

# 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.

