



## Corporate Failure - Early Warning Signs

While credit defaults have been at historically low levels, corporate failures, due to uncertainties in the economy and financial markets, appear to be increasing. Participants in this course learn the skills necessary to proactively identify companies that may be experiencing financial problems, using the latest market tools available to effectively monitor performance.

### Targeted Audience

Credit and financial analysts, credit officers, credit managers and investment managers.

### Special Offer

Clients who register for this course will receive a complimentary 4-month subscription to FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. The move to the electronic version follows an ongoing review of our environmental responsibilities as a global business and as part of the Pearson group. FT.com also has features that are not available in hard copy, such as: Special Reports, Alphaville, editor blogs, education sections and much more! Subscriptions will start within 6-8 weeks of the start of class and are limited to one subscription per client. (Please note: as of May 1, 2011, the electronic subscription replaces the hard-copy 3-month Financial Times subscription.)

### Advance Preparation

No advance preparation required.

### Prerequisites

Basic understanding of accounting fundamentals

### Learning Objectives

Students will be able to:

- . Appreciate the importance of the credit cycle
- . Have a better understanding of the current state of the credit markets
- . Gauge company performance using ratio analysis
- . Recognize the effects of accounting irregularities
- . Gain insight into the rating agency approach and the inherent differences with lender/investor analysis
- . Understand the importance of valuation in credit analysis
- . Appreciate the analytical benefits and pitfalls of EBITDA

**Level: Intermediate**

**CPE Credits: 14.0**

**Instructional Method: Group-Live**

## **Detailed Outline**

### **Day One**

#### **Where are we in the credit cycle?**

- . The role of credit analysis & risk management
- . Volatility in the Market Place
- . Overview of default rates
- . Overview of bank write-offs

#### **The Rating Agencies - The Heat is on**

- . The rating agency approach - Rate through the cycle
- . Why rating agencies lag the debt and equity markets
- . The rating outlooks
- . The vicious circle - How rating downgrades can trigger liquidity crises
- . Analysis - the difference between the banks and rating agencies

### **Day Two**

#### **What do the Cash Flows Statements tell us?**

- . Interpreting cash flows
- . Differences between company produced and derived cash flows
- . Factors influencing cash flows
- . Operating cash flow, net operating cash flow, EBITDA
- . Pitfalls of EBITDA
- . Cash flow ratios

#### **Creative Accounting - It's just not Enron and Worldcom**

- . Sunbeam
- . Waste Management
- . Cendant

## **Causes of Decline - Industry and Corporate Analysis**

- . Utilizing a risk evaluation framework
- . Economic and Industry outlook
- . Company specific analysis
- . The Porter Model
- . The Dupont Model
- . Review of Management

## **Chills in the Balance Sheet Shadows**

- . The business cycle and working investment
- . Financial flexibility - access to the markets
- . Analyzing goodwill and intangibles - what are they worth?
- . Off balance sheet items
- . Leases, partnerships, contingent liabilities

- . Is there a common thread?

## **Market Factors**

- . What does the share price have to do with the loan
- . Overview of Corporate Finance theory regarding stock valuations
- . The reaction of the bond markets
- . The use of KMV and Credit Grades
- . Other market clues for signs of distress

## **Distress signs identified - what to do next?**

- . Documentation and communication
- . Covenant compliance and tracking
- . How to reduce the risk
- . The role of credit derivatives

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