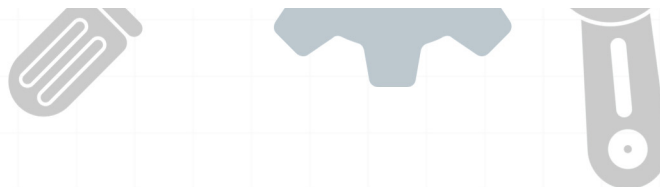





Legal Restructuring Tools



Legal Restructuring Tools Introduction






Legal Mechanisms






There are a **range** of **legal restructuring tools** or **procedures** that can **assist** the **company** to find a **viable solution** in order to **keep operating**.

Helps **creditors maximize** their **recoveries**

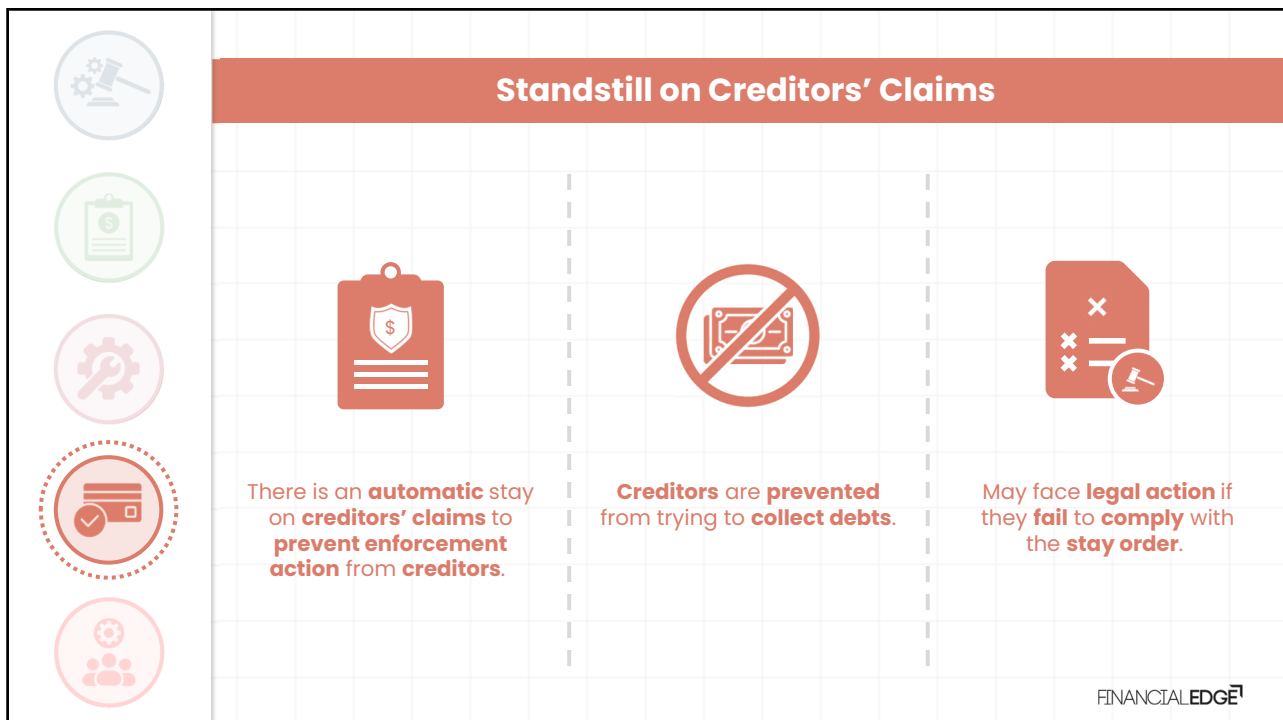
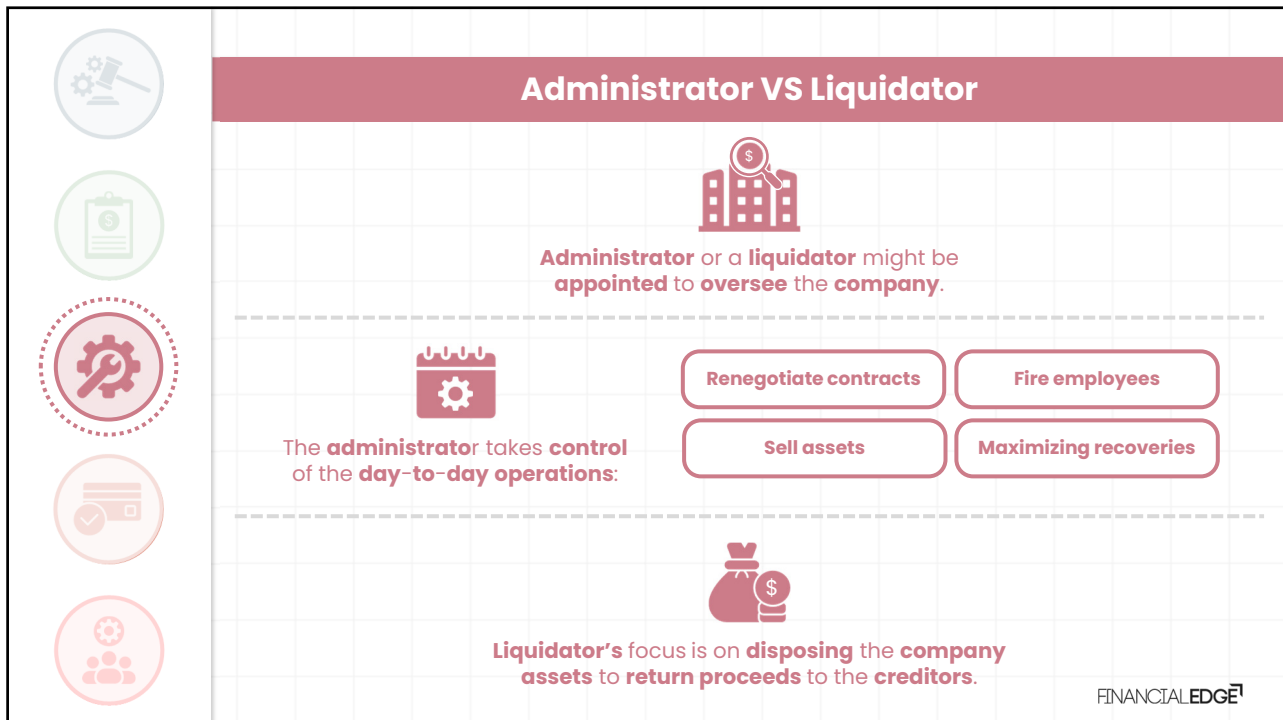
FINANCIALEDGE⁷

