

Roark Capital: The Buyout of Buffalo Wild Wings – Additional Hints/Clarifications

Some Info to help you with Debt Terminology:

The senior secured term loan B is a non-investment grade syndicated bank loan, classified as a leveraged loan. These are term loans often packaged with a revolving credit facility that are syndicated and sold to commercial banks or institutional investors. Term Loan As (TLAs) are referred to as pro rata bank debt, whereas TLBs are referred to as institutional loans. Leveraged loans are also called “bank debt” or “senior debt” and are typically secured by assets and qualify as first-lien debt (FLD), or, if backed by a second lien, second-lien debt (SLD).

Compared to TLAs, TLBs and HY debt offer longer maturity, less amortization and less restrictive covenants but usually at the cost of a higher interest rate. The TLB market has evolved to be more attractive to both sponsors and institutional investors.

Debt amortization is “forced paydown” – principal amounts that must be paid down. For example, if there is \$1000 of debt outstanding and it has 1% amortization, then \$10 must be repaid each year. Additional amounts may be paid down due to the cash available for debt repayment (the free cash flow to equity that is used to pay down debt).

	<u>Loans (Bank Debt)</u>		<u>High Yield Bonds/Notes</u>
	first-lien debt (FLD)	second lien debt (SLD)	
Priority	Senior, repaid first	Subordinated to FLD	Subordinated to bank debt
Collateral	Secured	Secured after FLD	Unsecured
Covenants	Maintenance	Incurrence	Incurrence (covenant lite)
Amortization	Mandatory	Delayed to FLD	Bullet
Maturity	3-5 years	4-6 years	6-12 years
Repayment	Little penalty for early prepay		Costly to early prepay (call protection)
Disclosure	Private (no required SEC disclosure)		Rule 144A QIBs, public 10K filings

*Traditional loans have maintenance covenants, which require the borrowers to continuously comply with the covenant thresholds (for example, maintaining a leverage ratio below a certain value). Incurrence covenants occur when a company takes action that impacts financial performance. For example, the Borrower may be restricted from incurring additional debt that would cause it to exceed a certain leverage ratio, rather than having to maintain a leverage ratio below a certain level on an ongoing basis.

BWW Debt Schedule

	Amount	LIBOR (Oct. 2017)	Spread	Rate
Revolver (max \$150 million)	\$100	1.8%	3.5%	5.3%
Senior Secured Term Loan B	\$1,575	1.8%	3.5%	5.3%
Senior unsecured notes	\$485			7.3%

Term Loan Bs are secured by assets of the company, and as first-lien debt in BWV's case TLBs have priority over second-lien and HY debt. Sponsors typically try to maximize the amount of first-lien debt they can raise because it usually has a lower coupon rate compared to other forms of financing. In this case, Roark did not choose to raise any Term Loan As, most likely because the large amount of funding needed, and the more restrictive TLA covenants made TLB financing more attractive.