

Dissecting Federal Actions for Main Street

PESA Member Webinar

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Government aid options are changing daily. Please contact AlixPartners for current information and do not rely on this presentation to make important financial decisions.



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COVID-19 is first and foremost a humanitarian crisis. Once you are able to turn your thoughts from safeguarding your family and your people, you must turn to the health and safety of your business.

In a crisis, the foremost concerns must be personal health and safety - of our families, our employees, and ourselves.

Once you have addressed the critical efforts to safeguard your family and your people, you must turn to understanding and managing the impact on your business

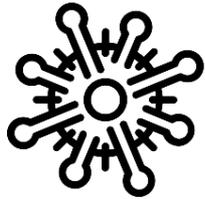
AlixPartners is no different - We are all in this together.

Our firm exists to protect our clients' businesses and help them manage through the most complex challenges.

There is no single formula for doing this, and the COVID-19 threat is unprecedented.

We draw on almost forty years of experience in helping our clients navigate through their most urgent and challenging situations

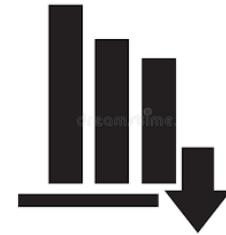
Our main observations



COVID-19 is getting under control



Oilfield Service and Equipment Companies are taking action as best possible

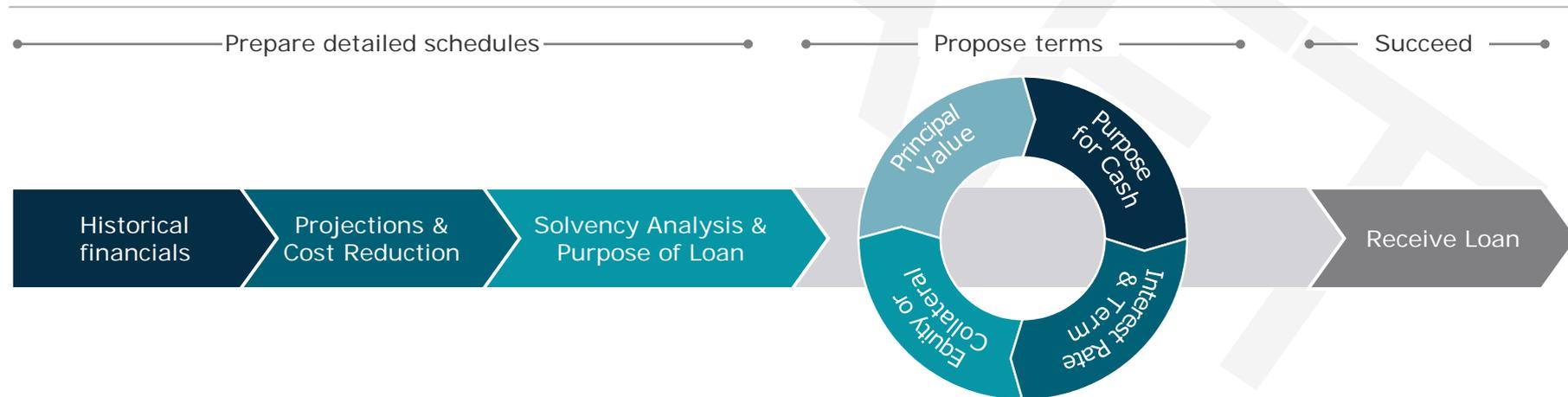


Market outlook could be worse than we want to admit; but this will probably look like past downturns and recovery

CARES Act loans-should your company seek funds?

