Vault leveraged finance guide pdf

Leveraged Finance or the LevFin group is no big deal; They just happen to shut down big deals. And as a result, the Internet seems to be in love with this team. However, it is not just because of those big deals; There is also the notion that Leveraged Finance is one of the best groups for exit opportunities in private equity. You do a credit analysis, work leveraged with an acquisition, and you may gain more contract experience than bankers in industry or M&A groups. What is love not? Let's just say you should read the fine print before waiting for Leveraged Finance to be the best group ever: (Special thanks to Kai Liang for his expertise in leveraged finance discipline.) Leveraged Finance Job Description and Leveraged Finance vs DCM At a high level, LevFin is similar to debt capital markets (DCM): Give companies strategic advice on debt borrowing. This means pitching to existing customers and prospecting customers, performing debt issues with customers, and working with other groups to provide critical market information and transaction case studies. A key difference is that DCM focuses on investment grade debt issues that are used for everyday purposes, while LevFin focuses on sub-investment grade issues (high-yield bonds or leveraged loans), which are often used to finance acquisitions, leveraged acquisitions and other transactions. Less than the investment category means anything with a Ba1/BB+ credit rating or a lower rating. Companies in this category tend to be riskier than blue-chip companies with less consistent operating results, greater leverage and a higher chance of insolvency. Therefore, their debt issues must offer higher returns than investment grade companies. Because of this difference, most of your LevFin customers are companies or private equity firms and not government, agency or supranational. Common uses of LevFin customers' debt are: Leveraged buyouts – A private equity firm uses a combination of cash and debt to buy a business, improves it, and then sells it again. It's about turning the house around on a much larger scale. Mergers & Acquisitions – The company identifies another company or business unit it wants to acquire, raises debt against the transaction and holds the target in the long term. Capital expenditure – If a company wants to build a new factory or develop a new asset that is not part of its everyday business, it may raise debt. Leveraged recapiation – The customer wishes to increase the debt to the repurchase of shares or the issue of dividends. Refinancing – If a company's debt is maturing, it almost always raises new debt to pay off and replace the old balance. Because everyone can be a special case, leveraged finance's analytical work is often more involved than in DCM. You need to understand not only the functioning of the credit market and companies, but also how large transactions affect companies and their credit profiles. It's more about introducing custom solutions instead of offering the same products in small variations. Leveraged Finance vs Corporate Banking vs FSG vs Restructuring Groups Since we just explained the differences between leveraged finance and DCM, we now compare it to a few other debt-related groups. LevFin differs from corporate banking because corporate banking involves debt, such as revolvers and term loans, as well as additional services that investment banks can provide to customers, while Leveraged Finance deals with younger and more syndicated debts. There are some overlaps with Financial Sponsors Group (FSG) as both teams partner with private equity firms. Financial sponsors can focus on maintaining relationships with private equity firms, while Leveraged Finance may do more credit/LBO analysis for deals. But the work varies greatly from bank to bank, with different teams leading the model in different companies. There is also some overlap with restructuring, but LevFin is cooperating with different types of companies: those companies that are highly leveraged but not yet in distress. Banks with a strong balance sheet also tend to have strong leverage finance teams as they can take more risks for customers. In the United States, for example, JP Morgan and Bank of America Merrill Lynch tend to be the strongest banks in this region, followed by other major commercial banks. In some banks, LevFin plays a more market-based role, and some companies label it as leveraged to the debt capital market or from leverage-funded origin & restructuring or other, slightly different names. In other companies, Leveraged Finance may be classified as investment banking and work more closely with the M&A team. Working in a market-based team may not kill your exit opportunities, but it's not ideal if your goal is your capital. Leverage financial interview questions: There is little difference between entering the leverage area in the recruitment process of LevFin groups. Recruits include students who trained in a group and received full-time return offers, bankers who move from different groups, and sometimes professionals with experience in credit rating agencies, corporate banking groups or other credit roles. The biggest difference in the recruitment process is that you're likely to get a higher percentage of technical issues, especially with so many courses, books and guides teaching these concepts. You probably won't get questions about macro topics like central bank operations, trade policy or FX rates because leverage funding is