

## Module Leveraged Finance

Ratings on typical leveraged buyouts,  
management buyouts  
and corporate-to-corporate transactions, worldwide



### Overview

The module Leveraged Finance has been designed for the risk assessment of company takeovers involving large amounts of debt capital. The assessment is strongly influenced by the overall structure of the financing transaction.

The rating algorithm is based on a scorecard approach

where quantitative and qualitative factors are combined using appropriate weightings. This results in a rating grade that corresponds to the one-year probability of default (PD).

The module Leveraged Finance has been in use since 2008.

### Scope

The scope of the module Leveraged Finance covers domestic and international company takeovers involving large amounts of debt capital.

Therefore, typical leveraged buyouts, management buyouts and corporate-to-corporate transactions can be evaluated.

As a rule, there are no size limitations, making the module suitable for both large cap and small to mid cap transactions.

## Rating Process

**White arrow:**   
Input mainly based on analyst's judgement

**Blue arrow:**   
Input mainly based on data



### Quantitative Factors

The calculation method incorporates quantitative factors determined on the basis of both the target company's cash flow and the equity/debt structure. In addition to individual factors relating, for example, to leverage and profitability, the refinancing risk, and hence the aggressiveness of the financing scheme, is also reflected in the quantitative submodel.

### Qualitative Factors

The process resulting in the stand alone rating also includes qualitative assessments concerning, for example, contractual structure, business plan quality and industry development.

### Overrides and Warning Signals

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option and the possibility to release warning signals: from a standardized list the analyst can select criteria which may lead to a rating upgrade or downgrade.

### Transfer Risk

The additional risk of currency transfer restrictions in the company's home country is reflected in the foreign currency rating. This risk must be considered when the financing currency is different from the borrower's home currency.

RSU  
Rating Service Unit GmbH & Co. KG  
Karlstraße 35  
80333 Munich  
Germany

Tel +49.89.442340-0  
Fax +49.89.442340-999

marketing@rsu-rating.de  
www.rsu-rating.com

