# COVID-19 Relief Update

As of April 27, 2020

## Update - Main Street Lending Program (Preliminary)

On April 9, 2020, the Federal Reserve Board provided up to $2.3 trillion in loans to support the economy. Included in this package is funding for the Main Street Lending Program ("MSLP") which targets middle market businesses affected by COVID-19. This Program has two subprograms, one for new loans originated and the second for the expansion of existing loans

**Preliminary Program Deadline: September 30, 2020**

| | **Main Street New Loan Facility** | **Main Street Expanded Loan Facility** |
|---|---|---|
| **Origination** | On or After April 8, 2020 | Before April 8, 2020 |
| **Maturity** | 4 Years | 4 Years |
| **Interest rate** | SOFR + 250-400 bps | SOFR + 250-400 bps |
| **Amortization** | One-year deferral of principal and interest | One-year deferral of principal and interest |
| **Minimum Loan** | $1 million | $1 million |
| **Maximum Loan** | Lesser of (i) $25mm or (ii) an amount that, when added to the borrower's existing outstanding and committed, but undrawn debt, does not exceed **4x the borrower's 2019 EBITDA** | Lesser of (i) $150mm or (ii) 30% of eligible borrower's existing outstanding and committed, but undrawn bank debt, or (iii) an amount that, when added to the borrower's existing outstanding and committed, but undrawn debt, does not exceed **6x the borrower's 2019 EBITDA** |
| **Prepayment Penalty** | None | None |

**MSLP Rules Subject to Change**
Comments on the preliminary rules were collected on April 16, 2020. Like PPP proposals, MSLP is subject to change significantly post-comment

**Pricing Utilizes SOFR vs. LIBOR**
Pricing determined by Secured Overnight Financing Rate ("SOFR") plus an interest margin instead of LIBOR. This could increase complexity with the expansion of existing loans utilizing LIBOR

**Security Status**
MSLP New Loan Facility will be unsecured while the MSLP Expanded Loan Facility will inherit a pari passu secured status if the expanded facility is secured

**Combining COVID-19 Relief Programs**
Able to utilize Paycheck Protection Program in conjunction with Main Street Lending Program

### Current Key Restrictions

- Borrower must attest that it requires financing due to exigent circumstances from COVID-19
- Proceeds cannot be used to repay or refinance pre-existing loans
- Limitations on officer and employee compensation for one year after loan is no longer outstanding
- Borrower will use MSLP proceeds to "make reasonable efforts" to maintain payroll and retain employees
- Borrower prohibited to pay dividends to common stock, or repurchase an equity security while the loan is outstanding

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*Sources: US Federal Reserve Board*

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On April 16, 2020, the Federal Reserve received over 2,000 comment letters regarding the proposed rules to the Main Street Lending Program. As such, many industry lobbying groups and legislators have commented on the potential shortfalls and challenges with the program. The Federal Reserve has not commented on when updated guidance will be released or when the program will be live

| Issue | Select Preliminary Responses |
| --- | --- |
| Maximum Leverage | The proposed maximum leverage covenants would effectively cap existing leveraged loan issuers.<br><br>The average proforma debt / EBITDA ratio of 2019 M&A deals was 5.9x as of YE 2019. With synergies, the average leverage declined slightly, but synergies and add-backs will not be considered for Main Street loans. Further, these leverage multiples are calculated when the loan closes. Typically at close, revolving lines of credit are undrawn therefore today would be included in the MSLP total leverage calculation.<br><br>The National Venture Capital Association wrote that the proposed MSLP rules "risk excluding virtually all companies who are in their growth phases". |
| Minimum Loan Size | The American Bankers Association suggested the minimum be lowered to $50,000 and commented that small businesses "often have borrowing needs far below $1mm, even in healthy economic conditions".<br><br>Senator Mike Crapo, Republican-Idaho and House Representative Maxine Waters, Democrat-California also suggested lowering the minimum loan amount. |
| Utilizing SOFR | A majority of US corporate loans utilize LIBOR as their benchmark today. Banking industry groups are suggesting to avoid SOFR and continue utilizing LIBOR for the Main Street Lending Program. |
| Pricing | In order to ensure borrowers in need of COVID-19 relief financing are able access it, some are suggesting the pricing must be lowered.<br><br>Joe Brusuelas, chief economist at RSM US, LLP suggested that if SOFR is kept as the benchmark, a rate of SOFR + 100 to 350bps would draw more interest from businesses, helping ensure smaller firms do not "fall between the cracks". |
| Dividend / Share buyback Restriction | The US Chamber of Commerce asked the Federal Reserve to avoid restrictions on dividends and share buybacks as these restrictions "would only exacerbate the financial squeeze that many companies are experiencing."<br><br>"Furthermore, investors – particularly retail investors that rely on dividend income for retirement savings – would be unduly harmed if thousands of companies were forced to suspend capital distributions for several years" |
| Debt Payback Restriction | The Independent Petroleum Association of America requested the Federal Reserve remove the provision that restricts debt paydown with Main Street Loans, writing that providing flexibility on use of funds may help avoid defaults in the industry, which is experiencing historically low oil prices and decreased travel |

