

# CreditSights European Outlook Conference

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# Documentation Trends

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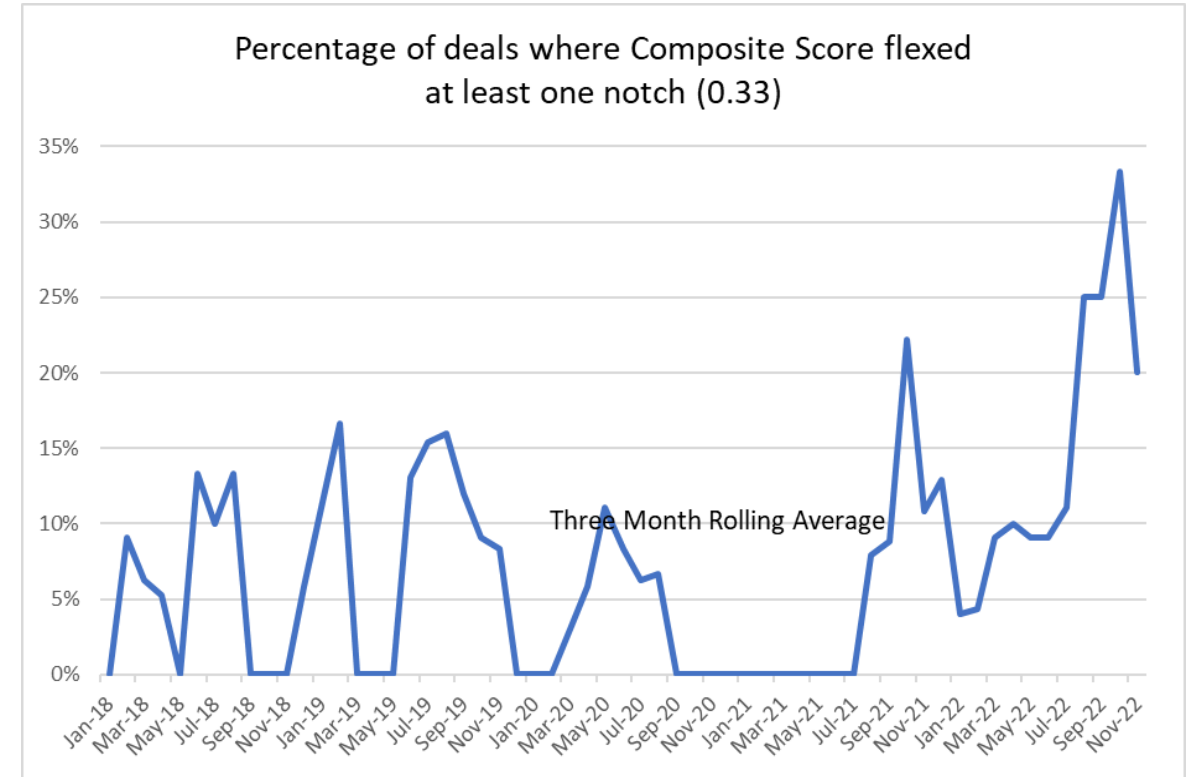
