Unpacking the New Main Street Lending Program Loans and Expanded Eligibility Requirements For Small & Mid-Sized Companies

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Agenda

Welcome & Panel Introduction

April 30th Update Overview

Loan Options

Eligibility Requirements

Open Issues Addressed

April 30th Update Overview

Main Street Lending Program April 30th Update Overview

- Main Street is designed to provide support to small and medium-sized businesses and their employees across the United States during the current period of financial strain by supporting the provision of credit.
- The availability of additional credit is intended to help companies that were in sound financial condition prior to the onset of the COVID-19 pandemic maintain their operations and payroll until conditions normalize.
- The Department of the Treasury will make a $75 billion equity investment in a Special Purpose Vehicle (Main Street SPV).
- The Federal Reserve received more than 2,200 letters from individuals, businesses and non-profits.

Main Street Lending Program April 30th Update Overview

- Expanding the pool of businesses eligible to borrow to include businesses with **up to 15,000 employees or up to $5 billion in annual revenue**. This is an increase from 10,000 employees or $2.5 billion in revenue that indicated in draft term sheets dated April 9, 2020.
- Defining that a Business's employee and 2019 revenue threshold eligibility are calculated based upon aggregating the information of both the Business and it's affiliates as defined by SBA affiliation rules outlined at 13 CFR 121.301(f)(1/1/2019 ed.)
- Removing the requirement that Borrower attest that financing is necessary due to the COVID-19 pandemic.
- Lowering the minimum loan size for Main Street New Loan Facility (MSNLF) from $1 million to $500,000. Note, the newly created MSPLF also has a minimum loan of $500,000.

Main Street Lending Program April 30th Update Overview

- Creating the Main Street Priority Loan Facility (MSPLF) a third loan option that increases risk sharing by lender (lender retains 15% of loan) for borrowers with greater leverage (up to 6.0x adjusted 2019 EBITDA).
- Increasing the maximum loan size for Main Street Expanded Loan Facility (MSELF) from $150 million to $200 million. Note MSELF minimum loan size also increased to $10 million.
- Modify facility adjustable interest rates to be based upon the London Inter-Bank Offered Rate (LIBOR) + 3% instead of the Secured Overnight Financing Rate (SOFR).
- Exclusion of foreign owned entities appears to be limited to majority foreign owned joint ventures (>49% ownership) and not to a corporation or other entity that is not a joint venture.

Main Street Lending Program April 30th Update Overview

Key Items Not Required:

- No personal guarantee
- No attestation to Borrower financial need as a result of COVID-19
- No attestation to Borrower not having access to other credit

Main Street Lending Program April 30th Update Overview

Key open questions:

- The start date of the program including the official launch date and the time and date when the Main Street SPV will begin purchasing participations in MSLP loans and upsized tranches has not been announced.
    - Though anticipated end date of program is September 30, 2020
- Non-profit organizations can not currently participate in the MSLP. However, the Federal Reserve (Fed) recognizes the need for a program to address their unique needs.

Polling Question #1

Do you currently have a strong enough balance sheet to survive the next quarter with reduced run rate revenue?

a) Yes

b) No

c) Not applicable

Loan Options

Main Street Lending Program – New Loan Facility

- 4 year maturity
- Principal and interest payments deferred for one year (unpaid interest will be capitalized)
- Adjustable rate of Libor (1 or 3 month) + 300 basis points
- Principal amortization of 1/3 at the end of the 2nd year, 1/3 at the end of the 3rd year, and 1/3 at maturity at the end of the 4th year
- Minimum loan size of $500,000 (decreased from $1 million)
- Maximum loan size that is the lesser of:
  - $25 million
  - an amount that, when added to outstanding and undrawn but available debt, does not exceed 4.0X 2019 Adjusted EBITDA.
- No pre-payment penalty

Main Street Lending Program – Priority Loan Facility

- 4 year maturity
- Principal and interest payments deferred for one year (unpaid interest will be capitalized)
- Adjustable rate of Libor (1 or 3 month) + 300 basis points
- Principal amortization of 15% at the end of the 2nd year, 15% at the end of the 3rd, and a balloon payment of 70% at maturity at the end of the 4th year.
- Minimum loan size of $500,000
- Maximum loan size that is the lesser of:
  - $25 million
  - an amount that, when added to outstanding and undrawn but available debt, does not exceed 6.0X 2019 <u>Adjusted</u> EBITDA.
- No pre-payment penalty

Main Street Lending Program – MSNLF vs. MSPLF

Key differences include:

