

Reinventing Corporate Capital

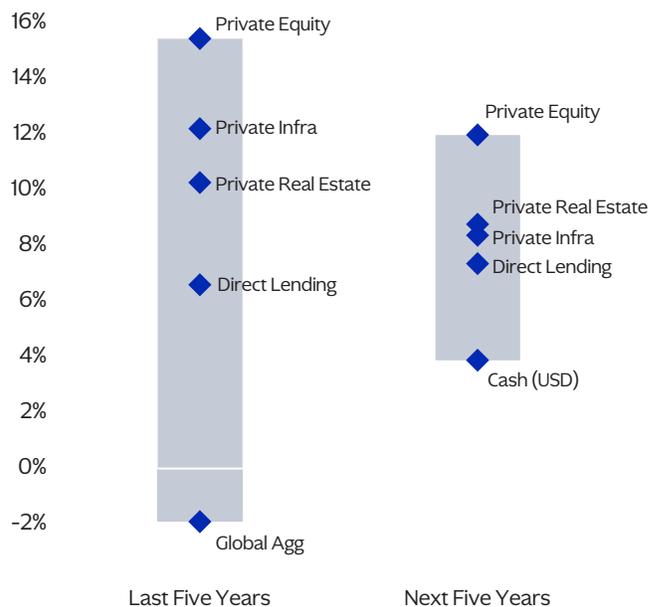
Brass Tacks

The global capital markets are evolving, reshaping the way businesses capitalize themselves. Much like a Swiss Army knife equipped for diverse needs, Capital Solutions provide a dynamic framework that responds to changing financial landscapes and business objectives, anchoring itself at the nexus of public and private markets. Traditional and siloed financing structures – pure debt or equity – are ceding share to structured cross-asset solutions that blend elements of both, enhancing adaptability for companies in an ever-shifting landscape.

Capital Solutions represent an emerging category of corporate finance designed to bridge the gap between more fragmented debt and equity markets. By bringing together elements of both asset classes, Capital Solutions can provide value to businesses by addressing a broad range of demands. Capital Solutions offer businesses flexibility beyond traditional debt or equity, helping owners and management teams unlock value, drive growth, and navigate complexity with strategic agility.

Forward-Looking Expected Range of Outcomes Will be Narrower, We Believe

Expected Return Range of Outcomes (%)



Data as at November 30, 2024. Source: KKR Global Macro & Asset Allocation analysis.

With the potential for both contractual return and equity participation, Capital Solutions can appeal to a range of investors across debt, equity, and private equity, depending on risk appetite, structure, and objectives. We believe it can fit well within either a credit or equity allocation, offering a dynamic way to capture value across market cycles with consistent deployment. By blending credit and equity-like exposure, Capital Solutions can also enhance portfolio diversification, providing investors with a versatile tool to augment portfolio construction. **As we like to say at KKR, origination begets origination.** By structuring Capital Solutions and demonstrating their value to businesses and stakeholders, we steadily advance the market's familiarity with the asset class and create new opportunities.

Global, Scalable Opportunity

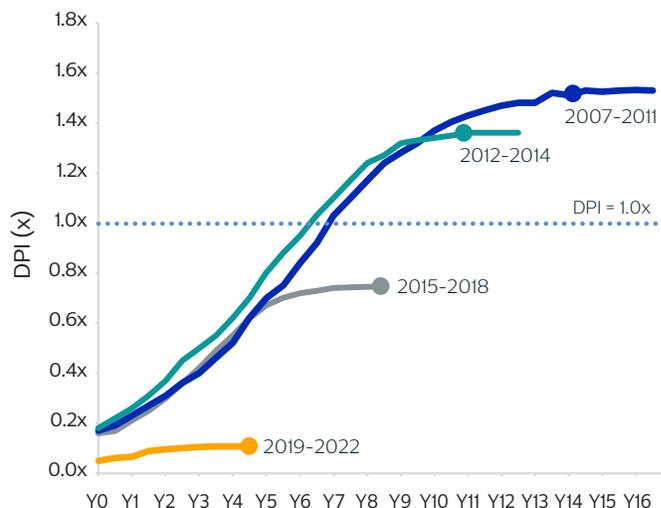
Over the past couple of years, the muted IPO market and a limited number of sponsor-backed exits have highlighted the growing need for alternative financing structures. Private equity firms, grappling with extended holding periods and historically low distributions-to-paid-in-capital (DPI) ratios, have turned to liquidity tools such as net asset value (NAV) loans and continuation funds. These tools have enabled sponsors to return capital, monetize portfolios, or both without forcing premature exits, ensuring they meet investor expectations while preserving long-term value. However, this approach is not always optimal.

