

The Distressed Market: Polsinelli/TrollerBk Distress Indices and Latest Trends

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Outline

- First: Distress Indices and What They Tell Us
- Second: Trends in Single Asset Real Estate Bankruptcy Cases
- Third: Opportunities in Distressed Healthcare
- Ask Questions Whenever – Don't Wait Until the End

The Polsinelli/TrBK Distress Indices

- 3 Research Indices
- Reported quarterly at www.distressindex.com (30-45 days after end of quarter)
- Carefully Filtered Chapter 11 Filing Data as Business Intelligence
- Cited by Bloomberg, The New York Times, Wall Street Journal Online, The Deal, Healthcare M&A News, etc.

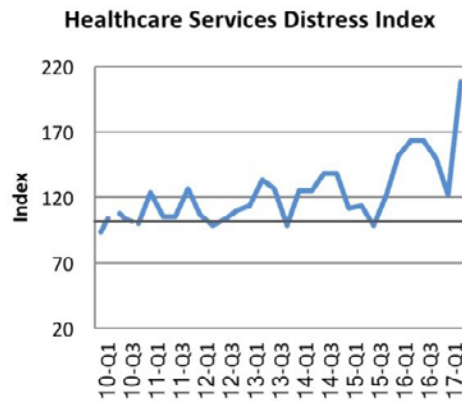
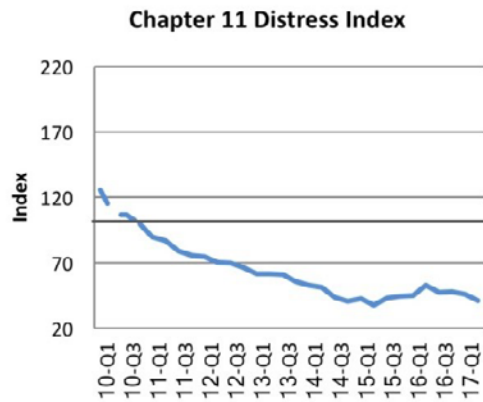
The Polsinelli/TrBK Distress Indices

