



Documentation

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Typical Agreements for Leveraged Buyout Finance

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Typical Documentation for Leveraged Finance

CATEGORY	Bank Loan	Bond	Others
TYPE OF TRANSACTION	Revolving Credit Facility Term Loan	HY Bond	Mezzanine Debt Unitranche Facility Collateral / Security
TYPICAL AGREEMENTS	 Loan Agreement Facility Agreement Credit Agreement Promissory Notes	 Offering Memorandum Indentures Notes	 Facility Agreement Subordination Agreement Security Agreement Agreement Among Lenders

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Major Contracts

TYPE OF CONTRACT	SHORT DESCRIPTION	KEY TERMS
 Loan Agreement	Agreement where terms of the loans used to finance a leveraged buyout are documented	Interest Rate, maturity, repayment, covenants, representations and warranties, guarantees, etc.
 Indenture	Agreement that specifies terms of bond issuance between bondholders and bond issuers (and guarantors and trustees)	Coupon rate, maturity, covenants, whether it is callable, and special features such as whether it is convertible, etc.
 Security Agreement	Agreement that gives lenders/bond holders a security interest in a specified asset class such as property that is pledged as collateral	Pledged collateral, how to deliver, and control collaterals, etc.

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Different Types of Provisions

Negative Covenants Related Provisions

Incremental Facility / Lien

Negative Pledge

Reclassification

Assignment

Transfer

Protect lenders or bond holders by managing leveraged finance related risks

Borrowers benefit from lower financing costs

Mandatory Prepayment

Investment Restriction

Payment Restriction

Call Protection

Subordination / Liens

Cross Default / Cross Acceleration

Change of Control

Other Provisions

Affirmative Covenants

Maintenance Covenants

Amendment

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Key Provisions



Mandatory Prepayment

Stipulates that excess cash shall be used to pay down principal

Excess cash from cash flow, asset sales, and extraordinary cash receipt



Restriction on Making Investments

Typically prohibits borrowers from making investments, unless they get consent from stakeholders

Investments include loans, equity purchase, and other purchases



Restricted Payment

Restricts borrowers from payments for repurchase of equity, dividend payment, and other types of distribution



What is a basket?

Basket is a cash amount that borrowers are allowed to utilize at their discretion; sometimes determined with a ratio to a consolidated-basis net income that is generally larger than excess cash flow, which is generally used as a term for cash sweep

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Key Provisions



Call Protection

Requires borrowers to pay a call premium when repaying debt within a certain period post closing to protect lenders' yield

Hard call provision vs soft call provision



Subordination / Lien Restriction

Prohibits borrowers from incurring any additional liens / security to protect lenders / bondholders of the current claims.

There are exceptions: liens securing refinanced loans, purchase money liens



Cross Default / Cross Acceleration

Gives lenders equal rights for prepayment by triggering an event of default when default or prepayment acceleration occurs to a certain loan



Change of Control

Frequently found in a high yield bond and requires borrowers to repurchase the current debt at a certain premium (typically 1%) of their principal in a series of specified Change of Control events

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