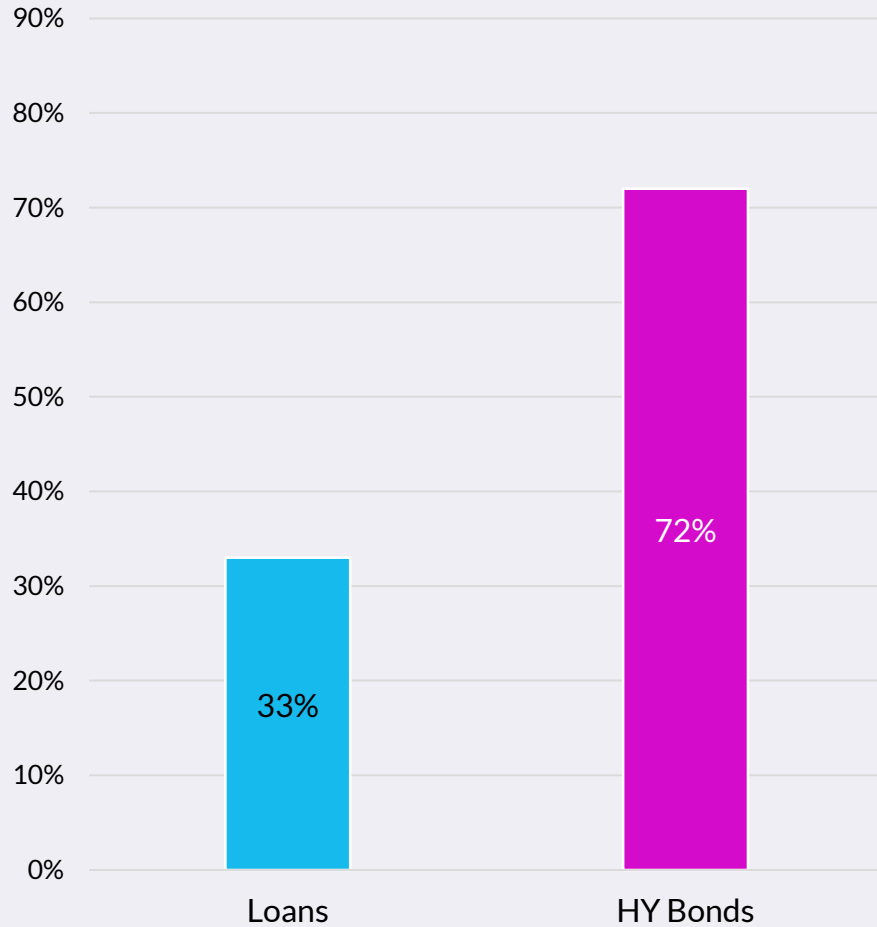


Leveraged Finance: Examining the Post-Convergence Era

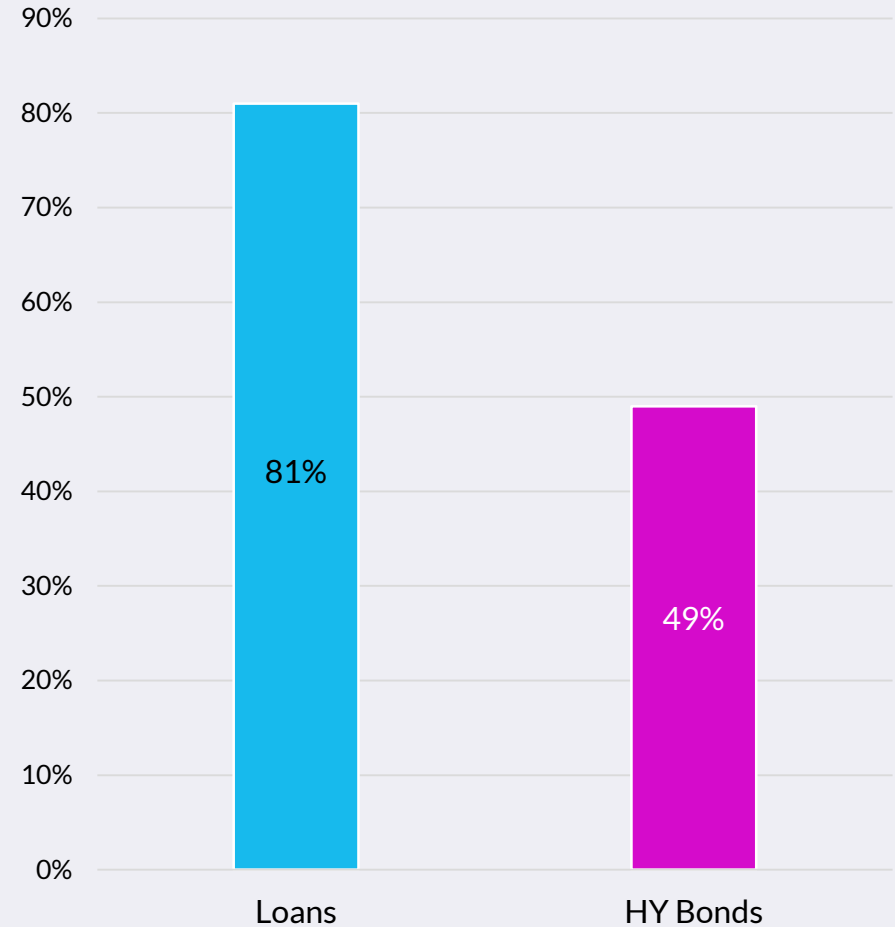
Breakfast Briefing
7 February 2019

James Slessenger & Christine Tadros