- Where do we get the data? A contract with www.trollerbk.com



- Stats Professor analysis and scrub

The Polsinelli/TrBK Distress Indices



Polsinelli/TrBK Distress Indices
2nd Quarter 2017

Chapter 11 Distress
Index

40.90

Max: 100.00 in 10-Q4
Min: 37.81 in 15-Q2

Healthcare Services
Distress Index

208.33

Max: 208.33 in 17-Q2
Min: 98.33 in 12-Q2, 13-Q4, and 15-Q3

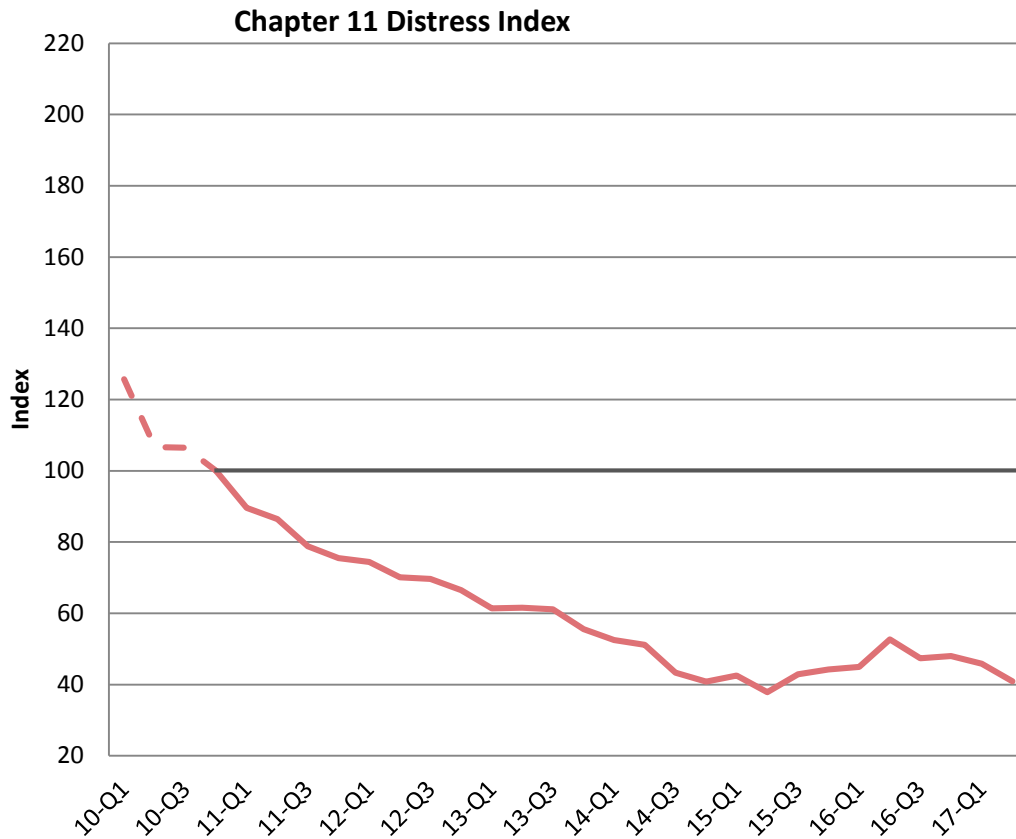
Real Estate
Distress Index

25.07

Max: 100.00 in 10-Q4
Min: 24.22 in 16-Q3

The Polsinelli/TrBK Distress Indices

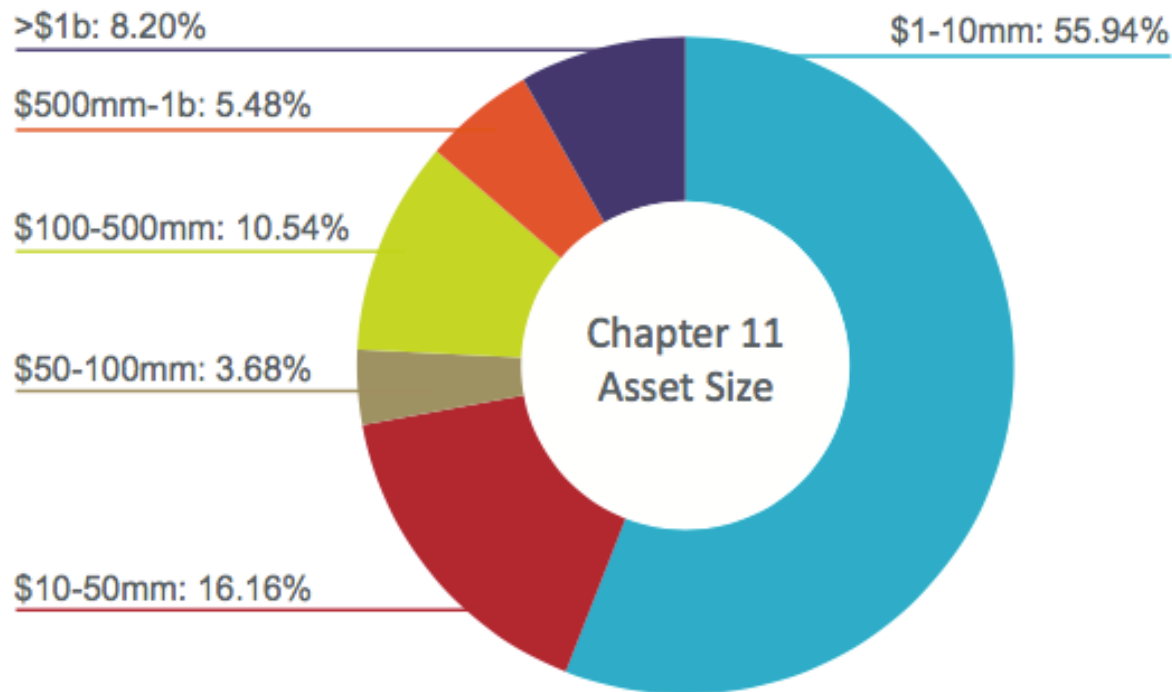
- The Chapter 11 Distress Research Index



Current	Last	1 Year
40.90	45.85	52.68

The Polsinelli/TrBK Distress Indices

- Getting Granular - Chapter 11 Distress Research Index by Asset Size





The Polsinelli/TrBK Distress Indices

- So What?
 - Removing the Noise
 - Main Street, Not Wall Street
 - Contrarian
 - Significant distress in Healthcare

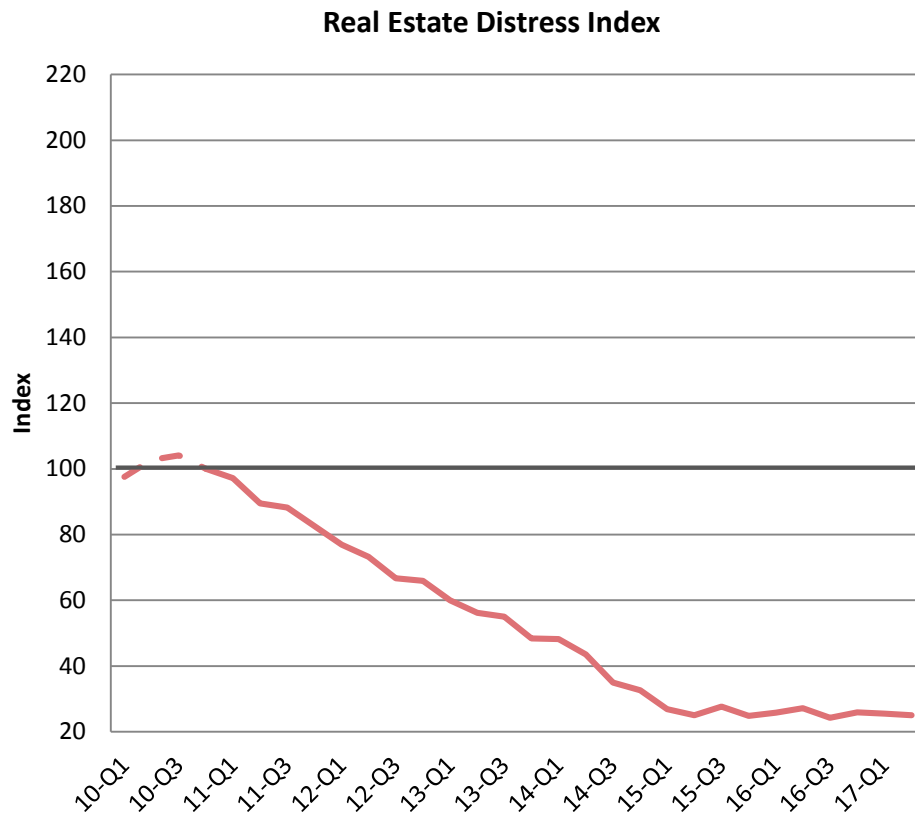


The Polsinelli/TrBK Distress Indices

- Indices as one indicator of US economic cycle
- Ability for buyers to find deal flow at value pricing

