Financing Instruments

Contents

Types of Debt: Overview

Pro-rata
Generally distributed among commercial banks through loan syndication

- Revolving Credit Facility ✓
- Term Loan A ✓

Seller

- Seller / Vendor Loan

Institutional
Generally distributed among institutional investors, arranged by investment banks (underwriters)

- Term Loan B/C/D ✓
- Senior Notes ✓
- Subordinated Notes ✓
- Mezzanine ✓
- Preferred Shares

In leveraged finance, the expected rating of notes is High Yield (BB+ or below)

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Types of Debt: Different Characteristics

	Revolving Credit Facility	Term Loan A	Term Loan B	Senior Notes	Subordinated Notes	Mezzanine
Interest Rate / Coupon	Lowest	Low (SOFR + 200-275bps)	Higher (SOFR + 300-450bps)	Higher	Higher	Highest
Floating / Fixed	Floating			Fixed		
Interest Type	Cash					Cash / PIK
Tenor	3-5 years	5 years	7 years	5-10 years	5-10 years	8-12 years
Amortization	None	Straight Line	Minimal	Bullet		
Prepayment	Yes			Generally no		
Seniority	Senior		Senior / Subordinated	Senior	Subordinated	Subordinated
Security	Secured		Secured / Unsecured	Secured / Unsecured	Unsecured	Unsecured
Covenants	Financial Maintenance			Financial Incurrence		

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Debt Providers/Holders

TYPE OF FACILITY	LENDERS			INVESTORS		
	Banks	Hedge Funds	Insurance / Pensions	CLOs	BDCs	PE Sponsors
Revolving Credit Facility	✓					
Term Loan A	✓			✓		
Term Loan B/C/D		✓	✓	✓	✓	✓
High Yield Bond		✓				✓
Mezzanine		✓			✓	✓
Preferred Stock		✓				✓

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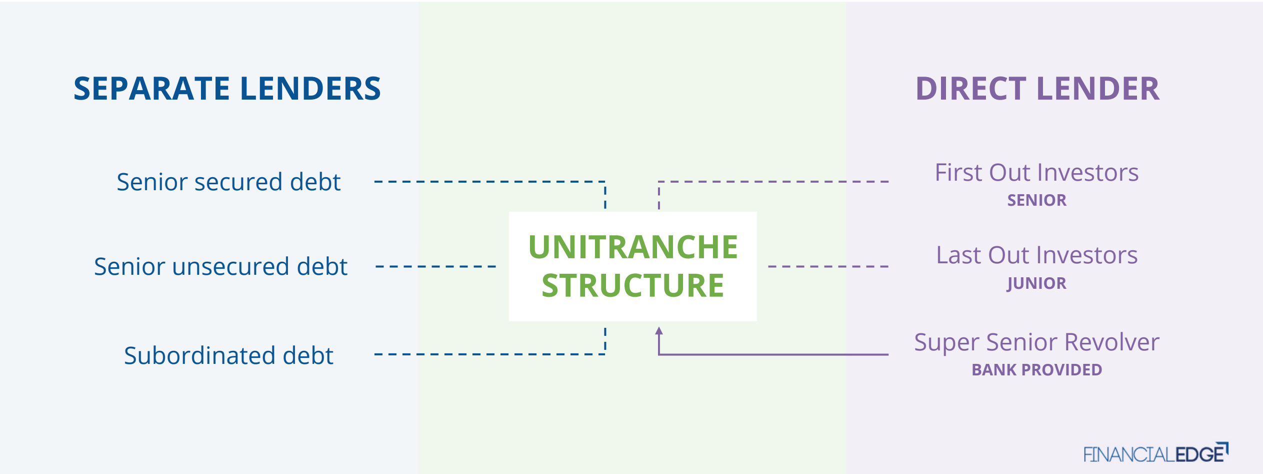
Unitranche Financing

