

Presentation to FEI Canada

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ALVAREZ & MARSAL

Corporate Restructuring – Some Basics to Maximize
Control of the Situation, Minimize Losses and Take
Advantage of Possible Opportunities

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Today's Presentation

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Appendix I

Continuum of Financial Difficulties

Continuum of Financially Challenged Debtors

	Underperformance	Financial Stress/Distress	Solvency Concerns
Common Warning Signs	<ul style="list-style-type: none"> ▪ Adverse change in general economic factors: <ul style="list-style-type: none"> - commodity prices - foreign exchange rates - interest rates ▪ Loss of major customer or key supplier ▪ Sudden and/or frequent change in product mix ▪ Material change in competitive and/or geo-political landscape ▪ Departure of key management ▪ Frequent and consistent unfavourable variance from forecasts and business plans 	<ul style="list-style-type: none"> ▪ Operating line frequently at or over limits ▪ Deterioration of borrowing base – aged out receivables and/or aged inventory ▪ Increased aging of trade accounts payable when operator at limit ▪ Use of operating line for purchase of capital assets ▪ Delay in required reporting ▪ Management becoming less accessible and less transparent ▪ Change in auditor or external accountants 	<ul style="list-style-type: none"> ▪ Inadequate capitalization and/or appropriate capital structure ▪ Matured debt facilities and/or requests for subordination or postponement of debt ▪ Non-renewal of guarantees and/or insolvency of guarantor(s) ▪ Fraud and/or major litigation ▪ Material change in capital structure and/or ownership ▪ Notices/demands from statutory creditors (CRA-Payroll, GST) ▪ Qualified audit opinion or non-issuance

Development of a Restructuring Plan - Viability

ASSESSING THE VIABILITY OF THE BUSINESS AND A PLAN

Ability to understand the root cause of the challenges

- Operational: inefficiencies, customer focused, external risks
- Financial: over leveraged, under capitalized

Acknowledgment that remedial action is required

- Denial or acceptance
- Transparency vs escape

Stakeholder assessment

- Impacts
- Support
- Influence

Development of a business plan

- Developing a fully integrated and supported financial model
- Critical assessment of underlying assumptions

Development of a Restructuring Plan – Viability Cont.

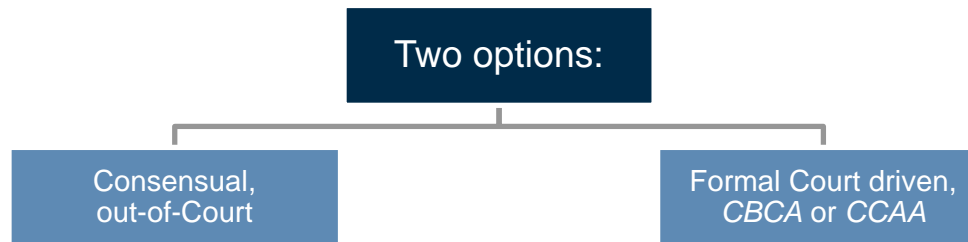
Nature of the business, corporate structure and guarantors

- Can a restructuring be accomplished outside of a Court supervised process?
- Could a formal restructuring significantly impact the business?

Nature of the underlying security pledged to lenders

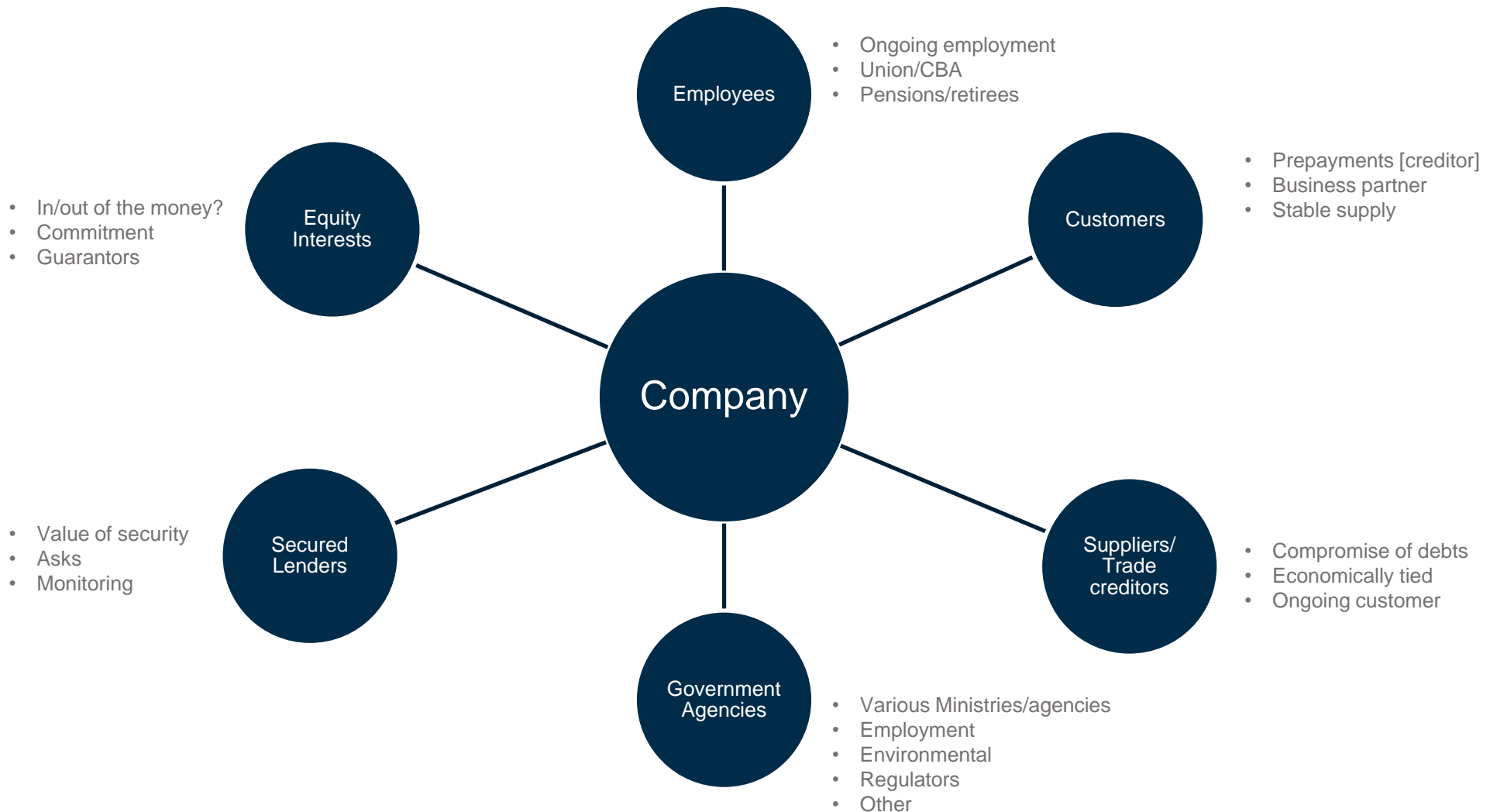
- Hard assets: working capital and capital assets
- Intangibles: IP, customer contracts, supplier contracts
- Impact to restructuring options

