

## CORPORATE RESTRUCTURING: A BUZZWORD IN TODAY'S WORLD!

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### ABSTRACT

*In the wake of the COVID-19 pandemic, the scope of restructuring has increased manifolds. This is because the economy has turned completely upside down. Almost all of the industries except pharmaceuticals and essential goods have been impacted severely and are into financial distress. The covid crisis has led many corporations to file for bankruptcy and go into liquidations. Hence, restructuring business has seen a significant uptick in demand.*

**KEYWORDS:** COVID-19, Pandemic, Financial Distress, Covid Crisis, Bankruptcy.

### Introduction

In Canada, on the sectorial level, it's nothing unexpected which sectors keep on being hit the hardest by business bankruptcies in Q3 2020 contrasted and Q3 2019: retail exchange (up 25%); the management of companies and enterprises (up 14%); and entertainment, arts and amusement (up 20.8%)<sup>1</sup>.

### Example: Le Château Inc.

Recently Le Château Inc. faced liquidation. Le Château is a Canadian specialty retailer and producer of solely planned clothing, footwear and accessories for contemporary and style-cognizant ladies and men, with a network of 121 ideal spots across Canada and a web based business stage overhauling Canada and the U.S. It had been running into net losses over the past 4-5 years. During H1 FY20, the Company permanently closed 6 underperforming stores. The Company breached its covenants on secured loans. The Auditor raised 'Going Concern' Doubt on July 06, 2020. Working capital deficiency stood at CAD45.7m as on July 25, 2020<sup>1</sup>.

On October 23, 2020, the Company obtained an Initial Request according to the Companies' Creditors Arrangement Act (the "CCAA") to continue with the deliberate liquidation of its resources and wind down of its activities. Price water house Cooper Inc. has been named as screen to the Company in these CCAA procedures to manage the Company's activities during the Liquidation. On November 02, 2020, the Court gave a Liquidation Order, permitting the Company to continue with the offer of its resources and wind down of its tasks.

### Objectives of the Study

- To understand the idea of corporate rebuilding, recorded foundation and arising patterns in rebuilding systems.
- To Study and Analyze Corporate Restructuring with reference to Bombardier Inc

Corporate rebuilding is a corporate activity taken to altogether adjust the construction or the tasks of the organization. This normally happens when an organization is dealing with huge issues and is in monetary peril. It suggests modifying the business for expanded effectiveness and benefit. Corporate rebuilding turns into a trendy expression during financial declines.

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<sup>1</sup> Capital IQ database

### Types of Corporate Restructuring

Corporate Restructuring is broadly of 2 types,<sup>1</sup>

- **Financial Restructuring:** This happens because of a serious fall in the presentation of the organization, might be because of fall in incomes, expanding costs, expanding obligation and so on Here, the corporate substance may adjust its value design, obligation overhauling plan, the value property, and cross-brief delay. This is done to support the market and the productivity of the organization.
- **Organisational Restructuring:** The Organizational Restructuring infers an adjustment of the hierarchical design of an organization, like lessening its level of the order, overhauling the work positions, cutting back the representatives, and changing the announcing connections. This sort of rebuilding is never really down the expense and to take care of the remarkable obligation to proceed with the business activities in some way.

### Need for Corporate Restructuring

There may be multiple reasons like:<sup>2</sup>

- **Lack of Profits:** The company may be unprofitable over the past 3-4 years and is not able to cover its expenses. Hence, the company will have to undertake a cost optimization program in order to reduce costs and increase profits.
- **Cash Flow Requirement:** An offer of the division can help in making a significant money inflow for the organization. In the event that the organization is confronting some trouble in getting account, selling a resource is a speedy way to deal with fund-raising and pay off past commitments.
- **Change in the Strategy:** There may be a change in strategy of the company, for example the company wants to get rid of one of its non-core divisions which is not performing well.

Techniques of Corporate Restructuring: The techniques of Corporate Restructuring are broadly classified into 3 categories:

- **Contraction Techniques:** These techniques are aimed at reducing the scope of the business, for example:
  - **Sell-Off (Hive off):** When a corporate entity divests one or more of its segments. Example: Bombardier Inc, a Canada based aviation company divested its Transportation business to Alstom SA, a France based transportation company
  - **Spin-off:** A spin off is the making of a free organization through the sale or dissemination of new portions of a current business or division of a parent organization. Model: Bausch Health Companies Inc., a designer, producer, and advertiser of a scope of drug, clinical gadget, and over-the-counter (OTC) items basically in the restorative spaces of eye wellbeing, gastroenterology, and dermatology, reported to branch off its driving eye wellbeing business into an autonomous traded on an open market substance ("Bausch + Lomb - NewCo") from the rest of Bausch Health ("BHC"). The spinoff will set up two separate organizations that include: A completely coordinated, unadulterated play eye-wellbeing organization based on the notable Bausch + Lomb brand and long history of development; and A differentiated drug organization with driving situations in gastroenterology, feel/dermatology, nervous system science and global drugs. The advantages of isolating these appealing, however dissimilar organizations incorporate improved key concentration and upgraded monetary straightforwardness to more readily empower partners to esteem every business autonomously.
  - **Slump Sale:** A sale where no particular value is given to the liabilities and assets of a business and the entity is sold for a lumpsum consideration. Example: Tata Steel Ltd acquired the steel business of Usha Martin Ltd through a slump sale
  - **Liquidation:** Liquidation is the process of taking a business to a close. It usually occurs when a company is insolvent. During the pandemic, more than a handful of well-established

