

FINANZE MAGAZINE

"Tough, but professional talks"

By Markus Dentz

Houlihan Lokey is considered one of the best addresses when tough refinancing talks are on the agenda. Now, the long-time head of the restructuring business in Germany, Ansgar Zwick, is taking early retirement. What do his successors have in mind?

After some 18 years at the helm of corporate finance consultancy Houlihan Lokey's restructuring business in Germany, well-known investment banker Ansgar Zwick has taken early retirement. He was one of the best-known specialists in financial restructuring in Europe. His successors form a dual leadership for this business area in the DACH region and the Nordic countries: Niklas Lerche and Malte Wulfetange. How do they intend to fill Zwick's big shoes, and what are the most important issues for the restructuring industry in Germany? FINANCE met the two managers, who worked alongside Zwick on prominent cases for a long time, for an interview.

Ansgar Zwick was Houlihan Lokey's figurehead in Germany for a long time, and now you form a dual leadership team. Two heads can lead to friction, there are countless examples of that ...

Wulfetange: Not with us, the co-head structure is typical for Houlihan Lokey. Hierarchies are not so important for us. We also want to work more closely with the corporate finance division than before. In the end, it was and is always the team effort that leads to success for the client.

In fact, it sometimes felt as if Restructuring and Corporate Finance were at odds with each other in Germany. For a long time, the two teams even sat in different offices in Frankfurt. Why was that?

Lerche: That was partly for practical reasons, such as lease agreements that were already in place. But that has now changed, because we moved into the Omnitower together in April. You meet in the hallway, we have synergies and communicate quite differently than in the past, when the offices were still separate.

Wulfetange: The market has changed. Our customers expect both product and sector expertise from a single source. That's what we deliver.

Since February, Andreas Dombret, a prominent banker, has been on board at Houlihan as Independent Chairman. What role does this factor play?

Lerche: When people leave the company and new people join elsewhere, that certainly plays a role. In his role as Independent Chairman, Andreas Dombret will provide dedicated and knowledgeable support to both business units - Corporate Finance and Restructuring - and help to bring them closer together in terms of external perception. We can now cover the entire spectrum of financing - from debt advisory for healthy companies through distressed situations to real restructuring.

Wulfetange: We can also spread a very different message than perhaps six years ago. We now have around 200 professionals in M&A in Europe, which also came from acquisitions including M&A boutiques Leonardo and McQueen in 2015. This is consistent with the Houlihan DNA: in the U.S., we offer classic M&A, debt advisory and financial restructuring.

*Malte Wulfetange is a Managing Director in Houlihan Lokey's Financial Restructuring Group. Previously, he worked for Goldman Sachs, among others.
Houlihan Lokey*

Where Houlihan Lokey sees crisis potential

The past fiscal year was very much characterized by Corona. How did that affect your business? What were the most important deals and mandates?

Lerche: There were a number of transactions in which we were involved, not all of which are public. We can mention, for example, the bondholders of Tui as well as projects in the cases of Norwegian Airlines, Swissport and Takko.

There have been a few corporate crises like the ones mentioned, but a wave of insolvencies is still a long way off. In addition, the German parliamentary elections are coming up soon, before which politicians will certainly want to avoid major bankruptcies with mass layoffs. Is that an accurate description of the situation?

Wulfetange: Yes, ultimately a lot was absorbed by government aid: KfW, WFS as well as the bridging aid, which was recently increased once again. That's why many companies didn't end up in restructuring.

"Anyone with a maturity in 2022 should secure liquidity before the federal election."

Lerche: I think you have to differentiate strongly when looking ahead. There are companies that have taken a very forward-looking approach to funding. But there are also those where things look worse. My advice: If you have a maturity in 2022, you should secure liquidity before the general election.

Which sectors could face problems this year or next?

Lerche: The parameters for some industries are changing enormously. Where solar energy used to be in crisis, fossil energy companies are now coming into focus. What does the future hold for coal-fired power plants and energy-intensive industries? How will municipal utilities, for example, behave as shareholders if their holdings run into problems? I think some will think: Better out than in.

There are already signs that environmental polluters will no longer be bankable, or perhaps they already are.

Lerche: That's right. In such cases, you can consider splitting companies into a "good co" and a run-off unit "bad co." Or you have to organize fresh money through alternative channels.

Are there conflicts of interest?

Houlihan often acts on the creditor or bondholder side, sometimes on the company side, as in the case of Schaeffler. Doesn't this back and forth inevitably lead to conflicts of interest?

Lerche: No, I don't think so. Ultimately, consulting is an opportunistic business, which is why we sometimes side with companies and sometimes with banks, bondholders or investors. In any case, we have to provide the best service for our clients.

Wulfetange: Despite good relations with a financial institution, you always have to represent the client's interests. That leads to tough discussions, but usually remains professional.

Your cases often involve insolvency – it's all or nothing.

Lerche: Yes, we operate in an area of tension between the particular interests of individual stakeholders and an overall solution that preserves value. We have to reach an agreement there and avoid an unplanned insolvency. Every consultant has his own way of doing this. I think the following should be adhered to: Open sights in terms of clear communication - and never threaten with something you can't deliver. And what should never happen is that a strategy leads to total value destruction for all sides.

Niklas Lerche is Managing Director in Houlihan Lokey's Financial Restructuring Group and responsible for the restructuring business in the Nordics.

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Where the next flashpoints lurk

Are the TUIs and Lufthansas of this world also your targets, or are such groups more likely to be served by the "big" investment banks in financial restructurings? Compared to Goldman, Morgan Stanley and Co. you have the disadvantage that you cannot provide a balance sheet or place financial instruments in critical situations.

Wulfetange: I see that as more of an advantage, especially from my experience as a former investment banker. We advise clients independently and have no interest in selling our own products. Second lien or bonds with a backstop sometimes incur high fees. We can assess these situations quite neutrally from the outside and give our best advice on the balance sheet structure or on a specific financing instrument such as the promissory bill.

Lerche: The situations in which we can deliver added value are, for example, complex stakeholder constellations and cross-border deals. Our team has experience in this, and dealing with different jurisdictions is our bread-and-butter business. This can also be a medium-sized company from southern Germany that has syndicated loans or promissory bills. There, you have to moderate the interests and get the creditors on the same page.

"Real estate developers have in some cases extremely inflated their balance sheets through revaluations."

Do you see any specific companies where things could soon be on fire financially?

Wulfetange: Real estate developers have in some cases extremely inflated their balance sheets through revaluations. These markets are still functioning as far as mezzanine financing. But valuations in mid-

sized cities are sporty. There are risks in refinancing when maturities are approaching and you have not insignificant leverage. Banks are no longer so eager for quite aggressive loan-to-values. Also, Bafin will look much more closely at financiers and financial institutions.

You mean Wirecard-like companies, where you were still involved with Houlihan shortly before the insolvency in June 2020?

Wulfetange: Yes, there could still be one or the other.