What Is Private Debt?

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PRIVATE COMPANIES AND DEBT

From jobs to GDP, privately owned companies help drive the American economy. In the United States, the three hundred largest private companies alone employ over 4 million people and have combined revenues in excess of $1 trillion.*

But when these private companies need funds to expand or manage their operations, they may not have access to public funding through the sale of stocks and bonds. In this situation, private companies raise funds by selling equity (ownership) shares in the company or through debt financing in the form of loans and lines of credit.

PUBLIC COMPANIES	PRIVATE COMPANIES	
BONDS	DEBT	Position investors as a lender to the company.
STOCKS	EQUITY	Provide investors with an ownership stake in the company.

SOURCE: Forbes.com "America's Largest Private Companies" November 2012.

HOW PRIVATE DEBT FINANCING WORKS

When a private company identifies an opportunity to grow their business, the company may not have the cash or assets on hand to pursue the necessary expansion. In this situation, debt may be the preferred financing option.

To fund the growth opportunity, the company borrows the needed funds by asking a lender for a loan. In exchange for making the loan, the lending institution expects to receive interest payments in addition to repayment of the contractual loan amount. Both parties have the potential to benefit. If all goes as intended, the company grows its business and the lending institution receives a contractual return on its investment.

SOURCES OF PRIVATE DEBT FINANCING

Private companies can seek debt financing in the form of loans from:

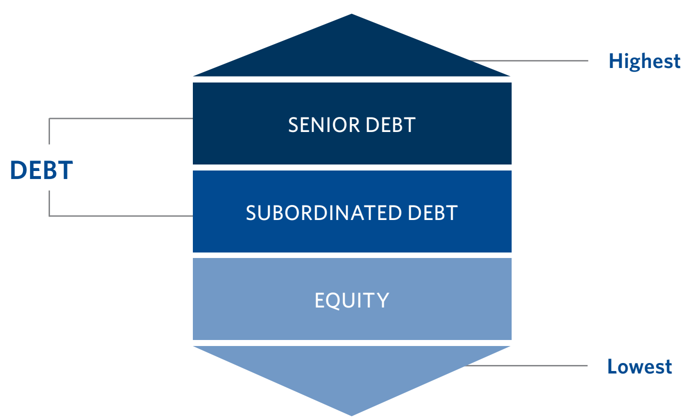
- BANKS
- BUSINESS DEVELOPMENT COMPANIES (BDCs)
- SPECIALTY FINANCE COMPANIES
- PRIVATE INVESTMENT VEHICLES
- HEDGE FUNDS

THE CAPITAL STRUCTURE AND DEBT

The combination of equity and debt forms a company's capital structure. The balance of how much debt versus equity is unique to each company and is determined by the management team's evaluation of various loan terms and other business factors.

Debt has a priority claim on cash flows or assets and there are different levels of debt. Senior debt ranks first in repayment priority; subordinated debt ranks second and typically has a higher yield. Equity typically comes with the highest return expectations to reflect the increased risk of non-payment based on its lower claims priority.

Cash Flow Repayment Priorities



For Investor Use

Private debt investments may be either direct or indirect and are subject to significant risks, including the possibility of default.

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For additional information on private debt investments, investors should contact their Financial Advisor. Financial Advisors are encouraged to visit **www.CNLSecurities.com** or contact CNL Securities, Member FINRA/SIPC at **(866) 650-0650.**

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