

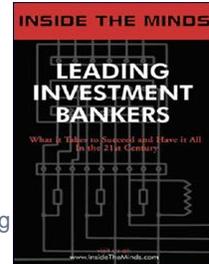
New Book On Investment Banking Features Chapter by Mark Chesen of SSG Capital Advisors

Companies In Distress: When Restructuring Is the Answer

Mark E. Chesen is one of seven authors included in *Leading Investment Bankers: the Art & Science of Investment Banking*, a recently published book by Aspatore Books, Inc.

Other chapters were authored by representatives from Merrill Lynch, Salomon Smith Barney, Deutsche Bank, Rothschild North America, Bentley Associates and Sandler O'Neill & Partners.

As the excerpts below illustrate, Chesen's chapter - *Companies in Distress: When Restructuring Is the Answer* - focuses primarily on financing alternatives, merger and acquisition strategies, and restructuring scenarios.



Excerpts

Advice to investment bankers who work with distressed companies

As an investment banker, you report indirectly to multiple stakeholders - who include everyone from the owners to the lenders, to the customers who are not happy with where the company stands, to the suppliers - and you have to be a voice of reason in this process. You are part investment banker and part rabbi/priest/social worker, making sure your clients keep their faith and telling them there is light at the end of the tunnel.

To be successful in this business, the most critical thing is to remember that all you have is your individual and firm reputation. It's important to do your due diligence up front, do your underwriting up front, and make sure you are on the same wavelength as your prospective client. The last thing you want to do is to take on an assignment in which you should have known from day one that you could not achieve your client's objectives.

Honesty is the best policy

Companies facing challenges need to provide their key lender and investors with up-to-the-minute information, whether it's good news or not so good news. Lenders and investors can make informed decisions and react in a more rational manner if they have the facts in front of them promptly. Our motto is to provide both current and prospective lenders and investors with the good, the bad, and the ugly that describes the company in complete detail. If the company chooses not to pass along negative information, it is bound to come out at some point in time, anyway, and will destroy all of management's credibility.

When restructuring is the most realistic option

At times, in spite of the efforts of management and all of the stakeholders in the company, the lenders, bondholders, unsecured creditors, unions, and customers, a company may not be able to refinance its operation or sell all or part of the business to solve the challenges at hand. When that happens, the goal of the investment banker is to avoid the outright liquidation of the company.

When refinancing and M&A alternatives are limited, a restructuring of existing obligations may lead to the maximum recovery for all stakeholders involved in the company. A restructuring may not be number one on any stakeholder's list of preferred outcomes, but in most cases, when other options have failed, it beats liquidation.

Valuing a company in transition

For companies that are in trouble, valuation methodologies start at a premium to liquidation value, but not a substantial premium. For companies that are in a restructuring mode, buyers tend to focus on the asset side of the balance sheet and look at the tangible and intangible assets as the best way of valuing the company. If a company is being sold in a bankruptcy setting, it will usually go through a formal auction process, where potential buyers are made aware of an auction taking place in the United States Bankruptcy Court, and the end value will be what the auction generates.

As it relates to valuation, there are no major differences between a public and a private company in distress. Potential buyers will still look at the premium above liquidation value. If they refuse to pay a premium, the current lenders and investors may decide to shut the company down, regardless of whether it is a public or a private company.