

28 April 2022



NAVigating NAV financing: A Rede Roadmap

The big questions



WHY IS IT BECOMING SUCH A POPULAR TOOL FOR SPONSORS?

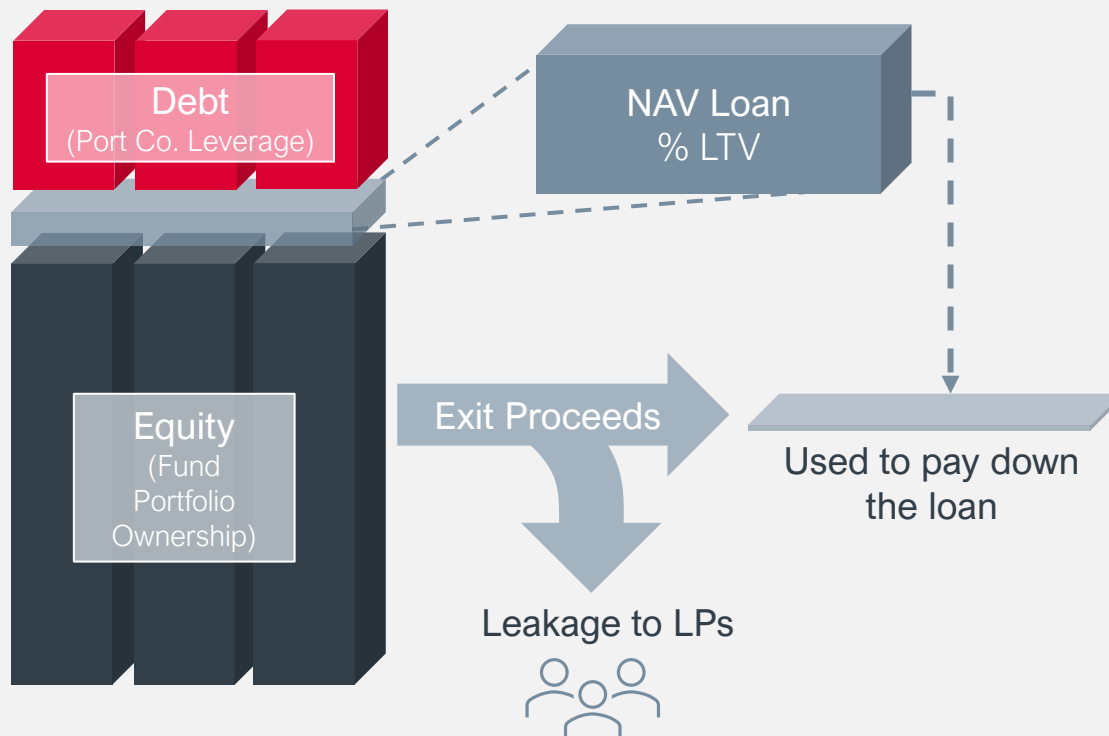


HOW DOES THIS CONCERN ME?

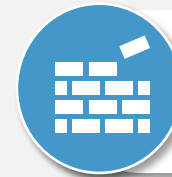
What and why?

WHAT IS A NAV FINANCING?

Effective Capital Structure of a Private Equity Fund



WHAT PURPOSE DOES IT SERVE?



