COVID-19 and its Impact on the Global Restructuring Market

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IMAP partners with dedicated teams in the Restructuring and Debt Advisory fields recently held a virtual roundtable to garner comment and perspectives from around the globe on the financial effects of the COVID-19 crisis.

When a company's balance sheet is stretched, it's important to know where capital is available, either as new equity or debt.

While the areas of Restructuring and Debt Advisory are often different tools in the corporate finance toolkit, they can go hand in glove in finding solutions, especially now, when it involves access to capital and equity and knowing the lenders.

Several IMAP firms already had established restructuring or debt advisory teams as part of their service offering going into this crisis. Other firms are realizing they have the competence and are pivoting to further build their restructuring capability in response to what they see their clients going through.

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We have a responsibility to help our clients be in the best shape when the markets reopen. We also need to see new, innovative products and constructive solutions to get us out of the crisis. This is where the strength of a global partnership can help.

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

UNITED STATES

BRIAN DAVIES
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"Most of the questions that we have been fielding are along the lines of: What do I do? How do I capture enough runway to get through this and find the new normal?"

The Capstone Headwaters financial advisory and debt advisory team are part of its full-service offering. The debt advisory team focuses on securing debt capital for organic growth, acquisitions, dividend recapitalizations and refinancings. The financial advisory group focuses on restructurings and value enhancement strategies.

We wouldn't normally work as much together as we have been, but with the current environment in the US and throughout the world, capital providers have completely entrenched, which is unprecedented.

Most of the questions that we have been fielding are along the lines of: What do I do? How do I capture enough runway to get through this and find the new normal?

Therefore, we have integrated our financial advisory and debt advisory teams to offer a holistic approach, understand the issues and solve performance, liquidity and long-term capital problems for our clients.

We expect there is enough dry powder that when markets open again, there will be a surge, as opposed to tidal wave, of restructuring activity and M&A momentum will resume.

We will continue to help our clients through this extensive scar tissue and then really understand what kind of permanent damage remains for our clients and create a plan for them to adapt.

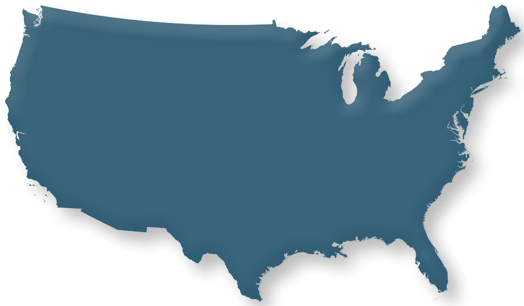
THE COVID-19 CYCLE AND ITS IMPACT ON THE RESTRUCTURING MARKET

	EARLY REPORTS	REALIZATION & SPREAD	FULL SPREAD
PHASE OF THE CYCLE	• Public Markets negligible change – seriousness unknown • Capital Markets open & active • Businesses solving challenges	• Public Markets correct • Capital Markets tighten • Liquidity issues main focus after employee health • Decision stagnation	• Public Markets crash • Capital Markets stall • Commerce lockdowns in major economies globally • Government economic stimulus and packages launched to aid businesses
ADVICE & SERVICES	• Operational restructuring on extreme situations • Client issues solved through capital	• Restructuring professionals field questions from confused clients and begin forming strategies	• Restructuring professionals mobilize to provide guidance • Capital providers inward looking and only opportunistic capital available

Source: Capstone Headwaters

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

UNITED STATES



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The feedback and commentary that we received after talking with over 50 middle market lenders here in the U.S. is that lenders today are really in "bunker mode". Their current mindset is to focus on protecting current portfolios in the face of the almost certain upcoming recession.

We've seen a wave of amendment activity between borrowers and lenders. Absolutely everyone with a revolving line of credit has at this point fully drawn upon its full availability.

Lenders are deferring principal and interest payments on existing loans but with pricing changes. However, the allocation of new capital is being reserved and allocated primarily to existing borrowers in order to support them through this liquidity crisis, followed by sectors and companies that the lenders know well.

Lenders and equity investors say 'open for business' but are still to be tested as new opportunities arise.

Deals that do go forward or launch in this market are going to see quite a lot more scrutiny and longer due diligence periods. So, any new deals launched will need to check all the boxes: fundamentally good businesses in recession-resistant sectors with good structure and market pricing.

