Capital-structure map

Chapter 5. Every tranche, where it is issued, what it can reach, and what it trades at. Read where the debt sits, where the assets are and where the guarantees run before trusting any label.

Company		**Prepared by**	
Fund		**Date**	

Tranche, top to bottom	Issuer entity	Face + accrued	Security / collateral	Guarantors	Maturity	Price (cents)	Holders, groups
DIP and administrative claims							
First lien							
Second lien							
Senior unsecured							
Subordinated							
Trade and other unsecured							
Preferred / equity							

Structural question	Answer
Where do the operating assets sit, and which entities own them?	
Debt issued at a holding company without guarantees from the operating companies (structurally subordinated)	
Unrestricted subsidiaries, and assets that could be moved to one	
Intercreditor agreement: lien priority, enforcement, turnover	
Market-implied enterprise value: claims ahead of each tranche plus price x face	

Recovery underwriting sheet

Chapters 8 and 11, Appendix E. The range is the answer. Subtract the frictions, name the fulcrum in each case, then turn the recovery into a return over a timeline you believe.

Company		**Prepared by**	
Fund		**Date**	

Value	Low	Mid	High	Liquidation floor
Enterprise value (method and multiple)				
Less professional-fee leakage				
Less DIP and new money, with accrued interest				
Value for the pre-petition stack				
Fulcrum tranche				

Our tranche	Low	Mid	High	Liquidation floor
Recovery (cents)				
Form: cash / new debt / new equity (cents each)				
Realised value, non-cash at market (cents)				
Entry price (cents)				
Months to resolution				
Annualised return				
Break-even enterprise value at our price				
Break-even months at the mid case				

What would make this wrong, and the price at which we would sell

Distressed diligence checklist

Appendix A, 27 questions. A scaffold, not a substitute for judgment. An answer not written down is a memory, not diligence.

Security		**Prepared by**	
Fund		**Date**	

#	Question	Status	Owner	Answer, in one line
The situation and the thesis				
1	Why is this security distressed, and why now? Liquidity problem or solvency problem?			
2	Is this a good business with a bad balance sheet, or a bad business?			
3	What is the catalyst — maturity, missed coupon, covenant breach, downgrade — and what is the expected timeline?			
4	What is the market implying at current cents-on-the-dollar prices about where value breaks?			
The capital structure				
5	Complete, correct capital-structure map: every tranche, size, coupon, maturity, security and guarantors.			
6	Where do the assets sit relative to the debt — opco against holdco, structural subordination?			
7	What does the intercreditor agreement say about lien priority and enforcement?			
8	Which tranche is the likely fulcrum under your enterprise-value estimate?			
The documents				
9	Collateral and guarantee coverage for your tranche — what actually secures you?			
10	Covenant package: incurrence against maintenance; baskets and flexibility; restricted against unrestricted subsidiaries.			
11	Asset-transfer, drop-down, priming and uptier risk: can value or liens be moved away from you?			
12	Voting and amendment thresholds: what majority can bind you, and do you need a blocking position?			
13	Change-of-control, cross-default and acceleration provisions.			
Valuation and recovery				
14	Conservative enterprise-value range: going concern and liquidation floor.			
15	Trough earnings normalised, and peak multiples on trough numbers avoided.			
16	Recovery on your tranche across base, bear and bull scenarios.			
17	Administrative and professional-fee leakage and any new-money or DIP priority subtracted.			
18	Recoveries discounted for expected duration — the IRR, not just the headline recovery.			

#	Question	Status	Owner	Answer, in one line
19	Form of recovery — cash, new debt, new equity, warrants — and how the non-cash portion was valued.			
Process and control				
20	Out of court or in court? What consent thresholds are required?			
21	Is there an ad hoc group, can you join, and what is the blocking dynamic?			
22	Do you have a real fulcrum or blocking position, or only a thesis about control?			
23	Litigation, MNPI and the public-against-private divide, and compliance considerations addressed.			
Portfolio fit				
24	How does this size against your single-name and concentration limits?			
25	Is it correlated with the rest of the book — same cycle, same sector?			
26	Liquidity: can you hold it through a long, messy process?			
27	What is the loss if you are wrong about where value breaks?			

Documents and the vote

Chapters 9 and 12. Whether the claim you buy can be diluted after you own it, and whether you can stop it. Priority on the cover is an opening position.

Security		**Prepared by**	
Fund		**Date**	

Provision	Where (section)	What it permits	Risk to us
Amendments: what a simple majority can change			
Sacred rights: principal, maturity, release of collateral, subordination			
Pro rata sharing and open-market purchase provisions			
Investment and asset-transfer baskets (drop-down risk)			
Unrestricted subsidiary designation and guarantee release			
Incremental debt, priming capacity, super-priority new money			
Change of control, cross-default, acceleration			

Voting position	Our class
Class size (face)	
Our holding, and share of the class	
Threshold that binds the class (amendment / plan), in amount and in number	
Holding needed to block	
Ad hoc group: who is in it, their share, can we join	
Cost to reach a blocking or controlling stake at today's price	