

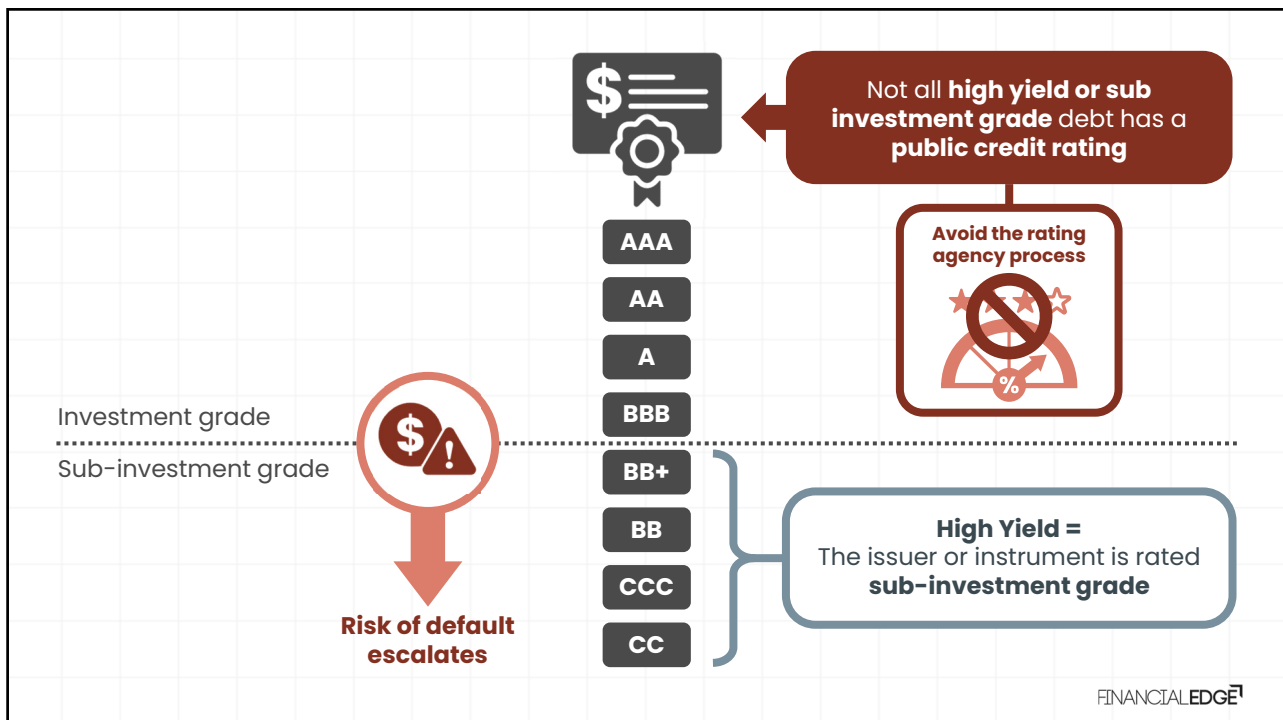
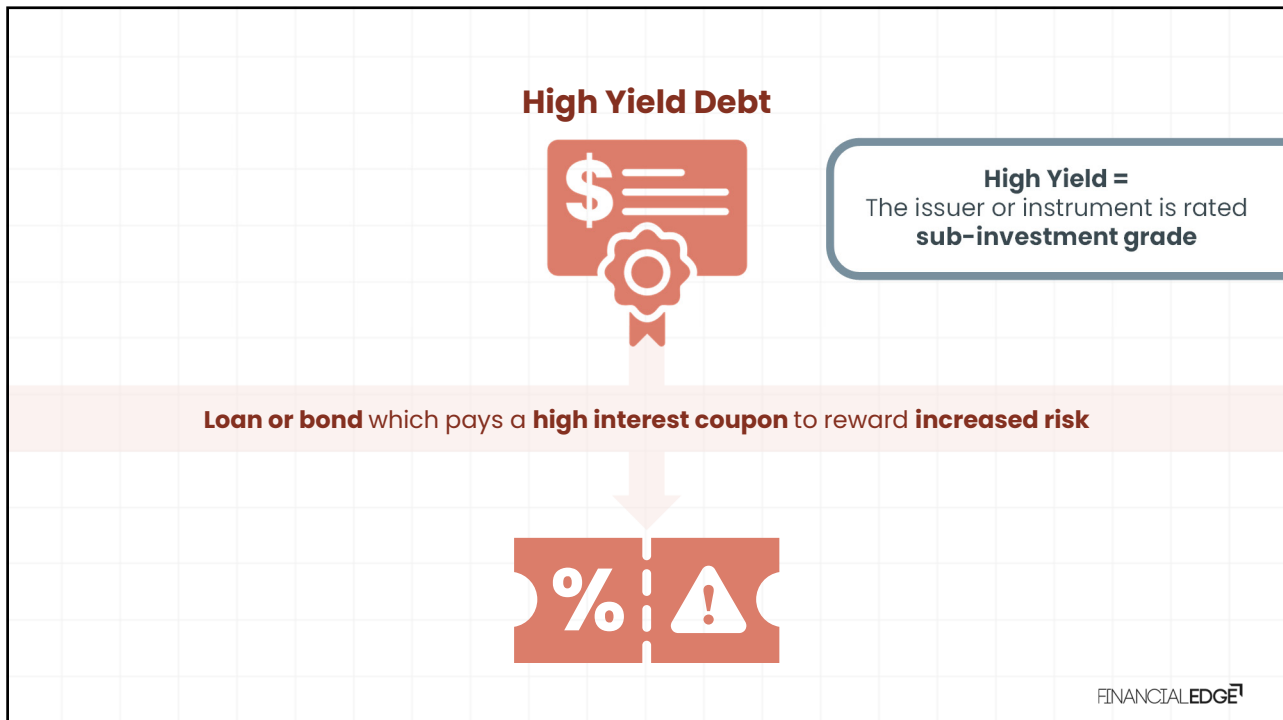


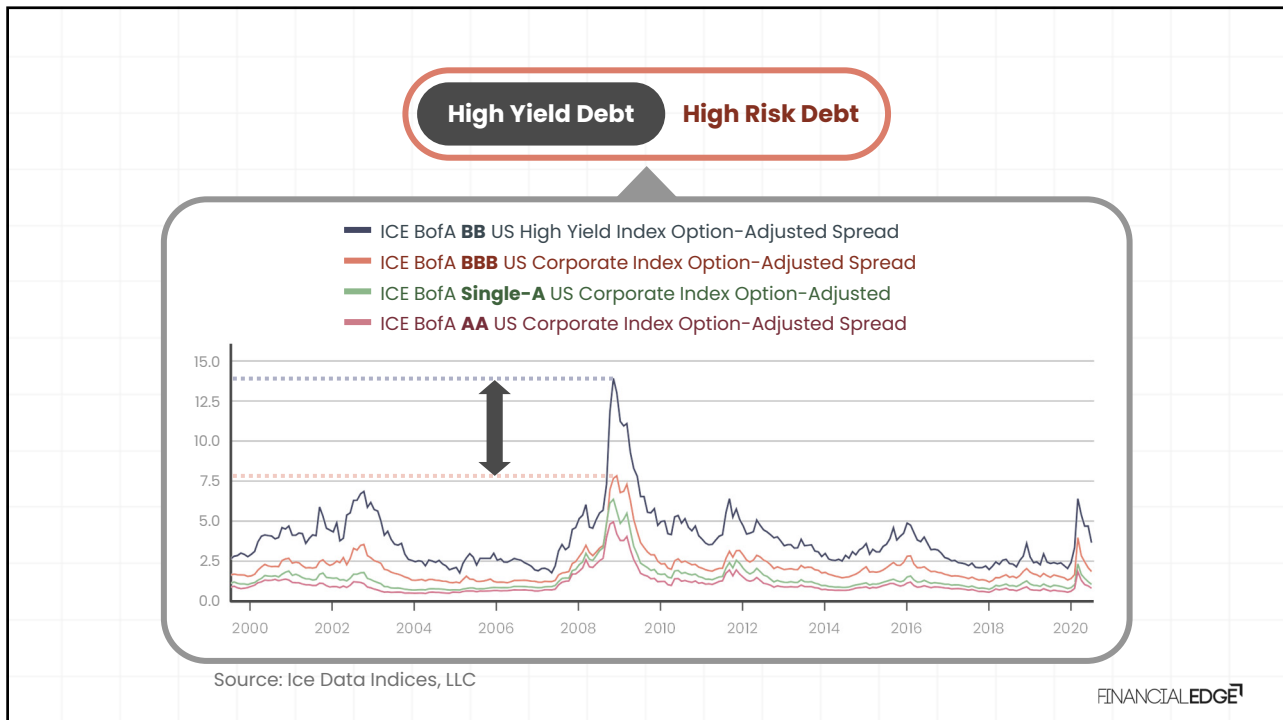
High Yield Debt Instruments

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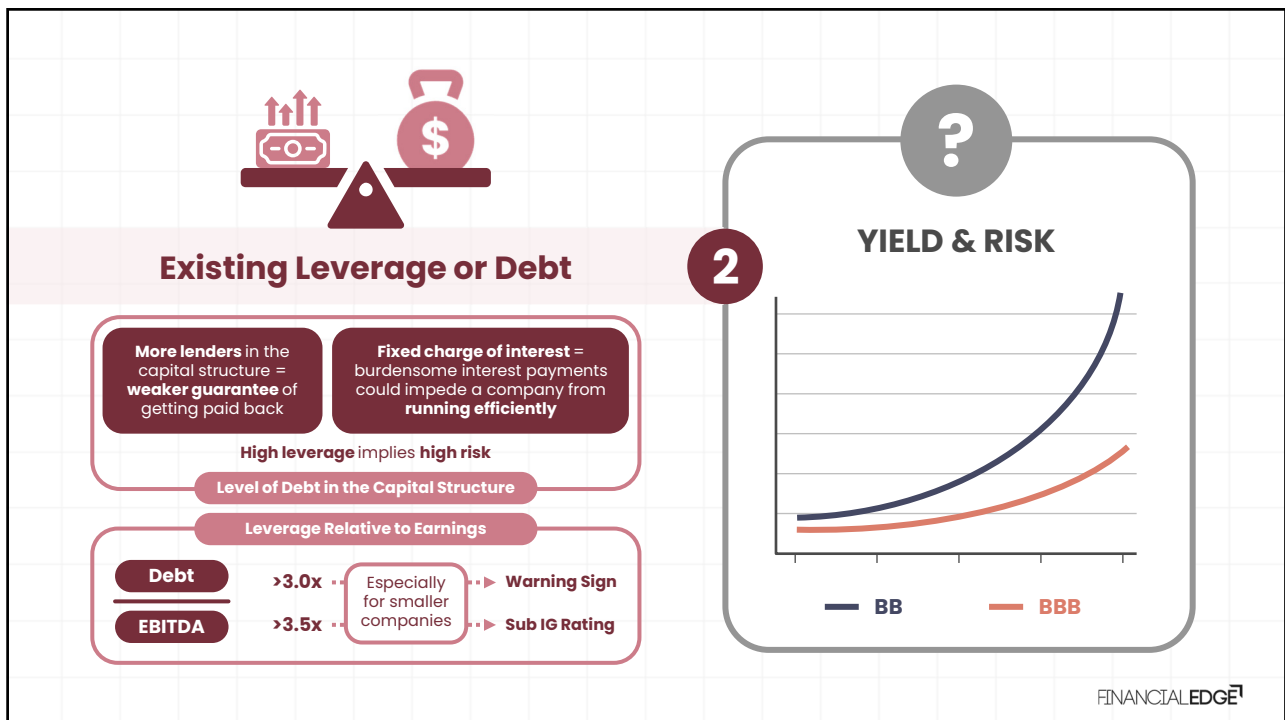
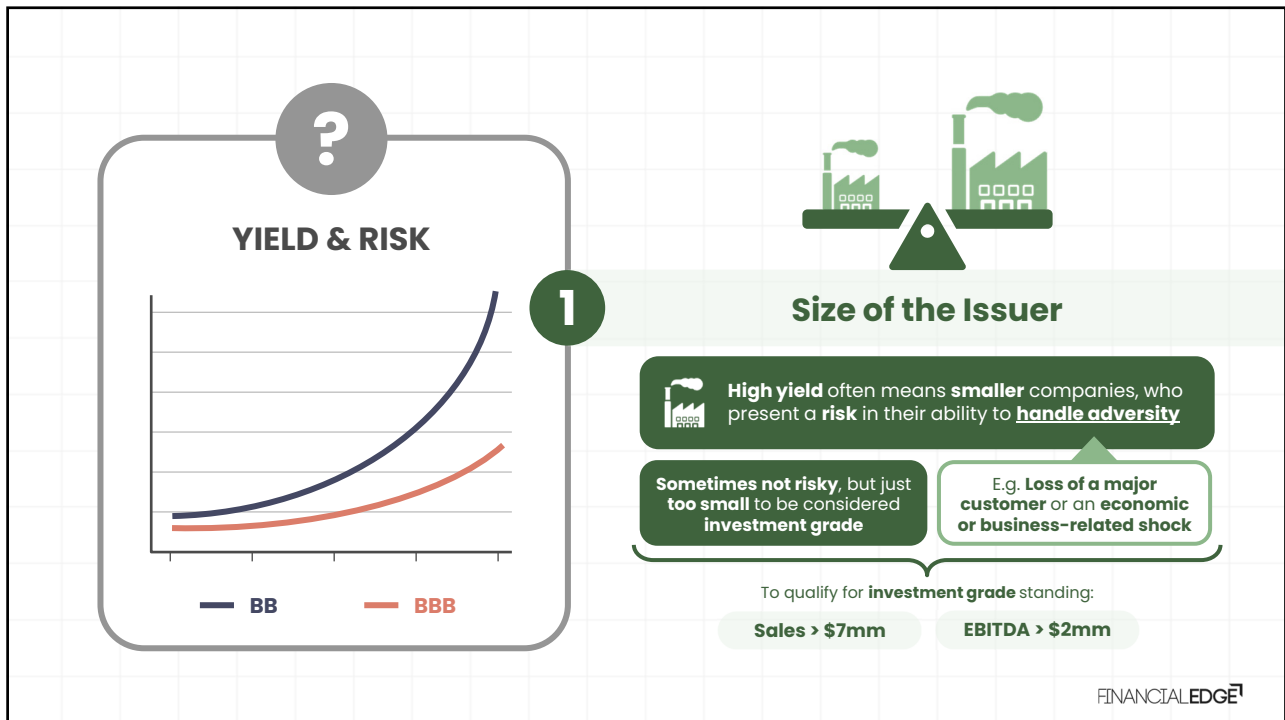
What is High Yield Debt?

