

Restructuring and Bankruptcy Considerations

June 2018

ALVAREZ & MARSAL

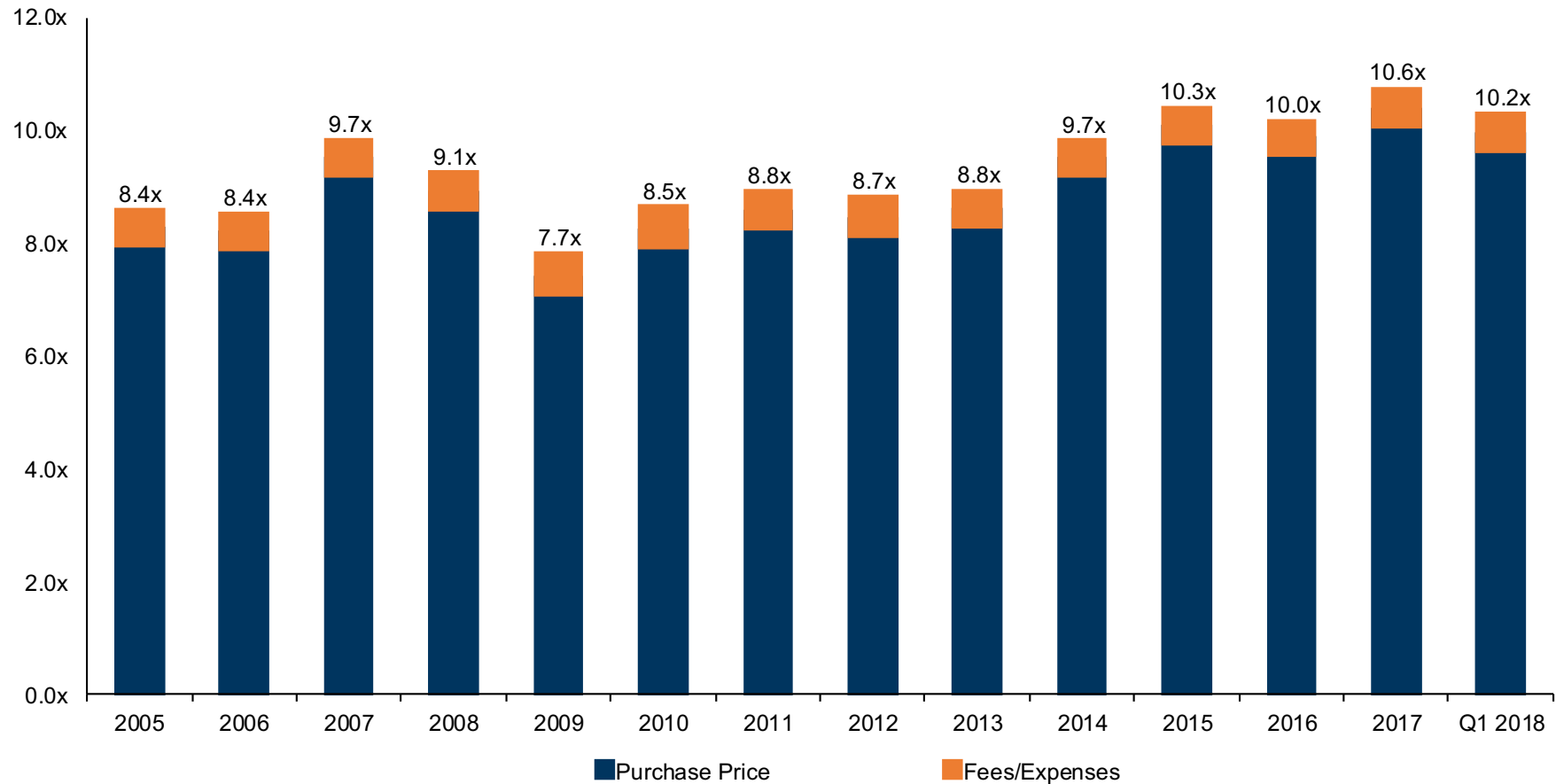
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Market Overview

