Smith
Square
Partners

Recapitalisation and Restructuring advice

High quality brainwork

Smith Square's focus on carefully thought through advice, impartiality and our extensive experience make us the trusted advisory partner for challenging circumstances

Recapitalisation and Restructuring at Smith Square Partners

Smith Square Partners has extensive experience of, and expertise in, the financial recapitalisation and restructuring of companies. These processes may be driven by financial distress, or simply by the evolution of a company to a point where its capital structure is no longer optimal.

Restructurings require many different skill sets. Some aspects can be highly technical, and some involve nuanced negotiation and the practical application of game theory. Advising a Board in navigating these issues successfully also requires sensitivity, discretion, listening to the perspectives of the directors and the wider stakeholder group, and a holistic understanding of the situation.

Smith Square Partners specialises in providing advice to the Boards of listed and private corporates, whether in relation to M&A, strategic advice or other situations. The right decision can be hard to discern, and the full consequences of potential courses of action are sometimes far from clear: well thought through advice is indispensable. Often important decisions need to be taken under pressure and very quickly. The Board needs an adviser combining know-how and clear, agile thinking with the delivery of robust, practical advice.

We are focused on delivering partner-led advice, with typically two partners leading every transaction. We are also able to draw on a wide range of complementary partner expertise within our firm. Smith Square Partners is well positioned to deliver the independent advice needed in complex situations and work effectively and impartially with other specialist firms, such as corporate brokers and legal advisers. This capability is essential to deliver the best achievable outcome.

The Smith Square team

Ben Mingay
Managing Partner

Ben is a highly experienced corporate financier and has advised numerous companies, public and private, on M&A, capital raisings, restructurings and capital markets transactions. He is known for his agile and determined style in providing advice to boards and leading complex negotiations, often in high-pressure and high-value circumstances.

Ben began his career at Schroders then taking on other roles in major investment banks. He was part of the senior team which helped Hawkpoint Partners to grow, leading to its eventual sale. Ben founded Smith Square Partners in 2010 with John Craven. He is a driving force at the firm, developing business relationships, being actively involved with transactions, as well as providing board level advice on strategy and corporate finance.

Ben has significant experience as a non-executive director including until recently at Homeserve plc.

John Craven
Managing Partner

John has more than 30 years' experience advising public and private companies across a wide range of commercial sectors. A co-founder of Smith Square Partners, he leads the firm's Takeover Code advisory practice and has wide experience of public market M&A transactions. John also advises investment company clients, where his depth of knowledge and ability to find practical solutions have assisted Boards in resolving a number of challenging situations.

John is an alumnus of Schroders and was Managing Director in the Credit Suisse First Boston European M&A Group. He led the corporate finance team at Bridgewell, the mid-market investment bank, and was a main board director through the firm's IPO and subsequent sale. John has several external roles in the not-for-profit sector.

Paul Baines

Paul is highly experienced in advising boards, particularly of public companies, on refinancing and restructuring their balance sheets. This involves determining and implementing the best solution to meet the needs of each particular client and includes renegotiation of bank and/or other debt facilities, raising new equity, asset disposals and conversion of debt to equity. A key aspect of this has been helping clients develop strategies for managing their stakeholders while the process unfolds.

Prior to becoming a senior adviser to Smith Square, Paul was for 15 years Executive Chairman and CEO of Hawkpoint Partners and CEO of Charterhouse Bank's Corporate Finance Division. He also has decades of experience as a board member of listed companies in the financial services and business services sectors. Originally he qualified as a solicitor with Freshfields.

Managing the challenges faced by Boards in financially stressed situations

Adept communication in financially stressed situations is critical

The perception of financial distress can easily become self-fulfilling. Indeed, while a credible route out of a stressed situation remains open, Boards need to take great care before publicising the full extent of the financial challenges due to the potential impact on customers and suppliers. Board statements are frequently judged with the benefit of hindsight. Public companies will also have legal and regulatory disclosure requirements. In critical situations it is often necessary to assess how a communication will be perceived later, in the light of subsequent developments, as well as at the time, by a variety of interested parties in different positions.

A swift, clear assessment must be made of the underlying reality of the situation

Financial distress is almost always the result of a corporate strategy not going to plan. There can be a wide variety of reasons for this (many of which may be wholly out of the Board's control) and no two situations will be alike. Every Board therefore faces the question of its actual and perceived responsibility for arriving at the situation. Equally, the extent and nature of the change in circumstances requires objective assessment for a realistic solution to be found. A swift objective assessment needs to be made when many subjective elements are at play.

Not all interests are aligned

Boards face situations where they have obligations to a variety of stakeholders with different interests – some aligned and others conflicting. Certain stakeholders may seek to exploit a position they have while also having a keen interest in avoiding a collapse. The Board therefore needs to distinguish between stakeholder 'negotiating positions' and fundamental stakeholder requirements in a potentially volatile situation, where there is a premium on maintaining stability and momentum around a resolution process.

