Motor Coach Industries Emerges From Chapter 11 and Improves Market Share

by Larry Plachno

The MCI J4500 is the most popular new coach model in the United States and Canada. This example has special exterior graphics to commemorate MCI's 75th anniversary in 2008. It was during its 75th year that MCI elected to reorganize using a voluntary and pre-negotiated Chapter 11 filing. MCI.

On Friday, April 17, Motor Coach Industries (MCI) emerged from Chapter 11. Less than a week later it was announced that MCI had achieved a market share in excess of 60 percent in the first quarter of 2009. All of this is very positive for the bus industry, particularly when compared with the recent Washington bailouts of the automotive companies. Not only was MCI able to come out of Chapter 11 in just seven months, but it did so without federal bailout money and even managed to improve its market share at the same time.

Expectedly, we have received numerous requests for more information. We are not a financial publication, so we have no interest in going into the financial details of the MCI Reorganization. We will, however, at least briefly walk you through the story of where the debt came from, how MCI elected to deal with it, a few details on the reorganization, and emerging from Chapter 11 at the same time that market share improved. For those who are interested, there was an earlier article in the November, 2008 National Bus Trader that covered some of the information leading up to the reorganization.

As all bus historians know, what became Motor Coach Industries was originally founded in Winnipeg by Harry Zoltok, a Polish immigrant and talented engineer (see "The Coach Manufacturer that Harry Built" in the June, 2008 issue of NATIONAL BUS TRADER). Zoltok was successful in rebuilding buses and then went on to build buses of his own. His buses did such a remarkable job of dealing with early roads as well as difficult weather conditions that Greyhound Lines of Canada acquired a majority ownership in the company in 1948. Ten years later, in 1958, Greyhound Lines in the United States acquired MCI.

The 35 years under Greyhound ownership witnessed massive expansion. A new plant was built in Pembina, North Dakota to facilitate coach sales into the United States. In only a few short years, MCI was transformed from a regional Canadian bus builder to a major player in the United States and Canadian market. Sales of the highly regarded MCI coaches increased and soon replaced GM as the market leader.

Most of the long-term debt that prompted the Chapter 11 filing was dumped on MCI during a five-year period from 1993 to 1998. Greyhound Corp. had already sold off Greyhound Lines in 1986 and then changed its name to Dial Corp. Deciding to divest itself of most of its transportation operations, Dial Corp. spun off Motor Coach Industries International in August of 1993. Included in MCII were several Dial Corp. transportation subsidiaries including all of the MCI Pembina operations; 69 percent of the Winnipeg operations; Transportation Manufacturing Corp. in Roswell, New Mexico; Hausman Bus Sales; Universal Coach Parts; Bus Lease; Custom Coach Corp.; MCI Acceptance Corp.; and a small interest in Mexicana de Autobuses in Mexico.

Production and deliveries continued as usual during the reorganization including these hybrid coaches to GO Transit in Toronto. MCI hybrid coaches are currently operating in New Jersey, Houston and Ontario, some with more than five years of operating experience. MCI has been the leader in intercity hybrid coaches for many years. MCI.

What made this transaction unusual was that the MCII group of companies was not sold. Instead, they went public with stock on the New York Stock Exchange under terms dictated by Dial Corp. The result could best be called a forced leveraged buyout since MCI assumed the debt while Dial Corp. got the proceeds from the sale. Shortly thereafter, MCI managed to acquire the remaining 31 percent of stock in the Winnipeg facility that had been traded on the Toronto Stock Exchange.

In a span of approximately a dozen years, MCI went from a small, regional bus builder to the market leader in the United States and Canada. This all started in the mid-1960s with the MC-5 and MC-5A models which offered MCI's traditional durability, reliability and economical operation. This example of the MC-5A spent 15 years operating for Greyhound before it provided transportation for the staff of NATIONAL BUS TRADER and BUS TOURS MAGAZINE. NBT.

This independent situation lasted only briefly. In 1994, a merger was orchestrated with Dina of Mexico in a complex deal involving a Dina subsidiary in the United States and an exchange of MCII stock for Dina stock and notes. Almost immediately after the merger, the Mexican economy started having problems. Mexican bus sales dropped and the Mexican Peso was devalued. MCI soon began overshadowing Dina and accounted for more than 90 percent of Dina's operating profit. Dina began taking on debt and eventually owed $700 million. The profit from MCI was used to service some of this debt. With Dina stock and notes essentially worthless, MCI was again saddled with debt as money went to another company.

