



Private Credit Market Update

PRUDENTIAL PRIVATE CAPITAL PRESENTATION

3.19.24

Introduction



David Quackenbush, CFA

*Managing Director, Chicago Corporate Finance
Prudential Private Capital*

- David Quackenbush is the Managing Director of our Chicago Corporate Finance office, overseeing Prudential's private placement and mezzanine activity in Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin. He joined Prudential in 1995.
- Prior to his current role, David served as the team leader for PPC's activity in the Indiana, Kentucky and Ohio region for 10+ years. Earlier in his Prudential career, David held roles in PPC's San Francisco, London and New York corporate finance offices as well as with the Prudential Capital Partners mezzanine fund.
- David received a BS from Boston College and an MBA from Northwestern University's Kellogg School of Management. He holds the Chartered Financial Analyst® designation.

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Drew Kleinrichert

*Director, Chicago Corporate Finance
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- Drew Kleinrichert is a Director in our Chicago Corporate Finance office, focusing on private placement and mezzanine activity in Indiana, Kentucky, and Ohio. He joined Prudential in 2017 and moved to the current team in 2021.
- Prior to joining Prudential, Drew worked at PwC in the Valuations and Strategic Value Consulting practice.
- Drew received a BS in Finance from Indiana University.

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Prudential Private Capital ("PPC")

Who are we?

We are part of the investment management business of Prudential Financial – the 11th largest asset manager in the world¹

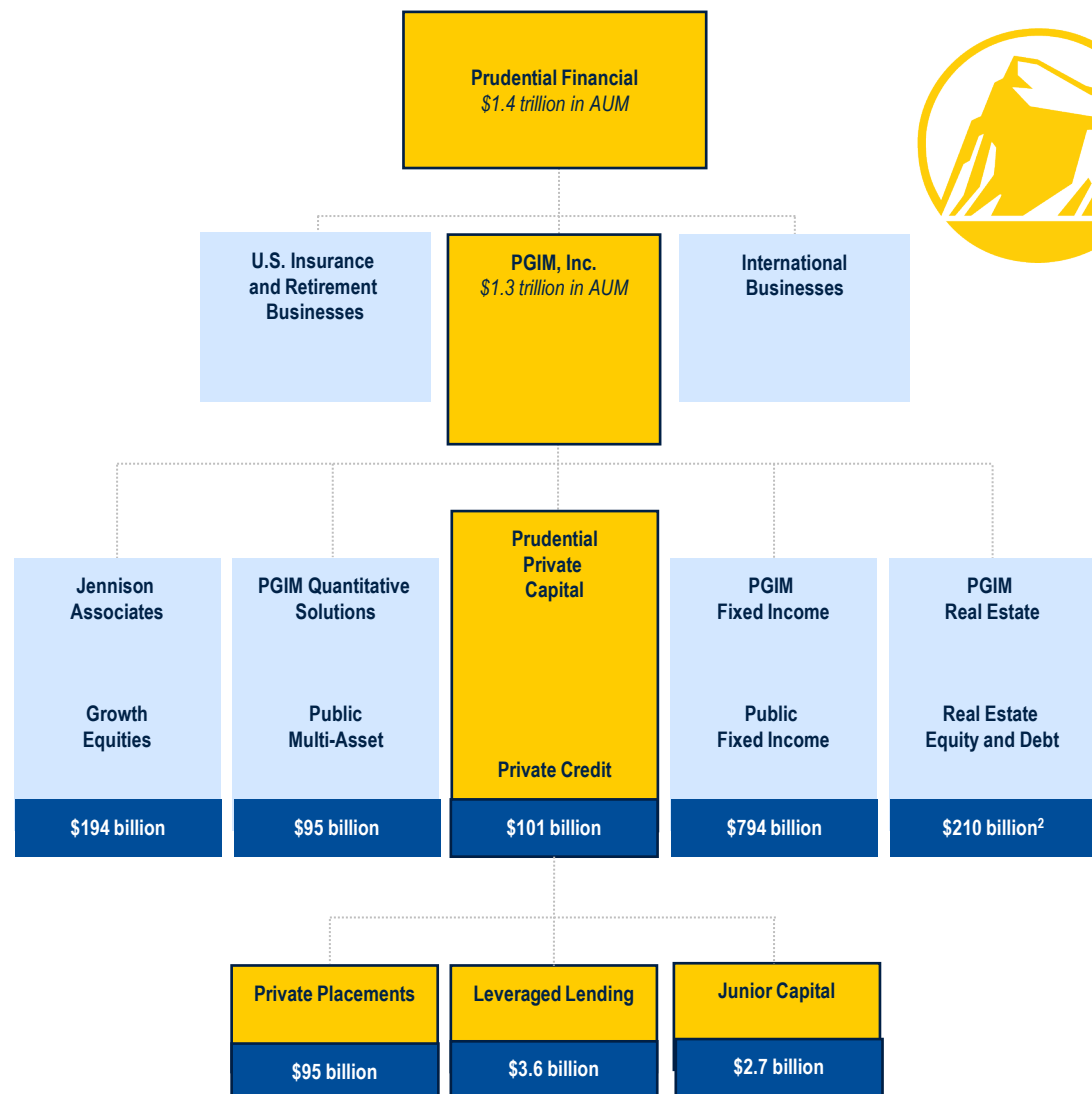
PGIM manages \$1.3 trillion (as of 12.31.2023) portfolio of debt and equity investments in large-cap and middle market companies

