Sign-In

Debt Careers Overview

Notre Dame Wall Street Club

Fall 2024

Introductions

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Agenda

Why are we having this presentation?

- Most Notre Dame students are typically steered towards traditional M&A or Capital Markets Investment Banking without exploring all of their available options

- Most students do not know anything about restructuring or private credit, nor do they realize it is an option in recruiting

- There is a lot of misinformation surrounding what we do and how to prepare for interviews

- **Most importantly, we want more Notre Dame students to recruit for debt related careers as we have had incredible success placing kids in the past, and we are hoping to now boost numbers**

Goals of the Presentation

1. Explain what Restructuring and Private Credit are (at a high level)

2. Convince you why Restructuring or Private Credit may be your best option

3. Discuss what firms to network/interview with

Agenda

Debt Overview

- **Debt –** money owed to another party, typically in the form of a loan or bond
- Companies can have various individual debt obligations that, along with equity, collectively make up the firm's **capital structure**
- Unlike equity, a firm has a **legal obligation** to payback its debtholders, making the world of debt more litigious than equity
- In exchange for the legal obligation increasing the certainty of payback, debtholders have capped upside (Principal Repayment + Interest Payments), while equity holders have potentially unlimited upside
- Because governments, agencies, and companies can issue debt, while only companies can issue equity, **the global debt market is worth $300 Trillion, 3x a large as the global equities market**, creating more potential investment opportunities
- The two main types of debt related careers we'll be exploring today are:
  - **Debt Restructuring Investment Banking** (Sell-Side)
  - **Credit Investing** (Buy-Side)

Introduction to Capital Structure

The Capital Structure is an extremely deep and, at times, complicated form of organization for a company that is comprised of all the liabilities that result in the firm's assets. Remember: A = L + SE

Debt/Fixed Income	PIK Loans w/ or w/out Toggle
	Bank Loans (incl. Revovlers)
	1st Lien Loans
	Term Loan A
	Term Loan B
	2nd Lien Loans
	Term Loan A
	Term Loan B
	Other Secured Loans
	Senior Secured Bonds
	Secured Bonds
	Subordinated Secured Bonds
	Senior Unsecured Bonds
	Unsecured Bonds
	Subordinated Unsecured Bonds
	Junior Bonds
Mezzanine	Preferred Equity
	Convertible Bonds
	Convertible Notes
	Other Convertible Debt
	Quasi Equity
	Other Mezz
Equity	Stocks
	Warrants
	Options
	A Class
	B Class
	Other Equity

Lowest Return or ***Lowest Cost to the Firm***

There are also unsecured loans, but I have not included them here

I did not organize the Mezz or Equity in any particular order

Highest Return or ***Highest Cost to the Firm***

First in Repayment Line

Last in Repayment Line

Agenda

Background Knowledge

- To understand the following example, the following concepts should be understood

1. Balance Sheet Identity – Assets = Liabilities + Equity

2. Book Value vs. Market Value
   a. Book Value – Assets, Liabilities, and Equity are recorded at the value they were purchased or issued at, independent of changes in the market; these values are recorded in company financial statements
   b. Market Value – Assets, Liabilities, and Equity are priced based on what they would sell for in the market

3. Capital Structure – The collection of securities a firm issues to raise capital

4. Absolute Priority Rule – Debt must be paid off before equity can have any value
   a. Consequently, any losses in firm value reduce equity value to 0 before they begin reducing debt value

Restructuring Example

- Let’s say we’ve just purchased a factory for $100 funded half with debt and half with equity
- At time zero, the firm’s book and market capital structures look like this:

Book Value
Equity $50
Debt: $50

Market Value
Equity $50
Debt: $50

Restructuring Example (Cont.)

- A lightning bolt strikes the factory and causes a small explosion, reducing the asset's value to $70
- What do the firm's book value and market value look like now? *Bonus points if you know the journal entries through which these changes take place*

Book Value

Equity
$50

Debt:
$50

Market Value

Equity
$50

Debt:
$50

Restructuring Example (Cont.)

- The firm’s book value and market value capital structures now look like this:
- Because of the absolute priority rule, all of the losses lower the equity value of the firm
- The transaction would be PPE ↓$30 on the asset side and Asset Impairment ↑$30 (similar to expense account, this lowers total equity) on the equity side

Book Value

Equity
$20

Debt:
$50

Market Value

Equity
$20

Debt:
$50

Restructuring Example (Cont.)

- The series of unfortunate events continue! A meteor strikes the factory and causes another $40 in damages!
- What do the book value and market value capital structures look like now?

Book Value

Equity
$20

Debt:
$50

Market Value

Equity
$20

Debt:
$50

Restructuring Example (Cont.)

- In accounting, you are allowed to have negative equity balances, so the firm would simply repeat the same asset impairment entries from before
- However, equity can't have a negative selling price, so the market value of equity drops to $0 and the rest of the loss is incurred by the market value of the debt
- While the firm only has $30 worth of assets, they still owe their creditors the $50 they originally agreed to pay. **When the firm's liabilities exceed their assets, RX bankers get involved!**

Book Value

Debt:
$50

Equity
($20)

Market Value

Debt:
$30

What is Restructuring?

