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Xtract Research's New Covenant Scoring System

Xtract Research launched its new covenant scoring system, inclusive of a Covenant Score and Market Score. Powered by Deal Data and backed by our team of former practicing attorneys, these metrics enable users to quickly assess how risky an issuance is and how it compares to others in a similar market while making it easier to push back on aggressive terms.

Every U.S. credit agreement we review¹ will receive a Covenant Score ranging from 0-10, with 0 being the weakest possible covenant package and 10 being the strongest.² Scores are based on critical criteria to guarantee that the measurement is thorough and unbiased. Factors include, but are not limited to:

- Risk of Collateral Leakage and Collateral Dilution – The borrower's ability to incur additional first lien debt and structurally senior debt, make investments in non-guarantor restricted subsidiaries and unrestricted subsidiaries, and dividend assets to shareholders.
- Aggressive Terms – The number of aggressive terms included in the document, such as earlier maturity baskets in the incremental facility, asset sale step down provisions, the ability to dividend asset sale proceeds, EBITDA addbacks for pro forma cost savings, trapdoors and black holes.

To ensure our subscribers have the complete picture, we also include a Market Score, which is the average score of all reviewed credit agreements in the relevant market on a rolling 6-month basis. Each borrower will fall into one of three market segments: (1) sponsored borrowers with at least \$100 million of opening EBITDA, (2) sponsored borrowers with less than \$100 million of opening EBITDA and (3) non-sponsored borrowers.

Currently, the Market Score for each segment is as follows:

- 5.3 for sponsored borrowers with at least \$100 million of opening EBITDA
- 6.4 for sponsored borrowers with less than \$100 million of opening EBITDA
- 7.2 for non-sponsored borrowers

Read the latest special report [Weaker Covenants – Which Sponsors Top the List?](#) for an inside look at the worst covenants and valuable analysis of the sponsors that negotiated the most flexible covenant packages.

¹ The covenant scoring system is designed to score credit agreements with a TLB tranche. We will also need to review the bank book or lenders presentation to provide a score.

² The covenant scoring system is not designed to measure risk on an absolute basis. Almost all credit agreements with a TLB component in today's market contain risks and are borrower friendly.

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