



Using Illiquid Business Equity as Leverage for a Project Finance Commitment

SCENARIO TYPE	Direct Capital Principal – Infrastructure-adjacent private business
ASSET CLASS	Illiquid private equity stake, structured lending facility, derivative overlay
RISK FOCUS	Illiquidity of collateral, lender risk requirements, documentation complexity, no disposal event
PRIMARY OFFER	Capital Efficiency Rebuild™
RELEVANT SERVICES	Derivative overlay design · Valuation methodology framework · Structured lending facility · ISDA documentation · Lender negotiation support

THE SITUATION

The principal owned a significant stake in a privately held business operating in the waste management and resource recovery sector. The business was profitable, had predictable cash flows, and had attracted interest from infrastructure funds as a potential acquisition target. It was not for sale.

An opportunity had emerged to commit equity capital to a greenfield project finance deal in the same sector – a long-dated infrastructure asset with a clear offtake structure and government involvement. The economics were compelling. The problem was capital.

The principal had cash, but not enough to fund the commitment at the scale that would give him a meaningful position. His existing business equity represented substantial wealth that was generating a strong return but was entirely illiquid.

His commercial bank had offered a facility but only against the cash flow of the operating business, not against the equity value – and the covenants they required would have constrained the operating business in ways the principal was not prepared to accept.

HOW THE PROBLEM COMPOUNDS

Private business owners at this scale regularly encounter the same structural problem: their wealth is real and growing, but it is concentrated in an illiquid form that the conventional lending market finds difficult to work with.

Banks that lend against private company equity typically require one of three things: a clear exit path within the loan term, personal guarantees that extend well beyond the collateral, or covenants on the operating business that effectively give the bank a degree of control the owner never intended to grant.

None of those options worked here. The business was not going to be sold within the loan term. The personal guarantee appetite was limited. And the covenant structure being proposed was incompatible with the operating flexibility the business needed.

The co-investors were institutional with a closing timeline. If committed capital could not be demonstrated within that window, the allocation would be reallocated. The pressure was real. The options through conventional channels were inadequate.

WHAT TYPICALLY BREAKS

Lenders cannot value illiquid equity

Without mark-to-market valuation, lenders cannot run standard margin maintenance tests. Without that, they require personal guarantees, cross-collateralisation, or operating covenants – each of which introduces risks the borrower did not intend to take.

Operating covenants are control by another name

Covenants that require lender approval for business decisions – capex, dividends, new facilities – are not standard credit protections. They are a degree of influence over the business that no owner voluntarily accepts. They were presented as standard. They were not.

Cross-collateralisation puts the wrong asset at risk

Using the operating business as security for a facility meant to be separate from it exposes assets the principal had deliberately ring-fenced. A lending structure designed for one purpose creates unintended exposure in another.

No adviser who could bridge the gap

Commercial lawyer, accountant, relationship bank credit team – none had the structuring background to design a derivative overlay that would give the lender the comfort it needed without creating a new set of economic or governance problems for the borrower.

THE STRUCTURAL INSIGHT

The lender's core problem with illiquid equity collateral is valuation uncertainty. If that uncertainty can be bounded through a derivative overlay, the lender's credit risk changes materially.

A put option on the equity value – structured properly – gives the lender a credible floor below which the collateral cannot fall. That changes the lending conversation from a security of dubious value to a facility with bounded downside. The derivative does not eliminate the illiquidity of the equity, but it eliminates the valuation uncertainty that makes the lender unwilling to lend against it.

The engagement began with a valuation framework for the operating business that could be agreed with both the option counterparty and the lender: a contractually defined methodology – a multiple of EBITDA at specified points in time, with agreed adjustments for specific events – that both parties could apply mechanically without dispute.

Against that framework, a put option was structured with a major bank acting as option counterparty. The premium was structured as a deferred cost rather than an upfront payment, preserving available capital for the project finance commitment. With the put overlay in place, the lender's credit committee approved a facility at a workable loan-to-value ratio. The facility covenants were limited to the collateral itself and did not extend to the operating business.

INTENDED OUTCOMES

- ▶ Project finance commitment funded at meaningful scale without a disposal event, without personal guarantees extending beyond the collateral, and without operating covenants on the business.
- ▶ Derivative overlay cost quantified in advance and clearly less than the return differential between the project finance opportunity and the alternative of leaving capital in cash.
- ▶ Operating business unencumbered – the equity was still held in full with no restrictions on business operations or decision-making.
- ▶ Documented framework for future transactions – ISDA documentation, valuation methodology, and lender relationship in place as infrastructure for the next capital deployment decision.

WHERE THIS APPLIES

Most relevant where a principal holds a material stake in a private business with demonstrable earnings and cash flow; has an investment opportunity requiring capital beyond what is available in liquid form; and conventional lending channels are either unavailable or require protections that are unacceptable.

Less relevant where the private business is early-stage or has highly variable earnings; the investment opportunity is speculative rather than cash-flow-backed; or the deal timeline does not allow sufficient time to construct the overlay and lending structure properly.

TYPICAL ENGAGEMENT PATH

Capital Efficiency Rebuild™ – private equity collateralisation and lending facility design.

Secondary: Structuring-as-a-Service™ for the derivative overlay design, valuation methodology framework, ISDA documentation, lender negotiation support alongside legal counsel.

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