower the odds of recoveries if the company goes bankrupt.

Moody's Investors Service

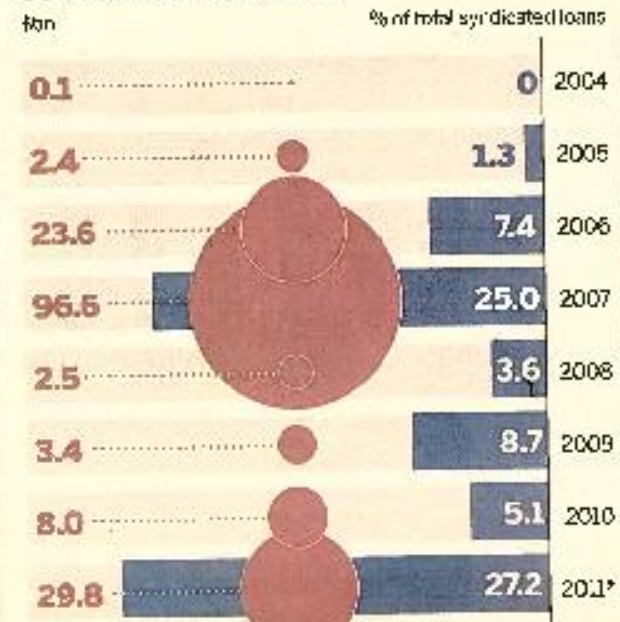
warned last week that covenant-lite deals "may be laying the groundwork for painful fallout from the real estate downturn."

Meanwhile, private equity-backed companies are borrowing at a record pace this year to pay special dividends to owners.

At NUSAC, the pace follows a record year for private equity-related dividend deals in 2010.

Fix toggle notes give the company the option, in a squeeze, to pay lenders with more debt, rather than cash.

US covenant-lite volumes**



** The 30 Mar 11. * Forecast for any terms

The resurgence of these practices is part of a re-financing wave that has enabled companies to loosen deal terms and pay out money to shareholders.

"The supply-demand dynamics [in the leveraged finance markets] opened the door for companies to recut their deals," said Steven Miller, managing director at Standard & Poor's LCD, a research group.

Retail investors have poured cash into mutual funds that buy junk bonds and leveraged loans but there have been few

mergers and acquisitions in finance.

"Publicly managed have been under such pressure to spend that deals that they were willing to live with these structures," said Mr Miller.

But the market for these instruments may be cooling. Last week, one covenant-lite deal was scrapped and others are said to be struggling.

Defenders of covenant-lite loans say they prevent investor losses by allowing stretched borrowers to survive without defaulting.

PwC's view on recent market developments (1/3)

Lenders

- Lenders regained trust and are again more assertive in negotiations with debtors. They gained experience with alternative funding mechanisms and continue to implement this

Advisors

- Appointment of advisors in the process is gradually finding its way both at Company and Bank side
- Hands on management of the restructuring process, clear communication (no surprises) and good stakeholder management accelerates the stabilisation process

Management

- Existing management have difficulties in managing restructuring/refinancing process
 - Lack of detailed business planning experience
 - No turnaround experience
 - Close to shareholders and board

PwC's view on recent market developments (2/3)

In recent restructuring cases, there has been a trend to introduce a Chief Restructuring Officer (CRO)

- **Function of the CRO**
 - Restore the company to health through a challenging financial and operational restructuring programme
 - Carefully manage key stakeholders and their competing demands
- **Benefits for the company**
 - Restore trust with the important stakeholders
 - Rapid access to senior experience and resources
 - Alignment of management skills and efforts
 - Fresh pair of eyes
- **Example in Belgium: Deceuninck**

