AMERICAN BANKRUPTCY INSTITUTE

VALCON 2024

Valu-AI-tion and Restructur-AI-ng: Navigating the Future with Artificial Intelligence

Kizzy Jarashow, Moderator
Goodwin Procter LLP | New York

Richelle Kalnit
Hilco Streambank | New York

Larry Kanter
B. Riley Advisory Services | Dallas

Kathleen Lauster
Ankura Capital Advisors LLC | New York

2024

Valu-*AI*-tion and Restructur-*AI*-ng: Navigating the Future with Artificial Intelligence

March 19, 2024 | 11:30 AM – 12:30 PM CT

Kizzy Jarashow, Goodwin Proctor LLP | New York
Richelle Kalnit, Hilco Streambank | New York
Larry Kanter, B. Riley Advisory Services | Dallas
Kathleen Lauster, Ankura Capital Advisors LLC | New York

AIRA

AMERICAN BANKRUPTCY INSTITUTE

Meet the Panel

Kizzy Jarashow
Goodwin Procter LLP

Kizzy Jarashow is a partner in Goodwin's Financial Restructuring practice. Kizzy represents debtors, creditors, equity holders, sponsors, special situations investors and other stakeholders in all aspects of complex corporate restructurings, including Chapter 11 cases, out-of-court restructurings, work-outs, and distressed debt investments and acquisitions. Kizzy has represented clients in a variety of industries, including energy, retail, technology, manufacturing, health care, automotive, media, hospitality and gaming, education, financial services and real estate.

Richelle Kalnit
Hilco Streambank

Richelle Kalnit is a senior vice president with Hilco Streambank. She manages intellectual property advisory engagements for companies, lenders and stakeholders. Richelle has experience in the sale of intangible assets in bankruptcy, Article 9 foreclosure transactions, out-of-court sale processes, receiverships and assignments for the benefit of creditors. Having managed sale processes for assets including brands, software, patent portfolios, digital assets and marketplace accounts, she is well-versed in structuring sale processes and bringing those processes to value maximizing conclusions, whether through creative auction techniques or private transactions.

.

Larry Kanter
B. Riley Advisory Services

Larry Kanter is a forensic accounting professional with more than 30 years of combined Big 4 and international consulting firm experience. He is currently a Senior Managing Director at B. Riley Advisory. He was previously a Partner at PwC, EY and was a Managing Director at Alvarez and Marsal. At each of those firms he was on the cutting edge of applying technology tools to some of the most challenging forensic investigations undertaken, including an investigation involving locating funds held by Swiss banks belonging to the victims of Nazi persecution.

Kathleen Lauster
Ankura Capital Advisors LLC

Kathleen Lauster, CFA, is a Senior Managing Director at Ankura Capital Advisors LLC, based in New York. Kathleen guides clients capital raising, M&A strategy, and financial restructuring. Her focus is on sectors such as Industrials, Business Services, Consumer Products, Secondary Sales, Real Estate, and other hard assets, along with restructuring and special situations. She leverages her deep financial background and extensive industry relationships to create accelerated access to investment capital and perform value-added capital advisory.

Agenda

- Level Set: What is AI and Machine Learning?
- How are we Beginning to See Ai Implemented in Corporate Restructuring and Valuation?
- What are Current the Pitfalls and Risks?
- The Future of AI – Where Do We See it Going?

What is Artificial Intelligence and Machine Learning?

According to ChatGPT 3.5

Artificial intelligence (AI) refers to the simulation of human intelligence processes by machines, especially computer systems. These processes include learning (the acquisition of information and rules for using the information), reasoning (using rules to reach approximate or definite conclusions), and self-correction. AI encompasses a wide range of techniques, including machine learning (wherein algorithms are trained on data to improve performance on a task), natural language processing (enabling computers to understand and generate human language), computer vision (enabling computers to interpret and understand visual information), robotics, expert systems, and more.

AI systems can perform tasks that typically require human intelligence, such as visual perception, speech recognition, decision-making, and language translation. AI has applications in various fields, including healthcare, finance, transportation, entertainment, customer service, and many others. It continues to evolve rapidly, with ongoing research and development aimed at creating more capable, adaptable, and autonomous AI systems.

According to Copilot

Artificial Intelligence:

- Definition: AI refers to the use of technologies to build machines and computers that can mimic cognitive functions associated with human intelligence. These functions include abilities like seeing, understanding spoken or written language, analyzing data, making recommendations, and more.
- Key Points:
  - AI is not a single system but rather a set of technologies implemented in a system to enable it to reason, learn, and act to solve complex problems.
  - It encompasses a broad field of applications, from natural language processing to computer vision and robotics.
  - AI systems aim to emulate human-like intelligence and adaptability.

