

FREQUENTLY ASKED QUESTIONS ABOUT MEZZANINE FINANCING

As the name implies, mezzanine financing occupies the middle layer between traditional “bank debt” and equity on a company’s balance sheet. It is one alternative in an array of capital sources that also could include senior debt and various forms of preferred and common equity. A hallmark of mezzanine financing is that it is longer term in nature and more flexible than typical “bank debt,” while less dilutive and expensive than raising pure equity financing.

Q What kind of companies can benefit from mezzanine financing?

Mezzanine financing and other junior capital solutions can be particularly advantageous for middle-market companies, private equity firms, management teams and independent sponsors. Usually companies seeking mezzanine financing are going through an ownership transition or a recapitalization, or are embarking on an aggressive organic or acquisition-oriented growth strategy.

Q What are the typical uses for mezzanine capital?

Typical financing events include management buyouts, leveraged buyouts, add-on acquisitions, recapitalizations and organic expansion.

Q What are the benefits of mezzanine financing?

- The owner typically can maintain control of the company and, in many cases, have only minimal equity dilution.
- Mezzanine financing offers flexibility in amortization schedules and covenants.
- Mezzanine providers are making a five- to 10-year investment and can provide advice and support in the operation of the business over that longer time period.
- Many mezzanine lenders have the ability to continue to invest in a company to support future growth needs or assist in further ownership transitions.
- Mezzanine finance can support a company’s long-term growth, thus increasing the value of current shareholders’ stock and, in some cases, also allow the owner to receive partial liquidity.

Q What are the downsides of mezzanine financing?

- Covenants may restrict the business owner in terms of additional borrowing and refinancing, and may mandate quarterly or annual measurement of financial performances.
- Spending, including compensation and dividend payments, may be restricted.
- The cost is typically higher than in traditional banking arrangements.
- The owner will have a financial partner who will require approval over a certain range of financial decisions for the company.

Q What is the average investment range for a mezzanine deal?

There is a wide range of providers of mezzanine capital who can offer smaller financings of \$1 million to \$2 million at the low end and up to \$100 million for larger transactions. Typically, financing needs in excess of \$100 million are handled by senior debt providers or the high-yield bond market. At PNC Mezzanine, we provide investments from \$10 million to \$40 million on our own account, and can lead financings of up to \$70 million.

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Q What types of “mezzanine” investments are available?

- Second lien debt
- Subordinated debt
- Preferred stock
- Other hybrid junior capital securities

Q What should my company look for in a mezzanine lender?

- Consistent provider of mezzanine capital for decades
- Industry and business model focus that matches that of your company
- Dedicated professionals with substantial track records of successful investments
- A compatible, relationship-driven approach to achieving success
- Flexibility in structuring to match your needs
- Ability to complete diligence and close the deal in a timely fashion
- Rapid response throughout the life of the investment

For more than 30 years, PNC Mezzanine Capital has been a consistent provider of junior capital through multiple economic cycles.

About PNC Mezzanine Capital

Relationships, Resources, Results

For more than 30 years, PNC Mezzanine Capital has been a consistent provider of junior capital through multiple economic cycles. Our success is derived from ongoing collaboration with our clients and the ability to structure customized combinations of subordinated debt and equity that are uniquely designed for growing companies in the middle market.

Supporting Growth

We understand that a commitment to value creation means supporting, enabling and funding the organic growth initiatives of our portfolio companies or financing accretive acquisitions. Since 1989, we have completed 153 investments in 83 companies to support 287 transactions, and committed more than \$1.2 billion in capital to fuel the growth of our portfolio companies.

Relationships that Drive Value Creation

We take the long view and believe that real, consistent value creation comes from relationships — not transactions. Private equity firms, investment banks, independent sponsors and management teams return to PNC Mezzanine time and time again as a reliable, patient and knowledgeable source of capital that can help them achieve their long-term financial goals.