RESTRUCTURING HOUSE

# Houlihan Lokey

It is not only the size and global reach of Houlihan Lokey's team that marks it out among restructuring houses in 2009. Its impressive list of assignments, evenly split between creditor and debtor roles and in a multitude of jurisdictions, gives it a unique perspective into what the other side is thinking. Houlihan Lokey is IFR's Restructuring House of the Year and EMEA Restructuring House of the Year.

# All things to all men

ifr AWARDS 2009

Houlihan Lokey stood out from its competitors in 2009 for its consistently high quality execution across both bank and bond deals. In Europe, it is also marked out by its ability to gain traction for American-style solutions in even the stickiest European jurisdictions, despite being a relatively new entrant closely associated with US investors.

It is now unarguably a go-to name for any corporate, sponsor or creditor anticipating a crisis. It is also a truly global player, operating out of eight offices in its US home territory, with three offices each in Asia and Europe.

"We have been planning for this cycle for five years," said Houlihan managing director Jonathan Cleveland. In a typical cycle, Houlihan's bread and butter assignments would have been advising bondholders. But the firm has broken out of that core, partly thanks to the sheer level of distress in the current environment, which has spread deeper into the capital structure. In wiping out value not only for bondholders but also bank lenders holding secured claims, the crisis created a new client pool.

Investment banks as a class have benefited from the trend, particularly by winning mandates among European bank lenders who traditionally hired accountants in distressed situations where they were, generally speaking, in-the-money creditors.

Houlihan used the expansion of creditor side roles to complement the results of its own strategic marketing initiative, which entailed presentations to 80 US private equity houses in a campaign to win roles from debtor companies and their owners.

**Over there!**

In Europe, a house with such an obviously US-focused history could have fallen behind firms with a deeper European heritage in 2009. The year saw commercial banks emerge as key clients, and most deals were restructured in their original jurisdictions. But with senior executives based in the UK, France and Germany, an increasing footprint in Spain, Houlihan avoided such a fate. A full 50 of its global total of 176 restructuring professionals are now based in Europe, and it has penetrated markets from Iceland to Montenegro.

The reach beyond the firm's creditor-side roots are particularly pronounced in Europe. It is equally well positioned to win mandates on the debtor or creditor side. It is also equally at home on bond deals and bank structures, another key difference with rival advisory houses.

"In Europe we have worked with every major sponsor and with the full range of creditors on a roster of deals that is a 50:50 mix of debtor and creditor mandates," said Peter Marshall, managing director in London.

