

# Buyouts

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## Catalyst Capital sees spike in distressed, rescue deals with prolonged covid-19 downturn

*IGabriel de Alba, Catalyst's managing director and partner, sees the disruptive impact of the covid-19 outbreak as potentially lasting throughout 2020 and into 2021*

Turnaround investor Catalyst Capital Group is expecting a coronavirus-driven slowdown to be of long duration, spurring an uptick in demand for distressed private equity and rescue strategies.

"We anticipate an extended downturn due to the health crisis, not a V-shaped recovery, Gabriel de Alba, Catalyst's managing director and partner, told Buyouts. "The historical reduction in demand and resulting economic and financial dislocation is creating shockwaves across a multitude of private and public companies."

De Alba sees the disruptive effects of the global covid-19 outbreak as potentially lasting throughout 2020 and into 2021. In the event, there will be "fundamental changes" in the market, he said, including a requirement "to de-lever."

Catalyst's top priorities at present, de Alba said, include ensuring its team and employees of portfolio companies are safe and healthy. In addition, Catalyst is helping its businesses prepare for an increasingly tough economic environment, in part by reviewing cash flows, forecasts and obligations.

One portfolio company, Therapure Biopharma, a maker of complex biotherapeutics, is being provided with financial, operational and safety resources, de Alba said, to allow it to "continue to produce at full speed."



### Inbound opportunities

Catalyst is also being "overwhelmed" by inbound requests for rescue financing, de Alba said.

Many of the inquiries are coming from intermediaries on behalf of small and mid-sized businesses needing operational liquidity to address fast-emerging points of stress, such as covenant breaches, stalled acquisition plans and supply stoppages. Businesses are also reaching out directly to Catalyst.

Toronto-based Catalyst is also hearing from Canadian provincial governments, de

Alba said, who are looking for a partner to expedite the transfer of liquidity-focused programs to local companies.

In addition, Catalyst is fielding public-market opportunities from the holders of bonds and loans of listed businesses with liquidity challenges. As the volatility increases and debt becomes downgraded, de Alba said, collateralized-loan-obligation and other passive debt vehicles will be impacted and forced to sell.

### \$1 billion-plus to invest

Catalyst, which makes control and influence

investments in distressed and under-valued situations by acquiring senior secured debt, closed its fifth fund in 2015 at \$1.5 billion. Because of the long-running bull market and high valuations, it has been selective about doing deals, de Alba said, preserving its capital.

Catalyst as a result has \$1 billion-plus in dry powder to invest in “historical opportunities” in a downturn, de Alba said. Along with rescue financings, these opportunities will include operational turnarounds of leveraged companies, which have been a Catalyst staple since its launch in 2002.

Canada’s economy is especially vulnerable in a prolonged slowdown, de Alba said, because of its exposure to volatile commodity

prices. Catalyst has a key position in the home market, he said, as regulatory and structural factors impede foreign distressed PE investors from acquiring significant stakes in businesses in major industries.

De Alba does not expect to see demand for distressed PE and rescue strategies coming only from sectors immediately impacted by the coronavirus outbreak. Instead, because of the pandemic’s far-reaching effects, he expects deal flow to be “across the board.”

Catalyst has been active on the deal front in recent months. In January, Gateway Casinos & Entertainment, a gaming and entertainment business owned by Catalyst since 2010, agreed to merge with Leisure Acquisition

Corp. The \$1.1 billion deal will include an investment by HG Vora Capital Management.

Catalyst also exited its minority investment in Hudson’s Bay Co, the owner of Saks Fifth Avenue, with the March close of the retailer’s \$1.5 billion privatization. The firm played a central role in prompting a higher bid from the buyout group, led by Hudson’s Bay chairman Richard Baker and joined by investors like Rhône Group.

Catalyst was founded by de Alba and managing partner Newton Glassman, a former executive with Cerberus Capital Management. Other senior team members include managing director and COO Rocco DiPucchio and managing director James Riley. ■