

DEAL NEWS / CHILE

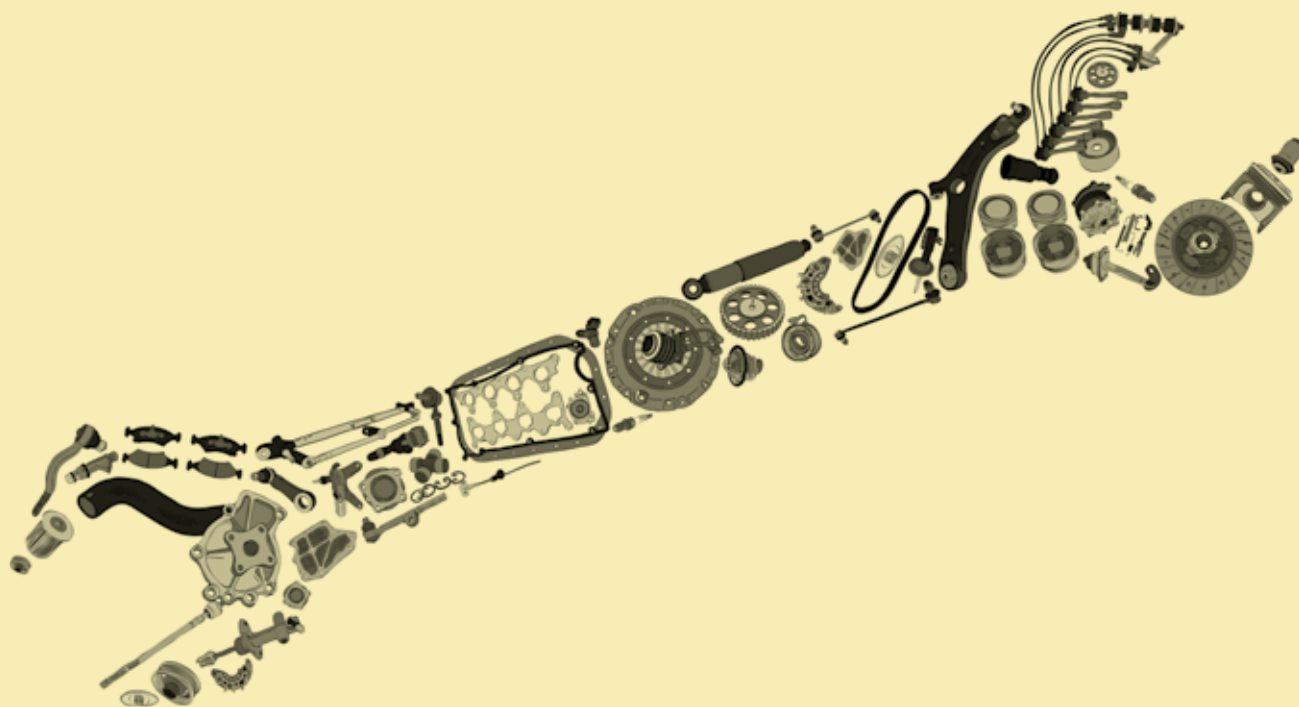


Restructuring Chile's Automotores Gildemeister

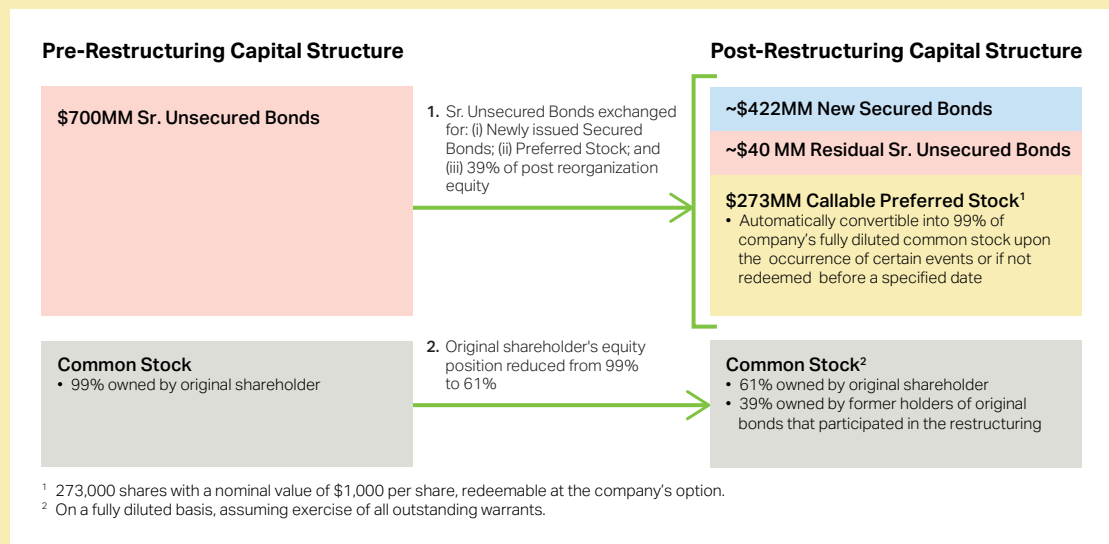
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After a years-long boom fueled by increasing consumer spending and high commodity prices, economic growth in Chile in 2014 fell to its slowest pace since the 2009 recession. Few Chilean companies suffered more as a result than **Automotores Gildemeister**, one of the largest vehicle importers and distributors in Chile. The company, which also has significant operations in Peru and elsewhere in Latin America, faced a perfect storm of decreased vehicle sales due to lower consumer demand and higher import costs due to a weakening Chilean peso. With vehicle sales declining by over 15% in Chile and nearly 10% in Peru, credit rating agencies and financial analysts began asking whether Gildemeister would be able to continue servicing its debt, including \$700 million in U.S. dollar-denominated bonds issued during the boom years.

In April 2015, Gildemeister first sought to restructure its debt by offering holders the opportunity to exchange their original bonds for a combination of new bonds with a higher coupon and non-interest-paying notes denominated in Chilean inflation-linked units. The exchange was conditioned on participation by at least a majority of the original bonds, as is typical for an out-of-court restructuring of New York-law governed debt. Although it ultimately did not obtain the requisite participation, in part due to what some analysts described as the excessive risk presented by the inflation-linked notes, this initial exchange offer did signal to the market that Gildemeister was willing to take a constructive approach to restructuring its debt.



Following negotiations with an ad hoc group of holders representing over 70% of the original bonds, Gildemeister launched a second exchange offer in December 2015. As in April, the exchange offer featured multiple securities: in this case, a combination of new bonds, preferred shares and warrants exercisable for common shares. Certain terms were made more attractive to entice bondholders to participate, including