Securing Investments.
Enhancing Returns.

M&A and Transaction Solutions & Credit Solutions
Capability Overview

How to unlock value through an active approach to credit risk in M&A

03 November 2020

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CREDIT M&A – SUPPORT ACROSS THE TRANSACTION LIFECYCLE

Aon's Credit Solutions for M&A are tailored for transactions. Leveraging data & analytics in our working capital methodology we are able to apply and structure non-payment insurance, surety and political risk insurance solutions to:

- **Lowering cost of capital** by arbitraging banking and insurance regulatory frameworks
- **Off-balance sheet** solutions for transaction related demands for collateral
- **Enabling additional short term financing via integrated Funding Solutions and decision support** to achieve investment objectives, and shorten the cash conversion cycle for individual assets and portfolios.

Individual Assets

Pre-Deal – Secure

1

Credit & Cash Due Diligence
- partnership with FDD output to de-risk and optimise working capital

Tier 1
Red-flag review

Tier 2
Working capital & financial health DD

Transaction Solutions

Identify and optimise capital structure and facilitate deal completion via credit, political risk and surety enabled funding

Secure & Enhance during Ownership

2

Working Capital Advisory

Analysis of credit risk data to accelerate knowledge and focus on business performance including:

- Debtor profiling and expected loss forecasting
- Deep-dive risk analysis on counter-parties
- Credit management review
- Company's current credit capacity and rating

Employment of Aon's tailored advisory offering to identify, evaluate, quantify and design solutions that enhance the cash conversion cycle and create cash generating opportunities for the business.

Vendor assistance – Enhance Exit

3

Credit & Cash Vendor Assistance

Stapled vendor financing & transaction solutions

Specificities to the Exit Phase

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CASE STUDY: AON ENABLES THE STRATEGIC REPOSITIONING OF A MAJOR CLIENT

Context

A long term major client was attempting to execute a strategic repositioning through the divestiture of significant but non strategic assets.

The sale was being held up as a significant proportion of the purchase price was structured as vendor loan notes and deferred payments which exceeded our client's ability to loan to below A- rated entities.

Approach

The Aon team partnered with our clients CFO, M&A and Risk professionals to introduce the risk to key credit insurers at joint presentations.

The VLN was structured via 50% ammortising over 18 months and 50% bullet at 36 months. The CDS market covered the ammortising payments and the credit insurance market competed with the CDS market for the bullet payment.

Outcome

Aon enabled the successful closing of the sale **by delivering a structured credit solution with rates, durations and capacity unavailable or uneconomic from other sectors.**

We were able deliver this solution via early stage involvement, deep market insights and creating a partnership approach at executive levels between the client and key underwriters.

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CASE STUDY: AON ENABLES A TRANSFORMATIONAL ACQUISITION

Context

An oil and gas major was conducting a multi-billion dollar portfolio rationalization program and one of the significant divestment projects was the target of our client.

A condition of sale was a requirement for additional security from the buyer of USD300m, in addition to the purchase price. This requirement stretched both the banking and equity models to the extent it was a potential deal breaker.

Approach

Over a period of circa 12 weeks of extensive market presentations and negotiations, Aon (GBC Surety and ACI) was able to raise enough Surety capital (between USD200-300m). The risk had to be brokered on the basis of forward looking underwriting information for a firm with a market cap of less than the surety limit.

The banking facility declined to accept a surety solution as an alternative to their letter of credit.

To facilitate the transaction, Aon began negotiating with the buyer, seller, banks and insurance market to transform the surety solution into a credit risk transfer solution

Outcome

Aon enabled the successful closing of the deal **by delivering a structured credit solution with rates, durations and capacity unavailable or uneconomic from the other markets.**

At the debrief, the Chairman and Board members stated that the transaction could not have been completed without Aon and our carrier partners.

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CASE STUDY: CREDIT & CASH DUE DILIGENCE

Context

A European mid-market private equity firm engaged Aon to try to identify potential working capital improvements for one of it's UK retail portfolio companies.

Approach

Aon undertook a Tier 2 Credit & Cash Due Diligence diagnostic, identifying Trade Payables as a potential area of opportunity as a number of key supplier contracts were on either cash or restrictive payment terms.