Development of a Restructuring Plan - Ingredients



Requirements to develop a viable plan	
Viable business	✓
Financial plan – cash service operations and debt	✓
Stakeholder support ‘asks’	✓
Sale of non-core assets or businesses	✓
Retention of employees	✓
Engaging professionals and/or CRO	✓
Demonstrating incremental value > liquidation	✓

Development of a Restructuring Plan - Stakeholders



Development of a Restructuring Plan - Management

Management and Board Characteristics

Characteristic	Detail
Capability	<ul style="list-style-type: none">• Experience• Education/skills• Leadership• Recognize and fill gaps
Commitment	<ul style="list-style-type: none">• Time – focused on the business or new ventures/adventures• Effort• Financial – resources, guarantees, transactions
Credibility	<ul style="list-style-type: none">• Transparent• Accessible
Other	

Do they have the fortitude, gravitas and commitment to see this plan through?

Development of a Restructuring Plan - Professionals

Professionals that may be required to assist in stabilizing the business, and developing and implementing the plan include:

Financial

- Consider depth and experience in restructuring matters
- Independence

Media/Public Relations

- Nature of operations may require public engagement and management of information flows

Chief Restructuring Officer

- Support Management
- Focus on developing and implementing the plan

Other

Legal

- Consider depth and experience in restructuring matters

CBCA Restructuring Process

Recent trend for distressed Canadian companies to restructure under the *Canada Business Corporations Act*

CBCA can be an effective tool for companies in circumstances where

- Reorganization is focused on deleverage of the balance sheet
- Company has available credit / liquidity to complete process
- Key security holders (debt and equity) have committed support to process

Restrictions on use of CBCA

- Stay of Proceedings is limited
- No court-appointed Monitor
- Cannot compromise trade debt
- Cannot disclaim / repudiate executory contracts
- Applicant company must be “not insolvent”

CCAA Restructuring Process

***Companies' Creditors Arrangement Act* remains preferred statute for large restructurings in Canada where CBCA is not viable and / or has previously failed**

CCAA Basics

- Broad stay of proceedings
- Court appointed Monitor (including review of pre-filing transactions)
- Priority interim financing
- Ability to disclaim / repudiate executory contracts
- Ability to force assignment of contracts over counterparty objection

Form of Restructuring

- Plan of Compromise / Arrangement
- Sale of going-concern Company
- Liquidation

What does a plan look like?

PROPOSAL PRESENTED TO CREDITORS TO DEAL WITH ITS DEBTS

Thesis of the Plan

- Restructure → Swap debt/equity?
- Recapitalize → roll debt with fresh capital?
- Sale/liquidation part or all → distribute proceeds
- Stalking horse situation
- Combination of above

Other considerations

- Creditor constituencies and ratings
- Implementation timing
- Plan negotiations and amendments
- Calling for claims

Considering Opportunities

Opportunities	Considerations
Purchase of competitors/enter markets	
<ul style="list-style-type: none">• Distressed pricing• Eliminate competitors• Stalking-horse bid	<ul style="list-style-type: none">• Requires start-up capital• Diligence the opportunity• Engage appropriate advisors
Gain Market Intelligence	
<ul style="list-style-type: none">• Human Capital availability• Bidding on IP	<ul style="list-style-type: none">• Diligence the opportunity
Creditor angles	
<ul style="list-style-type: none">• Purchase claims• Implement a restructuring strategy	<ul style="list-style-type: none">• New capital at risk• Target stability

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