

ESCP AIS x TU Investment Club: Distressed Investing

- Educational Presentation #15 – Distressed Investing
- 27. Oct. 25
- Property of the ESCP Alternative Investment Society and the TU Investment Club
- Sources: The Credit Investor's Handbook, Investopedia, Bloomberg, Hedgeweek, FT, FitchRatings, Reuters

Section I: Introduction and Overview

Overview of Distressed Investing

- Distressed Investing involves acquiring the debt or equity of financially troubled companies trading at significant discounts
- The goal is to profit from recovery, restructuring, or asset value realisation once the company stabilises

Distressed Investing ≠ Traditional PE / Equity Investing



Distressed Investing

Targets companies in financial or operational distress

Focuses on debt instruments (bonds, loans, claims) often converted into equity

Returns driven by recovery, restructuring or turnaround

Involves high legal, credit, and operational risk

Traditional PE/ Equity Investing

Targets profitable or growing companies

Focuses on equity ownership from the outset, emphasising growth and operational value

Returns driven by growth, expansion, and multiple arbitrage

Involves market and execution risk, but lower credit risk

Section II: Analysis of Distressed Investments

Qualitative Layer: Industry and Business Risk Analysis

Industry-level risks (External)

- Cyclicalities – sensitivity to economic downturns
Example: Airlines and construction sectors contrast sharply during recessions
- Regulatory pressure – new policies or restrictions
Example: Stricter emissions standards increase costs for energy firms
- Market competition – limited pricing power
Example: Fast fashion retailers face price wars and margin compression
- Technological disruption – innovation risk
Example: Traditional taxis losing share to ride-hailing platforms
- Commodity exposure – volatile input costs
Example: Rising oil prices inflate logistics and airline costs

Business specific risks (Internal)

- Management & strategy – poor leadership or failed expansion
Example: Overleveraged acquisitions leading to poor integration
- Operational inefficiency – high fixed costs
Example: Outdated manufacturing systems reducing cost flexibility
- Customer/product concentration – reliance on few revenue sources
Example: Semiconductor suppliers dependent on Apple contracts
- Leverage – excessive debt amplifies losses
Example: Real estate developers with high leverage during rate hikes
- Governance – weak internal controls or oversight
Example: Accounting misstatements at corporate subsidiaries

Key takeaway:

Distinguishing between industry and business risk helps investors understand whether distress is caused by external market conditions or internal weaknesses, determining the potential for recovery

Qualitative Layer: Business Strategy Analysis

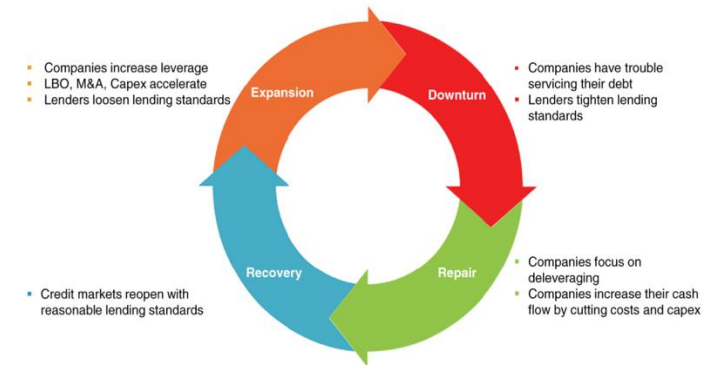
SWOT Analysis:

Strengths	Weaknesses
Established market position, operating efficiency, scale advantages	Elevated leverage, high fixed-cost base, execution risk on M&A
Opportunities	Threats
Asset acquisitions in dislocation, cost rationalization, liquidity release	Credit tightening, weaker demand, spread widening across sectors

Porter's Strategies:

- **Cost Leadership:** Focus on scale and cost efficiency, profitability declines when volumes contract and leverage remains high
- **Differentiation:** Relies on brand or product premium, pricing power weakens as demand and credit conditions tighten
- **Focus:** Targets specific markets or customer segments, exposure rises when those areas face cyclical or credit stress

Connecting Business Strategy – Credit Cycle



Conclusion:

- The goal of business strategy analysis is to understand how a company competes and whether its strategy is sustainable through the credit cycle
- Cost leadership, differentiation, and focus strategies influence margin stability, pricing power, and leverage capacity
- Linking SWOT and competitive positioning helps analysts judge if a company's strategy can withstand market tightening or amplifies risk when credit turns

Qualitative Layer: Management Assessment & ESG

Management Assessment

- **Purpose:** Evaluate management's ability and willingness to protect creditors' interests

Area	What to look for
Credibility and Transparency	Clarity of reporting, timely disclosure, realistic guidance
Incentive Alignment	% management equity ownership, debt-linked comp, payout policy
Track Record in Stress	Past restructurings handled without default, liquidity management
Governance and Controls	Board independence, internal audit quality, control failures
Strategic Discipline	Capex discipline, M&A integration history

ESG

- **Purpose:** Identify ESG-related risks that could materially impact cash flow, reputation, or access to capital
- Focus on how environmental, social, or governance risks could affect regulation, cost structure, or investor perception

Dimension	Credit Relevance
Environmental / Regulatory	Regulatory exposure can tighten liquidity or raise costs
Social / Reputational	Impacts brand equity, top-line stability
Governance	Weak oversight can mask leverage or risk transfers
Disclosure	Transparency is tied to investor confidence and pricing

Quantitative Layer: Financial Statement Analysis I.

