Warwick Economics Society

Divisional Starter Packs – Leveraged Finance

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Contents

2. General Leveraged Finance overview

3. Leveraged Finance Transactions & Debt Instruments

4. Key Skills

5. Daily responsibilities of a Leveraged Finance Analyst

6. Leveraged Finance Division Specific Interview Advice

Leveraged Finance

What is it?

Leveraged Finance (LevFin) is a product team within an investment bank which helps companies and private equity sponsors raise debt to fund acquisitions, leveraged buyouts and refinancings.

While Debt Capital Markets (DCM) primarily focuses on helping investment-grade companies raise debt, LevFin teams typically work with sub-investment-grade and highly leveraged borrowers. These borrowers carry greater credit risk, resulting in higher borrowing costs and a greater focus on their ability to service and repay debt. LevFin teams advise clients on the amount of debt they can raise and the appropriate structure, pricing and terms of the financing.

LevFin offers exposure to both transaction execution and the debt markets. Analysts therefore develop strong skills in credit analysis, financial modelling and understanding capital structures, while gaining exposure to private equity sponsors and leveraged companies across a range of industries.

Types of Transactiond Leveraged Finance work on

Leveraged Buyout (LBO) Financing: Debt raised to finance the acquisition of a company by a private equity sponsor. A significant proportion of the purchase price is funded using debt, with the remainder provided through the sponsor's equity contribution.

Acquisition Financing: Debt raised to help a company finance an acquisition. LevFin will typically be involved where the acquirer or the combined company has a highly leveraged or sub-investment-grade credit profile.

Refinancing: New debt raised to repay or replace a company's existing borrowing. Companies may refinance to extend debt maturities, reduce borrowing costs or change the structure and terms of their debt.

Dividend Recapitalisation: A transaction in which a company raises additional debt and uses the proceeds to pay a dividend to its shareholders. This is commonly used by private equity sponsors to return part of their investment before selling the company.

Leveraged Finance Debt Instruments

Leveraged Loans: Loans provided to sub-investment-grade or highly leveraged borrowers, commonly used to finance acquisitions and LBOs. They usually are secured against a borrower's assets and syndicated to other banks and institutional investors.

High-Yield Bonds: Bonds issued by sub-investment-grade borrowers which offer higher interest rates to compensate investors for the greater risk of default.

Revolving Credit Facility (RCF): A flexible credit facility which allows a company to borrow, repay and redraw funds up to an agreed limit.

Bridge Loan: A short-term loan which provides immediate financing until permanent funding, such as leveraged loans or high-yield bonds, can be raised.

Mezzanine Debt: Subordinated debt which sits below senior debt but above equity in the capital structure. It carries higher interest rates due to its greater risk and may include features which allow the lender to receive equity or additional returns.

Key Skills Required

- **Credit Analysis** - assessing a company's cash flow, leverage and ability to service debt.
- **Financial Modelling** - building LBO and debt capacity models and testing downside scenarios.
- **Leveraged Finance Knowledge** - understanding high-yield bonds, leveraged loans, covenants and capital structures.
- **Market Awareness** - tracking credit spreads, lender appetite and financing terms.
- **Communication & Teamwork** - preparing financing materials and coordinating with sponsors, clients, syndicate and legal teams.
- **Attention to Detail & Time Management** - checking model assumptions and financing terms while working to deal deadlines.

Daily Responsibilities of a Leveraged Finance Analyst

The day-to-day responsibilities of a LevFin analyst vary depending on market conditions and the transactions they are working on. Typical responsibilities include:

Credit Analysis: Assessing a company's financial performance, cash flows, leverage and ability to service debt.

Financial Modelling: Building and updating models to analyse debt capacity and potential financing structures.

Market Analysis: Monitoring interest rates, credit spreads and recent leveraged loan and high-yield bond issuances.

Preparing Materials: Producing pitch books, financing proposals and materials for clients and internal credit approval.

Leveraged Finance Specific Interview Advice

Only a few banks offer LevFin as a separate Spring Week programme, so this section is mainly targeted at Spring Conversion and Summer Internship interviews. Some useful areas to develop an understanding of include:

- LBO Fundamentals – Walk through an LBO Analysis and understand how an LBO works
- Credit Analysis – learn the fundamentals of credit analysis and the impacts they have e.g coverage / debt ratios and credit ratings
- Debt Instruments – Understand the different debt financing available to firms and their relative position in the capital structure
- Recent LevFin Transaction - Research a recent LBO or acquisition financing, including the financing structure, leverage and rationale. **(Spring)**
- Market Trends: Follow interest rates, credit spreads, private equity activity, leveraged loan and high-yield issuance, and the growth of private credit. **(Spring)**
- Investment Banking Fundamentals**:** Develop an understanding of the three financial statements, valuation methods and financial modelling.