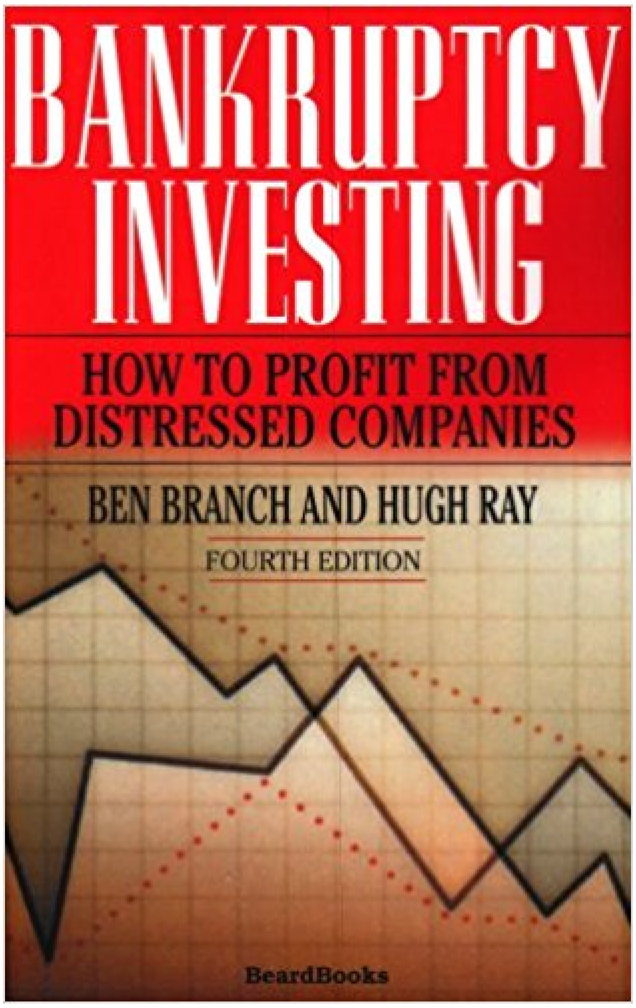
Bankruptcy Investing - How To Profit From Distressed Companies



Synopsis

This topical and easily understood handbook explains how bankruptcy can affect a corporation and its capital structure and how investors can profit from the corporate bankruptcy process.

Book Information

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Customer Reviews

Corporate bankruptcies are at an all-time high, and this trend is likely to continue. Bankruptcy Investing introduces investors to the risky but lucrative opportunities to invest in the securities of troubled companies. Every area of this exciting field is described in complete detail. Real-world examples illustrate the explanations. Companies in distress may go through an informal or formal workout of problems, or they may enter Chapter 11 or Chapter 7 bankruptcy. The investment implications for the securities of firms in each of these stages are considered in full. Everything the investor needs to know is contained in this book. The authors show why it can be smart to invest in troubled companies. Whether you are a savvy investor or experienced fund manager (or aspire to be one), Bankruptcy Investing introduces you to the risky but lucrative opportunities for investing in the securities of troubled companies. This timely new book describes in detail the rules of the game and how to apply them to pick the winners. The authors, both experts in the legal and financial aspects of bankruptcy investing, explain everything you need to know about investing in distressed companies, including estimating bankruptcy values, how to use timing to your advantage, quantitative techniques to minimize risks, evaluating available data, characteristics of various types of short-term and long-term debt instruments, investment strategies, and sources of additional information. You’ll fully understand all the implications of investing in the securities of firms in all stages of financial distress--from informal or formal workouts to Chapter 11 or Chapter 7 bankruptcy--as well as investing in both debt and equity securities. Real-world examples illustrate how you can profit from investing in troubled companies and what risks are incurred. An extensive glossary defines legal, economic and financial terms. Bankruptcy Investing translates the often-confusing lexicon of bankruptcy into a profitable investment program that you can implement immediately. You too will discover an exciting way to find new investment winners. Two financial experts guide you through the risky but lucrative investment opportunities available in troubled companies. Whether your interests are informal or formal workouts, Chapter 11 or Chapter 7 bankruptcies, debt or equity securities, this book will explain everything you need to know about investing in distressed corporations. Topics include estimating bankruptcy values, how to use timing to your advantage, quantitative techniques to minimize risk, evaluating available data, the characteristics of various types of short-term and long-term debt instruments, and investment strategies. The authors illustrate their points with real-world examples, and provide an extensive glossary defining legal, economic and financial terms. --This text refers to an out of print or unavailable edition of this title.

