Current Trends in Leveraged Finance

Leveraged Finance

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Financial Poise Webinars

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Meet the Faculty

Panelists

Ethan Konschuh - Sidley

Andrew Hutchinson - Much Shelist, P.C.

Moderator

Krista Mancini - Jones Day

About This Webinar

Current Trends in Leveraged Finance

This webinar discusses some of the latest trends and developments in leveraged finance terms and practices and the extent to which some of these have gained market acceptance.

About This Series

Leveraged Finance

- Debt has always been an important part of the capital structure of many corporations and private equity portfolio companies. At some point, most companies will need to make the decision as to whether and how to incur debt, either in the ordinary course of business or to fund acquisitions or other transformative transactions.

- This webinar series focuses on the leveraged finance market, meaning borrowings by companies whose credit rating is (or would be if rated) below investment grade (that is, a rating below BBB- by S&P / Baa3 by Moody's). The leveraged finance market over time has developed its own set of market conventions and terms that may be unfamiliar to traditional lenders.

Episodes In This Series

#1: Navigating Credit Agreements

Premiere date: 6/25/25

#2: Tricks and Traps in Leveraged Finance

Premiere date: 8/27/25

#3: Current Trends in Leveraged Finance

Premiere date: 9/24/25

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Episode #3

Current Trends in Leveraged Finance

Each Financial Poise Webinar is delivered in Plain English, understandable to investors, business owners, & executives without much background in these areas, yet is of primary value to attorneys, accountants, & other seasoned professionals. Each episode brings you into engaging, sometimes humorous, conversations designed to entertain as it teaches. Each episode in the series is designed to be viewed independently of the other episodes so that participants will enhance their knowledge of this area whether they attend one, some, or all episodes.

Volume and Types of Deals

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We're seeing a slight rebound of M&A activity in the market since the slump in 2023. What are you seeing this year in terms of acquisition financing activity? What deals are getting done?

1. Still less M&A than 2020/2021
2. More add-ons vs. brand new investments
3. Borrowers often relying on DDTLs and incrementals to finance this type of M&A activity

Changes to Covenants and Other Provisions

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Given the higher interest rate environment over the last couple of years, have you noticed changes to covenants or other provisions in debt documents?

a. PIK interest
    i. Rising rates put pressure on liquidity
    ii. Toggle features
    iii. Structural shift to more mezz, preferred equity
b. Resurgence of interest rate hedge requirements (complexities of hedge covenants for a revolving credit facility)
c. Resurgence of interest coverage ratios and other coverage ratios; Liquidity covenants

Hardest Deals to Market; Borrower Options

Given the market tightening, which types of deals are the hardest to market in this environment? What options do borrowers have?

a. Borrowers in unstable sectors continue to face challenges
b. Increased use of market flex terms
c. Sponsors/borrowers forced to “get creative”
d. Increased diligence; longer runways to close.
e. Tariff impacts

Terms Shifting in Borrower's Favor

- Economics – fees, pricing and, to a lesser extent, call pro
- Ability to lever above closing, including with DDTL
- Expansive use of DDTL proceeds
- Less deleveraging required for utilization of incurrence baskets

Preferred Equity

What trends are you noticing in regard to preferred equity?

a. Preferred equity as a funding mechanism in high rate environment
b. Function as additional source of capital in lieu of junior debt
c. Structured to avoid classification as “disqualified equity”

Equity Cures

What are you seeing with respect to equity cures?

a. Borrowers want to maximize “cure credit” to EBITDA
b. May be facilitated via amendment rather than relying on existing cure provisions alone
c. Strategic planning/modeling to avoid cures in subsequent quarters

Middle Market Financial Covenants

In middle market transactions, what are you seeing with respect to financial covenants?

a. Push toward single covenant in stronger deals (leverage only)
b. Cash netting and related caps
c. Covenants in distressed world (minimum EBITDA, liquidity and budget variance)

EBITDA Trends

1. What about trends in EBITDA calculations in middle market financings?

   a. Continued emphasis on the big three add-backs (extraordinary items, restructuring/reorg charges and cost savings)
   b. Push for higher caps in stronger deals

