

## Lecture 4 –Loans, Bonds and Equity

### CAPITAL MARKETS / Primary & Secondary

LBO / Acquisitions / Recaps / Refinancing

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

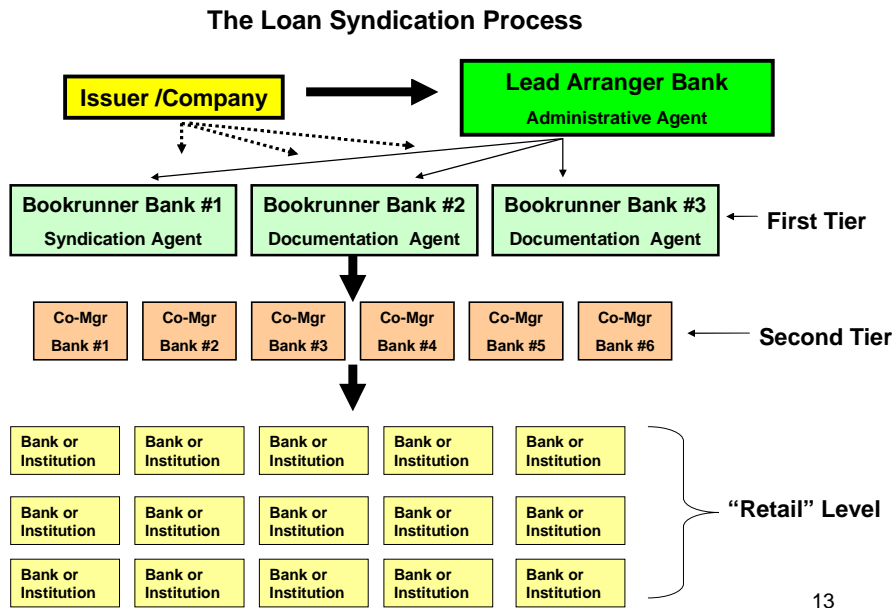
#### Debt Markets - Process -Primary

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

NOTCHES

#### *Bank Loan Process (Syndications) - Primary*





13

## 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.

# Investment Banking

Prof. Droussiotis

---

- 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:

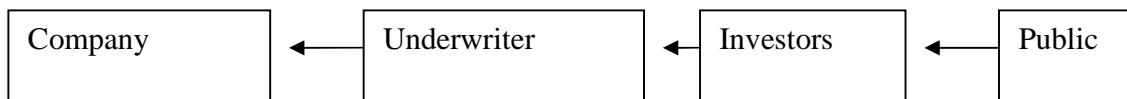
Negative Covenants: Asset Sale, New Debt, Equity,

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

# Investment Banking

Prof. Droussiotis

---

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

**(Stock Price \* Outstanding=Equity Value) + Debt – Cash = Enterprise Value**

Comparison = PE Multiples Concept / EBITDA Multiples

Comparison Vs Dow Jones trends Vs S&P 500

**Beta Concept – Volatility**