Mr. Ray heads the national bankruptcy practice of Andrews & Kurth. He primarily represents creditors and creditors' committees. He currently represents or has represented the Unsecured Creditors' Committee of Flagstar Corporation; the Trustee for the Bank of New England Corporation; the Senior Unsecured Creditors' Committee of In re First Republic Bank Corporation; the ad hoc Bondholder's Committee of American Rice, Inc.; the Agent Bank and Bank Syndicate in In re William Herbert Hunt Trust Estate, Nelson Bunker hunt Trust Estate, Lamar Hunt Trust Estate, et al.: the Institutional Lenders for In re Storage Technology; the Institutional Creditors of In re Continental Airlines, Inc.; and the Insurance Company Lenders of In re Braniff Airlines, Inc. he has also represented the Bank Lenders for In re CompuAdd Corporation and the Unsecured Creditors' Committee and Petitioning Creditors for In re First City Bancorporation of Texas. Mr. Ray serves on the Council of the Business Law Section of the American Bar Association (1997-). He is immediate past chair of the Business Law Section's Business Bankruptcy Committee (approximately 1400 practitioners in virtually every firm across the country which engages in extensive bankruptcy practice); he is the current chair of the Joint Ad Hoc Committee on Bankruptcy Court Structure and Insolvency Processes (a high level task force of the ABA Business Law Section, General Practice Section, Real Property, Probate and Trust Section, Judicial Administrative Division and Litigation Section, with participation by bankruptcy court judges, district court judges and court of appeals judges, leading academics and practitioners.) Mr. Ray has presented positions before congressional committees by testifying several times before the House Judiciary Committee and the Senate Judiciary Committee concerning proposed amendments to the Federal Bankruptcy Code. In addition, Mr. Ray was an invited participant to lead a presentation before the National Bankruptcy Review Commission (appointed to draft bankruptcy law proposals and report to Congress). Mr. Ray is immediate past chair of the Committee on Trust Indentures and Indenture Trustees of the Business Law Section of the American Bar Association. Mr. Ray also served as a member of the Standing Committee of the American Bar Association on Judicial Selection, Tenure and Compensation. Vanderbilt University School of Law LL.B., 1967 Vanderbilt University B.A., English, 1965 Frequent lecturer for Practicing Law Institutes, ABA National Institutes and the National Conference of Bankruptcy Judges. Lecturer at ABA satellite seminars. Mr. Ray is a frequent contributor in legal periodicals and a member of the Texas Lawyer Board of Contributors. Mr. Ray is a co-author of Bankruptcy Investing, text book for graduate business schools. Lecturer for the Central and Eastern European Law Initiative, Vilnius Lithuania, 1996 Professional Licenses and Associations: Board Certified, Business Bankruptcy Specialist, Texas Board of Legal Specialization and the American Board of Bankruptcy Certification. Elected, American College of Bankruptcy. Selected, Best Lawyers in America. Elected Member, American Law Institute; Member, Consultative Group for Redraft of Article 9 of the Uniform Commercial Code; Member Consultative Group, Transnational law project. Past Chair, Bankruptcy Committee, State Bar of Texas 1986-1989. Program director, Advanced Business Bankruptcy Institute, State Bar of Texas. Member, American Bankruptcy Institute. State Bar of Texas, 1967; U.S. District Court, Southern District of Texas, 1968; U.S. District Court, Western District of Louisiana, 1980 U.S. District Court, Western District of Texas, 1978; U.S. District Court, Northern District of Texas, 1981; U.S. Circuit Court of Appeals, 5th Circuith, 1968; U.S. Circuit Court of Appeals, 11th Circuith, 1982; U.S. Circuit Court of Appeals, 9th Circuith, 1979; U.S. Supreme Court, 1970; New York, 1992 --This text refers to an out of print or unavailable edition of this title.