Total Purchase Price for LBOs

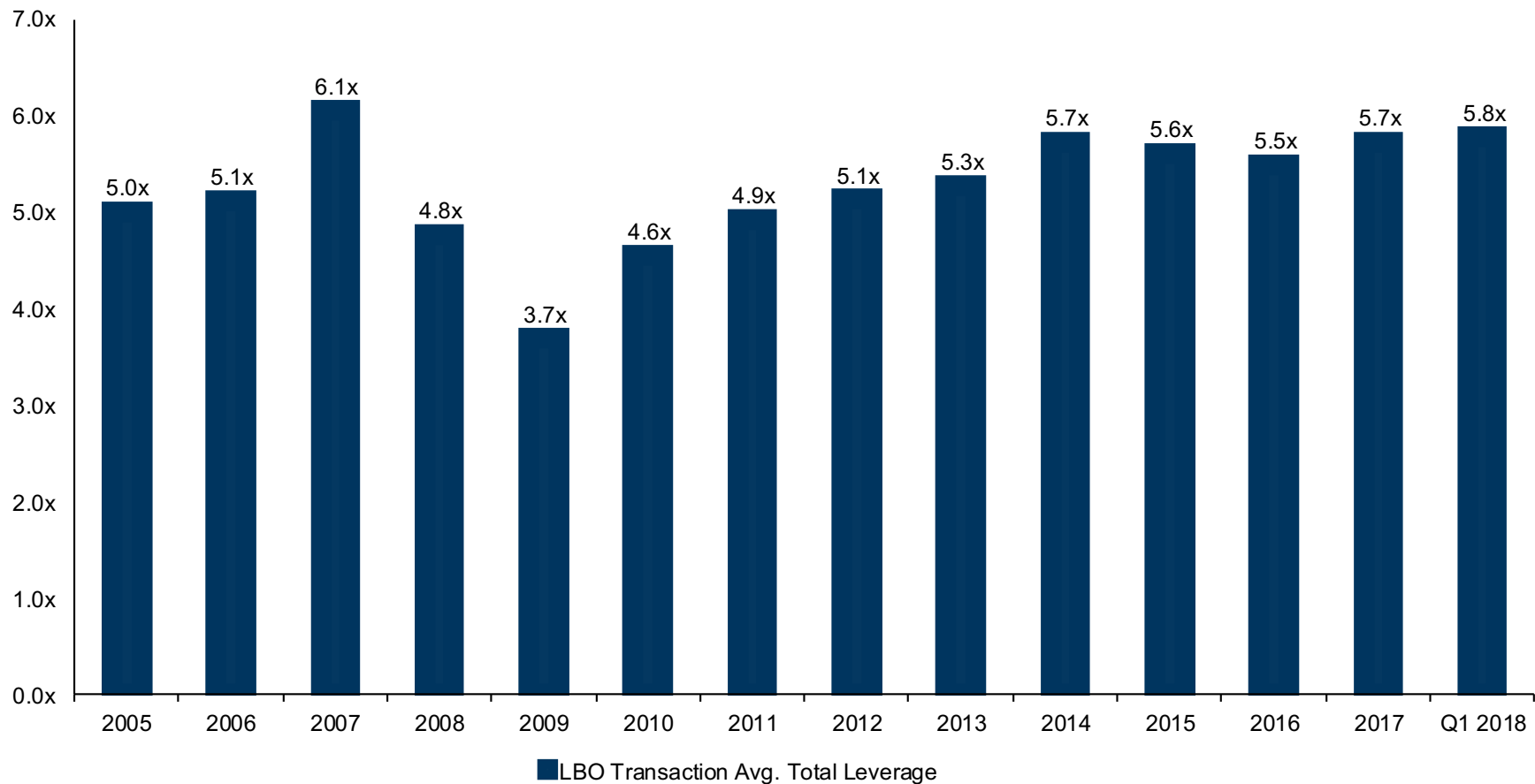
The Total Purchase Price for LBO transactions have steadily increased over the past few years and are now at all-time high levels



