

Canadian Venture Capital Association: Distressed M&A

Presentation by:

Tony Ianni

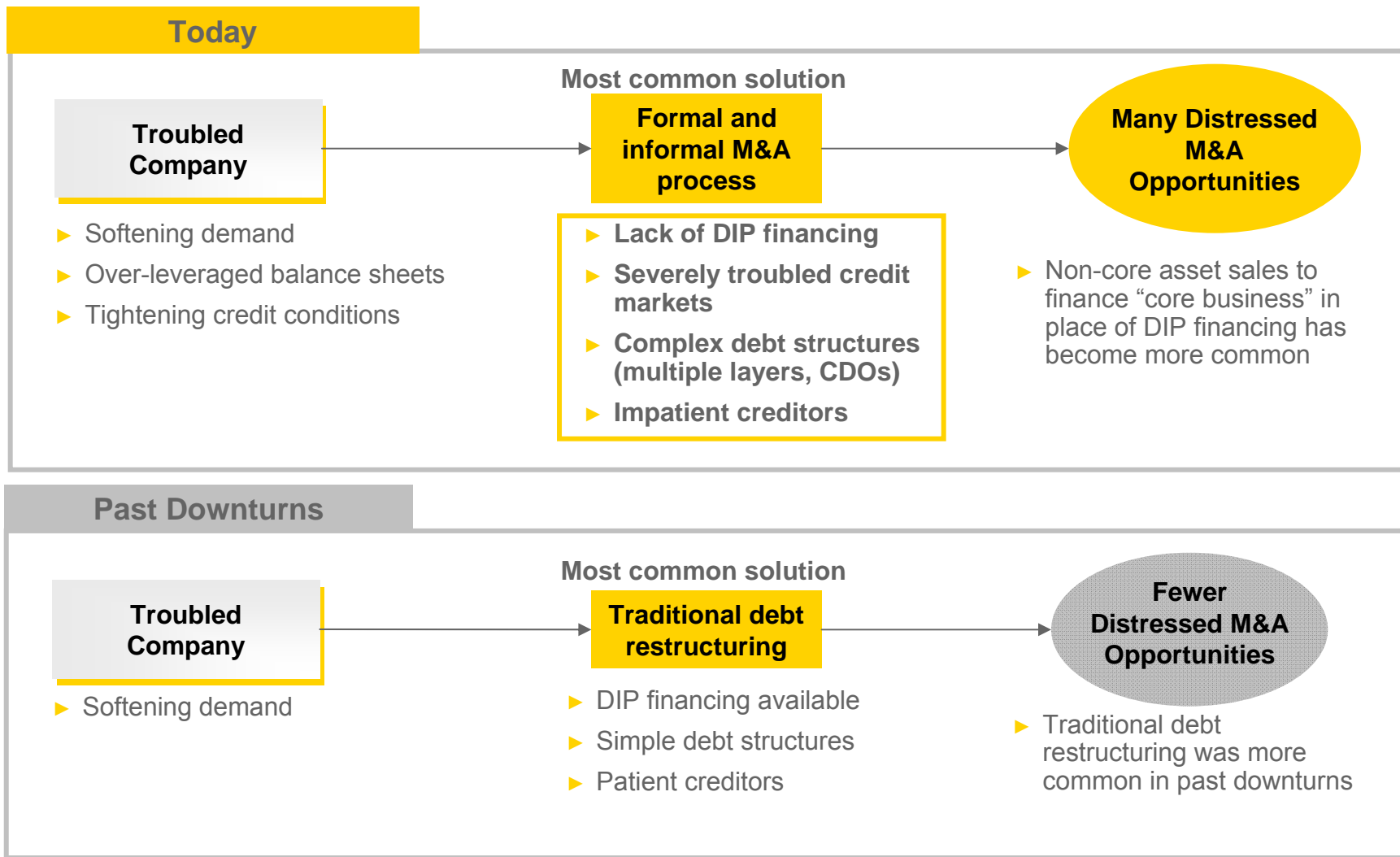
President

Ernst & Young Orenda Corporate Finance Inc.

May 28, 2009



Distressed M&A: Then and Now



Distressed M&A: Buy-side Perspectives

Buy-side Attractiveness

- ▶ Enormous return potential
 - ▶ Debt to equity conversions
 - ▶ Equity investments with significant growth
- ▶ Possible to limit downside risk
 - ▶ Loans can be anchored against hard assets
- ▶ Competitive advantage shifting back to financial buyers
 - ▶ Strategic players lack the required capital
 - ▶ Strategic players are less capable of measuring and balancing risk
- ▶ Often able to “cherry pick” which assets are acquired

Buy-side Challenges

- ▶ Mistaking low valuation for “undervalued” assets
 - ▶ Bad businesses, not just bad balance sheets
- ▶ Traditional valuation methodologies are less relevant
- ▶ Navigation through court-supervised M&A process
 - ▶ Complexity of various creditor classes
- ▶ Time urgency

Distressed M&A: Formal vs. Informal Processes

Informal Distressed M&A

- ▶ Flexible and informal process
- ▶ Potential for fewer bidders and exclusivity may result in lower valuations and more favourable terms and conditions
- ▶ Relatively greater ability to “cherry pick” desired assets
- ▶ Relatively more flexible timelines
- ▶ Less negative stigma associated with process – quicker business recovery
- ▶ No court approval required for final deal

