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INVESTMENT BANKING AND THE PRIVATE CREDIT MARKETS

HUTCH CORBETT, MANAGING PARTNER - ARMENTUM PARTNERS

How I Got Here

- **Undergrad business degree from University of Colorado (lots of fun)**
- **4 Years as commercial banker making loans to investment grade companies**
- **Graduate school @ Darden / UVA**
- **Joined Morgan Stanley investment banking group**
    - Spent ~10 years as a more traditional investment banking
- **Tried a CFO job at a Kleiner Perkins backed start-up** (didn’t have the attention span)
- **Joined a venture lending platform to build a healthcare practice**
- **Institutionalized Armentum Partners to help companies raise debt capital**

What Does Armentum Partners Do

- Armentum Partners is an investment bank that gets hired by companies to raise debt
  - Specializes in Enterprise Value Lending
  - Clients are in the technology and healthcare sectors
  - Private and small cap public companies
  - Most are generating revenue, but still losing money
  - Majority have raised institutional equity from venture and private equity funds
- Deals range from $15 – 500 million
  - Often not all the capital is drawn at close, some is subject to milestones
- Lots of variability in how deals are priced and structured, increasing need for sophisticated advisor
- Armentum earns a fee of 1 -2% either on drawn capital (larger deals) or entire facility
- Armentum has raised over $5 billion for our clients since beginning of 2022

Why Do Companies Decide to Raise Debt?

PROS

- **Debt does not dilute existing owners (except for warrants)**
- **Debt usually has a lower cost of capital (or required return by investors)**
    - **Debt has a cost of capital of 8-20% today v Equity @ 20%+ in most cases**
- **Debt has no governance rights - no board seats**
- **In most markets, raising debt raises can happen faster than equity raises**
- **Opportunity to work with Armentum Partners**

CONS

- **Debt has ongoing servicing costs, interest and eventual principal repayment**
- **Debt often comes with financial covenants requiring a certain level of performance**
- **Debtholders can foreclose on a Company if payments are missed / breaches are not cured**

Decisions on how to balance use of debt and equity (ie capital structuring) is a strategic one

