



Restructuring Insights – North America

Rights Offering Report 2021

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General Introduction & Summary

Powered by *Debtwire's* Restructuring Database, the latest Rights Offerings Report tracks and analyzes rights offerings for companies whose bankruptcy cases were pending in 2021. Based on the data available from those cases, we have concluded that investors injected over USD 30bn through rights offerings and direct investments—mainly in the transportation, telecommunications, and oil & gas (O&G) sectors, which is responsible for 62%, 15%, and 8% of the invested dollars, respectively.

Data Analyzed

We tracked the most salient and negotiated data points for rights offerings / direct investments:

- **Volume and Sector:** The data tells us that rights offerings are an increasingly relevant option for Chapter 11 debtors, especially in the transportation sector recently, and are being used in some of the largest and most complex reorganizations, from **LATAM Airlines** to **Garrett Motion**.
- **Discount to plan value:** This tracks the built-in value that investors are receiving to inject new money into companies that they will own (in whole or part) after the bankruptcy case is complete.
- **Backstop data:** Our data pulled from the filed backstop agreements and key documentation highlights key points of negotiation, such as backstop commitment premiums and termination fees.
- **Investor participation:** Can all investors in a class participate in a rights offering? Not always—securities laws may limit participation only to large investors. We also track frequent rights offering / direct investment investors and the companies in which they participate.

[Click here](#) to explore the entire Restructuring Data platform (access required).