Machine Learning (ML):

- Definition: ML is a subset of AI that focuses on enabling machines or systems to learn and improve from experience. Instead of explicit programming, ML uses algorithms to analyze large amounts of data, learn from insights, and make informed decisions.
- Key Points:
  - ML models automatically learn patterns from data and improve their performance over time.
  - Training data is crucial for ML; the more data used, the better the model becomes.
  - ML is not about mimicking human intelligence directly; it's about teaching machines how to perform specific tasks accurately.

According to Stability.Ai:

Traditional “Predictive” AI

Predictive AI refers to the use of artificial intelligence techniques to make predictions about future events or outcomes based on historical data. This branch of AI relies heavily on machine learning algorithms, particularly supervised learning methods, to analyze patterns and relationships within data and generate predictions.

How It Works:

- **Big Data**:
  - Predictive AI thrives on vast quantities of data—often referred to as “big data.”
  - The more data available, the better the predictions.
  - Imagine thousands or millions of opinion polls analyzed to predict public opinion or upcoming elections.
- **Machine Learning**:
  - Predictive AI leverages machine learning (a subset of AI).
  - Machine learning trains models to identify data patterns without human intervention.
  - For instance, it can learn to differentiate automated bot traffic from human traffic on a website.
- **Identifying Patterns**:
  - Just like Joey the fisherman noticed the pattern of red skies signaling an impending storm, predictive AI:
    - Examines hundreds or thousands of factors.
    - Learns to associate certain data occurrences with future events.
  - It’s like Joey’s weather intuition, but on a much grander scale.

Generative AI

Generative AI refers to a subset of artificial intelligence focused on creating new content, such as images, text, audio, or even video, that is original and not directly copied from existing examples. Unlike traditional AI systems that are primarily focused on making predictions or classifications based on input data, generative AI aims to generate new data that is plausible or indistinguishable from human-created content.

How It Works:

- **Deep Learning:**
  - Generative AI models use a sophisticated computing process called deep learning.
  - They analyze common patterns and structures in large datasets.
  - These models incorporate neural networks, inspired by how our brains process information and learn over time.
- **Learning from Data:**
  - Imagine feeding a generative AI model vast amounts of fiction writing.
  - Over time, the model learns to identify and reproduce elements of a story, such as plot structure, characters, themes, and narrative devices.
  - The more data the model receives and generates, the more convincing and human-like its outputs become.
- **Examples:**
  - ChatGPT and DALL-E by OpenAI are popular generative AI programs.
  - Advances in natural language processing have made generative AI accessible to consumers and content creators.
  - Big tech companies like Google, Microsoft, Amazon, and Meta are also exploring generative AI tools.

How are we Beginning to See AI Implemented in Corporate Restructuring and Valuation?

The Role of AI in the Restructuring Legal Practice

- **Automating Document Review**: AI can help automate this process by identifying key passages, summarizing information, and flagging documents that require human review.
- **Drafting and Reviewing Legal Documents**: AI can help with drafting and reviewing legal documents, such as bankruptcy filings or restructuring plans. It can suggest language, check for errors, ensure compliance with applicable laws and regulations, and more. AI can assist in due diligence for corporate transactions by analyzing contracts and highlighting critical clauses.
- **Legal Research**: AI can help with legal research by quickly searching through large amounts of legal texts to find relevant case law, statutes, and other sources.
- **Client Communication**: AI can be used to create initial drafts of communication to clients, such as status updates, explanations of legal concepts, and summaries of recent developments.
- **Training and Education**: AI can be used to create interactive training materials and simulations to help train lawyers and other professionals in bankruptcy and restructuring law.
- **Case Management**: AI can help manage the various aspects of a case, from scheduling to task management, keeping track of deadlines, and more.

The Role of AI in Corporate Valuations

- **Advanced Data Analytics**: AI-powered data analytics processes vast amounts of structured and unstructured data at unprecedented speed. Valuation professionals can access and analyze extensive financial data, market trends, and industry benchmarks in real-time. This data-driven approach helps identify patterns, correlations, and hidden insights, leading to more comprehensive and precise valuation analyses.
- I**mproved Accuracy and Reduced Bias**: Human judgment in valuations can be influenced by cognitive biases and subjectivity. AI mitigates these challenges by using algorithms based on quantitative data and objective criteria. As a result, AI-driven valuations can be more accurate and unbiased, free from human emotions and cognitive limitations.
- **Enhanced Scenario Modeling**: AI enables professionals to create sophisticated scenario models by simulating various business situations and stress-testing key assumptions. This granularity helps stakeholders understand how specific drivers may impact a company's value under different circumstances.
- **Speed and Efficiency**: Traditional valuation methods can be time-consuming, but AI streamlines the process significantly. By automating data collection, analysis, and reporting, AI-driven valuations save valuable time for both professionals and clients.

