

Unknown

From: Loehr, Chris
Sent: Friday, August 24, 2001 1:51 PM
To: Yaeger, Anne
Subject: some random files



generic_raptor_3.ppt (49 KB)



M2orgchart_parts
ept.ppt (48 ...



Raptor_steps.ppt
(108 KB)

Investment Rationale

Challenge: Create a risk management vehicle to hedge the profit & loss volatility on a company's income statement due to mark-to-market accounting of individual investments

Investment Rationale

Example: Income statement volatility from investment in 5 million shares of AOL on December 31, 1999

Screen Price 12/31/99 = \$75.875

Asset Value on B/S = \$379 million

Screen Price 3/30/00 = \$67.25

Asset Value on B/S = \$336 million

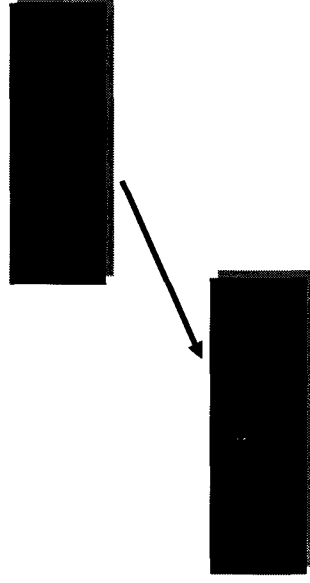
Loss = \$ 43 million

Investment Rationale

Solution: LJM2 creates a special purpose vehicle with which the company may enter into derivatives (swaps, puts, calls, etc.) to hedge the underlying exposure of these volatile equity investments held on balance sheet

Investment Structure

Step 1: LJM2 will capitalize NewCo, a bankruptcy remote special purpose vehicle.



Investment Structure

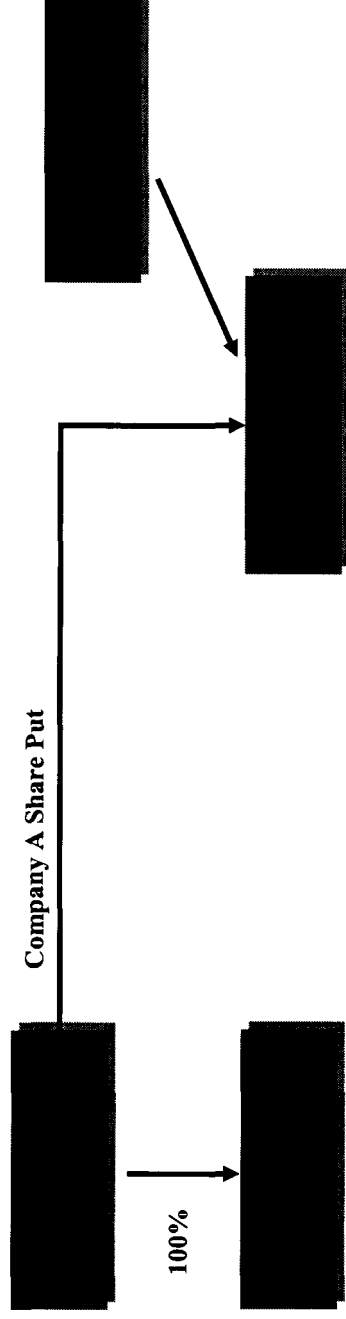
Step 2: Company A will form a wholly-owned subsidiary, Company A Sub.



