Problem Loans & Distressed Debt Restructuring 3-Day Programme

EBRD and Euromoney Learning Solutions
2016

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CONTENTS

EUROMONEY LEARNING SOLUTIONS

About Euromoney Learning Solutions

Who we are

Euromoney Learning Solutions is the leading global provider of tailored learning solutions to the financial sector. Established in 1983, we have pioneered the delivery of high quality, customised financial and management training to thousands of leading international financial clients.

In January 2015, DC Gardner and Euromoney Training we merged to bring even more international experience and expertise. As a group, Euromoney is active in approximately 180 countries and has a hugely diverse and international range of employees, with at least 90 languages spoken and 38 offices worldwide.

In the past 5 years alone, we have provided training for over 50,000 participants worldwide, and we are part of Euromoney Trading Ltd, which provides scale and sound financials that guarantee continuity for a long-term partnership.

International Training

Many of the courses that we provide are attended by participants from multicultural backgrounds. In the past year alone, we have provided public and tailored courses in over 40 different countries worldwide.

Tailoring

We will build the training around your own culture, values and goals and will endeavour that the whole course development process is consultative, ensuring that your aims and objectives for the programme are met and measured.

Our Approach

Our training courses are highly interactive and case-study driven. All of our training is undertaken on an in-house basis, and this means that we are highly specialised in structuring our exercises, content, timing and practical group work around each client's needs.

Cost-effective Solution

Our in-house training programmes are a cost-effective solution for you. They allow you to determine the exact content, structure, length and location of your training, with the end result of enhancing the performance of your people across the board. Our trainers come to you and your chosen host institution, thus enabling your people to really develop and explore their management skills in a confidential and safe environment.

Problem Loans and Distressed Debt Restructuring

Duration: 3 Days

Course Overview

Many lending institutions across the world are still burdened with a high level of actual or potential nonperforming loans or other credit exposures. In these situations, lenders need to maximize their recovery rates and optimize their long term returns, subject to prevailing insolvency laws, the lender's own capital situation and sometimes to the wider interests of other stakeholders in the firm.
Specialist knowledge is required to analyse the cause of the borrower's problems and to design and implement an optimal restructuring solution. This can involve both operational and capital restructurings, including debt for debt swaps, full or partial debt for equity swaps, discounted debt buybacks, equity cures, shareholder loans etc. In some cases, the best outcome may be full or partial asset liquidation. Cashflow forecasting is key to creating an optimal debt restructuring solution and the course covers distressed debt restructuring solutions in Excel. Case studies focus on a range of sectors including property, retail, infrastructure, house building, media and industrial.

Objectives

- How to find early warning signs of distress in company accounts
- The main operational and financial restructuring options and how to assess which should be the most appropriate
- How to model different rescue and liquidation scenarios for distressed firms in Excel

Methodology

The teaching methodology used on this course combines formal theoretical instruction with frequent reference to market data, use of exercises and case studies. Case studies are based on real situations and are designed to help delegates implement new valuation techniques and to learn from empirical experience. Delegates are expected to know how to use Excel at a basic level and should bring a personal computer with them. The course is intended to be practical and interactive, with delegates encouraged to ask questions. The techniques taught to delegates are intended to be of immediate practical use in the workplace.

Day One

Section One - Introduction

- Definitions of NPLs and distressed debt
- Typical causes of distress – sovereign, industrial, cyclical and firm specific
- Introduction to financial analysis for distressed firms

Section Two - Common early warning signs that a firm is becoming distressed

- Market/economic based signs
- Income statement/operational signs
- Cashflow signs
- Balance sheet signs
- Acting on early warning signs if there is no covenant breach
- Should the lender give more time and/or lend more money?
- Should the lender foreclose?

Case Study: property/construction firms with early warning signs of distress

Case Study: cyclical industrial firm with early warning signs of distress

Section Three - Analysing the income statement of distressed firms

- Understanding the sources and sustainability of revenues and earnings
- Can the firm generate in future sufficient earnings/revenues to service debt?
- What constitutes interest charges, incl charges for derivatives and quasidebt?
- Adjusting for exceptionals, noncore earnings, discontinued items
- Calculating adjusted margins, EBITDAR and EBITDA interest cover
- Adjustments for operating leases, joint ventures, minority interests

Case Study: analysing the early warning signs in the income statements of HMV, a defaulted retailer

Case Study: calculating underlying earnings of Balfour Beatty, a weak infrastructure company

Section Four - Analysing the income statement of distressed firms

- Identifying warning signs of cashflow shortfalls
- Can the firm generate sufficient cash to service interest and meet other obligations?
- Forecasting cash available for debt repayment and cash available for debt service
- Identifying new sources of cash for debt repayment
- Cashflow vs asset based lending
- Payback and debt service analysis
- Analysing high growth firms that overtrade and run out of cash

Case Study: analysing the cashflow statements of firms in distress and in default

Section Five- Analysing the balance sheet of distressed firms

- The nature of the asset base – is the firm worth more as a going concern or liquidated?
- Balance sheet values versus market and liquidation values
- Structural subordination and double leverage
- Consolidation policies – are debt/costs/losses hidden in off balance sheet vehicles?
- What constitutes debt – including derivatives, quasidebt and off balance sheet liabilities
- Adjusting for factored receivables, operating leases, contingent liabilities
- What other liabilities might crystalise in a default?
- Liquidity analysis
- Ratio analysis – leverage, liquidity, asset coverage, working capital, ROIC, ROE, asset turnover

