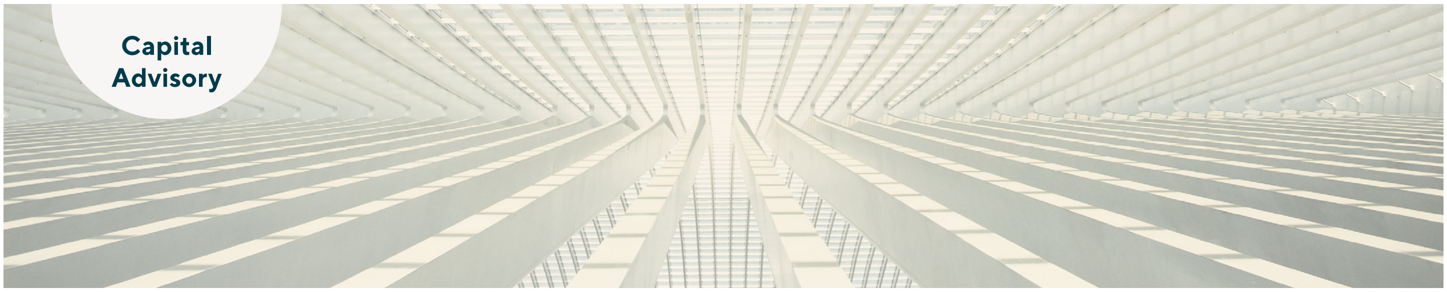


Structured Capital Can Unlock Incremental Liquidity During Periods of Credit Market Turbulence

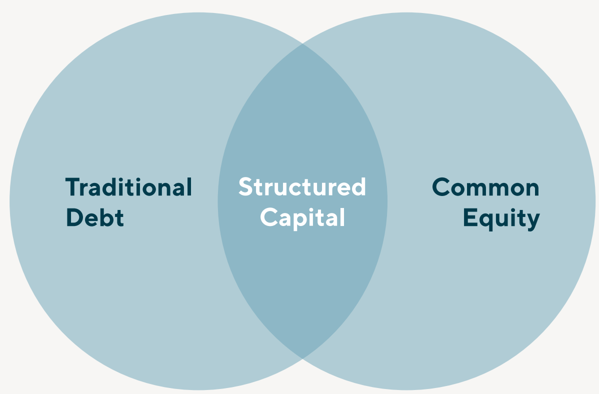
Structured capital is a highly bespoke form of capital that bridges the gap between traditional debt and common equity. As traditional debt markets continue to traverse a period of uncertainty further evidenced by tighter market liquidity, widening spreads and increased transaction selectivity, structured capital solutions have various attributes which make it a potentially attractive option for incremental liquidity during a time of credit market uncertainty.

In our latest perspective, Lincoln International's Capital Advisory Group experts explore the key characteristics of structured capital and how it can be an appealing alternative in the current environment both in the United States and Europe.

WHAT IS STRUCTURED CAPITAL?

Structured capital fits between traditional debt and common equity in the capital structure continuum and can be an attractive alternative to raising common equity when traditional debt options have been exhausted and incremental capital is needed. Structured capital investments have a higher cost of capital compared to traditional debt, but offer lower dilution than a common equity issuance. Structured capital investors are willing to accept a lower rate of return (vs. common equity) as a result of various features these securities provide. This can include receiving contractual payment in kind (PIK) interest or dividend payments (i.e., non cash), having a specified liquidation preference or having a defined maturity date.

Structured capital can be designed to include both debt-like and equity-like features, and can take the form of PIK notes, term debt with warrants, convertible debt or preferred equity. Debt-like securities typically seek total returns more heavily weighted towards fixed return components, while equity-like securities seek a more balanced combination of fixed return with equity upside. Structured capital transactions are highly bespoke, with key economic and structuring terms tailored to each unique fact pattern. The universe of structured capital investors is broad and includes debt-like security providers such as credit opportunity funds, insurance companies and pension funds. It also includes equity-like security providers such as family offices, dedicated structured equity funds and private equity firms with structured equity capabilities.



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LINCOLN PERSPECTIVE

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Incremental Liquidity to Finance Strategic Initiatives

Utilizing structured capital to inject incremental liquidity into a business to continue executing on strategic initiatives is a possible alternative once traditional debt options have been exhausted. Whether the business has a robust pipeline of acquisition opportunities that need to be financed, requires growth capital to expand operations or has near-term liquidity issues due to financial hardship, all these scenarios can be solved with structured capital. Additionally, structured capital providers have a higher risk tolerance and are willing to go deeper in the capital structure than traditional debt lenders.

Access Capital That Can Be Structured With No Cash Interest

The highly bespoke nature of structured capital provides the opportunity to structure securities with PIK-only interest (i.e., no cash pay), while still maintaining the return profile that structured capital providers require. As a result, businesses can maintain free cash flow while still injecting incremental liquidity into the business. Further, utilizing structured capital may even result in an increase in free cash flow and a deleveraging event (in the eyes of a senior lender) if the structured capital is used to reduce cash interest-bearing traditional debt.

Avoid Triggering Costly Most Favored Nation (MFN) Provisions

Recent uncertainty in the credit markets has resulted in spreads of new incremental traditional debt being more than 50 basis points higher than existing debt commitments. When accessing incremental traditional debt, borrowers may trigger MFN provisions, resulting in a material repricing of all debt commitments, which is something most lenders have been actively working towards in the current economic environment. Structured capital can provide the desired incremental liquidity without triggering costly MFN provisions that result in repricing existing debt.

Utilize Structured Capital Without Consent From Existing Lenders

Although each loan agreement is unique and will include different consent requirements, structured capital often times is not restricted by the existing credit agreement if (i) issued outside the credit parties (e.g., by a holding company or top company) and (ii) does not include a cash interest component. Additionally, proceeds from structured capital raises are typically not required to pay down existing debt commitments. As a result, this flexibility provides visibility into incremental liquidity for a business when other traditional debt options have been exhausted.

If a company has exhausted all traditional senior debt options and is still in need of additional debt capacity, needs to reduce senior leverage, navigate a pending maturity or is experiencing financial hardship, structured capital could be a solution. Lincoln's Capital Advisory Group has significant experience executing structured capital transactions and unlocking incremental liquidity for companies during times of credit market uncertainty.

For other perspectives, visit us at www.lincolninternational.com/perspectives.

Get to know Lincoln's Capital Advisory Group at www.lincolninternational.com/services/capital-advisory.