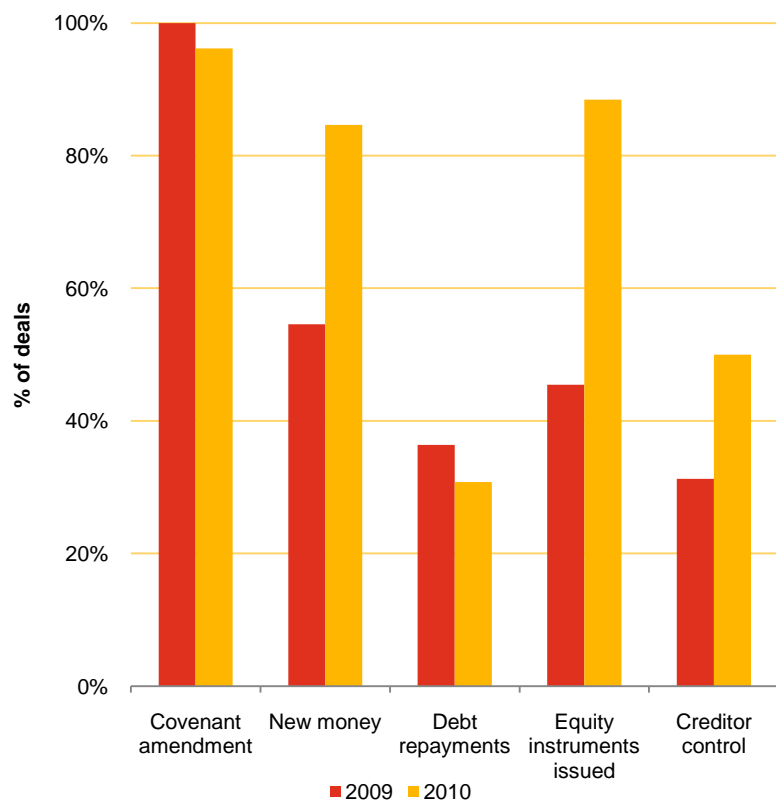
PwC's view on recent market developments (3/3)

Monitoring remains key in order to limit distressed loans

- Usage of clear, simple and understandable covenants is advisable
- Set covenants at a mutually agreed but risk-mitigating level
- Transparent covenant calculation and governance ensures that borrowers do not “manage” the numbers to avoid a breach
- Belgium traditionally has been operating in a rather covenant light context, especially for the mid market sector, and there is no real culture of strong covenant monitoring

The outcome of the restructuring process across Europe

Restructuring outcomes



Source: PwC analysis

- Covenant resets imply payment of fees and margin increase
- Additional funding was most important restructuring outcome during 2010
- However, recently we have seen some major cases resulting in “amend and extend” solutions
- In Belgium, banks typically grant longer repayment periods on the condition of increased security and higher margins. Payment of fees is not a priority

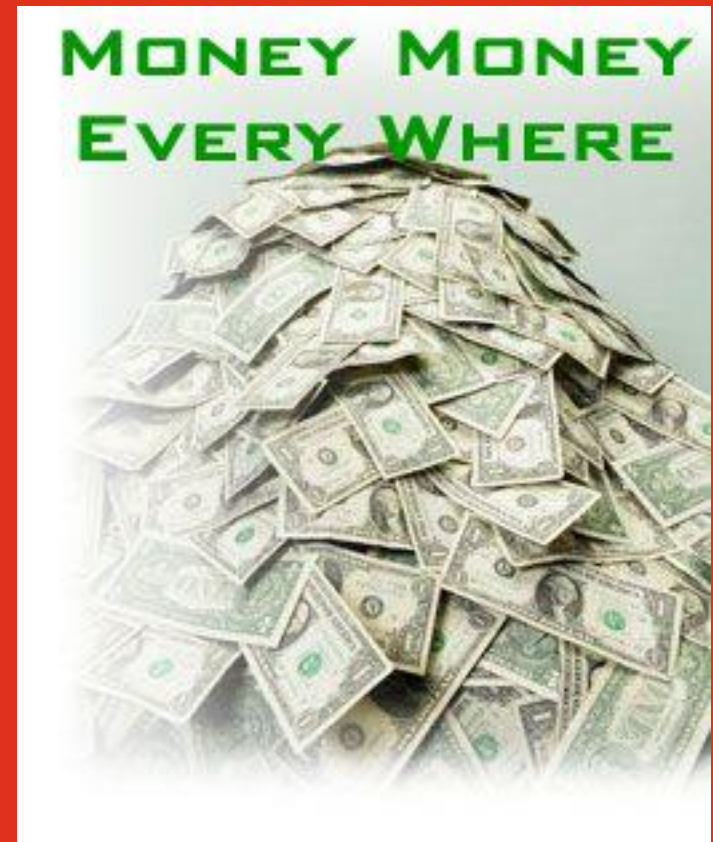
The outcome of the restructuring process (Cont'd)

