Restructuring advisers take their own medicine

BY ALEXIS ACOSTA

Bankruptcy and restructuring advisers make their livings rearranging assets or selling them, but last year, some of the firms they work for underwent their own overhauls.

Retooling took various forms. Some advisory firms bolstered their talent pool, while others wound down their operations. Some companies acquired rivals, as others either spun off restructuring units or divested pieces of them.

The maneuvers have increased because, in 2015, a few industries began to experience trouble. Bankruptcy filings in North America in the energy and mining sectors increased as commodity prices fell. More problems may present themselves in 2016.

“There is a big anticipation of a robust restructuring market that will go on and, frankly, I agree,” said Perry Mandarino (seven active cases, 10th place among Non-Investment Bank professionals in The Deal’s Bankruptcy League Tables for the fourth quarter of 2015), the leader of PricewaterhouseCoopers’ U.S. Business Recovery Services. “It doesn’t mean that bankruptcies are going to increase to 2008 or 2009 levels, but I do think the level of restructuring will increase and when that happens, firms strategically look to make investments in a market that will be hot.”

For those advisory and law firms that see the restructuring opportunity ahead, the first inclination is to expand their professional rolls.

“When the need is about to increase, many players find themselves with benches that are not as strong as they need to be,” said Wayne Weitz, the managing director of the bankruptcy and restructuring group at EisnerAmper LLP, which hired him away from Gavin/Salmonese LLC in October. “As a result, firms are creating an environment that makes it attractive for professionals to make moves from one firm to another.”

The restructuring industry, which was going great guns in the latter part of the past decade, has gone through a serious lull since 2010, but many professionals expect those doldrums are over.

“As interest rates have (finally) started their inevitable rise, more companies that were on ‘amend and extent’ relationships with their lenders won’t be as fortunate,” asserted Weitz (16 active cases, placing him fourth among crisis management professionals while at Gavin/Salmonese, and with $54.1 billion in liabilities, ranking him 10th by volume.) “We expect the demand for our services to grow rapidly this year. Over the past five years, which were relatively slow for the restructuring industry, few firms added professional talent and many reduced their teams.”

Some firms are still in downsizing mode.

Mesirow Financial Holdings Inc., which hasn’t finished in first place in the investment bank category since the third quarter of 2008, made plans to wind down its consulting practice, Mesirow Financial Consulting LLC, after being unable to find a suitable acquirer or alternative solution for the practice.

Mesirow Financial Holdings officials didn’t respond to calls, but in August, spokeswoman Debbie Krieps told The Deal, “The synergies that were originally thought [to be present] didn’t materialize. [The] other overriding factor is that [consulting] has been a tough business.”

Starting the first quarter of 2015 in ninth place, Mesirow was able to move up to eighth by the second quarter, but dropped out of the standings in the fourth quarter altogether because it has only one active case, albeit a high-profile one, Caesars Entertainment Operating Co., which is why it did finish in 12th place by volume by virtue of Caesars’ $19.9 billion in liabilities.

Mesirow had actually burst onto the bankruptcy scene by acquiring the U.S. corporate recovery practice of KPMG LLP in 2004, and quickly vaulted to the head of its category. The passage of Sarbanes-Oxley reforms put pressure on KPMG and other auditing firms to divest their nonaudit businesses to avoid conflict-of-interest problems. The new restrictions on mixing audit and nonaudit work effectively bar

CONTINUED >
BANKRUPTCY LEAGUE TABLES

< PREVIOUS

test these firms from pitching for many assignments.

Meanwhile, Duff & Phelps Corp. spun off its Duff & Phelps Canada Restructuring Inc. unit, now known as KSV Advisory Inc., which became effective in July. In 2010, Duff & Phelps established a Canadian presence when it acquired Toronto-based independent financial advisory practice Cole & Partners and in 2011 acquired the Financial Restructuring Practice of RSM Richter Inc., which helped to build Duff & Phelps Canada Restructuring Inc.

Former RSM Richter managers Bobby Kofman, Mitch Vininsky, David Sieradzki, Robert Harlang and Peter Farkas joined Duff & Phelps as managing directors and now head KSV Advisory.

Despite parting with a sizable portion of its restructuring practice in Canada, Duff & Phelps still maintains a significant presence in the country.

“Duff & Phelps maintains core debt advisory, distressed M&A and corporate restructuring services in Europe, North America and around the globe,” said Bob Bartell, Duff & Phelps’ global head of corporate finance, in a statement.

