Invested In —— What Matters

Prudential Private Capital Insights

Stable Financing:
A Long-Term Capital Solution That Adds Stability to Your balance Sheet

The Prudential Private Capital Guide to Long-Term Financing

Prudential Private Capital

Contributors

Ashley Dexter

Ashley Dexter is a Vice President in Corporate Finance for Prudential Private Capital, located in Atlanta. She leads a team responsible for marketing, originating and managing private placement and mezzanine investments in Alabama, North Carolina, South Carolina and Tennessee. Ashley joined Prudential in 2005.

Ashley received a BBA from the University of Georgia. She holds the Chartered Financial Analyst® designation.

Ed Jolly

Ed Jolly is a Managing Director for Prudential Private Capital, located in London. He leads a team responsible for marketing, originating and managing private placement and mezzanine investments in the UK and Ireland. Ed joined Prudential in 2006.

Ed received a BS from Bristol University.

Mitch Reed

Mitch Reed is the Managing Director of Prudential Private Capital's San Francisco Corporate Finance office and oversees the private placement activity in Prudential Private Capital's Northern California, U.S. Intermountain and Pacific Northwest territories (including Alaska) and Western Canada. He joined Prudential in 1991.

Mitch received a BA from Amherst College. He holds the Chartered Financial Analyst® designation.

Josh Shipley

Josh Shipley is the Managing Director of Prudential Private Capital's Milan and Sydney* Corporate Finance offices and oversees the private placement activity in Prudential Private Capital's Mediterranean Europe, Australia and New Zealand territories. He joined Prudential in 2001.

Josh received a BA from Illinois Wesleyan University. He holds the Chartered Financial Analyst® designation.

*Operates through PGIM (Australia) Pty Ltd.

Contents

1 — What is Long-Term Financing?

5 — The Benefits of Long-Term vs. Short-Term Financing

9 — Uses for Long-Term Financing

12 — Types of Long-Term Financing Providers Available to Companies

16 — What to Consider When Thinking Long-Term About Capital

23 — The Value of Long-Term Financing

29 — Long-Term Financing Case Study: MGP Ingredients

What is Long-Term Financing?

Long-term financing is any sort of debt financing that would be repaid after about five years.

Video: What is Long-Term Financing?

Prudential Private Capital's Josh Shipley, Ed Jolly, Mitch Reed, and Ashley Dexter explain "long-term financing" and how many companies utilize this patient and strategic form of funding. You can find more infomation HERE.

Long-term financing tends to be viewed and used as a patient and more strategic type of capital in a company's capital structure, designed to match against longer-term initiatives.

Long-term financing is ideal for businesses seeking to extend or layer out their refinancing obligations beyond the typical bank tenor, or 5-25+ years. **The longer maturities of long-term financing often allow for delayed, limited, or no amortization, which can be attractive to companies with objectives such as buying out a shareholder or investing in capital assets, projects, or acquisitions that have a longer investment return runway.**

Because it has a longer tenor, long-term financing is a more permanent layer of capital in a company's capital structure; it also often carries a fixed rate. Consequently, long-term financing tends to be viewed and used as a patient and more strategic type of capital in a company's capital structure, designed to match against longer-term initiatives.

It is common for companies to utilize some long-term financing in conjunction with short-term financing, using the long-term financing to match the life of the debt, or liabilities, with the life of the investment, or assets.

Long-term financing providers are typically institutional investors, such as large insurance companies, that, given their capital base, have consistent capacity to lend on a long-term basis.

"Long-term financing brings stability for our business in that we do not have to plan major refinancing activities from time to time, which would be the case if we rely only on bank loans or similar products with shorter maturities."

- Tomi Suojansalo, Head of Treasury, Oriflame

The Benefits of Long-Term vs. Short-Term Financing

Long-term financing helps position companies for long-term initiatives and to better manage financial risk.

The benefits of long-term and short-term financing can be best determined by how they align with different needs. Companies typically utilize short-term, asset-based financing when they're first getting off the ground, and in general, this type of financing is used more for working capital. After a company grows beyond short-term, asset-based loans, they will typically progress to short-term, cash-flow based bank loans. **At the point when a company starts to gain scale and establish a track record, they may access either cash-flow or asset-based, long-term financing, which has several strategic benefits.**

Benefits offered by long-term financing compared to short-term financing mostly relate to their difference in maturities. Long-term financing offers longer maturities, at a natural fixed rate over the course of the loan, without the need for a 'swap.' Long-term financing helps position companies for long-term initiatives and to better manage financial risk, whereas short-term financing is better served for short-term needs.

