

## Special Report: Covenantive Easing

THE LEAD | September 5, 2019

**Covenantive Easing**  
The Lead Left - A Special Report

In May 2019 The Lead Left published a series of articles on covenant trends. This report consolidates those articles.

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**Introduction**

Much attention was paid to a dramatic series highlighting the struggle between two powerful forces, a dizzying game for world domination, with the outcome hanging in the balance and viewers on the edge of their seats.

Of course we're talking about our series on valuations ("Why Valuations Matter" [link]). Seems it struck a chord with our readers. Based on your feedback, the trends we identified have indeed been experienced by both credit users and providers.

One particular question from lenders, though, has arisen in multiple conversations at conferences and other settings; namely, how does the element of asset valuation figure into covenant packages and how are they being negotiated?

It was thus fortuitous that attorneys from Morgan Lewis offered a credit agreement teach-in for our readers, with a special emphasis on covenants.

First, for those who missed our main drivers of valuations, here's a quick summary:

Sponsors today are challenged more than ever to establish platforms maximizing future shareholder value. In part, that's because purchase price multiples are at record highs, making the "buy-low, sell-high" increasingly complicated.

Also, the competition for good properties is fierce. Buyers are being forced to execute "add-on" more rapidly than ever. Finally, the time frames for auction processes have been greatly compressed. That leaves more due diligence discovery for post-closing.

Ideally, the credit agreement should mirror the sponsor's blueprint to grow the business. Given the pressures outlined above, it's no wonder private equity buyers insist on as much wiggle room as possible to execute that plan.

It is a balancing act. Lenders don't want to relinquish control on terms that protect their own investment within the borrower's capital structure.

**About The Lead Left**

The Lead Left reviews deals and trends in the capital markets with a unique focus on the mid-market space and is read by thousands of influential industry participants.

- Original commentary backed by thirty years of capital markets experience
- Data and commentary from leading global capital market research firms
- Detailed information on deals in the market
- Plus our popular Charts and Quotes of the Week

**Churchill Asset Management**

Churchill Asset Management is a leading provider of senior and unitranche debt financing to middle market companies, primarily those owned by private equity investment firms. The firm currently manages \$6.8 billion in committed capital and is part of Nuveen (formerly TIAA Global Asset Management), one of the largest global asset managers across multiple asset classes with \$1 trillion in assets.

**Charts and Quotes of the Week**

Horizon 1-100 Months

| Category       | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 |
|----------------|---------|---------|---------|---------|
| 1-100 Months   | 15%     | 15%     | 15%     | 15%     |
| 101-200 Months | 15%     | 15%     | 15%     | 15%     |
| 201-300 Months | 15%     | 15%     | 15%     | 15%     |
| 301-400 Months | 15%     | 15%     | 15%     | 15%     |
| 401-500 Months | 15%     | 15%     | 15%     | 15%     |

Over components climbed 10% in May 2019

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- Doc Appointment
- Term Erosion
- Digging into the Doc
- Issuer-favorable Add-backs

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