

Restructuring Problem Credits

A two-day workshop to demonstrate the key analytic, structuring and restructuring lessons to be learned from distressed / failed credits.

TARGET AUDIENCE

Credit risk managers, bond and mezzanine and equity investors, lending bankers, and other finance professionals working in credit risk management and problem loan areas, including restructuring, work-outs and special care units.

COURSE OBJECTIVES

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

- 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 leverage loan covenants.

CRISIS MANAGEMENT

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 options

- Insolvency regimes: responsibility of directors, judicial oversight,
- Contrasting debtor versus creditor friendly regimes
- Brief overview of EU regulation on Insolvency Proceedings: establishing centre of main interests, main and secondary proceedings
- US models: Chapter 11 (reorganisation) and Chapter 7 (liquidation)
- Parties to a legal restructuring: trustee, secured, unsecured and preferred creditors.

REMEDIAL BUSINESS PLAN

- 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 in distress credits.

DEBT RESTRUCTURING ALTERNATIVES

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.

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
- Impact / influence of distressed / vulture funds on restructuring alternatives
- Cram down rights: forcing confirmation of a plan over the objections of dissenting classes

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: 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.