HOULIHAN LOKEY

Spanish Government Response to COVID-19

BRIEFING MATERIALS

APRIL 2020

Executive Summary

State-backed guarantees is the key liquidity measure that the Spanish Government has established to mitigate the impact of COVID-19 on businesses

- Following the Spanish Government's declaration of state of alarm on 14 March 2020, the Council of Ministers approved the Royal Decree-Law 8/2020 on 17 March, which includes a set of extraordinary measures that aim to mitigate the economic and social impact of COVID-19 in Spain. The government pledged up to €200 billion to implement the measures, which consists of five pillars:

  1. *Measures to help employees, families, and other groups considered "vulnerable"*
  2. *Increase flexibility of the temporary workforce adjustments to avoid mass redundancies*
  3. *Liquidity aid for companies through state-backed guarantees and additional loan facilities through Instituto de Crédito Oficial (ICO)*
  4. *Measures to support COVID-19 investigation*
  5. *Other measures needed to alleviate the impact on COVID-19, both for companies and individuals*

- With regards to the third pillar, the Ministry of Economic Affairs and Digital Transformation will provide up to €100 billion guarantees for both refinancing of existing loans and/or issuance of new loans granted by credit institutions to companies
  - *The purpose of the financing must be related to, among others, payment of employee salaries, invoices to suppliers, working capital, or other liquidity needs, including those derived from maturity of financial or tax obligations*
  - *The guaranteed loan cannot be applied to the cancellation or early amortisation of preexisting debts*

- While the guarantees will be administered by ICO, the lending decisions will remain with the relevant financial institution granting the loan
  - *Additionally, the government has increased the ICO leverage capacity by €10 billion in order to provide immediate liquidity to SMEs*
  - *Lastly, the Spanish Export Credit Agency (CESCE) increases their insurance coverage to provide security to Spanish exporting companies*

- On 24 March 2020, the Council of Ministers approved the characteristics and requirements of the initial tranche of the €100 billion, which will consist of a <u>€20 billion</u> tranche equally split to support SMEs and large enterprises

Source: Spanish Government

Applicable Conditions and Requirements

The initial tranche is split into two equal subtranches of €10 billion, each reserved for (i) self-employed and SMEs and (ii) other companies that don't meet the definition of SME, respectively

Eligible companies	▪ Any Spanish company (i.e. with a registered office in Spain) affected by the economic effects of the COVID-19, as long as it is: 1. *Not listed as delinquent due to a late payment situation as of 31 December 2019* 2. *Not under insolvency proceedings as of 17 March 2020* 3. *Not an "undertaking in difficulty" as of 31 December 2019, as defined in the EU Commission Regulation (651/2014 of 17 June 2014) which, among other conditions, includes:* - *Companies where more than half of their subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital, including any share premium* - *Companies where, for the two previous years, (i) the book debt-to-equity ratio has been greater than 7.5x and (ii) EBITDA interest coverage ratio has been below 1.0x*
Eligible loans	▪ Formalized or renewed after 17 March 2020
Maximum loan amount per client	▪ For loans with a maturity beyond 31 December 2020, the amount of the loan does not exceed: - ***Double of the annual wage bill of the beneficiary*** *(including social charges as well as the cost of personnel working on the company site, but formally in the payroll of subcontractors) for 2019 or for the last year available. In the case of undertakings created on or after 1 January 2019, the maximum loan must not exceed the estimated annual wage bill for the first two years in operation;* - ***25% of the total turnover of the beneficiary in 2019****; or* - *With appropriate justification and based on self-certification by the beneficiary of its liquidity needs (may include working capital and capex), the amount of the loan may be increased to cover the* ***liquidity needs from the moment of granting for the coming 12 months***
Maximum guarantee percentages	▪ The guarantee will cover a ***maximum of 70% of new loans and 60% in the case of a refinancing***. The guarantees will be ranked pari passu with the financial entity's commitment
Maximum maturity of the guarantee	▪ Five years

Source: BOE, ICO.
Note: We have focussed our analysis on the terms and conditions that are relevant to large corporates and therefore have excluded the provisions applicable to SMEs and self-employed.
The applicable terms and conditions for SMEs and self-employed can be found in www.boe.es (Boletín Oficial del Estado No.83 26 March 2020).

Applicable Conditions and Requirements (cont.)

The initial tranche is split into two equal subtranches of €10 billion, each reserved for (i) self-employed and SMEs and (ii) other companies that don't meet the definition of SME, respectively

Application period for guarantees	▪ Guarantees may be requested until 30 September 2020. The term may be extended, always in line with the EU State Aid regulations
Authorised financial institutions	▪ Credit institutions (banks, savings banks, credit cooperatives), financial credit institutions, electronic money institutions, payment entities, as defined by the Bank of Spain ▪ Must be registered and supervised by the Bank of Spain (or CNMV in the corresponding cases) and have signed a framework contract with ICO to participate in the Line of Guarantees
Rights and obligations of financial entities	▪ ***Lending decisions remain with the financial institution*** in accordance with its internal procedures and risk policies - *Loans of more than €50 million will require an eligibility analysis by ICO before being granted* ▪ The costs of new loans and renewals that benefit from these guarantees will remain ***in line with the costs charged before the start of the COVID-19 crisis***, taking into account the public guarantee and its cost of capital ▪ Financial institutions undertake to maintain (at least until 30 September 2020) the limits of working capital lines granted to all customers and in particular to those clients whose loans are guaranteed
Cost of the guarantee	**New loans** ▪ Maturity 1–3 years: 60bps ▪ Maturity 3–5 years: 120bps **Refinancing** ▪ Maturity 1–3 years: 50bps ▪ Maturity 3–5 years: 100bps

