A Case Study about Mezzanine Finance

M

£10,000,000

Funding package

Background

Established in 2000, our client is a commercial real estate, renewable energy, and infrastructure risk insurer. This type of business is known as a Managing General Agent or MGA. They act as a broker or agent on behalf of an insurer, however, unlike a typical agent, they have the authority to underwrite policies. While an insurance broker works on behalf of the policyholder, an MGA works on behalf of the insurer.

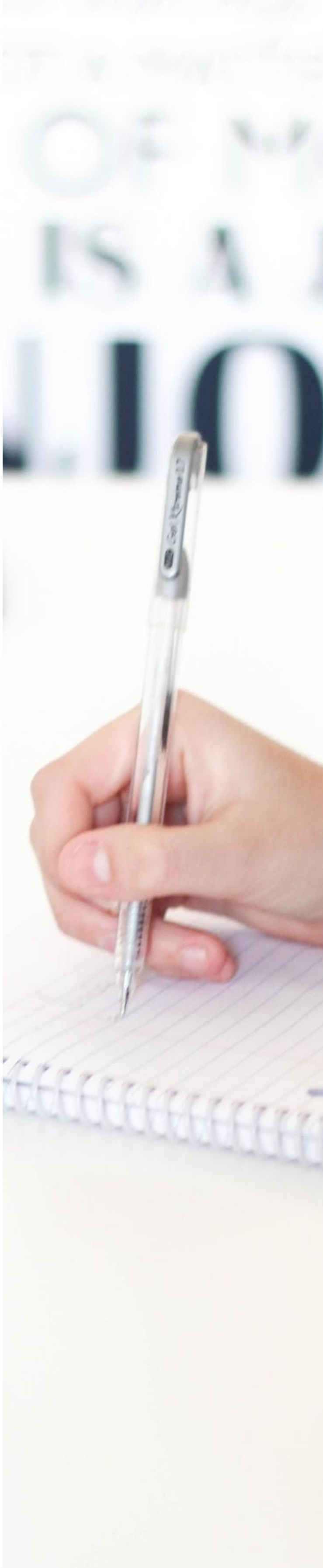
Mature and successful, our client has revenues of c£30m and c£6m EBITDA.

The Challenge

Acting as an MGA brings good financial rewards, but there is an element of risk. Whilst the main risk still sits with the insurance company, our client (and all MGA's) has a proportion of their fee at risk.

Losses were accrued and a one-off payment was due to the Insurers.
This type of payment is common in the MGA world and adjustments are made to mitigate future risk.

Whilst our client is highly profitable their bank would not lend them money for this purpose. There are several reasons for banks to take this position, but the simplest way to explain their position is; 'risk and reward'. That is to say, the banks do not make a great deal in interest, so they will take the least risk.



The Solution

Not wishing to sell any shares and dilute ownership, our client found their solution in private debt.

Fuse Capital was engaged to seek and present options. The option which suited our client best was a combination of senior private debt and mezzanine finance. If you would like to see the term sheet for this deal, you can download it for free below.

One of the benefits of mezzanine finance is that there is only a small monthly ‘cash payment’. The majority of the loan is repaid at the end of the term via a bullet repayment or refinance. This allowed the company to borrow enough money to repay the Insurance company. In return for this structure, the lender takes a small equity share option or warrant. So, they participate in the upside if the company sells in the future.

[DOWNLOAD FREE EXAMPLE TERM SHEET]

From a Lender Perspective

The mezzanine investor enjoys the advantages of equity investment in the form of high returns and a diverse portfolio.

If the borrowing company becomes successful, the mezzanine investor can exercise the warrant and receive the advantages. In addition, even in the worst case, the mezzanine investor gets at least the interest payment. The interest received for mezzanine financing outperforms the one received against traditional financing.

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