

Liability Management Exercises (LMEs)

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Dr. Leo Plank / Dr. Franz Bernhard Herding / Dr. Marlene Ruf / Dr. Max Mayer-Eming / Paul Hauschild

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Current State of the Capital Market

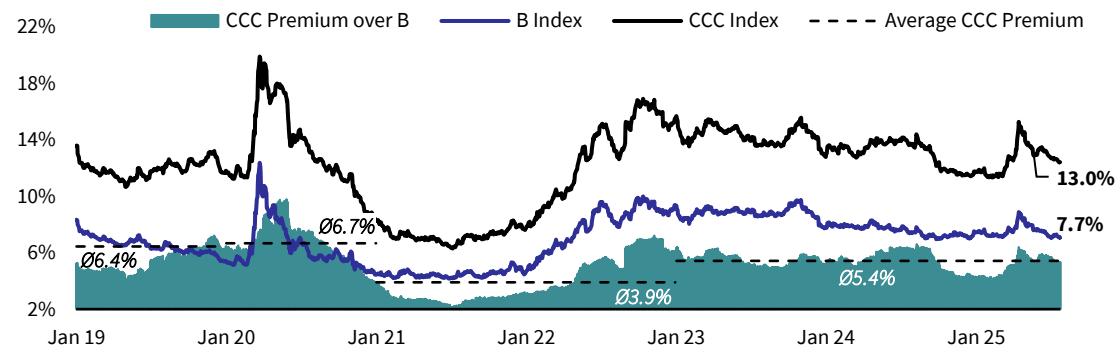


Capital Market Sentiment - Volume and Pricing

Pricing has reverted back to pre-COVID levels both in the HY and leveraged loan market. Primary issuance started to pick-up again in 2024 after muted activity in 2022/23 although slightly below pre-COVID years.

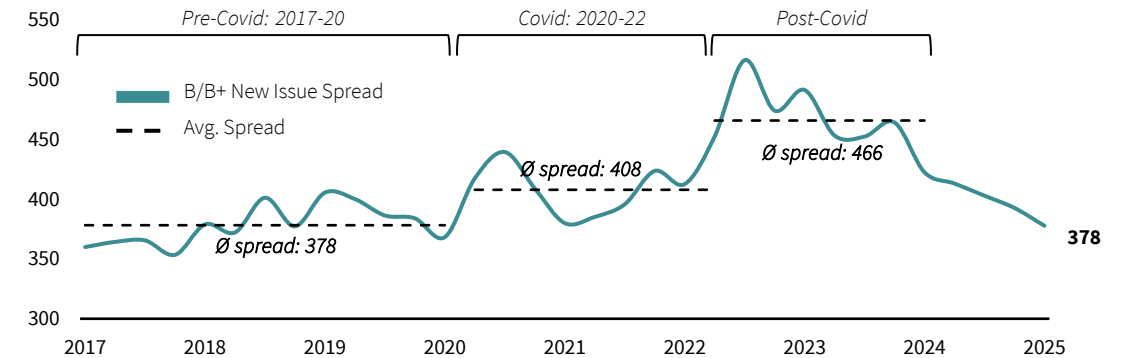
Risk aversion remains high in Lower Quality debt...

YTW in %



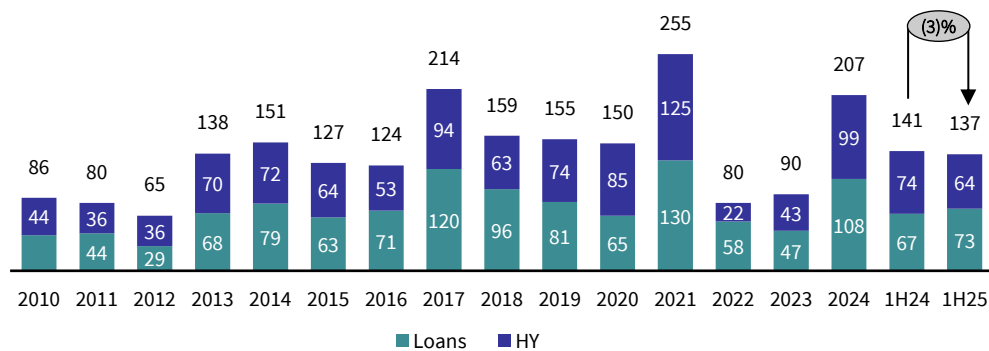
...While TLB spread is coming down.

