LIABILITY MANAGEMENT

RESTRUCTURING STRATEGIES

PATRICK EBO KITTOE
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OBJECTIVES OF THIS SESSION

- Expose participants to methods and techniques for reducing debt balances/burden and improving financial position

- Identify solutions towards mounting debts and impending debt maturities

What are Liabilities?

Accounting Equation: ***Assets = Capital + Liabilities***

- **Capital:** The amount of resources supplied by the owner (Equity)
- **Liabilities:** Assets unpaid for, supplied by other people other than the owner (Debt)
- **Assets:** Actual resources that are in the business that can provide future economic benefit

Sources of Liabilities

FINANCING SOURCES/TYPES		
EQUITY	**DEBT**	**HYBRID**
Personal Savings	Bank Credit	Mezzanine Financing (Converting debt to equity or vice versa)
Retained Earnings	Trade/Supplier's Credit	Preference Shares
Family & Friends	Factoring	
Business Angels	Asset Based Lenders	
Venture Capitalist	Bonds/Public Offer	
Corporate Venturers	Commercial Paper	
Private Placement	Leasing	
Public Offering of Equity		

Debt Restructuring vs Refinancing

Restructuring:

- Re-organization of a debt
- Re-negotiating any of the terms and conditions

Refinancing:

- Paying off an existing debt with a new debt

Every refinancing is a restructure but not all restructurings are refinancing.

Restructuring Triggers

Liquidity Challenges:

- Pressure to make debt service payment against other competing needs
- Delayed receivables

Healthy but inefficient balance sheet (assets>liabilities)

Solvency Challenges:

- Dwindling equity

Weak balance sheet(assets<liabilities)

Why Restructure?

Restructuring is aimed at:

- Creating breathing space for borrower
- Reducing debt obligation to sustainable level
- Tackling or getting rid of crisis situation
- Leveraging on cheaper alternatives

What can we restructure?

ASPECT	WHAT CAN BE DONE
Amount	Increase, Reduce
Purpose	Change or modify
Repayment Regime	Increase, reduce, moratorium, capitalization, conditional pay-off
Security	Dilute, concentrate, swap, release
Interest Rate	Increase, reduce, fixed, floating
Future Fees	Increase, Reduce, remove, defer
Other Conditions	Flexibility, pari-passu, syndication, senior debt release

Types of Restructuring

Voluntary –

Initiated by the Borrower to secure better terms and conditions

Involuntary –

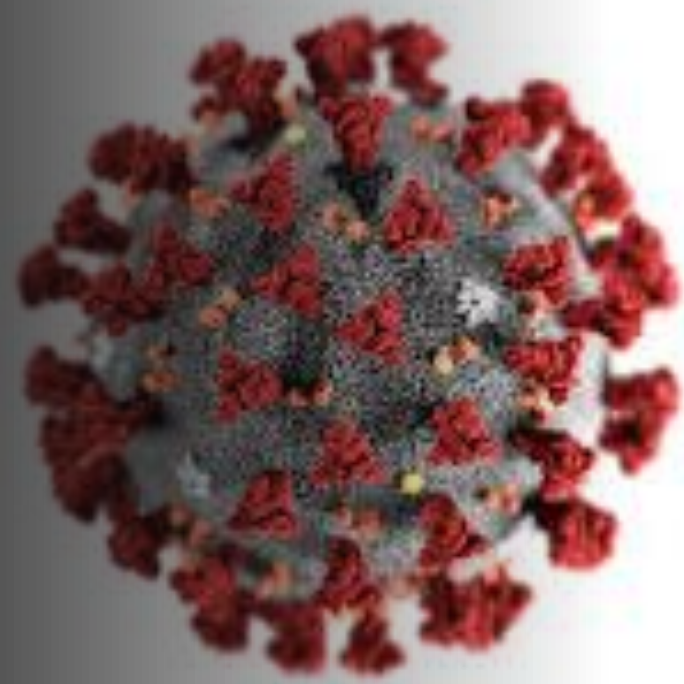
Initiated by the Lender to reduce credit risk or leverage on a borrower

What to consider before restructuring

- Source – Voluntary or Involuntary
- Type – Restructure or Refinance
- Aspect – Amount, Purpose, Repayment, Security, Interest Rate, Fees, others
- Available Alternatives – Equity, Debt
- Financial Implication – IRR, APR (Fees, Int. Rate, Duration), DSR, Debt to Equity

WAY FORWARD

CHANGE IS HERE!