Limited availability of sources of debt/equity highlights the importance of internal cash generation and additional equity

- Generate liquidity from measures executed within the organisation rather than relying on external sources
- Focus on operational efficiencies rather than financial restructuring with a firm focus on working capital, cash and liquidity management
- Assess the impact of the characteristics of the company's operations
 - Seasonality pattern in sales
 - Working capital facility
 - Inherent risks to underlying security
- Private equity is likely to play a more significant role when restructuring distressed debt situations (e.g. GEMS with Rutland Partners in Belgium)

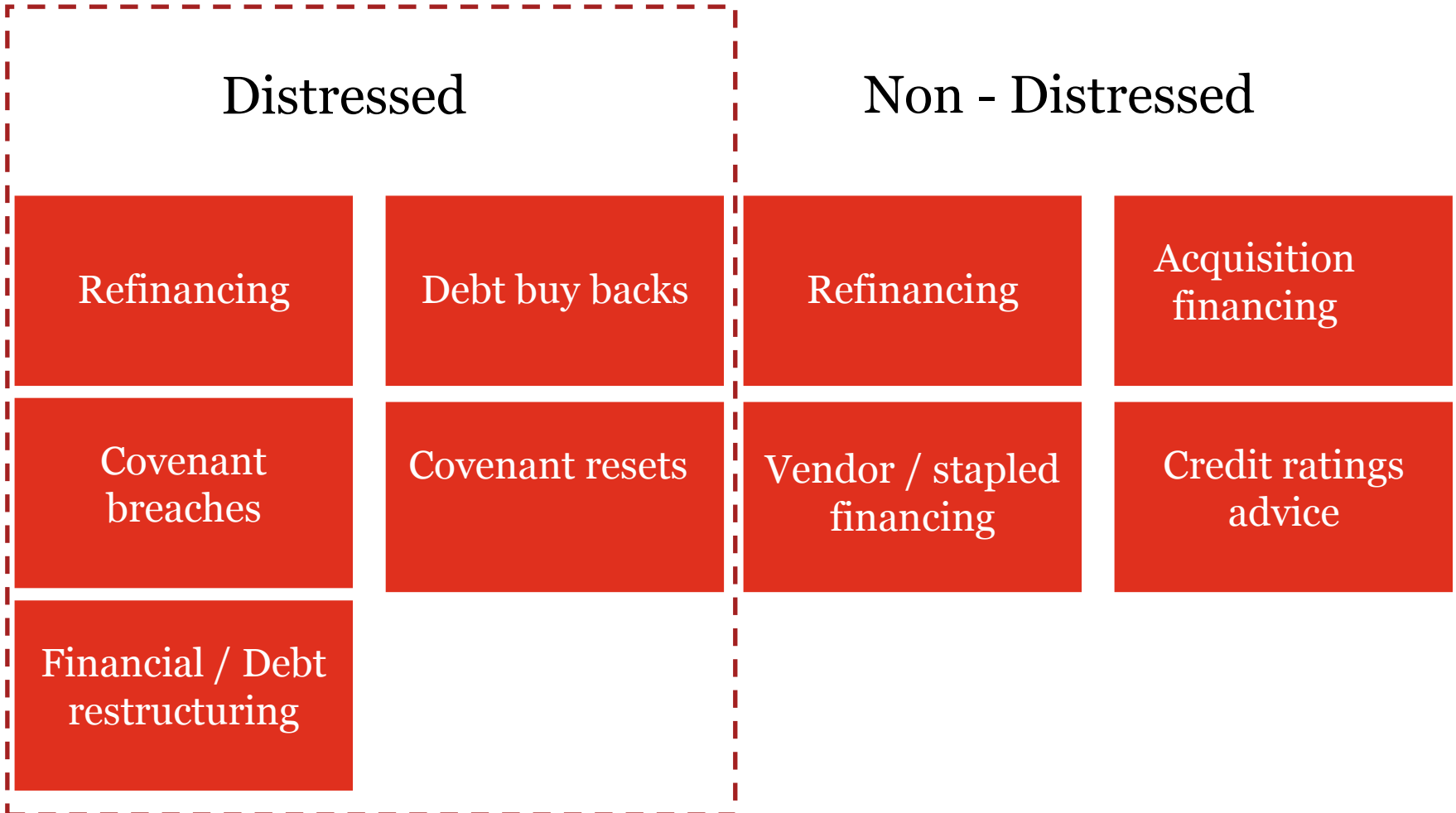
Section 2

What is debt?



What is debt?

Distressed vs non-distressed



What is debt?

Different levels of debt

Debt

