

# Leveraged Finance

Ratings on leveraged buyouts, management buyouts and corporate-to-corporate transactions worldwide

## Overview

The LB-Rating module Leveraged Finance is designed for assessing acquisitions involving a large share of debt capital. The structure of the financing arrangement plays an important part in the assessment.

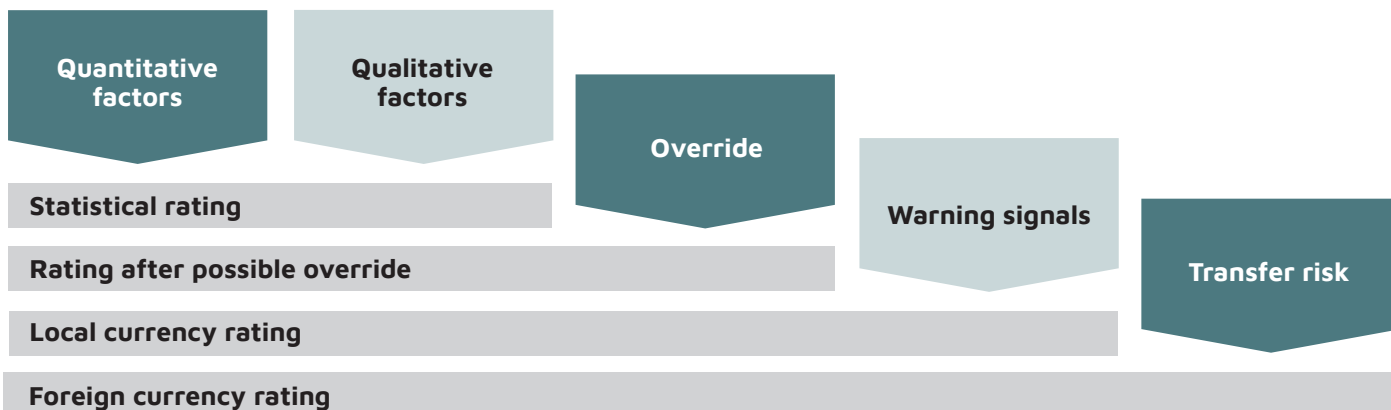
The rating algorithm is based on a scorecard approach, which combines quantitative and qualitative factors. The result of the rating process is a rating grade that corresponds to the one-year probability of default (PD).

Annual reviews of Leveraged Finance started in 2008; the module was first approved for the IRB Approach in 2009.

## Scope of Application

The scope of application of the Leveraged Finance module consists of domestic and international acquisitions involving a large share of debt capital. In addition to typical leveraged buyouts, this includes management buyouts and corporate-to-corporate transactions. Obligors of all sizes can be rated.

## Rating Process



### Quantitative Factors

The quantitative factors of the rating model are based on the target company's cash flows and the overall debt and equity structure. In addition to criteria like leverage and profitability, the refinancing risk of the transaction is taken into account.

### Qualitative Factors

Analysts also need to make qualitative assessments, for example about financial covenants, the obligor's business plan and the relevant industry sector.

### Overrides and Warning Signals

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually.

### Transfer Risk

The additional risk of restrictions on foreign currency transfers in the obligor's home country is reflected in the foreign currency rating. This risk must be considered when a loan is not denominated in the obligor's domestic currency.