



PIVOT TO CASH™: BANKRUPTCY & RESTRUCTURING IN A DISTRESSED ENVIRONMENT

Presented by:
Alvarez & Marsal

SEPTEMBER 17, 2020



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AGENDA

- Webinar Logistics
- Partner Acknowledgement
- Audience Poll
- Panelist Introduction
- Discussion
- Q&A
- Reminders



LOGISTICS

- Discussion will run from 9-10 am PT (60 mins).
- Contribute questions via the Q&A feature on your webinar control panel.
- Questions will be answered during the session and at the end. If we don't get to your question, we will try to reply after the presentation.
- **The webinar is being recorded.** You will receive an email when the video and slides are published.
- We welcome your feedback after the webinar.



ABOUT ALVAREZ & MARSAL

EXPERTISE

- ❖ Corporate Performance Improvement
- ❖ Private Equity Services
- ❖ Restructuring & Turnaround
- ❖ Tax
- ❖ Disputes and Investigations
- ❖ Valuation
- ❖ Regulatory & Risk Advisory

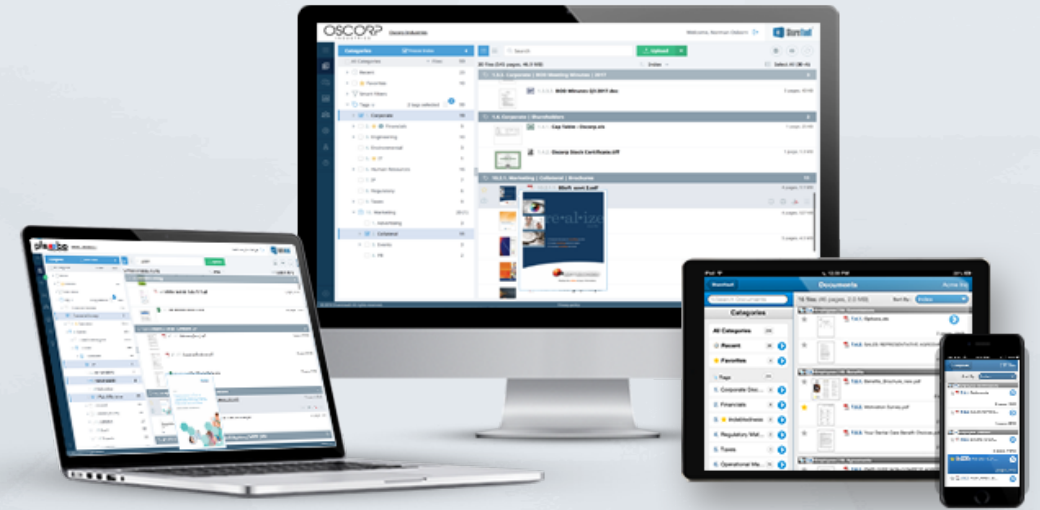
LEADERSHIP. ACTION. RESULTS.SM

A&M's leadership is about a bias towards action and the willingness to tell clients what we think is needed. Our restructuring heritage sharpens our ability to act decisively. Clients select us for our deep expertise and ability to create and deliver practical solutions to their unique problems.

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BRIEF POLL

Please help us understand our audience
by taking this brief poll.



TODAY'S PANEL

MODERATED BY:



Brian Fox

Alvarez & Marsal

Managing Director and Co-Head of Eastern Region Restructuring Practice



Christopher Howe

Alvarez & Marsal Taxand

Managing Director and Leader of Restructuring Tax Practice



Rino Nori

Alvarez & Marsal

Managing Director, Global Transaction Advisory Group



Mira Leonard

Alvarez & Marsal Taxand

Head of Client and Business Development

DISCUSSION OVERVIEW



Restructuring trends



A&M's "Restructuring 101 Playbook"



Business combination alternatives, including M&A



M&A considerations in Q4



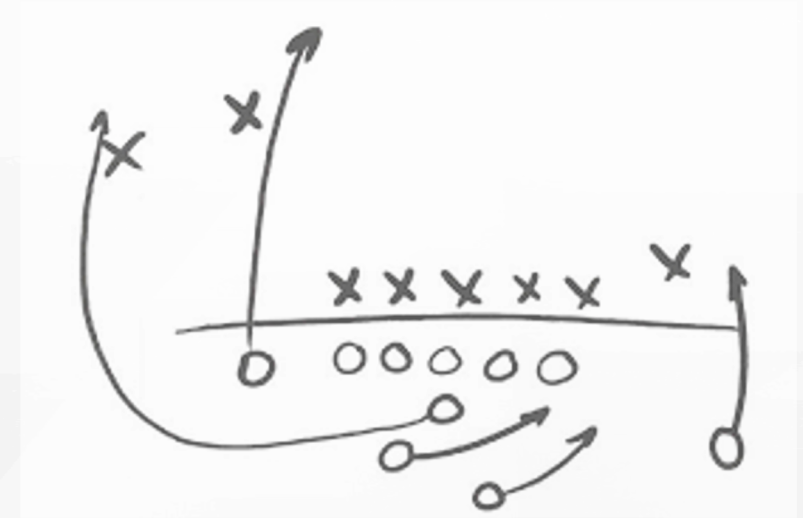
Best practices when identifying, planning and prioritizing liquidity levers

RESTRUCTURING TRENDS

- At the onset of the crisis, well advised companies drew on their remaining credit facilities to ensure adequate liquidity
- During the 2nd and 3rd quarter, lenders were generally providing flexibility to companies that could demonstrate liquidity
 - This flexibility generally came in the form of covenant waivers in exchange for minimum liquidity requirements
 - Companies that could demonstrate their ability to operate in this environment were able to achieve longer term relief
- CARES Act
- Many of these short-term forbearances expire between now and the end of the year
- Many lenders anticipate another waive of restructurings between now and the end of the year.

