10 Years Post-Crisis:

New Technology to Manage & Source Debt Financing

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Topics & Agenda

1) 2008 crisis & its impact on corporate borrowing
2) New technology in the wake of regulation
3) Recent roll backs of Dodd-Frank
4) Case studies showing impact
5) The latest technology for loan management
6) How the new technology benefits everyone

Matt Bjonerud

Founder & CEO

CEREBRO CAPITAL

How did the 2008 crisis affect corporate banking sector?

Before the 2008 crisis

- Relationships expanded what underwriting could do
- Marketing & sales based on relationships (easier to do locally)
- (FOP piles)

And after...

- Higher reserve requirements for banks
- Assigned regulators for banks
- Tighter credit underwriting standards
- Old marketing strategies were no longer effective

What about the **non-bank** sector?

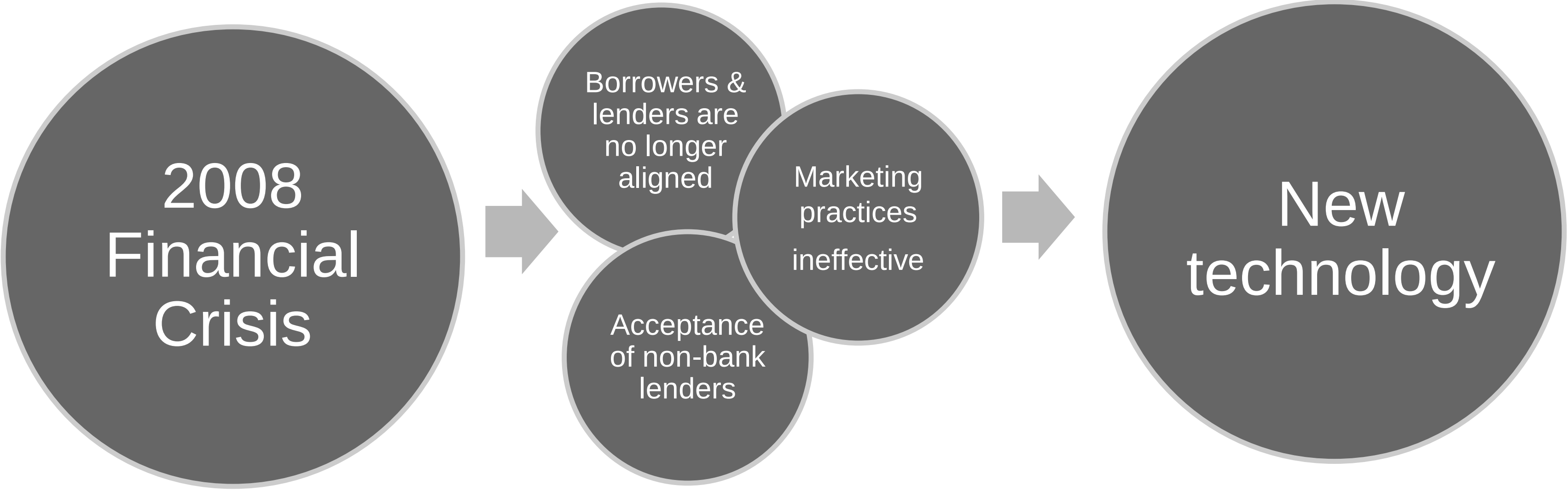
Before the 2008 crisis

- Non-bank lenders were increasing, but weren't accepted

And after...

- Borrowers were more willing to explore new options
- Scarcity of credit financing increased borrowers' willingness to pay higher rates and fees
- Large banks such as Wells, Citi, and others pushed over $345 Billion from 2010 to 2017 into the non-bank markets (shadow banks).