ADD-ON INVESTMENTS

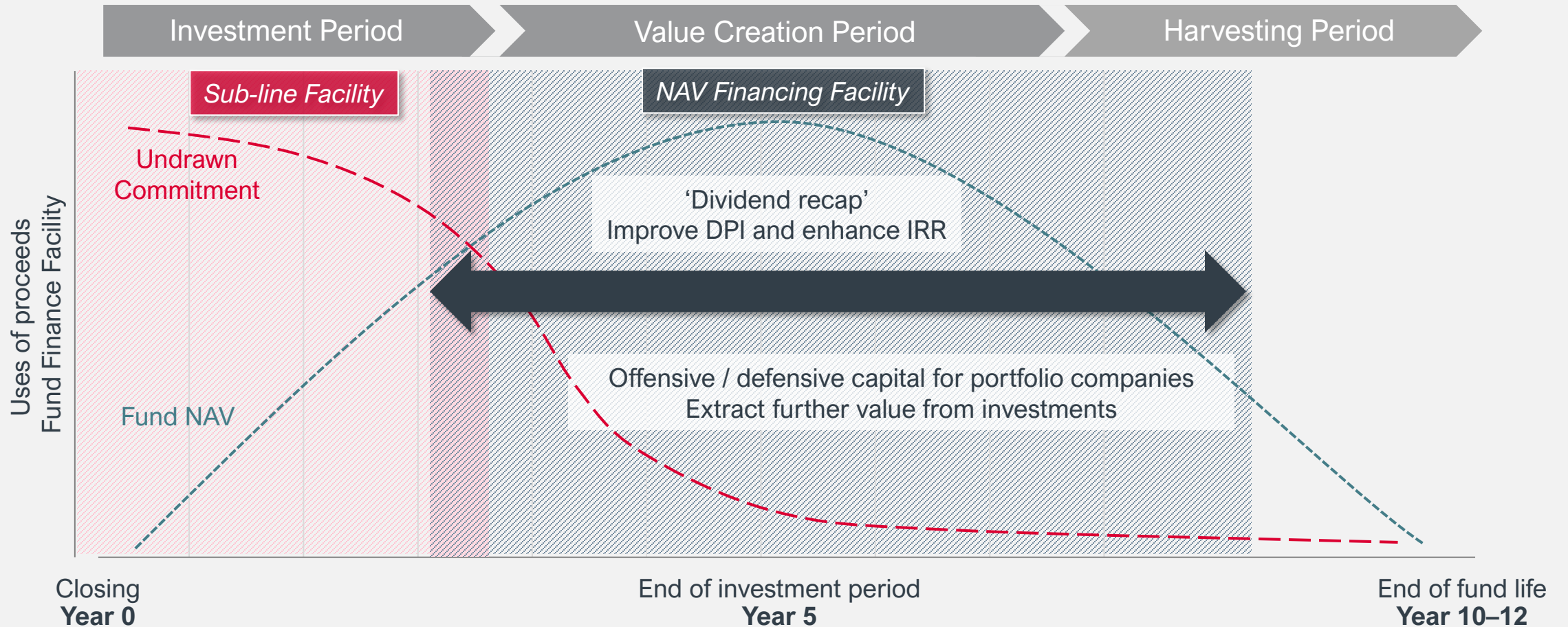


EQUITY CURES



DISTRIBUTIONS

NAV financings form part of the range of facilities that can be used throughout a fund's life



Potential benefits of a portfolio financing



IRR improvement



Ability to hold assets for longer
and create net MOIC increase



Provide liquidity to LPs and
accelerate DPI



Generate recallable capital



Invest in follow-on opportunities
and indirectly, new deals



Sizeable distribution potential

De-mystifying NAV financings

COMMON CONCERNS

1. “It just adds leverage upon leverage”
2. “A dangerous cross collateralization of assets”
3. “The lender can take control of my entire portfolio”
4. or. “The lender can only sit there in a breach scenario”
5. “It’s only done to accelerate the GP’s carry”

THE REDE VIEW

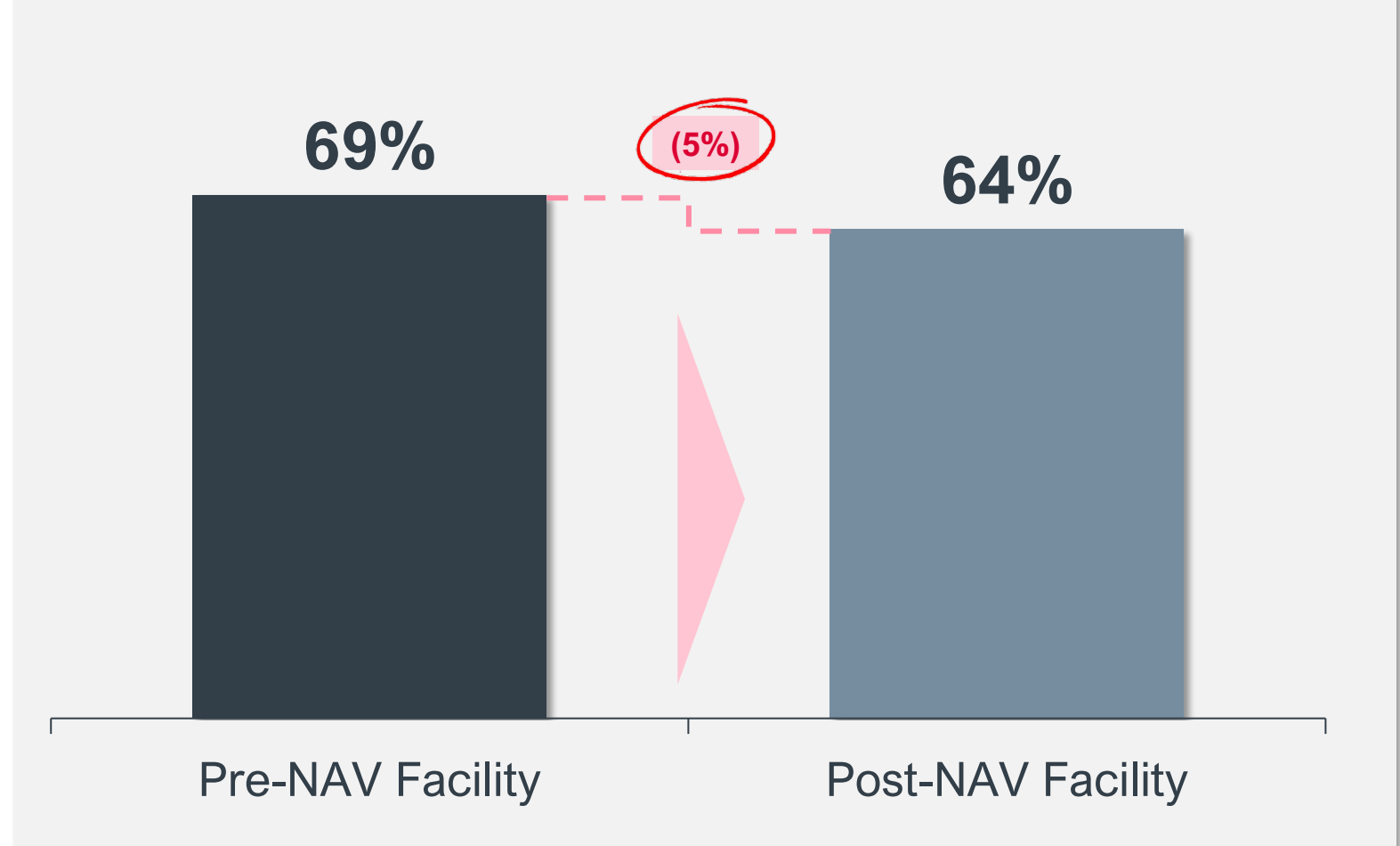
1. *Another way to optimize the capital structure of portfolio companies*
2. *At conservative LTV levels, only 1 or 2 portfolio companies are affected in a workout scenario*
3. *Often structured without ability for lenders to touch portfolio companies; GP remains in control and is given time*
4. *Sponsor often has to present a plan and make good faith efforts to cure a breach. A sponsor’s reputation also matters!*
5. *DPI acceleration, IRR improvement, additional capital for portfolio companies, ability to hold strong assets for longer...*

Equity cushion analysis in focus

WHAT IS EQUITY CUSHION?

