



CreditSights

a FitchSolutions Company

## MARKET ALERT:

CD&R is Codifying the PetSmart / Chewy Maneuver in the New Sealed Air Bonds

*Scott Josefsberg, J.D.: Head of U.S. High Yield Research, Covenant Review*

Research Date: March 30, 2026

## Market Alert: CD&R is Codifying the PetSmart / Chewy Maneuver in the New Sealed Air Bonds

### The Bottom Line™:

- A Restricted Payments carveout in the new Sealed Air Bonds would allow the issuer to spin off any business line that is less than 50% of EBITDA if it can meet a 5.5x or no worse first lien net leverage test pro forma, which could greatly enhance the Company's ability to divert valuable assets to the sponsor.
- For example, this provision could allow the Company to pull a PetSmart / Chewy maneuver, allowing any negative EBITDA or pre-revenue business to be spun off to the sponsor at any time, regardless of the growth potential or dollar value of the business line.
- We urge investors to reject this provision and not accept enhanced flexibility that could potentially be used to strip significant value from the credit for the benefit of the sponsor.

### **Overview**

An entity controlled by CD&R is in the market with an offering of \$1.35 billion of dollar-denominated Senior Secured Notes due 2033, \$600 million (equivalent) of euro-denominated Senior Secured Notes due 2033, and \$500 million of Senior Unsecured Notes due 2034 (collectively, the "Notes") (collectively, the "Notes") to provide a portion of the financing for the LBO of Sealed Air by CD&R. The Notes are being offered under a March 26, 2026 Preliminary Offering Memorandum (the "Preliminary OM").

We will publish a full report covering the terms of the new Notes, but want to call the market's attention to extensive flexibility for spin-off transactions that CD&R has included in the proposed covenant package. As CD&R is well known for having one of the most aggressive high yield covenant packages in the market, it would behoove investors to read our full report for a more exhaustive list of all of the potential issues with the proposed covenants for the Notes.

We urge investors to reject this provision, and not accept egregious flexibility that could allow important credit support to be diverted away from the credit.

### **The Permitted Business Line Distribution Carveout**

The Notes include a carveout to the Restricted Payments covenant for a "Permitted Business Line Distribution."

### ANALYST CONTACT:

Scott Josefsberg

+1 (212) 716-5780

[sjosefsberg@covenantreview.com](mailto:sjosefsberg@covenantreview.com)

## Market Alert: CD&R is Codifying the PetSmart/Chewy Maneuver in the New Sealed Air Bonds

Restricted Payments carveout clause (xxi) for the Notes will permit:

Restricted Payments in connection with a Business Line Spin Transaction; provided that (x) on a pro forma basis after giving effect to such Business Line Spin Transaction, either (A) the Consolidated First Lien Leverage Ratio would be equal to or less than 5.50 to 1.00 or (B) the Consolidated First Lien Leverage Ratio would be equal to or less than the Consolidated First Lien Leverage Ratio immediately prior to giving effect thereto, and (y) the applicable Business Line for such Business Line Spin Transaction shall constitute a Minority Business (determined immediately prior to giving effect thereto) (any such Restricted Payment made in accordance with this clause (xxi), a “Permitted Business Line Distribution”);

Here are the meanings of the relevant defined terms:

“Business Line” means a product line, service line, line of business or business unit.

“Business Line Spin Transaction” means any dividend, distribution, sale, transfer, disposition, spin-out or other similar transaction (whether in a single transaction or series of related transactions) of all or substantially all of a Business Line.

“Minority Business” means any Business Line that represents less than 50.0% of Four Quarter Consolidated EBITDA.

In plain English, this carveout allows the Company to spin off any business line that is less than 50% of EBITDA if it can meet a 5.5x or no worse first lien net leverage test

### **How could this carveout be used to hurt investors?**

This carveout could greatly enhance the Company’s ability to divert valuable assets to the sponsor. Since “Minority Business” is measured only by reference to EBITDA, a Business Line could be spun off regardless of the growth potential or fair market value of the business line. This is an especially large problem because of the ‘no worse’ aspect of the leverage test.

For example (and quite problematically), this carveout would codify the PetSmart / Chewy maneuver. In that case, an extremely valuable, but negative EBITDA business, was diverted away from creditors. Spinning off a negative EBITDA business will always result in the leverage ratio being ‘no worse’ pro forma for the spin-off. This means that the Permitted Business Line Distribution carveout would always be available to transfer any negative EBITDA or pre-revenue business to be spun off to the sponsor at any time. This would be true regardless of the fair market value of the Business Line to spun off, its importance to the Issuer’s business taken as a whole, or the importance and/or value to creditors of the credit support provided by that Business Line.

Even without the Permitted Business Line Distribution carveout, there is plenty of Restricted Payments capacity built in to the covenants for the Notes. Investors should flatly reject this enhanced flexibility that could make it easier to strip away credit support for the benefit of the sponsor.

— *Covenant Review*

# Market Alert: CD&R is Codifying the PetSmart/Chewy Maneuver in the New Sealed Air Bonds

---

For subscription information or other Covenant Review content, please contact [subscriptions@creditsights.com](mailto:subscriptions@creditsights.com).

## Disclosures

This report is the product of Covenant Review. Covenant Review is an affiliate of Fitch Group, which also owns Fitch Ratings. Covenant Review is solely responsible for the content of this report, which was produced independently from Fitch Ratings.

All content is copyright 2026 by Covenant Review, LLC. The recipient of this report may not redistribute or republish any of the information contained herein, in part or whole, without the express written permission of Covenant Review, LLC and we will criminally and civilly prosecute copyright violations against firms and individuals who unlawfully distribute our work. The use of this report is further limited as described in the subscription agreement between Covenant Review, LLC and the subscriber. The information contained in this report is intended to generally describe certain covenant features. This report is not comprehensive, is not confidential to any person or entity, and should not be treated as a substitute for professional advice in any specific situation. Covenant Review, LLC makes no warranty, express or implied, as to the fitness of the information in this report for any particular purpose. If you require legal or other expert advice, you should seek the services of a qualified attorney or investment professional. Covenant Review, LLC does not render, and nothing in this report constitutes, legal or investment advice, and recipients of this report will not be treated or considered by Covenant Review, LLC as clients or customers except as described in the subscription agreement between Covenant Review, LLC and the subscriber. Any covenants discussed herein may be based on those contained in the preliminary offering memorandum or draft credit agreement distributed by the issuer or borrower in connection with the issuance of the bonds or loans, and the covenants published in the final offering memorandum or contained in the final indenture or credit agreement may differ from those presented herein. The reader should be aware that the final interpretation of any bond indenture, credit agreement, security or guarantee agreement, or other bond or loan documents, will generally be determined by the issuer or its counsel, or in certain circumstances, by a court or administrative body.