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MANAGEMENT TRUSTWORTHINESS IN DISTRESSED COMPANIES: RELEVANCE FOR THE APPROVAL OF RESTRUCTURING PLANS BY BRAZILIAN PRIVATE BANKS

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ABSTRACT

This research hypothesizes that, for companies in financial distress, management trustworthiness is relevant in creditors' decisions – specifically private banks – regarding the approval or rejection of the borrowers' restructuring plan. Data extracted from the most extensive restructuring proceedings filed before the Court of the State of São Paulo show a moderate positive correlation between changes in the debtors' management and the approval of their plans. Questions made to the financial institutions indicate an even stronger correlation and that the management compensation package influences the approval of the borrowers' restructuring. These two objective references – changes in management and managers' compensation package – ground the conclusion that management trustworthiness is relevant for the private financial institutions' decisions on their debtors' debt renegotiation. However, there are some mismatches among the data obtained from the legal proceedings and the answers of the creditors, suggesting that the banks do not have a straightforward procedure to assess their borrowers' management trustworthiness and to insert it with a specific weight in their credit granting procedure.

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INTRODUCTION

Based on (i) the data from relevant restructuring lawsuits filed before the Court of the State of São Paulo and (ii) the answers of the specialized teams of the largest Brazilian private financial institutions, this article finds the correlation between distressed companies management trustworthiness and their banking creditors' decision regarding the approval or rejection of a business restructuring plan. The question explored was: is there a correlation between distressed companies' management trustworthiness and the way their banking creditors vote on their restructuring proceedings? The analysis and the conclusions are essential both for the borrowers and the lenders in their negotiation process due to the aggregation of a qualitative issue to the traditional quantitative banks' credit granting procedure. However, it is possible to verify that the private Brazilian financial institutions still do not have a transparent approach to assessing their debtors' management trustworthiness, what must be refined shortly considering the increment in the number of distressed companies that are recurring to debt restructuring plans in Brazil. The research did not reach the state-held banks because the data extracted from the lawsuits pointed out their bias against a debtor's restructuring regardless of its management trustworthiness.

Besides, the analysis faces also a limitation related to the relatively small number of cases where the private financial institutions were decisive for the borrowers' restructuring procedure and the small number of respondents to our questions, limits somehow mitigated because of the level of concentration in the Brazilian banking market, as explained hereof. The paper concludes that there is a positive correlation between distressed companies' management trustworthiness and their banking creditors behavior, meaning that (i) such companies shall pay attention to their management as an asset or an obstacle for their restructuring approval by the private banks, (ii) there is a market to be explored by specialists in business turnaround (the "turnaround directors"), and (iii) the financial institutions should clarify their policy of debtors' management trustworthiness assessment. The lack of papers specifically devoted to the subject of this study reveals a theoretical gap to be fulfilled, adding management trustworthiness as a new qualitative variable to the credit granting procedure for distressed companies. It is important to reinforce that the research is qualitative, not quantitative, enlighten the relevance of the managers' profile for the distressed company success in convincing their banking creditors to approve a restructuring plan. Moreover, even though it uses the Brazilian data, its conclusions might be generalized for other jurisdictions with a similar business environment (high level of banking concentration and the current increase in the number of distressed companies).

The Hypothesis: Management trustworthiness is relevant for a private bank's decision regarding a distressed company's restructuring plan: Brazil was hit by the pandemic in 2020 in a very fragile moment, still facing the effects of the economic depression that started in 2015. Companies' financial statements revealed a dramatic situation, with losses never imagined. Nevertheless, credit was essential for their survival. The lenders of the formal credit market were out of alternatives but financing them. Otherwise, companies would disappear, dragging such lenders that, in general, were highly exposed to their credit risk. Brazil is experiencing a massive number of insolvency proceedings or other debt restructuring initiatives undertaken not only by small and midsize firms but also by some of the most traditional Brazilian business groups. The following chart pictures the recent numbers of judicial recovery lawsuits (Oliveira Filho, 2018):

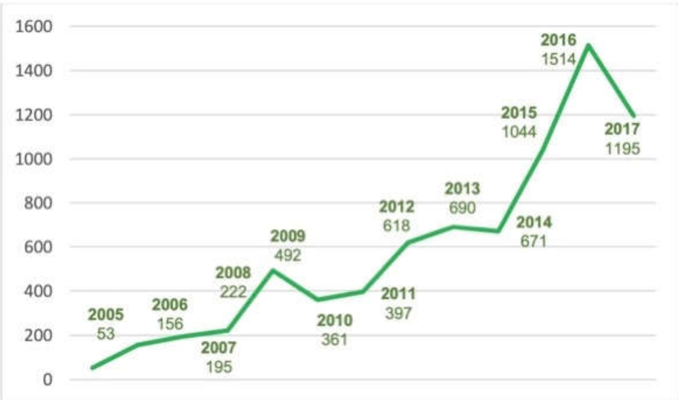

Figure 1. Evolution of insolvency cases

From 2018 on, the numbers are consistently growing. In 2018, 1,408 judicial recovery procedures were filed, with 1,215 accepted by the Brazilian courts. In 2019, there were 1,387 new lawsuits and the acceptance by the courts grew 3,6%, reaching 1,259 procedures (Serasa Experian, 2020). In 2020, the numbers were slightly smaller because of the restrictions the pandemic imposed on the courts' activities and the creditors' mood that became more open to negotiate their loans. Besides, borrowers were waiting for the approval of a new insolvency regulation that entered into force at the end of that year. Law no. 14,112/2020 amended Law no. 11,101/2005 to improve some debt restructuring mechanisms. In the first quarter of 2021, judicial recovery lawsuits had some growth (Serasa Experian, 2021). In this scenario, the standards for credit granting assessment were no longer sufficient for the traditional lenders. The objective analysis, based on financial statements, started identifying a catastrophic picture most of the time. Nonetheless, the option of not financing was not in place, not because of a fraternal perspective, but because of an egoistic move of the lenders to save themselves from an unstoppable chain of widespread bankruptcy. By credit granting we consider the vote for the approval of a business restructuring plan ("B.P.") both in court and out-of-court procedures, since such approval goes with the belief (faith = credit) that the company will be financially recovered and at least a part of the debt will get paid. As explained by Hensen and Ziebarth (2017, p. 246): "There are two reasons that creditors might reduce the share of defaulting debtors they pursue during a crisis. First, during a crisis, asset repossessed in a state proceeding or liquidate in bankruptcy may have little market value. Second, if many debtors default at the same time, pursuing each and everyone may be prohibitively costly". It is common sense that, together with the due diligence required for credit risk assessment, the lenders suffer the pressure of granting credit to survive among their competitors. The outcome is that emotional decisions are taken, forfeiting the reputation analysis (Monteiro & Teixeira, 2008). Thus, an accurate view on this issue may become a leverage to deal with the competition, filtering the lender's exposure to different classes of borrowers and encouraging more assertiveness in the credit concession process. In a "distressed world", a qualitative approach in credit assessment will be necessary more than ever. Nevertheless, reputation turns out to be a susceptible item for the decision on financing a company. The question is: the reputation of whom? Of the company itself, based on its products, branding, clients, or of the company's managers, persons in charge of the mission to restructure it? The credit market was supposed to follow the principle that, before an uncertain behavior, the borrowers' reputation depends on their earlier actions. However, the recent Brazilian economic and political crisis, including the "Lava Jato" effects, proves that "there is an incentive for an enemy to behave like a friend in order to increase his future opportunities, and for partnerships to last until someone cashes in" (Sobel, 1985, p. 570).

