

# Restructuring 101

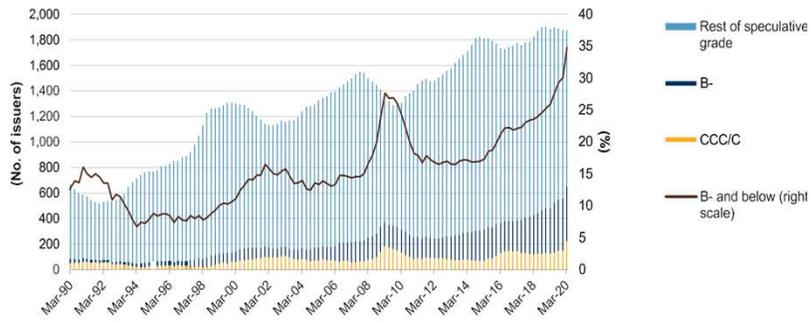
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## Intro to Restructuring

- Financial restructuring
  - Alter the financial obligations of a company
- Operational restructuring
  - Alter the operations of a company
- Why?
  - Poor financial performance vs expectations
  - Unsustainable capital structure
- How?
  - Actions and solutions vary depending on circumstances

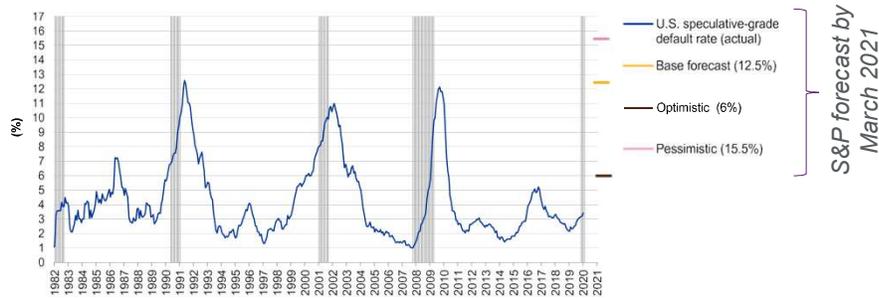
## Increase in Speculative Grade Debt over Time



Sources: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.  
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Per S&P report dated 5/28/20. "Default, Transition, and Recovery: The U.S. Speculative-Grade Corporate Default Rate Is Likely To Reach 12.5% By March 2021"

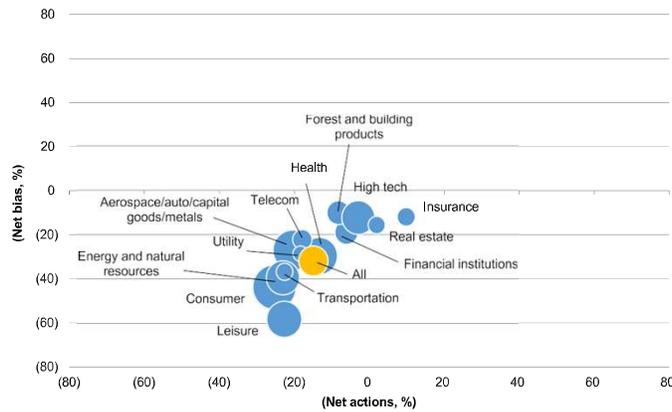
## Near-term Defaults Anticipated



Note: Shaded areas are periods of recession as defined by the National Bureau of Economic Research.  
Sources: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.  
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## Industries Impacted



Per S&P report dated 5/28/20. "Default, Transition, and Recovery: The U.S. Speculative-Grade Corporate Default Rate is Likely To Reach 12.5% By March 2021"

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## Operations / Diagnosing Financial Distress

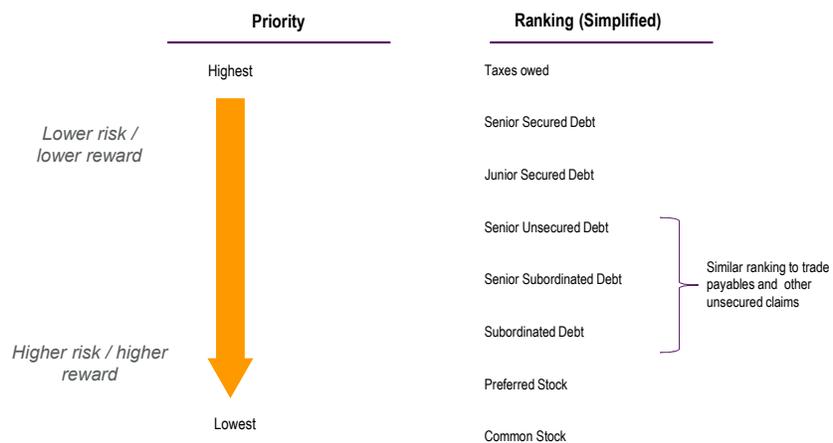
- What caused the financial distress?
  - Have sales declined?
  - Are sales not converting to earnings?
  - Are earnings not converting to cash flow?
- Can it be fixed?
  - Idiosyncratic issue or major industry disruption?
- How soon can it be fixed?
- Will it require new capital to fix?

