

# DISCUSSION OF US M&A AND FINANCING TRENDS

PRESENTED TO:



*APRIL 19, 2016*



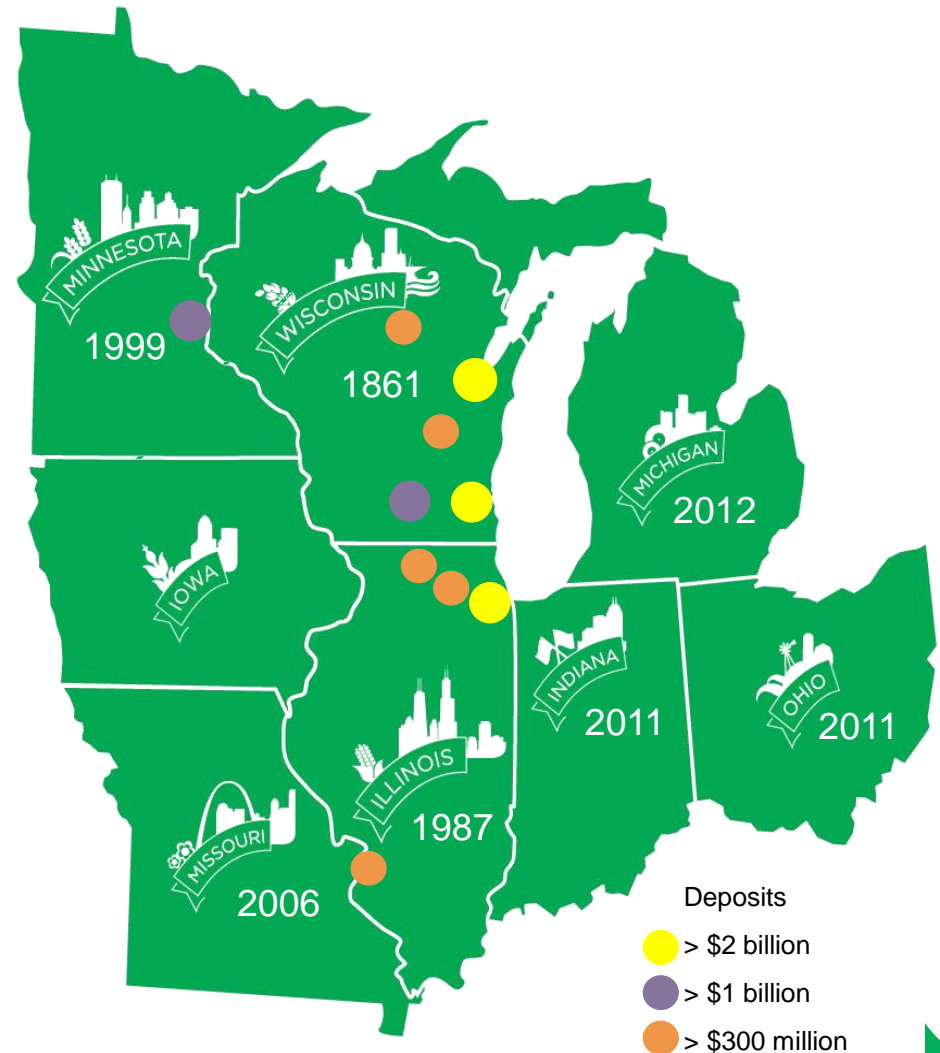
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# LEADING MIDWEST BANKING FRANCHISE

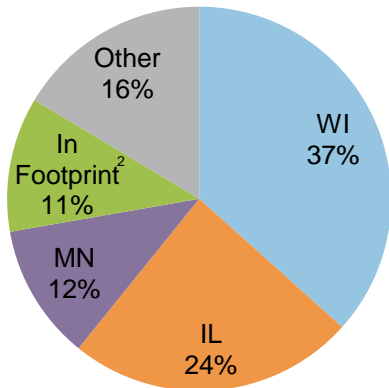
Associated Bank has over 200 banking locations serving more than 100 communities throughout Wisconsin, Illinois and Minnesota with commercial financial services offices in Indiana, Michigan, Missouri, Ohio and Texas.



## Third Quarter 2015<sup>1</sup>

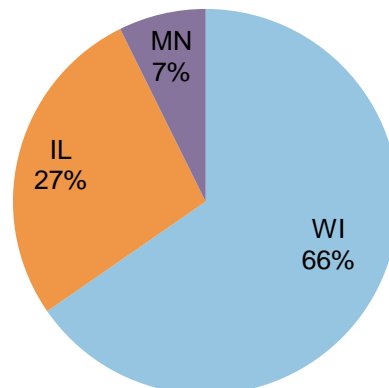
### Loans

**\$18.5 billion**



### Deposits

**\$20.6 billion**



<sup>1</sup> – Period end as of September 30, 2015; Loan pie chart excludes \$0.4 billion installment and credit card portfolio

<sup>2</sup> – Includes Missouri, Indiana, Ohio, Michigan and Iowa

# ASSOCIATED PROFILE

As of December 31, 2015, Associated Banc-Corp (NYSE: ASB) is one of the **TOP 50**, publicly traded, U.S. bank holding companies and the parent of Associated Bank, National Association:

|                                 |   |
|---------------------------------|---|
| Assets<br><b>\$27.7 Billion</b> | Deposits<br><b>\$21 Billion</b>               |
| Loans<br><b>\$18.7 Billion</b>  | Market Capitalization<br><b>\$2.8 Billion</b> |

Associated is known for its **STRONG RELATIONSHIPS** with the customers and communities it serves:

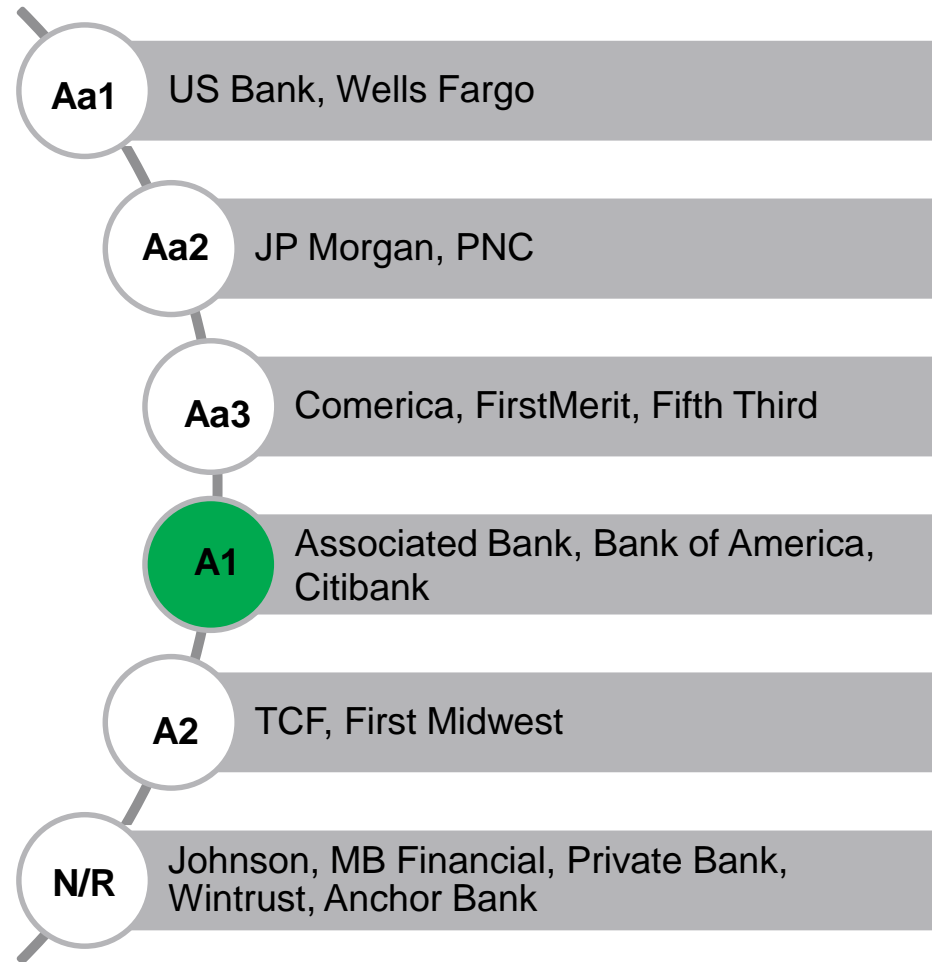
|                           |                               |
|---------------------------|-------------------------------|
| Employees<br><b>4,400</b> | Customers<br><b>1 Million</b> |
|---------------------------|-------------------------------|



# CREDIT RATINGS OF LEADING BANKS

## Associated Bank, National Association Enjoys a Strong Credit Rating

| Leading Banks in the Midwest | Moody's Long-Term Rating |
|------------------------------|--------------------------|
| U.S. Bank                    | Aa1                      |
| Wells Fargo Bank             | Aa1                      |
| JPMorgan Chase Bank          | Aa2                      |
| PNC Bank                     | Aa2                      |
| Comerica Bank                | Aa3                      |
| FirstMerit Bank              | Aa3                      |
| Fifth Third Bank             | Aa3                      |
| Bank of America              | A1                       |
| Citibank                     | A1                       |
| <b>Associated Bank</b>       | <b>A1</b>                |
| TCF Bank                     | A2                       |
| First Midwest Bank           | A2                       |
| Johnson Bank                 | Not Rated                |
| MB Financial Bank            | Not Rated                |
| PrivateBank                  | Not Rated                |
| Wintrust                     | Not Rated                |
| Anchor Bank (ABCW)           | Not Rated                |