Spread (bps) over base rate



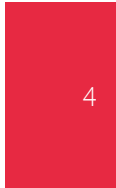
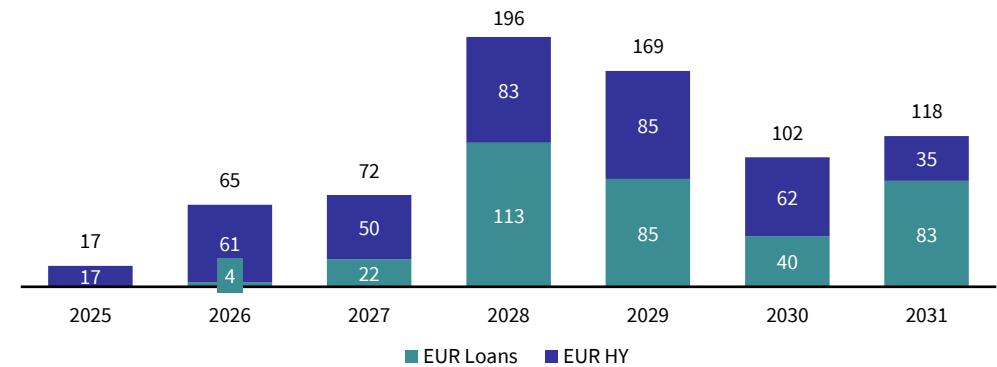
Primary market issuance has started to pick up...

LCD Analysis of European Senior Loan and High Yield Bond Volume (EUR bn)



... And the vintage maturity wall has materially shifted out

S&P Maturity Wall Analysis; EUR bn; Europe

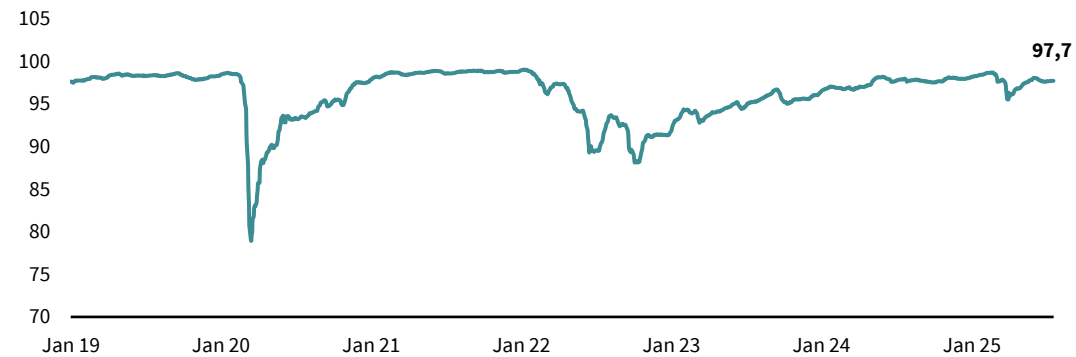


Capital Market Sentiment - Distressed Market Analysis

iTraxx crossover index with lowest sign of distress since 2022. However, share of CCC rated facilities, with a default rate of 4%, remains high compared to pre-COVID levels.

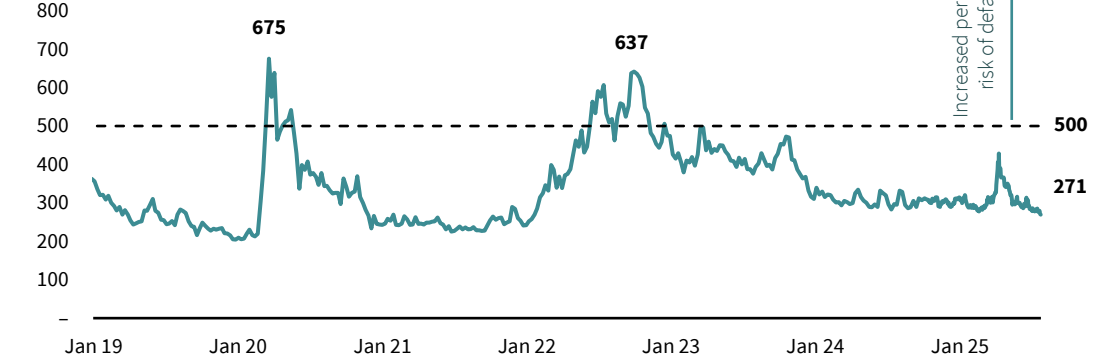
Secondary market - European Leveraged Loan Index (ELLI)

