

Restructuring Problem Credits

Objectives

The aim of this two-day course is to demonstrate the key analytic, structuring and restructuring lessons to be learned from deteriorating / failed credits.

Specifically participants will be equipped to:

- Understand the role of covenants in credit management and crisis situations: covenant structures and the implications of breaches, waivers and amendments on the company and on all classes of creditors.
- Understand the process for managing exposures to a company in distress
- Evaluate the business and operational decisions required by the company in order to place its business on a more solid foundation
- Assess the available options to lenders / investors, benchmarking likely recovery against other alternatives and the current market price of the company's debt, where applicable
- Identify the restructuring alternatives, evaluate the possible choices and select the most appropriate restructuring solution, exit and/or workout options for companies in distressed situations.

Content

Debt Structure

This section will evaluate the strengths and weaknesses of debt structures in protecting lenders / investors when a company reaches crisis point.

- Purpose: who is the borrower? Where are the assets and the cash-flows?
- Ranking: structural subordination concerns for holding company lenders; challenges of hold co/opco debt restructurings and multiple tranches of debt
- What protection has been negotiated; strong and weak forms of protection
- Monitoring credit indicators: deciding that the credit is indeed "heading south" and at which point watch-listing is required
- Evaluating exit options ahead of covenant breaching or other events of default
- Covenants: predictive qualities of standard leverage loan covenants.

Crisis Management

The goal of this segment is to understand the process for managing exposures to a company in distress: the short-term crisis management and the medium term business revisions required to manage the situation.

Triggers to Distress

- Covenant breach: characteristics of effective covenants
- Liquidity crunch: refinancing challenges, other calls on liquidity
- Insolvent trading: defining insolvency – balance sheet and cash-flow methodologies, differences by jurisdiction.

Managing Crisis

- Response options to covenant breach: differences between large and small companies
- Stabilising the financing situation: standstill agreement, covenant waiver
- Majority decision issues
- Appointing advisers: role of lead bankers, accountants, lawyers and business advisers
- Cash management: ensuring ability to continue trading, headroom in the revolving credit facilities, need for new money
- Establishing and certifying the company's going concern status.

Legal Framework

- Insolvency regimes: responsibility of directors, judicial oversight,
- Contrasting debtor vs. creditor friendly regimes
- Brief overview of EU regulation on Insolvency Proceedings: establishing centre of main interests (COMI), main and secondary proceedings
- Pre-pack sales as a means to maximising value: associated benefits and risks
- US models: Chapter 11 (reorganisation) and Chapter 7 (liquidation)
- Parties to a legal restructuring: trustee, secured, unsecured and preferred creditors.

Remedial Business Plan

The goal of this segment is to evaluate the business and operational decisions required by the company in order to place its business on a more solid foundation.

- Required changes to operating model to address the critical success factors of the industry and internal operational problems
- Quantifying performance: establishing and sensitising a sustainable EBITDA run rate
- Obstacles to restructuring: legal, social, regulatory, operational and financing challenges that arise when a company is in distress.

Debt Restructuring Alternatives

The goal of this segment is to evaluate the available options, benchmarking likely recovery against other alternatives and the current market price of the company's debt, where applicable.

Exit Options

- Sale of exposure: secondary loan market
- Hedging of exposure: CDS, credit insurance.

Payback Options

- Assessing a viable level of debt: forecasting and quantifying payback from different sources
 - Cash-flow payback: present value of sensitised cash-flows
 - Refinance – debt: evaluating sustainable levels of debt for refinancing at maturity
 - Refinance – equity: secondary equity issues – assessing appropriate price and discount requirements
 - Asset sales: downsizing of operating assets; sale of business, monetising assets (e.g. factoring, securitisation, sale and leaseback).

Quantifying Potential Recovery for Creditors

- Establishing the relative claims and negotiating positions of various creditors
- Stakeholders with special negotiating positions: employees, suppliers, pension deficits, regulators, leaseholders, bonding lines, shareholders etc.
- Situations where claims are not pro-rata: structural subordination, cross guarantees, blocking powers of special interests (e.g. supplier)
- Impact / influence of distressed / vulture funds on restructuring alternatives
- Cram down rights: forcing confirmation of a plan over the objections of dissenting classes e.g. shareholders with voting rights.

Break-Up and Liquidation Options

- Liquidation: estimating potential recovery value from assets for different classes of creditors in the event of liquidation
- Going concern valuations: using discounted cash-flows or EBITDA multiples to assess the value of subsidiaries and the group.

Debt/Equity Swaps

- Unsustainable levels of debt requiring debt forgiveness and / or conversion to equity
- Valuing the equity in a distressed situation
- Allocating equity according to the relative claims of creditors and existing shareholders.

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Jeff Kaplan



Jeff Kaplan's expertise is in corporate credit analysis in every slice of the capital structure within the cash and synthetic markets. He has over 24 years of experience working with distressed and special situations, workouts, commercial real estate bridge lending, and private equity investing/structuring. He has worked in New York City with many private investment firms/hedge fund groups, including five years at prominent hedge fund, Elliott Associates LP (now Elliott Management Corp), working most recently with Della Camera Capital Management, LLC, as a Credit Analyst – Distressed, Special Situations, High Yield Generalist.

Jeff received his MBA in 1995 from New York University Stern School of Business and completed his BA in Economics at Tufts University.

Jeff has delivered such courses as: Sponsored & Leveraged Finance, Advanced Corporate Credit Analysis, Capital Structures and Debt Products, Early Warning Signals, Emerging Market Corporate Credit, Corporate Credit Analysis for Midcaps, Macroeconomics and the Role of the Fed, Introduction to Hedge Funds, Introduction to Debt Capital Markets, Introduction to Global Financial Markets, and Introduction to Prime Brokerage.

He has also delivered tailored courses on Distressed and Problem Credits for the following clients:

- Office of the Superintendent of Financial Institutions (Canada)
- Deutsche Bank (USA)
- Liberty Mutual Investments (USA)
- PPM America, Inc. (USA)
- Lloyds Bank (USA)
- US Department of Agriculture (USA)
- US Department of the Treasury (USA)

Jeff, who is based in New York, has also delivered several public courses on the subject for Fitch Learning.