



PEMBERTON

CONNECTING CAPITAL ACROSS EUROPE

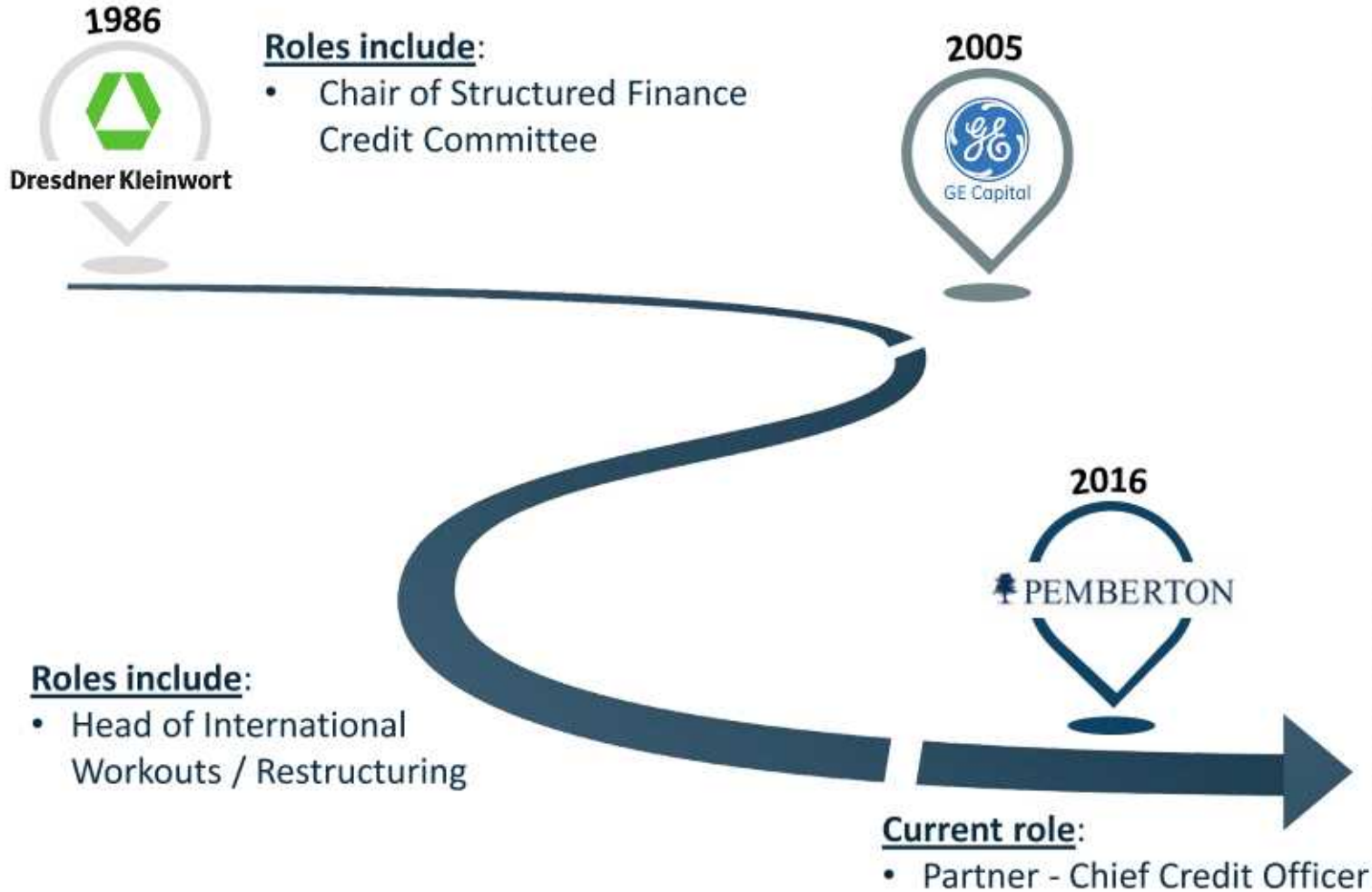
EUROPEAN DIRECT LENDING:
Addressing investors' concern for downside risks

PDI TOKYO FORUM
5th November 2019

Nicole Gates, Chief Credit Officer

INTRODUCTION - WHO I AM

Nicole Gates – Chief Credit Officer, Pemberton



Roles include:

- Head of International Workouts / Restructuring

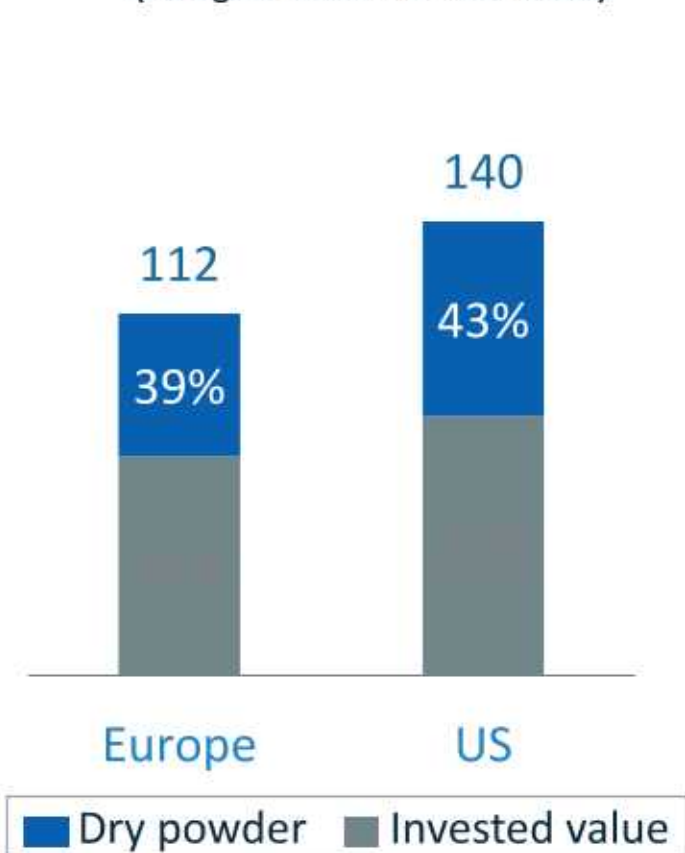
- Joined **Pemberton in 2016**
- **Over 30 years' experience** in the Financial Services industry including senior roles in the Risk function at GE Capital and Dresdner Kleinwort
- First hand experience of leading workouts in **UK, France, Germany, Spain, Italy, US, and APAC**
- Oversaw **GE Capital's Early Warning systems, watchlist policies and valuation models**

DRY POWDER

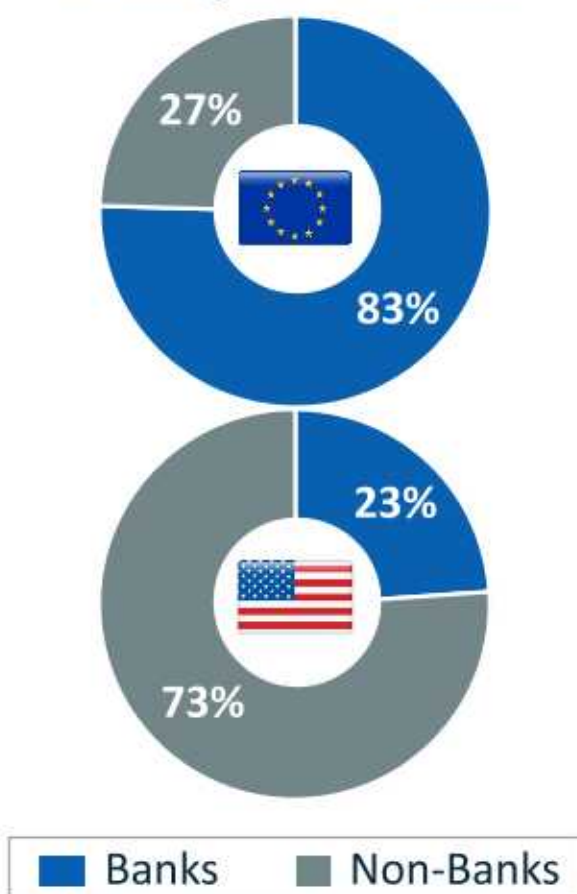
Direct lending market in Europe is still a growing market – dry powder level not too much of a concern to us

AUM / dry powder (\$bn)¹

(US figure doesn't include BDCs)



Lending market share²



- Mckinsey expects **European Banks to face more challenge** (vs US banks) and **further bank consolidation** is expected³
- Direct lending **growing rapidly in Europe** (vs more saturated market in the US)
- **Europe has less dry powder** than the US (~\$45bn vs ~\$60bn in the US)
- **Banks' lending share in Europe is much higher** than that of the US (83% vs 23%)²
- **Continuous trend to restrict European banks' capacity to lend** to mid-market corporates (e.g., Basel III, single name limit, leverage guidance, consolidation)