The Polsinelli/TrBK Distress Indices

- Real Estate Distress Research Index



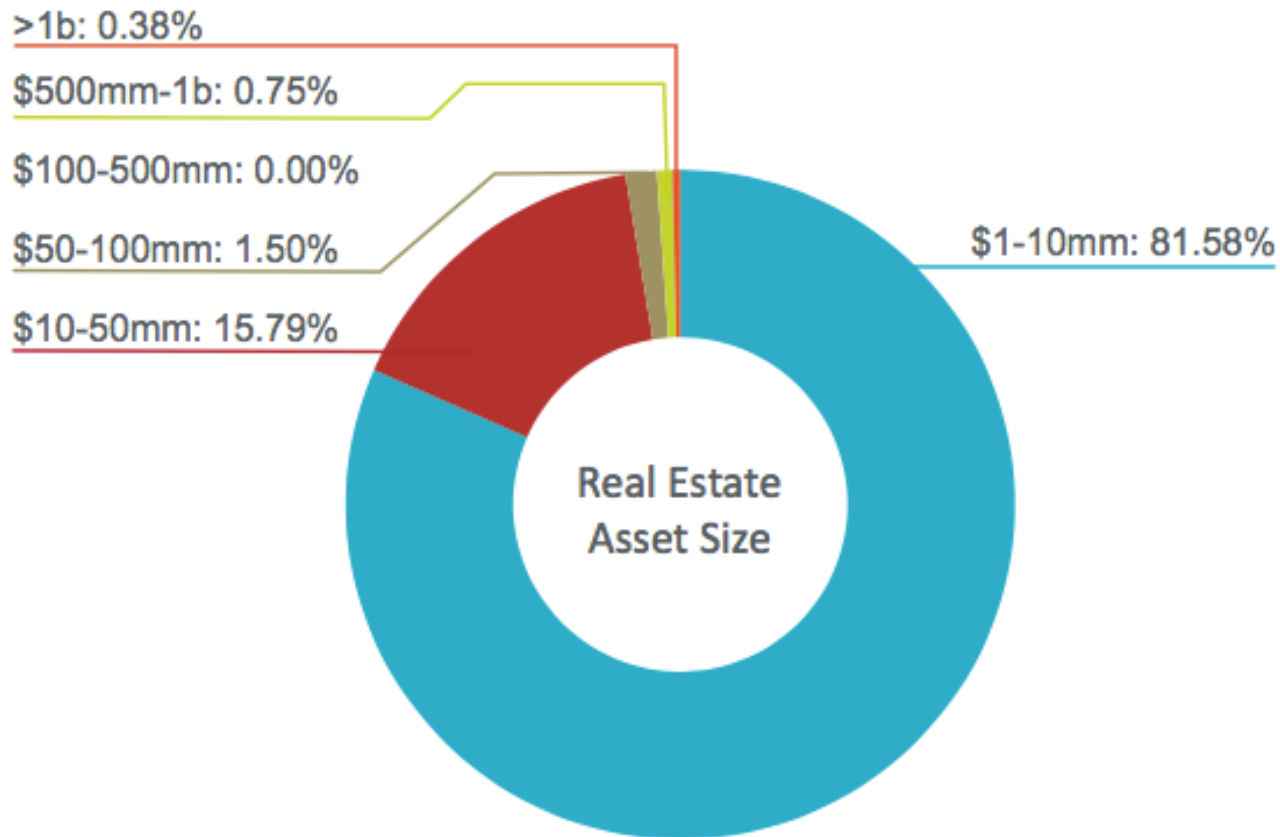
Current	Last	1 Year
25.07	25.54	27.14

The Polsinelli/TrBK Distress Indices

- What counts as Real Estate?
 - Single Asset Real Estate (SARE) – Office, Multifamily, Commercial, Retail, some Hospitality
 - Operating businesses owning real estate generally excluded
 - Proxy (SARE cases are a proxy for the distress being experienced in the wider, general real estate market)

The Polsinelli/TrBK Distress Indices

- Real Estate by Asset Size:



SARE Report

- In June of this year, Polsinelli/TrBK issued a special report: *Outcomes in Single Asset Real Estate (SARE) Chapter 11 Cases*. The co-authors of the Report were Jason Nagi in our New York office, James Billingsley in our Dallas office, and Jay Switzer in our Chicago office.
- In the Report, we analyzed 228 debtors in 2015 falling within the above criteria.

