Glossary

Arranger fee. The fee paid by the issuer to the arranger for arranging and underwriting a loan.

Asset sales prepayment. The prepayment required as a result of the net proceeds of asset sales, normally excluding receivables or inventories. The typical percentage required is 100%.

Assignment minimum. The amount that the lender can assign to a different lender. It ranges from E1 million to E5 million.

Axe sheets. These are sheets with lists of secondary bids and offers for loans that dealers send to accounts. Axes are simply price indications.

Bank book (information memo). This document, prepared by the arranging bank, describes the transaction's terms. The bank book, or IM, typically will include an executive summary, investment considerations, a list of terms and conditions, an industry overview, and a financial model. Because loans are not securities, this will be a confidential offering made only to qualified banks and accredited investors.

Break price. Price on the facility at the moment it goes free to trade in the secondary market once allocations are made or how much investors are willing to pay for this deal if they would like to hold it. When the market is strong and the transaction is well received, the break price generally will be above par.

Buyback. In a buyback, a sponsor or company will opportunistically buy back the company's debt out of the secondary market, typically taking advantage of depressed secondary prices. The issuer might use surplus cash off its balance sheet or the sponsor might use its own equity to purchase the debt. LMA Loan Market Association guidelines suggest the company should tender for its debt via a transparent auction process, as well as suggesting measures to reduce the risk of a conflict of interests resulting from the sponsor owning debt and equity. Although buybacks reduce the company's debt burden, they are often contentious, especially if done using surplus cash rather than equity, and in some cases lenders refuse to sign waivers to give their permission.

BWIC. An acronym for "bids wanted in competition." It's really just a fancy way of describing a secondary auction of loans or bonds. Typically an account will offer up a portfolio of facilities via a dealer. The dealer will then put out a BWIC, asking potential buyers to submit for individual names or the entire portfolio. The dealer will then collate the bids and award each facility to the highest bidder.

Circled. When a loan or bond is full subscribed at a given price it is said to be circled. After that, the loan or bond moves to allocation and funding.

Commitment fee. A fee paid on unused portion of the facility that ranges from 50 to 75 bps. For example, the company might have a E100 million revolving credit, but it only needs to draw E20 million; it must pay a fee on the remaining E80 million to compensate the lenders for keeping this money available.

Corporate LBO. A buyout of a company by a private equity firm from a corporation. It's also called corporate divestiture.

Covenant-lite. Loans that have bond-like financial incurrence covenants rather than traditional maintenance covenants that are normally part and parcel of a loan agreement.

Cover bid. The level that a dealer agrees to essentially underwrite a BWIC or an auction. The dealer, to win the business, may give an account a cover bid, effectively putting a floor on the auction price.

Credit statistics. Financial ratios, such as leverage ratio, interest coverage ratio, etc.

Cross border. A transaction syndicated to both U.S. and European investors.

Deal size. Total amount of bank debt raised for the transaction.

Default rate. Calculated by either number of loans or principal amount. The formula is similar. For default rate by number of loans: the number of loans that default over a given 12-month period divided by the number of loans outstanding at the beginning of that period. For default rate by principal amount: the amount of loans that default over a 12-month period divided by the total amount outstanding at the beginning of the period. Standard & Poor's defines a default for the

purposes of calculating default rates as a loan that is either:
- Rated 'D' by Standard & Poor's,
- Made to an issuer that has filed for bankruptcy,
- In payment default on interest or principal, or
- Restructured in such a way as to create a material loss to the lender.

Default. There are two primary types of loan defaults, technical defaults and the much more serious payment defaults. Technical defaults occur when the issuer violates a provision of the loan agreement. For instance, if an issuer doesn't meet a financial covenant test or fails to provide lenders with financial information or some other violation that doesn't involve payments. A payment default, as the name implies, happens when a company misses either an interest or principal payment. There is often a preset period, say 30 days, during which an issuer can cure a default (the "cure" or "grace" period). After that, the lenders can take appropriate action, up to and including accelerating, or calling, the loan.

Disintermediation. Disintermediation refers to the process whereby banks are replaced (or disintermediated) by institutional investors.