Case Study – Healthcare Information Technology Company

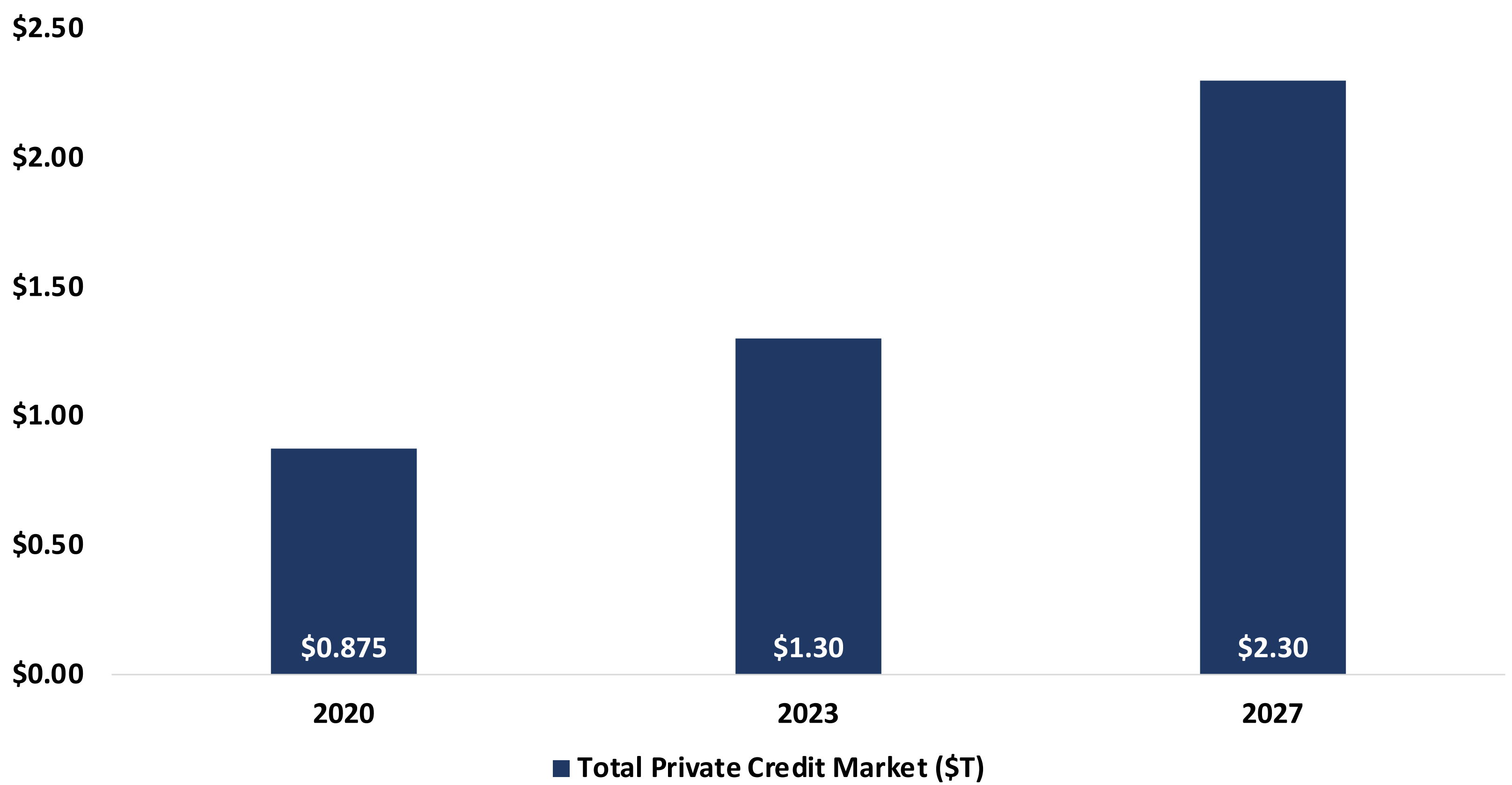
- Armentum was introduced to the Company by one of the equity investors
- The Company helps pharma companies find patients for clinical trials
  - Rapidly growing revenues ($50 million +) but still burning cash
  - Last equity round was raised in 2021 when private valuations were much higher, if the Company were to raise equity it would likely be a downround despite significant progress
  - Company had a small loan (~$10 million) from a commercial bank that was unwilling to fund additional capital
- Management and the Board decided to retain Armentum to raise additional debt capital
  - Beat out much larger bank
- Process targeted 10 specialized lenders that are willing to lend money to unprofitable healthcare companies
- Process involved distributing information about the Company under NDA and hosting calls with management with each lender

Case Study – (continued)

- **3 lenders submitted proposals**
  - **Proposals varied by size, pricing, duration/term, and covenants**
- **Armentum analyzed the various proposals and shared a presentation to management and the board summarizing the alternatives, and recommended one from a venture lender**
  - **$40 million total deal with $25 million funded at close**
  - **Only proposal with no financial covenants**
  - **Cost of capital ~13.5% with additional upside from warrants (1-3% more expensive)**
  - **Armentum knows this lender well, and has closed multiple deals with them in the past**
- **Signed the term sheet**
- **Following confirmatory diligence and documentation, the transaction closed and funded ~6 weeks from the signing of the term sheet**

Private Credit is Exploding

- **Enterprise lending is a small part of overall private credit market**
- **Private credit is lending to companies by institutions other thank banks**
- **This market has experienced significant growth, which is expected to accelerate**



Source: Morgan Stanley

Why Should You Care About Any of This?

- **Both investment banking and private credit provide both short and long-term career opportunities for graduates interested in finance**

Careers in Investment Banking

- **Two logical entry points**
  - **Analysts' programs and internships from undergrad**
    - **Most analyst programs offer excellent training, especially at larger firms where hiring is more institutionalized**
  - **Associate programs and internships from MBA programs**
- **Great launching point for a broad range of careers, after completing analyst programs (2-3 years), options include**
  - **Continue on investment banking path, promotion to associate**
  - **Transition to private equity and potentially venture capital**
  - **Launch a career in private credit**
  - **Secure a strategy or finance roles at a company**
  - **Apply to top business school programs**

Careers in Private Credit

- **Commercial bank training programs are a great entry point**
- **Some large institutions have started hiring directly from undergrad programs**
- **More opportunities exist for lateral hires (~2 years experience in investment banking or some other finance / accounting track)**
- **Given projected growth in AUM, private credit should have an increasing # of career opportunities**
- **Compensation less than investment banking, but more reasonable hours / better lifestyle**

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