Source: SNL Financial, October 2015



# FULL RANGE OF FINANCIAL PRODUCTS & SERVICES



## Community, Consumer, and Business

## Corporate and Commercial Specialty

### Community Markets

- Rochester, MN
- Eau Claire, WI
- La Crosse, WI
- Central Wisconsin
- Rockford, IL
- Peoria, IL
- Southern Illinois

### Private Client and Institutional Services

- Private Banking
- Personal Trust
- Asset Management
- Retirement Plan Services
- Associated Financial Group
- Associated Investment Services

### Consumer and Business Banking

- Branch Banking
- Commercial Banking
- Residential Lending
- Payments and Direct Channels

### Corporate and Specialized Lending

- Corporate Commercial and Specialized Lending
- Commercial Deposits and Treasury Management
- Capital Markets

### Commercial Real Estate Lending

- CRE Lending
- Real Estate Investment Trusts
- CRE Syndications
- CRE Tax Credits



# I. US M&A ACTIVITY AND TRENDS



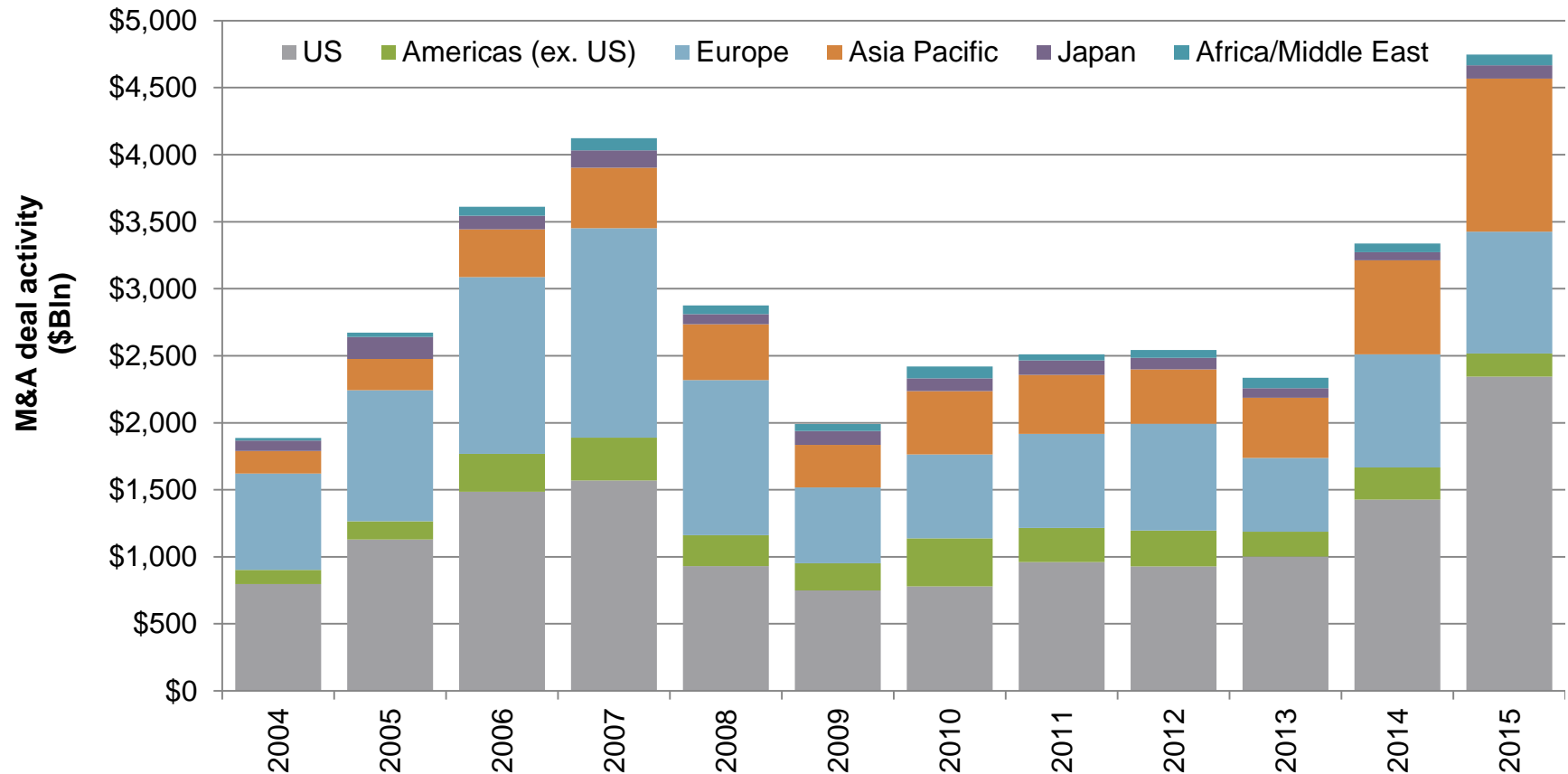
# I. US M&A ACTIVITY AND TRENDS





# GLOBAL M&A VOLUME

Global M&A Deal Activity



- Global M&A deal activity surpassed \$4.5 trillion in 2015, up 42% from 2014 levels.
- US M&A deal activity totaled more than \$2.3 trillion, up 64% from 2014 levels.



# US M&A PREMIUM TRENDS

## Average Premium for US Transactions

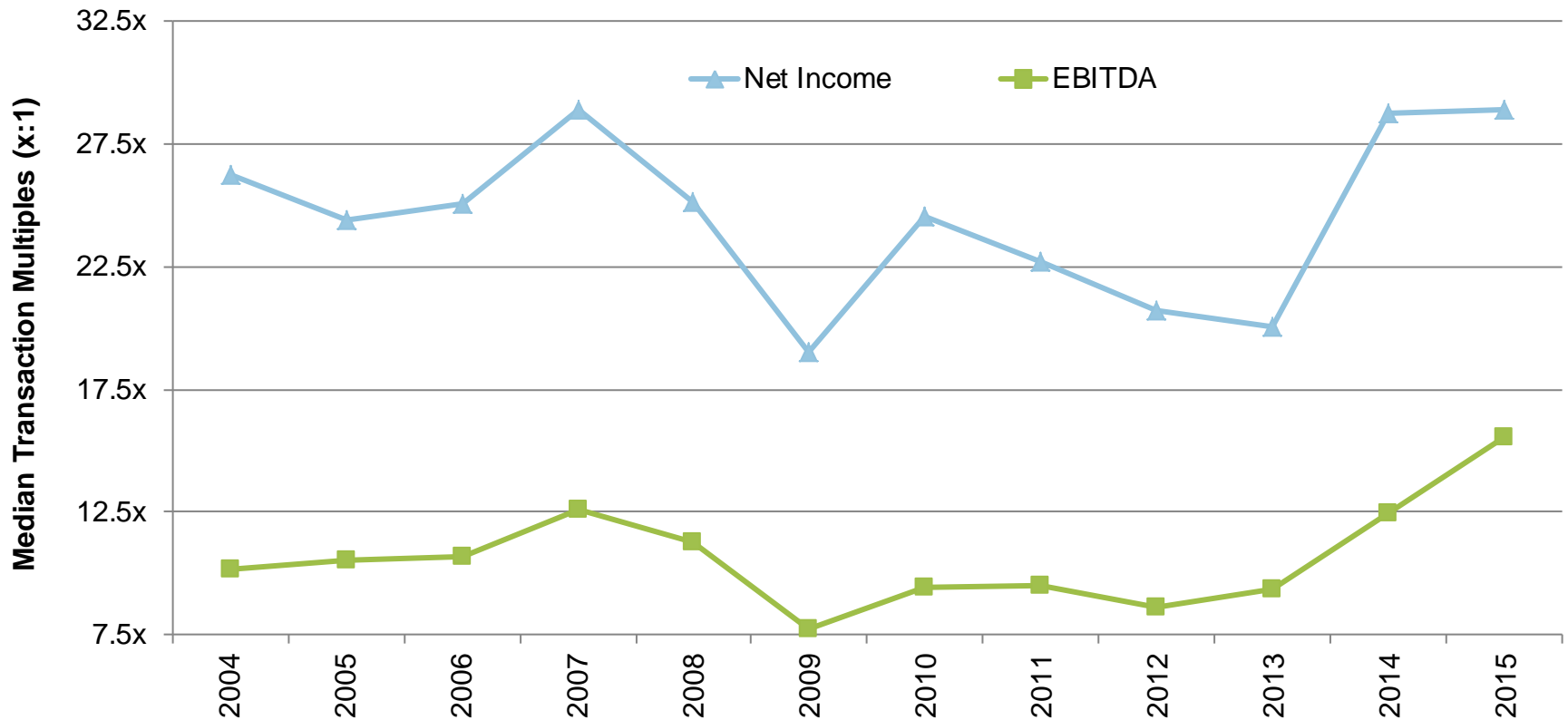


- Historical takeover premiums in the US have ranged from 20-40%.



# US M&A MULTIPLE TRENDS

Median Deal Multiples for US Transactions



- Recent transaction multiples in the US troughed in 2009 but have rebounded significantly in 2015.
- Data quality is imperfect but trend is directionally accurate.