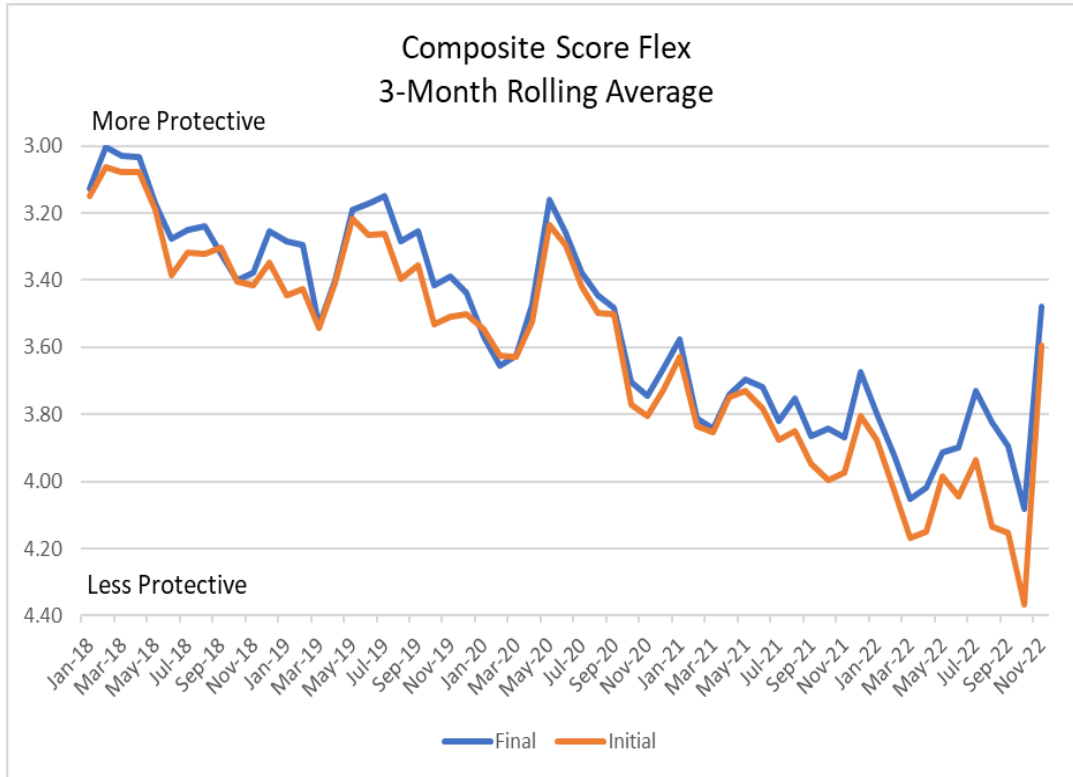
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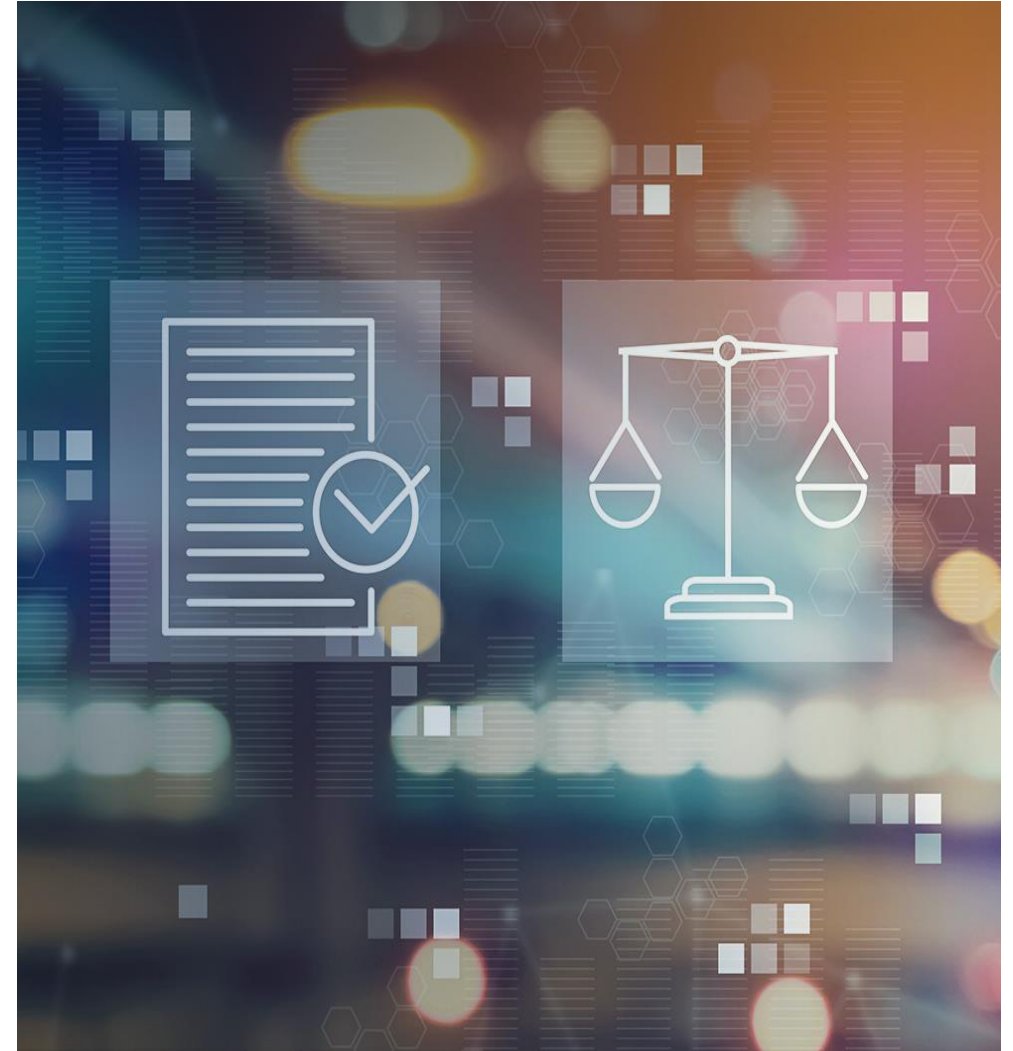
# Leveraged Loan Documentation Scores: Flex