15 REASONS WHY BUSINESSES FAIL

No.	Factor	COVID Impact
1	Lack of competitive advantage	
2	Lack of Strategy	
3	Poor understanding of customer needs	
4	Wrong Partners	
5	Lack of business acumen	
6	Lack of vision	
7	Micro-managing Staff	
8	Not hiring the right people	
9	Lack of capital	
10	Scaling-up too fast (debt)	
11	Not adapting quick enough	
12	Inability to sell – Cashflow	
13	Too many things at once	
14	Failure to utilize resources available – learn from others' mistakes	
15	Lack of Passion	

Source: ALUX.COM (Billionaire's Mondays)

WAY FORWARD
INNOVATION
What to Do

Review Strategic Plans –

Within the context of Opportunities and Threats, review target market, marketing tools, SOP (people, processes, system & tools, infrastructure), Budget (Bottom Line)

Answer these 5 Questions –

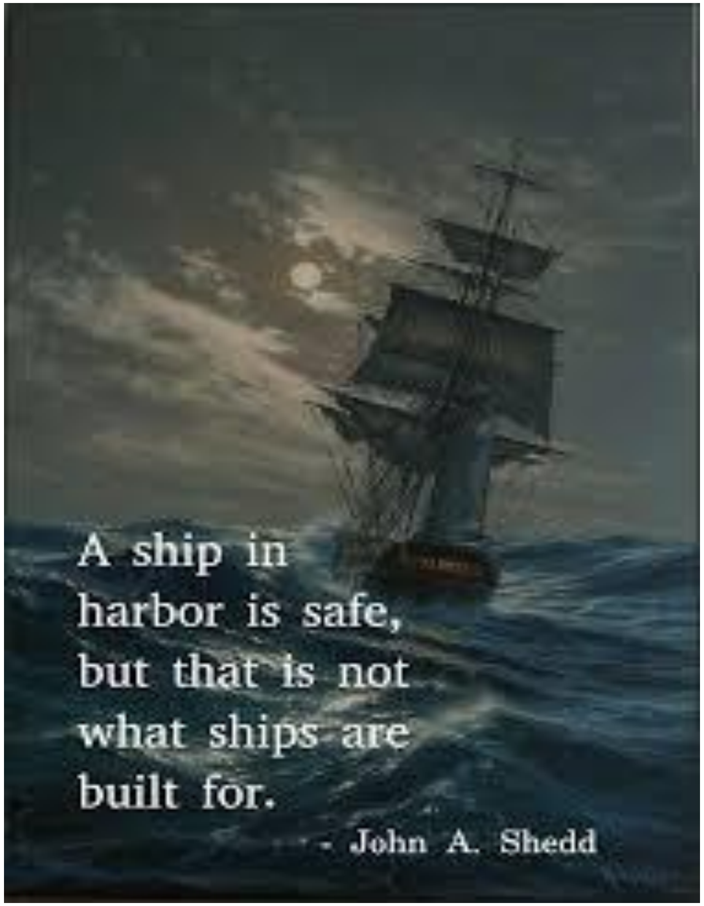
1. **What changes are needed?**
2. **How much will it cost?**
3. **How do we finance the changes?**
4. **What is our scale of preference?**
5. **When do we pay back?**

Results–

1. **Contextualize risks**
2. **Identify Risk Critical Path**
3. **Assess and evaluate risks (within and out of control)**
4. **Treat Risks (Avoid, Transfer, Share, Accept)**

CURRENT CASE STUDY AIR-FRANCE

PER ANNOUNCEMENT DATED JUNE 18, 2020	
What changes?	**1. A reconstruction plan that puts Air France on a par with the best-performing global airlines in terms of competitiveness** **2. A swifter implementation of commitment to realizing the air transport sector's energy transition which includes:** • Global resizing of domestic network taking into account rail network alternatives for trips less than 2.30hrs • Investing in new generation aircraft to reduce CO_2 emission by 20 to 25% • Reduce passenger CO_2 emission by 50% by 2030 • Incorporate up to 2% of alternative sustainable fuel by 2025 supported by emergence of a French biofuel production center • Increase destinations from 50 to 100 by mid-June • And others
How much will it cost?	EUR7b
How is it to be financed?	Debt via Government Loan Guarantee
What is the scale of preference?	Various timelines for various activities
When do they pay back	Details not given


A ship in
harbor is safe,
but that is not
what ships are
built for.
- John A. Shedd

THANK YOU