# US M&A DEAL TRENDS AND DRIVERS

## Trends

- Record high deal flow and volume in 2015.
- Increase in number of very large transactions in 2015.
- Companies have repaired balance sheets and optimized shareholder payout.
  - Considering investment opportunities (both organic and M&A).
- Increasing transaction multiples.
- Increased stock market volatility.

## Drivers

- High corporate cash balances.
- Historically-low interest rates.
- Low-growth environment with economic statistics mixed to benign.
- Shareholder activism.
- Tax efficiency strategies.
- High dollar, low oil may reflect diminishing global growth.

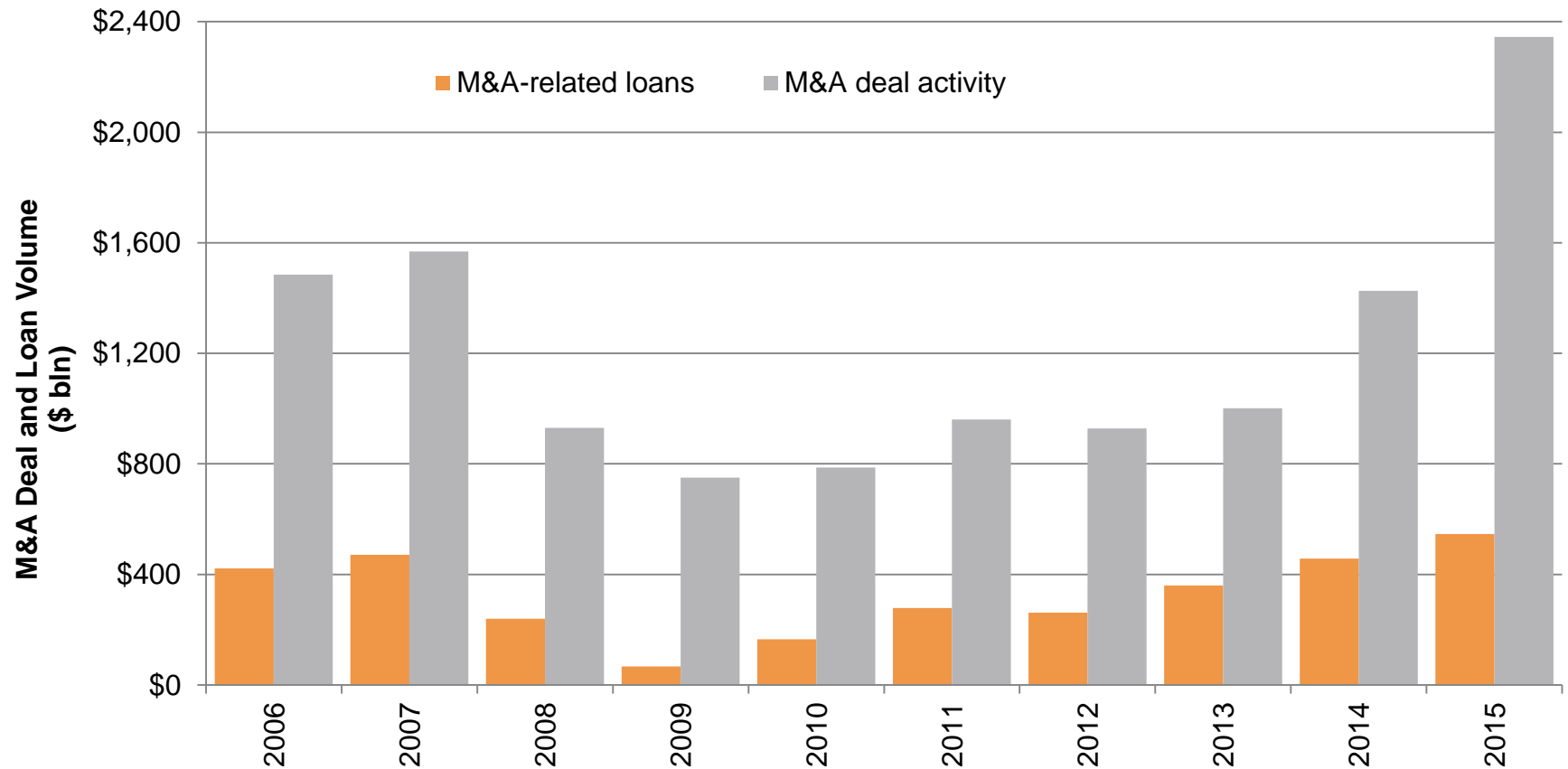


## II. US M&A FINANCING TRENDS



# US M&A AND M&A RELATED LENDING

## US M&A and M&A Lending Activity



- Aggregate US M&A related lending totaled \$546 billion in 2015, up ~20% from 2014.

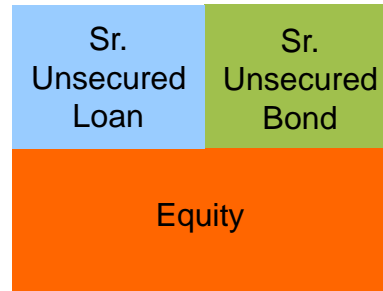


# GENERAL FINANCING STRUCTURE BY MARKET

## Investment grade market

- Loans to companies rated  $\geq$  BBB-/Baa3 AND with a relatively low LIBOR spread
- Loan is usually unsecured and ranked pari passu with bonds

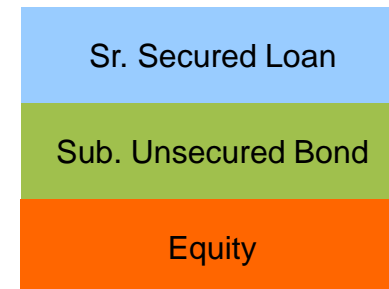
Capital Structure



## Leveraged market

- Loans to companies rated  $\leq$  BB+/Ba1 or unrated AND a relatively higher LIBOR spread
- Loan is usually secured and ranked senior to all other debt in the capital structure

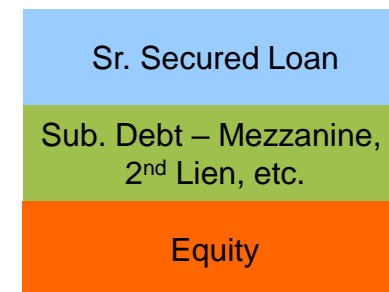
Capital Structure



## Middle market

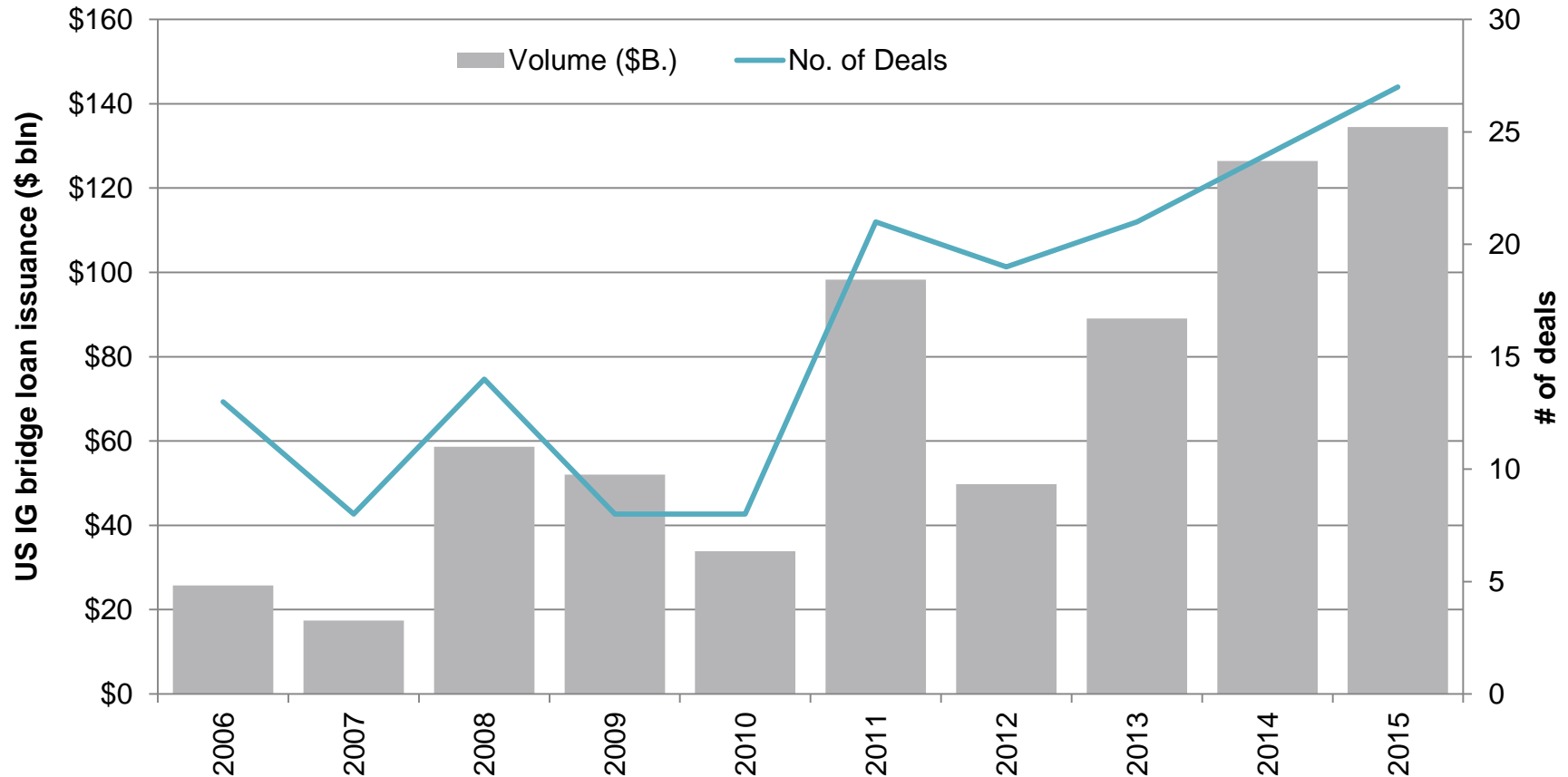
- Generally defined by Reuters as loans to companies with revenue and bank facility  $\leq$  \$500MM
- Loan is usually secured and ranked senior to all other debt in the capital structure