- Restructuring is investment banking for companies in distress or turnaround situations

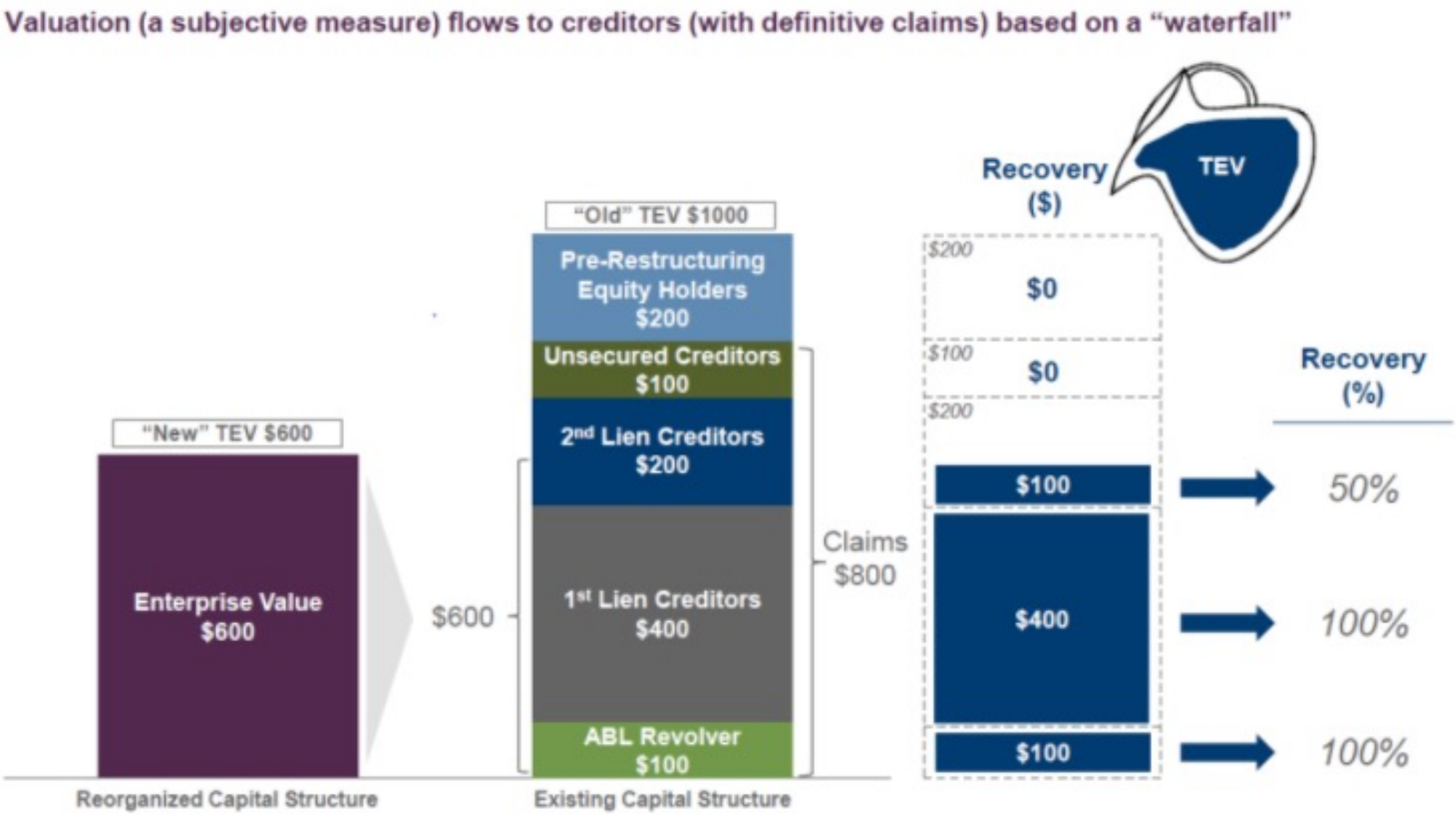
- What do we do?
  - Business Assessment: What's the problem?
    - Develop financial forecast
    - Determine when the company is going to run out of money

  - Valuation: How big is the pie?