SARE Report

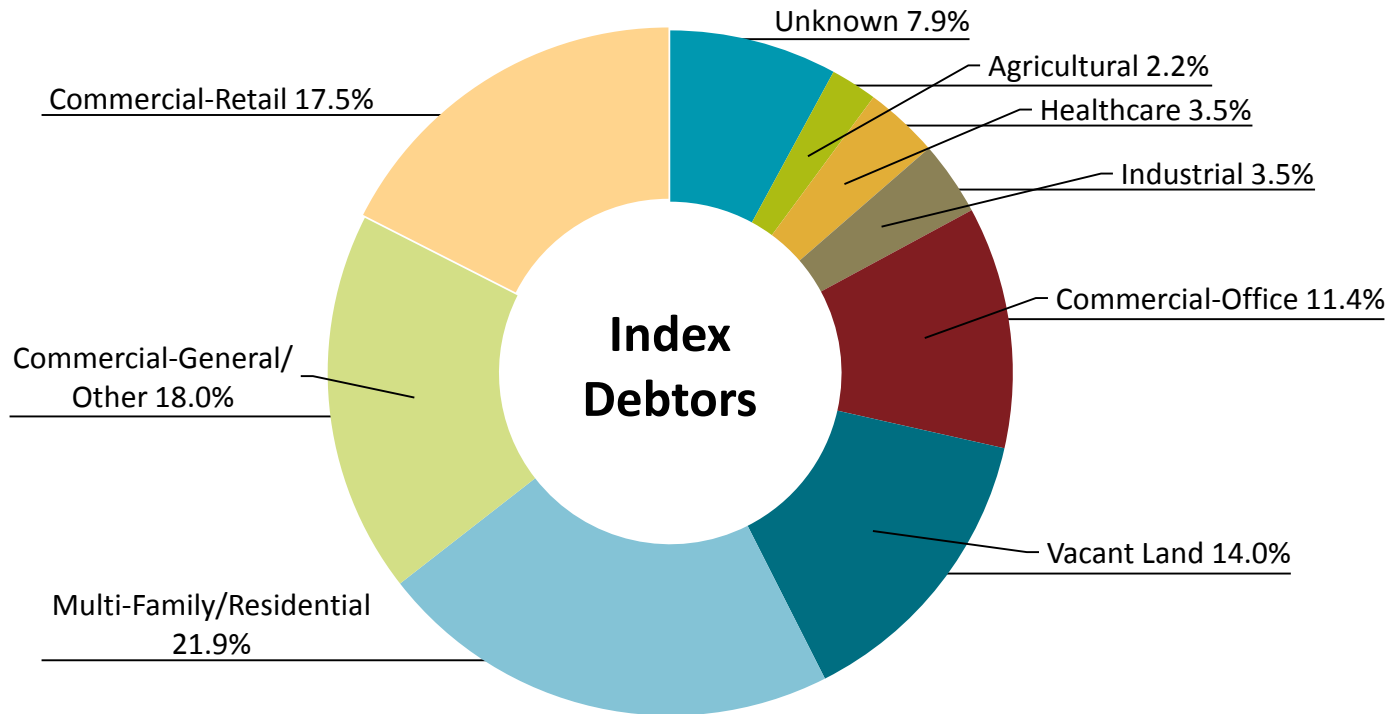
- We first examined publicly filed and available bankruptcy documents of the Index Debtors to determine the types of properties involved.
- Second, we reviewed those filings to determine the outcomes for the Index Debtors and the remedies of debtors, lenders and other market participants used to achieve those outcomes.

SARE Report

- Third, we formulated averages and other analyses of the cases to provide an overall, market-wide perspective of the outcomes.
- Approaching the Chapter 11 filings in this manner allowed us to calculate: (1) the percentage of the Chapter 11 cases involving each type of property; (2) the percentage of the Chapter 11 cases in which each form of relief was requested and granted/denied; and (3) the average number of days from the filing of the Chapter 11 case (known as the “petition date”) that each form of relief was requested and granted/denied.

Outcomes in SARE Cases

- The percentages of the Index Debtors' cases filed by property type were as follows:



Outcomes in SARE Cases

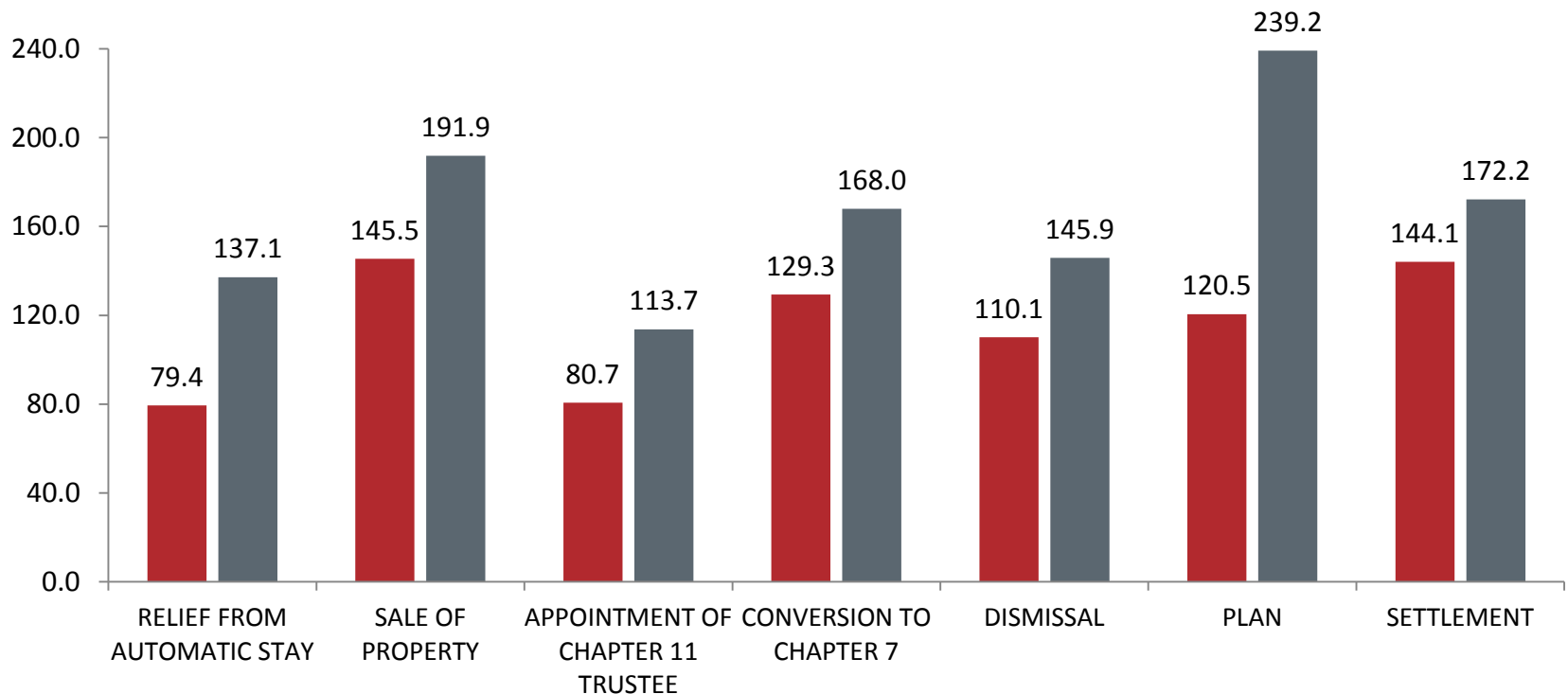
- The percentages of the Index Debtors' cases by relief sought, and the percentages and total number of cases in which such relief was granted were as follows:

