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Hertz Swaps In New $6B Ch. 11 Plan Sponsor Package

By **Jeff Montgomery**

Law360 (May 14, 2021, 6:59 PM EDT) -- Hertz Global Holdings coasted through a nearly uneventful, fist-pumping pitch for a new $6 billion Chapter 11 plan sponsor agreement in Delaware bankruptcy court on Friday, securing approval to move ahead with revised numbers and disclosures under a proposal that would cover in full all creditor claims.

The revised sponsor terms swapped in during a hearing before U.S. Bankruptcy Judge Mary F. Walrath assigned a roughly $7.4 billion total enterprise value to the business, with equity holders potentially emerging with as much as $8 per share in total value, as opposed to the wipeout they were facing at the start of the case last year.

"We're on the verge of a truly remarkable recovery, not only for the company, but also our stakeholders," Thomas E. Lauria of White & Case LLP said. "We're on the precipice of being able to pay all creditors in full, that is, unimpair them, and to provide a substantial return to our shareholders."

The deal upgraded Hertz's original May 2020 bankruptcy condition, fueled by a replacement sponsoring agreement led by Knighthead Capital Management, Certares Opportunities and Apollo Capital Management.

The Knighthead group deal emerged early Wednesday after a final bidding war topping 30 hours, holding off competing, increasingly better offers from Centerbridge partners, which will exit the competition with a termination fee of more than $77.2 million, plus expenses.

Included in the proposed plan is more than $2.78 billion from the direct purchase of common stock by plan sponsors and others, nearly $1.64 billion from stock purchases arising out of a rights offering, a $1.5 billion stock purchase by Apollo or others arranged by Apollo, and a $1.3 billion exit term loan.

Allowed administrative, priority, secured and unsecured funded debt claims will be paid in full, as will a €725 million ($880.37 million) European vehicle debt. General unsecured claim holders will be paid in full or have their claims reinstated.

Existing common stockholders will receive shares of $239 million in cash equating to about $153 per share along with shares of common stock representing 3% of the reorganized company and either a share of 30-year warrants for 18% of the reorganized company's common stock or an opportunity to participate in a rights offering for about 35% of common equity.

While Hertz's current view is that the case could coast through confirmation since all interests are unimpaired, averting a potential confirmation vote battle, Rachel C. Strickland of Willkie Farr & Gallagher LLP, counsel to the ad hoc noteholder group, cautioned that the noteholders have concerns about interest payments and other consideration due the group, with impairment and voting rights of the group potentially in dispute.

"The revised plan purports to unimpair all creditors. As a result, the debtors are going to take a position at confirmation that they don't need an impaired, accepting class. And they'd better be right, because they don't have one," Strickland said. "We intend to vigorously defend our interests."

Hertz filed for Chapter 11 protection in May 2020 with about $20 billion of debt, citing a major downturn in business as the COVID-19 pandemic ravaged the travel industry.

Lauria said the company's revenues had declined by 90% before the bankruptcy filing. The company blamed the move on the widespread business and travel restrictions that were implemented in March 2020.

The company's stock, which was trading around 50 cents a share shortly after the bankruptcy and bounced above $5 per share soon afterward, after the court approved a resumption of stock sales while in Chapter 11. That trading halted after the U.S. Securities and Exchange Commission said it intended to review the sales, which were carried out in the shadow of what was then a projected eventual wipeout in the bankruptcy reorganization.

On Friday, Hertz stock was trading at $6.78 per share near the close of markets, the highest level since March 2020.

"This case proves that no one, not even the SEC or the New York Stock Exchange, knows the future," Lauria said, noting that the stock sale might have saved the company from the need for borrowing in Chapter 11.

Amy Caton of Kramer Levin Naftalis & Frankel LLP, counsel to the official committee of unsecured creditors, said separately that her group also has concerns, but was not able to elaborate on Friday after having signed on to a plan support agreement with Centerbridge.

"We're in the unusual position of still being bound to a plan support agreement that does not technically permit us to support another plan," Caton said, adding that the previous sponsor had declined to release the committee from its commitment.

Caton said the constraints of the support agreement on the earlier plan were expected to terminate once the new sponsoring agreement is approved, clearing the way for the committee to pursue its concerns.

Hertz and its affiliates are represented by Thomas E. Lauria, Matthew C. Brown, J. Christopher Shore, David M. Turetsky, Andrew T. Zatz, Andrea Amulic, Jason N. Zakia, Roberto J. Kampfner, Ronald K. Gorsich, Aaron Colodny, Andrew Mackintosh and Doah Kim of White & Case LLP and Mark D. Collins, John H. Knight, Brett M. Haywood, Christopher M. DeLillo and J. Zach Noble of Richards Layton & Finger PA.

The ad hoc committee of shareholders is represented by Robert J. Dehney, Eric D. Schwartz, Joseph C. Barsalona II and Brett S. Turlington of Morris Nichols Arsht & Tunnell LLP and Andrew K. Glenn, Shai Schmidt, Richard Ramirez and Naznen Rahman of Glenn Agre Bergman & Fuentes LLP.

The Knighthead group is represented by Michael W. Yurkewicz and Morton R. Branzburg of Klehr Harrison Harvey Branzburg LLP and Stephen E. Hessler, AnnElyse Scarlett Gains and John R. Luze of Kirkland & Ellis LLP.

The ad hoc noteholder group is represented by Rachel C. Strickland, Daniel Forman and Agustina G. Berro of Willkie Farr & Gallagher LLP and Edmon L. Morton, Matthew B. Lunn and Joseph M. Mulvihill of Young Conaway Stargatt & Taylor LLP.

The unsecured creditors are represented by Jennifer R. Hoover, Kevin M. Capuzzi and John C. Gentile of Benesch Friedlander Coplan & Aronoff and Thomas Moers Mayer, Amy Caton and Alice J. Byowitz of Kramer Levin Naftalis & Frankel LLP.

Centerbridge Partners LP is represented by Andrew Harmeyer, Nelly R. Almeida and Gerard Uzi of Milbank LLP and David B. Stratton of Troutman Pepper.

The case is In re: The Hertz Corp. et al., case number 1:20-bk-11218, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Rick Archer, Dorothy Atkins, Carolina Bolado and Vince Sullivan. Editing by Orlando Lorenzo.