Capital Structure



# US INVESTMENT GRADE BRIDGE LOAN VOLUME

## US Investment Grade Bridge Loan Issuance



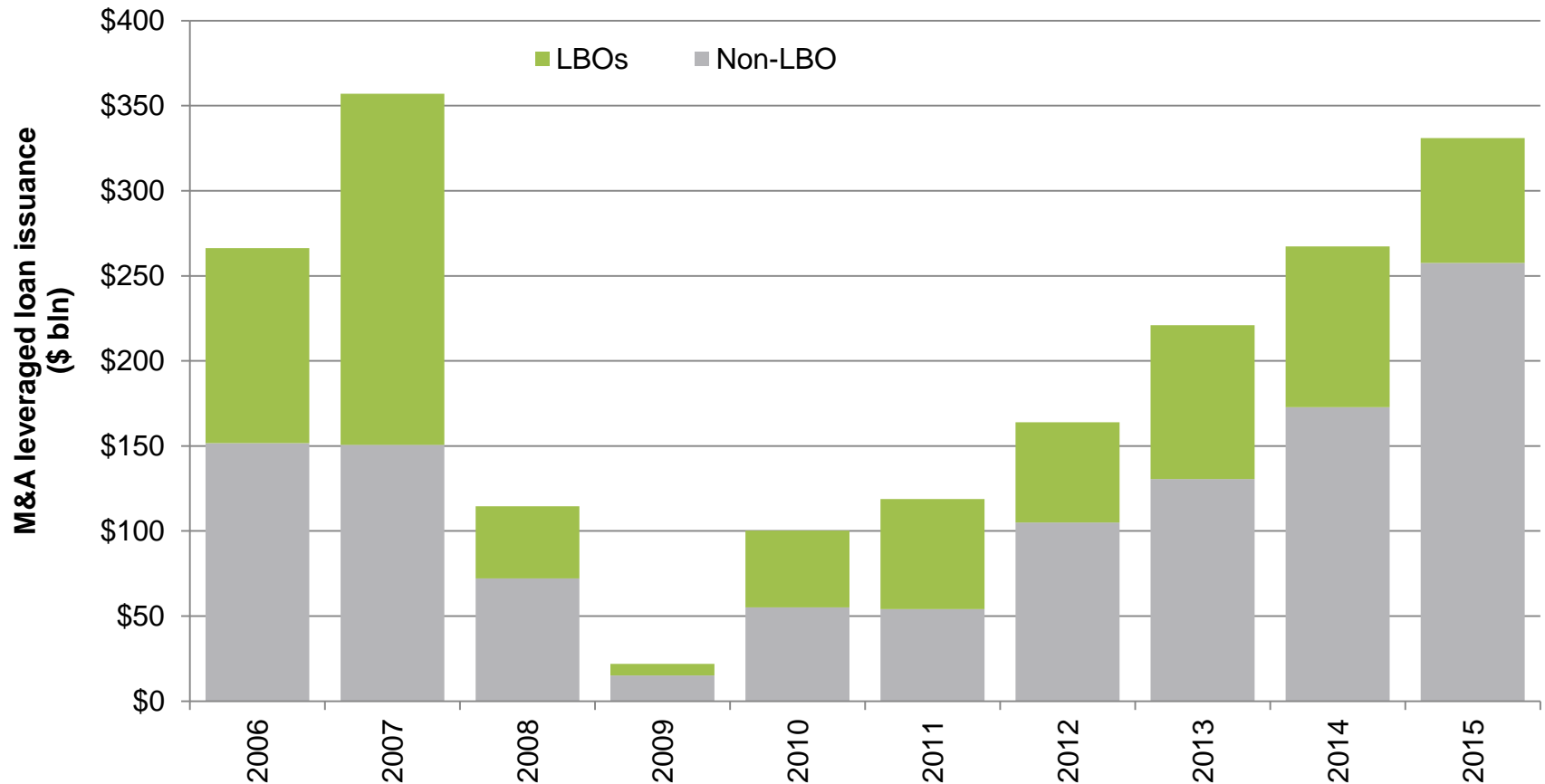
- US investment grade bridge loan issuance set a record in 2015 with \$135 billion of volume.
- Aggregate investment grade M&A related issuance totaled \$181 billion in 2015.





# US LEVERAGED LOAN M&A ISSUANCE

## US M&A Leveraged Loan Issuance

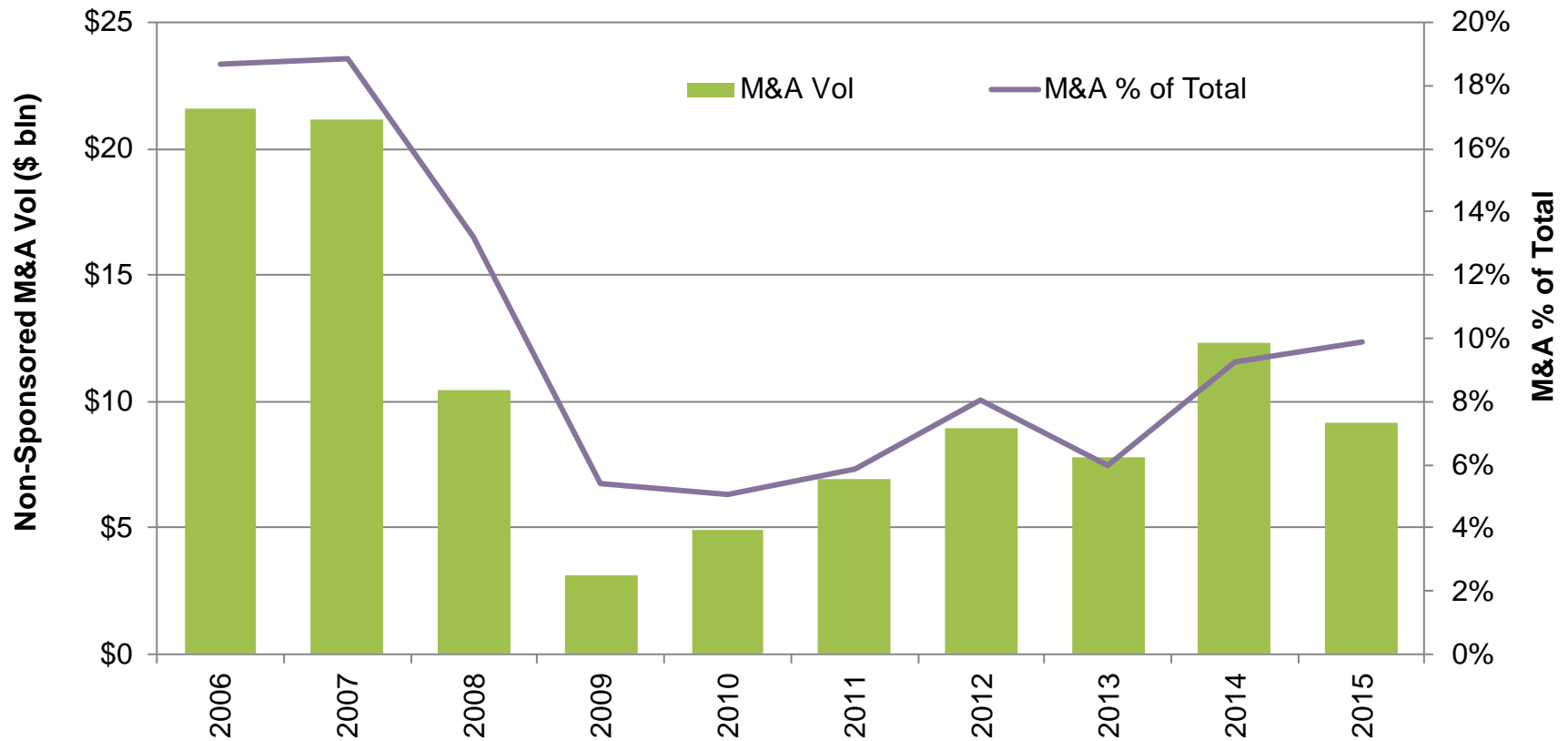


- M&A leveraged loan volume continued to grow in 2015, posting its second highest year ever.
- Non-LBO issuance was up 49%, while LBO activity fell 22%.
- During 2015, private equity firms faced stiff competition from strategic buyers for assets.



