

The Loan Market Response to Dropdown and Uptier Transactions

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Do Contracts Change following High-Profile Transactions?

We read 600+ leveraged loan credit agreements.

- Public firms
- 2016 – 2021:Q3

What is the frequency of “contractual blockers?”

Dropdown

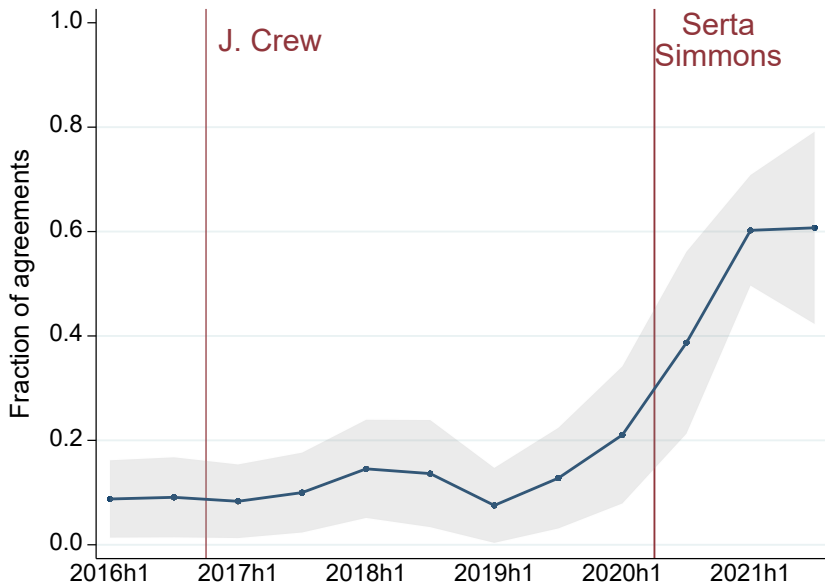
1. Prohibit unrestricted subsidiaries.
2. Limit the amount or types of investments in the unrestricted subsidiaries.

➤ **“IP Blocker”**

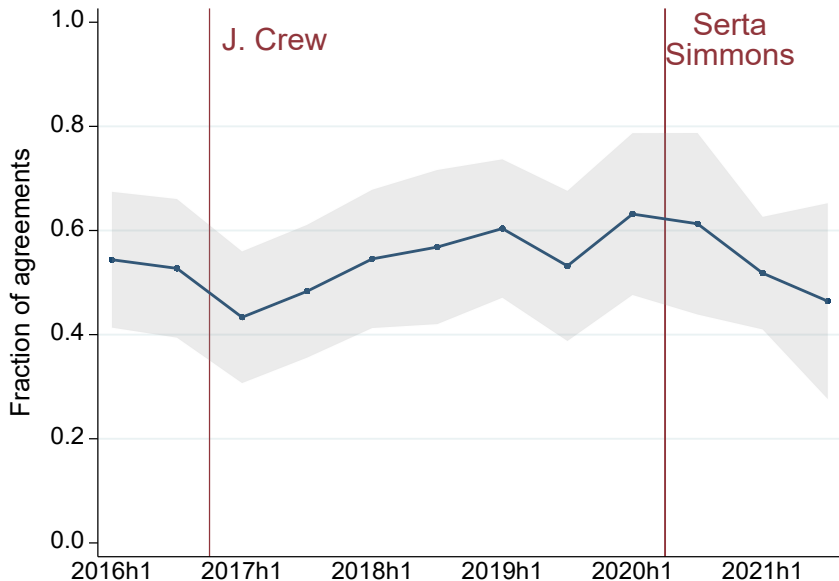
Uptier

1. Inhibit borrowers' ability to discriminate among lenders.
2. **Make lien priority a sacred right.**

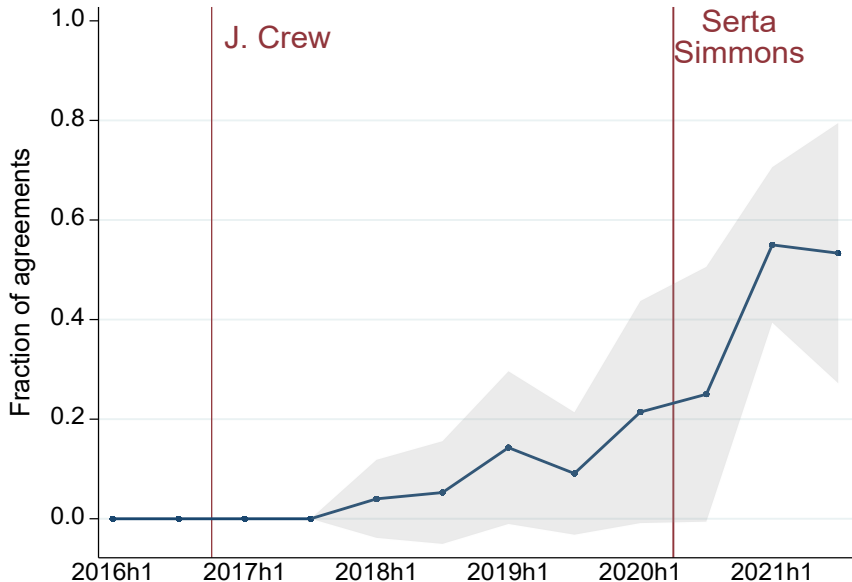
Evolution of Lien Subordination Blockers



Evolution of **Dropdown** Blockers



Evolution of IP Blockers



Contracts changed beginning in the second half of 2020.

- Majority make **lien subordination** a sacred right.
- Majority of loans with an unrestricted subsidiary now **prevent the transfer of IP.**
- **Contracts can update in response to new threats.**

Contracts did not change to prohibit dropdowns more often.

- Majority still permit unrestricted subsidiaries.
- **There are benefits of borrower flexibility, which permits some intra-creditor warfare.**