WALL STREET PLAYBOOK / SPECIALIST WORKBOOK

Private Credit Underwriting Workbook

Reconcile earnings. Trace repayment. Defend the lending decision.

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For candidates preparing for direct-lending and private-credit interviews who already understand financial statements, enterprise value and basic debt mechanics. This workbook develops a repeatable way to analyze a borrower and explain a conditional recommendation.

All borrowers, figures, term sheets and candidate examples are fictional teaching material. They are not employer interview questions, investment recommendations or legal interpretations of an actual agreement. Dollars are US dollars. Unless a table says otherwise, company financial figures are in millions. The simplified cases deliberately omit some transaction and tax details; assumptions are stated where they matter.

Build the schedules yourself before reading the solutions. A completed model is useful only if you can explain what changes the decision. This workbook includes self-practice rubrics, not personalized review or live coaching.

THE PREPARATION DESK

Original cases. Worked answers.
Decisions you can explain.

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Contents

1. The lender's decision

A lender receives contractual payments and carries the risk that they will not arrive in full or on time. A business may have an attractive growth story while offering weak protection to a particular lender. Start with the borrower, the proposed instrument and the source of repayment rather than with a broad opinion about the sector.

Separate three questions. Can the borrower service cash obligations during the holding period? Can it repay or refinance the principal when due? If the operating case fails, what value and rights support recovery for this instrument? A favorable answer to one does not automatically resolve the others.

The decision map

Question	Evidence	Common mistake
What supports revenue?	Contracts, retention, concentration, demand	Treating all recurring revenue as equally durable
What earnings are repeatable?	Statements and adjustment evidence	Accepting every sponsor add-back
What cash reaches debt service?	Taxes, capex, working capital, interest	Calling EBITDA cash flow
What can break first?	Connected operating and liquidity stress	Applying a uniform haircut without a cause
What protection remains?	Terms, collateral, priority, value	Assuming first lien guarantees full recovery
What decision follows?	Amount, terms, conditions and unresolved items	Presenting ratios without a recommendation

The answer may be approve, approve at a lower amount or with conditions, defer pending evidence, or decline. Do not force every case into approval. A credible decline explains which risk cannot be priced or structured acceptably with the information available.

A useful first paragraph

“I would consider a smaller facility subject to confirming customer retention and the cash cost of maintenance. The business generates cash in the base case, but the requested structure leaves little room for the combined volume and rate downside. My recommendation depends on the borrowing-base availability and the final covenant definitions.”

This is more useful than “the company is a market leader.” It connects the business, structure and decision. It also identifies what remains unknown.

Practice prompt

A borrower has low historical defaults in its sector and a strong sponsor. What information is still missing? At minimum: borrower cash generation, debt terms, maturity, sponsor support commitments, concentration, liquidity and collateral/guarantee scope. A sponsor's reputation is not a contractual obligation to inject new equity.

2. Worked case: reported EBITDA to cash repayment

Fictional Alder Maintenance reports EBITDA of $20 million. Management proposes $3 million of adjustments: $1 million for a completed facility closure, $1 million for expected procurement savings and $1 million for recurring recruitment costs. The proposed first-lien loan is $80 million with a 10% annual cash interest rate and $4 million of scheduled annual principal repayment.

For this teaching case, accept the completed closure adjustment only after assuming supporting evidence exists and there is no remaining cash cost. Reject the unimplemented savings and recurring recruitment add-back. Underwritten EBITDA is therefore $21 million. This is an analyst convention for the case, not a conclusion about what a real loan agreement permits.

Reconcile the three earnings views

Measure	Amount	Meaning
Reported EBITDA	$20m	Starting figure supplied in the case
Management adjusted EBITDA	$23m	All proposed add-backs
Underwritten EBITDA	$21m	Only the supported closure adjustment

Debt / management adjusted EBITDA is 3.48x. Debt / underwritten EBITDA is 3.81x. Neither ratio shows whether sufficient cash remains after operating requirements.

Assume annual cash taxes of $3 million, maintenance capex of $4 million and a $2 million increase in operating working capital. Cash interest is $80 million x 10% = $8 million. For simplicity, calculate interest on opening debt and assume principal is paid at year-end.

Cash bridge	Amount
Underwritten EBITDA	$21m

Cash bridge	Amount
Cash taxes	($3m)
Maintenance capex	($4m)
Working-capital investment	($2m)
Cash interest	($8m)
Cash before scheduled principal	$4m
Scheduled principal	($4m)
Cash after scheduled principal	$0m

The borrower can meet the modeled scheduled payments, but it generates no surplus under these assumptions. EBITDA / cash interest is 2.63x, yet cash available for debt service before interest is only $12 million, exactly equal to interest plus scheduled principal. Different coverage definitions answer different questions. Label the numerator and denominator.

Downside prompt

Reduce EBITDA to $18 million. Cash taxes fall to $2 million; maintenance capex stays $4 million; working-capital investment rises to $3 million. Interest and scheduled principal remain unchanged. Calculate the cash shortfall and explain its significance.

Answer

Cash after scheduled principal is $18m - $2m - $4m - $3m - $8m - $4m = -$3m. The company needs opening cash, available liquidity, a change in spending or a financing response. A negative annual figure does not tell you the worst intra-year cash balance; build a monthly schedule before judging liquidity sufficiency.

A defensible recommendation is to investigate the minimum operating cash balance, revolver conditions and the scope for reducing debt. Do not solve the shortfall by adding back the same recurring cost a second time or by assuming automatic sponsor support.