- Equity cushion is defined as:
$$\frac{\text{Equity}}{\text{Enterprise Value}}$$
- A 69% portfolio-level equity cushion is calculated by totalling each portfolio company's FMV weighted average equity cushion

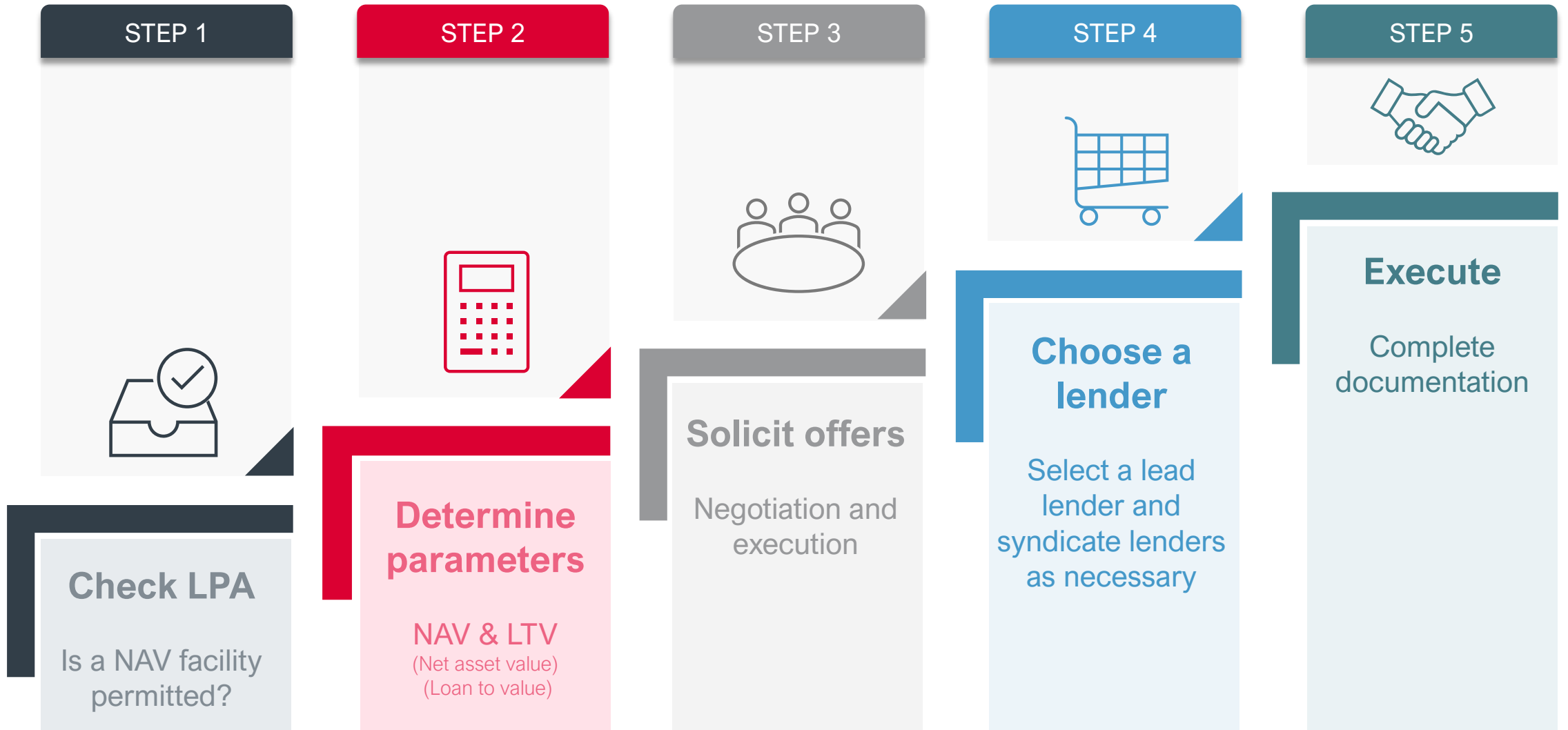
AVERAGE EQUITY CUSHION ACROSS REDE DEALS¹





Anatomy of a NAV Financing

What is the road map to implementing a NAV Facility?



