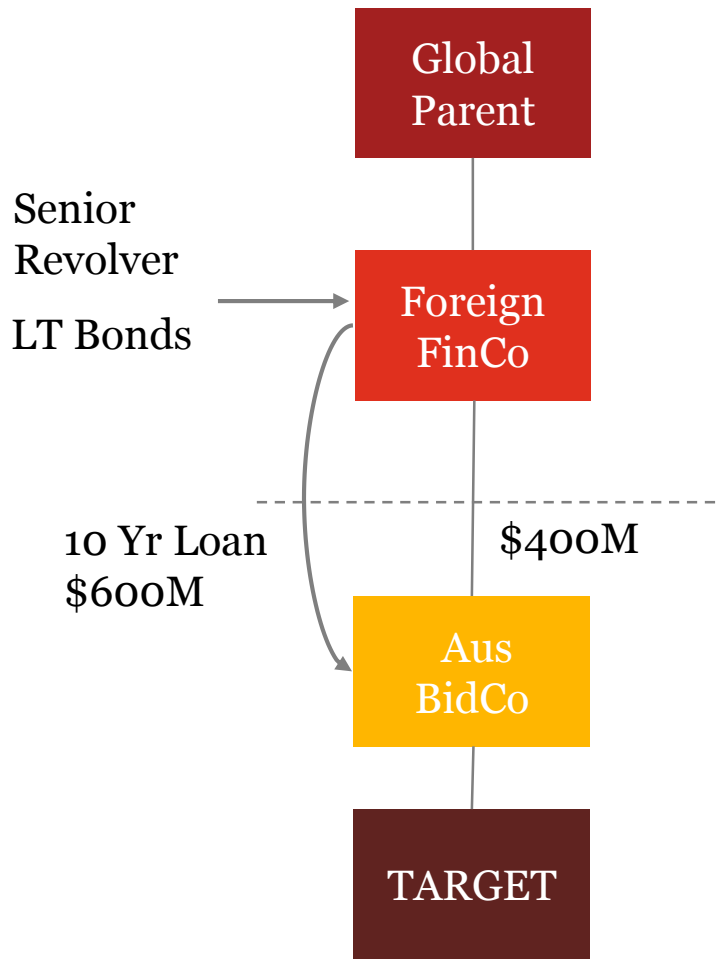


Debt Financing Case Studies

2017 APPEA Taxation and Commercial
Conference

16th November 2017

Case study 1A – Foreign takeover



Fact pattern

1. Existing Senior Revolver (\$1bn limit)– LIBOR + 0.5%
2. New Long Term Bonds - \$1bn
 - i. 5 Year @ 5%
 - ii. 7 Year @ 7%
 - iii. 10 Year at 10%
3. BidCo formed and funded with Related Party Loan (10 Year Unsecured and Equity) based on thin cap safe-harbour
4. BidCo acquires Australian company for A\$1bn