Note: Total Purchase Price includes Fees / Expenses paid
Source: S&P LCD Comps

Total Debt Leverage Multiples for LBOs

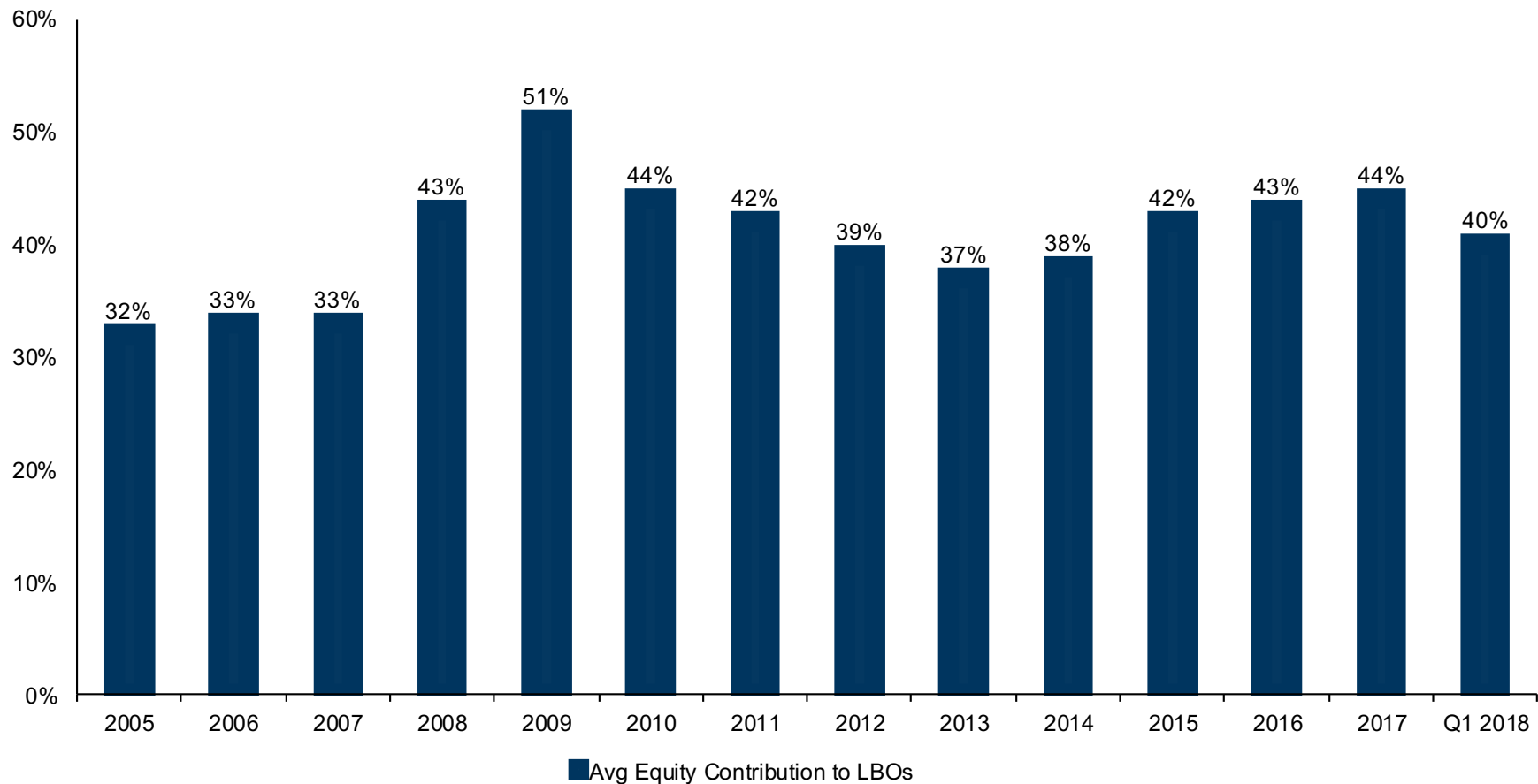
Total Debt Leverage for LBO transactions are now just below pre-crisis levels