Partnering with the portfolio company, Aon facilitated a market presentation during which the business provided a strategic and financial update to a specific selection of credit insurers.

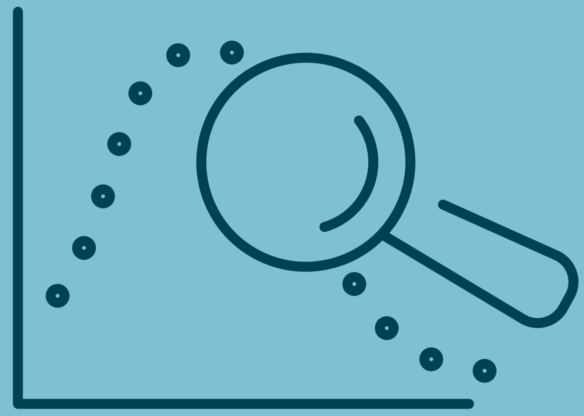
By establishing and maintaining a proactive approach in a volatile trading environment, the business was able to increase existing credit limits written on the business and create new capacity to underpin supply contracts on improved payment terms.

Outcome

c£1 million increase in Working Capital: improved cash balance through reduction of working capital days, by moving from same day payment to open account trading terms with key suppliers

1

Pre-Deal



PRE DEAL- CREDIT & CASH DUE DILIGENCE

Credit & Cash DD leverages a 2-tier model designed to identify credit risks, financial exposure and the ability to access alternative funding early in the transaction lifecycle.

Using the latest working capital 360 analytics, Aon are able to support optimal deal execution with transparency of future investment needs.

Technical **Value linkage** Financial

TIER 1
Red-flag review
High level analysis & benchmarking

External credit insurance market position
Assessment of publicly active ratings and credit sanctions imposed

Macro assessment
Analysis of country and sector risk levels

Benchmarking
Competitiveness of pricing in industry terms

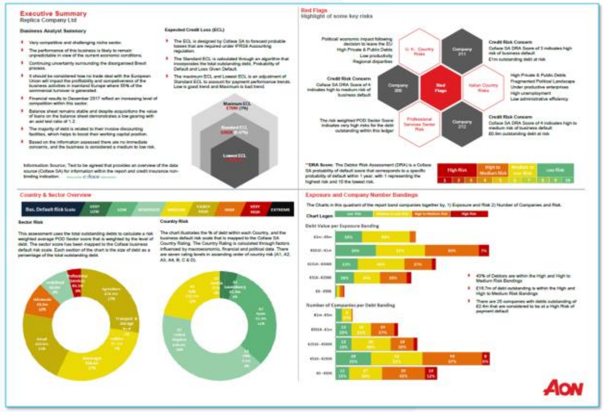
TIER 2
Working capital 360 & financial health due diligence
comprehensive assessment

Write-off compliance
Consider bad debt provision requirements

Data assessment
Actuarially model expected credit loss & Buyer concentration risk

Working capital facilities
Insurance- backed Asset Backed Loans & Integrated Funding Solutions

Samples



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PRE-DEAL – FOCUS ON TIER 2 CASH DUE DILIGENCE

We seek to identify the Target's intrinsic strengths by partnering with Financial Due Diligence providers that will serve as the basis for raising new short term financing. This enables clients to determine the level of additional funding that will be available and the estimated cost early in the acquisition process.

Objectives

- **Qualification** of the receivables for the implementation of a credit insurance program, identification and budgeting of the financing solution that could be put in place
- **Analysis** of the company's credit quality in order to mobilize the suppliers item and generate additional cash flow
- **Identification** of complementary solutions taking into account the characteristics of the target (inventory financing, supplier credit etc.).

