Large Company

Transaction of the Year

AgFeed Industries, Inc & AgFeed USA, LLC

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AgFeed Industries was a $400 million, publicly traded hog and feed production agribusiness in the US and China. The company was a top 20 producer in both markets.

In 2011, fraud and accounting irregularities were discovered in AgFeed's China operations, which led to a delisting, SEC enforcement investigation, shareholder lawsuits, substantial legal and investigation costs, and an inability to access additional capital. Concurrently, throughout 2012, AgFeed USA was embattled in legal disputes with its exclusive packer, Hormel Foods. These disputes resulted in an $8 million arbitration settlement awarded to Hormel, which triggered defaults under AgFeed USA's credit facilities with Farm Credit Services of America (FCSA) and a severe liquidity crisis.

In February 2013, Mackinac Partners was engaged as restructuring advisors, and, shortly thereafter, Keith Maib of Mackinac was appointed Chief Restructuring Officer.

Mackinac immediately established a rapport with FCSA, delivering credible cash projections and action plans. Mackinac led the effort to evaluate the company's reorganization prospects versus a sale of the company and advised the board to commence separate sales processes for the USA and China operations. Due to historical reporting deficiencies and the inability to provide audited financial statements, the company could not complete a proxy solicitation to obtain shareholder approval. As a result, the decision was made to seek approval for the transaction(s) under §363 of the U.S. Bankruptcy Code.

Business Development Asia (BDA) was engaged by the company to sell the U.S. business and to continue to seek options for the Chinese business. Young Conaway Stargatt and Taylor was engaged as bankruptcy counsel and Foley & Lardner continued as the company's corporate counsel.

Following three months of due diligence, the team had negotiated a stalking horse bid for AgFeed's US operations, which was sufficient only to pay FCSA in full. Between the filing and auction, Mackinac developed a creative solution resulting in a higher and better bid for the U.S. assets from a consortium of pork producers and incorporating a wind down of nearly half the hog inventory. The result was a robust auction and a 25 percent increase in purchase price.

The increased purchase price generated additional liquidity without which the company could not have completed the sale of the Chinese operations. These operations were plagued by perceptions of fraud, inaccurate financial data, and the lack of environmental, tax, and regulatory compliance and necessitated a sale to a Chinese operator who could transact with capital outside China.

Only one qualified bidder emerged, further adding to the risk of closing such a complicated sale. Mackinac placed two of its Mandarin-fluent team members in the company's China headquarters, which contributed significantly to the successful management of the sale process. The sale marked the first ever sale of the Chinese operations of a U.S. debtor to a Chinese buyer. This sale completed a highly successful orderly liquidation of all AgFeed assets.

Once the plan of reorganization is confirmed, it will result in a 100 percent recovery to all secured and unsecured creditors and significant recovery to equity constituencies.