New technology for corporate borrowing



New technology for corporate borrowing

Lower Market

- Lending Tree
- Bankrate.com

Middle Market

- Axial
- Deal Nexus

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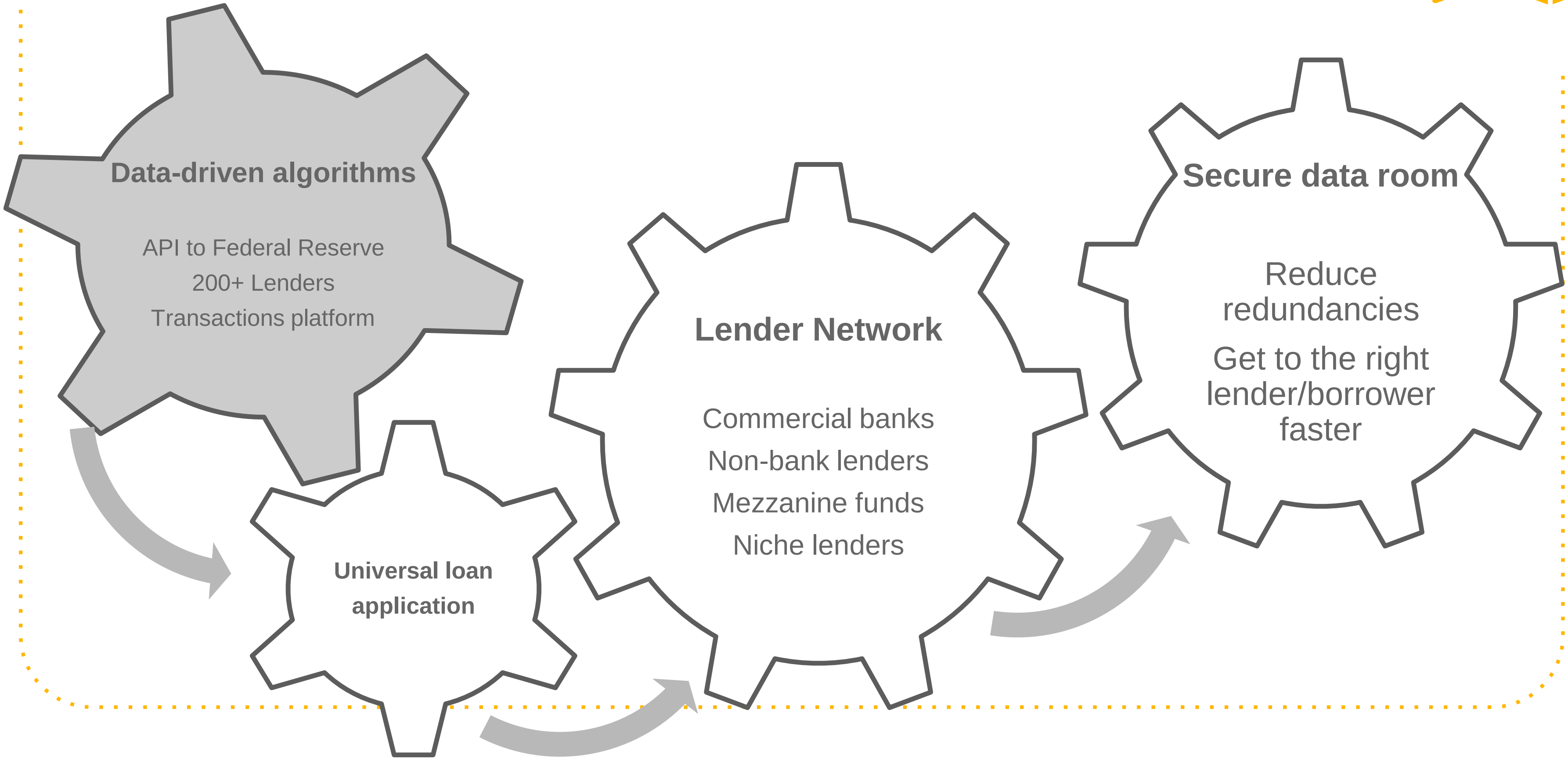
Upper Market

