Maximizing Credit Facilities and Rewarding Bank Relationships

Presented By:
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Nash Finch Company
and
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Agenda

- Introduction of Panelists
- Senior Debt Execution Alternatives
- Types of Loan Syndications
- Selecting Lead Banks – Company’s Prospective
- Lender Titles
  - History
  - Bookrunner Qualifications
- Filling in the Bank Group
  - Choosing Banks
  - Successful Execution
- Choosing to Participate from Bank’s Perspective
- Selecting Bank Group
- Rewarding Banks with Other Business

- Case Study – Nash Finch ABL Refinancing
# Senior Debt Execution Alternatives

<table>
<thead>
<tr>
<th>Asset-Based Lending</th>
<th>Pro Rata Bank (Cash Flow)</th>
<th>Finance Company (Leveraged Finance)</th>
<th>Institutional Term Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lender Type:</strong></td>
<td>Banks, Finance Cos, Investment Banks</td>
<td>Traditional Banks</td>
<td>Sponsor Focused Banks, Finance Companies, MM CLO’s, BDC’s</td>
</tr>
<tr>
<td><strong>Values Relationship:</strong></td>
<td>Yes, with Company and Sponsor</td>
<td>Yes, with Company and Sponsor</td>
<td>Little with Company, if any: with the Sponsor</td>
</tr>
<tr>
<td><strong>Ratings Required:</strong></td>
<td>No</td>
<td>No</td>
<td>Depends on Deal Size, B2/B Public Corporate / Shadow (Private) for Optimal Execution</td>
</tr>
<tr>
<td><strong>Minimum Deal Size:</strong></td>
<td>No Minimum</td>
<td>No Minimum</td>
<td>No Minimum</td>
</tr>
<tr>
<td><strong>Tenor:</strong></td>
<td>5 Years</td>
<td>5 Years</td>
<td>5 to 6 Years</td>
</tr>
<tr>
<td><strong>Pricing / Determinants:</strong></td>
<td>L+125 to 400 bps / Deal Size, Credit, Industry, Sponsor, Ancillary Business</td>
<td>L+250 to 450 bps / Deal Size, Credit, Industry, Location, Sponsor, Ancillary Business</td>
<td>L+400 to 650 bps / Deal Size, Credit &amp; Ratings Profile, Industry, and Sponsor</td>
</tr>
<tr>
<td><strong>LIBOR Floor:</strong></td>
<td>No</td>
<td>No</td>
<td>1.00% to 1.75%</td>
</tr>
<tr>
<td><strong>OID:</strong></td>
<td>99.0 to 99.5</td>
<td>98.5 to 99.5</td>
<td>96 to 99</td>
</tr>
<tr>
<td><strong>Prepayment Premium:</strong></td>
<td>None</td>
<td>None</td>
<td>Typically None</td>
</tr>
</tbody>
</table>
### Senior Debt Execution Alternatives (cont’d)

<table>
<thead>
<tr>
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<th>Finance Company (Leveraged Finance)</th>
<th>Institutional Term Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortization:</strong></td>
<td>Revolver: None</td>
<td>5% to 7.5% Year 1 &amp; Likely Increasing Thereafter</td>
<td>1% to 5% Year 1 &amp; Increasing Annually Thereafter</td>
<td>1% per annum with Bullet at Maturity</td>
</tr>
<tr>
<td></td>
<td>Term Loan: 5 – 10 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Covenants:</strong></td>
<td>Fixed Charge for smaller, term heavy or more challenged credits; Springing Fixed Charge for stronger credits; Availability</td>
<td>Leverage Fixed Charge ~ 20% EBITDA Cushions</td>
<td>Leverage and Fixed Charge or Interest Coverage ~ 20%+ EBITDA Cushions</td>
<td>Leverage, Fixed Charge, Interest Coverage ~ 20% to 25% EBITDA Cushions; Covenant-Lite for Certain Issuers</td>
</tr>
<tr>
<td><strong>Market Depth:</strong></td>
<td>Approx. $1.0Bn with traditional ABL lenders, up to $2.0bn if inclusive of investment banks</td>
<td>Max. $300 to $350MM Depending on Credit Profile, Industry, Location, and Sponsor</td>
<td>Max. $150 to $200MM Depending on Credit / Rating Profile, Industry, and Sponsor</td>
<td>Unlimited Depending on Rating</td>
</tr>
</tbody>
</table>

**Other Senior Debt Nuances**

- “Covenant-Lite” structures are in favor for borrowers with strong availability operating in seasonal or cyclical space
- First-in Last-out (“FILO”) tranches have gained market acceptance particularly on retail and “commodity like” inventory heavy deals
Types of Loan Syndications

• An Underwritten Deal
  o Arrangers guarantee the entire amount committed, then syndicate
  o Can be a competitive tool to win mandates if certainty of execution is critical
  o Includes flex-language which enables the arrangers to make limited pricing and structural modifications to facilitate a successful syndication
  o Usually requires greater fees because agent is required to fund if syndication fails

