

OBJECTIVES

This course will cover topics including:

- Evaluating the various aspects of fundamental credit analysis for a corporate entity
- Explaining the market view of credit risk
- Incorporating all of the above in developing a sound credit rationale

Course overview: The course will be a combination of lecture, group and individual exercises, and group discussion. One case study will be used throughout the course to highlight specific learning points. S&P Capital IQ's products will be discussed when appropriate.

This course does not teach the Standard & Poor's Ratings Services' Credit Ratings criteria or methodologies. The instructors are independent consultants sourced through our training firm partner, Global Financial Markets Institute, Inc. The instructors teach courses on behalf of S&P Capital IQ and as such, their views do not necessarily reflect the views of S&P Capital IQ.

CPE Credits: 22.5

CFA CE Credits: 18.5

DAY 1

9:00 a.m. – 9:15 a.m.

Course Objectives and Participant Introduction

9:15 a.m. – 10:45 a.m.

Session 1: Overview of Credit and Credit Analysis

The opening session discusses the characteristics and importance of credit analysis. Participants will be exposed to the types of credit risk, the cyclical nature of credit, the need to form a macro view, and to conduct industry and competitive analysis. By the end of this session, course participants should be able to:

- Discuss who uses credit analysis and why
- Define the types of risk a corporate faces including:
 - Issuer, industry, country, daylight, settlement, legal and reputational
- Explain the importance of understanding the credit cycle
 - Review key credit concepts of default probability, severity and exposure at default
- Understand the role of the credit ratings agencies
- Discuss the implications of ratings downgrades and upgrades
 - Discussion of various firms affected by downgrades
- Recognize the need to develop a macro opinion on the market
 - The uses of market commentary and macroeconomic data
- Demonstrate the importance of industry and competitive analysis
 - Explain how the Porter Model and SWOT analysis can assist an analyst
- Discuss the importance of evaluating management

Exercise: SWOT analysis on Office Depot, Inc.

10:45 a.m. – 11:00 a.m.

Coffee Break

11:00 a.m. – 1:00 p.m.

Session 2: Financial Statement Analysis

In this session, participants will see the structure and uses of the key financial statements and how they are related, understand the importance of normalizing and adjusting financials, and apply the concept of working capital. At the end of this session, course participants should be able to:

- Discuss the importance, differences and interrelationships among the key financial statements, and key concepts
 - Income statement, balance sheet and cash flow
 - Definition of EBITDA
- Understand the importance of statement normalization and analytic adjustments
 - Off-Balance Sheet Financing
 - Operating vs. Capital Leases
 - Analyzing goodwill and intangibles – what are they worth?
- Understand the concept and importance of working capital
- Discuss financial flexibility – access to the markets
 - Global Crossing and its lack of refinancing capabilities

Exercise: Construct a generic cash flow statement and contrast net income and cash flow

1:00 p.m. – 2:00 p.m.

Lunch

2:00 p.m. – 3:30 p.m.

Session 3: The Importance of Sustainable Cash Flow and Creative Accounting Practices

In this session, participants will distinguish the difference between various definitions of free cash flow and discuss early warning signs in a firm's financial statements. At the end of the session, course participants should be able to:

- Discuss the definition of free cash flow
- Discuss the importance of arriving at sustainable cash flow
 - What are the key drivers of operating cash flow
 - Common cash flow statement adjustments
 - The differences between Generally Accepted Accounting Principles (GAAP) earnings and free cash flow
 - Examine the various definitions of free cash flow
 - Example: Disney's definition of free cash flow
- Discuss whether the cash flow statement is sacrosanct
- Identify some of the early warning signs of financial statements
- Recognize the warning signs in the income statements and balance sheet
- Identify possible sources of financial statement manipulation
- Review the most commonly used pension accounting acronyms
- Discuss pensions and how a financial statement can be adjusted and massaged

3:30 p.m. – 3:45 p.m.

Coffee Break

3:45 p.m. – 5:00 p.m.

Session 3: Continued

Exercise: Examine AMERCO's (parent company of U-Haul) annual report in an attempt to spot potential early warning signs in a firm's financial statements. Participant teams will discuss the early warning signs.

DAY 2

9:00 a.m. – 10:45 a.m.

Session 4: Corporate Funding and Structuring

In this session, participants will learn about corporations' various funding needs and the vehicles available to them. Identify and understand the factors that drive a corporation's funding decision-making. By the end of this session the course participants should be able to:

- Examine the different types of funding sources and uses
 - Banks, investment banks, hedge funds, private equity – how are they different and similar
- Describe the different banking and capital market products that are available to fund corporate needs
 - Debt, equity and hybrid – short-term and long-term products
- Discuss the various theories of a firm's capital
 - Pecking Order Theory
 - Static trade off
 - Debt vs. equity mix
- Evaluate Weighted Average Cost of Capital (WACC) implications (the tax benefits of debt)
- Identify and discuss the factors that impact the cost of funding, including:
 - Creditworthiness, covenants and collateral, bond insurance
 - Capital structure (secured vs. unsecured, senior vs. subordinated)
 - Corporate structures (structural subordination)

10:30 a.m. – 10:45 a.m.