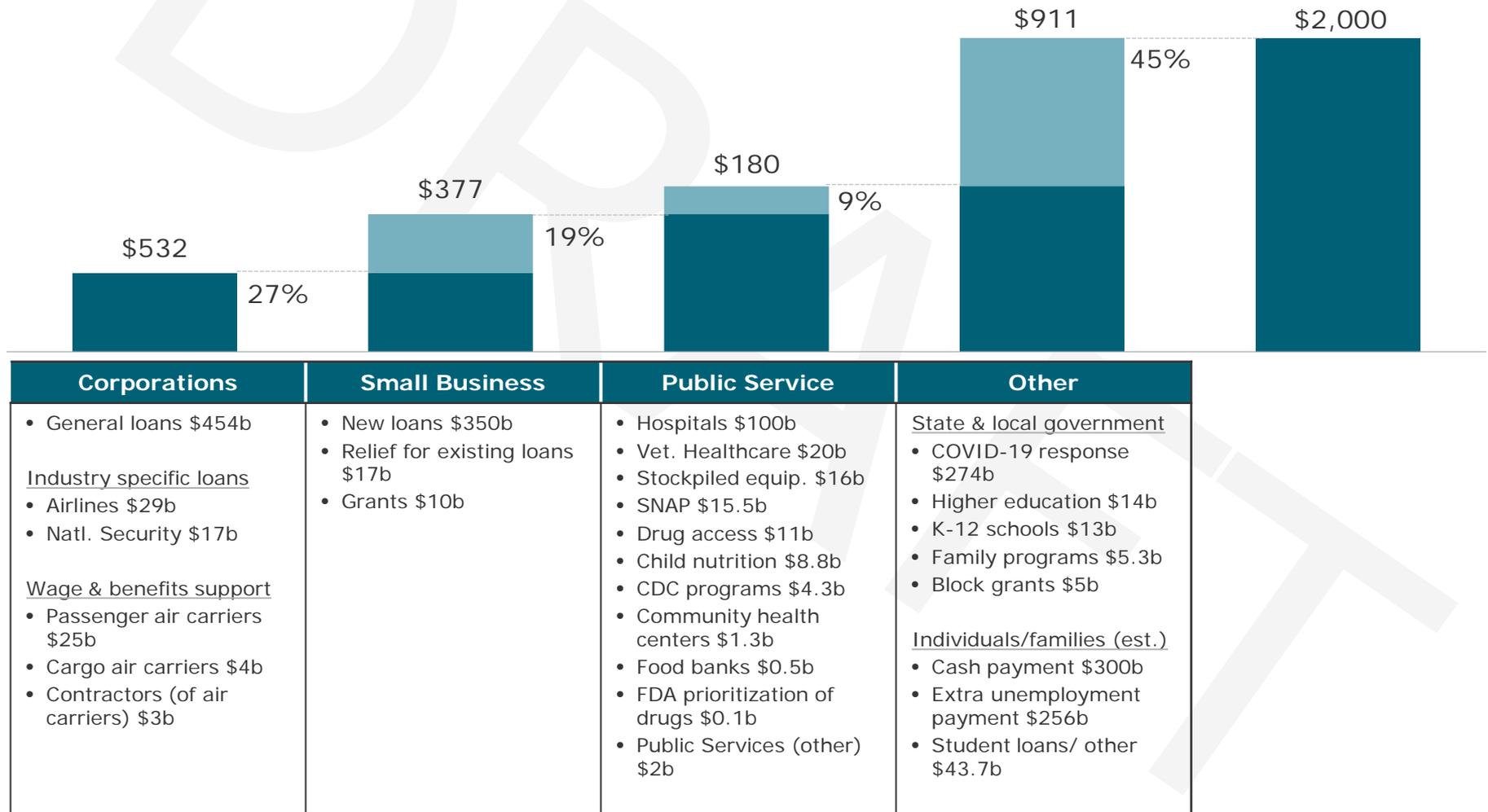
- Understand eligibility** ➤ Strict rules define eligible vs. ineligible companies
- Consider restrictions** ➤ Loans govern employment, compensation, equity transactions, and other items
- Determine approach** ➤ Does it make sense to apply for a loan given the restrictions
- Prepare application** ➤ Detailed customized schedules are required, consistent with investor presentations
- Negotiate terms** ➤ Compute needed principal, proposed equity or other collateral to secure loan
- Receive funds** ➤ Use the funds properly in accordance with the application details
- Track compliance** ➤ Ensure that restrictions are fully monitored throughout the life of the loan

Application workflow



The CARES Act provides for \$2 trillion to help individuals, businesses and public entities address the COVID-19 impact

CARES Act Funding Distribution



CARES Act loan provisions vary based on number of employees



LARGE BUSINESSES

(> 10,000 employees)

