

HMT and BOE Response to COVID-19

BRIEFING MATERIALS

MARCH 2020

Executive Summary

- Over the past two weeks, the UK Government and the Bank of England have significantly accelerated the availability of financial support to banks, building societies, and UK businesses
- The “**support for those affected by COVID-19**” **£12 billion support package** was released on 11 March 2020 as part of the 2020 Budget, to provide “*temporary, timely, and targeted measures*” to support public services, individuals, and businesses through the economic disruption caused by COVID-19
- Concurrently, the Bank of England announced an enhanced “**Term Funding Scheme with additional incentives for SMEs**” (**TFSME**), which will offer (over the next 12 months) four-year funding of at least 5% of each participant’s stock of real economy lending at interest rates at, or very close to, the bank rate. Additional lending will be available to banks that increase lending, especially to SMEs.
 - *Concurrently, the Bank of England reduced the countercyclical buffer to 0% of banks’ exposures to UK borrowers with immediate effect, increasing UK banks’ capacity to lend to UK businesses by £190 billion*
- On 17 February 2020, HMT (Rishi Sunak, Chancellor of the Exchequer) announced that it would provide the below support schemes by the start of the week beginning 23 March 2020, as part of an **additional £330 billion package of government-backed and guaranteed loans** to support the UK business sector:
 1. To support liquidity amongst larger firms: the **COVID-19 Corporate Financing Facility (CCF)**—a new financing tool to provide low-cost, easily accessible commercial paper to corporates
 2. To support lending to small- and medium-sized businesses: **The Coronavirus Business Interruption Loan Scheme (CBILS)** that will provide loans of up to £5 million (instead of previously announced £1.2 million announced at last week’s budget released), with no interest due for the first six months
- Additional measures to provide financial support to those sectors that are most affected by COVID-19 include:
 - **Airlines and airports:** a coordinated package is being discussed between HMT and the Department for Transport and will be released over the coming days
 - **Retail, hospitality, and leisure:** 12-month business rate holiday. Any business operating in these sectors with a rateable value below £51,000 announced will receive an additional £25,000 per business in cash grant
 - **Other highly affected sectors:** Discussions in progress on potential relief packages, including possible regulatory forbearance
- Across all sectors, specific support is being provided to SMEs in the form of:
 - **Reimbursement of statutory sick pay (SPP) to SMEs and a £10,000 cash grant** for each of the 700,000 smallest UK businesses

Overview of Key Business Support Schemes

	Program Highlights	Announcement Date	Expected Effective Date
Budget 2020 COVID-19 Bill	<p>Policy originator: HMT Recipients: Eligible UK SMEs</p> <ul style="list-style-type: none"> - Refund of up to two weeks of SPP per eligible employee^(a) <ul style="list-style-type: none"> - 100% business rates retail discount for 12m^(b) - £2.2bn in one-off grants to small businesses (£3k per business) 	11 March 2020	Week starting 23 March 2020
TFSME	<p>Policy originator: Bank of England Recipients: Eligible UK banks and BSOCs^(c)</p> <ul style="list-style-type: none"> - 4-year funding of 5% of a lender's loans to the real economy over next 12 months <ul style="list-style-type: none"> - Interest rates charged equal to, or very close to, the BBR - Additional funding available to banks that increase lending, especially to SMEs 	11 March 2020	Applications can be sent from mid-March 2020
CCF <i>(part of £330bn package announced 17 March)</i>	<p>Policy originator: HMT Implementation: Bank of England Recipients: Eligible UK businesses</p> <ul style="list-style-type: none"> - CCF will purchase, for up to 12m, CP of up to 1yr in maturity issued by firms making "a significant contribution to the UK economy" <ul style="list-style-type: none"> - Use of proceeds: to pay wages and suppliers - Eligible firms: ability to demonstrate sound financial health^(d) pre-COVID-19 shock - Terms: Comparable to market terms prevailing before COVID-19 economic shock 	17 March 2020	As soon as possible
CBILS <i>(part of £330bn package announced 17 March)</i>	<p>Policy originator: HMT Implementation: British Business Bank Recipients: Eligible UK SMEs^(e)</p> <ul style="list-style-type: none"> - Government guarantees 80% on new loans and overdrafts to SMEs of up to £5m with 6-month interest holiday^(f) <ul style="list-style-type: none"> - Term loan tenors: 3 months to 10 years - Revolving facilities and invoice finance tenors: Up to 10 years 	17 March 2020	Week starting 23 March 2020

(a) For eligible businesses only, defined as those with less than 250 employees. Company size based on headcount based on 28 February 2020 cut-off date.

(b) Business rate retail discount expanded to the leisure and hospitality sectors, and increase the planned rates discount for pubs to £5k.

(c) Institutions eligible to participate in the TFSME will be banks and building societies that are participants in the Bank of England's Sterling Monetary Framework (SMF) and are signed up to access the Discount Window Facility (DWF).

(d) Firm financial soundness assessment based on pre-Covid-shock credit rating. Minimum short-term credit rating of A-3/P-3/F-3 from at least one of S&P, Moody's and Fitch as at 1 March 2020. Do not need to be existing CP issuer.

(e) Eligible SMEs will be: UK based, with turnover of no more than £41m per annum, operate in an eligible industrial sector, have a sound borrowing proposal but insufficient security to meet a lender's normal requirement, be able to confirm that they have not received de minimis State aid beyond £200k equivalent over the current and previous two fiscal years.

(f) Subject to a per-lender cap on claims.

Next Steps

- What can clients do while the public bodies work through its thinking?
 - I. We anticipate primary support to be via way of loans. Therefore, companies should be reviewing their documentation to establish what leeway exists to inject new loans

Please note that there are parallel discussions underway, in addition to the government’s offer of loans, which are starting to trickle down. For example, we note a large landlord in King’s Cross has indicated a three-month moratorium on rents, and Houlihan Lokey clients are currently proposing the same to their landlords in multiple locations

- 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 a third party
- IV. While approaching certain lenders in this way can have negative strategic implications, Houlihan Lokey 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 don’t hesitate to contact the EMEA Capital Markets team with further:

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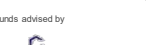








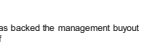















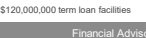
Experienced Capital Markets Group

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 unsecured 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 1,200m 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>INVERROE and Qadaa</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 €925,000,000 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>and</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>

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

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

Europe and Middle East

Amsterdam Madrid
Dubai Milan
Frankfurt Paris
London

Asia-Pacific

Beijing Sydney
Hong Kong Tokyo
Singapore

Corporate Finance

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Advisor (*Pitchbook.com*)

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

Financial Restructuring

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Aggregate Transactions Completed

\$2.5+ Trillion
Aggregate Debt Restructured

Financial Advisory

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

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Annual Valuation Engagements

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Mergers and Acquisitions

Capital Markets

Financial Restructuring

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Dedicated Industry Groups

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Energy

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