Broad terms for NAV financing



OPENING LTV

Up to 25%



UPFRONT FEE

1% – 2.5%



RECOURSE

Typically no recourse to underlying assets nor uncalled capital



QUANTUM

\$25m to >\$1,000m
Depending on LTV and purpose



TERM

3 – 5 years, plus extensions



SECURITY

Fund interests
Cash flows
Possibly 2nd lien on uncalled



MARGIN

Base rate + 4% – 9%
PIK with a cash discount



CASH SWEEP

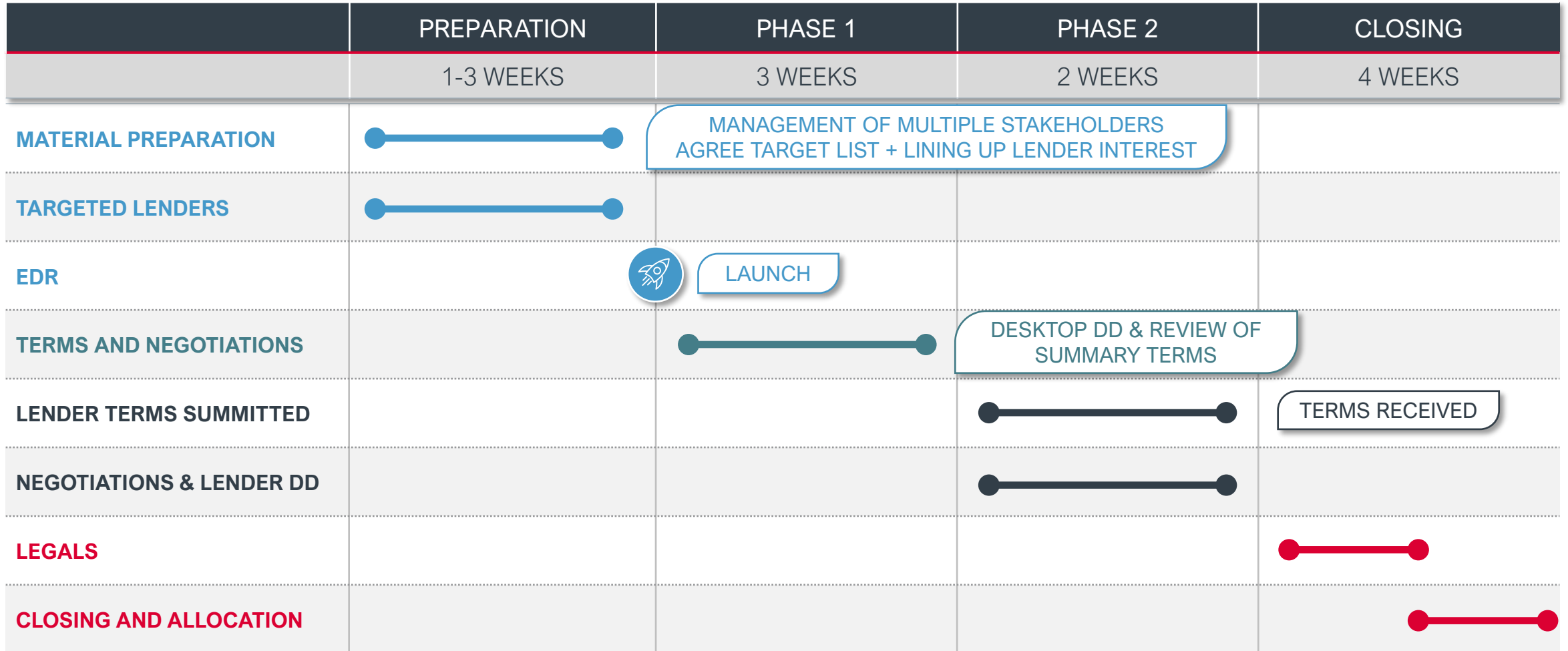
Leakage to LPs at low LTVs;
higher sweep as LTVs increase