- Profitability ratios are the starting point for identifying declining efficiency, deteriorating margins, and early signs of distress
- Persistent margin compression and declining returns often signal distress years before liquidity crises
- Profitability analysis shows whether a company's core operations remain viable post-restructuring

Most important metrics:

Metric	Formula	Distress Interpretation
Gross Margin	$(\text{Revenue} - \text{COGS}) / \text{Revenue}$	Compression → pricing pressure, poor cost control
Operating Margin (EBIT)	$\text{EBIT} / \text{Revenue}$	Decline → inefficiency, weak cost structure
Net Margin	$\text{Net Income} / \text{Revenue}$	Often negative in distress, signals unsustainable leverage
ROA / ROE	$\text{Net Income} / \text{Assets or Equity}$	Decline → capital inefficiency, erosion of shareholder value

Quantitative Layer: Financial Statement Analysis I. (continued)

- After identifying surface-level margin trends, the next step is to dig into underlying drivers – how reported profits differ from true, recurring performance
- Profitability analysis then involves adjusting and interpreting financial data to assess earnings quality and sustainability

Detailed Profitability Analysis – 6-Step Framework

Step	Description
1. Adjust Reported Figures	Remove nonrecurring items (asset sales, restructuring costs, write-downs) to reflect normalized earnings
2. Build Adjusted Income Statement	Summarize 3 - 5 years of historical performance, including at least one full economic cycle for cyclical sectors
3. Assess Earnings Quality	Identify accounting red flags: aggressive revenue recognition, frequent one-offs, inconsistent margins
4. Benchmark vs. Peers	Compare adjusted metrics against competitors to isolate company-specific vs. industry-wide issues
5. Draw Conclusions	Evaluate margin trends, sustainability of profitability, and main drivers of improvement or decline

Quantitative Layer: Financial Statement Analysis II.

- Evaluating cash flow and liquidity is a core part of financial statement analysis in distressed investing – how long a company can operate without new funding
- Linking liquidity trends with the debt-maturity profile reveals when cash and credit capacity can no longer cover obligations, marking the shift from stress to financial distress

Example: From Stressed to Distressed Territory

Metric	2022	2023	2024	Interpretation
Cash & Equivalents (\$m)	180	125	95	Declining balance leads to tightening liquidity
Undrawn RCF (\$m)	100	80	60	Limited headroom for contingency funding
Total Liquidity (\$m)	280	200	150	Liquidity runway < 12 months at current burn
FCF (\$m)	45	-30	-65	Transition from positive to negative leads to distress phase
WC Change (\$m)	-10	-35	-25	Receivable buildup, supplier stretch
Capex (\$m)	60	55	40	Reduction indicates defensive cash preservation
Debt Maturing < 2 yrs (\$m)	250	310	420	Front-loaded maturity wall creates refinancing risk

Interpretation: Debt Maturity Schedule

Year	Debt Due(\$m)	Interpretation
2024	250	Front-loaded maturities; high refinancing risk
2025	310	Concentrated short-term obligations
2026	420	Exceeds current liquidity capacity

Free Cash Flow & Liquidity Dynamics:

- 2024–2026 maturities represent > 70% of total debt
- Near-term refinancing is unlikely without equity injection or asset sales
- Negative FCF indicates self-funding is no longer viable
- Liquidity burn suggests runway < 12 months
- Declining WC efficiency (receivable buildup, stretched payables) implies operational strain

Quantitative Layer: Financial Statement Analysis II.

- Liquidity analysis also examines the underlying drivers of cash deterioration – how operational performance, financing, and management affect funding capacity
- Assessing working-capital dynamics, refinancing ability, supplier terms, and capex flexibility helps determine whether liquidity pressure is temporary or a sign of structural distress

Example (continued): Liquidity Drivers and Credit Implications

Driver	Key Indicator	Liquidity Implications
Working Capital & Cash Cycle	Receivable buildup, supplier stretch	Slower cash conversion, weaker internal funding
Debt Capacity & Refinancing	Negative FCF, interest cover < 2x4	Dependence on external capital, refinancing risk rising
Trade Creditor Relations	Tightened terms, prepayment requests	Confidence erosion, accelerating cash burn
CapEx Management	Spending cut from \$60m to \$40m	Defensive cash preservation, minimal further flexibility
Other Levers	Asset sales, SG&A cuts, equity raise, covenant relief	Near-term liquidity boost, structural fixes still required

Conclusion: The interaction of operational drag, tightening credit terms, and limited refinancing options shows that liquidity pressure is now structural. With both internal cash generation and external funding channels exhausted, the company can no longer self-fund and has effectively entered financial distress

