

QUESTION ONE

With a recent spike in insolvencies across the globe, do you believe the numbers of distressed companies will increase in the coming year? How will your firm be assisting?

The emergency caused by Covid-19 has caused an economic crisis that has overwhelmed companies, which face the suspension of activities, with a consequent paralysis of all economic movements. Only a small number of companies managed to seize new opportunities deriving from the conversion of plants for the production of "essential" products (personal protective equipment) or from the adoption of new business initiatives and/or to benefit from operating in sectors on which Covid-19 did not produce significant impacts.

The number of companies in difficulty could still increase in the year ahead, with the cutting of state subsidies and specific economic measures, given the temperament of the restrictive measures previously adopted, and without prejudice to the obligations to which companies are bound regarding a fiscal profile.

It is clear that this is already leading to an increase in inflation (especially as regards the raw materials sector) and interest rates.

In consideration of this, the best advice that can be given to a company today in order to implement the profitability of its business are the following:

- Ability to innovate: evolve its offer on the market and coherently adapt its operating model;
- Geographic expansion: look at foreign markets to grow and diversify
- Strengthening of equity: if company liquidity allows businesses to support themselves to manage the operational and upcoming cash needs, a primary instrument to help will be offering equity.
- To make this objective concrete companies will certainly have to focus on reducing their exposure to third parties, with debt consolidation and implementation of capitalization strategies, also through extraordinary corporate transactions and more structural interventions (e.g. strategic alliances, M&A).

QUESTION TWO

Why is Chapter 11 an attractive restructuring tool for international companies and your clients?

Chapter 11 of the US Bankruptcy Code is a method of resolving the corporate crisis that provides for a corporate reorganization plan in which the creditors are to be satisfied and at the same time to keep the business activities without the bankruptcy envisaged by the Chapter 7.

During the procedure, the debtors retain possession of the assets and at the same time the creditors cannot attack them. The procedure provides for a plan to be presented to satisfy the creditors, even partially, or to divide the creditors into classes.

The proposed plan will then have to be approved by the majority of creditors and also approved by the court, which will assess even if no rules have been violated and that the debtor has maintained good faith and in case of opposition it will have to be assessed whether the proposed plan for the creditors would be satisfied.

Chapter 11 is used under different names all over the world. In Italy, for example, it is called the "arrangement with creditors"



Alessio Masala
Associate, Paoletti
Legal Consultants LLP

+39 0693 188 588
am@paoletti.com
paoletti.com/alessio-masala

www.paoletti.com

Alessio Masala is a qualified lawyer and member of the Bar Association of Rome and has practiced both criminal and insolvency law.

In 2019, he co-founded FIAP, the Italian Heavy Athletics Federation of which he is currently President and for which he oversees relations with the highest Italian sports bodies. In 2020, he became DPO (Data Protection Officer) with the passing of the enabling Eipass exam and since then he has been managing relations with the Privacy Guarantor for SMEs.

Alberto has been a member of the Bar Association of Messina since 2014.

Having always been involved in civil law and contracts, with particular interest in commercial and corporate law at big law firms in the sector, in 2015 he attended the Master in Corporate Law and the Master Course in Intellectual Property Law,

Alberto Bruno
Associate, Paoletti
Legal Consultants LLP

+39 0693 188 588
ab@paoletti.com

www.paoletti.com

Competition and Communications at the Luiss Guido Carli University in Rome.

Alberto has experience in commercial law, in an extrajudicial context, dealing with the drafting and review of contracts, and in a judicial context (so-called litigation), dealing with the drafting of court documents and managing litigation.

We use our knowledge and experience to provide practical legal assistance and open, accessible support our clients rely on for their businesses' success.

We specialize in corporate and commercial law and we have been working at an international level for more than 20 years. We defend the interests of our clients at each stage of a company's life cycle – from setting-up to expansion abroad – through focused and dedicated legal advice.

Our corporate law professionals include specialists in joint ventures and mergers and acquisitions who manage transactions around the world. We also execute reliable due diligence reviews as well as manage regulatory and compliance matters for our M&A clients, ensuring deals close in a timely manner with our clients' interests always secured.

If you want to do business abroad, you need more than just a good knowledge of the market. You need to know the legislation in the country of destination to protect your investments and avoid mistakes that could derail the entire operation.

This is why we have chosen to join IR Global. This membership enables us to offer a high-quality service at a lower cost compared to traditional law firms.

and in France similar procedures have been established with the "Redressement Judiciaire".

In all cases, the goal is always to keep the business active and allow the entrepreneur to give value to their assets and satisfy creditors without falling into liquidation

How then to improve the efficiency and value of corporate assets to achieve better creditors' satisfaction?

Through an evaluation of these 3 points:

- Preparation of quality and performance standards;
- Analysis of assets and their functioning;
- Identification of weak assets and correction or elimination of the same.

For example, this system will be particularly useful in IT

companies in which the functioning of the machines will be analyzed in search of the less performing ones to start a modernization process that increases their value in case of sale.

QUESTION THREE

What are the trends and opportunities regarding distressed businesses in your jurisdiction? What advice are you giving clients to take advantage of the distressed environment?

In Italy, the greatest opportunity for companies in crisis is to

TOP TIPS

On restructuring processes for distressed companies – and the potential opportunities for businesses

- ✓ Ability to innovate: evolve its offer on the market and coherently adapt its operating model;
- ✓ Geographic expansion: aiming at foreign markets to grow and diversify;
- ✓ Strengthening of the equity component: if the company liquidity allows companies to support themselves to manage the operational and upcoming cash needs, it is evident that the primary instrument can only be the equity component;
- ✓ Digitization and investment in technological supports;
- ✓ Customer analysis to understand the reasons for their purchase;
- ✓ Updating and streamlining of the sales process aimed at: reduce the average time of each negotiation; anticipate all objections; stand out from the competition; cross-sell or up-sell; favor the loyalty process; stimulate word of mouth.

exploit the resolutions contained in the code of the business crisis. This provides for the possibility of contacting the OCC (organizations for the settlement of the business crisis), which recognizes certain types of entrepreneurs, the possibility of liquidating the debtor's assets and of selling the assets and ceasing the business activity. It also recognizes the use of the minor agreement through which the entrepreneurial activity does not cease despite the sales of assets, along with a debt restructuring plan in which the intervention of the OCC and the court is required.

The current distressed business climate delivers some fundamental lessons: the need for international coordination for the definition and implementation of measures to combat the crisis is undoubtedly clear. International collaboration is also essential to mitigate the risks deriving from geopolitical tensions at a global level, accentuated by the Covid-19 crisis, the UK's exit from the EU and the current conflict in Ukraine.

In this sense, the company mergers and incorporations will be significant. It must be clear to entrepreneurs that "palliative" interventions (non-repayable contributions or subsidized finance) are not the solution to ensure the solidity of the company in the "new normal" post Covid-19 era.

It will be necessary to acknowledge that, especially for small and medium-sized enterprises, capital strengthening will be necessary through structural interventions. This can take place, if not through capital increases, then with aggregation actions that allow you to enhance your corporate interest, transforming it into a shareholding in companies larger in size.