Uncapped Add-Back: Projected Synergies

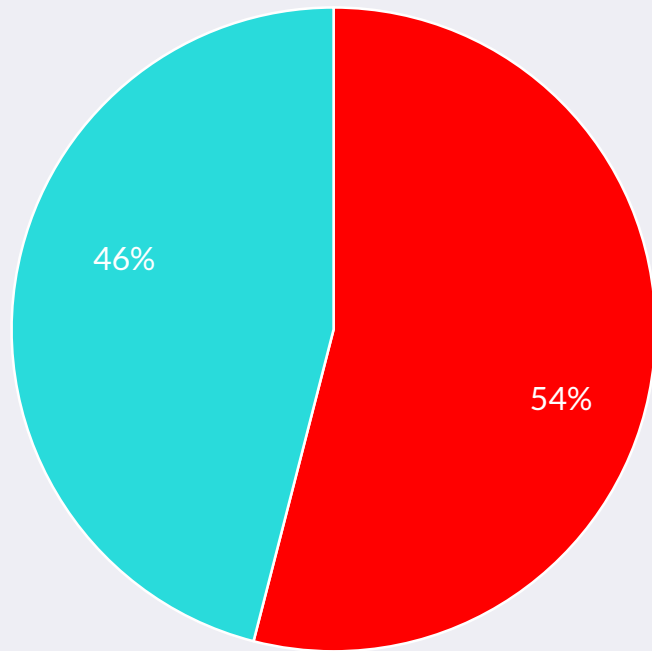


EBITDA As Main Basket Measure



LEVERAGING

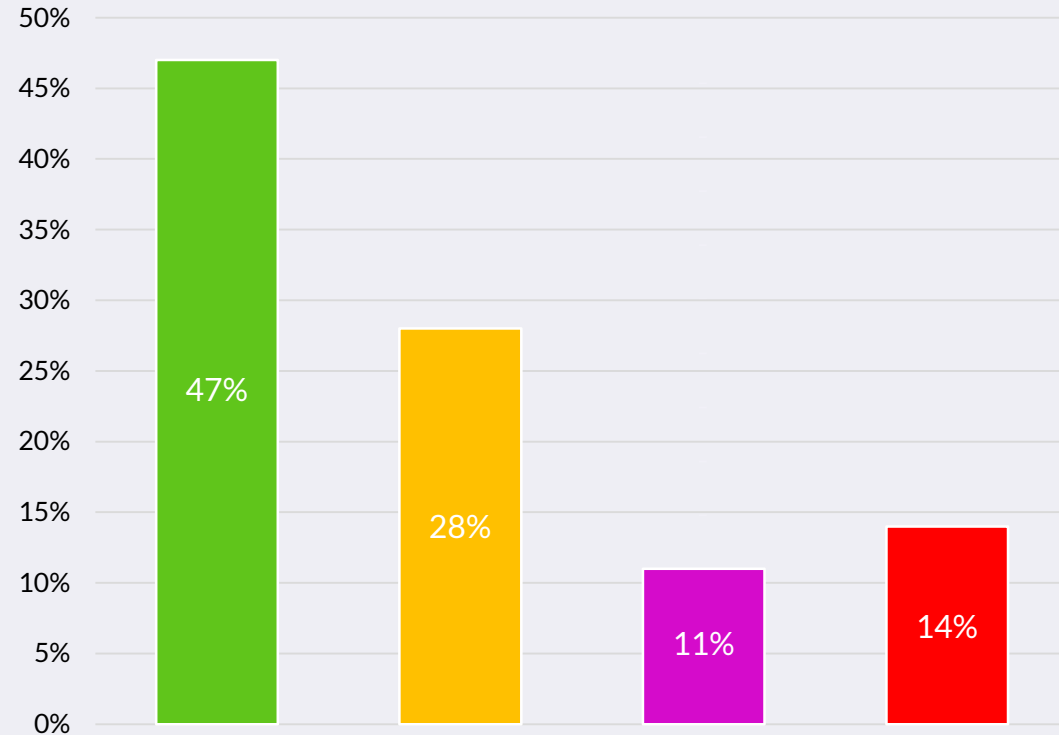
Loans – Incremental Facility ‘Freebies’