Case Study: analysing the balance sheet of weak and distressed firms

Day Two

Section Six - Modelling for distressed credits in Excel

- Introduction to comprehensive forecasting model
- Forecasting assumptions for the IS, CF and BS
- What are the key earnings and cashflow drivers for the distressed entity?
- Tools and key indicators to help with forecasting for distressed firms
- Covenants setting revised, cashflowbased covenants and forecasting headroom
- Structuring cashflow sweeps
- Scenario analysis – what is required for the firm to turnaround? What could trigger further performance shortfalls?
- Use of liquidation models to assess each stakeholder's economic interest

Case Study: Modelling in Excel

Section Seven - Debt restructuring overview

- Guidelines from Central Banks
- Aims of the restructuring for lenders
- Does the company need additional funding?
- Rescue vs liquidation, now or later
- Other liabilities that might crystalise in an event of default
- What happens to collateral value during a default situation?
- Dealing with other banks multicreditor workouts
- Preferential claims and ranking of claims

Section Eight - Operational restructuring for distressed entities

- Should this take place before capital structure changes or at the same time?
- Management – does the firm need new or additional directors?
- Strategic analysis and new strategy
- How to maximise cashflow generation

Day Three

Section Nine - Capital restructuring

- Potential options & outcomes
- Option 2 – equity injection, shareholder loan, equity cure
- Option 3 – amendment of terms
- PIK, PIK toggle, higher interest, deferred success fees, cash sweeps, extended maturities, additional security, warrants, convertible loans
- Option 4 – debt restructuring
- Debt for debt swap, discounted debt buyback, full or partial debt for equity swap, lenders sell debt at a discount, engage suppliers in restructuring, cashflow ringfencing
- Why restructurings do not always work
- Return analysis – equity kickers, warrants, compounded PIK returns
- Case studies
- Examples of distressed firms that have implemented these solutions
- Modelling these changes in Excel

Section Ten - Monitoring distressed and nonperforming debt

- Agreeing forecasts with the borrower
- Reporting requirements for the borrower
- Agreeing new Heads of Terms with the borrower
- Setting covenants and covenant testing
- Board seats and management influence

Section Eleven - Overview of default predictor models

- Zscores
- Credit scoring
- Merton and KMV models

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About the Instructor

Clive Goodrum is a senior corporate finance expert, having worked for over 25 years in international banking on three continents. He has a wealth of experience in Investment Banking, Corporate Banking, Marketing and Relationship Management, Risk, Restructuring and Recoveries and has significant expertise in both Developed and Developing Markets.

Before embarking on a consultancy and training career, Clive was an Executive Director and Group Senior Vice President at ABN AMRO Bank in Amsterdam with global responsibility for the Bank's business development in the emerging markets of Central & Eastern Europe, Middle East and Africa as well as Asia and Latin America. This role focused on Risk Advisory for a large UK, Western European and North American client base in respect of capital structuring and raising, FX and interest rate exposure and cross border exposures in emerging markets.

As Global Head of Investment Banking Relationship Management, Clive built the team on four continents that provided the bridge between the bank's Corporate and Commercial bankers, the bank's Investment Bankers and client-facing staff in various subsidiaries including Equity Capital Markets, Insurance, Asset Management, Stockbroking, Debt Capital Markets and Corporate Finance/M&A. This provided a holistic approach to the bank's major corporate clients and ensured comprehensive cross-selling of the bank's product and service suite and that a significant share of clients' business at the strategic level was captured. The role included personal responsibility for the bank's relationship with the C-Suite management of global clients and resulted in a very significant number of international landmark transactions that received many finance industry awards.

Prior to this, Clive was based in London as Director and Head of Financial Restructuring and Recoveries. In this capacity, he served as a member and Chairman of several Steering Committees for high profile international work-outs of both Corporate and Financial Institution clients and served as a member of the advisory group to the Bank of England on the effects of the 'London Approach'.

Before joining ABN AMRO, Clive worked for Manufacturers Hanover Limited as a member and ultimately Head of that Merchant Bank's Special Projects Group, having joined them from Barclays Bank where he gained his initial general training in Banking as part of Barclays' Management Development Programme.

After leaving mainstream banking in 2009, Clive has been running his own corporate finance advisory boutique. Clive has also spent 2 years as a full-time retained advisor and consultant to the managing partners of Chantrey Vellacott DFK. CVDFK are a top 10 firm of chartered accountants and, although not 'big 6' in terms of size, have probably the largest (and certainly most prestigious) corporate finance advisory and insolvency arms of any of the major accountancy firms. Clive's role was pure relationship management and marketing to ensure that their partners were understanding their clients' needs and securing maximum value from their relationships.

Clive is a prize winning Chartered Banker having been placed in the top 50 candidates worldwide following completion of the professional examinations of the Chartered Institute of Bankers. His specialisms include Law Relating to Banking and Finance of International Trade. He is a frequent lecturer at Bank training programmes and colleges of higher education, a presenter at financial conferences and seminars and a contributor to many published articles.