Note: ¹ AUM of funds categorised as funds with a direct lending strategy and with a geographic focus to respective country / region by Preqin (2018 Sep-end figure), excludes other strategies defined by Preqin such as mezz, special situations, distressed debt, etc., Preqin data also doesn't include BDCs (in the US); ² Bank lending as a % of long-term financing - Europe (2017) and US (2016), Europe – Calculated as Loans vis-à-vis NFCs by MFIs / Total Loans vis-à-vis NFCs; ³ McKinsey Global Banking Annual Review 2019
Source: Preqin (AUM/dry powder); ECB, EBF (bank lending %, Europe); ECB (bank lending %, US); Pemberton Capital Advisors LLP, October 2019

CREDIT ANALYSIS

Example of things we look at when analysing a credit

NON EXHAUSTIVE

UNDERLYING BUSINESS

- Position in the market / sector dynamics
- Business model risks and mitigants
- Management capability / key man risk
- Financial stability & flexibility / client concentration
- Ability & efficiency of procurement / production

SPONSOR

- Strength / track record of the sponsor (incl. global, regional and industry specific)
- Strength / track record of the deal team
- Robustness of the equity story (incl. valuation and exit strategy)

CASH FLOW MODELING

- Management case
- Pemberton base case (incl. sensitivities)
- Pemberton stress scenarios (min. 2 scenarios)
- Potential workout strategy
- Hard “Brexit” stress scenario – if relevant

TERMS / DOCUMENTATION

- Covenants / headroom / equity cures / baskets
- EBITDA adjustments
- Permitted disposals / acquisitions *To discuss further in the following page*
- Share security / structure *To discuss further in the following page*
- Information undertakings, governing law, etc.

EBITDA ADJUSTMENTS

Adjustments are individually scrutinised during the due diligence process

NON EXHAUSTIVE

1 Normalisation adjustments

- Income & expenses are correctly normalised, e.g. removal of non-recurring or exceptional items
- Companies using different accounting standards are adjusted correctly and are comparable

2 Pro Forma (PF) adjustments

- The changes of perimeter are reflected correctly (especially in acquisitive businesses)
 - E.g., historical financials are restated with the effect of recent / contemplated acquisitions
- Synergy estimates (from aggregation of businesses, cross-selling) are realistic and achievable
 - Pressure test and put necessary time restrictions and overall cap (e.g., 15%) in the loan documents
 - If the adjustments is material, they need to be certified by independent third parties (relevant for follow-up acquisitions)

3 Run rate (RR) adjustments

- Extrapolation of earnings correctly assuming full ramp-up of new / restructured operations