Analysis

- Study of the company's business model, its trade receivables and its financial health
- Analysis of credit insurance and factoring contracts that may already be in place
- Identification of buyer concentration risk acting as constraint on growth
- Contact with credit insurers and suitable factoring / inventory financing providers

Advantages

- Identification and introduction of alternative sources of funding upstream of the acquisition
- Additional comfort given on the company's ability to generate cash to finance its growth and repay its debt
- Optimisation of credit insurance and factoring contracts that may already be in place
- Clear roadmap for rapid implementation of post-transaction solutions and associated cost assessment

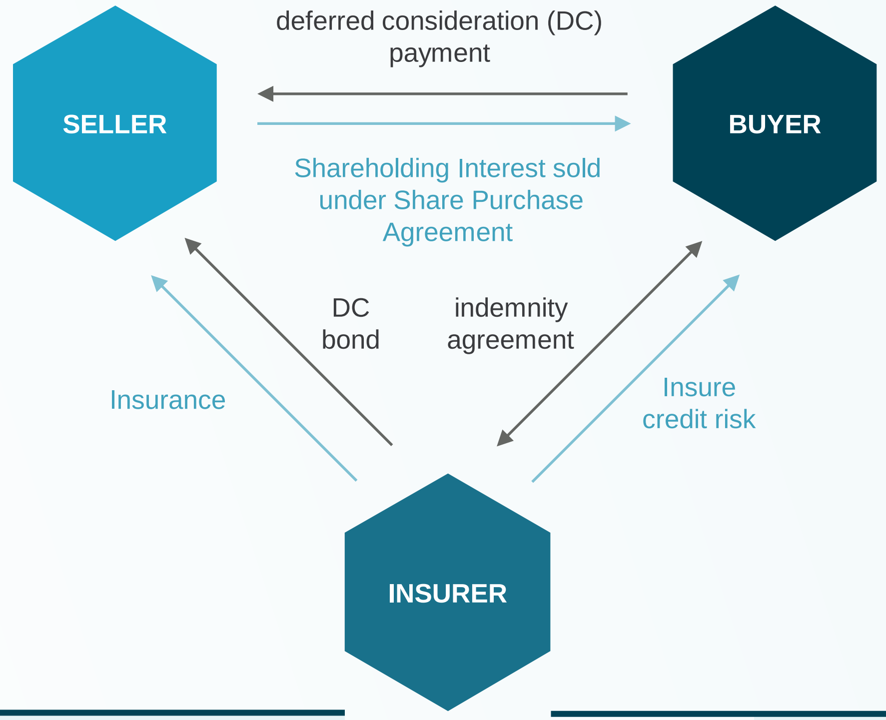
- **A dedicated team of specialists to optimize existing facilities**
- **Integrated advisory and placement offering, supporting management of investments through Aon's commitment to implement solutions identified during the pre deal phase.**

PRE DEAL – TRANSACTION SOLUTIONS: DEFERRED CONSIDERATION

Credit insurance and surety can be used as an alternative to purchaser collateral (e.g. cash escrow of letters of credit) for deferred payments due in connection with transactions. This can improve working capital, support negotiation of purchase terms and transfer purchaser credit risk.

CREDIT INSURANCE

- Non-payment of contractual amounts owed under a Share Purchase Agreement
- Credit insurance used to cover against non-payment by the Buyer
- Bespoke Insurance Contract tailored for the transaction
- Period up to 10+ years on a non-cancellable basis



SURETY

- Contractual amounts owed under a Share Purchase Agreement
- On-demand surety bond issued by an insurer on behalf of the Purchaser to guarantee payment obligations
- Unsecured facility that doesn’t tie up working capital
- Period up to 5 years

BENEFITS

- Seller – secure return on investment (RoI)
- Purchaser - Remove need for collateral (e.g. cash escrow or letters of credit), promoting a more cost and capital effective alternative
- Both - Bridge the pricing gap with deferred payment structure for preferred bidders

INNOVATION AT SCALE

Aon designed, structured and placed the first:

- Deferred consideration bond
- Deferred consideration credit policy
- Cash consideration bond

CASE STUDY: DEFERRED CONSIDERATION BUY SIDE

Aon supported Warburg Pincus on its NIS 2.5bn (c.S$700mn) acquisition of Leumi Card by structuring a surety solution to support the deferred consideration payments

Context

Warburg Pincus, (c.**US$55bn of AUM**), agreed to acquire **Leumi Card** from Bank Leumi and Azrieli Group for NIS2.5bn (approximately **US$700mn**) in cash

Deal included the **payment of consideration** to the sellers in **3 instalments**: at completion and on the **first** and **second anniversary** of completion.