Source: S&P LCD Comps

Average Equity Commitments in LBO Transactions

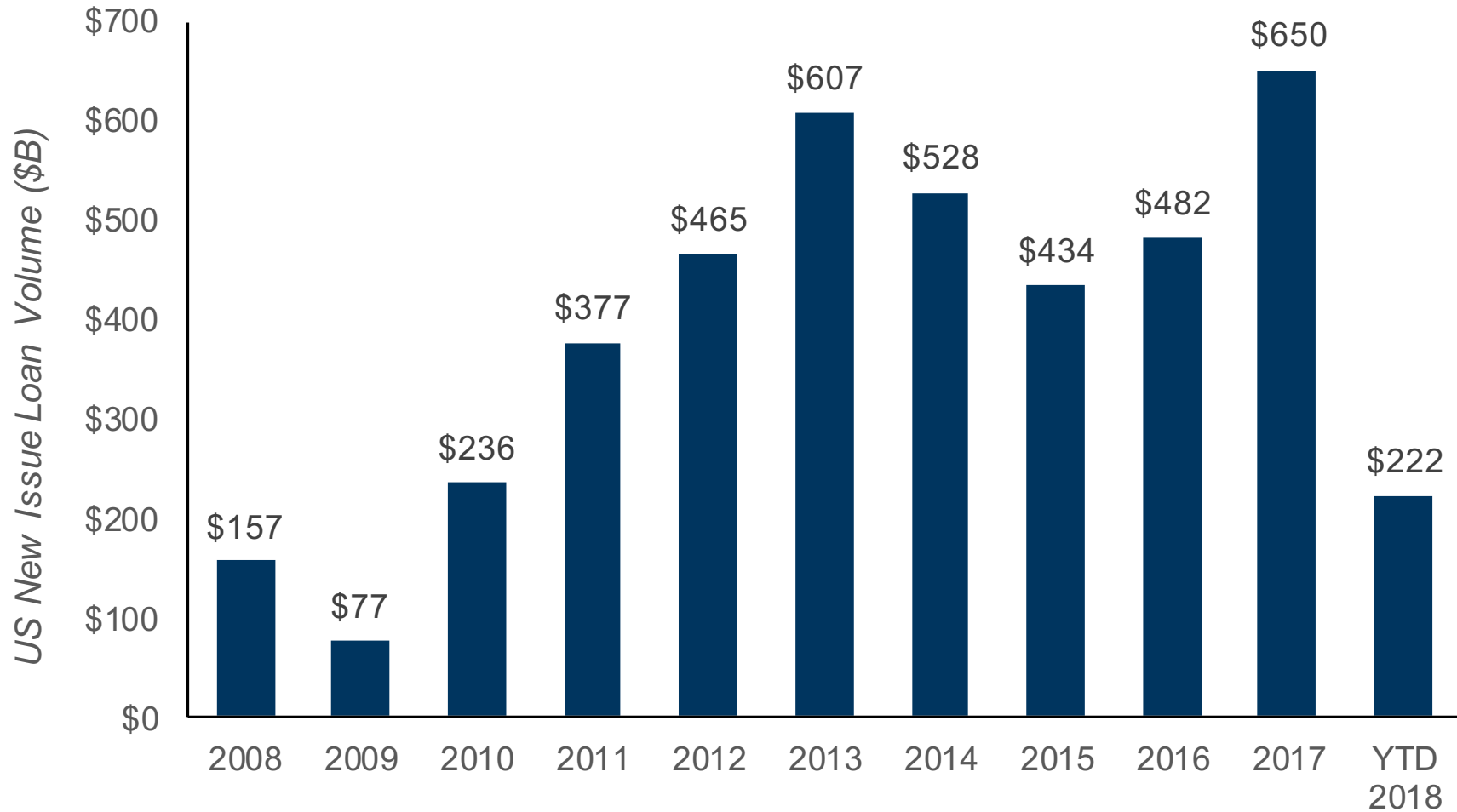
In concert with elevated debt leverage multiples, LBO sponsors have been injecting higher equity contributions to pay for higher purchase prices