Coffee Break

10:45 a.m. – 11:30 a.m.

Session 4: Corporate Funding and Structuring (cont'd)

Exercise: Evaluate Office Depot, Inc. position and options in the event of financial difficulty

11:30 a.m. – 12:30 p.m.

Session 5: Primer on Valuations

In this session, participants will distinguish between the equity markets, and the credit markets as to how to value a firm. By the end of this session the course participants should be able to:

- Compare equity valuations vs. internal valuations
 - Explore different valuation methods including Discounted Cash Flow, Market Comps. and Multiples
- Examine financial forecasting techniques, including
 - Balance sheet, income statement, cash flow statement
 - Multi-year forecasts

- Sensitivity analysis
- Trend analysis
- Common size statements

12:30 p.m. – 1:30 p.m.

Lunch

1:30 p.m. – 2:00 p.m.

Session 5: Primer on Valuations (cont'd)

Exercise: Identify key industry drivers and metrics (For example, Telecom, Home Builders, Airlines, Consumer Products, Mining Companies, etc.) and compare with Office Depot, Inc. metrics

2:00 p.m. – 3:00 p.m.

Session 6: The Importance and Limitations of Ratio Analysis

In this session, participants will demonstrate the pitfalls and merits of ratio analysis. By the end of this session, course participants should be able to:

- Explain the importance of key credit ratios
 - Profitability, liquidity, operational, and leverage ratios
 - Contrast different ratios for different industries (financial, utility, telecom, etc.)
- Contrast peers (GICS peers or custom peers) via key credit ratios of peer group, as well as sector averages
- Assess the financial health of unrated companies through ratio analysis
- Calculate Debt Service Capacity and overall Debt Capacity

3:00 p.m. – 3:15 p.m.

Coffee Break

3:15 p.m. – 5:00 p.m.

Session 6: The Importance and Limitations of Ratio Analysis (cont'd)

Exercise: Interpret and analyze the findings from a ratio analysis of Staples, Inc. against its industry peers

DAY 3

9:00 a.m. – 10:30 a.m.

Session 7: The Market View of Credit Risk

In this session, participants will be introduced to the different ways that a corporate can be analyzed. By the end of this session, course participants should be able to:

- Define Credit Default Swaps (CDS) single name and Index contracts and describe their corresponding markets
- Differentiate between CDS index contracts: CDX, iTraxx and S&P
- Analyze market view of credit risk in terms of:
 - Bond prices/Spreads
 - Credit default swaps
- Analyze CDS spreads in the context of CDS Indices
- Define a CDS-based Market Derived Signal and compare to a Fundamental Credit Rating

10:30 a.m. – 10:45 a.m.

- Discuss trading strategies for single name CDS and CDS indices

Coffee Break

10:45 a.m. – 12:00 p.m.

Session 8: Assessing Relative Value in Corporate Credit

In this session, participants will be able to interpret relative value and trends in corporate credit markets. In this session they will experience how credit fundamentals drive relative value, discuss the usefulness of quantitative models, learn to interpret market signals and information, and appreciate the process of identifying mispriced bonds. By the end of this session, course participants should be able to:

- Review principal risk measures
- Explain the fundamentals of bond pricing
- Explore the components of market and credit risk
- Discuss the evolution of credit default models in the marketplace
- Explore reduced form probability of default models and interpretation of results
- Explain risk neutral default probability and expected loss in relation to credit spreads

12:00 p.m. – 1:00 p.m.

Lunch

1:00 p.m. – 2:30 p.m.

Session 9: Develop and Defend a Credit Rationale

After thoroughly analyzing Office Depot, Inc., in this session participants will be asked to formulate and defend their analysis. By the end of this session, course participants should be able to:

- Discuss how credit analysts form a rationale and what the results may be
- Make better-informed business and financial decisions by developing a relative attractiveness assessment from all of the previous sessions
- Analyze both qualitative and quantitative factors

Exercise: Apply the learning objectives to develop and present a sound credit rationale utilizing the team-based case study

2:30 p.m. – 2:45 p.m.

Coffee Break

2:45 p.m. – 4:30 p.m.

Group Presentations

4:30 p.m. – 5:00 p.m.

Course feedback and close

Course agenda is subject to change without notice.

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