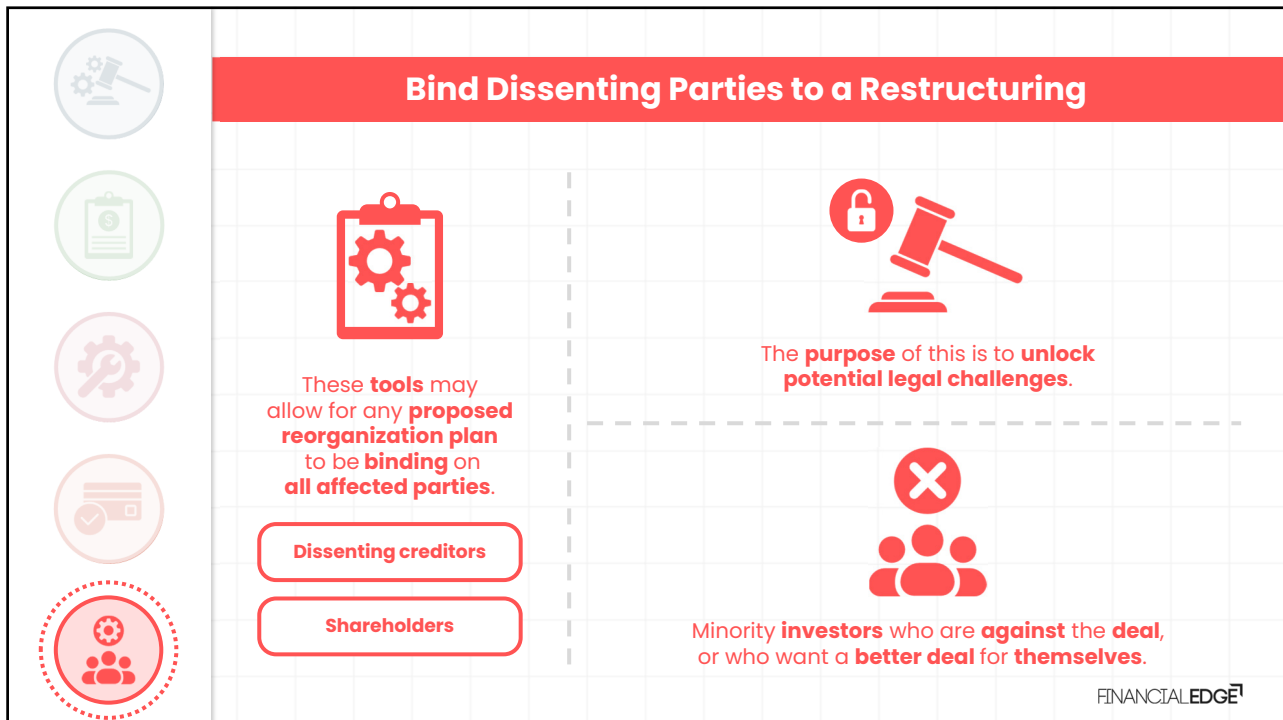


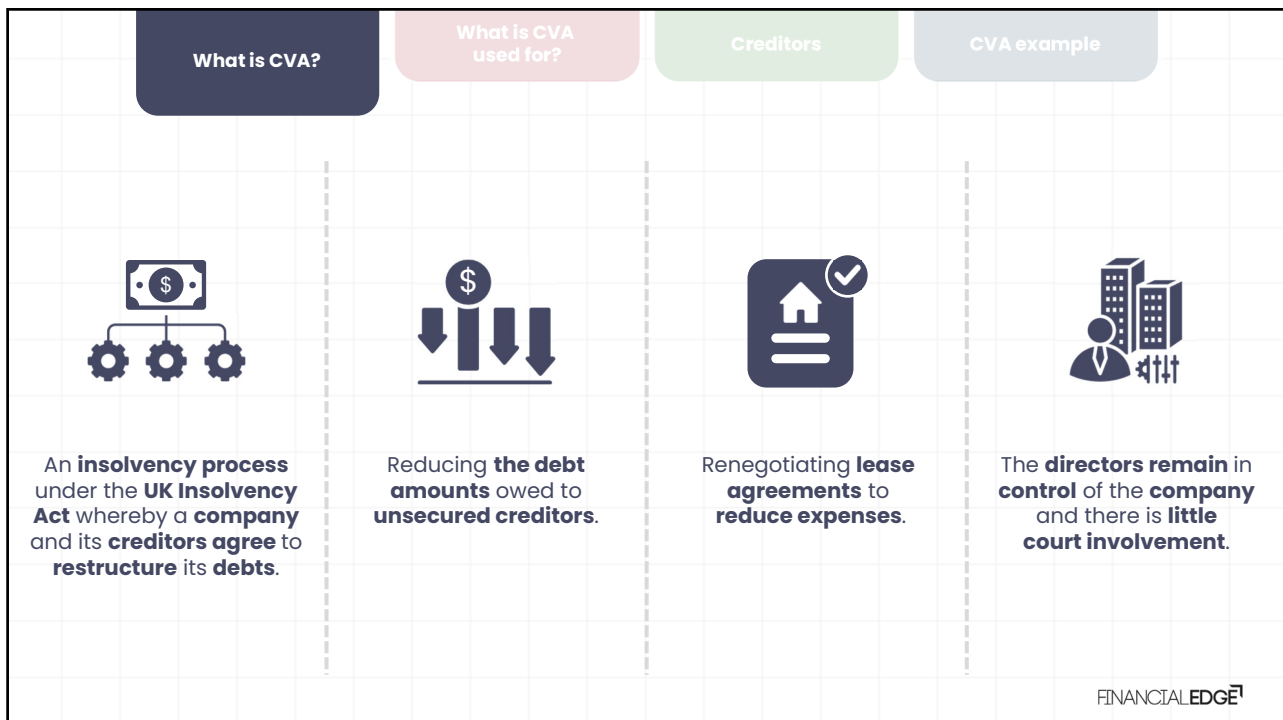
