"Winning Business Strategies"
Webinar Series

Sources of Capital in Today's Difficult Credit Environment

Presented by:

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Your bank tells you that they won't lend you any more money (or they want the money back that they have loaned to you). What do you do now? Despite a very difficult credit environment, there are other options to fund your business. Cliff and Michael will discuss of the current state of the credit markets as well as other options for funding the capital needs of your business.

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Overview

I. Some Recent History

II. Current Trends in M&A Debt Markets

III. Alternative Sources of Capital; Non-equity (Mostly)

IV. Growth Capital

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I. SOME RECENT HISTORY

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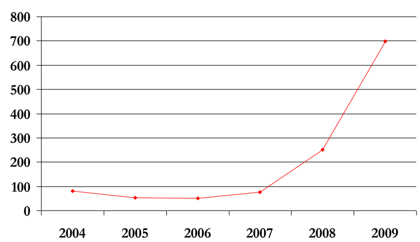
FDIC-Insured "Problem" Banks



Source: FDIC
Based on capital, assets, management, earnings, liquidity and sensitivity to market conditions

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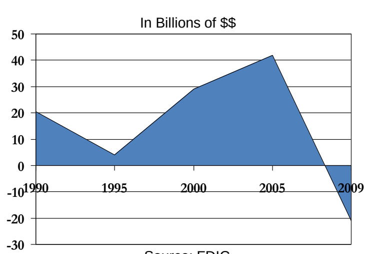
FDIC Reserve Fund Balance



Source: FDIC

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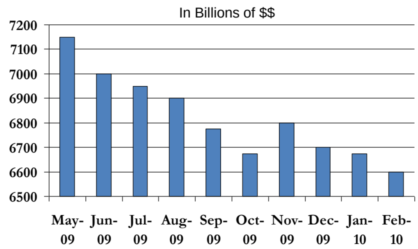
Bank Loans in US



Source: Federal Reserve

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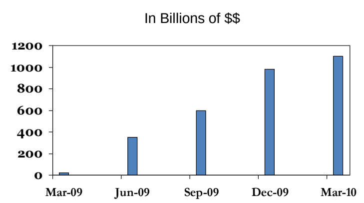
US Bank Non-Borrowed Reserves



Source: FDIC

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II. CURRENT TRENDS IN M&A DEBT MARKETS

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- Valuable market intelligence generated through D&P's recent sale processes illustrate tempered M&A and financing markets, although Q4 2009 produced reason for optimism:

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- The M&A landscape has fundamentally changed as tighter credit markets have eliminated the availability of cheap credit, which drove M&A activity and valuations up until 2008
- The credit crisis has brought large cap buyouts to a near halt, and while middle market buyouts have been less effected, activity has slowed

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- M&A activity among strategic acquirors is limited to those strategics that have a healthy balance sheet and those that depend on acquisitions for growth

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

– With debt financing less readily available, private equity firms continue to be willing buyers with plenty of capital to put to work – choosing now to "over-equitize" investments, provide growth equity or take minority positions

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

– As credit is now less abundant and more expensive, private equity firms are forced to invest more equity to fund transactions, which is subsequently forcing firms to lower valuations to achieve their required rates of return

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- However, recent activity indicates that market conditions are increasingly conducive to heightened M&A activity going into 2010:

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- Capital markets are opening / financing is more available
  - The M&A and leveraged loan markets showed signs of recovery in the second half of 2009 and the cost of debt has moderated
  - Strategic buyers with cash-rich balance sheets are actively pursuing M&A in order to drive top-line growth

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D&P Middle Market M&A Insights: Signs of M&A Market Resurgence

- Valuations remain reasonable and sellers' expectations are more realistic
- Private equity dry powder is at an all-time high

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Average Debt Multiples and Pricing Trends

