

Business Development: From Developing a Watch List to Making the Pitch

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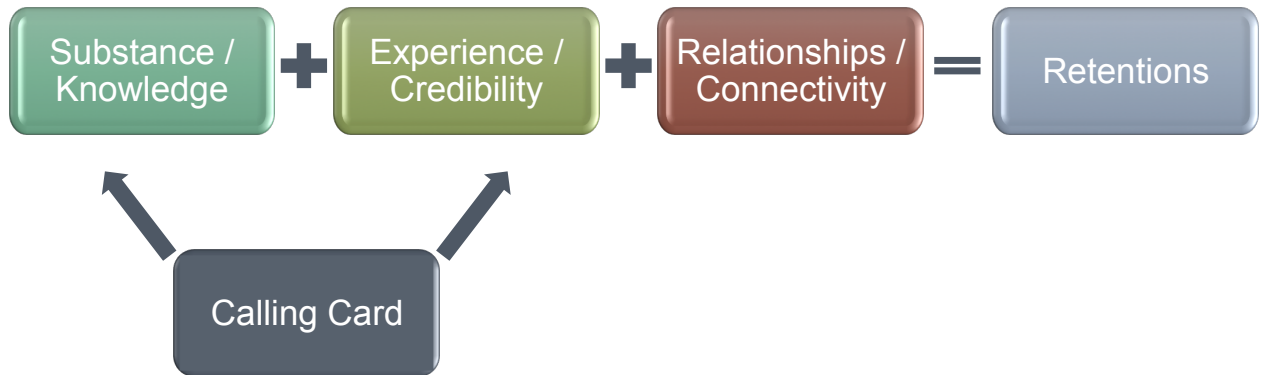
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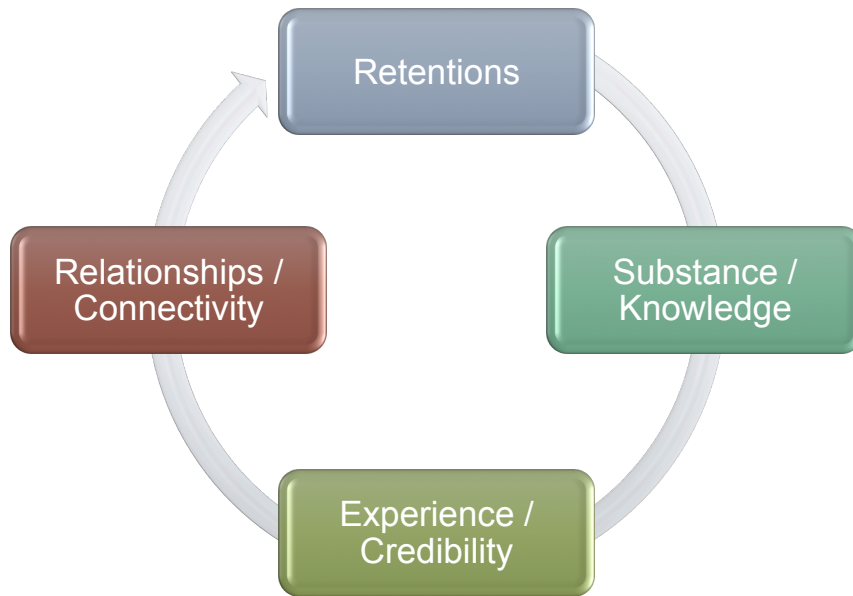
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Preparing a Watchlist

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Watchlists – Overview and Benefits





- Watchlists are a key element in monitoring, and getting ready for, upcoming restructurings
- Preparation for a bankruptcy begins well in advance of the filing
- As a professional, you need to understand the drivers of the situation before the preparation even begins, so you need to identify opportunities as early as possible
- Filings can be driven by multiple factors
 - Bankruptcies frequently come in waves, where an industry development will drive several participants to restructure in a short time period
 - Telecoms – early 2000s
 - Asbestos manufacturers – early 2000s
 - Homebuilders – late 2000s
 - Print media – late 2000s
 - Oil & gas – now
 - Other filings are totally one-off, due to unpredictable or unique circumstance
 - Competitive dynamics
 - Loss of a key customer
 - Technological advancements
 - Capital structure issues
 - Currency, commodity or derivatives exposure
 - Fraud
- In order to stay ahead of these opportunities, it is important to be organized and track each potential debtor in detail