We are focusing on preparing materials for our clients to effectively be first in line when the markets do reopen, which they will – we don't know exactly when that will be – but we're ensuring we are well prepared for when it happens.

THE COVID-19 CYCLE AND ITS IMPACT ON THE RESTRUCTURING MARKET

	CONTAINMENT/ SLOW RECOVERY	FULL UNDERSTANDING & CONTAINMENT	REBOUND
PHASE OF THE CYCLE	• Market recovery with volatility • Capital markets re-enter as they understand government supports	• Market normalizing • Capital markets normalizing • Economies begin to open • Unemployment rates drop • Begin to understand the full imapct	• Public market segments will take years to recover • Prior to COVID-19 there was significant dry powder in the capital markets and still is • M&A market caputuring momentum
ADVICE & SERVICES	• Industry specifc restructurings begin • Clients need help solving liquidity and operational challenges • Capital markets opening	• Restructuring community will possibly witness a "surge" rather than "tidal wave"of activity, fueled by an active capital market	• Restructuring professionals will continue to help clients through extensive scar tissue • The surge in activity will continue • Many industries will be permanently reshaped

Source: Capstone Headwaters

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

CANADA

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Morrison Park Advisors does not have a formal restructuring practice, but since 2011 a large part of our business has been informal restructuring and credit related. The majority of this has occurred in the form of non-bankruptcy and difficult restructuring situations where a lot of personal attention is required.

Our economy is, of course, tied to the U.S., but in Canada the public sector and federal government have been working with the banking sector to provide a number of liquidity backstops. Canada has an oligopoly of 7 banks with a dominant position in its financial sector, that are all very large and well capitalized, whereas in the U.S. there are thousands. It hasn't been perfect, but I would say we've seen a very orderly response to dealing with the COVID-19 crisis.

We see 3 business groups emerging:

1. Businesses whose revenue went to zero and companies who came into the crisis in bad shape
2. Companies in industries not affected, or were affected but in very good financial shape and who see the crisis as an opportunity
3. Companies in between the two, who are in thinking mode, analyzing the financial situation and determining their plans and what their capitalization needs to be

We see a lot of the professional firms providing a modeling service for those companies.

We have many clients reaching out to us, looking for advice. We have models and stress tests, which we run past the banks. We are also utilizing an analytical product line that is being made available to companies to figure out what their plan should be.

We've reached out to the restructuring experts at the legal firms and refreshed our knowledge of the nuances in this market and have had lots of emergency phone calls since the crisis hit. There is a marked shortage of people who really understand restructuring.

As independents, we have already been in the trenches, we already know a lot about these issues (more than the accounting firms and banks in many cases) and know what we're doing.

"There is a marked shortage of people who really understand restructuring. As independents, we have been in the trenches and already know a lot about these issues."

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

INDIA

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IMAP India has a dedicated restructuring team, but now all our teams have regrouped to face the likely new order of business within India and the rest of the world.

The cooperation and knowledge flow across IMAP offices is of great help. Our restructuring team is gearing up to address the crisis that the mid-corporate sector is facing. The interest/principal moratorium and loss of earnings will further deteriorate the credit metrics.

Like every downturn, the survivors get to be stronger and this time may be no different. Across industries, businesses and financial sector participants, the organized and stable will be able to push their way to growth, acquire talent and assets and access the liquidity to move their business to the next level.

> "Like every downturn, the survivors get to be stronger and this one may be no different."

We see the credit markets being very tight for next 3 months, the secondary markets have already broken up but eventually the deluge of liquidity will push restoration of normalcy. Interest rates being low, the liquidity surge should be able to boost up the equity markets sooner than most expect.

Supply chains may get rewritten in the revised world order and it looks like India could be a larger beneficiary, thanks mainly to political stability and the handling of the crisis, a decent eco- system of ports, roads and telecom infrastructure, as well as rationalized taxation and a developed financial market.

There will be broken balance sheets across the globe, M&A may make the way for JVs in the next 12 months to help realign the supply chain.

Technology is also a vulnerable sector, particularly the start-ups. Employee layoffs, talent loss to survivors, nil government support and rationing of capital by their institutional shareholders may lead to a considerable collapse in effort put in over the new few years for a good number of companies. Our teams are regularly interacting with such companies and helping them put in place emergency solutions.

