



Tragus - the power of a CVA

Peter Saville, Partner, Zolfo Cooper LLP and Clare Kennedy, Director, Zolfo Cooper LLP recently completed the successful CVAs for the Bella Italia and Café Rouge brands owned by Tragus Group.

Earlier this year Zolfo Cooper advised on the restructuring of the Tragus Group. The performance of the business had suffered as a result of a tail of unprofitable sites across its three main brands - Café Rouge, Bella Italia and Strada. The brands needed to be refreshed with significant capital investment required to support a large-scale refurbishment programme and a new site roll out plan for the Bella Italia brand.

However, the need to service high levels of debt in the group resulted in cash constraints on the business. Therefore a restructuring of the group was required to provide additional funding, reduce the level of debt and secure the future of the business. Zolfo Cooper was engaged to assist Tragus in reviewing the options available as well as implementing CVAs of the Café Rouge and Bella Italia brands and commencing a sale of the Strada business. In concluding that a CVA was the most suitable option, it was important to consider the potential impact on each of the group's brands, relationships with key stakeholders and the impact on the 7,300 staff employed by Tragus. In June, creditors formally approved the proposed CVAs. While there were many factors that contributed to making this a success, three of the key areas are discussed below.

1. Consider the options

Where a CVA is being considered as a possible solution, a solvent restructuring should always be considered first, together with alternative insolvent options that may achieve the same objectives. A full diagnostic review should be undertaken to assess the option that best suits the circumstances.

This review will assess the costs and benefits of the CVA process compared to the alternatives, including not just fees but also the impact on trading performance of the reduced portfolio and any associated cost savings that can be made and a potential squeeze on working capital in the event that suppliers use the CVA to tighten terms.

Also as part of assessing the options, it is important to assess the likelihood of creditors accepting the CVA. Voting models, which can be updated as creditor intentions become clear, will help to demonstrate the likely results.

2. Communication

Early engagement with institutions, such as the British Property Federation, assist the Nominee in ensuring that the proposals are well thought through and in the best interests of creditors.

The initial communication with creditors will occur on the launch of the proposals. During the 14-day period between the launch and the creditors meeting(s) the company has the opportunity to communicate with its creditors, which is key to communicating the benefits of the proposals to creditors and gauging the level of support ahead of the meetings.

At the meeting(s) the Nominee should be prepared to offer clear explanations of the selection criteria for each CVA category and the implications of the proposals for each category of creditors. This open communication is important to ensuring a fair and transparent process for creditors.

3. Fairness

A fair proposal is a statutory requirement, that is, terms must not favour one class of creditor over another. To ensure that the proposals are fair, they should offer them better returns than would be received in a winding up. As well as the financial advantages, creditors will also benefit from a 'soft landing' including: a staged return of the property over an agreed period of time; the prospect of a long term tenancy with a replacement tenant; the services of a property agent at the company's cost, and the benefit of any key operating contracts and assets.

Fairness also applies to the treatment of lease guarantee claims, whether provided by those companies subject to a CVA or not. In a complex company structure, numerous entities often provide lease guarantees. While it may be tempting to strip guarantees at a nil value, recent case law has found this to be inequitable and has resulted in a successful challenge. Establishing the value of the companies providing guarantees is a vital piece of the jigsaw.

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