  - Capital Structure: Who gets what?
    - Develop optimal capital structure

  - Propose Strategic Alternatives: How can we fix the situation?
    - In-Court/Out-of-Court Restructurings
    - Mediate negotiations
    - Psychiatrist

Resizing a Company (in theory)



Types of Restructuring Transactions

- Restructurings fall into one of two categories: In Court vs. Out of Court

- **In Court Restructurings** – involve the company going through the bankruptcy process
  A. **Chapter 7** – a liquidating trustee takes over the company, liquidates its assets, and distributes the proceeds to investors in order of absolute priority
  B. **Chapter 11** – management maintains control of the company and puts forth a plan of reorganization, where company enterprise value is recalculated and a new capital structure is decided upon
     - Pre-Pack Chapter 11 - Companies sometimes file for bankruptcy with a plan of reorganization already made and approved by creditors

- **Out of Court Restructurings** – firm avoids entering bankruptcy be negotiating with at least some of its creditors; because bankruptcy is expensive, firms generally prefer these types of transactions
  A. **Amend and Extend** – firm keeps same securities, but changes the terms to extend the maturity; creditors get some form of compensation in exchange
  B. **Exchange Offer** – creditors exchange old securities for new ones that may have different terms and/or a different location on the capital structure

5 Reasons to do Restructuring

1. More variety in industries and transaction types

2. Deals are won at higher rates and on merit & ideas, not connections

3. Nearly every deal you do will be a blockbuster deal (front of WSJ deals)

4. Better exits on average

5. You are guaranteed good group placement within your bank

1. "The Toolkit"

In restructuring, your toolkit is far more expansive than M&A
M&A is one of a variety of strategic alternatives available in restructuring
A restructuring banker can easily become an M&A banker; however, the opposite is not always true

Restructuring groups are industry agnostic, allowing you to work with companies in a variety of different sectors and on a variety of different transaction types

Additional skills you will learn in RX:

- Finance
  - Capital Structure
  - Debt
  - Distressed Valuation
  - Exchanges
- Legal
  - Covenants/Debt Docs
  - Bankruptcy Proceedings
- Psychology
  - Negotiation
  - Game Theory (to a lesser degree)

2. Meritocratic Pitch Winning

For most of investment bank advisory deals, Managing Directors win based on their connections with the management teams (not always the case, but generally)

Restructuring tends to be nearly always meritocratic based with the most capable and best proposals winning

LAZARD	EVERCORE	PJT
J.CREW	Serta Simmons Bedding	endo

3. Front of WSJ/Household Deals

It is almost a guarantee that the deals you work on over the summer will be with companies that hit your phone news notifications

These are all deals that Notre Dame alum have worked on over the past couple years as the sole analyst:

4. Exits

With all the skills learned, the exit opportunities are extremely diverse and strong

Notre Dame Exits
Class of 2019:
Elliott Management PE (Lazard)
Permira PE (Lazard)
Oaktree (HL)

Class of 2020:
Sixth Street (PJT)
Ares PE (Evercore)
Brookfield PE (Evercore)
Veritas PE (Evercore)
Oaktree (HL)

Class of 2021:
Blackstone PE (PJT)
Sixth Street (Lazard)
Veritas Capital PE (Evercore)
Sixth Street (Greenhill)

Notre Dame Exits
Class of 2022:
Apollo PE (PJT)
Baypine PE (Lazard)

Class of 2023:
KKR PE (Lazard)

5. Guaranteed Good Group Placement

After landing a traditional M&A offer, you may still have to be placed into a group

This requires even more networking, and bad group placement can result in you working in groups with uninteresting companies, poor deal flow, and/or bad culture

Moreover, being placed in a bad group will lead to materially worse exit options

In worse case scenarios, you could end up in a completely location than you were hoping for

RX internship applications are generally separate from M&A ones, guaranteeing that **an offer translates directly into placement in one of the bank's most prestigious groups**

It also ensures that you'll be working with the people you networked with, avoiding any culture shocks

In summary, **guaranteed offer in top tier rx group >>> chance at offer from top tier BB/EB non-rx group**

Largest Firms

PJT	LAZARD	EVERCORE	HOULIHAN LOKEY
Debtor Focused	Debtor Focused	Debtor Focused	Creditor Focused
12 Analysts	10 Analysts (3 Chicago)	10 Analysts	12 Analysts (3 Chicago)

Other Restructuring Firms

- Moelis – Really good generalist program
- Ducera – Very interesting group; team is very small, which leads to heavy workload, but one of the top comp packages on the street; talk to Joe Oberlies or Jayden Bell about it
- Centerview – Another generalist program; no ND people in the group as of now
- Greenhill – Good program with a couple ND alum; talk to Ryan Ludwig
- PWP – Good program, no ND people
- Jefferies – Solid program; only 1 ND alum there right now
- Rothschild – Few ND students there; don’t know too much about it
- Guggenheim – Acquired Jim Millstein’s firm, One ND alum there who is passionate about recruiting ND students, ND students have received offers from here before
- Miller Buckfire – small firm owned by Stifel; 1 ND alum is a top dog there; talk to Theo

Agenda

Buy-Side vs. Sell-Side

The sell-side helps the buy-side to place their investments in some way, shape, or form. Both industries are co-dependent and could not function without each other's services

Buy-Side

- Think "Investor" or "Holder of Capital"
- "Buy-side is associated with the entities that are involved in making investments"
- **Entities:** Hedge Funds, Institutional Investors, Retail Investors, Private Equity Funds, Asset Managers, Venture Capital, Growth Equity
- **Motive:** to generate appropriate risk-adjusted returns for their general & limited partners
- Leaner Deal Teams
- **Analyst Role:**
  - Make investment decisions alongside a VP and/or PM
  - Utilize sell-side reports when formulating their own analyses