# MIDDLE MARKET NON-SPONSORED M&A

## US Middle Market Non-Sponsored M&A Activity

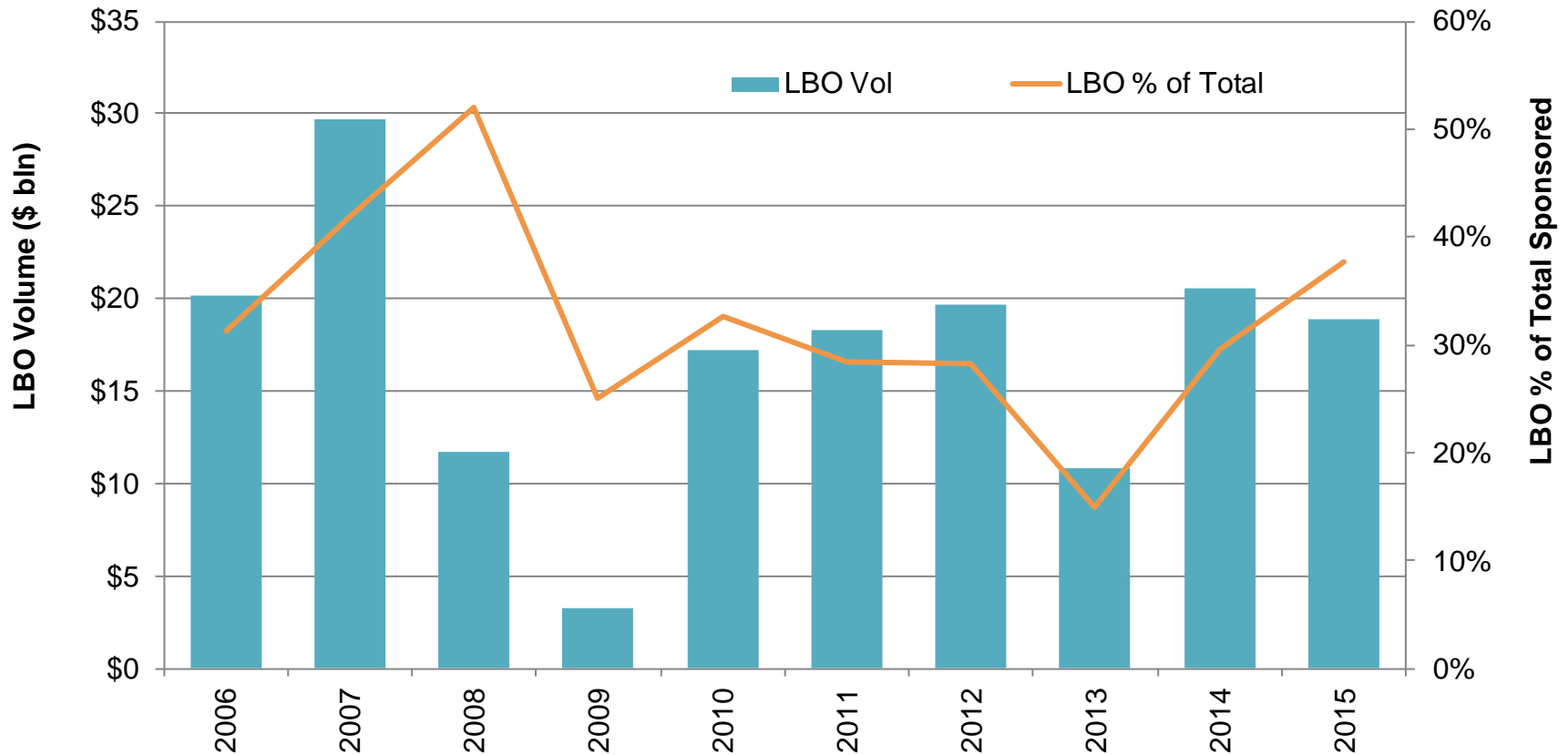


- M&A activity totaled \$9.2 billion in 2015, down 25% from 2014.



# MIDDLE MARKET SPONSORED M&A

## US Middle Market Sponsored LBO Activity

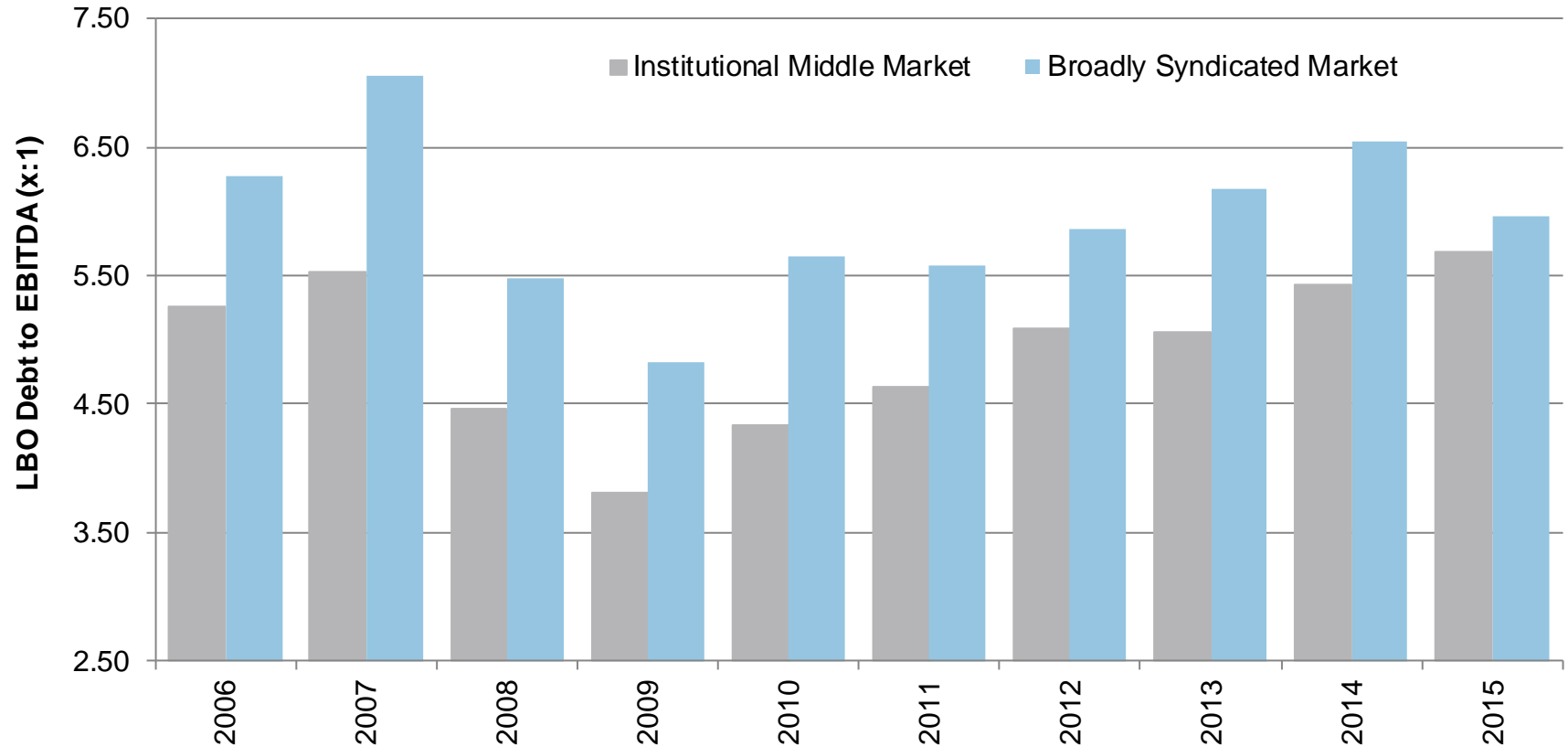


- 2015 LBO volume totaled \$18.9 billion (38% of sponsored issuance), an 8% drop from 2014.
- Secondary buyouts represented 43% of the total LBO volume in 2015, up from 36% in 2014.



