

Sponsored & Leveraged Finance

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.