Sell-Side

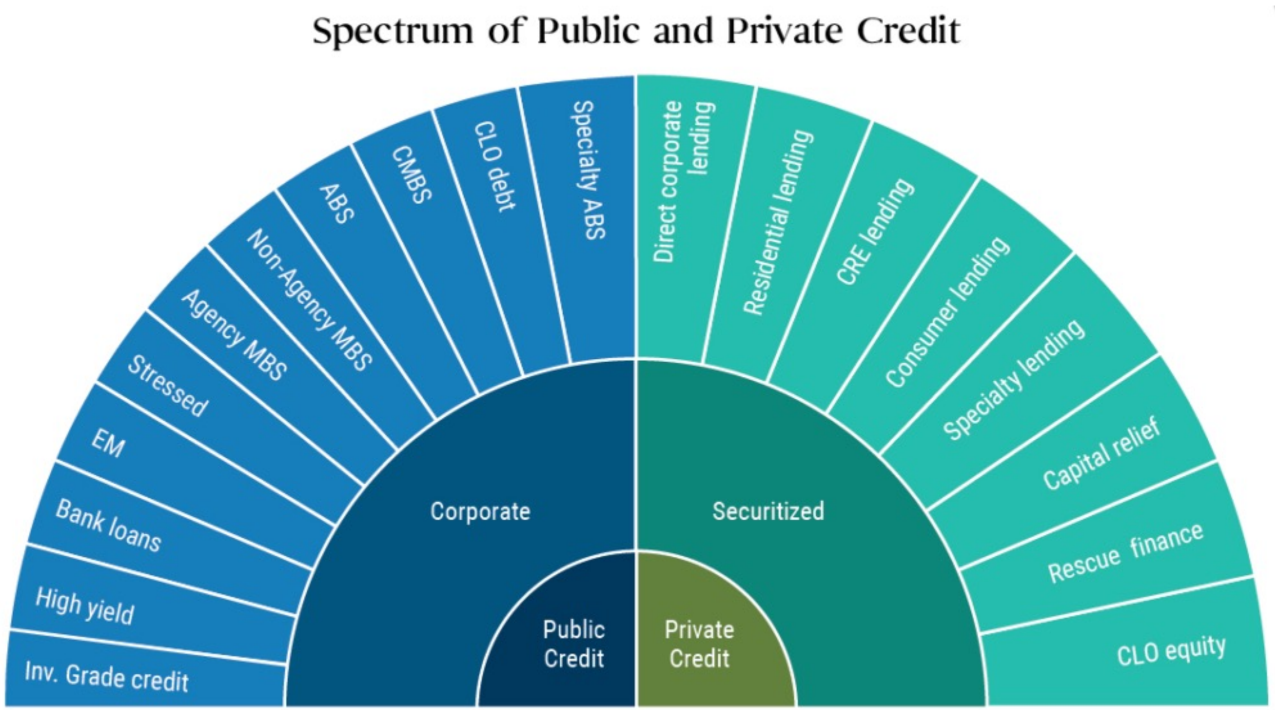
- Think "Wall Street Analyst"
- "The sell-side is associated with the entities which facilitate the decision making of the buy-side entities"
- **Entities**: investment banks, commercial banks, stock brokers, market makers, equity researchers
- **Motive:** to pitch and sell assets or opportunities to companies and/or buy-side entities.
  - This is a volume-based business that generates revenues via fees
- More hierarchical structure
- **Analyst Role:**
  - Liaison between companies and investors
  - Create reports that are then available for purchase to the public domain

WHAT EVEN IS CREDIT?

What Even Is Credit?

Short answer: Anything to do with lending. Whether it's a credit card, government bond, mortgage, or more, it is simply giving someone else your money in return for promise of future payment

