CROWN

The Only Investment Bank Focused Exclusively on Middle Market Asset-Based Finance

SPLIT-LIEN SUMMARY

Split Lien Lending: ABL Revolver + Cash Flow Term Loan

OVERVIEW

- Transactions executed in a split-lien format including an ABL revolver + a cash flow-based term loan ("Split-Lien") are a common structure in asset-based finance to maximize leverage to borrowers with both assets and positive cash flow and/or enterprise value.
- Each lender will have a first lien on differing assets of the company and will often take a second lien on the other lender's primary collateral.

HOW THEY ARE USED

- In practice, Split-Lien structures become relevant when:
  - Assets do not cover the total leverage necessary to execute a transaction; and
  - Cash flow exists to support a cash flow-based term loan.
- Crown often sees the healthiest credits with a smaller ABL (up to 1x-1.5x EBITDA) with the remainder of the leverage being filled out by the cash flow term lender.
- As credits become less clean or having a heavier asset base, the split between ABL and cash flow term loan can get closer to 50%/50%. A term lender typically seeks to retain more than 50% of the funded debt and commitment in a Split-Lien structure.

SPLIT LIEN STRUCTURE

- ABL lenders structure their facility as a revolver with an advance against working capital (and potentially fixed assets) and take a second lien on the term lender's primary collateral.
- Cash flow term lenders structure as a term loan advancing based on a multiple of EBITDA or percentage of enterprise value and take remaining unencumbered assets including IP as primary collateral while filing a second lien on the ABL lender's primary collateral.
- The relationship between lenders in addition to what each lender can or cannot do in the event of default is highly negotiated and subject to an intercreditor agreement, the governing document of any Split-Lien.
- Covenants will differ between lenders but will generally include traditional ABL and cash flow term loan covenants such as minimum availability, minimum FCCR and maximum senior net leverage.

KEY BENEFITS

- Split-Liens offer a way to access debt capital on both the asset basis as well as on a cash flow/enterprise value basis.
- These structures allow businesses with heavier asset bases or higher working capital swings to benefit from a lower cost of capital through the ABL alongside a cash flow term loan.

CROWN PARTNERS EXPERIENCE

- Crown executes mission critical senior financings for middle market companies with existing split- lien structures or the need for such a structure.
- Maintains deep relationships with all active players in the ABL and cash flow lending markets including banks, finance companies, and private credit lenders.
- Chosen by private equity sponsors and public company boards for its specialized financing expertise to drive solutions that maximize liquidity and financial flexibility, whether it be in split-lien structures, senior/sub structures or a pure ABL refinance.

REPRESENTATIVE CROWN PARTNERS SPLIT LIEN TRANSACTIONS

Click each link to learn more:

- $175 Million Split-Lien Senior Debt Recapitalization for Home Services Provider
- $82.5 Million Senior Financing Placement in Split-Lien Structure for Signature Brands
- $75 Million Placement of Senior Debt Financing for HOP Energy utilizing a Split-Lien