Even when we do not consider external events such as economic crisis and crimes investigation, Brazil has a recent track record of reputation miss-assessment. The X Group, owned by Eike Batista, is an example. A BBC newspaper article headline asked: "How the market did not realize the fragility of Eike's companies?" (Corrêa, 2013). The people interviewed stated that the Brazilian context was optimist and that Eike could get closer to the government and hire acknowledged persons to manage his companies. Such measures create an "aura" of credibility for his projects, although all he has offered to the market were greenfield business with undetailed operational projections. It seems to be a case of trusting the managers instead of the company. This explains why we suggest a distinction between reputation and trustworthiness. The first comes from previous behavior and is more abstract based on third-party references. The latter comes from the current circumstances when one shows enough capability to achieve an essential target to someone else. Thus, a person may have a good reputation but might not be trustworthy for a specific situation. In other words, based on its past reputation, many business groups approached lenders friendly hiding or, at least, not telling the factual grounds of its current apparent prosperity. Thus, a backward perspective (reputation) on credit analysis ended up being myope for payment capability forecasts. A forward perspective (trustworthiness) became strongly required.

Some studies based on interviews with representatives of lenders intended to find out the relevance of the borrower's reputation in the credit granting decision process, pointing out that such relevance changes according to the markets, being different, for example, the financial institutions from the suppliers of goods (Segura, Molini & Ferreira, 2016). Studies on the lenders' trust regarding the borrowers reveals the influence of the subjectivity in the credit concession decision. The *lender's feeling*, meaning its *sensation* about the likelihood of being repaid, is highlighted as an essential role in such a process (Monteiro & Teixeira, 2008). There is no doubt that reputation (backward perspective), in a broad sense, is crucial for the credit market. It has a close linkage with the cost of debt, as some studies demonstrate through interesting analysis based, for example, on *Fortune* magazine's "most admired companies" survey. From such a survey, Anginer *et al.* (2011) found an inverse relationship between a company's reputation and its bond credit spreads. Besides, they identified that firms with high reputations face less stringent covenants and are less likely to trigger authorities' fraud investigations. Finally, their study found evidence that firm's reputation represents "soft information" precious to lenders. It is why credit analysis's well-known path targets a more open analysis beyond the simple financial statement concerns. According to Rötheil (2013, p. 313), initially, back in the 1800s, lenders used only"3 Cs" for their assessments: Character, Capacity, and Capital. Character used to mean:

> the honesty and integrity of the prospective borrower, which, in turn, consist of a number of factors like the reputation for business honesty, the attitude towards obligations, the standing in the community, and the record in previous business connections.

However, due to the accounting evolution, the companies' books became more and more relevant. Nowadays, there are "5 Cs" of credit: Character, still closely related to borrowers' repayments historic; Capacity, represented by its liquidity levels; Capital, based on its debt ratio; Collateral, verified from the guarantees available; and Conditions, informed from the macroeconomic situation (Souza & Chaia, 2000).

The concept of character is evolving to consider punctuality, restrictions and market acknowledgment, each item getting different baselines and weights (Boratti, 2002, p. 109):

Table 1

Items	Definition
Punctuality	Based on the information of the credit registers
Restrictions	Protests of bills, checks, tax debts, credit collection lawsuits
Market acknowledgment	Respect for clients, ethical behavior

Although the character expresses some reputation features, the chart shows its assessment basically from technical and economic variables (backward perspective), following the commodification of the credit data. Notwithstanding, such data shall be interpreted, and the pure credit score based on past repayments historic tends to be replaced by a more holistic reflection. So it is when the character changes into trustworthiness (forward perspective). Any subjective concept changes over time forced by the sophistication of human relations. After Grupo X and Lava Jato in Brazil, reputation (past) seems to lose space for trustworthiness (future). The assessment goes beyond honesty to include reliability and integrity. Historically, a construction company may have good financial statements and a tremendous technical capability to fulfill its contract obligations, which shows reputation. However, lacking integrity, does it inspire trustworthiness? Taking the lessons learned down here, probably not.
A company's reputation is formed by always acting responsibly (Soebel, 1985). Trustworthiness catches reliability in fulfilling promises with character, integrity, competence, and public acknowledgment of accomplishment and achievement. The traditional look on credit risk assessment is usually quantitative, grounded on economic-financial variables extracted from companies' financial statements (Assaf Neto & Brito, 2008). It is more accounting than economic guidance, standing far away from a qualitative analysis of trustworthiness. The past behavior is meaningful, of course. As Rowe *et al.* (2009, p. 189) captured, the essence of corporate reputation is beliefs about what the firm stands for, how it will act and react: "A firm that has reacted well in the past to unexpected negative events or competitive challenges will be viewed as less risky". However, from Fehr and Zehnder (2009), it is possible to understand that what matters is the future. A trustworthy behavior occurs when someone voluntarily makes credit repayments regardless of social concerns and even with a substantial monetary incentive not to repay. It is not in question if the borrower *can* repay, which may be assessed through its financial information, but if it *will* repay. Following Moulton (2007, p. 309), "answering the second question often involves looking at 'softer, more personal' information." The Brazilian reality suggests that one of the main principles for credit granting was not followed recently: regarding the borrower and its controlling shareholder, there shall be no doubt on their integrity (Pereira, 1998). It has become more of a compliance concern but, in essence, the question should not be if the borrower works under the law only, but if its way of doing business, in general, is steady or surrounded by unclear issues. From this point of view, trustworthiness is not measured by a moral judgment: it comes from a posture of acting transparently under explainable tracks. It is a qualitative parameter that, as Gautier-Gaillard and Louisot (2006, p. 431) found out, refers to:

> ability to attract and retain talented personnel, quality of management, social responsibility to the community and the environment, innovativeness, quality of products and services, wise use of corporate assets, financial soundness, long-term investment value, and effectiveness in doing business globally.

What is, then, the relevance of the company's financial statements for such qualitative acknowledgement? For Arnold III (1989, p. 10), it seems to be a small part of the assessment:

> Financial statements do not tell you what events occurred or what management did or did not do in response to them. And, as already noted, favorable financial results can be the result of industry booms, bad management notwithstanding. (…) Skilled bankers recognize that placing too much reliance on historical financial data can be a dangerous practice. The lender should always extend the analysis into the operations of the borrower's business.