# LBO TRENDS IN SPONSORED MIDDLE MARKET

## Debt/EBITDA: Middle Market vs. Broadly Syndicated

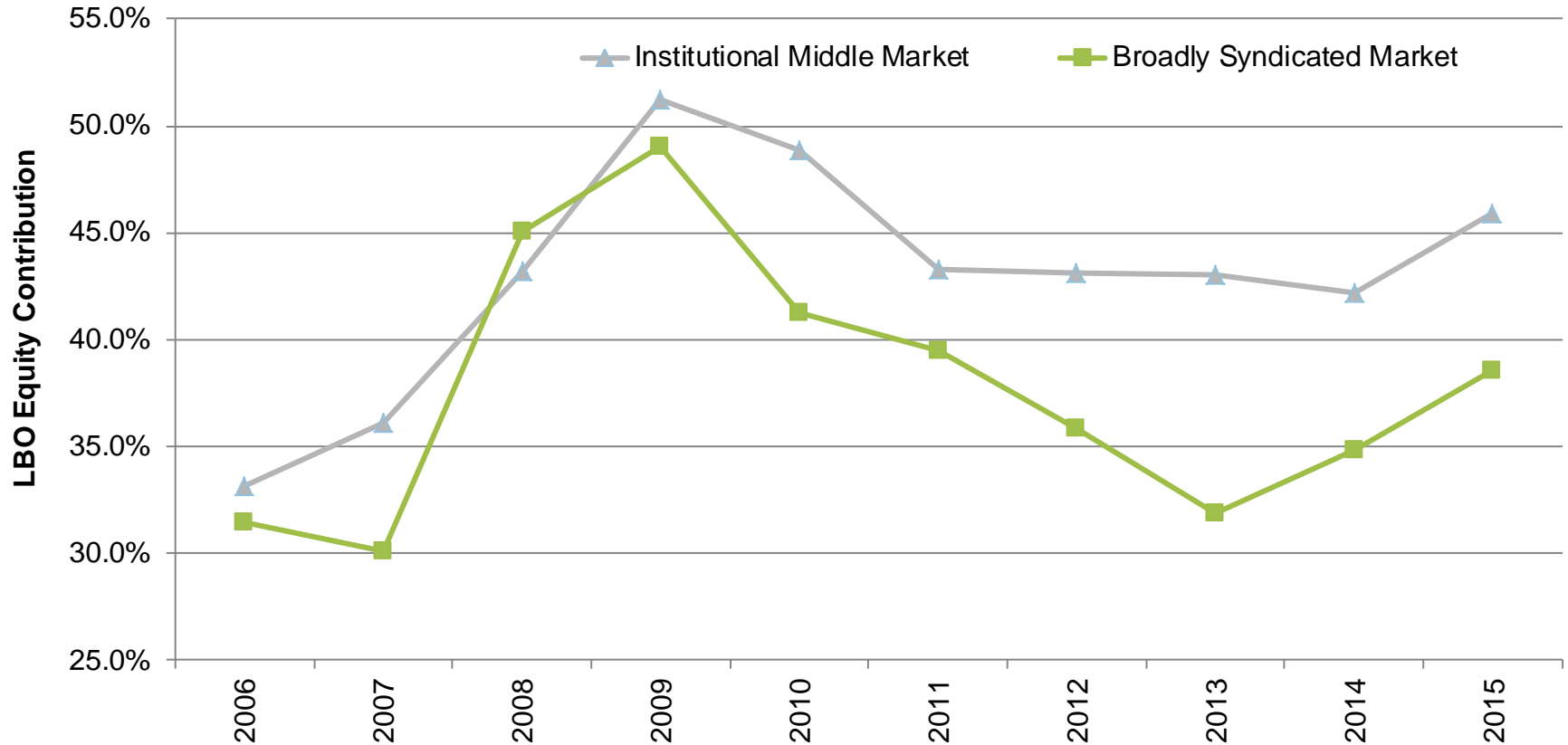


- Elevated regulatory pressure to more closely adhere to the leveraged lending guidance has impacted market activity, especially in the large corporate space.
- Average leverage for large corporate LBOs dropped from 6.55x in 2014 to 5.96x in 2015.
- The middle market has been less affected but has been more conservative historically.



# LBO TRENDS IN SPONSORED MIDDLE MARKET

## Equity Portion: Middle Market vs. Broadly Syndicated

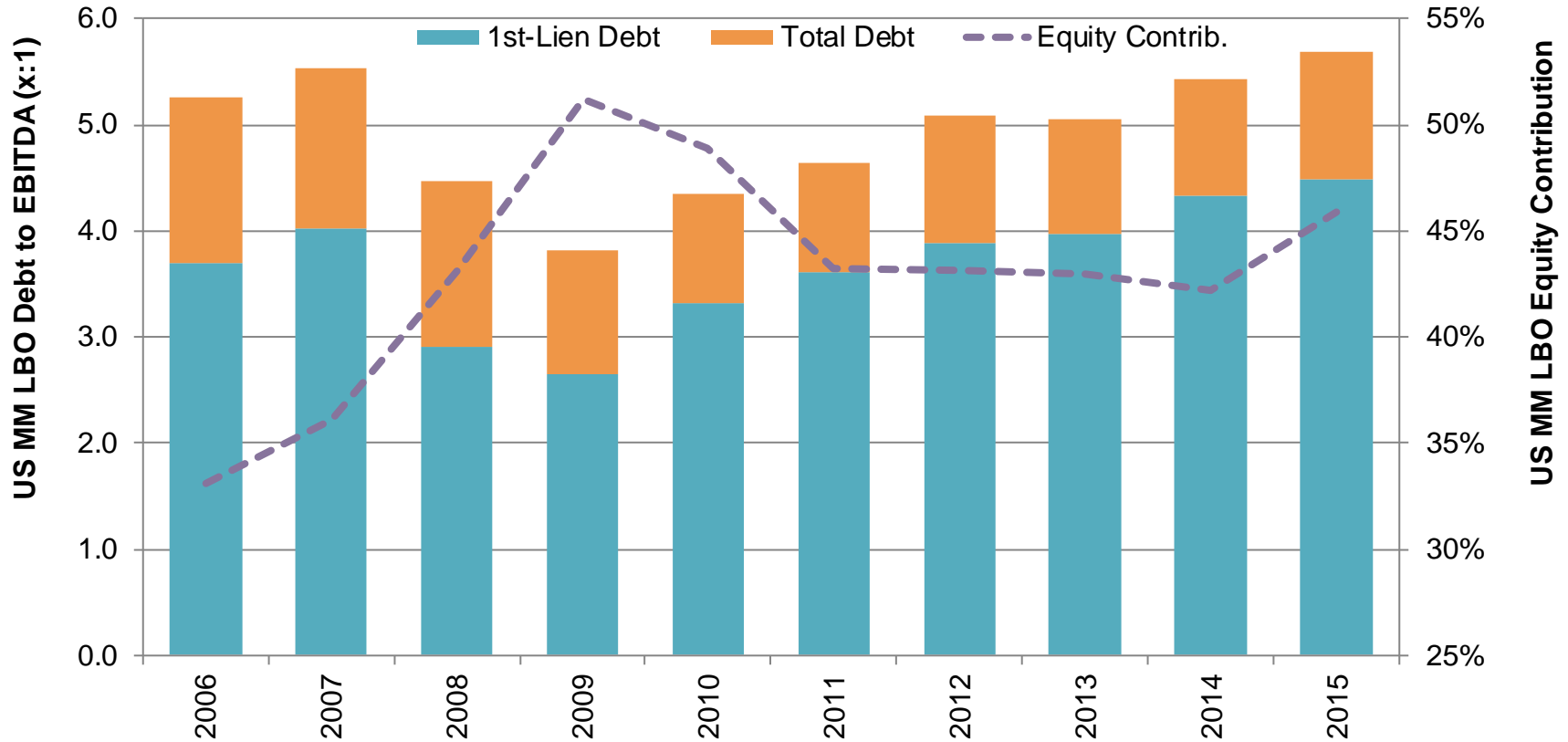


- Average equity contributions for large corporate LBOs continued to climb into the high 30% area (38.6%) in 2015.
- Middle market LBO equity contributions ticked up to 45.9% in 2015.



# LBO TRENDS IN SPONSORED MIDDLE MARKET

## Middle Market LBO Debt and Equity Contribution



- The middle market has been more conservative historically when it comes to leverage.
- Leverage increased in 2015 to 4.5x first lien / 5.7x total from 4.3x/5.4x in 2014.



## **III. MIDDLE MARKET LENDER ENVIRONMENT**



# MIDDLE MARKET LENDER LANDSCAPE

## Involved Parties

- Regulated Banks
- Non-Regulated FinCos
- CLOs (Collateralized Loan Obligations)
- Insurance Companies
- Retail Loan Funds
- BDCs (Business Development Companies)
- Private Equity Funds
- Mezzanine Funds
- Hedge Funds & Credit Opportunity Funds

## Transaction Permutations

- All Bank Senior
- Stretch Senior or First Out / Last Out
- Bank / Mezzanine
- Bank / Institutional 1<sup>st</sup> Lien
- Bank / Institutional 1<sup>st</sup> Lien / Institutional 2<sup>nd</sup> Lien
- Unitranche