- Company A Sub's purpose will be to enter into hedging transactions with NewCo

Investment Structure

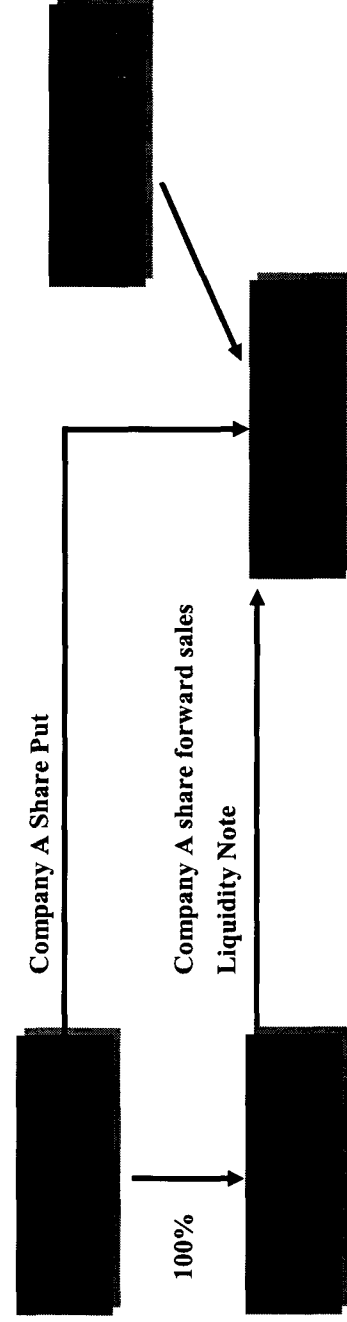
Step 3: Company A and NewCo enter into a share settled put on Company A shares with a maturity in six months.



- The effect of the put is to embed NewCo with cash and earnings equal to LJM2's agreed return

Investment Structure

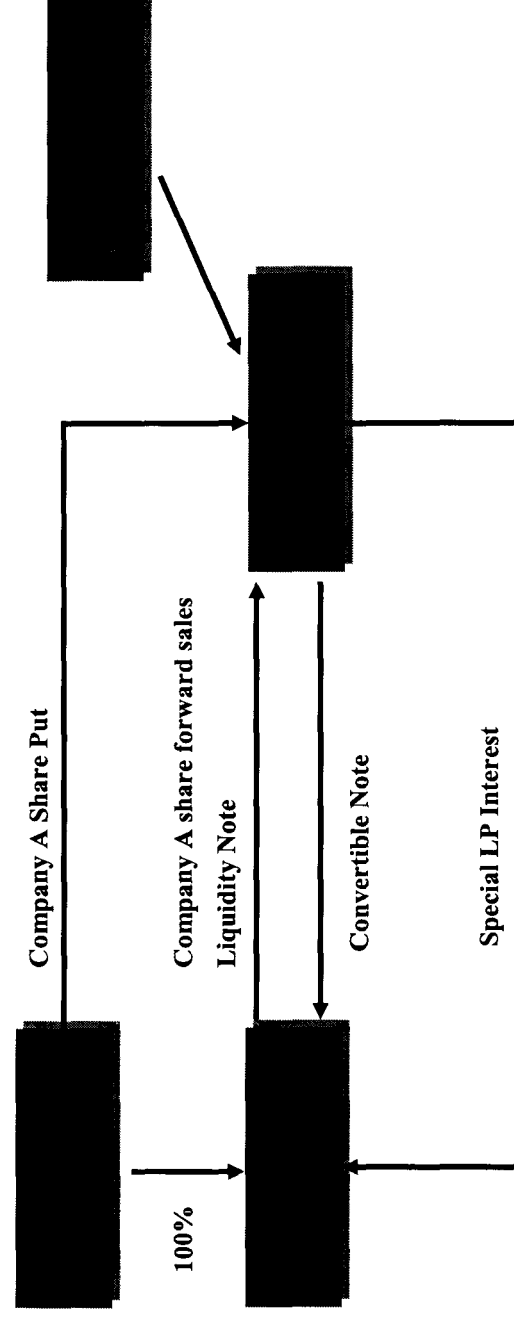
Step 4: Company A and NewCo enter into a series of forward sale agreements on Company A shares, and Company A makes a loan to NewCo for initial liquidity.



- The forward sales are on Company A shares. The shares underlying the forwards will be subject to a variety of restrictions on registration and transferability. Therefore, the parties will discount the value of the contracts by approximately 30%
- The value of the Company A shares provides sufficient capital for NewCo to be a creditworthy counterparty in derivative transactions