Source: S&P LCD Comps

New Issue US Loan Volume

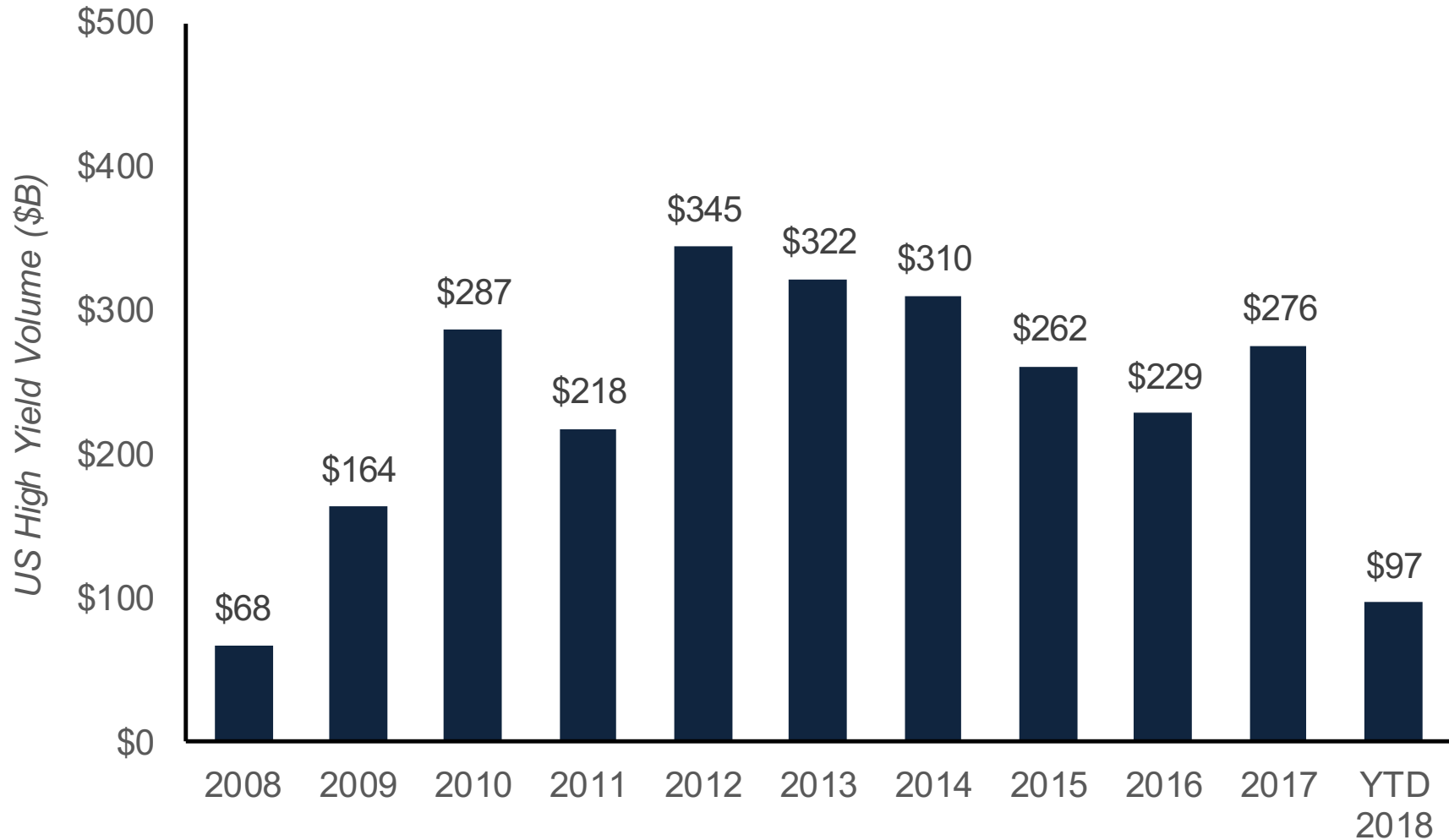
Loan issuance in the US is at an all time high