Prudential Private Capital is the "private debt" arm of PGIM. We partner with middle-market companies and invest up to \$13 billion on an annual basis

What do we do?

We provide corporate finance to a wide range of middle-market companies, sponsors, and institutions through the following channels:

- *Private Placements*: long-term, fixed rate debt primarily funded via life insurance policies and retirement accounts. **Lowest risk**
- *Leverage Lending*: floating-rate term loans invested out of Prudential Senior Loan Opportunities I & II. **Higher risk**
- *Junior Capital*: fixed-rate subordinated debt, structured equity, and common equity invested out of Prudential Capital Partners VI. **Highest risk**



As of 12/31/2023. 1. per Pension & Investments' Top Money Managers list publish June 2023, 2. AUM total is reflected as gross and includes assets under administration. Net AUM is \$134 billion, Gross is \$161B and AUA is \$49 billion

Past performance is not a guarantee or a reliable indicator of future result

Localized Origination Strategy

United States

San Francisco

Corporate Finance (6)

Los Angeles

Corporate Finance (7)

Direct Lending (2)

Mexico*

Corporate Finance (7)

Minneapolis

Corporate Finance (5)

Chicago

Corporate Finance (9)

Mezzanine (13)

Direct Lending (10)

Dallas

Corporate Finance (4)

Direct Lending (4)

Energy Finance (12)

Power Finance (12)

Atlanta

Corporate Finance (6)

Clubbing & Placement (2)

Newark

Lease Finance (6)

Infrastructure Finance (5)

New York

Corporate Finance (9)

Direct Lending (4)

Foreign

London

Corporate Finance (19)

Infrastructure Finance (3)

Direct Lending (5)

Mezzanine (2)

Frankfurt

Corporate Finance (6)

Madrid

Corporate Finance (4)

Milan

Corporate Finance (5)

Paris

Corporate Finance (7)

Direct Lending (2)

Sydney**

Corporate Finance (6)

(x) = investment professionals

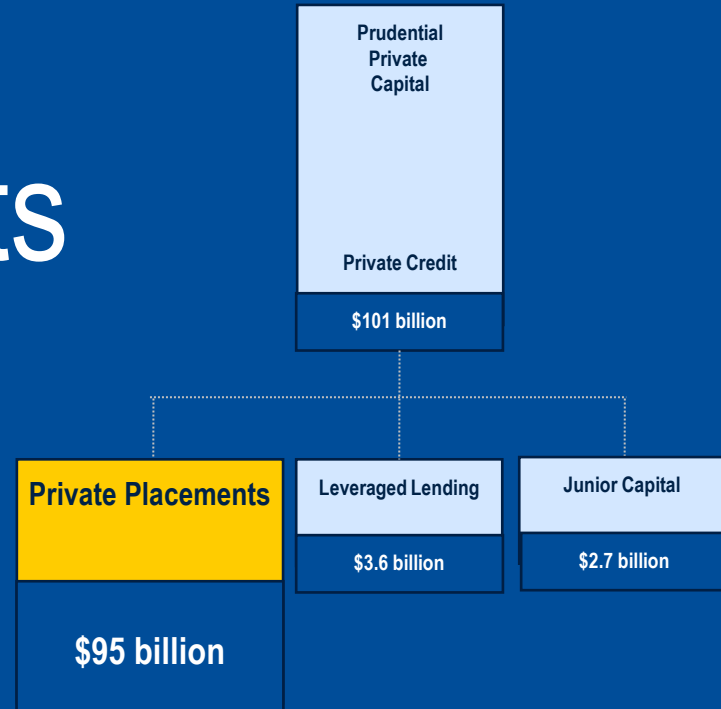
*The Mexico City office operates through PGIM Real Estate Mexico S.C. **The Sydney office operates through PGIM (Australia) Pty Ltd.