Quantitative Layer: Capital Structure

Capital Structure Analysis Steps

1. Lay out company's capital structure table
2. Calculate credit ratios
3. Adjust for note off-balance sheet and debt-like obligations
4. Understand the company's credit ratings (current, historical, trajectory)
5. Draw conclusions on capital structure

1. Lay out Company's Capital Structure Table

First step in the capital structure analysis is to draft a table that includes every debt instrument used to finance the company. The table is used to calculate ratios, show real-time valuations, and serves as a list of potential investments

Example:

	Amount (\$m)	Coupon	Maturity	Price (% of par)	YTM	Ratings (S&P / Moody's)	Leverage (LTM EBITDA)	LTV (%EV)
Revolver / Term loan	250	SOFR + 3.0%	2029	99.0%	6.0%	BB / Ba2	2.8x	40.0%
Unsecured bond	200	7.5%	2031	85.0%	11.2%	B+ / B1	4.3x	60.0%
Subordinated debt	100	10.0% (PIK Toggle)	2032	70.0%	15.0%	B- / B3	5.5x	75.0%
...	...	...	...	...	...	...	...	...

Quantitative Layer: Capital Structure

2. Calculate Credit Ratios:

Leverage Ratio: Measures debt relative to adjusted EBITDA. Shows how many turns of earnings the firm is levered to and helps compare risk across capital-structure layers

$$\text{Leverage Ratio} = \text{Debt} / \text{Adjusted EBITDA}$$

Loan-to-Value Ratio: Indicates how much of enterprise value is financed with debt. Higher LTV means less equity cushion and greater impairment risk if valuation falls

$$\text{Loan-to-Value Ratio} = \text{Debt} / \text{Enterprise Value}$$

Coverage Ratio: Tests whether operating cash flow covers interest after capex. Below 1x suggests insufficient funds and rising distress risk

$$\text{Coverage Ratio} = (\text{Adjusted EBITDA} - \text{Capex}) / \text{Interest Expense}$$

3. Off-Balance Sheet or Debt-Like Instruments

- Certain obligations, like leases, pensions, or guarantees, aren't booked as debt but still create binding cash outflows – raising true leverage and affecting recoveries in bankruptcy

Examples:

Leases: Contractual payments to use property, plant, or equipment for a fixed period. Even when not recorded as debt, lease obligations create future cash outflows similar to loan payments

Pensions: Promises of future employee payments under defined-benefit plans. Underfunded pensions represent legal, debt-like obligations that compete with other creditors in bankruptcy

Contingent Liabilities: Potential obligations (lawsuits, warranties, guarantees) that may or may not become actual liabilities. These exposures often sit off-balance-sheet but can suddenly crystallize, draining liquidity or triggering defaults

Quantitative Layer: Capital Structure

4. Credit Ratings

- Assess how agencies rate a company's probability of default and recovery, providing a common benchmark across issuers
- Because ratings are issuer-paid and backward-looking, analysts must use them as context and form an independent, forward view of credit quality

Well-known rating institutions:

Fitch	S&P	Moody's	Rating Grade Description (Moody's)	
AAA	AAA	Aaa	Investment Grade	Minimal credit risk
AA+	AA+	Aa1		Very low credit risk
AA	AA	Aa2		
AA-	AA-	Aa3		Low credit risk
A+	A+	A1		
A	A	A2		
A-	A-	A3		Moderate credit risk
BBB+	BBB+	Baa1		
BBB	BBB	Baa2		
BBB-	BBB-	Baa3	Non-Investment Grade, AKA High Yield Bonds, AKA Junk Bonds	Substantial credit risk
BB+	BB+	Ba1		
BB	BB	Ba2		
BB-	BB-	Ba3		High credit risk
B+	B+	B1		
B	B	B2		
B-	B-	B3		Very high credit risk
CCC+	CCC+	Caa1		
CCC	CCC	Caa2		
CCC-	CCC-	Caa3		In or near default with possibility of recovery
CC	CC	Ca		
C	C	C		In default with little chance of recovery
DDD	SD	D		
DD	D	D		
D	D	D		

5. Draw Conclusions

- Now all prior steps come together to form a complete view of the company's capital structure. The goal is to judge whether leverage is appropriate for the firm's risk profile, where value breaks, and which creditors are most exposed

Example – Company ABC:

Company ABC shows:

- Leverage & LTV:** Debt at 5× EBITDA and 70% of TEV → limited cushion
- Coverage:** 1.3× → interest barely covered after maintenance capex
- Off-Balance-Sheet:** Lease adjustments push true leverage even higher
- Credit Rating:** BB–, but market spreads imply single-B risk

Conclusion: Company ABC's balance sheet is stretched for its business risk; recovery value likely breaks below the unsecured layer, signalling elevated default risk