- Loan principal amortization
  - MSNLF will amortize evenly between years 2 – 4
  - MSPLF has a 70% balloon payment due at maturity at the end of the 4^{th} year.
- Maximum loan size
  - MSNLF is capped at $25 million or an amount when added to outstanding and committed but undrawn debt does not exceed <u>4.0X</u> 2019 Adjusted EBITDA.
  - MSPLF is capped at $25 million or an amount when added to outstanding and committed but undrawn debt does not exceed <u>6.0X</u> 2019 Adjusted EBITDA.
- Under the MSPLF, the Eligible Borrower may refinance existing debt owed to a lender that is not the Eligible Lender at the time the MSPLF loan is originated.

Main Street Lending Program – Expanded Loan Facility

- 4 year maturity
- Principal and interest payments deferred for one year (unpaid interest will be capitalized)
- Adjustable rate of Libor (1 or 3 month) + 300 basis points
- Principal amortization of 15% at the end of the 2nd year, 15% at the end of the 3rd, and a balloon payment of 70% at maturity at the end of the 4th year.
- Minimum loan size of $10 million
- Maximum loan size that is the lesser of:
  - $200 million
  - 35% of existing outstanding and undrawn available debt
  - an amount that, when added to outstanding and undrawn but available debt, does not exceed 6.0X 2019 Adjusted EBITDA.
- No pre-payment penalty

Loan options: MSNLF, MSPLF & MSELF

	New Loan Facility	Priority Loan Facility	Expanded Loan Facility
Origination	After April 24, 2020	After April 24, 2020	On or Before April 24, 2020
Interest rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%
Term	4 years	4 years	4 years
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 14%, 70%	Years 2 – 4: 15%, 15%, 70%
Security	Secured or unsecured	Senior to or pari passu with other loans or debt instruments	Senior to or pari passu basis with other loans or debt instruments
Personal guarantee	No	No	No
Minimum loan size	$500,000	$500,000	$10 million
Maximum loan size	The lesser of $25 million or 4x 2019 Adjusted EBITDA and subject to amount of current credit facilities	The lesser of $25 million or 6x 2019 Adjusted EBITDA and subject to amount of current credit facilities	The lesser of $200 million, 35% of existing outstanding and undrawn debt, or 6x 2019 Adjusted EBITDA and subject to amount of current credit facilities
Prepayment	Permitted without penalty	Permitted without penalty	Permitted without penalty
Loan facility fees	• Lender will pay SPV a transaction fee of 100 BPS of the principal amount of the loan at time of origination. Lender may require Borrower to pay this fee. • Borrower will pay Lender up to 100 BPS of the principal amount of the loan at time of origination. • SPV will pay Lender 25 BPS of the principal amount of its participation in the loan per annum for loan servicing.	• Lender will pay SPV a transaction fee of 100 BPS of the principal amount of the loan at time of origination. Lender may require Borrower to pay this fee. • Borrower will pay Lender up to 100 BPS of the principal amount of the loan at time of origination. • SPV will pay Lender 25 BPS of the principal amount of its participation in the loan per annum for loan servicing.	• Lender will pay SPV a transaction fee of 75 BPS of the principal amount of the upsized tranche of the loan at time of upsizing. Lender may require Borrower to pay this fee. • Borrower will pay Lender up to 75 BPS of the principal amount of the upsized tranche of loan at time of upsizing. • SPV will pay Lender 25 BPS of the principal amount of its participation in the upsized tranche of the loan per annum for loan servicing.

Eligibility Requirements

Who is Eligible for the Main Street Lending Program

Eligible borrowers are a business that:

- Was established prior to March 13, 2020
- Is not an ineligible business as listed by the SBA and modified by the CARES Act.
- Is an organized <u>for profit</u> as one of the following: a partnership, a limited liability company, a corporation, an association, a trust, a cooperative, a join venture with no more than 49 percent participation by foreign business entities, or a tribal business.
- Has 15,000 or fewer employees <u>or</u> had 2019 annual revenues of $5 billion or less.
- Is created or organized in the United States or under the laws of the U.S. with significant operations in and a majority of its employees based in the U.S.
- Does not also participate in multiple MSLP facilities or the Primary Market Corporate Credit Facility
- Has not received specific support under Subtitle A of Title IV of the CARES Act
- Businesses that have received PPP loans are permitted to borrow under the MSLP provided that they meet the requirements noted above.