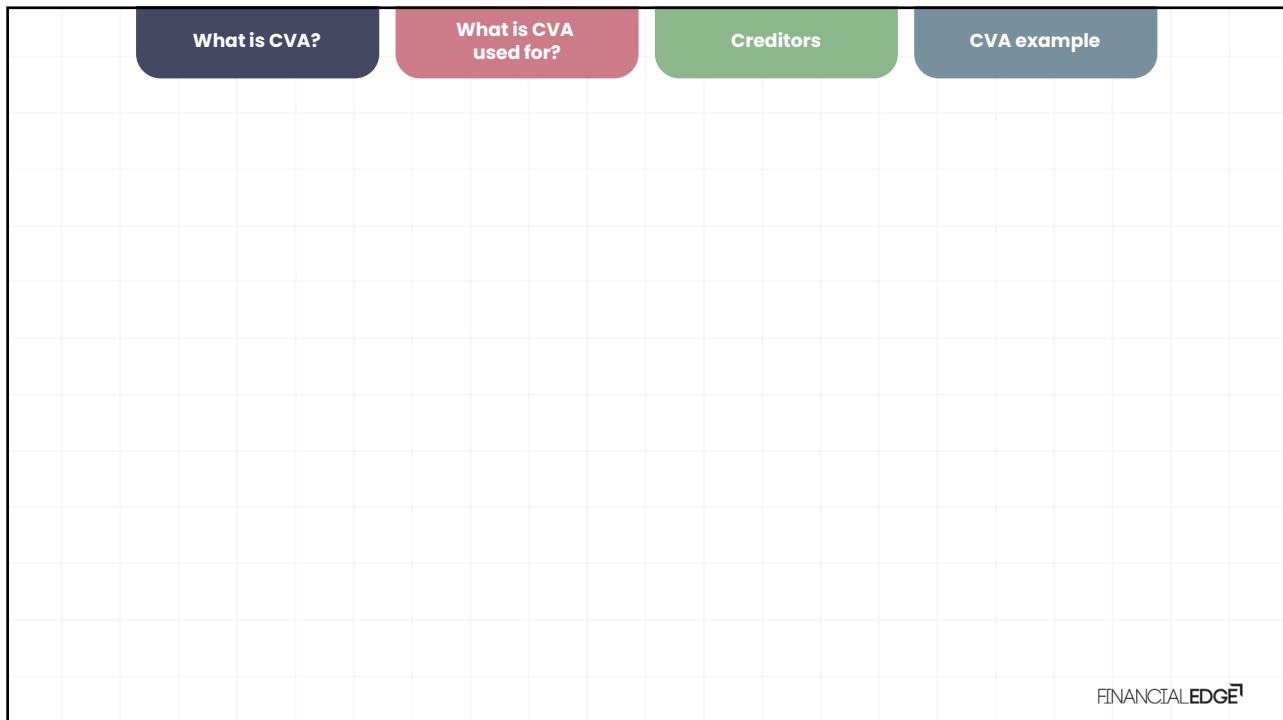
Bankruptcy Petitions