- Bloomberg Terminal

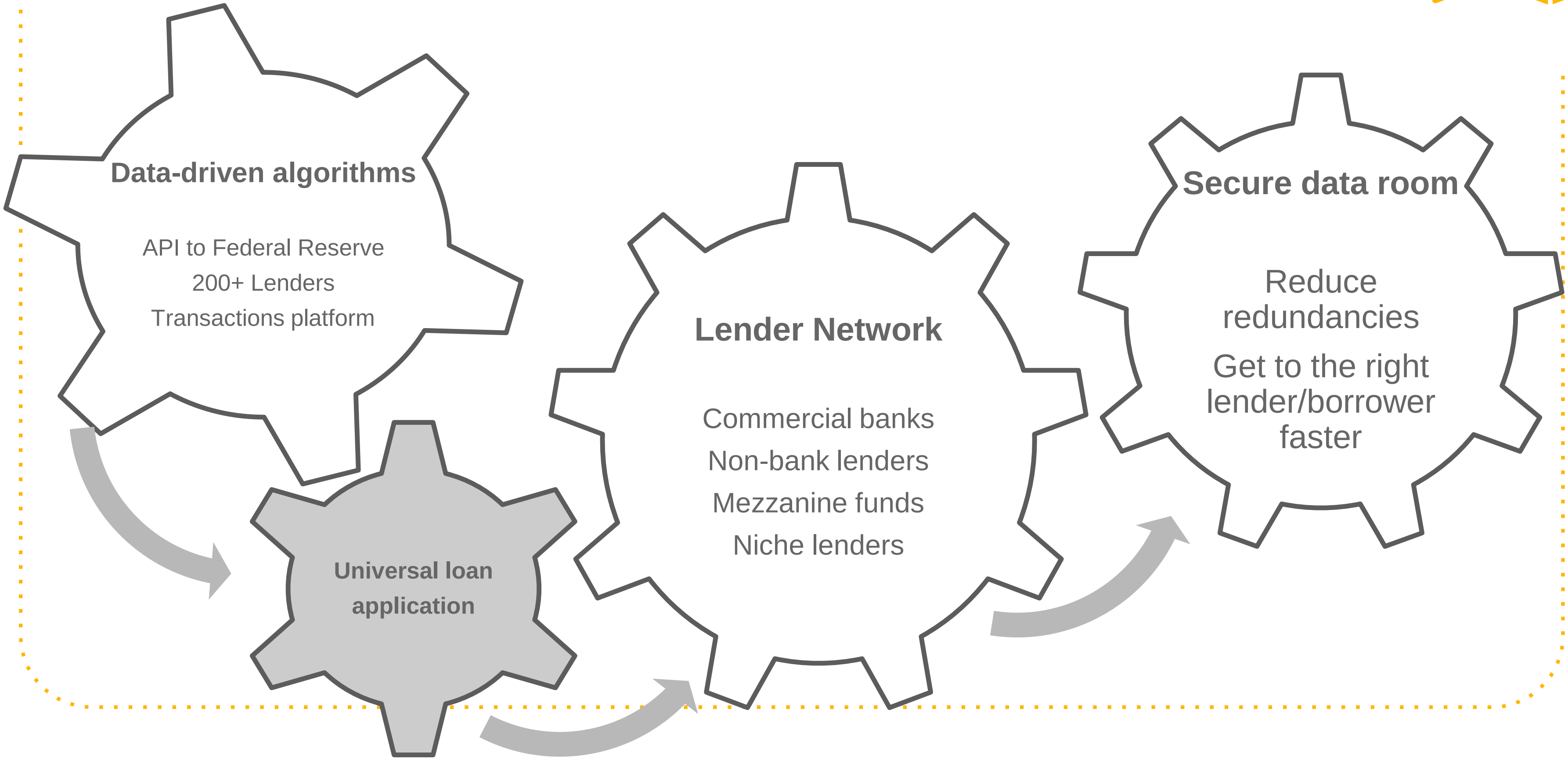
Cerebro Capital

Was born out of the need to help middle market companies better **source**, **analyze** & **manage** their credit facilities.