Warburg Pincus sought to **optimise** the **cost of capital** Bank Leumi was required to hold, **for regulatory capital reasons**, against the **post-completion credit risk** of Warburg Pincus for the deferred consideration period.

Bank guarantee had been identified as one way of achieving this.

Solution

Insurance (surety) solution enhanced Warburg Pincus' proposal by **arbitraging** a **lower cost of insurance** versus **bank capital** and accentuating the **capital relief** available to Bank Leumi given the highly rated insurer covenant (**a combination of AA and A**).

Aon structured a substantial **deferred consideration bond** with **6 surety providers.**

The **sellers**, as beneficiaries under the deferred consideration bond, are **entitled to call** it if the **deferred consideration payments** are **not made** on the first and second anniversary of completion.

Outcome

"Aon's surety solution helped optimise our financial discussions with the Leumi Card sellers. The Aon team worked tirelessly to support us in understanding and addressing the sureties' requirements within the context of the deal and guided us through the placement process to deliver a tremendous outcome for us."

Max Fowinkel
Managing Director, Warburg Pincus

CASE STUDY: CASH CONFIRMATION BOND

Aon structured and placed the first cash confirmation bond on a UK public takeover

Context

Fiserv, Inc. (FISV, NASDAQ), a global leader in financial services technology solutions, was launching a cash offer for Monitise plc

UK takeover rules required **cash to be available** on a '**certain funds**' basis and confirmed publicly by J.P. Morgan, Fiserv's financial adviser, upon formal announcement of the deal

Fiserv wanted to **fund the takeover** from its **existing revolving facility without** drawing funds down at announcement and **placing into escrow** or otherwise ring-fencing them

Solution

Aon placed a **GBP75mn surety bond** for Fiserv with Euler Hermes (**AA rated**) **back-stopping** Fiserv's **obligation to pay** Monitise shareholders under the terms of the takeover

Euler Hermes was able to **approve** the bond for issue in a **matter of days**

The surety bond **gave comfort** to J.P. Morgan and was a **key factor** which enabled it to **provide the cash confirmation statement** at announcement

Fiserv **avoided costs** of drawing down early under its revolving facility and entering into an escrow agreement/having to ring-fence funds

Outcome

"The cash confirmation bond was an excellent solution which saved us time and money. It meant we could just fund the deal out of our existing facilities while also meeting the regulatory needs of our financial adviser, J.P. Morgan. It made the cash confirmation process simple, quick and efficient."

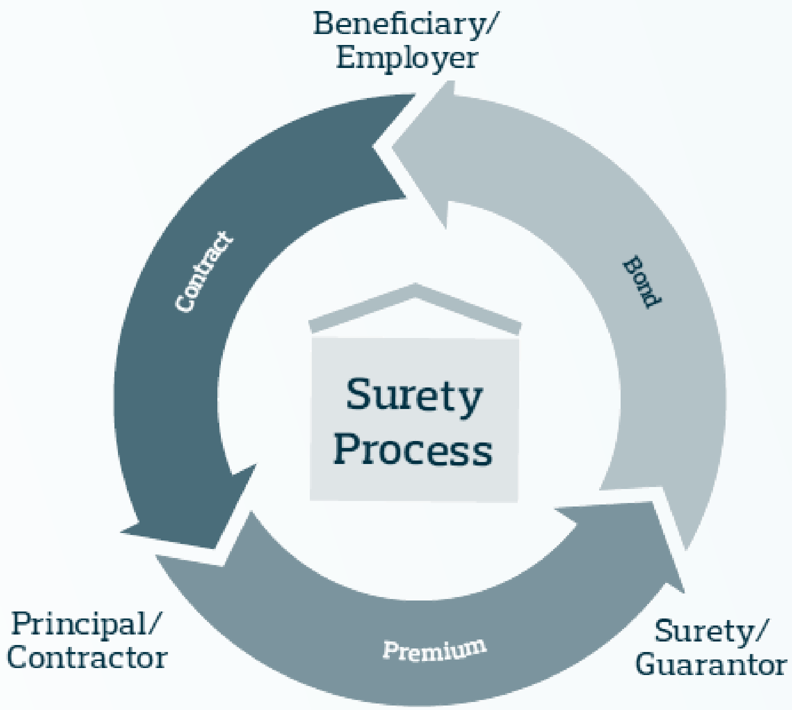
Russel Kohl, Senior Vice President
Tax & Treasury, Fiserv, Inc.

