

Capstone public project summary
on the capstone project

„Refinancing of a loan linked to a corporate acquisition”

by

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Introduction

The project covers the process of granting a corporate loan in a commercial bank through the refinancing of a loan linked to a corporate acquisition. The aim was to provide the debtor of the bank loan (“Debtor”), i.e. the new co-shareholder of the target company (“Target”) with the necessary banking sources to replace the funds originally ensured by the owner of the Debtor to acquire the Target’s shares. As the Debtor was a special purpose vehicle - specially established with the purpose of completing the sale and purchase transaction - consequently it had no revenue generating activity and thus the repayment of the loan was based on the free cash flow generating capacity of the Target that is a leading service provider company in its sector.

Scope, process

The project management embraced the whole process of providing the loan, starting from the negotiations with the client to the disbursement of the loan (and beyond). The student, Éva Pap acted as a relationship manager (“Relationship Manager”) in the deal. A relationship manager is the key person to handle such a procedure, but granting a loan is the result of a teamwork carried out by many different departments of a Bank. The cooperation with the co-departments (risk, credit control, back office) and the proper coordination of their work by the Relationship Manager – was of key importance to meet the debtors’ requirements and to achieve the expected result, i.e. to have the loan disbursed.

The final financing structure was the result of lengthy negotiations with the Debtor and multi-round discussions with the risk department of the Bank and with the law firm involved. Great emphasis was put on finding the right balance between the risk appetite / policy, the profitability requirements of the Bank on the one hand and the needs of the Debtor on the other hand. The latter one was particularly important to satisfy, as considering the financial stability and leading market position of the Debtor, the deal drew the attention of other banks as well that strengthened the Debtor’s bargaining power.

Deliverables

The purpose of the project was to have the deal disbursed and on this way there were two key deliverables to be completed: the credit proposal and the loan and security agreements. The decision on the credit application was based on the information shared with the decision makers in the credit proposal. It covered – among other things:

- the introduction of the sale and purchase transaction and the parties involved,
- the analysis of the financial data of the Target (*as the repayment was ensured by its financial performance*), the assessment of the financial model on which the repayment was based on,
- the proposed deal structure,
- the identification and mitigation of possible risk factors,
- the compatibility check with the credit policy of the Bank,
- an industrial overview, and
- the cooperation and future business potential with the group of companies (that the Debtor and the Target belonged to).

The loan and security agreements were prepared by an external law firm but in close cooperation with the Relationship Manager and based on her instructions regarding the deal structure and the contractual obligations to be stipulated.

Achievements

As the result of the project the loan was disbursed to the Debtor - resulting in direct and indirect achievements as well for the Bank. By “direct” meaning the predictable and considerable income during the maturity of the loan, and the additional income generated by the increased account turnover of the Target in the bank (thanks to a contractual obligation to channel the considerable account turnover, i.e. more revenue from its clients to the accounts kept with the Bank). Concerning the “indirect” effects, the completion of the project resulted in strengthening the cooperation with the group of companies the Debtor and the Target belonged to and boosting further business opportunities)that was verified by new financing deals started with the Bank). The project also served as a door

opener to the expansion of the cooperation with the Target itself, and as a consequence the Bank explicitly became the Target's main banking partner.

Learning experience

One of the main takeaways of the project was the importance of quick adaption to changing circumstances. The main and primary challenge during the negotiations and the structuring of the appropriate financing was the fact that at the beginning the Debtor, i.e. its owners did not have a clear view of the envisaged transaction setup (meaning the sale and purchase transaction that was considered as a complex acquisition deal). Consequently there were several interim versions before the final setup and thus the financing structure must have been changed accordingly.

It was also challenging to bring the standpoints of the Debtor and the risk department closer, and to find “the golden middle way” acceptable to both parties and underpinned by reasonable arguments. This called for professional and negotiation skills as well and all in all the whole process led to the improvement of both skills. Finding the golden mean was manageable in case of most of the delicate issues, but one question remained open - meaning the proportion of equity required / offered – that must be decided upon by the decision makers. In this question the sales team / Relationship Manager stood for the standpoint of the Debtor and finally the decision by the decision makers was made in favor of this proposal.

Overall the process of granting a corporate loan can be a quite complex procedure that requires many skills, but in return it can be considered as a great opportunity to improve these skills.