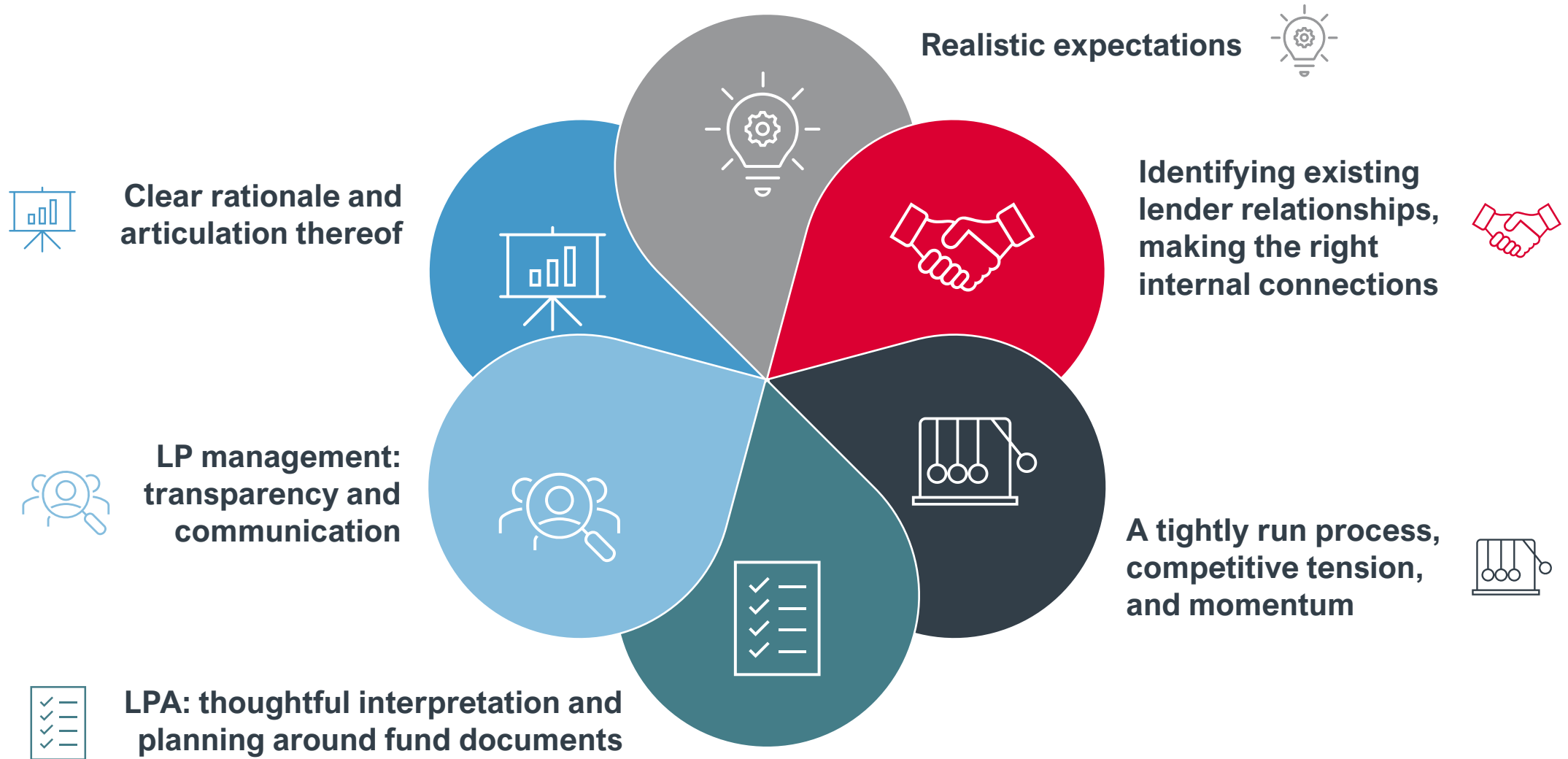
COVENANTS

Concentration
Diversification
LTV

Timeline: A streamlined process to close



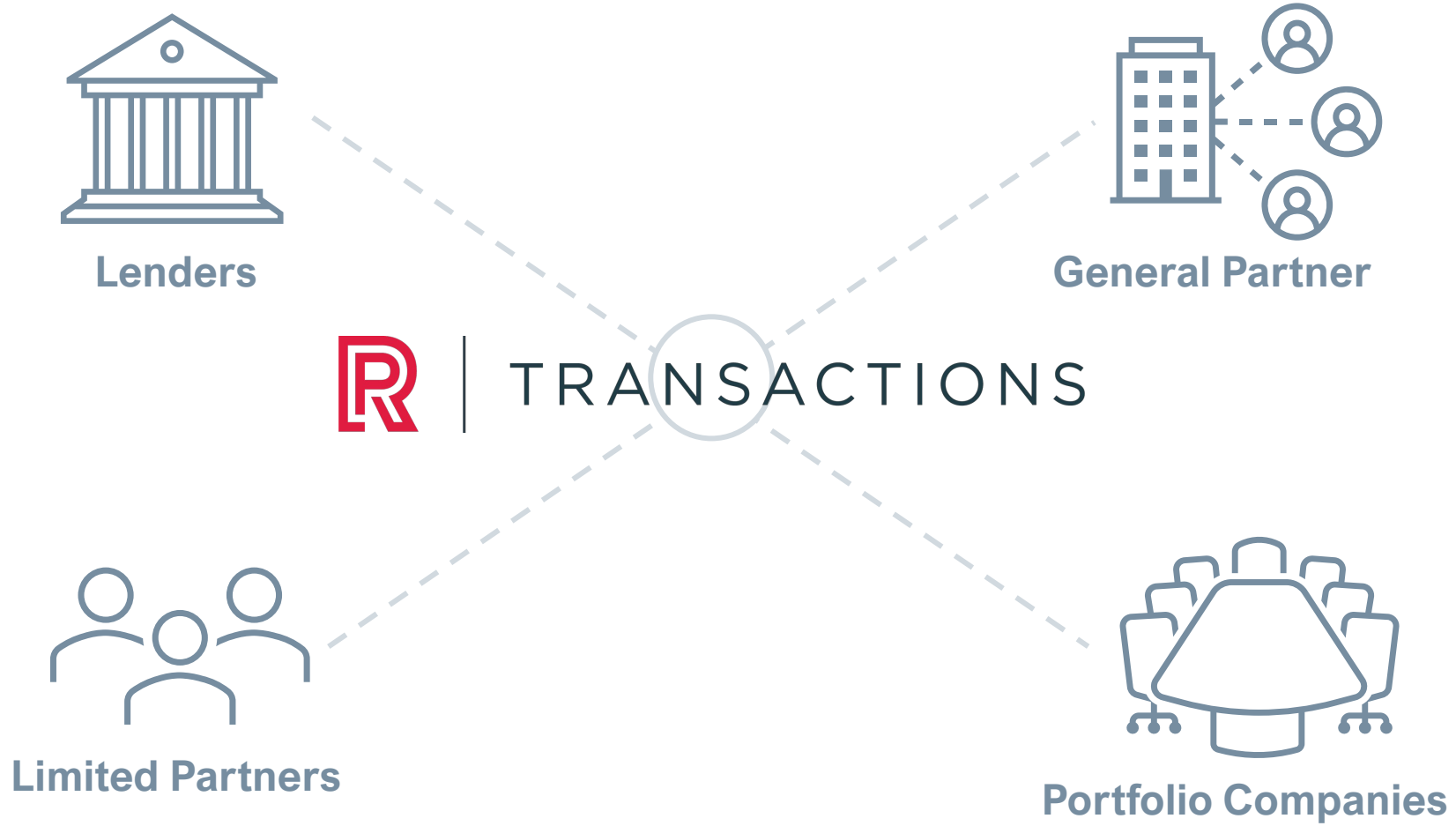
What are the keys to success in an NAV financing process?





Key questions and considerations

Key stakeholders



As an LP, what should you be asking the sponsor?

ARE WE STILL ALIGNED?