## Financing Considerations and Tradeoffs

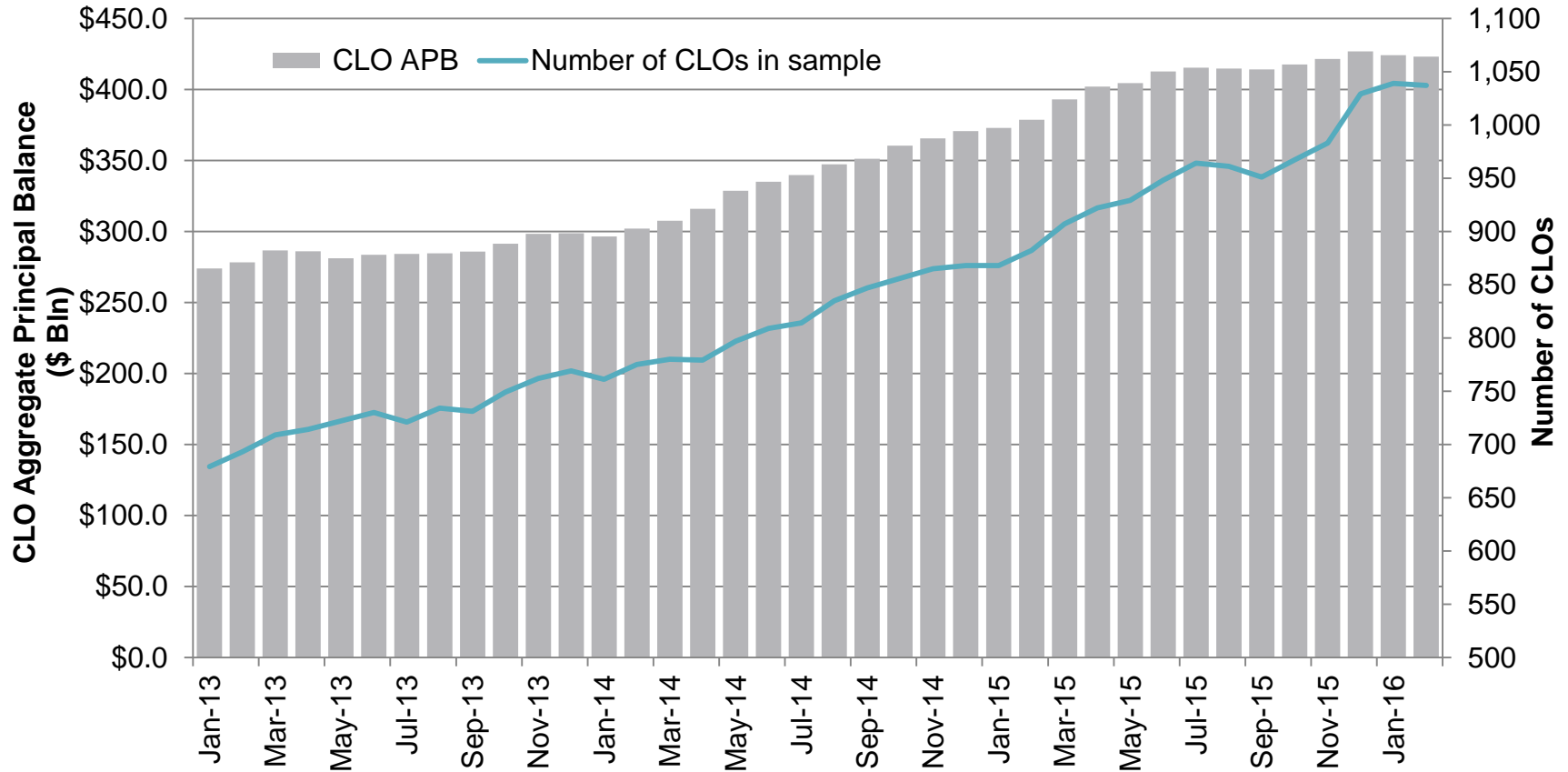
- Relationship and historical experience
- Risk and leverage tolerance
- Certainty of execution
- Investor approach – buy and hold vs. desire for liquidity
- Flexibility (covenants, documentation, etc.)
- All-in cost
- Intercreditor matters





# US CLO ASSETS UNDER MANAGEMENT

## US CLO Assets Under Management

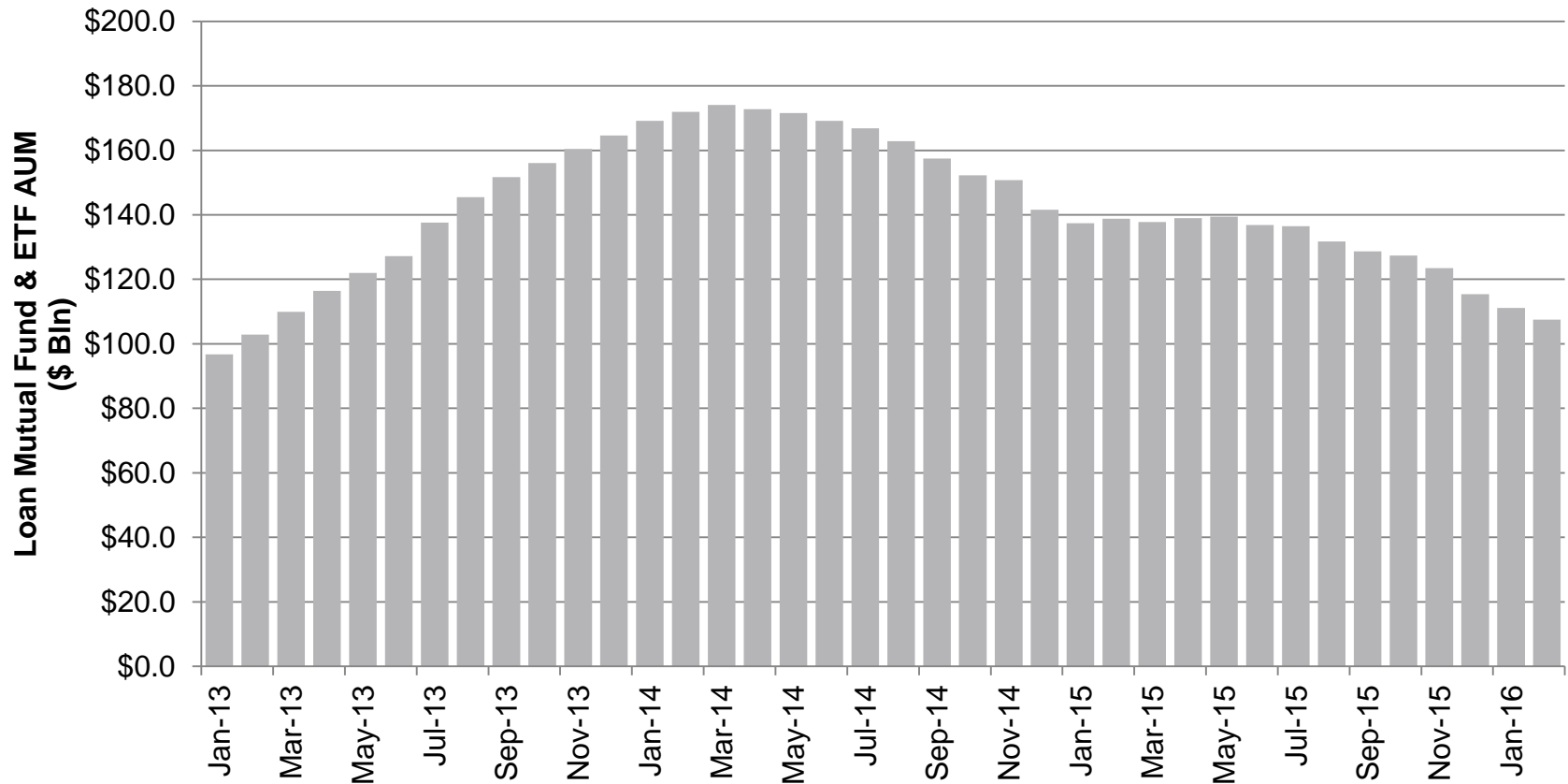


- US CLO assets under management is now at \$423 billion



# US LOAN FUNDS UNDER MANAGEMENT

## US Mutual Funds and ETFs - Assets Under Management

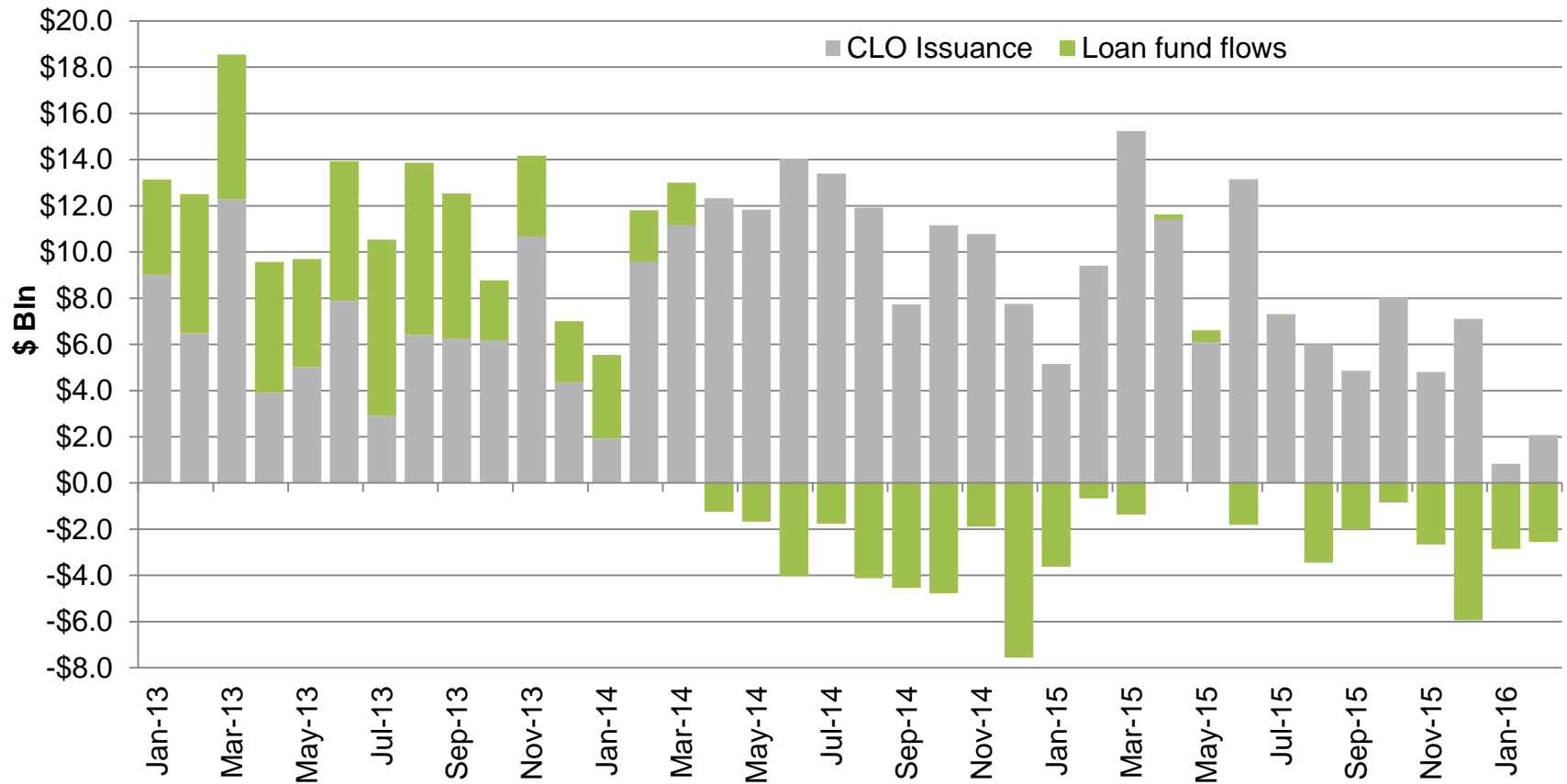


- Loan mutual fund & ETF assets under management continue to decline as outflows continued and asset values fell.
- Total assets under management stand at \$107 billion, the lowest level since February 2013.



