

**The Techniques and Tactics of Project Financing**  
(FINA 7397)

***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 in this course. The cases used will emphasize the energy and petrochemical industries. Multiple cases involving the Terrasia Petroleum Products Pipeline (Teppline) 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. Senior executives from Societe Generale and/or ExxonMobil will join us for one or more classes and discuss specific PF cases in which they have been involved.

The course will end with a “Capstone case”, **Pioneer Chlor-Alkali**, which deals with financing a Leveraged Buyout. Several of the principals from that transaction will join us for this last class.

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. Attention will also be given to the economics of the Project Finance business from the lenders perspective, and how this influences borrower’s negotiations of interest rate spreads, fees and related terms.

Specific topics to be covered in the course include:

- Proper structuring of projects to facilitate project financing
- Credit assessment to determine degree of achievable leverage
- Quantitative testing to assess loan sizing and amortization
- Managing partner discussions about financing objectives and tactics
- The role for financial advisers, their selection and mandates
- Necessary project financing information and documents to access financial market

- Shaping loan structures and security packages to achieve financing objectives
- Designing a project financing to hedge or mitigate risk, including political risk
- Negotiating key loan economic terms: amount, tenor, spreads/fees
- Executing the deal in different markets: bank, bond and ECA/MLA
- Restructuring insolvent/defaulting project financings
- Securing financing for a Leveraged Buyout

The course will be taught as a combination of lecture and case study work. A good portion of the case studies will be based upon transactions with which the instructor is personally familiar.

Each student will be expected to prepare and present at least one case study during the course. Grading for the class will be based 30% on the midterm, 20% on the case study presentation, 40% on the final exam and 10% on class participation. The Final Exam may either be a take-home case study or an in-class exam. Students will receive further information about the Final after the midterm exam results are determined.

The principal text for the course will be **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 WebCT 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.

The specific class topics are as follows:

Class I	Connecting Project Finance Strategy & Tactics
II	The Initial In-House Finance Plan
III	Sizing the Loan and Scoping the Security Package
IV	Structuring the Project for Financing
V	The Use, Abuse and Selection of Financial Advisers
VI	Necessary Project Technical Information & Organizational Alignment
VII	Choosing and Contacting Financing Markets
VIII	Negotiating key economic Loan terms; the Term Sheet
IX	Executing the Deal in the Bank Market
X	Executing the Deal in the Bond Market
XI	Executing the deal in the ECA/MLA Market
XII	Refinancing/restructuring Issues, Compliance, Why Deals Turn Out as they Do
XIII	Financing the Leveraged Buyout

**Students should read the Tepline (1) case prior to coming to the first class.** It will be discussed during the first two classes 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

<u>Class</u>	<u>Topic</u>	<u>Readings</u>
1. (1/14)	Introduction to Techniques and Tactics Integrating PF Strategy & Tactics into a Winning Plan	Read: PF ABFE: pp. 1-12  Case: Teppline (1)
2. (1/28)	The Finance Plan; Controlling Project Financing through to Financial Close	Read: PF ABFE: pp. 13-16, 36-46 48-49 Case: Teppline (1) continued
3. (2/4)	Sizing the PF loan; spotting and working on credit issues	Read: PF ABFE: 70-79, 88-99 58-65, 129-139 Case: Soro Dondar's Leverage
4. (2/11)	Structuring the venture for Project Financing; key JVA terms and conditions	Read: PF ABFE: 103-121 288-302 Case: Soro Dondar's Structure
5. (2/18)	The use, abuse and selection of Financial Advisers for PF	Read: PF: 29-32 PF ABFE: 65-69 Case: Soro Dondar's RFP
6. (2/25)	Anticipating loan structuring issues; preparing the PIM and project financial model; Organizational alignment	Read: PF ABFE: 164-174 PF: 33-41 also: IM excerpts: Kemya & Cerro Negro
7. (3/3)	Selecting target PF markets and positioning markets/lenders to compete	Read: PF: 47-50, 57-65 PF ABFE: 205-238 Case: Lenders for Soro Dondar
8. (3/10)	Midterm Exam	
9. (3/24)	Executing PF in the bank market; tactics for borrowers to control the deal; negotiating the bank Term Sheet	Read: HBS Case: Hong Kong Disneyland Case: Teppline (2 & 3)
10. (3/31)	Executing PF in the bond market; targeting Investment grade ratings and piercing 'The Sovereign Ceiling'	Read: Moody's: Project Financing HBS Petrozuaeta revisited
11. (4/7)	Executing PF in the ECA/MLA market; managing political requirements and compliance burdens	Read: PF: 67-73  Case: US Ex-Im's Soro Dondar Term Sheet

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| 12. (4/14) | Financing new, unconventional energy projects in the PF market – technical, credit & economic issues for PF banks   | Discussion w/Clay Jones, Societe General Bank |
| 13. (4/21) | <u>Summary</u> – the well conceived, well executed PF and its opposite – why deals turn out as they do, and what happens when PF loans turn ‘non-performing’? | Read: Case: Restructuring Kemica’s Bank Debt  |
| 14 (4/28)  | CAPSTONE CASE<br>Guests: Rick Kellogg: Buyer<br>Doug McMurray: Senior Lender<br>Tom Schnitzius: Advisor   | Read: Case: Pioneer Chlor-Alkali              |

### **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.