Relief Sought	Percentage of Cases In Which Relief Was Sought	Success Rate
Relief from Automatic Stay	46.9%	63.2%
Sale of Property	24.6%	89.1%
Appointment of Chapter 11 Trustee	10.5%	66.7%
Conversion to Chapter 7	19.3%	40.0%
Dismissal	62.3%	83.7%
Plan	39.5%	70.0%
Settlement	4.0%	100%

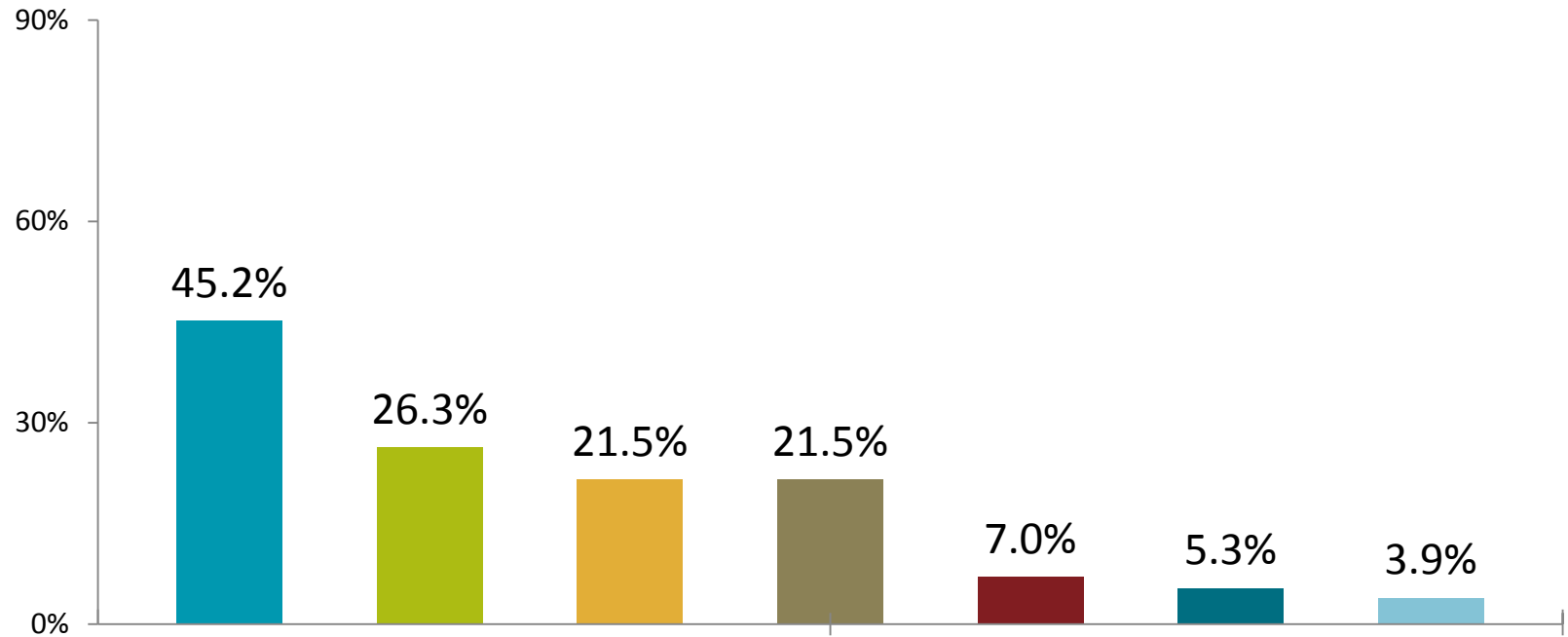
Outcomes in SARE Cases

- The average days after the petition date that each type of relief was sought, and granted or denied, were as follows:

■ Average Days After Petition Date Relief Was Sought
■ Average Days After Petition Date Relief Was Granted/Denied



SARE Observations



■ Case dismissed

■ Plan confirmed

■ Case converted to Chapter 7

■ Formal Settlement Approved

■ Relief from automatic stay granted

■ Debtor sold, or was given opportunity to sell property

■ Chapter 11 trustee appointed

SARE Observations

- On average, secured lenders filed motions for relief from stay approximately **79.4 days after the petition date**.
- The average time by which debtors filed a plan of reorganization was **120.5 days after the petition date**.
- Motions for relief from the automatic stay and/or dismissal were granted in **71.5% of the Chapter 11 cases**.
- In contrast, **21.5% of the Chapter 11 cases** were resolved by way of confirmation of a plan of reorganization. In those cases where a plan of reorganization was actually filed, approximately 70.0% resulted in confirmation of a plan.

