DISPATCHES FROM THE TRENCHES
CHALLENGES WITH RECOVERY IN DEVELOPING MARKETS

September 1, 2015
Istanbul, Turkey

World Bank
Financial Infrastructure Week
September 2015

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RECOVERY CHALLENGES

• Some Preliminary Thoughts
• Corporate Recycling – The Protection and Preservation of Value
• The Practical View - Basic Recovery Strategies
• Going Concern Challenges
  • Stakeholder Dynamics and Getting to a Deal
  • When Control becomes a Problem...
• Asset Recovery Challenges
  • Mitigating Process Uncertainty
  • Preventing Shenanigans
SOME PRELIMINARY THOUGHTS

Where is the Value?
- Going-Concern
- Assets

What is it worth?
- Certainty
- Uncertainty

(Valuation/Pricing Risk)

Who is entitled to it?
- Shareholders
- Lenders

Who controls it?
- Management

And how much time and money is it going to take to work all this out?
Bankruptcy is a way to cope with those times when markets fail to allocate capital wisely and monitor its use.

Joseph Stiglitz
Corporate Recycling
(Preservation of Value)

Business as Usual

Capital Structure
- Assets – Value Generating (?)
- Debt
- Equity

Restructured Business
- Different (?) Asset Base
- Restructured Debt
- New Equity (?)

Operating Business

Trouble
Declining Performance
External Stressors

Restructuring (In/Out-of-Court)
- Asset Sales
- Recapitalization
- Debt Rescheduling
BASIC RECOVERY STRATEGIES

Problem Investment

Greater Value in the Business

Cash Flow Recovery
- Reschedule Payments
- Financially Restructure
- Operationally Restructure

Greater Value in the Assets

Asset Recovery
- Negotiated
  - Settlement
  - Sale
  - Asset Transfer
- Litigation
  - Foreclosure
  - Reorganization
  - Liquidation

Increasing Implementation Costs

Level Playing Field
Clear & Predictable Rules
Referee if Needed

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## STAKEHOLDER DYNAMICS

<table>
<thead>
<tr>
<th>Stakeholder Type</th>
<th>Key Issues</th>
<th>Investment Horizon</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Debt</td>
<td>Security Valuation NPLs, Provisioning</td>
<td>Medium to Long</td>
<td>Conservative</td>
</tr>
<tr>
<td>Unsecured Debt</td>
<td>NPLs, Provisioning</td>
<td>Varied</td>
<td>Conservative</td>
</tr>
<tr>
<td>Mezzanine Debt</td>
<td>Priority, Equity Conversion</td>
<td>Short Term</td>
<td>Can be Aggressive</td>
</tr>
<tr>
<td>Bondholders</td>
<td>Bond Ratings, Preference for Tradable Instruments</td>
<td>Medium to Long Term</td>
<td>Professional/Advisors</td>
</tr>
<tr>
<td>Equity</td>
<td>Exit, Valuation, CONTROL</td>
<td>Long Term</td>
<td>Aggressive</td>
</tr>
<tr>
<td>Management</td>
<td>CONTROL</td>
<td>Depends on Compensation</td>
<td>Varies</td>
</tr>
<tr>
<td>Distress Players</td>
<td>High IRR Expectations</td>
<td>Short Term</td>
<td>Aggressive (&quot;Sharp Elbows&quot;)</td>
</tr>
<tr>
<td>Civilians</td>
<td>Depends</td>
<td>Immediate</td>
<td>Unpredictable</td>
</tr>
</tbody>
</table>

*Note: IRR stands for Internal Rate of Return.*
GETTING TO A DEAL

- Level Playing Field
- Clear & Predictable Rules
- Referee if Needed
WHO IS IN CONTROL AND ARE INTERESTS ALIGNED?

Management/Equity
- Alignment of Interest
- Ability/Skillset
- Corporate Governance
- Fraud

Zone of Insolvency

Startup Stage
Stable Growth Stage
Acute Distress Stage
Restructuring/ Turnaround Stage
Return to Stable Growth
The pound of flesh which I demand of him
Is dearly bought. 'Tis mine and I will have it.
If you deny me, fie upon your law—
There is no force in the decrees of Venice.
I stand for judgment. Answer, shall I have it?
Shylock,
The Merchant of Venice (1598)
ASSET RECOVERY CHALLENGES

Mitigating Uncertainty:
- Time is Money: Predictable Timeline
- Asset Preservation during Process
- Clear Standards for Appraisals
- Clear and Efficient (Low Cost) Title Registry
- Clear Establishment of Priority in Title Registrations
- Sale of Assets Free and Clear of Liens
- Skilled Practitioners (esp. Judges)

Preventing Shenanigans:
- Transparent Legal Process (esp. Auctions)
- Properly Motivated Court System (Paid Appropriately)
- Recourse for Illegal Behavior
- Clear Time Limits to Prevent Stalling
- Accountability for Directors and Management

Value Estimation

Level Playing Field
Clear & Predictable Rules
Referee if Needed
Again out of destruction a new spirit of creativity arises

Werner Sombart
Thanks for Coming