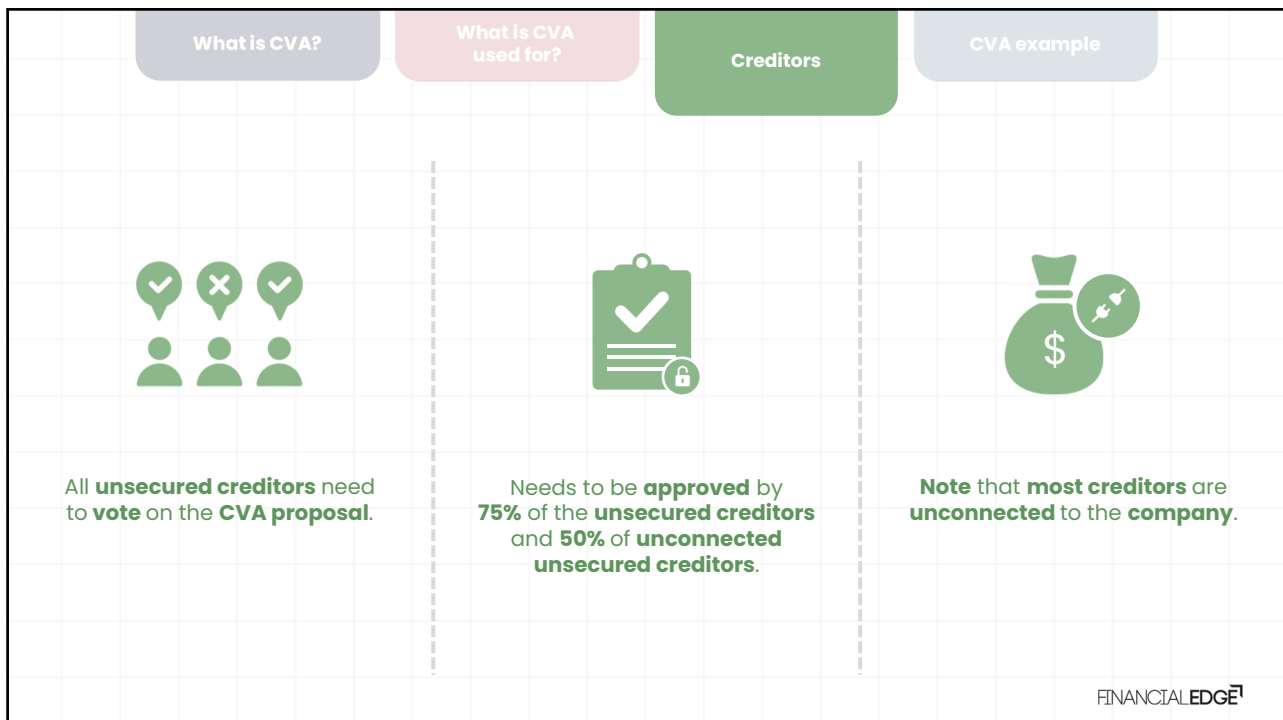
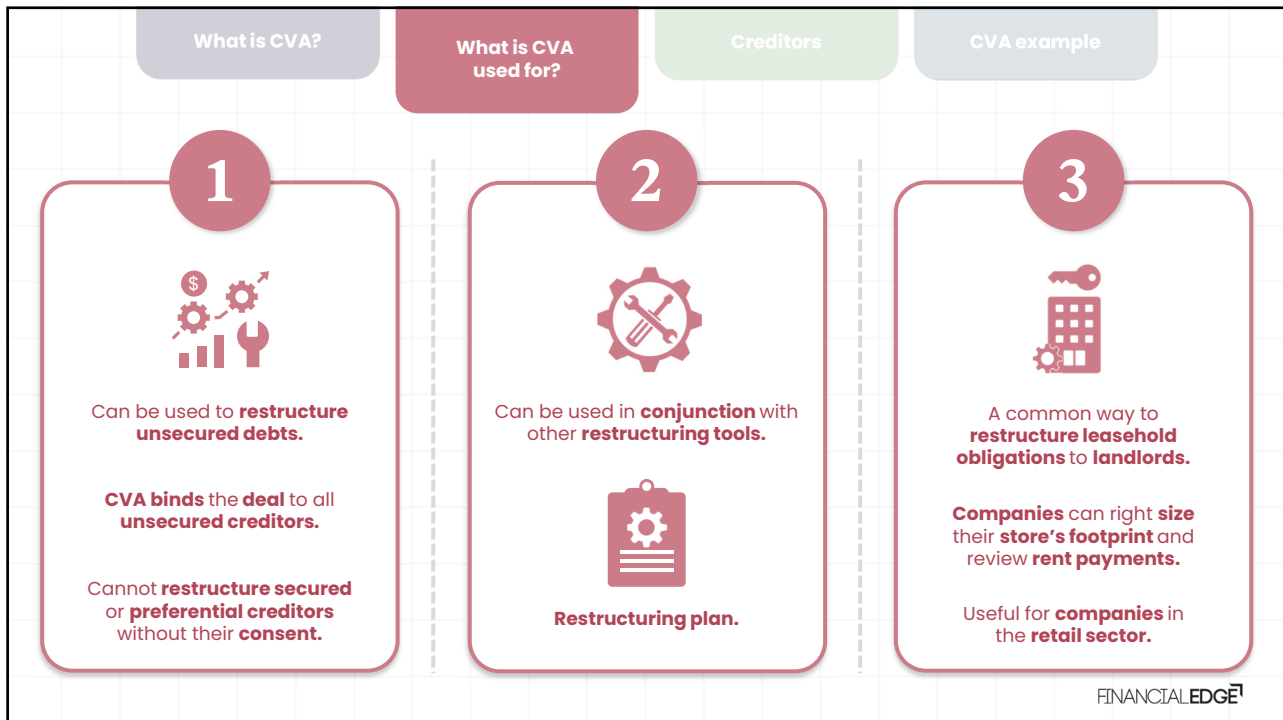
 <p>Can be filed in courts by either debtors or creditors:</p> <div style="border: 1px solid #4a697d; border-radius: 10px; padding: 5px; margin: 5px; width: 80%;">Voluntary bankruptcy</div> <div style="border: 1px solid #4a697d; border-radius: 10px; padding: 5px; margin: 5px; width: 80%;">Involuntary bankruptcy</div>	 <p>The reorganization or liquidation processes may be led by:</p> <div style="border: 1px solid #4a697d; border-radius: 10px; padding: 5px; margin: 5px; width: 80%;">Company's director</div> <div style="border: 1px solid #4a697d; border-radius: 10px; padding: 5px; margin: 5px; width: 80%;">Administrator</div>	 <p>The company and its directors continue to negotiate with creditors:</p> <div style="border: 1px solid #4a697d; border-radius: 10px; padding: 5px; margin: 5px; width: 80%;">Debtor-in-possession</div>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

