

German Government Response to COVID-19

BRIEFING MATERIALS

MARCH 2020

Executive Summary

Subsidized loans are one of the key measures by the German government to mitigate COVID-19's impact on the economy

- In light of the COVID-19 crisis, on 13 March 2020, the German government announced a package of measures to mitigate the economic impact of the virus. The package consists of four pillars:
 1. *Increasing the flexibility of short-time working allowance (Kurzarbeitergeld)*
 2. *Tax liquidity aid for companies*
 3. *Liquidity aid for companies through additional loan facilities*
 4. *Strengthening European cohesion*
- Kreditanstalt für Wiederaufbau (KfW), the fully state-owned development bank, is the principal institution to implement the third pillar in a two-step approach:
 1. **Existing KfW loan products'** conditions will be loosened and maximum loan amounts increased
 2. **New KfW loan products** will be introduced. These products are being finalized by the German government and KfW, subject to European Commission approval. Our understanding is that the new loan products will be announced by end of March 2020
- For “mature” corporates⁽¹⁾ looking to fund day-to-day operations, the most relevant existing loan product is the KfW-Unternehmerkredit (the “Loan”), which is available to Germany-based companies with a turnover of up to €2.0 billion. Conditions for this loan have been changed as follows:
 - *Maximum loan amount increased from €25 million to €200 million*
 - *Loan can be used for general corporate purposes, but not for refinancing or recapitalisation*
 - *KfW offers a 80% guarantee (previously 50%)*
 - *Loan has to be made through a company's relationship bank, which is then exposed to the remaining 20% of credit risk*
 - *Up to a five-year tenor*
 - *We understand the Loan will be available to private-equity-owned companies. There may be restrictions for companies owned by state-owned private equity funds*
- The guarantees will be granted by the German government to KfW under an existing guarantee framework that totals €460 billion. As of 13 March, around 15% (c. €69 billion) are still available under this framework. If necessary, the guarantee framework can be increased by the Budget Committee of the German Parliament by up to €93 billion on short notice by the Federal Ministry of Finance. Further increases would require a legislative act of Parliament

(1) Defined by KfW as corporates that have been existing for more than three years
Source: German Government

Application, Process, and Timing

Depending on their criteria, KfW loans may become an attractive funding source in the mid-term, but are unlikely to be available for imminent liquidity needs

Application and Process

- Applications have to be made through a company's relationship bank and cannot be made to KfW directly
- The relationship bank needs to approve the Loan and will be exposed to the remaining 20% of its risk
- The approval process will depend on the amount requested:
 - ≤ €3.0 million, KfW will use the relationship bank's internal rating and credit assessment
 - > €3.0 million but ≤ €10 million, there will be a "fast-track" assessment
 - > €10 million, KfW will need to have its own internal rating and credit assessment. We understand that KfW has not communicated its lending criteria yet
- KfW is setting up a platform for relationship banks through which successful applications can be funded. This is expected to go live earliest in mid-April

Timing

We expect the process from application to funding to take at least 10–12 weeks:

- We understand that KfW will communicate more details around the Loan's criteria and process to lenders by end of March and that the "funding" platform will go live in mid-April. Banks will then need to digest this information
- Credit approval processes and capacity constraints at banks (which are focusing on their portfolio companies) and at KfW, which is likely to have limited capacity to deal with a high number of applications for loans greater than €10 million
- Restructuring opinions and other diligence materials: Unless lenders receive a positive restructuring opinion report (Sanierungsgutachten IDW S6), under German law, they can be held liable for the offence of insolvency delay (*Insolvenzverschleppung*) for financing a company with uncertain going concern. While the German government has announced the law around insolvency delay to be loosened due to the COVID-19 impact, no change has officially taken place yet. It is understood that KfW does not require a restructuring report for the Loan, but many lenders may be reluctant to approve loans without receiving such report. In addition, a company's management may also not cooperate, as it faces the same liability under German law

Next Steps

What clients can do in the meantime:

- i. We anticipate primary support will be via way of loans. Therefore, companies should be reviewing their documentation to establish what leeway exists to inject new loans
- ii. Typically a fund deal will have very little flexibility, but may have capacity on a junior-debt basis
- iii. Where this flexibility does not exist, we recommend clients contact lenders in advance and warm them up to possible need for loans from third party
- iv. While approaching certain lenders in this way can have negative strategic implications, Houlihan Lokey's Capital Markets Group has conducted a comprehensive survey of fund lenders and identified those we think have capacity and will lend, especially for portfolio companies. ***If you want to benchmark your lender group with Houlihan Lokey, please feel free to reach out***