Distressed loans. In the loan market, loans traded at less than 80 cents on the dollar were traditionally considered distressed, although in 2007-2008 some performing loans traded in the 80s and below due to technical rather than fundamental weakness. In the bond market, the common definition is a spread of 1,000 bps or more. In the loan market, however, calculating spreads is an elusive art (see above) and therefore a more pedestrian price measure is used.

EBITDA. Earnings before interest, taxes, depreciation, and amortization. This is often used as a proxy for cash flow.

Equity contribution. How much money the sponsor put in to finance the transaction. Calculated as the sponsor's equity amount divided by total transaction amount.

Equity cure. These provisions allow issuers to fix a covenant violation—exceeding the maximum debt to EBITDA test for instance—by making an equity contribution. These provisions are generally found in private equity-backed deals, giving the sponsor the right, but not the obligation, to inject equity and cure a violation without having to request a waiver or amendment. Some agreements do not limit the number of equity cures, while others cap the number to, maybe one per year or two over the life of the loan, with the exact details negotiated for each deal. Bull markets tend to bring more generous equity cures as part of looser overall documentation, while in bear markets documentation is tighter and equity cures are less easily available.

Equity issuance prepayment. The prepayment required as a result of the net proceeds of equity issuance. The typical percentage required is 50% to 100%.

Excess cash flow prepayment. The prepayment required as a result of excess cash flow which is typically defined as cash flow after all cash expenses, required dividends, debt repayments, capital expenditures and changes in working capital. The typical percentage required is 50% to 75%.

Financial covenant. Financial covenants enforce minimum financial performance measures against the borrower, for instance to maintain a higher level of current assets than current liabilities. As a borrower's risk increases, these covenants become more restrictive and extensive.

First-lien debt. Senior debt that holds the first priority on security.

Flex. Margin flex language allows the arranger to change spreads during syndication to adjust pricing to current liquidity levels. To entice more investors into buying the credit, spreads will be raised, or "flexed up." When liquidity is high and demand outstrips supply, the spread will be decreased, or "reverse flexed." A structural flex occurs when the arranger adjusts the size of tranches during syndication to reflect current liquidity levels. As a result, during highly liquid times, an arranger may move debt from the more expensive tranches, such as mezzanine, to cheaper tranches, such as second lien or first lien.

Forward calendar. A list of loans or bonds that have been announced but not yet launched via a general syndication bank meeting. In the U.S., this is a list of loans or bonds that have been announced but not yet closed, including both instruments that are yet to come to market as well as those that are actively being sold but have yet to be circled.

Haircut. In relationship to financial covenants, this refers to the looser maintenance covenants set for mezzanine tranches compared with senior credit.

Implied ratings (credit estimates or shadow rating). Credit opinions that are not available publicly on Standard & Poor's RatingsDirect and other public sources. Implied ratings are not backed by the borrowers. CLO arrangers request the ratings agencies to issue an implied rating to ensure that the portfolio maintains certain agreed standards. For example, a CLO should not have more than 5% of rated debt in the 'CCC' category.

Institutional facilities. These tranches are sold primarily to institutional investors. They traditionally have had a bullet repayment with no amortization, a maturity of eight to nine years, and a spread of Euribor + 250 to 325. The TLb can have a pricing grid with fewer step downs than pro rata. The TLc usually does not have a pricing grid.

Interest coverage. EBITDA to interest.

LBO (European version). Any transaction in which the issuer is owned by a private equity firm (sponsor). It includes a buyout of a company by a sponsor, a follow-on acquisition, a dividend to the sponsor, refinancing, etc.

LBO (U.S. version). A subset of the above, but includes only buyouts of a company by a sponsor. Excludes recaps, refinancings, and follow-on acquisitions.

LevX/LCDX. LevX Senior is an index of 75 senior LCDS obligations, and LevX Sub an index of 45 subordinated (second- or third-lien) LCDS obligations, that participants can trade. The U.S. equivalent is LCDX. The indices provide a straightforward way for participants to take long or short positions on a broad basket of loans as well as to hedge their exposure to the market.

