

Speaking Engagements | July 7, 2022 | 9:00 AM - 10:30 AM ET

Recurring Revenue Financing: Structuring, Documentation, and Financial Covenants – Strafford Webinar

SPEAKERS

[Justin A. Wood](#) | [Alex Cabe](#) | [Alexandra E. Ciganer](#)

Thursday, July 7 • 1:00 – 2:30 p.m. ET

Justin Wood, Alex Cabe, and Alexa Ciganer will be presenting “Recurring Revenue Financing: Structuring, Documentation, and Financial Covenants” CLE webinar on Thursday, July 7, 2022 from 1:00 – 2:30 p.m. ET. This CLE course will examine the unique characteristics of recurring revenue financing (RRF) and the issues lenders and borrowers should consider in structuring recurring revenue transactions. The panel will also discuss how to address the conversion of such transactions to more conventional earnings-based financing in the financing documents.

Description

Emerging companies with positive revenue growth but high growth expenses, such as development costs, are often unable to achieve positive EBITDA and cannot obtain debt financing based on traditional working capital borrowing base or cash flow underwriting. For those companies and their prospective lenders, RRF is a possible solution. Private equity sponsors may also utilize recurring revenue of target companies to finance acquisitions. Finance counsel should have a thorough understanding of the structure, risks, and nuances associated with RRF.

The essence of RRF is that borrowing base criteria can be based on recurring revenue that meets tailored eligibility criteria. Typical financial covenants are based on maintaining recurring revenue growth and liquidity levels rather than EBITDA-based ratios. Financial covenants may also convert after time to more customary financial covenants in the form of EBITDA-based ratios (e.g., leverage ratio or fixed charge coverage ratio), along with the possibility for a reduction in the interest rate. Although RRF facilities may be used to finance acquisitions, they are not often highly leveraged, so significantly higher equity contributions may be required from a private equity sponsor seeking RRF than with traditional leveraged financing in the acquisition context.

Equity cure rights may be available, with proceeds generally applied to pay down existing loans to achieve required financial covenants outlined in the documents. Incremental facilities may also be included.

Listen as our authoritative panel discusses the key deal points and structuring nuances of RRF.

Outline

- RRF as an alternative to traditional ABL borrowing base revolver for growth companies and PE funds seeking

working capital or to acquire growth companies

- Borrowing base formulas: eligibility criteria and churn
- Payment features: interest, amortization
- Recurring revenue and liquidity covenants
- Conversion to EBITDA-based financial covenants
- Other structural features

Benefits

The panel will review these and other important issues:

- What debt financing options are available to companies that do not have earnings?
- How can recurring revenue be used as a basis for pre-EBITDA debt financing?
- How has RRF been used in connection with acquisitions?
- What percent of the capital stack does it represent?
- What are the typical parameters for converting the loan to a more conventional EBITDA-based financing?

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