Types of Financing

bringing a relationship focus to long-term investing

	BANK FINANCING	PRIVATE PLACEMENT	DIRECT LENDING	JUNIOR CAPITAL	EQUITY INVESTMENT
Term	Short term (up to 5 years)	Long term (5 – 20 years)	Long term (4 – 7 years)	Long term (5 – 7 years)	Perpetual
Typical Co. Size	All	Large (> \$40mm EBITDA)	Medium (> \$12mm EBITDA)	Medium (> \$8mm EBITDA)	All
Source of Funds	depositors	insurance premiums	commingled fund	commingled fund	various
Relationship	high	low	low	medium	very high
Rate	Floating rate (SOFR + spread)	Fixed rate (treasury + spread)	Floating rate (SOFR + spread)	Fixed rate + equity ownership	n/a
Cost	lowest	low	medium	high	highest
Amortization	High (10 – 25% per annum)	none	Low (1 – 5% per annum)	none	n/a
Covenants	Tight covenants	Tight covenants	Covenants still exist – however set to “looser” levels	minimal	n/a
Security	Unsecured, Secured, or ABL	<i>pari passu</i> with Banks	Secured or 2 nd Lien behind a bank	Subordinated	n/a
Leverage (Debt / EBITDA)	< 2.5x – 3.5x	< 2.5x – 3.5x	2.5x – 4.0x	3.0x – 6.0x	4.0x+
Leverage (Loan-to-Value)	< 25%	< 25%	35 – 50%	45 – 75%	50%+

Private Placements



As of 12/31/2023

Past performance is not a guarantee or a reliable indicator of future result

Private Placement Debt

History / Source

Prudential has been investing in private placements since the 1940s – a core piece of the fixed income strategy of an insurance company

Source of funds *mostly* from the “float” created from life insurance proceeds, retirement accounts, and other 3rd party investors

Issuers

Used by private companies and public companies not large enough to issue public debt

A private / confidential and flexible alternative to the public bond market (*e.g. no S&P or Moody's rating*)

Uses

Refinancings, capex, acquisitions, dividends, share repurchases, etc.

Rationale

Long-term / short term diversification

Fixed rate / floating rate diversification

Diversifies funding sources (non-bank / bank)

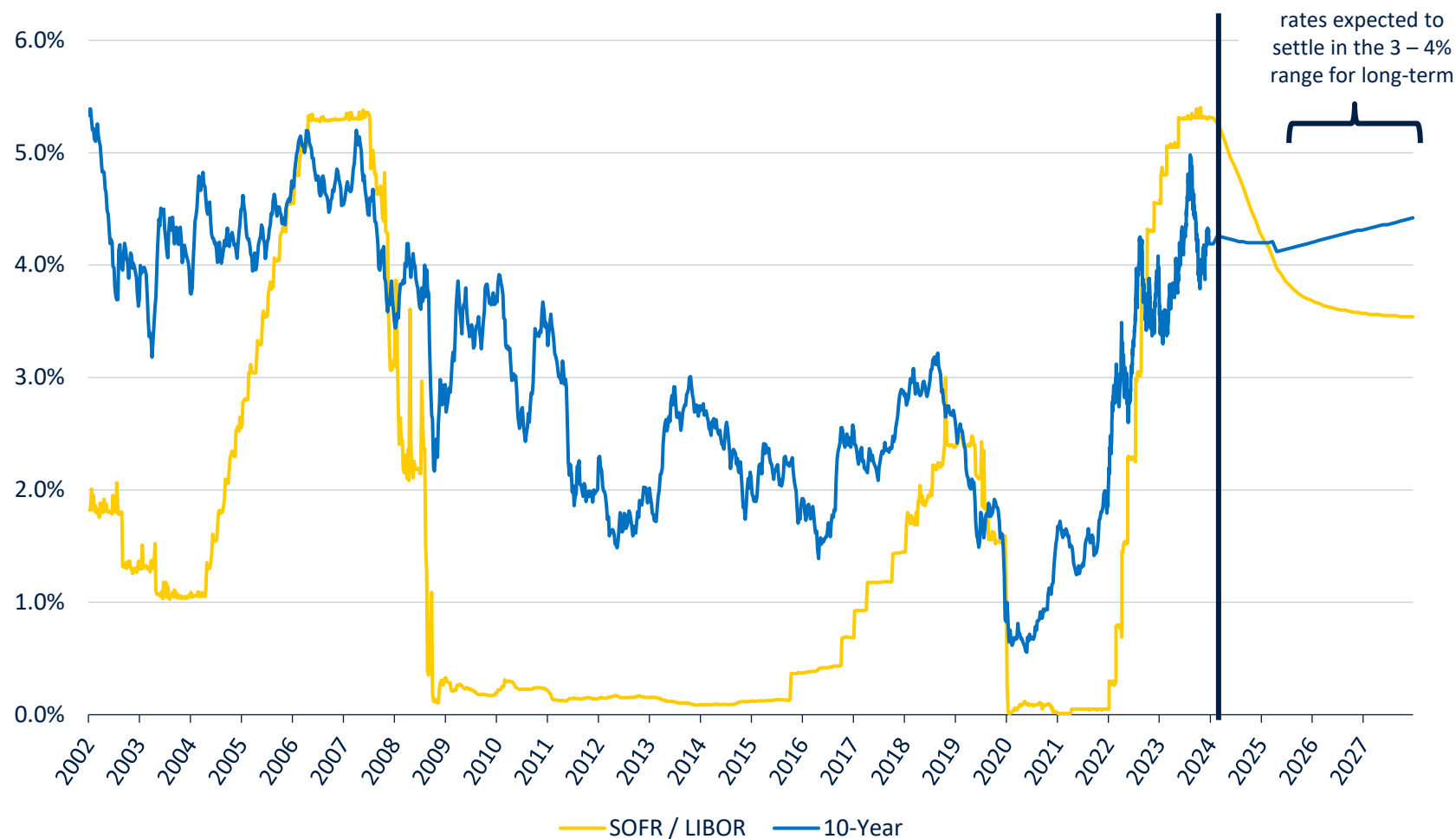
PRIVATE PLACEMENT	
Term	Long term (5 – 20+ years)
Typical Co. Size	Large (> \$40mm EBITDA)
Pru Investment Size	\$10mm - \$400mm+
Source of Funds	insurance premiums
Rate	Fixed rate (treasury + spread)
Cost	low
Amortization	none
Covenants	covenants aligned with the banks
Security	<i>pari passu</i> with Banks
Leverage (Debt / EBITDA)	< 2.5x – 3.5x
Leverage (Loan-to-Value)	< 25%

