

EUROPEAN OUTLOOK CONFERENCE

LONDON

Managing Maturities: Loan A&Es and Bond Refinancings

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Loan A&Es

Structure and Mechanics



What we have seen in 2023

- A number of names coming to market
 - *Merlin, Upfield, Idemia, EG Group, Cognita, Hotelbeds, Zoopla, and Minimax*
- Typically, a 2.5 - 3 year maturity extension
- Springing mechanic to address outstanding junior debt
- Dollar tranches – issues to consider

What we expect to see addressed

- Guaranteed margin period
- Call protection
- MFN

Mechanics of an A&E

- Voting thresholds
- Use of the Add-on Facility mechanic
- Rise of the Snooze-Drag / Snooze Loose Drafting Mismatch



Bond Refinancings

Structure and Mechanics

Bond Refinancings

Refinancings have dominated EU High Yield in 2023

- 59% in Q1
- 67% in Q2
- 78% in Q3

Bond-for-bond refinancing

- **Exchange Offer**
 - Akin to loan A&E
 - Holders exchange notes for new, longer-dated notes issued under a different indenture
- **Full Refinancing**
 - New money notes issued
 - Proceeds used to redeem / tender for existing bonds
- **Variations**
 - iQera: coupled an exchange with a new cash issuance
 - STADA: offered a cash fee plus a higher coupon to entice holders to exchange
 - NewDay: made a partial repayment at par and exchanged remainder with OID

Covenant Changes in Connection with Bond Refinancings

A shift in issuers' favor over the course of the year

- **Refinancing covenant packages were broadly similar to existing bonds early in 2023**
 - Legacy covenants rolled forward – not necessarily conservative
- **Flexibility generally increased as the year progressed**
 - Heavy refinancing needs and strong investor demand has allowed companies to maintain or increase flexibility
- **Struggling credits have been the exception**
 - Notable improvements achieved

Covenant Changes in Connection with Bond Refinancings (Continued)

More Flexibility

Covenant changes have included:

- New portability provisions and looser ratio tests for portability
 - Increased permitted savings / synergies addbacks
 - Enhanced calculation flexibilities
 - New growers and high watermark provisions
 - New / increased baskets
 - Looser conditions / backdating / new zero floor for Restricted Payments build-up basket
 - Looser ratio tests and/or failure to reset ratios to reflect opening metrics
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Less Flexibility

Covenant changes have included:

- Removed portability provision
 - Increased permitted savings / synergies addbacks
 - Added credit support
 - Limited non-guarantor debt
 - Downsized / removed baskets
 - Removed backdated Restricted Payments capacity
 - Tighter ratio tests
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Loan A&Es – The Need to Revisit Covenants

Challenging the Deleveraging Story

While often marketed as a deleveraging story, incurrence-based leverage ratios are not being re-set

- Highest watermark: as EBITDA fluctuates over the life of the deal, upwards-only grower basket re-sets are applied
 - Reclassification: headroom under the ratio thresholds allows for capped baskets to be refreshed
 - The ever-building CNI Builder Basket: will have been accumulating since the original financing.
 - Visibility: at the time of the A&E, how much capacity is available under each of the baskets?
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Lender Pushback

Lender asks and flex points in 2023:

- Revisiting the more aggressive terms in existing documentation
 - Including leverage ratio and/or default conditionality
 - Removing ratio toggles
 - Capping EBITDA adjustments
 - Resetting the Builder Basket to zero
 - Enhancing existing Information Undertakings
 - Value leakage: capping debt that can be incurred by non-obligors and restricting transactions with the non-obligor Group
 - J. Crew, Chewy and Serta
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Outlook

Loan A&Es and Bond
Refinancings in 2024

A&Es and Refinancings in 2024

A Continuation of Short-Term Fixes in the Loan Market?

- A pivot to full refinancings vs. the persistence of A&Es
- Will less attractive credits see a tightening in their existing covenant packages whenever they come back to market
- Rise of coercive A&Es and liability management tactics...?

Significant Bond Maturity Wall Means Refinancings will be Increasingly Important

- Possible covenant tightening to achieve better pricing
- Marketed covenant packages may serve as an indication of the flexibility the company anticipates needing

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