SARE Observations

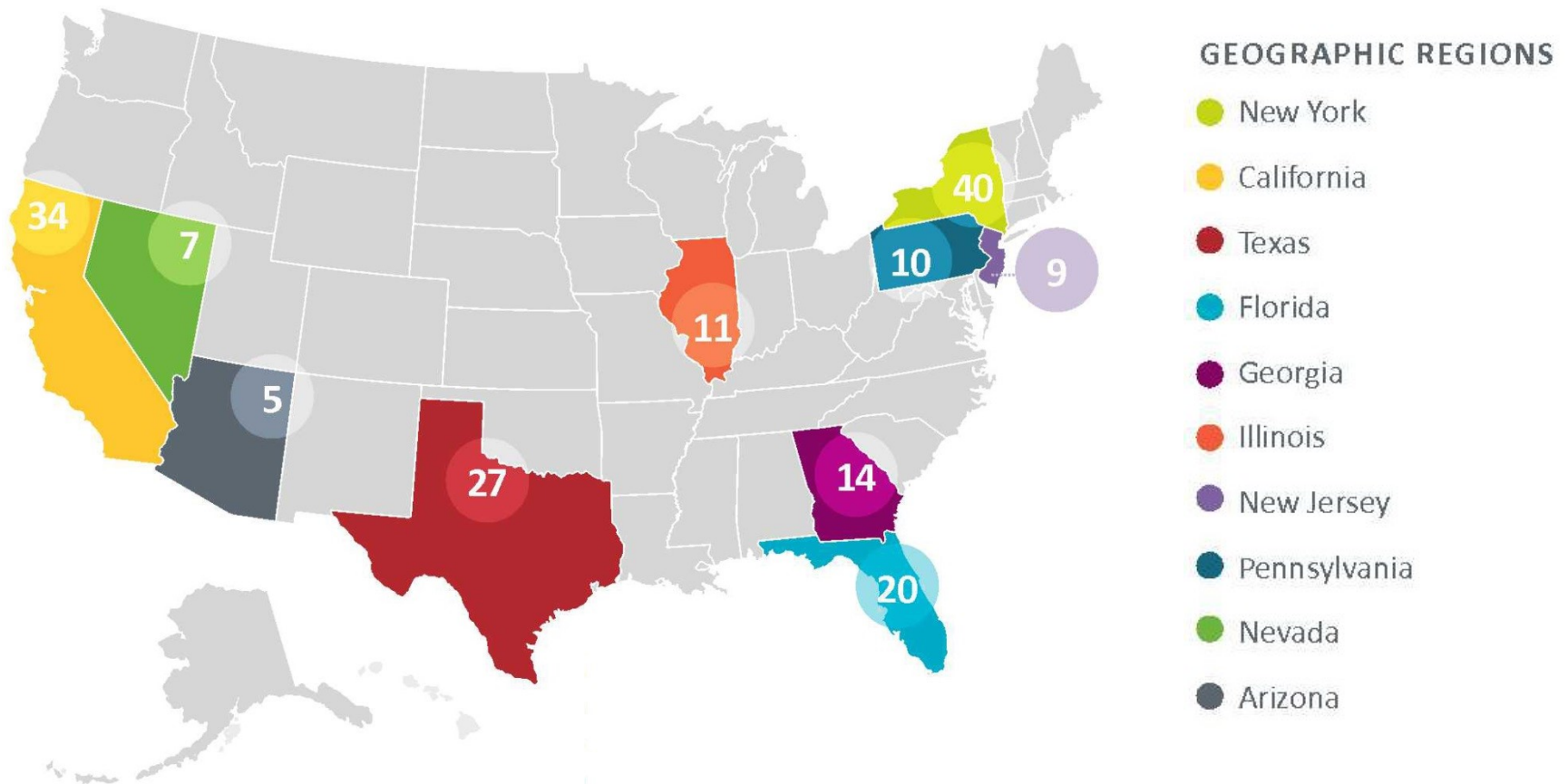
- In **21.5% of the Chapter 11 cases** of the Debtors, the debtor was able to sell, or was given the opportunity to sell, the property.
- Only **5.3% of the Chapter 11 cases** resulted in the appointment of a Chapter 11 trustee; only **7.0% of the Chapter 11 cases** resulted in conversion to Chapter 7.
- Only **3.9% of the Chapter 11 cases** were resolved pursuant to a formal settlement agreement approved pursuant to Bankruptcy Rule 9019.

