

Advance work helped Lear exit bankruptcy quickly

By Ryan Beene
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Lear Corp. is expected to emerge from Chapter 11 bankruptcy today under the ownership of its secured lenders and bondholders after only four months under court protection.

Based in Southfield, the world's second-largest manufacturer of automotive seats spent only four months under court protection and will be the first of six publicly traded auto suppliers that filed for protection this year to emerge.

Lear eliminated about \$3.6 billion in loan and bond debt, bolstered its liquidity, positioned itself to issue new common stock after its prior shares fell to worthlessness, appointed a new board of directors (See story, Page 37) and revamped most of its supplier agreements.

Lear CFO Matt Simoncini said the company's secured lenders and bondholders agreed that Lear will have a market value of about \$1.9 billion in equity, or roughly 54.3 million shares at about \$35 per share.

The company will also emerge with about \$1.1 billion in debt and \$1.2 billion in liquidity.

That's a far cry from the days leading to Lear's bankruptcy, when its shares were worth less than 50 cents.

Lear filed for bankruptcy on July 7 after seeing revenue fall sharply from months of crippling vehicle production cuts at its main customers while weighed down by a heavy debt load. The company had been in default on its loan terms since the beginning of the year, and spent months working to revamp its debt structure outside of court.

But the company won approval from banks representing about 68 percent of its outstanding loan debt and about half of the company's bondholders for the basic plan that is to ultimately be completed today, and was able to enter Chapter 11 with a plan largely drawn.

Ann Marie Uetz, a partner with Foley & Lardner L.L.P. and member of the firm's Detroit-based automotive team, said it was Lear's agreement with its creditors that was in place before filing that allowed the company to exit Chapter 11 more quickly than some anticipated.

“The big thing was the senior lenders and the bondholders forgave a bunch of debt in exchange for most of the equity in reorganized Lear,” she said. “This is a case where the bondholders didn't get wiped out and participated in the plan at the outset.”

Lear's lending group, including Bank of America, J.P. Morgan Chase, Deutsche Bank AG, and private equity firms Icahn Partners LP, KKR Financial and affiliates of the Carlyle Group, agreed to give up about \$2.3 billion in loan debt for a \$600 million new term loan and about 35.5 percent of Lear's new common stock, resulting in an exchange of about 65 cents on the dollar.

Lear's bondholders agreed to swap about \$1.3 billion in bond debt for 65 percent of Lear's \$1.9 billion in new common stock and warrants to buy an additional 15 percent stake in the future, or about 42 cents on the dollar.

Secured lenders are also receiving about 10.9 million preferred shares worth about \$500 million, and bondholders will receive 8.2 warrants to buy additional common shares. Once those restricted shares and warrants are converted, ownership will swing to the secured lenders, said Simoncini.

“The secured lenders are probably going to have about 60 percent of the fully diluted shares, and the unsecured lenders are going to have about 37 percent,” Simoncini said.

Lear pre-bankruptcy shareholders will get nothing for their holdings, as is the case in most bankruptcies.

Lear not only tackled its balance sheet under court protection, but some of its supplier agreements too.

“They used the strong arm of bankruptcy to achieve changes in their supply agreements that, in some cases, were more favorable,” said Uetz, who represented some of Lear's suppliers during its bankruptcy.

In order to continue doing business with Lear post-bankruptcy and to have an outstanding pre-bankruptcy bill paid in full, a supplier to Lear had to agree to get to more standard commercial terms payment of 45 days after delivery.

The move was motivated by concerns that a supply base anxious over whether it would be paid would make a bank run on Lear, demanding cash in advance or other faster payment terms, potentially draining Lear of precious liquidity.

“We were very concerned that there might be that desire, and we've seen it in other bankruptcy cases and our advisers had told us that in situations like these,” Simoncini said.

They had good reason to be.

According to the court statement, Erik Elie, Lear's vice president of purchasing for the North American seating division, said almost 150 suppliers tried to tweak payment terms leading up to Lear's bankruptcy.

Elie said 31 suppliers asked for cash in advance, 74 asked for cash on delivery, 74 threatened to stop shipping parts, as well as other demands.

“We did not see that, however, in our particular case because we were very forceful in our communication that the trade would be paid in full,” Simoncini said.

Van Conway, senior managing director of Conway, MacKenzie & Dunleavy, said Lear also benefited from some of the lessons learned through automotive bankruptcies prior to its filing, creating a better incentive for its stakeholders to work together.

For example, the bondholders that were next to wiped out in the bankruptcies of General Motors Corp. and then-Chrysler L.L.C. demonstrated what could happen if bondholders perpetually held out for a better deal.

Lear was also helped by filing for bankruptcy as the auto industry was close to bottoming, Conway said. Delphi Corp. emerged from bankruptcy just last month after filing in 2005, and Conway said its many attempts to emerge along the way were complicated by an automotive market that was consistently falling short of expectations and had more downside than upside.

Not so for Lear.

“I think people saw more upside than downside,” Conway said. “Nobody thinks there's huge downside in a nine-10 million (vehicle sales) market here.”

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