

Lead Left Interview – William Brady

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This week we chat with William P. Brady, a partner in the Corporate Department of Proskauer. He is also a member of the Finance Group as well as the Multi-Tranche Finance Group. Bill is a thought leader on unitranche financings and speaks at various junior capital, multi-tranche finance and related finance conferences and seminars.

The Lead Left: Bill, the unitranche has become a permanent feature in the capital markets landscape. Could you give us a little background from your perspective on its history, and where we are today?

William Brady: It's really the world of Unitranche 2.0 today. After coming out of the pre-crisis period as a single product with maybe a five to eight page Agreement Among Lenders (AAL) that dealt with a short list of topics like pricing skim, rights of first offer on transfers, purchase options, repayment waterfalls and application of proceeds, today it has evolved to a broad platform with much more in-depth interlender terms.

TLL: And that platform has a variety of alternative financing structures.

WB: The unitranche is a structure that attempts to replicate all the different options, whether it's first lien/second lien, senior debt/mezzanine, ABL and term debt in split collateral deals and others. And depending on which element as a lender you're involved with determines how you think about pricing, leverage and control.

TLL: Could you give us an example?

WB: One recent alternative is the "upside-down" unitranche in which the first-out represents a small piece of the total financing, rather than the majority. In that case, the last-out lender will want to control the vote since the first-out has so much coverage.

But things can get really complex. I've worked on a hybrid structure that contains an ABL and term loan split collateral structure, three levels of term loans – call them A, B, and C – with each tranche splitting the collateral as a first lien, second lien, and third lien. Each tranche has its unique risk and return considerations. The sophistication of the unitranche today provides an opportunity for lenders to be creative. It's really about starting from a blank canvas, if you can get all the parties to agree.

TLL: What's the ideal template for an AAL?

WB: At a high level the goal is to replicate a multiplicity of structures within a single document. It's not perfect, and it takes a lot of engineering to construct a single facility clearly replicates a complex, two or three facility structure. That's what has created the complexity.

TLL: Which of the unitranche structures are the most prevalent?

WB: We track our deals. Our volume represents 150 or so finance deals per year. In 2014, for example 45 or so transactions were structured as bifurcated unitranche, and 70% or so of those were first lien/second lien. Roughly

10% were split collateral between an ABL and a term loan. Another 15% were the upside-down structure I described earlier. And the balance was senior/mezzanine. In 2013 the share of first lien/second lien was even higher. So although first lien/second lien still dominates, as more parties enter this space we continue to structure more varieties that more closely mirror the state of the two-document market.

To be continued the week of Nov 9

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