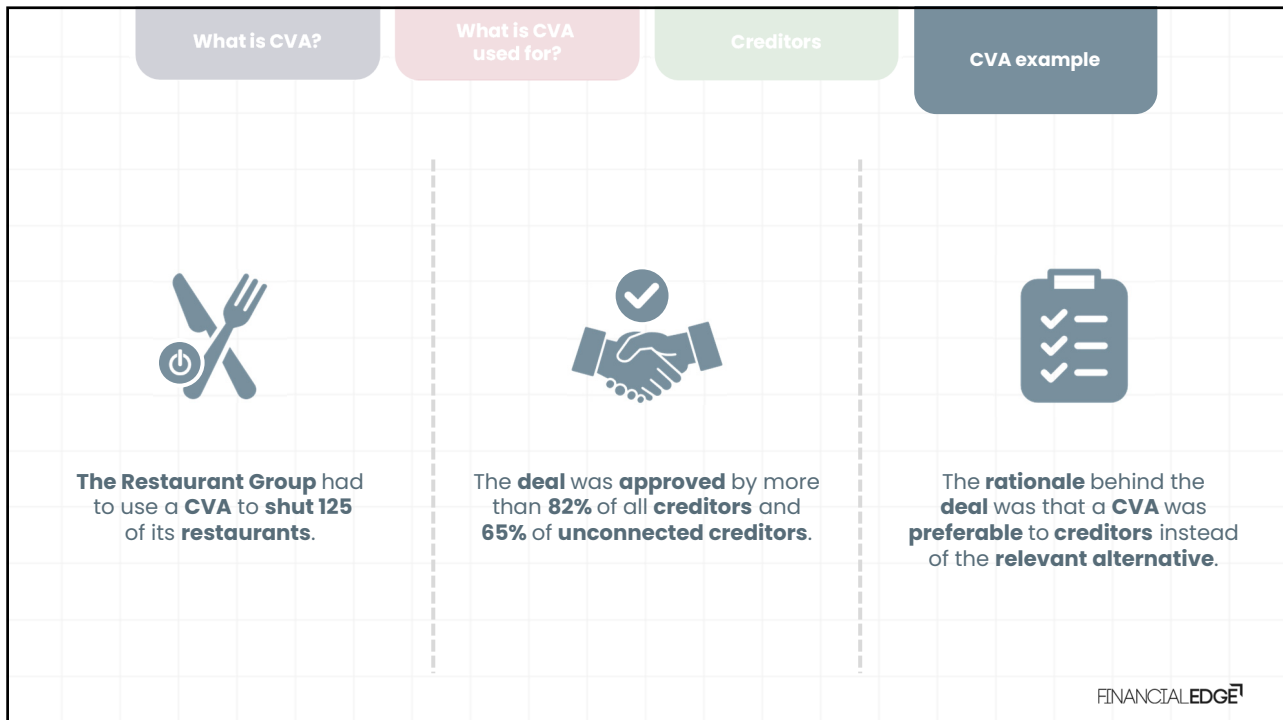
FINANCIALEDGE⁷











UK Specific Restructuring Tools – Restructuring Plan



FINANCIALEDGE⁷

Restructuring Plan



Procedure under the **UK Companies Act**



Companies can use it to **bind dissenting creditors**



Both **secured** and **unsecured**

FINANCIALEDGE⁷

Dissenting Parties



Are no worse off **under the plan**



Relevant alternative is a **liquidation**



All parties would **recover** the **same**

FINANCIALEDGE⁷

Proposals



May be launched by **any party**



Creditors and **shareholders**



Typically **directors** will **propose** a **plan**

FINANCIALEDGE⁷

Stakeholders



Grouped into **classes** for the **voting process**



75% of the **votes** **required** for **approval**



Without **protection** against **creditors' claims**

FINANCIALEDGE⁷

Restructuring Plan Example – Virgin Active 2021



Restructured its **liabilities** using the **Restructuring Plan** and produced a **proposal** whereby **creditors** were split into **seven** different **classes**.



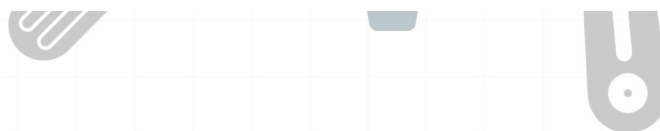
Despite most of the **creditor classes** having voted against the **proposed plan**, two key classes, **secured lenders** and "**Class A**" **landlords**, voted overwhelmingly in favor.