Source: BOE, ICO.
Note: We have focussed our analysis on the terms and conditions that are relevant to large corporates and therefore have excluded the provisions applicable to SMEs and self-employed. The applicable terms and conditions for SMEs and self-employed can be found in www.boe.es (Boletín Oficial del Estado No.83 26 March 2020).

Next Steps

What clients can do in the meantime:

i. 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 bank/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 parties

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 that they think have capacity and will lend, especially for portfolio companies.

If you want to benchmark your lender group or seek additional sources of financing, feel free to reach out to Houlihan Lokey

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:
  1. *Targeted processes with preselected lists of lenders, ensuring an efficient and confidential process*
  2. *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

Transaction pending
PizzaExpress
has entered into a binding commitment for a super senior term loan facility
Financing Advisor

Arabian Centres
Inaugural credit ratings and debut REGS/ 144A unsecured Sukuk issuance to partially refinance bank debt and for general corporate purposes
USD 500m REGS/ 144A Sukuk
Financial Advisor

Arabian Centres
New underwritten bank facilities to partially refinance existing debt and for general corporate purposes
USD 1,200m term loan facility
USD 200m revolving credit facility
Financial Advisor

EQUISTONE
has acquired
HERAS
a portfolio company of
CRH
Buyside & Financing Advisor

ESDEC
a portfolio company of
Gilde Buy Out Partners
has completed a holistic refinancing and acquired
IRONRIDGE and Quick Mount PV
Financing Advisor

CRANEMERE
has acquired
acquabella
Buyside & Financing Advisor

austrocel hallein
a portfolio company of
TOWERBROOK
has successfully raised additional growth debt financing and amended its existing credit facilities
Financing Advisor

EQUISTONE
has acquired a majority stake in
omnicare
Term loan facilities
Revolving credit facility
Financing Advisor

SINTERAMA
has completed a refinancing of existing long-term debt and short-term credit lines for a total amount of approximately €55 million
Financial Advisor

Funds advised by
CASTIK CAPITAL
have acquired
AllDent
Financing Advisor

BURGO GROUP
has completed a renegotiation of the main terms and conditions of its short-term credit lines
Financial Advisor

ICS Independent Clinical Services
a portfolio company of
TOWERBROOK
has successfully completed a dividend recapitalisation
Financing Advisor

FAVINI
majority owned by
ORLANDO
has been successfully acquired by Management and Fortress Investment Group LLC
€70,000,000 Term Loan Facility
€25,000,000 Mezzanine Bond
€10,000,000 Revolving Credit Facility
Financing Advisor

GRÜNENTHAL
acquired two pain-related brands from AstraZeneca
€635,000,000 term loan facility
€400,000,000 revolving credit facility
Financing Advisor

SCENIC
has undergone a balance sheet recapitalisation through a debut TLB issuance
€210,000,000 TLB
€40,000,000 RCF
Financial Advisor

Funds advised by
CASTIK CAPITAL
have acquired
ipan
and
Delegate
Financing Advisor

3i Infrastructure plc
&
DWS
have agreed to acquire
attero
€340,000,000 term facility
€50,000,000 revolving credit facility
Financing Advisor

Exponent
has acquired
isio.
a leading U.K. pension and investment advisory business
Financing Advisor

TOWERBROOK
has acquired
Bosal ACPS
Financing Advisor

GVC Holdings
has acquired
LADBROKES CORAL GROUP
\$800,000,000 term loan facility
€625,000,000 term loan facility
£275,000,000 term loan facility
£550,000,000 revolving credit facility
Buyside & Financing Advisor

Our clients benefit from our local presence and global reach.

23 | Offices Globally

340+ | Cross-Border M&A Transactions Over Past Five Years

60%+ | 2019 M&A Transactions With Cross-Office Execution Teams

North America

Atlanta
Chicago
Dallas
Houston
Los Angeles
Miami
Minneapolis
New York
San Francisco
Washington, D.C.

Europe and Middle East

Amsterdam
Dubai
Frankfurt
London
Madrid
Milan
Paris

Asia-Pacific

Beijing
Hong Kong
Singapore
Sydney
Tokyo

Corporate Finance

No.1 **US Private Equity M&A Advisor** *(Pitchbook.com)*

No.1 **M&A Advisor for U.S. Transactions**

Financial Restructuring

No.1 Global Restructuring Advisor

1,000+
Aggregate Transactions Completed

$2.5+ Trillion
Aggregate Debt Restructured

Financial and Valuation Advisory

No.1 **Global M&A Fairness Opinion Advisor Over the Past 20 Years**

1,000+
Annual Valuation Engagements

Source: Refinitiv (formally known as Thomson Reuters) unless noted

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