Amid these shifts, market participants have broadened their perspective and become more open to exploring innovative, outside-the-box approaches. As a result, Capital Solutions are becoming a critical interface for issuers and sponsors, providing strategic funding to support both growth and capitalization. Unlike traditional debt or equity products, these solutions can take various forms and are highly customized. But at their core, the main objective is to provide bespoke partnership capital designed to align with a company's growth objectives.

The main objective is to provide bespoke partnership capital.

DPI Ratios Are at Historic Lows

Global Average Distributions to Paid-In Capital (DPI) by PE Vintage



Source: Preqin as of April 2024, Goldman Sachs, Financial Times and KKR Credit Analysis.

Over a company's life cycle, several scenarios can prompt the need for a Capital Solution. These might include financing growth, whether organic or through strategic acquisitions; conducting share buybacks; and optimizing capital structures. Structured Capital Solutions are particularly valuable when the majority owners are not looking to cede control but would like to bring in an aligned partner to help facilitate the next phase of value creation. It is also an option considered by many CFOs who wish to avoid either dilution from additional equity issuance or excessive leverage from incremental debt. By addressing these transitional needs, Capital Solutions not only enable value creation but also help companies bridge valuation gaps, enhance return profiles, and provide businesses with greater flexibility to operate more efficiently.

The current environment presents a confluence of factors making Capital Solutions a compelling opportunity, poised to redefine the financial ecosystem through an integrated debt/equity solution. The departure from zero interest-rate policy made many debt financing sources expensive, increasing the value of flexibility, including non-contractual forms of return. The ability to creatively structure a diverse suite of securities that are well aligned with the equity, while also being downside protected, is distinctive and in high demand. In other words, many businesses are seeking new ways to obtain additional capital for acquisitions or strategic investments while also

minimizing cash-pay debt service. This has contributed to more demand around cross-asset financings such as preferred or convertible preferred equity, structured equity, or HoldCo financings.

Not only are Capital Solutions filling a critical financing void, but they also offer a versatile, scalable framework that meets the demands of modern businesses and aligns with investors' need for diversification and risk-adjusted returns. More broadly, demand for these solutions is also being driven by the global expansion of private markets, as companies seek alternatives to public financing.

The path is no longer binary.

What Is Driving Capital Solutions Growth?

- Growing Total Addressable Market (TAM):** We anticipate continued growth in Capital Solutions with demand for capital outpacing supply. Growth is driven by the transition of public corporate issuers to private markets, the rising demand from sponsor-backed companies seeking liquidity, and owners prioritizing partnership to optimize value creation.



- Re-emergence of Structured Equity:** Products like convertible debt/equity and preferred equity are gaining traction with issuers, offering unique value to businesses and investors.



- Extended Private Market Cycles:** Companies are staying private longer, with the median hold period for private equity-backed firms reaching an all-time high of 7.1 years in 2023. This reflects both a scarcity of IPOs and a persistent valuation gap.