■ Incremental Freebie at 100% EBITDA (i.e. 1x leverage)

■ Freebie less than 100% EBITDA

Bonds – Additional Debt Capacity Leverage Multiples



■ QAD: 0.5x - 1.0x leverage

■ QAD: 1.0x - 1.5x leverage

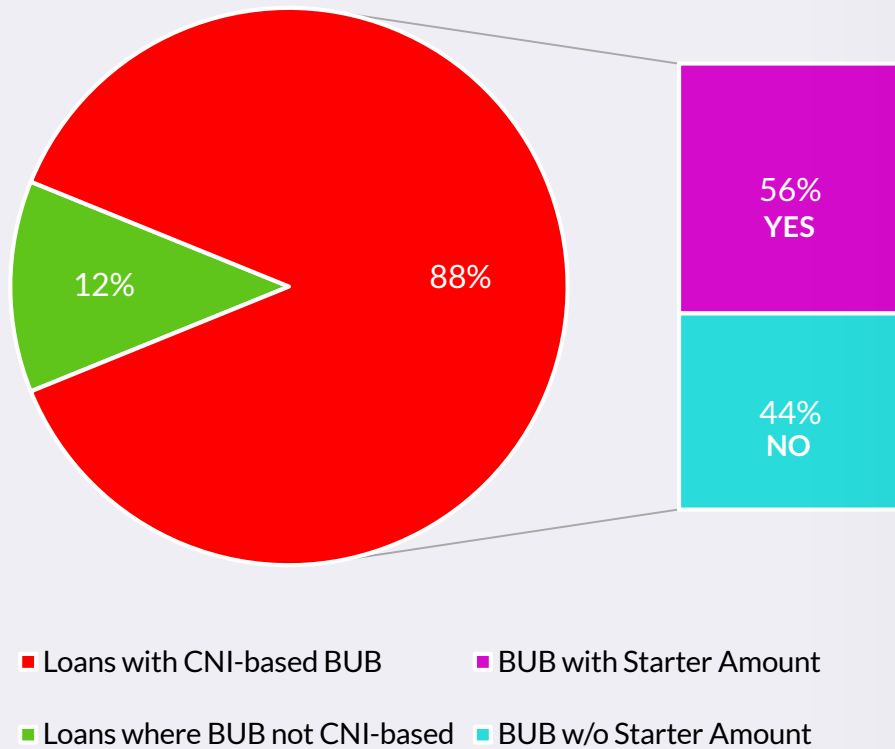
■ QAD: 1.5x - 2.0x leverage

■ QAD: 2.0x and above

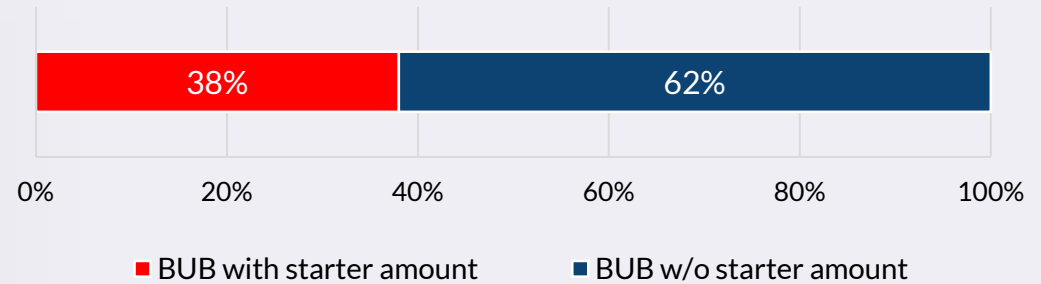
QAD = quantifiable additional debt
(ex: ratio debt & credit facilities basket)