- Debt is an amount owed to a person / organization for funds borrowed. There are several types of debt, which all imply to pay back an amount owed by a specific date, which is set forth in the repayment terms.

First lien debt

- First lien debt is the highest priority debt in the case of default. If a property or other type of collateral is used to back a debt, first lien debt holders are paid before all other debt holders.

Second lien debt

- Second lien debts are subordinate rights of other, more senior debts issued against the same collateral, or a portion of the same collateral. If a borrower defaults, second lien debts stand behind higher lien debts in terms of rights to collect proceeds from the debt's underlying collateral.

Mezzanine

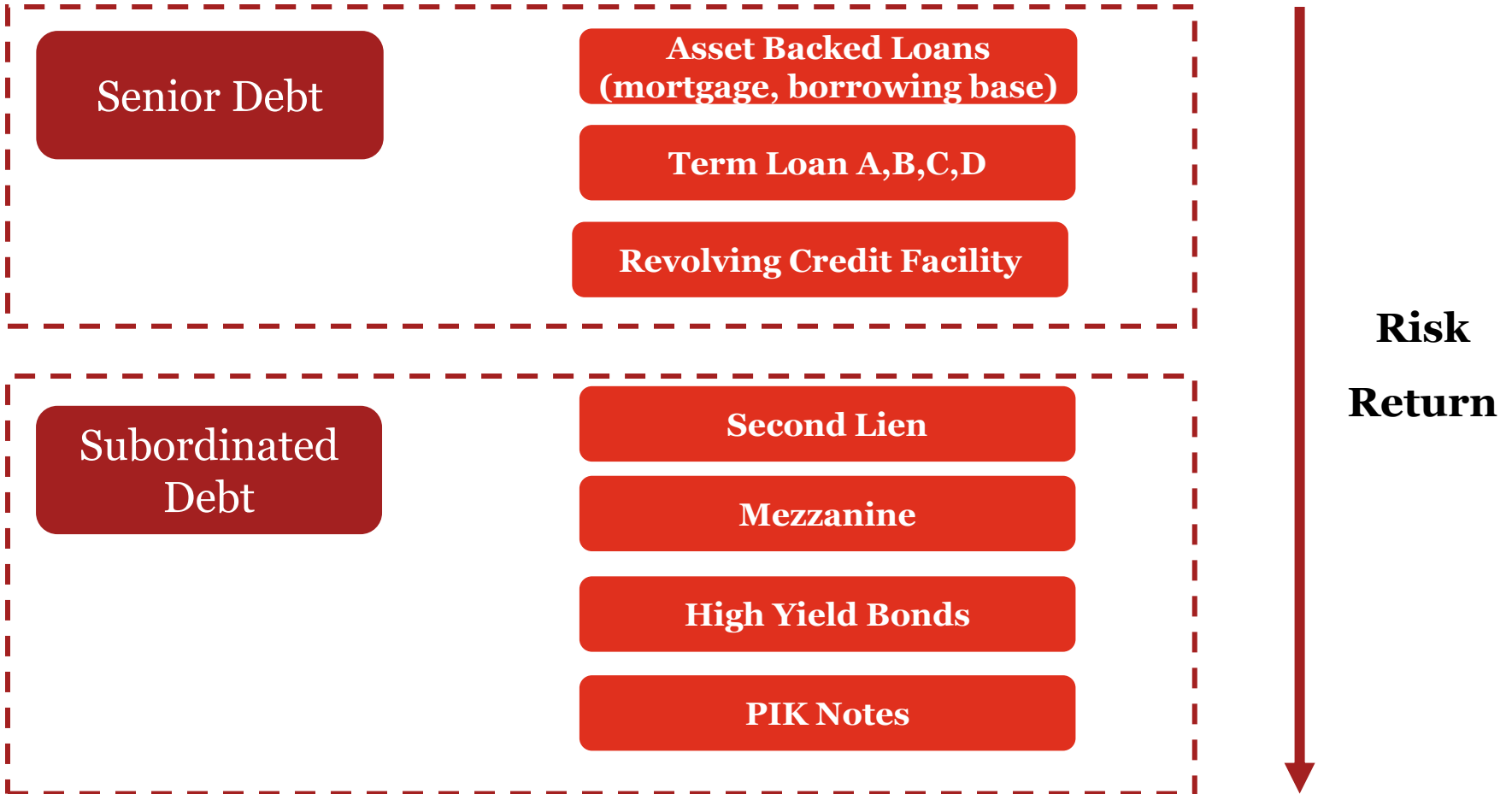
- Mezzanine debt is the component of capital structure in between senior loans and equities. It is junior, subordinated debt that incorporates equity-based options, like warrants, and is usually used to finance leveraged buyouts.

