

The ninety-minute read

Chapter 16. The order that extracts the most decision-relevant content in the least time. Do not read the covenant and stop: compute it.

Borrower / facility		Reviewer	
Agreement dated		Date	

Minutes	What you read	What you write down	Your answer
0–15	Definitions: Consolidated EBITDA, Net Debt, the add-back list and its caps	The add-back cap, its basis, and its run-off date	
15–25	Financial covenants: levels, step-downs, test dates, the cure	The full step-down schedule on a timeline	
25–40	Headroom in EBITDA at every future test date, base case	The binding covenant, quarter by quarter	
40–50	The cure: convention, frequency caps, deemed or prepayment	The cure amount at the tightest quarter, both ways	
50–60	Repayment, the sweep and mandatory prepayments	The sweep grid and the reinvestment right	
60–70	Baskets: sizes, floors, growers, the builder, reclassification	Aggregate capacity at the floor, not at today's EBITDA	
70–80	Incremental, MFN and its sunset; unrestricted subsidiaries	Maximum incremental and the MFN cost if triggered	
80–90	Events of default, cross-default threshold, transfers, voting	What you hold on the day of a breach	

The five questions that catch most problems	Answer	Clause
Does an add-back run off in the same quarter as a covenant step-down?		
Is the add-back cap a percentage of a number that falls in a downturn?		
Is the cure deemed EBITDA or a prepayment? Ratio between the two = the covenant multiple		
How many consecutive quarters can the downside breach, against how many cures in a four-quarter window?		
What is left of the baskets at the fixed floor?		

The sentence the read must produce: "on the base case, the binding covenant is _____ from Q__, and the business can lose €_____ of EBITDA at the tightest point."

Consolidated EBITDA and Net Debt, line by line

Chapters 4, 29.1 and 29.2. The definition is the covenant. Every word after "provided that" is the negotiation.

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Add-back (item)	Category	Claimed, €m	Basis / evidence	Action date	Runs off	Capped?

The cap	Answer	The cap	Answer
Cap, % or fixed amount		Measured on: current / closing / fixed	
Per category or aggregate		Unadjusted EBITDA this period	
Permitted = min(claimed, cap)		Disallowed this period	
Run-off: months after the action		Savings not yet achieved permitted?	

Net Debt: inside or outside?	Inside	Outside	Amount, €m
Cash netted: all, or unrestricted only? Cap on the cash netted?			
Shareholder loans (fully subordinated, non-cash-pay?)			
Leases			
Earn-outs and deferred consideration			
Derivative marks (Financial Indebtedness)			
Pro forma treatment of acquisitions, and for how long			

Test at signing: the covenant with the add-back at zero, at every future test date, on the base case. If any quarter says "breach", the add-back is a structural part of the covenant. On Kestrel the 20 per cent cap disallowed 0.32 in Q8, 38 per cent of the headroom left.

The calendar: step-downs, run-offs and headroom

Chapters 4, 5 and 20. Lay the two schedules on one timeline. If a run-off and a step-down coincide, say so before signing.

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Test date	Level	Add-back in? (run-off)	Net debt	Min EBITDA = ND ÷ level	EBITDA as defined	Headroom , €m	Headroom, %	Ratio, add-back at zero	Binding covenant
Q1									
Q2									
Q3									
Q4									
Q5									
Q6									
Q7									
Q8									
Q9									
Q10									
Q11									
Q12									
Q13									
Q14									

Read across	Answer	Note
Quarter in which the add-back runs off		
Quarter of each covenant step-down		
Coincide? Negotiate them apart by at least two quarters		
Quarter with the smallest headroom, and the amount in €m and in days of trading		

Headroom in EBITDA = EBITDA less Net Debt ÷ covenant. "0.21 turns" means nothing; "€0.83 million, about 13 days of trading" gets acted on.

Both covenants, and what the hedge does to them

Chapters 5 and 19. Identify the binding covenant at every test date and manage that one. Leverage is a balance-sheet test; interest cover is a cash test.

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Test date	Net debt	EBITDA	Leverage / level	Finance charges	Interest cover / level	Binding	Margin band

The hedge	Answer	Effect on the covenant	€m / turns
Proportion hedged, strike, tenor		Finance charges with +100 bp on the unhedged part	
Does Financial Indebtedness include derivative marks?		Mark added to Net Debt, in turns of trough EBITDA	
Rank of the counterparty in the waterfall		Break cost if the sweep prepays and the hedge is cut	
Hedge notional against the facility after each sweep		Interest cover with rates 150 bp lower, hedged vs floating	

Shortfall in EBITDA terms = covenant × finance charges – EBITDA. On Kestrel at Q9: 2.90 as modelled, 4.28 with +100 bp on the unhedged half. The hedging requirement is a financial covenant written in a different clause.

