SN VALUATION
SN CAPITAL SN CONSULTING SN ENGLISH

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Impac Preferred Litigation Stubs (IMPHO)
Courtesy: cam12

The stubs are selling at 3-4% of par, and the writer believes assets supports the current price. On the upside, the writer believes in a par recovery, which would result in a 20-30x return. The par recovery is possible if the investors reverse the rights removal from the coercive tender, so the thesis for the investment lies on investor activism, rather than underlying business or asset performance, aside from liquidation or buyout.

In 2008, co. stopped making payments on the preferred shares. In 2009, the management offered a coercive tender, buying all the prefs at 1% of par, and pay one coupon payment of $1.46/share, on a $25/share offering, or a 5.84% return on investment from coupon and another 1% recovery on principal. They were under great pressure from the co. to accept the offer, or their economic interest would be rendered worthless. Normally, coercive tenders encourage the repurchase of stocks by the co. from the holders by incentivizing the offers at a first come first serve basis. However, the co's move worked against the holders, by removing material rights from the remaining shareholders, which would make the prefs worthless, forcing holders to oblige and selling at the offered payment, to realize a lesser loss. This propped the value of common shareholders, as the Pref. share was negated by management.

The writer believes a conversion of the preferred to common shares as being the best remedy for the inherent distrust of the company's actions. Holding the preferred shares on the books is resulting in negative book value for the common shares, as the face value of the prefs are booked, when the co. needs outside capital in the form of warehouse financing to enlargen the operational capacity.

In the case of a liquidation, the pref. holders would take the residual value after debt holder compensation, with a face value of $52.3MM. 3 possible sources of value can be released via 1) litigation recovery from a Directors and Officers Liability policy (D&O), 2) liquidation, 3) merger and restructuring. The writer obtained a quote from a global insurer of potential D&O coverage and said it would be around 20-30% of revenue. The co. generates cash by originate, selling and servicing the mortgages. They service a $600MM mortgage portfolio for servicing fees ranging from 0.25-0.44%. The process is still in the early stages, and may turn into a class action lawsuit. Although the co. has not filed for any bankruptcy protection, the writer attributes the characteristics as a potential CDS investment – payout in the future, but this may not be the case should the EV fall short of covering the $195MM in notes, ahead of the prefs.