

Internet Appendix to
Contracting Costs, Covenant-Lite Lending and Reputational Capital

This Internet Appendix contains supplemental results to the main analysis in the paper. It includes the results of regression models similar to the ones in Table 2 of the paper that include all sponsored deal types (regardless of their purpose), are estimated over sub-samples that exclude unrated borrowers, and are estimated using logit models instead of linear models. This Internet Appendix further includes the results of regression models similar to the ones of Table 4 of the paper that include all deal types in the sample, that exclude unrated borrowers from the sample, and that are estimated at the loan-tranche instead of the deal level. Finally, this Internet Appendix also presents results of spread differences between Cov-Lite and Cov-Heavy loans for sponsored and non-sponsored borrowers.

Table IA.1. Mean Differences in Summary Statistics

This table presents the differences in means between sponsored and non-sponsored firms from Table 1 (Panel B) of the main body of the paper. Column 1 displays the differences in means for the full sample of all deals, and column 2 displays the difference in means for deals related to acquisition financing (LBO and M&A). All variables are defined in Table B1. The means difference tests assume unequal variances and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

	1	2
	All Deals	M&A
<i>General Deal Characteristics</i>		
DEAL_SIZE	-210.632***	-368.063***
NUM_TRANCHES	0.213***	0.220***
D_COVLITE	0.193***	0.200***
D_COVLITE_FL_TLB	0.188***	0.187***
D_COVHEAVY_RC	-0.024**	0.040**
D_TLB	0.283***	0.250***
D_FL_TLB	0.286***	0.251***
D_SL	0.150***	0.194***
D_TRADED	0.177***	0.117***
CUSHION	2.738***	3.197***
SP_ISSUER_RATING	0.335***	0.493***
PERC_COVLITE	5.782***	9.586***
PERC_COVHEAVY	-28.732***	-17.678***
<i>Pricing and Maturity</i>		
FL_TERM	0.363***	0.402***
FL_TLB_TERM	0.058**	0.062
FL_SPREAD	77.762***	75.868***
FL_TLB_SPREAD	53.125***	53.661***
<i>Syndicate Characteristics</i>		
NUM_LENDERS	-3.407***	-4.066***

Table IA.2. PE Sponsor Reputation and the Propensity of Using Cov-Lite Structures in Deals (All Deals)

This table presents linear probability models of the propensity to include a Cov-Lite tranche in the deal. The sample consists of all deals by sponsored firms regardless of deal purpose. In Panel A, the dependent variable takes a value of one if a deal contains a Cov-Lite loan tranche and zero otherwise. *REPUTATION_MEASURE* denotes the proxy for the value of reputational capital. Each regression uses a different proxy for reputation capital, as indicated in the column headings. In Panel B, the sample is further restricted to deals with at least one first-lien term loan B. The dependent variable takes a value of one if a deal contains a Cov-Lite term loan B tranche and zero otherwise. All independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings and include a category for unrated firms. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

Panel A: All Deals						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-0.111*** (2.95)	-0.099*** (2.71)	0.059*** (6.04)	0.049*** (4.66)	0.058*** (6.88)	0.060*** (5.84)
D_COVHEAVY_RC		-0.097*** (5.57)		-0.098*** (6.31)		-0.094*** (6.16)
D_TRADED		0.123*** (5.67)		0.121*** (7.16)		0.119*** (7.10)
ln(NUM_LENDERS)		0.007 (0.55)		0.006 (0.62)		0.004 (0.44)
SPONSOR_BANK_REL		0.001 (1.63)		0.000 (1.04)		0.000* (1.66)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.42	0.44	0.45	0.46	0.45	0.47
N	3,804	3,490	5,456	4,742	5,456	4,742
Panel B: All Deals With a First-Lien TLB						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-0.118*** (2.88)	-0.110*** (2.78)	0.063*** (6.01)	0.056*** (4.87)	0.061*** (6.62)	0.067*** (5.97)
D_COVHEAVY_RC		-0.087*** (4.92)		-0.085*** (5.37)		-0.081*** (5.22)
D_TRADED		0.076*** (3.64)		0.075*** (4.53)		0.074*** (4.51)
ln(NUM_LENDERS)		0.019 (1.39)		0.014 (1.27)		0.012 (1.09)
SPONSOR_BANK_REL		0.001* (1.74)		0.000 (1.32)		0.001* (1.96)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.42	0.44	0.46	0.47	0.46	0.47
N	3,529	3,258	5,013	4,416	5,013	4,416

