

**B8376-02: Distressed Value Investing  
Spring 2016**

**(\*\* Tentative spring 2016 syllabus: All information below is subject to change\*\*)**

**PROFESSOR NAME:**

- Michael Gatto

**COURSE:**

- **Distressed Value Investing (B8376-02)**
- **Thursday, 5:45 pm to 9:00 PM**

**REQUIRED COURSE MATERIAL**

- Required text book: Distressed Debt Analysis by Stephen G. Moyer

**REQUIRED PREREQUISITES AND CONNECTIONS TO THE CORE**

- An understanding of common valuations methodologies

**COURSE DESCRIPTION:**

The course will focus on evaluating and investing in the credit markets with a focus on investing in the bank debt and bonds of distressed/turnaround situations. Through the use of real world case studies, the course will examine the actual step-by-step process undertaken by a hedge fund / private equity professional when considering providing a loan or buying bank debt or bonds in the secondary market of a distressed company. By the end of the program, the students will develop an understanding of distressed debt investing and be able to perform a full credit/capital structure analysis and valuation of a distressed company in order to formulate trade recommendations.

Investing in distressed debt situations combines the intricacies of corporate organizational structures and legal frameworks with fundamental business valuation and securities selection. Given these nuances, the case studies will provide a gateway for students to experience and learn the different ways distressed debt investors make money in a classroom environment that promises to be interactive and fun. In order to further integrate practical investing insights into the classroom, there will be multiple guest lecturers that will supplement the coursework. Strategies explored will include:

- **Fundamental value plays.** Buying bank debt and bonds at market levels that imply valuations of the company significantly below its intrinsic value. For example, out-of-favor industries in secular decline such as the yellow page directories.
- **Legal structure plays.** For example, Enron and Lehman had multiple legal entries with bonds having different guarantors. Those investors that could figure out the legal structures quickly were highly rewarded.
- **Bankruptcy process plays.** We will learn about bankruptcy issues such as substantive consolidation, preferences, fraudulent conveyance, etc and examine how understanding these issues can lead to attractive trade ideas.
- **Distressed for control.** Buying bank debt or bonds with the intent of converting to the equity of the company.
- **New money lending.** We will go through examples of how investors made money lending into a distressed situation including Debtor in Possession (“DIP”) financing.

- **Off the run plays.** Buying trade claims or providing vendor puts.
- **Distressed M&A.** Buying a distressed company with the intent on monetizing the position through section 363 sale of the assets in bankruptcy.
- **Capital structure arbitrage.** Purchasing one instrument within the capital structure of a company versus selling another instrument within the capital structure of the same company.
- **Asymmetric upside/downside plays.** Investments where the trading levels of the credit are such that there is limited downside in a liquidation but significant upside in turnaround.
- **Negotiations and game theory.** A large element of distressed investing is managing through conflicts. The course will also go through basics negotiating strategies, which students will practice as part of the case studies.

### **Professor bio:**

#### **Michael A. Gatto – Partner**

Mr. Gatto was one of the first employees of Silver Point and helped grow the business from \$120MM of assets under management in 2002 to approximately \$8.5 billion currently. Silver Point was ranked the #1 and #2 hedge fund in Institutional Investor' Alpha: The Hedge Fund Report Card in 2013 and 2014, respectively.

After joining the Firm in April 2002, he became the Firm's first non-founding partner in January 2003. Mr. Gatto helped build out and runs several businesses for Silver Point. Today, he is the head of the Firm's Restructuring group, where he oversees a team responsible for driving and negotiating in and out-of-court corporate restructurings, the head of the Firm's C&I business, which engages in purchasing distressed loans backed by hard real estate assets and the head of Silver Point's principal lending business which focuses on lending to middle market companies. Prior to joining Silver Point, Mr. Gatto worked at Goldman Sachs as a senior member within the Special Situations Investing Business, specializing in investing in debt of distressed companies. Before joining Goldman Sachs, Mr. Gatto designed and taught credit training programs for loan officers of North American and European Financial Institutions. Prior to this, he was a loan officer and director of Global New Entry Training at Citibank. Mr. Gatto received an M.B.A. from Columbia Business School and graduated from Cornell University with a B.A. in Economics. He is also a CFA Charterholder and has served on several Boards, which have included specialty retailer Party City, and most currently a board member of New Cotai Holdings, a Macau gaming company and Chairman of the Board of Quinn Industries an Irish Industrial company.