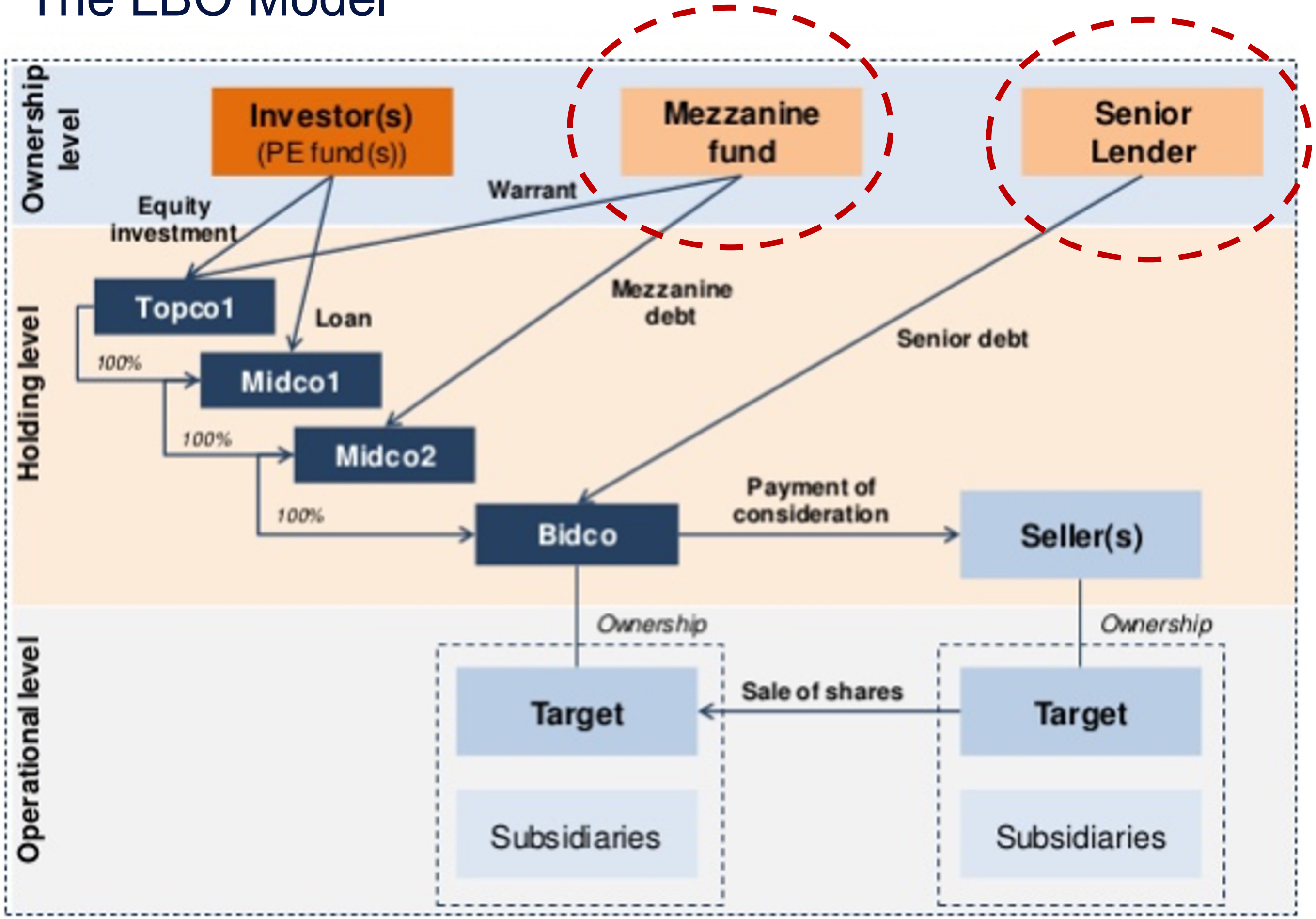
Long answer: There are almost an infinite amount of different ways you can structure lending/financing, and new types of credit are being created every day.



