

In-Class Case 1

Distress Investing

Goodrich Petroleum: Understanding Capital Structure, Indentures and Out-of-Court Restructurings

- ▶ 1. Use Capital IQ to answer the following four questions. What is the accounting value of the assets of Goodrich Petroleum Corp. and the public market appraisal of the value of its assets as of the end of the 3rd fiscal quarter of 2015 (September 30, 2015)? Is the value of the assets, both book and market, sufficient to cover all the company's liabilities? Can you draw any preliminary conclusions with this information?
- ▶ 2. What is the amount of leverage for Goodrich Petroleum Corp., measured as an asset coverage ratio (Long Term Debt / Total Accounting Value of Assets, and Long Term Debt / EV), and as a cash flow support ratio (Long Term Debt / EBITDA) at the end of its 2015 third quarter? What do these ratios, together with your answer to question 1 tell you about Goodrich's financial situation?
- ▶ 3. What is the composition and maturities of Goodrich Petroleum Corp. long term debt as of the end of Q3, 2015? Use Capital IQ to answer this question. Can you conclude anything from the table? How much in interest does the company have to pay on a yearly basis? (Use the table to estimate).
- ▶ 4. Does Goodrich Petroleum Corp. have enough cash and cash equivalents at the end of Q3 to pay a year's worth of interest?
- ▶ 5. How much in interest would Goodrich Petroleum Corp. save on a yearly basis if they managed to eliminate their debt "somehow".
- ▶ 6. How much in "dividends" (what type of dividends) did Goodrich Petroleum Corp. had to pay in 2014? Go to Goodrich Petroleum Corp. 10K Note 7 for dividend information.
- ▶ 7. How much can Goodrich Petroleum Corp. save if they could convert all "security" debt and preferred stock into non-dividend paying common stock? Will these savings make the company "feasible" as a going concern?
- ▶ 8. After what we saw in class about the holdout problem, examine the AES Exchange offer extension and figure out how the offer was structured to show meaningful downside to non-exchanging creditors that made that offer successful. Briefly explain.
- ▶ 9. Read the relevant section of the 8.875% Senior Notes 2019 indenture and answer the following questions: a) What Section of the Indenture reflects one of the Five Truths of Distress Investing: Nobody Can take away the right to a money payment unless the creditor so consents?, and b) Could Goodrich Petroleum Inc. do the same thing that AES did in their exchange offer? Why? Explain.
- ▶ 10. Why did Goodrich Exchange offer fail?