

Structure Debt for Growth

How to match instrument, covenant, amortisation and security to a company's actual repayment capacity.

Theory session

Intermediate

Running case: AeroWeave Materials



Where this session sits

Module 2 sized the requirement; Module 3 chooses how it is raised

MODULE 1

Build Reliable
Financial Foundations

MODULE 2

Manage Cash
and Uncertainty

MODULE 3

**Choose and
Manage Funding**

SESSIONS IN THIS MODULE

3.1

Structure Debt for Growth

Matching instrument, covenant and security to repayment capacity

YOU ARE HERE

3.2

Engineer Equity Financing Terms

Priced rounds, preferences, dilution and investor returns

3.3

Maintain the Post-Round Cap Table

Ownership through a financing event and beyond

What this session explains

Choosing debt that survives the plan being wrong

01 Instruments differ in what they tolerate

Not only in price — in how they behave when a date slips.

02 Covenants transfer control

A breach can hand decisions to the lender long before any payment is missed.

03 Amortisation is a cash schedule

The repayment profile must fit the cash the business actually generates.

04 Security determines what happens in failure

Ranking decides who recovers, and therefore who can force an outcome.

What borrowing actually commits you to

Three obligations, only one of which is the interest rate

WORKING DEFINITION

Debt is a contractual promise to pay fixed amounts on fixed dates, secured against assets, and constrained by covenants — so its real cost is the loss of flexibility at the moment the plan goes wrong.

1

Non-negotiable timing

Interest and principal fall due whether or not the contract arrived. Heavy Duty Radiator is exactly this.

2

Priority over equity

Lenders are paid first in any distribution, which is why debt is cheaper than equity.

3

Control on breach

A covenant breach is a default. It can accelerate the loan or force a restructuring while you are still solvent.

Myers, S. (1977). Determinants of corporate borrowing. *Journal of Financial Economics*, 5(2), 147–175.

Five structures and what each one is for

Match the term of the instrument to the life of the asset it funds

Instrument	Best suited to	Watch for
Term loan	An asset with a life — plant, equipment, an acquisition.	Amortisation starting before the asset generates cash.
Revolving facility	Self-liquidating working capital that rises and falls.	Annual clean-down requirements, and renewal risk at the worst moment.
Invoice finance	Receivables, where collection timing is the problem.	Recourse terms, concentration limits, and cost expressed per invoice rather than annualised.
Venture debt	Extending runway after an equity round, against investor-backed growth.	Warrants, material-adverse-change clauses, and covenants tied to the next raise.
Merchant cash advance	Very short, urgent gaps with a fast repayment source.	Effective annualised costs far above the headline, and daily or weekly sweeps against revenue.