Source: S&P LCD Comps

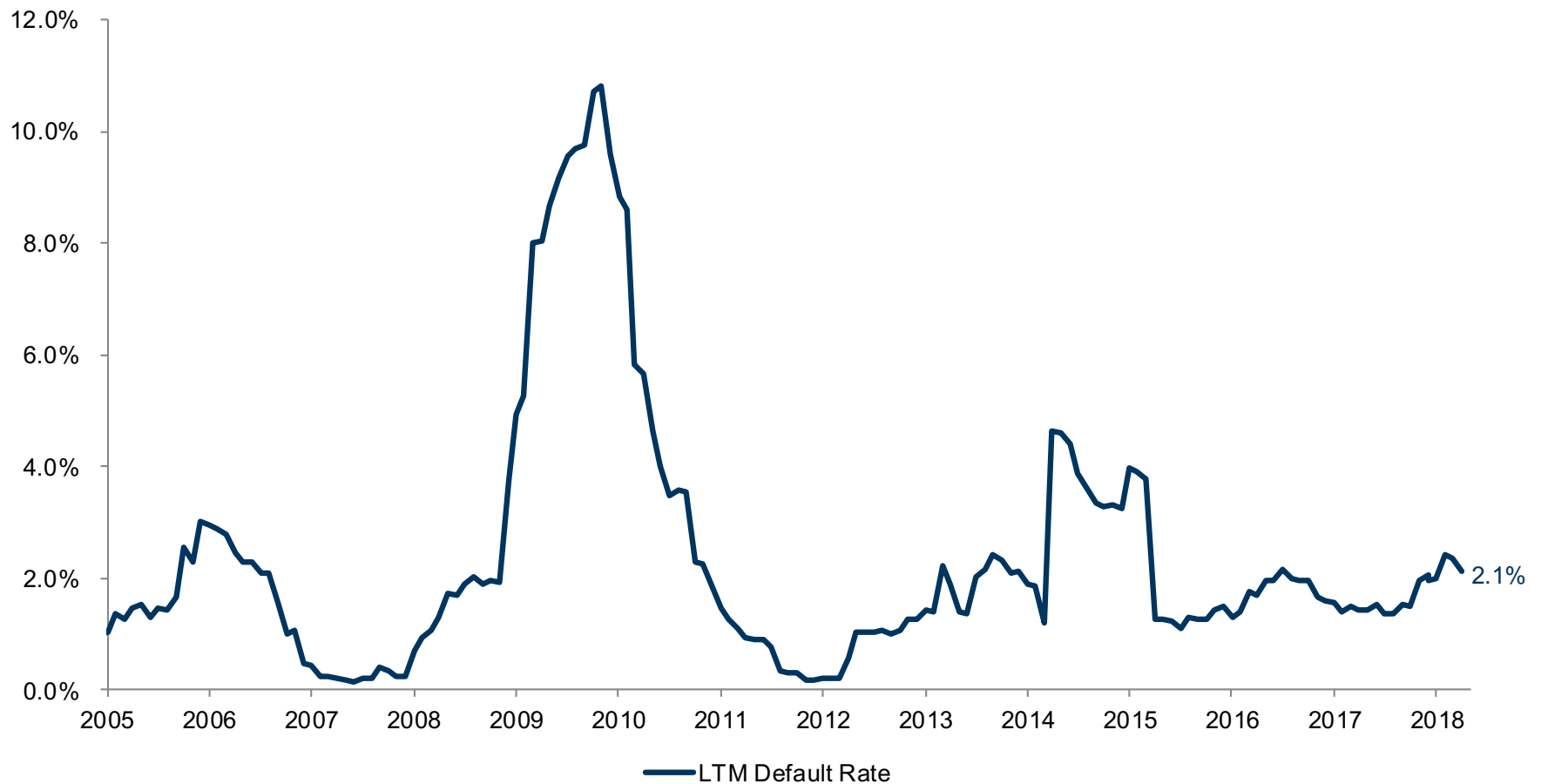
New Issue US Bond Volume

High Yield Bond issuance has been relatively muted compared to the all time highs seen in the US Loan volume