guaranteeing the new bonds with real estate and other assets. The company also sought additional financial flexibility by reserving the ability to capitalize (“PIK”) interest payments on the new bonds during the first 24 months. The offers also provided for a nominal par-for-par exchange, which was a critical commercial component of the transaction.



On February 24, 2016, Gildemeister announced the successful completion of its exchange offer, featuring the tender of over 94% of its original bonds, or approximately \$659 million. As a result of the restructuring, Gildemeister was able to reduce the debt on its balance sheet by approximately 30% and successfully renewed its vehicle distribution agreement with Hyundai Motor Company, its key supplier. The transaction represented one of the largest restructurings and debt exchange offers for a Chilean company and was exceptional for, among other things, the continuation of control of the company by its original owners and management.

Certain Novel Features of the Restructuring

Preferred Stock

Hybrid-like stock, redeemable at the company's option at a price linked to LIBOR and automatically convertible into common stock upon the occurrence of certain events or if not redeemed before a specified date. This stock type was essential in satisfying the commercially-desired par-for-par condition.

Distribution Mechanism

To facilitate the distribution of the preferred stock and warrants to bondholders that participated in the exchange, voting trusts were created for holders receiving small amounts of these securities. This mechanism ensured compliance with applicable securities laws while allowing such holders to effectively exercise their economic and voting rights.

Collateral

It was important for the structure to grant Gildemeister the financial and operational flexibility necessary to maintain access to liquidity and favorable relationships with suppliers while simultaneously providing adequate protection to participating bondholders. To this effect, receivables warehousing vehicles were created in Chile and Peru and versatile collateral trusts and similar entities were set up in Chile, Peru and Uruguay to secure the new bonds.