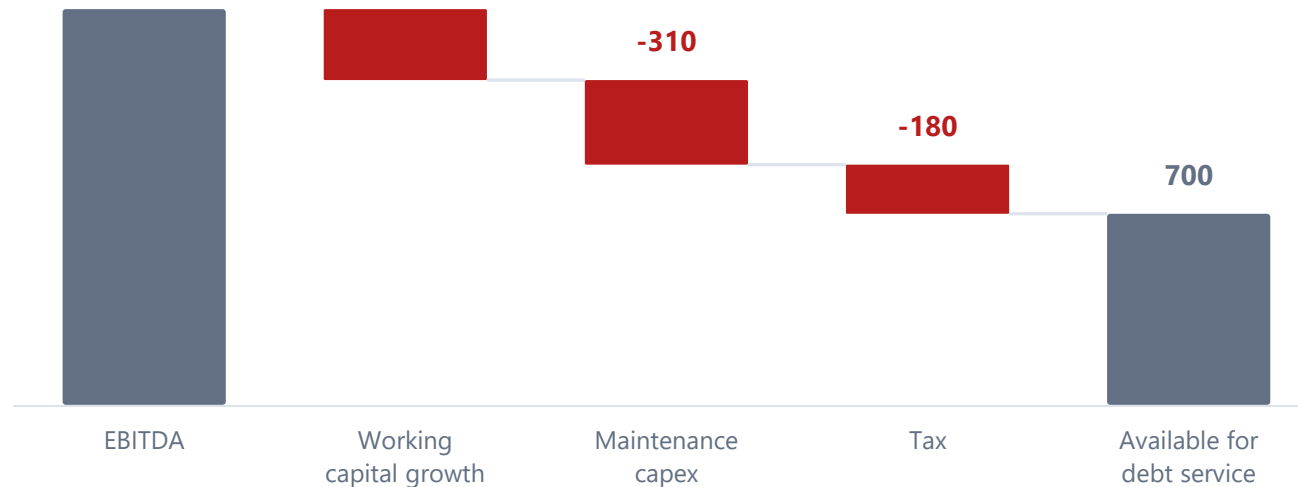
READING THE CASE

Heavy Duty Radiator's Merchant Cash Advances were repaying continuously while the revenue that justified them moved six months out.

What the business can actually service

Repayment capacity is a cash figure, not a profit one

FROM EBITDA TO DEBT SERVICE CAPACITY (£000)



£700k available. At a 1.5× cover requirement, that supports about £467k of annual principal and interest.

THE RATIO

Debt service cover

Cash available ÷ scheduled principal and interest.
Lenders typically want 1.25× to 1.5×.

THE COMMON ERROR

Using EBITDA raw

EBITDA is not cash. Working capital, capex and tax come out before anything reaches a lender.

THE STRESS TEST

Run the downside

Cover should hold in the Session 2.2 downside, not only in the base case.

Two kinds of promise

One is tested periodically; the other applies continuously

FINANCIAL COVENANTS

Ratios tested each period

TYPICAL FORMS

Leverage (net debt ÷ EBITDA), interest cover, debt service cover, minimum liquidity.

HOW THEY FAIL

A soft quarter breaches the ratio even though every payment was made on time.

NEGOTIATE

Headroom of 25–30% against your base case, and an equity cure right.

NON-FINANCIAL COVENANTS

Restrictions on what you may do

TYPICAL FORMS

Limits on further borrowing, asset disposal, dividends, change of control, and reporting deadlines.

HOW THEY FAIL

Quietly — a missed reporting deadline is a technical default in most agreements.

NEGOTIATE

Realistic reporting timetables that match your actual close, per Session 1.3.

THE TEST TO RUN BEFORE SIGNING

Read the covenant schedule against your downside forecast before signing. If the downside breaches, you have accepted a structure that hands over control exactly when you most need it.

Amortisation shapes the cash burden

The same principal, repaid three different ways

ANNUAL CASH OUTFLOW ON £1M OVER FIVE YEARS (£000)
ANNUAL DEBT SERVICE



Bullet repayment preserves cash now and concentrates refinancing risk at maturity.

STRAIGHT-LINE

Predictable, heaviest early

Suits a business already generating stable cash from the funded asset.

BULLET

Cash now, risk later

Nothing repaid until maturity. You are betting on refinancing or an exit being available then.

HOLIDAY

Matches a ramp-up

Repayment begins once the asset produces. The structure Heavy Duty Radiator needed and did not have.

Ranking decides who controls the outcome

In a distressed situation, priority is the whole conversation

SENIOR SECURED First claim over named assets, or all of them under a floating charge. Can appoint and enforce.	JUNIOR / SUBORDINATED Paid only after senior claims. Prices the risk higher and has fewer levers.	UNSECURED AND EQUITY Last in line. In most distressed outcomes, recovers little or nothing.
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WHY RANKING MATTERED IN THE CASE

Mechanism	Effect
Article 9 sale	A secured creditor's remedy: assets sold free of junior liabilities.
Outcome for junior claims	Approximately \$5.5m of legacy obligations left behind with the old entity.
Outcome for the operation	Production continued under JMP Industries with a clean balance sheet and purpose-specific working capital.