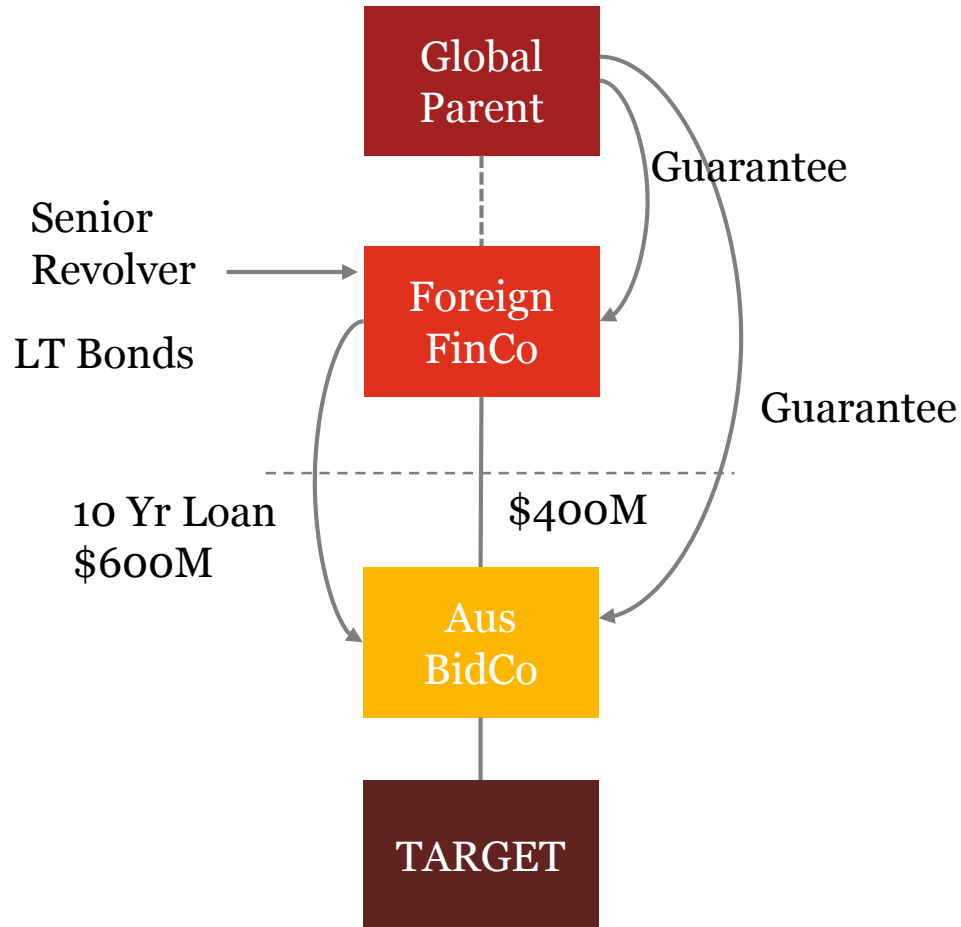
Cost of Referrable Debt

1. Overall Weighted – 3%
2. Long Term Bonded – 7%

Case study 1B – Parent Guarantee

Fact pattern

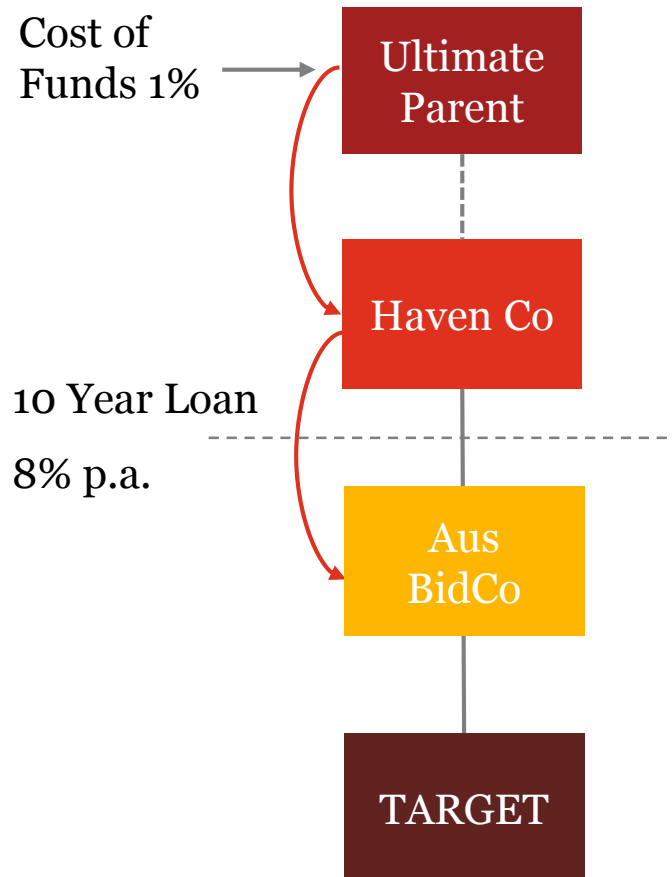
Same as 1A but with Parent Guarantee



Case study 2 – Historical loans

Fact pattern

- 2012 acquisition
- 10 Year Loan at 8% interest
- Group raises at 1% over LIBOR at same time



ATO Draft Practical Compliance Guide (expected to be finalised “soon” but effective 1 July 2017)

Score	Outbound			Outbound & Inbound	Inbound			
	10	3	1	0	1	3	10	15
Price relative to: - global group cost of debt - traceable third party debt - relevant third party debt of borrowing tax entity	No interest charged	Less than the cost of referable debt		Inbound: 50 bps over cost of referable debt (or less) Outbound: Cost of referable debt or higher	51 to 100 bps over cost of referable debt	101 to 150 bps over cost of referable debt	150 to 200 bps over cost of referable debt	More than 201 bps over cost of referable debt
Leverage of borrower				Consistent with global consolidated leverage	Greater than global leverage but less than 60% leverage		More than 60% leverage	
Interest coverage ratio				Consistent with global consolidated group	Lower than global consolidated group ratio but equal to or greater than 10	3.3 to 9.9	Below 3.3	
Appropriate collateral				Yes		No		
Subordinated or mezzanine debt				No		Yes		
Headline tax rate of lender entity jurisdiction				Over 30%, or lender entity is global parent	21% to 29%	16% to 20%	1% to 15%	0%
Currency of debt is different to operating currency	Yes			No			Yes	
Involves an arrangement covered by a taxpayer alert	Yes			No			Yes	
At least one party is a hybrid entity	Yes			No				Yes
Presence of exotic features on loan				No			Yes	
Sovereign risk of borrower entity	B, CCC	BB	A, BBB	AAA, AA				