Covenants

- Debt covenants are agreements between a company and its creditors that the company should operate within certain limits. In theory, breach of a debt covenant usually allows creditors to claim instant repayment.

What is debt?

Potential sources of debt



Section 3

Changing Banking Behaviour



Changing banking behaviour

Shifted attitudes towards lending

- With the banking universe under stress and the economic outlook bleak, attitudes towards lending have shifted. Banks were told to reduce their balance sheets and loan to deposit ratios and this was the focus of their effort over profitability

Flight to safety

- A loss of transparency in the financial sector continued to bring counterparty risks to the fore and curtail new activity as investors target safe havens such as government gilts, commodities, etc. However, highly rated corporate issuers are still able to attract financing, albeit at higher than pre-crunch spreads.

Increase of funding costs

- The first wave of the credit crunch, which has been a liquidity phenomenon, has been followed by a second wave, which has led to widespread increase in delinquency rates, leading to issuer distress in both bank and bond markets.

Decrease in financings

- Given the increased costs of funding and uncertainty over the state of the economy, banks have had little incentive to complete new financings.

Changing banking behaviour

Shift in focus

- Banks focus more and more on their respective home and core sectors.

CLO / CDOs

- In 2006/2007 around 55% of leveraged loans were funded by institutional funds. This source of liquidity has now disappeared, affecting the volume of new deals.

Debt multiples

- Banks are still in the market to serve their core/existing clients, albeit at a significant higher pricing & lower multiples and with conditions that are more “bank-favored”.

Flight to safety continues

- In general, capital markets still show a “flight to safety”, making it increasingly difficult to attract (bond and bank loan) financing for riskier projects.

Margin development

- Interest margins and up-front fees have increased (both driven by increased funding costs for banks, as well as an increase in expected defaults rates of their customers).

Equity contribution

- Equity contributions are getting bigger even though purchase price multiples have dropped.

Changing banking behaviour

Pressure on capital market

- With a large volume of deals requiring refinancing between now and 2013, banks face pressure on their resources and balance sheets, further intensifying the difficulties for borrowers.

Some deals continue

- Transactions which are conservatively structured and priced for today's capital constrained market are likely to continue to attract support, especially in the small to mid-market arena.

'Clubbed' / 'Best effort'

- The majority of successful deals will be achieved on a 'clubbed' or 'best efforts' basis involving a large number of banks, making debt raising more complicated and time consuming for management.

(Distressed) Debt Advisory Services

Refinancing

Refinancing needs ahead

- The significant level of debt raising in the 2005/2006 period (much of it 5 year money) based on low interest rates at agreeable terms, means that these will need refinancing in 2010 and 2011.

Double whammy

- Given that most companies organise their refinancing up to 12 months in advance of renewal deadlines, 2009 will be a difficult time with the combination of high corporate demand levels coinciding with a banking sector which is heavily capacity constrained.