Price (%) of face value

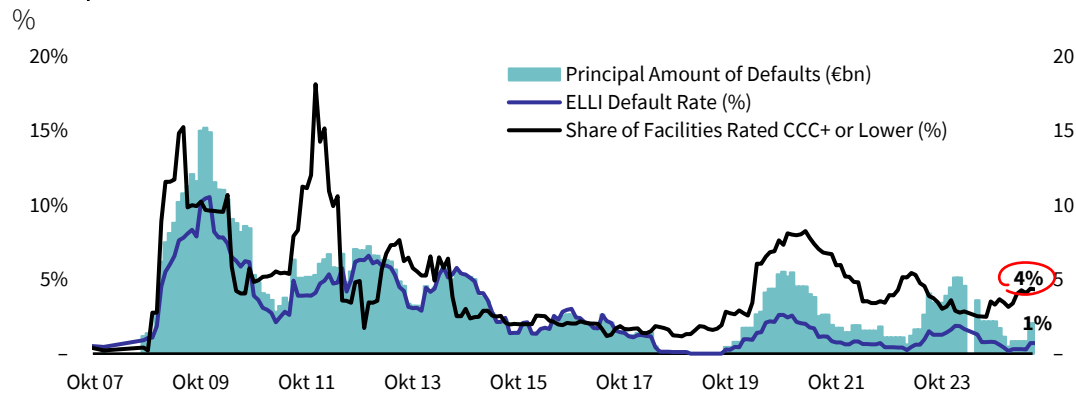


Itraxx crossover index

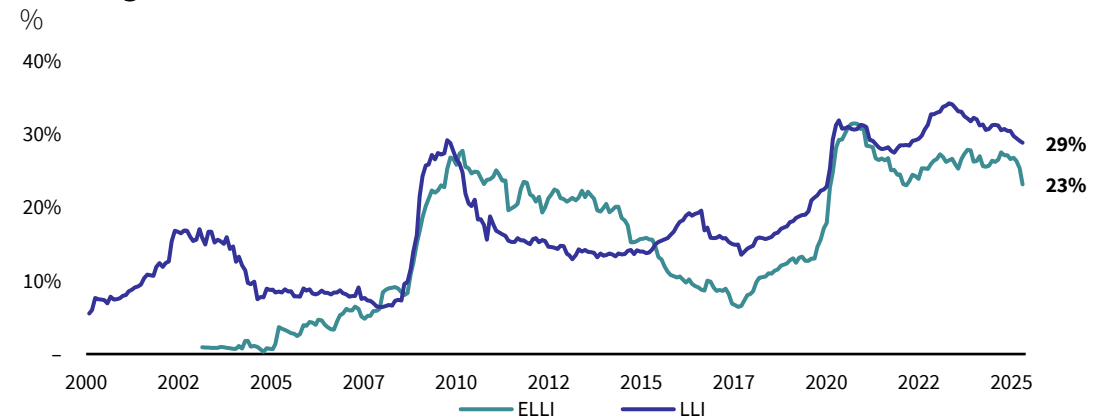
(bps)



European default stats



Leveraged loans rated less than "B-"



Note: Distressed Credit measured as Senior Loans trading at distressed levels.
Source: Bloomberg, LCD, Federal Reserve Bank of St. Louis.

Liability Management Exercises (LME)



Why are LMEs rising in Europe?

- Documentation flexibility: Incurrence-based covenants, large baskets, reclassification/netting and recycling features; workarounds around J. Crew/Chewy traps where drafting permits.
- Covenant-lite dominance in broadly syndicated loans reduces maintenance covenant constraints, easing execution.
- Private credit liquidity allows “first-out” super-priority financing with exchanges; sponsors aim to avoid insolvency process costs and reputational risks.
- UK/EU restructuring tools (Schemes/Restructuring Plans and preventive frameworks) exist as alternatives or complements, enabling binding cram-downs if out-of-court support fractures.