General Introduction & Summary

2021 Bankruptcy Rights Offering Market Summary

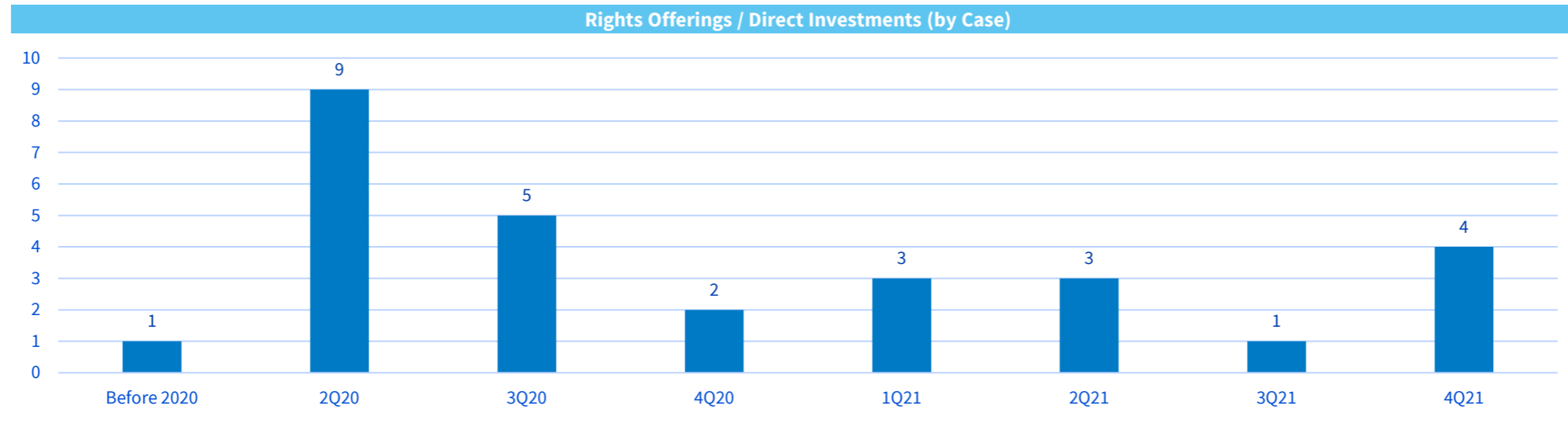
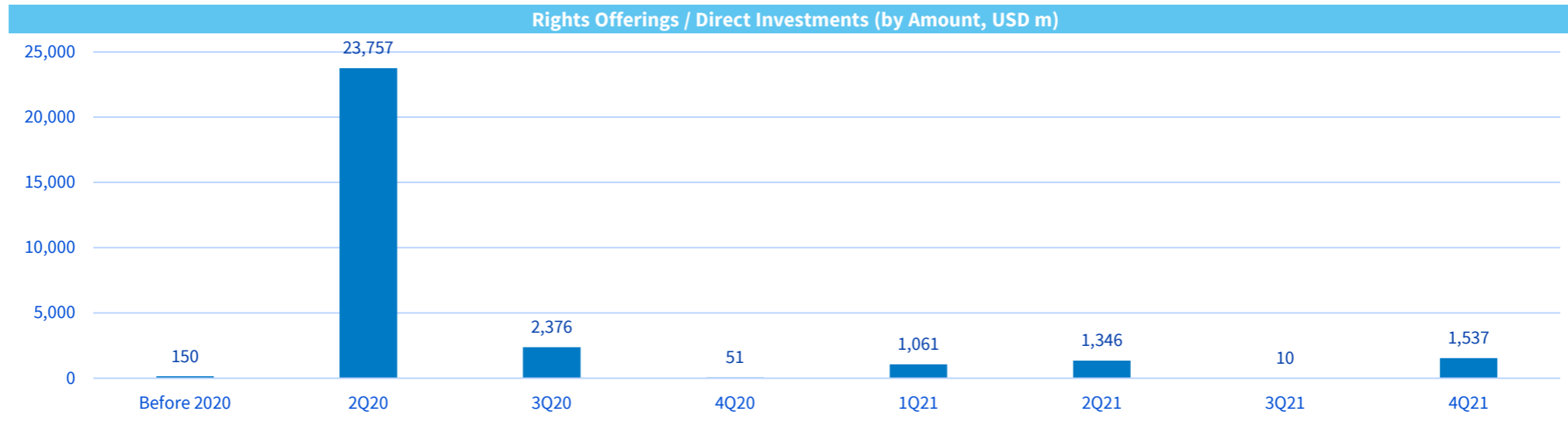
Number of Chapter 11 Cases with Rights Offerings/Direct Investments	28
Amount of Rights Offerings/Direct Investments (USD)	30.3bn
Weighted Average Backstop Fees on Rights Offerings/Direct Investments:	12.78%
Weighted Average Discount to Plan Value:	11.97%
Rights Offerings in O&G Sector: (USD)	2.3bn
Rights Offerings in O&G Sector: (#)	10
Cases with Direct Investments:	14
Largest Rights Offering / Direct Investment, total (USD):	10.5bn (LATAM Airlines)

Focus on 2021

2021 brought us a higher number of rights offerings/direct investments with increased volume (28 Chapter 11 cases and USD 30.3bn) when compared with past years, as the worldwide economy was impacted by the COVID-19 pandemic and investors were shopping for distressed assets. Looking at closed cases in the prior two years, 2019 had 11 emerged companies with rights offerings/direct investments totaling USD 2.2bn, while 2020 saw USD 14.4bn raised via rights offerings/direct investments in 24 closed cases.

From a sector perspective, the oil & gas industry continues to use the rights offering mechanism to recapitalize more frequently than any other sector; 10 cases were in the O&G sector, though from a dollar invested standpoint, O&G was not at the top. Other than the O&G cases, there are several airline cases with rights offerings/direct investment as an essential component of the reorganization plan in 2021 including a number of significant cross-border names—**LATAM Airlines**, **Grupo Aeromexico**, and **Nordic Aviation Capital (2021)**.

The weighted average backstop fee offered in rights offerings/direct investments, at 12.8%, was well above the 2016 - 2020 trend (averaged at 6.7%) as an increasing number of recent transactions charged higher than average backstop fees. The weighted average discount to plan value at which equity was offered in rights offerings, at 12%, was a good amount lower than the 2016 - 2020 average (29.9%), though that was heavily influenced by **Hertz**'s rights offering, which included a low discount.



