Ellen McGinnis in Private Equity Law Report: Alternative Financing Facilities

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PRACTICES Debt and Equity Financing, Private Equity

Haynes Boone Partner Ellen Gibson McGinnis recently talked with *Private Equity Law Report* to share her insights about trends in the use of hybrid financing facilities in the private equity (PE) industry.

Here is an excerpt:

Streamlining is a hallmark of the PE industry: sponsors constantly pursue it to maximize the value of portfolio companies, as well as to optimize their own compliance and investment management efforts. Therefore, it makes sense for PE sponsors to look to consolidate the various financing facilities they use for fund- or management-level borrowings. A hybrid facility is a logical outgrowth of that effort as a single credit agreement combining the benefits of both subscription facilities and net asset value (NAV) facilities.

To better understand hybrid facilities, the *Private Equity Law Report* recently interviewed Haynes Boone Partner Ellen Gibson McGinnis for her insights on unique traits and trends in this area. Specifically, this article outlines the mechanics of a hybrid facility's borrowing base; explores some of the pros and cons for sponsors to consider pre-adoption; and explains why hybrid facilities have never achieved widespread adoption as sources of fund financing.

For more on NAV and subscription facilities, see "Characteristics and Benefits of NAV Facilities for Secondary Funds" (Sept. 10, 2019); and "Trends in the Use of Subscription Credit Facilities: Structuring Considerations Negotiated With Lenders and Important LPA and Side Letter Provisions (Part Two of Two)" (Feb. 7, 2019).

PELR: Please provide a summary of hybrid facilities and where they fall on the spectrum of financing options available to PE sponsors.

McGinnis: A PE fund usually has a subscription facility when it is formed, with a borrowing base composed of the unfunded capital commitments of its creditworthy investors. That subscription line gets drawn during the fund's investment period. At the end of that investment period, when unfunded capital commitments have been exhausted, many PE funds terminate their subscription facilities and replace them with separate NAV facilities that use qualifying fund assets as the borrowing base.

Alternatively, a hybrid facility basically combines a subscription facility and a NAV facility in the same documentation. General partners (GPs) benefit by having a single financing facility with a longer duration because the assets acquired under a subscription line support the borrowings under the NAV portion of the facility. Putting a single hybrid facility in place – instead of separate subscription and NAV facilities (which may, at times, be with different lenders) – should result in reduced costs (e.g., bank fees, legal fees, etc.) for the GP.

Excerpted from *Private Equity Law Report*. To read the full article, click on the PDF linked below:

McGinnis-PE-Report-Hybrid-Financing-Facilities.PDF