CHAPTER 7

Hybrid Forms of Financing

Hybrid forms of financing, also defined as mezzanine debt financing and preferred equity, cover a range of flexible financial instruments with different technical characteristics, and may be combined to offer tailor-made solutions for specific financing requirements. These are not forms of capital financing which may be classified under traditional pre-existing forms, such as for example loan agreements, but rather forms of capital financing that are situated half-way between senior debt and equity, and which draw characteristics from both types of capital. This typically refers to mezzanine debt financing, which is fundamentally a subordinate debt, when the debt component is predominant, whilst the term preferred equity is used when the equity capital component prevails, and where there is hence a sharing of risk. For the sake of simplicity, the discussion of hybrid financing will refer to the more general term mezzanine,[1] unless it is specified in each individual case whether the debt or equity component prevails, depending upon the actual structure of the contract. Preferred equity solutions involve structured joint venture agreements in which there are two different classes of shares or fund units, under which the income and cash earned from the initiative may be distributed differently.

[1] For further references please see also Watkins et al. (2003).