Significant Driver = Long-Term Interest Rates




Source: S&P Market Intelligence, FRED

Where Are Rates Going?




Source: S&P Market Intelligence, FRED, Chatham Financial


Private Placements - Examples



Relationship Since
2011



Relationship Since
2013




Relationship Since
1948





Relationship Since
2005




Relationship Since
1991



Relationship Since
2010



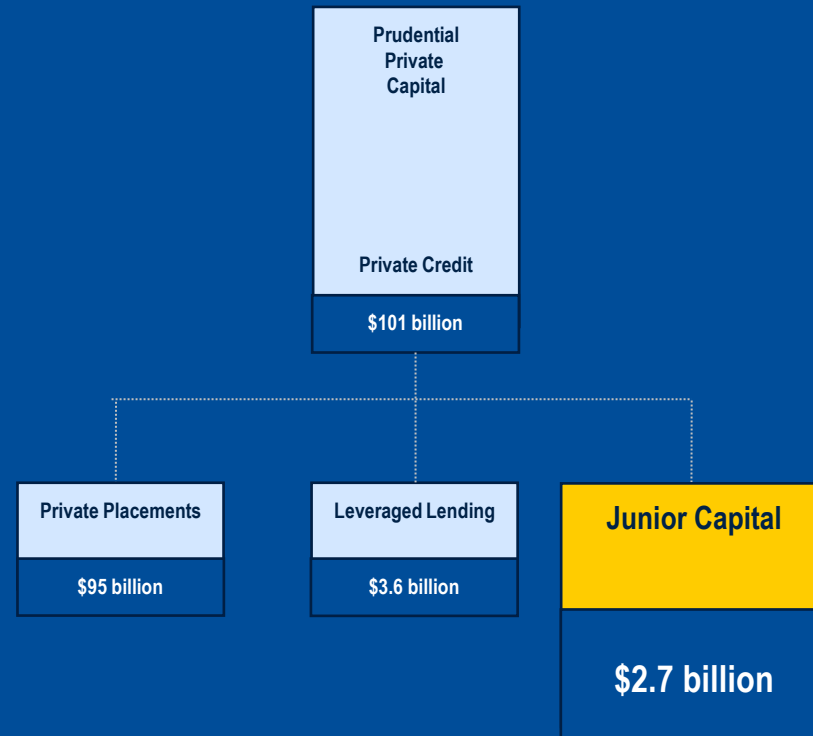
Relationship Since
1999



Relationship Since
2012



Junior Capital



As of 12/31/2023

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Junior Capital

History / Source

Prudential raised first mezzanine fund in 2000; now investing out of our 6th \$2.2bn fund raised in 2020 (Prudential Capital Partners VI)