Merges senior and junior/subordinated debt into one tranche



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Equities

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%**	
EBITDA	120		

Management Equity works…

1. To help reduce cash investment for financial sponsors and
2. To align incentives between financial sponsors and management of the target

★ Management had at least 5% of the seller company's equity

Management decided to keep their stake in the transaction

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Covenants

TYPES OF COVENANTS		POPULAR CLAUSES
Affirmative Covenants Promises by the borrower		• Filing quarterly and annual financial statements • Carrying insurance for the issuer's assets • Obligating the issuer to promise to repay the principal of a loan at maturity
Negative Covenants Prohibitions on the borrower		• Restricting asset disposals, distributions to shareholders, or engagement in (risky) investments • NOT pay dividends beyond specified amount • NOT issue additional debt without lenders/bond holder's permit
Financial Covenants Promises by the borrower	**Maintenance**	• The borrower must maintain financial metrics such as leverage, interest coverage, and capital expenditure (Debt/EBITDA ratio of less than 5.0x) • The ratio will be tested for compliance on a quarterly basis
	Incurrence	• The borrower must not incur new / additional debt unless the borrower's Debt /EBITDA ratio is less than 5.0x after giving pro forma treatment for the new debt

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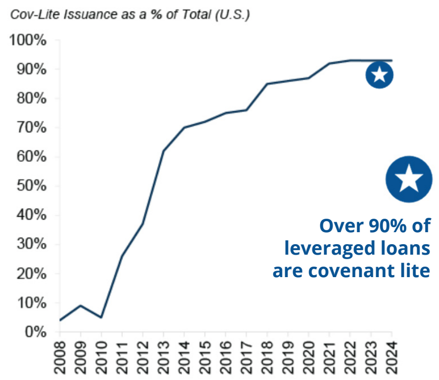
Covenant Lite (Cov-lite)

What is Covenants Lite Debt?

- Any facilities that do not require borrowers to comply with financial maintenance covenants
- No or fewer financial covenants means less investor protections
- Those loans help borrower companies to avoid bankruptcy in times of financial stress



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Collateral

Collateral is an asset or property that an individual or entity offers to lenders as security for a loan e.g.

- Blanket Lien
- Property
- Inventory
- Accounts Receivable

Typical Collateral and Seniority of Debt Instruments

Revolving Credit Facility	**Secured with 1st Lien** Usually secured with a first priority pledge of all assets
Term Loan A	
Term Loan B/C/D	Generally unsecured but sometimes secured with 2nd lien
Senior Notes	
Subordinated Notes	Generally unsecured
Mezzanine	

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Financing Fees

Fees for Loans

Upfront Fee	Fees payed to loan-providing banks
Administrative Agent Fee	Fees paid to administer banks as consideration for arranging loans
Commitment Fee (Ticking Fee)	Fees paid to lenders on undrawn portion of revolving credit facilities
Facility Fee	Fees paid on a facility's entire committed amount, regardless of usage
Prepayment Fee	Fees associated with prepayment of generally fixed interest loans as a penalty

Fees for Bonds

Registration Fee	Fees paid for certain regulatory authorizations (e.g. SEC in bond issuance in the US)
Underwriting Fee	Fees paid to underwriters of bonds (investment banks)

	$ in millions	Financing Fees (%)	Financing Fees ($ in millions)
Revolving Credit Facility - 5 years	0	0.50%	0.8
Term Loan A - 6 years	360	0.50%	1.8
Term Loan B - 8 years	240	1.25%	3.0
Total Senior Secured Debt	**600**		
Subordinated Notes due 20XX	180	2.25%	4.1
Total Debt	**780**		
EBITDA	120		
Revolver Commitment	150		
			9.6

Financing Fees = Initial Principal Amount x Financing Fees %

Financing Fees do not include interest or coupons

For revolving credit facilities, a commitment fee is used

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Debt Structure Consideration

FINANCING COST

INVESTOR RELATIONSHIP

CERTAINTY OF FINANCING

REFINANCING

CASH FLOW IMPACT

COVENANTS

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