Second lien debt

- Furthermore, the financial crisis has severe impact on the operational performance of many companies, which causes pressure on EBITDA levels. Since most debt covenants are based on a (net) debt / EBITDA ratio, many companies face the risk of a covenant breach. Therefore these companies need to renegotiate their terms and refinance their debts.

Section 4

Our approach to debt refinancing



Our approach to debt refinancing



- Update of business plan – credibility is fundamental
- Development of financial model flexible towards several funding and structuring scenarios
- Analyses of projected cash flows and other financial parameters
- Option analysis to explore full spectrum of funding possibilities
- Develop blueprint of optimal capital structure
- Compose bankable presentation/information memorandum detailing the key lending considerations

- Determine which financial products (a.o. interest rate hedging, international cash management and LC's) will be included in the Request for Proposal (RfP)
- Determine list of MLA's
- Develop RfP and send out to 3-4 potential MLA's (along with the presentation)
- Compare and analyze term sheets
- Negotiations with MLA's to create a competitive environment
- Determine which lender will be appointed MLA

- Determine list of banks that will be invited to participate in the syndicate
- Collect and answer additional information requests
- Negotiations with 'committed lenders' to create a competitive environment
- Determine which banks will become part of the syndicate

- Negotiations with banks and MLA in order to come to committed term sheet in agreed form
- Negotiations on the finance documentation
- Closing of the transaction

- Design and streamline the information flow between the Company and the agent and banks in syndicate
- Embed properly covenant monitoring into the organization

Key attention points

- Through an option analysis all funding alternatives are considered in realizing the optimal funding structure for the company
- Translating the business into the language of the lending community

- Compare term sheets issued by different MLA's, to optimize conditions for the Company

- Understand the banking community

- Give sufficient attention to proper embedding of covenants into the loan documentation with sufficient economic substance

- Continuous dialogue with all stakeholders

The entire refinancing process may take up to 2-5 months

Section 5

Some examples

Some cases

Company A strives towards closing of the refinancing per Q4 2011

Observations

- Company (“XYZ”) negotiated their current finance arrangement before the financial crisis (i.e. 14 September 2007).
- The current arrangement expires in September 2012. XYZ strives towards putting in place a new financing arrangement by Q4 2011. In order to timely arrange a suitable financing arrangement XYZ is currently in the process of analyzing the options for a new arrangement.
- In 2007 the opening leverage was considerably higher than currently envisaged upon a refinancing (i.e. opening net leverage of c. 2.5x).
- The current banking syndicate consists of:
 - ING (Agent, Security Agent, Aranger, Lender and Issuing Bank)
 - Bank of America (Swing line Agent, Lender and Issuing Bank)
 - Rabobank (Lender and Hedging provider)
 - ABN Amro Bank (Lender and Hedging provider)
 - Regional banks (Wachovia, RBS, Natixis, Northern Trust and Royal Bank of Canada as Lenders)
- At the time no structural consideration was taken into account as to the composition of the bank syndicate and the various geographical capabilities of the banks.
- XYZ perceives particularly ING but also Bank of America, Rabobank, RBS and ABN Amro Bank as its core relation banks.
- We understand from management that XYZ is looking for syndicate banks with a strong position in XYZ’s main territories (US, Asia and Europe).
- Besides financing, the banking wallet of XYZ mainly consist of interest rate hedging, international cash management and letters of credits/guarantees.
- XYZ is currently considering the cross-currency “overlay” solution offered by ING subsidiary Bank Mendes Gans.
- In the current syndicate limited attention was given to the formation of the syndicate in terms of capabilities:
 - The current syndicate lacks a bank with strong capabilities in Asia.
 - International cash management is not coordinated on a central level. The various country organizations, currently choose their own banks.
- Besides bank financing, other financing possibilities for XYZ (e.g. US Private Placements). However, we understand that the Company does not prefer financing options which require additional disclosure requirements.