Sample Watchlist and Preparation / Sources

Company	Industry	Capital Structure (Rolling Leverage) \$ in millions	Drivers of Distress (Macro/Industry)	Company Status/Notes	Trigger Event	Debt Holders	Ownership (Year Invested)	Timing
	Energy	Sec. Debt- \$383.4 (\$ 9x) Total Debt- \$383.4 (\$ 9x) Net Debt- \$389.8 (\$ 7x)	<ul style="list-style-type: none"> High volatility in natural gas prices caused Milagro to recognize a net loss on commodity derivatives. The Company's relatively small asset base and production levels, significant exposure to natural gas prices and increased G&A expenses due to lower production volumes and legal and accounting costs related to the exchange offer have constrained cash flow generation. 	<ul style="list-style-type: none"> Milagro is exploring a range of alternatives to reduce indebtedness to be in compliance with its leverage ratio and coverage ratio, respectively. Milagro attempted a private distressed exchange offer of its 10.500% \$250m Second Lien Bonds due 2016 into new second lien paper or cash for up to \$65m, with a similar coupon payable in 50% cash and 50% PIK. The exchange offer was terminated after multiple extensions. 	Immediate: Currently in breach of its financial covenants on its Credit Facility	Wells Fargo (Credit Facility); Sankaty (51%) (2nd Lien Bonds)	ACON	NT
Data	Issues			Selected Sources				
Capital Structure	Each debtor's capital structure is unique, and the rights of each claimholder will drive events in the bankruptcy			<ul style="list-style-type: none"> SEC filings Bloomberg Debtwire LoanConnector 				
Drivers of Distress	Understanding what might bring about a filing will help in understanding timing, key issues, and what services you can provide as a professional			<ul style="list-style-type: none"> News reports Debtwire Credit research Industry reports Analyst reports 				
Company Status	As the restructuring approaches, it will be necessary to monitor developments so that you can build familiarity with the situation			<ul style="list-style-type: none"> News reports Debtwire SEC filings The Deal Reorg Research 				
Trigger Events	Identification of key events that could precipitate a restructuring, including liquidity issues, covenant breaches, and debt maturities			<ul style="list-style-type: none"> News reporting Industry / company reports Credit reporting (i.e., downgrades) SEC filings 				
Parties-in-Interest	Knowing who the players are among debt and equity holders, trade creditors, unions, and regulators, will help in identifying a potential client			<ul style="list-style-type: none"> Bloomberg CapitalIQ LoanConnector SEC filings News reporting 				