Issuers

~50% family owned, founder owned, or management owned companies; ~50% sponsored – with a large portion of fund-less sponsors

Uses

Refinancings, capex, acquisitions, dividends, share repurchases, management buyouts

Rationale

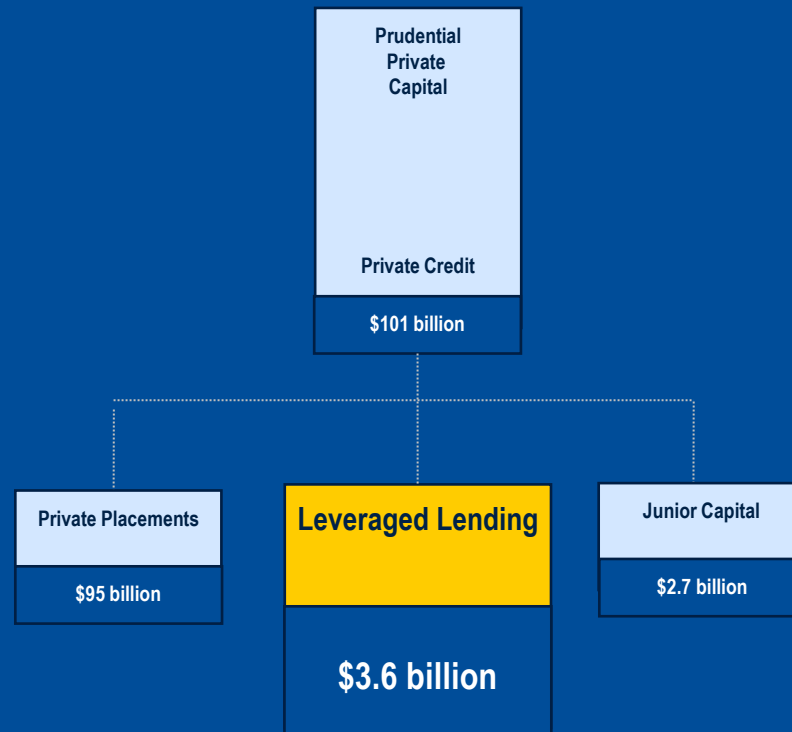
Fills a capital need for high leverage situations which would otherwise require an equity investment

Creates additional flexibility for senior leverage

Alternative to traditional private equity

JUNIOR CAPITAL	
Term	Long term (5 – 7 years)
Typical Co. Size	Medium (> \$8mm EBITDA)
Pru Investment Size	\$15mm - \$150mm
Source of Funds	commingled fund
Rate	Fixed rate + equity ownership
Cost	high
Amortization	none
Covenants	minimal
Security	subordinated
Leverage (Debt / EBITDA)	3.0x – 6.0x
Leverage (Loan-to-Value)	45 – 75%

Direct Lending



As of 12/31/2023

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Direct Lending

History / Source

Market grew *exponentially* after the GFC and related regulation imposed on banks

Prudential formalized DL investment strategy in 2018; raised first \$2.4bn fund in 2022 (Prudential Senior Loan Opportunities I)

Issuers

Vast majority of the market invested in private equity-backed transactions

Uses

Refinancings, capex, acquisitions, dividends, share repurchases, etc.

Rationale

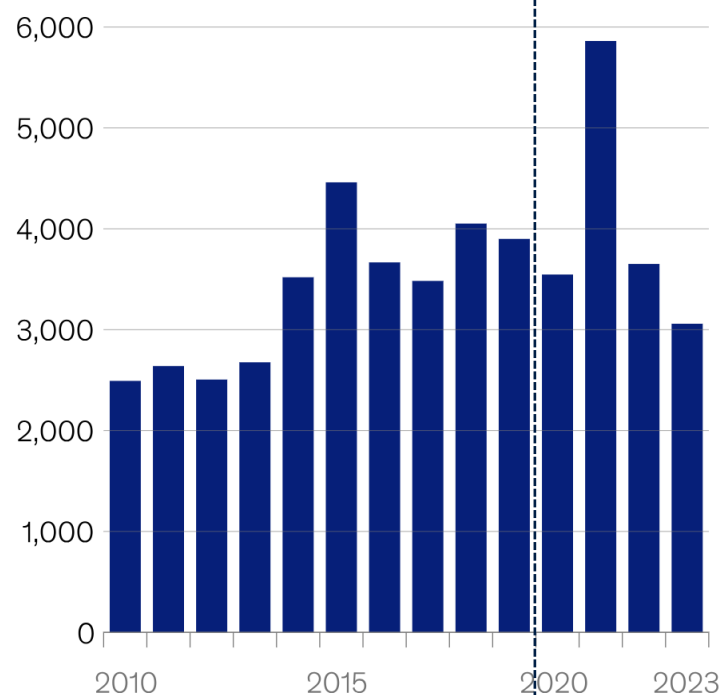
Higher leverage available
Greater covenant flexibility
Low amortization