Investment Structure

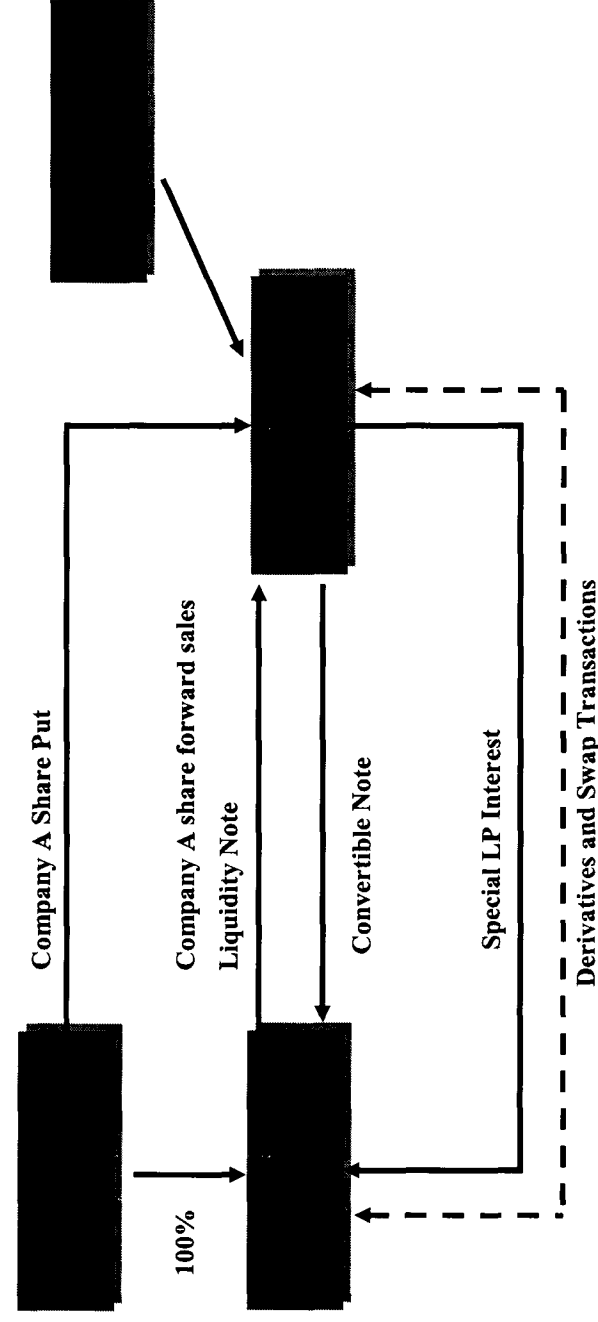
Step 5: In exchange for the value received in Step 4, NewCo loans Company A Sub an equivalent amount in the form of a convertible note and gives Company A Sub a special limited partnership interest.



- Interest on either note may be capitalized
- The special LP interest allows Company A Sub to participate in upside in the vehicle, if any, at liquidation

Investment Structure

Step 6: Company A Sub and NewCo enter into derivatives and swaps designed to hedge Company A's mark-to-market exposure on publicly traded and privately negotiated equity investments.



- When Company A Sub requests a derivative transaction with NewCo, the premium for such derivative that NewCo would have received/paid will decrease/increase the convertible note principal amount
- When Company A Sub requests a swap transaction with NewCo, there is no exchange of value for "at the money" swaps

Investment Rationale

Example: Volatility from investment in 5 million shares of AOL on December 31, 1999