Formal Distressed M&A

- ▶ Structured, court-driven process
- ▶ Highly transparent formal bidding/auction process may result in higher valuations and less favourable terms and conditions
- ▶ Relatively more difficult to “cherry pick” desired assets
- ▶ Relatively more rigid timelines (pre-determined)
- ▶ Negative stigma associated with process – slower business recovery
- ▶ Final deal requires court approval

- ▶ **Strategic players tend to be more active and competitive in the Formal arena**
- ▶ **The Informal arena provides more room for creativity**
- ▶ **Key success factors: ensure that you are well-positioned to be in the right place at the right time and ready to act quickly**

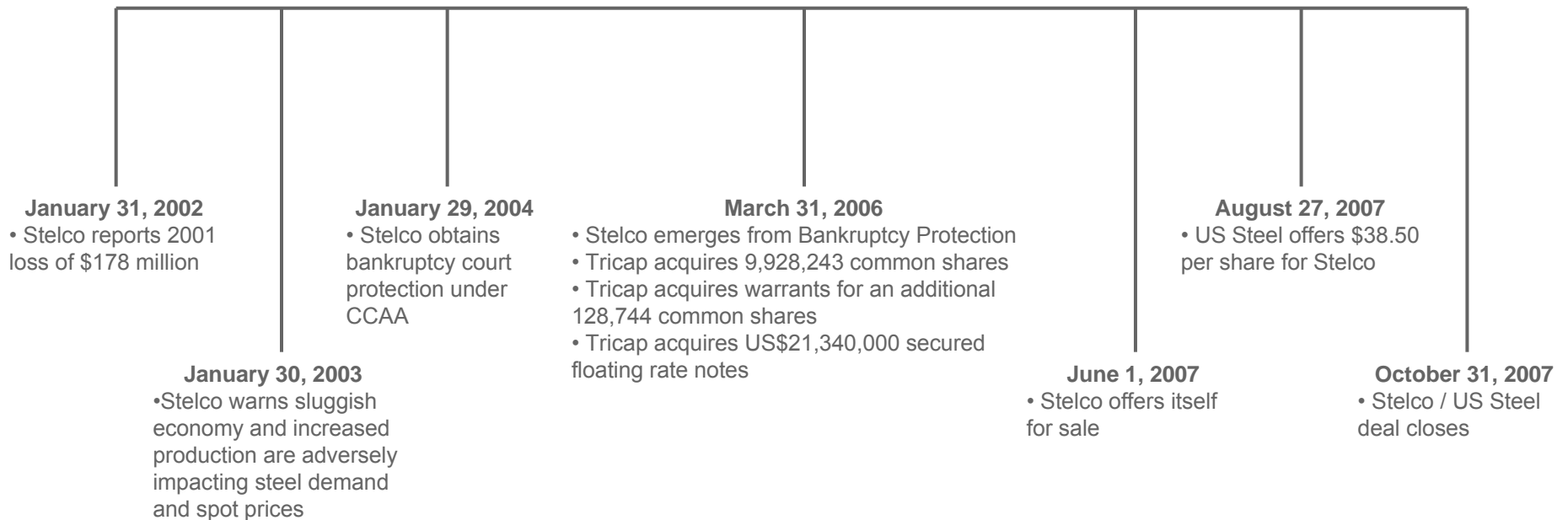
Distressed M&A: What's Next?

- ▶ There is more to come!
- ▶ Loan-review and renewal season kicked-off in March/April as bank loan officers began reviewing year-end financial statements and assessing corporate prospects
 - ▶ Recent Federal Reserve study reports that 1/3 of U.S. banks have tightened loan criteria and about 45% are now charging more for credit
 - ▶ No comparable data exists for Canada, but our experience shows that Canadian banks are exhibiting similar trends
- ▶ Debtholders will continue to be impatient and look for quick solutions
- ▶ **In the last two years combined (2008 and 2007) global distressed fund raising reached US\$80 billion, nearly five times as much as the prior two years combined (2006 and 2005)**

Distressed M&A: Recent Cases

Stelco Inc.

- ▶ Tricap Management Ltd. (Brookfield) led a US\$1.1B restructuring of Stelco Inc.
- ▶ Acquired largest single unsecured claim
- ▶ Committed US\$370M CCAA exit financing (debt & equity)
- ▶ Recruited new management team to implement turnaround
- ▶ Sold off stake in Stelco Inc. in October 2007 to United States Steel Corp.
- ▶ Tricap made a \$375M profit on an original investment of \$55M



Distressed M&A: Recent Cases (cont'd)

Loews Cineplex

- ▶ Onex bought Loews Cineplex Entertainment in early 2002 when the chain was suffering from a recession and years of debt-financed expansion
- ▶ Onex and Oaktree purchased Loews out of bankruptcy for US\$850 million
- ▶ Onex and Oaktree sold Loews for US\$1.46 billion in June 2004
- ▶ Onex maintained ownership of Loews' Canadian operations valued at US\$77 million in 2004 and has plans to sell its stake in 2009 for C\$184.6 million