The **court** approved the **proposed plan** as all **creditors** expected to receive more **proceeds** than in the **alternative administration** process.

FINANCIALEDGE⁷

UK Specific Restructuring Tools – Administration

FINANCIALEDGE⁷

Administration Plan



Procedure in the **UK Insolvency Act** used when a **company** is, or is **likely** to become, **unable** to **repay** its **debts**.



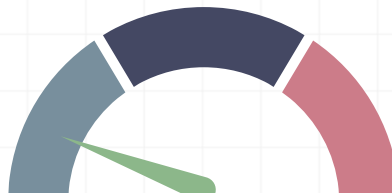
An **administrator** is **appointed** and takes **control** of **day-to-day** running of the **company**.

Administrators can be **appointed** by:

Directors

Shareholders

Creditors

FINANCIALEDGE⁷

The Three Main Goals



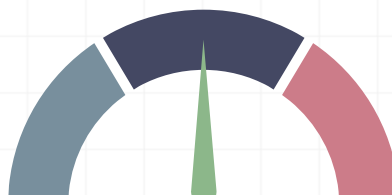
Rescuing
the **company**.

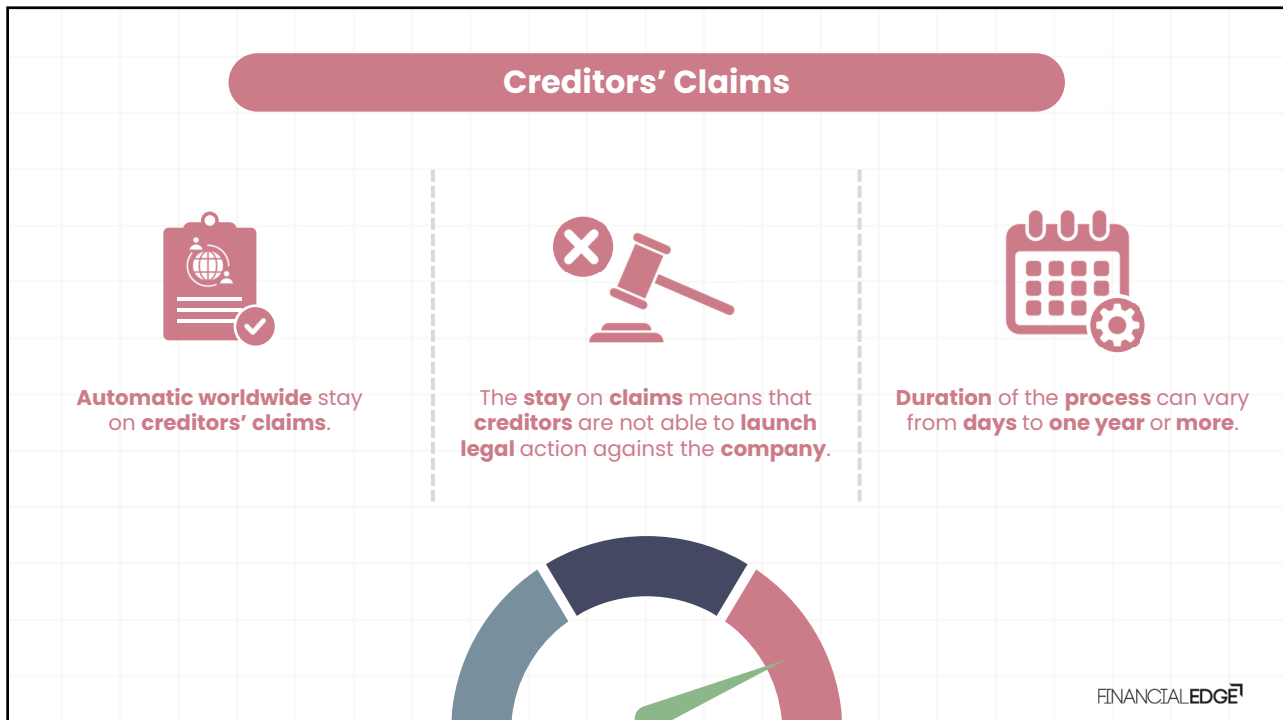


Achieving the **best**
result for **creditors**.

