Leveraged Finance and Acquisition Debt: Debt Capacity, Loan Structuring and LBO Credit Models

Leveraged Finance and Acquisition Debt: Debt Capacity, Loan Structuring and LBO Credit Models

Introduction:

Leveraged finance decisions go wrong when acquisition debt is sized on optimistic cash flow, tranches are layered without regard to ranking and covenant packages leave lenders with no early warning. This Core Concept course takes the lender and arranger view of acquisition finance: financing sources, debt capacity and leverage metrics, senior, second-lien, mezzanine and high-yield layers, term loan structures, pricing, covenants, security and intercreditor ranking, lender-side LBO models, refinancing and distress signals. Each participant builds a Leveraged Acquisition Financing Term Sheet and a Debt Capacity Model on a buyout case.

Course Objectives:

- Assess acquisition financing sources and match senior, second-lien, mezzanine, high-yield, vendor and equity funding to the target's cash flow and asset profile
- Size acquisition debt capacity using total and senior leverage, interest cover, fixed charge cover and free cash flow to debt metrics
- Structure term loan, revolving and capex facilities with amortisation, bullet and cash sweep profiles, pricing grids and fee terms
- Design a covenant package that chooses between maintenance and incurrence tests, sets headroom and reflects security and intercreditor ranking
- Build a lender-side LBO credit model with sources and uses, debt schedule, credit statistics, downside case and sponsor return and exit checks
- Identify refinancing, amend-and-extend and restructuring warning signs in a leveraged borrower and recommend lender responses

Target Audience:

- Managers who originate, structure and arrange leveraged and acquisition loans for corporate and sponsor clients
- Managers who review and approve leveraged transactions in credit and underwriting functions
- Managers in debt advisory and capital structuring teams who run financing processes for acquirers
- Corporate development managers who plan and negotiate debt funding for acquisitions
- Treasury and group finance managers who raise, monitor and refinance acquisition borrowings
- Managers in portfolio and loan monitoring teams who track leveraged borrowers after closing

Course Outline:

Day 1: Acquisition Finance Landscape and Financing Sources

- Leveraged Finance Market Map: Banks, Institutional Lenders, Private Credit Funds and Bond Investors
- Acquisition Financing Sources Matrix: Senior Debt, Junior Debt, Vendor Loan and Sponsor Equity
- Corporate Acquirer Versus Financial Sponsor Buyout Funding Comparison
- Target Suitability Screen: Cash Flow Stability, Tangible Collateral and Capex Needs
- Transaction Timeline from Commitment Letter to Funding and Syndication

Day 2: Debt Capacity, Leverage Metrics and Capital Structure Layers

- EBITDA Quality Review and Lender Adjustments to Reported Earnings
- Leverage Metric Set: Total Leverage, Senior Leverage and Net Debt to EBITDA
- Coverage Tests: Interest Cover, Fixed Charge Cover and Free Cash Flow to Debt
- Capital Structure Ranking: Senior Secured, Second Lien, Mezzanine with PIK and Warrants, High-Yield Bonds
- Debt Capacity Sizing Worksheet by Cash Flow and by Asset Cover

Day 3: Facility Structuring, Pricing, Covenants and Security

- Term Loan A Amortising, Bullet and Term Loan B Structures with Excess Cash Flow Sweep
- Revolving Credit, Capex and Acquisition Facility Sizing
- Margin Ratchet Grid, Upfront Fees, Commitment Fees and Call Protection
- Maintenance Versus Incurrence Covenants and Covenant-Lite Terms with Headroom Setting
- Security Package and Intercreditor Ranking at Overview: Payment Waterfall and Standstill

Day 4: Lender-Side LBO Model, Downside Cases and Distress Signals

- Sources and Uses Table with Transaction Fees and Refinanced Debt
- Debt Schedule Build: Mandatory Repayment, Cash Sweep and Interest Circularity
- Credit Statistics Dashboard and Downside Case with Covenant Breach Point
- Sponsor IRR and Exit Multiple Check Against Refinancing Risk at Maturity
- Refinancing, Amend-and-Extend and Restructuring Warning Sign Checklist

Day 5: Buyout Case Work: Term Sheet and Debt Capacity Model

- Industrial Buyout Case: Financing Structure Options and Tranche Selection
- Services Sector Acquisition Case: Debt Capacity Model Build and Stress Test
- Leveraged Acquisition Financing Term Sheet Drafting: Facilities, Pricing and Covenants
- Credit Committee Challenge Session on Leverage, Headroom and Exit Assumptions
- Final Presentation of the Term Sheet and Debt Capacity Model with Peer Review

Skills You Will Gain:

- Debt Capacity Analysis
- EBITDA Adjustment Review
- Tranche Structuring
- Loan Pricing and Fee Design
- Covenant Headroom Setting
- Lender-Side LBO Modelling
- Downside Scenario Testing
- Leveraged Borrower Early Warning

Why Attend This Course:

- Return with a Leveraged Acquisition Financing Term Sheet and a Debt Capacity Model built and stress-tested on a buyout case
- Challenge sponsor and management cases by rebuilding EBITDA, leverage and cover ratios from the lender side
- Negotiate facility terms with a clear view of how pricing, amortisation and covenant choices shift risk between borrower and lender
- Compare structuring practice with peers from banks, private credit lenders, debt advisers and corporate acquirers

Conclusion:

Acquisition debt holds up only when it is sized on cash flow the target can deliver, layered in a ranking lenders understand and protected by covenants that warn before value is lost. The course moves from financing sources and target screening, through debt capacity, leverage metrics and capital structure layers, to facility structuring, pricing, covenants and security, and then to lender-side LBO modelling, downside cases and distress signals. The final day applies these methods to buyout cases and produces a Leveraged Acquisition Financing Term Sheet and Debt Capacity Model.