Key benefits of long-term vs. short-term financing:

1 Coincides with Long-Term Strategy

Long-term financing enables a company to align its capital structure with its long-term strategic goals, affording the business more time to realize a return on an investment.

2 Matches Duration of Asset Base with Duration of Liabilities

The maturity associated with long-term financing better coordinates with the typical lifespan of assets purchased.

3 Long-Term Support from Investor

A company can benefit from having a long-term relationship with the same investor throughout the life of the financing. With the right investor, companies stand to gain from a long-term relationship and partnership, in addition to ongoing support. Being that the financing is long-term, a company will not have to repeatedly bring in new financing partners who may not understand the business as well, which can often happen with short-term financing.

4 Limits Company's Exposure to Interest Rate Risk

Long-term, fixed-rate financing minimizes the refinancing risk that comes with shorter-term debt maturities, due to its fixed interest rate, thus decreasing a company's interest rate and balance sheet risk.

5 Diversifies Capital Portfolio

Long-term financing provides greater flexibility and resources to fund various capital needs, and reduces dependence on any one capital source. It also enables companies to spread out their debt maturities. For companies that are 100% reliant on one funding source, such as the bank market, their access to capital can be strained if there are constraints on that market, whether for regulatory reasons or due to the health of that market.

The Differences Between Long-Term and Short-Term Financing

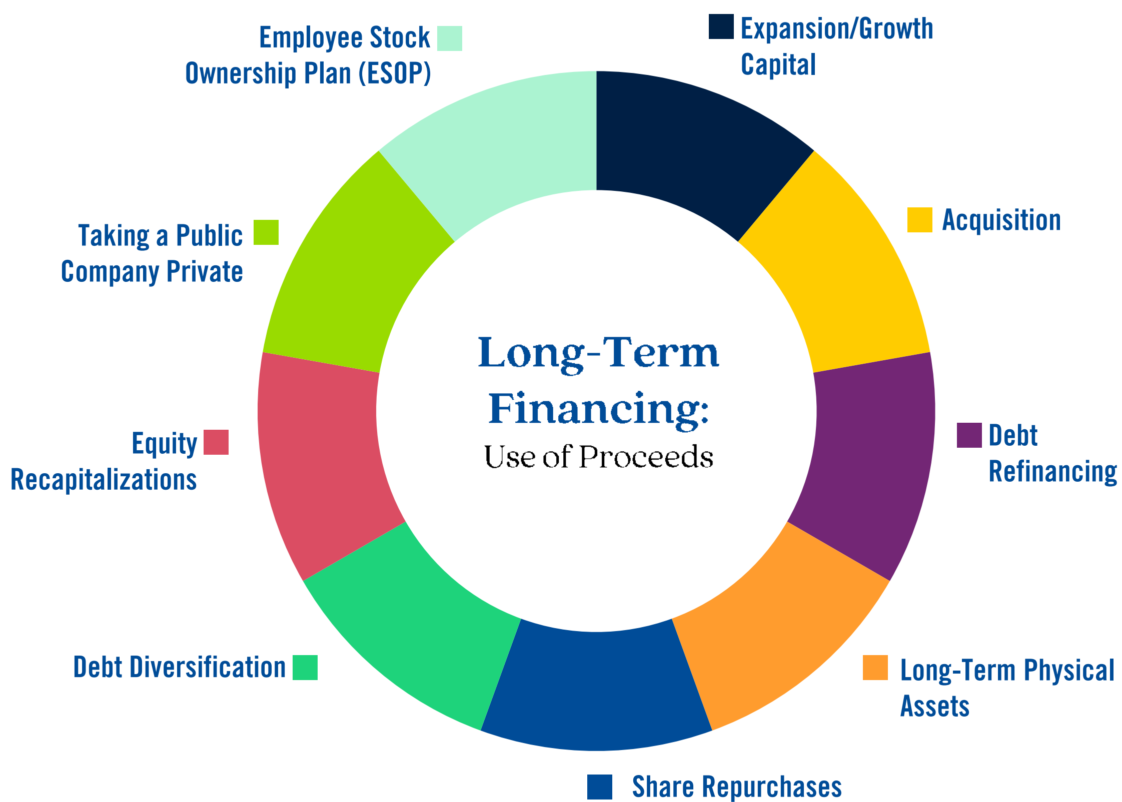
To fully understand the benefits, companies should also get acquainted with the differences:

Short-Term Financing	Long-Term Financing
Typically 3-5 year term	Typically 5-25+ year term
Floating rate	Typically fixed rate
Supplied by a bank	Supplied by an institutional investor
Used for working capital and other short-term needs	Used for longer-term initiatives, internal events and balance sheet risk management

Short-term financing is usually aligned with a company's operational needs; it provides shorter maturities (3-5 years) than long-term financing, which makes it better-suited for fluctuations in working capital and other ongoing operational expenses. Traditionally, short-term financing is provided by banks and has floating interest rates. Sometimes companies will artificially "fix" these floating rates with a financing derivative, such as a swap.

Uses for Long-Term Financing

Long-term capital is congruent with a company's long-term, strategic initiaves. Thus, it is most commonly used to support long-term plans, such as making acquisitions, opening a new production facility, financing internal events (like share repurchases) as well as preparing for rising interest rates; some companies choose to operate with a minimum level of debt on their balance sheet to maximize their balance sheet efficiency – managing interest rate risk for this is important and makes it a great fit for long-term capital.



> ***"As our Company grows, long-term financing allows us the capacity to expand our core business globally,participate in M&A activity, attract great talent, and participate in technology expansion/research & development."***

- Carolyn Maloney, Treasurer, Hypertherm

Types of Long-Term Financing Providers Available to Companies

There are a few sources companies can go to for long-term financing, and they have notable differences.

Long-term financing typically serves as a complement to existing short-term bank financing, rather than a replacement. Long-term financing providers offer more strategic capital that supports lasting business growth and financial risk management.

There Are 2 Primary Types of Long-Term Financing Providers:

1. Private Placement Investors — A 'private placement' is a private alternative to issuing (or selling) a publicly offered security as a means for raising long-term capital. In a "private placement", both the offering and sale of debt or equity securities are made between a business (or issuer) and a select number of accredited investors (or lenders). There may be as few as one investor for any issue. Private placement investors are typically institutional investors, such as large insurance companies. A private placement issuance is a way for institutional investors to lend to companies in a similar fashion as banks, with a "buy-and-hold" approach, but a longer-term and typically fixed rate, like public bonds. Unlike public bonds, private placements have no required trading or public disclosures.

2. Public Bond Buyers - Companies will often issue a corporate bond in the public debt market to raise long-term capital. It typically takes longer for a company to receive capital through bonds due to the time and resources required to create the necessary prospectus and register with the Securities and Exchange Commission (SEC). With bond issuances, ratings and minimum issuance size are typically required as well. Like private placements, public bond buyers also include institutional investors. Amounts raised in public bonds are usually larger than private placements, and the debt is more likely to be traded than with private placements.

There are various pros and cons to sourcing long-term financing through private placements as well as public bonds:

Private Placements	VS.	Public Bonds
Exempt from registering with SEC	Registration	Required to be registered with SEC
Long term (up to 25+ years) Bullets or amortizing structure	Tenor	Long term (up to 25+ years) Bullets with standard maturities
$20 million - $500 million in single or multiple issuances	Issue Size	>$300 million in a single issuance to assure index eligibility
Fixed or floating	Rate	Typically fixed
Fixed: Make-whole (T+50 bps) Floating: Reducing schedule	Callability	Make-whole (T+20 to 50 bps; ~15% of credit spread)
None required	Public Ratings	Typically required
Minimal. No ongoing fees	Fees	Registration/ratings fees Placement fees
Accredited Investors, typically institutional Single, clubs or larger groups Buy-and-hold nature Smaller investor base allows for amending structure as needed	Investors	Institutional investors Sizable groups Can be active traders Broad investor base makes it difficult to change terms post funding
Similar to traditional bank facility	Covenants	Largely no financial covenants
4–8 weeks; flexible with regard to locking in a rate	Execution	Shorter time to funding; limited to no flexibility once funding date is set

There are various pros and cons to sourcing long-term financing through private placements as well as public bonds:

What to Consider When Thinking Long-Term About Capital

Companies typically utilize long-term financing once they have demonstrated scale and stability. This infographic details the ten key considerations for businesses interested in adding long-term financing to their capital structure.