Debt or equity for this requirement

The question is not which is cheaper — it is which survives the downside

DEBT SUITS

Predictable, asset-backed needs

WHEN IT WORKS

Cash flows are established, the use is self-liquidating, and there is security to offer.

WHAT YOU KEEP

Ownership and control, provided covenants are met.

WHAT YOU RISK

Fixed obligations that do not flex when the plan does.

EQUITY SUITS

Uncertain, growth-stage needs

WHEN IT WORKS

Outcomes are uncertain, the spend is development rather than assets, and timing is unreliable.

WHAT YOU KEEP

Flexibility. Nothing is due on a date.

WHAT YOU GIVE

Ownership, and usually some control — Session 3.2.

THEY ARE NOT EXCLUSIVE

Blended structures are common. Advanced Electric Machines raised £16m combining equity backers with an Innovate UK debt component for a manufacturing scale-up.

Three debt structures that fail on timing

Each is affordable on the plan and fatal when the plan slips

Repayment before revenue

Looks like Amortisation starting before the funded asset produces anything.

Why it fails Repayment competes with the working capital needed to operate.

Fix Negotiate a holiday matched to the ramp-up.

A single-contract assumption

Looks like Servicing built on one expected receipt.

Why it fails Contract dates move; obligations do not.

Fix Test cover against a downside where the receipt slips two quarters.

Covenants set on the base case

Looks like Comfortable headroom in the plan.

Why it fails The downside breaches, handing control over while you are still paying.

Fix Set headroom against the downside, and ask for an equity cure.

CASE STUDY

Heavy Duty Radiator

A defence manufacturer whose financing plan rested on a contract date that moved.

When the date moved and the debt did not

Structure, not price, decided the outcome

THE STRUCTURE THAT FAILED

Short-term, high-cost borrowing

THE INSTRUMENT

High-interest Merchant Cash Advances funded operations and contract preparation.

THE ASSUMPTION

A major government contract expected in Q4 2023 would supply the cash to service them.

WHAT MOVED

The contract slipped to April 2024. By December 2023 only two weeks of copper remained.

THE RESET

Liabilities and working capital separated

THE MECHANISM

An Article 9 sale closed in February 2024, freeing assets from junior liabilities.

THE BALANCE SHEET

Operations continued under a new entity, JMP Industries, clear of roughly \$5.5m of legacy obligations.

THE NEW MONEY

\$500,000 targeted specifically at copper and production — a purpose, not a gap.

READING THE CASE

Debt structure becomes an operating decision when repayment pressure and material purchases compete for the same cash. The instrument did not move when the contract date did.

Drawn from the session case pack.

Bringing the theory to AeroWeave Materials

Structuring against the Session 2.3 requirement

Decision	What you determine	AeroWeave example
Split the uses	Self-liquidating versus long-lived.	£1.4m loom (asset) and £600k working capital (cycle).
Choose instruments	One per use, matched to its life.	Five-year term loan for the loom; revolver for working capital.
Test capacity	Cash available for debt service, in the downside.	£700k base, £430k downside — cover 1.5× and 0.9×.
Fix the profile	Amortisation matched to the ramp.	Twelve-month holiday; the loom reaches rated output in month nine.
Negotiate covenants	Headroom against the downside, not the base.	Cover tested from month 15, with an equity cure right.
Check the ranking	What happens if it goes wrong.	Loom as specific security; no floating charge over receivables.

WHAT COMES NEXT

Session 3.2 takes the equity portion of the same requirement and negotiates its terms.

What to carry out of this session

1

Match the instrument's term to the asset's life.

Capex on a revolving line demands repayment before the asset has produced anything.

2

Repayment capacity is cash, not EBITDA.

Working capital, capex and tax come out first.

3

Covenants transfer control before payments are missed.

Test the schedule against your downside before you sign.

4

Amortisation profile is a cash decision.

A holiday matched to a ramp-up is often worth more than a lower rate.

5

Never build servicing on one expected receipt.

Contract dates move; Merchant Cash Advances do not.

Sources for this session

Primary references behind each concept

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