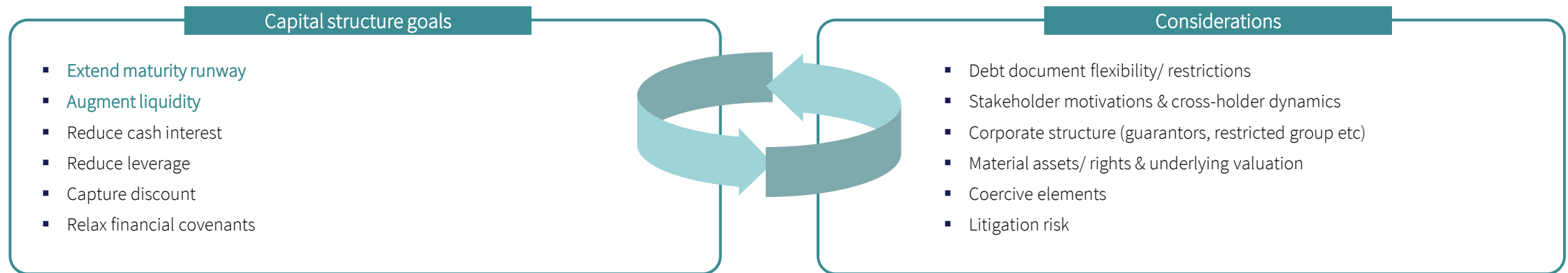


Framework for LMEs

LME transactions leverage gaps or flexibilities in debt documentation to enable new financing or changes in capital structure, often without the approval of all existing lenders (i.e. out-of-court).

Overview liability management transactions

Uptiering	Drop-down	Other
Existing debt that is moved into a more senior ('priming') position, typically by exchanging it for super senior debt or by subordinating other existing debt	Asset/collateral transfer to an unrestricted sub to facilitate an exchange or raise new financing	<ul style="list-style-type: none"> ▪ Double-dip structures¹ ▪ Pari-plus structures²



Key debt document provisions

Permitted investments / restricted payments	Asset sales	Transaction with affiliates
Permitted debt / liens	Unrestricted / non-guarantor subsidiaries	Definitions (EBITDA, net income) that govern ratio baskets and covenants

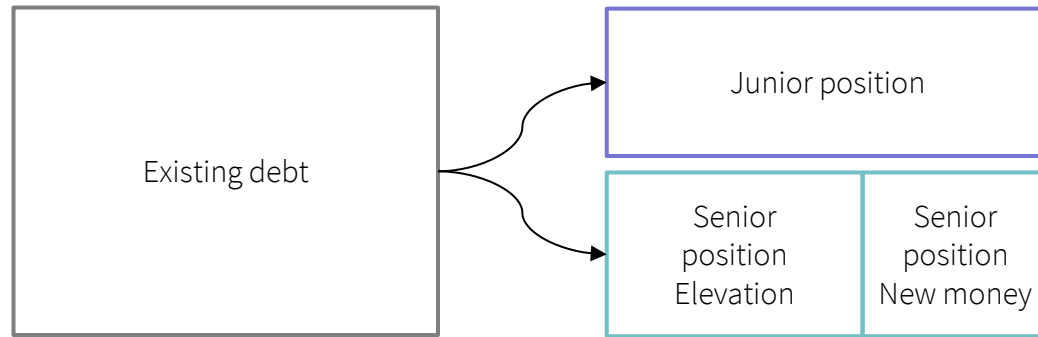


1. Allows the same creditor (or group of creditors) to effectively have two or more claims against the same borrower (group), giving them enhanced recovery in a restructuring.
 2. Financing arrangement where new money or exchanged debt is granted pari passu ranking with existing senior debt, but with additional features that improve economics or enforcement rights.

