New York University
Stern School of Business

B40.3188.W1. - New Frontiers in International Capital Markets

Spring 2008 Tommaso Albanese

Course Description:

The objective of the course is to survey three recent developments in international capital markets that have dramatically changed the scope of applications for the related financial products.

A. Leveraged finance: a revolution in roles.
The leveraged finance market has in recent years evolved dramatically from commercial bank lending to a vibrant, liquid capital market driven by institutional investors. The banking industry consolidation and the increased bank return hurdles have made commercial banks more cautious in their use of capital for traditional lending. Instead, banks have focused in originating credit-intensive products for specialized investors in search of aggressive returns. A key driver of this innovation are the leverage buyout firms, who have borrowed most of the capital available through aggressive leveraged debt. New dynamics are now governing the debt market, although last summer credit crisis has highlighted the risks of such strategies.

B. Infrastructure financing: a new relationship between public and private capital.
For decades infrastructure financing has been the domain of government policies, project finance lending banks and quasi-government development agencies. In the last few years the private capital has been jumping into it. This phenomenon originated in Western Europe where cash strapped governments have been willing to monetize assets and annuities connected to public services such as roads, airports, and hospitals. The traditional syndicated project finance business has been gradually surpassed by specialized institutional investors buying hybrid secured financings, booked as quasi government asset-backed securities. Taking advantage of very favourable market conditions, infrastructure funds have been using the private equity model to buy the whole public asset, leverage it up, and generate high returns on capital.

C. Corporate derivatives: their strategic use in a balance sheet.
As derivative products have matured, investment banks have been at the forefront of the movement to use derivatives as a critical strategic tool for corporate clients. Derivative products are no longer solely a means of treasury management but instead have become a powerful tool of a CFO in order to optimise the capital structure of his company and ultimately it's shareholder value.
Derivatives should be included in analysis of the capital structure. The decision on which risk to retain or hedge is as crucial as the one on the debt/ equity mix to determine the optimal capital structure. CFOs, bankers and financial investors need to consider how derivatives could provide complex balance sheet solutions.

Instructor:

Tommaso Albanese is an Adjunct Professor in Finance. He is a former Managing Director of Morgan Stanley & Co, Co-Head of Global Capital Markets in Europe and Global Head of Corporate Derivatives.

Pedagogy:

The course is focused on analysing some recent transactions in international capital markets to provide an understanding of the rationale behind their use rather than providing a manual for their application. As such, the course requires a very good knowledge of capital market products and a sound understanding of derivative products. The case analysis will often require analytical modelling. The case discussions and class notes will provide the core of the course learning while the readings will provide the background for the class discussion. The course does not involve routine lectures on material presented in the readings.

Texts and Cases:

A course packet made of chapters from books and press articles plus the assigned case studies will be made available at the NYU bookstore. Class notes will be distributed in advance of each session. Excel-based spreadsheets will be posted on Blackboard.

Case Discussion and Write-Ups:

There are 6 cases assigned for the course. Students must submit two or three pages write-ups on three cases before class begins on the dates for which they are assigned. The write-ups should answer the questions listed at the end of each case. The write-ups will be graded and returned. Students wishing to do so may submit one extra case for extra credit. Cases may be discussed with classmates or in study groups, but each student must submit write-ups individually.

Examinations and Grading:

There will be only a final examination. The course grade will be computed as follows: Final exam, 40%, Case write-ups, 40%, Classroom participation 20%. The final exam will be based on the class notes and the case study discussions.

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Course Outline

Session 1

Part A Introduction and course foundations: Common drivers behind recent developments in international capital markets

READING: Culp (2006), Chapter 13

Part B Leveraged Finance: Review of recent products and processes

READING: Press Articles I (2006/07)

ASSIGNMENT: Dresser-Rand LBO Financing (NYU Stern 2007)

Session 2

Part A Leveraged Finance: Analysis of the dynamics surrounding event lending and relationship lending

READING: Press Article II (2005/7)

Part B Leveraged Finance: Leverage and Cost of Capital

READING: Culp (2002), Chapter 3

ASSIGNMENT: First Data Corp: A Risky LBO to Finance (NYU Stern 2007)

Session 3

Part A Infrastructure Financing: Principal and Leveraged Finance

READING: Press Articles III (2006)

ASSIGNMENT: Autostrade's Debt-Financed Takeover (NYU Stern 2007)

Part B Corporate Derivatives: Definitions, swap curve derivation, applications

READING: Excel-based Spreadsheets

Session 4

Part A Infrastructure Financing: Project and Structured Finance

READING: Culp (2006), Chapter 21; Press Articles IV (2005/7)

Part B Infrastructure Financing: Case Discussion

ASSIGNMENT: Highly Leveraged Structures in the UK Water Sector (NYU Stern 2007)

Session 5

Part A Infrastructure Financing: Case Discussion

READING: Press Articles V (2005/7)

ASSIGNMENT: Chicago Skyway: For Whom the Road Toll (NYU Stern 2007)

Part B Corporate Derivatives: Risk Management

READING: Culp (2002), Chapter 9

Session 6

Part A Corporate Derivatives: Case Discussion

READING: Press Articles VI (2004/7)

ASSIGNMENT: Sainsbury's Balance Sheet Refinancing (NYU Stern 2007)

Part B Final Exam

All readings and case studies will be available in the course packet (see bibliography). Excel-based spreadsheets will be posted on Blackboard.