Leverage ratio or debt/EBITDA. Many bank books use net debt to EBITDA, which is (debt minus cash) to EBITDA.

Leveraged loans. Defining a leveraged loan is a discussion of long standing in the loan market. Some participants use a spread cutoff: i.e., any loan with a spread of Euribor + 125 or Euribor + 150 or higher qualifies. Others use rating criteria: i.e., any loan rated 'BB+' or lower qualifies. But what of loans that are not rated? At Standard & Poor's Leveraged Commentary & Data, we have developed a more complex definition. We include a loan in the leveraged universe if it is rated 'BB+' or lower or it is not rated or rated 'BBB-' or higher but has (1) a spread of Euribor + 125 or higher and (2) is secured by a first or second lien. Under this definition, a loan rated 'BB+' that has a spread of Euribor + 75 would qualify, but a nonrated loan with the same spread would not. It is hardly a perfect definition, but one that Standard & Poor's thinks best captures the spirit of loan market participants when they talk about leveraged loans.

Loan credit default swaps (LCDS). Standard derivatives that have secured loans as reference instruments.

Loss given default. A measure of how much creditors lose when an issuer defaults. The loss will vary depending on creditor class and the enterprise value of the business when it defaults. Naturally, all things being equal, secured creditors will lose less than unsecured creditors. Likewise, senior creditors will loss less than subordinated creditors. Calculating loss given default is tricky business. Some practitioners express loss as a nominal percentage of principal or a percentage of principal plus accrued interest. Others use a present value calculation using an estimated discount rate, typically 15% to 25%, demanded by distressed investors. This can also be expressed as (1-Recovery Rate).

Maintenance capex. The minimum amount the company has to spend to keep its assets in shape. If the company cannot maintain its assets, those assets will not continue generating the same level of revenues.

Mandatory prepayment. Leveraged loans usually require a borrower to prepay the loans with proceeds of excess cash flow, asset sales, debt issuance, or equity issuance.

Mezzanine. A subordinated instrument that carries second-ranking security or, if the capital structure also includes second lien, third-ranking security.

Mulligan. A clause that essentially allows the borrower a "do-over" on the covenant tests. If, for example, a sponsor does not comply with its covenants for one quarter but is back in line the following quarter, the previous quarter is disregarded as if it never happened.

Original issue discount (OID). A way of remunerating primary lenders, usually institutional investors, by offering them a discount to par. Varies according to demand for the deal.

Non-call. During the non-call period, borrowers are obligated to pay a fee to lenders if they repay the debt during the stated non-call period. Generally, the fee is 2% in the first year and 1% in subsequent years.

OWIC. This stands for "offers wanted in competition" and is effectively a BWIC in reverse. Instead of seeking bids, a dealer is asked to buy a portfolio of paper and solicits potential sellers for the best offer.

P2P (public to private). A buyout of a publicly listed company by a private equity firm resulting in its delisting from the stock exchange.

Paramount outstanding. This is the amount of institutional bank loans issued previously and still outstanding at the particular point in time and is tracked by the U.S. and European leveraged loan indexes.

Prepayment fee. Fees paid by the issuer if the debt is repaid before maturity.

Pricing grid (aka margin ratchet). A set of financial measures that allows the issuer to pay lower interest on the facilities. For example, if the issuer's debt to EBITDA is less than 3x, pricing is Euribor + 275; if such ratio decreases to 2.5x, pricing is Eurobor + 250.

Primary price (institutional). Reflects how much investors pay for a facility if they buy it in the primary syndication. Primary price is par unless accompanied by an upfront fee. When the market is strong, institutional paper is issued without upfront fees.

Printing a deal. Refers to the price or spread at which the deal syndicates.

Pro forma financials. Financials that include the "side effects" of the current transaction. For example, in case of an acquisition, pro forma EBITDA will reflect the combined EBITDA of the two companies plus synergies from their merger. For an LBO, pro forma EBITDA could include cost savings generated by headcount reductions. Often pro forma financials covers the last 12 months. We also track "estimated" (full fiscal current year) and "projected year one" (first full year after the current year).