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What Makes a Company Sub-Investment Grade?



Fall from Investment Grade to Sub-Investment Grade

"Junk Bonds" or "Fallen Angels"



Poor Earnings

Prevents companies from meeting:

Investment
needs

Expense
needs

Debt servicing
needs

3

4



Less Stability

Due to:

Management
problems

Structural
problems

Regulatory
environment

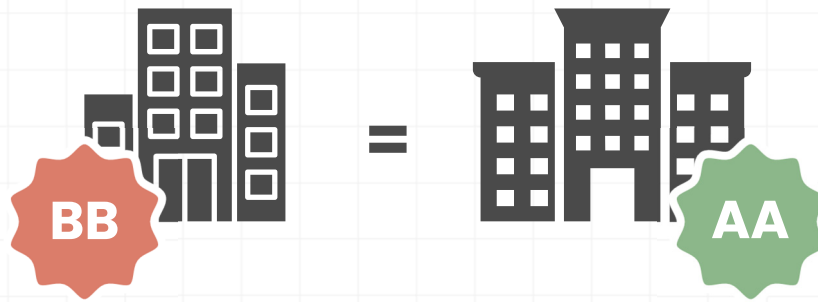
History of
default

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The Uses of High Yield Debt

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Many **sub-investment** grade company **financing needs**
are **similar to investment grade** companies

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Uses of High Yield Debt Funding:



Acquisition Finance

Purchase the stock or assets
of a **target company** by
a **strategic buyer**

Sponsor driven
transaction such as
leveraged buyout (LBO)

Complete add-on
acquisitions
to an initial buyout with
subsequent acquisition

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Uses of High Yield Debt Funding:



Fund Internal Growth

Long-term operations
such as buying **assets**
and **infrastructure**

Refinance the existing capital structure
(to lower borrowing rates and finance share
repurchases or dividends to equity investments)

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Uses of High Yield Debt Funding:



Finance Day-to-day Operations

Short-term investments such as buying
inventory and paying **suppliers**

AKA **"Working Capital"**
needs

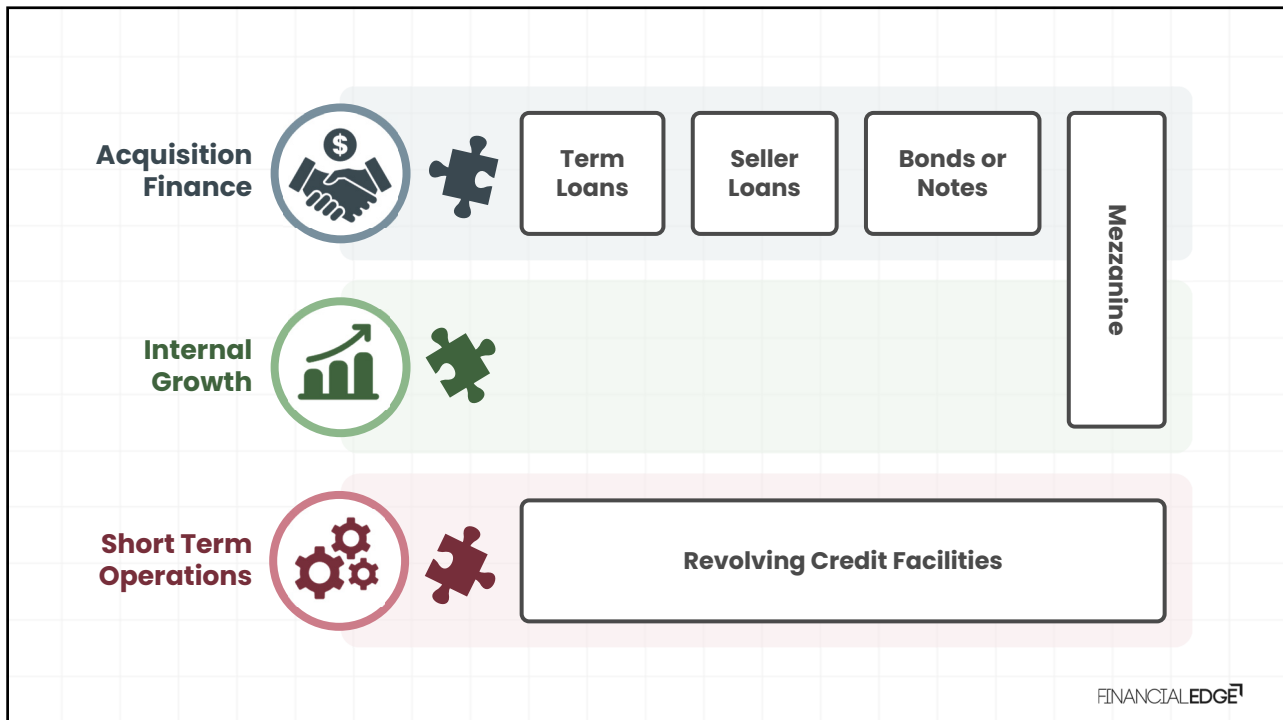
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Types of High Yield Instruments

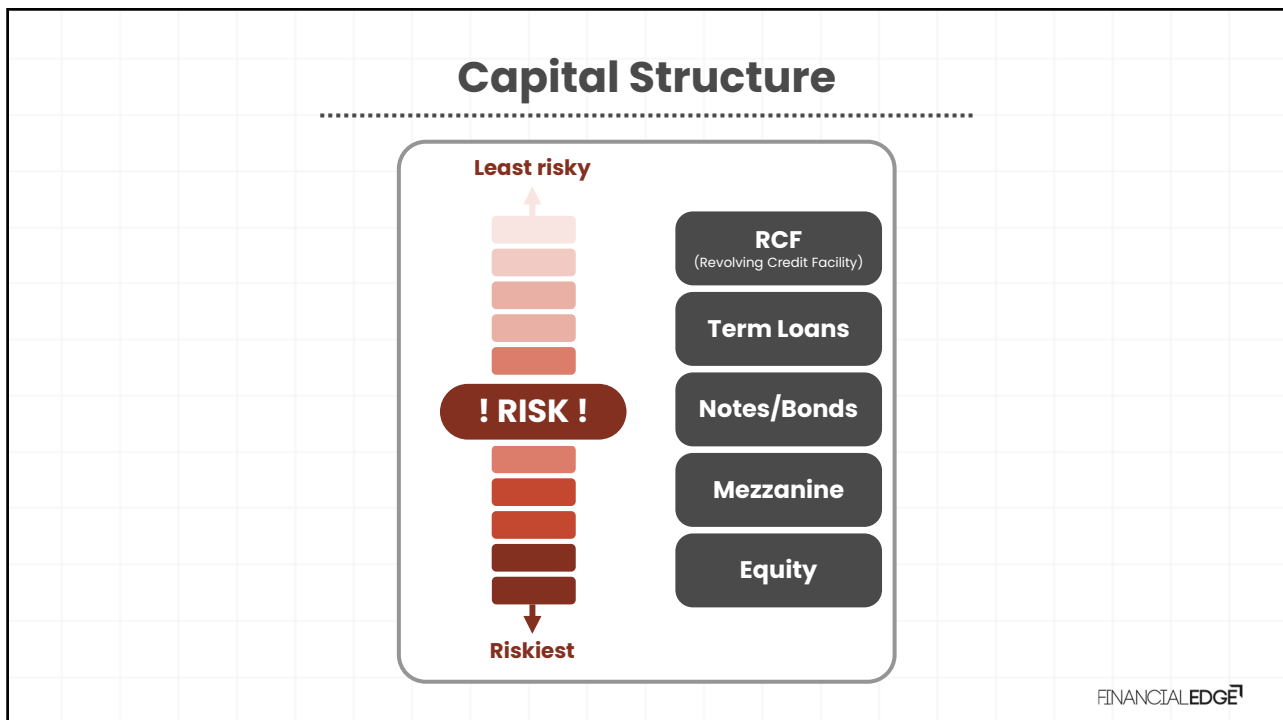
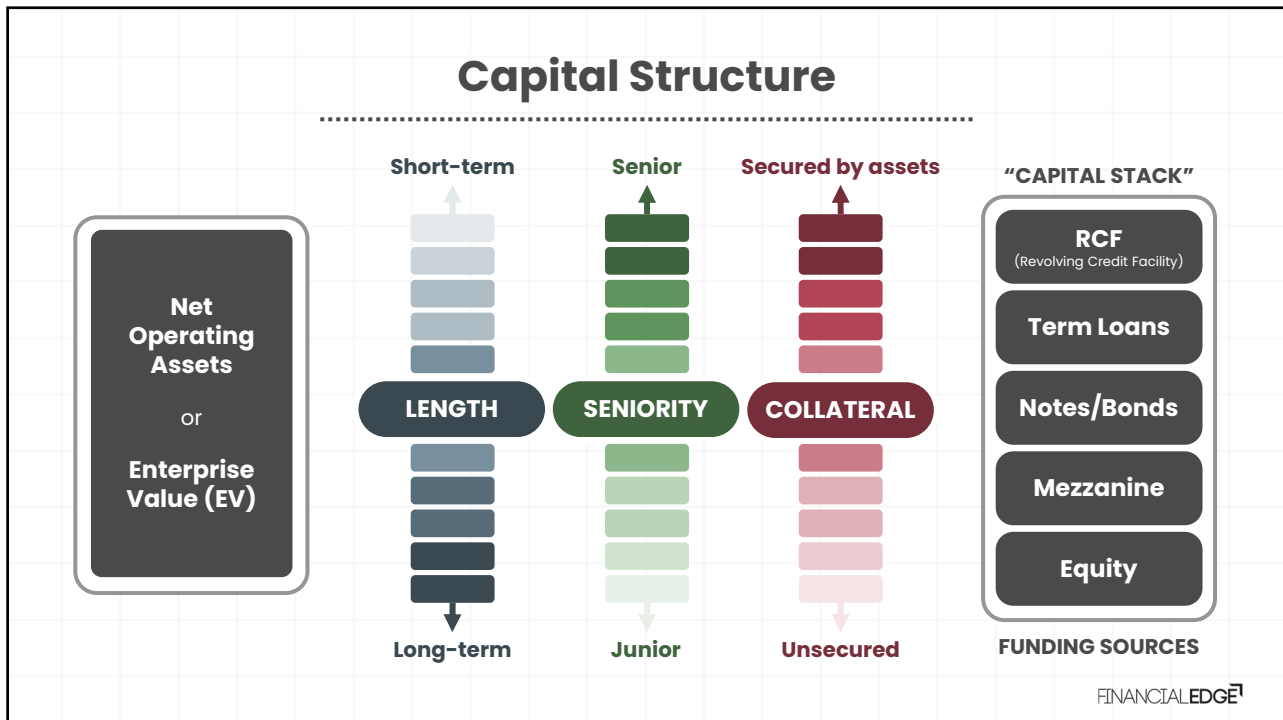
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Rule of thumb: Match the financing need with the correct financing term

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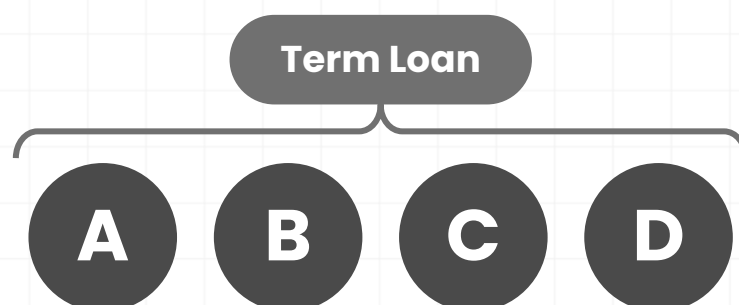
A Look at a Leveraged Capital Structure

