

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 <<http://www.agm.com/OurTeam.aspx>> of 644 employees located in ten offices <http://www.agm.com/AboutUs/Offices_Contact_Us.aspx> 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

≥\$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") 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%

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.

Financial Profile:

Please note that DB has not yet received any financial information on Black. The pro-forma financial summary provided below is based on a verbal representation with Jeffrey Epstein and assumes completion of the purchase of Apollo units by Black personally:

Assets:

\$2.50BN Fine Art (FMV, \$2.0BN Cost)

\$2.30BN AOG units (92.7MM units@\$25/unit)

\$0.40BN Other Partnerships (Apollo and 3rd Party managed)

\$0.15BN Cash (Epstein says he maintain usually no less than \$0.1BN at all times in checking at BofA)

\$5.35BN Total Assets (Note: Epstein advised that there is another \$0.5-\$0.7BN through Tax Receivable Agmt)

Liabilities:

\$0.40BN Existing Loan with BofA

\$1.10BN New Bank lines (BofA, DB, JPM)

\$1.00BN New N/P to Family Trust up to \$1BN depending on final bank lines amount and amount of units to be purchased

\$2.50BN Total Liabilities

\$2.85BN Net Worth

Cash Flow: \$200-\$300MM/year derived predominantly from Apollo distributions based on Black's ownership of 92.7MM units (\$360MM on 2012 1040 as advised by Epstein). Here is a look at historical distributions, along with estimated distributions through 2015 for Black.

Year

Distribution/Share

Distribution to Black

2011

0.83

\$76,963,548

2012

1.35

\$125,181,674

2013 (est)

2.50

\$231,817,915

2014 (est)

2.30

\$213,272,482

2015 (est)

2.00

\$185,454,332

Note:

Assuming \$2.5BN in Total Liabilities and assuming a 3% all-in interest rate, I/O DS would be \$75MM.

Distribution Estimates are based on Credit Suisse Research Report with all other research reports in line with those projections.

Risks/Mitigants:

Risks:

Black's ability to "top-up" in the event of margin calls.

Black's reliance on the sale of assets to repay the total \$1.5BN in Bank debt.

Increased Debt level and encumbered assets.

Mitigants:

Current Liquidity: Per our conversation with Epstein, Black currently has \$150MM in cash (checking account at US Trust) and typically maintains no less than \$100MM at any point in time. This cash could be used to "top-up" any margin calls. We would covenant to a certain level of unencumbered assets. Such covenants could include an unencumbered liquidity covenant (of \$100MM) and/or an unencumbered asset covenant.

Debt Restriction: We would propose a covenant such that all other debt, including up to \$1.0BN N/P to the Family Trust be subordinated to DB's debt

Strong Cash Flow: Assuming Black receives \$250MM/yr in distributions, and assuming 50% is for taxes/living expenses, this leaves him \$125MM. With estimated I/O DS of \$75MM, he would have an extra \$50MM/year that could be applied to reduce debt. Quarterly recurring cash flow from his AGO interest is projected to remain strong. There is also the possibility of a large tax receivable payment by APO upon conversion of AGO units.

Uncorrelated Collateral: Black's two largest assets (Art & Apollo), and hence our collateral pool, is uncorrelated. Additionally, the mix between this collateral pool is governed by covenants that 1) the Art collateral will be limited to no more than 70% of the Borrowing Base, and 2) the Apollo

collateral will be limited to no more than 50% of the Borrowing Base. The Family Trusts may also be a source of liquidity should he need to borrow from them to repay bank debt.

Risks:

Balance sheet and collateral concentration in fine art.

Black is a market maker in Impressionist/Modern art. The foreclosure on collateral to repay art secured loans would most certainly have a negative effect on the market.

Mitigants:

Quality of the fine art collateral: Black's portfolio includes many marquee works of art by marquee artists. While the number of individual buyers for this quality of art may be limited, it is broadened by the appeal to museum's (and even governments). Given the expected quality of Black's portfolio, we believe there would be significant interest by fine art collectors should the Borrower himself wish to sell or if DB were to exercise its rights on the Collateral.