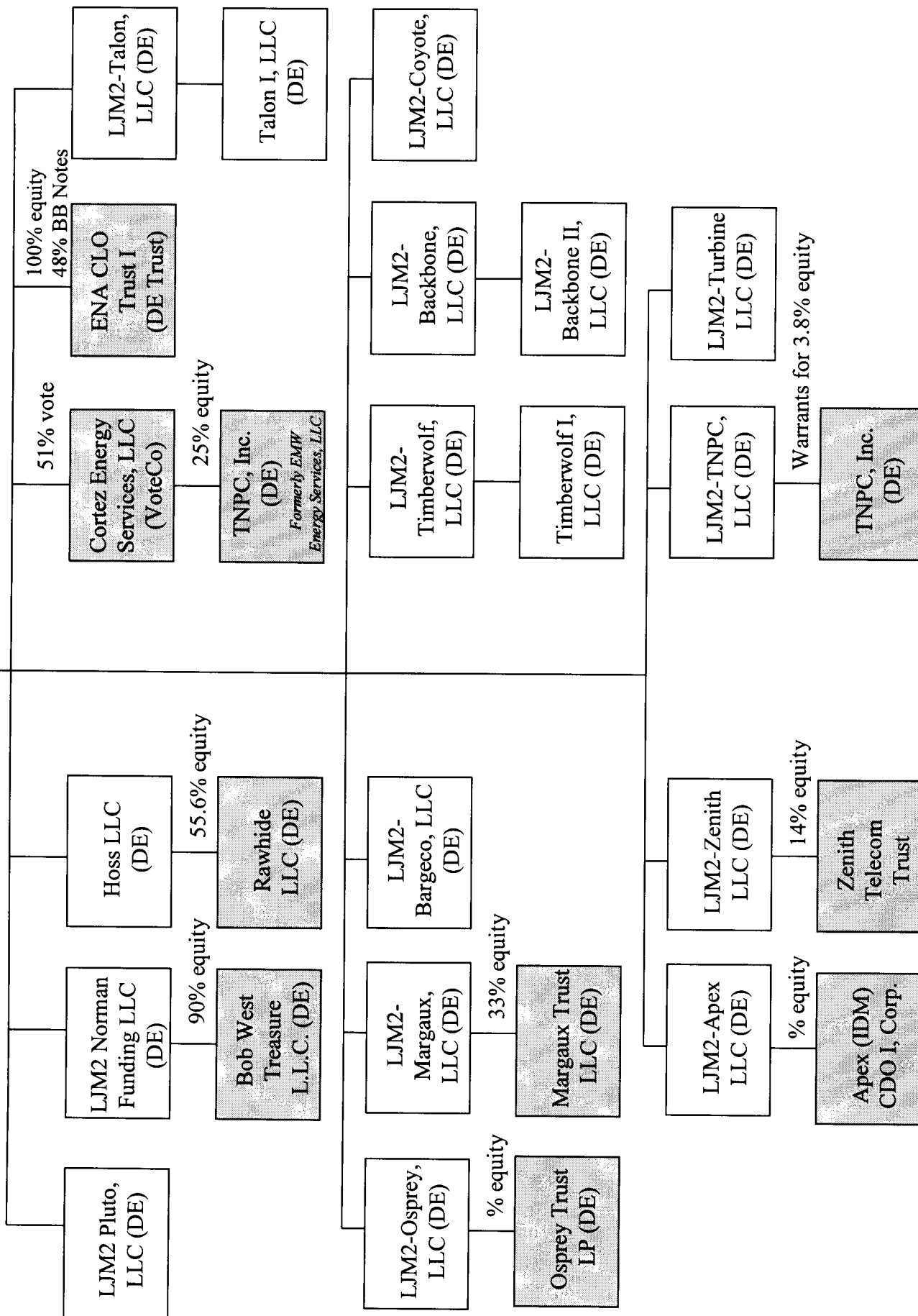
Without Hedge

Screen Price 12/31/99 = \$75.875	Asset Value on B/S = \$379 million
Screen Price 3/30/00 = \$67.25	Asset Value on B/S = \$336 million
	Loss = \$ 43 million

With Hedge

Screen Price 12/31/99 = \$75.875	Asset Value on B/S = \$379 million
Screen Price 3/30/00 = \$67.25	Asset Value on B/S = \$336 million
Swap @ \$78.875	Asset Value on B/S = \$ 43 million
	Loss = \$ 0 million

LJM2 Co-Investment, L.P. (DE LP)



LJM2 Co-Investment, L.P.

Raptor
Co-Investment Presentation

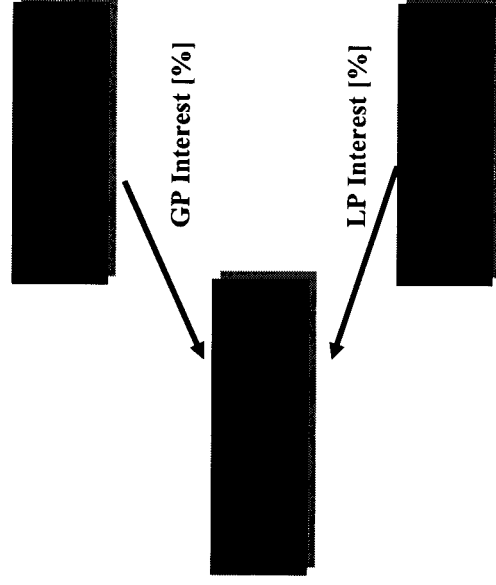
Raptor Investment Structure

Issue: Enron invests capital as part of its general investment strategy in highly volatile public and private businesses.