micro-centreneous. However, you should still understand the bond analysis (in the DCM article) how to build the LBO model and how companies make financing decisions. You don't need to know all these topics thoroughly, for example, you should understand the make-up of a simple LBO model. We cover these blends in the Investment Bank Interview Guide in the Equity vs. Debt section and more thoroughly in more depth mastery course in financial modelling. You should also be prepared to discuss trends in debt markets; You'll find good resources through the links below (find your name and current year to find fresher versions): If you want to understand leveraged loans at a high level, see leveraged loan primer LeveragedLoan.com. And to prepare for contract discussions, check out the list of high-yield stores on Credit Market Daily and explore what you can find there. Finally, if you're in networking mode, you can go to conferences like conferences hosted by: Cornell High-Yield and Restructuring Club S&P US Leveraged Finance For more information on these topics, see investment banking recruitment. Leverage finance analyst role: Downstream, projects, and model reservations You execute the same type of orders with leveraged financing as DCM, and investors in both regions care the most about avoiding losses because they are upside down. If you are interested in credit analysis, you can find great examples in the DCM article. The main differences are: You do deeper financial modeling – Because you work with less creditworthy companies, you need to make more effort to test stress by looking at different scenarios and seeing how your company's credit statistics and liquidity hold up. You spend more time building different financing scenarios, such as subordinated notes and mezzanine vs. preferred stock, and comparing results. Finally, you are also building models for transactions such as leveraged purchases and M&A contracts. You focus more on credit documents, credit changes, and other deals – this section may seem less interesting than financial modeling, but it's even more important because you need to understand the terms of debt issue if you want to do a credit analysis. And there is no way to learn these skills except by reading dozens of examples. You also work with financial sponsors – at DCM, your customers are almost always companies or other companies that grant debt. But at Leveraged Finance, financiers (mostly private equity firms) may also hire your bank to fund their contracts. As a result, you will also learn how PE companies conduct transactions. Here are some examples of different types of analysis by leveraged finance teams: Leverage Buyout/Take-Private Analysis: Here you build a 3-statement model for the company, you assume that the PE company will use a combination of debt and equity to buy it, and then sell the company at the end of the 3-7 year period. You focus on irr devices and cash once payments and try to show that the store works in different scenarios, such as base and downside cases. Here are some examples of leading leveraged finance accounts: One difference in Leveraged Finance is that you pay more attention to credit statistics and Because you're focused on financing contracts. Even if the transaction generates reasonable equity movables, lenders may reject it if: / The interest rate ratio falls to too low (N.B.: This is only one consideration). Lenders do not benefit at all from high equity irr, but they lose a lot if a company defaults on its debts. Market Conditions/Update Presentations: These brochures show [potential] customer data on recent issues, net flows to high-yield and leveraged loan investment funds, prevailing interest rates, issue volumes and other market statistics. The goal is to say: Now is a good time to keep trading! After all, if you're a banker, at any time it's a good time to continue the transaction. Here's an example of Barclays: a summary commentary from Barclays Deal Case Studies: With these, you're once again providing evidence that now is the right time to extend the deal. In this case, it is because other similar companies have increased debt on the same terms and have a successful supply. General information includes transaction value, re-combinations, credit ratings and liability terms (interest, income, original issue discount, LIBOR floor, call premium, etc.). Here are some examples: Internal memos: Like the documents presented in the DCM article, you also produce quite a few memos in Leveraged Finance, mainly to provide a narrative of transactions. For example, you can describe your customer's industry, growth prospects, products/services, competitors, customer concentration, and percentage of recurring revenue. You also capitalized the conversion table for the transaction itself, including the Sources & Uses schedule, post-trade credit statistics and relationships, and the activity metrics and credit statistics/ratios of comparable companies. These memos can be used internally for approval by the bank's credit committee, or used externally to help the sales team offer new syndicated offers to institutional investors. Credit changes: You can also view an existing loan, thoroughly review the terms, and make a change to change its terms and conditions on behalf of the customer. You make this change most often when a company needs more time to repay the loan; In that case, you can offer lenders a higher interest rate in exchange for additional years until maturity. Credit changes are