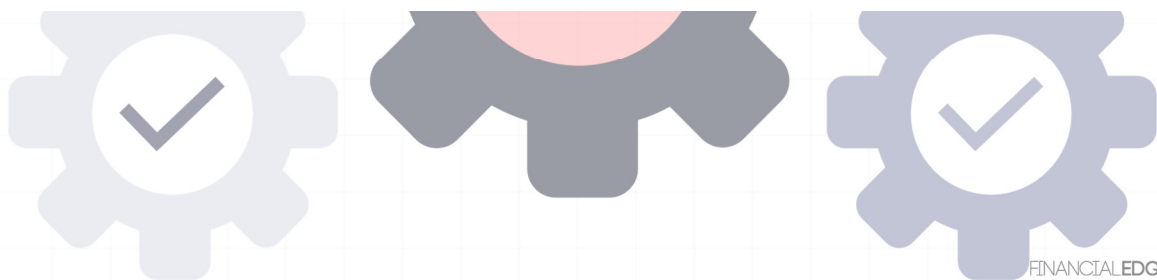




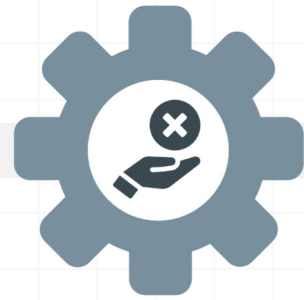
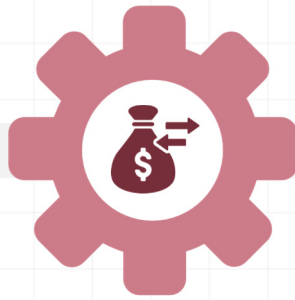
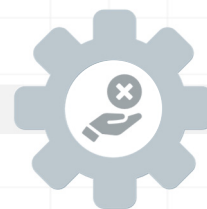
Restructuring Triggers



Major Restructuring Triggers

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Some of the **major restructuring triggers** include:

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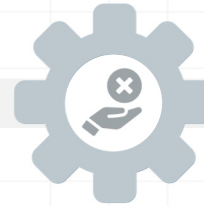
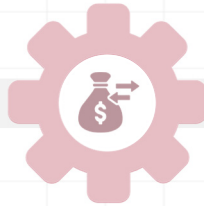
Covenant Breaches

Must do affirmative covenants and **must not do** negative covenants

Financial Covenant:
Net debt to EBITDA

Must provide **audited financial statements** within 60 days of its fiscal year-end

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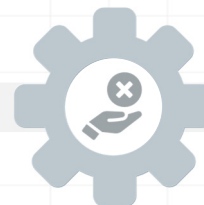
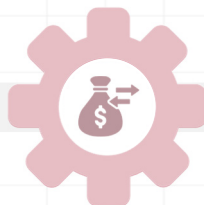


Covenant Breaches

When a **company fails to comply** with the covenants set out under a facility agreement

Known as an **"Event of Default"**

Demand immediate **full repayment** of their outstanding loans

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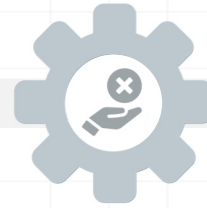
Covenant Breaches

Lenders typically will not immediately demand **full repayment**

Ask for **waivers** or **higher interest rates**

Seen as **early warning sign** of financial distress

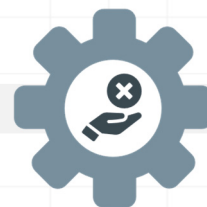
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Non-Payment of Loan Liabilities

Company **fails to pay the interest** or principal due on a loan facility

The lender can **demand full repayment** of its outstanding loans

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Cross Default

Trigger default on a certain loan facility if the **borrower defaults on another obligation**

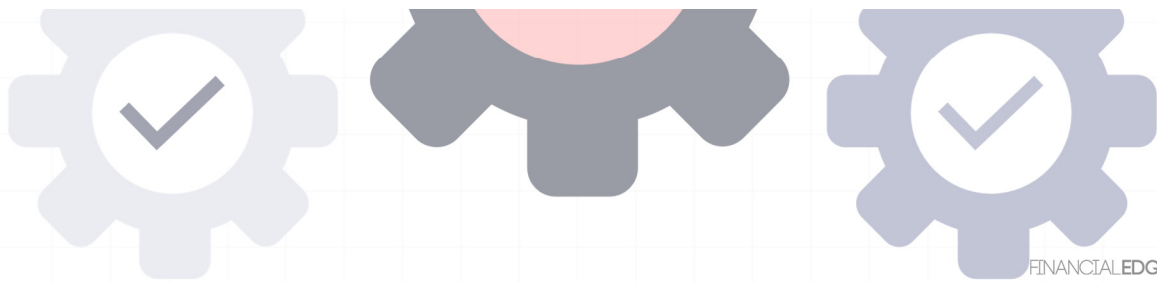
Defaults on **unsecured bonds** also trigger **secured loans**

In case they have **cross-default provisions** in the **loan agreement** for the **secured loans**

