

Developing a Corporate Credit Rationale

December 9-10, 2009

Standard & Poor's, 55 Water Street, New York, NY

Objectives:

This course will help participants to be able to:

- Evaluate the various aspects of fundamental credit analysis for a corporate entity
- Explain the market view of credit risk
- Incorporate 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. Standard & Poor's products will be discussed when appropriate.

CPE Credits: 15.5

Day 1

9:00 a.m. - 9:15 a.m.

Course Objectives and Participant Introduction

9:15 a.m. – 10:30 a.m.

Session 1: Overview of Credit and the Credit Markets

The opening session discusses the importance of credit analysis. Participants will appreciate the cyclical nature of credit and the impact on the global financial markets. By the end of this session the course participants will 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, reputational, etc.
- Explain the importance of understanding the credit cycle
 - Review key credit concepts of default probability, severity and exposure at default
- Discuss and debate the different credit default models in the market today
 - Present data on above key concepts to understand the impact of credit cycles, historical volatility and where we are now

Exercise: Identify different types of risk and discuss the default probability in the Staples, Inc.

10:30 a.m. – 10:45 a.m.

Coffee Break

10:45 a.m. – 11:45 a.m.

Session 2: Credit Evaluation from the Top Down

Participants will appreciate the need to analyze a company not only for its' specific financial statements, but put them into context within the larger market. By the end of this session the course participants will be able to:

- Recognize the need to develop a macro opinion on the market
 - The use of commentary from S&P's Chief Economist
 - The use of topical commentary from Market, Credit & Risk Strategies
 - External macro data (GDP, Fed Funds Rate, CPI, etc.)
 - Influence on cyclicals vs. non-cyclicals
- Demonstrate the importance of industry and competitive analysis
- Discuss the importance of evaluating management
- Explain how the Porter Model and SWOT analysis can assist the analyst

Exercise: SWOT analysis on Staples, Inc.

11:45 a.m. – 12:45 p.m.

Lunch

12:45 p.m. – 3:30 p.m.

Session 3: Funding a Corporate: The Importance and Limitations of Historical Financial Analysis

Appreciate the various funding vehicles and products available to a corporate issuer and the benefits and limitations of each. By the end of this session the course participants will be able to:

- Examine the different types of funding sources and uses a company has
 - Banks, Investment banks, Hedge funds, Private equity – how are they different and similar
- Describe the different banking and capital market products that are available for a corporate issuer
 - Loans vs. bonds
 - Lines of credit, letters of credit, and the various types of long term financing
- Discuss the relative benefits of equity vs. debt funding
 - Various theories (pecking order theory, static trade off)
- WACC implications (tax benefits of debt)
- Discuss the importance and difference between the key financial statements
 - Income statement, balance sheet and cash flow differences and interrelationships
 - The importance of working capital
 - What does EBITDA mean and not mean
- Importance of statement normalization, possible sources of Financial Statement manipulation
 - Pensions
 - Off-Balance Sheet Financing
 - Operating vs. Capital Leases

Exercise: Construct a cash flow statement and contrasting net income and cash flow.

3:30 p.m. – 3:45 p.m.

Coffee Break

3:45 p.m. – 5:00 p.m.

Session 4: The Importance and Limitations of Ratio Analysis

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

- Explain the importance of key credit ratios
 - Liquidity, leverage, profitability, etc.
 - Contrast the different ratios for different industries (financial, utility, telecom, etc.)

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

Day 2

9:00 a.m. – 10:00 a.m.

Session 5: Various Funding Structures

Participants will appreciate different structures and their merits and limitations. By the end of this session the course participants will be able to:

- Recognize the different debt structures and pricing in loans and bonds
 - Secured vs. unsecured
 - Senior debt, subordinated debt
 - Structural subordination
 - Convertible bonds
 - Bond insurance
- Discuss the role of covenants and collateral and the impact on loan and bond pricing

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

10:00 a.m. – 10:45 a.m.

Session 6: Equity vs. Debt Markets – a Primer on Valuations

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 will be able to:

- Compare equity valuations vs. internal valuations
 - Explore the different valuation methods including DCF, Market Comps and Multiples
- Examine financial forecasting techniques
 - Balance sheet, income statement, cash flow statement
 - Multi-year forecasts
 - Sensitivity analysis
 - Trend analysis
 - Common size statements

Exercise: Identify key industry drivers and metrics (for example, Telecoms, Home Builders, Airlines, Consumer Products, Mining Companies, etc.) and compare with Staples, Inc. metrics

10:45 a.m. – 11:00 a.m.

Coffee Break

11:00 a.m. – 12:00 p.m.

Session 7: Peer and Market Views of Credit Risk

Participants will appreciate the different ways that the corporate can be analyzed. By the end of this session the course participants will be able to:

- Contrast peers (GICS peers or custom peers) via key credit ratios of peer group, as well as sector averages
- Illustrate the concept of pre-adjusted vs. credit-adjusted financials
- Examine market view of credit risk
 - Analyze the concept of CDS Spreads and their measures as delivered by CDS Indices
 - Demonstrate the value of S&P CDS Commentary
 - Describe the ability to compare CDS based Market Derived Signal vs. a Fundamental Credit Rating

Exercise: Compare bond pricing and ratings for a given peer group against the Staples, Inc. including reference data that may be pertinent to the analysis

12:00 p.m. – 1:00 p.m.

Lunch

1:00 p.m. – 4:45 p.m.

Session 8: Develop and Defend a Credit Rationale

After thoroughly analyzing Staples, Inc., participants will be asked to formulate and defend their analysis. By the end of this session the course participants will 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 above
- 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.

1:00 p.m. – 2:30 p.m. Group Case Preparation

3:30 p.m. – 3:45 p.m.

Coffee Break

2:30 p.m. – 4:45 p.m. Group Presentations

4:45 p.m. – 5:00 p.m.

Course feedback and close

**Course agenda is subject to change without notice.*

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