MID-LEVEL PROFESSIONAL DEVELOPMENT PROGRAM 2015

Sample Watchlist

Company	Industry	Capital Structure (Rolling Leverage) \$ in millions	Drivers of Distress (Macro/Industry)	Company Status/Notes	Trigger Event	Debt Holders	Professionals Involved	Ownership (Year Invested)	Timing
	Consumer / Retail	Sec. Debt - \$356 (7.6x) Total Debt - \$356 (7.6x) Net Debt - \$353 (7.5x)	<ul style="list-style-type: none"> Industry continues to battle fluctuations in consumer spending trends Casual dining same-store sales dropped 1.9% in 1Q14 Margin susceptibility to commodities inflation 	<ul style="list-style-type: none"> 19.4% 3Q14 decline in EBITDA and burning cash - setting stage for restructuring CEO departs for McDonald's (Aug 14) CFR downgraded to Caa3 from Caa2 - won't be able to cover cash needs in next 12 months without tapping 30m revolver (Moody's) Net sales and customer traffic decreased by 3.2% and 6.8%, respectively in 3Q14 Amended its revolver for the 3rd time in January Kelso has been fielding pitches from FAs on potential restructuring options 	Potential liquidity shortfall in the next 12-24 months	JP Morgan (Agent), PIMCO, Fidelity	N/A	Kelso & Company (2010)	NT
	Energy	Sec. Debt - \$838 (6.5x) Total Debt - \$1,792 (13.8x) Net Debt - \$1,770 (13.7x)	<ul style="list-style-type: none"> Declines in production due to sale of assets, curtailed capital activity and displaced production due to completion activity the Barnett Asset 	<ul style="list-style-type: none"> 10/6/14: CCR lowered to CCC- from CCC+ on view that company could undertake distressed exchange for 350MM CFR downgraded to Caa3 from Caa1 from increased default risk Increased activity in the Barnett Shale, which is expected to build volumes in 2014 Redeemed outstanding 2015 and 2016 notes in April 2014 	If >100MM sub debt remains by 10/1/15, any amt outstanding on first-lien credit come due 10/1/15 and second-lien debt due 1/1/16	Franklin Resources (54% of 2019 bonds); Ares Capital and Moelis (subordinated bondholder)	Houlihan Lokey and JPMorgan Chase (financial advisors)	Public Company	NT
	Aerospace & Defense	Total Debt - \$180 (4.9x) Net Debt - \$170 (4.6x)	<ul style="list-style-type: none"> Depressed earnings due to equipment purchase delays, training cuts and readiness spending tied to sequestration and the government shutdown Defense budgets and changing mission requirements along with reduction in size of Army 	<ul style="list-style-type: none"> Kicked off broad syndication for \$150mm refinancing of its upcoming maturities (structure includes \$100mm TLB, \$50mm second lien and \$12.5mm revolver) Proceeds from the loans along with cash on BS and \$27.6mm equity infusion from Metalmark would be used to take out current cap structure Hired CowiView Advisors to address debt maturities Completed the sale of Airborne System (parachute manufacturer) to Transdigm for \$250mm in December 2013 	Ongoing due to narrowing headroom under leverage test. \$136.2mm term loan mature August 2014.	BdA (agent for 1st Lien TL), Bear Stearns (arranger for 2nd Lien TL), Sun Trust Robinson Humphrey (arranger for proposed new credit facility)	Kirkland & Ellis (debtors legal counsel); CowiView Advisors (debtors FA)	Parent Company: HDT Worldwide LLC Current Investors: Albion Investors, Metalmark Capital	NT
	Healthcare	Total Debt - \$599 (NA) Net Debt - \$444 (NA)	<ul style="list-style-type: none"> The Company has been facing increasing competition from affordable prostate cancer alternatives such as Zytiga and Xandi and the varying reimbursement landscape 	<ul style="list-style-type: none"> Significant risk that it cannot repay debt of 620m due 2016 Provenge has received EU approval but is expected to struggle to gain traction CEO John Johnson resigned on 6/11/2014 Convertible noteholders began holding calls with restructuring advisors in early March The Company has had difficulty achieving profitability as a single-product standalone company competing with larger-scale, diversified providers 	620m due 2016	Deerfield Management (50% of 2014 Convert and 30% of 2016 Converts), Empyrean Capital Partners, Aristeia Capital	Brown Rudnick (Debtors - Legal), Millstein & Co. (Debtors - FA)	Public Company: BlackRock (8.1%), State Street (6.1%)	NT

Detailed Watchlist Profile



OVERVIEW

COMPANY DESCRIPTION

- Milagro Oil & Gas, Inc. engages in the acquisition, exploration, development, and production of oil and natural gas reserves. The company holds interests in properties located in the onshore Gulf Coast region in Texas, Louisiana, and Mississippi.
- Ownership: Acon Investments, Guggenheim Securities
- Credit Rating: CC

RECENT NEWS

- November 1, 2013:** Milagro's private exchange offer and consent solicitation relating to its 10.500% Senior Secured Second Lien Notes due 2016 was terminated.
- September 1, 2013:** Milagro, Vanquish Energy, LLC, and Vanquish Finance, Inc., extended the expiration date to October 31 2013, for their private exchange offer to exchange Milagro's outstanding 10.500% Senior Secured Second Lien Notes due 2016.
- June 16, 2013:** Milagro, Vanquish Energy, LLC, and Vanquish Finance, Inc., extended the Expiration Date to 8/30/13, for their private exchange offer to exchange outstanding 10.5% Senior Secured Second Lien Notes due 2016 for New 10.5% Senior Secured Second Lien Notes due 2017 and either (i) cash or (ii) Class A Vanquish units.
- May 22, 2013:** S&P lowered its corporate credit rating on Milagro to 'CC' from 'CCC'.

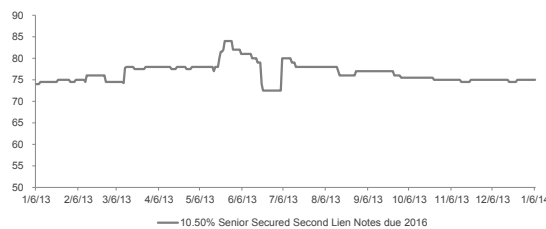
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- The Company's relatively small asset base and production levels, significant exposure to natural gas prices and increased G&A expenses due to lower production volumes and legal and accounting costs related to the exchange offer have constrained cash flow generation and prevented Milagro from meaningfully deleveraging.
- The Company has engaged a financial advisor to assist with, among other things, reducing its indebtedness and seeking such waiver or amendment from its lenders.