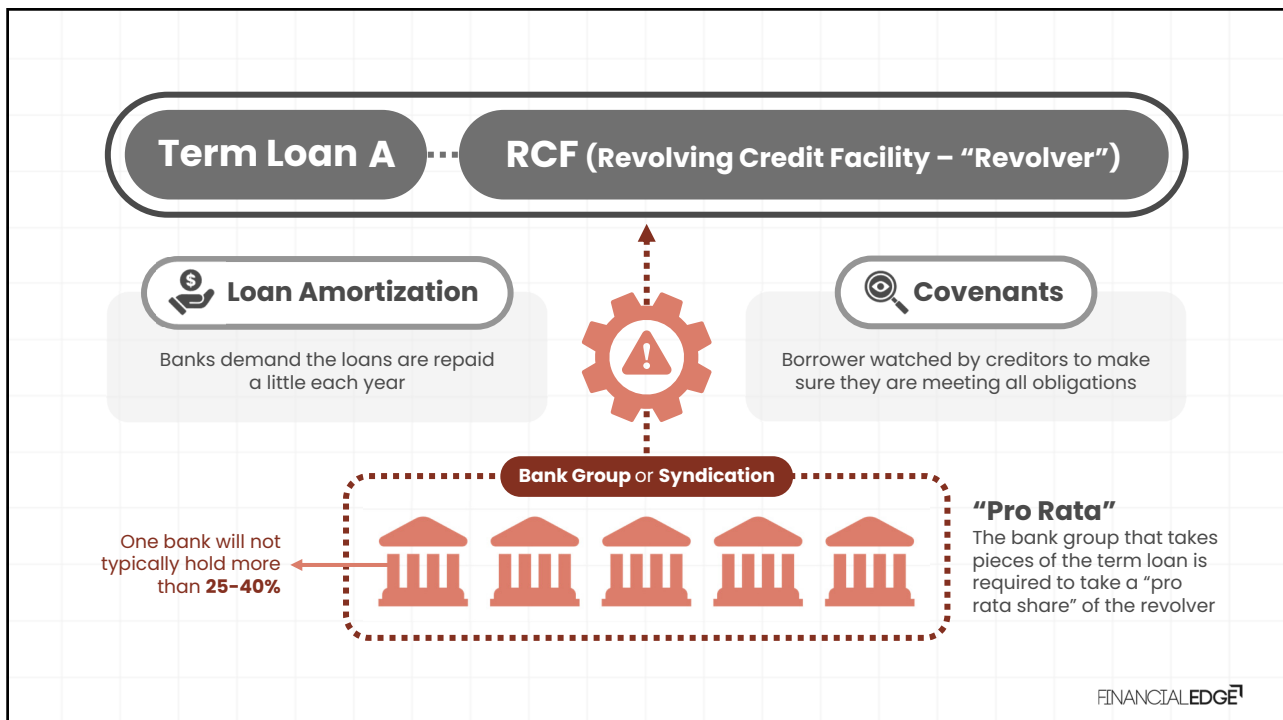
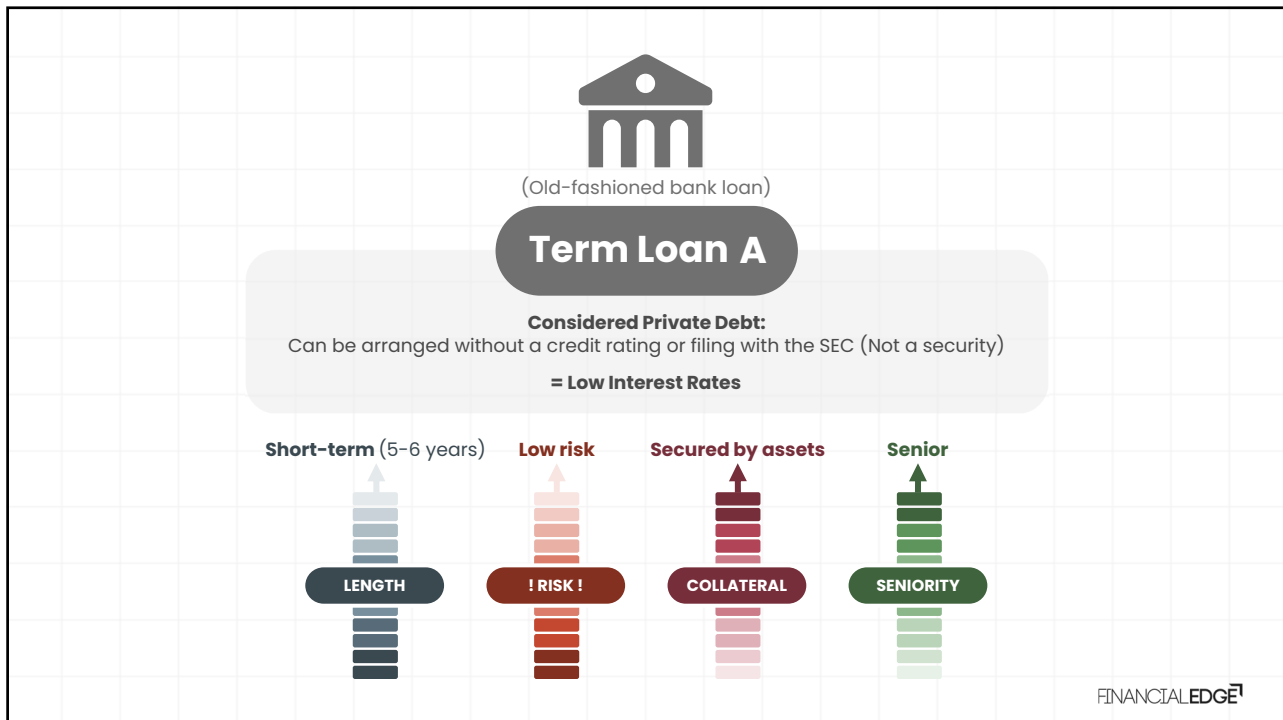


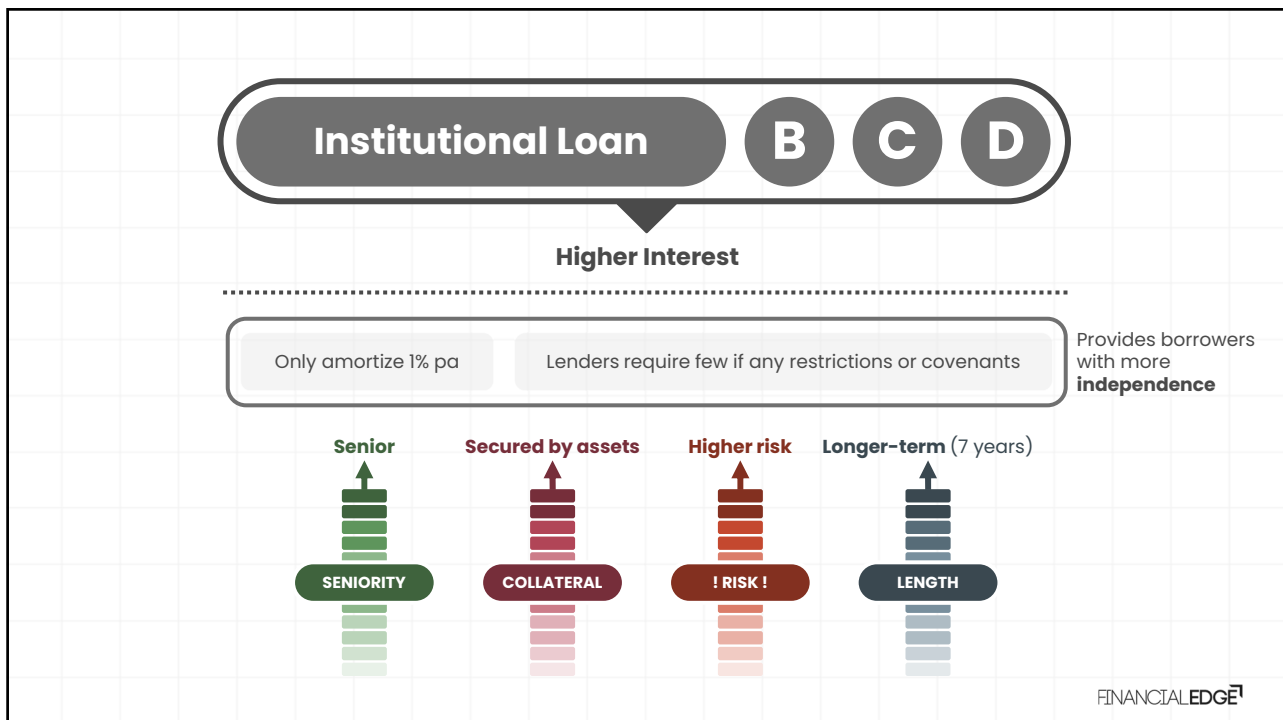
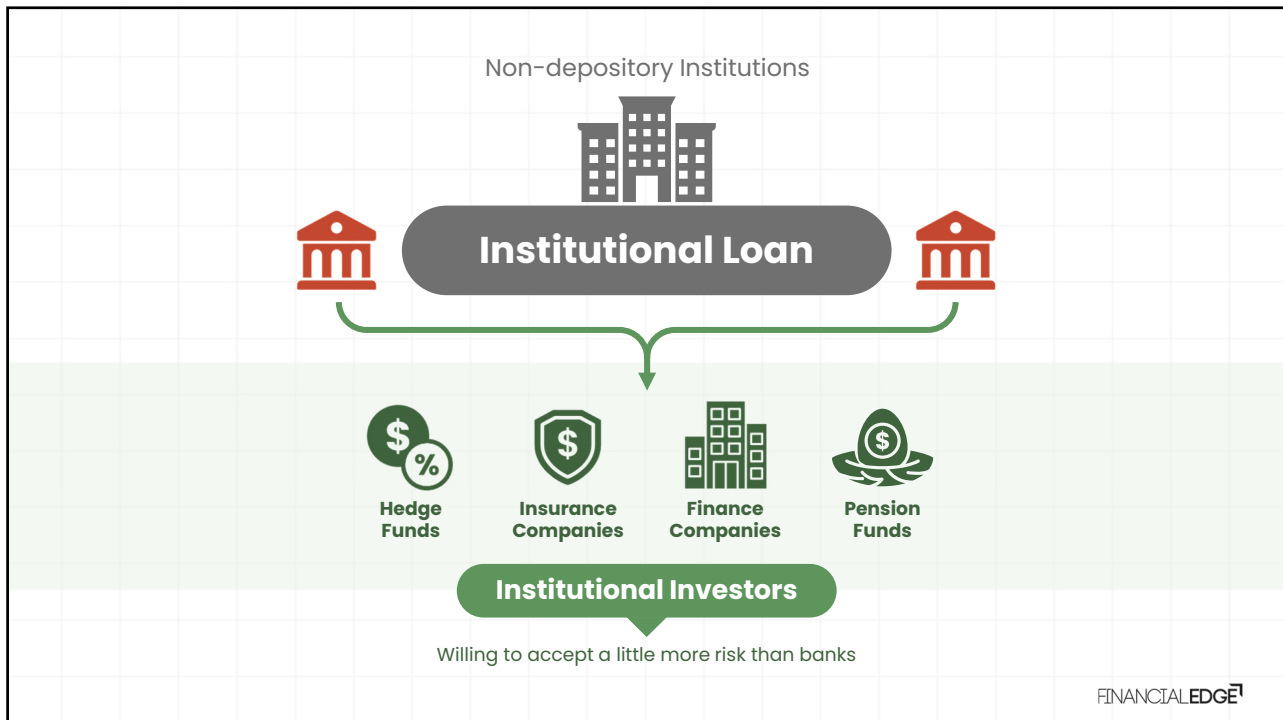
Revolvers and Leveraged Loans

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Who provides debt products?

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Private Credit Funds

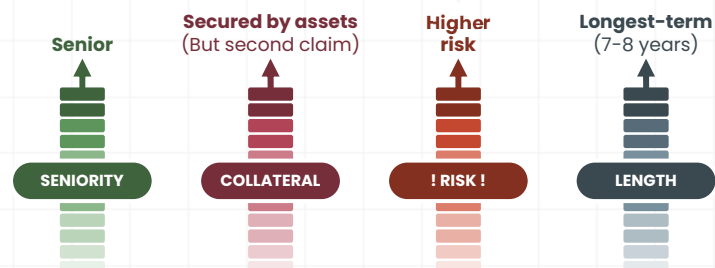
Similar to private equity funds but with a focus on lending.

Same kind of loan being made under a **TLB** (Term Loan B).



