



# Nortel business rescue via formal insolvency

Testing the EU Insolvency Regulations

ABAF Conference – 16<sup>th</sup> & 17<sup>th</sup> September 2011

# In support of the formal restructuring process

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- ▶ Developed and sophisticated economies have advanced rescue techniques
- ▶ Europe and its member states benefit from the EU Insolvency Regulations
- ▶ The EU Insolvency Regulations work well – particularly in complex groups

# Nortel – decline to fall

## Zenith (2000)

\$30bn

100,000

Circa 150 Globally

✓

✓

✓

Circa 30% market

Capitalisation of Canadian stock exchange

Revenues

Employees

Legal entities

R&D specialism

Six core businesses

Manufacturing

Finance

## Nadir (2008)

\$8bn

27,000

Circa 150 Globally

✓

✓

✗


\$6bn pension debts

\$4bn bond debt

Cash negative

# Nortel – live side restructuring

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- ▶ Five years decline not arrested
- ▶ 2008 – attempts to sell businesses and de-leverage fail
- ▶ Complex separation issues cited by potential acquirers
- ▶ Cash trapped in vast global entry structure
- ▶ Gridlock  formal process required

# Nortel – the filing landscape

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## % Global revenue

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8% Canada

- ▶ CCAA
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50% USA

- ▶ Chapter 11
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27% Europe

- ▶ UK administration via COMI application
  - ▶ Nineteen entities file
  - ▶ Six entities not protected
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17% Asia/CALA

- ▶ No umbrella regime
  - ▶ Entities not protected
  - ▶ Standstill on inter-company obligations
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# Nortel – UK administration in Europe

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- ▶ Four administrators, Ernst & Young EMEA, nineteen entities, one voice, speed of stabilization
- ▶ Moratorium freeze on pre-petition liabilities, with select force majeure payments to major supplier creates stable continued trading
- ▶ Proposals with “secondary proceedings” flavour
- ▶ Light touch administration – management run business
- ▶ Employee headcount reduction process throughout Europe
- ▶ Tight dovetail with global M&A process run via Chapter 11 S-363 auctions

# Nortel – UK administration in Europe (cont'd)

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- ▶ Positive and purposeful approach from courts – very limited involvement
- ▶ Only one secondary proceeding – at our request, in France
- ▶ France – significant challenge in swift implementation of redundancies
- ▶ Two inter estate protocols
  - ▶ EMEA/USA/Canada – trading terms/PPA framework
  - ▶ Primary office holder/secondary office – France
- ▶ Vital blend of UK and mainland Europe experience from Ernst & Young and advisors/secondary officeholders

# Insolvency requisites

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- ▶ Global businesses need exit techniques
- ▶ Size and complexity brings execution inertia risk
- ▶ Stakeholders want formal processes with:
  - ▶ Low court involvement
  - ▶ Choice of office holder/trustee
  - ▶ Tested judicial interfaces with major power zones
  - ▶ Officeholders with global reach and trading culture



# Nortel – results so far

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- ▶ All six global business sold
- ▶ \$3.2bn in Escrow, pending price allocation to selling entities
- ▶ The business has met all customer obligations during the filing trading
- ▶ Transition support created to enable migration to new owners – 12 to 18 month post sale support

# European and the EU/insolvency regulations

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- ▶ Europe enjoys a contrasting appreciation of rescue ability awareness
- ▶ Some examples...
- ▶ The EU Insolvency Regulations offer a robust moratorium
- ▶ Absent the EU Insolvency Regulations the Nortel outcome would have been very different



**Thank you**

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