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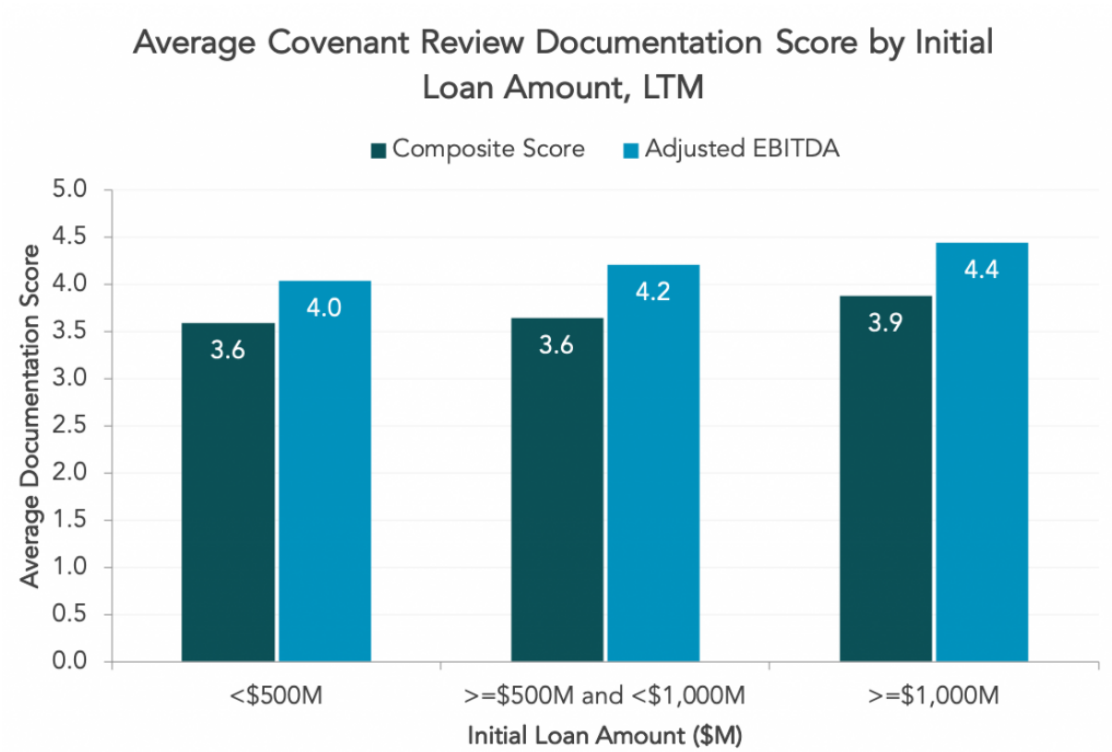
Transact Documentation Scorecard and the State of Play for Smaller LBO Loans (Part III)

Covenant Review | May 9, 2019



Statistics by LBO Loan Size	<$500M	>=$500M and <$1,000M	>=$1,000M
Observations (LTM April 2019)	15	22	22
Average Free & Clear Tranche			
Dollar Cap (% of PF EBITDA)	91.1%	81.4%	84.8%
Grower Basket	87.0%	76.9%	84.5%
Average Day-One Capacity (Multiple of PF EBITDA)			
Total Debt Issuance	2.25x	1.86x	1.93x
Restricted Payments	0.52x	0.59x	0.65x
Investments in Unrestricted Subs	1.55x	1.40x	1.60x
MFN Carve-out	0.28x	0.13x	0.33x
Percentage of Loans with:			
Uncapped EBITDA adjustments	33.3%	50.0%	72.7%
MFN Sunset	20.0%	27.3%	54.5%
Inside Maturity Carve-out to the MFN	26.7%	31.8%	63.6%
Covenant Lite	93.3%	90.9%	90.9%
Pass-through Investments Basket (J Crew Trapdoor)	13.3%	9.1%	9.1%
Asset Sales Sweep step-down	20.0%	36.4%	50.0%
Asset Sales Sweep steps down to 0%	20.0%	36.4%	40.9%
Portability	0.0%	0.0%	4.5%
F&C Tranche Carved Out From MFN	20.0%	9.1%	31.8%
Call Provisions			
Soft Call or No Premium Payable	93.3%	95.5%	100.0%
Call Term (months)	10.0	8.5	7.9
Reinvestment Rights			
Reinvestment Period (months)	20.8	20.3	21.4

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Underlying the better Documentation Scores among smaller leveraged loans is a series of tighter covenant terms, as we run down in the tables above.

What is Documentation Score?
Covenant Review's Documentation Scores express the strength of an instrument's covenant protections on a number scale running from 1 (strongest) to 5 (weakest) with pluses and minus to between 1 and 5 to provide more context to the scores. Documentation Scores are derived from Covenant Review's market-leading analysis of loan documents by our staff of experienced leveraged finance attorneys. For each loan, Covenant Review will provide one overarching Composite Score that is based on the following three sub-scores: **(1)** Collateral Protection, **(2)** Default Protection and **(3)** Lender's Repricing Optionality. Covenant Review applies a proprietary weighing method to a series of qualitative, empirical, and judgment factors to produce each composite score and sub score.

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