The situation can be highly complex with many issues involved

The Board may face many issues – operational, strategic, liquidity and working capital, personnel, shareholder, different kinds of creditor (e.g. banks, bondholders, credit insurers, surety providers, trade creditors and other financial creditors), as well as pension and potential litigation matters. How each is addressed may have implications for other issues.

The Board and its existing advisers may not have sufficient resources/expertise

Given the extent and variety of the issues involved, the Board and its existing advisory team may not have sufficient direct experience to make finely balanced judgments in all the areas where expertise is required. Some members may be well versed in certain aspects but not others.

The restructuring process

Existing business

Analysis

- Situational analysis and threats assessment
- Business restructuring assessment
- Assessment of legal and regulatory issues
- Market analysis
- Stakeholder evaluation

Process

- Cash management
- Operational turnaround
- Stakeholder communication and negotiation
- Holistic plan formulation
- Management enhancement

Options

- Asset disposals
- Business sale
- Refinancing
- Standstill with operational turnaround
- Capital restructuring

Restructured business

Using advisers effectively

The right strategic financial adviser with the right experience

- Works for the whole Board – identifying with company interests
- Wins the trust of management – expanding its capabilities and capacity
- Is not compromised by prior advice or pre-existing intent and a particular type of solution
- Has a clear understanding of the position of lenders and other stakeholders given the situation
- Has the relevant negotiating expertise and experience
- Has 'seen this before'
- Generates solutions
- Leads decision-making process rather than waiting for decisions
- Takes a fresh look at the situation

...assists the Board to:

- Build trust with lenders and other stakeholders
- Foresee non-immediate consquences of potential courses of action
- Accurately anticipate responses of stakeholders to particular strategies, proposals and situations
- Appoint the right other advisers in correctly defined roles
- Identify and bridge gaps between shareholder perception and reality
- Run a credible process for restoring financial health
- Do the right thing under pressure

...and avoids:

- Failure to identify a good restructuring approach and strategy
- The Board getting sucked into an exhausting, sub-optimal process which fails to properly deal with the company's fundamental problems
- Survival at unnecessarily high cost to certain stakeholders or otherwise allowing the Board's reputation to be tarnished
- The company unnecessarily failing to survive

Case studies

Home REIT plc

Smith Square was appointed when major issues with the company's investment portfolio had been identified and share trading was suspended after the company was unable to publish annual accounts. The appointment reflected our track record of advising investment companies and our restructuring and special situations experience. We managed a process to appoint a new investment manager, led discussions with Home REIT's lender, advised in relation to a takeover approach and on other strategic and shareholder communication matters and provided intensive holistic support to the Board for an extended period.

IOG plc

Appointed by the company to advise on financial issues arising from the failure of a key gas field to generate commercially extractable gas. Assisted the company in developing programmes to manage liquidity and trade creditors and identify executable options to preserve value in a rapidly changing environment driven by operational developments and gas price movements. Commenced a process with the Board's senior secured bondholders to restructure the group and its indebtedness.

Government of Iceland
€10bn banking system restructuring

Retained to advise the government on compensation for transferred net assets to be paid to bankruptcy estates of the three principal Icelandic banks (old banks) by the new banks established to replace them. Identified issues with the existing process, devised a new process, secured IMF approval for the revision, worked with the new banks to develop their business plans and led negotiations on behalf of the government and new banks with the old banks and their creditors. The sound new banks which emerged underpinned the Icelandic banking system and the outcome was identified by the IMF as one of the strongest success stories of recoveries from the impact of the global financial crisis.

Undisclosed listed companies

On two occasions since the onset of Covid, we have advised substantial listed companies on the implementation of recapitalisation and refinancing options which, while initially unpalatable, preserved shareholder value and provided a platform for stable future growth.

Undisclosed private equity portfolio company

Appointed by a private equity portfolio company to assist in liquidity management, manage the provision of information to the secured lender and manage discussions with sponsor and lender to deliver covenant reset and fresh equity injection.

Restructuring and recapitalisation – track record

Members of the Smith Square team have delivered successful restructuring and recapitalisation outcomes for clients including:

- The Government of Iceland
- HCL
- Leisurelink
- Southern Cross
- Davenham
- Park Resorts
- Jarvis
- Lifeways
- I.S.T.C
- Independent News & Media PLC
- Schefenacker
- VSZ
- Acertec
- Costain
- Yorkshire Group
- Mouchel
- Carpathian

- Nord Anglia
- PatientLine
- Hassle Free Boilers
- Edenhouse
- Profine
- Kingfisher
- QMH
- VESAF
- HMV
- Primrose
- Melita
- Biwater
- Telex Chile
- Radio Danubius
- Landsbanki
- EM.TV
- Anglo Irish Bank
- Islandsbanki
- Arion Banki
- Welcome Break
- Dunlop / Slazenger Group
- Pearl Group

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