

THE M&A ADVISOR SYMPOSIUM REPORT

Featuring



Soma Biswas
Private Equity Head
Debtwire Mergermarket Group



Duncan Bourne
Managing Director
Wynnchurch Capital



Shaia Hosseinzadeh
Managing Director
WL Ross & Co.



Larry Lattig
President
Mesirov Financial Consulting



Bassem Mansour
Co-Chief Executive Officer
Resilience Capital Partners



Pavle Sabic
Director
Credit Market Development
& Thought Leadership
S&P Capital IQ



Durc A. Savini
Managing Director
Head of Restructuring &
Recapitalization
Peter J. Solomon Company

> STALWARTS ROUNDTABLE WHERE THE DEALS ARE AND DEFINITELY ARE NOT: DISTRESSED INVESTING AND RESTRUCTURING OUTLOOK

Executive Summary

The world of distressed investing and restructuring has changed dramatically. In this session, six restructuring and distressed investing experts look at the current situation from their unique perspectives and touch on the following issues:

- The outlook for restructuring activity in 2015
- What is likely to happen in energy and retailing
- Structural changes that have led to a decline in bankruptcies and restructurings
- How distressed investing has changed

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From The M&A Advisor

What's going on in the world of distressed investing and restructuring?

Overall, of course, that was the question addressed by our recent 2015 Distressed Investing Summit in Palm Beach, Florida. Specifically, we devoted an entire Stalwarts Roundtable to distressed investing and the outlook for restructuring, graciously presented by Merrill DataSite, and we present the highlights of that session in the pages that follow.

Delving into the current situation were our stalwarts: Duncan Bourne, Managing Director at Wynnchurch Capital; Shaia Hosseinzadeh, Managing Director at WL Ross & Co.; Larry Lattig, President of Mesirow Financial Consulting; Bassem Mansour, Co-Chief Executive Officer at Resilience Capital Partners; Pavle Sabic, Director, Credit Market Development & Thought Leadership at S&P Capital IQ; and Durc A. Savini, Managing Director and Head of Restructuring & Recapitalization at Peter J. Solomon Company. Moderating the panel was Soma Biswas, Private Equity Head at Debtwire, part of the Mergermarket Group.

Participants in this and the other Roundtables, Conversations and a special Case Study that constituted the 2015 Summit — as well as attendees at our 9th Annual Turnaround Awards presentation, which followed the full-day program — are the luminaries in the universe of distressed investing. Whether at our formal sessions, over meals, during breaks, or at a very special pre-conference reception at the former Kennedy Winter White House, hosted by the home's current owner, John K. Castle, Chairman and CEO of Castle Harlan, Inc., Summit attendees had many opportunities to share ideas with these leaders.

The M&A Advisor is proud of its role in assembling our industry's top lights and we're delighted to share their insights.

David Fergusson
President and Co-Chief Executive Officer
The M&A Advisor

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“In retail,
we’re in the
early innings
of a secular
restructuring.”
– Durc A. Savini

The Pause Continues

Moderator Soma Biswas kicked off the session by asking panelists whether the lull in restructurings will continue into 2015.

“Except for oil and gas, this year is going to be about the same as last year,” said Duncan Bourne. “There are several reasons for this outlook: economic indicators are pretty strong, and everything except for housing seems to be up. The credit markets are relatively easy, and many leveraged finance transactions have been getting done with little or no covenants.”

Moreover, he added, many non-bank finance companies are stepping in to serve the lower end of the market when banks shy away from lending.

Bourne continued, saying: “On the distressed, control equity side, I’m not expecting a huge uptick in opportunities, but I do expect an increase towards the end of the year.”

Agreeing with Bourne’s assessment of the market, and especially the opportunities in oil and gas, Durc Savini noted that most of those opportunities are not likely to present themselves until the second half of 2015.

“But there is still a fair amount of activity in what I call the secular challenged sectors, which are retail/apparel and old media,” Savini said. “The difficulty with those sectors is that you have to ferret out what’s reorganizable and what isn’t. On the front end, if you’re an investor or an advisor, you have to make certain there’s a ‘there’ there.”

Savini also noted a fair amount of restructuring activity in the pulp and paper, mining and minerals, cotton and coal and iron ore areas.

Bassem Mansour added that corporate divestitures also will contribute to activity in 2015. “While not traditional restructurings, in some cases these even involve assets that are not a traditional operating business,” he said.

