

# Leveraged Finance: Structures & Safeguards

A two-day workshop. A guide to structuring, focusing on leveraged finance techniques for credit and origination professionals involved in devising and analysing innovative financial solutions.

## TARGET AUDIENCE

Experienced banking and finance professionals responsible for credit risk management, marketing, structuring or evaluating leveraged transactions.

## COURSE OBJECTIVES

Participants will be equipped to:

- Apply analytic tools to identify appropriate candidates for leverage
- Appreciate how market conditions have affected structures in the market place
- Use forecasts of the key cash-flow drivers to determine an appropriate debt quantum and the relationship between amortising and non-amortising debt
- Understand the key terms and conditions of various debt instruments which have been used historically in Leveraged Finance as well as instruments available in the current market: including senior bank debt, senior secured notes, second lien, mezzanine, high yield notes and PIK notes
- Structure leveraged transactions combining different debt instruments (both pre- and post-credit crunch)
- Understand the key elements of an intercreditor agreement and how the inter-relationships of the debt providers are governed
- Appreciate the importance of safeguards to enable early intervention in deteriorating credits and the correlation between early intervention and ultimate recovery rates in distressed credits.

## CONTENT

### ANALYTIC OVERVIEW

#### Introduction

- Using leverage: the rationale
- Market trends: leverage multiples, capital structures, parties and instruments
- Current market conditions: impact of the credit crunch and economic downturn, default and recovery rates
- Definitions: primary buyouts, secondary buyouts, dividend recapitalisations, debt buy backs etc.
- Key players: parties to the transaction and their motivations

#### Purpose payback

- Using purpose payback concepts to understand structures of different classes of debt
- Cash-flow
- Asset sales
- Refinancing

#### Instruments

- Overview of the structural features, required market conditions and pricing of LBO instruments and how these are changing
- Senior debt products used in leveraged transactions: bank (e.g. alphabet loans, revolvers, working capital, bridge finance, acquisition, restructuring and CAPEX lines) and bonds
- Intermediate capital and hybrid products: high yield, warranted and warrantless mezzanine, second lien, vendor notes, PIK notes
- Equity: types of equity and their impact on debt providers.

## IDENTIFYING CANDIDATES AND FORECASTING PERFORMANCE

- Characteristics of an “ideal” LBO: identifying candidates for leverage
- Identifying key drivers within the company cash-flow
- Modelling performance: building assumptions, sensitising forecasts and benchmarking.

## STRUCTURING LEVERAGED TRANSACTIONS

### Using forecasts to determine the capital structure

- Using cash-flow forecasts to determine debt capacity
- Balancing amortising and non-amortising debt structures
- Quantifying and pricing acceptable levels of refinancing risk
- How exit strategies (trade sales, IPOs, secondary and tertiary buyouts and recapitalisations) influence capital structures
- Estimating the impact of funding structures on issuer default and recovery ratings
- Recycled credits (refinancing and secondary/tertiary buyouts): market conditions needed and impact on debt quantum and structure.

### Debt profile

- Structuring debt: amount, currency, tenor, drawdown and amortisation profile
- Impact of the institutional investor
- Financing CAPEX, acquisitions, working capital
- Use of securitisations, sale and leaseback, borrowing base facilities to maximise debt quantum
- Assessing asset quality and assigning “haircuts” to determine loan amounts
- Devising and monitoring effective borrowing base structures
- Structuring bridge facilities: risks associated with repayment sources
- Combining bank debt with intermediate capital.

### Seniority

- Defining ranking: contractual (legal), structural and constructive subordination
- Establishing and maintaining ranking within the capital structure
- The impact of alternative funding products on senior lenders: evolving market conventions

### Terms and conditions

- Senior bank debt covenant packages: “standard” terms and conditions, establishing headroom
- The rise and fall of “covenant light”: the need for warning signals and the impact on lenders of different control mechanisms
- The relationship between senior bank debt and senior bonds: how pari is pari?
- Understanding the terms and conditions of subordinated debt
- Examining the interrelationship between senior debt, stretched senior and other subordinated instruments

### Pricing

- Pricing conventions in the leveraged market: fees, cash and deferred margins, warrants etc.
- Assessing risk-return profiles
- Exploiting value in the capital structure.