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## Restructuring Community

- Advisors
  - Bankruptcy lawyers
  - Turnaround consultants
  - Restructuring bankers
- Investors
  - Special situations / turnaround-oriented private equity
  - Credit / “distressed” hedge funds
  - Special situations lenders
- Specialties
  - Spectrum of expertise in operational and/or balance sheet restructuring

## Credit and Credit Structure



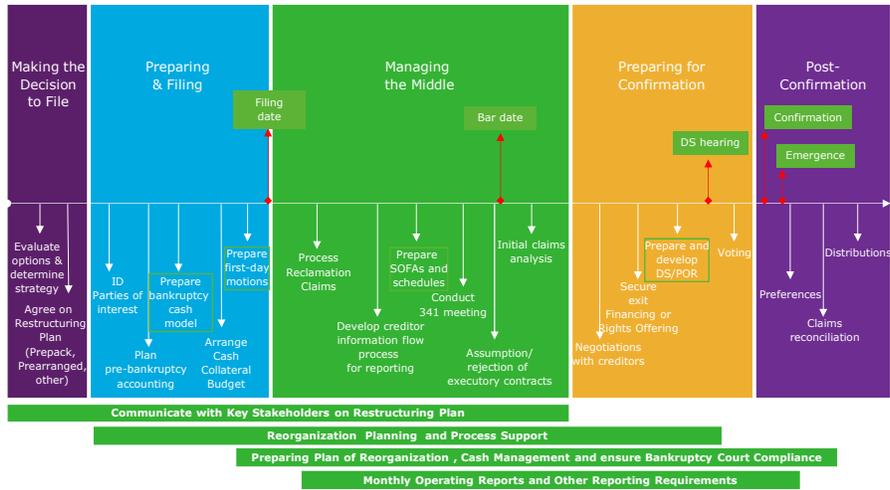
## Triggers for a Financial Restructuring

- Covenant / technical default
  - Affirmative
  - Negative
  - Financial
- Maturity
  - Inability to refinance
- Liquidity
  - Run out of money

## Types of Financial Restructuring

- Out-of-court restructuring
  - Amendment
  - Forbearance
  - Exchange
- Reasons to move to a court driven process
  - Automatic stay
  - Voting thresholds / holdouts
  - Valuation dispute / inter-creditor issues
  - Non-financial creditors
  - Sale of assets free and clear
  - Limited Insulation from D&O Liability/Exposure

## Bankruptcy Process and Timeline



## Chapter 11 Variants and Possible Outcomes

### Types of filings

- Traditional**
  - Company files without a pre-determined plan
  - Utilizes bankruptcy timeframe to develop turnaround plan and begins implementation
  - Determines debt capacity based on revised business plan capabilities
  - Negotiates with creditors to restructure balance sheet and re-allocate ownership
  - Raises capital to emerge from bankruptcy
  - Generally takes 12-24 months in court
- Pre-Arranged/Pre-Packaged**
  - Company negotiates a restructuring plan prior to filing
  - Pre-arranged has sufficient support (via a negotiated restructuring support agreement (RSA)) to confirm a plan, but has not solicited votes or may require court approval to "cram down" the plan on certain creditors
  - Pre-pack has all votes necessary to confirm plan on the day filed
  - Traditionally used to fix balance sheet only
  - Most creditors unimpaired, with the exception of those sponsoring the plan with debt for equity exchanges
  - Generally takes 2-12 months in court

### Chapter 11 process

### Possible outcomes

- Reorganize**
  - Company operations and structure substantially similar to pre-filing
  - Balance sheet restructured based on debt capacity
  - Ownership interests likely redistributed
- Sell**
  - Company sold "free and clear" of prepetition debt in a "section 363" transaction
  - Results in business continuation under a new owner
  - Proceeds of the sale distributed to creditors in respect of their claims
- Liquidate**
  - Company operations are wound down and all assets are sold
  - Could be done in Chapter 11 by management or via conversion to a Chapter 7, with a court appointed trustee in charge
  - Proceeds from the sale of assets are distributed to creditors to cover their claims

## Discussion / Q&A

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## Thank you

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