Studying the credit decision process of a large Brazilian bank, Boratti (2002) noticed that qualitative analysis might represent 50% or more of the risk assessment. While the quantitative approach has a retrospective sense, the qualitative one aims to forecast the company's future from its potentialities. For Moulton (2007), formal credit scores, essentially based on numbers through a backward perspective, shall be interpreted, and within the interpretation lies the flexibility that lenders enjoy to decide on the credit-granting: "lenders do not want to overlook potentially trustworthy borrowers because of credit scores that look bad at first glance" (p. 320). There is a famous history on a hearing where Mr. J. P. Morgan was questioned if loans were issued to those who have money to pay back, and he answered: "No sir, the first thing is the character", "Before money or property or anything else" (Laird, 2007, p. 72). There might be some romanticism in this speech, but, in current days, the more the consequences of the pandemic and international conflicts hit companies' financials, the more the "character" shows up as a relevant indicator for credit granting. Therefore, being the numbers necessary, but not sufficient, for a holistic credit assessment, the remaining space may be filled out by trustworthiness. As we read in Anginer *et al.* (2011), trustworthiness can replace tangible information about a borrower. In the lack of reliable data, it plays a more significant role in determining the cost of debt because it brings information not available in the standard credit risk measures. The outcome is that highly trustworthy firms are less likely to face bankruptcy.

And what happens for the companies already in financial distress? Their numbers are alarming, and, supposedly, their reputation is under attack. Nonetheless, the lenders exposed to the company's credit risk need to find a way to recover their money. It usually passes for a loan renegotiation under a restructuring B.P., meaning providing more credit. Is there still space for reputational concerns? It seems so, and even more when compared to healthy companies. For distressed companies, the assessment of the business' grounds coming from its long-term strategy and the people involved turns out to be decisive. Thus, trustworthiness is less related to the abstract legal entity itself and more to who runs it and the guidelines in place for the usage of the credit. The managers will be in charge of reorganizing the business in a hostile context of doubts about the future. Their trustworthiness is more relevant because risk-assessment information is ambiguous (Moulton, 2007) and the lenders need a reference to deposit their belief of being repaid. Such belief is connected to the expectation of a particular behavior where no absolute certainty can exist. Lenders have to be confident in predicting the borrower's next moves even though it is free to behave in a different way (Gärling, Kirchler, Lewis & Van Raaij, 2009). It is why managers should become the banks' focus of attention. It seems to be intuitive, but maybe it is not. Out of the distressed market, there are some formal references for the inquiry of managers' trustworthiness, such as academic backgrounds and specific experience in running the company's particular business (Boratti, 2002). However, a survey with 266 commercial loan officers in the USA found that only 8.5% stated they use a single numerical rating to summarize their evaluation of the management's quality (Fulmer, Gavin & Bertin, 1991).It is consistent with Moulton's(2007) findings that, although many bakers establish the importance of trustworthiness evaluation, they cannot speak of how it is evaluated or weighted in conjunction with other criteria. We hypothesize that, in distress situation, managers' trustworthiness ("M.T.") has space in lenders credit granting decisions, following Mac Clanahan (2014, p. 39: "the very category of 'creditworthiness' remains a quality of persons rather than of data") and Chakravarthy, Dehaan & Rajgopal (2014, p. 1330: "a firm's reputation represents stakeholders' collective expectation about management's intent and ability to fulfill its commitments"). A signal of M.T.'s relevance is the turnover at the management level in distressed companies. Based on 381 exchange-listed firms that experienced financial distress (default, bankruptcy, or debt workouts) in the USA at a predefined period, Gilson (1989) identified that 52% changed a senior-level manager, the banks' direct intervention responding for 21% of all management changes. It somehow matches Hotchkiss'(1995) conclusions. When analyzing post-bankruptcy performance, the author stated that the continued involvement of original management in the restructuring process is associated with poor "day after" performance. He blames the overly optimistic forecasts of such managers and points out that management changes appear to provide more helpful information about future performance. Therefore, in a restructuring procedure, the creditors expect more trustworthy managers to run the distressed company.

The relevance of M.T. in distressed companies: Chen and When (2017, p. 224) showed that a company with a poor corporate reputation but a good CEO reputation performs better than a company with a poor CEO reputation and a good corporate reputation:

> If a company has a poor reputation, recruiting a CEO with good reputation will help it to perform better. Conversely, if the CEO of a company has a poor reputation, the CEO's negative influence overwhelms the firm's good reputation. Therefore, 'choosing the CEO well' tends to be more important for firm performance than 'doing good'.

Sutton and Callahan (1987, p. 406) state that if people do not perceive top management as credible, "the faith in the organization erodes." It happens because the top management's function is to maintain a healthy relationship between the organization and the critical stakeholders. There is also an agency problem in distressed companies between creditors and top management arising from the manager's superior information. The executives know more about their capability to run the company and have firm-specific information, while creditors (and other stakeholders) cannot observe whether managerial actions are value-creating or not (Evans III, Luo & Nagarajan, 2014). Thus, M.T. seems to be the unique beacon to guide the creditors' decisions. The fiduciary duty generally imposed by corporate regulation over the managers helps to enhance the M.T. Paterson (2016) recalls that, in distressed situations, some current regulations like the English Common Law shift directors' duties from acting in the best interest of shareholders towards acting in the creditors' interest. Such provision boosted the figure of the "turnaround director" ("T.D.") that carries the creditors' expectations. According to Paterson, the T.D. pledges his/her reputation with the creditors rather than with the shareholders. It makes sense for the lenders that the debtor's top management changes into the T.D. mode in order to pursue the B.P. according to what was approved by the creditors. Along with managers' reputation (backward perspective) and their general fiduciary duty, economic incentives may reinforce the M.T. (forward perspective) before the lenders.

Economic incentives for the T.D: A manager devoted to complying with the B.P. negotiated with the creditors, exactly what defines the T.D., should not refuse a remuneration linked to match what was agreed. Therefore, the lenders should pay attention to the economic incentives the borrower defines to its administrators. As Ortiz-Molina noted (2006, p. 338): "Because shareholders often have an incentive to take risky investment projects that increase their wealth at the expense of bondholder wealth, the risk-taking incentives contained in managerial incentive structures are of particular importance to lenders." The author found evidence that bondholders anticipate future risk choices by management at the time of the debt issue, meaning that firms whose management has more substantial incentives to maximize shareholder value pay higher costs for their debt. The conclusion is that the more aligned the managers are with the shareholder, the higher is the agency costs of debt.

For companies in right financial conditions, some studies indicate mitigation in the agency problem arising between owners and managers through the offering of equity incentives (stock options, *v.g.*) to the latter (Bathala *et al.*, 1994; Blazenko, 1987; Hall & Liebman, 1998; Johnson, 1997; Hu & Kumar, 2004). However, in the case of distressed companies, there is little research on this subject (see Zwiebel, 1996). Novaes (2003) sees the debt in distressed companies as a disciplinary device for managers (which may reduce the agency problem). The author pictures that a combined work between the bankruptcy court and the debt holders would guide the shareholders to replace a suboptimal manager. After all, given the company restructuring, only inefficient managers may lead the firm into distress again. Hence, "debt can commit the firm to the reorganization plan while implying the replacement of an inefficient manager in financial distress" (p. 50). Thus, the relationship between lenders and the distressed company's managers is not an irrelevant issue.