DUE DILLIGENCE / STRUCTURING CONSIDERATIONS

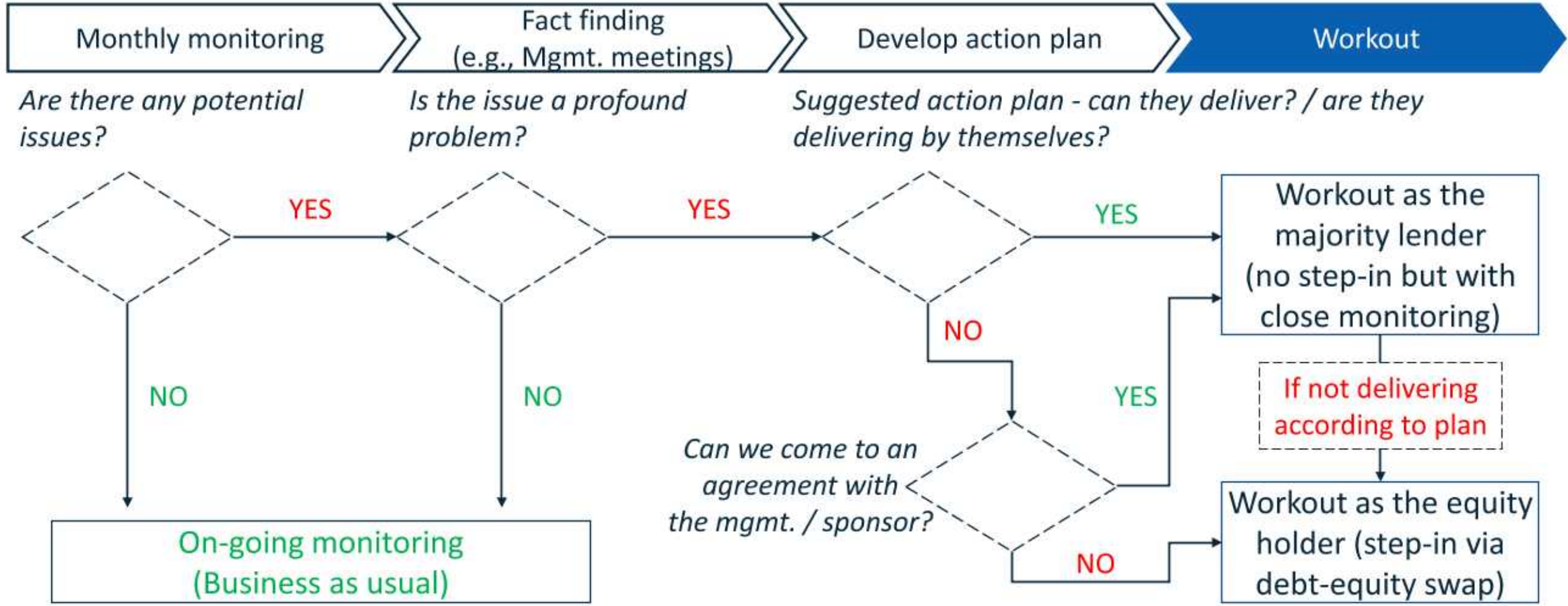
Each jurisdiction have different things to consider

		UK	GE	FR	IT	ES
INTERCREDITOR ISSUES	<ul style="list-style-type: none"> • Standstills & Payment Blocks • Release Provisions 					
COLLATERAL	<ul style="list-style-type: none"> • Availability • Cost 					
CONSENT & VOTING	<ul style="list-style-type: none"> • Structural Adjustments • Higher Thresholds 					
RESTRUCTURING	<ul style="list-style-type: none"> • Nature of Default • Liquidity Need, Value Break • In-Court / Out-of-Court 					
NEW MONEY	<ul style="list-style-type: none"> • Super-Senior • Lenders vs Shareholders • Other Flexibility in Existing Agreements 					

MONTHLY MONITORING / WORKOUT

We closely monitor our assets and will step-in to workout when we need to

SIMPLIFIED EXAMPLE



CONCLUSION

European direct lending offers attractive risk adjusted return to investors

- Direct lending market in Europe is still growing and it is at a very different stage vs the US market
 - Amount of dry powder is **lower in Europe**
 - **Market share of direct lenders still have enough headroom to grow** - European banks expected to shrink their balance sheet further
- European macro environment expected to be supportive for direct lending markets
 - **Slow eurozone growth** at an annualised growth rate just above 1% (expected GDP growth)
 - **Supportive monetary policy** – ‘lower for longer’
- Loosening lending term is concerning but **none of the underlying mechanics are new**
 - E.g., EBITDA adjustment has been here for the past 20 years
- Under such environment, there are **few critical capabilities required for a direct lending manager**:
 - Capability to pressure test and **control the risks associated to loosening terms**
 - Capability to closely monitor and if necessary, **workout under multiple country / jurisdictions**

APPENDIX

PEMBERTON PLATFORM

Europe's largest direct lending network



\$6bn AUM



Global investor base with > 90 investors¹



Award-winning manager



c.75 members dedicated to direct lending²



\$3.4bn invested in the last 18 months³



Committed to ESG



¹ Across all strategies; ² Include consultants, fixed term contractors and assistants (as of 31/09/2019); ³ Pemberton Capital Advisors LLP, September 2019.