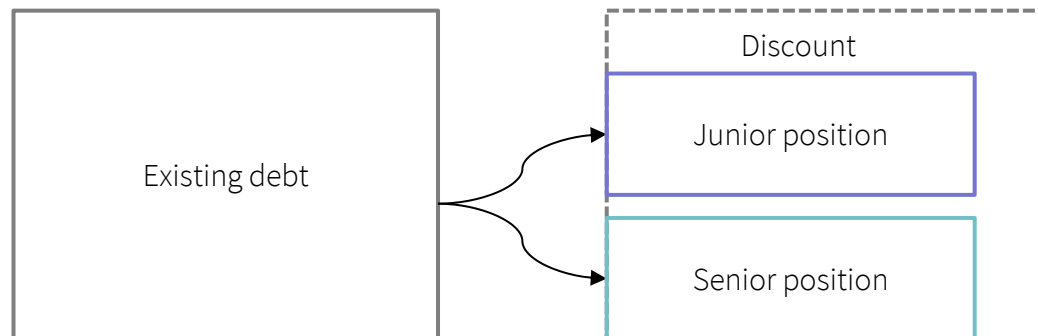
Uptiering

Existing debt moving into a priming position, either through an exchange for super-senior debt, or subordination of other existing debt.

Uptier exchange incl. new money & elevation



Uptier exchange at a discount



Commentary

- Creation of contractually senior debt through (i) the insertion of priority debt tranche(s) and/or (ii) the up-tiering of selected existing debt (at a discount); see charts on the left
 - Contractual seniority either through collateral priority or payment priority in the waterfall
 - New senior financing typically offered to existing lenders who can – as part of the transaction – exchange a portion of their existing exposure at a pre-determined exchange ratio into contractually senior position ('elevation')
- Rests on (i) having sufficient super senior debt/ lien basket capacity (or sufficient lender support to create such capacity) and/or (ii) unencumbered assets

Considerations

- Requires a close look at intercreditor agreement, baskets, "open market purchase" provisions, majority requirements to change ranking, debt capacity and (negative) covenants, which might need to be stripped



Precedents:

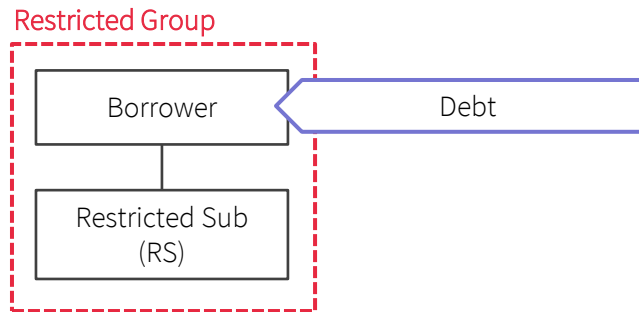


hunkemöller



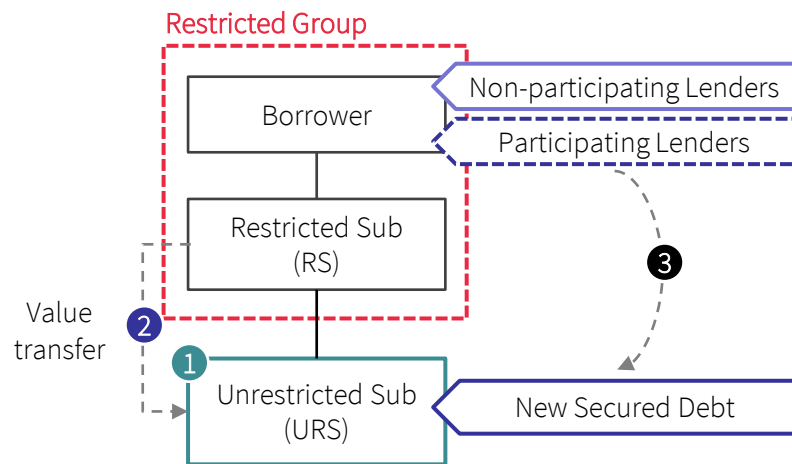
Drop-Down

In a drop-down a borrower moves valuable assets out of the lenders' existing collateral package to an unrestricted subsidiary in order to re-encumber those assets to raise new (priming) debt.