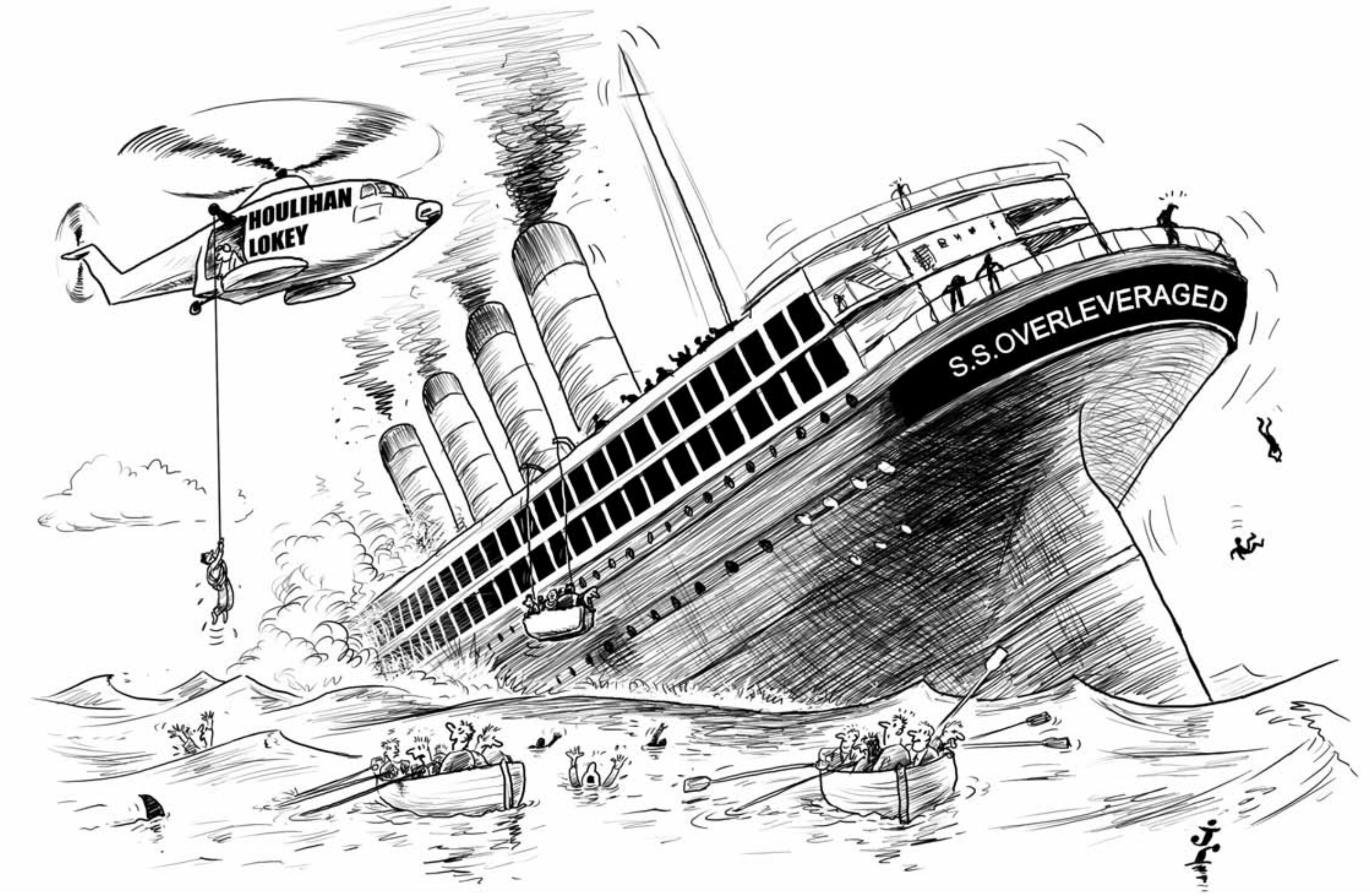
In 2009 the firm won mandates across a variety of sectors, jurisdictions and capital structures throughout the year. Key transactions highlight the scope and excellence of the franchise and how deeply embedded in Europe it has become.

Houlihan Lokey advised senior creditors of Ineos, in the largest restructuring of a European leveraged deal to date, with debts totalling €7.2bn. The deal probably ultimately failed to fix the Ineos balance sheet – leaving all of its debt in place, albeit with modifications allowing the business to trade through a sustained downturn. But that outcome was an acknowledgement of the priorities and mindset of investors in senior European bank debt: clients pay advisors to get the desired deal, not necessarily the right deal.

As with Houlihan's creditor-side mandate for Monier later in the year, the wide syndication of Ineos debt to a vast number of banks and institutional investors played to Houlihan's origins as a restructuring franchise. The house had earned a reputation advising disparate bondholder groups in the fall-out from the US junk bond crisis of the 1980s.

Its role on Ineos put Houlihan's senior European team in a room with pretty much every investor in European LBO debt for the first six months of the year. That was a formidable position from which to win future work.

In another deal harking back to the firm's heritage, Akerys was among the very few truly successful bond exchange offer deals completed in 2009 anywhere in Europe, succeeding where other deals failed. Houlihan Lokey advised the company on the transaction – which was structured to deleverage the business without ousting the incumbent owners who were seen by all sides as a key element in




recovering value post restructuring. That required a strategy of consultation and dialogue with note holders. The strategy was vindicated when Akerys gained 99.1% acceptance for its proposal, allowing it to slash cash-pay bond debt from €300m to just over €79m.