BRAZIL

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Prior to the crisis, Brasilpar was in the process of building a Debt Advisory team to look at new debt financing alternatives for clients in response to the consistent and substantial decline in interest rates in Brazil over the last two years. While not specifically looking to build a restructuring team, we have pivoted quickly into this role as a business to help our clients, many of whom are third generation clients, with their immediate liquidity issues.

It's clear that the crisis is severe and has affected everyone at the same time, and we are also seeing a lack of liquidity and lack of markets in Brazil a lack of liquidity and lack of markets. The problem right now is that the capital markets in general, but especially in Brazil, are highly dysfunctional and a market doesn't really exist, which makes pricing any securities, including debt, quite challenging. Lack of working capital will be an issue when the markets open, with additional pressure on companies as sales growth resume.

We can help companies restructure their debt profiles and capital structure. At a hands on level we're helping by managing our clients' relationships with banks and creditors, to negotiate debtor conditions, adjust payment schedules, organize new projections, and renegotiate a viable proposition such as grace periods and extended terms. By taking a fair and balanced approach and promoting consensus among various creditors, we try to ensure our clients' businesses remain viable, and act before they are perceived as a credit problem by capital providers.

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IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

FRANCE & BELGIUM

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Degroof Petercam was already doing restructuring work before the crisis as part of our DCM business. We are a private bank and lend money to individuals only to get assets under management, so we have no conflict of interest in this field.

We usually advise companies when they have too much debt or need to reshuffle their capital structure, and we are very often advisor to the company, in both out of court and in court processes. We also provide fairness opinions, for instance with larger companies in the restructuring of a subordinated bond which can get very technical, so an opinion would be sought in order that all parties are treated fairly.

We have seen 3 phases since the arrival of the COVID virus and with our clients:

Phase 1: Lots of clients drew down their revolving credit facility at the beginning of the crisis as they thought a liquidity crunch was on the way and they wanted cash on their balance sheet

Phase 2: Realization that the COVID-19 crisis would go on much longer, almost all clients requesting State finance through the banking system

Phase 3: It's neither a V or a U and more probably an L. Can't see when the business will be back on track or when it will bounce back. This suggests a solvency issue is on the way and therefore a change in capital structure

"At Degroof Petercam, we feel that this crisis will trigger more equity or quasi equity financing for corporates and probably M&A consolidation in certain sectors like aerospace, retail and leisure."

That's where our model at Degroof Petercam is important as within the DCM team we have a rating unit comprising 2 former S&P and Moody's employees. At this point they come in and start to see what the new capital structure should be, given the business plan and our risk analysis. We feel that this crisis will trigger more equity or quasi equity financing for corporates and probably M&A consolidation in certain sectors like aerospace, retail and leisure.

Beyond that we also see 2 types of investors: Private Equity funds managing their portfolio and protecting asset value on one hand and more opportunistic funds, eager to lend expensive money and looking for opportunistic M&A in the downturn.

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING

ITALY

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Vitale has a long track record as financial advisor on debt restructuring projects and special situation M&A, both in-court and out-of court.

The outbreak of the pandemic is affecting the economy and the fundamentals of businesses with a violence and speed never experienced before. Almost no business and industry, with very few exceptions (pharma and healthcare services/devices, technology, food products and food retailers) is immune in the short-term. Some industries will be affected severely for some time to come (i.e. hotels, travel and tourism, restaurants), and some innovative and very successful business models will face and potentially survive the challenges (i.e. the sharing economy, such as WeWork and Airbnb).

The effects of the pandemic on businesses should be analysed differentiating between the very short-term and the medium- to long-term:

- **Short-term:** cash shortage due to restrictions to business operations and lockdown;
- **Medium-to long-term:** slow recovery of historic levels of revenues and operating cash flows resulting in increased leverage and financial difficulties.

In the short-term, most companies shall benefit from the financial support granted by their respective governments, with different types of tools ranging from cash injections (not to be reimbursed) to new loans. We expect financial advisors to play a small role in this phase that could be labelled as "emergency financial public support".

> "Financial advisors will become of key importance (and necessary) to advise businesses, that, due to a slow recovery of their fundamentals, may need to deal with financial distress situations."

Following this phase, financial advisors will become of key importance (and necessary) to advise businesses, that, due to a slow recovery of their fundamentals, may need to deal with financial distress situations. Companies will then raise new equity, dispose of non-core assets, merge with competitors and consolidate into larger and more competitive players in their industries or restructure their financial position either with in- or out- of court proceedings.