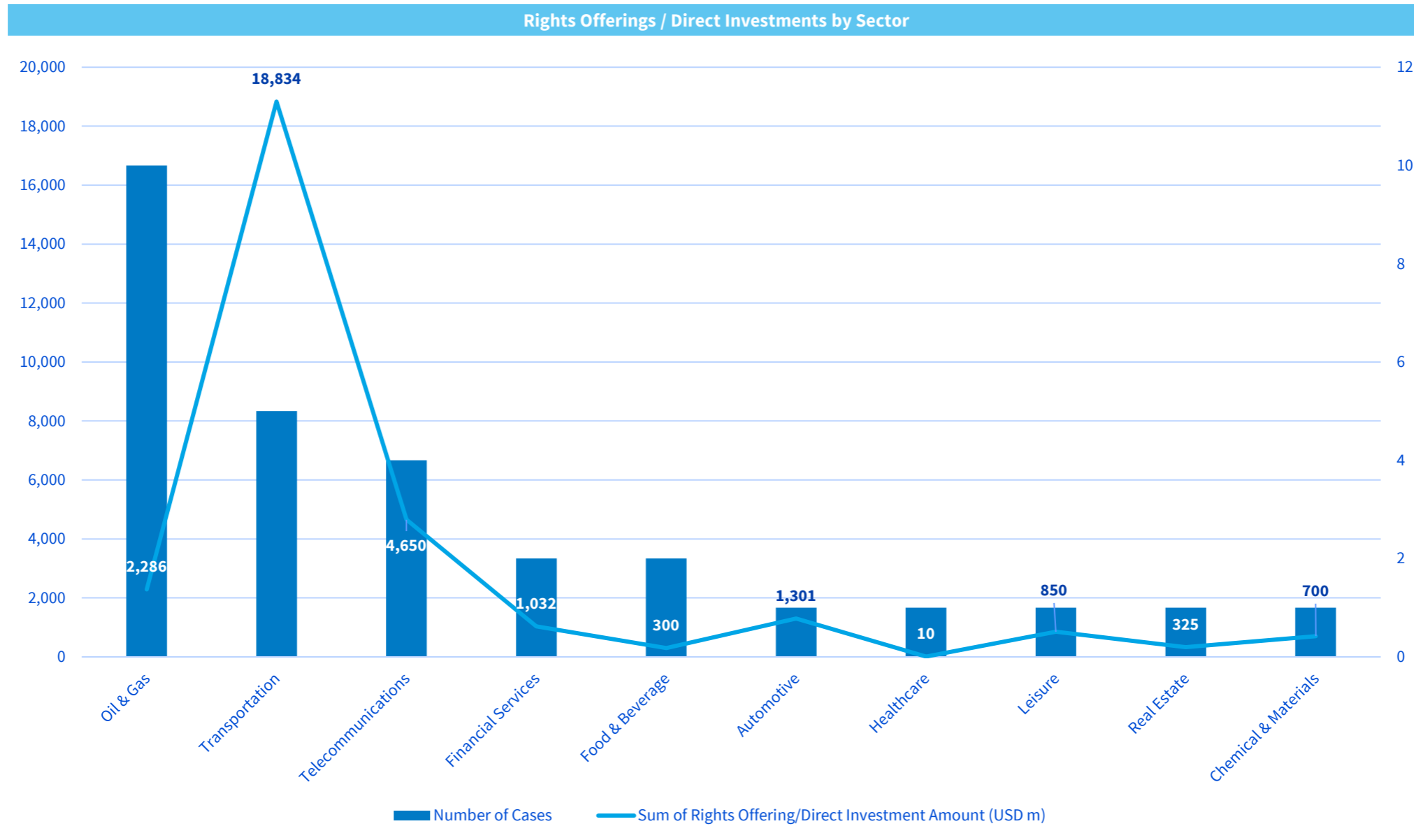
Note: We used the case commencement date to develop the chart. Even if the rights offering was pending in 2021, we characterized those cases based on the petition date, not the emergence date for this analysis.

