

Credit Analysis

5 C's- 1) Capacity 2) Capital 3) Condition 4) Character 5) Collateral

Capacity- The ability to generate enough cash to repay debt as they come due.

Capital- When cashflow is low, need to sell some fixed asset to generate cash.

Condition- Macroeconomic factors that affects the borrower's ability to generate cash.

Character- Honesty, past history of fraud, willingness to repay.

Collateral- Assets that could be used to subsidize lender in the event of default.

Collateral doesn't necessarily mean the debt is secure. Taking a look at the 2007 mortgage CDO defaults, we can see the flawed reasoning when assuming collateral equals secured. The mortgages acted like collateral, but the value of those mortgages fell as the mortgagees fell behind on their payments.

Structural Subordination

HoldCo and OpCo, or Holding Company and Operating Company

OpCo debts are structurally senior, or on top of the pecking order in a default event, to HoldCo obligations.

First Lien Secured Debt

Second Lien Secured Debt

Senior Unsecured Debt

Senior Subordinated Debt

Subordinated Debt

Preferred Stock

Common Stock

The information contained here reflects the views of SN Valuation or its affiliates and sources it believes are reliable as of the date of this publication. SN Valuation makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. SN Valuation does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by SN Valuation or its affiliates.