Second Lien Loans

Investors are compensated for this risk



The Loan Process

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Bank Leveraged Transaction

Request for
Proposal (RFP)



Credit
Analysis



Indicative Pricing
/ Term Sheet



Credit
Memo



Syndication

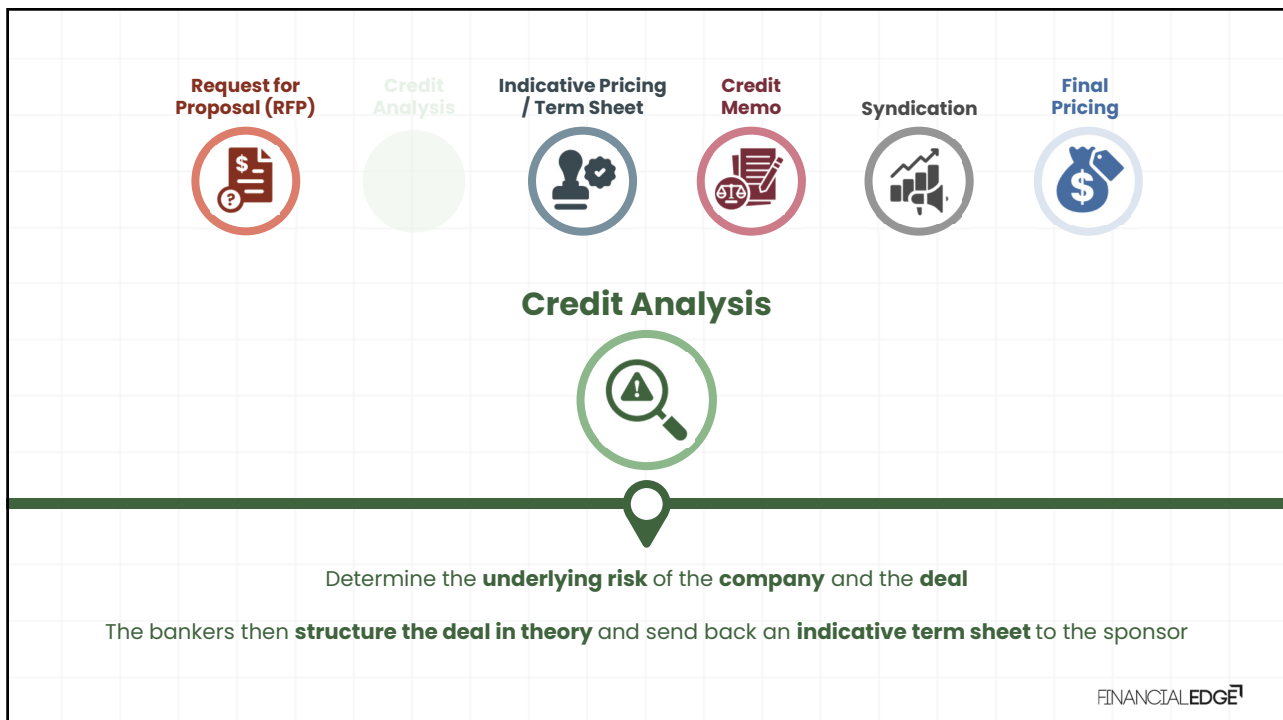
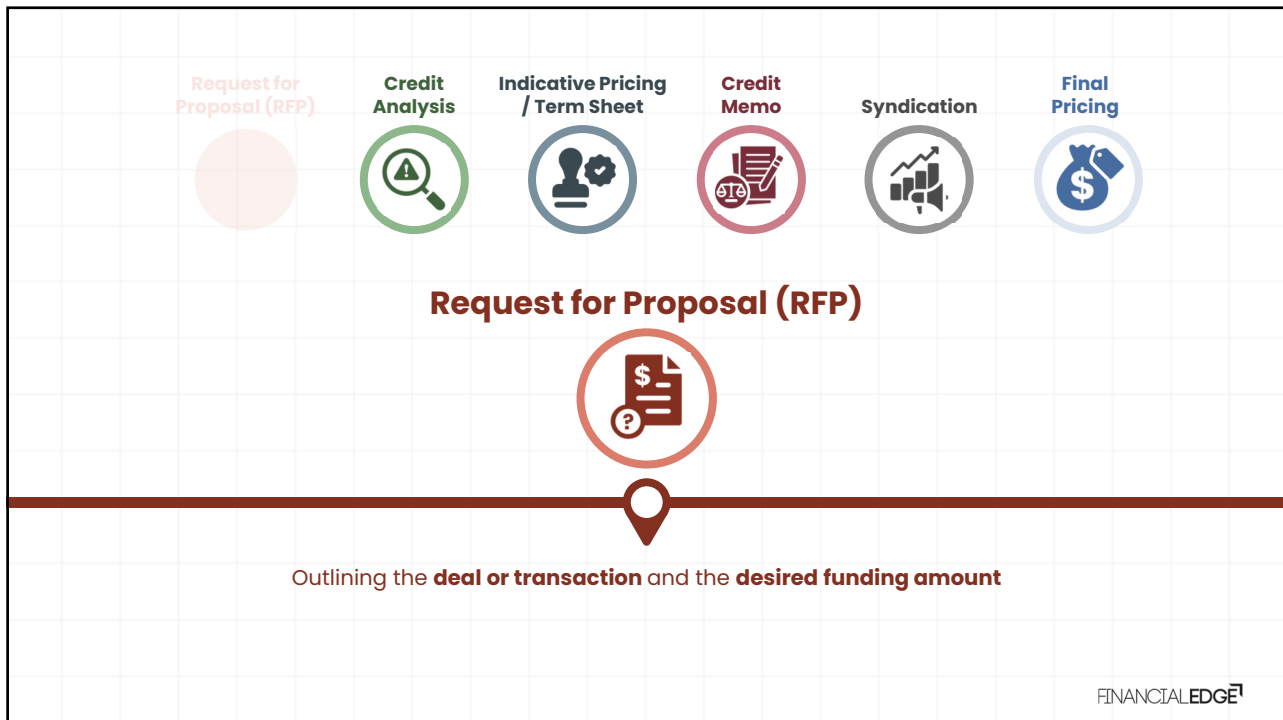


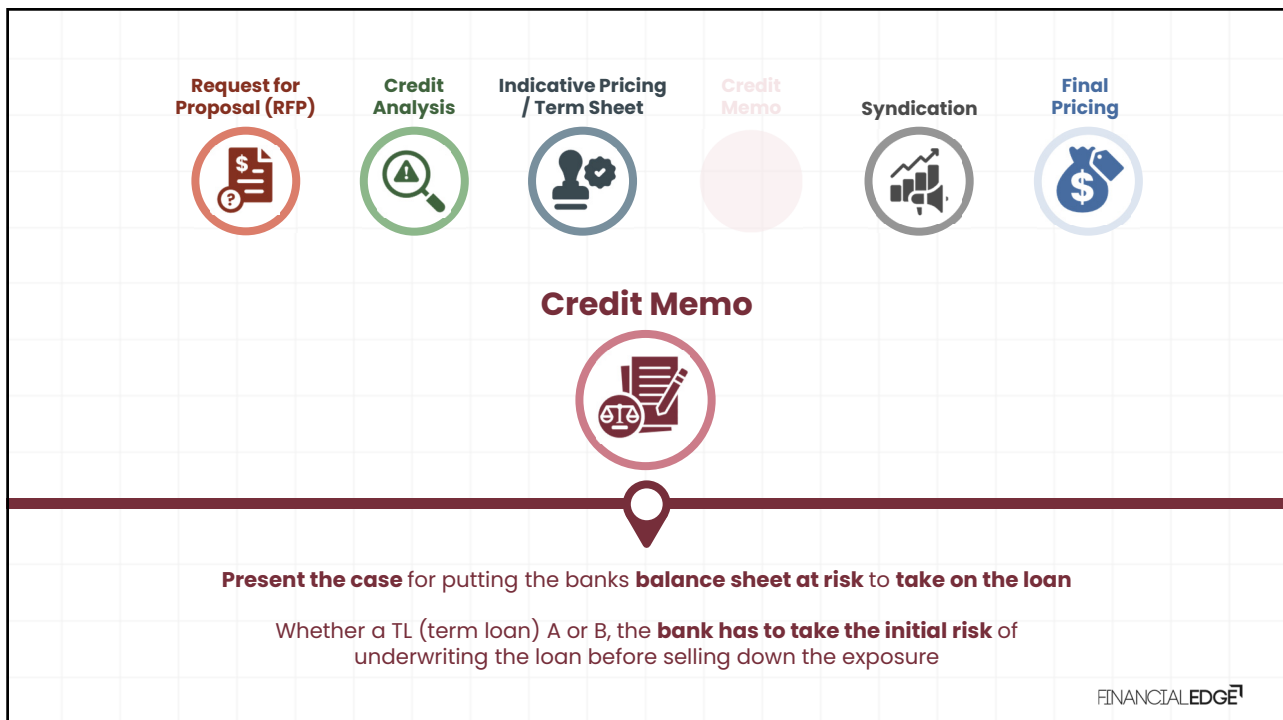
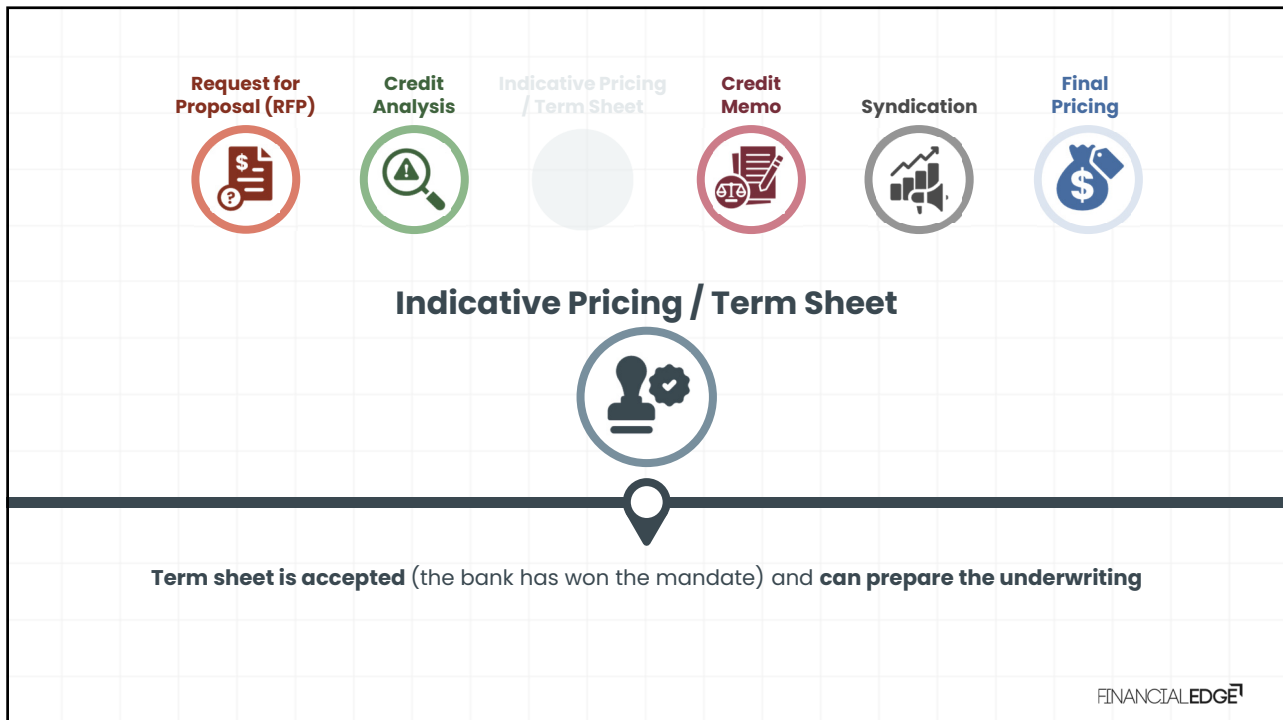
Final
Pricing

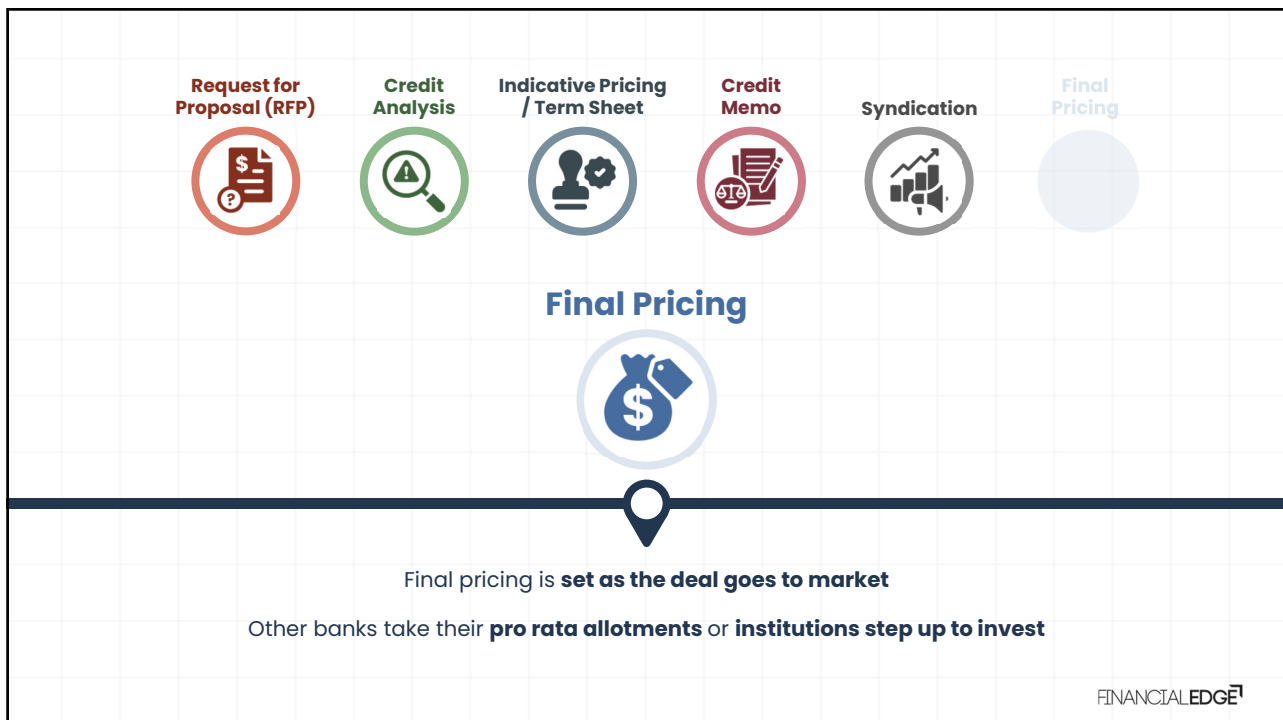
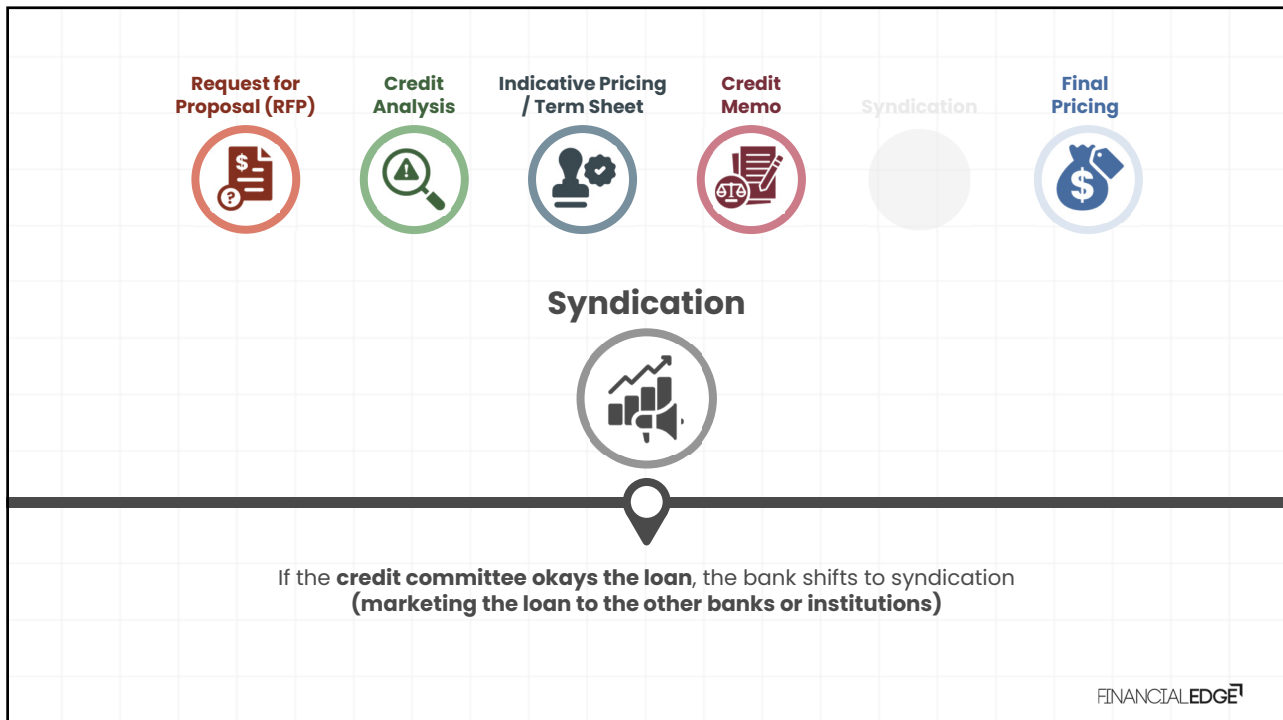