The direct investment amount for **Corp Group Banking** has been converted to USD based on the exchange rate on 14 February 2022.

Source: Debtwire's Restructuring Database

Chapter 11 Rights Offerings / Direct Investment (by pre-petition dates)						
Quarter	Offering Amount (USD m)	# of Cases	Plan Value(USD m)	Discount to Plan Value (weighted average)	Backstop Commitment Premium (weighted average)	Cases
Filed before 2021, Pending in 2021	26,334	17	18,671	11.1%	13.2%	China Fishery Group Limited (Cayman) Speedcast International Limited Diamond Offshore Drilling, Inc Avianca Holdings, SA Intelsat SA The Hertz Corporation LATAM Airlines Group, SA Extraction Oil & Gas, Inc Chesapeake Energy Corporation Grupo Aeromexico, SAB de CV NPC International, Inc Noble Corporation plc Fieldwood Energy LLC (2020) Valaris plc Garrett Motion Inc Gulfport Energy Corporation Superior Energy Services, Inc
1Q21	1,061	3	1,508	-	28.0%	Seadrill Limited (2021) AeroCentury Corp Ferrellgas Partners, LP
2Q21	1,346	3	800	8.3%	9.0%	OFS International, LLC Washington Prime Group, Inc Corp Group Banking SA
3Q21	10	1	-	-	-	Kansas City United Methodist Retirement Home, Inc
4Q21	1,537	4	1,200	25.0%	4.0%	GTT Communications, Inc Carlson Travel, Inc (CWT) Riverbed Technology, Inc Nordic Aviation Capital(2021)

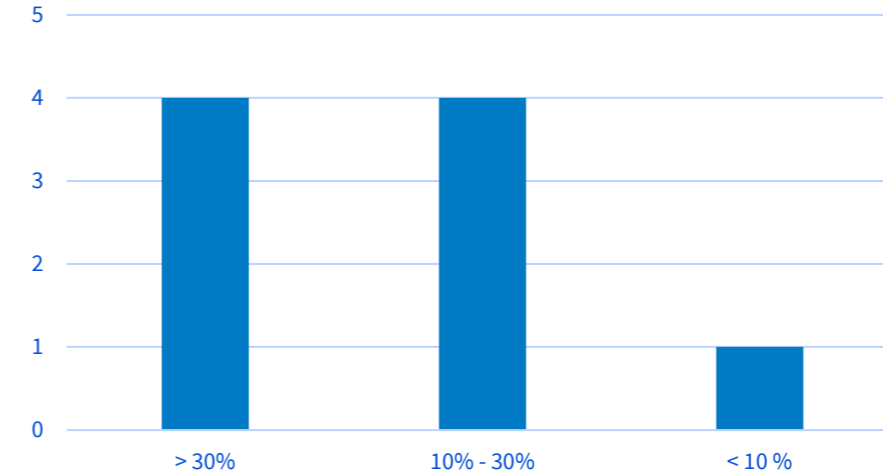
Note: All calculations are based on data where the backstop fees, discount to plan value, and plan value/enterprise value were disclosed. If the case has more than one rights offering then all of them have been considered.



