



PRESS RELEASE

W&P Study: Restructuring Corporate Loans

[February 4, 2015] München – Loan issuances are attractive for mid-size companies. However, if the issuing company is experiencing financial difficulties, certain guidelines regarding corporate restructuring must be observed. A new study by Dr. Wieselhuber & Partner (W&P), surveying 120 restructuring experts from banking, law practices, and bankruptcy management, indicates the following: Established five years ago, the German Debenture Bond Act (*Schuldverschreibungsgesetz*) has been a milestone for the extra-judicial restructuring of loans—greatly improving the odds of ailing companies' financial recovery. No longer is insolvency the “royal road” for such corporations. Nevertheless, financial recovery of loans is much more complex and bears more risks than restructuring in other financial crises because it poses greater challenges to management tasked with recapitalization. According to decision makers surveyed in the study, success hinges on a convincing and comprehensive strategy and open communication.

71% of Germany's “loan community” hail from financial recovery departments of banks / savings and loan institutions, 15% are legal advisors, while the remainder are issuance advisors and auditors. Their response to the “Restructuring Corporate Loans” survey, conducted between October and November 2014, was clear: 77% believed that loans negatively impact the general risk of recapitalization. *“The large number of failed recapitalization cases in the recent past speaks for itself. Don't underestimate the complexity of 'loans' as a form of financing! In the near future we can expect more restructuring cases—especially regarding loans for mid-size companies,”* said Christian Groschupp, restructuring expert at W&P who is responsible for the study. 52% also assumed that the influence of loans will increase in the future. For 44%, even today these loans are important or even very important for financial restructuring.



But, at the end of the day, which factors are responsible for successful recapitalization of loans? 89% of those surveyed agreed that a conclusive and logical comprehensive strategy is key for restructuring the issuing company. “*Successful recapitalization depends on sustainable strategies that are well adapted to the business model and go beyond just short-term restructuring of the balance sheet,*” Mr. Groschupp noted. Open and effective communication with loan creditors is also necessary. Involving a mutually acceptable third-party which represents both sides at an early stage—ideally even during the concept phase of restructuring—will greatly contribute to a positive outcome.

Those surveyed agreed that the German Debenture Bond Act of 2009 has been advantageous for successful restructuring of struggling loans and their debtors. Nevertheless, they often criticized one particular drawback: The fact that lawsuits can block decisions of creditors significantly reduces the “calculability” of restructuring.

Such developments are intriguing because the industry is just beginning to define due dates and enable refinancing of loans for mid-size companies. To a great extent, mid-size issuing companies that have slipped into financial difficulties have already had problems keeping up with interest payments. As such, the challenges for managers attempting to recapitalize loan issuances are formidable—and will remain so. “*Lack of liquidity and the short window of time are the natural enemies of successful restructuring—even more so when recapitalizing loans,*” remarked Mr. Groschupp in summary. The upshot of the study: Restructuring loans requires more time upfront, more intense communication, and more thorough preparation than other restructuring efforts. And because the decisions of the creditor meetings are regularly “all or nothing” and there is usually not enough time to renegotiate, the mutual representative of the loan creditors should from the outset be involved in restructuring decisions. For this reason, even at early stages of the crisis any other creditors should insist that the company issuing the loan has a restructuring strategy.

Further information available upon request.