Section III: Bankruptcy

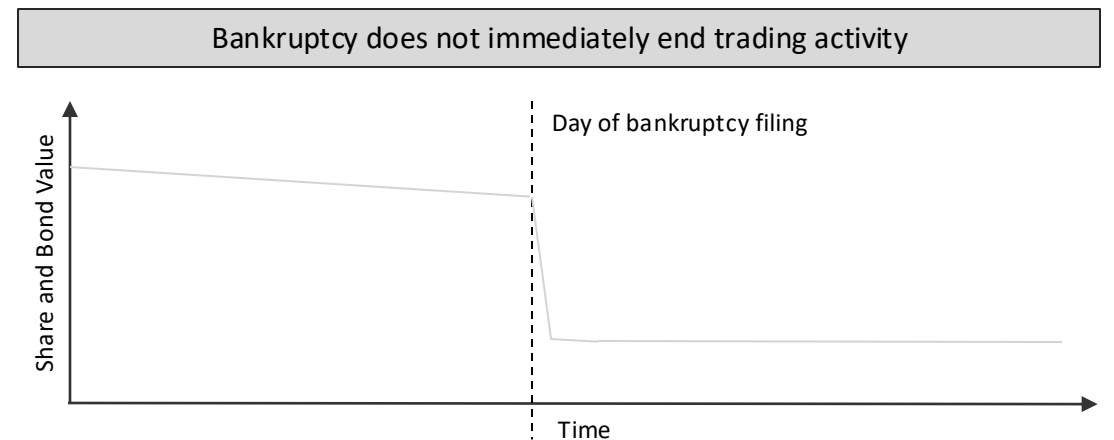
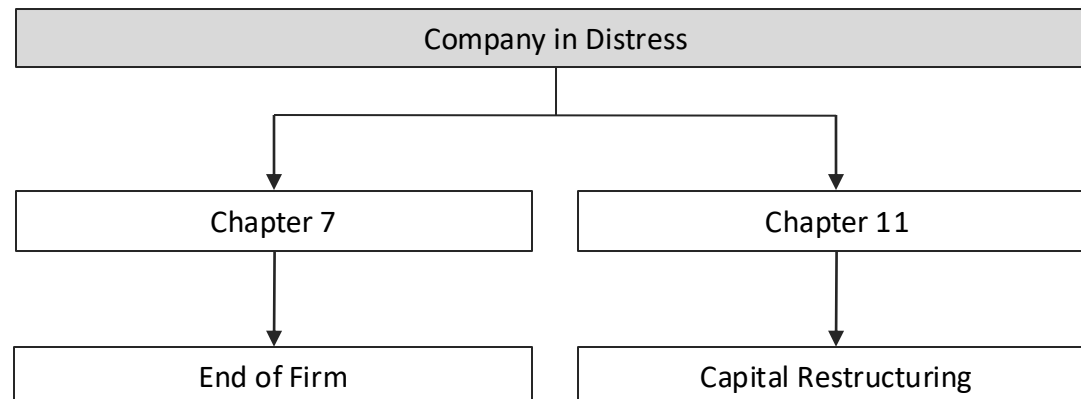
Legal Perspective on Bankruptcy

What is Bankruptcy?

- Bankruptcy is a legal process triggered by insolvency, in which a firm's assets and liabilities are reorganized or liquidated under court supervision
- It aims to maximize recovery for creditors while providing a potential path to financial restructuring

How is Insolvency defined?

- Insolvency is defined as a company's inability to meet its debt obligations when they become due, either because of insufficient cash flow or because liabilities exceed assets



Bankruptcy – In-Depth Overview

Chapter 7 Bankruptcy – Liquidation

- Chapter 7 represents the most severe form of bankruptcy, in which the company terminates all operations and proceeds to liquidate its assets
- A court appoints a trustee who assumes full control over the firm's property, sells off assets, and distributes the proceeds among creditors according to a strict legal hierarchy
- Secured creditors are paid first, followed by unsecured creditors, while shareholders typically receive nothing
- Management loses all authority, and the company's legal existence is dissolved after liquidation is complete
- Chapter 7 is chosen when a business is beyond recovery, and a reorganization would not generate sufficient value to justify continuation

Chapter 11 Bankruptcy – Reorganization

- Chapter 11 allows financially distressed companies to remain operational under court supervision while restructuring their obligations
- The debtor typically continues to manage the business as a debtor in possession, maintaining day-to-day operations while negotiating with creditors
- The objective is to reduce debt burdens, reject or renegotiate unfavorable contracts, and restore financial stability
- A reorganization plan is drafted and must be approved by both the bankruptcy court and the majority of creditors
- This framework provides breathing space for firms with viable business models to recover and avoid liquidation

Overall, Chapters 7 and 11 cover the main procedures of corporate bankruptcy, whereas other chapters provide more specialized frameworks for particular circumstances, such as individuals or municipalities

Paths to Control in Distressed Firms

In financially distressed or near-bankrupt firms, investors can gain control through different mechanisms depending on the stage and severity of the crisis. The main distinction lies between debt-based and equity-based paths to control, with a special case of operational influence