not complete transactions in the same way as leveraged purchases or M&A deals, but they still generate payments to the bank. Leveraged financial loans We discussed the key terms of debt issues in the DCM article, so see a summary of it. In most cases, you will work with high-yield bonds and leveraged loans at LevFin. High-yield bonds are broad, but it usually includes junior debt instruments with fixed coupons (e.g. 7.0% rather than L+200 bps) that have emerged from covenants instead of maintenance covenants. High yield refers to investment grade offering higher interest rates as a result of a higher risk of insolvency. There are different types of people in this category issues such as Senior Unsecured Notes, Unsecured Notes, Subordinated Notes and Mezzanine, each with minor differences. For example, Mezzanine sometimes involves equity guarantees that allow investors to obtain a small percentage of the company's capital in the event of an exit. Leveraged loans differ from high-yield bonds because coupons are usually floating, have maintenance covenants, are backed by assets and there may be a small amount of amortization. They are closer to fixed-term loans, but traditional fixed-term loans are for investment grade companies with less leverage and have lower interest rates. The most important thing here is that the terms vary much more with leveraged financing than in the debt capital market. For example, if a highly leveraged company wants to refinance but may have difficulty paying its cash interest, you can't just propose a new debt on slightly different terms. Instead, one could think of the returns for existing investors and propose a significantly different structure that would continue to offer a similar return. For example, you can propose a new loan with a lower interest rate, part of the interest paid on the tax rate (PIK) accrued on the loan capital, and a small percentage of equity at maturity. The annual cash yield is lower, but the internal return of the lenders may be similar (assumed that the company will survive). You are unlikely to propose such a deal in dcm because investment grade bonds do not have PIK interest rate or stock terms. Leveraged Finance can sometimes be a capital markets group, hours and lifestyle tend to be worse than DCM and ECM and better with the hours and lifestyles of M&A and industry groups. This is because there are relatively large number of transactions, the analysis can be more in-depth, and you work in transactions that are more complex than simple debt or stock issues. Many of your clients are also private equity firms. All venture capitalists work long hours, so they also expect their bankers to work long hours, resulting in a lot of late nights and last-minute requests. At some of the big banks, LevFin's classes are a little better, so on weekdays you might have a little free time and more free time on weekends. However, these groups also tend to do less modelling work and are closer to market-based teams. At the analyst and associate level, Leveraged Finance's compensation is similar to that of any other group. The salary cap for the CEO and other senior bankers is slightly higher than in groups such as ECM or DCM, so a good result would be in the small millions of US dollars. However, some also claim that a long-term career at Leveraged Finance is than dcm, because if there is a recession, high-yield issues will decrease more than investment grade issues. Leveraged financial opportunities The Internet seems to be in love with Leveraged Finance, Finance, threads and articles claim that it is a great way to get into a venture capitalist's career. There is some truth to this claim, because LevFin is a better option than DCM or ECM. However, it is still not as good an alternative to a capital investment as solid M&A or industry teams. You focus on the credit side of LevFin's deals, which is important, but you don'#1 the credit factor of pe companies. Individual leverage finance groups also vary widely, with some offering more in-depth modelling and trading than others. The headhunters that dominate many PE exits don't understand these nuances, so even if you work in a highly technical group, you may not be able to convince them of your skills. It is clear that many Leveraged Finance bankers have access to private equity. It's just not as easy and guides the path as online masses like to claim. Other exit options include: In addition to these, you can also move to another group at your bank or to a normal company in a corporate finance role. For more information about swaps for these options, check out hedge fund vs. private equity debate coverage. Leveraged Finance Careers: Final Thoughts Leveraged Finance is a solid group that puts you in the process of exiting comfortable credit. You have more options than ECM or DCM, but in return for that, you also work a lot more. Get useful skills, especially reading and understanding loan documentation, and work on major events that are good for contract discussions in interviews. Keep in the way: Leverage finance groups vary greatly. In some banks, LevFin is more market-driven and in others it is more modelling and trading power. It is not quite as good for capital investment as the Internet seems to believe. Yes, many LevFin bankers get into PE, but you would have just as good a chance, if not better, to come from a solid M&A or industry group. If you understand all this, you can draw on your experience in this group like a professional. Pro.