A&M'S "RESTRUCTURING 101 PLAYBOOK"

- Best in class companies made an immediate "Pivot to Cash"
 - Drew on available sources of liquidity
 - Eliminated discretionary spending
 - Made immediate operational changes
 - Worked with vendors and customers to reduce working capital investment
- Well run companies took the "time out" provided by the crisis to re-imagine their business
 - Not a return to business as usual
 - Reduced operational footprint
 - More efficient overhead structure



CARES ACT

- Legislation aimed to increase liquidity
 - Deferred Payroll Tax (employer's portion of Social Security taxes)
 - Employee Retention Credit (fewer than 500 employees)
 - Modification of NOL Carryback Rules
 - Adjustments to Limitations on Interest Deductibility



BUSINESS COMBINATION ALTERNATIVES – INCLUDING M&A

- We are seeing an increased incidence of:
 - SPAC transactions
 - PIPE transactions
 - Carve-outs
 - Sale of distressed assets
 - Transactions to raise capital



M&A CONSIDERATIONS IN Q4

- Upon COVID occurring:
 - Almost all M&A processes immediately came to a halt;
 - North American M&A deals in 1H20 declined 35% by volume and 73% in value as compared to 1H19; however
 - Software & Technology, Insurance, and select Healthcare deals continued.
- However, there has been a recent rebound:
 - For all deals ranging from \$150 million to \$5 billion in enterprise value, July saw **171** deals close totaling **\$88 billion**, compared with only **70** deals totaling **\$28 billion** in April; and
 - There is record high global “dry powder” (anywhere from **\$1.5-\$2 trillion**, depending on how you measure it) that still needs to be put to use by private investors including buyouts and other consolidation methods... which is helping to fuel the frenzy.

M&A CONSIDERATIONS IN Q4

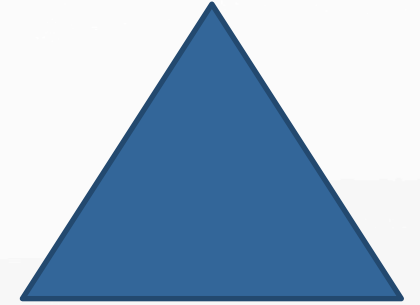
- Investors are racing to get transactions complete. Factors influencing this include:
 - Aforementioned dry powder and pent-up desire to transact;
 - Short-term concerns about COVID easing and being replaced by long-term fears of a recession and the unknown of when a sustainable level of earnings will return;
 - Uncertainty regarding the US elections and subsequent policy decisions; and
 - Ongoing geopolitics and protectionism (e.g. trade wars, etc.)
- Bid/ask transaction spreads appear to be minimal and akin to pre-COVID levels
- Sellers are:
 - Creatively using COVID “normalization” adjustments in their presentation of EBITDA; and
 - Pointing bidders to 2021 and beyond forecasts.

M&A CONSIDERATIONS IN Q4 – TAX MATTERS

- Short Term Liquidity
 - Defer Tax Payments / Access Trapped Cash / Pursue Refunds
- Long Term Liquidity
 - Entity and Operational Structures / Attribute Preservation
- Business Transformation
 - Supply chains, treasury approach, workforce planning, and benefit structures can all have material cash tax impacts

M&A CONSIDERATIONS IN Q4

- As we head into Q4, Buyers should:
 - Take advantage of, but also be aware of distressed M&A situations;
 - Be aware of overly creative and aggressive COVID adjustments – Just what is the new norm?
 - Understand the extent to which government programs or other accommodations have impacted a target's results or obligations (e.g. PPP loans, rent abatement, etc.);
 - Understand the impact of any temporary COVID tailwinds (e.g. toilet paper distributor); and
 - Understand the medium to long term impacts of outcome potentials with respect to the US election, ongoing geopolitical matters, etc.



QUESTIONS

Contribute questions by using the Q&A feature in the Zoom webinar interface.



REMINDERS

- The webinar has been recorded, and we will contact you via email when it becomes available.
- We will be publishing a white paper summarizing today's discussion and will notify you once it becomes available.
- We welcome your feedback so we can improve future webinars and web panel discussions.



SPEAKER CONTACT INFORMATION



Brian Fox, Alvarez & Marsal, Managing Director and Co-Head of Eastern Region Restructuring Practice

Bfox@alvarezandmarsal.com

Direct – 212.328.8610



Chris Howe, Alvarez & Marsal Taxand, Managing Director and Leader of Restructuring Tax Practice

Christopher.howe@alvarezandmarsal.com

Direct – 212.763.9607



Rino Nori, Alvarez & Marsal, Managing Director, Global Transaction Advisory Group

Rnori@alvarezandmarsal.com

Direct – 212.763.9666

THANK YOU!

Alvarez & Marsal

www.alvarezandmarsal.com

600 Madison Avenue
New York, NY 10022

ShareVault

www.sharevault.com

16795 Lark Avenue Suite 210
Los Gatos, CA 95032
(800) 380-7652