Problem: How to hedge Enron's income statement from the impact of such volatility

Raptor Investment Structure

Step 1: LJM2, along with coinvestors, will capitalize NewCo, a bankruptcy remote special purpose vehicle, with up to \$40 million.



Raptor Investment Structure

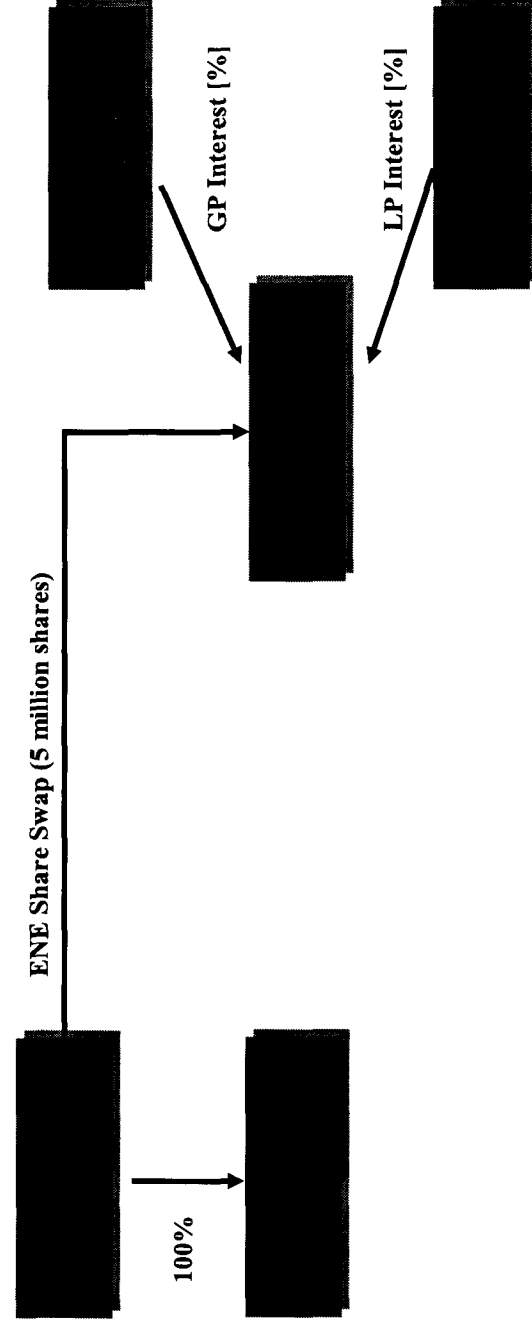
Step 2: Enron will form a wholly-owned subsidiary, Enron Sub.



- Enron Sub's purpose will be to:
- Invest in NewCo through a special limited partnership interest
- Enter into hedging transactions with NewCo

Raptor Investment Structure

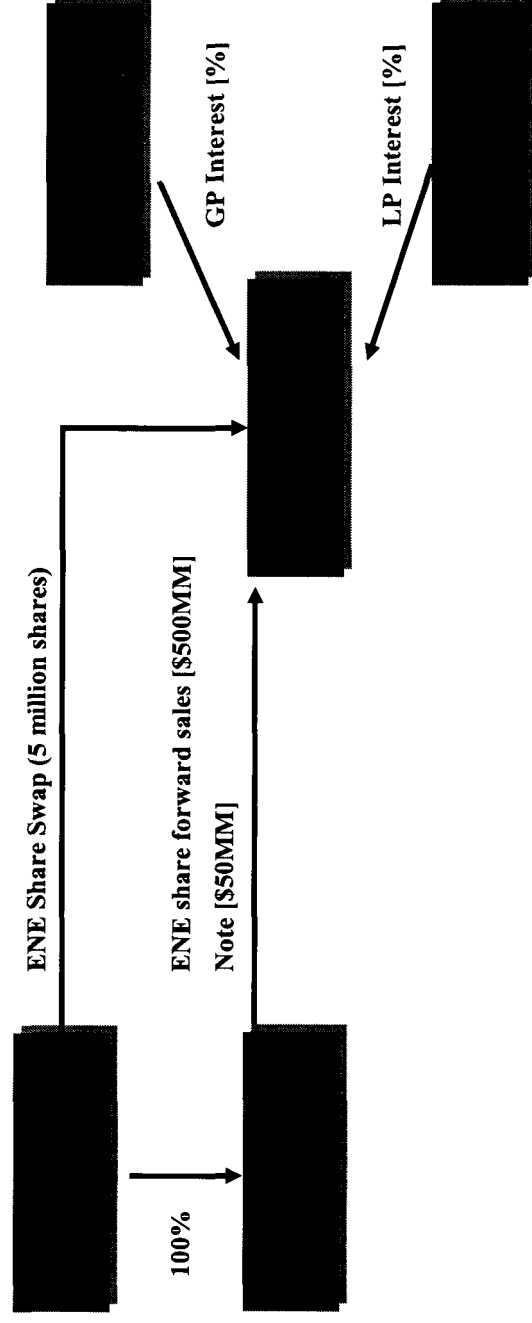
Step 3: Enron and NewCo enter into a share settled swap on five million Enron shares with settlement based on a 60 day trailing average and maturity in six months.



