

# Capital Structure, Covenants and How to Read Credit Agreements

*A primer for bankers, analysts and investors seeking to attain knowledge of Leveraged Loans and High Yield Bonds. Including analyzing covenants, calculating debt and lien capacity and how to read indentures and credit agreements*

## **Content Overview**

This is a 3 Course program designed to provide participants with a detailed analytical discussion that focuses on how to analyze capital structure, legal and corporate entity structure as well as how to read and analyze High Yield Bonds and Leveraged Loan documents. The course will cover key tenants of credit analysis, including how to identify and understand important sections of credit agreements and indentures, analyze covenants, calculate debt and lien capacity, understand Uptiering transactions, perform credit comp analysis, and recognize capital structure issues that could be driven by structural subordination, OpCo vs HoldCo dynamics, and value distribution among guarantor / non-guarantors and restricted / unrestricted subsidiaries. Case Studies include the controversial topic of asset transfers using J. Crew as an example and a case study on Revlon's distressed capital structure both pre and post the BranCo/RemainCo transaction.

## **Prerequisites**

Participants should have a basic understanding of finance, accounting, financial statement analysis and a basic familiarity with indentures, credit agreements and covenants. Must read prework, or certify proficiency or take 100 level Primer course

## **Course Format and Duration**

Each course module is approximately 90minutes in length plus Q&A. The modules are designed to build upon each other and taken in succession to one another. The inclusion of Excel exercises adds an additional 60 minutes to the covenants class. The format can be in person or as a Webinar. All participants will receive a copy of the presentation, a primer guide to reading credit agreements and indentures and completed Excel exercises.

## **Pricing**

The cost is for open Webinar/Seminars is \$450 per person per module with a 20% discount for groups of 5 or more or the purchase of all 3 modules in advance. Corporate rates for internal training are available, please contact [joshua@wolfcapitaladvisors.com](mailto:joshua@wolfcapitaladvisors.com) for more information.

## **101 – Capital Structure, Corporate Structure and Reading Credit Agreements:**

- Capital Structure and Legal Classification of Debt
  - Intro to Capital Structure (Sample Cap Table)
  - Legal entity issuing debt – “Obligor”
  - Seniority
  - Contractual Subordination
  - Structural seniority and subordination
  - Guarantees
  - Double Dips
  - Inter-Company obligations
  - Secured Debt mechanics of granting of security interests
  - Rights of Secured Creditors in Ch 11
  - Inter-Creditor Agreements
- Reading Credit Agreements
  - Reading Credit Agreements and Indentures
    - Key Sections to focus on
    - How to break down the document for analysis
    - Understanding defined terms and rules of construction
- Overview of Covenants
  - Affirmative Covenants
  - Negative Covenants
    - Negative Covenants: Financial Covenants

## **102 – Advanced Covenant Analysis:**

- Detailed Covenant Analysis (where to find the usual loopholes or weak points in document)
  - Permitted Indebtedness
  - Permitted Liens
  - Permitted Refinancing
  - Restricted Payments
  - Permitted Investments
- Calculating Covenant Metrics
  - Debt Incurrence Capacity
  - Lien/Secured Debt Capacity
  - Restricted Payments and Permitted Investment calculations

- Uptiering
  - What is an Uptiering deal?
  - Lender on Lender Violence
  - Requirements and Impediments to an Uptiering Transaction
  - Summary of Uptiering Related Litigation
- Credit and Covenant Comps
  - Covenant Comps
  - Leveraged Loan /High Yield Comparables
  - Credit Agreement Due Diligence Check List
- Excel Exercises
  - Calculating Incurrence Baskets
  - Calculating RP and PI Baskets
  - Calculating Debt and Lien Capacity

**103 – Asset Transfers and J. Crew Case Study:**

- Designating or Creating Unrestricted Subsidiaries
  - Designation Provisions in Credit Agreement
  - Permitted Investments and Restricted Payment Capacity
  - Interaction of Restricted and Unrestricted Subsidiaries
  - Guarantor (Loan Party) /Non-Guarantor (Non-Loan Party)
- Utilizing the Trap Door
  - The “Proceeds” investment basket
  - What types of assets can be transferred
- J. Crew Cases Study
  - Exchange Offer Overview
  - Pro Forma Capital Structure
  - Por Forma Corporate Structure
  - J Crew Designation and PI Provisions in Credit Agreement
  - What Constitutes “Proceeds” from an Investment?
  - J. Crew Blockers