• A Best-Efforts Syndication
  o Arranger group commits to underwrite less than the entire amount of the loan
  o If the loan is undersubscribed, credit may not close or may require restructuring to clear the market including: increase in pricing; additional equity; adjustment of terms
  o Traditionally used for riskier borrowers, complex transactions or to save borrower fees

• A Club Deal
  o Typically involves a smaller loan beyond the capacity of a single bank (usually $50 – $150 million) that is pre-marketed by borrower to a group of relationship lenders
  o Arranger a first among equals; each lender gets a full or nearly full share of fees.
  o Less expensive alternative if the borrower has strong relationship banks, the facility isn’t too large and certainty of execution isn’t critical
Selecting Lead Banks - Company’s Perspective

A company will evaluate several factors when selecting its lead bank or banks

- Certainty of execution by the arranger (next page)
- The financial institution’s market credibility
- Bookrunners’ reputation in the market and with the company and its peers
- Lender’s relationship and history with the company
- Institution’s broader capital market capabilities (high yield, equity, convertibles, etc.)
- Organization’s product and geographic breadth as it relates to the company’s needs
Selecting Lead Banks - Company’s Perspective

• Selecting the correct lead bank(s) is important for successful execution
  – Borrowers choose banks with track records of loan sales in retail syndication
  – Different institutions may specialize in various areas
    • Industry or Geography
    • Restructuring, Sponsored Transaction, High Leverage
    • Size of issue, complexity

• Companies should understand what motivates banks to compete aggressively for their business and can reward accordingly to get the best execution
  – Understanding that titles can mean as much as (or more than) fees can help a borrower assemble a lead group and get competing banks to work together
  – In a syndication, a company has the following titles with which to reward its Leads
    • Lead (or Joint-Lead) Arranger / Bookrunner
    • Administrative Agent
    • Collateral Agent
  – Secondary titles also incent key banks that are not leading the deal
    • Banks use titles in their marketing materials
    • Set banks apart in the group in situations where economic incentives may be limited
Lender Titles - History

• Historically, agent that led a syndicated a deal was named “Lead Manager”, and “Manager” titles were awarded for other large commitments

• As league tables gained influence as a marketing tool, “Co-Agent” titles were used in attracting large commitments, or in cases where institutions truly had a role in underwriting and syndicating the loan they identified the bank’s role

• Co-Agent, Syndication Agent and Documentation Agent have become largely ceremonial titles, routinely awarded for large retail commitments

• Today the main titles that are recognized by financial reporting firms like S&P and Loan Pricing Corp (LPC) are Lead (aka Bookrunner) and Joint Lead Arranger, Administrative Agent and Collateral Agent

• Lead and Joint Lead Arranger / Bookrunner is the most important title and league table

• Tracked in both the syndication loan and bond markets by both a dollar amount of credit amount and number of deals – reported each quarter

• Most syndications have one lead arranger who is given the title of “left” (reference to its position on a tombstone).

• Others that are part of underwriting and syndicating a credit are also called lead arrangers but are said to be on the “right” or “joint”
Lender Titles – Bookrunner Qualifications

• A Bookrunner underwrites a portion of a large syndicated transaction that is then placed with other institutions

• In order to receive Bookrunner credit, a lender needs:
  • Lead Arranger or Bookrunner status on the cover
  • Bank must be both a Bookrunner and named agent such as Administrative or Documentation

• LPC does not have a limit on number of bookrunners that can receive credit for a deal

• The deal needs to be greater than $100,000,000 and meet general syndication criteria in order for anyone to receive Bookrunner credit
  • The deal needs to have a third-tier lender below the Administrative/Syndication/Documentation Agent group
  • Other lenders will be non-titled or receive ceremonial titles

• Under $100,000,000 LPC tracks Club Deals in a separate league table
Filling in the Bank Group – Choosing Banks

Factors to Consider when Selecting Banks to Participate in a Credit Facility

- Size of the facility
- Number of desired banks and desired hold levels
- Products and services that the company needs from its banking partners
- Prospects for future capital needs to fund growth and / or acquisitions
- Need / desire for advisory services
- Reputation of banks
- What company has to offer its partners – “Size of Wallet”
Keys to a Successful Syndication

- Start process for obtaining credit very early; all participating banks should know the company well
- Manage expectations with banks regarding availability of ancillary business and avoid “tying”
- Link commitments and bank group size with amount of fee business (including underwriting and advisory services) available to the group
- Use titles in addition to deal economics to reward banks with less opportunity for non-credit based business
- Aim for over-subscription in the deal – the last bank in usually sets pricing for the entire deal
Choosing to Participate from Bank’s Perspective

In deals where a bank is not the lead or sole lender it considers many factors in addition to credit in choosing whether or not to participate

- Many banks are focused on their place in the League Tables.
  - Titles are tracked by financial reporting companies, such as Loan Pricing Corp (“LPC”), and summarized each quarter in such tables.
  - The reporting companies track several segments and also break these segments down into sub segments such as Leverage Lending, Asset-Based volume, bifurcation by size, sponsored transactions, industry…
  - Titles are given for other roles in the syndicate besides lead arranger