- The current 60 day trailing average is approximately \$54 per share. Assuming the stock trades flat for six months, the closing 60 day trailing average would be approximately \$70. Therefore, the effect of the swap is to embed NewCo with approximately \$80 million of value.

Raptor Investment Structure

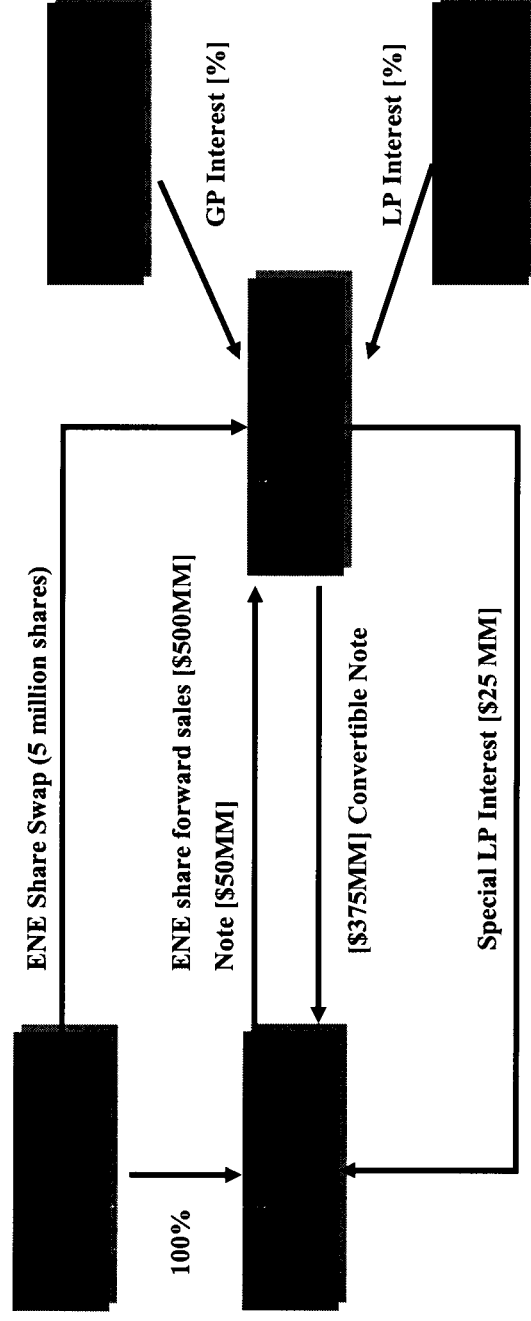
Step 4: Enron and NewCo enter into a series of forward sale agreements on Enron shares, and Enron loans NewCo \$50 million for initial liquidity.



- The forward sales are on \$500 million of Enron shares. The shares underlying the forwards will be subject to a variety of restrictions on registration and transferability. Therefore, the parties will discount the value of the contracts by approximately 30%, implying that NewCo has received $\$50 + \$350 = \$400$ million.

Raptor Investment Structure

Step 5: NewCo, in exchange for the \$400 million of value received in Step 4, loans Enron Sub \$375 million in the form of a convertible note and gives Enron Sub a special limited partnership interest initially valued at \$25 million in NewCo.



