

Capital Structures & Debt Products

A two-day case study based workshop focusing on the use of forecasts to evaluate and structure complex funding solutions, incorporating tools to identify appropriate debt levels and setting meaningful terms and conditions across a range of funding instruments.

TARGET AUDIENCE

Red Banking and finance professionals involved in credit risk management, origination, structuring or relationship / portfolio management of companies actively managing their capital structures.

COURSE OBJECTIVES

The overall goal of this two-day workshop is to sharpen the analytic skills of participants so that they evaluate and structure complex funding strategies for both new business opportunities and in context of re-financing existing debt. The workshop will use lessons learned during the credit crisis to quantify sustainable debt levels in the current economic climate. The focus is on creating robust forecasts to use as a key tool in recommending an appropriate capital structure.

Participants will be equipped to:

- Model a company's future debt servicing ability based on cash-flow forecasts and sensitivities which are realistic, consistent and supportable in the current economic climate.
- Quantify sustainable debt levels in context of business strategy, market conditions and potential corporate actions.
- Understand the relative advantages and disadvantages of various debt instruments and the factors influencing their choice.
- Structure funding solutions using bank and debt / equity capital market products to meet the commercial and financial needs of the company whilst protecting the Bank's position.

CONTENT

ANALYTIC OVERVIEW

- The goal of this brief section is to establish a structured approach to the analysis of a transaction, whereby participants evaluate the business needs (purpose of transaction) and focus the credit analysis (payback, risks and structure).
- A framework for credit assessment and deal structuring
- Re-financing existing debt: key considerations
- Mergers and acquisition finance: the rationale, key players and motivations of the parties
- Market trends: leverage multiples, capital structures and instruments
- Case study:* (sent as pre-work) - debrief of analysis of illustration case study, conclude on historical performance, set scene for key forecast assumptions.

BUSINESS AND FINANCIAL DRIVERS

- The goal of this section is for participants to use a cash-flow forecasting model to forecast key sector and company specific business drivers and sensitise critical variables to create alternative scenarios.

Forecasting key business drivers: assumption setting

- Macro, sector and firm specific factors which influence strategy
- Anticipating the impact of business drivers on future performance
- Quantifying potential cash-flow impact of other costs and benefits
- Modelling business performance and anticipating free cash-flow
- Testing forecast assumptions for reasonableness: peer analysis

and benchmarking

- Reviewing alternative scenarios: worst, base and breakeven

Forecasting key financial drivers

- Determining the timing and impact of financial obligations
- Impact of interest rate and forex assumptions
- Dividend payments: sustainability of dividend policy

Debt capacity analysis

- Discounted cash-flows to estimate the amount of debt that can be serviced over different time horizons
- Debt capacity vs. borrowing capacity
- Defining breakeven: which factors are most likely to drive down performance
- Illustration Case study:* Set key forecast assumptions and assess debt capacity.

APPROACH TO STRUCTURING FUNDING SOLUTIONS

- The goal of this section is to understand the factors which influence management's decisions regarding how best to manage their company's capital structure and to understand the key features of debt and equity products being used in the current climate.

Capital structures considerations

- Factors which influence a company's choice of funding instruments: shareholder and management motivations: balancing business risk vs. financial risk
- Performance measures (IRR, P/E, TSR, EVA, ROCE) and the impact on funding strategy
- Exercise using performance measures*

Debt profile

- Using cash-flow forecasts to structure term debt: amount, currency, tenor, drawdown and repayment profile
- Controlling lending amounts through borrowing base structures
- Evaluating refinancing as a source of repayment.

Ranking

- Legal, structural and economic subordination
- Identifying the borrower and its position in the corporate structure
- Establishing and maintaining ranking
- Assessing the need for support and alternative means for achieving it
- The role of security, guarantees and third part support.

Safeguards

- Key purposes of safeguards
- Defining the lender and borrower position and objectives
- Balancing and protecting the positions of all lenders and stakeholders
- Defining safeguards as a means to minimise the risks and provide early warning signals
- Setting financial covenants at appropriate levels
- Stress testing to ensure appropriate levels of attainment and trigger covenants.
- Exercise:* choosing suitable covenants

Pricing

- Assessing risk return profiles: avoiding equity risks for debt returns
- Using default and recovery statistics to price credit risk
- Using market indicators (bond market yields, CDS) and ratings as a basis for comparison.

DEBT AND HYBRID PRODUCTS

- Bank debt products: forward start agreement, alphabet loans, revolvers, working capital, bridge finance, acquisition, restructuring and CAPEX lines.
- Capital markets products: investment grade and sub investment grade bonds, hybrid products
- Balancing borrower, lender and investor preferences.
- *Exercises and examples relating to several funding products.*

CORPORATE APPLICATIONS

- The goal of this section is to use forecasts to recommend an appropriate funding structure, to identify the embedded risks, and to explain to what extent such risks are acceptable to the Bank. This will be done in context of an M&A transaction and a re-financing situation.

Funding considerations for corporate actions

- Features of M&A: strong cash-flow generating ability: right price, resilient cash-flows, ability to extract synergies and integrate, well structured debt repayment
- Funding solutions: quantum of debt, debt profile, ranking and safeguards
- Alternative funding sources to bank debt: bonds, securitisation, private placement
- Recognising inappropriate funding packages: lessons learned
- The need for robust terms and conditions / sensible debt levels
- *Illustration case study: approving a funding package for an acquisition and recommending minimal level of protections / term and conditions.*

Re-financing existing debt

- Determining which companies warrant support
- Sustainable debt levels in context of sector and company specific considerations
- Equity support: timing, amount and cost
- Alternative funding sources to bank debt: bonds, securitisation, private placement
- Proposing terms and conditions: ensuring proper remuneration and protections
- *Case study: justifying the re-financing packaging.*

Learning Paths



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