- Credit-Only returns verses “All-In” returns
  - Banks evaluate their return based on a transaction pricing and fees
  - In addition, banks look at other ancillary income that can be generated though other fees and services and typically have two sets of returns

- Share of a Company’s Wallet
  - Heightened focus on capturing ones fair share
  - Bank compensation and goals geared more toward other income
Rewarding Banks with Other Business

Banks also compete for their share of the “Company Wallet” or other ancillary business that it has to pass out

- Typically, the lead arranger will push the borrower for the majority of its treasury management business

- Certain institutions that have global capabilities may be attracted to a company’s deal because it believes it has capabilities that the lead arranger lacks and the company needs such as: foreign lending capabilities; Asian treasury services; leasing…

- Playing a meaningful underwriting role or just getting a “tip” in Capital Market events such as a bond issues or an equity offerings are very important

- Knowing the company may be an active acquirer or in a high growth mode, giving it reason to redo its deal periodical, can also be attractive to banks

- Other business may include purchasing / corporate credit cards; foreign exchange trading; commodity hedging; asset management; M&A services
Case Study – Nash Finch ABL Refinancing

Situation Overview

• In December 2011, Nash Finch decided to refinance its Asset Based Revolver

• Key Goals

  o Wanted 5 Year maturity to provide long term liquidity

  o Upsize facility from $340M to $520M to provide funding for a pending maturity

  o Increase bank group size from 9 to 10 to support additional liquidity needs

  o Bring in new banks to provide additional treasury management and capital market capabilities to finance future acquisitions
# Case Study – Nash Finch ABL Refinancing

## Bank Capability Matrix

<table>
<thead>
<tr>
<th>Bank</th>
<th>Tier</th>
<th>Corporate Finance</th>
<th>Capital Markets</th>
<th>Treasury Management</th>
<th>Leasing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Bank Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank 1</td>
<td>1</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Bank 2</td>
<td>2</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 4</td>
<td>2</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Bank 6</td>
<td>3</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 8</td>
<td>4</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 9</td>
<td>4</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 10</td>
<td>5</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 11</td>
<td>5</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Bank 12</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td></td>
</tr>
</tbody>
</table>

| **Targeted Additional Banks** | | | | |
| Bank 3 | 2 | High | High | High | Medium |
| Bank 5 | 2 | High | High | Medium | Low |
| Bank 7 | 3 | High | High | High | Medium |
| Bank 13 | 2 | High | Medium | Low | Low |
| Bank 14 | 2 | Medium | Medium | High | High |
| Bank 15 | 2 | High | Low | Low | High |
| Bank 16 | 2 | Medium | Low | Low | Low |
Case Study – Nash Finch ABL Refinancing

Allocation Table

<table>
<thead>
<tr>
<th>Title</th>
<th>Invite Level</th>
<th>Commitments</th>
<th>Allocations after Flex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1 CLB, Admin and Collateral Agent</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$125,000 83.3%</td>
</tr>
<tr>
<td>Bank 2 CLB and Co-Syndication Agent</td>
<td>$75,000</td>
<td>$100,000</td>
<td>$62,500 62.5%</td>
</tr>
<tr>
<td>Bank 3 CLB and Co-Syndication Agent</td>
<td>$75,000</td>
<td>$75,000</td>
<td>$62,500 83.3%</td>
</tr>
<tr>
<td>Bank 4 CLB and Co-Documentation Agent</td>
<td>$75,000</td>
<td>$75,000</td>
<td>$62,500 83.3%</td>
</tr>
<tr>
<td>Bank 5 Co-Manager</td>
<td>$75,000</td>
<td>$50,000</td>
<td>$42,500 85.0%</td>
</tr>
<tr>
<td>Bank 6 Co-Manager</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$42,500 85.0%</td>
</tr>
<tr>
<td>Bank 7 Co-Manager</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$42,500 85.0%</td>
</tr>
<tr>
<td>Bank 8 None</td>
<td>$35,000</td>
<td>$50,000</td>
<td>$30,000 60.0%</td>
</tr>
<tr>
<td>Bank 9 Co-Documentation Agent</td>
<td>$35,000</td>
<td>$60,000</td>
<td>$30,000 50.0%</td>
</tr>
<tr>
<td>Bank 10 None</td>
<td>$25,000</td>
<td>$25,000</td>
<td>$20,000 80.0%</td>
</tr>
<tr>
<td>Bank 11 None</td>
<td>$25,000</td>
<td>$50,000</td>
<td>- 0.0%</td>
</tr>
</tbody>
</table>

|                                            | $670,000     | $735,000    | $520,000               |

• Generated oversubscription by inviting $670M in participation even though we only needed $520M in funding
• Used final allocations and pricing flex to reduce the number of banks in the deal and prevent one bank from controlling the whole deal
Thank you

Questions & Answers

Takeaways

CPE Code