The equity cure, priced both ways

Chapters 5, 15 and 30.2. The same breach costs a factor of the covenant multiple more as a prepayment. The cap on frequency decides whether curing works at all.

Borrower / facility		Reviewer	
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Drafting	Agreement says	Drafting	Agreement says
Deemed EBITDA or prepayment		Carry-forward to later periods	
Cures in any four quarters		Cures over the life	
Over-cure permitted, counted in full		Deadline after the certificate	
Counts for the ratchet too		Must also be applied in prepayment	

Breach quarter	Net debt	EBITDA	Level	Deemed cure = ND ÷ level – EBITDA	Prepayment = ND – level × EBITDA	Earlier prepay still in?	Cure no. in window	Allowed?

The quarter the cap leaves uncured	€m	Note
Waiver fee (25–75 bp on commitments)		
Margin increase, a year		
Prepay enough the quarter before to pass outright		
Default: revolver lost, margin to the top band (already there?), default interest		

A prepayment stays paid. On Kestrel a single 19.74 at Q9 also passes Q10 (5.21x) and Q11 (4.84x): price the prepayment drafting once over the breach, not quarter by quarter.

The compliance certificate, in prescribed form

Chapters 11 and 30.3. Require the calculation, not the conclusion: "showing each adjustment separately and the application of any cap thereon".

Borrower / facility		Reviewer	
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Line	This period	Prior period	Source
Unadjusted EBITDA for the Relevant Period			
Add-back 1: amount and basis			
Add-back 2: amount and basis			
Add-back 3: amount and basis			
Total add-backs claimed			
Cap: % × which number =			
Add-backs disallowed by the cap			
Consolidated EBITDA			
Financial Indebtedness, by component			
Less cash netted (and any cap)			
Consolidated Total Net Debt			
Leverage: ratio and covenant level			
Ratio with the add-backs at zero			
Finance charges and interest cover against its level			
Headroom in EBITDA, both covenants			
Projection to the next two test dates on the current budget			
Basket usage by category, with reclassifications disclosed			
Guarantor coverage (annual): % of EBITDA and of gross assets			

Signed by two directors: name, date. Form annexed to the agreement and not amendable. Delivered quarterly and annually.

The basket register

Chapters 8, 10 and 26. Negotiate the floor, not the percentage: in a downturn every grower collapses onto it. Track the aggregate, not one line.

Borrower / facility		Reviewer	
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Basket	Fixed floor	% of EBITDA	At today's EBITDA	At the floor	Used to date	Reclassified in / out	Usable for unrestricted subsidiaries?
Permitted acquisitions							
Restricted payments							
Incremental facility							
Permitted indebtedness							
Permitted investments							
Disposals							
Management fees							
Total							

Builder basket	Anniversary 1	2	3	4	5	6	7
Retained cash flow / net income							
Builder balance							
Largest other basket							

Then	Answer	€m
Capacity created by the add-back (baskets on defined vs unadjusted EBITDA)		
Unrestricted subsidiaries permitted? Investments into them capped?		
Leverage level that opens the unlimited restricted-payments basket		
Assets that could leave the credit group today without consent		

Incremental debt, MFN and the sunset

Chapters 9 and 22. MFN is not a restriction on expensive debt; it is a repricing of the existing loan when the borrower raises it.

Borrower / facility		Reviewer	
Agreement dated		Date	

Term	Agreement says	Term	Agreement says
Incremental cap: fixed / grower / ratio		Ratio test, pro forma?	
Unlimited amount at what leverage		May it rank ahead of the facility?	
MFN cushion, basis points		MFN sunset, months	
Carve-out: below a size		Carve-out: maturing after the facility	
Carve-out: acquisition financing		OID and floors counted in the yield?	

Pricing the MFN	Value	Pricing the MFN	Value
Existing margin at the raise		Incremental margin	
Gap over the existing margin		MFN triggered? (gap above the cushion, inside the sunset)	
New existing margin = incremental – cushion		Annual cost on the existing facility	
Years left on the facility at the raise		Value of the sunset = annual cost × years left	

On Kestrel: E + 750 against E + 550 resets the existing margin to E + 700, 2.06 a year on 137.5. With five years to run, a raise inside the sunset is worth 10.31 to the existing lenders, undiscounted; 8.25 would be four years.

The day of the breach: what the lender holds

Chapters 12, 13 and 15. The practical reading is not "what happens if we accelerate" but "what do we hold, and what is it worth in the conversation that follows".