Brockmann *et al.* (2004) state that decisive leadership is helpful when significant changes are necessary for the company turnaround. When the firm starts an insolvency procedure, managers' focus shifts from the organization's ongoing operation to survival. Therefore, immediate and decisive actions are needed, which requires an empowered manager to do so. In the author's words: "Assuming the organization survives the reorganization process, the results suggest that a powerful CEO is better able to implement a recovery plan than a prestigious one" (p. 190). His conclusions reinforce our distinction between reputation (backward perspective), where we can place the prestige, and trustworthiness (forward perspective), filled with the capability of accomplishing the distressed company's B.P.

A fascinating approach to M.T. comes from Listokin (2007), who analyzed the potential alignment among administrators and creditors in insolvent companies. After discussing the pros and cons of several compensation devices (pay-to-stay agreements, rapid-reorganization bonuses, granting stocks in the reorganized company, among others), he concludes that the best package is granting the managers a percentage of unsecured debt currently held by the creditors (p. 783):

> When the value of a bankrupt firm rises, it is typically the unsecured creditors who obtain the greatest benefit because they are the most common residual claimants. Granting a manager debt in the bankrupt firm allows the creditors to share these gains with the manager and ensures that the manager has the appropriate incentive to pursue these gains.

Listokin also recalls that if a manager's pay reflects the value he/she creates or destroys in bankruptcy, the creditors have a concrete reference of his/her potential conducts rather than depending exclusively on the managerial goodwill to ensure proper behavior. The rationale is consistent with Robicheaux *et al.*'s (2007) position. The compensation with debt is even more effective if the T.D. is an outsider replacing the ancient manager because the new administrator has more freedom to focus on the most salient stakeholders, who may take primacy over the shareholders (Chiu & Walls, 2019).

THE METHODOLOGY: DATA AND QUESTIONS

The hypothesis that M.T. has a positive correlation to lenders' decisions on restructuring distressed companies was tested from data and questions. Our research has two sources. The first is the judicial restructuring procedures ("R.J.") and the out-of-court debt workouts (for more information on the framework of such workouts, see Zanchim et al., 2021) presented before the Court of the State of São Paulo within January 2015 and August 2020 involving aggregated debt higher than BRL 100,000,000.00. As indicated by Figure 1 hereof, the period was chosen because 2015 marks the acceleration of the insolvency procedures in Brazil, when they exceeded the threshold of 1,000 per year. Furthermore, the State of São Paulo was elected because it is the richest one in the country, representing 31,56% of the national GDP (IBGE, 2018), it hosts 30,63% of the companies duly incorporated (Sebrae, 2020) and the headquarters of the financial institutions interviewed in this research. We have found 65 (sixty-five) cases in such a sample (Appendix A). However, (i) in 6 (six) there were no financial creditors; (ii) in 2 (two) there were no private banks as financial creditors; (iii) in 22 (twenty-two), by the time of this research, there were no creditors meeting yet; (iv) in 5 (five) the individual vote of the creditors was not disclosed; and (v) in 1 (one) the financial creditors sold their credit positions before the creditors meeting. Thus, in 29 (twenty-nine) cases it is possible to identify the financial creditors' position regarding the debtor's B.P.

Then, we examined changes in the borrowers' management in such cases, considering new directors' appointments for the chief executive officer and/or chief financial officer's seats. The occurrences and moments of these changes were assessed based on public information such as news, relevant facts disclosed by the companies, information from the restructuring proceedings and the Commercial Registry of the State of São Paulo. Out of the 29 (twenty-nine) cases in which it was possible to identify the financial creditors' vote regarding the debtor's B.P., we found out that some should not be considered for the present analysis. Firstly, we excluded a case with management changes along the whole Time Frame, as defined in section 3.1 (Before the Filing, After the Filing, and After the Approval), because such changes seem to be circumstantial (*outlier*).

Out of the 28 (twenty-eight) remaining cases, we excluded those where the state-held banks were dominant in terms of credit amounts, meaning 8 (eight cases). The reasons for such cut are the following:

- Out of the 28 (twenty-eight) cases, there were state-held banks as creditors in 20 (twenty), or 71.5%;
- Among these 20 (twenty) cases, those banks had most of the credit amount only in 8 (eight), or 40% of their cases. Despite that, they voted *contra* in 12 (twelve), or 60% of their cases, showing a bias against the borrowers' B.P. regardless of its grounds or any other aspect like M.T.;
- Such bias is reinforced by the 8 (eight) cases where the state-held banks were dominant, where they voted against in 5 (five), or 62.5% (4 (four) of which the private institutions voted in favor), meaning that, despite their amount of credit, the state-owned banks vote consistently against the restructuring (60% when we take all the cases they granted credits or 62.5% when we take only the cases where they had the majority of the loans);
- When we consider, among the 20 (twenty) cases, those with changes in borrowers' management before the state-held banks' votes, there were only 8 (eight) with new managers, where these institutions voted *contra* the restructuring in 4 (four), *pro* in 3 (three) and abstained from voting in 1 (one), while the private banks were in favor in 6 (six), against in 1 (one) and abstained from voting in 1 (one).

We have tested the correlation between the cases with changes in the debtors' management and the state-held banks' votes regarding the B.P. We chose Spearman's correlation coefficient (ρ_s) because the sample is small and we measure the variables at the ordinal level (Lira, 2004). We have also recurred to Pearson's coefficient (ρ_p) to explore the correlation under the perspective of a linear tendency of the variables (Figueiredo Filho & Silva Júnior, 2009). The results were similar for both coefficients. To parametrize the state-held banks' behavior, we have defined a grade representing the clarity of their view on the restructuring (excluding the case of abstention where it is not possible to verify their position), so (i) 1 it is all clear (*pro* or *contra*) and (ii) 2 it is clear (*pro* or *contra*).

The $\rho_s = -0.1889$ and the $\rho_p = -0.1890$, meaning a weak negative correlation. In other words, the correlation (i) being weak makes irrelevant the linkage between borrowers' management changes and their restructuring approval by the state-held banks, and (ii) being negative shows that such changes lead to higher rejection levels of the B.P. The weak correlation allowed us to exclude the cases where the state-owned banks were dominant in terms of credit amount, reducing the sample to 20 (twenty) cases. We also excluded 2 (two) cases in which there was only one private financial creditor, and it has abstained from voting because its credit was not big enough to influence the B.P.'s approval: its loan, compared to the amount of credit held by other creditors, was minor. Therefore, the sample contemplates, finally, 18 (eighteen) cases representing those where the private banks were decisive in the debtor's restructuring process approval or rejection ("Data Sample" – Appendix B).

