

Ironwood Insurance Private Equity Practice

# SURETY BOND PROGRAM

for Companies Owned by Private Equity Funds



IRONWOOD

## Surety Bond Program for Companies Owned by Private Equity Funds

Traditionally, the Surety Industry has been reluctant to provide a bond line for a company whose ownership is being transferred to a Private Equity Fund. The only option for a Private Equity Sponsor during the diligence phase has been to approach the existing bond carrier with the assistance of management and the existing surety broker. Quite often the broker and surety are uncomfortable with a Private Equity transaction's leveraged balance sheet. As a result, the existing surety requires additional security in the form of personal, outside indemnity, or a letter of credit in the amount of 50% to 100% of the outstanding bond exposure. With that said, the majority of surety underwriters will decline to participate on a post-close basis.

Ironwood is able to provide bond lines without personal or outside indemnity as well as reduce letter of credit requirements to the 0% to 25% range. In addition to underwriting surety programs during the diligence process so that they are in effect at the time of closing, we can also look at existing companies within a portfolio to provide the necessary bond line.

### Typical terms include:

Limits \$35 million per single project and \$70 million aggregate

A and A+ rated carriers with international capabilities

Rate of 1.5% to 2.5%

Letter of Credit requirements of 0% to 25% of outstanding bond amount

Corporate indemnity only — no personal or outside indemnity required

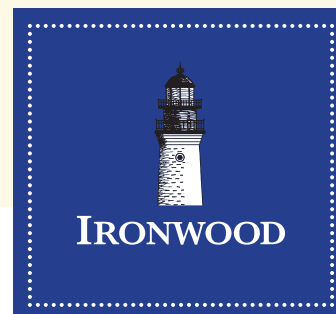
### Specifically Structured for Private Equity Funds

Ironwood and our Surety partners understand Private Equity capital structure. While we are able to underwrite a company with negative tangible net worth, a company must still avoid excessive debt, goodwill, and unmanageable interest payments. Certain key characteristics must be in place, including:

- Private Equity Fund actively involved in the company's operations
- Continued involvement of past owners and/or management after closing — complete removal of former owners may cause concern to the underwriter
- Consistent business model that does not involve into a new territory or taking on a new business that is outside the company's historical scope
- Historical track record of the account and the Private Equity Fund performance and reputation will weigh heavily in the underwriting process
- Clear, honest communication of the detailed analysis and pro forma presentation on why investment makes sense

### Surety Bonds and the Diligence Process

Ironwood understands the diligence process and how surety bond requirements can dramatically impact the financial structure of a transaction. We get involved at the outset of the diligence process, even pre LOI, and help our clients determine if a deal can be bonded post close, and what debt levels will be acceptable. This information is critical for return projections and to determine purchase price levels before a Private Equity Fund spends a lot of time and money in the diligence process. Our goal is to help our clients complete successful transactions, but also to avoid negative surprises at the closing table.



### Ironwood Insurance and Employee Benefits

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