Capital Structures: Impact on Creditworthiness

The aim of this two-day workshop is to hone the analytic skills of the participants to equip them to scrutinise the financial strategy and funding structure of a company and the potential impact on overall creditworthiness.

TARGET AUDIENCE

For fixed income professionals, lending bankers, and other finance professionals working in credit risk management and credit products areas, including relationship management and debt origination. Participants should have a firm grasp of accounting.

COURSE OBJECTIVES

Participants will be equipped to:

- Evaluate the key structural features of a company's financial obligations and their potential effect on financial flexibility, cash-flows and credit quality / rating
- Understand how to assess various types of debt instruments: advantages / disadvantages to the issuer / investor, and when using the instrument is appropriate
- Identify the key drivers of company and sector performance to assess its ability to meet obligations and determine appropriate funding structure
- Consider how the level of indebtedness might affect liquidity and impact business strategy and growth.

CONTENT

ANALYTIC OVERVIEW

- Purpose: payback: business needs to determine debt structure
- Funding alternatives and market access: selecting debt instruments
- Cash-flow forecasts to determine the appropriate debt structure
- Identifying the repayment source(s) and creating a structure that address the key risks
- Bank lender's perspective: optimising protection

SCRUTINISING THE APPROPRIATENESS OF THE CAPITAL STRUCTURE

- Cash-flow profile – operating needs versus excess cash
- Striking a balance between business risk and financial risk
- Key considerations in selecting funding instruments
- Identifying when liquidity becomes a key structural consideration
- Calculating a company's liquidity requirements
- Evaluating alternative repayment sources
- Market conditions: access to products, required degree of structural protection

EVALUATING DEBT STRUCTURES AGAINST FUTURE CASH FLOWS

- How a company's financial performance impacts credit ratings, market access and lending terms and conditions
- Identifying cash-flow characteristics of industries / companies
- LBOs – what are they and why are they attractive
- When is leverage appropriate?
- Funding high growth companies
- Funding companies with high capex needs

UNDERSTANDING THE VARIOUS FORMS OF DEBT FINANCING

- The needs of the providers of debt
- What are lenders looking for and why?
- Refinancing risk: key considerations

Leveraged Loan (Senior Bank Debt)

- When appropriate and key terms and conditions
- Main lenders and the changes in the markets
- Advantages and disadvantages for the borrower
- Risks and benefits for the lenders
- Secured versus unsecured: when and why?

Second Lien Debt

- When appropriate and key terms and conditions
- Advantages and disadvantages for the borrower
- Risks and benefits for the lender
- Risks for other providers of credit

Bridge Loans

- When appropriate and key terms and conditions
- Advantages and disadvantages for the borrower
- Risks and benefits for the lenders

High Yield Bonds

- When appropriate and key terms and conditions
- Registered securities, 144A and privately placed debt
- Advantages and disadvantages for the borrower
- Risks and benefits for lenders / investors

Convertible Bonds and Hybrid Securities

- When appropriate and key terms and conditions
- The advantages and disadvantages for the borrower
- The risks and benefits for the lenders
- The ratings agencies' view on hybrid securities

Securitization

- Basic structures and when appropriate
- Advantages and disadvantages for the borrower
- Risks and benefits for the lenders

SENIORITY

- Identifying the borrower and its position in the corporate structure
- Legal and structural subordination
- Recognising economic subordination
- Establishing and maintaining ranking

ESTABLISHING SAFEGUARDS

- Key purposes of safeguards
- Defining the lender and borrower positions and objectives
- Maintenance versus incurrence covenants
- Assessing safeguards: balancing client and bank objectives.

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