# Documentation Flex

## Early Bird Loan / “Pink” Bond Documentation Changes

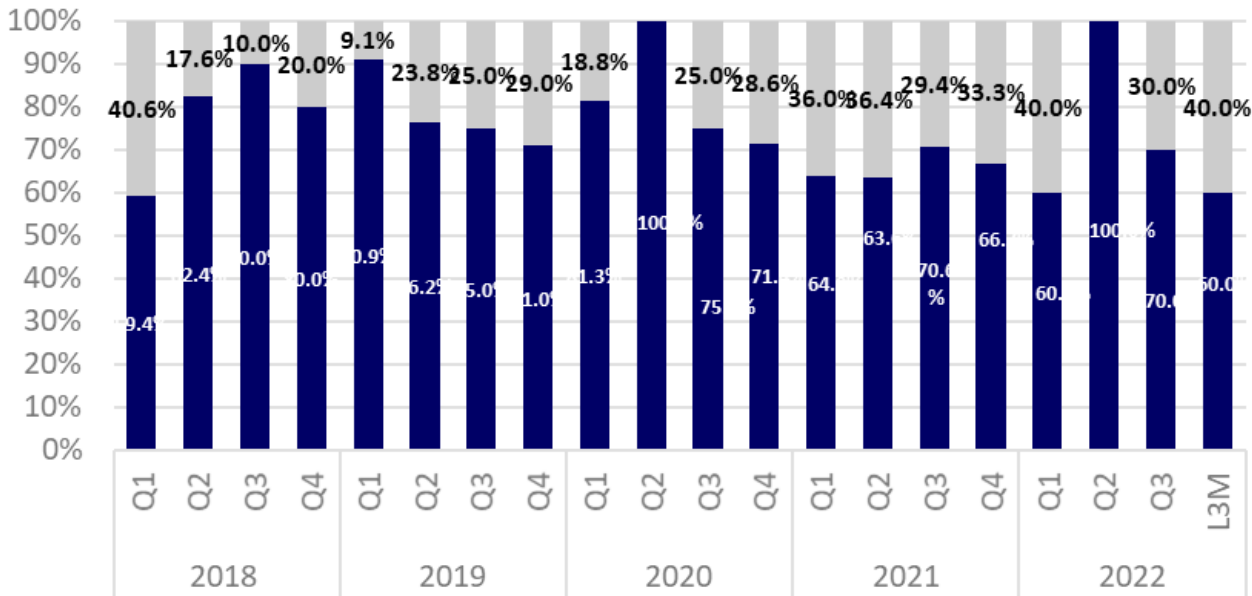
- Changes in pricing (guaranteed margin periods and ratchets)
- EBITDA adjustments capped (100% of recent loan deals, excluding add-ons)
- Inside maturity baskets removed
- “High watermarking” removed
- Material debt exclusions removed
- Reduction in debt capacity
- Improved MFN protection (all in yield / longer sunsets)
- “Pick your poison” debt baskets removed
- Transfer provisions improved
- Conditions tightened for Restricted Payments build-up basket
- J. Crew blockers added
- "Chewy" protection added
- Portability removed or leverage test tightened
- Basket sizes reduced
- **BUT: limited / no flex for repeat issuers / add-on term loans**