Faster & easier way to source capital



Faster & easier way to source capital



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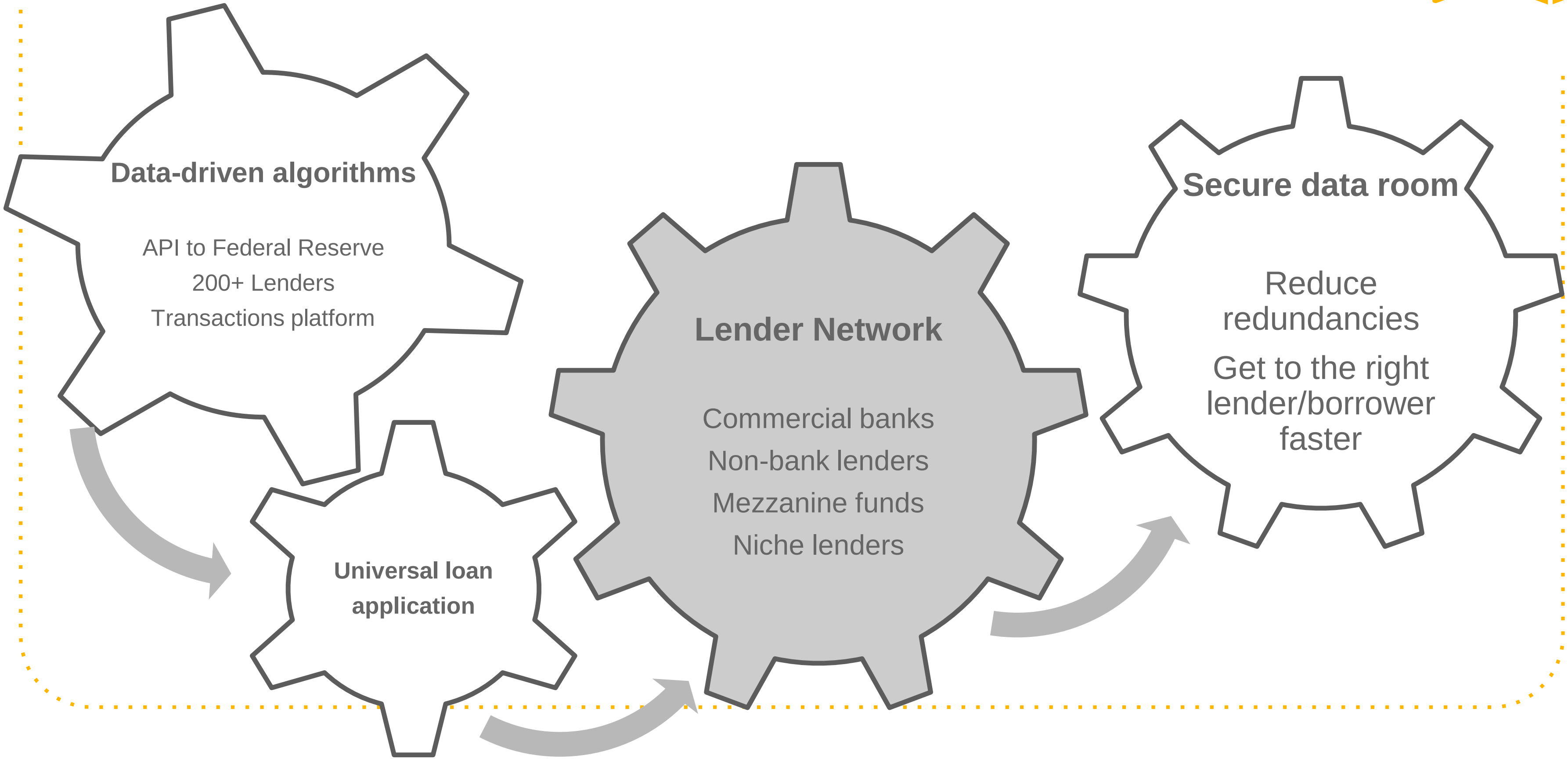
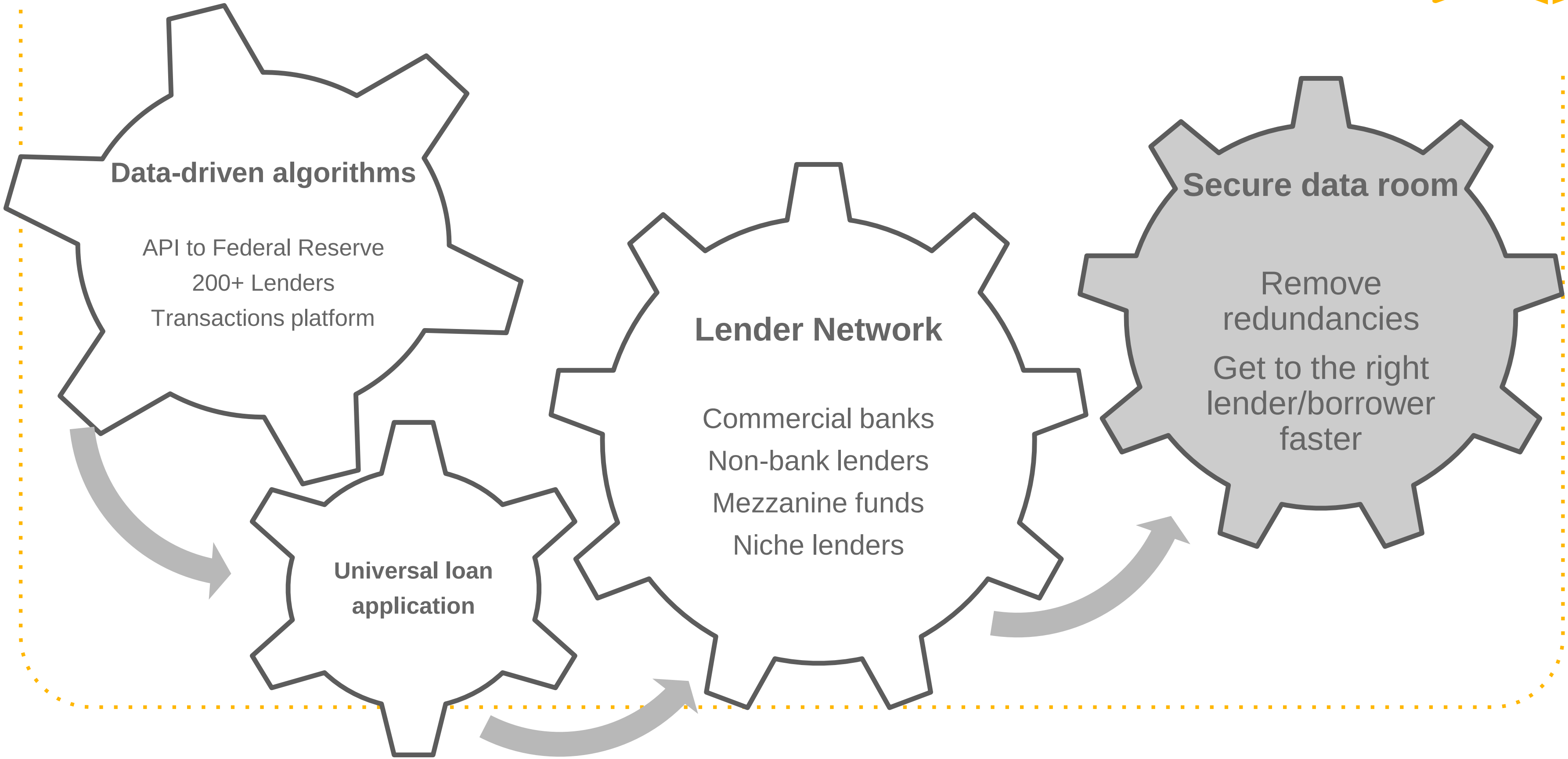