DIRECT LENDING	
Term	Long term (4 – 7 years)
Typical Co. Size	Medium (> \$12mm EBITDA)
Pru Investment Size	\$25 – 150mm
Source of Funds	commingled fund
Rate	Floating rate (SOFR + spread)
Cost	medium
Amortization	Low (1 – 5% per annum)
Covenants	loose covenants
Security	Secured or 2 nd Lien behind a bank
Leverage (Debt / EBITDA)	2.5x – 4.0x
Leverage (Loan-to-Value)	35 – 50%

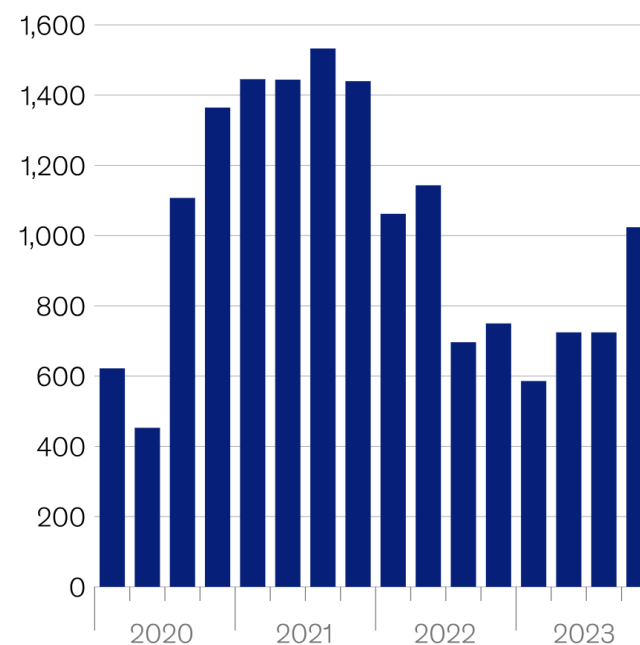
Significant Driver = M&A

Deal activity,¹ 2010–23

Annual deal value, \$ billion



Deal value by quarter, \$ billion



¹Deals announced (and not withdrawn) of value greater than \$25 million.
Source: Dealogic; McKinsey analysis

M&A Case Study: How Interest Rates Impact LBOs

	<u>Low Rate</u>	<u>High Rate</u>
Target EBITDA	\$50,000	\$50,000
Purchase Multiple	8x	8x
Purchase Price	\$400,000	\$400,000
<u>Funding</u>		
Debt	\$250,000	\$250,000
Leverage	5x	5x
Equity	\$150,000	\$150,000
SOFR	0.50%	5.00%
+ Spread	500	600
Total Interest %	5.5%	11.0%
Interest Expense	\$13,750	\$27,500
EBITDA/Interest	3.6x	1.8x

Portfolio Observations

Portfolio Observations

1

Consumer Discretionary

- excess inventory build up based on 2021 demand levels
- especially prevalent in businesses with a foreign supply chain (e.g. China)

2

Commercial Real Estate

- mixed across different sectors; very acute in traditional office
- impact of rising rates on cap rates / liquidity available for dispositions

3

COVID-Impact on Cash Flows

- many “winners” and “losers” from COVID
- *significant* amount of time spent on analyzing sustainability of cash flows

4

Historically “Cyclical” Industries Doing Well

- building products
- homebuilding
- automotive
- trucking
- industrial
- metals & mining

Case Studies

Growth Capital

The U.S.'s first quick-service restaurant chain receives long-term growth capital



