EUROPEAN OUTLOOK CONFERENCE

LONDON

Managing Maturities: Loan A&Es and Bond Refinancings

Shoshanna Harrow: Senior Director, *Covenant Review*

Shane Burke: Director, *Covenant Review*

CreditSights
a FitchSolutions Company

Research
CovenantReview
LevFinInsights

Loan A&Es

Structure and Mechanics

Loan A&Es

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

Refinancing and Covenants

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

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

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?

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

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

CreditSights

a FitchSolutions Company

Research

CovenantReview

LevFinInsights