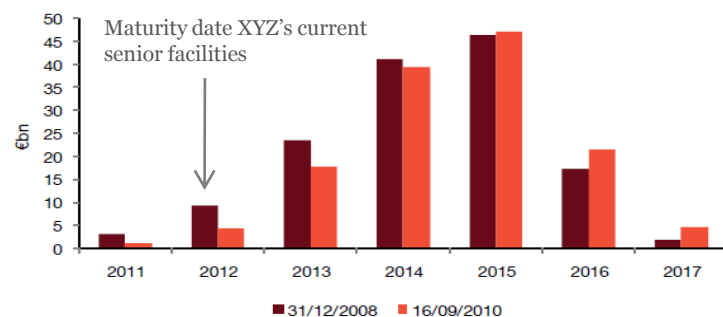
Some cases – Case Company XYZ

Current international bank debt market and initial considerations on the refinancing (1 of 2)

International lending environment

- Appetite for commercial lending is cautiously starting to ‘remerge’. This is illustrated by (senior) debt multiples starting to creep up after being severely hit by the global financial crisis. Also banks are selectively more keen to win new business and are not only focusing on retaining existing clients.
- However, the financial crisis has left its scars in the market. As a result of the financial crisis the lending environment has dramatically changed and lending institutions have been trying to find a renewed equilibrium in pricing credit risk. This has led to amongst others:
 - Higher debt pricing and the introduction of liquidity costs;
 - Still lower leverage multiples when compared to pre-crisis levels;
 - More critical stance. illustrated by more burdensome information requirements towards (potential) borrowers;
 - Less banking liquidity; and
 - More club deals to reduce banks’ exposure towards underwriting larger ticket deals.
- We expect the corporate loan market to continue to remain challenging. The combined effect of higher capital requirements for banks (BIS III) and significant refinancing requirements for corporates (“wall of debt”) implies that capital of banks will become increasingly scarce.

Maturities – European corporate bank debt (€bn)



Initial refinancing considerations

- We understand that the opening leverage of the new finance arrangement will be c. 2.5x (Net debt/EBITDA). As this leverage is significantly lower compared to the leverage at the start of the current finance arrangement, one would aim for a standard corporate structure, without collateral.
- Consequently, the refinancing package would have more the characteristic of a more regular lending structure, than of the current leveraged finance structure. Therefore, one would expect additional due diligence will not be required.
- The current security package of pledges of shares and receivables is not market practice for a regular corporate lending structure for a company with the size of XYZ. Although the provision of this collateral is not considered burdensome by XYZ one could advise to solicit pricing with and without this collateral being offered to the banks.
- The following considerations in arranging the new financing arrangement could be made:
 - Extend the maturity date of the finance package beyond the “wall of debt”, which implies a 5 year term.
 - Structure the syndicate in line with the geographical presence of XYZ and strive towards a combination of banks with complementary (geographical and product) capabilities and find an integrated solution for international cash management.
 - Flexibility in the new arrangement to enable XYZ to act on its growth strategy (e.g. meeting increased working capital requirements and financing add-on acquisitions). Moreover the new terms & conditions should include sufficient flexibility in terms of for instance interest rate hedging and the need to ask for waivers.

Some cases

Current international bank debt market and initial considerations on the refinancing (1 of 2)

Broadening your base, increasing flexibility

- Given the background of the refinancing request, the specific wishes of management and taking into account the current situation in the international debt market, one would advise not to limit the scope with regard to appointing the new mandated lead arranger (MLA) to just [Bank], which is the main existing relationship bank of XYZ.
- Instead, we would suggest to request 2-3 other financial institutions, besides I[Bank], to pitch for the role of MLA. Ideally this should be banks that are both relationship bank and have the international capabilities that meet XYZ's (geographical) requirements.
- Inviting 2-3 other banks to pitch for the role of MLA would offer XYZ the following benefits:
 - Less dependency on the decision making process of [Bank];
 - It allows for a fall-back scenario;
 - It will keep [Bank]; on edge; and
 - It will help to create a more competitive playing field between the banks, which will result in better terms & conditions on the refinancing.