Direct Lending/Private Credit

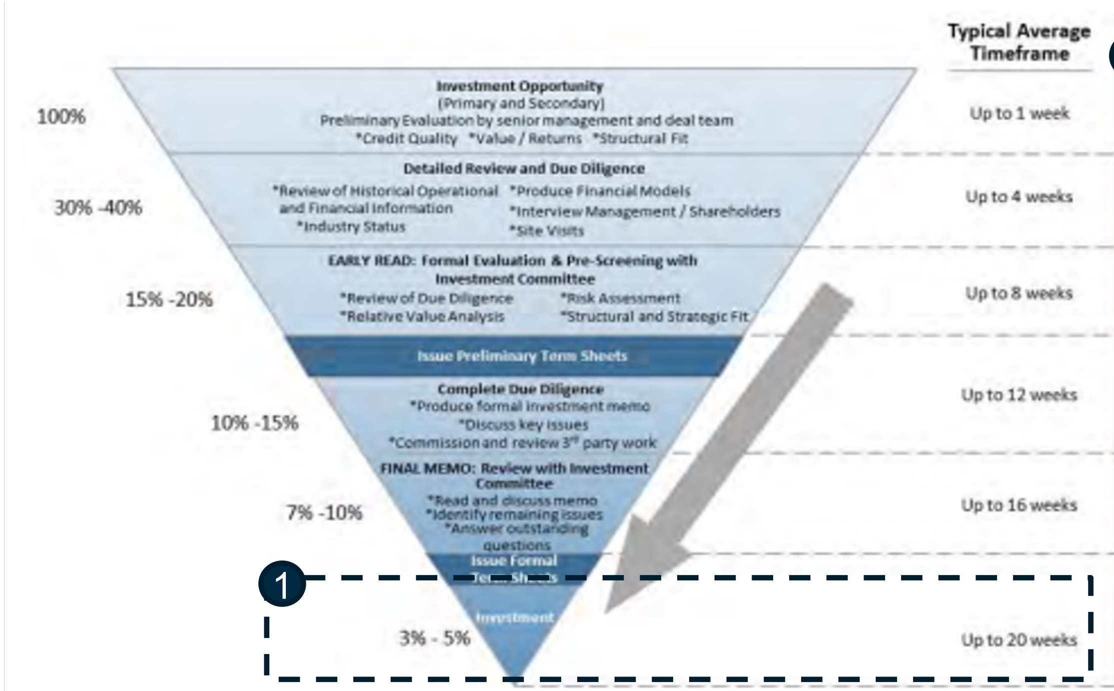
Putting the L in the LBO

The LBO Model



- Someone has to provide the financing in a LEVERAGED buyout
- Illiquidity premiums
- Deal tenure is much longer relative to public side
- Underwriting off of EBITDA
  - Importance of Quality of Earnings
  - Buy-side vs. Sell-side QoE
- Structure: Unitranche vs. Multitranche
  - Usually see 4-6x unitranche
  - 3-5.5x multitranche

Typical Deal, Returns, and Investment Merits



Source: Ares Management. For illustrative purposes only.

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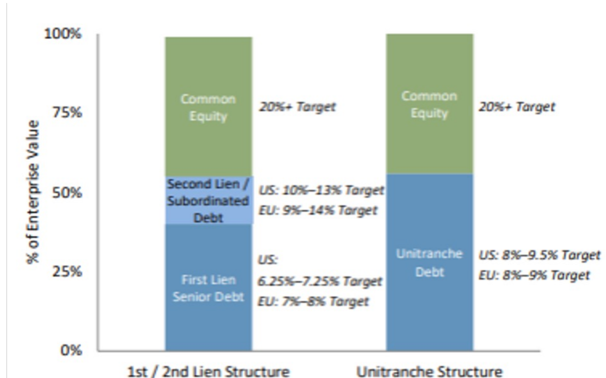
Key Attributes of Borrowers

- Franchise businesses
- High free cash flow
- Above market growth prospects
- Diverse sources of profitability
- Premier financial sponsors with meaningful "skin in the game"
- Leading management teams
- Appropriate capital structure

1. Only 3-5% of investment opportunities are realized for most of the industry. This means you get exposure to a lot of companies, and given the process takes 20 weeks, you close more deals than PE

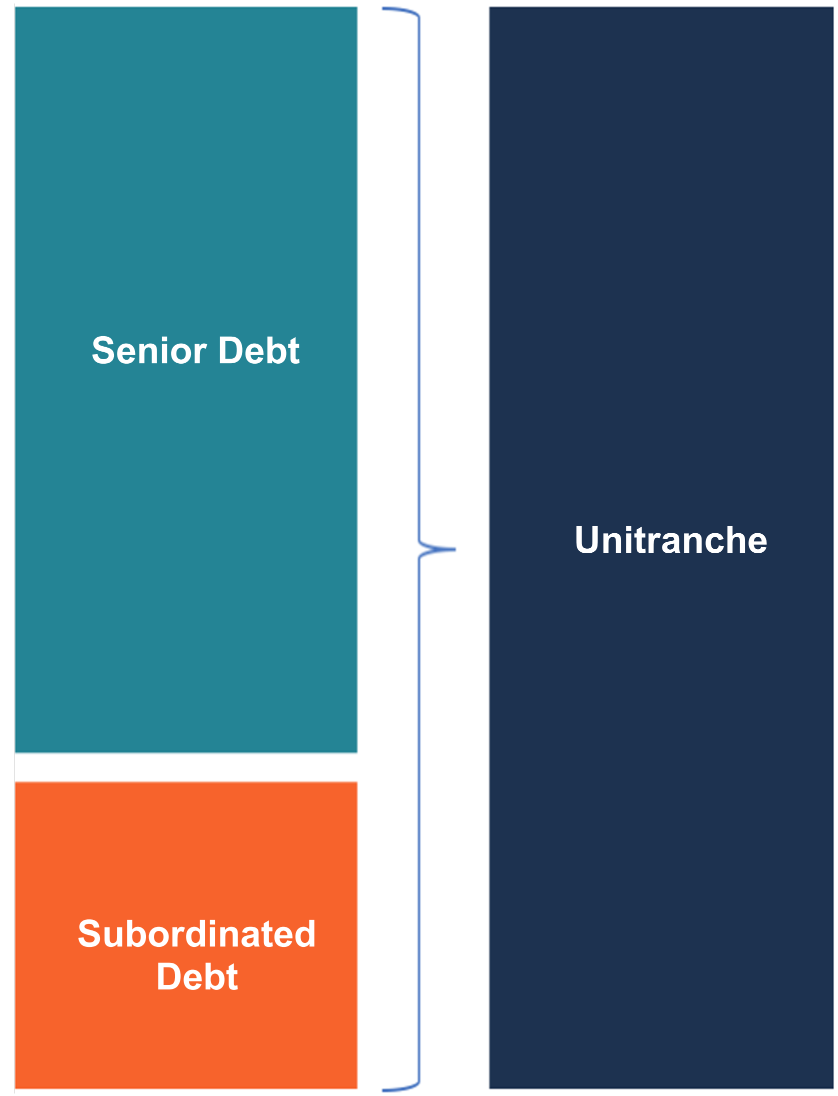
2. Important to note that these merits, while a very good starting point, are not an exhaustive list. Please feel free to explore other possible merits not listed when reviewing the provided CIM.