LTM Default Rates

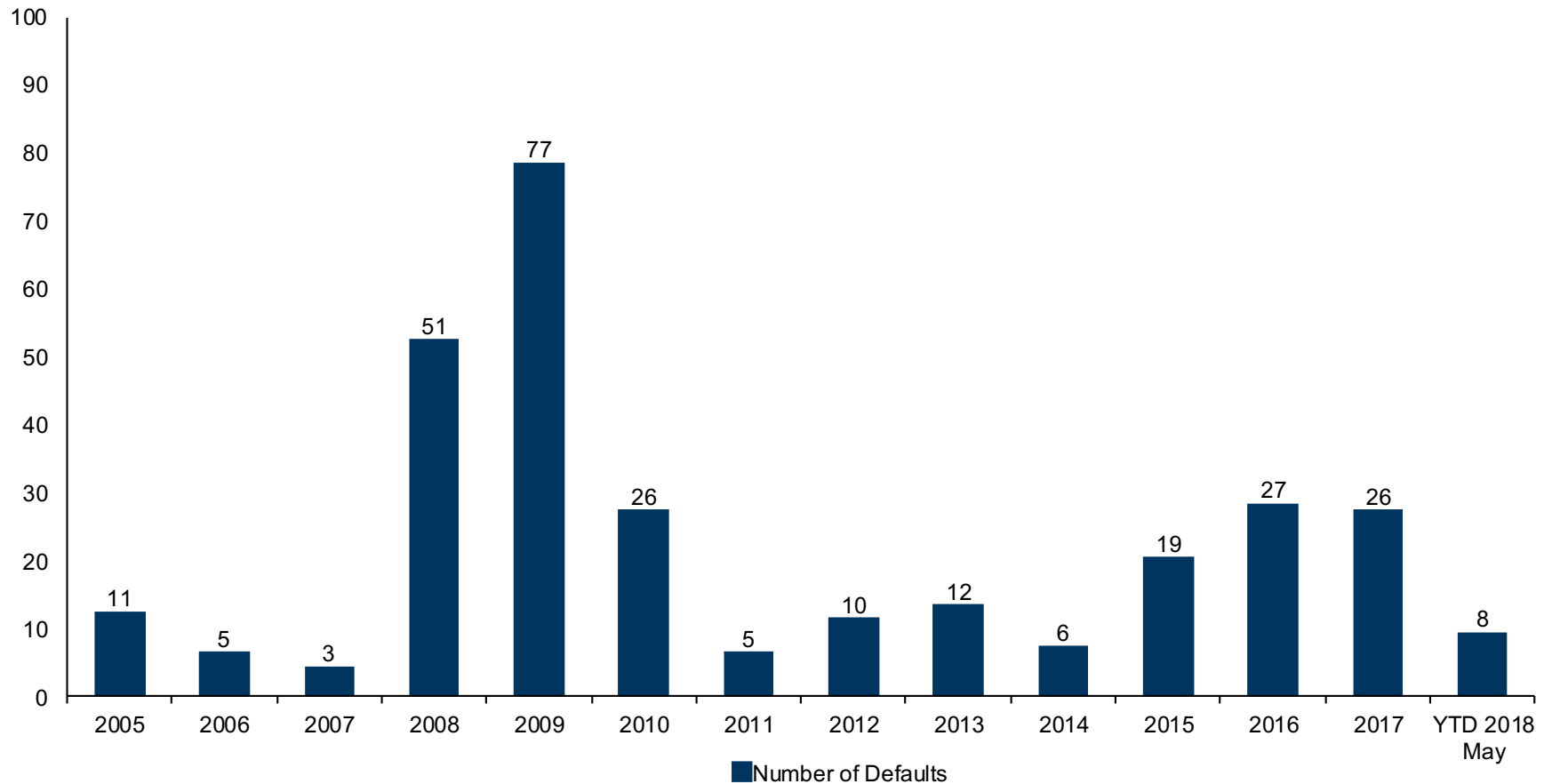
The combination of robust free cash flow generation, low interest rates, strong liquidity and limited near-term maturities has kept default rates near historic lows



