€TRAINING

# Advanced Corporate Credit Analysis

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## Introduction

Corporates are encountering difficulties that are comparable in severity to those encountered during the financial crisis of 2008-2009 as the economic outlook in Europe and the US continues to worsen. Commercial banks and other lending institutions will be vulnerable to significant credit losses if they do not accurately analyze their credit risk exposures and update their forecasting models. This training assists a variety of credit professionals in overcoming the analytical, structure, and forecasting difficulties they now encounter. In order to evaluate, limit, and balance credit risks, we analyze complex accounts, group structures, and scenarios using increasingly sophisticated analytical and structuring tools. We evaluate the relationships between parent and subsidiary credit as well as how to apply notching to layered capital structures.

We also look at debt structuring, including different forms of hybrid capital, ESG-related issuance, and supplier finance, as well as how to assist a borrower in creating an ideal capital structure. In our final section, we go through how to analyze troubled and deteriorating credits, how to recognize early indicators of a credit profile that is deteriorating, and how to reorganize companies that are still viable.

## Course Objectives

At the end of this course, participants will be able to:

- know how firms may manipulate GAAP and non-GAAP figures
- Recommended adjustments to financial statements
- Know Complex group structures
- Understand the credit impact of different consolidation methods
- Understand the credit impact of legal and structural subordination and security
- Understand how different types of hybrid securities are rated and how they can impact credit quality

## Targeted Audience

- Market-side credit analysts
- Credit counterparty risk specialists
- fund managers for fixed income
- Credit analysts in asset management working for the buy-side
- Managers of the sell side of the debt capital markets
- Investing bankers
- Investors in fixed income and credit
- those who sell credit or fixed income
- Directors of private equity
- Treasurers
- Securities analysts and strategists
- Internal auditing personnel and compliance officials
- trades and sells of equity
- Business finance attorneys

## Course Outline

## Unit 1: Advanced financial analysis for complex credits

- How do income statement entries affect the credit analysis and what  adjustments should we make?
- Revenues and costs
- Segmental analysis
- IFRS reported numbers versus management adjustments
- Adjusted EBITDA versus underlying EBITDA; EBITDA add-backs
- Key adjustments to reported numbers
- Can losses be hidden in off-balance sheet vehicles?
- Understanding lease expense post IFRS 16
- Taxation - effective, statutory and marginal rates
- Items in the statement of other comprehensive income

## Unit 2: Balance sheet forecasts and adjustments

- How do balance sheet entries affect the credit analysis and what adjustments should we make?
- Non-current tangible assets
- Intangible assets
- Shareholdings in equity accounted entities
- Deferred tax assets
- Current assets
- Discontinued items
- Current liabilities

Seasonality of Net Working Capital and Manipulating NWC

- Current and non-current provisions
- Deferred revenues - effect of unwinds on liquidity
- Retained earnings from taxes
- Post-IFRS 16 analysis of lease obligations
- Dealing with leases that are still off-balance sheet under IFRS 16
- Differences between a lease and a service agreement
- Unfunded liabilities for retirees
- Subsidiaries' and non-consolidated enterprises' non-recourse debt
- The management of "other creditors"

## Unit 3: Cash ow statement forecasts and adjustments

- How do cash ow statement entries affect the credit analysis and what adjustments should we make?
- Are operating earnings turning into operating cash flow?
- What is the impact on cash ow of NWC changes, provisions, equit accounted entities and other non-cash items?
- Is the firm under or over-investing in maintenance and expansionary capex?
- Are investment forecasts consistent with growth forecasts?
- How are leases dealt with in the cash ow statement, post IFRS 16?
- Can the firm cover debt service, tax and investment spending?
- How are dividends funded? Are they sustainable?
- What is the scope for dividend increases and share buybacks?
- Is the firm reliant on external funding?

Complex group structures and parent and subsidiary rating linkage

- Defining complex group structures
- The credit and rating impacts of partial ownership, a high level of NCI and
- off balance sheet entities
- Proportional debt, earnings and cash ow of entities that are not whollyowned
- Who owns/controls the debt, assets, earnings, cash flows?
- The impacts of different consolidation methods and how to make
- adjustments
- The credit and rating impacts of different types of subordination
- The credit and rating impacts of security packages

## Unit 4: Parent and subsidiary rating linkage

- Credit assessment of groups, the importance of ownership, analysing a
- group
- Non-recourse projects e.g. associates and joint-ventures
- Non-guaranteed subsidiaries
- Captive finance subsidiaries
- Fitch criteria for associates, j/vs, subsidiaries
- Factors that could limit credit risk
- Credit support from third parties
- Guarantees
- Credit enhancement
- Shortfall agreements
- Collateral - value, liquidity, perfection, enforcement
- Analysing and understanding various debt products
- Supplier nance
- Reducing exposure through the use of credit linked notes
- Hybrids instruments

## Unit 5: Debt structuring

- Financial objectives and achieving an optimal capital structure
- Debt capacity and debt tranches
- Analysing distressed firms
- Early warning signs of distress
- What to do in the event of distress and potential restructuring solutions
- Course summary and close