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Insolvency – Cash Flow Test

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There are two main tests to declare a **company insolvent**



Cash Flow
Test



Auditors

When working on
the **financial
accounts**



Directors

When reviewing
the **state of the
company**



Court request

In case creditors are
trying to **prove
company is insolvent**



Balance
Sheet Test

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The cash flow test is used to determine whether a company can **fulfill its projected expenses** when **they fall due**



Debt Maturity



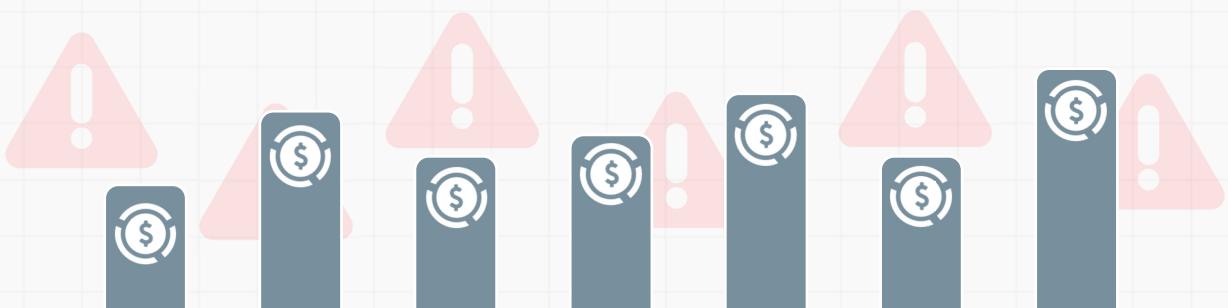
Salaries



Taxes

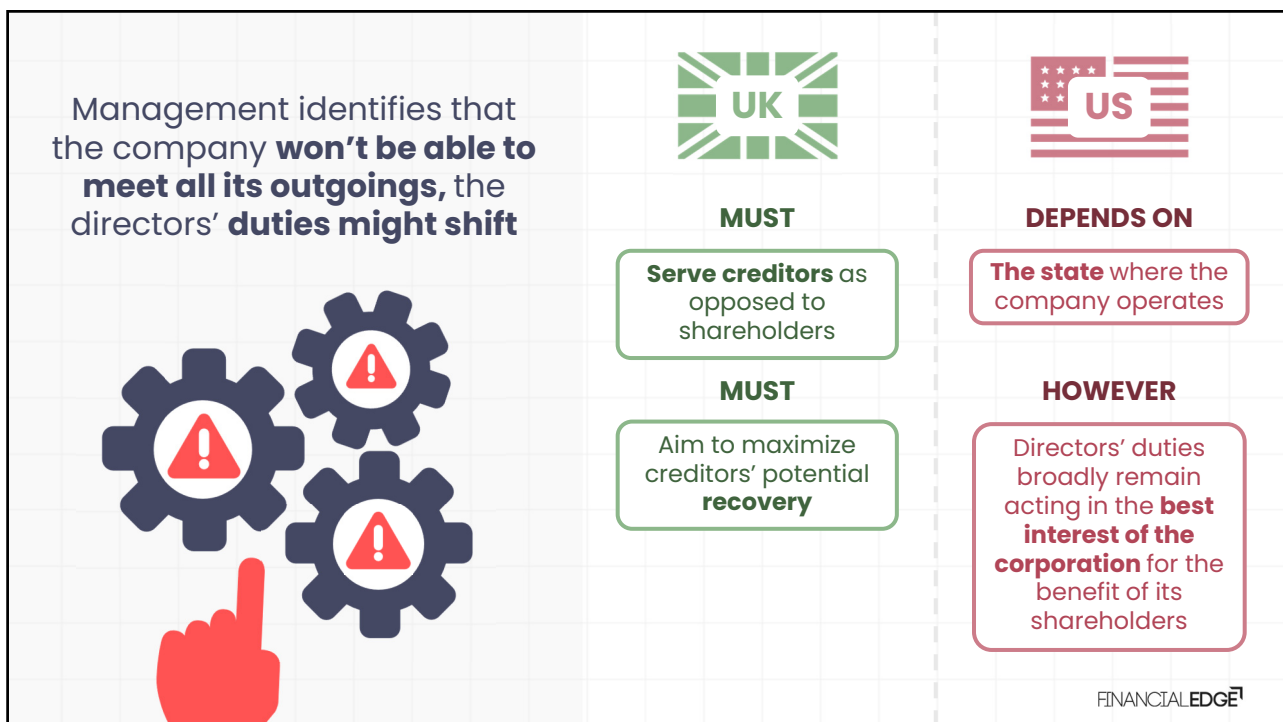
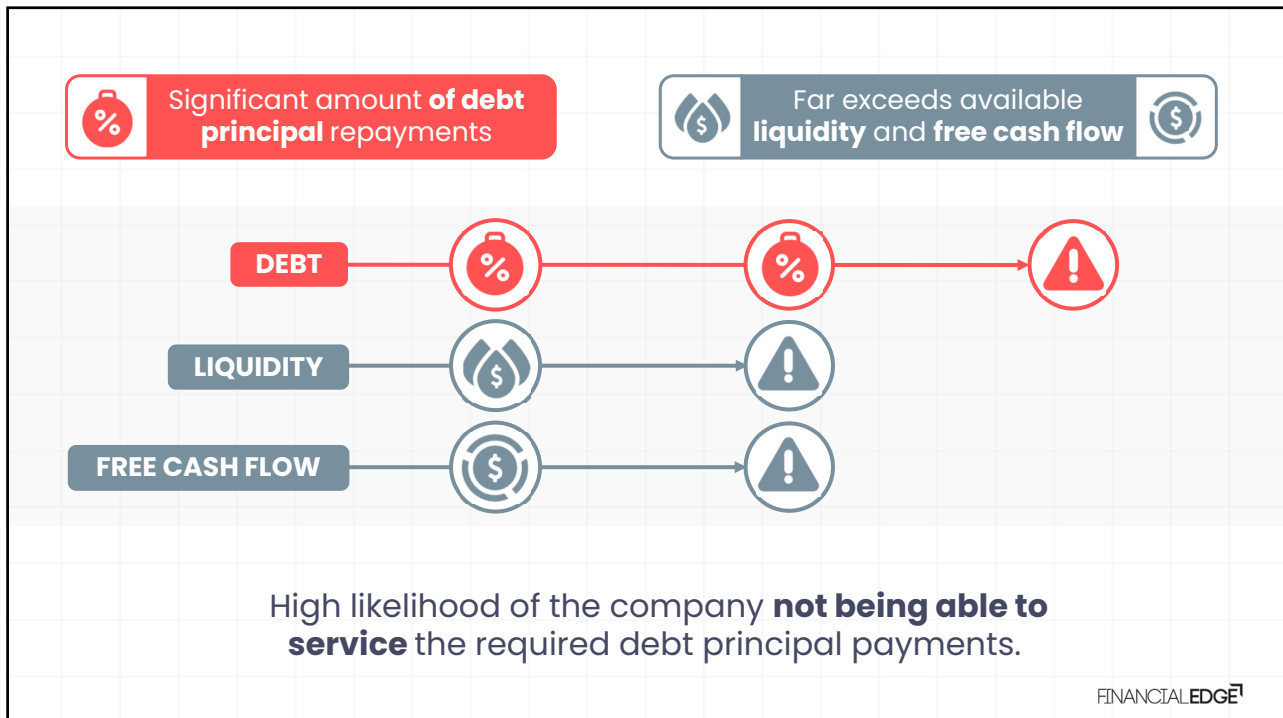
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Significant amounts of debt maturing in the short term pose a **particular problem for the cash flow test.**