OBJECTIVES

SPONSOR INCENTIVES

LPA AND APPROVALS

WHAT IS THE RISK TO THE FUND?



LOOK-THROUGH LEVERAGE
PICTURE

COVENANTS AND
HEADROOM

WHAT IF...?

WHAT IS THE TOTAL EXPECTED COST?



INTEREST / TYPE

UPFRONT &
ONGOING COSTS

EXPECTED DURATION

HOW WERE BEST TERMS
DERIVED?

As a sponsor, what should you be asking the lenders?

CAN YOU MEET MY OBJECTIVES?



DELIVERING BEST TERMS
EXECUTION TRACK RECORD
UNDERWRITING ABILITY
FUNDING: IS IT REALLY YOU?

WHAT ARE YOUR OBJECTIVES?



APPROVAL PROCESS
WHAT ARE YOUR KPI'S?
P&L OR CARRY?

WHAT WILL OUR RELATIONSHIP LOOK LIKE GOING FORWARD?



HOLD OBJECTIVES
LENDER TEAM STABILITY
PARTNERSHIP OBJECTIVES
WHAT IF THINGS GO WRONG?

As a lender, what should you be asking the sponsor?

WILL THE DEAL GET DONE?



KEY PURCHASING CRITERIA

LIMITED PARTNER APPROVALS

EXPECTATIONS VS REALITY

WILL THE LOAN PERFORM?



LOOK-THROUGH LEVERAGE PICTURE

EXIT PROJECTIONS

FUTURE INVESTMENTS

REFINANCING RISK

WHO ARE WE BACKING?



THE "BIG PICTURE"

PARTNERSHIP OBJECTIVES

SPONSOR INCENTIVES

IMPORTANCE TO THE FRANCHISE

| TRANSACTIONS

April 2022 Lender Poll: Results

Rede has reached out to over 60 key lender participants active in the market to provide data on themes we are seeing in the market



BANKS



ALTERNATIVE LENDERS



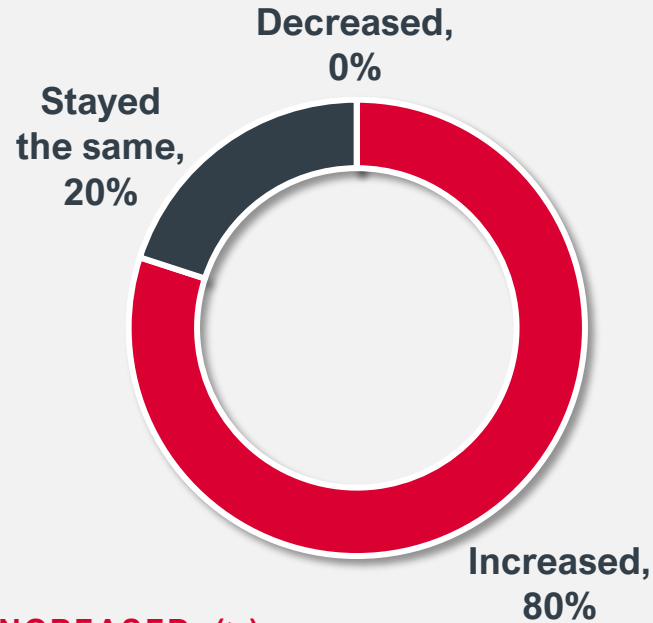
LIMITED PARTNERS /
FUND OF FUNDS



How is the size of the market changing?

CHANGE IN VOLUME

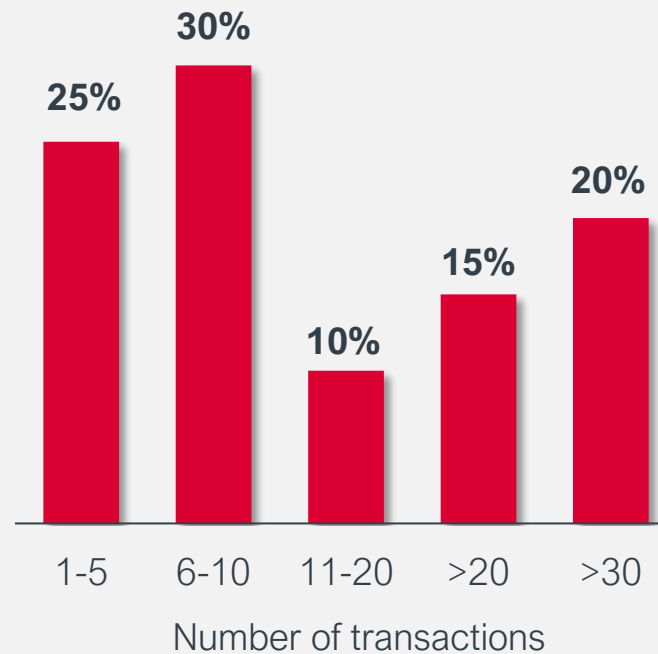
“ Compared to 2020, the volume of transactions we saw in 2021 has... ”



INCREASED (>)
STAY THE SAME (=)
DECREASED (<)