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING - IMAP BUSINESSES WITH SERVICES IN DISTRESSED M&A

GERMANY

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IMAP M&A Consultants AG in Germany have a distressed M&A team that focuses on M&A services along the entire cycle of company crises.

We regularly observe the transition of companies from an initial shareholder crisis, where dissent between shareholders hinders decision making, which leads to a strategic crisis via lack of decisiveness and competitiveness. This, in turn, often leads to a profitability crisis, a liquidity crisis and finally to insolvency.

Our philosophy is to stop loss in value through M&A as early as possible in the cycle of a company crisis to maximize returns for current shareholders and lenders. Therefore, we offer tailored M&A solutions and approaches for every stage of the companies' development. In the insolvency stage we work together with insolvency administrators with the aim of saving the company and the related jobs as well as to maximize value for all stakeholders.

RESULTS FROM COVID-19-CRISIS

Key hypotheses and expectations

IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING - IMAP BUSINESSES WITH SERVICES IN DISTRESSED M&A

GERMANY

In addition, we advise larger groups on carve outs and on the sale of non-core businesses.

Over the last three years we have successfully closed around 20 transactions in this field. Our projects were evenly split between out-of-court (before insolvency) and in-court (in insolvency) situations. However, we saw a shift of business to out-of-court mandates in recent years reflecting the steady economic boom phase up to 2019 and a general trend towards earlier restructuring efforts.

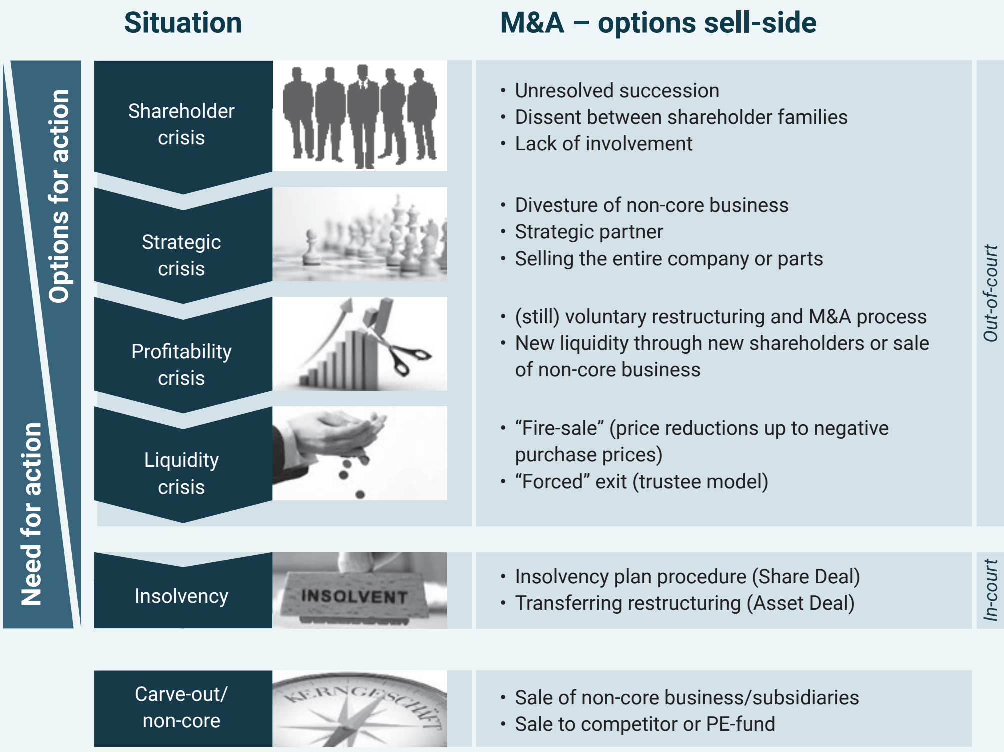
In the current Coronavirus Crisis most companies are being struck at the very heart of their business models, implying an upcoming raise in insolvencies, as we have already observed in previous crises such as the financial crisis and the .com bubble. Due to extensive state backed financing programs and the suspension of the obligation to file for insolvency until the end of September we expect the insolvency wave in Germany to hit in the second half of 2020, especially in September and October.