- Domiciled in US with significant operations and employees in US
- Credit not available elsewhere
- Loan or guarantee is **sufficiently secured**, or at a rate that reflects the risk of the loan, or at a rate not less than comparable market rate prior to COVID-19
- Loan duration < **5 years** (as short as practicable)
- For the period up to 12 months after the loan or guarantee is no longer outstanding (unless contractually obligated):
 - **No stock repurchases**
 - Will not pay **dividends or capital distributions**
- Limitations on **executive compensation**
 - Employees with 2019 comp > \$425k limited to 2019 comp in 2020
 - Employees with 2019 comp > \$3 million in 2019 are limited to \$3 million plus 50% of 2019 amounts in excess of \$3 million
- Loan cannot be forgiven



MID-SIZED BUSINESSES

(500 to 10,000 employees)

- Domiciled in US with significant operations and employees in US
- Interest Rate <= **2%** per annum
 - **No interest/principal due during 6-month** period following loan
- Loan must be necessary to support ongoing operations
- Funds must be used to **retain 90% of workforce at full compensation and benefits until 9/30/2020**
- Intent to restore not less than 90% of the workforce that existed as of 2/1/2020 within 4 months after COVID-19 emergency terminated per US gov't.
- Not a debtor in bankruptcy proceeding
- Will not pay **dividends or repurchase securities** while loan is outstanding (unless contractually obligated)
- Will not **outsource/offshore jobs** or abrogate CBAs for at least 2 years after repayment of loan
- Will remain **neutral in any union** organizing efforts during term of loan
- Limitations on **executive compensation**
- Also available for "Main Street" program



SMALL BUSINESSES

(< 500 employees)

- SBA Loans require a company be engaged in, or propose to do business in, the U.S. or its territories
- Covers small businesses, nonprofits, veteran organizations, tribal organizations, sole proprietors and self-employed individuals
- **Lesser of a) \$10 million or b) calculation based on average monthly payroll costs multiplied by 2.5**
 - Excludes portions of individual **salaries > \$100,000** per annum
- Loans may be used for payroll and benefits, mortgage and rent, utilities, and interest on debt service
- Certain SBA requirements waived:
 - 'No credit elsewhere' is waived
 - Collateral/guarantees not required
 - **Deferred fees, interest, and principal** for 6-12 months
- Loans can be **forgiven** up the amount of costs incurred and payments made by the borrower during an eight-week covered period after the loan origination date; otherwise **1% interest and 2 year term**

Main Street Loan Facilities: program description

On April 9, 2020, two new facilities of up to \$600 billion for small and mid-sized businesses were established: the Main Street New Loan Facility (“MSNLF”) and Main Street Expanded Loan Facility (“MSELF”)

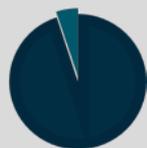
Facility Funding:

1 Federal Reserve Bank lends to single common SPV on resource basis

2 SPV will purchase 95% participations in Eligible Loans from Eligible Lenders, and Eligible Lenders will retain 5% of each Eligible Loan

3 The Department of the Treasury using funds appropriated under the CARES Act, will make a \$75 billion equity investment in the SPV in connection with the MSNLF and the MSELF.

■ SPV ■ Eligible Lender



Overlapping Eligibility requirements for MSNLF and MSELF:

| | |
|--------------------------------|--|
| Eligible Lenders (EL) | US insured depository institutions, US bank holding cos., and US savings & loan holding cos. |
| Eligible Borrowers (EB) | Businesses up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues |
| Required Attestations | <p>Required attestations with respect to each Eligible Loan:</p> <ol style="list-style-type: none"> Cannot be used to repay/refinance pre-existing loans Cannot be used to repay other loans or repay other debt of equal or lower priority unless EB first repays Eligible Loan in full. Exception: mandatory principal payments EB must attest that it: (i) will not cancel/reduce existing lines of credit outstanding to EB, EL or other Lender; (ii) requires financing due to circumstances presented COVID-2019 pandemic, and that proceeds of Eligible Loan, will be used to make efforts to maintain payroll and employees during loan term; (iii) meets the EBITDA leverage conditions for loan type; (iv) will follow compensation, stock repurchase, and capital distribution restrictions applying to direct loan programs under the CARES Act Must certify that entity is eligible to participate in the Facility, including in light of conflicts of interest prohibition in section 4019(b) of the CARES Act |
| Loan Terms | 4year maturity; amortization of principal and interest deferred for one year; adjustable rate of SOFR +250-400 basis points; minimum loan size of \$1 million; prepayment permitted without penalty |
| Facility Termination | Unless extended, SPV will cease purchasing participations in Eligible Loans on September 30, 2020. Reserve Bank will continue funding until SPV’s underlying assets mature or are sold |

