

OPPORTUNITIES IN DISTRESSED ASSETS AND DEBTS: IDENTIFYING PROFIT IN THE FINANCIAL CRISIS

BY NICK SKREKAS

Most distressed investment professionals believe that the big upside of the current financial and liquidity crises is a unique and fertile hunting-ground for profit from corporate restructurings, undervalued assets and rebounding securities. It is estimated that in March 2009, globally there was over US\$400bn in outstanding distressed debt and over US\$700bn in stressed debt, and record amounts of capital have been raised for this asset class - funds that are looking for struggling corporate players. But despite the potentially stellar returns, these distressed investments are risky by their very nature. You need to know which company, which security, and which part of the capital structure to enter. You also need to pick the right time to

enter a deal and have flexible and multiple strategies as to the timing and method of exiting a transaction to depart with profits. Luck helps, but expertise is a must.

Opportunities in Distressed Assets and Debt: Identifying profit in the financial crisis provides you with just that expertise. Both cutting-edge and practical, it covers all aspects of this specialised investment class, from market drivers, picking the bottom of the market, identification and analysis of opportunities and investment strategies, through to the vital technical and legal issues of deal structuring. Uniquely, it also incorporates the views of a diverse and pre-eminent set of professionals, investors and academics that have shared their insights and expertise solely for this report.

All you need to know to profit from distressed investing in one comprehensive source:

- Understand market trends and drivers
- Get expert views on picking the bottom of the market
- Identify countries, sectors and corporate situations that offer the most potential
- Develop investment strategies for distressed assets
- Quantify current and future default rates
- Compare the outlook for distressed bonds and loans
- Understand how distressed debt analysis tools work
- Get to grips with the vital current legal issues
- Understand how hedge funds invest in distressed assets
- Evaluate the outlook for private equity fund investments
- See the potential for structured credit, credit derivatives and sub-prime distressed investments
- Find out how sovereign distressed debt investments work.



OPPORTUNITIES IN DISTRESSED ASSETS AND DEBTS: IDENTIFYING PROFIT IN THE FINANCIAL CRISIS

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Investing in distressed assets or debt requires several sets of complementary skills. The investor needs valuation skills in debt and equity, legal knowledge, a deep understanding of stock, capital and derivatives markets, and the discipline to know when to wait or when to be more proactive. But, despite the high level of knowledge required and the increased risk factor, distressed investments nevertheless have one big advantage – their lack of correlation with most other markets. This lack of correlation makes distressed asset and debt investment an excellent way to diversify an investment portfolio and can provide high returns, particularly in times of economic meltdown. However, that is only true when investors know how to navigate the pitfalls and take appropriate actions.

The philosophy behind distressed asset and debt investments is deceptively simple if you ignore screening, analysis, selection and execution. There is generally an expectation that the targeted company can and will be restructured successfully, or brought back to life through a merger, takeover, or some form of managerial re-engineering and rejuvenation. Or that distressed securities can rebound, be sold back at a profit or be the subject of a beneficial swap. Also, that if it comes to bankruptcy, the asset values will substantially exceed the market valuation or purchase price of the securities or loans. However,

around 20% of all distressed deals and transactions ultimately fail. This is not a market for the ultra-conservative, but returns over the next few years in controlling successful restructuring strategies can provide yields of up to 40%.

Opportunities in Distressed Assets and Debt: Identifying profit in the financial crisis provides a comprehensive overview of the many assets, securities and markets that a distressed investor can use. It presents the considered views of industry experts who predict the bottom of the credit cycle to enable investors to maximise returns. There is advice on the best geographies, countries and sectors that will provide the most profitable prey. It fleshes out how to dissect investment opportunities on both a financial and legal basis. It explains investment strategies for maximising benefits and advises on the best way to approach potential investment targets and securities.

Hedge funds and private equity funds each have their own approach to distressed investments, and these are examined, together with the opportunities in structured credit and credit derivatives markets, as well as potential sub-prime investments. **Opportunities in Distressed Assets and Debt: Identifying profit in the financial crisis** also explores the most important legal developments that will impact the market. Given proper legal frameworks, many companies that are failing can be nursed back to health, with profits for the short- and medium-term investor.

Benefit from the wealth of knowledge and experience of key industry players and commentators, including:

Carrie-Anne Holt, European Managing Editor, **Debtwire**, assesses the size of the stressed and distressed market globally.

