

Advanced Capital Structure Modeling

Modeling Complex Pieces of Debt

Summary

This advanced capital structure modeling seminar is a challenging course geared towards experienced financial modelers.

The goal of the session is to ensure that participants are completely comfortable building complex debt concepts into a financial model.

Assignments, handouts and examples will be used throughout the course.



Prerequisites

This course builds on “Capital Structure Modeling”, so participants may want to complete that course prior to taking the “Advanced Capital Structure Modeling” session.



Timing

This course requires 8 hours.

Learning Topics

1. Key Debt Concepts

- ✓ Discuss key features and design considerations for complex pieces of debt
- ✓ Learn to model a convertible bond and understand the following concepts:
 - pricing a convertible bond
 - conversion premium
 - conversion rate
 - allocating the bond to both debt and equity
 - the option value implied in the equity
- ✓ Incorporate Mezzanine debt with non-cash PIK interest that toggles based on the company’s leverage
- ✓ Create a bridge loan for an M&A situation
- ✓ Build a flexible revolving credit facility with a cash sweep
- ✓ Incorporate a minimum cash balance so that the cash account never drops to zero
- ✓ Model various tranches of Senior Notes and Term Loans with various repayment mechanisms
- ✓ Properly incorporate all the capital structure elements into the financial statements and balance the balance sheet

2. Model Circularity

- ✓ Review circularity within financial models and learn to create a “circuit breaker” to fix a crashed model
- ✓ Learn why models are often circular, and which pieces of debt contribute to the model’s circularity
- ✓ Use the circular reference toolbar to identify inappropriate circular references