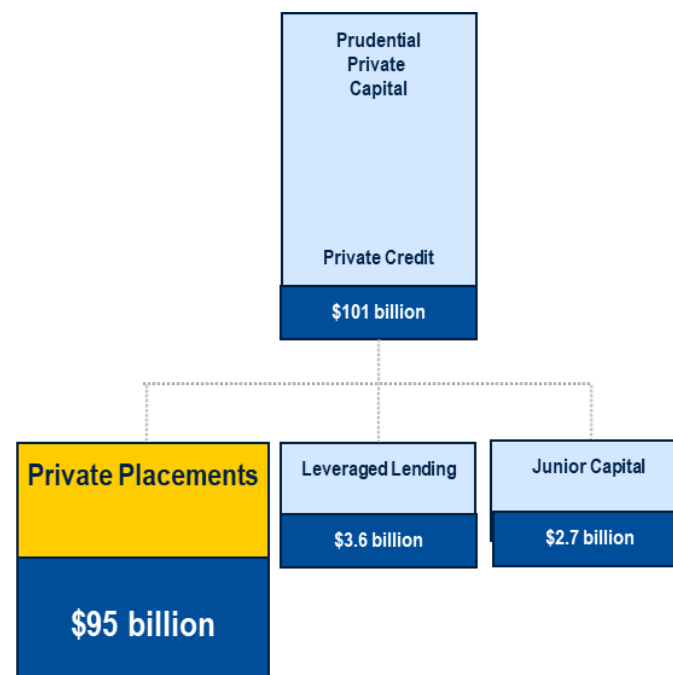
Based in Columbus, Ohio, family-owned **White Castle** is the first quick-service restaurant chain in the US, with nearly 400 restaurants and multiple retail offerings.

White Castle first began working with Prudential in 2013, when they were seeking capital to fund the construction of their frozen food plant in Vandalia, OH. The company had previously worked exclusively with their bank provider but saw the benefit of diversifying their capital sources with our **long-term private placement**.

After a successful buildout White Castle worked with Prudential again in 2017 to raise capital for the construction of their new headquarters, as well as other infrastructure projects. Our long-term, flexible capital offered an attractive financing alternative that matched these long-lived investments.

We're proud of our partnership with White Castle and continue to see opportunity to provide additional capital to support the Company's growth plans.

As of 12/31/2023



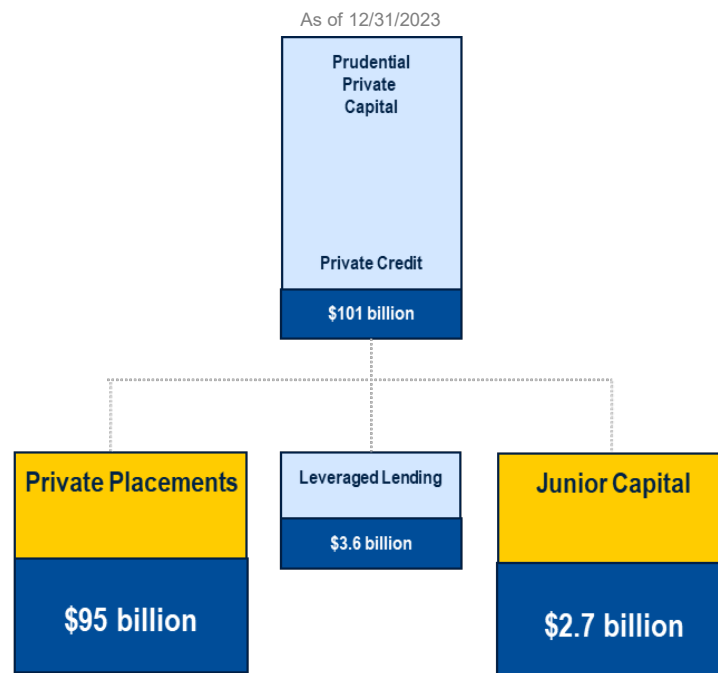
Recapitalization & Growth Capital

Value-added manufacturer obtains growth capital and completes recapitalization

Metal Technologies, Inc., headquartered in Auburn, Indiana, is a North American metal casting company that provides a variety of value-added services, including component design, engineering, and machining. Metal Technologies supports a diverse customer base of industry leaders across the transportation, construction, compressor, small gasoline engine, and other markets, and operates nine facilities throughout the US and Mexico, employing more than 1,000 professionals.

Metal Technologies, an existing senior debt borrower of ours, sought long-term equity capital to provide a dividend to shareholders and support growth initiatives, including construction of a new facility in Mexico. As part of the financing, Metal Technologies received a **preferred equity** investment from us.

Metronome Partners, LLC served as financial advisor on the transaction.