- In general, senior leverage is now in the 2.0x to 3.0x senior debt to EBITDA range, with total leverage at roughly 3.25x to 3.75x
  - With a limited second lien market and increased use of mezzanine debt to fill out capital structures

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Average Debt Multiples and Pricing Trends

- Credit spreads increased significantly in 2008 and into 2009 but have moderated since
- Lenders are now seeking greater protections (e.g. stricter covenants, more collateral and greater amortization) and higher compensation (e.g. more expensive pricing and higher upfront fees)

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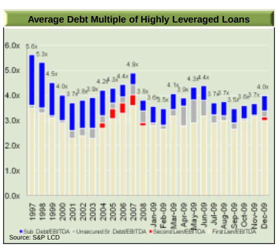
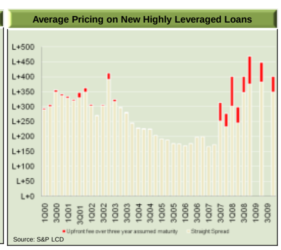
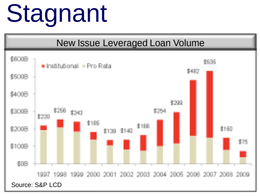
Average Debt Multiples and Pricing Trends

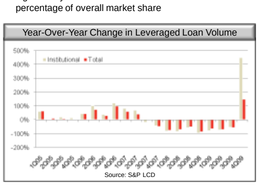


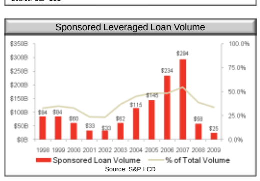


Leveraged Loan Market – New Issuance Remains Stagnant

- 2009 saw the lowest issuance for leverage loans since 1991
- Lower primary market volume during 2009, plunging over 50% to $75 billion from $150 billion in 2008 (which was dramatically off of the $535 billion issued in 2007)
  - Institutional volume also lagged, down 46% to $38 billion from $71 billion in 2008
- The leveraged loan market experienced nine consecutive quarters of decline until Q4 2009 (which benefited from virtually no new issuance in Q4 2008)
- Sponsored leveraged loan issuance has declined significantly since 2007 in both total issuance and as a percentage of overall market share







III. ALTERNATIVE SOURCES OF CAPITAL; NON-EQUITY (MOSTLY)

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Individuals

- 3Fs (Friends/Family/Fools)
  - Money can be cheap (financially anyway; emotionally, not-so-much)
  - Great way to make enemies out of friends/family
  - Virginmoney.com will document the loan for you

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Individuals

- Peer-to-Peer Lending
  - www.prosper.com
  - www.lendingclub.com

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Individuals

- High Net Worth Individuals
  - Can be high interest rate, and usually involve giving up equity
  - Can be accompanied with great business advice, or second guessing

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Non-Traditional Banks

- Finance Companies
  - Equipment loans and leases

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Non-Traditional Banks

- Asset Based Lenders
  - Loans tied to a specific type of asset, like inventory, accounts receivable, machinery and equipment, but can include exotic assets, like IP (such Annie Leibovitz's portfolio)
  - Usually high interest rates

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Non-Traditional Banks

- Factor Accounts
  - Involves the actual sale of accounts receivable to the "lender"
  - Factor will examine the creditworthiness of not only you, but also your customers

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Government Programs

- SBA 7(a) Program
  - Loan Guaranty from the SBA
  - Delivered Through Commercial Banks
  - 10 Years For Working Capital and 25 Years for Fixed Assets
  - Must Meet Size Standards

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Government Programs

- SBA CDC/504 Program (Some fees waived beginning 2/2009)
  - Long-term, fixed rate financing to acquire major fixed assets for expansion or modernization
  - Typically, 50% of Project comes from private sector - senior lender;
    - 40% of Project comes from a Certified Development Company (backed by SBA; 10% from Borrower (plus usually requires guaranty of owner of Borrower)
  - Must have TNW of less than $7.5m and avg. net income of less than $2.5m

