



CreditSights

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MARKET ALERT: LMT Risk in the Software Sector

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Market Alert: LMT Risk in the Software Sector

The Bottom Line™:

- Down-trading software credits with permissive documents are very susceptible to value-shifting LMTs, with certain issuers consistently screening weakest across all three scoring frameworks.
- Covenant review has re-examined 26 names in the software sector trading below 90% of par to evaluate LMT risk in three broad categories, highlighting which of these names are at the highest and lowest risk of an LMT.

Overview

Many software credits are down-trading on slower growth, uneven cash conversion, tighter refinancing windows, and the looming threat of AI. In these situations, documents, not fundamentals, can often decide outcomes, meaning that names with permissive covenants can manufacture liquidity via uptiers, drop-downs, coercive exchanges, or investor-on-investor structures, redistributing value across the stack. LMT activity remains high and continues to evolve notwithstanding headline decisions, making weak documentation a primary *leading indicator* of where the next transaction may surface.

Down-trading compresses option value for “plain-vanilla” refinancings, pushing sponsors and ad hoc groups toward LMTs. This dynamic is driving higher spreads and lower trading levels, creating an arbitrage incentive for LMT-style exchanges, making sponsors increasingly motivated to use document flexibility to avoid dilutive equity injections and giving lenders facing asymmetric outcomes a preferable option if a subset of creditors cooperates with a sponsor-backed uptier or drop-down.

As a result, software borrowers with permissive documents emerge as natural targets for LMTs, especially if trading levels imply near-term refinancing stress.

With that in mind, we have focused the rest of this piece on: **Which software issuers’ credit documents create the most LMT vulnerability?**¹

We took a deeper look at 26 software credits that have term loans trading at or below 90% of par, as of February 28, 2026. For each of these names we analyzed their credit agreements in four different ways:

1. **LMT Risk (General):** Vulnerability to maneuvers (uptiers, drop-downs, double-dips, etc.) designed to permit companies to utilize flexibility under their debt documents to avoid insolvency.

¹ To clarify, we did not focus on the credits referenced in this report due to impending LMT chatter, we simply screened for TLBs that were trading below 90 to proactively assess the sector broadly.

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Market Alert: LMT Risk in the Software Sector

2. **Investor-on-Investor Maneuvers:** Flexibility to allow one investor group priming or economically disadvantaging another.
3. **Sponsor-on-Investor Maneuvers:** Risk of sponsor-led structures forcing non-consenting lenders into coercive exchanges or primed positions.
4. **Sponsor + Investor-on-Investor Maneuvers:** Risk of the sponsor and a subset of lenders conspiring to harm other lenders.

Across all four categories, we identify the five highest-risk names and five most protective names.

The provisions that we have looked at for each of these names to rank them against each other are below:

Provision	Description	Why it matters in distress
J.Crew / Pluralsight blocker	Prohibits transfer of certain assets to non-guarantor subsidiaries and/or unrestricted subsidiaries; blockers to non-guarantor restricted subsidiaries are sometimes referred to as “Pluralsight” blockers after the June 2024 private credit LMT	Limits drop-down / asset transfer techniques that can set up differential treatment in an exchange and leave non-participating lenders with weakened collateral / guarantor coverage, particularly with respect to material IP.
Chewy	Either establishes that existing guarantors cannot be released unless they cease to be a restricted subsidiary (a “true” blocker) or requires that a guarantor that becomes non-wholly owned can only be released if certain conditions are met (a “qualified” blocker); conditions can include having sufficient investments capacity and whether the underlying transaction was with an affiliate or if it had a bona fide purpose	Limits transfers of valuable assets to excluded subsidiaries / subsidiaries outside the credit group (value leakage / structural subordination).
Serta	Most commonly takes the form of requiring heightened consent to acquiesce to subordination (often consent of “directly and adversely affected” creditors) of payment and lien priority	Restricts non-pro rata uptier / priming transactions that advantage a participating subset of lenders.
Serta buyback process	Can take the form of “dutch auction”, open market purchases or include language explicitly permitting privately negotiated transactions	Tightens repurchase / exchange mechanics so they can’t be used to run coercive, non-pro rata exchanges among lenders without making an open market offer that any lender can see in a third-party trading service.