Debt-based Control

Investors acquire distressed debt, such as secured loans or bonds, that can later be converted into equity during a restructuring process (Debt-for-Equity Swap)



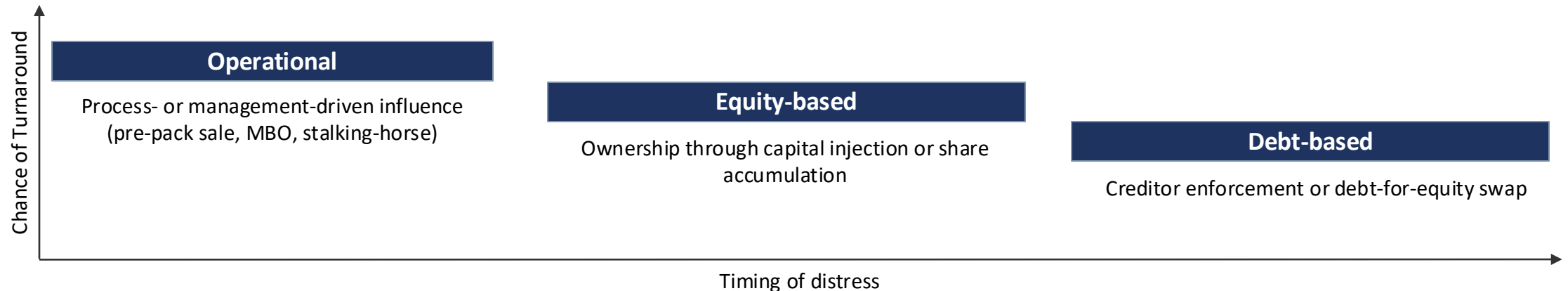
Equity-based Control

Investors accumulate equity positions cheaply as the firm's valuation collapses, often gaining control through open-market purchases



Special Case: Operational Control

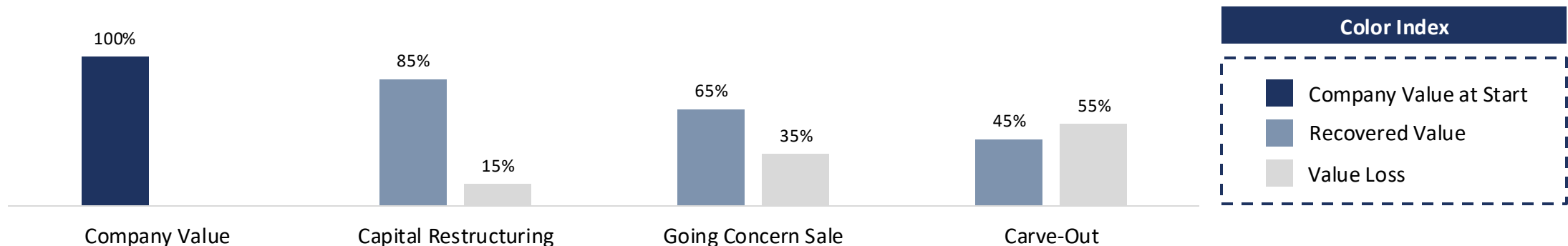
This form of control arises when investors or strategic buyers gain influence through operational or procedural means, rather than by owning a majority of debt or equity



Strategic Options for Distressed Companies

Capital Restructuring	Going Concern Sale	Spin-Off or Carve-Out
- The company attempts to reduce its overall debt burden and restore solvency through financial restructuring measures - Typical mechanisms include debt-for-equity swaps, maturity extensions, or renegotiations of interest payments	- In a going concern sale, the entire operating business (or substantial parts of it) is sold to another buyer - The proceeds are used to satisfy creditor claims and, if sufficient, to compensate shareholders	- When certain divisions of a distressed firm remain profitable or strategically viable, they may be spun off into a separate entity - The new company continues operations, while the unprofitable segments are liquidated or written off

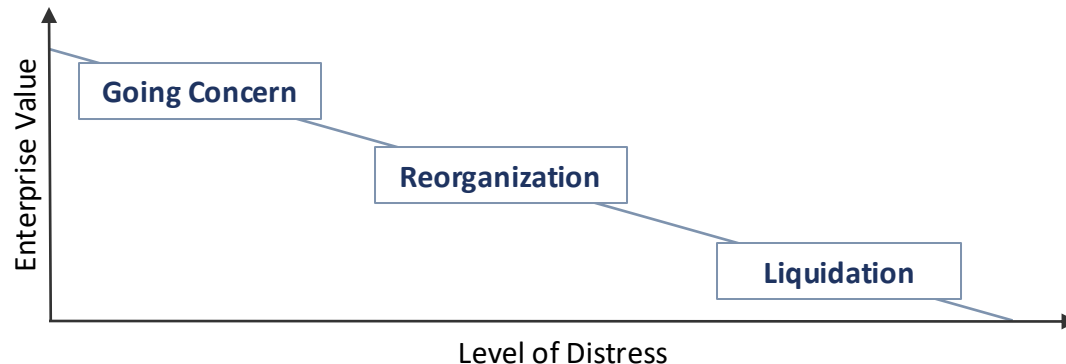
Depending on which strategic path is pursued, the degree of value recovery differs substantially, reflecting the trade-off between preserving operations, satisfying creditors, and minimizing overall value loss