Source: Debtwire's Restructuring Database

Discount to Plan Value

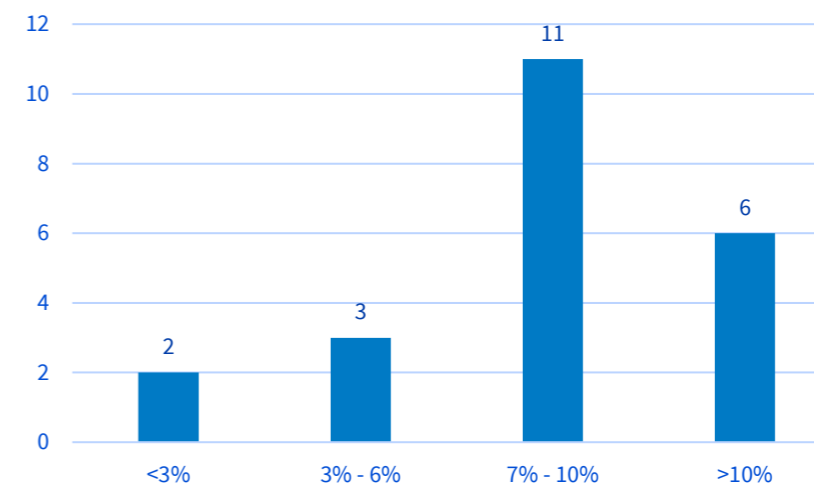
- Investors are generally incentivized to put in new money through a rights offering because they are able to purchase equity in the reorganized company at a discount to the valuation used in the company’s Chapter 11 plan.
- Giving a discount on the rights offering shares helps to ensure that sufficient shares are purchased, making it more likely that enough cash will be raised to fund ongoing operations and creditor recoveries.
- On the flip side, the ability to invest in equity at a discount disproportionately benefits deeper-pocketed pre-petition creditors (even including those investing in securities post-petition to make a play at the reorganized equity) at the expense of those that cannot (or will not) invest further.
- Typically, the discount on the rights offering shares ranges from 20%-30%. Outliers at the higher end, however, are fairly common. In 2021, the weighted average discount to plan value for equity rights offerings was 13.1%, due to Hertz’s large offering and comparatively small discount.
- In 2021, we continued to see a trend that rights offerings tend to include a higher plan discount value, in the 30% - 35% range. However, Hertz is an outlier, with a 6.7% discount.
- Occasionally, a company may not need to offer any discount to the equity value, particularly if participants believe the plan’s estimate of the value of the reorganized company is already low or if the rights offering itself is less of a play for the reorganized equity.



Company	Discount to Plan Value (%)	Offering Size (USD m)	Plan Value (USD m)
Extraction Oil & Gas	35	250	641
Chesapeake Energy	35	600	3,250
NPC International	35	150	-
Washington Prime	32.5	325	800
Fieldwood Energy	30	40	-
Gulfport Energy	30	50	-
Carlson Travel	25	191	525
LATAM Airlines	20.7	800	7,612
Hertz	6.7	1,635	4,721
Weighted Average	13.1		

Backstop Fees

- Backstop fees—including commitment premiums and break-up fees—are among the most important and highly negotiated aspects of a rights offering.
- When a bankruptcy plan is contingent on a certain amount of new money being raised in the rights offering, backstop parties will have significant leverage in negotiating their fees (although the court will still have to approve the fees). Thus, the backstop fees allow institutional creditors with extra capital and appetite for additional equity exposure to acquire an ever greater share of ownership in the reorganized company.
- Typically, backstop fees are ~6% of the total dollar amount of the rights offering, payable in shares rather than cash, and the fees are earned whether the rights offering is fully subscribed or not. In general, the higher-end backstop fees come when the backstop parties receive a set percentage of the new equity. In 2021, backstop fees for rights offerings averaged 15%.
- In 2021, we have seen backstop fees above 10% in two cases (Seadrill Limited and LATAM Airlines). Seadrill’s first lien facility rights offering backstop fee was the highest during this time period (28%, which consists of 7.5% cash + 4.25% of reorg equity). LATAM Airlines’ 20% rights offering backstop fee was challenged in court by various parties including the unsecured creditors’ committee.
- Similarly, termination fees generally followed the pattern of matching the backstop fees (in cash equivalence), but we note that the breakup fee in **Washington Prime Group** is 8.4% if the company is able to consummate the plan or a toggle restructuring and 20% if the company failed, which are different from the backstop fee of 9%.



Top 10 Backstop Fees

Company Name	Backstop Fees (%)
Seadrill Limited (2021)	28.03
LATAM Airlines Group, SA	20
The Hertz Corporation	10
Chesapeake Energy Corporation	10
Valaris plc	10
Gulfport Energy Corporation	10
Extraction Oil & Gas, Inc.	9.5
Diamond Offshore Drilling, Inc.	9
Washington Prime Group, Inc.	9
Garrett Motion Inc.	8.44

Note: The chart does not include cases that did not disclose a backstop premium. If a case has more than one rights offering with the same backstop commitment premium, they have been considered as one.