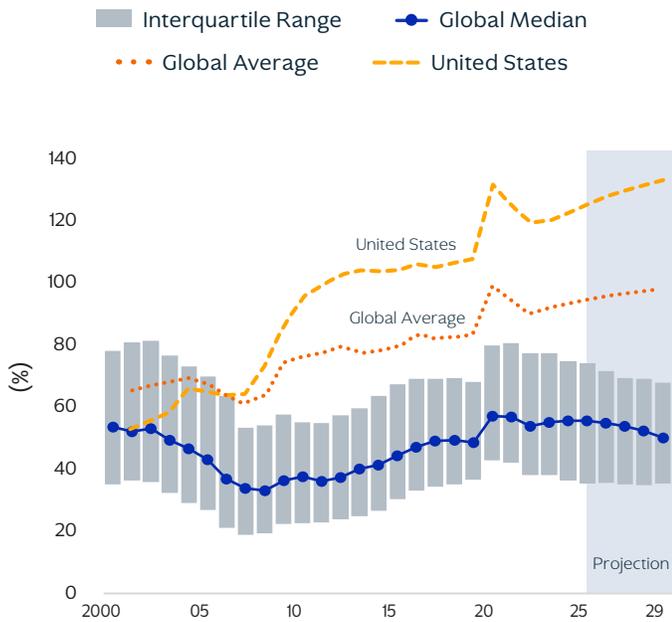


Corporate issuers play a central role in the expanding TAM for Capital Solutions. Globally, there are over 4,000 investment grade corporate issuers, many of whom may seek strategic financing solutions beyond traditional debt and equity markets. At the same time, corporate issuance accounts for approximately 10% of total global fixed income issuance, which has hovered around \$20 trillion over the last decade. With the majority of proceeds allocated to general corporate purposes, the scale of capital flows in need of efficient allocation reinforces the need for more flexible financing solutions. Public markets further highlight the opportunity, with U.S. public companies contributing to a \$60 trillion market capitalization — nearly half of global market value — despite the U.S. representing only about 4% of the world’s population. This underscores the outsized role of U.S. capital markets in global finance. Meanwhile,

elevated debt-to-GDP levels in the U.S. remain above the global average, signaling potential supply/demand constraints in traditional funding sources. As both public and private companies seek alternatives, we believe the demand for sophisticated, adaptable Capital Solutions will continue to grow globally.

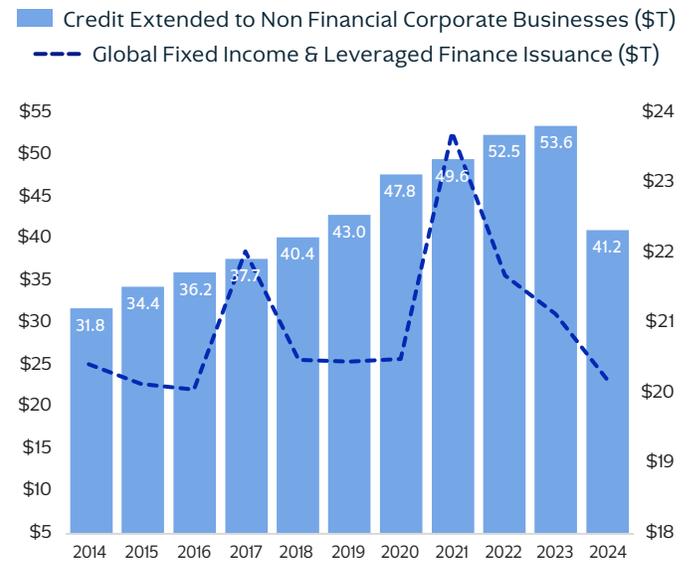
For asset allocators, Capital Solutions can serve as a highly complementary component of portfolio construction, offering compelling risk-adjusted returns. Through private, negotiated financings, we strive to create value while aligning with company leadership and investors. This approach not only enhances downside protection but also enables businesses to pursue transformative growth with the right capital partner. Capital Solutions are designed with both the company and the investor in mind.

Public Debt-to-GDP Ratio



Source: IMF World Economic Outlook database.

Demand for Financing Continues to Exceed Global Fixed Income and Leveraged Finance Issuance Combined



Source: Board of Governors of the Federal Reserve System, Bloomberg, Refinitiv, Dealogic, Pitchbook | LCD, SIFMA, Bank of International Settlements, and KKR Credit Analysis as of 12/31/2024.

Note: Long-term is defined as a security with maturity of 13 months or longer; global equity issuance includes non-convertible IPOs and follow-on equity deals, excludes preferred shares, rights issued, closed-end funds, business development companies, and special purpose acquisition companies.

The KKR Approach to Capital Solutions

With nearly five decades of leadership in private equity, KKR's approach to Capital Solutions is embedded in the way we partner with high-quality businesses to help make them even better. Over the last 20 years, the KKR platform has evolved to include real assets and credit, further enhancing our asset-specific expertise and expanding our ability to provide customized financing solutions across industries. Positioned at the intersection of debt and equity with a dedicated team, KKR Capital Solutions provides strategic financing structures designed to meet the needs of businesses and owners. Our goal is not simply to provide financing, but to invest and partner with companies to drive growth and maximize commercial outcomes.

Historically, the market has often conflated Capital Solutions with pure-play Special Situations that focus on, for example, distressed trading, rescue financing, and loan-to-own strategies. Additionally, hedge funds and other opportunistic investors often target liquid markets for distressed debt, seeking to exploit dislocated pricing or take advantage of flexible credit terms to execute short-term trades. While the landscape has evolved significantly — and many Capital Solutions providers today offer more than just acquiring discounted public debt or providing last-resort financing at the lowest cost of capital — our approach is distinct.