TABLE 2

STATE-HELD BANKS' BEHAVIOR REGARDING THE DEBTORS' RESTRUCTURING	GRADE
Most favorable	2
All favorable	1
All against	1

TABLE 3

STATE-HELD BANKS' BEHAVIOR REGARDING THE DEBTORS' RESTRUCTURING (7 CASES *WITH* MANAGEMENT CHANGES)	CASES
2	2
1	1
1	4

The second source for the research arises from the answers to questions we have made through Survey Monkey to the restructuring teams of the major local privately held banks: Banco Itaú Unibanco S.A, Banco Bradesco S.A., Banco Santander S.A. According to the Data Sample, they were the most prominent financial creditors, holding together, excluding the state-owned banks, 67% of the loans of all the Data Sample cases added up. We have discussed the questions with two professors from FEA/USP and three senior members of the banks' restructuring teams. The dialogues were about the clarity of the questions and their adequacy to assess the genuine concerns of the financial institutions regarding the M.T. None of them has suggested any changes neither in the wording nor in the sequence of the questions. However, one of our interlocutors from a bank suggested a new question regarding the analysis of debtor's EBITDA of the previous 3 (three) years before the B.P., which reveals a backward perspective mindset. Since we are looking to understand the relevance of the debtor's management and not its financial statements, we decided not to include such a question. Another interlocutor from a different bank pointed out that, in his view, in 90% of the distressed cases the main issue is a management problem. Therefore, he states his team values strongly the appointment of new managers (CEO/CFO) aligned to the B.P.'s objectives (meaning the T.D.). The questions were answered by 13 (thirteen) bankers of a total of about 25 (twenty-five) members of the banks' restructuring teams. We have sent an email with the survey to the heads of such teams, so they forwarded it to the other members. We have asked for answers within fifteen days of the email receipt.

The data: Out of the 18 (eighteen) cases of the Data Sample,15 (fifteen) are judicial recoveries - R.J. and 3 (three) are out-of-court proceedings - RE. The Data Sample shows that in 12 (twelve) cases, or about 66%, the lenders voted in favor of the B.P. and in 4 (four) cases, or about 22%, they voted against it. In 2 (two) cases, or about 11%, most financial creditors abstained from voting.

PRIVATE FINANCIAL CREDITORS' BEHAVIOR REGARDING THE DEBTORS' RESTRUCTURING (Data Sample)	CASES
Most favorable	9
All favorable	3
Most against	3
All against	1
Most abstained from voting	2

In about 55% of the Data Sample, meaning 10 (ten) cases, there were NO management changes whatsoever within ("Time Frame"): (i) 1 (one) year before the beginning of the procedure ("Before the Filing"); (ii) from the filing of the procedure until the B.P.'s approval by the creditors ("After the Filing"); and (iii) 1 (one) year after the B.P.'s approval by the court ("After the Approval"). In other words, the incumbent managers stayed in charge throughout the restructuring process in the slight majority of the Data Sample.

Table 5

PRIVATE FINANCIAL CREDITORS' BEHAVIOR REGARDING THE DEBTORS' RESTRUCTURING (10 cases with *NO* management changes)	CASES
Most favorable	6
All favorable	1
Most against	1
All against	1
Most abstained from voting	1

When there were NO changes in the debtor's management within the Time Frame, the lenders approved the B.P. in 7 (seven) cases, or about 70%, and rejected it in 2 (two) cases, or about 20%. In the remaining case, or about 10%, they abstained from voting.

Of the other 45% cases of the Data Sample, meaning 8 (eight) cases that are specifically relevant for the research ("Specific Universe"), the management changed within the Time Frame as follows (*see* Figure 1):

- 2 (two) cases (25%) with changes only Before the Filing;
- 1 (one) case (12.5%) with changes both Before the Filing and After the Filing;
- 2 (two) cases (25%) with changes only After the Filing;
- 2 (two) cases (25%) with changes both Before the Filing and After the Approval; and
- 1 (one) case (12.5%) with changes both After the Filing and After the Approval.

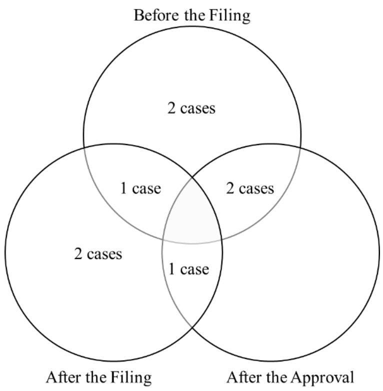

Figure 2. Changes in the management in the Specific Universe

Out of the 8 (eight) cases of the Specific Universe, in 5 (five) (62.5%) they voted for the B.P.'s approval and in 2 (two) (25%) they voted against. In the remaining case (12.5%), most private banks abstained from voting.

Table 6

PRIVATE FINANCIAL CREDITORS' BEHAVIOR REGARDING THE DEBTORS' RESTRUCTURING (8 cases *WITH* management changes)	CASES
Most favorable	3
All favorable	2
Most against	2
Most abstained from voting	1

Like we have done with the state-held banks, we tested the correlation between the debtors' management changing and the B.P.'s approval by the private institutions, using Spearman's and Pearson's correlation. Again, to parametrize the banks' behavior, we have used the same grade representing the clarity of their position regarding the B.P.'s approval, so (i) 1 it is all clear (*pro* or *contra*) and (ii) 2 it is clear (*pro* or *contra*).

Table 7

PRIVATE FINANCIAL CREDITORS' BEHAVIOR	GRADE
Most favorable	2
All favorable	1
Most against	2

There is no "all against" among that 8 (eight) cases. Thus, the correlation was proposed as follows:

Table 8

PRIVATE FINANCIAL CREDITORS' BEHAVIOR (cases *WITH* management changes, excluding 1 case of abstention)	CASES
2	3
1	2
2	2

The ρ_s = 0.5 and the ρ_p= 0.5, meaning moderate positive correlation. Thus, unlike the state-held banks, which presented a weak correlation allowing us to exclude them from the analysis, the private institutions' behavior reveals some linkage between changes in debtors' management and the approval of their B.P. However, since it is a moderate correlation, we combined the Data Sample statistical approach with questions for the banks' restructuring teams.

The questions: The questions were presented in this exact order, and once answered, it was not possible to go back and review the submitted response. They were translated into Portuguese and designed for the following purposes, not disclosed to the interviewees. Question 1pursues to ascertain if the banks analyze the managers' compensation package ("C.P.") to assess their M.T., confirming or disconfirming Question 4 regarding the alignment of the C.P. with the accomplishment of the companies' B.P. (Morrow, 2005). Question 2 tries to find if the banks' credit assessment of distressed companies has become more strategic, looking specifically into the debtor's B.P. governance. The higher the relevance of M.T. is, the higher the relevance of a T.D. will be, that is someone in charge of complying with the B.P. Therefore, the appointment of a T.D. is a dependent variable of the relevance of M.T. Question 3 intends to measure how much the banks are attached to the distressed company's credit score ("C.S.") comparing to its B.P. It might be a signal of the credit assessment vector: the payment historical, which is a backward perspective, or the debtor's business strategy, which is a forward perspective. The higher the relevance of B.P. over C.S. is, the higher the relevance of M.T. in the bank's decisions will be. Question 4 looks at the linkage between C.P. and B.P. The higher the relevance of B.P. is, assessed by Question 3, the higher the relevance of C.P. should be, because it is an objective parameter for M.T., the C.P. being a dependent variable of the B.P. Question 5 aims to check if the banks consider M.T. as a critical element of the B.P. It correlates with Question 3. The more the B.P. over the C.S. is appreciated, the more the M.T should be appreciated, in the sense of the managers' capability to accomplish the restructuring goals. Then, the relevance of M.T. is a dependent variable of the relevance of B.P. in the credit granting procedure. Therefore, the correlation between the variables is the following:

Table 9

INDEPENDENT VARIABLE	DEPENDENT VARIABLE
B.P.	C.P.
C.P.	M.T.
M.T.	T.D.
B.P.	M.T.