Who is Eligible for the Main Street Lending Program

Required borrower attestations:

- May not repay other debt of equal or lower priority, other than mandatory payments, until Main Street Loan is repaid in full
- Will not seek to cancel or reduce any committed lines of credit
- As of loan origination, has the ability to meet financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that period.
- Must follow statutory restrictions: stock repurchase dividends and executive compensation
- Must make commercially reasonable efforts to maintain its payroll and retain employees during the time the MSLP loan is outstanding

Who is Eligible for the Main Street Lending Program

Eligible lenders are:

- U.S. federally-insured depository institutions including banks, savings associations and credit unions
- U.S. branches or agencies of foreign banks
- U.S. bank holding companies
- U.S. savings and loan holding companies
- U.S. intermediate holding companies of foreign banking organizations
- Nonbank financial institutions are NOT eligible at this time

Who is Eligible for the Main Street Lending Program

Required lender attestations:

- Proceeds will not be used to repay or refinance pre-existing loans or line of credit made by the Lender to the Borrower.
- Will not cancel or reduce any existing line of credit of the Borrower
- Must certify that the methodology used for calculating 2019 Adjusted EBITDA for the maximum loan size (leverage requirement) is <u>consistent</u> with methodology used for calculating Adjusted EBITDA for the borrower or to similar borrowers on or before April 24, 2020.
- Eligible Lenders are expected to conduct an assessment of each potential borrower's financial condition at the time of the potential borrower's application.

Polling Question #2

Based upon your current understanding, do you believe your organization meets the borrower eligibility requirements?

a) Yes

b) No

c) Not applicable

Open Issues Addressed

Main Street Lending Program – Calculating 2019 Adjusted EBITDA

- Guidance
  - MSNLF and MSPLF – methodology must be consistent with previous methodology used for calculating Adjusted EBITDA for the borrower or to similar borrowers on or before April 24, 2020.
  - MSELF – methodology must be consistent with previous methodology used to calculate Adjusted EBITDA when originating or amending the underlying loan on or before April 24, 2020.
- Items to consider
  - Earnings before interest, taxes, depreciation, amortization and coronavirus (EBITDAC)
  - 2019 Adjusted EBITDA vs. Trailing 12-months EBITDA in 2020.
  - "Eligible Lenders should view the eligibility criteria in the term sheets as the <u>minimum</u> requirements for the Program. Eligible Lenders are expected to conduct an assessment of each potential borrower's financial condition at the time of the potential borrower's application. **Eligible Lenders will apply their own underwriting standards in evaluating the financial condition and creditworthiness of a potential borrower.**"

Main Street Lending Program – Calculating 2019 Annualized Revenue

- Borrower and borrower's affiliates' annual revenue per its 2019 GAAP based audited financial statements; or
- Borrower and borrower's affiliates annual 2019 receipts as reported to the Internal Revenue Service.
  - For the purpose of the MSLP, receipts should be as defined by the SBA in 13 CFR 121.104(a) including all revenue including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances.

Main Street Lending Program – Counting Employees

- Use SBA regulations at 13 CFR 121.106
- Count all full-time, part-time, seasonal, or otherwise employed persons
- Do not count volunteers or independent contractors (1099 recipients)
- Count both borrower’s employees and borrower’s affiliates’ employees
- Use the average total number of employees employed by the borrower and its affiliates for each pay period over the 12 months prior to the origination of the loan

Main Street Lending Program – Determining Affiliates

- Use SBA regulations at 13 CFR 121.301(f) (1/1/2019 ed.)
- The following principles guide the SBA affiliation determination:
  - Affiliation based on ownership
  - Affiliation arising under stock options, convertible securities, and agreements to merge.
  - Affiliation based on management
  - Affiliation based on identity of interest
  - Affiliation based on franchise and license agreements

Polling Question #3

Does your organization track adjusted EBITDA on an on-going basis?

a) Yes
b) No
c) Not applicable


Questions

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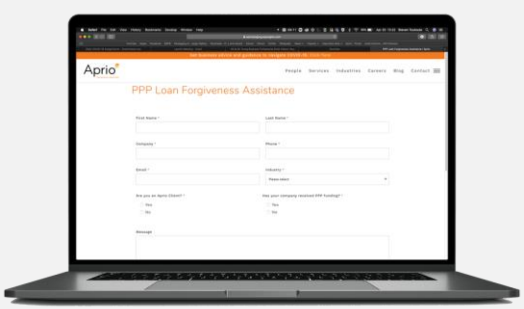
Aprio®

For additional assistance from Aprio go to:

https://www.aprio.com/main-street-lending-program



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