Source: S&P LCD Comps

Number of Defaults

The absolute number of defaults has increased as industry sectors have experienced problems



Source: S&P LCD Comps

Key Restructuring Considerations

Issues in Restructuring

Below are several common issues and pitfalls for creditors

- Assets moving between Borrower and Non-Borrower entities
- Cash and Collateral in entities outside of Creditor reach
- Assets moving to international entities
- Covenant-Lite Debt
 - 80% of all outstanding US leveraged loans in YTD 2018 was cov-lite

Issues in Restructuring (Cont.)

Liquidity is Key

- During a restructuring process, maximizing liquidity is the key goal
 - Liquidity buys time
 - Time buys options

Issues in Restructuring (Cont.)

Governance (Legal vs. Financial Ownership)

- Governance issues may arise when legal and economic ownership are in different hands
 - **In-the-money Creditors:** Can accelerate if there is a default and potentially cause value erosion for the Company, but still not suffer monetary damage
 - **Fulcrum Creditors:** Economic owners; most motivated to reach agreement quickly and preserve value by either selling the assets or converting debt to equity and taking ownership
 - **Out-of-the-money Creditors:** Hold-up value
 - **Out-of-the-money Equity:** Legal ownership and hold-up value
 - The wider ecosystem of employees and local community interests, etc. is rarely at the table

Issues in Restructuring (Cont.)

Strategy, Management, Operations and Capital Structure

- Too much attention is paid to the capital structure, but investors should also consider the Company's Strategy, Management and Operations
- Assessment of business strategy and whether it remains valid or should be re-assessed in light of new market conditions
- Assessment of management's strengths and weaknesses
 - Wartime vs. Peacetime Management
 - Maximizing Cash Flow vs. Earnings
- Company's operational performance
 - Cost Structure
- Appropriate leverage for the emerging Company

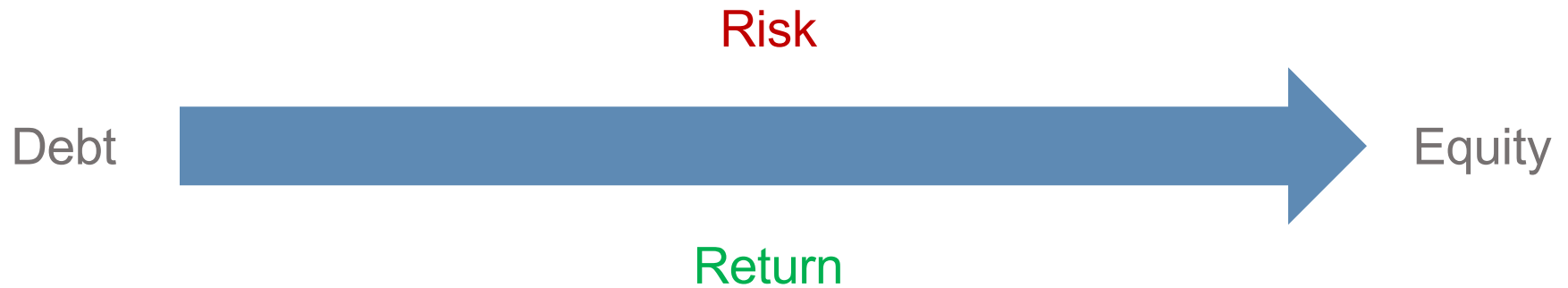
Issues in Restructuring (Cont.)

Speed is key to a successful process

- Almost always, the most important thing to do in a restructuring or bankruptcy is to be as quick as possible
 - Management resources
 - Company reputation
 - Cost of the process
 - Play offense in the market
- Key component of a speedy restructuring is recognizing the problems early, and negotiating and reaching agreement with key stakeholders

Considerations for Credit Investors

Owners of high-yield debt take on some equity risk; high-yield debt investors should be willing to own the underlying asset or sell to those who are willing to do so



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