HOW TO GENERATE DEAL EFFICIENCIES IN A COMPETITIVE MARKET

Building deal efficiencies early into the M&A process can help identify and carry out due diligence on target companies to create well-aligned financing terms and manage closing needs in a timely manner. PNC's differentiated offering can help sponsors streamline the process, maximize the performance of deal teams and scale for subsequent investments.

Generating deal efficiencies is important in all cycles, especially in a competitive market and coming off record-breaking years like 2021, where $301.3 billion in dry powder was raised in the U.S. for new deals, and deal value also reached over $1 trillion — a new high — according to data from PitchBook.[1] As we enter uncertain times, with financing costs for single B-rated loans having increased to 5.9% from a record low of 4.3% at the beginning of 2022,[2] leveraging efficient resources will be critical to performing well throughout all economic cycles.

GENERATING DEAL EFFICIENCIES IS IMPORTANT IN ALL CYCLES, ESPECIALLY IN A COMPETITIVE MARKET.

Competition for deals intensified and multiples easily reached pre-pandemic levels or higher in 2021.[1] Given the amount of dry powder available to invest, and despite the current market uncertainty, demand for deals is expected to continue. To remain competitive, it is important to work with deal partners that can build a streamlined process from deal sourcing and financing through to pre- and post-closing activities. PNC shared its experiences and insights on the deal life cycle during a PNC webinar in February 2022.

In the webinar, we heard from the following PNC experts:

- **Ben Whiting**, Managing Director, Head of Chemicals and Plastics at PNC
- **Walt Hill**, Senior Vice President & Group Head, Steel City Capital Funding, a division of PNC Bank
- **Joe Dattoli**, Senior Vice President, M&A Escrow & Paying Agent Services at PNC
- **Jessica Mueller**, Director, M&A, Fortis Advisors
- **Aimee LeWinter**, Managing Director, Financial Sponsor Coverage, PNC

LEVERAGE INDUSTRY EXPERIENCE

Bringing specialized industry experience into sourcing activity or a deal process can provide valuable insights. PNC has several industry groups that can provide extensive coverage of specific sectors, including Chemicals and Plastics, Food and Beverage, Pharma and Life Sciences, and Technology, among others. The group also provides ongoing market research and analysis to arm deal teams with relevant information in a concise format.

For example, in the Chemicals and Plastics distribution space, "the number of public companies and private equity portfolio companies has more than doubled over the last 5 years," explains Ben Whiting, managing director, head of Chemicals and Plastics at PNC. "It has become a really hot sector. That makes it important to work with a team that understands the competitive dynamics of the sector and what's driving higher valuations." During the due diligence process, the group works with deal teams and management teams to provide advice and to help stakeholders understand the business landscape and additional considerations.

WORK WITH EXPERIENCED AND FLEXIBLE CAPITAL PROVIDERS

Once an acquisition or financing opportunity has been identified, assembling capital partners that provide competitive terms with speed and certainty can be the difference between winning and losing the deal. Through its relationships, PNC works with a network of private lenders to deliver financing solutions that can be scaled throughout the life of an investment.

The unitranche facility offers all the benefits of senior debt and subordinated debt in "one stop," which is customized for a given transaction. In these structures, PNC offers revolving bank liquidity and a lower cost of capital, plus a full suite of bank products and agency services to administer the loan together with our non-regulated partners who offer deeper leverage with flexible covenants and minimal payback requirements.

"The unitranche creates the perfect marriage between regulated and non-regulated lenders," explains Walt Hill, senior vice president & group head at Steel City Capital Funding. When it comes to execution, experience matters. "Unitranche structures are part of PNC's DNA. We have closed thousands of transactions with hundreds of direct lenders across every type of structure and situation imaginable. The unitranche creates tremendous efficiencies, and our streamlined, seamless approach has really taken hold in the market," Hill adds.

STREAMLINE CLOSING AND POST-CLOSING MANAGEMENT

Getting a deal to the finish line requires expert management of the closing process. Without this, distributions can be delayed, and potential errors can arise when dealing with shareholders. Leaving these administrative tasks to the last minute can tarnish a relationship before it has had a chance to get off the ground.

"It's imperative to have a trusted advisor that's experienced and can troubleshoot pitfalls," says Joe Dattoli, senior vice president, M&A Escrow & Paying Agent Services at PNC. "We can manage communication throughout the transaction and offer assistance, which builds greater efficiency into the escrow and closing process. By working with a top-tier U.S. bank, parties can trust that capital will be secure and that there is no reputational risk."

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>
> **Joe Dattoli**
> **Senior Vice President, M&A Escrow & Paying Agent Services**

By managing pre- and post-closing services, a process can be designed and established to ensure that administrative functions are completed efficiently. An experienced Paying Agent helps to mitigate risk through a diligent document review process with a legal team and all transaction parties, input during the pre-closing process, an efficient distribution of payments, a digitized solicitation process and transparency around the closing process.

Additional post-closing efficiency can be provided by engaging a professional shareholder representative such as Fortis Advisors, a PNC company and leading shareholder representative firm that manages the post-closing process on behalf of selling securityholders in private M&A transactions.

Integrating services can be complex and requires continued open dialogue between all parties. Fortis Advisors and PNC's PAID Paying Agent and Escrow Agent services offer a clear path that has been constructed to drive process efficiency under a single provider structure throughout the transaction process.

CONCLUSION

In a competitive deal environment, it can be difficult for even the most seasoned team to stand out. Building deal efficiencies into a process early can help identify and conduct due diligence on targets, create well-aligned financing terms, and manage administrative needs. These factors, discussed in the PNC webinar, can help deal teams increase their chances of success.

PNC and its subsidiaries have a long-standing track record of achievement and a full arsenal of financial products and services to help sponsors and their portfolio companies throughout each fund life cycle phase, including the solutions referenced herein.

This is done by working strategically to enhance liquidity and propel growth through all economic cycles, as evidenced by PNC's more than 750 private equity relationships, over $75 billion in financial sponsor commitments under management, and significant investment in technology resources to be one of the top four treasury management providers in the United States.

To learn more about the topics in this article and how they were leveraged in a competitive environment, visit **PNC's webinar replay**.

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1 Pitchbook, 2021 Annual US PE Breakdown.

2 Pitchbook, Q2 2022 Quantitative Perspective: US PE Enters a New Regime.

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