MATURITY WALLS

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Insolvency – Balance Sheet Test



The balance sheet test assesses the potential insolvency, but not necessarily in the short term



BALANCE SHEET INSOLVENT

TOTAL LIABILITIES

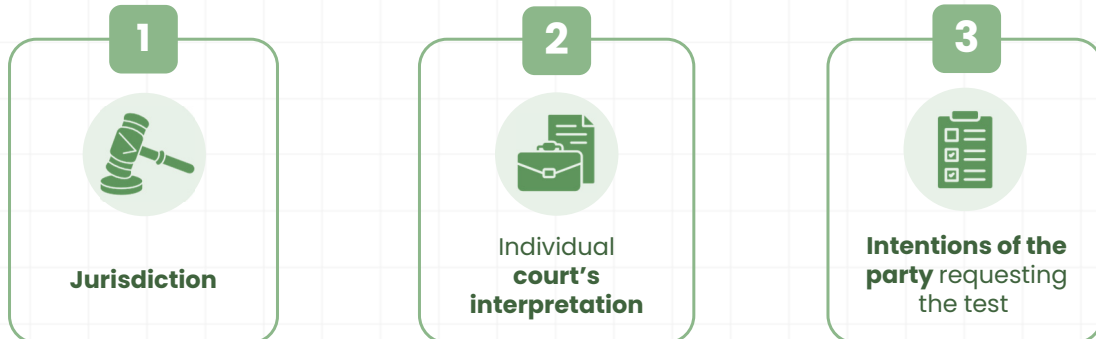


TOTAL ASSETS



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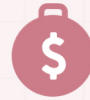
The implications of **failing the balance sheet** test depend on...



If a company **fails** the balance sheet test...



They must have **negative equity book value**



A creditor can use as **evidence of inability** to pay debts

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The balance sheet test is **subjective**...



Total liabilities **exceeding** total assets



Courts may **not rely on the values** shown by the auditors



Request the **reassessment** of certain **assets and liabilities**

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EUROSAIL

Special purpose vehicle used for the **securitization** of a portfolio of **mortgage loans**.



Liabilities **exceed its assets** by over £74m



Continued to **pay interest and principal** under the loan notes when due



A group of loan noteholders argued in court that **Eurosail was insolvent**



Courts decided that the company was **not "balance sheet insolvent"** under the balance sheet test

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