The Restricted Payments covenant

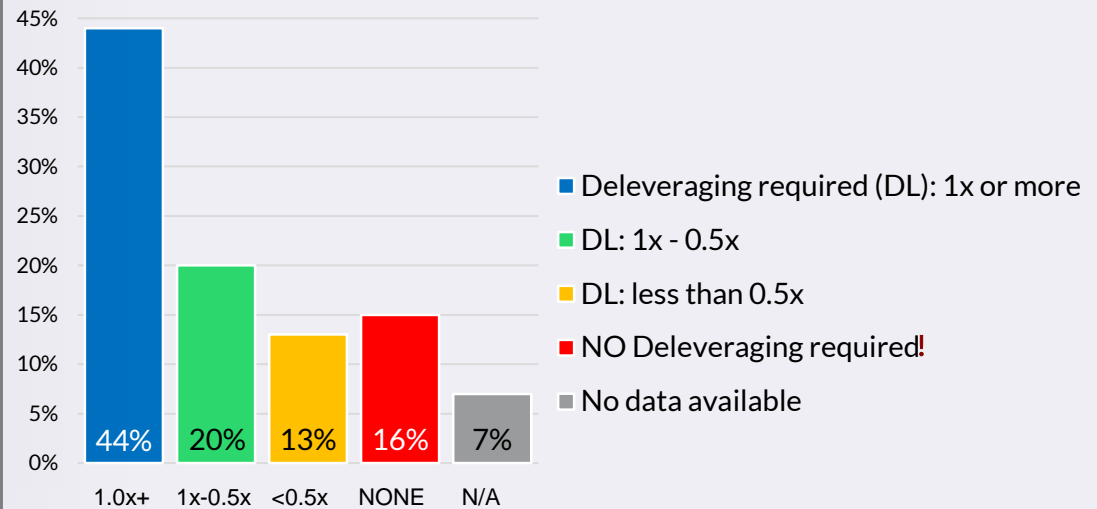
Loans with HY-Style RPs BUBs



HYB RPs – BUB Starter Amount



HYB - Deleveraging required by leverage-based RPs



Deal Term	US Loans	EU Loans	US HY	EU HY	Pushback	Provenance & Prevalence
EBITDA: Uncapped Synergies	50%	33%	Not uncommon in sponsor HY	72%	YES All 4 markets/regions	HY → Loans More prevalent in HY
RPs to Debt Capacity	~40% large sponsor loans	~10%	Very Unusual	~5%	LIMITED Only in US HY	Loans → HY More prevalent in US/EU Loans than US/EU HY
BUB No Ratio Test	Common	Very Rare	Very Rare	Very Rare	LIMITED Only in EU HY	Loans → HY Most prevalent in US Loans
BUB Starter	Standard	56%	Common	38%	YES In HY and EU Loans	US → EU More prevalent in US than EU and in Loans than HY
Ratio-Based Permitted Investments	Very Common	Very Rare	Rare but increasingly in sponsor HY	~10%	YES All 4 markets/regions	US → EU Most prevalent in US Loans
Asset Sales Step-Down	~41% H2 2018	26%	Most aggressive deals	10%	YES All 4 markets/regions	US → EU More prevalent in US/EU Loans than US/EU HY

2018 Key Issues & Speakers

2018 Key Issues:

Post-convergence leveraged finance landscape – primary areas of investor pushback in loans and bonds

EBITDA - inflation and ubiquity

Leveraging UP! - increasing debt incurrence capacity

Value Leakage New Techniques - escalating distribution and investments capacity...including with asset sales proceeds

Panellists:

- **Louis Reynolds**/Director Global Credit/Carlyle
- **Brad Wilson**/Director/HSBC Global Banking and Markets
- **James McDonald**/Partner/Skadden
- **Mark Darley**/Partner/Skadden
- **James Slessenger**/European Managing Director/Xtract Research (Moderator)
- **Christine Tadros**/Head of European Research/Xtract Research

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