



KordaMentha

Getting the recapitalisation right

Picking over the carcasses of failed companies and seeking to bring them back to life is something of a specialty in the Western Australian corporate scene, where the appetite for risk and a ready supply of listed shells have spawned a unique industry. Some see this practice as a dark art, designed to create windfall gains from the misery of previous failure. Others see it differently, citing success stories that show practitioners in this particularly Perth-centric field are simply breathing new life into company shells, giving hope to shareholders who would otherwise have to totally write-off their investment. Long-serving insolvency expert Brian McMaster from KordaMentha is one who has seen the whole gamut of this small and tightly knit sector. "There is pretty much a formula to it," Mr McMaster said.

He said a typical recapitalisation started with a payout to settle existing creditors and put some funds in the bank, as well as a big consolidation of existing shareholders back to 4 per cent or so of the company. About 300 million new shares are issued, usually around 1 cent but sometimes higher and often with tranches that are just a fraction of a cent. When the shares relist, they need only gain one cent for those who got in at recapitalisation to make a significant gain, often having extracted fees along the way. "There is a reasonable rhythm to the ways professional recapitalisation people do it," Mr McMaster said. But he adds that they often offer the administrator the most cost-effective path to recouping something for creditors, and even existing shareholders are left with a tradeable security.

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