SARE Observations

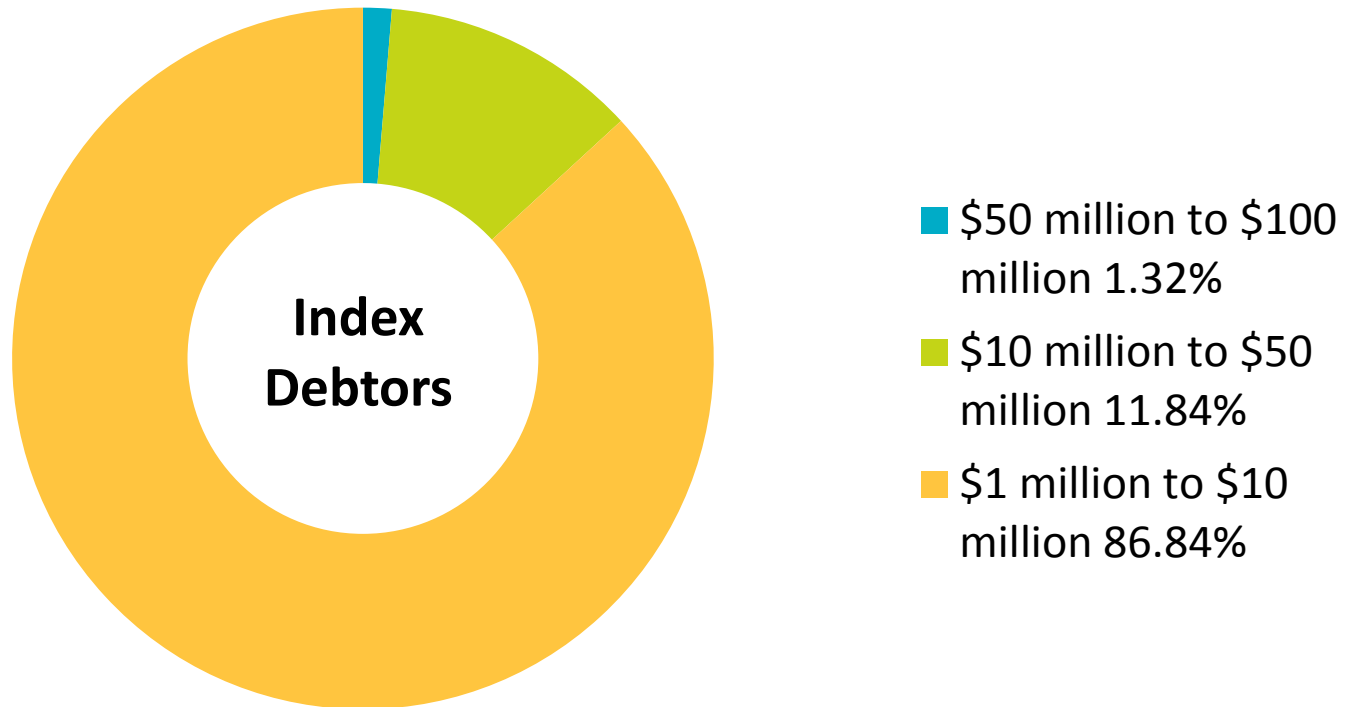
- Major takeaway is that in vast majority of the cases, the subject property was sold either during the course of the case, after dismissal or stay relief was ordered and the lender was able to complete the underlying foreclosure.
- Seldom was the Debtor able to retain its property.

Case Size and Geographic Dispersion

- The Index Debtors filed cases in thirty-three (33) different states. The top ten (10) states in terms of the number of filings were as follows:



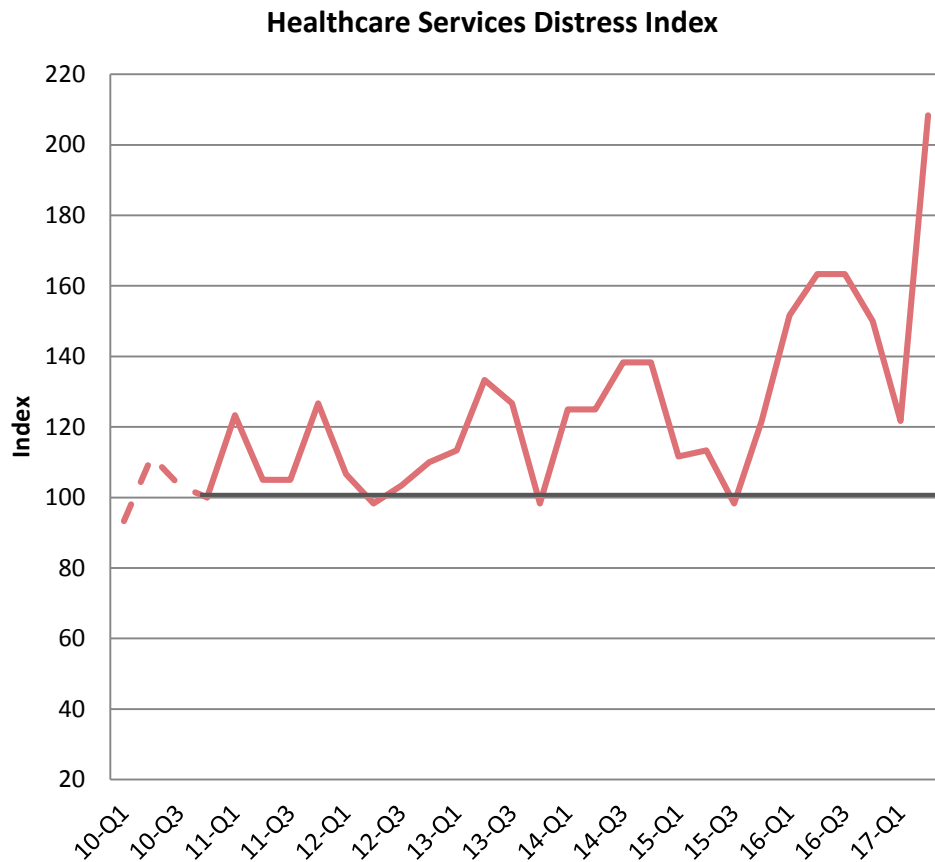
Case Size and Geographic Dispersion



- Overwhelming majority of cases were at the low end of the value spectrum, with only a handful of cases in the \$10-\$50 million and \$50-\$100 million ranges.