Section IV: Valuation of Distressed Investments

Valuation Framework for Distressed Companies

- Traditional valuation methods, such as the Discounted Cash Flow (DCF) approach, assume that a company will continue operating indefinitely with stable cash flows and access to capital (going concern)
- In distressed situations, this assumption breaks down. Cash flows become unpredictable due to declining revenues, operational inefficiencies, or restructuring costs. Financing becomes more expensive or entirely unavailable as lenders demand higher risk premiums, and asset values often fall below their book or replacement value.
- As a result, traditional valuation models tend to overstate the true economic value of a distressed company, requiring investors to apply modified methods that account for uncertainty, insolvency risk, and potential liquidation outcomes



Going Concern Value

- **Approach:** Based on expected future cash flows (DCF or multiple)
- **Typical Use Case:** Company expected to survive or restructure successfully

Reorganization Value

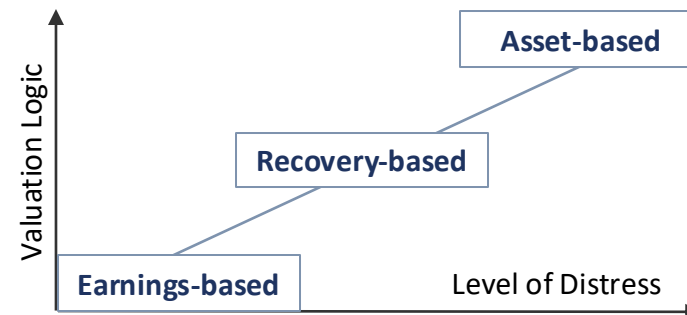
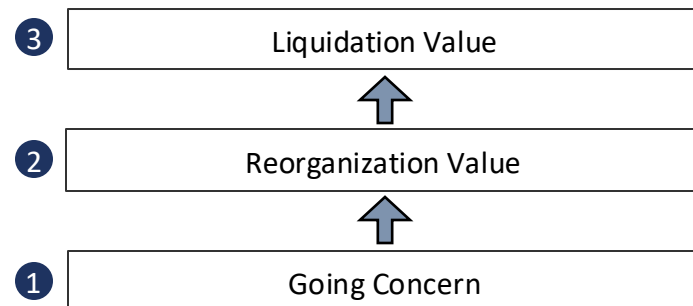
- **Approach:** Value post-restructuring (e.g. operational turnaround)
- **Typical Use Case:** Chapter 11 / StaRUG (Germany's restructuring law) proceedings

Liquidation Value

- **Approach:** Assuming sale of assets (orderly or fire-sale)
- **Typical Use Case:** Insolvency inevitable, no turnaround possible

Key Valuation Adjustments under Distress

Cash Flow Adjustments	- Projected CFs should exclude one-time or non-recurring income - Account for restructuring expenses, working-capital pressures, and operational disruptions
Discount Rate	- Higher risk premium for cost of capital to capture the probability of distress - Through increased WACC, use of an Adjusted Present Value (APV) framework, or by including expected bankruptcy costs in the model
Scenario or Probability-Weighted Valuation	- binary nature of outcomes (recovery vs. failure) - multiple scenarios → successful turnaround, partial restructuring, or liquidation (each weighted by likelihood)



Key Takeaway

As financial distress deepens, valuation methods shift from earnings-based approaches to asset-based approaches, reflecting declining confidence in future cash flows

Incorporating Financial Distress into DCF Valuation

Volatility & Uncertainty

When a company faces liquidity shortages, high leverage, or potential insolvency, its cash flows become highly volatile and uncertain, and in many cases even negative. This makes it difficult to estimate reliable future free cash flows

Terminal Value

In a distressed context, assuming perpetual growth is unrealistic, the company may not survive to reach a “terminal” phase at all. The DCF framework therefore tends to overvalue distressed companies by implicitly assuming survival and stability

WACC

The discount rate in a standard DCF does not adequately capture the additional risk of default or restructuring

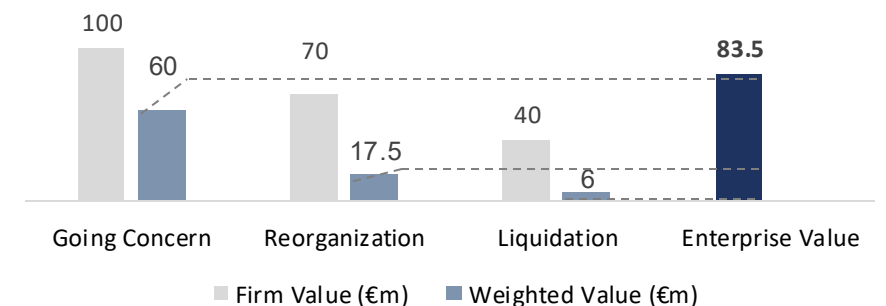
WACC

In reality, distressed firms face sharply higher financing costs and limited access to capital markets