Table IA.3. PE Sponsor Reputation and the Propensity of Using Cov-Lite Structures in Deals (Excluding Unrated Firms)

This table presents linear probability models of the propensity to include a Cov-Lite tranche in the deal. The sample consists of all deals by sponsored firms for acquisition purposes (LBO and M&A) but excludes deals to unrated firms. In Panel A, the dependent variable takes a value of one if a deal contains a Cov-Lite loan tranche and zero otherwise. *REPUTATION_MEASURE* denotes the proxy for the value of reputational capital. Each regression uses a different proxy for reputation capital, as indicated in the column headings. In Panel B, the sample is further restricted to deals with at least one first-lien term loan B. The dependent variable takes a value of one if a deal contains a Cov-Lite term loan B tranche and zero otherwise. All independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

Panel A: All LBO and M&A Deals						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-0.151*** (2.93)	-0.147*** (2.76)	0.067*** (5.41)	0.054*** (4.56)	0.071*** (6.38)	0.067*** (5.08)
D_COVHEAVY_RC		-0.142*** (4.10)		-0.140*** (5.13)		-0.138*** (5.05)
D_TRADED		0.092** (2.26)		0.078** (2.50)		0.075** (2.44)
ln(NUM_LENDERS)		0.010 (0.46)		-0.002 (0.10)		-0.005 (0.28)
SPONSOR_BANK_REL		0.001 (0.88)		0.000 (0.60)		0.000 (0.97)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.40	0.42	0.44	0.45	0.44	0.45
N	1,364	1,248	1,933	1,683	1,933	1,683
Panel B: LBO and M&A Deals With a First-Lien TLB						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-0.170*** (3.20)	-0.171*** (3.15)	0.067*** (5.48)	0.056*** (4.69)	0.070*** (6.22)	0.069*** (5.12)
D_COVHEAVY_RC		-0.138*** (4.34)		-0.130*** (4.96)		-0.127*** (4.91)
D_TRADED		0.086** (2.13)		0.063** (2.02)		0.061** (1.99)
ln(NUM_LENDERS)		0.017 (0.74)		0.000 (0.00)		-0.003 (0.18)
SPONSOR_BANK_REL		0.001 (0.85)		0.000 (0.67)		0.000 (1.05)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.41	0.42	0.45	0.46	0.45	0.46
N	1,329	1,222	1,876	1,646	1,876	1,646

Table IA.4. PE Sponsor Reputation and the Propensity of Using Cov-Lite Structures in Deals (Logit Models)

This table presents logit models of the propensity to include a Cov-Lite tranche in the deal. The sample consists of deals by sponsored firms for acquisition purposes (LBO and M&A). In Panel A, the dependent variable takes a value of one if a deal contains a Cov-Lite loan tranche and zero otherwise. *REPUTATION_MEASURE* denotes the proxy for the value of reputational capital. Each regression uses a different proxy for reputation capital, as indicated in the column headings. In Panel B, the sample is further restricted to deals with at least one first-lien term loan B. The dependent variable takes a value of one if a deal contains a Cov-Lite term loan B tranche and zero otherwise. All independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings and include a category for unrated firms. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

Panel A: All LBO and M&A Deals						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-0.860*** (2.92)	-0.899*** (2.58)	0.545*** (6.06)	0.464*** (4.84)	0.514*** (6.84)	0.526*** (5.42)
D_COVHEAVY_RC		-1.235*** (4.15)		-1.335*** (5.27)		-1.320*** (5.24)
D_TRADED		0.618** (2.51)		0.643*** (3.17)		0.639*** (3.12)
ln(NUM_LENDERS)		0.058 (0.39)		-0.014 (0.12)		-0.033 (0.28)
SPONSOR_BANK_REL		0.003 (0.69)		0.001 (0.29)		0.002 (0.73)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.40	0.42	0.45	0.45	0.45	0.46
N	1,714	1,563	2,575	2,185	2,575	2,185
Panel B: LBO and M&A Deals With a First-Lien TLB						
	FRAC_LOW_PERFORMING		MARKET_SHARE		ln(NUM_DEALS_1)	
	1	2	3	4	5	6
REPUTATION_MEASURE	-1.056*** (3.46)	-1.170*** (3.44)	0.590*** (6.28)	0.503*** (5.13)	0.539*** (6.88)	0.561*** (5.65)
D_COVHEAVY_RC		-1.241*** (4.42)		-1.289*** (5.16)		-1.286*** (5.22)
D_TRADED		0.619** (2.43)		0.567*** (2.68)		0.575*** (2.69)
ln(NUM_LENDERS)		0.138 (0.91)		0.028 (0.22)		0.008 (0.06)
SPONSOR_BANK_REL		0.003 (0.71)		0.001 (0.18)		0.002 (0.60)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.46	0.49	0.51	0.52	0.51	0.52
N	1,625	1,492	2,402	2,067	2,402	2,067

