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PUZZLE MASTER

FRED ZEIDMAN,
CHAIRMAN OF TURNAROUND
FIRM GORDIAN GROUP

TOMLINSON SHOW SOME LOVE TO COMMERCIAL TENANTS
COMMENTARY HOUSTON IS POISED TO LEAD THE RECOVERY



Courtesy

Peter Kaufman is president of Gordian Group and head of restructuring and distressed M&A.



Staff file photo

In 2002, Fred Zeidman was president of Enterprise Capital Corp., and has led other ventures in Houston.





C-SUITE INSIDER

Untangling deals

Gordian Group's Zeidman and Kaufman see opportunity in adversity

Naomi Snyder
CONTRIBUTOR

For many decades, people have called Houston's "Mr. Fix It" when they have a problem. That man is Fred Zeidman, 73. He started his turnaround career inside the executive suite, having gotten a taste for trouble as chairman and CEO of Unibar Corp., a drilling fluids company he purchased in the early 1980s, right before the bottom fell out of the oil market.

"We made it through the bad times and came out of it with cash in our pocket," he said. Zeidman sold the company to Anchor Drilling Fluids in 1992.

Karen Warren / Staff photographer

For many decades, Zeidman has been seen as Houston's "Mr. Fix It" — and he continues to live up to that moniker.

Instead of souring on the bad times, Zeidman became somewhat of a fix-it expert. He was interim chief financial officer for the troubled Texas Heart Institute six years ago and served 13 years ago as chairman and CEO of Houston-based Seitel, which provides seismic data and geophysical expertise to the oil and gas industry in North America. Since 2014, the Houston resident has worked as chairman of the New York-based investment bank Gordian Group, which specializes in representing companies, directors, shareholders and private equity firms — but never creditors — in challenging capital situations.

Zeidman has worked on Houston-area deals with Peter Kaufman, president of Gordian Group and head of the firm's restructuring and distressed M&A practice. They recently represented the sellers of Vital-Pet, a chain of veterinary practices, that sold to Destination Pet for \$47.5 million. Two years

ago, Gordian was on the Higman Marine advisory team in its sale to Kirby Corp. for \$419 million in cash. It recently represented Sam Kane Beef Processors of Corpus Christi and the publicly traded Marcellus Shale producer Trans Energy in West Virginia.

Anticipating a ramp-up in energy sector distress, Gordian Group announced a joint venture in January with investment banking company Seaport Global Holdings to provide financial restructuring, asset sales and divestitures, capital raising and advisory services to the energy sector.

Zeidman is the affable cousin to Kaufman's no-nonsense personality. They don't agree on every point. But in the following conversation, edited for brevity and clarity, they do agree that dire times are ahead for almost every aspect of the economy.

Q: I don't want to sound glib, but do you expect to get very busy soon?

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“We do well when others suffer. It’s the truth. We’re the street sweepers.”

Peter Kaufman, president of Gordian Group

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Zeidman: Absolutely. I abandoned New York 45 years ago to come back home. We have been through these cycles before. The joint venture we put together with Seaport Global, who has been in this neighborhood a long time, could not have been more prescient. I can’t imagine with \$20 oil, we won’t see more problems. I never like to make money off someone else’s misery, however, it’s a profession I chose.

Kaufman: Our phone was ringing off the hook in terms of energy and now our phones are ringing off the hook in every possible industry, private equity, health care and anything related to consumers. It’s a perfect storm out there. I’m less apologetic than Fred is. We do well when others suffer. It’s the truth. We’re the street sweepers.

Q: How do you think the region is positioned relative to the rest of the country to handle a recession?

Zeidman: Houston has always been strategically and economically diverse. We have had the refinery industry which is dependent on lower oil prices and the energy industry which is dependent on higher oil prices. That’s been an advantage for Houston. But now you have energy people shut down and consumer demand worldwide nationally and globally shut down. I can’t tell you how long this is going to take.

