

Leon Black: \$500MM Line Request

Background:

- Leon Black (61), Chairman/CEO of the Apollo Group, was referred to new AWM banker Paul Morris by Jeffrey Epstein, Black's estate/tax planning attorney. Morris has previously worked with Epstein on mutual clients.
- Black is listed in the Forbes 400 and World's Billionaire list at #113 and #299 respectively with a reported net worth of \$4.3BN.
- Black founded Apollo in 1990, which has grown to become one of the world's largest alternative investment managers. As of March 31, 2013, Apollo had total assets under management of \$114 billion, with a team of 644 employees located in ten offices around the world. Black owns 24.9% of Apollo Group which is valued at over \$9BN. Apollo is a platinum relationship in our Financial Sponsors Group. The trend for Apollo has been positive with price target of \$30.85 per share compared to the current price of \$25.00. There are 10 equity analysts covering the stock with 4 strong buy recommendations, 5 buy recommends and 1 hold.
- Per Jeffrey Epstein, the loan request is resulting from the movement of Black's Apollo interests out from the Family Trust and into his name personally, in order to better align the income generating asset with the taxes. The value of the Apollo interests (specifically his Apollo Operating Group "AOG" units that are convertible into Class A shares) is \$2.3BN and he is considering a debt structure of approx. \$1.5BN in cash and potentially up to a \$1.0BN in a note payable to the Family Trusts. The reason for the cash (which would be cash from bank loans) is to step-up his basis (according to Epstein, a note does not step-up the basis).
- BofA (Jane Heller) already has a relationship with Black that includes a \$400MM art secured line. Epstein is considering BofA, DB and JPM.
- The client representatives have not yet provided financial statements, but given the publically available information on Apollo and his art collection, he would like us to give him an indication of our interest and a framework for a structure that will be more fully developed as information is shared and the final estate/tax plan is determined.

Structure:

- **Borrower/Guarantor:** Leon Black, personally, and any other individuals or entities holding title to Collateral.
- **Amount:** Up to \$500MM (of the \$1.5BN in total Bank debt being sought of which \$400MM is currently outstanding)
- **Term:** 1-Year Term Loan
- **Pricing:** L+175-200 bps, upfront fee of 25-50 bps
- **Collateral:** A mix of fine art collateral and Apollo units that are exchangeable 1:1 to Apollo common stock. A general outline of the proposed collateral structure includes:
 - **Art:** 50% advance on Art Collateral acceptable to DB with all of DB's standard concentration limitations (minimum 20 pieces, each with a FMV of \geq \$1MM, 20% per piece limitation, 50% per artist limitation, etc.). Furthermore, the Art collateral will be limited to no more than 70% of the Borrowing Base.
 - **Apollo:** A perfected security interest in AOG units that are convertible 1:1 into Apollo Class A shares and publicly traded (NYSE:APO). The number of shares pledged will be limited by the maximum amount allowable (as determined by Bank counsel) before triggering an SEC reportable event by the Bank. This tranche of collateral is further complicated by a transfer limitation resulting from APO's 4/4/2011 IPO whereby conversion of AOG units to APO Class A shares is limited to 7.5% following the 2nd anniversary of the IPO (4/4/2013) (7.5% Transfer Limitation⁽¹⁾) and then steps up each year until the 6th anniversary (4/4/2017) when all units are convertible. Black has the right, upon 60 days notice prior to a designated quarterly date, to exchange the AOG Units for Class A APO Shares subject to the Transfer Limitation and any Security Act limitation. Therefore, the collateral value of the Apollo tranche will be limited to the lesser of:
 - 35% of the fair market value of Apollo collateral, subject to an \$18.00/shares floor price, or
 - 100% of the fair market value of Apollo collateral that is convertible & eligible for resale based on the transfer limitations
 - Furthermore, the Apollo collateral will be limited to no more than 50% of the Borrowing Base
- For illustrative purposes, below is a chart outlining the proposed initial borrowing base using the above assumptions:

Collateral	Units	\$/Shs	FMV	Adv	Lending Value	Conc. Limit	Borrowing Base	Effective A/R
Art	n/a	n/a	\$660,000,000	50%	\$330,000,000	70%	\$330,000,000	50%
Apollo units ¹	20,000,000	\$25.00	\$500,000,000	35%	\$175,000,000	6,954,537	\$173,863,425	35%
Total			\$1,160,000,000	43%	\$505,000,000		\$503,863,436	43%

⁽¹⁾ Assumes 20,000,000 units pledged as collateral, limited via the 7.5% Transfer Limitation (7.5%*92,727,166 total Black holdings)

- **Covenants:** Financial covenants will be established upon receipt and review of financial information and will include, net worth minimum, maximum bank debt levels, subordination of any debt from affiliates and minimum liquidity/unencumbered assets.

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