Before proceeding with his outlook, Shaia Hosseinzadeh observed that traditionally, “The Holy Grail for all of us in the investing business is to find a good company with a bad balance sheet. Historically, that’s what made this asset class so terrific. Now it seems that distress — given the inflows and lower default rates — has really evolved to include companies that are challenged and that also have challenged balance sheets.”

So the central question, he said, is whether the risk premium is great enough for the complexities that come with those challenged businesses.

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Opportunities in Energy

“When you think about energy, it’s actually the one sector right now where you can go after the classic good company/bad balance sheet structure,” said Hosseinzadeh. “There are a lot of good assets, but they’re just not profitable at \$50 oil, and I think there are several catalysts that will unlock deal flow over the next six to 12 months. First, you’ll see the impact of hedges rolling off. Second, this is a sector that’s been extremely dependent on the capital markets. They need to issue \$120 billion of new debt, and they’ll be challenged,” he stated.

Hosseinzadeh also said he believes the best opportunities in energy will be in credit: “Default rates are a lagging indicator; the leading indicator to us is the debt to EBITDA levels, and if you reset that at current oil prices the sector is not sustainable unless oil goes to \$75 or \$80 a barrel,” he said. “We believe a lot of equity will be wiped out.”

He continued: “In this cycle, there are things that are truly different. In the 1980s, U.S. production was in secular decline and the model of pulling it out of the ground was conventional drilling, where the odds of success were 1 in 12. Today, we’re set to become energy independent and the success rate in shale is 99 percent.”

Given that the industry has predictable rates of return operationally, Hosseinzadeh added that conditions bode well for private equity ownership. Another point he emphasized is that the assets of an energy company are depleting assets.

“Energy companies are melting ice cubes,” he said. “The natural decline rate for shale ranges from 20 percent to 40 percent, and companies will be liquidating their best assets to pay creditors. This could end in a very negative recovery for equity, which is something people aren’t really paying enough attention to.”

“I agree,” said Larry Lattig. “You’re not going to get hurt buying Halliburton or Schlumberger. They’re the first people hit in a downturn, but also the first people to come back. And if you’re looking for something that’s more in the realm of reality because those companies trade at huge multiples, probably a supplier to either of them is a good investment.”

A Look at Retail

Venturing away from energy, Biswas asked the panelists for their views on the retailing business.

“In retail, we’re in the early innings of a secular restructuring,” said Savini. “The challenge has to do with ecommerce and omni-channeling; they’re intruding on the profits of large brick-and-mortar retailers. Consumer electronics and apparel, particular teen apparel, have been hurt. You’ve got teenagers who just don’t show up at malls anymore.”

That said, Savini noted that online accounts for only about 9 percent of total retail sales. While some large retailers may face challenges, “there are going to be large big-box retailers out there in certain segments for a very long time.”

“Energy is actually the one sector right now where you can go after the classic good company/bad balance sheet structure.”

– Shaia Hosseinzadeh

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Biswas then asked if any of the panelists see any large restructurings coming up among retailers over the next year or 18 months.

“Hedge funds, which bought heavily into energy the last time around, are not really buying up to much in retail,” said Sabic.

“Where investors will gravitate will depend on the motivation for the ultimate restructuring,” said Mansour. “Maybe it’s a broken business model, or a real estate strategy, or they’re trying to adapt their business model and create more of an e-commerce presence.”

“Where investors will gravitate will depend on the motivation for the ultimate restructuring.”

– Bassem Mansour

“There are pockets of success out there that are worth something,” Savini added. “Avenue, which is a plus-size women’s retailer, was sold by Kering to Versa, and they did a tremendous job turning that around. That was a situation where you didn’t have a busted business model; it was just a management issue.”

The Current Environment

As the session wound down, Biswas asked participants for their views on how the restructuring environment has changed over the last decade.

“The last time I saw a bankruptcy filed that was a restructuring — an actual restructuring — was probably American Airlines, which started out as a restructuring and then became a deal,” said Lattig. “I think it’s the advent of the debt traders that have forced all these things into liquidations or immediate sales, or whatever the situation is. They don’t take the time to put in new management or to figure out how the business works. What they take the time to do is to sell it to somebody else and make it their problem.”

Hosseinzadeh then responded. “There really have been a couple of landmark developments in the market over the last two decades that speak to these trends. The supply of distressed money has mushroomed. This means that what historically would have been a high-teens rate of return for a distressed situation is now lower. It also means that bankruptcy is no longer the only venue for a restructuring,” he said.