LTV: DB's proposed structure will include all our standard diversification language, including a minimum 20 of pieces, each with a FMV of \geq \$1MM, the collateral value of each specific piece would be limited to no more than 20% of the total art collateral, the collateral value from any single artist would be limited to 50% of the total art collateral, and would only include pieces domiciled in the US.

Risks:

Balance sheet and collateral concentration in Apollo.

The limited "float" of Apollo Class A shares with only 141MM shares issued and outstanding versus a fully diluted total of 372MM (38%).

Transfer Limitations per the 4/4/2011 IPO.

Conversion risks associated with the exchange of Apollo units to Class A shares.

Mitigants:

Historic Performance: The Managing Partners of Apollo (Black, Rowan & Harris) have worked together for more than 22 years. They have a proven track record with \$114.3BN in AUMs, including \$39.2BN in private equity, \$63.5BN in credit and \$9.4BN in real estate. They have consistently produced long-term investment returns in their private equity funds with a 39% gross IRR and a 26% net IRR on a compound annual basis since inception. In addition, the positive trends for the firm are expected to continue and the near term forecast remains strong.

LTV: DB's blended LTV at loan origination is estimated at 43% (\$500MM/- \$1.16BN collateral market value.) Total Bank debt blended LTV at loan origination is estimated at only 31% (\$1.5BN/\$4.8BN collateral market value). Assuming Black maximizes the borrowing power against his art (\$1.25BN), only \$0.25BN is reliant upon the liquidation of Apollo shares.

At a floor price of \$18.00/share, it would require the sale of only 13.89MM shares, which is only 9.85% of current outstanding shares, and only 3.73% of fully diluted shares.

Improved Liquidity: The Transfer Limitation increases to 15% on 4/4/14, for a total of 13.91MM shares (92.7MM Black holdings*.15), which is just slightly greater than the number of shares all Banks would need to sell at our \$18.00/share floor price of 13.89MM shares. In the first year, due to the Transfer Limitation of 7.5% (6.95MM shares), at a floor price of \$18.00/-share, only \$125.2MM could be liquidated, which could be done in 5 days (assuming 100% of the market). This leaves \$124.8MM in additional reliance on the art (\$250MM Apollo supported debt-\$125.2MM in Black Apollo liquidity). Adding this to the \$1.25BN in debt reliant on the art results in only a 55% advance (\$1.375BN/\$2.5BN) against a high quality art portfolio.

Documentation: DB will require all necessary registration documents to be maintained and will also require Apollo consent to the pledge. These items will help to minimize any delays during conversion.

Relationship Summary:

Apollo is a platinum relationship in our Financial Sponsors Group.

AWM has a \$150MM participation in a \$400MM JPM led subscription finance facility to Apollo Investment Fund VII LP

AWM Lending has asked the Banker to provide a formal business case, which is forthcoming. In general, Lending sees additional business opportunities to include a mandate under the proposed loan structure requiring liquidity held with DB in addition to investment opportunities with the Family Trust, which is on the receiving end of the \$1.5BN in loan proceeds.

Confidential

Confidential

Confidential

AOG / APO Details

Shares

%

Market Cap

Leon Black Yearly Max Transfer

Current APO Class A Shares Outstanding

141,064,697

37.89%

3,526,617,425

\$

Year 1

6,954,537

Leon Black AOG Units

92,727,166

24.91%

2,318,179,150

Year 2

13,909,075

Other AOG Units

138,503,469

37.20%

3,462,586,725

Year 3

20,863,612

Fully Diluted APO Class A Shares

372,295,332

100.00%
9,307,383,300
\$

Closing Price
25.00
\$

Average Daily Trading Volume (shares)
1,500,000

Average Daily Trading Volume (dollars)
37,500,000
\$

Days to Liquidate APO shares
100% Market
20% Market
Total Pledged APO shares
13.33

66.67

APO shares to cover \$500MM
13.33

66.67

APO shares less Art collateral BB
4.53

22.67