The World Will Not Disappear

Guilherme Paulino, Managing Partner, Carlos Braga, Managing Partner and Marcelo de Forbes Kneese, Partner, at Brasilpar (IMAP Brazil) share thoughts about the crucial assistance their Debt Advisory team is currently providing to clients to ensure their businesses survive the pandemic.

The Historic Fall of Interest Rates in Brazil

For some time now, Brasilpar had been discussing the need to build a debt advisory team. The sharp decline from double to single digit interest rates in Brazil had prompted them to look at new debt financing alternatives for its clients. The disintermediation of banking as a result of the lower interest rates meant that investors, previously uninterested in taking risks, were now looking for high yield investment opportunities. Long-term clients, some second generation, were also looking for alternatives. Public traded company yields were so low, market dynamics were changing and for Brasilpar, this opened up the opportunity to structure and offer new debt products tailored towards this new environment. They began helping mid-market companies on assessing financing alternatives, preparing financial projections, and establishing creditworthiness in order to introduce them to capital markets, alternative banks and real estate or receivable securitization funds and players. Then COVID-19 happened.

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Solidarity is key in Times of Crisis

Until then, Brasilpar had been responding to the changing needs of their clients as the market changed. Now however, they felt a call to action, a deep-rooted obligation to work with their clients, many of whom have been with them since the 90’s, to help get them through the crisis. This new phase will require solidarity and with its reputation as an independent financial advisor with extensive experience and a proven track record, Brasilpar can help companies overcome this crisis and by helping them restructure their debt profiles and capital structure, produce a positive effect on the companies, the economy and society.

In the short-term, Brasilpar’s objective is to help its clients with liquidity issues. By managing their clients’ relationships with banks and creditors, they can negotiate debtor conditions, adjust payment schedules, organize new projections, and renegotiate a viable proposition such as grace periods and extended terms. By taking a fair and balanced approach and offering options to lenders such as shared guarantees, they can try to ensure their clients’ businesses remain viable. Each client receives individual, tailored advice.

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Overlap Between Debt Advisory and Distressed M&A

By assisting companies restructure their capital structure and improve their overall financial situation, this opens up equity value and allows Brasilpar the option of bringing in M&A investors at a later stage. In some sectors we are likely to see situations in which work starts on the debt advisory side, and further down the line, this may create the possibility of selling a minority or controlling stake. As well as talking to banks, Brasilpar is talking with hedge funds that focus on restructuring or sources convertible debt instruments, to help get companies back to a working state, as well as Private Equity funds, to provide alternatives to recompose capital.

Short Term Liquidity Solutions to get Companies Back on Their Feet

For Brasilpar, this is a market phase - they are not building a restructuring team but instead a Debt Advisory capacity. They preferably work with companies that are viable, with a strong management team able to execute the turnaround of the business, as opposed to those that are already overleveraged or in Chapter 11/court situations. Chapter 11 cases in Brazil, compared to the U.S. and Europe, have an extremely low recovery rate. Unlike the U.S. which stands at approximately 80% and Europe, 50%, Brazil’s recovery stands at only 11-15%. Brasilpar’s clients tend to have short-term liquidity issues and were effectively managed and doing well before COVID-19 hit. As well as offering these businesses alternative debt and equity products to get back on their feet, the most important thing Brasilpar can offer, is independent advice – advice based on a strong track record.

Being Brave in the Face of a Crisis is the Only way to Survive

It’s clear that the crisis is severe and has affected everyone at the same time. There is a lack of liquidity and lack of markets. However, industries will come back. People will start to fly and go to hotels again. People still need to eat, dress and shop. The challenge is to look beyond the crisis and within the sectors find the resilience not only to survive but come out the other side as fit as possible. Unfortunately, some companies will disappear, but at the same time, others will emerge. Resilient companies, that are more efficient, better managed, braver, take quicker action, shareholders inject cash into the business, cooperate better with employees, customers and suppliers and enlist the best crisis team etc. are the ones more likely to survive and that Brasilpar can guide past the crisis.

Development Banks, Securitization Players and Fintechs Offering Alternative Solutions

Securitization funds (such as FIDCs and real estate funds) and Fintechs, though still not major players in the Brazilian financial markets, are also contributing, offering securitization vehicles, and reciprocal funds though these still require receivables. Companies need to find alternative ways in which to generate receivables. Those that can’t are the ones that are looking for support from development banks, who are prepared to take more risk. Unlike some countries, Brazil has several important development banks.
offering alternative medium- to long-term solutions. Brasilpar has a close relationship with BNDES, BDMG and BNB development banks who offer new lines of credit, normally with a focus on project finance. Banco Brasil and Caixa Economica are 2 other large state-owned banks providing facilities, restructuring loans and offering liquidity alternatives. At the same time, in some key industries, the Brazilian Government has stepped in. Convertible debt instruments or warrants are coming into play as a means for companies to get back in shape. By also offering guarantee-backed funds, the Government aids the banks by providing assurance of up to 80% of the loans.

**Taking the Right Advice and the Right Road in the Tough Journey Ahead**

Currently, the Brazilian Capital Market is highly dysfunctional and doesn't really exist. Here, as in other markets around the globe, the banking industry is presently the only viable/remaining alternative. When the markets do re-open, a lack of working capital will be an issue. It's a challenge to find solutions in the private market. Though interest rates remain at record low levels, today you can see bonds of some of the best credits trading at 12-16%, so why invest in high risk restructuring? At the end of the day, the only way to breach the gap is to provide alternatives, such as derivatives and convertible bonds, which ensure at least a reasonable rate on the refinance restructuring, though can cause shareholder dilution further down the line.

“It's clear that companies are facing serious challenges and are under extreme pressure. For many, the real key to surviving the crisis, is having someone advise them in their time of need. Brasilpar is working hand in hand with its clients, talking through their issues, providing crucial advice and helping with negotiations to ensure their clients not only survive the crisis, but come out of it in the best possible position.”

**Light at the End of the Tunnel**

According to Brasilpar, though times are currently extremely challenging, it's important to remember that the world will not disappear and that we have faced crises before. Positivity is essential; markets and activity will resume. There are likely to be new trends, behavior even and there will certainly be many lessons learned having lived through the pandemic. At the end of the day, Brazil is a developing country and remains one of the largest, most dynamic economies in the world, as well as one of the top markets in terms of global consumption.

**Collaboration is in IMAP’s DNA – The Strength of the Global Partnership**

Once again, Brasilpar and indeed IMAP’s partners across the globe, have stepped up to the challenge and are doing what needs to be done to help their clients survive the COVID-19 crisis. By working together with its worldwide counterparts, Brasilpar has access to the experience, expertise, and best practices of IMAP’s 450+ team of advisors, as well as international markets and players, opening up new opportunities for M&A and cross-border transactions. Having built-up long-lasting relationships with their clients, Brasilpar and its IMAP counterparts not only help their clients resolve their short-term issues, but also provide long term solutions, to ensure their businesses thrive for years to come.