FINANCIAL**EDGE**

The Credit Analyst

MICRO-DEGREE COURSE OUTLINE

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The Credit Analyst Micro-degree

Learn the core accounting, modeling and cash flow analysis techniques undertaken by numerous credit analyst roles. This course will rapidly develop the core skills needed to perform on the job as well as build on new cash flow management concepts which are more critical than ever for companies worldwide. Real company data and case studies are used to bridge the gap between academia and practical assignments regularly completed by analysts in the credit team.

37	**25**	**198**	**4**
Hours	Topics	Exercises	Exams

CONTENTS

The Accountant

Build a comprehensive understanding of the essential techniques required to accurately analyze the financial results of a company.

Financial Accounting Review (2010)

- Making entries and ensuring the balance sheet balances
- Preparing a balance sheet
- Preparing an income statement from the entries to retained earnings
- Preparing a cash flow statement from the entries to the cash account
- A review of the different categorizations on the income statement, balance sheet, and the cash flow statement

Income Statement (2020)

- Revenue recognition issues
- Cost recognition issues
- Identifying non-recurring items from the income statement, the MD&A, the notes to the accounts and the financial statement press release
- Calculating EBIT and EBITDA for the historical year, and on an LTM basis
- Understand the difference between basic and diluted earnings per share and calculate recurring diluted earnings per share
- Review company profitability compared to its peer group

Earnings Per Share (2140)

- Basic EPS calculations including weighted average shares
- Dilutive securities: options (treasury method) and convertibles (as if converted)
- Calculating recurring EPS

Working Capital (2030)

- Inventory accounting including the impact on EBIT of LIFO and FIFO accounting choices (where relevant)
- Accounts receivable and bad debts (identifying when companies are manipulating sales)
- Accounts payable and accruals and the difference between them from a due diligence perspective
- Other items including taxes payable, deferred revenue, and pre-paid items
- Working capital and operating working capital and the cash impact of changes in operating working capital
- Credit implications of working capital movements
- Day ratios

Non Current Assets (2040)

- Gross PP&E, accumulated depreciation, depreciation expense and net PP&E
- Building a simple forecast of fixed assets
- Establishing the age of a company's fixed asset base
- Finite, and infinite intangibles including goodwill
- A review of key methods of accounting for financial investments
- At fair value through the income statement
- Available for sale
- Associate (equity method) accounting

Capital Structure (2050)

- Debt issues and repurchases
- Simple yield to maturity and all in cost calculations and understanding Original Issuer Discounts
- Calculating net debt
- Equity issuance and repurchases
- The difference between authorized, issued and outstanding shares and multiple share classes
- Other capital items: preference shares and convertible bonds
- Leverage ratios
- Debt liability maturity analysis

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Accounting Ratios (2004)

- Introduction to the accounting ratios used for analysis of financial statements to better understand the underlying organization.
- Profitability ratios, including margins
- Liquidity ratios, including operating working capital
- Calculating EBIT and EBITDA for the historical year, and on an LTM basis
- Leverage ratios, including net debt and interest coverage
- Asset ratios

Cash Flow Statement (2060)

- Understanding how to categorize cash flows between operating, investing, and financing
- Deriving a cash flow statement from two balance sheets and an income statement
- Deriving a balance sheet from a cash flow statement and an income statement
- Different cash flow statement presentations

Equity Method Investments (2090)

- What are equity method investments?
  - Equity affiliates / associates
  - Joint ventures
- Equity method accounting
  - Income statement
  - Balance sheet
  - Cash flow statement
  - Financial statement integration

Intro to Full Consolidation (2110)

- M&A accounting overview
- Balance sheet consolidation
- Sources and uses of funds
- Goodwill calculation
- Income statement consolidation
- Non controlling interests – NCI

The Modeler

Learn how to build models quickly and error-free, critical for the decisions and recommendations that they underpin.

Introduction to Modeling (3020)

- Key settings
- Formatting and layout standards
- Building a simple income statement and balance sheet model, on one sheet, then across sheets
- Balancing the balance sheet using the cash flow statement

- Preparing the model for handover
- Key formatting and putting the output into a pitch book

Three Statement Modeling with Iterations (3030)

- Income statement construction and highlighting key numbers
- Calculation schedules (PP&E, retained earnings, operating working capital, and debt)
- Balancing the balance sheet with a cash sweep
- Calculating interest using average balances
- Circular references and iterations
- Working with a circular reference switch
- Preparing the model for handover
- Key formatting and putting the output into a pitch book

Three Statement Model Editing (3035)

- Steps before editing
- Inserting a new item
- Removing an old item
- After editing
- Relevant keyboard shortcut keys

Three Statement Modeling with Estimates (3040)

