Issuers lacking competitive edge need not apply to traditional lending sources – Conference Coverage
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The environment for new high-yield and leverage loan issuance has been wide open to borrowers with large market share positions and name brand appeal. But the capital market reception for companies with smaller, less-liquid capital structures who operate on the fringes of their respective industries has been increasingly cold, said panelists at the Distressed, Turnaround and Restructuring industry conference hosted over the weekend by Wall Street Training in New York.

The outsider status for unproven middle market issuers stems in large part from the widespread consolidation of regional banks that took place over the past several years, as well as the fact that a lot of banks were taken over by the FDIC during the financial crisis, said panelist Paul Triggiani, managing director at Bayside Capital.

What this has done is make traditional banks less-willing to take on off-the-run risk, making capital market access tough to come by for issuers who either don't have leading industry positions, or are not able to evolve their product offerings, said JP Hanson, a managing director with Houlihan Lokey.

"We are seeing more businesses that have not been able to differentiate themselves," said Tony Hokayem, director at PNC Capital Markets. For instance, "trucking is generic, but if you do refrigerated trucking … we, as a bank, are willing to work with you," he added.

The industry where differentiation is hard to establish is the second-tier education products space, where issuers often get lumped in as being fairly generic, noted a restructuring advisor on the conference's sidelines. One such issuer in need of capital is School Specialty, which is facing a USD 438m 2014 maturity wall combined with a revenue decline and a potential covenant breach for 2Q13, the advisor added.

On a smaller scale, middle market investors have been closely watching for-profit educators such as Delta Career Education and Education Holdings I (Princeton Review) for distressed opportunities.

Another industry that's fallen out of favor with the traditional banking community is the mid-size tech space, where operators are more susceptible to losing product momentum amid the fast-moving tide of technological advances, noted a distressed investor in attendance. Exemplifying the industry's pitfalls is the recent decline of video game maker THQ. Earlier this month, THQ disclosed it had retained financial advisor Centerview Partners to help address a covenant trip and near-term debt maturities.

The issuer's USD 100m 5% convertible notes due 2014 last changed hands at 23.375 on 7 November, down from 58 on 22 August, according to MarketAxess.

The real estate sector is also garnering speculative looks from traditional lending outlets, given the economy's slow climb to recovery, noted Alan Tantleff, managing director at FTI Consulting's hospitality, gaming and leisure practice.

The space could be compelling for distressed opportunities in the next few years, given it has a steep wall of near-term debt maturities, he continued. “2005 and 2006 [real estate] loans are coming back to haunt borrowers,” Tantleff said.

“The next generation of restructurings is really going to be … things that were not fixed but postponed. ”

by Aleksandra Snesareva