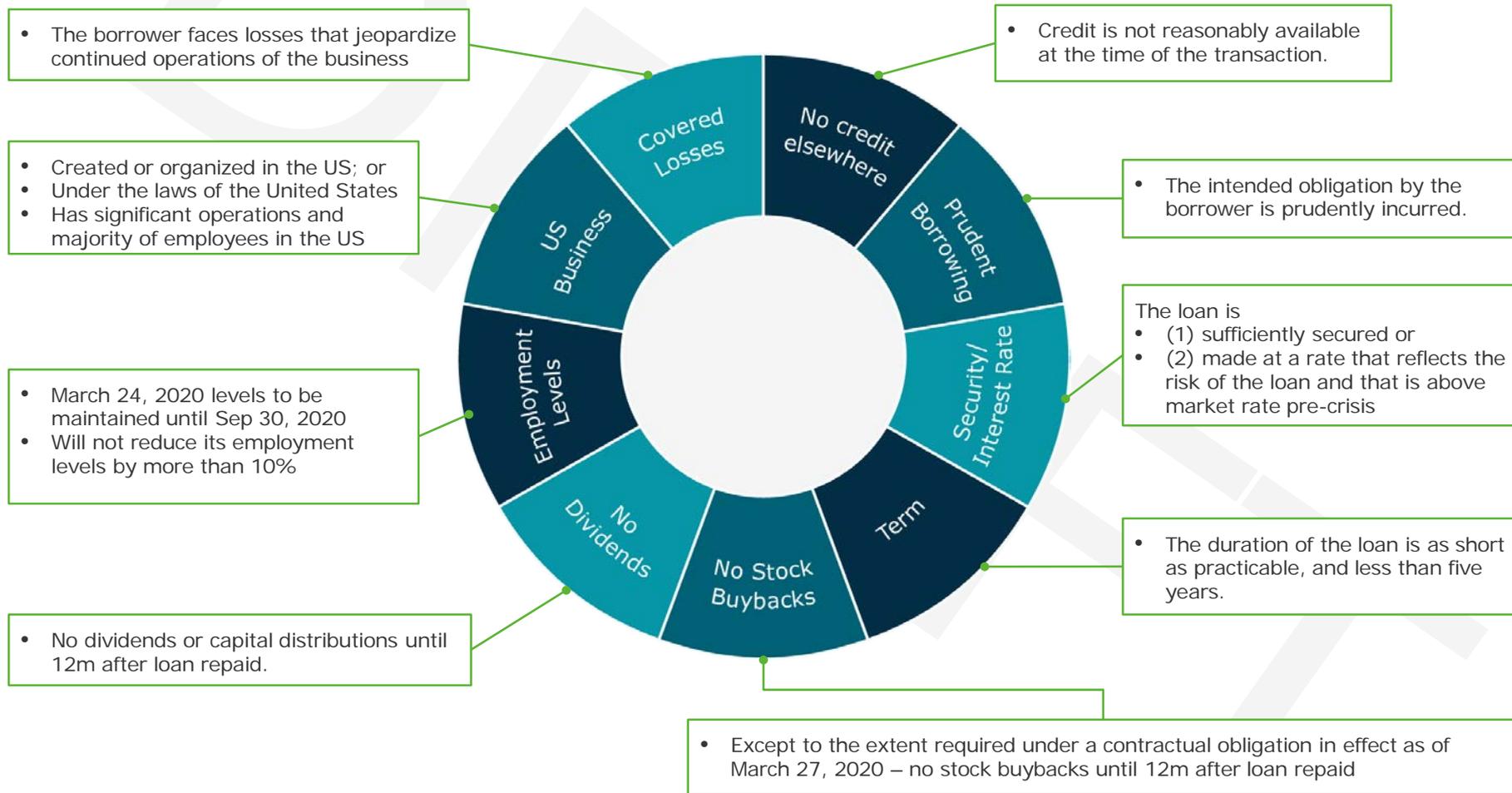
Differences between the MSNLF and MSELF:

| | MSNLF | MSELF |
|--|--|---|
| Loan Origination Date | Originated on or after April 8, 2020 | Increases of loans originated prior April 8, 2020 |
| Maximum Loan | Lesser of (i) \$25 million or (ii) an amount that, when added to existing outstanding and committed but undrawn debt, does not exceed 4x 2019 EBITDA | Lesser of (i) \$150 million, (ii) 30% of EB’s existing bank debt or (iii) an amount that, when added to existing outstanding and committed but undrawn debt, does not exceed 6x 2019 EBITDA |
| Collateral | Unsecured | Upsized tranche must be secured if original loan was secured; otherwise unsecured |
| Facility Fee | EL to pay SPV a facility fee of 100 bps of loan purchased by SPV; EL may charge EB this fee | No facility fee mentioned |
| Loan Organization & Servicing | EB to pay EL 100 bps of the principal amount of the loan. SPV to pay EL 25 bps of the principal amount of its participation loan for loan servicing | EB to pay EL 100 bps of <i>upsized tranche</i> of the loan. SPV to pay EL 25 bps of the <i>upsized tranche</i> of its participation loan for loan servicing |

CARES Act loans-anticipated restrictions

Treasury guidance as of March 31, 2020

Note: Although these items apply to the airline industry, it is expected that all loans will have similar application requirements when those guidelines are published



CARES Act airline industry loans: application requirements

Treasury guidance as of March 31, 2020

Note: Although these items apply to the airline industry, it is expected that all loans will have similar application requirements when those guidelines are published (airline only items have been omitted)

Loan conditions

1 Financial Protection of the Government – depending on situation:

(1) a warrant or equity interest in the borrower for publicly-traded companies

(2) a warrant or equity interest in the borrower, or a senior debt instrument

2 Prohibition on Loan Forgiveness

3 Limitation on Certain Employee Compensation:

a. \$425k limit for individual compensation > \$425k in 2019

b. \$3 million limit plus 50% of amount in excess of \$3 million for individual compensation > \$3 million in 2019

4 Conflicts of Interest Certification

Application requirements to be demonstrated

1 View of existing Debt and Credit available

2 Debt Service - Schedule for next 3 years.

3 Employment Levels and Cost - as of March 24, 2020, and any proposed changes during 2020.

4 Financial Statements – Audited prior 3 years, interim for current FY.

5 Covered Losses incurred / expected due to coronavirus

6 Lack of Credit Elsewhere

7 Security - assets, property, revenue...

8 Use of Proceeds

9 Financial Needs

10 Operating Plan - remainder of 2020 if loan is approved

11 Cost Restructuring – what the borrower will undertake to improve its cost position.

Prospective borrowers are encouraged to begin compiling this information to expedite their ability to submit a loan application – and will need to present a clear value case and use for funds

Guidance for U.S. companies with foreign parent entities

CARES Act Loans: Large & Mid-Sized Companies

- Subject to further guidance, U.S. companies owned by a foreign parent can apply for loans as long as they can certify that they:
 - Are U.S.-domiciled;
 - Have significant operations in the U.S.; and
 - Have significant employees located in the U.S.
- While there is no express prohibition on foreign ownership of an entity receiving the funding, we expect some limitations to be imposed

CARES Act Loans: Small Companies

- Treasury issued an “Interim Final Rule” to clarify that U.S. companies with foreign parent entities can qualify for CARES Act SBA loans
- Payroll costs used to compute the principal value must exclude amounts for employees whose primary residence is not in the U.S.
- Companies are eligible for a CARES Act SBA loan if:
 - They have fewer than 500 employees; and
 - The employees’ principal place of residence is in the U.S.