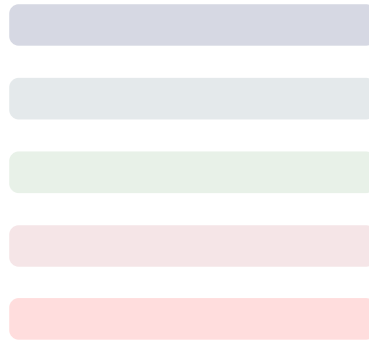


Sell property in order to make
a **distribution** to **secured** or
preferential creditors.

FINANCIALEDGE⁷



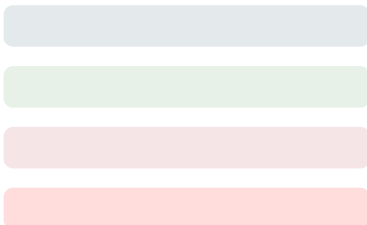
Chapter 11 US Bankruptcy Code

FINANCIALEDGE⁷

Chapter 11 US Bankruptcy Code



US Bankruptcy Code



Restructure a **company's** business
and **financial obligations**

The **idea** is that the **business**
continues to **operate normally**

No creditor can **launch** a **legal claim**
on the **assets** of the **company**

FINANCIALEDGE⁷

Chapter 11 US Bankruptcy Code



File for Chapter 11



A **company** may **generally file** for **Chapter 11**

In any **US district** that it has **strong links** to

The **company's directors** stay in **place**

FINANCIALEDGE⁷

Chapter 11 US Bankruptcy Code



Debtor-in-possession



This can also be **referred** to as a
"debtor-in-possession" process

They **continue** making the **decisions**
regarding the **running** of the **company**

After filing, **120 days** to **present** the
reorganization plan

FINANCIALEDGE⁷

Chapter 11 US Bankruptcy Code



The Plan



The plan will be deemed to be **approved** if **two-thirds** by **value** of **each class** of **"impaired"** creditors accept it

Proceedings take usually between **6 months** and **2 years**

FINANCIALEDGE⁷

Chapter 11 US Bankruptcy Code



Acquire Assets



Debtors can use **Section 363** to sell assets

That were once **"toxic"** or **too risky**

Free and clear of any **liens, claims, and encumbrances**

On a **free-and-clear, unencumbered** basis

Provides an **exceptionally** interesting **opportunity** for **potential buyers**

In **turn** **increases** their **value**

FINANCIALEDGE⁷

Weighing the Pros and Cons Before Filing

Pros



Automatic worldwide stay on creditor claims



Debtor is **allowed** to **unilaterally cancel** unprofitable contracts and leases



Financial obligations can be restructured or cancelled

Cons



High level of scrutiny of courts and disclosure obligations for the company



Directors **lose some discretion** on certain **strategic decisions**



Significant costs involved in the process

FINANCIALEDGE⁷

After **each class** of **creditors** have **voted** on a **proposed plan**:

FINANCIALEDGE⁷

After **each class** of **creditors** have **voted** on a **proposed plan**:



The **company** must show that the **plan complies** with the **Chapter 11 requirements**, including **showing** the **results** of **voting**

After **each class** of **creditors** have **voted** on a **proposed plan**:



After **each class** of **creditors** have **voted** on a **proposed plan**:



The **courts can't confirm a plan** that has **not** been **accepted** by at **least one class** of **impaired claims**

FINANCIALEDGE⁷

Chapter 7 of the US Bankruptcy Code



Court supervised proceeding

Businesses to liquidate assets

Repay creditors



All **assets** are **disposed of**

Proceeds are used to **repay** the **company's obligations**



There is **no debtor-in-possession option** under **Chapter 7**



The **company ceases** to **exist** as a going **concern** once it's **liquidated**

FINANCIALEDGE⁷



Europe Specific Restructuring Tools

FINANCIALEDGE⁷

Other Jurisdictions



European Jurisdictions



Most **European jurisdictions** have **similar tools** to the ones **available in the UK and the US**.

Individual quirks

Idiosyncrasies



New Tools



In **Europe**, **restructuring frameworks** have been **updated** to include **restructuring proceedings**.

Pro-business

Rescue companies

FINANCIALEDGE⁷

Other Jurisdictions



European Jurisdictions



New tools in **Germany** and the **Netherlands** that allow a **business reorganization outside** of a **formal insolvency process** without **needing consent** from all **stakeholders**.



New Tools



Historically these **countries** **lacked tools** to **formally enter insolvency proceedings** unless all **stakeholders** **consented**.

FINANCIALEDGE⁷

FINANCIALEDGE⁷
www.FE.training

Please do not redistribute these materials without the express permission of Financial Edge Training.