<sup>1</sup> <https://cleartax.in/s/corporate-restructuring>

<sup>2</sup> <https://efinancemanagement.com/corporate-restructuring>

retailers have sought to the Chapter 11 protection. Example: Lord & Taylor, which operates fashion stores in the US offering clothing, shoes, accessories, grooming products, and cologne for men; kid's products; and gifts, filed for Chapter 11 bankruptcy on August 2, 2020 and declared the liquidation of all its stores. The Company will permanently close its 38 stores and shut down its website<sup>1</sup>

- **Management Buy-Out (MBO):** It refers to a transaction where the management of a company acquires full or part stake in the company it manages. Example: Moody's Analytics which develops financial intelligence and analytical tools, and offers advisory and research services to measure and manage risk, revamped as Acuity Knowledge Partners, after the conclusion of its management buyout transaction from Moody's Corporation, supported by Equistone Partners Europe Limited, a European mid-market private equity investor.<sup>2</sup>
- **Expansion Techniques:** These techniques are aimed at increasing the scope of the business, for example:
  - **Merger:** Merger happens when two or more companies combine together. This combination may take shape either through the way of amalgamation or through absorption.
  - **Takeovers:** Takeover, also called acquisition, implies the gaining of complete control by the company that takes over (acquirer) of the company that is being taken over (target company).
  - **Joint venture:** When two or more companies form an entity with a view to undertake financial activities in combination, the formed entity is a joint venture. Joint venture can be project-based or functions-based.
  - **Strategic Alliances:** When two entities, while retaining their independent existence, collaborate with the purpose of achieving specified objectives, a strategic alliance takes place.
  - **Franchising:** Franchising is an arrangement where one entity (franchiser) grants another entity (franchisee) the right to use trade name as well as certain business systems and process, to produce and market goods or services according to certain specifications.
- **Other Techniques**
  - **Going Private:** Going Private involves a series of transactions that convert a publicly traded entity into a private company.
  - **Share repurchase:** A share repurchase (also known as buyback), is an exercise by a company that involves buying back of company's own shares from the market. This might be done to boost the stock value or to improve financial statements.
  - **Reverse Merger:** A reverse merger is a process through which private companies become publicly traded entities without undertaking any initial public offer (IPO).
  - **Equity Carve out:** A carve-out is the part divestment of a business where the parent company sells a minority interest of its subsidiary to external investors.
- **Case Study on Bombardier Inc**
  - **Brief Description:** Founded in 1907, Bombardier Inc is a manufacturer of transportation equipments, including commercial and business aircraft, major aircraft structural components, and rail transportation systems and equipment, and also provides related services. The operations at the corporation are performed in two different segments: Aviation and Transportation. However, on January 29, 2021, the Corporation concluded the sale of its Transportation business to Alstom. Bombardier Inc. is headquartered in Montreal, Canada

<sup>1</sup> <https://www.washingtonpost.com/business/2020/08/02/lord-taylor-chapter-11-bankruptcy-retail/>

<sup>2</sup> <https://www.acuitykp.com/news/moodys-analytics-knowledge-services-rebrands-as-acuity-knowledge-partners-private-equity-wire/>

In the initial phase of the global pandemic, which crucially impacted almost every aspect of the Company's operations and as the pandemic-induced crisis continued, the Company witnessed the sharpest ever fall in passenger rail traffic, and usage of business jet plummeted to levels even worse than that during the financial crisis of 2007-08, it took prompt measures to cut costs, save cash and better liquidity. The Company generated huge net losses of \$568m in FY Dec 2020.

The Company has undertaken a lot of restructuring initiatives over the past one year period. The Company has done acquisition, divestiture, debt repayments, and laid off its workforce. Below is the timeline that shows Bombardier's restructuring efforts in the last one year<sup>1</sup>

- On February 17, 2021, Bombardier announced the repayment of the total outstanding balance of \$750m drawn on its \$1bn senior secured term loan facility. On February 11, 2021, the Company announced to decrease its overall workforce by approximately 1600 jobs as it prophesied an enduring come-back in the aviation industry. On January 29, 2021, Bombardier Inc concluded the sale of its Transportation business to Alstom for net receipts of approximately \$3.6bn, including approximately \$600m in Alstom shares. On 31st December, 2020, the Company settled the acquisition, gaining full control, of the Berlin aircraft service centre. The Company bought the shares from ExecuJet Aviation Group AG and Lufthansa Technik AG, thereby allowing itself to set-up a wholly-owned aviation service centre in Berlin and further widen its customer support footprint across the world. On 30th October, 2020, the Company concluded the sale of its aero structures activities and aftermarket services operations in Belfast, U.K.; Casablanca, Morocco; and its aero structures maintenance, repair and overhaul (MRO) facility in Dallas, U.S. to Spirit Aero Systems Holding, Inc for a cash consideration of \$275m. On 1st October, 2020: The Company announced Senior Management Reorganization in support of its conversion to a Pure-play Business Jet Company. As part of this process, the Company has eliminated the Bombardier Aviation president role and announced that David Coleal will depart the Corporation. On 1<sup>st</sup> June, 2020, the Corporation closed the sale of the CRJ Series commercial aircraft program to Mitsubishi Heavy Industries, Ltd \$585m in total cash consideration. On August 19, 2020: Announced a three-year \$1.0bn senior secured term loan facility. On June 05, 2020: Bombardier Aviation announced to reduce its workforce by ~2,500 employees following the pandemic. On 7th February, 2020, the Corporation declared the strategic measure to shift its focus completely on business aviation and also announced plans to speed up its deleveraging measures through the sale of its rail business, to revamp and revise its capital structure.



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<sup>1</sup> <https://www.bauschhealth.com/news-room/news-releases>  
Company Website