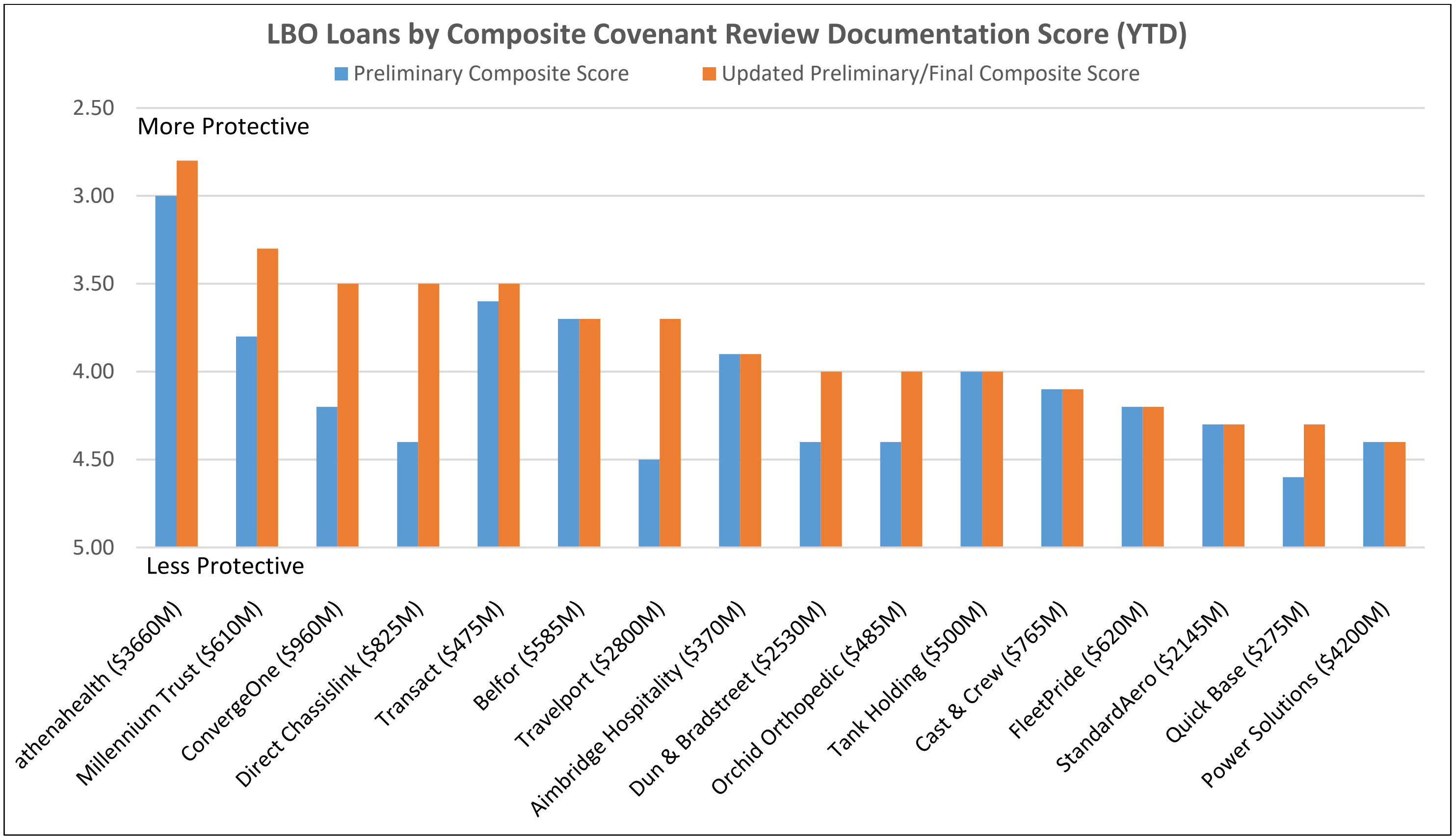
Covenant Review

THE AUTHORITY ON BOND AND LOAN COVENANTS

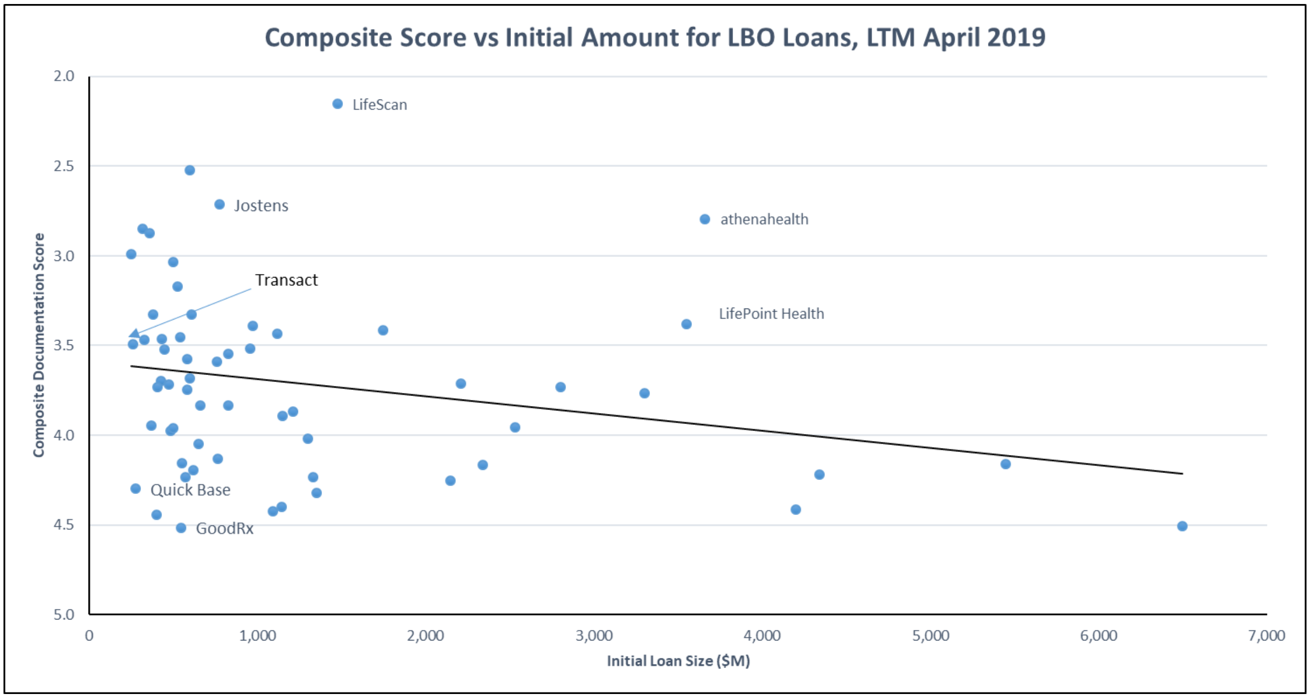
Transact Documentation Scorecard and the State of Play for Smaller LBO Loans

Though covenant-lite has become standard for even leveraged loans that sit at the high end of the middle market spectrum—those between $250 million and $500 million—covenant protections in this segment are generally tighter than those for broadly syndicated deals. The $260 million loan that backs Reverence Capital Partners's LBO of Transact is a timely example. After making a series of covenant tweaks last week, the Transact's Documentation Score—which ranks loans from 1 (most protective) to 5 — moved to 3- from 4+ at launch. That puts the deal at the most protective end of the recent range of LBOs.



Broadening our lens, a simple scatter plot of LBO loans over the past year for which *Covenant Review* has analyzed final terms or updated preliminary terms illustrates the fact that higher-scoring loans tend to be concentrated at the smaller-end of the market. Size, however, is not destiny when it comes to covenant terms. There are many other factors at play, of course, including sponsorship, the strength of the overall credit story and market conditions.

Take the $260 million Quick Base loan, which benefited from the backing of big-boy sponsor Vista. The loan cleared in February with a Documentation Score similar to such aggressively structured jumbo loans as Refinitiv and Power Solutions. At the same time, the $2.6 billion loan for Athena Healthcare's LBO by Veritas ran into lender resistance that pushed terms tighter and resulted in a far more protective Documentation Score on *Covenant Review*'s scale.



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

LBO Loans LTM April 2019									
1 = Most Protective, 5 = Least Protective					Average Scores				
Size	Composite Score	Collateral Protection	Default Protection	Lenders' Repricing Optionality	Adjusted EBITDA	Builder Basket	Amendments	Mandatory Prepayments	Initial Composite Score
<$500M	3.6	3.6	3.8	3.0	4.0	3.6	3.4	3.4	4.6
>=$500M and <$1,000M	3.6	3.6	3.9	3.1	4.2	3.6	3.5	3.4	4.4
>=$1,000M	3.9	4.0	3.9	3.5	4.4	3.5	4.1	3.7	3.6

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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