

Aug. 3, 2015

Bloomberg Brief | **Bankruptcy**

2

Q&A

Puerto Rico's Future Rests on Restructuring of Its Economy, Conway Says

Puerto Rico's restructuring will involve a reworking of its economy that involves drawing in a wider range of employers, according to **Van E. Conway**, CEO and president of restructuring advisory firm **Conway MacKenzie**. In an interview with Bloomberg Brief's **Aleksandrs Rozens**, Conway said he believes Michigan's Wayne County may be able to restructure its debt outside of a bankruptcy court and he explained why his firm likely won't follow **Houlihan Lokey** to the public equity markets.

Q: Do you think Puerto Rico will be able to convince Congress to change laws that will enable the commonwealth to file for Chapter 9?

A: When you take a look at municipalities like Puerto Rico you have to look at what caused it. Puerto Rico is very similar to Detroit, but a lot bigger. They really don't have sufficient industries for their population size. Their retirement fund is broken. Remember, when Detroit lost the car industry we lost our one-trick pony. So, you have to look at municipalities and what do they do and how will that come back. When you look at Puerto Rico and the wages in alternatives like the Dominican Republic or Mexico, what you would pay Puerto Rico is too expensive. Puerto Rico is an educated island and their work force can function at higher levels of expertise so they need to attract industries that do not solely rely on the hourly cost. Plus, since Puerto Rico has U.S. laws, employers take less risk on interruptions than foreign countries. Part of Puerto Rico's challenge is: what is the economic purpose of that island of three and a half million educated citizens?

Q: Will Congress change the law to allow the island to file?

A: There has to be some type of mechanism to allow Puerto Rico to deal with their excessive debt. Robert "Steve" Miller had a line I use. When he was brought in [as CEO] for Delphi Corp. he used to tell people, "I don't know why everybody is so upset with the bankruptcy. It is a business tool that is used to save a business." It is just a

business tool. It is not immoral.

Q: Does the reopening of relations with Cuba and any tourist trade that goes there impact Puerto Rico's turnaround efforts since tourism plays a part in the commonwealth's economy?

A: There are a lot of things Puerto Rico can do from a tax incentive point of view [to draw in employers]. Americans feel very comfortable in Puerto Rico and they need to play that up. Puerto Rico is a mature, educated island with a reliable work force and the stability of U.S. laws. That's the advantage they have over Cuba.

Q: Closer to home — Wayne County. What do you think happens there?

A: Wayne County can be fixed without a bankruptcy due to lessons learned from the Detroit bankruptcy. The executive team including Tony Sanders — the chief restructuring officer — is strong and the county has more opportunities to grow the tax base.

Wayne County just had their next door neighbor go through a process that, I think, amazed everybody. The Chapter 9 was used to fix it. Detroit opened the eyes that this is not the end of the world. The unions would be more likely to agree [with labor cost-cutting proposals] because now they know a Chapter 9 is real. I don't think [Michigan Governor Rick] Snyder would want another Chapter 9. I would think he would want to avoid it. I think the state does not want to take it over.

Q: Houlihan Lokey, a competitor of

yours, is planning to go public. Huron is already publicly traded. Could you ever see Conway MacKenzie follow that same track?

A: For most professional service companies the public structure is cumbersome. There is a long history in this industry of paying out all of the profits to the workforce while with a public structure the company has to retain a certain level of earnings for the third party shareholders. Houlihan is a very strong company with talents beyond Conway MacKenzie and if the proceeds of the IPO can be utilized to expedite growth in core areas and new lines of business the IPO could work. Micro-cap publicly-held companies are expected to have double digit growth every year and doing that organically is a challenge.

Q: Have people come to you to offer to take you public? Or has anyone offered to buy your firm?

A: We have had many offers over the years to purchase our firm but so far we have not seen the cultural and industry fit that would further both parties to win. Selling just for the money might be good for the selling shareholders, but many transactions in the past in our industry resulted in situations where many of the employees of the selling firm found themselves in a less opportunistic situation. The right buyer or partner for us would be a party that, with us on their team, we achieve results that neither party could do alone.

AT A GLANCE



Residence: Franklin, Michigan

Birthplace: Wyandotte, Michigan

Education: Bachelor of Science in Business Administration from John Carroll University/MBA from University of Detroit

Career: 1974-1987-CPA/Partner Deloitte Haskins & Sells/1987-Present: President and CEO of Conway MacKenzie, Inc.

Hobbies: Watching my kids play sports, fast cars, boating

If you had chosen another career it would be: Owning/bartending at the Hog's Breath Saloon in Key West