Faster & easier way to source capital



How are the recent Dodd-Frank roll backs affecting corporate borrowing today?

> A decade after the global financial crisis tipped the United States into a recession, Congress agreed [in May] to free thousands of small and medium-sized banks from strict rules that had been enacted as part of the 2010 Dodd-Frank law to prevent another meltdown.

New York Times, ***Congress Approves First Big Dodd-Frank Rollback. May 22, 2018.***

BUT…

…Not all banks respond and react to regulations in the same ways or at the same times

Case Study 1

- **Acquisition Financing**
  - Sector: Transportation

- **Financial Challenges:**
  - Liquidity and net income were very low
  - EBITDA appeared artificially high because many R&D expenses were being capitalized.

- **Advisors/Investment Bank Assisted**
  - Drafted pitchbooks, narrative
  - Approached multiple lenders in their network
  - None were interested.....**But there are other lenders who were interested!**

Company Metrics	
Revenue	$120MM
EBITDA	$20MM
FCF	$3MM

Case Study 1

- **Cerebro's Solution:** Data-driven matching to a larger more diverse network of lenders
  - Saved time by not approaching the wrong players
  - Lenders who were brought to the table were excited.
  - The right narrative could be crafted based on the understanding of lender interests

- **Competitive bid process:** 6 lenders
  - 4 lenders provided compelling term sheets
  - 1 commercial bank, was willing to hold the entire amount to avoid a syndication.

Company Metrics	
Revenue	$120MM
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FCF	$3MM

Case Study 1

- **Lessons Learned**
  - Lenders are becoming more flexible on structure
  - Some banks are taking advantage of Dodd-Frank roll backs faster than others

Financing Metrics	
Revolver	$10MM
Term	$48MM
Total	**$58MM**

Company Metrics	
Revenue	$120MM
EBITDA	$20MM
FCF	$3MM

Case Study 2

- **Management Buyout**
  - Industry: Fashion/Apparel

- **Financial Challenges:**
  - Negative net worth
  - Negative cash flows
  - Not profitable
- **Borrower run process**
  - Approached multiple banks, non-bank & asset based lenders
  - None were interested because of industry, type of inventory or metrics…**they were talking to the wrong lenders.**

Company Metrics	
Revenue	$6MM
EBITDA	($100K)
Net worth	($2.7M)

Case Study 2

- **Cerebro's Solution:** Data-driven matching to a larger more diverse network of lenders
  - Saved time by not approaching the wrong players…needed to find niche lenders!
- **Competitive bid process:** 8 lenders
  - 7 lenders provided compelling term sheets
  - 1 non-bank asset-based lender, offered to automatically convert their factoring facility to a much less expensive ABL line when future financial metrics are met

Company Metrics	
Revenue	$6MM
EBITDA	($100K)
Net worth	($2.7M)

Case Study 2

- **Lessons Learned:**
  - Dodd-Frank affects non-bank lenders too
  - Very different term sheets are being offered
  - Similar underwriting criteria doesn't guaranty similar results

Company Metrics	
Revenue	$6MM
EBITDA	($100K)
Net worth	($2.7M)

Financing Terms	Low Offer	High Offer
Amount	$2MM	$5MM
Price	7.75%	13.5%

Case Study 3

- **Acquisition Financing**
  - Industry: Materials fabrication
- **Financial Challenges:**
  - Lack of collateral
  - Thin profit margins
  - Cyclical industry
- **Borrower run process**
  - A new CEO was installed in the company. Had many relationships, but didn't have the bandwidth to run a full process
  - He also wasn't sure which lenders would be able to remove his personal guaranty
  - The incumbent lender would not provide the full amount.

Company Metrics	
Revenue	$40MM
EBITDA	$1.7MM
Proforma EBITDA	$2.5MM

Case Study 3

- **Cerebro's Solution:** Data-driven matching to a larger more diverse network of lenders
  - Saved time by not approaching the wrong players…needed to find lenders that were comfortable with the industry and could remove the personal guarantees
- **Competitive bid process:** 8 lenders
  - We selected a mixture of community and national banks and one non-bank lender
  - This gave the borrower a spectrum of options to consider

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EBITDA	$1.7MM
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Case Study 3

	Lender A	Lender B	Lender C	Lender D	Incumbent
Bank Profile	National	Regional	Community	Non-bank	Regional
Principal Amount	Up to $1.8M	Up to $3.1M	$7.5M	$1.5M	$5.75M
Structure	Term Loan	Term Loan	Term Loan / Line of Credit	Term Loan	Term Loan / Line of Credit
Amortization	10 Years	5 Years	5 Years / N/A	2 Years	5 Years / N/A
Term	10 Years	5 Years	5 Years / 1 Year	2 Years	5 Years / 1 Year
Pricing	Prime +225 bps	Libor + 275 bps	L+275 bps / L+225 bps	L+18%	L+225 bps
Personal Guaranty	Yes	Yes	Only for the term loans	Yes	Yes
Equity for Acquisition Tranche	10%	10%	20%	20%	40%

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How are regulations and technology impacting loan compliance?