# EBITDA Adjustments: Capped vs. Uncapped

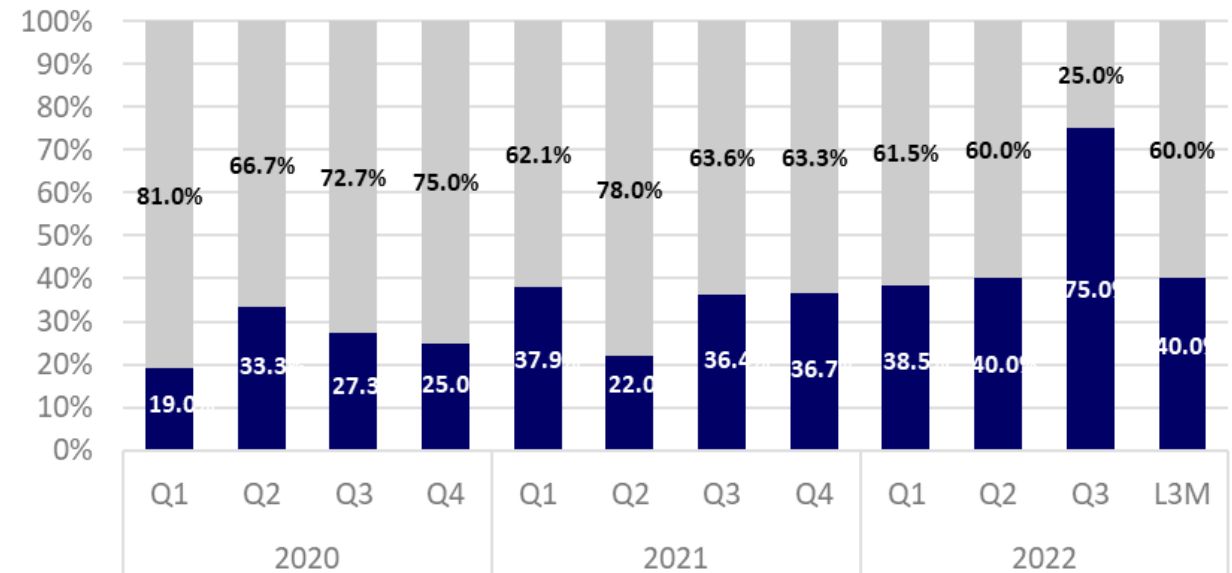
## Loans

Synergies & Cost Savings EBITDA Addbacks (Capped vs. Uncapped)  
Capped | Uncapped