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Government Programs

- America's Recovery Capital Loan Program
  - $35,000 in short-term relief
  - No-SBA fees
  - Proceeds used to payoff debt service on other loans
- SBA Microloan Program
  - Up to $35,000 in loans
  - Loans made through non-profit intermediary

Government Programs

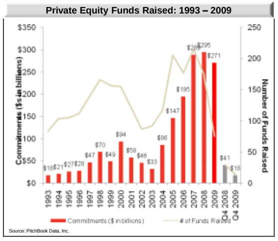
- Specialty Programs
  - Export loan guaranties (up to $250,000)
  - Loans for those negatively affected by NAFTA
  - Surety bond guaranties

IV. GROWTH CAPITAL

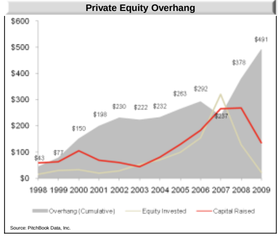
Slowing Private Equity Fund Raising but Still Plenty of "Dry Powder"

- **Private equity fundraising has slowed but the market still has plenty of "dry powder"**
  - In 2009, the fund raising environment was less favorable than in previous years, with 85 funds raising $135 billion ($295 billion raised by 173 funds in 2008)
  - In Q4 2009, 14 funds raised $17.8 billion versus 30 funds having raised $40.8 billion in Q4 2008
- **Private equity firms still have plenty of uninvested capital and were reluctant to deploy capital in 2009 (despite the increase in recent activity in 2H 2009) – there is an estimated $491 billion in uninvested private equity capital**

Private Equity Funds Raised: 1993 – 2009



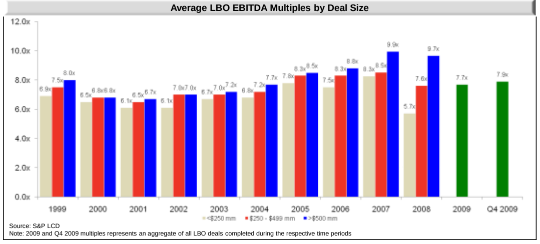
Private Equity Overhang



Middle Market LBO Multiple Trends

- From 2003 to 2007, LBO valuation multiples increased due to the availability of cheap debt and intense competition among private equity firms to invest the enormous levels of capital raised
- As debt markets have tempered, private equity firms have been forced to invest a greater percentage of equity in transactions, which is subsequently forcing firms to lower valuations to maintain their required rates of return
  - Because of the lack of available credit to finance LBOs, private equity firms have increasingly resorted to all equity buyouts, growth equity capital infusions and minority equity investments to put capital to work

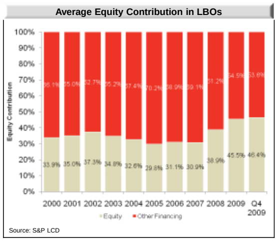
Average LBO EBITDA Multiples by Deal Size



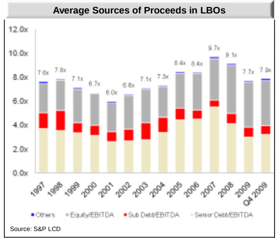
Leveraged Buyout Sources of Proceeds

- The tight credit markets and stricter terms (e.g., high interest rates, strict covenants, large upfront fees) of the debt capital that is available have forced private equity firms to invest more equity to fund transactions
  - Equity contributed to fund LBOs has risen over the past 12 months to ~46% as of the end of 2009
- Prior to the credit crisis, bank debt was the primary funding source for LBOs (averaging ~50% of total proceeds)
  - In 2009, bank debt has constituted under 25% of total proceeds, with other forms of secured debt (primarily from specialty lenders and hedge funds) accounting for nearly 20% of proceeds

Average Equity Contribution in LBOs



Average Sources of Proceeds in LBOs



QUESTIONS?

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