

Equity bridge financing for financial sponsors

Area of expertise: Structured finance and lending
Theme: Transitional capital



Overview

- Before realizing synergies, financial sponsors are often required to inject a large amount of capital to finance the acquisitions of target companies or the construction of hard assets (ships, aircrafts, mines, power plants, pipelines, large properties, etc.)
- Equity bridge financing funds a large percentage of the capital contribution required for these projects while also offering delayed capital investment by the financial sponsor (until permanent financing available at higher LTVs), higher IRRs and multiples of capital, and lower operational intensity with fewer draws
- DB Structured Credit can syndicate this bridge loan credit, offering investors the asset side of the transaction with higher yields on a market-comparable underlying credit
- **Risks: loan default, potential loss of full investment**

Case study: transportation assets liquidity financing

- DB provided delayed draw term financing to a portfolio company of a large US private equity fund
- The financing was used to fund almost 100% of the capital contribution required for the construction and acquisition of shipping vessels
- The facility benefits from the credit support of various Sponsor funds. Each fund is required to maintain a certain amount of unfunded commitments to meet its credit support obligations
- Direct recourse to Sponsor's funds allows meaningfully tighter pricing and the efficient structure allows the Sponsor to effectively bridge the capital contributions required for the acquisition and construction of the vessels until permanent financing is available at a higher LTV (and thus better IRRs)
- While providing benefits to the Financial Sponsor, these facilities also become opportunities for investors to participate in an economically compelling, recourse investment with an advantageous risk/reward profile



Financing amount	\$100mm	Draw conditions	<ul style="list-style-type: none"> — Prior written notice of borrowing — Accuracy of representations and warranties — Absence of default
Tenor	3 years		Covenants
Economics	Low-mid single digits		
Security	Credit supported by various funds of the Sponsor		