Pre

Post



Commentary

- Use of unrestricted subsidiaries (“URS”) and/or non-guarantor restricted subsidiaries (“NGRS”) to raise new money
 - Rests on transfer of assets from a Restricted Subsidiary (RS) to a URS or designating an RS as an URS
- Assets are transferred outside of an existing security package into an unrestricted subsidiary; this collateral is then pledged to support newly secured debt
 - Requires (i) capacity under the RP²/ PI³/ asset sales covenant and (ii) assets that can be separated/ transferred to the URS
- New financing provided by either (i) new lenders and/or (ii) a subset of existing lenders exchanging existing debt for structurally senior debt to the subsidiary
- Valuation of assets being transferred is key (fairness opinion required)
- Effectively, pre-existing secured lenders are being subordinated (‘primed’) if they do not consent / exchange their claims into newly created debt

Considerations

- Potential challenges may arise from fraudulent transfers, particularly where a debtor has transferred assets with the intent to hinder, delay, or defraud creditors
- Directors' duties as guiding rails¹



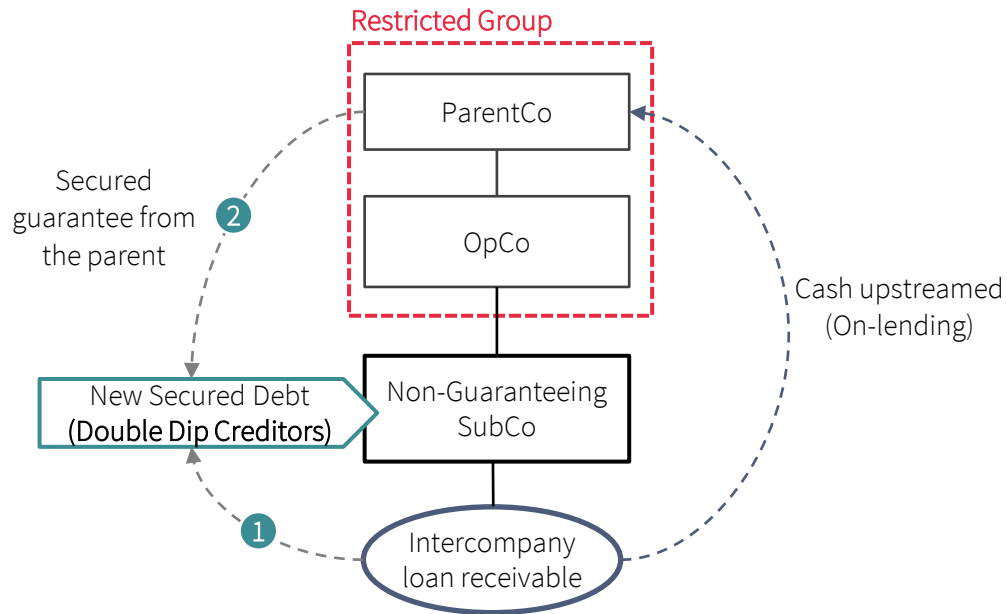
Precedents:



1. In the United States, directors are typically shielded by the 'business judgment rule,' which means that courts generally defer to board decisions and refrain from second-guessing them, unless the decision lacks any rational basis from a business perspective.
 2. Restricted Payments; 3. Permitted Investments.

Double-Dip

A double-dip is a transaction that establishes two new claims (one direct and one indirect) on the existing obligors.



Commentary

- A double dip is usually structured as follows to secure the double access of the new financiers:
 - New debt capital is raised by a subsidiary (New Secured Debt);
 - the proceeds from the new debt capital are transferred by way of an intercompany loan (“IC”) to the ParentCo. The IC loan is pledged to New Secured Debt lenders as collateral (Dip 1); and
 - the ParentCo provides a guarantee for the repayment of the New Secured Debt (Dip 2)
- As a result, financing parties have two separate claims against the financed group (so-called double-dip).

