



Advanced Credit Risk Analysis

Using real life case studies and practical exercises, this course focuses on how to improve credit risk management; highlights early warning signs and creative accounting; compares and contrasts investment grade issuers vs. high yield issuers; underscores the importance of valuation in credit analysis, examines the current state of the market and uses quantitative market tools.

Available Session(s):

16-Sep-2008 -- 18-Sep-2008 Stamford USD \$3275
NY Institute of Finance - 9:00am - 4:30pm Tue Wed Thu
Stamford, CT

Instructor(s):[Henry Pullman;]

03-Dec-2008 -- 05-Dec-2008 New York USD \$3275
NY Institute of Finance - 9:00am - 4:30pm Wed Thu Fri
Midtown

Instructor(s):[Henry Pullman;]

Targeted Audience

Financial analysts, portfolio managers, credit officers, commercial bankers, loan and lending professionals, and credit risk managers.

Special Offer

Clients who register for this course will receive a complimentary 6 month subscription to the Financial Times and FT.com. The Financial Times is the world's most respected financial newspaper providing a broad assessment on finance, business and the industrial sector. Subscriptions will start within 6-8 weeks of the application process, and are limited to one per client. For questions about your subscriptions call 800-628-8088 or email uscirculation@ft.com. US and Canada enrollees only.

Advance Preparation

No advance preparation required.

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
- Compare and contrast investment grade issuers vs. high yield issuers
- Gauge company performance using ratio analysis
- Understand the relationship between qualitative and quantitative aspects of a credit analysis
- Recognize the effects of accounting irregularities
- Gain insight into the rating agency process
- Understand the importance of valuation in credit analysis
- Become familiar with various market tools
- Be conversant with various valuation models
- Sharpen forecasting skills

Level: Advanced

CPE Credits: 21.5

Instructional Method: Group-Live

Detailed Outline

Day One: Credit Risk Assessment - Investment Grade Companies

Session One: Where are we in the credit cycle?

The role of credit analysis & risk management

- Review of recent high profile bankruptcies and defaults of former investment grade companies
- Fundamentals are back at the fore in today's market
- Techniques for analyzing the credit cycle
- The growing role of credit analysis and risk management since the late 90's

Volatility in the Market Place

- Review of debt market volatility
- Impact of increased volatility; greater

Day Two: Credit Risk Assessment - LBO's and High Yield

Session One: Review of market trends

- Size of high yield / LBO market
 - What is investor appetite for high yield / LBO in current market?
 - High yield vs. LBO differentiating factors; rationale for use and some advantages and disadvantages of combination financings
 - Trading of bank debt investment grade and high-yield
- Exercise: Why did Amerco pull its senior note offering?*

Session Two: Evaluation of the borrower/issuer

- Industry and company dynamics, what industry and company characteristics do investors and lenders seek?

requirement for portfolio adjustment, investment fund shift towards less risky investments to maintain set volatility parameters

Overview of default rates and recovery rates

- Global default statistics analysis of frequency of defaults and speed of migration from investment grade to defaulting credit
 - Recovery rates analysis of trends, what does the secondary market show?
 - Global liquidity review, what is the appetite for stocks at the lower investment grade levels? Response of fund managers to bonds approaching sub investment grade, effect on spreads
- Group discussion: Enron and Worldcom what has been the impact on the market?*

Session Two: The Rating Agencies

- Definitions of default - Banks, rating agencies and ISDA
 - Analytical differences the banks and the rating agencies; ratings based on senior unsecured lending position of a bondholder; banks can alter risk profile e.g. structuring with triggers, taking security and step ups in the event of a downgrade
 - The rating agency approach rate through the cycle; rationale and implications
 - Examples where rating agencies lagged the debt and equity markets e.g. Asian sovereign debt crisis of '97, Tyco, Vivendi, Argentina. Trainer facilitated group discussion: Should the rating agencies move towards more frequent ratings?
 - The viscous circle - How rating downgrades can trigger liquidity crises
- Exercise: The Credit Cliff*

