

DEAL NEWS / MEXICO



Empresas ICA: Building a Path Forward

By ISA A. JULSON BARAHONA

On March 5, 2018, Empresas ICA S.A.B. de C.V. (ICA), the largest Mexican construction company, and several of its subsidiaries emerged from its concurso mercantil proceedings, concluding a year-long process of negotiations with creditors. Through these proceedings, ICA restructured over USD3.5 billion of indebtedness through a pre-packaged restructuring plan (*plan de reestructura previa*), including over USD1.2 billion of international bonds, becoming the largest insolvency of a Mexican company since 2015.

In 2015, cuts to infrastructure spending by the Mexican government, along with high leverage levels and the devaluation of the peso against the dollar, reduced ICA's available liquidity. By November 2015, facing increasing liquidity constraints, ICA decided it was necessary to stop making payments on its unsecured financial indebtedness, including three series of outstanding notes, in order to protect its ongoing construction contracts and concession agreements. In 2015 and 2016, ICA defaulted on nearly USD60 million in interest payments on these notes, leading to cross-defaults on its other long-term debt.

Corporate Reorganization

Following these defaults, ICA began implementing initiatives to save costs and reorganize its corporate structure. To reduce overhead costs, ICA relocated its headquarters and limited its spending on outsourcing services and leasing machinery. In addition, as part of the corporate reorganization, ICA formed a wholly-owned subsidiary called ICA Tenedora, S.A. de C.V. (ICATEN), which became the direct holder of a number of ICA's key assets and a guarantor of ICA's three series of outstanding notes.

Rescue Financing

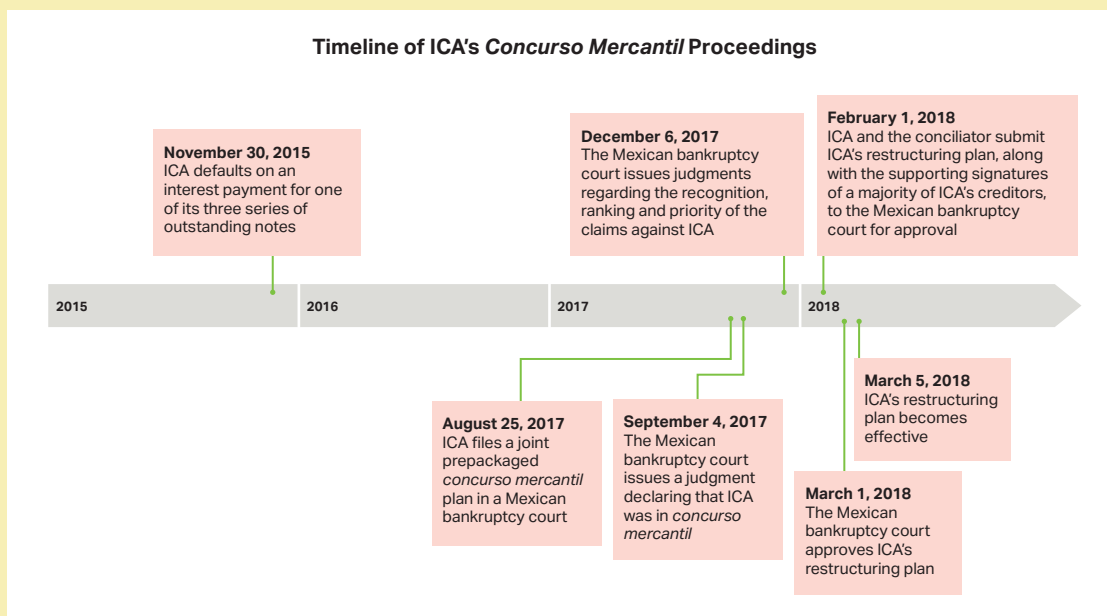
On June 16, 2016, investment fund Fintech Europe committed to provide ICA with USD215 million in rescue financing through a convertible loan. In lieu of repayment, Fintech's rescue financing provided Fintech several options to receive equity interests in ICA or certain of its subsidiaries. After ICATEN was incorporated, the rescue financing was amended to include shares of ICATEN in these options. Fintech has until the third anniversary of the loan, or June 16, 2019, to exercise these options. The initial tranche of the financing was disbursed prior to the commencement of ICA's *concurso mercantil* proceedings, and the disbursement of the second tranche was approved by the Mexican conciliator overseeing ICA's restructuring. The entire facility was recognized as a credit in ICA's *concurso mercantil*.

With the aid of the rescue financing from Fintech, ICA was able to participate in the bidding process for projects related to the New Mexico City International Airport and was awarded projects to construct the foundation, terminal building and electrical distribution network.

Concurso Proceedings

Timeline of ICA's *Concurso Mercantil* Proceedings

On August 25, 2017, ICA filed a joint pre-packaged restructuring plan with the support of Fintech, ICA's largest creditor. The restructuring plan also included four of ICA's intermediate holding company subsidiaries, which was important for ICA in order to avoid interrupting any of its



operating subsidiaries' ongoing construction projects. The Mexican bankruptcy court issued a judgment declaring ICA in *concurso mercantil* on September 4, 2017, and on December 6, 2017, the Mexican bankruptcy court issued its judgment recognizing over Ps.38 billion of unsecured claims. The restructuring plan provided for the payment of this debt with 99.99% of the common shares of ICATEN (prior to any dilution through the exercise of the conversion features of the rescue financing). In order to support ICA's continuing operations, the restructuring plan also granted ICA the option to implement a management incentive plan worth up to 10.00% of ICATEN's equity, which would dilute the interests of ICA's new shareholders.

Having obtained the support of the majority of creditors of each of the entities involved in the *concurso mercantil* proceedings, ICA and the conciliator submitted ICA's restructuring plan to the Mexican bankruptcy court for approval on February 1, 2018. The Mexican bankruptcy court approved the plan on March 1, 2018, and it became effective on March 5, 2018. ■

Key Takeaways

- Largest international restructuring of a Mexican company since 2015
- Innovative rescue financing provided, despite constraints on DIP financing in Mexico
- Implementation of restructuring through *concurso mercantil* proceedings took just seven months



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