Or

- The company is a business that operates in a certain industry; and
- Meets the applicable SBA employee-based size standards for that industry

Main Street Loan Program

- Guidance has not yet been issued; however, it is generally expected that the rules will be the same or similar to the CARES Act loan rules for mid-sized companies

While evaluating government aid programs, focus on cash and adjusting the business to reflect the current reality

COVID-19 Top Line impact

- Create multiple scenarios including low and optimistic scenarios
- Build scenarios to consider how it will take to recover to pre-COVID-19 levels

Operating Costs

- Defer non-critical capital projects and expenditures
- Re-size operating costs to align with reduced volumes
- Re-size overhead costs for a significantly smaller business

Cash Management

- Centralize key cash decisions during the crisis
- Develop / refine cash forecasting (e.g., 13 week cycle) based on new top line assumptions
- Apply for government financing if appropriate

Working Capital

- Pull in customer receivables and reduce DSO's
- Push out material deliveries and payables to conserve cash
- Optimize inventory planning and levels for cash availability

Check List:

Factors to consider prior to participating in gov't aid programs

Management has a number of factors to consider before agreeing to receive federal aid program.

-
- ✓ Understand the liquidity needs of the business
 - ✓ Model the financial impact of the US Government aid on the company's business plan
 - ✓ Evaluate the restrictions associated with any federal aid
 - ✓ Identify potential conflicts with the go-forward plan
 - ✓ Examine existing credit agreements and corresponding covenant compliance
 - ✓ Review material contracts to understand the financial obligations of those contracts;
 - ✓ Identify available collateral that could be used to secure the government aid
 - ✓ Perform an assessment of the impact of the new government aid on the company's existing capital structure
 - ✓ If equity is issued as part of the government aid, evaluate the impact on the company's existing equity
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Federal Reserve's Primary and Secondary Market Corporate Credit Facilities

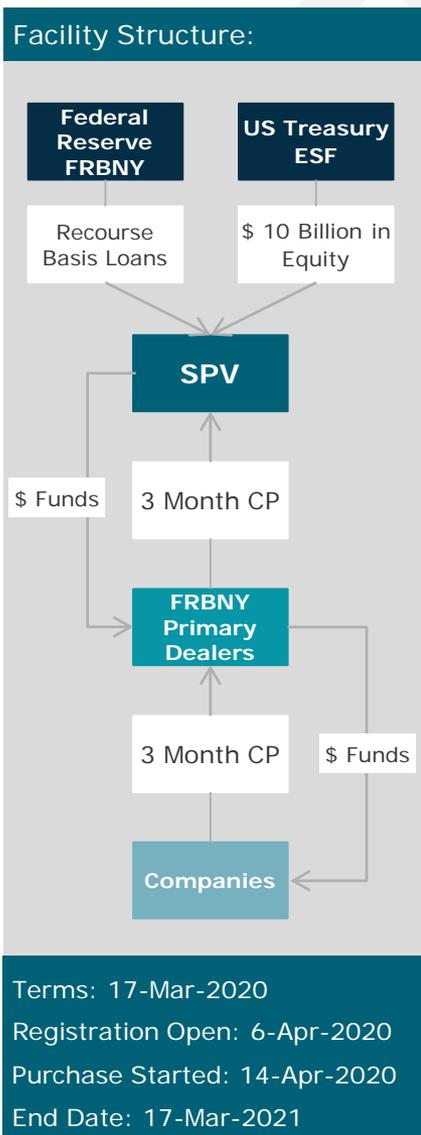
The Primary Market Corporate Credit Facility ("PMCCF") and the Secondary Market Corporate Credit Facility ("SMCCF") will provide liquidity to the corporate credit market by investing up to up to **\$750 billion**.

| Criteria | PMCCF | SMCCF |
|------------------------|---|---|
| Eligible issuer | <ol style="list-style-type: none"> 1. Created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States 2. Investment Grade (BBB-/Baa3) or higher as of March 22, 2020 3. Issuer not an insured depository institution or depository institution holding company, as defined by the Frank-Dodd Act 4. Issuer has not received specific support pursuant to the CARES Act or any subsequent federal legislation 5. Issuer must satisfy the conflicts of interest requirements of section 4019 of the CARES Act | |
| Eligible assets | <ol style="list-style-type: none"> 1. Corporate bonds as sole investor in bond issuance that are (i) issued by and eligible issuer and (ii) have a maturity of 4 years or less 2. Eligible syndicated loans and bonds that are issued by an eligible issuer and have a maturity of 4 years or less 3. PMCCF may not purchase more than 25% of any loan syndication or bond issuance | <ol style="list-style-type: none"> 1. Individual corporate bonds that are (i) issued by an eligible issuer. (ii) have a remaining maturity of 5 years or less, and (iii) are sold to the SMCCF by an eligible seller 2. US-listed Exchange Traded Funds ("ETFs") that are intended to provide broad exposure to investment grade corporate bonds or US high-yield corporate bonds |
| Pricing | <p>Eligible corporate bonds: pricing will be issuer-specific, informed by market conditions, plus a 100 bps facility fee</p> <p>Eligible syndicated loans/bonds: the PMCCF will receive the same pricing as other syndicate members, plus a 100 bps facility fee on the Facility's share of the syndication</p> | <p>The SMCCF will purchase eligible corporate bonds at fair market value in the secondary market</p> <p>The SMCCF will avoid purchasing shares of eligible ETFs when they trade at prices that materially exceed the estimated net asset value of the underlying portfolio</p> |

