

Capital Structure Scenario Planning Report

EXECUTIVE SUMMARY

This report evaluates multiple capital structure scenarios for **ABC Corporation**, supporting strategic decision-making regarding the optimal mix of debt and equity financing. The analysis includes scenario assumptions, associated risk factors, and potential impacts on the company's financial health and shareholder value.

CURRENT CAPITAL STRUCTURE OVERVIEW

Component	Amount (USD millions)	Percentage of Total
Equity	300	60%
Debt	200	40%
Total Capitalization	500	100%

SCENARIO ANALYSIS

Scenario	Debt/Equity Ratio	Interest Coverage Ratio	Estimated Cost of Capital	Key Assumptions
Baseline	0.67	6.0x	7.0%	Stable revenues, current rates
Increased Debt	1.00	4.2x	6.5%	Borrow additional \$100M, rates unchanged
Deleveraging	0.40	8.1x	7.5%	Repay \$75M debt, lower leverage

RISKS AND CONSIDERATIONS

- Interest Rate Sensitivity:** Higher leverage increases exposure to rising interest rates.
- Covenant Compliance:** Debt ratio changes may impact compliance with lender covenants.
- Shareholder Dilution:** Equity issuance to deleverage can dilute existing shareholders.
- Credit Rating Impact:** Increased debt could influence company credit rating.

RECOMMENDATIONS

After evaluating all scenarios, management should consider the company's risk tolerance, current market conditions, and future growth strategy when choosing an optimal capital structure. A balanced approach maintains financial flexibility and supports long-term sustainability.

IMPORTANT NOTES

- This document is for internal analysis and planning purposes only.
- Scenario results are based on current assumptions and may change with market conditions.
- Independent financial and legal advice should be sought before execution.
- Periodic review of capital structure is recommended for ongoing alignment with corporate strategy.