

## Mezzanine and Leveraged Debt finance course

### Mezzanine financing techniques

- Survey of leveraged finance techniques, and when it makes sense to use them
- Finding the optimal financing mix: senior debt, equity or mezzanine?
- The players and the market today: LBO funds, private equity houses, BDCs, advisory firms and others
- Assets versus cash flows as support for leverage
- Second lien financing
- Contractual versus structural subordination
- OpCo/PropCo structures
- HoldCo notes
- PIK notes
- Vendor loan notes

*Case study: Identifying the best use of alternative financing structures for a small corporate*

- The mezzanine matrix
- Performance-linked participation debt
- Advantages and disadvantages of an EBITDA-linked interest rate
  - What are the exit possibilities?
- Setting targets and linking payout to performance
- Puts and calls in Mezzanine

### PIK (PIYC, PIYW, Toggles)

- Pay-in-Kind (PIK) generally
- Different types PIK
  - PIYW
  - Toggle
  - PIYC
- “Typical” terms, leverage and pricing
- Call protection - hard vs soft call protection
- Market trends / recent deals
- Key risks for the PIK holder

*Case study: Delegates identify the factors that determine the risk of this "Holdco PIK" in a real estate deal*

### Mezzanine exit opportunities

- Advantages and disadvantages of a contingent payment unit?
- Terms and pricing of the mezzanine in no-liquidity situations
- Appropriate Linkage: Turnover, Cash Flow or Profit?
- Exit possibilities and drag along rights

*Case study: evaluating a funding proposal with performance-linked mezzanine debt*

## **Alternative lenders**

- Rise of direct lenders
  - One stop solutions
  - Structural flexibility
  - Speed of execution
  - Cost effective
- Senior secured loan programmes
- Use of BDC fund structure
- Unitranche debt
  - Advantages and disadvantages for borrowers
  - Intercreditor issues
  - Bifurcated Unitranche
  - Unitranche and PIKs

*Case studies: Examples of unitranche lending*

## **Leveraged Finance: Debt structuring and restructuring opportunities**

- The global market for leveraged finance
- Benchmarking leveraged structures in the market
- Leverage: the good, the bad and the ugly
  - Performance-driven leveraged finance
  - Defensive leveraged finance
  - Deal-driven leveraged finance
  - Leverage in ownership transition
- Identifying corporate debt restructuring opportunities

*Case study: The owner of a private company is looking for a cash-out. Delegates estimate the company's debt capacity and the owner's options.*

## **Leveraged finance rates of return**

- Establishing required rates of return
  - Adjusting the costs of debt and equity for leverage
  - Corporate taxation and capital structure
  - Leverage optimisation through WACC simulation
- Equity kickers
  - Use of warrants to enhance returns
  - Specifying the terms of the warrant
  - Problems of valuation
- Silent participation rights
  - Profit participation
  - Participation in decision making
  - Flexibility within this structure

## **Other tools for achieving the target IRR**

- OID to enhance returns
- Using Libor floors

- Fees
- Call protection - hard vs soft call protection

*Case study: Delegates compute the effective cost of capital for a company with various degrees of leverage, and consider how leverage fits in with the company's business and financial strategy.*

### **Preference shares & shareholder loan notes**

- Prefs defined – key features
- How to structure Prefs to maximise value creation and preserve value
- Key features of Prefs
  - Convertible into equity (including Ratchets)
  - Redeemable (at par or a premium)
  - Participating - in profits
  - Cumulative (yield protection)
  - Voting rights
  - Security
- Shareholder loan notes
- Key differences to preference shares
- Rationale, pros and cons vs prefs

### **Leveraged Buyout Analysis**

- Types of buyouts and how they are financed
- Sponsor vs trade acquisitions: comparing valuation analysis
- Implementing a management buyout: senior, mezzanine and equity finance
- Leveraged finance as a temporary capital structure
- Spreadsheet-based debt capacity analysis for leveraged finance

*Case Study: How can this LBO be financed using a mix of financing products?*

- Focus: synthetic ratings and debt pricing
- How to structure and price the funding for an acquisition or buyout

*Case study: Delegates undertake a step-by-step analysis of the company's debt capacity and the LBO financing possibilities.*

- Structuring the relationship between the partners
- Post-acquisition refinancing and asset sales
- Pay down and exit analysis

### **Leveraged build-ups and leveraged recapitalisations**

- Proactive leverage: roll-ups and recaps
- Impact of high leverage on business efficiency and shareholder risk
- Leveraged recaps with share buybacks or special dividends to enhance shareholder value

*Case study: Delegates learn how a company with stable and growing free cash flows can exploit its debt capacity, and discuss the risks it takes in doing so.*

- Leveraged recaps for ownership transition or cash-out
- Leveraged defensive recaps

*Case study: In this example of a company using leverage to affect a change in control, delegates discuss shareholders' options.*

### **Achieving a successful private equity buy-out**

- Determining debt capacity
- Negotiating equity stakes – management's "Envy Ratio"
- Key criteria for success
- Due diligence considerations

*Case study: evaluating a potential buyout deal and recommending the best course of action and a suitable financing structure using mezzanine debt*