Diane Vazza, Head of Global Fixed Income Research and the US Managing Director, **Standard & Poor's**, forecast future defaults.

Mariarosa Verde, Managing Director of Credit Market Research, **Fitch Ratings**, reveals her insights on recoveries.

Diego Iscaro, Senior International economist, **IHS Global Insight**, shares his understanding of what is leading companies into distress.

Dr. Philip Gisdakis, Director and Head of Credit Strategy & Structured Credit Research, **HBV-UniCredit Research**, on the bottom of the credit cycle and opportunities in CDOs.

Kenneth Emery, Senior Vice President of Corporate Default Research, **Moody's**, on historic and potential defaults and ratings downgrades.

Professor Edward Altman, **NYU Stern**, on the application of his Z-score bankruptcy prediction model and his view on the debt cycle.

Eric Tourret, Partner, **Ernst & Young**, advises on due diligence and valuations.

Henry Owsley, Partner, **Gordian Group investment bank**, talks about distressed investing strategies.

Josh Gonze, Portfolio Manager, **Thornburg Investment Management**, discusses opportunities in the US high yield municipal bond market.

Elliott Associates provide precedent-making comments on sovereign distressed debt.

Anna Gelpert, Professor of Law and expert on development finance, gives a view on sovereign distressed debt.

Stephen Rothwell, Executive Director of hedge fund **Argo Capital Management**, on emerging market investments.

Iain Burnett, Co-Head of Distressed Debt, **BlueBay Asset Management Plc**, shares insights for the sector in Western Europe.

Geoffrey Gwin, Chairman, **Group G Capital**, explains his screening approach and investing in small and mid caps in the US.

Jon Bruss, CEO and Managing Principal, **Fortress Partners Capital Managers**, sees solid opportunities in well-rated small cap US bank debt.

Mounir Guen, CEO and founder of **MVision** private equity fund, discusses opportunities in the private equity industry.

Dr. Jerome Booth, Head of Research, **Ashmore Investment Management**, offers a different view of the current credit crunch and emerging markets.

Dave Breazzano, President, **DDJ Capital Management**, speaks on small and mid cap private equity investments in the US and Canada.

Jon Moulton, Founder and Managing Partner, **Alchemy Partners**, shares his expertise and talks about his 30%-plus returns.

Dr. Peter Laid, Managing Director, **Advec**, talks about fund of fund private equity investments and the credit cycle.

Professor Roger Leeds, the foremost academic on emerging market private equity, offers his assessment on distressed investments.

Sion Kearsley, Managing Partner and founder, **Kelso Place Asset Management**, weighs in on UK restructuring and turnarounds.

David Castillo, Senior Managing Director, **Further Lane Securities**, on sub-prime and ABS investments.

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ABOUT THE AUTHOR



Nick Skrekas writes extensively on alternative investments, private equity and hedge funds and was Athens Bureau Chief for Thomson Financial News until

recently. He has lectured for Euromoney Legal Seminars on cutting-edge financial and legal topics and has also acted as an EU expert on corporate advice and legal policy programmes. He has worked as a corporate banker and analyst at bulge-bracket investment banks, as well as a legal practitioner in top-tier law firms in financial capitals. Nick also has superior post-graduate qualifications in law, applied finance, investments and economics.

Andrew Rabinowitz, Chief Operating Officer, **Marathon Asset Management**, discusses trading strategies and prime mortgage investments.

Bryan Whalen, Partner and Specialist Portfolio Manager, **Metropolitan West Asset Management**, on investment strategies in RMBS and ABS.

Mick Solimene and **Michael Bruder**, Managing Directors, **Macquarie Capital (USA) Inc.**, discuss CDS, leveraged loans and sub-prime.

Edward E. Gainor, Partner, **McKee Nelson LLP**, talks about distressed MBS and sub-prime legal issues.

Richard Nevins, Partner, **Cadwalader, Wickersham & Taft LLP**, outlines some cutting-edge legal issues and compares global insolvency regimes.

William Wagner, Partner, **Baker & McKenzie**, weighs in on legal issues in distressed asset investments.

Michael Reilly, Co-leader, Financial Restructuring Practice Group, **Bingham McCutchen LLP**, examines legal developments in the US.

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Publication: April 2009

Price: £695/US\$1045/€835

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