“You can kick the can down the road,” he added. “Look at Freescale, Harrah’s, Realogy or so many other examples where there is a combination of a lot of money, fewer covenants and the bank market playing a much less significant role. You have silent second liens combined with a very willing base of lenders to step in, which has had a huge part in reducing the number of bankruptcies and changing the way restructurings get done.”

“It used to be the banks that were driving the bus and there weren’t all these other lenders in the capital structure,” said Bourne. “Companies just don’t have the ability to go to anybody else and get financing for running their bankruptcy, so they can’t do a re-org. They’re basically told what to do by the stakeholders.”

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Video Interviews

To watch exclusive M&A Advisor interviews with these distressed investing and restructuring experts, click on the following images:



Duncan Bourne

Managing Director
Wynnchurch Capital



Shaia Hosseinzadeh

Managing Director
WL Ross & Co.



Larry Lattig

President
Mesirow Financial Consulting

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Managing Director
Head of Restructuring & Recapitalization
Peter J. Solomon Company

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Symposium Session Video

To watch the Stalwarts Roundtable – “Where the Deals Are and Definitely Are Not: Distressed Investing & Restructuring Outlook” – click on the following image:



**Where the Deals Are
and Definitely Are Not:
Distressed Investing &
Restructuring Outlook**

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Symposium Participant Profiles



Soma Biswas
Private Equity Head
Debtwire Mergermarket Group

Soma Biswas is the lead private equity reporter at Debtwire, a division of The Mergermarket Group. In this role, she regularly breaks news on large and mid-sized private equity deals before they hit the tape, often outing companies coming up for sale and bidders and debt financing details. She also selectively covers private equity fundraisings and portfolio performance. Before joining Debtwire in 2013, she spearheaded North American private equity coverage at sister publication Mergermarket starting in 2007. She also contributes to a deal blog for Forbes.com. Prior to the Mergermarket Group, Soma covered bankruptcy and restructuring at TheDeal.com from 2001 to 2003 and mergers and acquisitions, from 2003 to 2007. Her coverage and expertise spans numerous industries, including consumer, retail, energy and industrials. She has also covered emerging markets debt at Dow Jones Newswires. Soma is a graduate of Barnard College.



Duncan Bourne
Managing Director
Wynnchurch Capital

Duncan Bourne is a Managing Director at Wynnchurch Capital, and previously served as Senior Manager at Ernst & Young, Senior Associate at Jay Alix & Associates and a Partner at BDO Seidman LLP. He began his career with BPAmoco as a chemical engineer. Mr. Bourne is a Certified Turnaround Professional and a Certified Insolvency and Restructuring Advisor; and has 30 years of experience in turnarounds, financial restructurings, operational performance improvement and special situations in industries including manufacturing, transportation and consumer products. He serves on the board of directors of LDE Holdings Corporation and Limestone Holdings Corporation. Mr. Bourne received a BS in Chemical Engineering from Northwestern University and an MBA from University of Chicago.



Shaia D. Hosseinzadeh
Managing Director
WL Ross & Co.

Shaia D. Hosseinzadeh is Managing Director at WL Ross & Co., where is responsible for overseeing the firm's private equity and credit investments in the energy and natural resources sectors. Over the last 15 years, Mr. Hosseinzadeh has led or participated in more than 46 transactions with a combined value of \$36 billion. Since joining WL Ross, he has been involved in the execution of a number of the firm's investments in the aerospace, energy, financial services and industrial sectors. Prior to joining WL Ross, Mr. Hosseinzadeh was employed by Apollo Global Management. Earlier, he worked in the Investment Banking and Leveraged Finance Group at Credit Suisse. Mr. Hosseinzadeh is actively involved on the boards of WL Ross companies and is also a member of the Brookings Institute Energy Security Task Force and a Sustaining Board Member of Youth Inc. Mr. Hosseinzadeh received an MSc in Economics and Philosophy and a BSc in Economics from the London School of Economics.



Larry Lattig
President
Mesirow Financial Consulting

Larry Lattig is President of Mesirow Financial Consulting, LLC, one of the nation's leading financial advisory service firms. He has more than 30 years of experience advising creditors' committees in bankruptcies, lenders in workout situations, companies and creditors in liquidations, buyers and sellers in mergers and acquisition transactions, and parties in financing and financial transactions. Mr. Lattig has worked extensively on restructuring plans with financial institutions, including Homeland Holdings Corp., Linc Capital, Inc., FINOVA Capital Corporation and BankVest Capital Corporation. He also has advised companies in the restructuring of Trans World Airlines, Inc., Adesta Communications, Inc. (Adesta LLC), and companies in other industries, and has served as chief restructuring officer in a number of public and private companies in both bankrupt and out-of-court restructurings.