PRE DEAL – TRANSACTION SOLUTIONS: SURETY FOR LEGACY CONTRACTS

Surety bonds and guarantees - A Surety bond is a financial instrument through which an insurance company guarantees contractual performance to a third party, unlocking an alternative line of credit when needed. The key advantages when compared to a letter of credit issued by a bank is that it taps into a different pool of financing and does not impact a company's debt management.

Replacement of parent company guarantees (PCG)

- Surety bond(s) can used to replace PCG's covering legacy performance obligations post-close, subject to beneficiary acceptance.
- This can help the Seller's desire for a clean break and therefore be more commercially attractive in the context of the Transaction.



Replacement of existing bank guarantee facilities

- Surety can also be used replace existing bank guarantee facilities which are often costly and in some instances fully cash collateralised.
- Facilities can be sought at a price competitive with that of the incumbent financial institution and may also be issued on an unsecured basis, which could result in a substantial working capital improvement.

- Innovative solutions to facilitate deal completion with transfer of seller financial risk
- Establish new, alternative source of credit for target balance sheet

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CASE STUDY: POST CLOSE SURETY FACILITY

Context

£275 million acquisition of a subsidiary of a FTSE250 listed engineering company.

The target was a provider of engineered valves and pumps in the global energy and industrial sector for which contracts required various forms of contract related bonds and guarantees

The client looked to Aon to establish a post close surety facility that offered an alternative line of credit to the carve out entity which would in turn allow for reduced reliance and utilisation of a pre existing bank guarantee facility.

Solution

The Aon team was able to secure up to USD 150,000,000 of capacity for the carve out entity

Carriers rated AA and AA- S&P respectively.

New facility was more cost effective than the incumbent bank.

Fully unsecured, ensuring that over time the business could unlock significant levels of working capital

Outcome

Cost: 4 to 5 times reduction in cost for issuance of third party guarantees

Liquidity: Unsecured facility, for every $1 of cash returned to the business in return for the counterparty accepting surety as a replacement security.

Pre Close	Post Close
USD 150m, bank guarantee facility	USD 150m surety facility in the aggregate
100% cash collateralised	100% unsecured
5.75% p.a.	1% - 1.5% p.a.

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PRE DEAL – TRANSACTION SOLUTIONS: POLITICAL RISK INSURANCE

Where the Target is active overseas, especially in emerging countries, it is essential to ensure its people, contracts and investments are adequately protected to mitigate financial impact on your own investment's value. Aon can help you assess and set up tailor-made solutions.

Triggers

- Confiscation/ Expropriation/ Nationalization/ Dispossession
- Terrorism
- Sabotage
- Strikes, Riots, Popular Movements
- Malicious Acts
- Insurrection, Rebellion, Revolution
- Mutiny and/or coup d'état
- War and/or civil war
- Non-transferability / Inconvertibility

Contracts cover

- The coverage of your receivables is an integral part of the process of securing your future margins and cash flows
- Receivables on medium- and long-term contracts (infrastructure projects, partnership agreements, etc.) that could be interrupted, particularly due to so-called "political" events or defaults, must be covered by means of dedicated, non-cancellable guarantees.

Investments cover

- **Protection of your assets:** risks of expropriation, confiscation, nationalization of your investments, as well as risks of destruction in case of political violence.
- **Compensation for intangible losses:** risks of acts of terrorism and/or political violence that do not cause direct physical damage but impact your business (business interruption)
- **Crisis management:** operational and financial responses to crisis management for companies with an international profile that have to meet obligations to protect employees, particularly with regard to kidnapping, illegal detentions, extortion, threats, etc.

