



# Financing Instruments

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## Types of Debt: Overview



### Pro-rata

Generally distributed among commercial banks through loan syndication

Seller

Revolving Credit Facility



Term Loan A



Seller / Vendor Loan

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)



### Institutional

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

## 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		

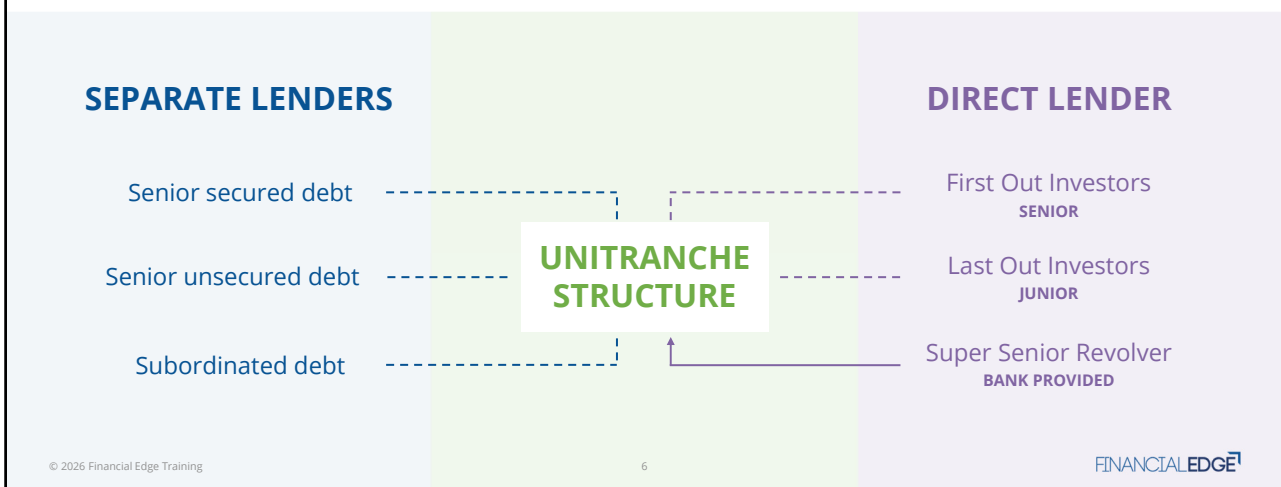
## Debt Providers/holders

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



# 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
<b>TOTAL SENIOR SECURED DEBT</b>	<b>600</b>	<b>61.2%</b>	<b>5.0x</b>
Subordinated Notes due 20XX	180	18.4%	1.5x
<b>TOTAL DEBT</b>	<b>780</b>	<b>79.6%</b>	<b>6.5x</b>
Management Rollover Equity 	10	1.0%	
Sponsor Equity	190	19.4%	
<b>TOTAL EQUITY</b>	<b>200</b>	<b>20.4%</b>	
<b>TOTAL CAPITALIZATION</b>	<b>980</b>	<b>100.0%</b>	
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

# Covenants

## TYPES OF COVENANTS



**Affirmative Covenants**  
Promises by the borrower



**Negative Covenants**  
Prohibitions on the borrower

## POPULAR CLAUSES

- 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

- 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

### Incurrence

- 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
- 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

# Covenant Lite (Cov-lite)

## What is Covenants Lite Debt?



Any facilities that do not require borrowers to comply with financial maintenance covenants

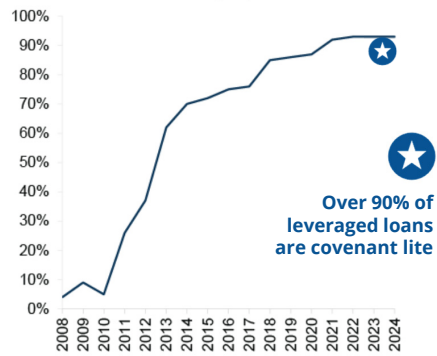


No or fewer financial covenants means less investor protections



Those loans help borrower companies to avoid bankruptcy in times of financial stress

Cov-Lite Issuance as a % of Total (U.S.)



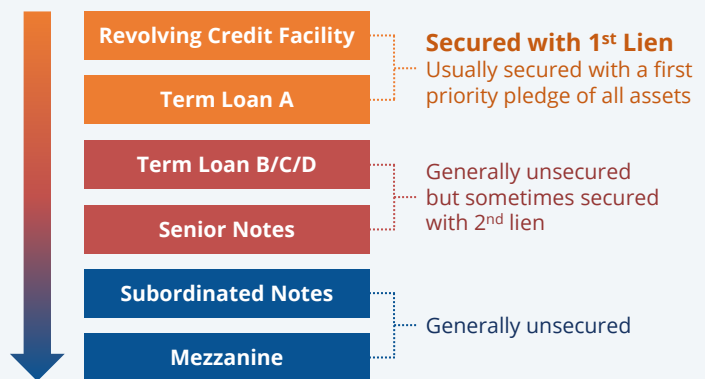
Over 90% of leveraged loans are covenant lite

# 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



# Financing Fees

## Fees for Loans

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

## Fees for Bonds

<b>Registration Fee</b>	Fees paid for certain regulatory authorizations (e.g. SEC in bond issuance in the US)
<b>Underwriting Fee</b>	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
<b>Total Senior Secured Debt</b>	<b>600</b>		
Subordinated Notes due 20XX	180	2.25%	4.1
<b>Total Debt</b>	<b>780</b>		
EBITDA	120		
Revolver Commitment	150		
			<b>9.6</b>

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

# Debt Structure Consideration





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