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Hertz Gets OK For Ch. 11 Plan Providing $1B To Stockholders

By **Vince Sullivan**

Law360 (June 10, 2021, 4:40 PM EDT) -- Car rental giant Hertz Global on Thursday gained approval for a Chapter 11 plan of reorganization returning $1 billion of value to shareholders, which a Delaware bankruptcy judge called "a remarkable result" about a year after the company had been staring down the edge of a liquidation cliff.

During a virtual confirmation hearing, debtor attorney Thomas Lauria of White & Case LLP said that when Hertz entered bankruptcy in May 2020 it was facing serious challenges that threatened the future of the company.

"Just over one year ago, Hertz entered Chapter 11 struggling under numerous daunting burdens brought on by the COVID-19 pandemic," Lauria told the court. "At the time of filing, the mere survival of the business was in question."

But after a turbulent case, the company had achieved an extraordinary result that will pay off all of its remaining debt and provide a significant recovery for shareholders, Lauria said.

The bankruptcy proceedings saw an effort by Hertz early in the case to sell new securities that would have raised $1 billion in new liquidity — a plan that was promptly nixed by federal regulators — and a back-and-forth equity sponsorship auction that was delayed several times.

In the end, a group led by Knighthead Capital Management and Certares Opportunities won the Chapter 11 auction to fund the debtor's reorganization, pledging $6 billion to a plan slated to pay all secured and unsecured creditors in full.

A single objection to the plan remained active before Thursday's confirmation hearing, with Gamco Investors Inc. opposing the releases in the plan and arguing that they didn't cover prepetition litigation claims.

U.S. Bankruptcy Judge Mary F. Walrath overruled that objection, saying the language in the plan documents was clear that such claims were covered by the releases.

Judge Walrath approved the plan, saying it presented a reorganization option that had initially seemed impossible when the company declared bankruptcy.

"I share the debtor's and the committee's and everybody's belief that this is a fantastic result in this case that was unheard of a year ago, and really surpasses any result I've seen in any Chapter 11 case that I have faced in my 20-plus years," Judge Walrath said. "I am happy to enter an order on this plan. It's a remarkable result. I thank everybody, counsel and their clients, for making this happen today."

Hertz filed for Chapter 11 protection with about $20 billion of debt, citing a major downturn in business as the COVID-19 pandemic ravaged the travel industry. According to its court filings, Hertz's revenue dropped by nearly 90% almost overnight as business and travel restrictions were put in place by state governments in response to the disease outbreak.

Hertz undertook an effort to sell thousands of vehicles in its fleet to cover obligations under fleet financing agreements and took in much more money than originally anticipated. This effort came after the U.S. Securities and Exchange Commission said in June 2020 that it would subject to review the company's plan to sell up to $1 billion in new shares — a plan approved by the bankruptcy court a week earlier — and caused Hertz to kill the stock issue.

Earlier this year, Hertz said it was moving forward with an equity sponsor deal from the Knighthead-Certares group to fund its Chapter 11 plan, but then pivoted to a better offer from a group led by Centerbridge Partners.

When Hertz appeared in bankruptcy court in April to seek approval of its plan disclosure statement, it said it had received a new offer from the Knighthead group. Judge Walrath said Hertz couldn't ignore the new offer and needed to determine if it was a better bid than the one in hand. After subsequent reviews of the competing bid, the company ran a quickfire bid and auction process that ended up with Knighthead making the best offer.

The deal consists of $2.78 billion in common equity investments from Knighthead, Certares and Apollo Capital Management LP, the issuance of $1.5 billion in new preferred shares to Apollo and a fully backstopped new rights offering being made available to existing common shareholders of Hertz to purchase nearly $1.64 billion of additional common shares.

The plan will eliminate $5 billion of corporate debt owed by Hertz, including all the corporate debt owed by its European affiliates, and will provide $2.2 billion in new liquidity for the company.

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 LLP 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 Jeff Montgomery. Editing by Alanna Weissman.