Long-term financing helps drive growth strategy, address internal events, such as shareholder activity, and support balance sheet risk management. It is more closely aligned with the capital needs of growing businesses. The most important factors to consider when thinking about long-term financing will vary based on the size and credit profile of each issuer, but they are generally as follows:

1 Overall Debt Funding Need

Companies typically elect to have some level of debt at all times for capital structure optimization and tax purposes. To avoid over-capitalizing on long-term debt, companies should confirm that level of "core" debt they prefer not to prepay. It's not that companies may not prepay long-term financing, it is designed not to be prepaid but can be via a "make-whole." Companies, therefore, would want to make sure they have the right balance of long-term financing in their capital structure.

2 Relationship with Lender

With long-term financing, it is helpful for companies to have a sense for the desired nature and extent of their relationship with their long-term lender. Typically, they would have a choice of a single or small investor group with a relationship focus, or a more broadly spread capital markets issuance. Depending on whether a company accesses the long-term market through a direct private placement, club private placement, syndicated private placement, or public bond, there is often a meaningful impact on the relationship the company will have with its lender(s).

3 Risk Profile and Leverage Appetite

The risk profile and leverage appetite of a business will determine which long-term financing markets are available to a company, such as an investment grade private placement, a below investment grade private placement, or a leveraged loan/high yield bond.

Public disclosures are an important consideration for companies interested in long-term financing.

4 Public Disclosures and Ratings

Public disclosures are an important consideration for companies interested in long-term financing. For example, public bond issuances will require information to be disclosed publicly as well as a public credit rating. Conversely, private debt (particularly direct) maintains privacy.

5 Covenants

Different long-term financing markets have different covenant requirements. For instance, private placement financing has financial covenants, whereas public bonds typically do not. Private placement covenants generally mirror those of banks, which many companies would already be familiar with.

6 Currency Type

When thinking about long-term financing, a company will want to determine if they need their provider to have multi-currency capabilities. This would ensure a company can access the various currencies they may need from one lender.

7 Interest Rate Type

When looking at long-term financing, a company will want to determine what they want their mix of fixed- versus floating-rate debt to be. Fixed-rate debt helps to mitigate interest rate risk, should rates rise in the future. Additionally, private placements are priced off of treasuries, so they also add diversification away from any single market risk.

8 Debt Maturity Profile

It is beneficial for a company to match their debt maturity profile to the needs of their business. Long-term financing from the private placement market offers substantial flexibility over maturities and amortization, whereas the public markets do not.

9 Speed of Execution

It is worth considering the speed of execution a company needs from their long-term financing provider, including how quickly a company needs the funds and whether they understand the time scales of the various types of debt issuances.

10 Diversification of Capital Structure

A company should think about adding types of capital to their balance sheet that serve different purposes, creating a capital structure that is optimized to fit the long-term vision for the business, as well as positions the company to take advantage of investment opportunities that could arise months, to years, down the road.

“Long-term financing facilities can be structured in such a way to provide a foreign currency hedge on a company’s balance sheet by borrowing the funds for acquisitions in the relevant foreign currency of the assets acquired.”

- Frank Davis, Chief Financial Officer,
Total Produce

The Value of Long-Term Financing

Frank Davis, Chief Financial Officer of Total Produce, **Alexis Wattinne,** Financing & Treasury Director of Bonduelle, **Tomi Suojansalo**, Head of Treasury of Oriflame, and **Carolyn Maloney**, Treasurer at Hypertherm, have substantial careers managing the financial needs of their organizations. In this Q&A, they discuss the role long-term financing plays in addressing those needs.

What does 'long-term financing' mean to you?

Frank Davis: For Total Produce, 'long-term financing' is the financing, from a strategic perspective, with a tenor and maturity profile greater than facilities available with shorter duration (bank loans/revolving credit facilities/overdraft facilities) which are generally required to fund the normal day-to-day recurring operational requirements. Long-term financing is necessary to provide more stable financing for long-term funding, more likely with a fixed-interest rate/coupon, and the ability to repay both either in bullet or amortized, which are smoother structured repayment arrangements.

