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SPECIAL COMMENT

Frequently Asked Questions

Moody's High-Yield Covenant Database

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This report answers frequently asked questions about Moody's High-Yield Covenant Database. Suggestions for further reading, including Moody's research reports drawn from the database, are on page 4, and our full suite of corporate covenant research is available [here](#). [Please click here for a video demonstration of the covenant database.](#)

1. What is Moody's High-Yield Covenant Database?

Moody's High-Yield Covenant Database contains details of covenant protections in high-yield bond issues. It is an extension of our Covenant Quality Snapshots, which deliver insightful analysis of the strengths and weaknesses of high-yield bond covenant packages before and after a bond sale. The database distills the key contents of the snapshots – plus information such as book runners, private equity sponsors, credit ratings, loss given default and use of proceeds – into an easy-to-navigate desktop application that offers users a first-of-its-kind ability to search and compare covenants across issuers and industries.

2. How can investors and other market participants use the database ?

The database is an effective covenant analysis tool for many users. Institutional investors can use the database to compare the covenants of one bond to another bond or to market medians. They can also see how a specific instrument's covenant provisions compare with the rest of an issuer's capital structure, evaluate industry trends in covenant protection, and track market-level covenant trends over time, among many other uses. Investors can also use the database to compare the Moody's Covenant Quality scores of individual bonds (see Question 7). User-generated reports compiling the data are easily downloaded to Excel spreadsheets.

The database is also well suited for financial intermediaries structuring a deal. They can use the database to evaluate the covenant packages of comparable issuers and advise clients regarding the precedent for a new transaction's protections. The database is a library of at-issuance structures, ideally suited for this purpose.

Legal professionals on all sides of transactions can use the database to compare current practices in structuring with market precedents for a given sector or rating level.

3. How many bonds are in the database?

The database currently has more than 1,250 high-yield bonds dating back to January 2010. It will be updated each month with new issuance.

4. What geographic regions does the database cover?

The database includes high-yield bonds issued globally that are rated by Moody's. For example, in 2011 and 2012, the database includes 99% of bonds issued in the U.S. greater than \$250m, 95% of bonds issued in Europe greater than \$250m, 87% of bonds issued in Canada, 80% of bonds issued in Asia and 70% of bonds issued in Latin America.

5. How will the database save me time?

The covenant database addresses market participants' need for prompt and easy access to details of covenant packages without sifting through voluminous deal documentation and issuer filings. The highly intuitive querying function allows users to find key information with just a couple of keystrokes. For example, in a matter of seconds, a user could generate a comparison of restricted payments provisions in the bond covenants of all rated US retailers with private equity sponsors.

6. How is the database structured?

The database is organized around the six key risk areas that we assess in our Covenant Quality Snapshots for high-yield bonds: cash leakage, investments in risky assets, leveraging, liens subordination, structural subordination and event risk (change of control). The database tracks about 150 different covenant structures and other provisions, and incorporates our Covenant Quality Scores, which we launched in May 2012. All data is captured as of the issue date.

7. What are Moody's Covenant Quality Scores?

A Covenant Quality Score (CQ) is our assessment of the degree of protection that a bond covenant package provides investors. CQ scores are based on the covenant package on the bond sale date using objective, pre-defined criteria. Our scoring criteria apply globally to rated high-yield bonds that we assess in our pre-sale and post-sale Covenant Quality Snapshots.

We provide an overall CQ score for a covenant package, as well as individual numerical scores that indicate the level of protection in the six key risk areas. CQ scores are assigned according to a five-point scale, with CQ1 representing the most protective covenant packages and CQ5 the weakest packages. A CQ3 indicates a moderate level of covenant quality. The scoring range for the six key risk areas is 1.0 (strong) to 5.0 (weakest). The overall CQ score is a weight average of the restricted payments (25%), the debt incurrence (25%), liens subordination (20%), structural subordination (10%), investments in risky assets (10%) and change of control (10%) scores.

A new Moody's Covenant Quality Index, based on these individual CQ scores, was launched in January 2013. It tracks the broad market trends in covenant protections for fixed-income investors.

The index will allow investors to track market trends in covenant protection as compared to prior periods.

8. Can you give me more examples of what the database can do?

The database is an analytical tool that allows market participants to quickly compare a bond's covenant protection to market standards, to compare two or more bonds' covenant provisions and scores to one another, to spot covenant trends in specific industry sectors, and to compare covenant strengths and weaknesses across issuers – among many other types of comparisons and analyses of investor protections in existing and pending bond issuances.

Users can isolate sub-segments of the database for detailed study. For example, they can screen for all healthcare companies in Europe or all private equity-backed issuers with a single-B rating. They can then drill down further to rank all bonds by covenant quality scores, or look at specific covenant provisions, such as the asset sales proceeds reinvestment criteria or available capacity under the fixed charge coverage ratio, to see which deals have the strongest and weakest investor protections. They can also further refine any of these searches by individual private equity sponsor.

9. Does the database allow me to create charts?

The database's charting function makes it easy to visualize covenant comparisons, as well as covenant quality trends over time. This can deliver real insight when a deal comes to market with unusually strong or weak protections, helping investors determine whether it is an isolated instance or part of a broader shift in covenant structure. The database also allows users to populate data into customized reports built from scratch, or to choose from pre-set report templates covering the most common types of queries. These reports can then be easily downloaded to Excel spreadsheets.

10. Where can I find the database?

Moody's subscribers can access the database at www.moodys.com/covenantdatabase or by going to "Research & Ratings" on Moodys.com and clicking "Interactive Charts". [Click Here](#) for link to the database.

Moody's Related Research

Special Reports:

- » [User's Guide: Moody's High-Yield Covenant Database, February 2013 \(140778\)](#)
- » [Frequently Asked Questions: Moody's Covenant Quality Scoring, May 2012 \(142044\)](#)
- » [High-Yield Bond Covenants: Covenant Quality Scoring Criteria, May 2012 \(141518\)](#)
- » [A User's Guide To Moody's Covenant Quality Snapshots, September 2010 \(127988\)](#)

Special Reports Drawn From Our Database:

- » [Covenant Quality of US Bonds Reaches Record Low in November, December 2012 \(147956\)](#)
- » [Many Sectors Saw Weaker Covenants in 2012, December 2012 \(147645\)](#)
- » [North American Healthcare Bucks the Trend: Covenants are Weaker at Lower Rating Levels, November 2012 \(147728\)](#)
- » [US Gaming Bond Covenants Offer Most Investor Protection, October 2012 \(145605\)](#)
- » [Midstream MLP Covenants Offer Least Investor Protection; E&Ps Near US Average, October 2012 \(146695\)](#)
- » [Standard \\$1 Debt Incurrence Ratio Tests Provide Unequal Investor Protection, September 2012 \(144432\)](#)
- » [Moody's Covenant Quality Database: North American Telecom Bonds Offer Above-Average Protections, September 2012 \(145475\)](#)
- » [Canadian Corporations: Canadian High-Yield Bonds Offer More Investor Protection Than US Bonds, September 2012 \(145342\)](#)
- » [High-Yield Issuers Use Pre-Dated Restricted Payment Baskets to Boost Dividends, July 2011 \(133474\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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