Tear Sheet: Stonegate's £950M, €300M 2025 Senior Secured Notes

U.K. pub operator Stonegate has launched a five-year £950 million fixed rate senior secured bond along with a five-year €300 million floating rate senior secured bond. Proceeds will be used to repay £950 million of outstanding borrowings under the existing bridge facilities as well as £275 million of outstanding borrowings under the senior term facilities.

The group is roadshowing until Thursday, with pricing expected on Friday. A capital structure prepared by Reorg can be found at the end of this tear sheet.

The opening pro forma ratios used for calculations in this tear sheet are those disclosed on page 33 of the Preliminary OM. Note that these ratios are as of 52 weeks ended Jan. 19, 2020 - prior to the onset of the Covid-19 crisis. Reorg has made adjustments to these ratios to calculate more current metrics - please contact us for further details on these more up-to-date ratio levels.

For the growers and headroom based on turns of leverage we have used £494M of Pro Forma Adjusted EBITDA Including Synergies (excluding the impact of IFRS16) which includes Unique Group EBITDA.

Debt Explained's tear sheet below is a synthesized legal and financial tool that quickly provides a concise summary of covenant capacities. In the next few hours the Reorg team will publish a detailed contextual covenant and structural analysis for investors. Please contact questions@reorg.com for an in-depth analysis.

Summary Covenant Facts

COVENANTS AND FINANCIALS

- £50 million of immediate capacity to incur contribution debt, which could be dilutive or structurally senior. Typically on issue, there is no contribution debt capacity.

- Ratio calculations are not uniform and have adjustments around the inclusion / exclusion of Unique Group's financial metrics, depending on what the ratio is being tested for:
  - For ratio based RPs and portability, the net leverage ratio calculations include Unique Group EBITDA, cash and debt - which actually helps the issuer as it reduces net leverage. Opening net leverage including Unique's Consolidated EBITDA as of January 2020 is 5.7x.
  - For first lien secured FCCR based ratio debt incurrence, Stonegate requires to meet a 6.3x consolidated leverage ratio test in addition to the 5.2x senior secured net leverage ratio test. In this instance, the consolidated leverage ratio test is permitted to be determined on the basis of the higher number when the ratio is calculated on the basis of including and excluding the Unique group financials.
  - For all other purposes, the consolidated leverage ratio calculation generally excludes Unique Group's financials while the Unique Securitization Notes (four tranches due in 2021, 2024, 2027 and 2032) remain outstanding.

- Investors should query the Consolidated EBITDA figures to be used for the computation of the EBITDA-based growers for secured debt and restricted payments. The Preliminary OM does not clarify whether the EBITDA figures would be calculated on the basis of including (or excluding) the Consolidated EBITDA of the Unique Group.

- Investors should clarify whether the £275 million of Senior Term Facilities intended to be repaid at issuance would also correspondingly reduce commitments under clause (ii) of the credit facility basket which currently permits debt incurrence of £450 million.

STRUCTURE AND CREDIT SUPPORT

- No guarantees or security will be provided by any member of the Unique Group or in respect of any assets of the Unique Group. Securitization debt of the Unique Group will rank senior to the notes.

- Compounding the concerns regarding the absence of any security over the Unique Group for noteholders, the covenants do not prohibit the transfer of additional assets into the Unique Group, nor do they cap the liabilities that may be outstanding under the securitization program. Given that the collateral only comprises security over shares, bank accounts and rights under certain insurance policies and monetary claims, the remaining unsecured assets (if of the relevant nature and type) may be transferred into the Unique Group and used to increase the securitization facility without noteholder consent.

- Guarantor coverage figures disclosed are as of Sept. 29, 2019 and are therefore out of date. In addition, they exclude the contribution of the Unique Group. Investors should request up to date, complete, figures to be able to assess the level of credit support being provided in the context of the whole group.

- As a general comment, the overall business of the Stonegate group has been significantly impacted by the Covid-19 pandemic and investors should pay particular attention to the "Risk Factors" set out in the Preliminary OM.

Debt Explained's legal analysts will separately publish a thorough analysis of the covenants, structure and the legal loopholes in the next few hours. For regulatory reasons, this tear sheet contains only key covenant facts and basket capacities. *Please email questions@reorg.com to request a copy of the in-depth analysis.*

How Much Leverage Can Be Added over Time?	
Ratio Debt	2.0x Fixed Charge Coverage Ratio ● Senior Secured Debt Incurrence: 5.2x Consolidated Senior Secured Leverage Ratio and 6.3x Consolidated Leverage Ratio *£112.2M headroom based on 4.9x Consolidated Senior Secured Leverage Ratio and 6.0x Consolidated Leverage Ratio using £374M of Pro Forma Adjusted EBITDA Including Synergies excluding the Unique Group*
Minimum Debt Capacity at Issue[1]	£634.7M *(equivalent of 1.28x turns of leverage)* ● Management Advances - Greater of £2M and 0.45% of Con. EBITDA (*£2.2M*) ● CLO/PMO - Greater of £47M and 10% Cons. EBITDA (*£49.4M*) ● General Debt - Greater of £70.5M and 15% Cons. EBITDA (*£74.1M*) ● Unique Liquidity Facility (£152M as of Sept. 30, 2019 - the amount/ size of the facility can change and it is to be used in limited circumstances relating to the Unique securitized notes only)