Akerys approached bondholders early, agreeing in advance to pay for advisers to the bondholder group with which it agreed the deal, before formally launching the offer. The offer won over noteholders by convincing them the deal was part of a necessary restructuring, in which both debt and equity investors would suffer write-downs. It created the perception of shared pain, appealing to investors' sense of fairness.

Noteholders were offered a deal to exchange an aggregate of €300m of FRNs due 2014 into €80m of cash-pay notes due 2014 and €220m of new PIK convertible bonds, exchangeable into B shares worth 45% of the equity in the restructured business.

As well as carrots, Houlihan's strategy for Akerys wielded a number of sticks. Liquidity problems meant creditors could not reasonably push for a cash exchange offer, and any proposal leaving the bulk of cash-pay debt in place was not viable. It also worked off the implied threat of a value-sapping French insolvency.

France is a traditionally difficult territory for Anglo-American firms and their clients. Houlihan Lokey delivered traditional capital markets solutions by working with, rather than against, the cultural and legislative framework.

Houlihan was also at the heart of a rare French debt-for-equity swap that saw holders of bank debt take control of leveraged book printer Groupe CPI in October. A group of 18 senior lenders, led by RBS, took control of equity in exchange for writing down debt. After securing agreement from all parties to a consensual solution that again avoided a formal restructuring, the deal was structured as an M&A transaction. Creditors paid sponsors CVC Capital Partners and Cognetas just €1 for the equity in the business, and then consented to write down debt.

Key to the lender-led solution was creditors' ability to organise and to meet the debtors' liquidity needs. The deal needed unanimity from senior lenders to be executed, a factor favouring a lender-led solution over an alternative proposal from sponsors.

However, debt-for-equity deals are rare in France, partly because of a perception that the country's restructuring regime favours business owners over lenders. Houlihan Lokey's team insists that this view mistakenly equates owners with companies. In the case of CPI, the deal struck was viable because senior lenders' willingness to support the business with new liquidity is in the spirit of the French system.

"In France the system aims to protect the debtor, so aligning creditor interests with the interests of the business was key," said one member of the Houlihan team.

The senior lender group was dominated by bank lenders and other original par lenders, unlikely drivers of a debt-for-equity swap. But the proposal came in response to a proposal from equity owners that envisaged the sponsor meeting the debtor's liquidity needs in exchange for a radical debt write-down. That would have seen creditors out of the money but giving up their claim to the lion's share of any future upside.

The deal will see lenders provide a new €30m revolving credit facility to finance CPI's new development plan. The company will also have access to a flexible leasing and factoring line of €27.5m. Management, seen as key to laying the foundations for the agreement, will invest in the company alongside the banks. Houlihan Lokey advised the company, alongside lawyers Weil Gotshal & Manges.

But arguably Houlihan's most impressive piece of business in Europe this year was its role advising creditors in the contested restructuring of building supplies maker Monier. This deal again allowed creditors to retain control of a situation by acting as the provider of new liquidity. The deal established a template for lender-led solutions, with CLO managers in particular moved by the outcome to re-examine their previously passive role on the receiving end of sponsor proposals.

Senior lenders, led by distressed investors Apollo, Towerbrook and York Capital, took control of Monier after seeing off a challenge from sponsor PAI by restructuring its €2.38bn of debt. Senior debt was held by a mix of investor types but a successful outcome for distressed debt investors ultimately came because of a better appreciation of the mood among CLO managers and commercial banks.

The senior creditor proposal offered a smaller equity injection than the incumbent sponsor but kept more debt in place to appeal to equity-averse lenders, with €300m structured as topco PIK. The solution crucially bridged the competing aims of creditors, allowing them to see off a divide-and-conquer play from PAI. The use of the topco PIK not only supported the credit in terms of cash flow but was structured not to count as leverage in rating agency calculations. In the end, 78% of lenders backed the deal to seize the business through a debt-for-equity swap, executed through a scheme of arrangement in the UK following a CoMI shift.

