

## Lecture #2

### Review of Last Week (Chapter 1 - CFM)

Entry – Value Creation – Exit

Cash Flow Generation  
Setting-Up Management

### CLASS DISCUSSION

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- ENTRY LEVEL

### CAPITAL MARKETS / Primary & Secondary (Chapter 2 – CFM) LBO / Acquisitions / Recaps / Refinancing

**Equity Market**

**Debt Market (Loan /Bond Markets)**

Equity Market - Process -Primary

Private Placement  
Public (IPO)

### Bank Loan Process (Syndications) - Primary



Company approached Banks –  
Marketing Process  
Agent is picked  
Agent invites participating banks  
Bank Meeting  
Two weeks turn around – Commitments  
Closing – Credit Agreement)

### **Money Terms:**

Amount, Rate, Maturity, Schedule Payment

### **Security:**

Assets, Stock

**Covenants:**

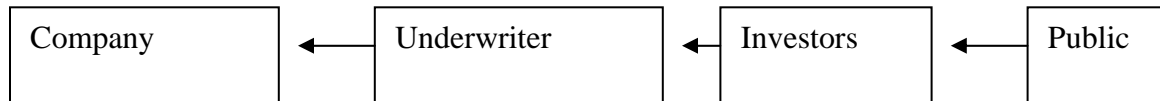
Financial Covenants:

Negative Covenants: Asset Sale, New Debt, Equity,

**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)

**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 (page 41 – CFM)

**Beta Concept** – Volatility

STARWOOD – STOCK prices

Check Prices for each company assigned

Holding Period Return (p. 53 CFM):

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

**DEMONSTRATE - ON LINE:**

**Starwood – show the pages**

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**HOMEWORK:**

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

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