Joseph Littlejohn & Levy acquired MCI on June 16, 1999. At that time the bus industry was expanding and setting 50-year sales records so the debt acquired in the previous years was simply left in place. It was serviced by taking money from regular operations.

JLL did allow MCI to invest $40 million in Canadian dollars to improve and modernize their facility in Winnipeg and consolidate most manufacturing at that location. MCI officially discontinued operations in Mexico on February 17, 2003, and henceforth most manufacturing, other than finishing the D models, has been concentrated at Winnipeg.

In 2004, MCI went through a debt refinancing that saw Franklin Mutual Advisors get involved and interested in the company. It was at this time that MCI and their financial partners began looking at that old debt, most of which had been piled on MCI during the 1993-1998 period. Eventually, MCI was required to take as much as $80 million annually to service this debt. Obviously, it would be better for customers and employees if that money could be used elsewhere for product improvement and support.

MCI and their financial partners began looking at various alternatives. Your editor was one of several people who suggested that MCI, its customers and its staff would be better off without that old debt. Creditors normally force bankruptcy and Chapter 11 filings but that was not the case with MCI. The option selected by MCI and its financial partners was to restructure using a pre-negotiated voluntary Chapter 11 filing. Hence, the terms and arrangements of the reorganization would be established prior to the voluntary filing.

Much of the planning for the reorganization was completed in the first half of 2008. What remained was for the various financial partners to review this plan and approve it. As a result, we spent substantial time during the summer of 2008 consulting with various financial institutions involved with the reorganization. We looked at the past history of MCI, their position in the industry, and their product line. Eventually, all of the players were satisfied. Everything came together and the restructuring announcement was made on September 15, 2008.

In general, the restructuring would reduce the company's total indebtedness by approximately $420 million, which would improve cash flow by reducing interest expense. MCI's second lien of $160 million would be paid in full. Approximately $200 million of third lien secured debt would be converted into new equity in the reorganized company. In addition, provision was made to support payments to critical vendors as well as customer warranties and programs both pre-petition and post-petition. This required some interim

Much of the success of the MCI Reorganization could be credited to support from employees, customers and vendors. Production, sales and service continued unchanged during the reorganization process. In fact, MCI's market share in new coaches increased during the first quarter of 2009. MCI.

financing. One item that is noteworthy is that Franklin Mutual Advisors would replace Joseph Littlejohn & Levy as the primary source of funding for MCI.

For everything to work properly, MCI needed the support of employees, customers and staff during the reorganization period. The MCI staff should be congratulated on their work record and morale during the reorganization. Included was a new labor contract in Winnipeg during this time. MCI President and CEO Tom Sorrells commented: "This achievement also reflects the dedication of all MCI employees who continued their focus on delivering quality coaches and customer service during this period. We are also extremely appreciative of the outstanding support we received from our lenders and legal and financial advisors in this process."

Customer operations continued normally during the reorganization process. Prior to the reorganization, MCI had made special plans to make sure that customer warranties and programs would continue unchanged. Shown here is an MCI J4500 operated by Coastal Charter and Tours of Alpena, Michigan on a charter with Bus Bash attendees in 2008. NBT.

Customer loyalty was obvious. In spite of the reorganization, MCI sales and market share increased. Vendors and suppliers were also very cooperative. In fact, the only obvious glitch during the reorganization was a temporary lack of some parts that was soon rectified. Tom Sorrells said: "Finally, I want to especially recognize MCI's customers and suppliers, whose loyalty and support throughout were critical components of this successful result." The fact that manufacturing, sales and service continued during the reorganization says a great deal for MCI, its employees, customers and vendors.

MCI emerged from Chapter 11 on Friday, April 17, 2009 after a reorganization period of about seven months. Franklin Mutual Advisors, LLC became the company's majority shareholder through the conversion of third lien secured debt into common stock and the issuance of $200 million in new preferred stock.

At this same time, MCI obtained $230 million of exit financing. GE Capital is the arranger and lead lender under a $75 million senior secured revolving credit facility. MCI has also arranged for a $155 million second lien term loan from a group of lenders.

While it may not be directly connected to the reorganization, what is particularly interesting is that the numbers for the first quarter 2009 intercity coach sales in the United States and Canada were announced a few days after MCI emerged from Chapter 11. While overall coach sales declined, MCI posted a market share of 60.2 percent. The combination of emerging from Chapter 11 and increasing market share is certainly a positive step for MCI, its staff, customers and vendors. ❑

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