At KKR, we are not in the business of rescue financing for distressed businesses. Instead, we provide fundamentally healthy companies with capital, active partnership and value creation tools to fuel their next stage of growth. Our approach leverages deep sector expertise, operational insights, and rigorous due diligence to craft bespoke capital solutions. By aligning with the strategic priorities of businesses and investors, we provide flexible, creative financing that enables companies to scale, transform, and seize new opportunities.

Four guiding principles that define our strategy:

- / **A Model Built on Trust, Collaboration and Alignment:** Since 1976, KKR has operated differently from the industry standard. Our DNA is rooted in partnership, and our approach to Capital Solutions reflects this foundation. We prioritize long-term relationships and strategic alignment over transactional engagements.
- / **An Enabler:** We believe in actively partnering with companies. In our Capital Solutions strategy, enabling growth, strategic transactions, and value creation is core to our investment thesis and the way we do business.
- / **Bespoke, Case-Specific Structuring:** Capital Solutions are not one-size-fits-all. Customized solutions unlock opportunities for businesses that traditional instruments — such as high yield bonds or common equity may not be equipped to provide. Each transaction is structured to meet each business' unique needs. We also strive to secure downside protection through disciplined business selection and thoughtful structuring.
- / **Downside Protection:**¹ KKR Capital Solutions should not be conflated with deeply subordinated debt. Instead, our Capital Solutions strategy is designed with attractive attach/detach profiles (typically 25%-50% LTV), providing substantial downside protection while preserving equity-like upside through meticulous structuring and deep due diligence. Our approach embeds safeguard mechanisms such as contractual returns, exit rights, governance rights, and minority protections — ensuring alignment with stakeholders while maintaining a rigorous focus on tangible value creation that underlies upside potential.

1. Downside protection is no guarantee against future losses.

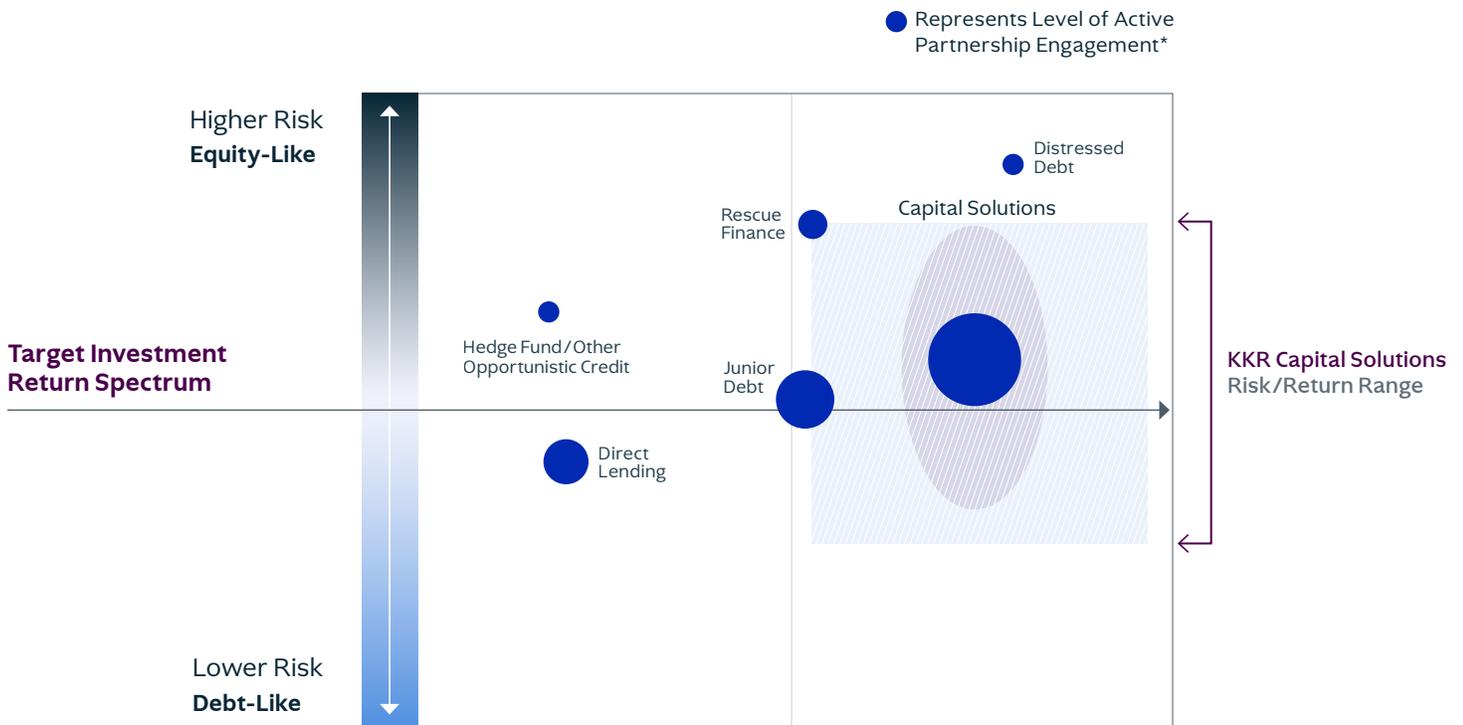
Our strategy thesis is built on a distinctive value proposition: balancing downside protection with the potential for equity-like upside returns. For companies, this approach enables access to custom financing that avoids excessive leverage or dilutive equity issuance, bridging valuation gaps and providing valuable flexibility. By leveraging Capital Solutions and a partner’s resources and proprietary intellectual property, businesses gain access to unique insights and operational expertise that can accelerate growth, enhance scalability, and facilitate long-term value. Investors benefit from a balanced return profile – contractual downside protection with equity upside, supported by strong governance rights.