- When Enron Sub requests a derivative transaction with NewCo, the premium for such derivative that NewCo would have received/paid will decrease/increase the principal of the \$375 million note. (For example, if NewCo writes a put which carries a \$25 million premium, the note would decrease to \$350 million)
- Interest on the convertible note can be capitalized at LJM2's discretion, increasing the principal amount of the note.

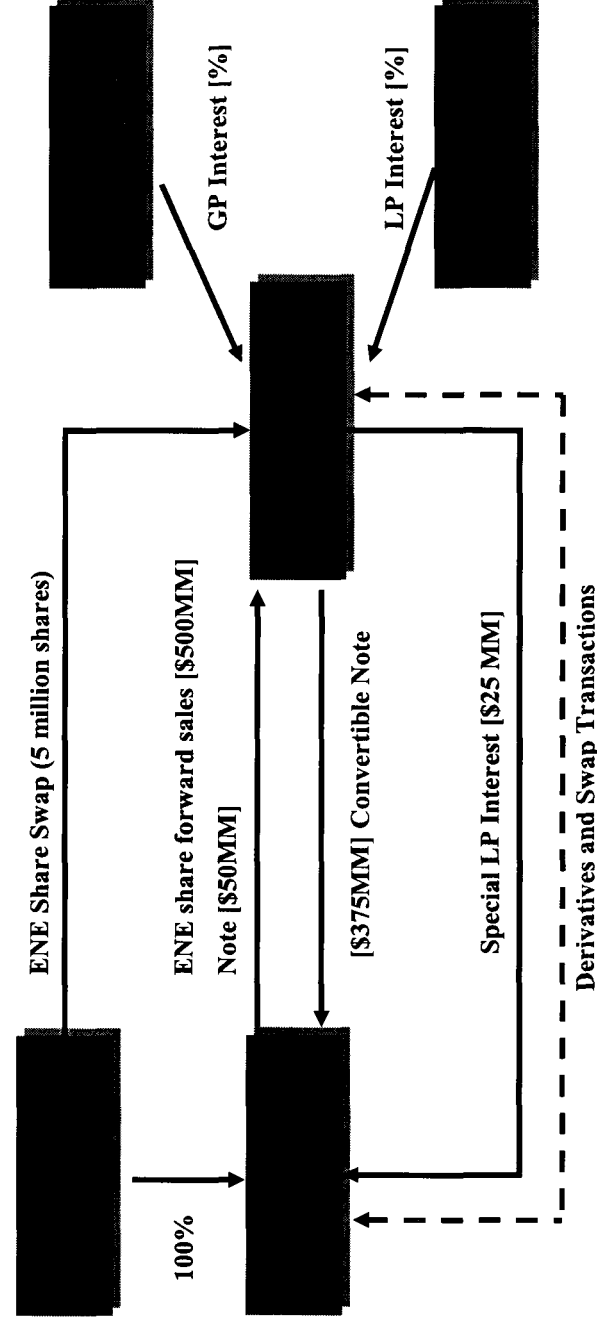
Raptor Investment Structure

Value Analysis

<u>Enron Consideration</u>	<u>LJM Consideration</u>	
Convertible Note	\$375 million	Enron Shares \$500 million
Special LP interest	25 million	Note <u>50 million</u>
Stock Restriction Agreement	<u>150 million</u>	
	<u>\$550 million</u>	\$550 million

