Reviewed by Vincent Indelicato

Corporate Financial Distress, Restructuring and Bankruptcy (Fourth Edition)

Written by Edward I. Altman, Edith Hotchkiss and Wei Wang
(John Wiley & Sons 2019)

Vincent Indelicato
Proskauer Rose LLP
New York

Vincent Indelicato is a partner in the Business Solutions, Governance, Restructuring and Bankruptcy Department of Proskauer Rose LLP in New York. He represents debtors, creditors, statutory and ad hoc committees, and equityholders in chapter 11 cases and out-of-court restructurings, as well as investors in complex distressed situations. Mr. Indelicato is a 2018 ABI "40 Under 40" honoree.

Prof. Edward Altman always knew. For the last 50 years, his "Z-Score" model has predicted bankruptcy filings with more accuracy than a crystal ball (chief financial officers of the world, beware!). While the science of distress prediction may have inspired the first edition of *Corporate Financial Distress, Restructuring and Bankruptcy* in 1983, this fully revised, expanded and updated fourth edition touches on a breadth of subjects that appeal to far more than the mere statistician. Notably, through decades of experience at the center of restructuring, high-yield and distressed markets, the authors of this new volume offer wisdom for every reader, from seasoned practitioners to academic researchers, and even students new to the field.

The authors begin their mission with a foundational examination of corporate distress and statistical analysis of corporate defaults and bankruptcy filings. The *ABI Journal*'s readership will delight in its conclusion: Bankruptcy means big business. Indeed, the authors estimate that at least 45,000 people globally work in the area of corporate distress, and the number of lawyers, bankers, accountants and consultants keeps growing, as thirst for yield and low interest rates have led to a proliferation of corporate borrowers with increasingly complex debt structures, even in recent years as the U.S. economy has been robust.

The turbulent economic period that followed the release of the third edition in 2006 marked unprecedented growth for the corporate bankruptcy industry, and this fourth edition, spawned out of the financial crisis of 2008, reflects not only those seismic changes, but the important lessons drawn from them.

For example, the authors identify the difficulties in restructuring capital structures with multiple layers of debt and creditors holding different levels of security, a phenomenon that has flourished since the Great Recession. As the authors observe, these inherent challenges may impede creditor organization while encouraging holdouts. Moreover, new insights into credit-default swaps and their prominent roles in several recent high-profile chapter 11 cases, such as *Caesars Entertainment*, also demonstrate how financial innovation can often blur the incentives of holders, thus frustrating the ability of borrowers in distress to identify a consensual restructuring path.

> **[T]he "Z Score" model has enabled Prof. Altman and his colleagues to assemble an impressive treasure trove of research findings, and readers should study them carefully.**

The explosive growth of high-yield and distressed debt over the last decade finds its provenance in the leveraged-finance market, and the authors added a new chapter on this subject that introduces the reader to the salient terms of financial instruments, including covenants, defaults, remedies and subordination. This basic understanding provides the framework of rules that must be applied in later chapters as it navigates the anatomy of restructuring between debtors and creditors in and out of chapter 11. To explore the success of the bankruptcy-reorganization process, the authors also chart data evidencing postbankruptcy performance.

Remarkably, for every success story, the authors cite a number of companies whose continued financial and operational dilemmas resulted in a second trip to bankruptcy court, with even three filing for chapter 44 and, for one very unlucky debtor, chapter 55. The authors conclude the first half of the book with a summary of international insolvency regimes through a comparison of restructuring systems in China, France, Germany, India, Japan, Sweden and the U.K. With cross-border restructurings gaining more prominence in the U.S., readers for years to come will thank the authors for the inclusion of this new chapter.

If the early chapters of the book lay the foundation of corporate distress, the second part of the fourth

continued on page 60

from page 32

edition extrapolates those introductory principles through the application of Prof. Altman's default-prediction tools. The authors explore in detail the predictive power of the "Z-Score" family of models, and the many ways researchers and practitioners alike have used them to analyze distressed situations.

In its simplest form, the model derives a number from the sum of five weighted financial ratios; the lower the score, the higher the probability of default. The original "Z Score" first appeared in 1968. Due to its longevity over the last 50-plus years, the "Z Score" model has enabled Prof. Altman and his colleagues to assemble an impressive treasure trove of research findings, and readers should study them carefully. After all, they say the greatest lesson of history is that we never learn from history!

With all of the talk lately about the timing of the next credit cycle, the arrival of this book feels especially prescient. While it will assist with that prediction, its most meaningful achievement lies in the practical guide that it will serve for professionals, researchers and students searching to understand corporate financial distress, restructuring and bankruptcy amidst the next downturn, the occurrence of which, well, only Prof. Altman really knows. abi