Please do not hesitate to contact the team:



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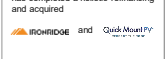





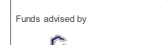








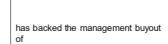




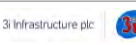










Experienced Capital Markets Group

Houlihan Lokey provides financing solutions across the capital structure for a broad range of corporate and sponsor clients

Overview of Houlihan Lokey's Capital Markets Group

- With approximately 40 professionals globally, Houlihan Lokey's Capital Markets Group is among the largest capital markets team at a non-balance-sheet bank
- Led by experienced former arranging, underwriting, and direct lending specialists, our team provides conflict-free advice to sponsors and corporate clients for:
 - Acquisition financings
 - Refinancings
 - Dividend recapitalisations
 - Growth capital
 - Special situations
- We maintain a proprietary database that tracks the investment approach of more than 70 European lenders. Our clients benefit from this intellectual capital through:
 - Targeted processes with preselected lists of lenders, ensuring an efficient and confidential process
 - Market-leading terms that are negotiated given our knowledge of precedents agreed to by those lenders
- Leveraging our team's market knowledge and wealth of experience, we regularly compete lenders in order to achieve material cost savings and significant documentation improvements for our clients
- Houlihan Lokey's EMEA Capital Markets Group raised more than €4 billion since 2019

Select Recent European Transactions

 <p>المراكز العربية Arabian Centres</p> <p>Inaugural credit ratings and debut REGS/ 144A Sukuk issuance to partially refinance bank debt and for general corporate purposes</p> <p>USD 500m REGS/ 144A Sukuk</p> <p>Financial Advisor</p>	 <p>المراكز العربية Arabian Centres</p> <p>New underwritten bank facilities to partially refinance existing debt and for general corporate purposes</p> <p>USD 1200m term loan facility USD 200m revolving credit facility</p> <p>Financial Advisor</p>	 <p>has acquired</p>  <p>a portfolio company of</p>  <p>Buy-side & Financing Advisor</p>	 <p>a portfolio company of</p>  <p>has completed a holistic refinancing and acquired</p>  <p>Financing Advisor</p>	 <p>a portfolio company of</p>  <p>has successfully raised additional growth debt financing and amended its existing credit facilities</p> <p>Financing Advisor</p>
 <p>has acquired a majority stake in</p>  <p>Term loan facilities Revolving credit facility</p> <p>Financing Advisor</p>	 <p>has completed a refinancing of existing long-term debt and short-term credit lines for a total amount of approximately €55 million</p> <p>Financial Advisor</p>	<p>Funds advised by</p>  <p>have acquired</p>  <p>Financing Advisor</p>	 <p>has completed a renegotiation of the main terms and conditions of its short-term credit lines</p> <p>Financial Advisor</p>	 <p>a portfolio company of</p>  <p>has successfully completed a dividend recapitalisation</p> <p>Financing Advisor</p>
 <p>majority owned by</p>  <p>has been successfully acquired by Management and Fortress Investment Group LLC</p> <p>€70,000,000 term loan facility €25,000,000 mezzanine bond €10,000,000 revolving credit facility</p> <p>Financing Advisor</p>	 <p>acquired two pain-related brands from AstraZeneca</p> <p>€635,000,000 term loan facility €400,000,000 revolving credit facility</p> <p>Financing Advisor</p>	 <p>has backed the management buyout of</p>  <p>Buy-side & Financing Advisor</p>	 <p>has undergone a balance sheet recapitalisation through a debut TLB issuance</p> <p>€210,000,000 TLB €40,000,000 RCF</p> <p>Financial Advisor</p>	<p>Funds advised by</p>  <p>have acquired</p>  <p>and</p>  <p>Financing Advisor</p>
 <p>have agreed to acquire</p>  <p>€340,000,000 term facility €50,000,000 revolving credit facility</p> <p>Financing Advisor</p>	 <p>has acquired</p>  <p>a leading U.K. pension and investment advisory business</p> <p>Financing Advisor</p>	 <p>has acquired</p>  <p>Financing Advisor</p>	 <p>has acquired</p>  <p>\$800,000,000 term loan facility \$625,000,000 term loan facility \$275,000,000 term loan facility \$350,000,000 revolving credit facility</p> <p>Buy-side & Financing Advisor</p>	 <p>has successfully acquired</p>  <p>from</p>  <p>In exchange for a total consideration of \$153,000,000</p> <p>\$120,000,000 term loan facilities</p> <p>Financing Advisor</p>

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