The Role of AI in Restructuring and Legal Tools

- **Reorg Research** (CreditAi)
- **ION Analytics** (Megamarket, Debwire, Deallogic, Infralogic, Blackpeak, Backstop)
- **Westlaw Precision**
- **Lexis+ AI**
- **Bloomberg Law**

The Role of AI in Restructuring (According to Stability.Ai)

What are Current the Pitfalls and Risks?

Current Pitfalls and Risks

Using AI in practice also comes with its own set of risks and challenges.

- **Accuracy Risks**: AI models may produce inaccurate or misleading outputs. For users in the legal profession, considering the source of the AI training is very important; closed systems trained based on discrete, specialized data sets provide higher probability of accuracy and reliability.
- **Bias Risks**: AI can inherit biases present in training data, leading to unfair or discriminatory outcomes.
- **Data Privacy & Security Risks**: AI relies on large datasets, raising privacy concerns. Mishandling sensitive data can lead to breaches and legal repercussions.
- **Intellectual Property Risks**: AI might inadvertently generate content that infringes on copyrights or patents.
- **Overreliance Risk:** Relying too heavily on generative AI for business valuation without human oversight can be risky. While AI can enhance efficiency and productivity, it lacks the nuanced understanding and judgment capabilities of humans. Overreliance on AI-generated valuations may overlook contextual factors, qualitative insights, or emerging trends that could impact business value.
- **Maintenance Risk**: AI models require ongoing maintenance, updates, and monitoring to remain effective and relevant. Failure to keep AI systems up-to-date with the latest data, algorithms, or best practices could lead to degraded performance, diminishing the reliability and accuracy of outcomes over time.
- **Ethical Risks**: AI can create deepfakes, misinformation, or harmful content.

Current the Pitfalls and Risks (According to Stability.Ai)

The Future of AI – Where Do We See it Going?

Where Do We See it Going (Or is it Already Here)?

As AI continues to advance, it is expected to play an even more prominent role in restructuring and valuations. Some potential developments include:

- **Real-time Valuation**s: With the integration of AI, real-time valuations could become a reality, providing businesses and investors with instant access to updated valuations.
- **Automated Reports**: AI could generate comprehensive valuation reports, combining data from various sources and presenting it in an easily digestible format for stakeholders.
- **Enhanced Due Diligence**: AI-powered tools could be employed to conduct in-depth due diligence on companies, revealing hidden risks and opportunities that might have gone unnoticed using traditional methods.
- **Enhanced Automated Processes**: Routine tasks involved in restructuring, such as due diligence, document review, and financial analysis, will be automated using AI technologies. This automation will save time and resources while reducing the risk of human error.
- **Predictive Analysis**: AI can analyze large datasets to identify trends and predict outcomes, which can be useful in bankruptcy cases. For example, it might be able to predict the likelihood of a successful restructuring based on the details of the company's financial situation and previous similar cases.

The Future of Ai in Restructuring and Valuation (According to Stability.Ai)


THANK
YOU

Faculty

Kizzy Jarashow is a partner in Goodwin Procter LLP's Financial Restructuring practice in New York and represents debtors, creditors, sponsors, special-situations investors and other stakeholders in all aspects of complex corporate restructurings, workouts and distressed-debt investments and acquisitions. She has represented clients in a variety of industries, including energy, retail, technology, manufacturing, health care, automotive, media, hospitality and gaming, education, financial services and real estate. She has also written extensively on restructuring-related topics, including articles published by the *Norton Journal of Bankruptcy Law and Practice*, the *ABI Journal* and ABI committee newsletters, INSOL International, and the International Bar Association's Insolvency and Restructuring International section. Ms. Jarashow is actively involved in *pro bono* matters, having worked extensively in areas of voting rights, LGBTQ+ rights and public benefits. In recognition of her work, she was selected as a Rising Star in Bankruptcy by *Super Lawyers* and is a member of the International Insolvency Institutes' NextGen Leadership Program and the National Conference of Bankruptcy Judges' Next Generation Program. Ms. Jarashow is a member of ABI and the International Women's Insolvency & Restructuring Confederation. She received her B.A. in 2004 from New York University and her J.D. *cum laude* in 2007 from Fordham University.