Market Alert: LMT Risk in the Software Sector

Vote-rigging / Incora	Prohibits incremental creditors (e.g., add-on lenders under a credit agreement's accordion) from being counted in voting thresholds for any concurrently sought amendment	Prevents disenfranchisement / affiliate voting tactics used to force amendments or exchanges and incurrence of incremental debt to rig a vote.
Double dip/ At Home	Typically requires any intercompany debt owed by the borrower or guarantor to a non-guarantor to be subordinated in right of payment and/or collateral, which effectively shuts off the secondary claim May explicitly prohibit debt incurrences designed to create multiple claims in bankruptcy arising from a single debt issuance or prohibit unrestricted subsidiaries from owning debt or equity of, or having liens on the assets of, restricted subsidiaries	Limits structures that let a subset capture multiple claims on the same value via guarantee / collateral layering.

In addition to the above classic LMT blockers, we have also looked at the following provisions:

Provision	Why it matters in distress
Buybacks limited to cash	Prevents paper-for-paper exchanges that can create winners / losers across the lender group.
Intercompany debt subordination required	Ensures the intercompany claims can't be elevated, pledged, or sold in ways that prime existing lenders.
Inside maturity	Limits incremental / senior / pari debt that matures earlier and creates pressure dynamics benefiting a lender group with an inside maturity.
MFN protection	Prevents later pari passu debt from being issued with better economics (typically based on all-in yield) than existing lenders.
Anti-cooperation	Limits cooperation agreements that enable a subset to coordinate coercive LMTs or control votes / process.
Voting cap	Caps voting power to reduce the ability of a concentrated holder / group to force certain outcomes that may be detrimental to other lenders.
Uncapped intercompany investments	Allows unlimited investments / transfers to non-guarantors that can siphon value away from the lender group.
Asset sale sweep stepdown	Permits erosion of mandatory prepayments over time and preserves deleveraging discipline.

Market Alert: LMT Risk in the Software Sector

Annual basket carry forward / back

Permits warehousing unused capacity that can later fund leakage, priming, or incremental leverage.

Pick-your-poison

Allows converting restricted payment capacity into debt capacity, increasing leverage / optionality outside traditional debt baskets.

High-watermark EBITDA

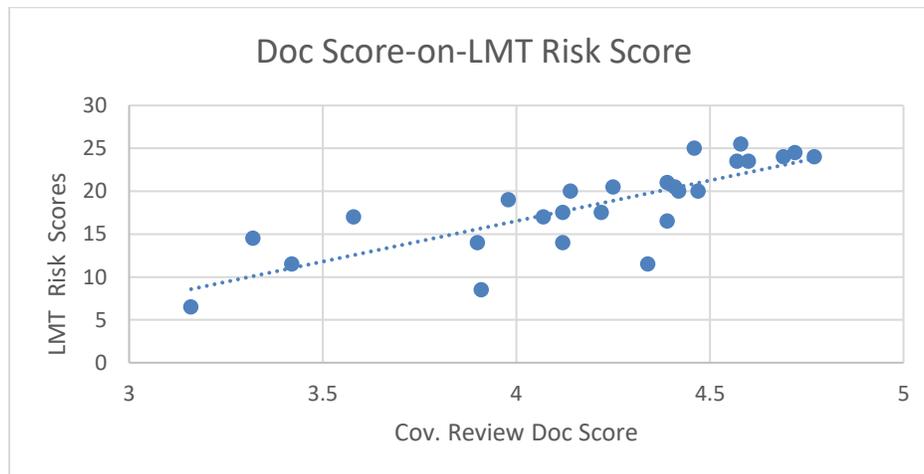
Permits permanent inflation of EBITDA for leverage / basket tests, which would otherwise boost capacity even after earnings fall.

Anti-law-firm

Typically restricts lenders' choice of counsel / coordination, weakening lender organization in workouts / LMTs (formulation-dependent).

