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# 2019 International Insolvency & Restructuring Symposium

## US-EU Distressed Investing

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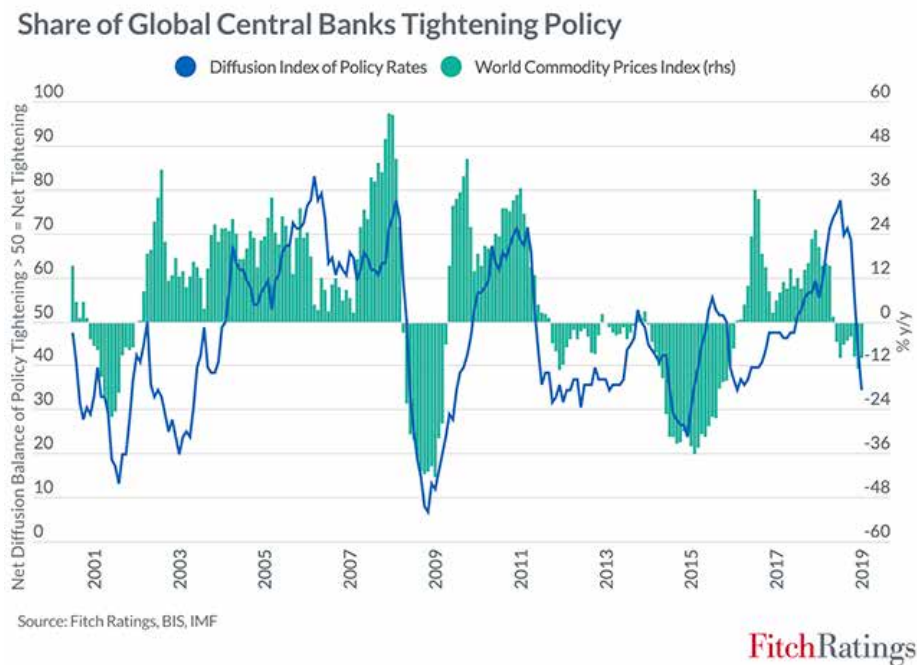
*Saxenhammer & Co., Berlin, Germany*

## Distressed Debt Market Themes

- Central bank tightening around the globe<sup>1</sup>
  - 52% of 38 central banks were in tightening phase and 3% easing in December 2018
  - Over a third of central banks have shifted monetary policy direction in first half of 2019
  - Broadest shift in global monetary policy across geographies since 2009 financial crisis
  - Bias toward raising rates has shifted toward easing and cutting rates
  - European Central Bank relaunches quantitative easing in September 2019

Source: (1) Fitch Ratings

## Distressed Debt Market Themes



## Distressed Debt Market Themes, cont.

- Elevation of debt levels
  - Impact of global monetary policy on corporate bond markets
  - Macroeconomic environment
- Regulatory pressure over non-conforming loans
  - Geographic legal and regulatory environment
  - Market landscape
  - New guidelines accelerate disposals of non-performing loans (NPLs)
  - French banks hold the second largest portfolio of NPLs in Europe<sup>2</sup>
  - Deleveraging options
- Geopolitical tensions
  - Brexit
  - Trade negotiations / Tariffs

Source: (2) Deloitte Deleveraging Europe: Focus on France 2019

## US-EU Distressed Investing Market Outlook

- Investment opportunities and deal flow
- Market conditions in US vs. EU
- Leveraged loan issuance, default rates, and covenant structure
- Sourcing challenges
- Core vs. non-core assets



## US-EU Distressed Investing Strategies

- Restructuring volume
- Debt renegotiation and acquisition
- Par repayment / loan to own
- Capital markets activity and access
- Triggers
  - Geopolitical and macroeconomic issues
  - Liquidity
  - Covenant amendments
  - Refinancings
  - M&A Activity



## Insolvency Process Mechanics

- EU Insolvency Directive (EUID)
  - Preventive restructuring framework
  - Discharge of debt
  - Efficiency of procedures
- Acquisition of distressed assets via US Chapter 11 process
  - Challenges and opportunities for European buyers
  - Advantages in cross-border restructurings
- Schemes of arrangement
  - Issues for US creditors
  - Secondary filing – US Chapter 15
- Development of new restructuring hubs
  - Brexit impact on UK process
  - France / Netherlands / Emerging

## Sector Review

- Automotive
- Bio/Pharma/Healthcare
- Manufacturing/Industrial
- Retail
- Technology



## Acquisition of Non-Tangible Assets

- Non-tangible assets can be critical assets
- Licenses and potential integration
  - Can provide value where equipment/hard assets would otherwise be sold for scrap
  - Buyer can acquire and integrate within their infrastructure
  - Licensor negotiations may be sensitive and result in litigation or lack of support
  - New licenses or renewals with a transfer of owners/users should be obtained pre-sale
  - Integration requires specific permission/licenses

## Acquisition of Non-Tangible Assets, cont.

- Legal considerations
  - Proper registration and assignment of rights to buyer
  - Patents / Copyrights / Trademarks
  - Source-code
  - Data
- Security interests in intellectual property
  - Geographic considerations
  - Impact on value and buyer interest

## Acquisition of Non-Tangible Assets, cont.

- Maintenance
  - Understanding the net value to acquirer
  - Patent fees and defense
- Distressed opportunities and monetization of non-tangible assets
  - Process for maximizing value and limitations
  - Knowledge of building the sales book and buyer list
  - Relationships / Database
  - Credibility and subject matter expertise



## Acquisition of Non-Tangible Assets, cont.

- Acquisition strategy and buyer motivation
  - Intangible asset sales are different from hard asset sales
  - Litigation
  - Defensive
  - Offensive
  - Bolt-on product or development or acqui-hire
  - Licensing revenue
  - Keeping away from the competition

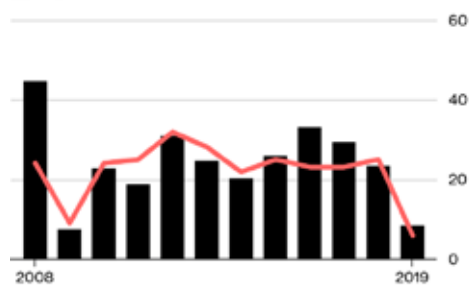
## Distressed Funds Interest/Investing in the EU

- Supply of US distressed debt has dropped
- Fewer options for forcing restructurings
- Distressed debt fundraising
- Increase in hiring staff for distressed debt investing strategies

### No Distress

Fundraising for distressed debt has slowed

■ Capital raised (\$B)    / No. of funds closed



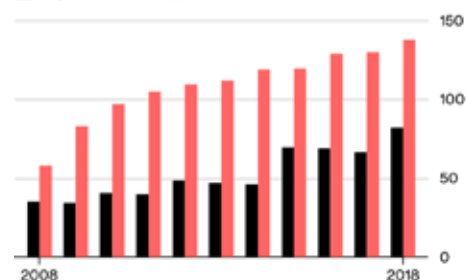
Precin data. 2019 volume year-to-date.

Bloomberg

### The Long Wait

Distressed investors have \$82 billion of dry powder waiting on the sidelines

■ Dry Powder (\$B)    ■ Unrealized Value (\$B)



Precin data. 2018 volume through September

Bloomberg



## US-EU Distressed Investing Q&A