*Sources: S&P Global, LCD, US Federal Reserve Board*

# Preliminary Main Street Lending Program – Illustrative Example

| Example Company Profile Used in Our Analysis | |
|---|---|
| 2019 EBITDA | $6.0 |
| Outstanding Bank Debt | $12.0 |
| *x of EBITDA* | *2.0x* |
| Committed Bank Debt | $15.0 |

| Illustrative MSLP New Debt Characteristics | |
|---|---|
| SOFR Rate (4/24/20) | 0.01% |
| Interest Spread | 4.00% |
| Total Interest Rate | 4.01% |
| Maturity | 4 Years |
| Principal & Interest Deferred | 1 Year |

### Illustrative Example Overview

- Company has $6mm 2019 EBITDA pre-COVID-19 and adversely affected in Year 1 by the pandemic. Company recovers by utilizing the MSLP New Debt Loan Facility as they could obtain more relief than the MSLP Expanded program. Imperative to set sequencing and understand the program's implications / restrictions

**Main Street Lending Program Availability Tests**

| Limitations *($mm)* | MSLP New Debt | | MSLP Expanded Debt | |
|---|---|---|---|---|
| Cannot be greater the following Amounts: | $25.0 | | $150.0 | |
| or up to Max Leverage | 4.0x | $9.0 | 6.0x | $21.0 |
| or 30% of Available Bank Debt | | | | $4.5 |
| Additional MSLP Bank Debt Allowed | $9.0 | | $4.5 | |
| **Total Debt** | **$21.0** | | **$16.5** | |
| *x of 2019 EBITDA* | *3.5x* | | *2.8x* | |

**Illustrative Main Street Lending New Debt Schedule**

| | 2019 | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|---|
| EBITDA | $6.0 | $2.0 | $5.0 | $7.0 | $8.0 |
| Beginning Balance | | $9.0 | $9.0 | $6.9 | $4.7 |
| Accrued Interest | | $0.4 | $0.0 | $0.0 | $0.0 |
| Cash Interest Payment | | $0.0 | $0.7 | $0.3 | $0.2 |
| Principal Payment | | $0.0 | $2.1 | $2.2 | $2.3 |
| Bullet Payment at Maturity | | $0.0 | $0.0 | $0.0 | $2.4 |
| Total Debt Payment | | $0.0 | $2.8 | $2.5 | $4.9 |
| Ending Balance | | $9.0 | $6.9 | $4.7 | $0.0 |
| *Debt Service Coverage Ratio[(a)]* | | *NM* | *1.8x* | *2.8x* | *1.6x* |
| *Bank Debt to EBTIDA* | | *4.5x* | *1.4x* | *0.7x* | *0.0x* |

(a) Debt Service Coverage Ratio = Operating Profit / Total Debt Payments. Example above assumes zero Depreciation & Amortization

### Bridgepoint Expertise

- **Bridgepoint is uniquely focused on assisting first time issuer / non-sponsor middle market counterparties in leveraged finance / debt advisory option analysis and transaction execution**
- Full-service investment banking capabilities spanning capital raising, sell-side M&A and buy-side M&A

**229** YEARS OF EXPERIENCE

MORE THAN **$108B** IN TRANSACTIONS

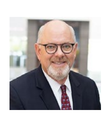
**163** TOTAL TRANSACTIONS

## SENIOR LEADERSHIP

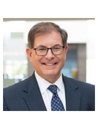

**Matt Plooster** Managing Director


**Wm. Lee Merritt** Managing Director

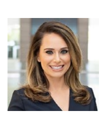

**Gary Grote** Managing Director


**Mike Anderson** Managing Director

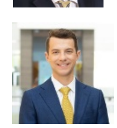

**Chad Gardiner** Director


**Adam Claypool** Managing Director


**Joe Liss** Managing Director


**Natasha Plooster** COO


**Subhash Marineni** Vice President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