General LMT Risk

As you can see from the chart below, a high covenant review documentation score is highly correlated to the document being high risk for an LMT.²



Going one step further, of the 26 names we evaluated, we have ranked them by LMT Risk Score and identified which of these names are at the highest and lowest risk of an LMT generally, as shown in the table below.

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of all of the forgoing provisions. With respect to the score, the more risk that the document allowed for with respect to each provision, the higher value, measured for each provision (the “LMT Risk Score”).

² As a refresher, [Covenant Review Documentation Scores](#) are measured on a scale of 1 (strongest protection) to 5 (weakest protection).

Market Alert: LMT Risk in the Software Sector

Borrower	Cov Review Doc Score	LMT Risk Score
Perforce Software	3.16	6.5
Perforce Software (Incremental)	3.91	8.5
Watchguard Technologies	3.42	11.5
Confluence Technologies	4.34	11.5
SonicWall	3.9	14
SolarWinds Inc	4.12	14
SkillSoft	3.32	14.5
Verint Systems	4.39	16.5
Kofax	3.58	17
Syncsort	4.07	17
Veracode	4.12	17.5
End User Computing	4.22	17.5
Corel Corporation	3.98	19
PlanView	4.14	20
SmartBear Software	4.42	20
Connectwise LLC	4.47	20
ION Platform Finance	4.25	20.5
Cornerstone OnDemand	4.41	20.5
Qlik Technologies	4.39	21
Dragon Buyer	4.57	23.5
KnowBe4 Inc	4.6	23.5
McAfee	4.69	24
Sovos Compliance	4.77	24
Quartz Acquireco	4.72	24.5
Mediaocean	4.46	25
Cloudera Inc	4.58	25.5

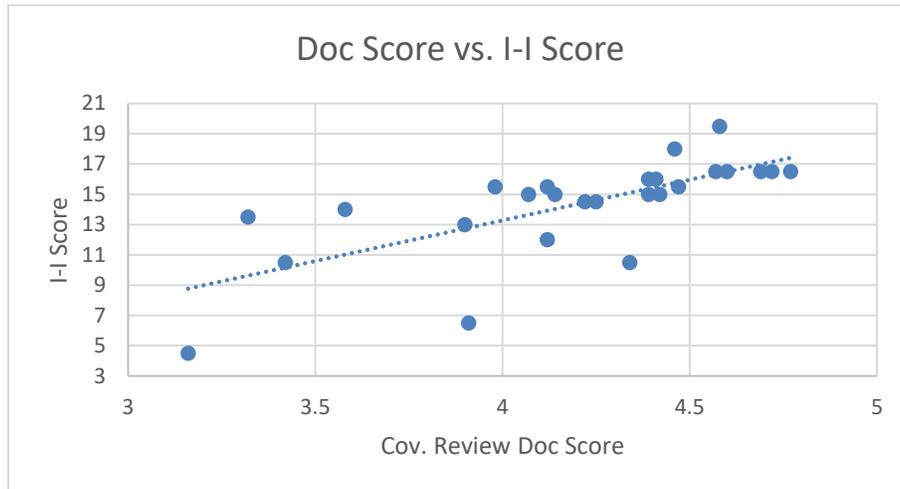
Investor-on-Investor Maneuvers

Next, we looked at these documents to evaluate which of these were at the greatest and least risk of being the target of an Investor-on-Investor LMT, where a subset of lenders receives better collateral, priority, economics, or maturities than non-participating lenders.

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: J.Crew / Pluralsight blockers, Serta, Serta buyback process, buybacks limited to cash, vote-rigging blockers, double-dip blockers, intercompany debt subordination required, inside maturity, MFN protection, anti-cooperation, and voting cap (the “I-I Score”).

As illustrated below, a high covenant review documentation score is still very highly correlated to a risk of investor-on-investor LMT susceptibility.