Dip (claim) 1	Indirectly through intra-group loan receivables pledged as collateral for the SSNs
Dip (claim) 2	Direct through secured guarantee from the parent company



- In consensual restructurings, recapitalization measures (such as new money offerings, uptiering, etc) are typically implemented among lenders on a pro rata basis
- While LMEs can – in principle – be done on a pro rata basis, these transaction are often structured to achieve a non-pro rata treatment, whereby one creditor or a group of creditors receives better economics than non-participating creditors (so called “**creditor-on-creditor violence**”)
- In extreme cases, this can mean that non-participating creditors not only receive fewer economics (e.g. fees, interest) but are also left out-of-the-money or at least materially impaired from a recover standpoint
- As a result, restructuring involving LMEs are increasingly contested by other creditors



- **English minority protection (Assenagon):** Majority consents that are coercive/oppressive to minorities are invalid; extreme exit-consent style tactics vulnerable
- **Redwood principle:** Majority must act bona fide for the class as a whole; unequal outcomes can be permissible if benefits are not abusive and process is fair
- **Intercreditor mechanics:** Changes to ranking or “all or substantially all” dispositions often require high thresholds; sacred rights limit amendments/waivers without each affected lender’s consent



- **J. Crew protection:** Prohibits transfers/designations of material IP (or material assets) to non-credit parties/unrestricted subs; stops core asset leakages
- **Chewy protection:** Prevents automatic release of guarantees/security when a guarantor ceases to be wholly-owned unless bona fide, arm's-length third-party transaction complying with investment covenant
- **Serta-style subordination blocker:** Makes subordination of payment priority or lien priority a sacred right; pro rata offer carve-outs sometimes included
- **Incora voting protection:** Blocks issuance of new debt to manufacture consent thresholds; requires all directly/adversely affected lenders to approve



- Will LMEs be also relevant in Germany?
- How will LMEs influence the consensual restructuring culture in Germany?
- How will lender organization change in response to contemplated LME tactics (co-op agreements)?
- Should we expect more litigation, particularly in relation to StaRUG?



Case Study: Idorsia



Case study: Idorsia

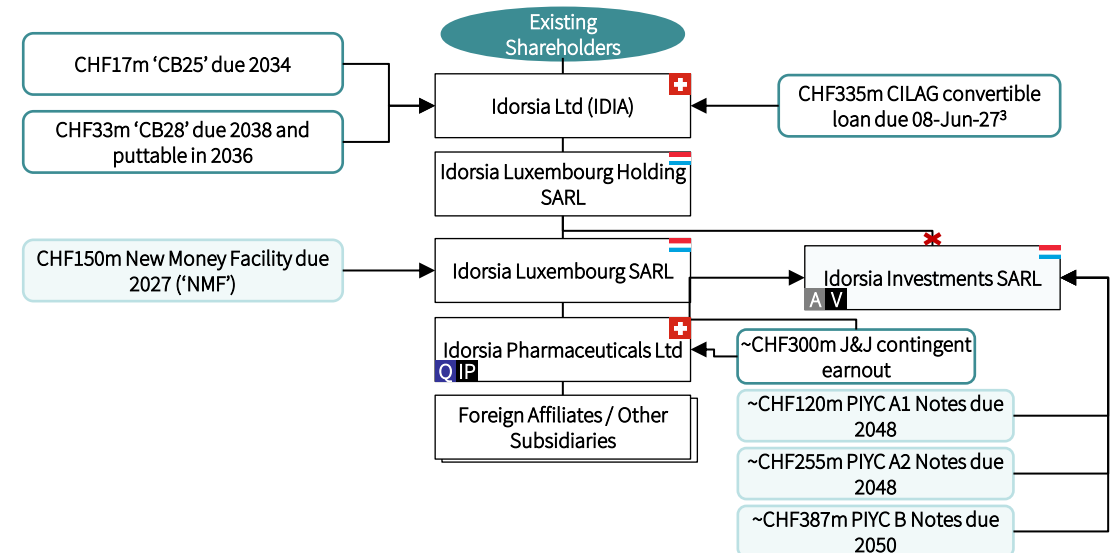
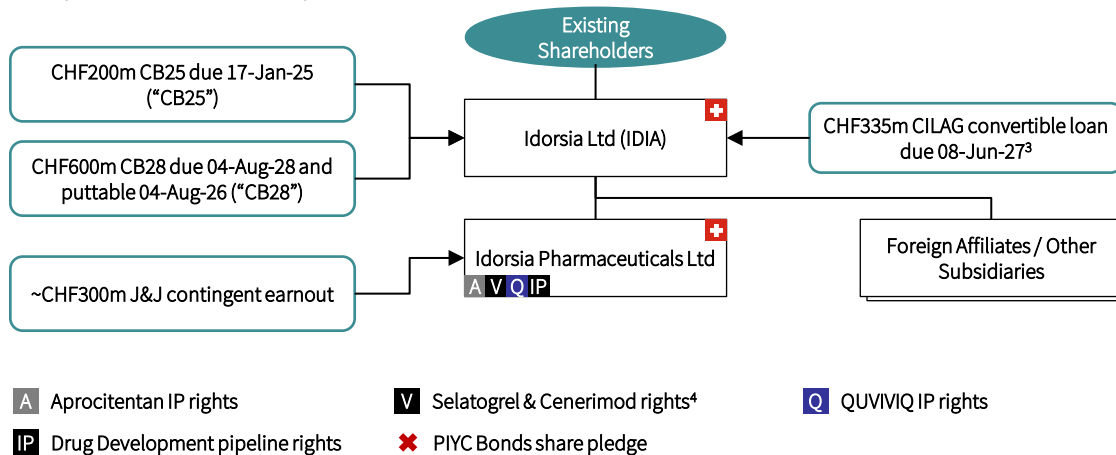
Background