Q: Your firm has described exploration and production as an industry in a long-term liquidation period. Do you still think we’re in a long-term liquidation period? Or is this moving more in the direction of short-term and dra-

matic?

Zeidman: I think to a great extent you are going to see consolidation, which is a much nicer word for a liquidation. When you are in the E&P (exploration and production) business, your assets are oil in the ground and leases. Your buyer is not going to be someone trying to hire your administration. They are acquiring your assets, which is what happens in a liquidation.

Banks sure don’t want to be in the E&P business. They are going to sell their assets. This tsunami is going to take a long time to resolve. It’s not going to be repaired overnight. The White House is trying to soften that blow but it’s not like waving a magic wand. Long term, I don’t think you will see (oil) prices come back as they have historically.

Q: During the last financial crisis of 2007 and 2008, companies that were better positioned than others reaped the benefits for many years down the line. What are the characteristics of companies well positioned to weather this?

Kaufman: 2008 was narrow. This is so different. This is broad-based. It’s across any industry line. Who is going to benefit more than others? Companies that have less debt, have less secured debt and whose business is less consumer-facing. In the energy patch, they never learn. Oil is a commodity. It goes up and it goes down. People who took on a lot of debt, and they always do in the energy sector, will be in a lot of trouble.

Zeidman: In 2008, the (federal government) bailed out America’s biggest employers. It wasn’t a question of which companies were better positioned.

Q: If companies think they



Houston Chronicle file photo

Gordian Group recently advised Kane Beef of Corpus Christi, which became a multimillion-dollar business.

are in bad shape, what should they do now?

Zeidman: The first thing they need to do is not to be in denial. Understand the world you’re living in. You need to sit down with your creditors and be honest with them in terms of what you anticipate. Your bankers need to be your friends because they can become your enemy. To the extent that they tell you they don’t have the leniency, you need to understand that at some point, they’re going to be your adversary.

Kaufman: I hate to say something different from my chairman because I work for him. On the other hand, I’ve written the two definitive books in our field, “Equity Holders Under Siege,” and “Distressed Investment Banking: To the Abyss and Back.” If you think you might have issues, first, you do have issues. And second, you need to develop quickly what your options are to deal with your credi-

tors. You don’t want to go to your creditors unless you have carrots and sticks – things they want to hear and things they don’t want to hear. That is all aimed at funneling your creditors down a path that your board of directors wants them to go.

Q: What mistakes do corporate executives make when they feel creditors are looming or they are worried about breaching loan covenants?

Zeidman: People don’t want to look forward and be proactive. They think it’s going to be over. They think it’s not going to take much time. They don’t think they need to do anything until a bank or a financial institution requires a restructuring. That’s when they look to the experts and we show up. Usually, people come to us way too late. When you hire Gordian, you’re putting your lender on notice that you’re not afraid to

take your creditors to court.

Q: Your creditors are going to be just as worried as you are. Aren’t they going to be more lenient given what’s going on?

Kaufman: I think creditors are only and ever going to do what they think is in their financial interest. If you meet them in that prism, you have got a running start. I know it’s not satisfying, but there is no one-size-fits-all. It’s very bespoke. It depends on the situation.

Zeidman: I’m on the board of one of the largest independent banks here, Prosperity Bank. Lenders aren’t stupid. (Banks) don’t want to foreclose on everyone. It doesn’t do anyone any good. There comes a time when you have to get adversarial. Banks are much more conciliatory than they used to be. If bankers know you’re being transparent and not working against them, it can work. Sometimes when you tell them you aren’t going to be able to meet your obligations, they do get all upset.

Q: What should companies do now if they feel they are well positioned to take advantage of opportunities?

Zeidman: Keep your powder dry. Don’t rush into anything. You don’t want to get in too early and the economic environment has not changed and you’re going to get drained like everybody else. Liquidity is the key to getting through any of these situations.

Kaufman: Start your shopping list now. Nobody is smart enough to know when we’re at the bottom. Think about what price (for companies, assets, etc.) will keep you happy even when prices continue to fall against you.