3-4 Weeks

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Term Loan B – Broadly Syndicated Loan

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“Cov-lite” (Covenant Lite)

Term Loan B

≠

Term Loan A



Financial institutions looking for yield

Senior

Secured



Amortization

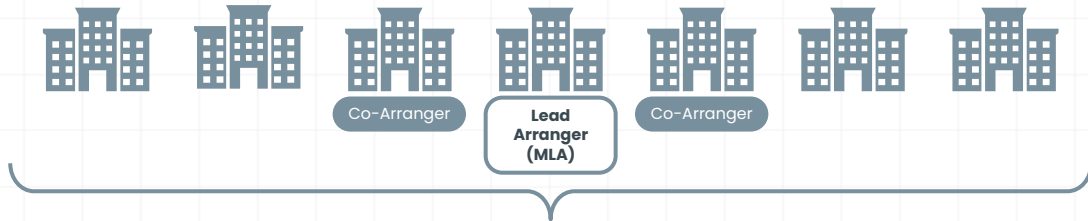
Covenants

Flexibility to **build cash reserves (or baskets)**
to **buy other companies** or **invest internally**

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Term Loan B

Actively trade the loans in the secondary market



Banks underwrite the loans and then sell them down to institutional investors

Buyers are offered incentives: discounts or "OID" (Original Issue Discount)



Very little is held on the banks' balance sheets

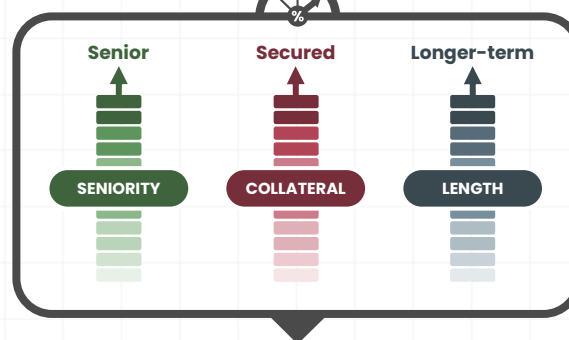
Unlike traditional bank loans where banks are expected to hold some of the loan on their books

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Term Loan B

Often publicly rated

★★★★☆



Securitized product:

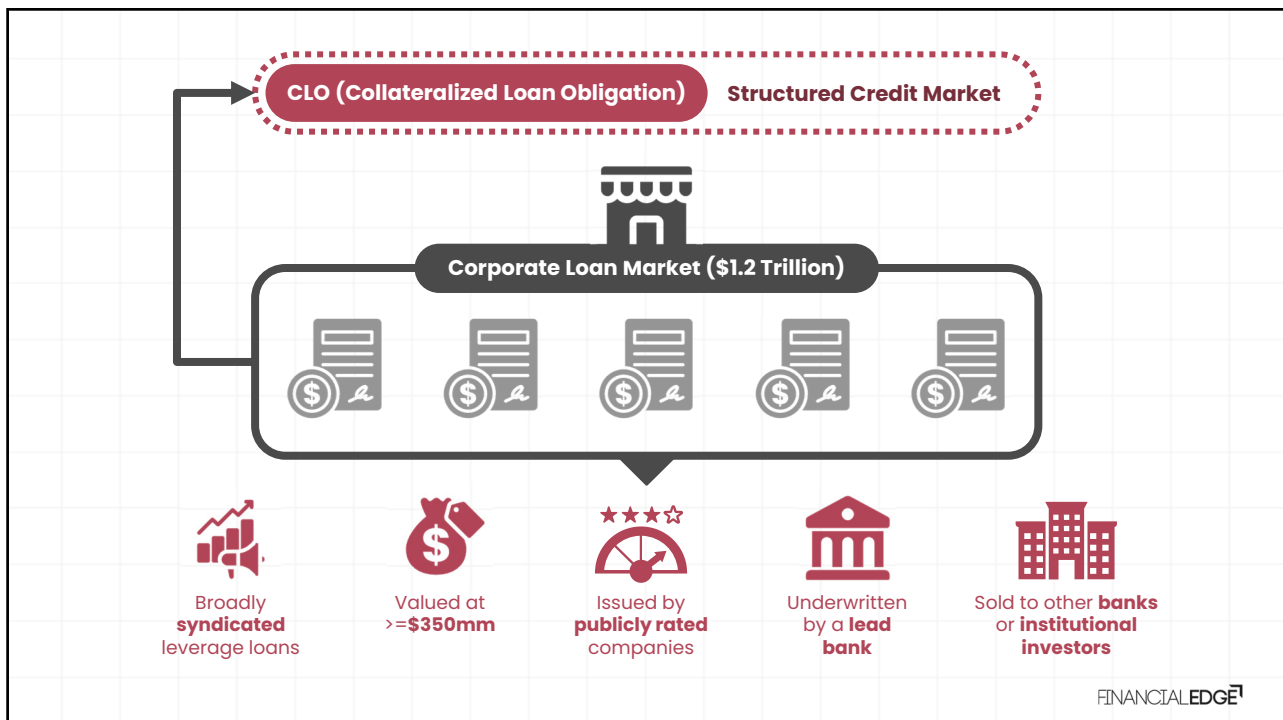
CLO (Collateralized Loan Obligation)

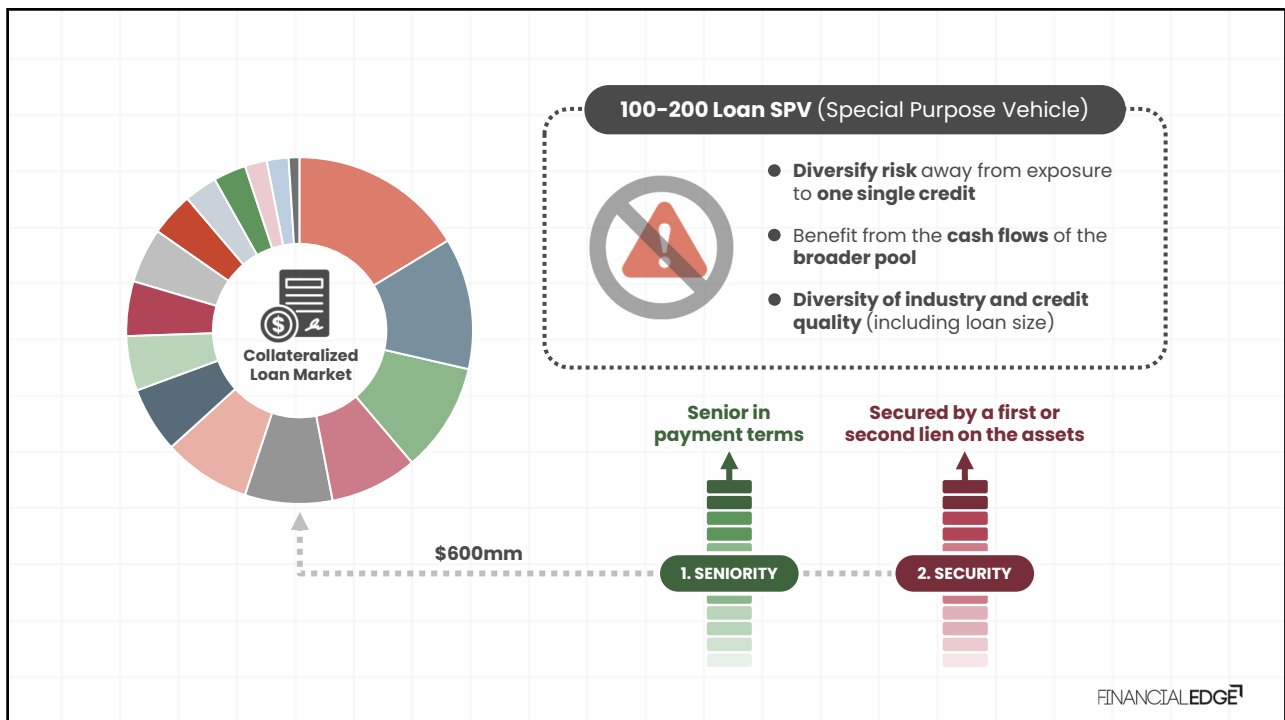
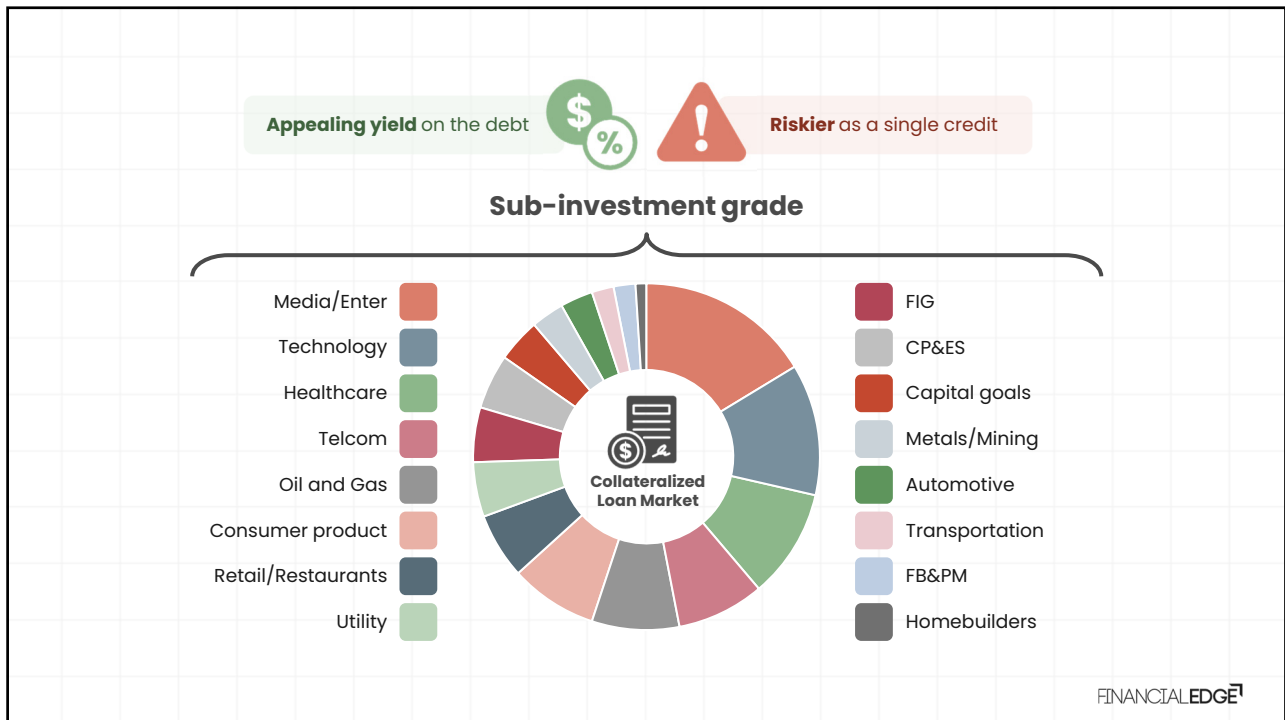
CLO SPVs (Special purpose vehicles) make up the **largest buyers of term loan B's**