# CLO ISSUANCE AND LOAN FUND FLOWS

## Monthly CLO Issuance and Loan Fund Flows

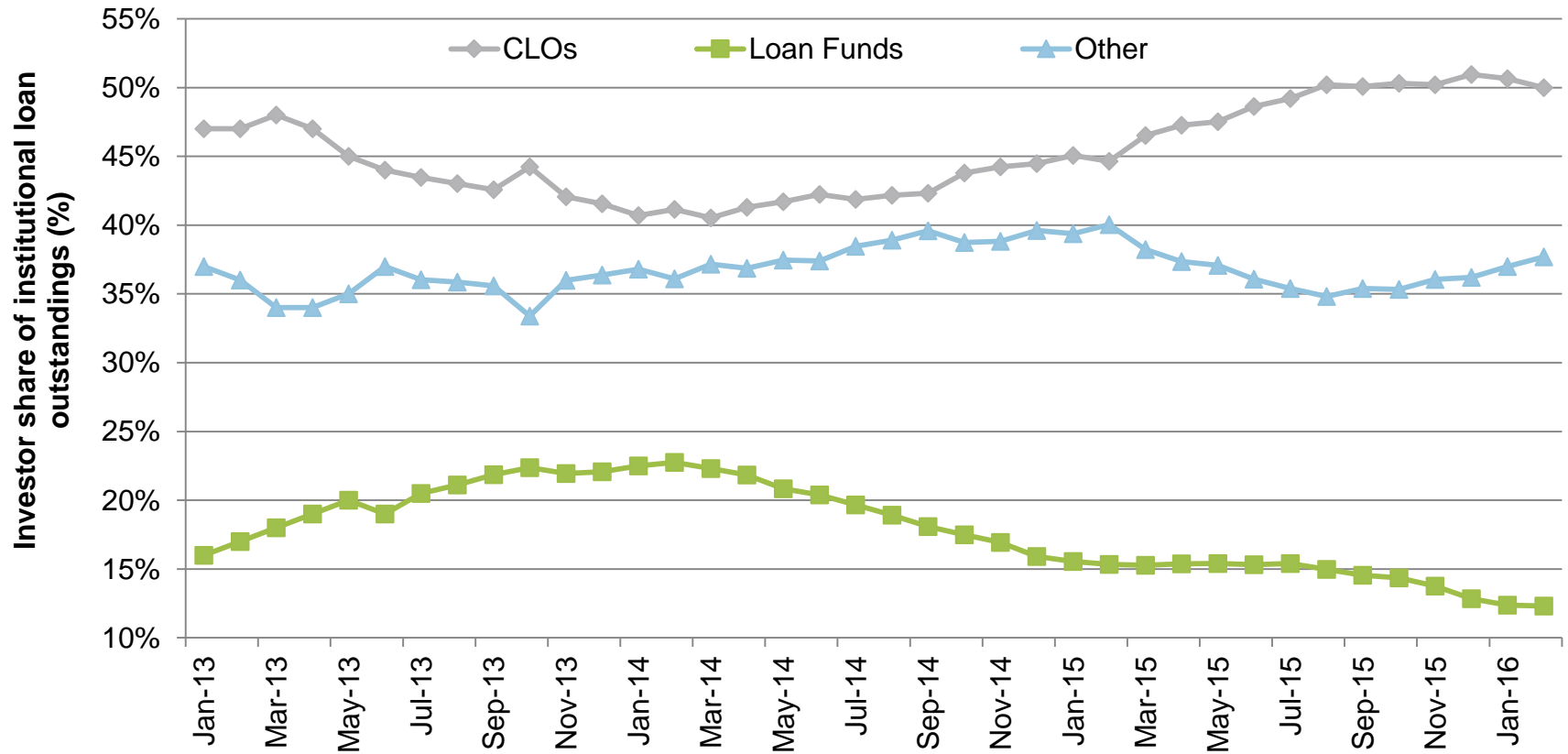


- US CLO issuance is off to a slow start in 2016. Volume was \$2.1 billion in February, up from \$826 million in January.
- Meanwhile, loan funds saw another \$2.5 billion of outflows in February, the seventh straight month of outflows.



# INVESTOR SHARE OF INSTITUTIONAL LOANS

Share of Institutional Loan Balances by Investor Type

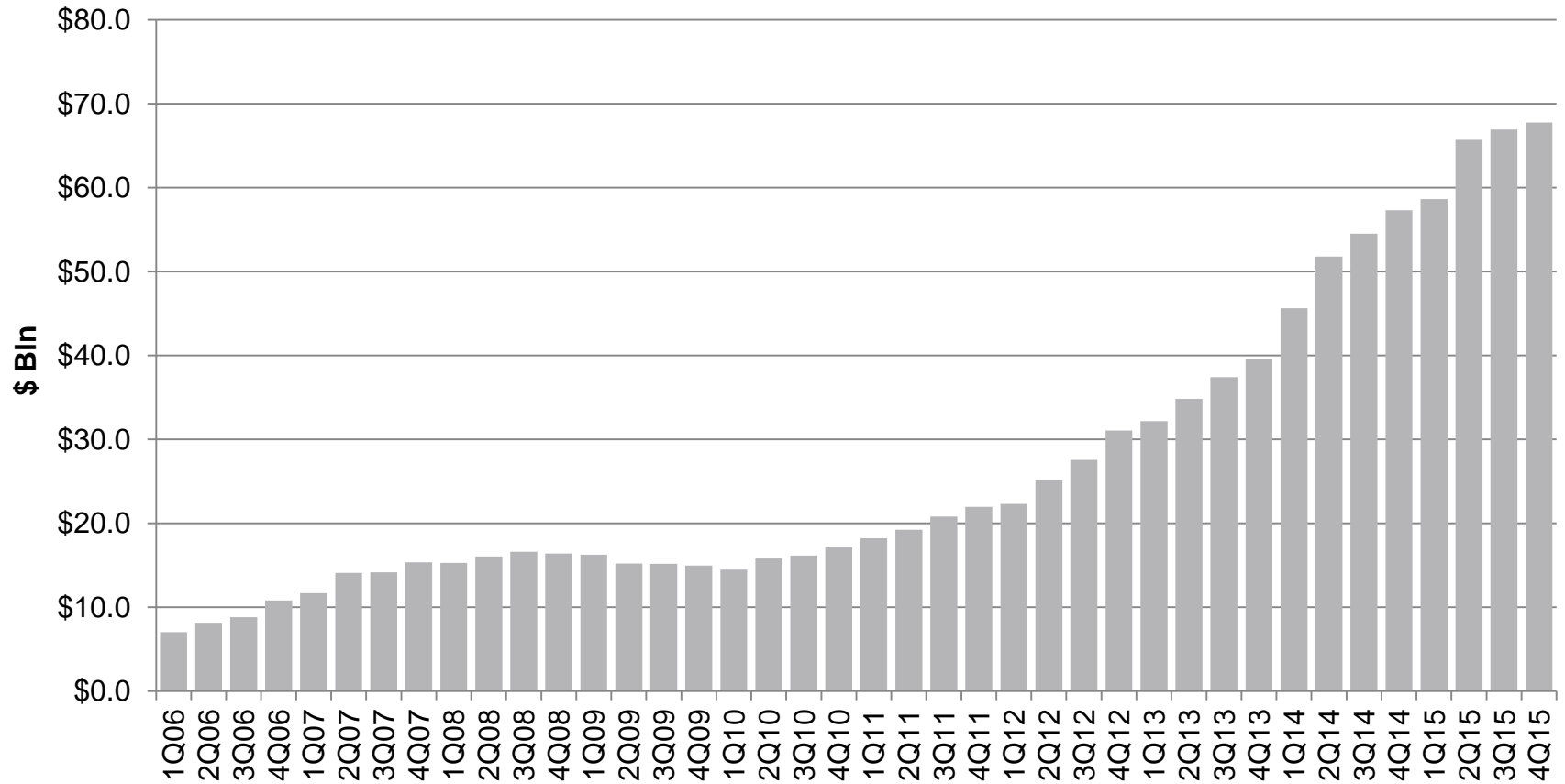


- The CLO share of institutional loan balances is roughly 50%.
- Loan mutual funds & ETF market share is down to 12% following consistent outflows.



# US BDC PORTFOLIO BALANCES

Estimated BDC Portfolio Balances



- Estimated BDC portfolio balances stand at \$87 billion as of 4Q 2015.



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