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CORPORATE RESTRUCTURING:
THE BREAKING WAVE

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SECTION 04 CHAPTER 22

FRANCE: STATE INTERVENTION AND SUPPORT TOOLS

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The economic tsunami that swept around the world did not wreak the same devastation in France as it did in other countries, but it certainly did not leave the country untouched. The housing market is not as overheated as that of Spain and Ireland and France certainly doesn't carry the same levels of personal debt found in Britain and the US. Although these factors helped insulate France against the most violent waves of the crisis, it has been unable to escape the reality of the most severe global economic downturn in decades.

As a result, and like in other countries, state intervention has reached unprecedented levels in an attempt to stabilise the economy. In France, the tools of this intervention have taken form in the *Fonds Stratégique D'Investissement*, or FSI for short, and the Mediation of Credit (*Médiation Nationale du Crédit*).

FSI: strategic investment in France

The FSI is, as the name implies, an investment fund established by the French government to assist companies in strategically important industries, notably aerospace, military, high tech and automotive. The FSI, which is aiming to invest €2–3bn per year, is a very recent development.

Although it was established in December 2008 it only became active in the second quarter of 2009. However, despite its creation in the immediate aftermath of the financial crisis, its investments are not destined solely for distressed companies, rather for any company that operates in France's strategically important industries.

What sets the FSI apart from other state assistance funds is the onus on strategic investment. Companies that receive investment must reinvest it in other distressed companies in their industry sector, effectively establishing a consortium. So, for example, a car manufacture that received FSI funding would be required to invest in its struggling supplier car part companies.

An example of FSI funding is the €20m invested in Farinia, a leading French materials manufacturer with 1,100 employees at nine facilities. It was the second strategic investment made by the FSI in the automobile industry, after the investment in Valéo.

The Farinia investment supports the core of the forging mill sector, while also enabling Farinia to buy Setforge, a leading European supplier for forged parts for the automotive and other sectors. This industrial project consisted of gathering the four forge plants of Setforge Group and the three forge plants of Farinia Group with the option to incorporate additional companies in the future.

Each investment from the FSI is considered on a case-by-case basis and there is currently no long-term plan that sets out how long this kind of funding will be available. Another important aspect of the FSI is that investment must be accompanied by equal funding from private equity firms to ensure fair value of the investment and to allay any potential European Commission competition concerns.

Automotive investment through the FMEA

An illustration of the strategic importance of the automotive industry in France can be seen with the *Fonds De Modernisation Des Equipementiers Automobiles* (FMEA), which is an equity fund created on 20 January 2009, owned with parity by the FSI, Renault SA and PSA Peugeot Citroën. The FMEA injects equity and takes a minority stake in important companies within the automotive sector to ensure valuable industrial projects continue and to support the competitiveness of the overall economy.

On 26 February, the FMEA announced its first investment, in the Treves company, an automotive trimmings manufacturer and supplier, for an amount of €55m in equity. The objective is to help the industrial project of the Treves group and to enable it to enhance its competitiveness and the profitability of its strategic trades, in the context of the crisis in the automotive sector.

Credit Mediator

In addition to the FSI, the French government has also launched the Credit Mediator (*Médiateur du Crédit*). Set up in October 2008, the mediator was put in place to encourage banks to make loans to businesses. Operationally, the Credit Mediator will ensure a contact point for each company encountering financing problems. Its motto is: "No company should be left on its own with its difficulties".

The Credit Mediator will facilitate dialogue and consultation between the companies and their financial institutions and play, if necessary, a mediation role with the other public authorities (tax collectors, semi-public social security collectors, etc).

French banking conservatism

Any investment from the FSI, the Credit Mediator or any other source in France should be seen in the context of the French banking environment. Unlike in some countries, especially in the UK and the US, for small and mid-cap companies, which represent the main market in France, senior debt is rarely traded.

Instead, the banks prefer to reschedule repayments over a long period of time rather than trade or write debt off. They have been reluctant to swap debt to equity as the law in France has not been very conducive to this kind for trade. The laws were changed at the beginning of 2009, but how these changes translate into the real world are likely to be evolutionary rather than revolutionary.

Conclusion

To cushion the shock of the economic crisis, the French government has put in place some new tools, such as the FSI and Credit Mediator, in addition to existing tools. Companies have the possibility to alleviate the amount they cash out in 2009 but the restructurings will be led in 2010 only if the economy takes over. If not, France is likely to face an inextricable wall of debt.

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Sophie specialises in turnaround assignments, transaction advisory services and distressed mergers and acquisitions for European companies. She has established a track record of effectively stabilising over-leveraged companies, reassuring creditors and restructuring debt. Sophie has served clients in industries including textile and retail, freight and shipping services, transport and private clinics.