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Bibliography

Readings:

<u>Session 1</u>

Christopher Culp, ***Structured Finance and Insurance*** (New York: John Wiley & Sons, Inc., 2006), "Chapter 13: The Structuring Process" (pp. 269-294).

Press Articles I: "LBOs speed up evolution of debt: …" (Euroweek, 3/24/2006, 6 pages), and "Top-Heavy Debt Structures …" (Bank Loan Report, 5/098/2006, 2 pages), and "Market Overview: Trouble LBO Deal Pipeline…" (Matthew Sheahon, High Yield Report, 9/17/2007, 2 pages)

<u>Session 2</u>

Christopher Culp, ***The ART of Risk Management*** (New York: John Wiley & Sons, Inc., 2002), "Chapter 3: When is Capital Structure Irrelevant?" (pp. 72-84).

Press Articles II: "The New Order of Leveraged Finance" (Christopher O'Leary, Bank Loan Report, 11/06/2006, 4 pages), "Leveraged finance comes of age: …" (Euroweek, 03/18/2005, 6 pages), "A boom in burst-ups" (The Economist, 9/27/2007, 2 pages), and "Switching off the lites" (The Economist, 10/11/2007, 1 page).

<u>Session 3</u>

Press Article III: "Infrastructure – a new asset class? …" (Euromoney, 6/01/2006, 9 pages), and "Stable cashflows is the key requirement …" (Chris Hughes, The Financial Times, 10/25/2006, 2 pages).

Excel-based Spreadsheets (to be posted on Blackboard).

<u>Session 4</u>

Christopher Culp, ***Structured Finance and Insurance*** (New York: John Wiley & Sons, Inc., 2006), "Chapter 21: Project and Principal Finance" (pp. 443-484).

Press Article IV: "PPP aims to build on its promises: …" (Philip Moore, Euromoney, 12/01/2005, 5 pages), "LBO sponsors look to ABS financing solutions: …" (Louise

Bowman, Euromoney, 10/1/2006, 4 pages), and “Infrastructure investors run out of raod…” (Tony Jackson, The Financial Times, 10/21/2007, 2 pages).

Session 5

Press Article V: “Sky’s the limit …” (Robert Gibbons, Project Finance, 09/01/2005, 3 pages), “Taken and available: Indiana Toll Road…” (Tom Nelthorpe, Project Finance, 07/01/2006, 3 pages), “High-stakes game for many players …” (Peter Thal, The Financial Times, 10/25/2006, 2 pages), and “Road Runners” (The Economist, 01/18/2007, 2 pages)

Christopher Culp, ***The ART of Risk Management*** (New York: John Wiley & Sons, Inc., 2002), “Chapter 9: A Vocabulary of Risk” (pp. 185-198).

Session 6

Press Article VI: “Getting More from CMBS” (Ronan Fox – S&P, The Finance Director, 9/7/2006, 2 pages), “Vital solution to the perilous dichotomy” (Tarik Ben-Saud, FT Mandate, 09/2004, 5 pages), “Inflation-linked swaps may triple” (EPN, 11/21/2005, 2 pages), and “Stopping the ILB boom from popping” (Gerry O’Kane, FT Mandate, 09/2007, 3 pages).

Cases:

“Dresser-Rand LBO Financing”, Albanese, Tommaso M. pp. 1-8, June 2007, **New York University – Leonard N. Stern School of Business**, (8 pages).

“First Data Corp: A Risky LBO to Finance”, Albanese, Tommaso M. pp. 1-10, October 2007, **New York University – Leonard N. Stern School of Business**, (10 pages).

“Autostrade’s Debt-Financed Takeover”, Albanese, Tommaso M. pp. 1-12, April 2007, **New York University – Leonard N. Stern School of Business**, (12 pages).

“Highly Leveraged Structures in the UK Water Sector”, Albanese, Tommaso M. pp. 1-9, April 2007, **New York University – Leonard N. Stern School of Business**, (9 pages).

“Chicago Skyway: For Whom the Road Toll”, Albanese, Tommaso M. pp. 1-8, April 2007, **New York University – Leonard N. Stern School of Business**, (8 pages).

“Sainsbury’s Balance Sheet Refinancing”, Albanese, Tommaso M. pp. 1-10, April 2007, **New York University – Leonard N. Stern School of Business**, (10 pages).