

Lecture #2

CAPITAL MARKETS / Primary & Secondary LBO / Acquisitions / Recaps / Refinancing

- Debt Market (Loan /Bond Markets)
- Equity Market
- Derivatives

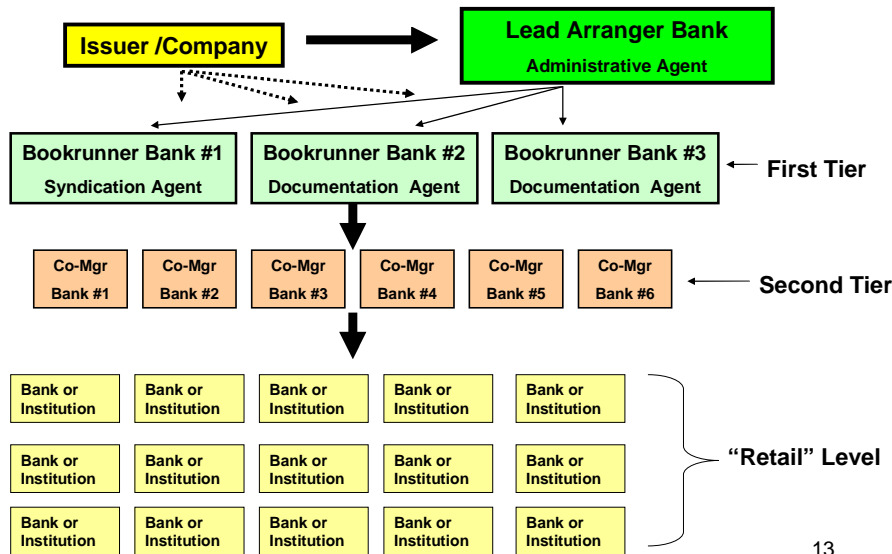
Debt Markets - Process -Primary

		S&P	Moody's		
Risk Free	→	AAA	Aaa	} NOTCHES	
INVESTMENT GRADE	}	AA+	Aa1		
		AA	Aa2		
		AA-	Aa3		
		A+	A1		
		A	A2		
		A-	A3		
		BBB+	Baa1		
NON-INVESTMENT GRADE	}	BBB	Baa2		
		BBB-	Baa3		
		BB+	Ba1		
		BB	Ba2		
		BB-	Ba3		
DISTRESS	}	B+	B1		
		B	B2		
		B-	B3		
		CCC+	Caa1		
		CCC	Caa2		
Defaulted	}	CCC-	Caa3		
		CC	Ca		
		C	C		
Defaulted	→	D	C		

Bank Loan Process (Syndications) - Primary



The Loan Syndication Process



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LOAN SYNDICATION PROCESS

- The issuer or Company solicits bids from Arrangers.
- Arrangers will outline their syndication strategy and their view on the way the loan will price in market.
- Issuer gives the mandate to one or more Arrangers (Co-Arrangers)
- The arranger will prepare an information memo (IM) describing the terms of the transactions.
 - The IM typically will include:
 - Executive Summary
 - Investment Considerations
 - Summary of Terms and Conditions (Term Sheet)
 - Transaction Overview
 - Company
 - Management and Equity Sponsor Overview
 - Industry Overview
 - Financial Model
 - Timing for commitments, closing, as well as fees on level of commitments
- Bank meeting is scheduled at which potential lenders hear the management and the Investor group.

- A deadline is given for the banks to send their commitment levels subject to final documentation
- Each Bank analyzes the deal's credit and assess the pricing (RORA). Each Issuer is assigned an internal rating.
- The Arranger collects all commitments – different amounts from each Bank
- Allocations are given and Legal Documentation is sent for their final review.
 - If the Deal is Oversubscribed, the allocation of each bank will most likely be reduced
 - If the Deal is undersubscribed, depending on the FLEX language, the pricing could be flexed up.
- After Review of Legal Documentation by each lender and signatures are sent, the Deal closes and funds.

Money Terms:

Amount, Rate, Maturity, Schedule Payment

Security:

Assets, Stock

Covenants:

Financial Covenants:

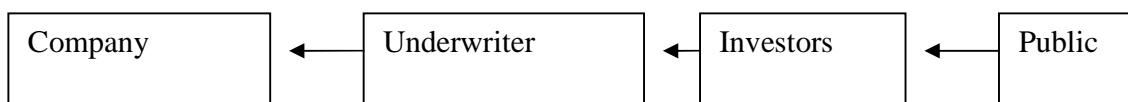
Negative Covenants: Asset Sale, New Debt, Equity,

Affirmative Covenants

Rating Agency:

Provide Ratings Sheet

Bond Issuance Process (Road Show) - Primary



File with SEC

Review by the SEC

Red Hearing

Rating Agencies - Presentations

Road Show – Presentations

Within a week – Priced

Closed at a price (Common – weighted towards the bigger Investor)
(Note – Private Placement)

Equity Market - Process -Primary

Private Placement
Public (IPO)

SECONDARY MARKET

NYSE / NASDAQ / AMEX

Stock Prices Represent the Market Value of the Firm

$$\boxed{(\text{Stock Price} * \text{Outstanding} = \text{Equity Value}) + \text{Debt} - \text{Cash} = \text{Enterprise Value}}$$

Comparison = PE Multiples Concept / EBITDA Multiples

Comparison Vs Dow Jones trends Vs S&P 500

Beta Concept – Volatility

STARWOOD – STOCK prices

Check Prices for each company assigned

Holding Period Return:

$$\boxed{\text{Holding Period Return \%} = \frac{(\text{Ending Price} - \text{Beginning Price} + \text{Distributions Received})}{\text{Beginning Price}} * 100\%}$$

DEMONSTRATE - ON LINE:

Starwood – show the pages

HOMEWORK:

Calculate HPR (assuming Distribution Received of \$0) for your Company (using the stock for the day before)