Raptor Investment Structure

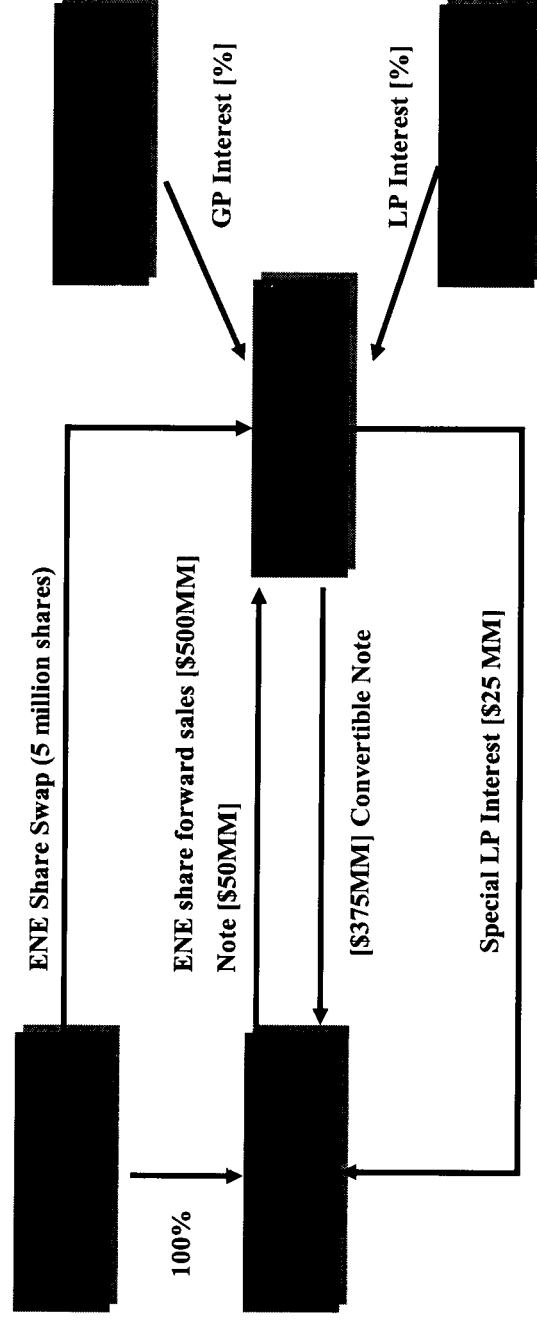
Step 6: Enron Sub and NewCo enter into derivatives and swaps designed to hedge Enron's mark-to-market exposure on certain publicly traded and privately negotiated equity investments.



- The premium NewCo would have received/paid for entering into such derivatives decreases/increases the outstanding principal amount on the convertible note.

Raptor Investment Structure

Step 7: As the note is converted to derivatives, Enron Sub will pay NewCo a management fee equal to [50] basis points of the notional amount of the derivatives and swaps entered into.



- This creates additional liquidity for NewCo [and potentially higher returns to LJM2 through its sharing of such fee]

Raptor Investment Summary

Description	• LJM2, through a wholly owned subsidiary, will form NewCo, a bankruptcy remote special purpose vehicle, whose purpose will be to enter into certain derivative transactions with Enron subsidiaries. • NewCo will be capitalized with \$25-40 million of equity from LJM2 (or a combination of LJM2 equity and equity from co-investment by limited partners) • NewCo is anticipated to have nearly \$550 million in assets at financial close, against which it will write derivatives as a result of forward sale agreements with Enron subsidiaries. • It is anticipated that Enron and Newco will enter into swaps (or other derivative instruments) up to a notional value of \$1 billion.
Economics and Preferred Return	NewCo will have a priority on its distribution as described in the NewCo partnership documents. The waterfall is intended to work as follows: • The first [\$30] million of cash to LJM2 (generating the expected return shown below) • Additional distributions as necessary to give LJM2 a [30%] IRR (unlevered) • Then, [100%] of distributable cash to the SLP (Enron) LJM2 will have upside to the extent that the derivatives have value at the unwinding of the NewCo partnership (anticipated to be a maximum of \$40 million.)
Expected Return	[64-81%] IRR
Expected Closing	March 28, 2000
Risks and Mitigants	Return of and return on capital will depend on NewCo's ability to distribute cash. It is expected that NewCo will have the cash and the earnings to reach the first and second waterfall hurdles within six months of financial close.

Raptor Investment Structure

Step 8: Distributions from NewCo will be limited to earnings. In six months, NewCo is expected to have earnings and cash sufficient to make a distribution of up to \$48 million to LJM2 and the coinvestors, resulting in a nominal IRR of 44%.

<i>NewCo Cash Account</i>			
LJM2 and Coinvestor Equity Contribution	\$40		
Add: NewCo cashflow (see below)	70		
Less: NewCo distributions	<u>(48)</u>		
Ending Cash Balance	\$62		
<i>NewCo Financials</i>		<i>Cashflow</i>	<i>GAAP Earnings</i>
Amortization of discount applied to forward sales	---		\$25
Enron share swap settlement	\$80		80
Investment earnings	1		1
Interest income	2		2
Management fee	2		2
Interest expense on convertible note	<u>(15)</u>		<u>(15)</u>
Total	\$70	\$95	11