Federal Reserve's Primary and Secondary Market Corporate Credit Facilities (cont'd)

| Criteria | PMCCF | SMCCF |
|----------------------------|--|--|
| Leverage | <p>Facility will leverage the Treasury equity at:</p> <ul style="list-style-type: none"> • 10 to 1 for investment grade debt • 7 to 1 for any other eligible asset | <p>Facility will leverage the Treasury equity at:</p> <ul style="list-style-type: none"> • 10 to 1 for investment grade bonds and ETFs • 7 to 1 for bonds rated below investment grade • Between 3 to 1 and 7 to 1 for other eligible assets, depending on risk |
| Limits per issuer | <ul style="list-style-type: none"> • Issuers may approach the PMCCF to refinance outstanding debt, from the period of 3 months prior to maturity date of such outstanding debt • Issuers may approach the PMCCF at any time to issue additional debt if investment grade rating is reaffirmed • Maximum amount of outstanding bonds/loans that issuer borrows from PMCCF may not exceed 130% of issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020 | <ul style="list-style-type: none"> • Combined maximum limit of PMCCF and SMCCF for any issuer is 1.5% of combined potential size of both facilities • SMCCF capped at 10% of issuer's maximum bonds outstanding on any day between March 22, 2019 and March 22, 2020 • SMCC capped at owning 20% of an EFT's outstanding shares |
| Public Disclosure | <ul style="list-style-type: none"> • The Federal Reserve will disclose the participants in the CCFs, transaction amounts, costs, revenues, and other costs. • On a weekly basis, the Federal Reserve will publish aggregate statistics regarding the CCFs and SPV. | |
| Program termination | <p>September 30, 2020 (unless extended). The Federal Reserve will continue to fund the PMCCF and SMCCF until the holdings are either mature or are sold.</p> | |

Commercial Paper Funding Facility (CPFF)



Commercial Paper ("CP")

Short-term, promissory notes used to directly finance the operational needs of businesses and municipalities. The CP market has been under considerable strain:

- Interest rates on longer-term (3-month) CM have surged to levels not seen since the financial crisis of 2008
- Many firms have been unable to issue CP with a term of longer than a week.

Purpose

Enhance the liquidity of the CP market by increasing the availability of funding to issuers and by providing greater assurance to both issuers and investors that firms and municipalities will be able to roll over their maturing CP.

Structure

The SPV will purchase from eligible issuers three-month U.S. dollar-denominated CP through the New York Fed's primary dealers.

Eligible Assets

- U.S. dollar-denominated CP rated at least A1/P1/F1.
- An issuer that, on 17-Mar-20, was rated at least A1/P1/F1, and was subsequently downgraded (and continues to have such a rating), can make a one-time sale of CP to the SPV.

Eligible Issuers

- U.S. issuers of CP, including municipal issuers, and U.S. issuers with a foreign parent company.
- CP issuers inactive prior to the creation of the CPFF are ineligible.

