FitchLearning

Advanced Corporate Credit – Warning Signals

Programme Level:
ADVANCED

Duration:
3 DAYS

Overview

The aim of this course is to identify the early warning signals of credit deterioration. The course covers all aspects of a company's situation, from product to market, to financial condition; this is to identify the patterns commonly seen within corporate deterioration. The course will draw upon lessons learned from previous credit crises to determine sustainable levels of debt, the strengths and weaknesses of deal structures, and how best to respond to problems facing a corporate client. The key element of the programme is to identify problems when the economy is strong. What are the characteristics of a company which will run into trouble during the next recession? A good analyst can identify the warning signals during the time of economic growth.

This workshop is highly interactive, allowing participants to practice the key learning points on several case studies and exercises, and uses current examples where possible.

Key Learning Outcomes

- Uncover the early warning signs or red flags during the life span of the loan or bond: financial, non-financial, and market indicators
- Identify companies most susceptible to credit deterioration and the factors that will impact the likelihood of default or the need for distressed exchange of debt
- Evaluate the options available to lenders or investors when signs of credit deterioration become apparent
- Determine the strengths and weaknesses of an existing loan structure to improve loan structures going forward
- Set the minimum level of transparency acceptable to make a responsible credit decision

Who Should Attend

This programme is aimed at those with significant corporate credit experience who wish to take their skills to the next level.

Content

Analytic Overview

Apply a structured approach to evaluate the credit standing of a company, specifically looking for signals of weakness or potential danger.

Causes of Distress

- Macroeconomic forces and concerns surrounding current issues
- Sector issues: sectors most vulnerable to cyclicality, macroeconomic sensitivities and structural changes
- Company-specific factors: why certain companies are more vulnerable than others to credit deterioration

Application: debrief of pre-read; participants come prepared with own examples of failed companies

Early Warning Signals

- Symptoms of a deteriorating credit: non-financial indicators, financial indicators, and market indicators
- Credit ratings: credit migration
- Market pricing during turbulent times: bond, CDS and share prices

Structured Analytic Approach

- Application of the four-step approach to credit to expose key early warning signals: purpose, payback, risks and structure
- Risks to repayment: current market conditions and their impact on risk

Application: identify possible purposes and sources of repayment

Themes of Distress

This section aims to identify the themes of distress. The action(s) taken by the companies and/or lenders are explored through discussion and many real-life examples of actual or potential distress. The focus is on concluding upon lessons learned to avoid future problems.

External Macroeconomic and Sector Indicators

- Economic cyclicality in various markets and the potential disastrous effect on company performance
- Vulnerability to foreign exchange movements and the effect of sudden fluctuations

- Exposure to commodity price instability and the effect on profitability and cash flow
- Disruptive events that can change the outlook for the sector
- Emerging market risk and issues specific to small, young economies

Application: the impact of the economic cycle on a variety of sectors/the impact of changing commodity prices or FX rates

Challenged Business Models

- Lack of sufficient scale in an increasing competitive environment; weak part of the supply chain; low added value
- Excessive growth with inability to finance externally; timing of expansion
- Higher operating leverage; inability to transfer increased costs
- Dependency on a small number of customers and/or suppliers
- Financially impaired customers, price competition, CAPEX requirements, reliance on other sectors in distress

Application: changing business models and identifying red flags

Management and Ownership Strategy and Behaviour

- Poor management decisions and risk management
- Deficient financial disclosure or reporting
- Complex group structures and cross shareholdings
- Lack of corporate governance, control of executive management
- Failing of succession planning, management style
- Lack of integrity: behaviour, relationships, social responsibility
- Inability of shareholder to support during turbulent times

Exercise: assessment of management strength and weaknesses and shareholder structure/support

Illustration case study: identify early indicators of deteriorating performance in earnings, asset management and cash flow

Disproportionate Leverage

- Excessive leverage at the top of the economic cycle
- Debt servicing capability: anticipating the problem
- New money needed to restructure or recapitalise

- Hidden leverage: off balance sheet obligations

Application: hidden leverage and inappropriate funding structures

Poor Loan Structure and Choice of Financial Instruments

- Hybrid financial instruments or complex derivatives
- Debt denominated in a ‘hard currency’ while domestic currency weakens
- Illiquid debt instruments
- Structural subordination

Application: anticipate refinancing problems

Illustration case study: review the financial structure and debt instrument(s)

Crossing the Threshold: Triggers for Action

This segment focuses on the most common events that trigger corporate distress and the need to act.

Cash Shortfalls and Liquidity Problems

- Define and assess liquidity
- Quantify the degree of refinancing risk and the potential challenges and costs of raising new capital
- Reliance on existing ‘committed’ bank facilities or cash as the sole source of liquidity

Covenant Breaches

- Characteristics of effective covenants
- Financial vs. non-financial covenants: ability to quantify and assess the degree of protection

Exercise: identify alternatives when companies face refinancing problems

Final Group Case Study

The aim of the final group case study is to allow participants to apply the framework and tools of analysis to a company in the early stages of deteriorating performance.

FitchLearning

About Fitch Learning

Fitch Learning partners with clients to deepen knowledge, develop skills, and enhance conduct, delivering positive business outcomes.

With centres in established financial hubs including London, New York, Singapore, Dubai, and Hong Kong, we are committed to understanding complex client needs across fast-paced financial markets globally. Our learning solutions encompass an expert faculty, e-learning, coaching and blended candidate assessments, improving individual contribution and collective business performance.

Fitch Learning in Numbers

- Over **26,000** learners per year
- Over **4,000** training days per year
- Over **1,800** corporate clients
- Over **5,000** hours of learning content created every year
- Over **2 million** hours of learning delivered each year
- Over **80%** of the world's largest banks partner with us

New York
33 Whitehall Street
New York, NY 10004
+1 212 908 0500
+1 800 75 FITCH
usclientservices@fitchlearning.com

London
25 Canada Square
Canary Wharf, London
E14 5LQ
+44 20 3530 1000
clientservices@fitchlearning.com

Singapore
One Raffles Quay,
#22-11, South Tower,
Singapore 048583
+65 6327 1581
clientservices@fitchlearning.com.sg

Dubai
DIFC, Al Fattan Currency House,
Tower 2, Level 8, Office 804
Dubai, UAE
+971 (0) 4 3767300
meclientservices@fitchlearning.com

Andrew Spieler

Andrew has an extensive track record of training new hires to senior executives at leading corporate and commercial banks investment banks, brokerage firms and asset managers for 10+ years. He has delivered over 1,000 live lectures during his career with a particular expertise in Corporate Credit Analysis, Capital Markets, Derivative Securities, Yield Curve Analysis and Portfolio Management.

In addition to his role at Fitch Learning, Andrew is an Associate Professor of Finance at Hofstra University and has been awarded "Distinguished Teacher of the Year" by the Frank G. Zarb School of Business.

Andrew has also served for two terms as Chair of the Derivatives Committee for the New York Society of Security Analysts (NYSSA). Given his specialized focus on corporate credit, derivatives and risk management, he often acts as a consultant to a number of prestigious hedge funds and law firms.

Andrew received a B.A. in mathematics, a B.S. in economics and an M.B.A. with a concentration in finance from the State University of New York at Binghamton; an M.S. in finance from Indiana University and a Ph.D. in finance from the State University of New York at Binghamton. He has also earned the Chartered Financial Analyst (CFA) and Financial Risk Manager (FRM) designations.