## Bonds

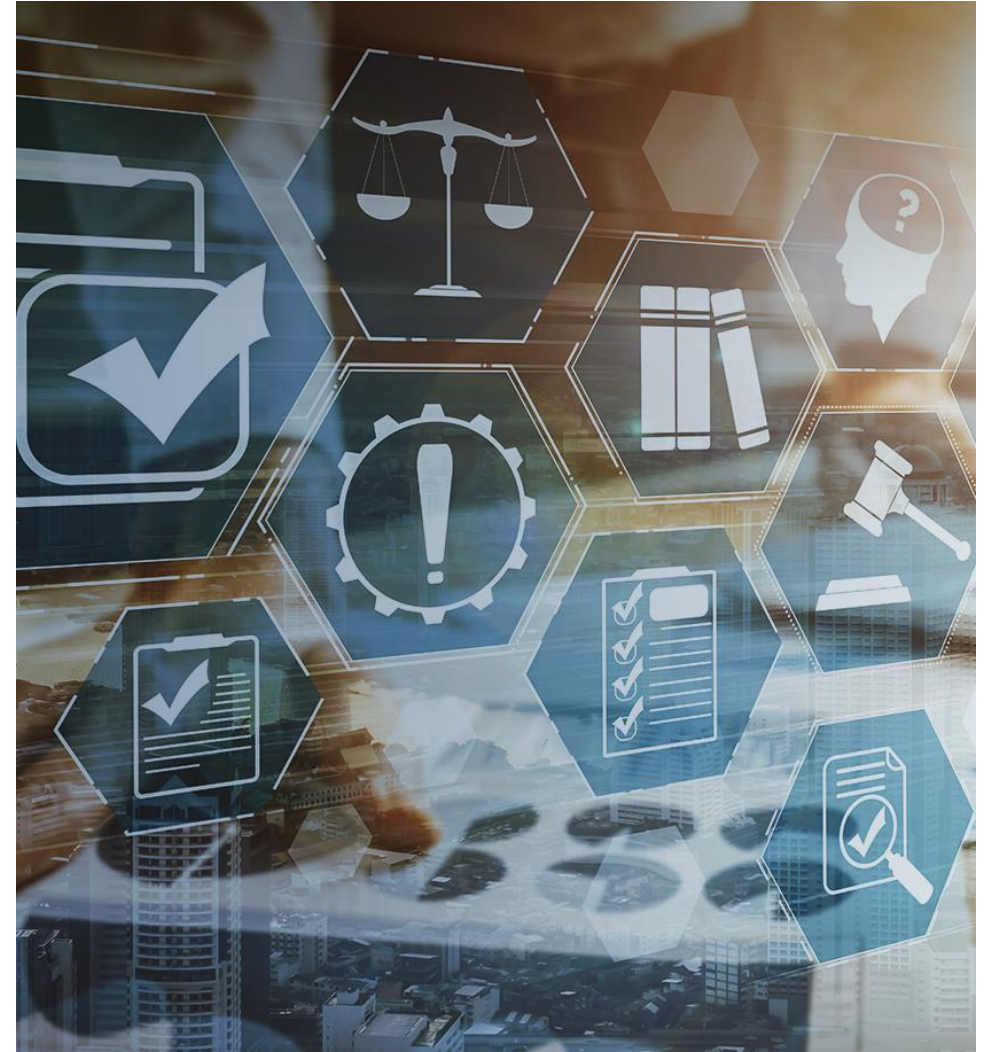
Synergies & Cost Savings EBITDA Addbacks (Capped vs. Uncapped)  
Capped | Uncapped



# Continuing Trends and Traps

## Covenant Technology Continues to Favour Companies and Facilitate Liability Management Options

- “Frankenstein” EBITDA inflates capacity
- Misleading ratio calculations mask true position
- Test date optionality allows manipulation and cherry-picking
- Transfer provisions restrict lenders’ options
- “Cov-lite” continues to dominate loans
- Generous capacity permits dilution and/or priming through:
  - Drop downs of assets to unrestricted subsidiaries
  - Effectively senior debt
  - Structurally senior debt
- Priming through earlier maturity
- Limited pro rata protections
- Weak amendment and waiver provisions



# Chances to Improve the Terms: Focus on the Big Picture

## Non-standard A&E / Consent Solicitation / New Paper

### Protect the assets

- Review credit support jurisdictions
- Reduce excessive investments capacity
- Add (an effective) J. Crew blocker
- Plug holes in the Restricted Payments and Asset Sales covenants

### Align ratio calculations to the business reality

- Limit EBITDA addbacks, pro forma adjustments, and debt exclusions

### Limit material dilution and priming risk

- Revisit debt and liens capacity
- Limit non-guarantor debt and non-collateral liens
- Revisit inside maturity flexibility

### Shore up loan liquidity

- Remove onerous transfer provisions

### Stay in control and maintain visibility

- Review thresholds on amendment & waivers
- Require robust and timely reporting



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