

The Techniques and Tactics of Project Financing
(FINA 7395)

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) will be used to allow students to observe the evolution of an actual project financing from inception to execution.

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 will, in turn, 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. Bankers currently engaged in project finance lending here in Houston will participate in several classes and will discuss specific cases in which they were involved.

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
- Executing the deal in different markets: bank, bond and ECA/MLA
- Restructuring insolvent/defaulting project financings

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 20% on the midterm, 30% on the case study presentation, 40% on the final exam and 10% on class participation.

The principal text for the course will be **Project Financing, Asset-Based Financial Engineering** (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:

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| Class I | Connecting Project Finance Strategy & Tactics |
| II | The Initial In-House Finance Plan |
| III | Structuring the Project for Financing |
| IV | Sizing the Loan and Scoping the Security Package |
| V | Necessary Project Technical Information & Organizational Alignment |
| VI | The Use, Abuse and Selection of Financial Advisers |
| VII | Choosing and Contacting Financing Markets |
| VIII | Preparing Loan structures, Project information and Financial projections |
| 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 | Loan Compliance, Refinancing Issues, Why Deals Turn Out as they Do |

At the conclusion of this class, 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.	Integrating PF Strategy and Tactics into a Winning Plan	PF: 9-27
2.	Upfront Planning to Control Project Financing through to Financial Close	PF ABFE: pp. 34-52
3.	Analyzing the loan size and creditworthiness of a PF	PF ABFE: 91-109, 135-147 PF: 51-55
4.	Structuring the venture for Project Financing	PF ABFE: 70-90 PF: 265-297
5.	Anticipating loan structuring issues; preparing the PIM and project financial model	PF ABFE: 135-156 PF: 33-41
6.	Aligning the Organization and Working with Partners; Reconciling objectives & building consensus	Case: TEPPLINE (distributed by instructor)
7.	The use, abuse and selection of Financial Advisers for PF	PF: 29-32
8.	Selecting target PF markets and positioning markets/lenders to compete	PF: 47-50,57-65
9.	Executing PF in the bank market; tactics for borrowers to control the deal	HBS Case: Hong Kong Disneyland
10.	Executing PF in the bond market; targeting Investment grade ratings	Moody's: Project Financing HBS Petrozueta Case Study
11.	Executing PF in the ECA/MLA market; managing political requirements and compliance	PF: 67-73
12.	Summary – the well conceived, well executed PF and its opposite – why deals turn out as they do	