Borrower / facility		Reviewer	
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Event of default	Grace in this agreement	Materiality / judgement	Comment
Non-payment			
Financial covenant (the cure is the grace)			
Other undertakings ("capable of remedy")			
Misrepresentation			
Cross-default or cross-acceleration? Threshold			
Insolvency			
Cessation of business			
Material adverse change: who decides?			

On the day	Answer	Voting	Answer
Revolver still available?		Majority Lenders threshold	
Margin: band and default interest		All-lender list includes pro rata and release?	
Cures used in the window / over the life		Snooze-and-lose, yank-the-bank at par?	
Waiver: fee and margin asked		Blocking stake: amount, % of the facility	
Transfer consent falls away?		Sub-participation restricted?	

The lender's quarterly five

Chapter 21. Twenty minutes a quarter. Headroom in EBITDA falling three quarters running is the signal, whatever the absolute level.

Borrower / facility		Reviewer	
Agreement dated		Date	

Check	How	Last quarter	This quarter	Next four (projected)	Signal?
Headroom in EBITDA					
Add-back dependency					
Revolver utilisation					
Working capital					
Capex against plan					

How	
Headroom	EBITDA – (Net Debt ÷ covenant), this quarter and the next four
Add-back dependency	Re-run the test at add-back = 0: a pass that becomes a fail
Revolver	Drawn ÷ commitment against the springing threshold; just below it two quarters running
Working capital	Days of receivables, payables, inventory against last year
Capex	Actual ÷ budget; sustained underspend is deferred, not saved

Action, in ascending cost to the relationship	Taken?	Date	Outcome
Ask for the covenant projected to the next two test dates			
Request a meeting with management			
Appoint an adviser (trigger: a leverage level, not a default)			
Price the amendment early			

The borrower's playbook

Chapter 20. The failure is not breaching a covenant; it is discovering the breach in the month it happens. The model takes an afternoon.

Borrower / facility		Reviewer	
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The covenant model needs	In place?	Source
Covenant levels and step-down dates, as a schedule		
The add-back schedule and run-off, with the cap formula applied		
Net debt with everything Financial Indebtedness captures		
Headroom in EBITDA at every test date, base case and downside		

When	Who	What you say	Date done
Two quarters before the tight quarter			
One quarter before			
At the certificate			

What to negotiate at the outset, in priority order	Asked	Obtained	Worth, €m
Run-off and step-down at least two quarters apart			
Deemed-EBITDA cure, not prepayment			
Three cures in four quarters, not two			
Add-back cap fixed, or measured at closing			
Fixed floors on the baskets			
Equity cure counts for the ratchet too			

The negotiation record

Chapters 22 and 28. The points are negotiated separately and they interact. Run the base case with each proposed term and look at the quarter with the least headroom.

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Point	Lender opens	Sponsor opens	Landed	Worth, on the base case
Opening leverage covenant				
Add-back cap				
Add-back run-off				
Cure convention				
Cures in four quarters				
MFN sunset				
Cash netting cap				
Portability threshold				

The interaction test	Result	€m
Cap, run-off and step-downs together: the tightest quarter and its headroom with the terms as landed		
The same with the run-off moved by the amount conceded		
Which single concession produced the tightest quarter?		

On Kestrel: 6.00x landed gives 7.23 of headroom at Q1 (5.23 at the lender's 5.50x). A 36-month run-off with the 20 per cent cap kept lets Q9 pass by 0.41; uncapped, by 0.61.

Security, the intercreditor and the recovery

Chapters 17, 18 and 26. Work an enforcement at a value that hurts, with every class that ranks ahead of you.

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Security	Taken?	Perfected?	Worth in practice
Share pledge over the holding company			
Share pledges over subsidiaries			
All-asset / floating charge			
Bank accounts			
Intercompany loans and key contracts			

Guarantor coverage	Value	Enforcement at a value that hurts	€m
Guarantor EBITDA ÷ group EBITDA		Enforcement proceeds (multiple × trough EBITDA)	
Test level and last year's figure		Less enforcement costs	
Accession: tied to acquisition, within 60 days?		Less hedging counterparties (rank 2)	
Guarantors capped by limitation language		Less super senior revolver, fully drawn	
Debt actually guaranteed after limitations		Available to the senior facility ÷ outstanding = recovery	

Liability management: provision	Weak drafting found?	What to require
Unrestricted subsidiaries and investment baskets		
Transfer of material IP		
Pro rata sharing: all-lender item?		
Subordination of a lender's claim: all-lender item?		
New debt ranking ahead of the facility		