PEMBERTON PLATFORM

Institutional lender with fund flexibility



Global Fund Manager of the Year



Private debt manager of the year
WINNER



40% Owned by Legal & General Group Plc

Institutional Lender



LOCAL OFFICE NETWORK

Enhanced Sourcing Strategy



DIVERSIFIED FUND EXPOSURE

Pan European portfolios



DUAL TRACK CREDIT PROCESS
for best-in-class credit underwriting

**Independent Credit Team /
Dedicated Chief Credit Officer**



STATE-OF-THE-ART SYSTEMS / CREDIT RATING MODEL

Rating Transparency for Investors

PEMBERTON STRATEGIES

Strategies designed to meet investors' specific risk & return requirements

	PAYABLES AND RECEIVABLES OPPORTUNITIES	SENIOR LOANS	EUROPEAN MID-MARKET DIRECT LENDING	STRATEGIC CREDIT
Strategy	<ul style="list-style-type: none"> Confirmed trade payables & receivables that benefit from Irrevocable Payment Undertakings Sourced from large multi-national OEMs and their network of core suppliers and distributors 	<ul style="list-style-type: none"> Senior loans to European mid-market companies Low-levered companies Non-Sponsor and Sponsor opportunities, capitalising on Pemberton's long-standing relationships with leading banks active in the European mid-market 	<ul style="list-style-type: none"> Senior loans to European mid-market companies Non-Sponsor and Sponsor opportunities 	<ul style="list-style-type: none"> Senior and subordinated loans to European mid-market companies Non-Sponsor and Sponsor opportunities
Target Returns¹	<ul style="list-style-type: none"> Gross target return of USD 3-month LIBOR + 215bps / uninsured Gross target return of USD 3-month LIBOR + 160bps / credit insured 	<ul style="list-style-type: none"> 5.0 – 5.5% Gross IRR 4.0 – 4.5% Net IRR 	<ul style="list-style-type: none"> 8.0 - 8.5% Gross IRR 6.5 - 7.0% Net IRR 	<ul style="list-style-type: none"> 12.75 - 13.25% Gross IRR 10.25 - 10.75% Net IRR
Seniority	<ul style="list-style-type: none"> Irrevocable Payment Undertaking (IPU) from Obligors First loss collateral embedded in insured structure Insured product has BBB equivalent credit quality 	<ul style="list-style-type: none"> Senior loans 	<ul style="list-style-type: none"> Senior loans 	<ul style="list-style-type: none"> 65% - 70% senior debt / unitranche 30% - 35% second lien / mezzanine
Average Leverage	N/A	3.5x	4.5x +	4.0x +
Average Rating	N/A	BB-	B	B
Geography	Global	Europe	Europe	Europe
Maturity	<ul style="list-style-type: none"> Class A Monthly/ Monthly Class B Monthly/ Quarterly Class C Quarterly/ 6 months 	8 years (+1 +1)	8 years (+1 +1)	8 years (+1 +1)
Denomination	USD	EUR, USD	EUR, USD, GBP	EUR, USD, GBP
Investment Opportunities	<ul style="list-style-type: none"> Financing leading global IT companies (OEMs) and their core distributors Established programmes which are strategic to the OEMs global distribution 	<ul style="list-style-type: none"> LBOs Growth financings Acquisition financings Refinancings 	<ul style="list-style-type: none"> LBOs Growth financings Acquisition financings Refinancings 	<ul style="list-style-type: none"> Growth financings Acquisition financings Lender stress Market dislocation

¹ There is no guarantee that target returns will be achieved. Target returns are based on Pemberton's current market observations and reasonable assumptions. Additional information is available upon request. Please note that Gross IRR does not reflect the deduction of management or incentive fees, which would reduce an investor's actual return.

PEMBERTON ASIA PACIFIC INVESTOR COVERAGE TEAM

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Shintaro Mori has over 30 years' banking experience in sales, structuring and trading roles.

Shintaro joined Pemberton in 2017 and is responsible for capital raising and business development in APAC.

Before joining Pemberton, Shintaro was responsible for building non-traditional credit investment platform at SMTB London between 2014 and 2017.

Between 1998 and 2014, Shintaro held a number of positions within Deutsche Bank Group in London, NY and Tokyo that includes co-head of DCM and Head of Structured Credit Sales at DB Tokyo.

Shintaro started his career at The Long Term Credit Bank of Japan in 1988 where he held a few different roles from retail banking to credit structuring.

Shintaro graduated from the Keio University (Tokyo) with a BA in Economics.

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Jun Narui has a unique background combining financial experience with management consulting capability / experience.

Jun joined Pemberton in June 2019 and takes various roles including business development in APAC and leading strategic projects within the firm.

Before joining Pemberton, Jun was a Manager at Bain & Company in their London office, advising global corporates and public sector entities in Europe.

Jun started his career in 2006 as a new graduate at Deutsche Securities (Tokyo) covering Japanese financial institution as structured credit sales and yen-rates sales.

Jun graduated from the Keio University (Tokyo) with a BA in Economics and holds an MBA from Kellogg School of Management, Northwestern University.

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