Session Three: Industry and Corporate Strategy

- Depth and experience of management what are the characteristics of an effective and well-balanced management team?
 - Projected cash flows and stress testing key measures and how to use them
 - Capital structures and their impact on ratings and spreads
 - Rules of thumb for return requirements at the different levels of capital structure
 - Primary and secondary sources of repayment
 - Assessing negative EBITDA companies
- Applied case review: A new LBO*

Session Three: Evaluation of the issue

- Structural subordination; how is this achieved
 - The relationship between senior and subordinated lenders
 - Some practical issues which complicate subordination in default situations
 - The role and influence of the equity holder
 - Bond structures - the value of covenants and other features
 - The value of collateral
 - Default statistics and recovery values
- Exercise: Assessing debt and covenant structures*

Session Four : Early Warning Signs

- Credit Cycle
- Industry
- Financial Statements
- Covenant compliance
- Bank internal warning signs
- Management warning signs
- Fall from investment grade to high yield

Market tools

- Forward looking market tools
 - KMV
 - Creditgrades
 - CreditSights
- Exercise: Using market tools to spot*

- Utilizing a risk evaluation framework: market, industry, company specific, management
- Review of useful approaches: The Porter Model, SWOT analysis, company specific analysis

potential signs of trouble
Group Work: Further case study preparation on Vivendi's acquisition of Universal

Analyzing management

- Strategy overview
- Measuring management results; are management delivering results, signs to look out for and examples:
- Importance of controls on management; e.g. composition of the board, management compensation
- Importance of establishing investor trust in the management team
- Importance of management communication to investors/ lenders, impact of poor communication
- ROE, Market Value, Net Book Value, Enterprise Value can we use these to establish management competence? What are the pitfalls?

Exercise: Where is the Vivendi going?
Critique and comment on the Chairman's letter from Berkshire Hathaway and Vivendi.

Session Four: The Balance Sheet and Income Statements

- The business cycle and working capital
- Working capital financing key principles, CP lines and standby credit facilities access to the markets and dangers for banks / investors
- Analyzing goodwill and intangibles what are they worth
- Off balance sheet items: leases, partnerships, contingent liabilities
- Creative accounting and fraud
- Problems with comparability and consistency of earnings
- Standard and Poor's new view on "Core" Earnings

Exercise: Applying the S&P "Core"

Session Five: The Importance of Cash Flow

- Interpreting cash flows
- Differences between company produced and derived cash flows
- Analysis of cash drivers
- Operating cash flow, net operating cash flow, EBITDA when and how to use the different cash flow measures
- Pitfalls of EBITDA

Exercise: Reviewing cash flow statements and concluding on the firm's financial health.

Group Evening Work: Prepare the case study on Vivendi's acquisition of Universal

Day Three: Group Cases

Session One: Valuations and structuring

- If lending money, why do I need to value a company?
- Use of multiples; Revenue, EBITDA, P/E, P/E to growth
- Asset-based, Net Book Value, Market to Book
- Dividend discount model
- Free cash flow;

Group Exercise: Choosing a valuation method for Vivendi's acquisition of Universal

Session Two: Common cash flow valuation pitfalls

- Determining free cash flow
- Selecting the discount rate
- Projection periods and terminal values
- When growth rates change

Group Exercise: Projecting Vivendi's cash flow

Session Three: Cost of Capital

- Cost of Debt Review; Yield-to-maturity, Impact of taxes, Bank debt, Straight bonds: Fixed vs. floating rate, Convertible bonds
- Cost of Equity Review; Preferred Shares, Common Shares, Dividend Discount Model, Capital Asset Pricing Model
- β
- equity risk premium
- Weighted Average Cost of Capital; recap of methodology

Group Exercise: Calculate the cost of capital and WACC. Participants will recommend and defend an acquisition price for Universal by Vivendi.

Group Case Study: Restructure Vivendi. Participants will present their findings to the class.

For more information regarding administrative policies such as complaints and refunds, please contact our offices at 212-641-6616.