Richelle Kalnit is a senior vice president with Hilco Streambank in New York, where she manages intellectual property disposition engagements for companies, lenders and stakeholders. She has experience in the sale of intangible assets in bankruptcy, Article 9 foreclosure transactions, out-of-court sale processes, receiverships and assignments for the benefit of creditors. Having managed sale processes for assets including brands, software, patent portfolios, digital assets and marketplace accounts, Ms. Kalnit is well-versed in structuring sale processes and bringing those processes to value-maximizing conclusions, whether through creative auction techniques or private transactions. She is a frequent panelist and contributor on topics related to asset sales and intangible assets. Ms. Kalnit has nearly 20 years of deal experience, having joined Hilco Streambank after practicing restructuring law for more than a decade. Prior to joining Hilco Streambank, she was a member of the bankruptcy and restructuring group of Cooley LLP. During her tenure at the firm, she managed the sale, reorganization and/or liquidation of several of the nation's most prominent retailers, consumer product companies, hotels and restaurants. She began her career at the law firm of King & Spalding LLP. Ms. Kalnit is a member of the University of Pennsylvania Professional Women's Alliance, ABI, the Turnaround Management Association, the International Women's Insolvency & Restructuring Confederation and the National Association of Bankruptcy Trustees. She received her undergraduate degree *cum laude* from the University of Pennsylvania and her J.D. *cum laude* from the Benjamin N. Cardozo School of Law at Yeshiva University, where she was in the top 10% of her class.

Larry Kanter, CPA, CFE is a senior managing director with B. Riley Advisory Services in Dallas and has more than 25 years of combined Big 4 and international consulting firm experience. He previously was a partner at PwC and EY, and a managing director at Alvarez and Marsal. Mr. Kanter has served in leadership and testifying expert roles in numerous large, complex engagements involving GAAP, internal control, damage-quantification and fraud/forensic investigative issues. He was among the first forensic CPAs to integrate data analytic processes into his practice. One of his most noteworthy engagements was leading the forensic data analytics component for the international in-

vestigation into the role of 26 Swiss banks in their appropriation of funds belonging to the victims of Nazi persecution by developing and implementing the processes to match Holocaust victims' names to lists of account-holders at each of the 26 banks. Since 2009, Mr. Kanter has been an adjunct professor at Southern Methodist University's Cox School of Business, where he teaches a Master's level course in forensic accounting. He previously developed and taught SMU's first course in data analytics for Master's-level accounting students. Mr. Kanter is a CPA with a Certificate in Financial Forensic from the American Institute of CPAs, as well as a Certified Fraud Examiner, and he is a member of various committees for the Texas Society of CPAs, including the Business Valuation, Forensic and Litigation Services Committee. He received his B.B.A. from the University of Texas at Austin.

Kathleen Lauster, CFA is a senior managing director at Ankura Capital Advisors LLC in New York, where she guides clients through capital-raising, M&A strategy and financial restructuring. Her focus is on such sectors as industrial, business services, consumer products, secondary sales, real estate and other hard assets, along with restructuring and special situations. Ms. Lauster has more than 20 years of global financial services and commercial real estate experience, working for and advising firms in Europe and the U.S. Her clients have ranged from early-stage ventures to Fortune 500 firms. Most recently, Ms. Lauster was a managing director at Fairfield Capital Advisors, where she headed its Capital Advisory & Restructuring practice. Prior to joining Fairfield, she held roles at Silver Leaf Partners, LLC as the managing director of Restructuring and Corporate Finance, as well as at a global investment banking and restructuring firm as a senior vice president in New York and London. She began her career in Detroit, advising and lending to automotive suppliers. Ms. Lauster was noted as the Top Woman Dealmaker in 2022 by Global M&A Network, LLC, as a NY Shining Star in 2021 by the International Women's Insolvency & Restructuring Confederation (IWIRC), and as an Irish American Wall Street 50 Honoree in 2023. She is a Registered Securities Representative for SIE, Series 24, Series 62, Series 63 and Series 79, and she is a member of the Turnaround Management Association, ABI, IWIRC and the Association for Corporate Growth, NY and NJ. Ms. Lauster received her B.A. in finance and international relations from Michigan State University, and her M.B.A. with distinction from the University of Michigan Ross School of Business.