

SMARTER PERSPECTIVE: INDUSTRIAL

The Right Partner is Critical to Navigating the Nuances of Asset Sales for Distressed Companies in Mexico

By Samuel Suchowiecky

This is the first article in a two-part series outlining how you can successfully navigate through the complexities of managing the affairs of distressed businesses having locations within the borders of Mexico. This initial topic explores the importance for companies, boards of directors, investors, lenders, business advisors and other stakeholders to seek out highly qualified and respected partners within the market to assist with such efforts when a bankruptcy scenario is involved.

It was all cheers and accolades back in 2017 when Certus Automotive, based in Toronto, Canada, leased an industrial building in the state of Querétaro, Mexico. To the tune of more than \$20 million, Certus invested in upgrades throughout the facility and installed state of the art injection molding machinery for the manufacture of chrome plated plastic automobile components. And, to the delight of the community, they recruited upwards of 350 employees to work at the high-tech automotive plant. The fanfare did not last, however, by 2022, the plant was shuttered, and the assets were being auctioned off.

Liquidating the assets of a distressed company on foreign soil is a complicated assignment. In the case of Certus, they were a victim of bad timing,



For Receivers, the Right Partner Should Bring A Range of Liquidation Capabilities

- Thorough understanding of complex debt structure
- Experience in working with international creditors
- Command of current market dynamics and relevant historical transactions
- Wide buyer network and marketing capability within Mexico and Globally
- Comprehensive auction capability and proven record of success
- Expertise with landlord and stakeholder negotiations
- Capital resource to acquire debt directly when advantageous

as a cash flow crisis caused largely by the COVID-19 pandemic derailed their business both at home in Canada, as well as in Mexico, and the company was forced to declare bankruptcy. In June 2021, Deloitte Restructuring Inc., was

named Receiver in the bankruptcy and the lengthy and complicated wind-down process began. Bankruptcies are inherently messy, with multiple stakeholders to manage and intricate financial arrangements to untangle.

The assignment started as a liquidation effort, but quickly both parties realized that Hilco Global Mexico brought a wide range of expertise to the table and could do more than just monetize Certus' assets.



EXPERIENCE AND LOCAL KNOW-HOW MATTER

The first firm that Deloitte hired to assist them with the wind down process on the ground resigned after three months, admitting that their capabilities in Mexico were inadequate and they could not get the job done. This kind of work is difficult under any circumstances. Doing it in Mexico while a global pandemic dragged on made it even more challenging.

There are numerous nuances associated with bankruptcies, and unexpected events can and do happen. In the case of Certus, the company's debt structure was complex, including Canadian creditors among other financial institutions. There were also several parties interested in the asset sale, and that extended beyond the banks and investors to others such as the property owner and the community at large. One bright spot was that despite Certus being a victim of bad timing, once its high value assets reached the auction block, the automotive market had recharged. The acute supply chain constraints being felt in the auto

industry in 2021-22 meant that Certus' manufacturing equipment, valued in the millions of dollars, was attracting a number of interested buyers. The key was to set up the asset sale in such a way that would properly reach and inform qualified buyers prepared to purchase, and to guarantee that assets were secured and available for sale free of liens and ready to be exported or moved within Mexico.

One of the creative and highly successful features of the asset sale was that it was a dual, (i.e., simultaneous) auction in both the United States and Mexico. This was beneficial to a broad range of buyers and served to cast the net much wider than if the auction was held in just one country. The dual nature allowed for purchasing companies to choose what language to interact in, how to be invoiced, what currency to purchase with, and how to manage import/export details related to transporting the equipment to their locations. Finding a firm with the knowledge and resources necessary to accomplish this type of task can be quite difficult, so many times a decision is made to engage multiple firms. While

adding significant management time and fees cost, this approach often leads to diminished progress in monetizing assets due to associated legal and other delays.

The Certus example is merely that, an example of how having a local resource can make all the difference in the level of sophistication, the quality of the execution, and the results. The Deloitte team had realized that the partner they choose initially was ill-equipped, which cost them time and money. So, the second partner had to perform and needed to generate results quickly.

Ultimately, Deloitte regrouped and chose Hilco Global Mexico to help them with the asset sale. The assignment started as a liquidation effort, but quickly both parties realized that Hilco Global Mexico brought a wide range of expertise to the table and could do more than just monetize Certus' assets. In fact, Hilco Global Mexico acquired Certus' debt, foreclosed and took possession of the assets under Mexican law, organized the dual location asset sale, marketed the sale to its expansive network in North America, delivered the



In the end, the partnership delivered the facility back to the owner in superior condition and ready to lease to a new client; a win-win for the business stakeholders and the community.

assets for both export and in the Mexican market, and negotiated with the landlord. Importantly, all of this was accomplished in less than a six-month time span. In many cases such as these, landlords and other creditors can become adversaries. Here, however, the landlord was actively engaged in the asset sale and had a vested interest in its success based upon Hilco Global's master design. In the end, the partnership delivered the facility back to the owner in superior condition and ready to lease to a new client; a win-win for the business stakeholders and the community.

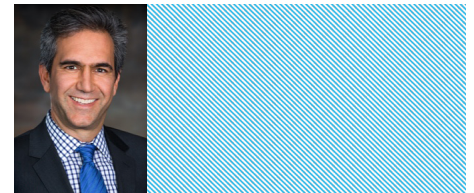
In the end, Deloitte's decision to engage Hilco Global Mexico yielded a far more comprehensive solution than was likely anticipated. Beyond being an experienced liquidator, our team brought a host of other expertise to the project that was critical to attracting buyers, securing the active involvement of key stakeholders and more, enabling the receivership team to achieve a multiple that was widely embraced by all involved.

HILCO GLOBAL MEXICO

For firms with assets in Latin America, Hilco Global Mexico offers vast expertise in valuation, monetization and advisory. For more than 20 years, it has conducted inventory and machinery and equipment valuations, monetized a wide variety of machinery and equipment from industrial facilities, performed retail asset disposition and acquisition, executed on commercial accounts receivable portfolios, and valued, sold and redeveloped real estate. Hilco Global Mexico's leadership team is experienced in Latin America markets and can deliver local expertise while tapping into Hilco Global's worldwide resources.

Hilco Global is a privately held diversified financial services company and the world's preeminent authority on maximizing the value of assets for both healthy and distressed companies. We leverage a unique blend of deep restructuring and advisory experience with capital solutions and principal investing in delivering customized solutions to that resolve complex, stressed situations and enhance long-term enterprise value. With a successful 35-year track record of acting as an

advisor, agent, investor and/or principal in any transaction, Hilco Global works to deliver the best possible result by aligning interests with clients and providing them strategic insight, advice, and, in many instances, the capital required to complete the deal.



SAMUEL SUCHOWIECKY IS CEO OF HILCO GLOBAL MEXICO

He is a graduate of the University of Texas at Austin where he earned a bachelor's degree in economics and sociology. Samuel received his law degree from Boston University Law School and has been a member of the California State Bar since 1992. Prior to joining Hilco Global, he was Senior Associate of Kuri Breña, Sanchez Ugarte y Aznar, a renowned corporate law firm based in Mexico City as well as Managing Director of a Real Estate group. Contact Samuel at: +1 52 55 5980 8213 or sams@hilcoglobal.mx.