Bassem Mansour
Co-Chief Executive Officer
Resilience Capital Partners

Bassem Mansour is Co-Chief Executive Officer at Resilience Capital Partners. Since 1994, Mr. Mansour has been involved in principal investing, leveraged buyouts, Chapter 11 reorganizations, out-of-court restructurings and other mergers and acquisitions. In 2001 he co-founded Resilience Capital Partners, a leading private equity firm, which acquires lower middle-market companies in a broad range of industries. Mr. Mansour is involved in all aspects of the firm's operations including investment decisions and portfolio company oversight and serves on the boards of numerous Resilience portfolio companies. Resilience's value-oriented investment strategy is to acquire companies with solid business prospects in a wide variety of special situations including restructurings, underperformers, corporate divestitures, turnarounds and orphan public companies. Since its inception in 2001, it has acquired 40 companies with total revenue in excess of \$2 billion. He serves on the Board of Trustees of the Hathaway Brown School, the Museum of Contemporary Art Cleveland, the Western Reserve Land Conservancy, and the Visiting Committee of the Weatherhead School of Management at Case Western Reserve University. Mr. Mansour received an M.B.A. from the Weatherhead School of Management at Case Western Reserve University and a B.S. degree from the University of Dayton. He resides in Hunting Valley, Ohio, with his wife and three daughters.



Pavle Sabic
Director, Credit Market
Development & Thought
Leadership
S&P Capital IQ

Pavle Sabic is Director, Market Development, at S&P Capital IQ, where he focuses on market development and thought leadership. Mr. Sabic joined the firm's London office in 2011, where he covered business development in Europe, the Middle East and Africa. He is an author of credit and M&A research, which has been featured in the Wall Street Journal, Barron's, and the Financial Times. He has extensive experience in risk management on both the buy and sell sides. Mr. Sabic was also awarded the M&A Advisor '40 Under 40' award for M&A research and holds the FRM certification from GARP. He completed his business school degree at the University of Edinburgh and was undergraduate Valedictorian at the Heriot-Watt University Edinburgh.



Durc A. Savini

Managing Director
Head of Restructuring &
Recapitalization
Peter J. Solomon Company

Durc A. Savini is a Managing Director and Head of Restructuring & Recapitalization Group at Peter J. Solomon Company. A veteran banker in the restructuring advisory business, he joined PJSC in 2010. During the course of his distinguished 20-year career at Miller Buckfire, Dresdner Kleinwort Wasserstein, its predecessor Wasserstein Perrella, Bear Stearns and CIBC Wood Gundy Securities, Inc., Mr. Savini led restructurings, mergers, acquisitions and debt and equity-raising transactions on behalf of a wide variety of clients. At Miller Buckfire, he led the firm's industry-leading auto supplier advisory effort and chaired the firm's Valuation and Commitment Committees. Mr. Savini's restructuring clients have included Lear Corporation, Sunbeam Corporation, Dana Corporation, Polaroid, Burlington Industries, Dura Automotive Systems, Clayton Dubilier & Rice, JL French Automotive Castings, Meridian Technologies, Oxford Automotive, Avado Brands, Cambridge Industries, Allied Holdings, CenterPoint Energy, IMPATH, Inc., and Favorite Brands International, among others.

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About the Publisher



The M&A Advisor

The M&A Advisor was founded in 1998 to offer insights and intelligence on M&A activities. Over the past seventeen years we have established a premier network of M&A, Turnaround and Finance professionals. Today we have the privilege of presenting, recognizing the achievements of and facilitating connections among between the industry's top performers throughout the world with a comprehensive range of services. These include:

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Recent and Upcoming Events

Emerging Leaders Summit - New York, NY - June 29, 2015

M&A Advisor Summit - New York, NY - November 17, 2015

Distressed Investing Summit - Palm Beach, FL - January 27, 2016

International Financial Forum - New York, NY - March, 2016

International Financial Forum - London, UK - 2016

For additional information about The M&A Advisor's leadership services, contact Liuda Pisareva at lpisareva@maadvisor.com.