The Polsinelli/TrBK Distress Indices

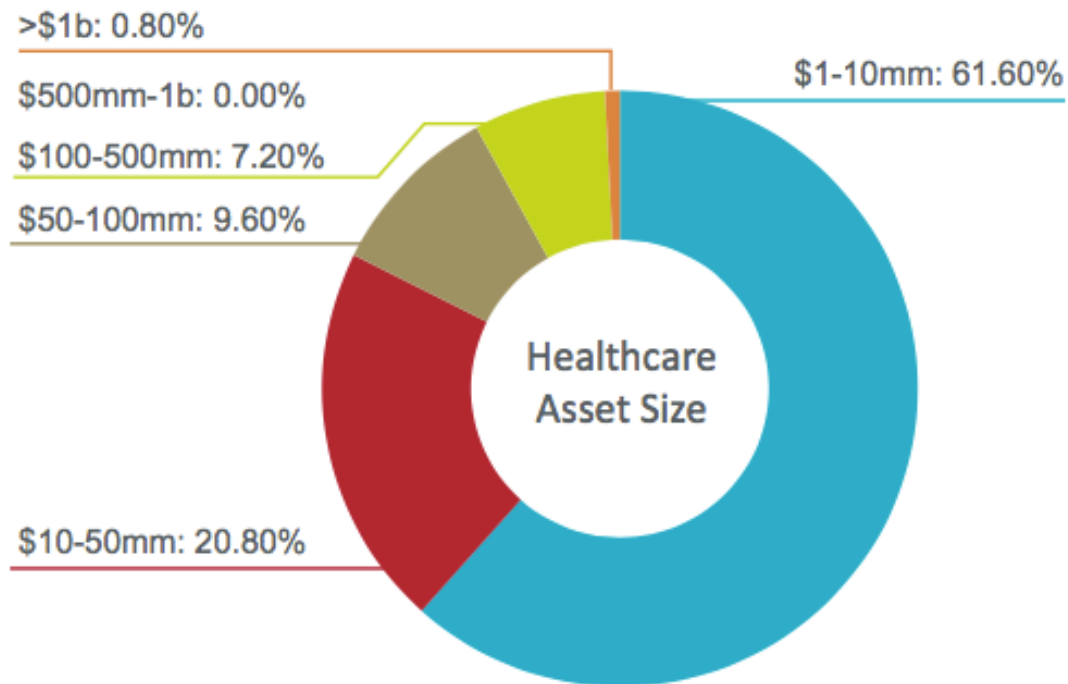
- The Healthcare Services Distress Research Index



Current	Last	1 Year
208.33	121.67	163.33

The Polsinelli/TrBK Distress Indices

- What counts as “Healthcare Services”?
 - Emphasis is Patient Care
 - Excludes Life Sciences (Biotech, Pharma, DME, Tech)



The Special Report on Causes of HC Distress

- Spent 6 months looking at all companies in the 2014 Healthcare Services Index (83)
- Examined the reasons they cited for distress
- Categorized the causes based on the data: no presuppositions
- Total of 15 causes, plus other and unknown
- Released in August 2015
- Will be updated October 2018 with 2016 data

The Special Report on Causes of HC Distress

- Top 8 Causes:

CAUSES BY CATEGORY	PERCENTAGE OF INDEX COMPANIES CITING CAUSE*
Tort Litigation	24.10%
Payment Delay	21.69%
Bad Merger/Overexpansion	20.48%
Labor/Employee Litigation	20.48%
Management Issues	20.48%
Reimbursement Changes	20.48%
Rapidly Changing Healthcare Environment	18.07%
Tax Judgments/Liens	18.07%

**Note that most of the Index Companies cited more than one reason for their Chapter 11 filings, whether two, three, or as many as four reasons.*

The Special Report on Causes of HC Distress

- **Takeaways:**
 - The vast majority listed more than one cause for financial plight. 1-4 causes each, almost in even quartiles:

NUMBER OF CAUSES	PERCENTAGE OF INDEX COMPANIES CITING NUMBER OF CAUSES
1 Cause	22.22%
2 Causes	32.10%
3 Causes	19.75%
4 Causes	25.93%

The Special Report on Causes of HC Distress

- Takeaways:
 - On combined basis, Payment Delay and Reimbursement Changes cited 41% of the time (only overlap once).
 - Affordable Care Act was not singled out as the cause of financial distress except in a few cases.
 - Regulatory Enforcement Litigation registered at number 11 out of 15 total causes, being cited by only 12.05% of Index Companies.

The Special Report on Causes of HC Distress

- Takeaways:
 - Number and variety of causes: 15
 - Difference between the leading cause, Tort Litigation (cited by 24% of Index Companies) and the seventh and eighth leading causes, Rapidly Changing Healthcare Environment and Tax Judgments/Tax Liens (tied at approximately 18%), was only 6%.



The Special Report on Causes of HC Distress

- Takeaways:
 - Management Issues were cited as one of the top causes.

The Special Report on Causes of HC Distress

- Takeaways:
 - What's happening in healthcare?
 - Where are the opportunities?

The New Distress Indices, and Causes of HC Distress



Questions?






The Polsinelli/TrBK Distress Indices

- Next Report – 3Q-2017

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or

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