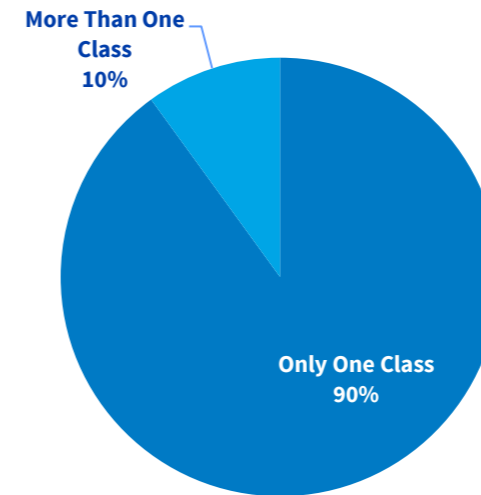
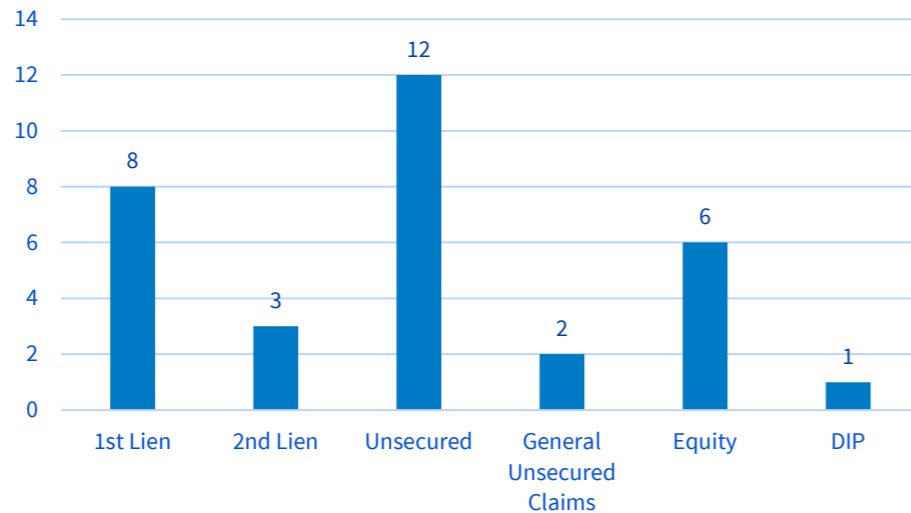
Rights Offering Participation

Rights offerings are often used as a tool by a class of creditors to take (or increase) ownership of the reorganizing company. More often than not, rights offerings are limited to one creditor class—most frequently, unsecured noteholders. In fact, over half of the rights offerings since the beginning of 2016 included unsecured creditors, and in eight cases, general unsecured creditors were also eligible to participate in rights offerings.

Secured creditors were similarly able to participate in ten rights offerings in six cases, including both first and second lien investors. While DIPs are generally receiving payment in cash in full, and thus not participating in rights offering, in one Chapter 11 case during our surveyed time period (eg, **Fieldwood Energy**) DIP lenders could participate. Equity holders are the pre-petition class that is least likely to be eligible to participate in rights offerings, we have seen transactions in four cases during our surveyed time period (including LATAM Airlines and Garrett Motion).

In 90% of rights offerings, only one class was given the opportunity to participate, while in only 10% of the rights offerings multiple classes were eligible to participate in the offering (eg, Extraction Oil & Gas, Chesapeake Energy, and Fieldwood Energy). Note that the “more than one class” category includes: (1) debtors with single rights offerings offered to more than one creditor class; and (2) debtors with multiple rights offerings provided to separate classes.

