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FTX: Army of professionals start sifting through the wreckage

As details start to emerge from the sudden and unplanned-for collapse of Sam Bankman-Fried's FTX crypto empire on 11 November, three themes are emerging:

1. Court documents and testimony continue to reveal the extraordinary chaos behind the bluster at the crypto exchange
2. A growing army of advisors is sifting through what is left of the group, often having to rebuild accounts and systems from scratch in order to produce reliable records
3. There could be a battle for control of the worldwide bankruptcy proceedings between the US court in Delaware and the regulators in the Bahamas, who crucially 'moved first'

How could a business worth US$40 billion, established three years ago, collapse to zero in a single day?

A good place to start is with the first day presentations by FTX's bankruptcy counsel, Sullivan & Cromwell, for the first court hearing on 22 November in front of Judge John Dorsey in the Delaware bankruptcy court.

Click on: http://globalturnaround.com/documents/FTXCh11FirstDayPleadings.pdf

The document details how the FTX group was spread across numerous jurisdictions, and it has a number of useful timelines. The unravelling really started in September, as investors and customers realised Bankman-Fried's various enterprises were more comingled than had generally been assumed. A liquidity crunch developed, culminating in the crypto equivalent of 'a run on the bank', as Sullivan & Cromwell's Jim Bromley later put it.

Another fascinating document is the first day pleadings prepared by the turnaround veteran brought in to sort out the mess, John Ray III.

Click on: http://globalturnaround.com/documents/FirstDayPresentations.pdf

In his 30-page pleading filed on 17 November, Ray wrote:

"Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here."

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Waiting game continues for Matalan

UK retailers have had a torrid time over the last few years, and the latest company to attempt a major restructuring is John Hargreaves's discount store group Matalan, which is seeking a buyer or backer.

The group has a total of around UK£700 million debt, leading observers to speculate whether it might be the latest UK shop chain to use a Scheme of Arrangement or Restructuring Plan.

Advisors are still locked in talks following a flurry of activity in September. At that point Matalan's founder indicated he would take part in some form of recapitalisation process, confounding expectations that he was stepping away from the business.

John Hargreaves said Matalan, which sells fashion and homeware from more than 200 stores, "has been in my DNA since the day I founded it in 1985".

> "I am stepping down as chair so that I can participate in the strategic sales process as a bidder."

"My intention is to be instrumental in positioning the business for long-term success," he added.

Matalan employs about 10,000 people and operates 230 UK stores as well as more than 50 overseas through franchise agreements.

Matalan's debt structure is complicated:

- UK£60 million of super senior debt
- UK£350 million of first lien senior secured notes maturing in January 2023
- UK£80 million of second lien secured bonds maturing in January 2024
- UK£50 million of subordinated unsecured notes – like equity
- Equity owned by family of John Hargreaves, founder

The 78-year-old, Monaco-based businessman lost a high-profile battle with UK tax authorities this year, leading some to question whether he would have the desire to inject more into the company he took private in 2006.

The Liverpool-based group is burdened with around UK£500 million of debt from an earlier recapitalisation and needs to refinance UK£350 million of this by 2023. The company managed to extend this date by six months to July 2023, suggesting that date is a deadline for a sale.

> The noteholders have also agreed to provide up to UK£200 million of financing to any party interested in buying the business.

If the sale process does not lead to a transaction, the noteholders have committed to an alternative recapitalisation plan that would "result in a material reduction of Matalan's debt" and an extension of the UK£350 million tranche of debt by more than four years, to September 2027.

Although the company has put itself up for sale, observers said the secured creditors had in effect forced its hand and would end up in control of the business if an alternative owner did not come forward.

The offer of a UK£200 million financing package by noteholders implies that any bidder would have to inject about UK£150 million of fresh equity in order to refinance the 2023 debt. In that scenario, the existing equity would probably be worthless.

> At play is a valuable and viable business.

Trading at Matalan has recovered well since the height of the pandemic, with the company reporting second-quarter sales this year of UK£286 million, up from UK£265 million last year, but a slight fall in profit as costs increased.

Matalan Firms & Faces

The company

The company was originally receiving corporate finance advice from Deloitte. It is also now receiving restructuring advice from Teneo, led by **Ben Davies**.

The company is represented by Clifford Chance, led by **Phillip Hertz** and **Emma Folds**.

Bantry Bay

In July Bantry Bay, a joint venture with Elliott, took out two RCF facilities and senior secured notes, and replaced them with one super senior of UK£60 million. Bantry Bay is represented by Fried Frank, led by **Ashley Katz** and finance partner **Neil Caddy**.

The first lien bonds

Clinton Ray of Perella Weinberg is advising the senior debt of UK£350 million together with Kirkland, led **Sean Lacey**.

The second lien bonds

The second lien bonds are represented by Houlihan and Freshfields, led by **Richard Tett**.

The equity and unsecured notes

The equity and unsecured notes are represented by Lazard and Paul Hastings.