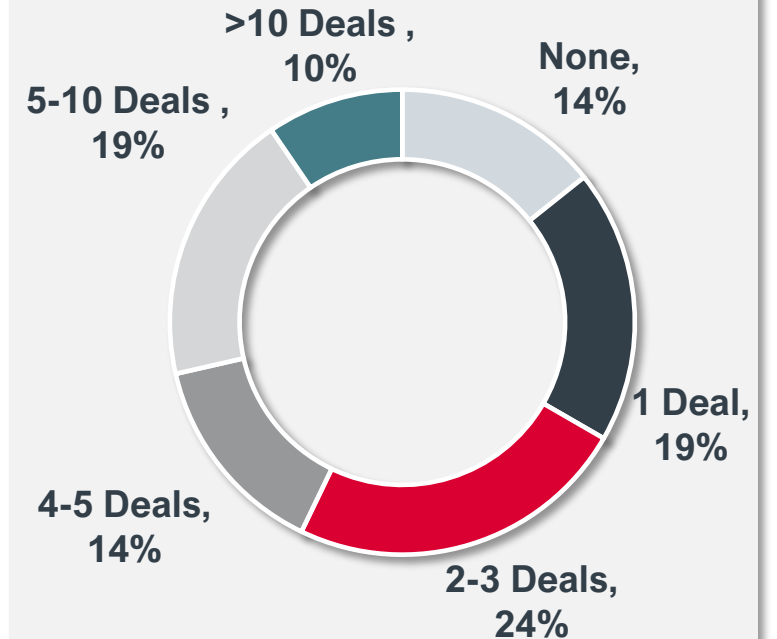
DEALS SEEN

“ How many NAV financing opportunities did your organisation see in 2021, globally? ”



DEALS COMPLETED

“ How many NAV financing opportunities did your organisation complete in 2021, globally? ”



Rede Observations

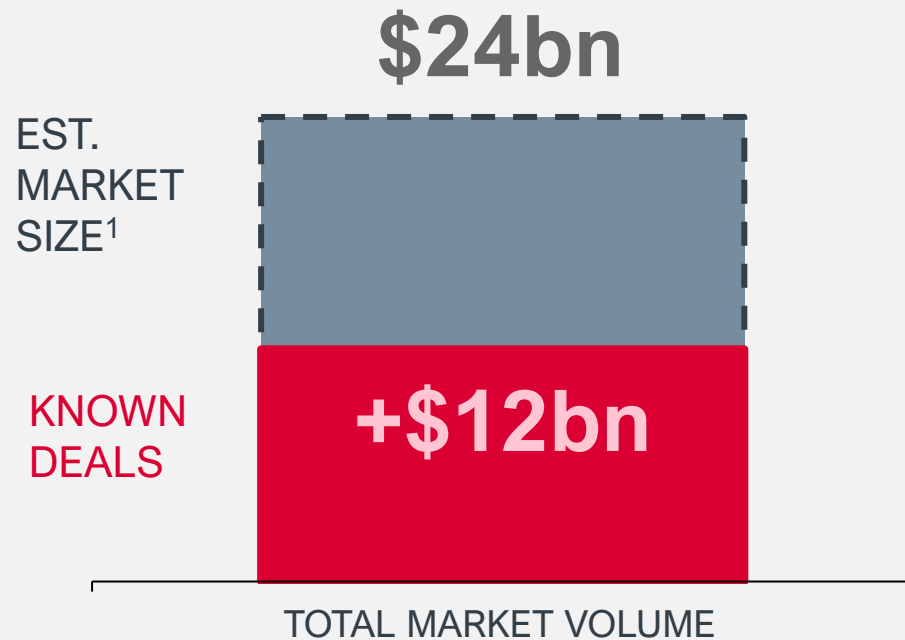
2021 NAV financing deal volume

“

What was the approximate quantum of NAV financing transactions that your organization completed in 2021?

”

”

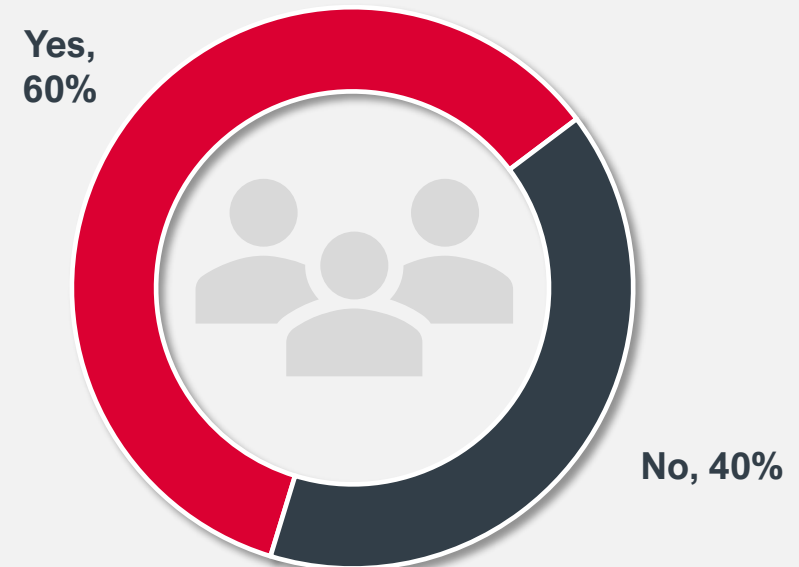


How important is an existing relationship?