> "Our philosophy is to stop loss in value through M&A as early as possible in the cycle of a company crisis to maximize returns for current shareholders and lenders."

We believe that also during the next 1-2 years we will see an increased number of distress M&A transactions following the upcoming repayments of currently granted state backed loans. Moreover, in the short and medium term, these debts will strongly limit the financial scope for working capital and future investments in markets that are rising again. Our team is well prepared for guiding our clients through these challenging times.

OVERVIEW OF SERVICE OFFERING AND TARGET GROUPS

IMAP M&A Consultants AG offers comprehensive dedicated M&A services for "Special Situations"



IMAP VIRTUAL ROUNDTABLE: DEBT ADVISORY & RESTRUCTURING - IMAP BUSINESSES WITH SERVICES IN DISTRESSED M&A

UNITED STATES

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Amherst Partners offers three types of work
(i) Financial advisory: Liquidity & crisis management.
(ii) Restructuring officer or court appointed receiver.
(iii) Refinancing & Distressed M&A.

We've been busy during the crisis with our existing client base, figuring out how to keep businesses open and be safe.

However, even before the crisis we were very busy with Auto and Manufacturing restructuring work; companies with operational issues, which is very different to 2008/09 which was driven by excess supply.

The U.S. has passed a large stimulus package, but it only covers 2-3 months. Most companies will get through the next 60-90 days due to government assistance as banks are allowed to defer principal and interest in that time and the borrower isn't classified as troubled.

The question is what happens when the government assistance runs out and what will be the impact on the economy?

The big concern is on companies' working capital and balance sheets and how they will look coming out of this. The cost of reopening a business can be staggering. Our focus is on helping clients with 13 and 26 week cash flows.

> "Banks will be hoarding cash for existing customers, however non-bank lenders are flush for cash and have plenty of money to lend."

There are a number of non-bank lenders that were formed in the U.S. coming out of 2008/09, some of which are publicly traded and others that are privately held. Earlier this year, we went to probably 70 or 80, non-traditional lenders, most of which are going to be very middle market focused and are not going to be doing large international loans. Banks will be hoarding cash for existing customers, non-bank lenders however, are flush for cash and have plenty of money to lend.

We expect it to be a slow recovery, with the likes of restaurants, movies, sports etc., being much slower to recover, particularly mass gatherings. There will be continued flare-ups of the virus and that will put a damper on economic activity.

IMAP VIRTUAL ROUNDTABLE ON DEBT ADVISORY & RESTRUCTURING

CANADA

DAVID SANTANGELI
MORRISON PARK ADVISORS, TORONTO

"The vast majority of companies are determining what their plans are going to be and therefore what their capitalization is going to be."

USA

BRIAN DAVIES
CAPSTONE HEADSWATERS, BOSTON

"What has happened here in the US and throughout the world is that capital providers have completely entrenched, which in my career is unprecedented."

USA

KENT BROWN
CAPSTONE HEADSWATERS, BOSTON

"Lenders today are really in 'bunker mode'. We are focusing on preparing materials for our clients to be effectively first in line for when the markets do reopen, which they will – we just don't know exactly when."

USA

SCOTT EISENBERG
AMHERST PARTNERS, MICHIGAN

"Our belief is that most of these companies, due to government assistance and bank flexibility will survive the next 60-90 days. The bigger question is what happens after that, when the government assistance programs run out."

BRAZIL

GUILHERME PAULINO
BRASILPAR, SAO PAULO

The problem right now is that the capital markets in general, but especially in Brazil, are highly dysfunctional, which makes pricing any securities, including debt, quite challenging."

IMAP VIRTUAL ROUNDTABLE ON DEBT ADVISORY & RESTRUCTURING

GERMANY

HENNING GRAW
IMAP M&A CONSULTANTS AG, MANNHEIM

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FRANCE

FRANCK CEDDAHA
DEGROOF PETERCAM, PARIS

"The predominant view is that it's not a 'V 'or a 'U' shaped recovery, but probably an 'L' and corporate clients don't see when business will be back. This suggests a solvency issue is on the way and therefore a change in capital structure."

ITALY

RICCARDO MARTINELLI
VITALE & CO., MILAN

"The outbreak of the pandemic is affecting the economy and the fundamentals of businesses with a violence and speed never experienced before."

INDIA

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IMAP INDIA, MUMBAI

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