Alexis Wattinne: As Bonduelle is both listed on the stock exchange and a family-owned company, long-term financing is a key tool in our refinancing strategy with regards to independence. Moreover, long-term financing is provided by investors who have a very different point of view than banks. Banks will provide financing on a shorter basis, hoping to be involved in the daily business (cash management, payments, etc.) usually getting some fees out of it, whereas long-term financing investors will be much more on an "invest-and-hold" basis for 8-15 years. They also have two primary targets: being paid for interest on a yearly basis, and finally being repaid from their investment at the end. Long-term financing investors are not involved in the daily business, but their feedback and regular review are a healthy monitoring of the borrower's business and strategy.

Tomi Suojansalo: For Oriflame, "long-term financing" means to secure funding for the business operations for the next 10 years. Especially with today's current low level of interest rates, we prefer the longer maturities of up to 12 years. We also strive to spread the repayment of the long-term financing to avoid having a year with a significant refinancing hurdle. Thus, we reduce the refinancing risk in case of a business downturn.

Carolyn Maloney: As our Company grows, long-term financing allows us the capacity to expand our core business globally, participate in M&A activity, attract great talent, and participate in technology expansion/research & development. One of the core measures for Hypertherm is overall cost of debt — long-term financing allows a portion to be at a fixed rate and predictable.

What is the value of long-term financing to your business?

FD: Total Produce uses a combination of private placement financing, term loans, revolving credit facilities, and overdraft facilities in its portfolio of financing to fund its operations. Each category is used to match specific needs. Long-term financing (such as a private placement) can provide a more diversified source of funding for our business requirements, which allows for more flexibility in determining how different sources of funding may be best utilized within our Group's capital structure, and is more strategic in nature. Private placement financing can provide access to longer tenor with more custom-tailored repayment structures. Short-term financing is typically required for recurring business needs, such as financing working capital.

AW: Being able to raise long-term financing helps give us some perspective on both our operating strategy and financing policy. Regarding operations, it makes sense when it comes to CAPEX strategy, investing in new factories, or improving them. Concerning financing strategy, long-term financing fits with our long-term needs, and allows us to have some native fixed rate in our interest rate hedging strategy.

TS: Long-term financing brings stability for our business in that we do not have to plan major refinancing activities from time to time, which would be the case if we rely only on bank loans or similar products with shorter maturities. We mainly use our banking credit facility for managing the seasonality of our cash flow; the main business needs are then financed with long-term financing. With long-term financing, we are also able to decrease our bank dependency for the financing of the business.

CM: As an ESOP Company, enhanced stock value is a key measure by the Company and the associate owners. Long-term financing provides the long-term capacity for growth in strategic areas that are beyond our core business. These strategic areas are in our products, R&D expansion, after sales and the sustainable community.

"I believe long-term financing is the cornerstone of the financing policy, allowing long-term vision, visibility on the interest-rate mix, and permitting the CEO/CFO to focus on the business and the operations, making sure they will be able to refinance their growth."

- Alexis Wattinne,
Financing & Treasury Director, Bonduelle

How does long-term financing compare to/fit different needs than short-term financing?

FD: Total Produce's strategy for growth has been to make complementary acquisitions, and we would avail of our long-term financing facilities (particularly private placements) to fund our acquisitions. They can be structured in such a way to provide a foreign currency hedge on a company's balance sheet by borrowing the funds for acquisitions in the relevant foreign currency of the assets acquired. Therefore, this form of financing would be utilized where we intend to retain the funding in place rather than seek to repay in the shorter term. Whereas, the short-term financing would be utilized to provide funding for the day-to-day working capital draws on the business for operational purposes, and term loans for routine and development capital expenditure. Short-term financing would not be used for long-term financing needs.

AW: We have roughly 50% of our needs covered by long-term financing. This covers the permanent basis of our indebtedness. On the other hand, we have an important working capital seasonality, requiring "revolving-type" financing and overdraft facilities provided by our bank pool. The mix between long term and short term (through bank lines) allows us to efficiently manage both our long- and short-term needs without having any "trapped" cash.