Example

Scenarios	Probability	Firm Value (EV, m€)	Weighted Value
Going Concern	60%	100	60
Reorganization	25%	70	17.5
Liquidation	15%	40	6
Expected Enterprise Value			83.5

* This example provides a simplified overview of how to value a distressed company. A more detailed breakdown follows on the next slide



Damodaran's Adjusted Framework

- Conventional DCF models assume stable operations, which rarely apply to firms facing insolvency risk
- Damodaran's adjusted framework therefore introduces probability-weighted cash flows and hybrid valuation methods that explicitly account for the likelihood of distress, recovery scenarios, and expected bankruptcy costs

Probability-Weighted Cash Flows

$$E[FCF_t] = FCF_t \times (1 - p_{\text{distress},t})$$

$$\text{Value} = \sum_t \frac{E[FCF_t]}{(1 + WACC)^t} + \frac{TV}{(1 + WACC)^T}$$

Hybrid Approach (Expected Value Method)

$$\text{Equity Value} = (1 - P_{\text{distr.}}) \times V_{\text{going concern}} + P_{\text{distr.}} \times V_{\text{distr.sale}}$$

Hybrid Approach (Expected Value Method)

$$\text{Value} = V_{\text{unlev.}} + PV(\text{Tax Shield}) - PV(\text{Exp. Bankr. Costs})$$

Asset Valuation in Liquidation Scenarios



- In a liquidation, the company's assets are sold individually rather than as a going concern
- The valuation focuses on realizable market values, not on discounted future cash flows (as in DCF)
- Each asset category is valued separately, adjusted for liquidity discounts, depreciation, and fire-sale effects

Asset Category	Valuation Basis	Typical Discount
Cash & Equivalents	Nominal Value	No discount
Accounts Receivable	Face Value * collection probability	80 - 90%
Inventory	Cost or realizable sale value	30 - 60%
Machinery / Equipment	Appraised resale value	Fire-sale discount 20 - 50%
Real Estate / Land	Market appraisal	5 - 15%
Intangibles (IP, brand)	Often minimal realizable value	Heavily impaired (up to 90%)

Liquidation Valuation – Formulas and Key Concepts

Valuation Formula

$$\text{Estimated Liquidation Value} = \sum(\text{Fair Market Value of Assets} - \text{Realization Discounts}) - \text{Liquidation Costs} - \text{Outstanding Liabilities}$$

Simplified Concept

$$\text{Estimated Liquidation Value} = \text{Total realizable Assets} - (\text{Liabilities} + \text{Costs})$$

Asset-based Method

The method is asset-based, not income-based

Market Conditions

The timing and market conditions strongly influence achievable prices

Repayment Order

Creditors' seniority determines in what order proceeds are distributed

Difference in Value

Liquidation typically yields significantly less than book value, especially for illiquid assets

Bottom

No rational buyer would pay less than the realizable liquidation proceeds

Timing

Liquidation is the least desirable and final option for a company

Section V: Case Study – First Brands Group

Bankruptcy of First Brands Group (FBG)

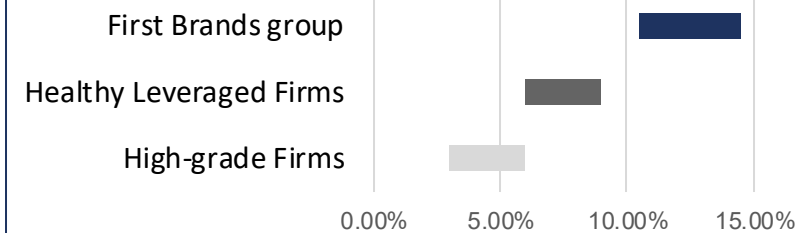
First Brands Group

- U.S.-based automotive parts manufacturer operating in the aftermarket segment
- Pursued an aggressive, debt-financed M&A strategy to consolidate multiple component producers
- Rapid expansion made it a major player in the automotive aftermarket but left the balance sheet highly leveraged
- Filed for Chapter 11 bankruptcy in September 2025 after excessive leverage and integration challenges strained liquidity

How did they get into trouble?

- Founded in 2013, expanded rapidly via debt-financed acquisitions
- Industry slowdown recently pressured margins
- Tricolor, a comparable lender in low-priced used cars, filed for Chapter 7 bankruptcy two weeks ago
- Rising material costs and tariff uncertainty made FBG's high leverage unsustainable despite initially stable capital structure

Interest rate on Debt



The Struggle in Numbers

- Reported 50% revenue growth in 2023, mainly from two acquisitions
- Fitch projected only 3.5 – 4% organic growth going forward
- Faced high borrowing costs: ~10.5% on first-lien loan, ~14.5% on second-lien
- Rates considered unusually high for a major manufacturing firm