In order to parametrize the answers, we have defined the grades below:

Table 10

RELEVANCE	GRADE
very relevant	3
Relevant	2
neutral	1
little relevant	3
Irrelevant	2

Table 11

FREQUENCY	GRADE
Always	3
very often	2
few times	2
never	3

Table 12

PERCENTAGE	GRADE
higher than 100%	4
from 75% to 100%	3
from 50% to 75%	2
from 25% to 50%	2
from 0% to 25%	3

"This is a research about the relevance of managers' trustworthiness in your assessment for approving or rejecting a distressed company's restructuring plan. It will complement data extracted from 18 (eighteen) judicial restructuring procedures and out-of-court debt workouts presented before the Court of the State of São Paulo within January 2015 and August 2020 involving aggregated debt higher than BRL 100,000,000.00. The answers will be anonymized, without identification of the financial institution".

How often do you assess the management compensation package before approving a distressed company restructuring plan?

- always;
- very often;
- few times;
- never;

Table 13

ALTERNATIVES	ANSWERS	GRADE
Always	3	3
very often	6	2
few times	3	2
Never	1	3

How relevant for your decision on the restructuring of a distressed company is the appointment of a "turnaround director" with powers and duties to accomplish its restructuring business plan?

- very relevant;
- relevant;
- neutral;
- little relevant;
- irrelevant.

Table 14

ALTERNATIVES	ANSWERS	GRADE
very relevant	6	3
Relevant	7	2
Neutral	0	1
little relevant	0	3
Irrelevant	0	2

In your decision regarding the restructuring plan of a distressed company, what is the weight of the company's business plan presented (restructuring plan) over its credit score (repayment historic)?

$$WBP = BP \div CS$$

Where

WBP = Weight of Restructuring Business Plan
BP = Restructuring Business Plan
CS = Credit Score

(a) higher than 100%
(b) from 75% to 100%;
(c) from 50% to 75%;
(d) from 25% to 50%;
(e) from 0% to 25%;

Table 15

ALTERNATIVES	ANSWERS	GRADE
higher than 100%	1	4
from 75% to 100%	6	3
from 50% to 75%	5	2
from 25% to 50%	1	2
from 0% to 25%	0	3

To what extent is a management compensation package aligned to accomplishing the restructuring business plan presented by a distressed company is considered relevant for your credit-granting process?

- very relevant;
- relevant;
- neutral;
- little relevant;
- irrelevant.

Table 16

ALTERNATIVES	ANSWERS	GRADE
very relevant	10	3
relevant	2	2
neutral	1	1
little relevant	0	3
irrelevant	0	2

What is the relevance of the debtors' management staff (C levels) quality in your assessment of the restructuring business plan?

- very relevant;
- relevant;
- neutral;
- little relevant;
- irrelevant.

Table 17

ALTERNATIVES	ANSWERS	GRADE
very relevant	11	3
relevant	2	2
neutral	0	1
little relevant	0	3
irrelevant	0	2

The correlation between the variables, according to Table 9, was made by matching the answers with the same grades.

Table 18

B.P. (question 3)		C.P. (question 4)	
GRADES	ANSWERS	ANSWERS	GRADES
3	6	10	3
2	5	2	2
2	1	2	2
3	0	0	3

Correlation ρs = 0.7659ρp = 0.7660 strong positive he results mean that the private banks' decision on the approval of a distressed company's business plan (B.P.) has a strong positive correlation to such company's management compensation package (C.P.).

Table 19

C.P. (question 4)		M.T. (question 5)	
GRADES	ANSWERS	ANSWERS	GRADES
3	10	11	3
2	2	2	2
2	2	0	2
3	0	0	3

Correlation ρs = 0.9803ρp =0.9803very strong positive

The results mean that, for the private banks, the distressed company's management C.P. has a very strong positive correlation to its management trustworthiness (M.T.).

Table 20

M.T. (question 5)		T.D. (question 2)	
GRADES	**ANSWERS**	**ANSWERS**	**GRADES**
3	11	6	3
2	2	7	2
2	0	0	2
3	0	0	3

Correlation ρs = 0.6346ρp =0.6347strong positive

The results mean that, for the private banks, the distressed company's M.T. has a strong positive correlation to the changes in such company's management bringing in a turnaround director (T.D.).

Table 21

B.P. (question 3)		M.T. (question 5)	
GRADES	ANSWERS	ANSWERS	GRADES
3	6	11	3
2	5	2	2
2	1	0	2
3	0	0	3

Correlation ρs = 0.7976ρp =0.7977 strong positive

The results mean that, for the private banks, the approval of a distressed company's B.P. has a strong positive correlation to such company's M.T.

Table 22

C.P. (question 4)		C.P. (question 1)	
GRADES	ANSWERS	ANSWERS	GRADES
3	10	3	3
2	2	6	2
2	2	3	2
3	0	1	3

Correlation ρs = 0.0911ρp =0.0912very weak positive

The results mean that, for the private banks, the C.P. being aligned to the accomplishment of the B.P. has a very weak positive correlation to the frequency such lenders assess the C.P. before approving the distressed company's B.P., a mismatch to be explored below.

In general terms, the correlations hereof ground the inference that the higher the relevance of the B.P. over the C.S. is, meaning the banks assessing the distressed company through a forward perspective, the more relevant the M.T. will be in the decision of approving the debtor's restructuring. Thus, according to the answers, there is a strong positive correlation between B.P. and M.T. We have used two objective variables to test such correlation: the C.P. and the T.D. If the banks analyze the C.P., they supposedly have a concern on the M.T. M.T. is also under watch if the appointment of a T.D. is essential for the financial institutions' decision on the B.P. The answers show a very strong positive correlation between C.P. and M.T. and a strong positive correlation between M.T. and T.D.

DISCUSSION

Parametrizing the private banks' position with a grade representing the clarity of their votes, we wrote Table8(Section 3.1)that shows a moderate positive correlation between their decision regarding the B.P. and the debtors' management changes (T.D.). The correlation between M.T. and T.D. coming from the answers hereof are in line with such conclusions: T.D. increases M.T., which enhances B.P. (Section 3.2). However, when we correlate B.P. with T.D. based on the answers, the correlation is even more robust, being much more intensive than what is shown by the data extracted from the lawsuits:

Table 23

B.P. (question 3)		T.D. (question 2)	
GRADES	ANSWERS	ANSWERS	GRADES
3	6	6	3
2	5	7	2
2	1	0	2
3	0	0	3

Correlation ρs = 0.9598ρp =0.9598very strong positive

It shows that T.D. appears more important in the banks' speech regarding the approval of a B.P. than in the cases presented before the Courts. A similar phenomenon happens with C.P. and M.T.: very strong positive correlation according to the banks' answers, indicating that C.P. might be a criterion for the M.T. measurement and, therefore, a relevant element for B.P. approval. Nevertheless, when we test the banks' concern about the C.P., matching their frequency of C.P.'s assessment (Question 1) with the relevance they grant for the alignment between C.P. and B.P. (Question 4), the correlation is very weakly positive. It means that, despite the financial institutions declare they appreciate the C.P. being aligned to the accomplishment of the B.P., they do not review the C.P. in practice. With the premise that the answers were sincere, we can conclude that M.T. is relevant for the banks' decision and T.D. increases the chances of the B.P. approval, but, in the cases we have analyzed, the correlation was moderate probably because other aspects of the restructuring were as decisive as the M.T., or even more relevant.

