AFP® Annual Conference

OCTOBER 27–30, 2013 | LAS VEGAS

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Association for Financial Professionals®

Maximizing Credit Facilities and Rewarding Bank Relationships

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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

	Asset-Based Lending	Pro Rata Bank (Cash Flow)	Finance Company (Leveraged Finance)	Institutional Term Loan
Lender Type:	**Banks, Finance Cos, Investment Banks**	**Traditional Banks**	**Sponsor Focused Banks, Finance Companies, MM CLO's, BDC's**	**Broad Market CLO's, Loan Mutual Funds, Hedge Funds, Fin Co's**
Values Relationship:	**Yes, with Company and Sponsor**	**Yes, with Company and Sponsor**	**Little with Company, if any: with the Sponsor**	**No**
Ratings Required:	No	No	Depends on Deal Size, B2/B Public Corporate / Shadow (Private) for Optimal Execution	Yes, B2/B Public Corporate for Optimal Execution
Minimum Deal Size:	No Minimum	No Minimum	No Minimum	\$100 to \$125 million TL
Tenor:	5 Years	5 Years	5 to 6 Years	5 to 6 Years
Pricing / Determinants:	L+125 to 400 bps / Deal Size, Credit, Industry, Sponsor, Ancillary Business	L+250 to 450 bps / Deal Size, Credit , Industry, Location, Sponsor, Ancillary	L+400 to 650 bps / Deal Size, Credit & Ratings Profile, Industry, and Sponsor	L+450 to 650 bps Deal Size and Rating
LIBOR Floor:	No	No	1.00% to 1.75%	1.00% to 1.75%
OID:	99.0 to 99.5	98.5 to 99.5	96 to 99	96 to 98
Prepayment Premium:	None	None	Typically None	102 / 101 or 101 "soft" call for opportunistic refinancings

Senior Debt Execution Alternatives (cont'd)

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

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
  - Arrangers guarantee the entire amount committed, then syndicate
  - Can be a competitive tool to win mandates if certainty of execution is critical
  - Includes flex-language which enables the arrangers to make limited pricing and structural modifications to facilitate a successful syndication
  - Usually requires greater fees because agent is required to fund if syndication fails
- A Best-Efforts Syndication
  - Arranger group commits to underwrite less than the entire amount of the loan
  - 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
  - Traditionally used for riskier borrowers, complex transactions or to save borrower fees
- A Club Deal
  - 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
  - Arranger a first among equals; each lender gets a full or nearly full share of fees.
  - 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”

Filling in the Bank Group - Successful Execution

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
  - Wanted 5 Year maturity to provide long term liquidity
  - Upsize facility from $340M to $520M to provide funding for a pending maturity
  - Increase bank group size from 9 to 10 to support additional liquidity needs
  - 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

Bank	Tier	Corporate Finance	Capital Markets	Treasury Management	Leasing
		Capabilities			
Current Bank Group					
Bank 1	1	High	High	High	High
Bank 2	2	Medium	Medium	Low	Low
Bank 4	2	High	High	High	High
Bank 6	3	Medium	Medium	High	Low
Bank 8	4	Low	Low	Low	Low
Bank 9	4	Low	Low	Low	Low
Bank 10	5	Low	Medium	Low	Low
Bank 11	5	Low	Low	Low	Low
Bank 12		Low	Low	Low	Medium
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		High	Medium	Low	Low
Bank 14		Medium	Medium	High	High
Bank 15		High	Low	Low	High
Bank 16		Medium	Low	Low	Low

Case Study – Nash Finch ABL Refinancing

Allocation Table

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