Market Alert: LMT Risk in the Software Sector



The 26 names below illustrates which are at the highest and lowest risk of these types of transactions:

Loan Name	Cov Review Doc Score	I-I Score
Perforce Software	3.16	4.5
Perforce Software (Incremental)	3.91	6.5
Watchguard Technologies	3.42	10.5
Confluence Technologies	4.34	10.5
SolarWinds Inc	4.12	12
SonicWall	3.9	13
SkillSoft	3.32	13.5
Kofax	3.58	14
End User Computing	4.22	14.5
ION Platform Finance	4.25	14.5
Syncsort	4.07	15
PlanView	4.14	15
Verint Systems	4.39	15
SmartBear Software	4.42	15
Corel Corporation	3.98	15.5
Veracode	4.12	15.5
Connectwise LLC	4.47	15.5
Qlik Technologies	4.39	16
Cornerstone OnDemand	4.41	16
Dragon Buyer	4.57	16.5
KnowBe4 Inc	4.6	16.5
McAfee	4.69	16.5
Quartz Acquireco	4.72	16.5
Sovos Compliance	4.77	16.5
Mediaocean	4.46	18
Cloudera Inc	4.58	19.5

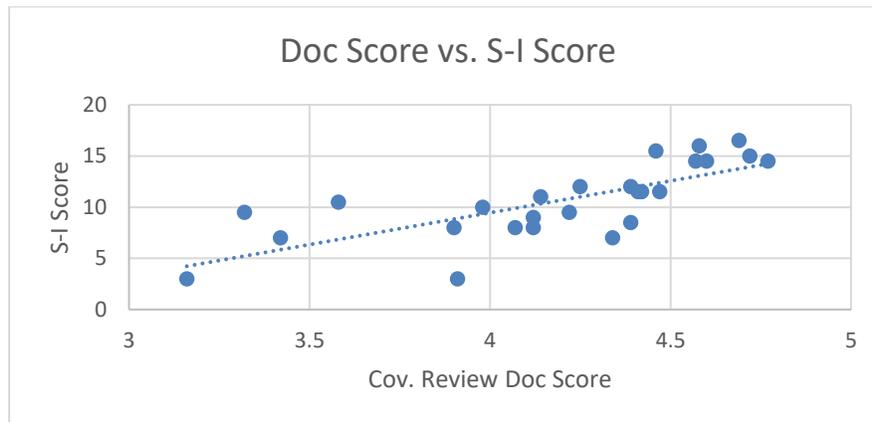
Market Alert: LMT Risk in the Software Sector

Sponsor-on-Investor Maneuvers

Next, we looked at these documents to evaluate which of these were at the greatest and least risk of being the target of a Sponsor-on-Investor LMT, where the issuer / sponsor shifts value away from the lender group as a whole (typically by moving assets outside the credit group, adding structural / priming leverage, or increasing capacity / leverage through covenant flexibility).

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: Chewy blockers, uncapped intercompany investments, asset sale sweep stepdown, annual basket carry forward/back, pick-your-poison, high-watermark EBITDA, and anti-law-firm provisions (the "S-I Score").

As illustrated below, a high covenant review documentation score is still very highly correlated to a risk of sponsor-on-investor LMT susceptibility.



Market Alert: LMT Risk in the Software Sector

The 26 names the below illustrates which are at the highest and lowest risk of these types of transactions:

Loan Name	Cov Review Doc Score	SI Score
Perforce Software (Incremental)	3.91	3
Perforce Software	3.16	3
Confluence Technologies	4.34	7
Watchguard Technologies	3.42	7
SonicWall	3.9	8
Syncsort	4.07	8
SolarWinds Inc	4.12	8
Verint Systems	4.39	8.5
Veracode	4.12	9
SkillSoft	3.32	9.5
End User Computing	4.22	9.5
Corel Corporation	3.98	10
Kofax	3.58	10.5
PlanView	4.14	11
SmartBear Software	4.42	11.5
Cornerstone OnDemand	4.41	11.5
Connectwise LLC	4.47	11.5
ION Platform Finance	4.25	12
Qlik Technologies	4.39	12
KnowBe4 Inc	4.6	14.5
Dragon Buyer	4.57	14.5
Sovos Compliance	4.77	14.5
Quartz Acquireco	4.72	15
Mediaocean	4.46	15.5
Cloudera Inc	4.58	16
McAfee	4.69	16.5