Some cases – Case Company ABC

Both shareholders strive towards a financially independent Newco as of target date July 1st, 2011

Observations

- Company ABC (“ABC”) and Company DEF (“DEF”) are finalizing negotiations on the intended merger of ABC and the business units garden, infra and agro of DEF into ABC Groep B.V. (“Newco”).
- Both shareholders strive towards a situation in which as of closing (i.e. target date of July 1st, 2011), Newco is financially independent
- Financing need of Newco mainly consists of :
 - funding of working capital per closing date (i.e. pay back of shareholders loans at closing);
 - working capital due to seasonal pattern; and
 - required investments.
- Amount of financing provided, flexibility in financing structure and commitment and ‘space’ from preferred banking partner to execute strategy of Newco is considered key by management.
- In the valuation process both companies have made a stand-alone business plan for 2011-2014. Adding these individual business plans up to come to one business plan for the combination is being considered too optimistic, especially from a financing point of view.
- The financing plan for Newco as to be presented towards potential lenders should therefore include several adjustments to come to a more prudent and ‘lender proof’ business plan.
- Factors to be adjusted include:
 - cumulative EBITDA;
 - cumulative sales growth; and
 - realized synergies in terms of both sales and EBITDA.
- Furthermore, in the financing plan to be presented towards potential lenders not all potential working capital benefits will be incorporated, while investments will be prioritized by management.
- Initial sounding with senior management from [Bank], currently the principal bank of ABC, on the refinancing has taken place.
- Feedback from [Bank] included the importance of a proper foundation of the working capital requirement and required investments (i.e. substantiating the financing need).

Key issues and attention points

- Revise business plan of Newco based on new, more prudent management assumptions to derive a banking case (“from challenging business plan to solid banking case”).
- Develop financial model, including Profit & Loss Statement, Balance Sheet and Cash Flow Statement.
- Output of the financial model should include financing / funding requirement for both working capital (including seasonality) and investments to be made as well as an appropriate financing structure.
- Easily accessible summary presentation outlining the banking case for potential lender(s), accompanied by Request for Proposal, available by [Date].

Some cases – Case Company ABC


Current bank debt market in the Benelux and initial considerations on the refinancing

Benelux lending environment

- Appetite for commercial lending is cautiously starting to 'remerge'. This is illustrated by (senior) debt multiples starting to creep up after being severely hit by the global financial crisis. Also banks are selectively more keen to win new business and are not solely focusing on retaining existing clients.
- However, the financial crisis has left its scars in the market. As a result of the financial crisis the lending environment has dramatically changed and since lending institutions have been trying to find a renewed equilibrium in pricing credit risk. This has led to a.o. :
 - higher debt pricing and the introduction of liquidity costs;
 - lower leverage multiples;
 - more critical stance, illustrated by more burdensome information requirements towards (potential) borrowers;
 - less banking liquidity; and
 - more club deals to reduce banks' exposure towards underwriting larger ticket deals.

Initial refinancing considerations

- Merger of ABC and DEF might not entirely be a 'green field' operation. However, it does have the characteristics of a 'brown field' operation from a financing perspective.
- Strong wish of majority shareholder is that no security right will be vested on the real estate (land and buildings).
- More generically, the objective of the shareholders is to limit the (security) rights of the lender as much as possible.
- Shareholder A wishes to receive a minimum cash flow of EUR 1m p.a. from Newco. A similar pro rate parte benefit / cash inflow for DEF is considered acceptable by both shareholders.
- The shareholders B wish to receive a dividend stream.



The combination of all of these elements could prove challenging in the current banking market and could put significant upward pressure on the pricing of the financing to be raised

Some cases – Case Company ABC

Current bank debt market in the Benelux and initial considerations on the refinancing

- Given the background of the refinancing request, the specific wishes of the shareholders and taking into consideration the current situation of the Dutch bank debt markets, we would advise to consider not limiting your discussions on the refinancing to the [Bank] which is the current relationship bank of ABC.
- Instead, we would like to suggest considering to request a financing proposal from 1- 2 other banks, in conjunction with the [Bank].
- Inviting 1-2 other banks would offer you the following benefits:
 - it makes Newco less dependent on the decision making process of [Bank] ;
 - it allows for a fall-back scenario in case [Bank] – for whatever reason – declines the financing request or imposes burdensome conditions, which prove to be unacceptable to Newco;
 - it will keep [Bank] on edge; and
 - it will help to create a competitive playing field between the banks, which will translate itself into better terms & conditions on the financing raised on your behalf.

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