- Cleaning up the income statement and balance sheet and simplifying the line items
- Getting estimates for revenues and EBIT
- Building multiple scenarios into a model's assumption
- Modeling a forecast debt repayment schedule from the notes
- Key ratios
- Checking the model for reasonableness
- Formatting and putting the output into a pitch book

Building a Model with Cash Sweeps (3050)

- Why banks want to be repaid early
- Cash sweep mechanisms
- How to model cash sweeps
- Building a three statement model with a cash sweep

Checking a Model for Integrity and Errors (3060)

- Top ten errors
- Auditing and error checking toolkit
- Checking your own model
- Checking someone else's model

Credit Analysis for Lenders

Credit Risk (6010)
- How Banks Make Money
- The Credit Perspective
- How Bad Loans Affect Banks
- Intro to the Credit Process
- The 5 Cs of Credit
- Quantifying Credit Risk
- Default Risk
- Loss given default risk

Controlling Credit Risk (6015)
- The components of the credit memo
- Determining the risk in lending for various purposes
- Using pricing and fees to mitigate risk and drive the bank's return
- The role of covenants in monitoring the loan
- How banks minimize risk by selling off pieces of the loan
- Using seniority, security, collateral and guarantees to protect the loan
- How banks minimize risk by selling off pieces of the loan 3 FX and commodities (0.5 hours online)

Business Credit Risk (6020)
- Understanding business risk (macro, industry, and company)
- A closer look at company risk
- Management risk
- Estimating business risk

Financial Risk (6030)
- Determining on and off-balance sheet obligations
- Assessing the quality and efficiency of a company's assets
- How to calculate EBIT and EBITDA for credit analysis
- How OWC can impact a company's cash flow
- Assessing cash flow adequacy
- Measuring a company's ability to withstand fluctuations
- Liquidity definition and calculations

Debt Capacity (6040)
- Determining how much room a company has to borrow additional funds
- Analyzing a company's cash flow to determine borrowing capacity
- Using base case, upside, and downside scenarios to determine debt capacity
- Using cash flow analysis to determine the timings of a loan repayment
- Extending debt capacity using cash flows from later years in the forecast
- Modeling credit scenarios

Credit Analysis Case in Point (6035)

- Business Risk - Using descriptive materials provided, simulated 10-k snippets, press releases, etc
- Financial Risk (using current financials)
    - Current financial position
    - Quality of earnings
    - Cash flow
    - Liquidity
- Discussion of Smithy's corporate structure and structural subordination issues
- Debt Capacity
    - Cash flow forecasts
    - Debt service coverage ratio (DSCR)
    - Building scenarios

13 Week Cash Flow Modeling

Cash Flow Modeling Scenarios (3120)

Discussion of situations and scenarios where companies can get into cash flow trouble (COVID, poor performance, etc.)

- Use examples from two real world cases to demonstrate the purpose of a 13-week cash flow (True Apparel Inc. and/or Shiloh Industries)
- Analysis of current trends in case company
    - identifying areas of weakness
    - identifying potential sources of immediate liquidity/cost savings (capex, employment, extending payables, etc)
- Ramifications of distress
    - Covenants (discuss popularity of cov-lite loans in LBOs)
    - Restructuring (additional loans)
    - Bankruptcy (DIP financing)
    - Credit Bidding/Stalking Horse bidders

Building a 13-Week Cash Flow Model (3125)

Building a 13-week cash flow model for Case Co 1 "Libbey Glass Inc", a 200-year-old glass manufacturer that filed for bankruptcy in June. My plan is to disguise the cases slightly so that we examine the case before bankruptcy. This will be combination of teaching slides/videos to discuss concepts followed by modeling slides/videos.

- Breaking down operating and non-operating expenses
    - Components of COGS (fixed and floating)
    - Components of SGA (fixed and floating)
- Deep dive on OWC, including the cash flows within AR, AP and Inventory
    - Using actual AR schedules, purchase orders, payables schedules
- Forecasting non-operating revenues expenses (assets sales, etc.)
- Forecasting maintenance capex

- Adding interest and debt service
- Determining borrowing need/repayment ability
- Reconciling cash flows to EBITDA
- The Revolver/DIP (debtor in possession) financing (will show both scenarios)
  - Senior vs Super Senior
  - Borrowing base calculation
  - Using 13-week CFM to model revolver drawdowns and repayments

Distressed Debt Restructuring

Distressed Debt Restructuring Case Study (6130)

- Industry and company analysis
- Using cash flows to determine debt capacity
- Approaches to a fire sale valuation
- Liquidating assets
- Senior versus junior debt
- First lien vs second lien debt
- Distressed Debt Restructuring Debrief

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