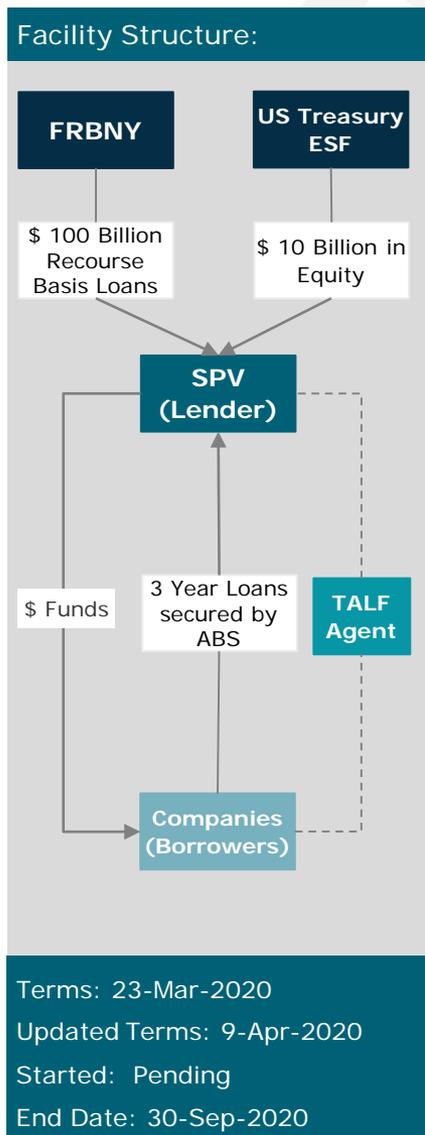
Pricing

- Current three-month overnight index swap rate plus 110 basis points for CP rated A1/P1/F1 and 200 basis points for CP rated A2/P2/F2.
- Facility fee per issuer equal to 10 basis points of the maximum amount of the Issuers CP the SPV may own.

Limits

- No more than the greatest amount of U.S. dollar-denominated CP an issuer had outstanding on any day between 16-Mar-19 and 16-Mar-20.
- For issuers downgraded from A1/P1/F1 to A2/P2/F2 after 17-Mar-20, no more than the amount of U.S. dollar-denominated CP the issuer had outstanding the day before it was downgraded.

Term Asset-Backed Securities Loan Facility (TALF)



Scope

The TALF will enable the issuance of asset-backed securities (ABS) backed by: auto loans and leases; student loans; credit card receivables (both consumer and corporate); equipment loans and leases; floorplan loans; insurance premium finance loans; certain small business loans that are guaranteed by the Small Business Administration; leveraged loans; or commercial mortgage-backed securities (CMBS).

Purpose

To facilitate the issuance of asset-backed securities (ABS) and improve the market conditions for ABS more generally.

Structure

The SPV will make up to \$100 billion of non-recourse loans available with three-year terms. Such loans will be fully secured by eligible ABS. The SPV will lend to each borrower an amount equal to the market value of the pledged ABS minus a haircut based on the subsector and average life of the collateral.

Eligible Assets

- U.S. dollar denominated cash ABS, rated in the highest long-term or, in the case of non-mortgage backed ABS, the highest short-term investment-grade category and without a rating below the highest investment-grade category.
- All or substantially all of the credit exposures underlying the ABS must have been originated by a U.S. company and the issuer of the collateral must be a U.S. company. The underlying credit exposures of CMBS must be to real property located in the United States or one of its territories.
- Eligible ABS, except CMBS, must be issued on or after March 23, 2020.
- CMBS issued on or after March 23, 2020, will not be eligible.
- Single-asset single-borrower (SASB) CMBS and commercial real estate collateralized loan obligations (CRE CLOs) will not be eligible collateral.
- Only static Collateralized Loan Obligations (CLOs) will be eligible collateral.
- Eligible collateral must not bear interest payments that step up or step down to predetermined levels on specific dates.

Eligible Borrowers

- Business created or organized in the US or under the laws of the US with significant operations and a majority of employees based in the US.
- All U.S. companies with an account relationship with a primary dealer.

Term Asset-Backed Securities Loan Facility (TALF) cont.

Pricing

Interest Rates for

- CLOs: 150 basis points over the 30-day average secured overnight financing rate (“SOFR”).
- SBA Pool Certificates: top of the federal funds target range plus 75 basis points.
- SBA Development Company Participation Certificates: 75 basis points over the 3-year fed funds overnight index swap (“OIS”) rate.
- ABS with underlying credit exposures that do not have a government guarantee: 125 basis points over the 2-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the 3-year OIS rate for securities with a weighted average life of two years or greater.

The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

Prepayment

Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.

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AlixPartners

WHEN IT REALLY MATTERS.