Table IA.5. All-in-Drawn Spreads and Cov-Lite Structures (All Deals)

This table presents linear models where the dependent variable are various measures of all-in-drawn spreads. The sample consists of all sponsored deals regardless of deal purpose that have at least one first-lien term loan B tranche. In columns 1 through 3 the dependent variable is the value-weighted all-in-drawn spread across all first-lien term loan B tranches of a deal. In columns 4 through 6 the dependent variable is the value-weighted all-in-drawn spread across all first-lien loan tranches of a deal. All independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings and include a category for unrated firms. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

	First-Lien TLB Spread			First-Lien Spread		
	1	2	3	4	5	6
D_COVLITE_FL_TLB	-53.838*** (10.99)	-43.017*** (8.90)	-35.584*** (6.78)	-51.042*** (9.97)	-42.793*** (8.66)	-34.189*** (6.17)
D_COVHEAVY_RC		37.672*** (10.71)	33.332*** (9.18)		22.991*** (6.79)	19.834*** (5.91)
D_TRADED		-16.280*** (4.65)	-16.775*** (4.46)		-13.613*** (3.91)	-12.866*** (3.54)
ln(NUM_LENDERS)		-10.441*** (4.07)	-7.197*** (2.78)		-13.568*** (5.47)	-11.133*** (4.21)
SPONSOR_BANK_REL		-0.074 (0.97)	-0.229*** (2.88)		-0.079 (1.09)	-0.241*** (2.98)
CUSHION		0.049 (0.47)	0.009 (0.09)		0.184* (1.69)	0.145 (1.37)
ln(FL_TLB_TERM)		-5.442 (0.47)	1.530 (0.13)			
ln(FL_TERM)					7.870 (0.68)	12.587 (1.01)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Sponsor FEs	No	No	Yes	No	No	Yes
Adj. <i>R</i> ²	0.50	0.52	0.56	0.53	0.54	0.58
<i>N</i>	4,886	4,336	4,245	4,263	3,787	3,699

Table IA.6. All-in-Drawn Spreads and Cov-Lite Structures (Excluding Unrated Firms)

This table presents linear models where the dependent variable are various measures of all-in-drawn spreads. The sample consists of all sponsored deals for acquisition purposes (LBO and M&A) that have at least one first-lien term loan B tranche and excludes deals to unrated firms. In columns 1 through 3 the dependent variable is the value-weighted all-in-drawn spread across all first-lien term loan B tranches of a deal. In columns 4 through 6 the dependent variable is the value-weighted all-in-drawn spread across all first-lien loan tranches of a deal. All independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings and include a category for unrated firms. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

	First-Lien TLB Spread			First-Lien Spread		
	1	2	3	4	5	6
D_COVLITE_FL_TLB	-72.528*** (10.86)	-63.599*** (9.29)	-53.214*** (7.51)	-70.128*** (10.25)	-62.631*** (9.62)	-53.798*** (7.47)
D_COVHEAVY_RC		25.523*** (4.47)	24.525*** (3.78)		12.410** (2.09)	13.054** (2.16)
D_TRADED		-19.630*** (3.81)	-15.686*** (2.88)		-13.411*** (2.75)	-9.757** (1.99)
ln(NUM_LENDERS)		-14.941*** (3.75)	-4.837 (1.21)		-17.658*** (4.48)	-10.208** (2.55)
SPONSOR_BANK_REL		-0.017 (0.14)	-0.216* (1.90)		-0.015 (0.14)	-0.230** (2.16)
CUSHION		-0.566*** (4.15)	-0.682*** (3.94)		-0.367** (2.50)	-0.466*** (2.68)
ln(FL_TLB_TERM)		19.036 (1.14)	24.311 (1.43)			
ln(FL_TERM)					43.630** (2.58)	44.499** (2.54)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes	Yes	Yes	Yes
Sponsor FEs	No	No	Yes	No	No	Yes
Adj. <i>R</i> ²	0.56	0.58	0.63	0.61	0.62	0.66
<i>N</i>	1,858	1,639	1,572	1,528	1,344	1,281