The divergence in the answers about the C.P. may be explained because of the corporate structure the companies usually have in Brazil: they are controlled by families whose members are the managers. Therefore, the concurrence of shareholder and management positions reduces the C.P.'s weight because the family members are incentivized to act like owners and not as arm's-length managers. Unlike what Gilson (1989) found in the USA, in Brazil the banks do not seem to act strongly towards changing the distressed company's management (see also Sarraf, 2019). There might be two reasons for that: (i) the seniority of their debt and (ii) the local corporate structure mentioned above. Boot (2000, p. 14) has identified that "the more senior the bank's claim is, the less sensitive its value will be to the firm's total value." Therefore, the credit seniority reduces the bank's concerns on the debtor turnaround because the money recovery will come more from liquidating an asset than from the company's further performance. In Brazil, banks usually ask for liens that give them preference over other creditors or put them aside from the legal restructuring procedures like judicial recovery or bankruptcy (Silva *et al*., 2020).

Thus, they expect to be paid regardless of the B.P. On the corporate structure side, due to the high level of the shareholders' influence over the management, few managers are really independent and empowered enough to work on behalf of the company's and its stakeholders' interests. Moreover, it might disincentivize the banks to pay attention to M.T./T.D./C.P. since the incumbent administrators tend to keep their positions during and after the restructuring process, continuing more aligned to the shareholders than to the creditors. Once this corporate structure is typical of the Brazilian markets, the banks should strengthen their credit assessment procedure investigating the borrower's governance to verify, before the credit granting, how independent from the shareholders the management is. Naturally, the higher the independence is, the higher should the relevance of M.T. be, a survey that may complete the present one in the future.

CONCLUSION

The combination of the data extracted from the legal proceedings and the answers of the banks' restructuring teams confirms the hypothesis that M.T. has a positive correlation to the financial institutions' decision regarding the approval of a distressed company's B.P. Notwithstanding, the banks do not have a straight forward procedure to assess the M.T. and insert it with a specific weight in their decision. It leads us to three conclusions: (i) the distressed companies shall pay attention to their management as an asset or an obstacle for their B.P. approval, (ii) there is a market to be explored by T.D., which also justifies the design of academic programs focused on the formation of specialized managers both in technical and reputational issues to run distressed legal entities, and (iii) the banks should formalize and disclose their policy of M.T. assessment so the companies can make movements accordingly before presenting a B.P. for approval. Altman, Hotchkiss, and Wang (2019, p. 145) figured out in the USA that "it is also clear that the governance structure of the emerging firm is importantly related to post-bankruptcy performance; as more firms exit Chapter 11 under the control of senior creditors, the problem of recidivism may decline". After more than 15 years of the Brazilian Insolvency Law No. 11,101/2005, Brazil now sees some companies leaving their insolvency status by complying with their B.P. Further studies might confirm if they match with the USA experience where the creditors' assessment of their debtors' management turned out to be a relevant issue for the success of the B.P. they have approved. The primary limits of our research are related to the relatively small number of cases (18) where the private financial institutions were decisive for the B.P. approval or rejection and the small number of respondents to our questions (13). These limits are somehow mitigated because of the high concentration level in the Brazilian banking market, where the ten largest institutions grant more than 80% of the credit (Brazilian Central Bank, 2020), which induces the major banks to act under similar parameters shared by their restructuring teams. Thus, each analyst represents a standard behavior regarding the debtors that access such a market. Further research with new data and more respondents may circumvent the limits we have faced.

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1. Appendix A

Restructuring proceedings data

COMPANY	PROCESS Nº	TYPE OF PROCEDURE	PART OF DATA SAMPLE	COMMENTS
Grupo Queiroz Galvão Energia S/A	1031024-59.2019.8.26.0100	Out-of-court	No	No financial creditors
Máquina de Vendas Participações S/A	1088556-25.2018.8.26.0100	Out-of-court	No	No financial creditors
Metodo Potencial Engenharia S/A	1089203-88.2016.8.26.0100	Out-of-court	No	No financial creditors
Brickell Participações S/A	1102800-56.2018.8.26.0100	Out-of-court	No	No financial creditors
Grupo FCB Construções	1098107-29.2018.8.26.0100	Judicial	No	No financial creditors
Grupo Toutatis	1081674-47.2018.8.26.0100	Judicial	No	No financial creditors
Face Brz Comercial Exportadora e Importadora Ltda - ME (Bebida BEBA RIO)	1125916-28.2017.8.26.0100	Out-of-court	No	No private financial creditors
Grupo Saraiva	1119642-14.2018.8.26.0100	Judicial	No	No private financial creditors
Grupo Hopi Hari	1002265-62.2016.8.26.0659	Judicial	No	Private financial creditor was not decisive in the restructuring process
Grupo Abril	1084733-43.2018.8.26.0100	Judicial	No	Private financial creditor was not decisive in the restructuring process
Energy Comercial Importadora e Exportadora Ltda.	1024569-78.2019.8.26.0100	Out-of-court	No	State-held banks were dominant in terms of credit amounts
TPI - Triunfo Participações e Investimentos S/A	1071904-64.2017.8.26.0100	Out-of-court	No	State-held banks were dominant in terms of credit amounts
Grupo Campofert	1000202-82.2018.8.26.0210	Judicial	No	State-held banks were dominant in terms of credit amounts

