

SPRING 2015

FINA 7A97 Techniques in Project Finance

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The Techniques and Tactics of Project Financing (PF) teaches the financial know-how and negotiating approaches needed by Borrowers to implement Project Finance transactions. The Course builds upon the broader strategic material covered in *The Strategy of International Project Financing*. However, *Techniques and Tactics* will go into more depth on topics such as credit assessment, deal structuring, choosing advisers, and the final negotiation and documentation of a financing.

To present the material in a practical setting, Case Studies will be extensively used. The cases will emphasize the energy and petrochemical industries. Multiple cases involving the Terrasia Petroleum Products Pipeline (Tepline) and the Soro Dondar petrochemical complex (Soro Dondar) will be used to allow students to observe the evolution of an actual project financing from inception to execution. These cases were written by the instructor and are based upon transactions with which he is personally familiar.

The essential theme of the course is that PF borrowers should endeavor to control their project financing from the outset. This can best be done by making a realistic appraisal of a project's potential to support financing, the definition of clear financing objectives and an assessment of challenges standing in the way of realizing those objectives. Based upon this assessment, borrowers should prepare their own preliminary financing plan. This work should be undertaken before the borrower's organization commits to do PF, before talking about PF with partners and before hiring a financial adviser. Only by undertaking this upfront assessment will borrowers know the issues to discuss with other stakeholders. Being equipped to shape these conversations also will enable borrowers to seek only that external advice needed and to control key aspects of the PF process through to execution.

A thorough familiarity with PF techniques and tactics is essential to pursue this 'borrower-in-control' approach. It is the aim of this course to equip students with this necessary know-how.

Attention will also be given to the perspective of lenders and their different tactical responses to borrowers' demands under varying market conditions. Students will examine the economics of the Project Finance business from the lenders perspective, and see how this influences borrower's negotiations of interest rate spreads, fees and related terms.

Specific topics to be covered in the course include:

- Connecting Project Finance Strategy & Tactics
- The Initial In-House Finance Plan
- Sizing the Loan and Scoping the Security Package
- Structuring the Project for Financing
- The Use, Abuse and Selection of Financial Advisers
- Necessary Project Technical Information & Organizational Alignment
- Choosing and Contacting Financing Markets

- Negotiating key economic Loan terms; the Term Sheet
- Executing the Deal in the Bank Market
- Executing the Deal in the Bond Market
- Executing the Deal in the ECA/MLA Market
- Refinancing/Restructuring Issues, Compliance, Why Deals Turn Out as They Do

The course will be taught as a combination of lecture and case study work. Ten cases will be covered, five of which will involve student presentations. Four other cases will be discussed in class and one will be a take home project. The case studies should be purchased as a course pack on the XanEdu website, <http://coursepacks.xanedu.com>. Complete instructions will be provided in a later version of this syllabus.

Each student will be expected to present at least one case study during the course. Any students not participating in a case presentation will have additional work due on the take-home project and Final Exam. Grading for the class will be based 30% on the case study presentation, 20% on the take home project, 40% on the final exam and 10% on class participation. The Final Exam will be a take-home case study. Students will receive further information about the Final exam during the course.

There is no assigned text for the course. Students who wish to consult a text for additional background material can consult **Project Financing, Asset-Based Financial Engineering, Second Edition** (PF ABFE) by John Finnerty, John Wiley & Sons, Inc. publisher. In addition, the instructor will post on Blackboard additional readings from **Project Financing** (PF) by Peter K. Nevitt and Frank J. Fabozzi along with various technical publications and periodicals that focus on project financing.

Students with questions may contact me at svarbogast1@gmail.com.

Students should read the Tepline (1) case prior to coming to the first class. It will be discussed during the first two sessions as a template for using case studies to explore the linkages between strategy and the tactics/techniques of project financing.

At the conclusion of this course, the successful student should be ready to work on project financings for either a borrower or lender and to pursue a career in asset-based financing.

Good Luck and Enjoy the Course!

The Techniques and Tactics of Project Financing

Day 1, Friday, April 10

<u>Time</u>	<u>Topic</u>	<u>Readings</u>
8:00 AM	Introduction to Techniques and Tactics Integrating PF Strategy & Tactics into a Winning Plan The Stages of PF Execution	Case: <i>Teppline (1)</i>
9:00	Sizing the PF loan; spotting and working on credit issues	
10:00	BREAK	
10:15	In-class Exercise: Sizing the PF loan Borrower's perspective Lender's perspective	Instructor Problem Set
10:45	Structuring the venture for Project Financing; key JVA terms and conditions	
11:30	LUNCH	
1:30 PM	Case Study presentations	Case: <i>Soro Dondar's Leverage</i> Case: <i>Soro Dondar's Structure</i>
3:00	BREAK	
3:15	The use, abuse and selection of Financial Advisers for PF	
4:00	Selecting target PF markets and positioning markets/lenders to compete	

5:00 Adjourn

Day 2: Saturday, April 11

<u>Time</u>	<u>Topic</u>	<u>Readings</u>
8:00 AM	Case Presentations	Case: <i>Soro Dondar's RFP</i> Case: <i>Lenders for Soro Dondar</i>
9:15	Anticipating loan structuring issues; preparing the PIM and project financial model; Organizational alignment	Review: IMs for Kemya & Cerro Negro
10:00	BREAK	
10:15	Executing PF in the bank market; tactics for borrowers to control the deal; negotiating the bank Term Sheet	Read: HBS case Disney Hong Kong
	Syndicated loan pricing; Borrower negotiating tactics; discussion of Disney Hong Kong case	
11:15	Executing in the Project Bond and ECA Markets; Rating Agency issues; qualifying content rules; hybrid financings	
12:00 PM	LUNCH	
1:30	Case Presentation	Case: <i>Soro Dondar's Ex-Im Term Sheet</i>
2:15	Financing new, unconventional energy projects in the PF market – technical, credit & economic issues for PF banks	Case discussion: <i>Oso McMurtrey Ethanol</i>
3:00	BREAK	
3:15	Restructuring a Project Financing Causes of default; Bank Playbooks Your Playbook	Case discussion: <i>Restructuring Kemica's Bank Debt</i>

- 4:00 Summary – the well conceived, well executed PF and its opposite – why deals turn out as they do
- 4:45 Final Exam introduction, Take-home project & Adjourn

Final Words:

Academic Honesty:

The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook, <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy.

Accommodations for Students with Disabilities:

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with DisAbilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.