TS: Our view is that by leveraging the business with external debt, the management team can increase value creation to its shareholders. Long-term financing is more suitable than short-term financing when the business needs to finance long-term capital investments, M&A, or similar. Short-term financing is more suitable for managing the cash flow fluctuations of a seasonal business like ours.

CM: Short-term financing provides the capacity to run the business on a day-to-day basis. Long-term financing allows a 5-8-year look outward for the strategic business — this is at a fixed cost.

Would you recommend long-term financing to other financial leaders?

FD: Yes, we would recommend having a mix of both short- and long-term financing facilities available to provide maximum flexibility to the Company in determining the best source of financing for specific needs. Our experience to date of the private placement market (and in particular, with our long-term relationship with Prudential Private Capital) has been very positive This flexibility in the portfolio of funding available has been invaluable to us in supporting the continued growth in our Group and increasing shareholder value. This form of funding is available to our size of Group without the requirement for a credit rating, where mid-cap business may not have the same access to the public markets. Private placements provide a more robust and stable funding base. Through a private placement, we have access to accredited investors, and with Prudential Private Capital, can transact directly without the need for intermediaries. The availability of an uncommitted shelf facility also allows the Group to execute transactions effectively and efficiently, with access to funds when required.

AW: Definitely! I believe long-term financing is the cornerstone of the financing policy, allowing long-term vision, visibility on the interest-rate mix, and permitting the CEO/CFO to focus on the business and the operations, making sure they will be able to refinance their growth.

TS: Yes, we would. The answers we provided describe the advantages of long-term financing, which brings value to the business and its shareholders.

CM: Yes, long-term financing helps to smooth out cash flow needs, both short-term and long-term, for the strategy of the business. It provides a more predictable leverage ratio of debt to performance. Additionally, long-term financing eliminates the constant distraction of refinancing for the Company.

The value of long-term financing is that it is both stable and strategic. Long-term financing adds stability to a company's balance sheet with its long tenor and typically fixed interest rate; companies can rest at ease knowing the funding they need to support their long-term strategy has been secured for 5+ years, with a repayment structure that works for them. Long-term financing is also provided by investors that have a more long-term, patient point of view than many banks, giving companies the space and independence they need to thrive.

Long-Term Financing Case Study: MGP Ingredients

MGP Ingredients Obtains Long-Term Financing for Expansion and Growth

For MGP Ingredients, Inc., investing in capex and their product inventory is instrumental to their long-term business strategy. Headquartered in Atchison, KS, MGP is a producer and supplier of premium distilled spirits, specialty wheat protein and starch food ingredients.

Prudential Private Capital's relationship with MGP began in early 2017 with a meeting to discuss MGP's business model as well as future capital needs. MGP had previously used a combination of cash flow generation and borrowings under its bank credit line ("revolver") to fund a warehouse expansion project and to build up aged whiskey inventory. In 2017, MGP elected to borrow long-term, fixed-rate senior debt to term-out a portion of its revolver borrowings, and to fund incremental investment in capex and aged whiskey inventory. Having long-term, useful lives, these investments were aligned with the long-term financing the company was looking for.

We provide MGP with a $75 million Pru-Shelf facility, which included an initial draw of $20 million of long-term, fixed-rate senior debt. MGP was ultimately able to maintain a close-knit lender group, with a single capital provider for fixed-rate debt. They also valued our relationship-focused approach, and the long-term financing's to support their future growth plans.

Prudential Private Capital

There are important considerations for a company when selecting their long-term financing provider, some key characteristics to look for are:

- They are **fast-acting, responsive, and have access to key decision-makers within their organization**
- The long-term financing provider **demonstrates a constant appetite for debt throughout market cycles, the calendar year, and stages companies may go through on their commitments**
- **They follow through on their commitments**
- They are **relationship-oriented rather than transaction-oriented or fee driven**. It is important that the long-term financing provider works to understand the needs of the companies they finance as well as how the companies function
- Because the financing is long-term, it is prudent for the long-term financing provider to **have a strong relationship with senior management, to act as a sounding board if necessary, and have the knowledge and experience to help** a company navigate challenging times

Ultimately, it is most important to find a long-term financing provider with significant access to capital, that will grow with a company by continuing to provide financing over time. If you're interested in long-term financing, We are here to help. Please contact us or visit prudentialprivatecapital.com for more information.