Bought this book in tandem with Whitman’s "Distressed Investing," both as an introduction to start dabbling in distressed financial assets. Assuming one is already well versed in accounting and finance, the flaws in this book will be easy to overlook and still understand the concepts being discussed.PROs:- Gives a detailed outline of the actual bankruptcy process and procedures.- Considers the risk/reward profile for several classes of financial asset holders, including senior creditors, debentures, and equity holders.- Provides recent cases as examples.- Dives into the quantitative metrics which are relevant to investing in distressed securities. Gives a solid discussion of the cash conversion cycle (days sales outstanding, inventory turnover, etc. etc.)CONs:- Dabbling in bankrupt firms is fairly high level investing, by no means an area for the beginner or novice. Yet for some strange reason the authors feel the need to provide a refresher course in financial statements, explaining what the differences are between the income statement, balance sheet, and cash flow statement. Here’s a tip: If you need to be reminded on what’s on the balance sheet versus the income statement, distressed investing is NOT for you.- The authors constantly stress that much of the bankruptcy process involves uncertainty, given the adversarial nature of our jurisprudence. Yet despite this, their preferred metric for valuation is discounted cash flow analysis (DCF), which is perhaps the most uncertain of all valuation measures. They even explain that a simple 1% change in the discount rate could have a huge impact on the overall valuation. If the actual bankruptcy process is uncertain enough as it is (How much with senior creditors recover? Debentures? Is there anything left over for junior debentures?), why would they insist on using something as flimsy as DCF?- Building on that, the authors define "free cash flow" (FCF) as EBITDA - Cash interest - Changes in Working Capital - Capital Expenditures. There’s a few serious problems with this: If you’re using FCF to determine cash available to creditors AND equity holders (A.K.A. free cash flow to firm, or FCFF), then you shouldn’t subtract the cash interest because once interest is paid out, creditors are taken care of. If you’re using FCF to determine cash available to ONLY equity holders, you overestimate that amount by not subtracting taxes (the ’T’ in EBITDA), as taxes must be paid before equity holders receive anything. Furthermore, interest, depreciation and amortization (the ’DA’ in ’EBITDA’) provide a tax shield, so if you want to calculate FCF to equity holders using EBITDA, you must multiply the interest and D&A by (1 - Tax rate %) to get an accurate number.- The authors consider EBITDA/Shares outstanding to be an acceptable measurement of cash flow per share. As I just explained, EBITDA is what’s available to creditors AND equity holders. If you divide EBITDA/Shares outstanding, you get an overinflated measurement of cash flow, since creditors have not be paid yet (and equity holders cannot be paid ANYTHING until creditors are).- Building on that, the authors use their flawed measurement of FCF for the DCF analysis, but when calculating the terminal value (the amount in the "final year" to determine remaining firm value), instead of using the augmented EBITDA - Interest - Working capital changes - CapEx that they used for the years before the terminal year, they go back to using regular EBITDA. Consistency is key: What cash flow metric you use for the years preceding the terminal value is what needs to be used for the actual terminal value.- It would’ve been very helpful in the case studies chapter if the authors had given some financial performance measures of the distressed firms, so we could better understand just how much trouble they were in. The authors discuss how much senior creditors got, junior debentures, etc., but they don’t mention anything like how much money was the firm losing? How low was their interest coverage ratio? Without any discussion of the income statement, it’s hard to determine how to apply these case studies to future prospects.- Like the financial statements "refresher," the authors spend the last THIRD of the book on different types of securities and "the determinants of yield." Again, if you don’t know the difference between preferred equity vs. common, convertible debt vs. callable debt, or that nonsecured debentures have to pay a higher yield than secured creditors, bankruptcy investing is NOT for you.Overall, the first 160 pages of the book are worth your time if this is your introduction to distressed securities, but the book is in fact short, and could easily be expanded and improved.

Great introduction and overview of the world of distressed and bankruptcy investing. The authors managed to synthesize a very complicated subject into an easy-to-read and understandible book. Of course no one book can cover the entire subject in detail, but this one comes amazingly close. Highly recommended.