- **Long-term solutions for your risks for up to 15 years**
- **Unique quotation and reporting tools**
- **Proven, personalized wordings**
- **An evaluation and validation of the ROPI of the proposed solutions**

2

Ownership

OWNERSHIP – WORKING CAPITAL ADVISORY

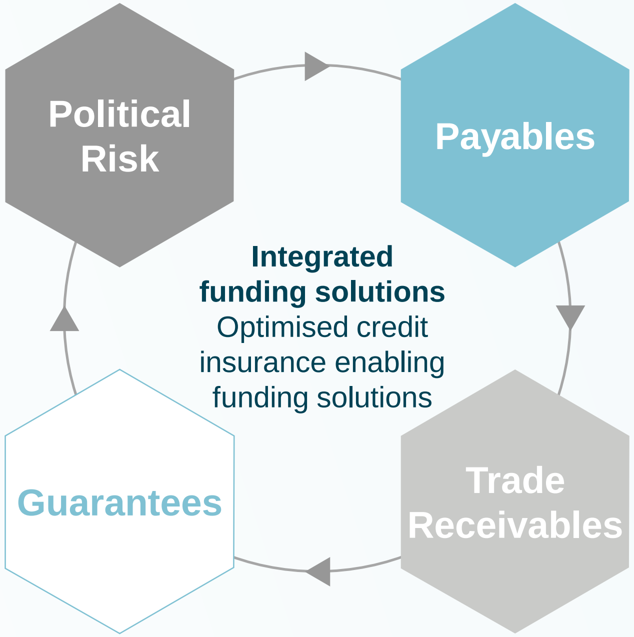
Credit Solutions for Portfolio Companies

Aon's consultative approach undertaken during the pre close DD phase ensures for swift and effective broking services in respect of the implementation of pre determined risk mitigation and credit enhancement solutions that protect and enhance investments during the hold phase.

- Protecting portfolio investments by utilising Credit Insurance to mitigate risk to trade receivable assets
- Enhancing Returns through application of the Credit Solutions Working Capital Methodology

Political risk
Securing overseas investments using Political Risk Insurance

Supply chain finance
Improving supplier payment terms and cash flow



Surety
Replacing letters of credit and cash collateral and reducing your defined pension deficit liability

Receivables finance
Enhancing the corporates access to finance through credit enhancement

'Aon introduced us to surety bonds as a flexible, cost effective alternative to our usual solution for securing contingent liabilities, not only did this reduce our issuance costs, but also freed up valuable working capital facilities and introduced us to valuable new partners able to provide other innovative solutions to some of our major business challenges.'