Pro rata. Facilities sold to banks (revolving credit, TLa, acquisition facility, capex facility). These tranches generally have a gradual amortization until maturity (except for the revolver) and a maturity of six to seven years. They will usually carry a spread of Euribor + 200 and greater and might have two to four step-downs based on a pricing grid.

Pro rata spread. Average spread of revolving credit and TLa tranches (which are usually the same).

Public ratings. Ratings that are available publicly on RatingsDirect and other public sources.

Purchase price multiple. Purchase price paid to acquire the company divided by its EBITDA.

Recap/dividend. Capital structure shift in which additional debt is raised to finance a cash payment to the owners (sponsor, in case of a private company and general public, in case of a listed company). Some part of the new debt may also be used to refinance existing debt.

Recap/equity infusion. Capital structure shift in which the sponsor injects new equity into the company, usually to refinance existing debt.

Recap/stock repurchase. Capital structure shift in which additional debt is raised to repurchase shares from the owners (sponsor, in case of a private company and general public, in case of a listed company). Stock repurchase can be in the form of shareholder loan repayment. Some part of the new debt may also be used to refinance existing debt. For research purposes, dividend and stock repurchase are considered the same thing because both reflect a payment to the sponsor.

Recapitalization. A shift in the issuer's capital structure between debt and equity. Types of recap include: dividend, stock repurchase, equity infusion.

Recovery. Recovery is the opposite of loss given default—it is the amount a creditor recovers, rather than loses, in a given default.

Refinancing. A transaction in which new debt replaces existing debt of the company and only the debt portion of the capital structure is affected.

Relative value. This can refer to the relative return or spread between (1) various instruments of the same issuer, comparing for instance the loan spread with that of a bond; (2) loans or bonds of issuers that are similarly rated and/or in the same sector, comparing for instance the loan spread of one 'BB' rated healthcare company with that of another; and (3) spreads between markets, comparing for instance the spread on offer in the loan market with that of high-yield or corporate bonds. Relative value is a way of uncovering undervalued, or overvalued, assets.

Reverse-flex. Spread decrease during syndication when facilities are oversubscribed to the point where a spread reduction will not damage the arranger's ability to syndicate the facilities. A sign of demand outstripping supply.

Revolving credit. A facility that allows borrowers to draw down, repay, and reborrow as often as necessary. The facility acts much like a corporate credit card, except that borrowers are charged an annual commitment fee on unused amounts, which drives up the overall cost of borrowing (the facility fee).

Rich/cheap. A loan that is "rich" is trading at a spread that is low compared with other similarly rated loans in the same sector. Conversely, something that is "cheap" means it is trading at a spread that is high compared with its peer group. That is, you can buy it relatively cheaply.

Rollover equity. Reinvesting funds contributed to the company under previous ownership into a "new" company under new ownership.

Running the books (or bookrunner). Generally the loan arranger is said to be "running the books," i.e., preparing documentation and syndicating and administering the loan.

Second lien. Loan that has second-priority interest on security. Subordinated to senior loans (TLa, TLb, TLc, etc.), but senior to mezzanine, high-yield, PIK notes, and equity. They are floating-rate-instrument-like senior loans, priced at roughly 200 to 300 bps higher than senior loans. Second liens are more expensive to prepay than senior debt since many second liens have prepayment penalties in the first two years. Their maturity is usually one-half to one year longer than the TLc.

Secondary LBO. A buy-out of a company by one private equity firm from another private equity firm.

Senior leverage ratio (senior debt to EBITDA). Many bank books use net senior debt to EBITDA, which is (senior debt minus cash) to EBITDA.

Senior loans. These loans have the highest seniority in the issuer's capital structure, i.e., obligations are contractually paid before subordinated securities. They have a stated maturity of six to nine years, but are fully prepayable at any time and prepayment penalties are rare. They are floating rate and priced based on a spread over Euribor or LIBOR. They have maintenance-based financial covenants, usually calculated quarterly, and there is no equity kicker to debtholders.

Shareholder loan. Sponsors' frequently contribute equity in the form of a deeply discounted bond that pays paid-in-kind interest. An equity-like instrument that is subordinated to senior and subordinated debt.