Bartell noted that Brian Pawluck, a 30-year veteran of complex transactions and restructuring in the Canadian market, joined Duff & Phelps in November from PricewaterhouseCoopers to lead the Canadian restructuring practice.

Departing with a chunk of its Canadian business didn’t hurt Duff & Phelps too much in the standings. In the fourth quarter, Duff & Phelps Securities LLC finished 11th among investment banks in the number of active cases (6) and 23rd in volume ($2 billion).

Blackstone Group LP spun off its financial advisory business altogether. The New York firm, for years a dominant player among restructuring advisers, decided on Oct. 7, 2014, to part with that part of its business due to regulatory constraints. In a March 4 filing by a spun-off entity, PJT Partners Inc., with the Securities and Exchange Commission, Blackstone chairman and CEO Stephen A. Schwarzman stated, “The spinoff will free our advisory businesses from the current constraints on their expansion opportunities that have arisen from the growth and broadening of our asset management business. Our advisory professionals have been effectively precluded from competing for opportunities in many transactions where the potential for an investment by a Blackstone fund created an actual or perceived conflict of interest.”

Blackstone completed the spinoff in October. Blackstone’s subsidiaries Blackstone Advisory Partners and Park Hill Group LLC, a fund advisory business, were spun off into PJT Partners, which finished fourth among investment banks in the fourth quarter with 16 active cases and in second place by volume with $91.7 billion in liabilities.

Amid the rumbling of a resurgence in the restructuring business, one investment bank has been thrown into turmoil with its own reorganization.

In February, four Perella Weinberg Partners LP partners were dismissed for allegedly plotting to solicit colleagues for a new firm they were developing and breaching the client nonsolicitation covenant. After the termination, the partners did create a rival restructuring firm, Ducera Partners LLC. But Perella

CONTINUED >

LAW FIRM LEAGUE TABLES

<table>
<thead>
<tr>
<th>Law firm</th>
<th>No. of active cases</th>
<th>Avg. liabilities</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Akin Gump Strauss Hauer &amp; Feld LLP</td>
<td>66</td>
<td>$19.7</td>
<td>$1,037.9</td>
</tr>
<tr>
<td>2 Vedder Price PC</td>
<td>49</td>
<td>20.2</td>
<td>989.4</td>
</tr>
<tr>
<td>3 Dentons</td>
<td>86</td>
<td>10.8</td>
<td>925.5</td>
</tr>
<tr>
<td>4 Duane Morris LLP</td>
<td>126</td>
<td>7.3</td>
<td>925.1</td>
</tr>
<tr>
<td>5 Latham &amp; Watkins LLP</td>
<td>66</td>
<td>14.0</td>
<td>924.6</td>
</tr>
<tr>
<td>6 DLA Piper</td>
<td>115</td>
<td>8.0</td>
<td>915.5</td>
</tr>
<tr>
<td>7 Goulston &amp; Storrs PC</td>
<td>44</td>
<td>20.6</td>
<td>905.8</td>
</tr>
<tr>
<td>8 Orrick, Herrington &amp; Sutcliffe LLP</td>
<td>34</td>
<td>25.6</td>
<td>870.1</td>
</tr>
<tr>
<td>9 Debevoise &amp; Plimpton LLP</td>
<td>12</td>
<td>71.2</td>
<td>853.9</td>
</tr>
<tr>
<td>10 Chadbourne &amp; Parke LLP</td>
<td>24</td>
<td>35.5</td>
<td>851.7</td>
</tr>
<tr>
<td>11 King &amp; Spalding LLP</td>
<td>37</td>
<td>22.9</td>
<td>848.0</td>
</tr>
<tr>
<td>12 Ropes &amp; Gray LLP</td>
<td>14</td>
<td>59.9</td>
<td>839.0</td>
</tr>
<tr>
<td>13 Cleary Gottlieb Steen &amp; Hamilton LLP</td>
<td>10</td>
<td>81.2</td>
<td>812.1</td>
</tr>
<tr>
<td>14 Crawath, Swaine &amp; Moore LLP</td>
<td>6</td>
<td>134.1</td>
<td>804.3</td>
</tr>
<tr>
<td>15 Saul Ewing LLP</td>
<td>52</td>
<td>15.2</td>
<td>791.7</td>
</tr>
<tr>
<td>16 Godfrey &amp; Kahn SC</td>
<td>3</td>
<td>261.9</td>
<td>785.8</td>
</tr>
</tbody>
</table>

Source: The Deal LLC
Weinberg hasn’t taken the matter lightly, filing a lawsuit against its former partners—Michael Kramer, Derron Slonecker, Joshua Scherer and Adam Verost—in the New York State Civil Supreme Court in October for allegedly violating an employment agreement and seeks damages as well as disgorgement of all revenues, earnings, profits, compensation and benefits that the defendants have or may obtain as a result of such business practices. The partners shortly filed their own summons to commence a countersuit in November, citing a breach of contract and approximately $60 million owed in equity and compensation.