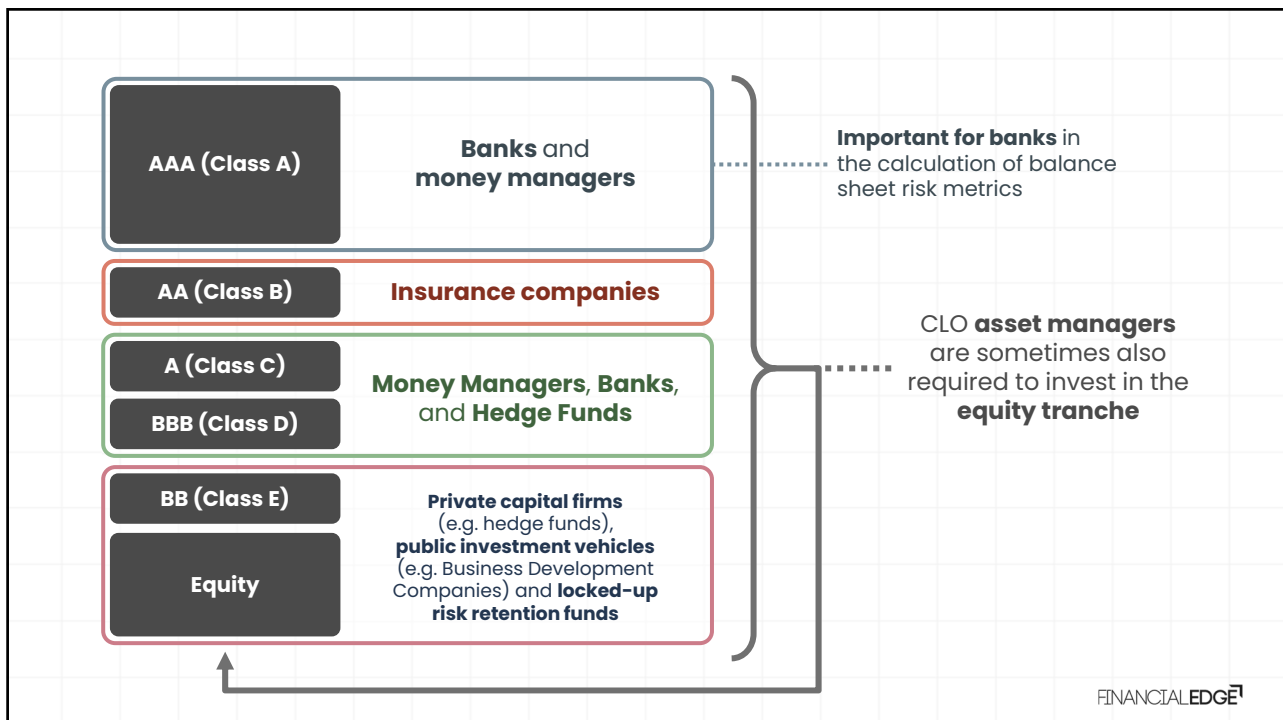
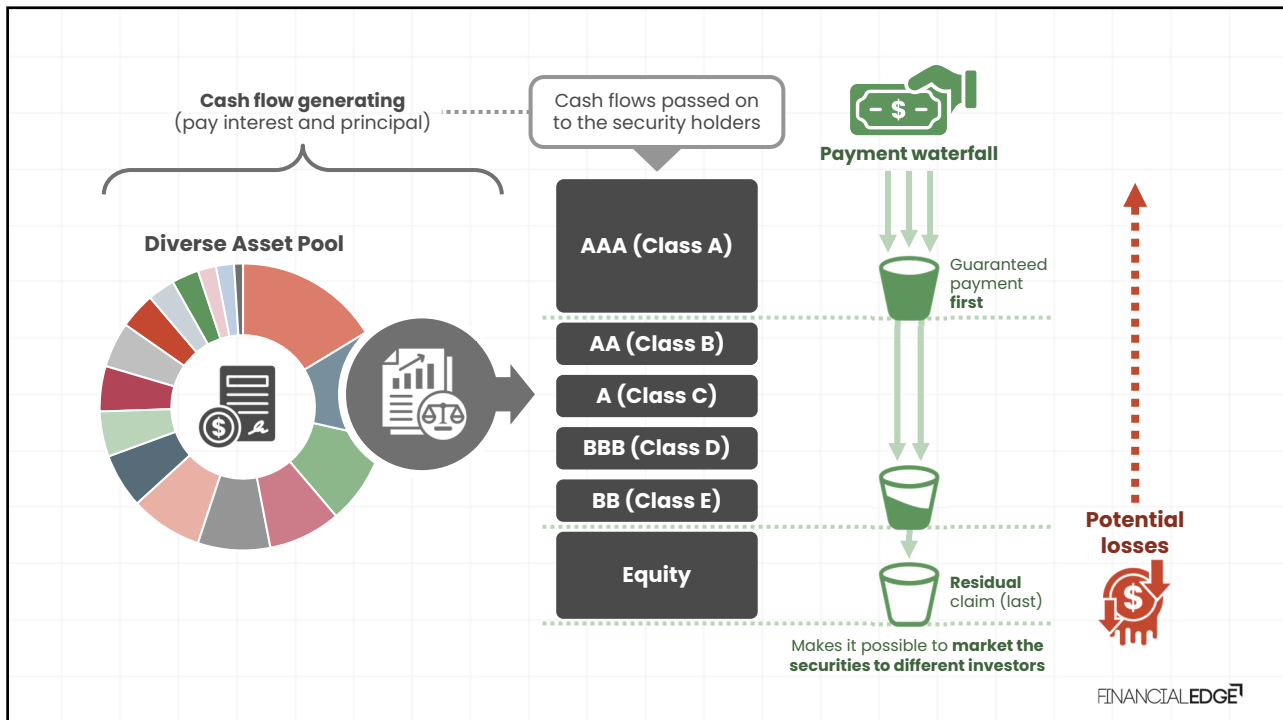
Drive liquidity in the market

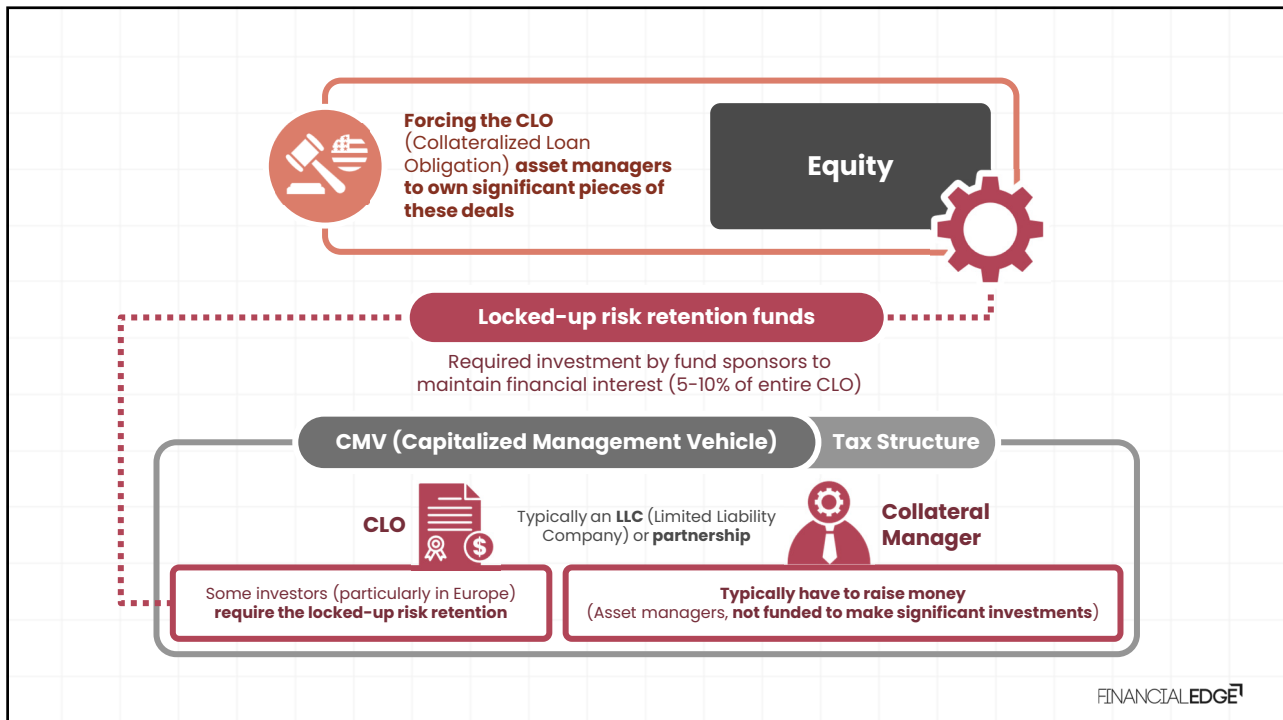
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CLOs and the Leveraged Loan Market