[1] This aggregate does not include any amounts that will be available under the 2x FCCR ratio test mentioned above

Headroom under the Credit Facility Basket at Issue	Credit Facility debt basket = sum of 1. greater of £282M and 50% of Consolidated EBITDA (reduced by the RCF outstanding on the issue date) and 2. £450M (reduced by Senior Term Facilities outstanding on the issue date) *Headroom of £357M (assuming £275M of the Senior Term Facilities is repaid on the issue date and not after) is calculated as below:* According to the Capitalization table on a pro forma basis for the issue of the Notes (as of April 12, 2020), £200M of the £250M RCF will be drawn and £175M of the Senior Term Facilities will be outstanding (with £275M of the Senior Term Facilities repaid), giving a headroom of £82M under clause (1) of the Credit Facilities basket above and £275M of headroom under clause (2) of the Credit Facilities basket above assuming Senior Term Facilities is repaid *on the issue date*. If £275M of Senior Term Facilities is repaid *after* the issue date, then there will be no headroom under clause (2) of the Credit Facilities basket and overall headroom under the Credit Facilities basket will reduce to £82M.
Value Extraction through Restricted Payments or Permitted Investments	
Build-Up Basket Start Date	• 50% CNI component: starts building first trading quarter after issue date • Other components: March 4, 2020
Starter Amount in the Build-Up Basket	No
Any Accrued Build-Up Basket Capacity	Certain components of the build-up basket commenced building on March 4, 2020 - accrued capacity under such components (if any) is not disclosed
Ratio-capped baskets	Ratio-capped Restricted Payments: 5.25x Consolidated Leverage Ratio (calculated including debt, cash and EBITDA of the Unique Group) *No headroom based on 5.7x Consolidated Leverage Ratio.* Ratio-capped Junior debt repayments: N/A Ratio-capped Permitted Investments: N/A
Minimum Restricted Payments (payments to equity)	£120.4M (*0.24x turns of leverage*) • Repurchase of capital stock from Management Investors- £17M (£5M plus £2M /calendar years since the Closing Date)[2]

[2] Fixed amount of this basket used for the aggregate for "Minimum Restricted Payments"

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	• Parent Expenses- £30M (greater of £5M and 1.1% Cons. EBITDA/trading years)[3] • Payments to Permitted Holders- £24M (greater of £4M and 0.9% Cons. EBITDA /12-month periods)[4] • General RPs- Greater of £47M and 10% Cons. EBITDA (*£49.4M*)
Minimum Permitted Investments at Issue	£101M (*0.20x turns of leverage*) • Management Advances - Greater of £2M and 0.45% Cons. EBITDA (*£2.2M*) • Investments in Associates /Unrestricted Subsidiaries- Greater of £47M and 10% Cons. EBITDA (*£49.4 M*) • General PIs- Greater of £47M and 10% Cons. EBITDA (*£49.4M*)
Risk of Value Leakage from Asset Sales proceeds	
Can Asset Sale proceeds create Restricted Payments capacity?	No
Risk of Effectively Senior Debt (Secured on non-Collateral)	
Ratio-capped Permitted Liens	N/A
Minimum Permitted Liens at Issue	£455.8M (*0.92x turns of leverage*) • CF Basket Headroom - £357M (assuming £275M of the Senior Term Facilities are repaid on the issue date from Note proceeds) • CLO/PMO - Greater of £47M and 10% Cons. EBITDA (*£49.4M*) • General Permitted Liens - Greater of £47M and 10% Cons. EBITDA (*£49.4M*)
Risk of Collateral Dilution	
Ratio-capped Permitted Collateral Liens	5.2x Consolidated Senior Secured Leverage Ratio and 6.3x Consolidated Leverage Ratio *£112.2M headroom based on 4.9x Consolidated Senior Secured Leverage Ratio and 6.0x Consolidated Leverage Ratio using £374M of Pro Forma Adjusted EBITDA Including Synergies excluding the Unique Group*
Minimum Permitted Collateral Liens at Issue	£530.5M (*1.07x turns of leverage*) • CF Basket Headroom - £357M (assuming £275M of the Senior Term Facilities are repaid on the issue date from Note proceeds) (super senior) • CLO/PMO - Greater of £47M and 10% Cons. EBITDA (*£49.4M*) • General debt - Greater of £70.5M and 15% Cons. EBITDA (*£74.1M*)

