Home Products International Case Questions
Distress Investing Maymester, 2015
Final In-Class Case

1. Using the information on the Case document, calculate the "credit market debt" to total asset ratio for HPI for 1997 and 1998. By credit market debt I mean either loans, notes or bonds. Think about these ratios and make some judgement about whether they are 'normal', 'low' or 'high'. Repeat the same exercise, but this time look only at tangible assets, i.e. exclude intangible assets.
2. Calculate the total long term liabilities to EBITDA ratio and the EBITDA to interest expense coverage ratio for 1997 and 1998. Comment on the trend in these "leverage ratios".
3. What types of debt did the company incur in 1998?
4. Go into the credit agreement dated May 14, 1998 and research the following questions:
   a. Are the facilities junior, senior, or pari passu to the Notes? Why?
   b. Are the facilities 'secured' or 'unsecured'? Point to the place on the document where the information or some of the information can be found.
   c. Did the company meet the following covenants at the end of 1998:
      a) Consolidated total leverage ratio:
      b) Consolidated senior leverage ratio:
      c) Consolidated interest coverage ratio:
5. Go into the indenture for the 9 5/8% Notes dated May 14, 1998 and research the following questions:
   a. Are the notes junior, senior, or pari passu to the credit facilities? Where in the indenture did you find the information.
   b. Are the notes secured or unsecured? Where in the indenture?
   c. Are the notes senior to the trade claims? Where in the indenture?
   d. Are these notes subordinated in right of payment to the credit facilities? Where do you find this?
6. Construct a table that includes all debt instruments and other debt-like claims, organized by priority in right of payment (higher priority going first), and the detail on the principal outstanding or drawn amount. Sum up the likely amounts to retire for the following year (1999). You are analyzing the company's debt structure.
7. A "B" rated note paying an annual coupon of 5 1/4% and maturing in May 2012 is selling for 94.07. What would an otherwise identical note sell for if the issuer was in financial distress, i.e. use a 500 basis points spread over the yield of the non-distressed note.
8. What would be the value of the company assets as a going concern using the framework we used, and assuming: t=0.35, g = -10% and -5%, n = 5, r_u=10% for the end of 1999.
9. What would be the value of equity on a per share basis? Compare to the public market price of the shares for the same period.
10. If the company were to file for Chapter 11 at the end of 1999, and the judge is convinced that the going concern value of the company is only 4.00x 1999 EBITDA, what will be the recovery of the different classes. Build the waterfall and include administrative expenses of $3,600 (or $3,600,000).