Unitranche carves out niche in smaller leveraged funding deals - Middle Market Memo 13-Aug-12

With the first lien financing market unable to solely support its leverage multiples, **Forbes Media LLC** sought alternatives to refinance its debt load earlier this year.

The financing magazine magnate secured a unitranche facility with Chicago's Monroe Capital after actively soliciting the funding package "on a competitive basis," said Monroe CEO Ted Koenig in an interview with this news service.

A "unitranche" financing facility typically charges interest a rate lower than if the borrower procured a first lien and second lien financing. This facility eliminates the need for an intercreditor agreement and separate fees owed arrangers under typical first lien and second lien arrangement. NXT Capital Managing Director Heath Fuller estimates this structure has gained real cache in middle market leveraged funding in recent years, representing roughly 15% of that market.

Koenig and Forbes Media spokesperson Mia Carbonell declined to provide terms of Forbes Media's unitranche. Forbes Media's first lien financing was in the USD 50m-USD 60m range, said a sellside analyst.

Koenig said Monroe Capital-arranged unitranches typically fare in the USD 20m to USD 150m range; other household mezzanine lenders like Golub Capital, Ares Capital and GE Capital could arrange upwards of USD 450m per unitranche financing.

Broken down, the unitranche is a hybrid senior and mezzanine debt package which reaches much deeper into the company's capital structure at a smaller coupon, typically L+700bps to 850bps, according to S&P LCD data, with a total leverage multiple of up to 4.0x, compared to mezzanine and equity financings that run up to 4.75x and 5.5x, respectively. Maturities average a five-year lifespan, says Fuller.

"Unitranches have taken on a mythical reputation lately," Fuller said, pointing to the hybrid nature of the senior secured and junior tranche loan.

Providing a hypothetical scenario for a USD 40m unitranche facility at Libor+ 700bps, Fuller said a business development corporation (BDC) or mezzanine lender such as Monroe or NXT first calls on a bank, which takes a senior position while the arranging lender takes a last out position.

In this situation, the first-out lender would make L+ 400bps, while the last-out lender would get L+ 700bps plus the residual interest on the first-out lender's position, according to Fuller.

Forbes Media sought such non-traditional financing after taking it on the chin in recent years after defaulting on its credit facility in 2009. The company saw multiple years of double-digit ad revenue decline in the years following the economic recession, according to a 2011 story in the New York Post.

However, it did manage to post a 7.4% gain in ad pages in 1Q12, according to the Publishers Information Bureau.

“Print media companies are challenged in general these days. Forbes has done a very good job going from a print magazine to a digital media business,” said Koenig.

by Michael Schoeck

Source: Debtwire Middle Market