[3] Fixed amount of this basket used for the aggregate for "Minimum Restricted Payments"
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	• Contribution Debt - £50M • Acquired/Acquisition Finance Debt Basket subject to 5.2x Consolidated Senior Secured Leverage Ratio or not worse and 6.3x Consolidated Leverage Ratio or no worse - **not** included in the aggregate above • Sale/leasebacks and vendor financing subject to 5.2x Consolidated Senior Secured Leverage Ratio if such debt is senior secured on the Collateral and 6.3x Consolidated Leverage Ratio if such debt is junior secured on the Collateral - **not** included in the aggregate above • Second Lien Loans - £400M (junior lien and **not** included in the above aggregate) • Senior Bridge Loans - £1450M (£500M of which has been repaid with the proceeds of the Existing Fixed Rate Notes and the balance of which is to be repaid from Notes proceeds are **not** included in the above aggregate)
Minimum Permitted Super Senior Collateral Liens	£282M (*0.57x turns of leverage*) • CF debt - Greater of £282M and 50% Cons. EBITDA • Certain uncapped hedging obligations
Portability	
Portability	Ratio-based portability
Portability Ratio test	5.5x Consolidated Leverage Ratio (including debt, cash and EBITDA of the Unique Group) *Based on a 5.7x Consolidated Leverage Ratio, there is no headroom.*
Cost Savings/Synergies Adjustments	
Are Cost Savings / Synergies capped?	No
Any time horizon for Cost Savings / Synergies to be realised?	• The definition of FCCR permits inclusion of pro forma anticipated synergies and expense and cost reductions that have occurred or are reasonably expected to occur within 18 months after the calculation date, while the pro forma adjustments allowed in the definition of Consolidated Leverage Ratio do not have such time limitation.
Cost Savings / Synergies limited to certain contexts	• Broadly applied
Credit Support	
Guarantor Coverage on Issue	The Issuer and the Guarantors would have represented: • 94% of EBITDA (being the sum of Stonegate Adjusted EBITDA for the 52 weeks ended September 29, 2019 and Ei Group Underlying EBITDA (excluding the underlying EBITDA contribution of the

	Unique Group, net of certain consolidation adjustments) for the 52 weeks ended September 30, 2019) ● 98% of Total Assets (being the sum of Stonegate Group's total assets as of September 29, 2019 and Ei Group's total assets (excluding the total assets contribution of the Unique Group, net of certain consolidation adjustments)) ● 92% of revenue (being the pro forma revenue of the Stonegate Group for the 52 weeks ended September 29, 2019, excluding the revenue contribution of the Unique Group, net of certain consolidation adjustments) "Stonegate Group" = Stonegate Pub Company Limited and its subsidiaries (includes Ei Group after March 2020) "Ei Group" = Ei Group Limited and its subsidiaries "Unique Group" = Unique Pubs Limited and its subsidiaries
Security Coverage	● Shares in the Issuer and the Guarantors; ● Certain bank accounts in England and Wales of the Issuer and the Guarantors; and ● The rights of the Issuer and the Guarantors under certain insurance policies and monetary claims (including the Issuer's rights under the new proceeds loan).

A capital structure, prepared by Reorg's financial analysts, is below:

Stonegate Pub Company				
(GBP in Millions)	**04/12/2020 Amount**	**Maturity**	**Rate**	**EBITDA Multiple Book**
£250M Super Senior Revolving Credit Facility [1]	200.0	Sep-2024		
Total Super Senior Secured Debt	**200.0**			**0.4x**
£950M New Senior Secured Fixed Rate Notes	950.0	2025		
€300M New Senior Secured Floating Rate Notes	275.0	2025		
£500M Existing Senior Secured Notes	500.0	2025	8.000%	
Senior Term Facilities [2]	175.0	2027		
Total Senior Secured Debt	**1,900.0**			**4.3x**
Second Lien Facility	400.0	2027	L + 8.500%	
Total Second Lien Debt	**400.0**			**5.1x**
Unique Securitized Notes [3]	678.0			
Total Securitization	**678.0**			**6.4x**
Total Debt	**3,178.0**			**6.4x**
Less: Cash and Equivalents	(353.0)			
Plus: Restricted Cash	75.0			
Net Debt	**2,900.0**			**5.9x**
Operating Metrics				
LTM Reported EBITDA	494.0			
Liquidity				
RCF Commitments	250.0			
Less: Drawn	(200.0)			
Plus: Cash and Equivalents	353.0			
Less: Restricted Cash	(75.0)			
Total Liquidity	**328.0**			
Credit Metrics				
Gross Leverage	6.4x			
Net Leverage	5.9x			

Notes:
Pro forma capital structure which excludes the impact of IFRS 16 and £325M of holdco PIK notes due in Sept. 2028. EBITDA is pro forma adjusted EBITDA including synergies and is as of Jan. 19, 2020.
1. £50M only available for 23 months from July 2020. Initial margin of 3% and is subject to change based on leverage ratio
2. Margin will change on primary syndication when the Senior Term Facilities will be redenominated into euro. Margin also subject to leverage raito.
3. Includes £263M 5.659% Class A notes due to June 2027, £225M 7.395% Class M notes due from June 2021 to March 2024, and £190M 6.464% Class N notes due from Sept. 2027 to March 2032.

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Please contact Reorg at questions@reorg.com if you wish to speak to the legal analyst or credit analyst who prepared the above tear sheet for you. We actively welcome your questions and feedback.

Reorg will also publish an in-depth covenant report and credit analysis tear sheet on this bond. We are happy to share our comprehensive legal and financial analysis with you, just email questions@reorg.com for a copy.

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