The Unitranche Loan

- **What is Unitranche Debt?**
  - A hybrid loan structure that combines senior and subordinated debt into one debt instrument. The borrower of this type of loan pays a blended interest rate that falls between the rate of the senior debt and subordinated debt.
- **What are the benefits of a Unitranche Loan?**

1. **Single Loan Agreement:** Unitranche financing involves a single credit agreement and requires one set of collateral documents. It reduces the amount of documentation and paperwork that borrowers need to comply with before they can access funds.
2. **Call Protection:** Most lenders include a “make-whole” provision in the credit agreement for the first two years so that any interest and fees that are due during this period can be paid alongside the other prepayment amounts. In the absence of this provision, some lenders may charge an extra 1%-2% on top of the prepayment amount.
3. **Benefits the Borrower:** One of the benefits of unitranche financing is its simplicity, compared to traditional credit facilities. Borrowers only go through a single process of approval and prepare one set of documents for the lenders. Also, taking on a single debt instrument that is a combination of two types of debts reduces the number of legal reports that the borrower would be required to prepare. Due to this simplicity, borrowers are willing to pay a premium fee above what they would have paid to a traditional financial institution.



Public/Liquid Credit

What is Syndication?

- Investment banks do not want balance sheet exposure to their loans because of capital requirements, so they syndicate the tranches out to interested investors (like Bain Capital)
- Banks oftentimes offer revolvers as a sort of incentive mechanism
  - Revolver Caps vs. LOCs
- Relatively fast moving process—start to finish can be something like 1 – 2 weeks

Types

- Revolvers and LOCs- like a credit card. **DO NOT TRADE**
- Term Loans- 1st or 2nd lien (usually) on some sort of collateral
  - Amortization differs across types of term loans (A, B, C, D, etc.) as does prepayment
  - Generally refinanced ("refi-ed")
  - Generally floating rate
- Unsecured Loans- higher yielding, but no collateral

Analyst Role

- Daily role: Have a coverage industry/names (around 50-60) and constantly evaluating anything changing with the company and deciding to buy/sell
- Analyst fit: Interest in the public markets, quantitative reasoning, ability to cover many names at once
- Exits: Mainly geared towards hedge funds

Public/Liquid Credit Cont.

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

Riskier

"Investment grade" debt (ex. Apple): most of this is just held by big index etfs and isn't very interesting because it's very safe.

"Non-Investment grade" debt (ex. Nordstrom): where you spend most of your time as a liquid credit analyst. Trying to determine how bad the company really is and what can go wrong.

"Distressed" debt (ex. Hertz): don't spend as much time here, but some firms specialize and only look at this debt. Debt is very cheap and could offer very high returns if things turn around.

Bankruptcy: what you work on in restructuring

Why Credit?

1. You get the chance to **think as an investor** and own your decisions, not just do work for someone else.
2. You get **the most reps out of any job** coming out of undergrad. Investing skill is build through practice over time, and credit is a great way to learn a lot very quickly.
3. You get a very good **understanding of risk**, which is pivotal to every investment and a skill you can take with you for the rest of your career and will help you with any other type of investing (hedge funds, private equity, etc.). Not many other young investors have this background and it can help give you a leg up against others.
4. Every deal/investment is very different. There is such a **wide variety** in credit that each one can be structured in a different way, each might have different risk/return profiles which keeps your job interesting and helps you learn more.
5. Generally **good work life balance** (while this depends on firm and if you are on a live deal), the industry average is 65-70 hours a week.
6. Strong **industry tailwinds** as interest rates are high and LPs are moving money more into credit, creating significant demand for analysts such as you!

Agenda

Debt Recruiting Requires more Studying

- Restructuring recruiting requires you to have more knowledge and firms will expect you to demonstrate your intelligence in both your interviews and on your resume
- GPA should be 3.8+; rounded 3.9 is ideal
- M&A Interviews generally require one to be familiar with Accounting, Corporate Finance, Valuation, M&A, and LBOs
- RX Interviews generally require one to be familiar with Accounting, Corporate Finance, Valuation, M&A, LBOs, Bankruptcy Law, Characteristics of Different Securities, Bond Pricing, Leverage and Liquidity Analysis, and more
- Moreover, RX interviews are more likely to contain case studies, which require practical application of your knowledge, compared to traditional M&A interviews
- While this is difficult, because RX interviews happen earlier and require additional, not completely different, knowledge than M&A interviews, **it's easy to still recruit for M&A if you decide you don't want to do restructuring**

