January 9, 2012, Argyle Journal

Argyle Conversation: On December 12, 2011, Alex Greene, Managing Partner at Brookfield Asset Management, talked with Christopher C. Alberta, Managing Director at Conway MacKenzie, Inc., about distressed investment strategies and how to manage a successful turnaround in today's economic climate.

CHRISTOPHER C. ALBERTA: Alex, please tell us about Brookfield and your role at the company.

ALEX GREENE: Brookfield is a 100 year old firm with roots in Brazil and Canada that has transitioned from a broadly diversified operating business into a global alternative asset manager with specific areas of concentration. Today, Brookfield has approximately $150 billion in assets under management with a focus on property, power, infrastructure and private equity. I look after Brookfield's U.S. operating turnaround and related financing activities and my role, among other things, is to build awareness of Brookfield in the United States as a company that focuses on areas other than real estate and infrastructure.

Across the organization, Brookfield has about $80 billion of commercial properties, $16 billion of renewable power assets, $17 billion of infrastructure assets and $15 billion of development assets that are primarily residential, home building and multifamily. In private equity, we have direct investments in companies as well as through dedicated funds known as Brookfield Special Situations Funds I, II, and III. We differ from other firms that do turnarounds in that we are very comfortable buying the debt of troubled companies and converting it into equity, whether it's through a formal reorganization, out-of-court restructuring or some other process. It's a strategy we've used extensively and with great success throughout our organization.

Based on the differentiation of your platform, how has distressed investing changed over the past few years? Have you noticed an increase in special situations investing and the number of players chasing after distressed assets?

I've been in the turnaround and distressed investing business for 27 years and it has changed dramatically. Post-2007, limited partners (institutional investors) have become highly focused on the kind of skills and experience that are at the core of our strength as an organization: namely, operations- driving value by focusing on the assets and earnings generating capability of the enterprise. It's not enough for distressed investors (general partners) to be good buyers of debt or designers of capital structures. Increasingly, companies are discovering the need to reinvent or reorient their business in response to volatile and rapidly changing business conditions. We've all grown up with financial optionality associated with the right side of the balance sheet, but these times call for an unusually strong focus on the left side, with operating professionals as integral members of the investment team, working together from the day a deal is identified to the day that it is exited. I think of this as operational optionality.

What kind of background should these operating professionals have?

Their experience should track the areas where you see opportunity and in which you have the greatest comfort as an investor. In our private equity group, we have a team of operating professionals with extensive backgrounds in mining, forest products, general industrials and oil and gas. In addition, we actively draw upon the resources of Brookfield and, as a result, probably have the most operating and information gathering resources of any billion-dollar fund on the street.

What percentage of your investments are cross-border or foreign?

Our investments are split close to 50/50 between the U.S. and Canada. Several have required us to use the experiences and skill sets of people in both countries, whether for a chapter 11 or chapter 15 reorganization as well as the CCAA (Companies' Creditors Arrangement Act) or the CBCA (Canada Business Corporations Act), which are the primary statutes under which Canadian companies reorganize. Our turnaround funds have neither invested in Europe nor outside of North America, generally, although Brookfield as an organization has interests globally.

In your Canadian investments, have you encountered issues regarding the protection of creditors' rights, particularly when you're making an investment through the debt?

As is the case in the U.S. with Circuit Courts, in Canada, the provinces have varying interpretations of the law and case precedent, so you need to know what you're getting into based upon specific provincial views of the reorganization process. We've done well in terms of advancing and protecting our rights in Canada and, when investing through the debt, have done so with a great degree of assurance as to the outcome. On the other hand, we've found that U.S. investors investing in Canada are surprised by the changes in the system from one country to the other.

What do you think the next three to five years will hold?

We've pushed out recovery in home building to 2014 or 2015 before the market returns to a point more along the lines of the early 2000s. In terms of the oil and gas market, natural gas is severely depressed and we think it's a great time to buy natural gas assets and have been. Generally speaking, in developing financial forecasts for our portfolio companies as well as for new investments, we've taken the view that the next couple of years will be choppy: product demand, financial markets, access to capital will be very uneven. Accordingly, we're capitalizing our businesses to have the runway necessary to implement the operating turnaround driving our investment thesis.

Given the current, depressed prices of natural gas and energy in general, are there interesting opportunities in downstream sectors such as metals in this environment?

Our view of metals and mining tends to be a regional one. We're not presently in metals, but do have an investment in a limestone mine in the Canada oil sands region. It has a billion tons of reserves and is a unique resource in an area where we expect great growth and significant capital commitment. Having a point of view on an asset like that doesn't necessarily require us to have an industry-wide or global perspective on the underlying commodity; however, when we think globally, we consider energy dependence in America and whether or not the oil sands will feature prominently as a provider of oil to the United States. We believe they will.

What is the set of business or deal characteristics that you look for in identifying an attractive investment opportunity? Is there a basic set of principles for someone looking to get into the distressed investing space from more traditional investing?

In an increasingly complex world, we're taking on balance sheet risk and operating risk. You've got to stick to those businesses you know and understand that the original investment thesis doesn't always play out the way you expect. We try to identify companies that have in the past demonstrated great cash flow-generating characteristics. We look for good quality assets with low operating costs. Guided by experience, if circumstances change, you need to be able to respond without making it up as you go along for the first time. And anyone migrating into this side of the business needs to have capital, because if you're going to get into a fight, you've got to be able to finish it. That means that if you're buying debt and thinking about turning it into an equity position, you need to have enough capital to buy-in, obtain control, and sometimes take out other guys to protect your interests.

