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Financing Consideration: Process Overview



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Addressing Existing Debt

Pre-payability

Bank debt is typically pre-payable at par

Bonds are typically un-prepayable (non-callable)

Breakage Costs

How much does it cost to take out the existing debt?

If you need to tender for the non-callable bonds, evaluate breakage costs over potential closing dates

Covenants

Key provisions include limitations on: (i) mergers, (ii) debt incurrence , (iii) asset sales, (iv) optional / mandatory prepayments, and (v) restricted payments

Lender Relationship

Lender relationship sometimes helps executing a deal more easily as existing lenders already know the business of the target company

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Evaluating Debt Capacity

Hypothetical Capital Structure of Leveraged Buyout

	$ in millions	% of Capitalization	EBITDA Multiple
Revolving Credit Facility - 5 years	0	0.0%	0.0x
Term Loan A - 6 years	360	36.7%	3.0x
Term Loan B - 8 years	240	24.5%	2.0x
TOTAL SENIOR SECURED DEBT	**600**	**61.2%**	**5.0x**
Subordinated Notes due 20XX	180	18.4%	1.5x
TOTAL DEBT	**780**	**79.6%**	**6.5x**
Management Rollover Equity	10	1.0%	
Sponsor Equity	190	19.4%	
TOTAL EQUITY	**200**	20.4%	
TOTAL CAPITALIZATION	**980**	**100.0%**	
PRO-FORMA EBITDA	120		

Debt Capacity Evaluation Process

1. Start with general debt multiples (e.g. 3.0x for Term Loan A)
2. Create several financing scenarios with different levels of debt multiples
3. Adjust debt composition, based on conversation with investment banks
4. Analyze credit metrics

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Analyzing Collateral Base

Typical Assets of a Company

CMBS OR SALE-LEASEBACK



Real Estate

ASSET BASED LENDING (ABL)



Inventory



Receivables

SECURITIZATION



Securities

COLLATERAL BASE FOR BLANKET LIEN



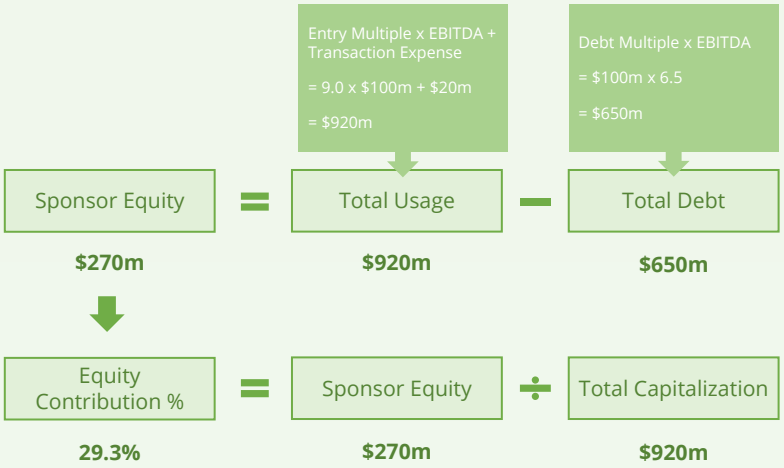
Collateral

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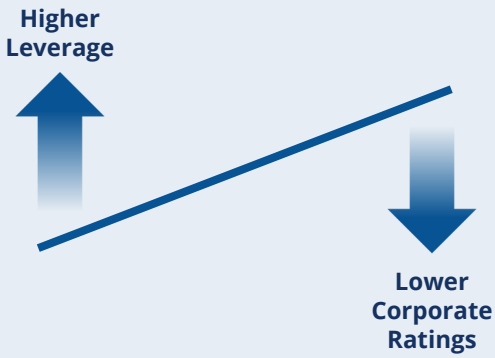
Considering Minimum Equity Contribution

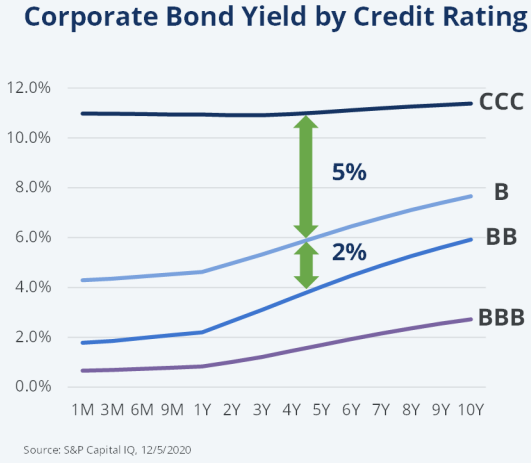
Assumptions	
EBITDA	$100m
Entry Multiple	9.0x
Total Debt Multiple	6.5x
Transaction Expenses	$20m



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Simulating Expected Ratings Outcome





Source: S&P Capital IQ, 12/5/2020

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Analyzing Financial Ratios

	Parameter	Typical Range	
Leverage Ratio	Total Debt / EBITDA	4.0x - 6.0x	
	Senior Secured Debt / EBITDA	~3.0x	
	Net Debt / EBITDA	-	
Coverage Ratio	EBITDA / Cash Interest	> 2.0x	Calculation of Coverage Ratio does not include PIK interest as it is not cash pay out
	(EBITDA – CapEx) / Cash Interest	> 1.6x	
Debt Repayment Rate	% of Total Debt Repaid	50% by year 7	
	% of Senior Secured Debt Repaid	-	

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