Table IA.7. All-in-Drawn Spreads and Cov-Lite Structures (Loan Tranche Results)

This table presents linear models where the dependent variable is the all-in-drawn spread in basis points. The sample consists of all first-lien institutional term loans from sponsored deals that are related to acquisition financing (LBO or M&A). *COVLITE* is an indicator variable that takes a value of one if the loan is Cov-Lite. $\ln(\text{NUM_LENDERS})$ is the natural logarithm of the number of syndicate members at origination of the loan tranche. *D_TRADED* is an indicator variable for whether the loan tranche is part of a deal that has loans that are subsequently traded on the secondary market. *SPONSOR_BANK_REL* is the number of deals the sponsor raised from the same bank over the prior five years, relative to all of the sponsor's deals over five years (expressed in percent). $\ln(\text{LOAN_TERM})$ is the natural logarithm of the time to maturity of the loan tranche. Ratings fixed effects are based on loan-level ratings and include a category for unrated firms. Standard errors are clustered by sponsor. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

	1	2	3
COVLITE	-67.099*** (11.61)	-59.216*** (9.87)	-50.089*** (8.07)
D_TRADED		-21.671*** (4.43)	-19.799*** (3.79)
$\ln(\text{NUM_LENDERS})$		-22.357*** (6.45)	-13.411*** (4.15)
SPONSOR_BANK_REL		0.076 (0.76)	-0.154 (1.53)
$\ln(\text{LOAN_TERM})$		3.873 (0.24)	13.307 (0.70)
Year FEs	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes
Size Quartile FEs	Yes	Yes	Yes
Sponsor FEs	No	No	Yes
Adj. R^2	0.54	0.56	0.61
<i>N</i>	2,369	2,059	1,989

Table IA.8. All-in-Drawn Spreads and Cov-Lite Structures (Sponsored and Non-Sponsored Borrowers)

This table presents linear models where the dependent variable are various measures of all-in-drawn spreads. The sample consists of all sponsored and non-sponsored deals for acquisition purposes (LBO and M&A) that have at least one first-lien term loan B tranche. In columns 1 through 2 the dependent variable is the value-weighted all-in-drawn spread across all first-lien term loan B tranches of a deal. In columns 3 through 4 the dependent variable is the value-weighted all-in-drawn spread across all first-lien loan tranches of a deal. *D_SPONSORED* is an indicator variable for whether the deal is sponsored. All other independent variables are defined in Table B1. Ratings fixed effects are based on firm ratings and include a category for unrated firms. Standard errors are robust. Absolute values of *t*-statistics are presented in parentheses and statistical significance is indicated by *, **, and *** at the 10%, 5%, and 1% level, respectively.

	First-Lien TLB Spread		First-Lien Spread	
	1	2	3	4
D_SPONSORED × D_COVLITE_FL_TLB	-15.087*	-13.036	-22.310**	-23.353**
	(1.77)	(1.52)	(2.42)	(2.56)
D_COVLITE_FL_TLB	-62.952***	-50.057***	-58.066***	-41.739***
	(7.63)	(5.87)	(6.47)	(4.58)
D_SPONSORED	13.850**	13.947**	19.432***	20.294***
	(2.15)	(2.08)	(3.05)	(3.06)
D_COVHEAVY_RC		28.606***		12.149**
		(5.86)		(2.48)
D_TRADED		-12.330***		-8.455*
		(2.66)		(1.84)
ln(NUM_LENDERS)		-24.904***		-28.668***
		(8.10)		(9.27)
CUSHION		-0.401***		-0.272**
		(3.44)		(2.49)
ln(DEAL_SIZE)		-2.116		-3.003
		(0.87)		(1.24)
ln(FL_TLB_TERM)		-21.129		
		(1.50)		
ln(FL_TERM)				-8.108
				(0.56)
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Firm Ratings FEs	Yes	Yes	Yes	Yes
Adj. <i>R</i> ²	0.54	0.57	0.57	0.60
<i>N</i>	2,985	2,764	2,531	2,343