So many investors become enticed by "the deal" and, more specifically in this market, "the price" for the deal that they lose sight of the turnaround. Turnarounds are expensive, not just in terms of the people that you may have to deploy to turn the business around but also in terms of funding the losses to get you from where you are today to where you want to be. What advice can you offer these types of investors?

Invariably, when a restructuring or reorganization is consummated, people breathe a sigh of relief and think that they're done. In reality, they're just starting. For as long as it takes to accumulate a position and/or ultimately get control, you need to understand that there is three-plus years ahead of hard work. Having a longer term time horizon, patience, and the fortitude to work through an operating turnaround is critical. And, of course, having the capital to support the business if things don't go quite as expected or to be opportunistic if other investors aren't prepared to ride out the process.

Is the team that brings a company into a reorganization strategy necessarily the same team that brings it out?

It depends on whether it is the team that created the distress or the team that found its way there to help forge a solution; and whether that team is the best team to implement the strategy we believe is important to the company's success. A management focused on growth and with an expansive view of running a company is not the team that should be leading an operation that's reducing its revenue base to concentrate on businesses or products that have a true competitive edge or is in a cash generation mode to get lean and reduce leverage. They're very different mindsets. Importantly, we've found that when you look beyond the top managers and into the organizations themselves, you often find great mid-level and young talent. As we're making decisions about top management, we look to nurture these people and support them to build a stronger organization going forward.

How have your investment strategies changed over the past few years?

We incorporate different strategies to originate investments across market cycles. There are times when we buy debt in the secondary market, others when we originate loans and others, such as now, where we focus a great deal of attention on non-core assets and spinouts of companies that are under-managed and may be, but are not necessarily, troubled. Since 2008, we've seen lots of companies that struggled to raise and maintain capital start making the difficult decisions to sell non-core assets or businesses that in the past would have been deemed to be core and, if underperforming, fixable. Now they are concluding it's time to move those assets on to generate cash to deploy more effectively in the rest of their company. When business units become unloved, it is an opportune time for us to bring to bear our capital and operating skills to undertake a turnaround over the ensuing three to five years.

What advice would you give an investor who is buying a spin-off that may not necessarily be a standalone business in and of itself?

Don't underestimate the challenges of independence. When it comes to carve-outs, the devil is in the details and it's not necessarily the small stuff. Understanding the interdependence of the former parent and subsidiary sales organizations; carefully planning so that information transfer and transition services hand off smoothly; and ensuring that you have the right culture, with people in the organization ready for the journey and with the right mindset. Corporate carve-outs are not done casually, but when they're done effectively, they can be quite lucrative.

BIOS:

ALEX GREENE

Alex Greene is a Managing Partner of Brookfield Asset Management, a global alternative asset manager focused on property, renewable power and infrastructure assets with approximately $150 billion of assets under management. Mr. Greene leads Brookfield's turnaround investing and financing activities in the United States and was a principal member of the team that led Brookfield's investment in General Growth Properties.

Mr. Greene has more than 25 years of experience investing in and restructuring financially troubled companies. He joined Brookfield in December 2005 from The Carlyle Group, where he was co-head of the firm's financial restructuring activities. Prior to Carlyle, he was a senior restructuring partner at Gleacher Partners and Wasserstein Perella & Co., and a managing director and partner at Whitman Heffernan Rhein & Co., Inc. and its affiliate M.J. Whitman & Co. He began his career at Manufacturers Hanover Trust Company.

Mr. Greene has a BBA in finance from The George Washington University.

Mr. Greene is on the Board of Directors of Longview Fibre Paper and Packaging and CWC Well Services Corp. He is on the finance committee and was formerly a member of the board of directors of the Tourette Syndrome Association; is a member of the Armonk New York Fire Department; and serves on the Budget and Finance Advisory Task Force for the Town of North Castle, New York.

CHRISTOPHER C. ALBERTA

Chris Alberta specializes in enhancing liquidity and profitability in under-performing companies. His turnaround, crisis management, bankruptcy and restructuring expertise spans a variety of industries including restaurant franchising, telecommunications, logistics, energy, automotive, manufacturing, wholesale and distribution, financial services and healthcare. Through his work on DavCo Restaurants, a 156-unit Wendy's franchisee, Mr. Alberta earned Conway MacKenzie the Turnaround of the Year Award ($100 million+) from Global M&A Network.

Mr. Alberta has significant experience leading turnaround efforts as a Chief Restructuring Officer. His expertise includes working with senior management, secured lenders, unsecured creditors and equity owners to develop and implement operational and financial restructuring strategies to improve performance, increase liquidity, and maximize recovery value. He is a recognized expert in the restructuring field, and has testified in U.S. Bankruptcy Court as an expert witness.
His career as a turnaround manager and restructuring advisor includes positions at Arthur Andersen and Huron Consulting Group, where he was one of the founding members of that firm's restructuring practice. In 2007, Mr. Alberta co-founded Conway MacKenzie's New York office.

Mr. Alberta earned his Masters of Business Administration from New York University's Stern School of Business and his Bachelor of Business Administration in Finance from the University of Notre Dame. He is a Certified Insolvency and Restructuring Advisor and holds a Certification of Distressed Business Valuation. Mr. Alberta has been profiled by Bankruptcy Professional as one of the nation's leading restructuring practitioners, and is a member of the Association of Insolvency and Restructuring Advisors, Turnaround Management Association and the American Bankruptcy Institute.