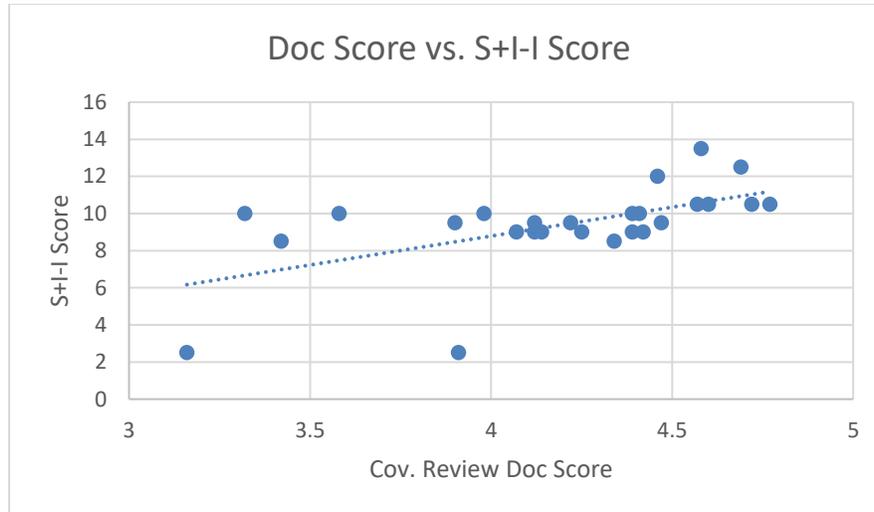
Sponsor + Investor-on-Investor Maneuvers

Finally, we looked at these documents to evaluate which of these were at the greatest and least risk of being the target of a Sponsor + Investor-on-Investor LMT, where the issuer / sponsor teams up with a subset of lenders, intending to harm another group of lenders.

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: J.Crew / Pluralsight blockers, Serta, Serta buyback process, vote rigging / Incora blocker, double-dip blocker, intercompany debt subordination required, anti-cooperation, and voting cap provisions (the “S+I-I Score”).

Market Alert: LMT Risk in the Software Sector

As illustrated below, a high covenant review documentation score is still correlated to a risk of Sponsor + Investor-on-Investor LMT susceptibility.



The 26 names the below illustrates which are at the highest and lowest risk of these types of transactions:

Loan Name	Cov Review Doc Score	S+I Score
Perforce Software (Incre	3.91	2.5
Perforce Software	3.16	2.5
Confluence Technolog	4.34	8.5
Watchguard Technologi	3.42	8.5
SmartBear Software	4.42	9
PlanView	4.14	9
Verint Systems	4.39	9
ION Platform Finance	4.25	9
Syncsort	4.07	9
SolarWinds Inc	4.12	9
SonicWall	3.9	9.5
Veracode	4.12	9.5
End User Computing	4.22	9.5
Connectwise LLC	4.47	9.5
SkillSoft	3.32	10
Kofax	3.58	10
Cornerstone OnDemand	4.41	10
Qlik Technologies	4.39	10
Corel Corporation	3.98	10
KnowBe4 Inc	4.6	10.5
Dragon Buyer	4.57	10.5
Quartz Acquireco	4.72	10.5
Sovos Compliance	4.77	10.5
Mediaocean	4.46	12
McAfee	4.69	12.5
Cloudera Inc	4.58	13.5

Market Alert: LMT Risk in the Software Sector

Conclusion

Taken together, with the sector-wide down-trading we see a clear correlation between weak documentation and elevated LMT risk. While this analysis highlights which agreements present the greatest and least vulnerability, the underlying mechanics vary meaningfully by borrower. Specific questions about how any individual provision operates, interacts with other terms, or could be deployed in practice should be directed to the Covenant Review team for further discussion.

— *Covenant Review*

Market Alert: LMT Risk in the Software Sector

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