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# European High Yield May 2020 Wrap-Up: "EBITDAC" Emerges In Europe and May Infect the Market with a New Strain of EBITDA Addback

May saw the European high yield bond market continue its tentative steps first taken last month towards emerging from its COVID-19 lockdown with a handful of new primary issuances, although it did also have the first shelved deal of the pandemic, with Sappi pulling its offering amid uncertain market conditions. Along with a handful of new issuances, liquidity in the midst of coronavirus-related shutdowns continued to remain at the forefront of market participants' minds. However, a new coronavirus-related development in the European bond market may very well have overshadowed all other European high yield bond market news in May: the so-called "EBITDAC", which adjusts EBITDA for coronavirus-related losses made an appearance in Schenck Process's Q1 2020 results.

## Primary Issuance

Rubis Terminal printed €410 million of 5NC2 5.625% senior secured notes for refinancing purposes. Changes were made to the covenants during marketing to include Ratio debt in the Consolidated Net Leverage Ratio calculation, and to include same-day debt incurred under the Debt covenant for purposes of calculating the leverage ratio for Restricted Payments and investments.

Synlab printed an upsized offering of €850 million 5NC1 senior secured floating rate notes to fund a partial redemption of its existing floating rate notes due 2022. In a nod to potential disruptions caused by the coronavirus pandemic, the Notes included a COVID-19 specific provision related to an extension of the prescribed 90 day post-closing period for obtaining post-closing guarantees and the granting of post-closing security, in the event that the COVID-19 pandemic made this impracticable and necessitated an extension.

BMC Software priced a dual-tranche offering of 5NC2 first lien notes, comprised of (1) €370 million 6.5% first lien notes, and (2) $600 million 7.125% first lien notes, alongside a second lien offering of $350 million 6NC1.5 9.125% second lien notes. The bonds were marketed with off-market flexibility in the Debt covenant, allowing the company to choose between either a customary coverage ratio test or an off-market leverage ratio test when determining Ratio debt incurrence capacity.

Sappi became the first casualty of the uncertain pandemic market, pulling its €250 million 5NC2 senior note, the proceeds of which were intended to shore up liquidity. The company cited unsatisfactory market conditions for the reason for the withdrawal of the offering.

## Special Situation Reports and Covenant Primers

After Schenck Process included a new metric of "Adjusted EBITDAC," or EBITDA adjusted for the effects of the COVID-19 crisis, in its Q1 2020 results presentation, our special report In the Time of COVID-19: Schenck Process Reports Adjusted EBITDAC and Creates a Precedent for the European Market addressed the first appearance of an addback to EBITDA for the effect of COVID-19 in the European high yield bond market and reviewed the Company's EBITDA addback provisions under its debt documents in the context of the information we had received regarding its "Adjusted EBITDAC" metric.

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Later in May, UK retailer Matalan launched a consent solicitation to increase super senior debt capacity, and, along with the increase in quantum of super senior debt permitted to be incurred under the indenture, the company also solicited consent for numerous amendments tightening the restrictive covenants, which we wrote about in our special report Matalan: Initial Thoughts on the Consent Solicitation. Included among these amendments was an explicit prohibition against allowing the Company to add back lost revenues from COVID-19 and also any expenses, costs, charges, gains or losses (including those related to the under-utilization of property, assets, or personnel) that occurred during the COVID-19 pandemic that are of a type that occurred on a recurring or regular basis prior to the COVID-19 pandemic. This indicates that, while Schenck Process is so far the only European high yield bond issuer to actually allow for coronavirus-related adjustments to EBITDA, the potential use of "EBITDAC" certainly remains a key concern among market participants.

We wrote about the legendary, but beleaguered, automaker McLaren's options under its existing bonds to raise additional debt financing in our special report McLaren: Incremental Debt Capacity Under the Bonds. Shortly thereafter, the FT reported that bondholders were disputing the Company's ability to raise additional debt secured on its heritage car collection and its Woking, UK headquarters via a potential "J.Crew"-style maneuver. In light of this development, we published a follow-up to our initial report, McLaren: Will the Bond Covenants Permit a J.Crew Style Maneuver? The report aimed to correct rumors which speculated about the inclusion of a "J.Crew trapdoor" in the bond covenants (which, as we noted in our report, the McLaren bonds do not actually contain), and also addressed potential arguments the company and bondholders may have for and against the proposed transaction.

After Takko missed its latest interest payment under its bonds and amid reports that the Company had engaged advisors and was seeking short-term funding to shore up its liquidity, we addressed the implications under the Company's existing bond covenants in our special report Takko: Implications of the Missed Interest Payments and Potential Priming Debt Capacity Under the Bonds.

Amid announcements that it was seeking to enhance liquidity through a variety of potential new financings, we wrote about Gestamp's ability to incur additional debt under its bond covenants in our special report Gestamp: Incremental Debt Capacity Under the Bonds.

After O2's owner Telefónica confirmed that it was in talks with Virgin Media's owner Liberty Global about a potential integration of O2 and Virgin Media's UK telecommunications businesses, we wrote about whether the potential transaction would be a Change of Control under the Virgin Media bonds in our special report Virgin Media: Would the Potential Merger with O2 Trigger a Change of Control Put Under the Bonds?

After Grifols announced that it was preemptively taking measures to further bolster its liquidity position in light of coronavirus-related concerns about potential disruptions to plasma donations and blood screening services, we wrote about the Company's capacity to fund liquidity via additional debt under its bond covenants in our special report Grifols: Incremental Debt Capacity Under the Bonds.

In light of Codere's mised interest payment under its bonds and announcement it was seeking additional incremental financing, we published our special report Codere: Thoughts on the Company's Missed Interest Payment and Priming Debt Capacity Under the Existing Bond Covenants.

After the rating agencies reports indicated that Novafives was seeking a new loan that would benefit from a guarantee by the French government, we wrote about the ability to raise new financing under the Company's existing bond documents in our special report Novafives: Incremental Debt Capacity Under the Bond Covenants.

**Webcasts**

In light of the unique circumstances presented by the COVID-19 pandemic, in May we took our High Yield and Leveraged Loan Covenants: Advancing Knowledge & Avoiding Pitfalls digital, streaming three sessions, each focused on different key covenants in European high yield bond and leveraged loan covenants. Each Advancing Knowledge & Avoiding Pitfalls session is available to stream on-demand using the links below:

- Restricted Payments and Permitted Investments
- Leverage, Subordination & Intercreditor Issues
- Asset Sales, Change of Control, Mergers, Call Protection, and Transfers

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## Disclosures

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