

FIRM NEWS

Schulte Roth & Zabel Releases Its 2013 *Distressed Investing M&A* Report

Study Reveals Distressed Investors Continuing to Eye Europe

November 21, 2013

SRZ today announced key findings from its 2013 *Distressed Investing M&A* report, produced in association with Mergermarket and Debtwire. Most notably, the study reveals that distressed investors, who have traditionally focused on M&A opportunities in the U.S., are now increasingly taking advantage of the historically low valuations of target firms in Europe.

Based on a series of interviews with investment bankers, private equity practitioners and hedge fund investors, in the U.S. and Europe, the report provides insight pertaining to their experiences with distressed M&A activity and their expectations for the upcoming 12-24 months.

SRZ partners Peter J.M. Declercq, Stuart D. Freedman, Adam C. Harris, Jeffrey A. Lenobel, David E. Rosewater and Sonya Van de Graaff contributed to the report, which is being released today at SRZ's 2nd Annual Distressed Investing Conference. Mr. Rosewater, whose practice focuses on distressed investments and acquisitions, mergers and acquisitions, and private equity/leveraged buyouts, will present the study.

Additional findings from the report:

- Interest rates will have the greatest influence on U.S. distressed asset valuations, according to 68% of respondents.

- The political climate remains a top concern for 43% of respondents, but debt availability and rising interest rates have emerged as the leading factors affecting distressed pricing outside of the U.S.
- The biggest deterrent to pursuing distressed assets is the lack of predictability in terms of investment scenarios, according to 65% of respondents.
- According to a majority 77% of respondents, balance sheet restructurings remain the top targets for those purchasing distressed companies.
- The high volume of M&A activity in the U.S. energy sector is a primary driver for many investors as 79% of respondents in the U.S., and 55% of respondents outside the U.S., cite this sector as most likely to see the best opportunities for distressed M&A transactions. Second to energy, the real estate sector is the most valuable industry to distressed investors.

[Click here for a PDF of the complete report.](#)

Mr. Harris, chair of SRZ's business reorganization group and a member of the firm's executive committee, commented, "A steadily improving economy, coupled with a favorable financing environment, has resulted in a more limited range of distressed investment opportunities. Given the amount of money dedicated to this asset class, we expect prices to rise as a function of supply and demand."

The survey also probed participants on club deals, which are distressed-for-control deals formed among a bigger group of investors. While a minority (36%) of respondents took part in those deals, Mr. Freedman, SRZ M&A partner, commented, "In our experience in these settings, while governance and structuring issues require attention, they are generally readily resolvable. Debt-for-equity swaps resulting in control of operating businesses may pose more difficult issues, as investors may have significantly different cost bases and return expectations, leading to complex negotiations over governance and exit rights." Mr. Freedman focuses his practice on mergers and acquisitions, private equity and securities. He represents various well-known U.S. and offshore money managers in connection with a variety of acquisitions and control and non-control investments, including of companies engaged in financial restructurings.

As noted in the survey, “The volume of distressed transactions in commercial real estate (CRE) will be enhanced over the next few years by the gap that will exist between the prolific amount of CRE mortgage loans that mature and the refinancing proceeds that borrowers will be able to obtain when these loans become due,” said Mr. Lenobel, chair of the real estate group and a member of the firm’s executive committee and operating committee.

Earlier this year, SRZ expanded its London office with the addition of Mr. Declercq and Ms. Van de Graaff, who focus on cross-border insolvencies, European restructurings, distressed mergers and acquisitions, and debt trading. “Schulte Roth & Zabel attorneys are known for our multidisciplinary approach to matters, which allows us to give comprehensive representation and advice to investors in all manner of distressed situations,” commented Alan S. Waldenberg, chair of the firm’s executive committee and chair of the tax group, who regularly represents clients in M&A transactions, restructurings and workouts in the U.S., Europe and Asia.

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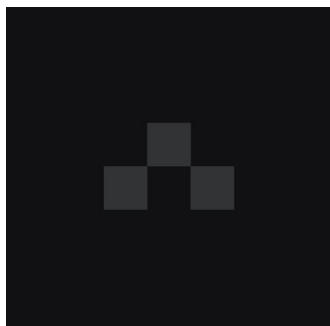
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