“

Have you participated in a transaction(s) where you did not have a pre-existing relationship with:

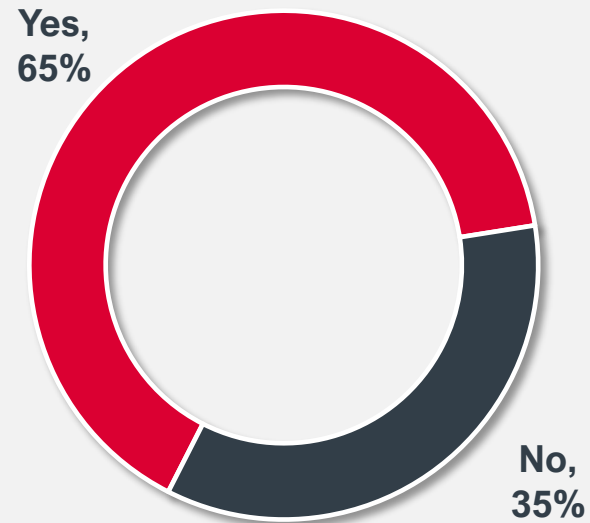
”



Structure & target returns

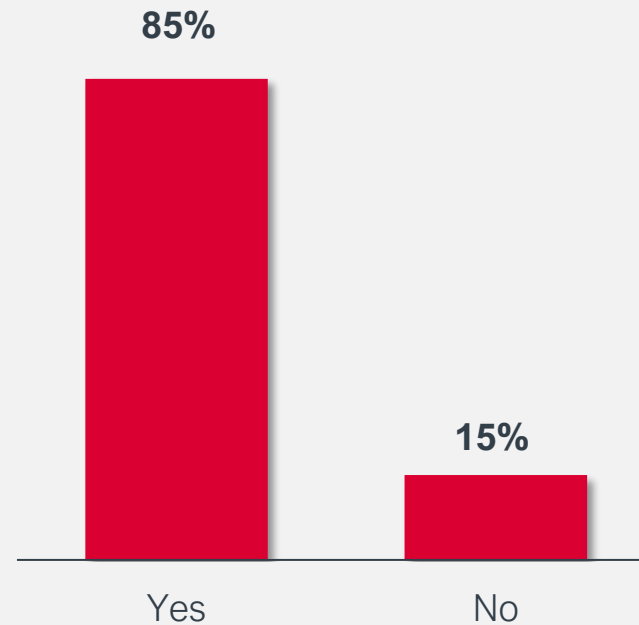
EXECUTION

“ Have you executed a structure where there are no direct step in rights for the underlying portfolio? ”



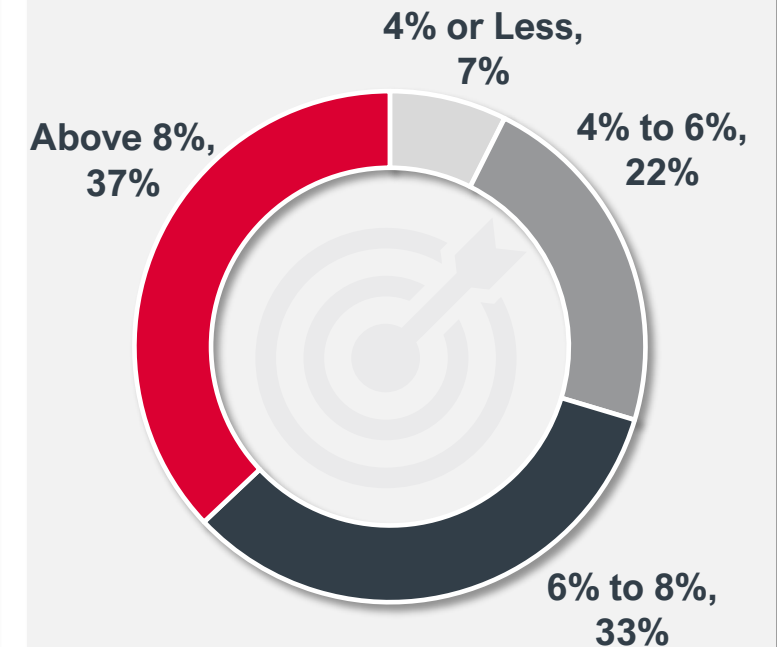
CAPACITY

“ Would you be able to execute a structure where there are no direct step-in rights for the underlying portfolio? ”



RETURNS

“ Our target returns for NAV financings are: ”



Conclusion



NAV financing – the 2022 opportunity

POWERFUL PORTFOLIO MANAGEMENT TOOL

- ▶ Used to enhance liquidity and fund returns
- ▶ Continued attractive cash flow profile for LPs (but not a zero sum game)

A DEEP MARKET, EAGER TO DEPLOY

- ▶ Rede has observed over 60 lender participants active in the market in 2022
- ▶ Competitive market has pushed lenders to sharpen their pencils (but it is not just a race to the bottom)

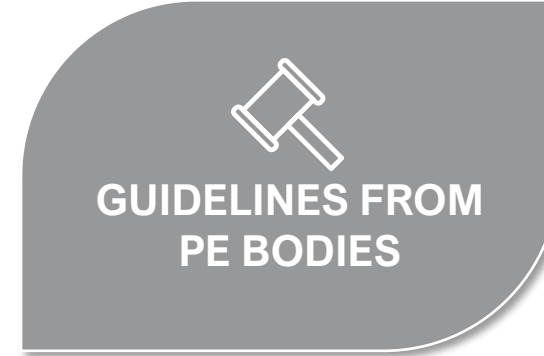
EARLY MOVER ADVANTAGE

- ▶ Sponsors adopting portfolio financing are now setting the market standard
- ▶ Relative supply-demand imbalance - but not for long
- ▶ Leading lenders are also helping set the market

INVESTOR EDUCATION

- ▶ Learning about the benefits of portfolio financing, and what questions to ask
- ▶ Wait and see, watching closely how the facilities from 2-3 years ago perform

What do we see for the future of this asset class?



Questions?





rede /rēd/

Chiefly British dialect, old English

-verb (used with object)

1. to counsel; advise
2. to explain; interpret

-noun

3. counsel; advice
4. a plan
5. a story