

# Case Study: An Interactive Negotiation of a Distressed Company Restructuring

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## Case Study: Specialty Chemical, Inc. SCI

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### Background

- Premier specialty chemicals company
- Market leader in production of *petroleum additives*, including lubricant additives, fuel additives, and synthetic lubricants
- Founded in 1937 in Huntington, West Virginia to refine oil
- Grew to leading specialty chemicals company through series of acquisitions, the latest of which was in the last fiscal year.

## Specialty Chemicals, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS (USD \$)	12 Months Ended		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
<b>In Millions, except Per Share data</b>			
Revenues	\$ 6,508.47	\$ 7,212.4	\$ 7,088.6
Cost of sales	5,467.1	6,015.1	5,799.8
Gross profit	1,041.4	1,197.3	1,288.8
Selling and administrative expenses	663.9	656.3	602.6
Research, testing and development expenses	143.2	129.8	120.4
Restructuring and impairment charges	25.1	57.7	58.3
Other income - net	(2.2)	6.5	(3.8)
Operating income	211.4	346.9	511.3
Interest income			
Interest expense	365.7	366.1	358.9
Income before income taxes	(154.3)	(19.3)	152.4
Provision for income taxes	(38.6)	(4.8)	38.1
<b>Net income (loss)</b>	<b>\$ (115.8)</b>	<b>\$ (14.4)</b>	<b>\$ 114.3</b>
CAPEX	\$ (273.36)	\$ (306.62)	\$ (261.06)
D&A	260.3	291.6	273.7
<b>EBITDA</b>	<b>\$ 494.64</b>	<b>\$ 702.75</b>	<b>\$ 839.53</b>


## Specialty Chemicals, Inc.

CONSOLIDATED BALANCE SHEETS (USD \$)	12 Months Ended	
	Dec. 31, 2015	Dec. 31, 2014
<b>In Millions</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 265.0	\$ 338.5
Receivables	936.0	1,003.8
Inventories	1,138.3	1,133.4
Deferred income taxes	34.9	34.5
Other current assets	156.2	144.2
Total current assets	2,530.3	2,654.5
Property and equipment - at cost	6,836.6	6,563.3
Less accumulated depreciation	(3,038.1)	(2,777.8)
Property and equipment - net	3,798.5	3,785.5
Goodwill	68.6	85.3
Intangible assets - net	78.1	86.5
Other assets	302.4	298.8
<b>TOTAL</b>	<b>\$ 6,778.0</b>	<b>\$ 6,910.6</b>
<b>LIABILITIES AND TOTAL EQUITY</b>		
Current portion of long-term debt	\$ 9.0	\$ 9.0
Accounts payable	684.7	694.6
Accrued expenses and other current liabilities	415.4	472.6
Total current liabilities	1,109.1	1,176.2
Long-term debt	4,574.2	4,583.2
Noncurrent liabilities	585.8	562.6
Deferred income taxes	130.2	129.8
Total liabilities	\$ 6,399.2	\$ 6,451.8
Common Shares + Paid-in-Capital	1,090.0	1,054.3
Retained earnings	(711.3)	(595.5)
Total equity	378.7	458.8
<b>TOTAL</b>	<b>\$ 6,778.0</b>	<b>\$ 6,910.6</b>

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<b>Borrower:</b> <b>Specialized</b> <b>Chemicals, Inc (SCI)</b>		<b>Pro-forma Capital Structure</b>										
Financials as of:	12/31/2015	*Will be the assumption for once the case goes live										
Today's date:	1/27/2016											
LIBOR (3 month)	0.62%											
10 Yr Treasury	2.00%											
LTMEBITDA	\$494.6											
Secured Debt	Secured?	Gtys?	Maturity	Issue Amt.	Out Amt.	Leverag e ratio	Moody's Rating	Market price	Market Value	Coupon/ LIBOR Spread*	Annual Interest Expense	Interest cov. ratio
Revolving Credit Facility	Y		1/1/2018	\$500.0	\$219.2		-	-		L+ 3.50%	\$9.86	
1st Lien Term Loan B	Y		1/1/2019	1,800.0	1,764.0		-	-		L+ 3.50%	\$79.38	
2nd Lien Notes	Y		1/1/2020	1,500.0	1,500.0					10.00%	\$150.0	
<b>Total Secured Debt</b>				<b>\$3,800.0</b>	<b>\$3,483.2</b>	<b>7.0x</b>					<b>\$239.2</b>	
Unsecured Debt												
Senior 11.50% Notes	N		1/1/2016	1,100.0	1,100.0		-	-		11.50%	\$126.5	
<b>Total Unsecured Debt</b>				<b>1,100.0</b>								
<b>Total Debt</b>				<b>\$ 4,900.0</b>	<b>\$ 4,583.2</b>	<b>9.3x</b>			-		<b>\$365.7</b>	<b>1.4x</b>
Less: Cash					(265.0)							
<b>Net Debt</b>					<b>4,318.2</b>	<b>8.7x</b>			-			
Liquidity												
Total Revolver				\$500.0								
Less: Funds Drawn				(219.2)								
Less: Outstanding LCs				(125.0)								
Availability				\$ 155.8								
Cash on Hand				265.0								
<b>Current Liquidity</b>				<b>\$420.8</b>								