"More deals are being done through the courts because of the conflicting agendas within lender classes. The challenge has been to deploy the tools already available and understanding jurisdictions and maximising the tools of various jurisdictions to execute cross border deals," said Marshall. "The structural complexity of deals requires intellectual agility and depth of experience, which plays to our strengths."

### Home comforts

In the US, 2009 saw Houlihan continue as the dominant force advising creditors. The appalling credit environment hastened the collapse of companies in every sector. The distress in the current restructuring cycle has meant that bank debt has more frequently been considered the fulcrum security. In the last decade banks have been very successful at syndicating risk: the holders of so-called bank debt in the US are therefore usually not banks at all.

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"Less than 25% of bank debt is held by banks and financial institutions," said Saul Burian, managing director in Houlihan's US team. "There's been a tremendous amount of syndication and our traditional clients have gravitated up the food chain, moving from unsecured bonds to secured bank debt."

There was hardly a large-scale restructuring in the US that Houlihan did not have a hand in during 2009. "We are at the forefront of representing creditors, addressing the issues of mobilising a fragmented group and getting them to understand the situation they are in," Cleveland said. "Our approach is more relevant than ever."

For investors in a treacherous credit environment, Houlihan's approach has meant they were in the hands of skilful advocates of creditors' rights. That skill was on full display as Houlihan took on the US Treasury on behalf of General Motors' bondholders, and as the firm worked with bondholders to keep middle market commercial lender CIT from collapsing.

As CIT teetered on the edge of collapse, the lender was in talks with several banks for emergency financing. When those talks failed, CIT turned to Houlihan as adviser to a group of large noteholders who faced a pretty dire situation. Without an immediate cash infusion, the company would be forced to file for bankruptcy protection. Over just three days, Houlihan put together US$2bn in rescue financing from a group of key bondholders, with an option for another US$1bn. The deal bought the company time to plan an orderly restructuring.

Similarly, as advisers to bondholders in Charter Communications, Houlihan was instrumental in crafting a solution that kept bank debt in place as the cable operator restructured, as well as helping to fund the company.

"We want to be the ones who orchestrate a solution," Cleveland said. Bondholders are typically loath to leave a current owner with a chunk of equity, Cleveland said. But at Charter, leaving equity in the hands of its owner, Paul Allen, was the key to getting around the change of control covenants on the bank debt.

The firm is also representing the creditors' committee in the Lehman Brothers situation. With the core of Lehman sold to Barclays, the role as adviser to creditors has put Houlihan front and centre as the Lehman is wound down, scrutinising derivative portfolios, sales portfolios, real estate portfolios. The team involved ranges from 15 to 40 depending on the issue or the month.

As in many of its largest deals, Houlihan is one the few firms with the capacity to handle the scale of the Lehman assignment without it having a detrimental impact on its other cases.

In 2009 Houlihan represented secured lenders at Pliant Accuride, Cooper Standard, Hawaian Telecom, Hayes Lemmerz, Herbst Gaming, Visteon and Linens n Things – where the firm pushed lenders to liquidate and second lien bridge lenders in LyondellBasell.

Houlihan is advising creditor committees at General Growth Properties, Chemtura and SemGroup. It is also advising bondholders at CanWest, Quebecor World and Masonite in Canada as well as CapMark, RH Donnelly and Trump Entertainment Resorts.

Houlihan has also steadily increased assignments advising companies, including amusement park operator Thornburg Mortgage, Six Flags and Foamex.

Meanwhile, despite a presence on the ground, Asia remains a challenging environment for Houlihan, where it lags behind key competitors. Last year saw mandates in Australia on a debt stabilisation plan for Centro Properties Group's A$4bn of debt, and distressed M&A work for Asyst Technologies in Japan as well as a small number of private deals in Indonesia.

To some extent, that reflects the reality of its global clients' priorities, but its European experience shows that if Houlihan wants to succeed in Asia, it must adapt to its new landscape, not attempt to transpose its existing franchise onto a new market.

**Donal O'Donovan, Philip Scipio**