Acquisition Financing

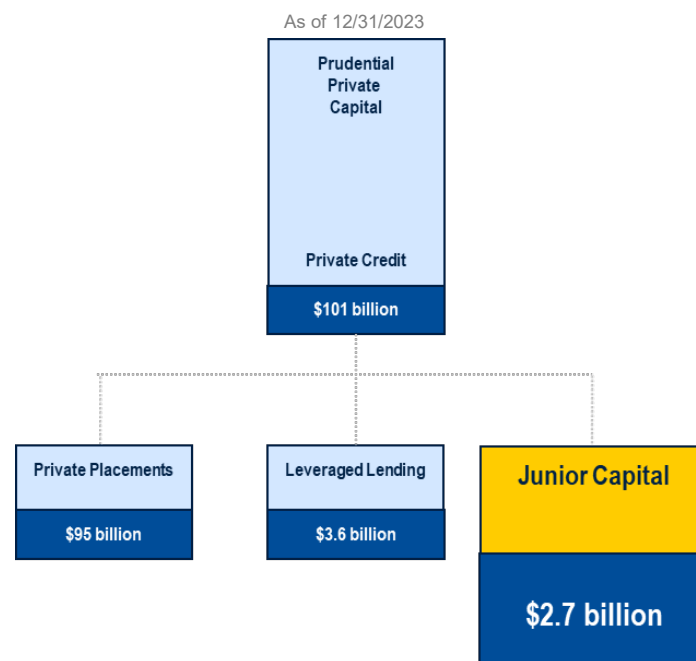
Prudential Private Capital provides financing to enable transformative acquisition

Headquartered in Louisville, KY, **Aperture Credentialing, LLC** provides primary source verification and monitoring related to the credentialing of providers entering and participating in health plans, hospitals and other industry organizations. Its services include applications management, credentialing, committee services, data compliance and adverse event monitoring.

Aperture was owned by healthcare technology-focused private equity firm Hughes & Company, which acquired the business in 2014 as a spin out from UnitedHealth Group. After spinning out of United, Aperture had demonstrated strong organic growth, successfully established its stand-alone infrastructure and diversified its client base.

In late 2018, Hughes & Company approached Prudential Private Capital to finance the acquisition of another leading health plan's network administration and provider management product suite via a carve-out transaction. The acquisition represented a unique opportunity to integrate two highly complementary businesses and significantly expand Aperture's product portfolio.

Prudential Private Capital ultimately provided **senior subordinated notes** and **preferred equity** to facilitate the transaction and provide a partial liquidity event to minority shareholders. A traditional commercial bank provided senior financing.



Leveraged Buyout

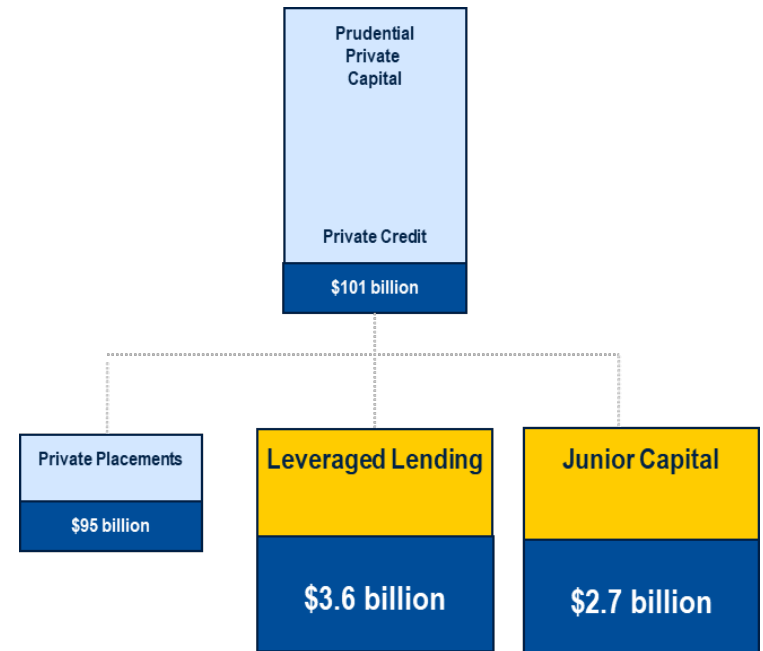
Promus Equity Partners, LLC acquires leading omni-channel retailer of equestrian products

Based in Littleton, Massachusetts, **Dover Saddlery** is the largest retailer of English style equestrian tack, gear, and apparel. The Company currently operates 35 retail locations, distributes multiple catalogs yearly and has a website offering more than 60,000 products for horses, riders, and stable owners.

In April 2022, Promus Equity Partners wanted to partner with Dover's current management team to support the Company's growth initiatives in the equestrian marketplace and recapitalize another shareholder. Promus was seeking a flexible partner with the ability to invest across the entire capital structure.

The transaction was well suited for our **one-stop financing solution**, given it required capital beyond senior debt, including mezzanine and equity. In addition to our unique capital offering, our existing relationship with Promus through our Direct Lending fund and partnership mentality solidified Promus' decision to partner with Prudential.

As of 12/31/2023



Q&A

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