Rights Offering Participation By Class



Note: Unsecured funded debt and general unsecured Claims are considered separate classes for this analysis, as they are often treated separately for rights offering purposes. If the case has more than one rights offering, all of them have been considered to develop the chart.

Companion Direct Investments

Some reorganization plans that rely on rights offerings to raise additional capital for the reorganized company also raise cash through private placements and direct investments made alongside the rights offering.

Typically, the entities contributing additional capital through the private placement are (1) prepetition equity holders that desire to maintain their investment in the reorganized company after their prepetition stock holdings are cancelled or (2) institutional investors that held prepetition debt that have agreed to act as backstop parties to the rights offering.

- **Backstop Premium:** The backstop premium for equity purchased in a companion direct investment can be different from the terms of the rights offering; for example, in Hertz, Garrett Motion, and LATAM Airlines, rights offering participants receive backstop premiums, but no backstop premium is owed to the private placement participants.
- **Companion Direct Investment Dollars:** We have seen increasing amounts of money invested in the reorganized companies via direct investment. In 2021, there were more than 13bn of direct investment vs only about USD 6bn in direct investments for the period 2016 - 2020.
- **Dominant Private Placements:** In a few cases, the private placement capital raises were significantly larger than the new money raised in the rights offering. Cases include Garrett Motion, with a major new money investment by prepetition lenders Oaktree and Centerbridge, and Hertz, where USD 1.5bn preferred stock private placement came from Apollo and around USD 2.8bn common stock direct investment came from Apollo, Certares, Knighthead, and certain members from ad hoc committee of shareholders.

Cases with Direct Investments (2021)

Company Name	Direct Investment Amount (USDm)	Companion Rights Offering Amount (USDm)
AeroCentury Corp	11	-
Avianca Holdings, SA	200	-
Carlson Travel, Inc	159	691
Diamond Offshore Drilling, Inc	41	69
Garrett Motion Inc	669	632
Grupo Aeromexico, SAB de CV	1,725	-
Intelsat S.A.	4,000	-
Kansas City United Methodist Retirement Home, Inc	10	-
LATAM Airlines Group, SA	1,373	9,083
OFS International, LLC	0.35	-
Riverbed Technology, Inc	100	-
Seadrill Limited (2021)	50	300
Speedcast International Limited	500	-
The Hertz Corporation	4,281	1,635
Total	13,119	12,410

Most Frequent Disclosed Rights Offering / Direct Investment Involvement					
Investors	Involvements	Cases	Investors	Involvements	Cases
JPMorgan Chase	3	Ferrellgas Partners, LP Seadrill Limited (2021) Carlson Travel, Inc	Mangrove Partners	2	Diamond Offshore Drilling, Inc Extraction Oil & Gas, Inc
AllianceBernstein	2	Carlson Travel, Inc Diamond Offshore Drilling, Inc	Monarch Alternative Capital	2	Carlson Travel, Inc LATAM Airlines Group, SA
Apollo Global Management	2	Riverbed Technology, Inc The Hertz Corporation	Oaktree Capital Management	2	Garrett Motion Inc The Hertz Corporation
Capital Research and Management Company (Capital Group)	2	Diamond Offshore Drilling, Inc Extraction Oil & Gas, Inc	Shenkman Capital Management	2	Carlson Travel, Inc. (CWT) Ferrellgas Partners, LP
Centerbridge Partners	2	Garrett Motion Inc. Speedcast International Limited	Silver Point Capital	2	LATAM Airlines Group, SA Nordic Aviation Capital (2021)
Delta Air Lines, In.	2	Grupo Aeromexico, SAB de CV LATAM Airlines Group, SA	SVP Global (Strategic Value Partners)	2	LATAM Airlines Group, SA Washington Prime Group, Inc
Deutsche Bank	2	LATAM Airlines Group, SA Seadrill Limited (2021)	Whitebox Advisors	2	Extraction Oil & Gas, Inc Garrett Motion Inc
Eaton Vance Corp	2	Extraction Oil & Gas, Inc Riverbed Technology, Inc			

Source: Debtwire's Restructuring Database

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