

PPIA Due-Diligence Best Practice Standards - draft

➤ Pre-Circle Due Diligence – Information / Material Delivered to Potential Investors

Issuer Business Disclosures*

- Existing Bank or Other Lending Facilities
 - Provide grid of lending facilities including: borrower, lender, pricing, maturity
 - Provide most recent bank compliance certificate
- Business Overview
 - Sales, earnings and margins by business segment & geography (5yr trend analysis)
 - Largest customers and suppliers
 - What distinguishes the Company from its competitors
 - Market share by each segment and direct competitors in each segment
 - Industry landscape today and trends or developments going forward
 - Strategic outlook for the business in the next 3-5 years including acquisition/divestments
- Business Information
 - Unions
 - Disclose presence of unions
 - The percentage of the workforce unionized
 - The number of unions and key labor contracts
 - Discuss labor relationships and any issues related to strikes or disputes
 - History of capacity and utilization rates at key manufacturing facilities
 - Ratings
 - History of NAIC designations for repeat issuers
 - Existence of Private Letter (PL) Rating and PL Rating History
 - Financial
 - Dividend Policy
 - Maintenance Cap-ex vs. Investment Cap-ex
 - Target Leverage Ratio

Issuer Legal Disclosures*

- OFAC and Related Matters (Standardized OFAC Questionnaire is under review by the PPIA)
 - Discuss nature of operations & business activities in regions sanctioned by national, federal or state regulations or law.
 - Disclose percentage of sales and earnings from sanctioned countries.

- Corporate Legal Structure including ownership and affiliated entities and identify the amount of sales, earnings, assets and debt at the specific legal entities
- Discuss Ownership Matters
 - Distribution of ownership within family owners;
 - Tax-related issues upon death; family involvement in management;
 - Succession planning for private companies and public companies under voting control of individual(s)
- Litigation/Environmental – include detailed discussion of exposure and disclosure of relevant data
- Identify any Material Business Risks
- Tax/Regulatory Matters – any pending matters that may result in regulatory sanctions, liens or fines

Placement Agent Disclosures / Activity*

- Early pricing and comparable public analysis
- Terms sheet included in offering document at deal launch
- Legal Document Timing
 - Legal documents provided to potential investors at deal launch
 - Investor's Counsel should have 3-5 business days to review NPA if prepared by Company's Counsel for a standard private placement issue and 5-10 business days for structured or project finance transactions
 - Investor's Counsel should have access to consult with Company and Company's Counsel prior to the deal launch
 - Bank Agreement should be provided to Pre-designated Counsel before the deal launch
 - Schedules referenced in the NPA should be provided to potential investors at least 24 hours before bid time
- Deal Timing
 - Master Q&A published and distributed 72 hours prior to circle, addendums can follow
 - Minimum of one week between investor conference call and circle date
 - Questions submitted prior to circle should be answered in good faith prior to circle

Potential Investor Disclosures / Activity*

- Provide early feedback regarding level of interest in transaction
- Submit due diligence questions early in the process
- Categorize questions submitted by 1) Must Know Pre-Circle 2) Would Like Pre-Circle or 3) Due Diligence Questions
- State all information provided by company will not be shared externally or internally (i.e. with public desk) without consent of issuer

➤ Post-Circle Matters

- Circulation by Placement Agent
 - Working Party List
 - Issuer Contact Information
 - Legal Counsel
- Revised pro-forma capitalization table depicting any changes from initial offering documents

➤ Due Diligence Meeting

Logistics

- Timing – 1 weeks advance notice for domestic travel and 2- 3 weeks preferred for international
- Location – location which will optimize access to management, ability to observe manufacturing process and convenience for Company and investors
- Participants – CEO participation is preferred (dinner or meeting), CFO, Treasurer, Heads of major business lines/operations
- Investors – submit due diligence questions the week before due diligence meeting
- Make arrangements for dial-in and material distribution to lenders that are unable to attend in person
- Placement Agents should consider arranging meetings with existing USPP issuers within close proximity of the due diligence location
- Investors should disclose at the time of bid if they plan to attend due diligence and once committed should attend the event

Content

- Information expanded beyond that provided in initial Offering Memorandum & Investor Presentation
- Reinforcement of investment thesis/assumptions as presented in offering materials
- Investors should be prepared with pertinent questions and fully engaged
- Establish future communication expectations between issuer and investors
- Set expectations for issuers to host an annual lender update in person or via conference call
- Tour of major facility/asset for first time issuers

➤ Joint-Lead Transactions (Under Discussion)

Joint led transactions are where two or more Agent Banks have active roles in the distribution of a private placement transaction. The responsibilities are split between the Agents, not necessarily equally.

- Investor Preferred Protocol
 - In multi-agented transactions Investors should use their best efforts to communicate via the Agent representing them
 - Investors should direct all questions to the Agent representing them and refrain from directly contacting the Issuer during the underwriting process
- Agent Preferred Protocol
 - Agents communicate with each of their assigned investors the roles assigned to each lead bank (Bank 1 is setting up road shows, Bank 2 is putting together slide deck, etc.)
 - Each Agent will use their best efforts to disseminate (email/phone call/Intralinks/etc.) with each assigned Investor the same day, any change in price talk, Issuer interest in selected maturities, or deal upside information
 - Each Agent will use their best efforts to disseminate(email/phone call/Intralinks/etc.) on the same day, answers to material questions with each assigned Investor

** The disclosure items are not meant to provide an exhaustive list of disclosures but simply supplements the historical standard practice and Private Placement Offering Memorandum.*