

# 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%
<b>Total Capitalization</b>	<b>500</b>	<b>100%</b>

## 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.