Grupo Heber	1080871-98.2017.8.26.0100	Judicial	No	State-held banks were dominant in terms of credit amounts
Grupo Cotia	1115829-47.2016.8.26.0100	Judicial	No	State-held banks were dominant in terms of credit amounts
Grupo Atvos	1050977-09.2019.8.26.0100	Judicial	No	State-held banks were dominant in terms of credit amounts
Grupo Odebrecht	1057756-77.2019.8.26.0100	Judicial	No	State-held banks were dominant in terms of credit amounts
TexBarred's Moda Ltda.	10210587720 168260100	Judicial	No	State-held banks were dominant in terms of credit amounts
Grupo Packseven	1002488-91.2020.8.26.0362	Judicial	No	No creditors meeting
Santaconstância Tecelagem Ltda	1041161-66.2020.8.26.0100	Judicial	No	No creditors meeting
Grupo Santa Rita	1000431-30.2020.8.26.0547	Judicial	No	No creditors meeting
Itaiquara Alimentos S/A	1001798-97.2019.8.26.0103	Judicial	No	No creditors meeting
Grupo Sices Solar	1001994-14.2020.8.26.0271	Judicial	No	No creditors meeting
Nacom Goya Indústria e Comércio de Alimentos Ltda.	1000002-51.2020.8.26.0260	Judicial	No	No creditors meeting
Grupo Fulguris	1045681-22.2019.8.26.0224	Judicial	No	No creditors meeting
Concessionária Rodovias do Tietê S/A	1005820-93.2019.8.26.0526	Judicial	No	No creditors meeting
Central de Álcool Lucélia Ltda.	1001872-64.2019.8.26.0326	Judicial	No	No creditors meeting
Grupo Moreno	1001008-13.2019.8.26.0589	Judicial	No	No creditors meeting
Grupo Bardella	1026974-06.2019.8.26.0224	Judicial	No	No creditors meeting
Grupo Terra Forte	1001471-18.2019.8.26.0568	Judicial	No	No creditors meeting
Grupo Pires do Rio	1000506-49.2019.8.26.0565	Judicial	No	No creditors meeting
Grupo Foton	1128854-59.2018.8.26.0100	Judicial	No	No creditors meeting
Grupo Enfil	1103381-71.2018.8.26.0100	Judicial	No	No creditors meeting
Grupo Agroz	1005630-13.2017.8.26.0038	Judicial	No	No creditors meeting
Grupo CBA	1004934-08.2015.8.26.0309	Judicial	No	No creditors meeting
Concreserv Concreto S/A	1039842-97.2019.8.26.0100	Judicial	No	No creditors meeting
Grupo Estre Ambiental	1066730-69.2020.8.26.0100	Judicial	No	No creditors meeting
Cia. Energética de Santa Clara S/A	1031026-29.2019.8.26.0100	Judicial	No	No creditors meeting
Queiroz Galvão Energética S.A.	1031027-14.2019.8.26.0100	Judicial	No	No creditors meeting
Grupo Renova	1103257-54.2019.8.26.0100	Judicial	No	No creditors meeting
Leão Engenharia S.A.	1013208-15.2016.8.26.0506	Judicial	No	Financial creditors sold credit
Têxtil Canatiba Ltda.	1004884-18.2017.8.26.0533	Judicial	No	No individual votes
Grupo Sina Alimentos e Fas Empreendimentos	1062847.56-2016.8.26.0100	Judicial	No	No individual votes
Grupo PDG	1016422-34.2017.8.26.0100	Judicial	No	No individual votes
Grupo GEP	1007989-75.2016.8.26.0100	Judicial	No	No individual votes
Grupo Viver	1103236-83.2016.8.26.0100	Judicial	No	No individual votes
Grupo UTC	1069420-76.2017.8.26.0100	Judicial	No	Outlier
Agropecuária Nova Vida Ltda.	1001533-07.2019.8.26.0100	Judicial	Yes	
Grupo SHC	1113802-23.2018.8.26.0100	Judicial	Yes	
Livraria Cultura S/A	1110406-38.2018.8.26.0100	Judicial	Yes	
Usina Rio Pardo S/A	1001538-52.2018.8.26.0136	Judicial	Yes	
Q1 Serviços e Recebimentos Ltda (Grupo Colombo)	1058981-40.2016.8.26.0100	Out-of-court	Yes	
Grupo Abengoa Bioenergia Brasil	1001163-43.2017.8.26.0538	Judicial	Yes	
Tecsis Tecnologia e Sistemas Avançados S/A	1096653-48.2017.8.26.0100	Out-of-court	Yes	
Grupo Isolux	1072469-28.2017.8.26.0100	Judicial	Yes	
WowNutrition Indústria e Comércio S/A	1001790-97.2017.8.26.0101	Judicial	Yes	
Grupo BMart	1012521-92.2016.8.26.0100	Judicial	Yes	
Grupo Eternit	1030930-48.2018.8.26.0100	Judicial	Yes	
Grupo OAS	1030812-77.2015.8.26.0100	Judicial	Yes	
Grupo Libra	1077065-21.2018.8.26.0100	Judicial	Yes	
Grupo Urbplan	1041383-05.2018.8.26.0100	Judicial	Yes	
Grupo Clealco	1005788.14-2018.82.6.0077	Judicial	Yes	
Alumini Engenharia S.A.	1002851.64-2015.8.26.0100	Judicial	Yes	
Grupo Itapemirim	0060326-87.2018.8.26.0100	Judicial	Yes	
Restoque Comércio e Confecções de Roupas S.A.	1046426-49.2020.8.26.0100	Out-of-court	Yes	

Methodological premises:

1. Analysis restricted to the State of São Paulo.
2. Time scope: 2015 - Aug. 2020.
3. Valuation cleavage: over 100 million (value of the claim).
4. In cases with procedural or substantial consolidation, the analysis is restricted to the leading company.

Appendix B

Restructuring proceedings - Data Sample

Company	Type of proce-dure	Changes in the manage ment	New managers	Position	Financial creditors Position regarding plan's approval
Restoque Comércio e Confecções de Roupas S.A.	Out-of-court	None	N/A	N/A	All favorable
Tecsis Tecnologia e Sistemas Avançados S/A	Out-of-court	None	N/A	N/A	Most favorable
Q1 Serviços e Recebimentos Ltda (Grupo Colombo)	Out-of-court	None	N/A	N/A	Most favorable
Agropecuária Nova Vida Ltda.	Judicial	None	N/A	N/A	Most against
Grupo SHC	Judicial	None	N/A	N/A	Most favorable
WowNutrition Indústria e Comércio S/A	Judicial	None	N/A	N/A	Most against
Usina Rio Pardo S/A	Judicial	None	N/A	N/A	Most favorable
Grupo Abengoa Bioenergia Brasil	Judicial	None	N/A	N/A	Most favorable
Grupo BMart	Judicial	None	N/A	N/A	Most abstained
Alumini Engenharia S.A.	Judicial	None	N/A	N/A	Most against
Grupo OAS	Judicial	Before the filing	Agenor Franklin Magalhães Medeiros	CEO	Most against
			Elmar Juan Passos Varjão Bomfim	CEO	
Grupo Clealco	Judicial	Before de filing	Alberto Ferreira Pedrosa Neto	CEO	Most favorable
			Gabriel Motta de Carvalho	CFO	
			Gustavo Henrique Rodrigues	CFO	
Grupo Eternit	Judicial	Before the filing	Luis Augusto Barcelos Barbosa	CEO	All favorable
		After the filing	Vitor Manuel Cavalcante Mallman	CFO	
Livraria Cultura S/A	Judicial	After the filing	Eduardo Matzenbacher	CFO	Most against
Grupo Isolux	Judicial	After the filing	David Barman Artiles	CEO	Most favorable
Grupo Libra	Judicial	Before de filing	Roberto Lopes dos Santos	CEO	Most favorable
			Francis Augusto da Silva	CFO	
		After the approval	Cláudio Bayard Caetano Ramos	CEO	
			Renivaldo Alves da Silva	CFO	
Grupo Urbplan	Judicial	Before the filing	Nelson de Sampaio Bastos	CEO	Most against
			Alberto Mendes Tepedino	CFO	
		After the approval	Alexandre Damião de Carvalho Ruelas	CEO	
Grupo Itapemirim	Judicial	After de filing	Sidnei Piva de Jesus	Managing partner	Most favorable
			Camila de Souza Valdívia	Managing partner	
		After the approval	Rodrigo Otaviano Vilaça	CEO	

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