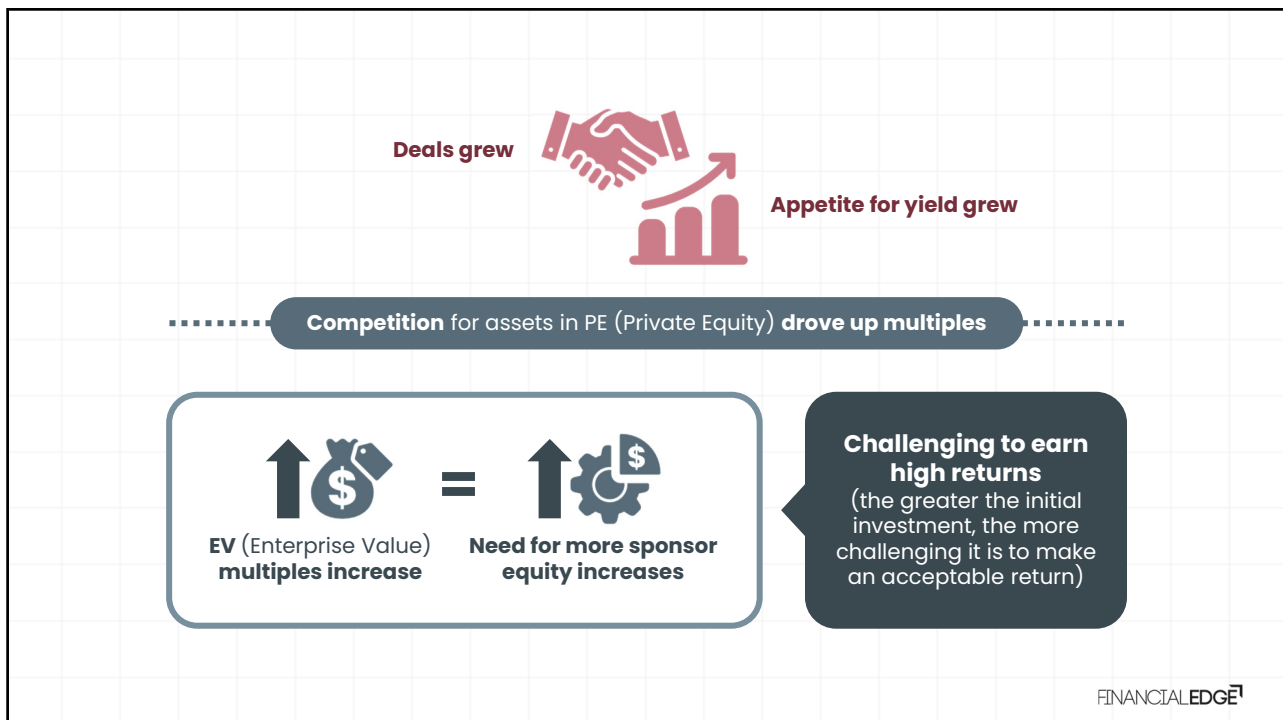
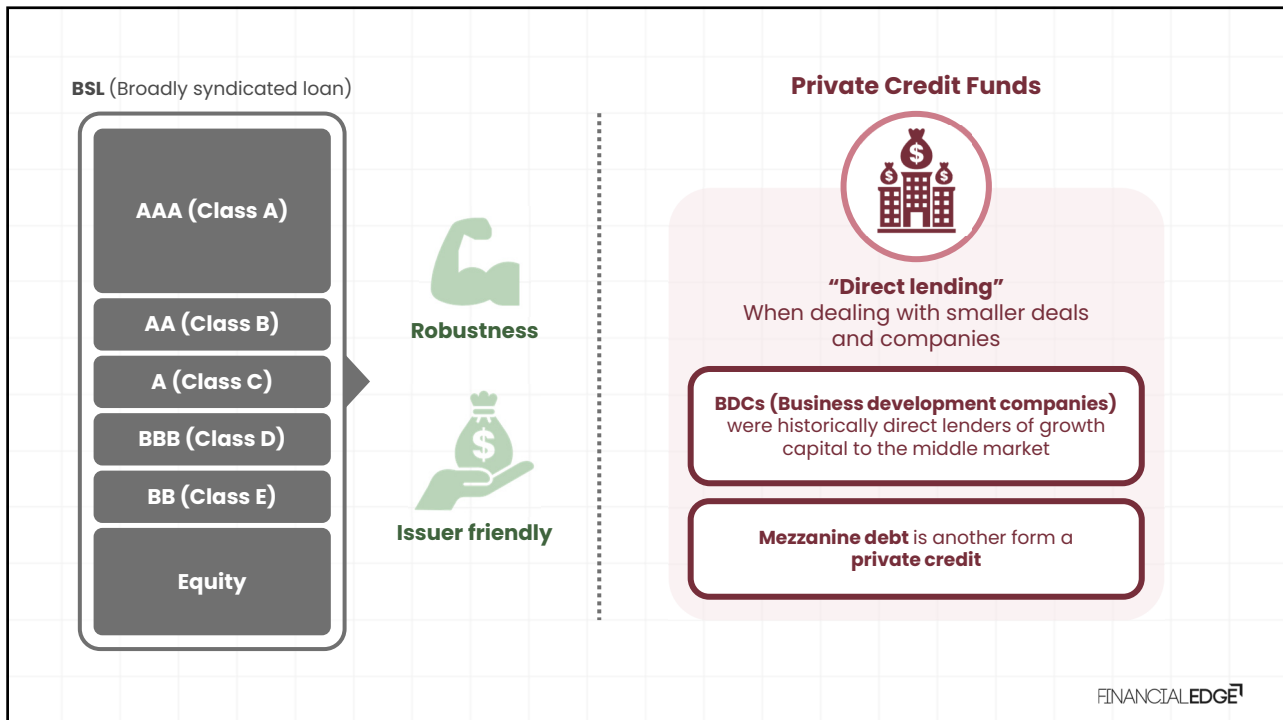
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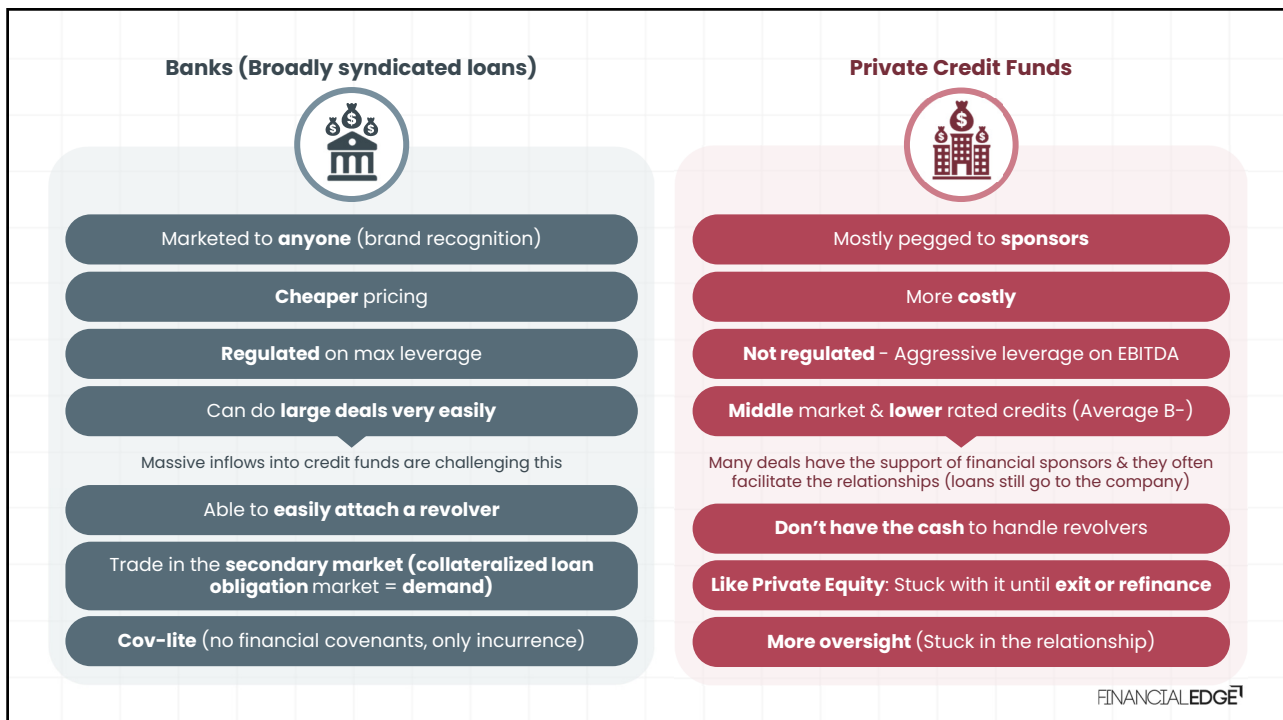
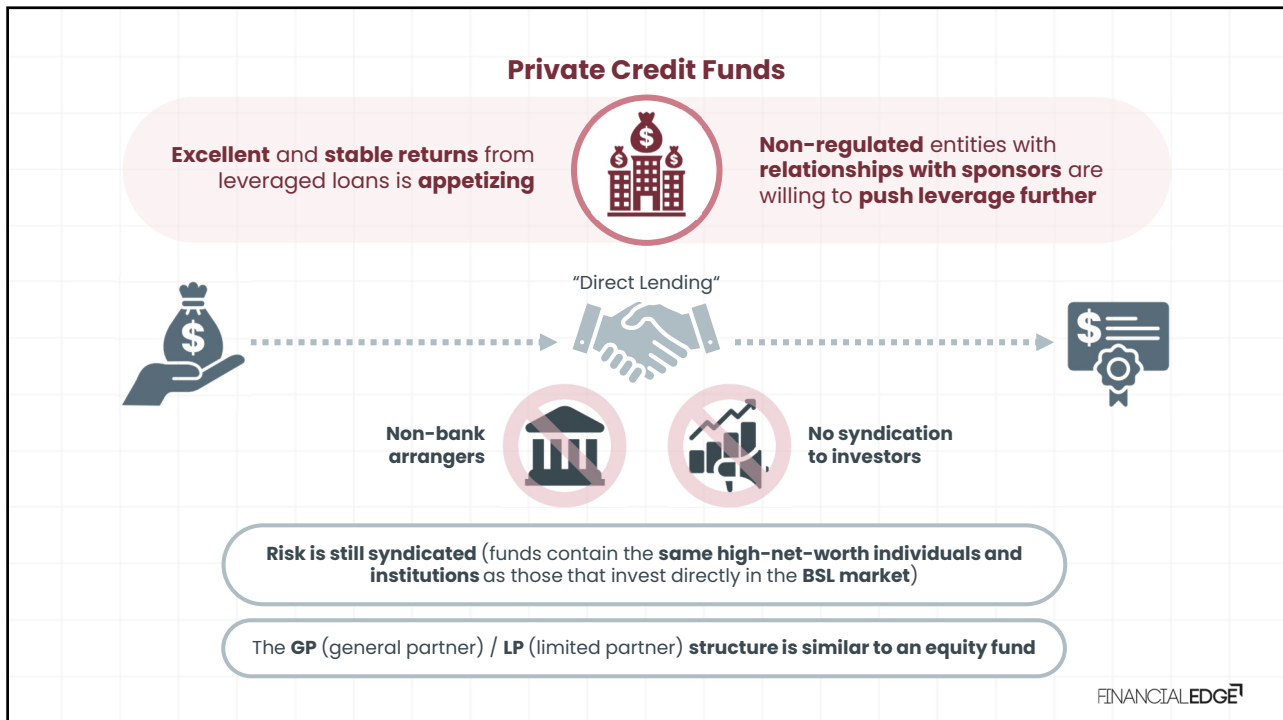




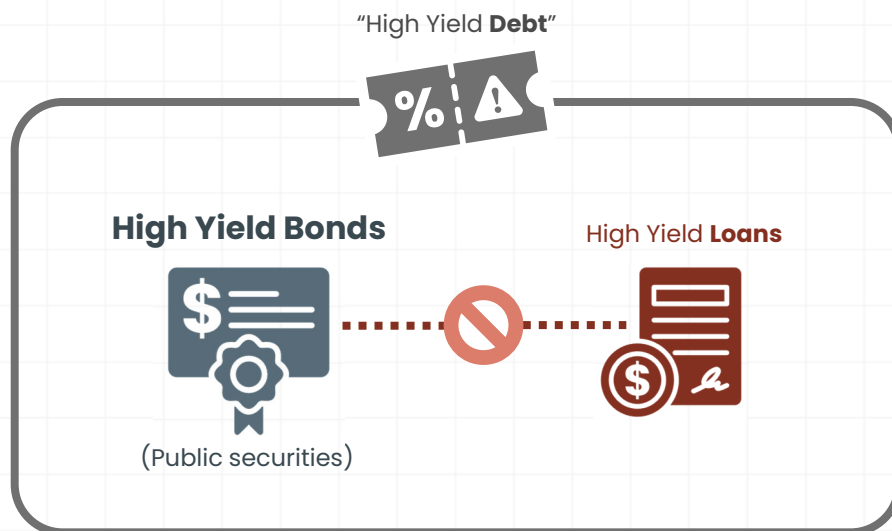


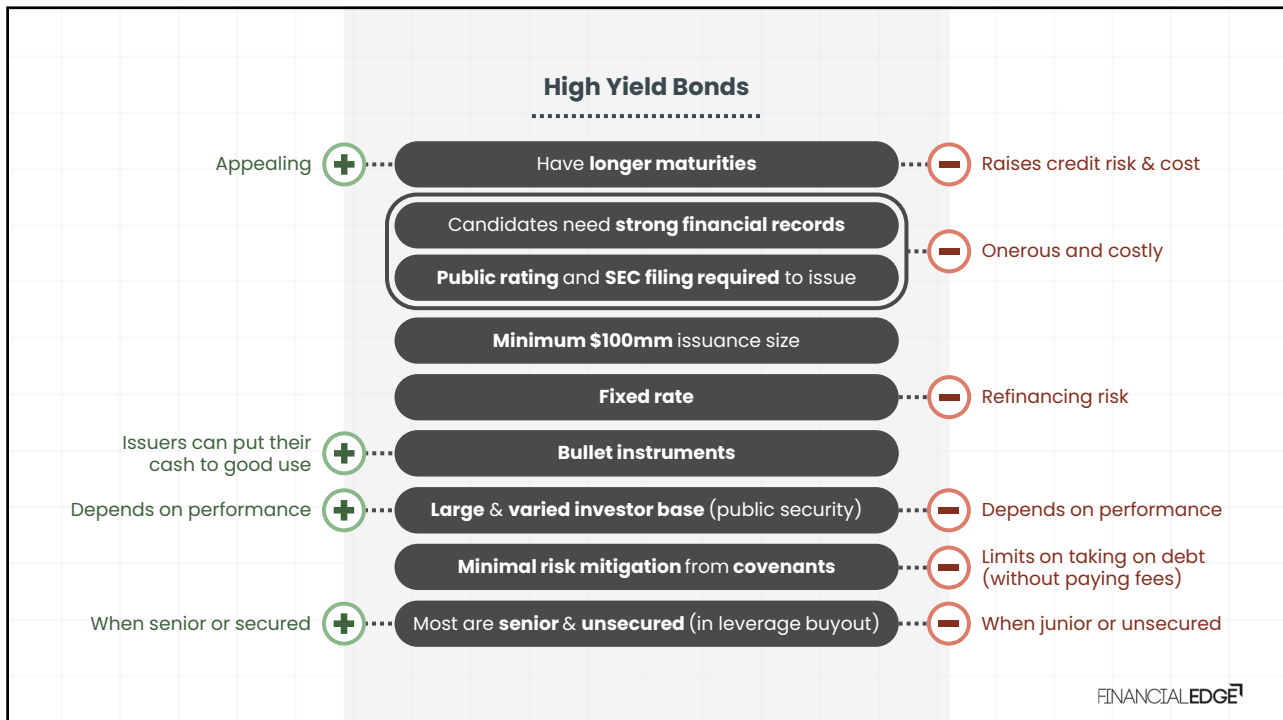
The Rise of Private Credit





High Yield Bonds

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The Bond Issuance Process



Time	Stage	Parties Involved
Pre-Launch	Underwriter analysis performed, due diligence, internal commitments, term sheets, highly confident letter,	Bankers, Issuer
Week 1	Offering memo drafted, covenant package negotiated	Counsel, Bankers, Issuer
Week 2	Description of Notes(DoN) drafted, data room prepared	Counsel, Bankers, Issuer
Week 3	Prepare rating agency presentation, accountants certify	Bankers, Issuer, Accountant
Week 4	Review draft of offering memorandum, DoN	Counsel
Week 5	Draft road show presentation	Bankers
Week 6	Present to ratings agencies	Issuers
Week 7	Feedback from agencies, complete preliminary offering memo; finalize purchase agreement, comfort letter	Bankers, Counsel
Weeks 8-10	Launch road show (3-5 days), price deal, close (2-5 days), closing documents signed, funds wired	Bankers, Counsel, Issuer

Lengthy

Many steps

Many parties

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Time	Stage	Parties Involved
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Week 6	Present to ratings agencies	Issuers
Week 7	Feedback from agencies, complete preliminary offering memo; finalize purchase agreement, comfort letter	Bankers, Counsel
Weeks 8-10	Launch road show (3-5 days), price deal, close (2-5 days), closing documents signed, funds wired	Bankers, Counsel, Issuer

Similar to IPO (Initial public offering) or equity issuance



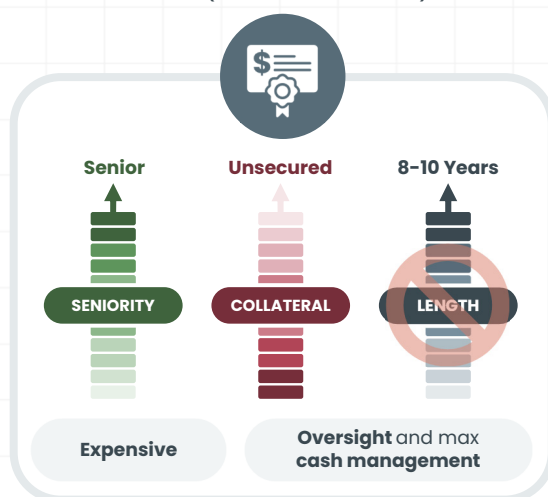
Much shorter than the IPO process (particularly in pre-launch)