Struggles with the Debt Structure

The Problem

- Insolvency driven mainly by a low interest coverage ratio
- Reported EBIT of \$1.1B implies ~1.7× coverage at an average 11% interest rate
- Held \$6.1B of debt on the balance sheet
- Estimate excludes unsecured debt and off-balance-sheet obligations (e.g., invoice financing)

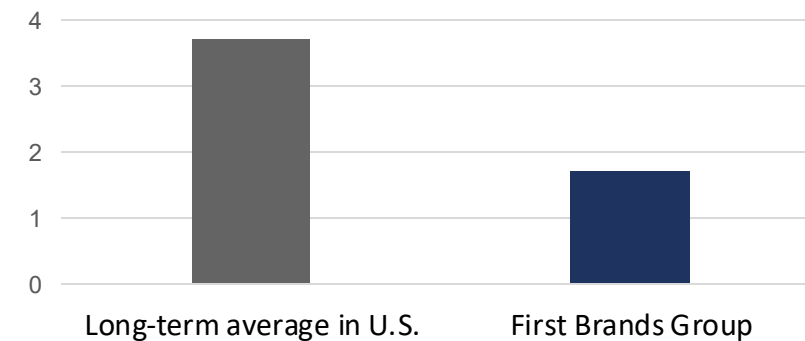
The Debt Structure

Asset-Based Lending Obligations	\$596m
Term Loan Obligations	\$5.5B
Off-balance sheet obligations	\$2.4B
Unsecured Loans	\$812m

The lack of Transparency

- Expected \$2.3B from a factoring deal to bolster capital structure
- Post-bankruptcy, estate lawyers found no evidence the funds were received; segregated accounts are empty
- Unclear whether some receivables were factored multiple times
- Factoring firms may not have been fully paid

Interest Coverage Ratio



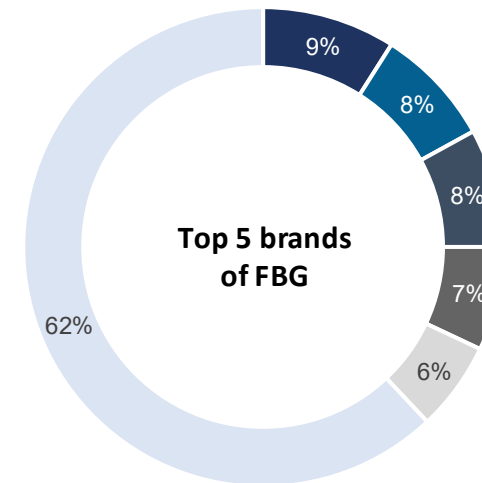
Under Bankruptcy Protection

- Following its Chapter 11 filing, First Brands Group is pursuing a going-concern sale – selling key brands and subsidiaries to repay creditors while maintaining operations during restructuring

What is happening now?

- First Brands Group filed for Chapter 11 bankruptcy and is now managed by restructuring specialist Charles M. Moore under court supervision.
- The case represents a typical Going Concern Sale, with current leadership aiming to sell FBG's 24 acquired subsidiaries.
- Creditors are expected to be repaid from sale proceeds, while equity holders will likely receive nothing.

Going Concern Sale



■ FRAM ■ Trico ■ Rain-X ■ Autolite ■ Centric Parts ■ Others

Key Takeaways and Warnings

Transparency of Firms

Private firms aren't required to disclose financials, hindering due diligence and transparency. Companies in distressed sectors, like FBG, may use financial engineering and take on excessive risk

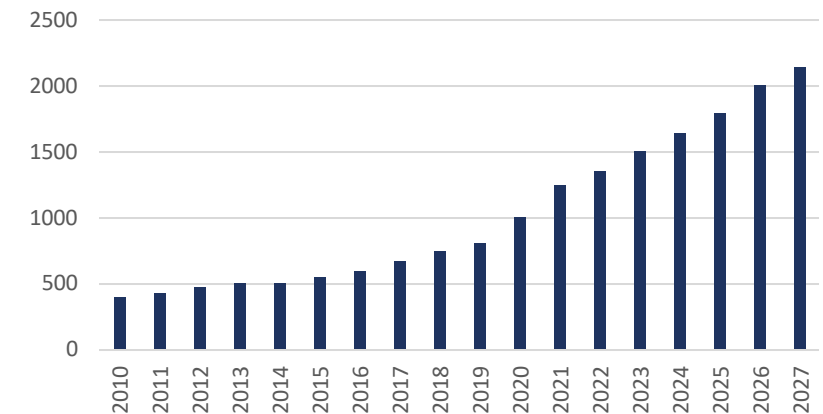
Popularity of Private Credit

The private credit market has grown rapidly, becoming a major funding source for banks and private firms, often preferred over traditional options like IPOs

Possible Bubble

Rapid market expansion raises bubble concerns. Lenders have issued high-interest loans aggressively, often neglecting proper risk assessment. As one former FBG lender noted, "You are not paid to do due diligence in this market," reflecting widespread complacency and risk exposure

The Private Credit Market Size (B\$)





ESCP Alternative
Investment Society

x



TU Investment Club