Knowledge is a Competitive Advantage

- Traditional M&A interviews often center around behavioral questions with some easier technical questions thrown into the mix
  - **This means that technical knowledge is not an advantage in the interview process!** Even if you are the smartest candidate in the room, it's difficult to demonstrate your competence, because candidates with less technical knowledge will still be able to ace the easy technicals
  - Consequently, it's possible you get beaten out by someone, because the VP interviewing you both liked their answer to "What's the largest land animal you can beat in a fight?" more than they liked yours
- Because Restructuring/Credit Investing requires more knowledge, firms tend to prioritize a candidate's technical knowledge when choosing candidates, making the interview process less subjective
- So, the benefit you get from learning the relevant material and outstudying the competition goes a lot further
- Restructuring is a way to GUARANTEE yourself a top answer through incremental hard work and preparation whereas top ND kids each year miss out on top M&A offers

Timeline

- Restructuring timeline is about a month ahead of non-RX recruiting
- Diversity RX timelines are even earlier, with interviews taking place from February to March
- Generally, first rounds start at the beginning of March and Super Days are a week or two afterwards
- For Networking, reach out to ND contacts. Because groups are small, you generally only have to talk to 1-3 people at each bank to get a first round

The Restructuring Folder

Name	Type	Compressed size	Password ...	Size	Ratio	Date modified
#0 - READ ME FIRST	Microsoft Word Document	19 KB	No	22 KB	14%	9/17/2023 9:21 PM
#1 - Investment Banking - Joshua ...	Text Document	1 KB	No	1 KB	24%	9/17/2023 9:18 PM
#2 - Distressed Debt Analysis - Step...	Adobe Acrobat Document	3,231 KB	No	10,602 KB	70%	9/17/2023 9:18 PM
#3 - Houlihan Lokey Distressed Cas...	Adobe Acrobat Document	999 KB	No	2,479 KB	60%	9/17/2023 9:18 PM
#4 - Davis Polk - Bankruptcy Bootc...	Adobe Acrobat Document	652 KB	No	796 KB	19%	9/17/2023 9:18 PM
#5 - Bond Primer	Adobe Acrobat Document	134 KB	No	183 KB	27%	9/17/2023 9:18 PM
#6 - Breaking Into Wall Street Debt ...	Adobe Acrobat Document	172 KB	No	194 KB	12%	9/17/2023 9:18 PM
#7 - Cap Stack Overview	Adobe Acrobat Document	6,767 KB	No	7,034 KB	4%	9/17/2023 9:18 PM
#8 - Mez Debt Primer	Adobe Acrobat Document	1,571 KB	No	1,655 KB	6%	9/17/2023 9:18 PM
#9 - Wharton Penn Law Valuation S...	Adobe Acrobat Document	1,625 KB	No	2,026 KB	20%	9/17/2023 9:18 PM
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#11 - Real Rx Deck	Adobe Acrobat Document	340 KB	No	360 KB	6%	9/17/2023 9:18 PM
#12 - IRR Math	Microsoft Excel Worksheet	8 KB	No	11 KB	25%	9/17/2023 9:18 PM
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#17 - Wall-Street-Prep-Interview-P...	Adobe Acrobat Document	5,833 KB	No	6,619 KB	12%	9/17/2023 9:18 PM

Current RX Contacts

- **Lazard (Chicago):** Stewart Buzdon (2nd Year Analyst), Kevin Prata (1st Year Analyst), Luke Eversole (1st Year Analyst), Jack Wayman (Incoming FT), George Ferris (Incoming Intern)
- **Lazard (New York):** Ethan Keller (2nd Year Analyst)
- **Evercore:** Patrick Conklin (2nd Year Analyst), Kian O'Connor (Incoming FT)
- **PJT:** Morgan Rader (1st Year Analyst), Vishrut Khandelwal (1st Year Analyst)
- **Houlihan Lokey:** John Adamitis (Incoming Intern)
- **Ducera:** Joe Oberlies (1st Year Analyst), Jayden Bell (Incoming FT), Colin Ardise (Incoming Intern), Cole Ceravolo (Incoming Intern)
- **Greenhill:** Josephine Cheng (Associate), Christian McKernan (2nd Year Analyst), Ryan Ludwig (Incoming FT)
- **Miller Buckfire:** Theo Pacchiana (Incoming Intern)

Current Credit Contacts

- **Ares (Chicago/NYC):** John Davey (Incoming FT), Nolan Horan (Incoming Intern), John McCarthy (Incoming Intern), Julia Kim (1st Year Analyst), Brynn Sesny (2nd Year Analyst), Patrick DuFour (Associate), Jon Botek (Associate), Matt Hawkins (Associate)

- **Bain Capital (Boston):** Brian Zeuthen (Incoming FT), Mike Stanford (Associate), Zach Gartenhaus (Associate)

- **Blackstone (NYC):** Caroline Martin (Incoming Intern), John Carrington (2nd Year Analyst), JP Lynch (Associate), Erin Sherlock (Associate), Colleen Hodan (Associate), Daniel Cassidy (Associate), Carter Collins (Senior Associate), Parker Mathes (Senior Associate)

- **KKR (NYC):** Connor Kleiderer (Incoming Intern), Mark Kowalik (Associate)

- **Jefferies Credit Partners (NYC):** Chris Dowicz (Associate), Patrick Kenney (Vice President)

Agenda