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ACCESS TO LOCAL AND GLOBAL OPPORTUNITIES

“We are eager to meet middle-market companies in the Western U.S. facing any of the following challenges: excessive debt, insufficient cash flow or lack of debt capacity stunting growth. In all of these situations there will usually be friction with the lender. We can help, by right-sizing the balance sheet, improving cash flow, negotiating with the lender, and locating alternative capital. Because of our 25-year history in the distressed marketplace, we have credibility with the capital sources.”

With a quarter century of experience in the distressed environment, Santa Monica, California-based Kibel Green works with companies in transition that require clear thinking and rapid action. While Kibel Green’s focus is on West Coast companies, its expertise covers a wide variety of industries, including retail, manufacturing, distribution, services, energy, food, real estate and technology.

Since September of last year, Matt Covington has led Kibel Green’s Capital Group. He joined after seven years with the well-known Los Angeles-based restructuring firm Chanin Capital Partners, following several years as an investment banker in the Mergers and Acquisitions group at Credit Suisse First Boston in New York City.

Today, the main focus of Covington’s efforts is on creatively sourcing capital for small to mid-market companies.

“Large-cap companies have been buoyed by the capital markets over the last year,” says Covington, “but small to mid-market companies still find themselves capital-starved in many cases.”

There may be any number of reasons these companies might approach Kibel Green, Covington says, but generally a distressed company exhibits one of the following four characteristics: inability to refinance its debt as a maturity approaches, inability to meet ongoing debt service payments, a troubled relationship with a lender, or stymied growth opportunities due to lack of access to capital.

Whatever the reason, Kibel Green is prepared to tackle the situation with its diverse arsenal: the services provided by its turnaround and operations groups can assist in the capital-sourcing function by identifying and implementing improvements to a company’s business plan.

“It’s pretty rare to have all of these three competencies under one roof,” Covington says.

“What really distinguishes our firm is that we are able to understand businesses and business plans from an operational, in addition to a purely financial, perspective and we can thoroughly vet those plans.”

Such capabilities provide credibility with potential investors and potential lenders, Covington says.

“When we stand behind a business plan, our capital sources trust it. This enables us to add value beyond merely marketing a company, which is what most investment bankers rely on. We actually are able to improve the intrinsic value of the companies that we are working with and, therefore, increase the chances of finding solutions quickly.”

And speed is the key for troubled companies enduring deteriorating lender relationships.

“Clients are very concerned about what their lenders are going to do next,” says Covington. “Are they going to continue tightening terms? Are they going to refinance when our maturity comes up in the next year? Are they going call a covenant default in the next quarter or two?”

There is plenty in today’s market to warrant such concern in today’s market, Covington says.

“There are a lot of situations where companies have had long-term, 20-years-plus banking relationships that in the last year or so have either been terminated or dramatically curtailed. But it is not just the lenders trying to be difficult; they are under a lot of pressure from all sides as well.”

Matthew Covington
Kibel Green Inc.

Professional Category:
Managing Director –
Financial Restructuring

Member Since:
January 2010



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Yet while the lack of financing continues to frustrate small to mid-market companies in 2010, the default rate on high-yield bonds (issued by larger companies) has plunged, and the number of restructurings surprisingly has declined.

“Default rates peaked in late 2009 and they started to tail off fairly rapidly such that the second quarter of 2010 was tracking at a 1% rate vs. 13% in the fourth quarter of 2009,” Covington says. “So we’ve had this dramatic drop-off in the default rate but we have had also a dramatic increase in the amount of debt that’s out there. The so-called ‘maturity wall’ refers to the amounts of debt that are coming due beginning in 2012.”

To put that debt in perspective, in 2010 and 2011, \$100 billion of sub-investment-grade bank credit facilities and bonds are coming due. In the 2012 to 2014 period, there will be more than \$700 billion coming due.

“When these borrowers seek to refinance in that 2012 to 2014 period, they’re going to have a little bit more competition because the best rated borrower of all, the United States government, is going to need to refinance around \$2 trillion of its own debt,” Covington says. “If you combine the refinancing that the speculative-grade companies need to do with the refinancing the U.S. government and investment-grade companies need to do, as well as looming maturities and commercial mortgage-backed securities, it amounts to a huge wave of debt coming due in that 2012 to 2014 period.”

There are different schools of thought on how the market is going to deal with it.

“Some people think it portends another restructuring wave,” Covington says. “I happen to be in that camp. There are others, though – a minority but certainly a reasonably prominent minority – that think we will be able to grow our way out of it and therefore deal with the refinancing at that time or pay those maturities off.”

That may sound like an Armageddon-like scenario that only a restructuring professional could love, but Covington notes that for there to be a

functioning restructuring market, the capital markets have to be functioning as well. People have to be engaging in transactions.

“When absolutely everything was frozen as it was at the peak of the crisis in late 2008, there really wasn’t any restructuring happening either,” Covington says. “I think one of the head guys at Blackstone observed at the time, ‘Gosh, even the distressed market is distressed.’ So, I think Armageddon is bad but restructuring is a healthy part of the cycle.”

Covington is upbeat about the opportunities for creative, alternative financing in the small to mid-market in the coming years.

“Especially with the recent run up in the capital markets for the larger companies, the opportunities for profitable investment have for the time being become less ubiquitous. And so I think that a lot of the financing sources are going to start looking at small and mid-market companies and are going to start getting a little bit more creative about ways that they can profitably lend to and invest in these companies,” Covington says.

Kible Green and Covington will be looking to bring those capital sources together with its distressed clients.

“Anyone who is reading about me and reads about my expertise should feel free to contact me and discuss any capital structure challenges that companies they know might be facing,” Covington says. “It could be a mutually beneficial exchange. They’ll get a third-party perspective on potential solutions from someone who’s got long experience in the field and I’ll get to hear about a new situation that will give me insights into trends out there in the marketplace.”

If you want to contact Matthew Covington about Kibel Green Inc., call (310) 829-0255 or e-mail him at mcovington@kginc.com.

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