

## Introduction to Leveraged Finance

Leveraged Finance, also known as LevFin, refers to the practice of providing financing to companies that have a high level of debt and are considered risky investments. This type of financing is typically used for activities such as leveraged buyouts, mergers and acquisitions, recapitalizations, and refinancing of existing debt.

In leveraged buyouts, investors use borrowed money to acquire a company. The funds raised through leveraged finance are often used to pay for these buyouts. In mergers and acquisitions, companies borrow money to finance the acquisition of another company. Recapitalizations involve borrowing money to pay dividends to shareholders or buy back shares. Refinancing old debt refers to the process of borrowing money to pay off existing debt that has matured.

There are two main categories of debt in leveraged finance: investment-grade debt and speculative-grade debt. Investment-grade debt is issued by companies with a strong credit profile and is considered safer, while speculative-grade debt is issued by highly leveraged companies and carries a higher level of risk.

Investment-grade companies can access loans and bonds, which are issued by banks and institutional investors. Speculative-grade companies primarily rely on leveraged loans, which are loans provided by institutional investors, and junk or high-yield bonds, which are bonds with a lower credit rating and higher interest rates.

Leveraged loans are typically senior to bonds in a company's capital structure, meaning they have a higher priority in repayment. These loans are often secured by the company's assets and have a floating interest rate. Bonds, on the other hand, are fixed-income securities publicly traded by institutional investors.

Leveraged finance has different characteristics depending on whether it involves investment-grade or speculative-grade debt. Investment-grade firms have lower levels of leverage and higher interest coverage, making them less likely to default on their debt. Speculative-grade firms have higher levels of leverage, which increases the risk of default and results in higher interest rates.

In leveraged finance, institutional investors such as hedge funds, mutual funds, and insurance companies play a significant role in providing funding to highly leveraged companies. Banks also participate in the leveraged loan market, but institutional investors have become more prominent in recent years.

Overall, leveraged finance allows companies to access capital for various purposes, but it comes with higher risks due to the high levels of debt involved.