- Chris King, Group Treasurer, Drax Group

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OWNERSHIP – OPTIMISING CASH CONVERSION CYCLE

CREDIT RISK MANAGEMENT

Sustain growth strategies with new and existing clients

Identify and mitigate risks before they materialise

Optimise working capital and improve liquidity

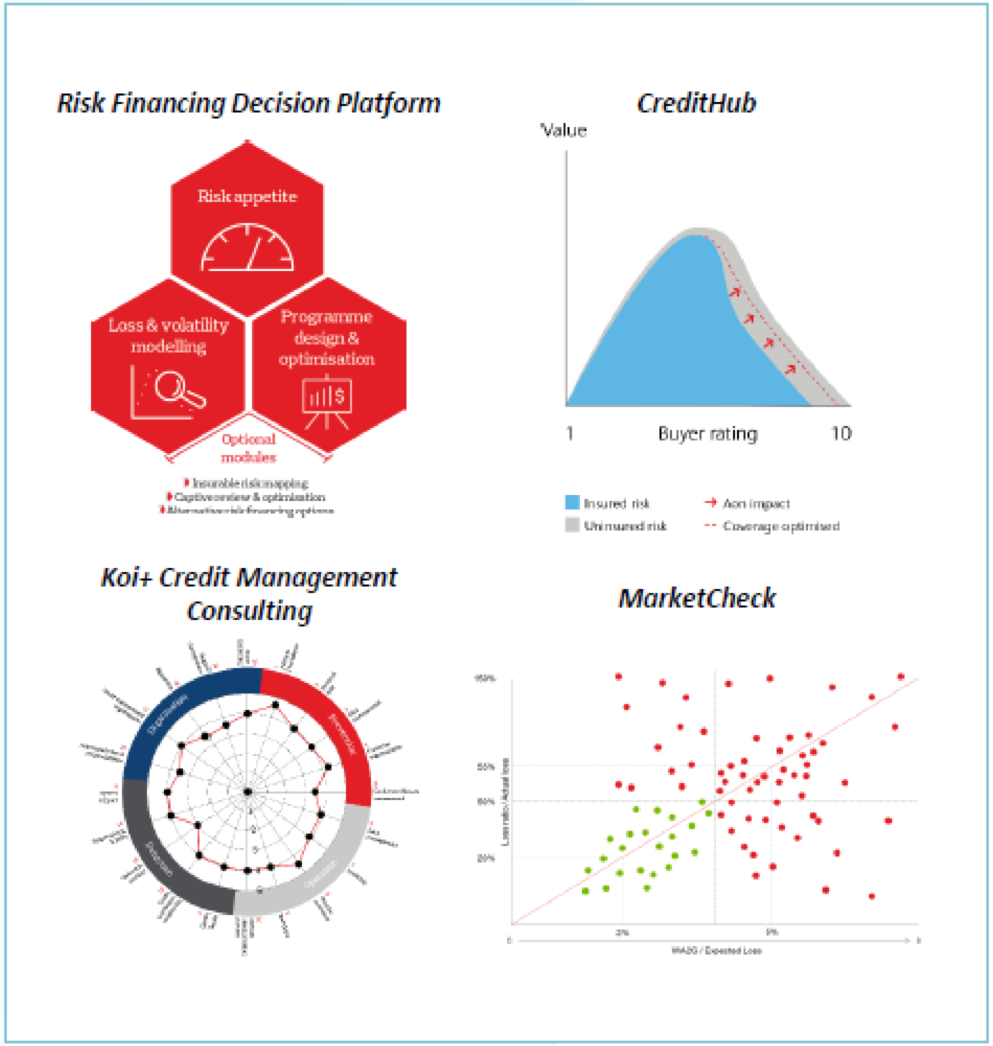
Unlock new value and improve access to financing

Credit risk management insights form an acute part of Aon's working capital advisory offering, helping clients proactively manage credit risk during the hold period of an investment.

Insights and recommendations are tailored to client's specific objectives and scope but typically include:

- Debtor profiling and expected loss forecasting
- Deep-dive risk analysis on key credit counter-parties
- Credit management review*
- Client's current credit capacity and rating
- Collateral and security evaluation
- Recommendations on relevant solutions with expected business and economic benefit(s)
- Outline future pathway and timeline

*An optional credit management review will deploy Koi+, Aon's specialist credit management assessment tool and capability.



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CASE STUDY: CAPITAL RELIEF FOR PORTFOLIO COMPANY

Context

A European mid-market private equity firm engaged Aon to work with one of its holdings, a fund distribution company.

As counterparty limits were being reached, to avoid having to capitalize the company further with relatively expensive equity, the aim was instead to achieve a solution that would provide Capital Relief to the portfolio company.

The Company was following the Capital Requirements Regulations (CRR).

Solution

Aon placed a **Capital Relief** eligible Credit Insurance Policy with Chubb (**AA rated**)

The Policy was structured with a deductible keeping the **premium spend to a minimum** since the objective of the Credit Insurance Policy was not risk transfer.

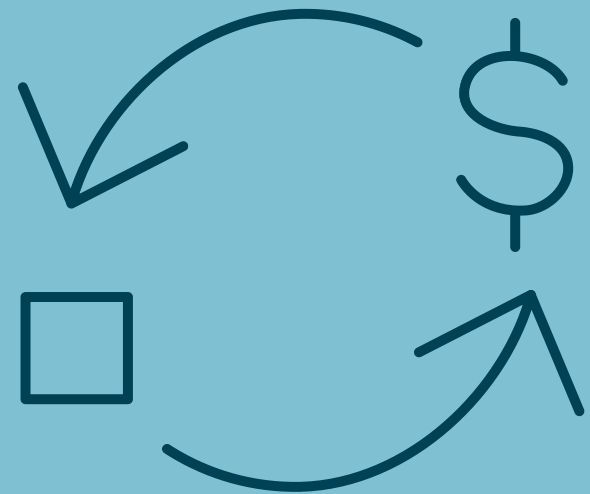
The deductible also **gave comfort** for **Chubb** to include Exposures that not fulfil traditional underwriting guidelines.