Impacts on loan compliance after 2008 crisis

1. Before the crisis lenders would enforce covenants in extreme circumstances
2. After the crisis, lenders enforce covenants, despite good relationships, to satisfy regulators.
3. If borrower defaulted on their loans, banks tightened controls on similar profile companies

Impacts on loan compliance after the Dodd-Frank rollback

1. Money is flowing now
2. Companies are not as concerned with covenants

BUT…

Prudent companies should have systems in place in anticipation of a market downturn.

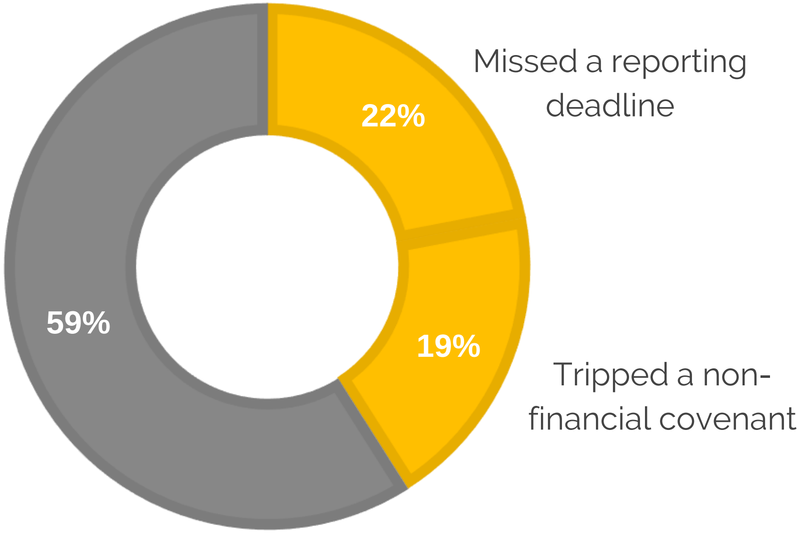
Loan compliance software benefits

1. Systematic and thorough processes for actively monitoring both financial & non-financial covenants.
2. Visibility and oversight for all stakeholders: C-level, accountant, counsel and sponsor – access a single platform
3. Portfolio views for multiple entities or PE firms monitoring multiple portcos.

Regulations lead to stricter covenants and need for systematic monitoring.

Over 1/3 of our first time compliance users had no idea they were technically in default on their loans.

LOAN COMPLIANCE BEFORE CEREBRO



Who benefits from Cerebro's new technology?

Everyone benefits from the new technology!

Corporate Borrowers

Banks & Lenders

Investment Banks & Intermediaries

Accountants

Legal Counsel

Borrowers...

- Market transparency
- Know the right lending partners
- Save time / eliminate redundancies
- Receive better rates / terms

Banks & Lenders…

- Find the right target borrowers more quickly
- Reduce redundancies
- Free lead generation

Investment bankers & Intermediaries...

- Access data-driven algorithms
- Reduce time spent on debt deals
- New relationships offering better structures and terms

Accounts & Lawyers…

- Provide clients with unbiased view of market
- Access to larger network of diverse lenders
- Easy tools to stay involved in the process

Conclusions

- **2008 crisis led to tight regulations**
  - New tech tools targeted for middle market
- **Recent rollback on regulations**
  - Lenders offering aggressive rates/terms
- **Potential for market down turn**
  - Implement thorough practices for loan compliance

Who is Cerebro Capital?

Software platform built from scratch

$1.3 billion in loans
($1MM to $100MM)

Backed by Sterling Partners

Industry Agnostic

Fintech startup based in Baltimore, MD

Launched in 2017

Thanks!

Any questions?

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