Unlike private equity investments, Capital Solutions are designed for companies seeking strategic capital rather than a majority sale. As an active partner, we are committed

to working closely with leadership teams, bringing the full breadth of KKR’s value-creation resources to the table. This includes Capstone, our team of professional operators, as well as expertise in public policy and affairs, capital markets, and geopolitics. Additionally, we offer access to a robust advisory network, a Human Capital Center of Excellence, and deep industry insights built through longstanding relationships. Across all our investments, we take an ownership mindset, partnering with management and majority owners to drive growth strategies and unlock long-term value.

Alignment of interest has been a core principle of KKR since inception.

If It Looks like Debt and Feels like Debt, What Do You Call It?



Source: For illustrative purposes may be subject to change. The above reflects the opinion of KKR Credit and should not be relied upon as investment advice.

*Note: Dot size reflects the General Partner’s level of active engagement in the partnership.

Leading the Evolution with a Proven Playbook

Capital Solutions are not a one-size-fits-all — they are a multi-dimensional toolkit, much like a Swiss Army knife, uniquely equipped to address evolving business needs and navigate the complexities of modern financial markets. With the full breadth of the KKR platform, we believe we can provide companies with flexible partnership capital to help them realize their potential, capitalize on growth opportunities, and withstand shifting conditions. For nearly five decades, KKR has forged a differentiated investment approach centered on collaboration, innovation, and long-term value creation. The Capital Solutions strategy is an extension of this philosophy, delivering tailored, strategic financing to high-quality businesses while generating attractive, risk-adjusted returns for investors.

The demand for dynamic debt and equity solutions has never been greater. As the global markets continue to shift, we remain steadfast in our mission: to offer innovative financing solutions that create sustainable value for businesses, investors, and the broader economy.

With a proven track record and a forward-looking approach, KKR is not just responding to change — we are looking to drive it.

CASE STUDY

Bringing Capital Solutions to Life:

Recently, we partnered with an industrial business to finance a transformative acquisition of a highly synergistic company through a structured cross-asset solution. In this use case, we structured mezzanine notes to provide downside protection via significant contractual returns and a low detachment point, paired with a convertible preferred equity offering that allowed for upside participation. This combined debt-and-equity capital solution enabled the owners to secure critical financing while aligning incentives for all stakeholders, demonstrating the flexibility and value of employing a capital solution. Notwithstanding the company's access to cheaper forms of capital, KKR emerged as the partner of choice for our demonstrated ability to provide both capital and value-enhancing resources. We have activated our platform toolkit to help the company unlock synergies from its acquisition, refinance an existing credit facility, and recruit best-in-class talent.

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Sources: Bank of International Settlements, World Bank, IMF, Board of Governors of the Federal Reserve System, Securities Industry and Financial Markets Association.

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