This book is a big disappointment for me. The authors did a good job introducing the bankruptcy concept/process in the first chapter and they gave a somewhat fair treatment to bankrupcty investing in chapter 2. But from there is a endless downgrade (from BBB- to D) of the book itself to end with a 70-plus page glossary (just for making the book thicker and appearing to have richer content in my opinion). I have expected something much more insightful from a finance professor and a practising bankruptcy lawyer.For the time being, please stick with Moyer’s Distressed Debt Analysis (the best you can have on this subject) and Whitman’s Distress Investing (less practical than Moyer’s one but still much better than the one being reviewed). You may also want to look at this blog:http://www.distressed-debt-investing.com/

I was really disappointed with this book, particularly given that it was written by seasoned bankruptcy experts. The book is very skinny on content - it spends about 30 pages on bankruptcy law and its procedures, a few on case studies that are superficial/poorly written and several on bond analysis, and standard research tools that are well-known to a person with basic financial knowledge, ie the sort of people who would be interested in something relatively exotic as Bankruptcy Investing. The few useful pages that there are are marred by poor writing, and a complete absence of analytical frameworks that stay with the reader.Bankruptcy is a complex topic and there is a need for a book of the sort Branch and Ray have attempted. However, this is most certainly not that book.

This book has everything I needed to make money in this market. They do need to update their data and bring it forward, but the analysis is first rate and the methodology was very new to me although quite understandable in plain english for someone without a law degree or an mba. I now understand what is going on here and I can see how the vulture investors get the large returns. I reread the first part after several months of buying and it all still held together. Interesting and moneymaking as well.

These guys have provided the new update that was needed. I made money on the first edition, but there have been some changes and they have covered them. Morgan came out with a report saying pretty much the same thing a couple of months back.It would be hard to lose money if you take the book's advice per the report. This book really gets you through the technical stuff with ease. Money well spent.

As a bankruptcy lawyer, I have read many of the books out there. But I haven't seen one better than this. Professionals and non-professionals should use the book as a checklist for evaluating bankruptcies. Written in common-sense language, it gives the "inside" details on what you REALLY need to know to tell whether a bankruptcy is a good investment.

This book provides a decent overview of the restructuring world and bond market, although a little too basic. I was expecting more of a focus on the puruchase of deeply discounted high-yield bonds and bank debt. Additionally, the book was extremely outdated. LTV has already filed Chapter 11 Bankruptcy for its second time, and we have something called the internet to help with our research.

(Growing Mushrooms for Profit, Growing Mushrooms ... Mushrooms, Growing Oyster Mushrooms) Real Estate: 25 Best Strategies for Real Estate Investing, Home Buying and Flipping Houses (Real Estate, Real Estate Investing, home buying, flipping houses, ... income, investing, entrepreneurship) Bankruptcy: The Ultimate Guide on How to File, Beat, and Recover from Personal Bankruptcy 2017 U.S. Bankruptcy Code & Rules Booklet (For Use With All Bankruptcy Law Casebooks) Bankruptcy in Georgia: What it is, What to Do, and How to Decide (What is Bankruptcy Book 10) Glannon Guide to Bankruptcy: Learning Bankruptcy Through Multiple-choice Questions and Analysis (Glannon Guides) The Valuation of Financial Companies: Tools and Techniques to Measure the Value of Banks, Insurance Companies and Other Financial Institutions (The Wiley Finance Series) Offshore Companies: How to Register Tax-Free Companies in High-Tax Countries Good Profit: How Creating Value for Others Built One of the World's Most Successful Companies The 1% Windfall: How Successful Companies Use Price to Profit and Grow The Brand Flip: Why customers now run companies and how to profit from it (Voices That Matter) The Dark Side of Valuation: Valuing Young, Distressed, and Complex Businesses (2nd Edition) The Dark Side of Valuation (paperback): Valuing Young, Distressed, and Complex Businesses Bible Cover: Distressed Leather-Look Brown with Stitching Accent Med Distressed Leather-Look Bible / Book Cover w/Cross Badge (Medium)