- Headquartered in Switzerland, **Idorsia** specializes in the discovery and development of innovative small-molecule drugs covering multiple therapeutic areas, with commercial operations in Europe and North America.
- Following a short-term extension of its CHF200m convertible bond in 2024, Idorsia made attempts at monetising the drugs in its portfolio to address its 2025/2026 maturity wall, via licensing partnerships and outright sales.
- While some of these attempts were successful, such as the out-licensing of Phase 3 drugs selatogrel and cenerimod to Viartis, lower than expected monetisation proceeds, failed negotiations to out-license apocritentan and continued cash burn despite cost-cutting programs raised concerns over the liquidity of the Company.
- The company additionally faced a CHF200m maturity in 2025 ('CB25'), a CHF600m bond puttable in 2026 ('CB28'), and material liabilities to Johnson & Johnson, with limited prospects to refinance or otherwise repay its debt.
- As a result, Idorsia retained PJT Partners in Nov 24 to advise on possible alternatives to address its capital structure and raise liquidity, as well as negotiate with an organised group of creditors

Transaction overview

- Step 1:** On 26 Feb 2025, following extensive negotiations and parallel preparations for moratorium filing, the Company entered a Lock-Up Agreement with a group of creditors holding ~70% of its convertible bonds¹ to restructure its convertible bond debt and raise a CHF150m new money facility ("NMF"). The CB25 bond maturity was also extended from Jan-25 to Sep-25 to provide time for implementation.
- Step 2:** On 24 Jun 2025, bondholders voted to defer interest and extend maturities by ten years of the CB25 and CB28 conditional on the exchange offer and court approval discussed below.
- Step 3:** Idorsia transferred its rights and obligations² in respect of selatogrel, cenerimod and apocritentan to a new subsidiary jointly governed by Idorsia and PIYC bondholders.
 - >90% of holders in each of the CB25 and CB28 tendered their bonds in an exchange offer, swapping their bonds for newly issued PIYC Notes.
 - CB25 and CB28 holders were invited to participate in the NMF on a pro rata basis. Those CB25 and CB28 holders that participated exchanged their CB25 and CB28 notes for PIYC A1 and PIYC A2 notes, respectively, in an amount equal to 2.5x their NMF commitments and the rest for PIYC B notes (along with non-NMF participants).
 - Shares and warrants amounting to ~20% dilution were granted as fees to NMF providers and exchanging bondholders.
- Step 4:** On 27 Aug 2025, Idorsia announced completion of the exchange offer.
- Step 5:** On 11 Sep 2025, the court will meet to approve the CB25/28 A&E above⁵

Pre/post transaction corporate structure (AUG 25)



1. More than the required two-thirds (66 2/3) majority required under Swiss Law; 2. SPV assets will return to Idorsia once the SPV PIYC notes are fully repaid; 3. CILAG (J&J affiliate) loan can be converted into shares on maturity at the option of the Company; 4. Rights to milestone and royalty payments from Viartis in relation to selatogrel and cenerimod; 5. Exchange offer is irrevocable and not conditional on court approval of the stub CB25/28 A&E.