J.P.Morgan

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Post tax reform liability management transactions to optimize debt structure and cost of capital

Tax code provisions such as the 30% of U.S. EBITDA/EBIT limitation ("Section 163(j)"), Global Intangible Low Tax Income ("GILTI"), and the Base Erosion Anti Abuse Tax ("BEAT") have all received significant attention this year. Each has its own set of complexities and all interact with 3rd party debt and intercompany debt interest payments in various ways (some of which are still to be determined). However, in working through these complexities, tax and treasury teams have the opportunity to re-structure debt placement via liability management transactions to minimize cost of capital for the firm.

Notably, in March 2018:

- Lionsgate (Ba3/B+), a Canada domiciled company, launched a transaction to move debt from the foreign parent to the U.S. subsidiary
  - A revolver, Term Loan A, and Term Loan B were re-domiciled from at the parent to the US subsidiary, all US$
  - A par for par exchange (25bp) moved US$ HY bonds from the parent to the US subsidiary, retaining a parent guarantee and substantially similar covenants
  - J.P. Morgan acted as Lead Arranger, Lead-Left Bookrunner, and Sole Dealer-Manager
- CCEP US, LLC (A3/BBB+), a US subsidiary of Coca Cola European Partners Plc, launched a transaction to move its bonds from the U.S. entity to the European parent

The par for par exchange and consent (15bp) is on both EUR and USD denominated bonds

Key Takeaways

- Tax reform is driving firms to reassess their debt structures and execute on liability management
- J.P. Morgan maintains deep expertise at the intersection of tax and capital markets to execute complex transactions post-tax reform

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