While the matter continued to make its way to court, Perella Weinberg on Jan. 7 officially hired Bruce H. Mendelsohn, former Head of the Americas Restructuring Group at Goldman, Sachs & Co. in a move to rebuild the firm’s restructuring services. The good news for Perella Weinberg is that lawsuits didn’t affect its overall standings too much. The firm finished 10th in the number of cases and 15th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standings.

But while some firms were lowering their profile in the restructuring business, others were expanding theirs, namely through hiring more people.

In June, Emeryville, Calif.-based Berkeley Research Group, known for various advisory services, including forensic accounting, acquired Capstone Advisory Group LLC to help bolster a number of its practices, including its restructuring and bankruptcy team.

Besides gaining a major debtor, Quicksilver Resources Inc., as a client, BRG found itself with quite a roster of hired guns. Before coming to BRG in June, managing directors Christopher Kearns and Mark Shankweiler figured prominently in the standings among crisis management professionals. Kearns had placed 12th among crisis managers and fifth by volume with $81.9 billion in liabilities, while Shankweiler place 18th overall and 14th by volume, with liabilities of $8.5 billion, only dropping two places in the number table and one spot by volume from the third-quarter standi

< PREVIOUS

CONTINUED >
with deep professional talent that can take on a full range of assignment in the restructuring and insolvency space.”

For the company as a whole, EisnerAmper had held steady throughout the year in second place when categorized as a non-investment bank. By volume, the company moved from ninth place in the first quarter to 11th place by the third. The firm ended the fourth quarter in third place in the crisis management firms standings and in eighth place by volume with $20 billion in liabilities. Weitz placing 16th with five active cases.

There were advisers, namely law firms, that grew by acquisition.

Dentons, for example, became the world’s largest law firm last year, with more than 7,000 lawyers globally, after starting off 2015 combining with one of the biggest law firms in China, Dacheng Law Offices.

Making less of a splash was Dentons’ stateside unit, Dentons US LLP, finalizing a merger in July with McKenna Long & Adridge LLP. Buying McKenna Long brought over many bankruptcy cases, such Suffolk Regional Off-Track Betting Corp., Innovative Candy Concepts LLC, Event Rentals Inc. and RadioShack Corp., and some $3.09 billion in debtor liabilities. It also resulted in more than 300 new employees. Among law firms, Dentons placed first with 204 active cases and third by volume with $92.5 billion in liabilities in the fourth quarter.

Another law firm giant, DLA Piper, also expanded globally last year, and its international footprint in the bankruptcy area grew with the addition in April of Canadian firm Davis LLP. The company will be known as DLA Piper (Canada) LLP. With Davis came major bankruptcy clients such as Shoreline Energy Corp. ($36.2 million in liabilities) as well as League Assets Corp., the largest active CCAA filing for the firm by virtue of its $474.7 million in liabilities. (DLA Piper also bolstered its stateside bankruptcy practice with the addition of former Gordon Silver partner, Eric Goldberg, in its Los Angeles office.) In the fourth quarter standings, DLA Piper placed fourth with 163 active cases and sixth with $915.5 billion in liabilities.

With more infrastructure for firms such as Dentons and DLA Piper in place, will more restructuring work come?

PwC’s Mandarino said he believes so.

“I think restructurings will be on the rise,” he asserted. “I think the gross number of restructurings, you may see more [of a] a higher percentage of defaults in senior and in bond issuances. Will they necessarily lead to a formal court proceeding? Unknown, but I believe the pure number of restructurings will increase and again you have oil and gas, you have energy, which is its own world. I think the retail sector will continue to be challenged. I believe the provider sector in healthcare, meaning hospitals, will be challenged. There have been a fair number of medical device companies that have filed or that are troubled. In gaming, municipalities, there is a fair amount of sectors that we are certainly paying attention to.”

And so will the firms that have made bets on their bankruptcy practices going forward. ■