FINANCIAL SUMMARY

	FY 2010 12/31/10	FY 2011 12/31/11	FY 2012 12/31/12	LTM 6/30/13
As of				
Revenue	\$134	\$138	\$124	\$127
% Growth	4.2%	3.0%	(10.1%)	3.4%
Gross Profit	\$99	\$102	\$86	\$90
% Margin	73.5%	73.5%	69.4%	70.4%
EBITDA	\$93	\$89	\$71	\$55
% Margin	69.5%	64.2%	57.5%	43.6%
CapEx	(101)	(102)	(37)	(43)
Change in NWC	(5)	5	1	7
Cash Interest	(11)	(25)	(30)	(30)
Cash Taxes	0	0	0	0
Free Cash Flow	(\$25)	(\$33)	\$5	(\$10)
Credit Statistics				
Secured Debt / EBITDA	3.6x	4.4x	5.1x	6.9x
Total Debt / EBITDA	6.1x	4.3x	5.0x	6.9x
Net Debt / EBITDA	5.9x	4.2x	5.0x	6.7x
EBITDA / Interest Expense	1.9x	2.3x	2.0x	1.5x

DEBT TRADING LEVELS



Source: Capital IQ, Debtwire, and Company filings.

CAPITAL STRUCTURE AS OF 6/30/13

	Interest Rate	Maturity	Amount Out.	Price (1/6/14)	YTW	Debt / LTM EBITDA
Cash & Cash Equivalents			\$14			
First Lien Credit Facility	L+(275-375bps)	11/29/14	\$133		NA	NA
Sr. Secured Second Lien Notes	10.500%	5/29/16	250	75.0%		
Secured Debt			\$383			6.9x
Total Debt			\$383			6.9x
Net Debt			\$370			6.7x

**Business Development: From Developing a Watch List to Making the Pitch –
Preparing For and Making the Client Pitch**

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As a young associate, it is always exciting to receive that first call from a potential client asking you to pitch for new work. But, now that you received the call, what do you do? You have done everything right to lead you to this moment! You have worked hard to build your experience and expertise, you have a strong network, you have identified the opportunity, and now, you need to land the engagement. In preparing for the pitch and doing the pitch, here are some pointers:

- Know the Culture/Know the Audience: When you are pitching a potential client for work, think about the potential client and their perspective on the matter. Are they a business trying to navigate the difficult waters of a restructuring? Are they a creditors' committee looking to recover money? Each of these pitches will have much different tone. So, you need to do your homework before the pitch (or at the pitch) to try and understand what the potential client is looking to achieve before launching into a strategy – which could be way off the mark.
- Know the Company and the Industry: Come loaded with knowledge. Research the company. Research the industry. Research the individuals that you are meeting with. You want to show that you are interested and willing to take the time to understand the potential client, its business and its industry.
- Have a Plan: Be prepared to lay out for the potential client what you would accomplish near term and long term if you are hired for the engagement. For a pitch to represent a company in a bankruptcy case, this could be as general as walking the company through a

timeline for bankruptcy preparation and the bankruptcy process itself. As you talk to the company during the pitch and listen to their concerns, you can modify this part of the pitch and be more specific. For a committee pitch, read all of the bankruptcy filings, think about who was appointed to the committee and what tactics they will want to employ in the case whether maintaining customer relationships or going after the officers, directors or others for mismanagement.

- Bring the Right Team: It may not even be you. Bring a diverse team. Bring people with the right expertise. Mirror your audience (*e.g.*, if you are meeting with one person, don't bring five people). As a young associate, bring a senior colleague who you are comfortable with.
- Run Conflicts: Before going to the pitch, make sure the potential client has given you all of the relevant names for the conflicts search and make sure any possible conflicts have been cleared. Clients understand if you have to pass on the interview due to a conflict. Clients are not pleased if they take the time to interview you and then find out there is a conflict. Also, if there are possible conflicts or business issues, talk to the potential client before or at the pitch.
- Be Prepared to Address Pricing: Don't be shy about billing arrangements. Clients want to understand the realistic cost of an engagement and not be surprised. If you can propose alternative fee arrangement, that will be a plus for you!
- Use Your Firm's Resources to Prepare: Use senior colleagues to help you prepare. Use the marketing department. Use the research department. Bounce the strategy off your colleagues. Do whatever it takes to over prepare and to be comfortable at that pitch.

- Don't Just Talk About Yourself or Your Firm: Most clients have done the research to know that you and your firm are qualified for the engagement – and so are all of the other firms that they are interviewing. The client wants to understand your game plan, meet the team and understand what unique “value add” skills, ideas or contacts you bring to the table.

At the end of the day, go to the pitch well prepared, with energy and be sensitive to how your potential client is responding to the pitch. Listen to what your potential client wants to discuss. And, good luck!