IPO prep:
>18 monthsBond arrangement:
several monthsFollow-on offerings
(FPO) can be
particularly fastFINANCIALEDGE¹

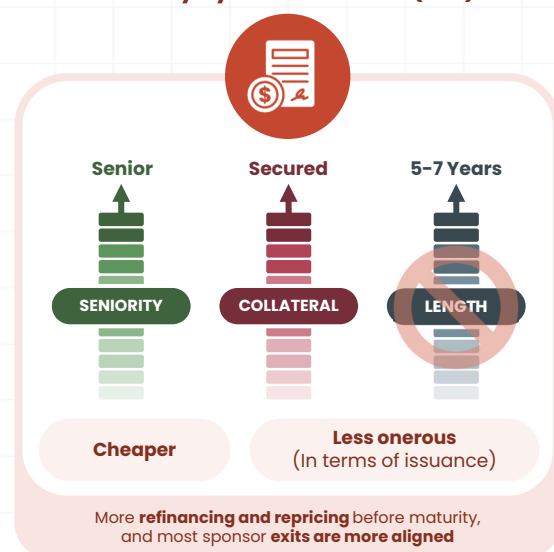
Loans vs. Bonds

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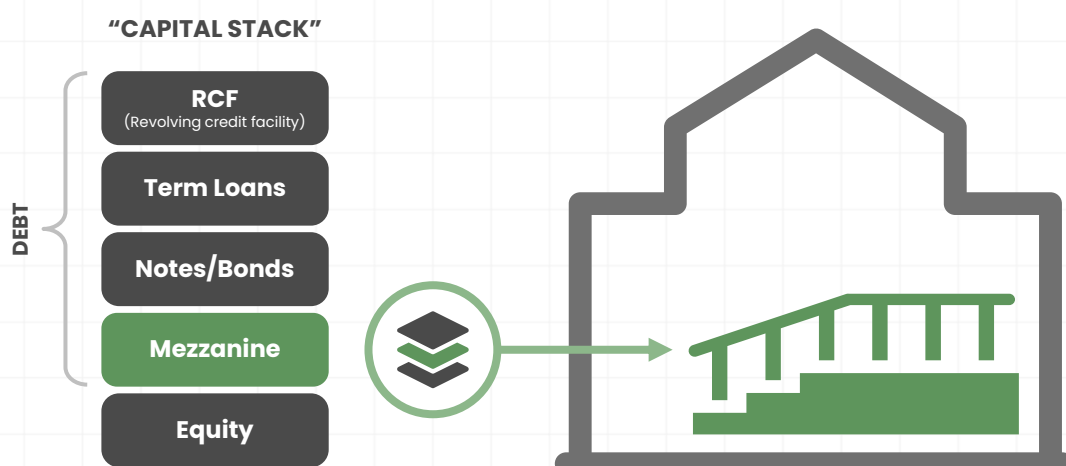
Bond (bullet instrument)

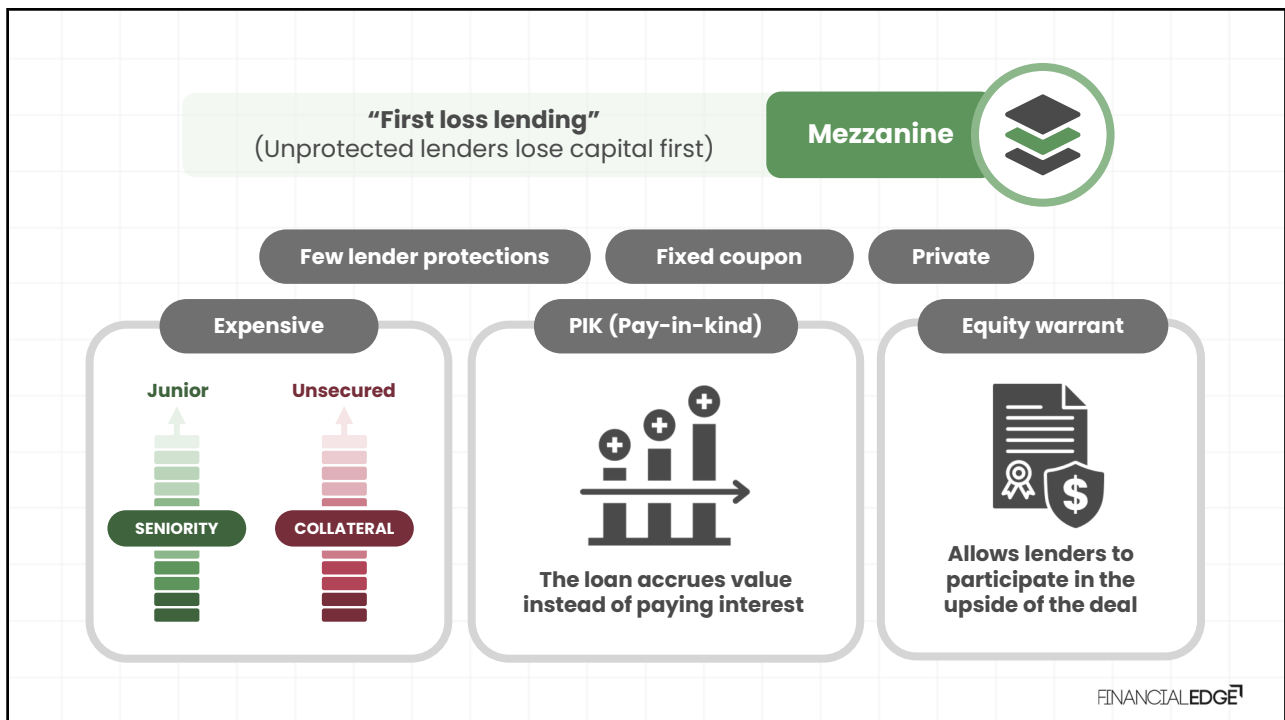
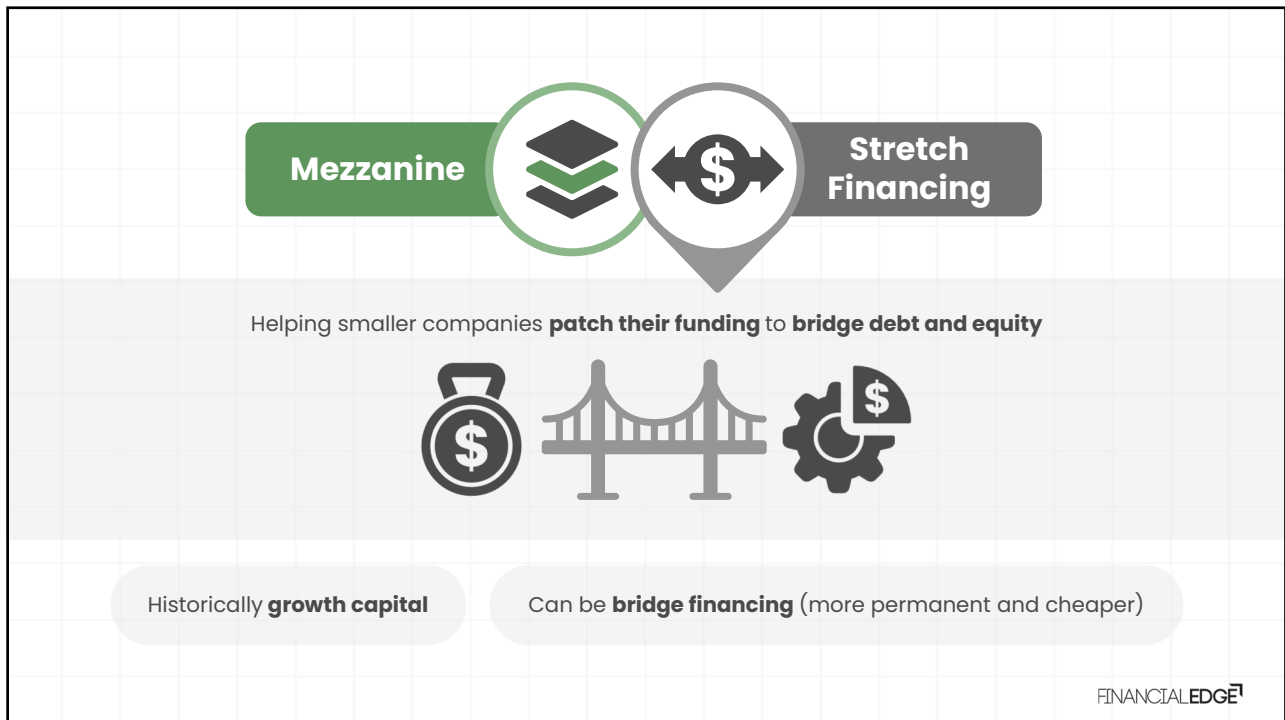


Cov-lite Term Loan or Broadly Syndicated Loan (BSL)

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Mezzanine First Loss Debt

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Debt Capacity Structuring the Deal

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**Structuring a Buyout
or Levered Acquisition**



Debt Capacity

A company's ability to lever to a desirable level



Maximizing an **equity
sponsor return**



Maintaining a
certain **credit rating**

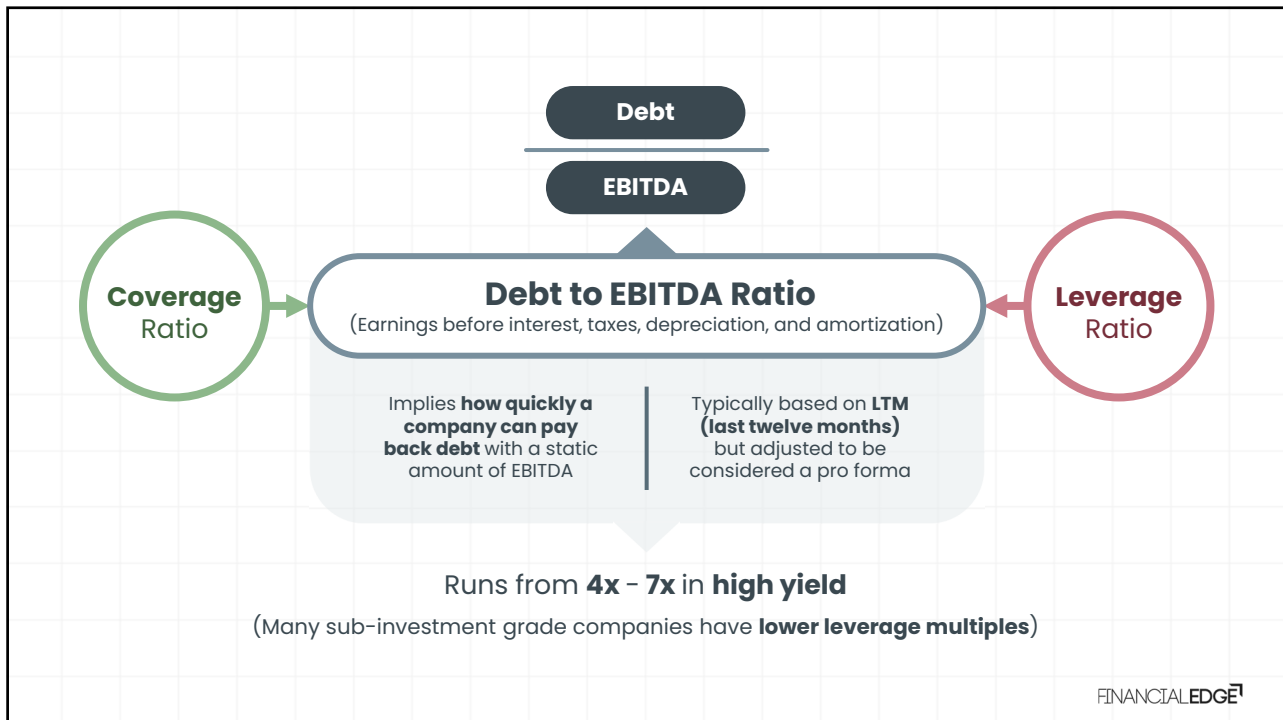


Leaving **breathing room**
after fixed charges



Credit market appetite
for certain loan or credit

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Leverage Multiples

LTM EBITDA \$100	Amount	Multiple / EBITDA
Acquisition Price	\$1,000	10.0x
Term Loan B	\$350	3.5x
Senior Notes	\$150	1.5x
Mezzanine	\$100	1.0x
Equity Investment	\$400	4.0x

Senior Debt or Term Loan B
3x – 5x 3x – 4x

Junior Debt
1x – 2x

Can be junior
bonds or
mezzanine

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Summary

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High Yield Financing

	Revolving Credit Facility	Term Loan A	Term Loan B	Senior Notes	Subordinated Notes	Mezzanine
Interest Rate / Coupon	Lowest (175 to 325bps)	Low (200 to 250)	Higher (200 to 500)	Higher (500 to 700)	Higher (600 to 900)	Highest
Floating / Fixed	Floating			Fixed		
Interest Type	Cash	Cash	Cash	Cash	Cash	Cash / PIK
Tenor	3-5 years	5 years	7 years	8-10 years	5-10 years	3 – 5 years
Amortization	None	Straight Line	Minimal	Bullet	Bullet	Bullet
Prepayment	Yes	Yes	Yes	No	No	Depends
Seniority	Senior		Senior	Senior	Subordinated	Subordinated
Security	Secured		Secured	Secured / Unsecured	Unsecured	Unsecured
Covenants	Financial and Incurrence		Incurrence	Incurrence	Incurrence	Incurrence

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