Sources of proceeds. Sources used to finance the transaction (i.e., bank debt, mezzanine, high yield, and equity).

Split rating. When a loan is rated differently by Moody's and Standard & Poor's such that the rating comes out as a "three B" or a "five B". "Three B" means 'B' ('B-', 'B', or 'B+') by one agency and 'BB' ('BB-', 'BB', or 'BB+') by another (if you count all the B's you'll get three). "Five B" means 'BB' by one agency and 'BBB' by another.

Sponsored (volume, issuance, etc.). Any type of transaction whereby a private equity group owns the issuer. Same thing as the European definition of LBO.

Spread. Interest paid on top of a "risk-free" rate, i.e. Euribor (for Euro deals) or LIBOR (for U.S. dollar- or sterling-denominated deals).

Spread to maturity/spread to call. The spread to maturity adjusts the value of the spread over base rate for any nonpar price, over the life of the loan. The spread to call calculates the same, except that the time horizon is a more realistic estimation of the actual life of these instruments, which are usually fully prepayable without penalty at any time.

Staple financing. Staple financing—or staple-on financing—is a financing agreement "stapled on" to an acquisition, typically by the M&A advisor. So, if a private equity firm is working with an investment bank to acquire an asset, that bank, or a group of banks, may provide a staple financing to ensure that the firm has the wherewithal to complete the deal. Because the staple financing provides guidelines on both structure and leverage, it typically forms the basis for the eventual financing that is negotiated by the auction winner, and the staple provider will usually serve as one of the arrangers of the financing, along with the lenders that were backing the buyer.

Subordinated debt. Debt that has subordinated claim on security and payments behind senior debt or has no security at all. Types of subordinated debt are mezzanine, public high yield, and PIK notes (which have certain quasi-equity characteristics).

Term loan. This facility is simply an installment loan, such as a loan one would use to buy a car. The borrower may draw on the loan during a short commitment period and repays it based on either a scheduled series of repayments or a one-time lump-sum payment at maturity (bullet payment).

Toggle facilities. This feature provides issuers with a "pay if you want" feature that allows them to switch off any cash-pay element and convert all spread to PIK without consulting the lending group.

Total rate of return swaps (TRS). Under a TRS program, a participant buys the income stream created by a loan from a counterparty on margin. Then the participant receives the spread of the loan less the financial cost plus base rate on its collateral account. If the reference loan defaults, the participant is obligated to buy it at par or cash settle the loss based on a markto-market price or an auction price.

Transaction size. Total amount of all debt and all equity raised for the transaction.

Transferable recapitalization. Buy-out in which the sponsor has the right to sell the targeted acquisition to another sponsor without triggering a change of control.

Upfront fee. Fee paid by the arranger to lenders joining the syndicate, tiered so that larger commitments earn larger fees.

Vendor note (aka seller note). A type of financing provided by the seller of the company. An equity-like instrument that is subordinate to senior and subordinated debt.

Volume. Sum of all leveraged loans raised (first and second lien) within the given period; new debt raised only. Therefore, if a deal is an amendment to the previous credit and no new debt is raised, this will be excluded. All amounts are converted to Euros using the exchange rate either (1) provided in the bank book, or (2) spot rate on the date of the deal's bank meeting (our proxy for a launch date).

Warrants (on mezzanine). Gives the mezzanine lenders the right to purchase equity from the issuer at a specific price. Warrants potentially provide unlimited upside to lenders if the company does really well. However, deals that carry warrants have lower pricing.

Weighted average institutional spread. Average spread of TLb and TLc tranches weighted by the size of each tranche, i.e. [TLb spread times TLb size/(TLb plus TLc size)] + [TLc spread times TLc size/(TLb plus TLl size)].

Weighted average bid. A price at which an investor is willing to buy a loan, weighted by the par amount outstanding. By definition, larger deals will have a stronger influence on the average.

Yank The Bank. This clause provides for the replacement of a minority nonconsenting lender where the majority of lenders are in agreement.

You Snooze, You Lose. This clause excludes from the final calculation any lender who fails to reply in a timely fashion to an amendment request. ●