Outcome

Tailormade solution that was eligible under CRR-requirements. The Company can now continue to grow its business and corresponding credit Exposures **without capitalizing it further** by shifting the risk weights assigned to a significantly lower level based on the AA-rating of the Insurance Company.

3

Exit



EXIT READINESS & VENDOR ASSISTANCE

Aon's approach aims to secure receivables, unlock capital and grow trade at both an individual asset and portfolio level throughout the transaction lifecycle. When considering an exit this approach helps the client to:

1) **Position the target divestiture**
2) **Optimisation of financial discussions**

Risk positioning

- Distinct insight provided into the credit and political risk carried by the target and it's trade receivables
- Trade receivable assets protected through credit insurance with reduced balance sheet provision for bad debt
- Strong working capital position underpinned by credit enhancement solutions

Optimise financial discussions

- Mitigate transaction related credit risk to secure seller return
- Explore alternative forms of security through credit and surety markets which can remove the need for collateral and provide a bridge in the pricing gap
- Facilitate risk transfer of financial exposure under legacy contracts that may present an obstacle to completion

CASE STUDY: DEFERRED CONSIDERATION SELL SIDE

Context

UK FTSE250 sold its 100% interest in an events business which was sold to another UK listed business for GBP 30,000,000.

50% was paid at deal close, with the balance deferred for 12 months.

Deferred Consideration was supported by an unconditional guarantee from the Purchaser.

Approach

Aon designed and placed a comprehensive credit policy covering non-payment of the deferred consideration.

Outcome

Secure RoI: Client secured its return through mitigating of Purchaser non-payment risk, with 90% risk transfer to S&P A rated insurer at cost that was c25% cheaper than a bank issued security.

Support optimal capital structure: Client achieved desired sale price with preferred bidder using deferred payment structure

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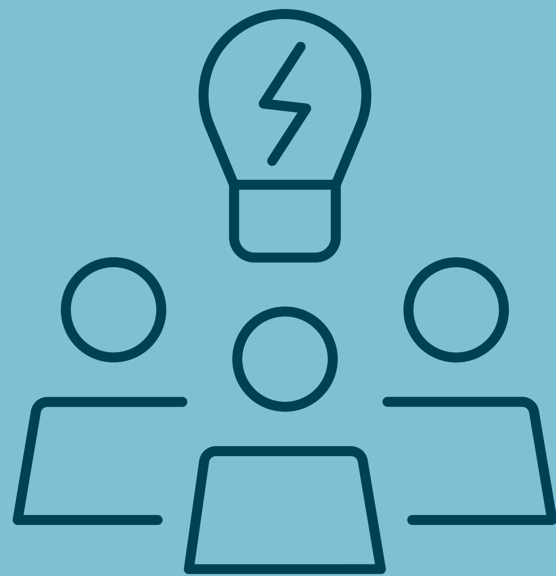
About us



In a volatile market, businesses need a partner they can rely on.

Aon is a trusted advisor, working with global clients to make the world smaller and meet key financial objectives along the way.

So, why Aon?

- Digital CreditHub proposition
- United teams of expert advisors
- Strategy and service excellence
- Global market leadership
- Credit risk analysis and consulting

97%
retention rate amongst our clients

Premium rate savings on appointment of our global programmes

Payments of over US$1.4B in claims over the last five years

Up to 25% increase in limit capacity secured

An average Net Promoter loyalty rating of 9.3

Lowest level of staff turnover in the industry

Securing Investments.
Enhancing Returns.

M&A and Transaction Solutions & Credit Solutions
Capability Overview

How can we enhance your liquidity?

03 November 2020

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About Aon

Aon plc (NYSE: AON) is the leading global provider of risk management, insurance and reinsurance brokerage and human resources solutions and outsourcing services.

Through its more than 50,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise.

Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources.

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