## Comparable Multiples

<div><div><div>McGRAW HILL FINANCIAL</div></div></div>																				
Details																				
Template:	Capital IQ Default Comps																			
Currency:	US Dollar																			
As-Of Date:	Oct-27-2015																			
Company Comp Set																				
Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	P/TangBV LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)												
Celanese Corporation (NYSECE)	2.2x	11.3x	15.0x	20.7x	5.3x	2.17x	8.29x	11.33x												
Albemarle Corporation (NYSEALB)	3.2x	15.9x	22.4x	31.6x	NM	2.61x	10.20x	13.72x												
Westlake Chemical Corp. (NYSEWLK)	1.7x	5.8x	6.9x	11.3x	2.7x	1.75x	6.29x	12.80x												
The Valspar Corporation (NYSEVAL)	1.9x	11.6x	13.4x	16.4x	NM	1.83x	10.87x	16.07x												
Eastman Chemical Co. (NYSEEMN)	1.8x	8.0x	10.3x	15.5x	NM	1.73x	7.67x	9.67x												
Cytec Industries Inc. (NYSECYT)	2.9x	19.3x	27.1x	41.8x	8.0x	2.70x	12.19x	20.69x												
Ecolab Inc. (NYSEECL)	3.0x	14.5x	20.6x	28.4x	NM	2.97x	13.56x	24.58x												
Huntsman Corporation (NYSEHUN)	0.7x	6.4x	8.8x	15.3x	2.0x	0.71x	5.73x	6.32x												
W.R. Grace & Co. (NYSEGRA)	2.9x	14.8x	18.9x	52.5x	NM	2.82x	11.03x	18.99x												
Axial Corporation (NYSEAXLL)	0.7x	7.2x	18.8x	34.4x	NM	0.71x	7.00x	23.98x												
Ashland Inc. (NYSEASH)	1.7x	12.2x	21.3x	33.8x	NM	1.81x	8.62x	14.54x												
Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	P/TangBV LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)												
High	3.2x	19.3x	27.1x	52.5x	8.0x	2.97x	13.56x	24.58x												
Low	0.7x	5.8x	6.9x	11.3x	2.0x	0.71x	5.73x	6.32x												
Mean	2.1x	11.5x	16.2x	26.9x	4.5x	2.00x	9.28x	15.81x												
Median	2.0x	11.5x	16.9x	25.0x	4.0x	2.00x	9.25x	14.90x												

## March 2016 – Negative “Events”

1. Environmental leak
  2. Hedged forward on petroleum
  3. Bad financing decision
  4. Mounting integration problems from last acquisition
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Specialty Chemicals, Inc.

Restructuring Options

**I. Company/Board Options**

- Obtain forbearance from ABL/Term Loan B
- Cash infusion from equity, 2nd lien lenders, unsecured noteholders
- Obtain consensual restructuring agreement with ABL Term Loan and others
- Refinancing options?
- Hire restructuring advisor
- Key issue: Is decrease in revenues and EBITDA temporary?

**II. First Lien Lender Options (ABL & Term Loan)**

- Are ABL Lenders and Term Loan Lenders the same?
- Prevent line use to fund interest payments to 2nd lien debt and unsecured notes
- Forbearance, interest moratorium
- Push for bankruptcy and 363 sale
- Make whole premium
- Consensual restructuring with debt to equity conversion for junior debt
- Key considerations: Collateral coverage, values? Which way is value going?

**III. Second Lien Lenders Option**

- Go along with forbearance
- Buy first lien debt
- Force sale of non-core assets
- Restructure and convert part of debt to equity
- Put new capital in? Team up with equity or unsecured notes

- Cram up of first lien debt
- Key considerations: Value, do lenders want to own company, intercreditor limitations

**IV. Unsecured Notes Options**

- Cash infusion with consensual restructure
- Convert debt to equity
- Team up with second lien lenders
- Buy 2nd lien loans
- Key considerations: Value, discount of 2nd lien debt

**V. Equity**

- Cash infusion
- Buy 2nd lien debt in order to convert to equity
- Key considerations: Value, discount of 2nd lien debt