Private Credit

Private credit continues to be a hot topic. Can you talk about private credit's role in the market?

a. Private credit 101/what is private credit
b. Expanding range – direct lenders now competing for large-cap deals
c. Benefits of "small club" of lenders, especially when seeking relief

Priority Revolving Facilities

Can you briefly discuss priority revolving facilities and any controversial features of these facilities?

a. Rise in unitranche facilities with priority revolver
b. Different flavors of priority revolvers range from waterfall protection to special voting/enforcement embedded in credit agreement to full AAL
c. Points of contention between first out revolver and last out term loan

Other Trends

In terms of specific changes/trends in documentation, what recent changes have there been to leverage finance documents?

a. Outbound Investment Rule provisions
b. Confidentiality provisions
c. Sustainability adjustments
d. Others

Liability Management Trends

What trends are you noticing regarding liability management transactions?

a. Self-help vs. lender consent
b. Double dip/pari plus structures (reliance on elements of other LMTs; Wheel Pros)

Loan Market

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Where do you see the loan market going from here?
Are there any things of interest that you have seen that we have not addressed today?

Questions or Comments?

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Meet The Faculty

Krista Mancini - kmancini@jonesday.com

Krista Mancini represents financial institutions, public and private borrowers, private equity sponsors, project sponsors, and distressed debt investors in a variety of financing transactions. Her experience includes secured and unsecured credit facilities, acquisition financings, project financings, syndicated facilities, and debtor-in-possession financings that encompass a broad spectrum of industries and business sectors.

Andrew Hutchinson - AHutchinson@muchlaw.com

Andy is a debt finance attorney who focuses on commercial lending transactions. Over the past 20 years, he has represented direct lenders, banks, private equity sponsors, and corporate borrowers in acquisition finance and corporate finance transactions.

Andy has structured, negotiated, and documented debt financing transactions of various types, including domestic and cross-border acquisition financings, general corporate lending transactions, recurring revenue facilities, syndicated facilities, asset-based loans, debtor-in-possession facilities, workouts, and restructurings.

Prior to joining Much, Andy was a partner in the finance department of a large Chicago-based law firm. Earlier in his career, he spent many years as in-house counsel, first with a New York-based hedge fund and, more recently, with a large direct lender. Andy's significant in-house experience has informed and shaped his practical approach to the transactions he handles on behalf of his clients.

Ethan Konschuh - ekonschuh@sidley.com

Ethan Konschuh focuses his practice on global finance and represents commercial banks, direct lending funds, investment banks, hedge funds, insurance companies, public and private companies, private equity funds, and their portfolio companies. He provides legal guidance for these clients in a wide variety complex financial transactions, including senior secured and unsecured credit facilities, first lien and second lien transactions, syndicated, club and bi-lateral financings, unitranche financings, mezzanine financings, cash-flow, split-lien transactions, and continuation fund structures. Ethan has extensive experience with acquisition financings, recapitalizations, and other transformative transactions across a variety of market segments, from middle market financings, to investment-grade cross-border facilities. He has also represented debtors and creditors in workouts, debtor-in-possession facilities, in- and out-of-court restructurings, and other distressed financings.

Ethan graduated magna cum laude from Minnesota Law School in 2018, where he served as an articles editor for the Minnesota Journal of Law Science & Technology. Ethan graduated from Michigan State University with a B.A. degree in economics and political science.

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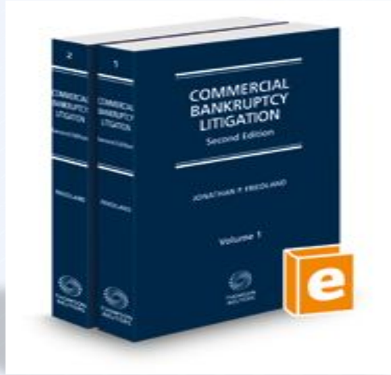

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Strategic Alternatives For And Against Distressed Businesses, 2025 ed. is one of a kind. It is the only resource that provides comprehensive state-by-state comparisons of assignments for the benefit of creditors & receiverships. This alone makes the book a must-have for every insolvency professional.

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