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'Ultimate Bankruptcy Fintech' Expands in Irvine

By PETER J. BRENNAN

Stretto sees a booming business in the next few years.

That could be bad news for local executives and residents, because the Irvine-based fintech company provides technology and other services to businesses restructuring under Chapter 11 of the U.S. Bankruptcy Code, and to trustees managing individuals who file for Chapter 7 bankruptcy protection.

But they don't see an immediate recession, so don't worry—yet.

"Even though bankruptcy may not be expansionary today, in 18 months we'll see a very different story," co-owner **Eric Kurtzman** said. "We are 100% planning for a recession within the next two years."

Kurtzman and **Jonathan Carson** in 2017 took over **Bankruptcy Management Solutions (BMS)**, which had 120 employees.

Stretto doesn't disclose sales figures, but in one sign of how fast they are growing, it expects to employ 400 companywide, up from its current 300, by the end of this year.

Stretto recently opened a second office in Irvine, where they have a combined 26,000 square feet at two facilities. It now has five other offices, including New York City, because a large amount of corporate restructuring occurs in the courts that serve that financial capital.

"We're a technology company that sits in the middle of the bankruptcy ecosystem," Carson said. "We are the ultimate bankruptcy fintech. That's the lane we swim in."

Aussie Deal

The pair met two decades ago when Carson was a corporate restructuring attorney for **Kirkland & Ellis LLP** while Kurtzman did the same work at **Pachulski Stang**.

They joined forces to form **Kurtzman Carson Consultants LLC**, which goes by KCC. They built it to 400 workers and helped clients including Circuit City, Blockbuster and Washington Mutual navigate Chapter 11 restructurings.

In the course of this, they implemented technology to speed up the process.

"We did things like put barcodes on claim forms to process them more quickly," Carson said.

Ernst & Young in 2008 named them entre-



Stretto co-CEOs Eric Kurtzman (left) and Jonathan Carson

preneurs of the year for the greater Los Angeles area.

The next year they made what they called a mistake—they sold their company to Australia-based **Computershare Ltd.** (ASX: CPU), which has 12,000 employees and specializes in services such as corporate trust, mortgages and governance.

Terms of the deal were undisclosed but New York Times DealBook pegged the value at about \$100 million in cash and stock, depending on earnouts and milestones.

The partnership didn't work out.

"We lost direction once we sold," Kurtzman said. "We were misaligned."

The pair eventually left and were prohibited from re-entering the industry by an eight-year non-compete clause.

A life of idle leisure didn't suit either one.

"We spent a lot of time sitting on the beach and that's okay, but we're still entrepreneurial and kept thinking, we can build a better sand castle," Kurtzman said.

By 2017, the two were ready to roll.

Conspicuous Consumers

While at KCC, the pair had encountered Irvine's Bankruptcy Management Solutions, then a dominant player in Chapter 7 consumer bankruptcies, which sold services not to bankrupt consumers, but to the trustees who manage their cases. There are an estimated 1,000 trustees handling about 2,000 cases apiece annually.

BMS faced its own restructuring issues following the last recession; a 2010 debt-for-equity exchange deal saw the company's \$536 million in debt knocked down to \$233 million, according to reports.

Kurtzman and Carson bought BMS on

undisclosed terms with the help of **Stone Point Capital LLC**, a financial services-focused private equity firm in Greenwich, Conn.

Stone Point's Trident Funds have about \$14 billion in invested capital and is well-known on Wall Street. Chairman **Steve Friedman** is a former chief executive of Goldman Sachs and chairman of the Federal Reserve Bank of New York. In a cultural connection of the moment, Friedman's son **David Benioff** is creator of HBO's *Game of Thrones* and David's cousin is **Marc Benioff**, founder of **Salesforce.com**.

Stone Point knows Orange County well.

It's an investor in Irvine's **Alliant Insurance Services**, the county's largest insurance broker, and **Ten-X** in Irvine, formerly Auction.com. Stone Point also invested in Grandpoint Bank, bought last year for \$641 million by Irvine's **Pacific Premier Bancorp**, (Nasdaq: PPBI), the largest bank headquartered in Orange County.

The Sound of Music

Carson lives in Los Angeles and Kurtzman in Las Vegas but they decided to keep the new company's headquarters in Irvine, praising the city for a "good business climate" and the **Irvine Co.** for its flexibility as a landlord when it was seeking more space near its headquarters.

The company's two Irvine locations are near the Market Place shopping center; one of these, its headquarters, is in the Jamboree Business Center office complex, owned by Irvine's **Pendulum Property Partners**.

They also decided to retain back office staff of about 80 people in Poland. That unusual workforce arrangement was developed by a Polish employee, a professor at a university there who often hires top computer talent right out of college.

They changed the company name in January to Stretto, shedding the word bankruptcy as companies in the restructuring process shed debt; BMS may have lost clients who didn't want to work with a firm with that word in its name.

"We wanted to exude a different image," Carson said. Stretto is a musical term that "refers to the moment in time when one instrument stops and another one picks up where it left off."

"We seamlessly integrate ourselves into our

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clients' businesses and we help orchestrate these things so it's smooth. If we do our job well, no one knows."

Multi-Legged Stool

Stretto's consumer unit does business with more than 50% of the country's 1,000 bankruptcy trustees by providing computer systems to run case management that includes information such as calendar dates and phone numbers.

The company is expanding to three other areas: software to handle receiverships; Chapter 11 depository services where it manages almost \$2 billion; and Chapter 11 restructurings.

"There's a brand new strategy here—take a one-legged stool which was consumer bankruptcy and turn it into a multi-legged stool that does many things," Carson said.

The pair knows Chapter 11 well and is often far ahead of the general public in learning which companies are in trouble. It gets referrals from investment bankers or the general counsels of companies considering the strategy.

The company can put anywhere from three to 40 people onto a single corporate restructuring project.

As of 2015, BMS supported more 500 corporate restructurings. Stretto expects that figure to grow significantly in the next few years.

It boosted its capabilities in March by acquiring Dayton, Ohio-based **CINGroup**, which services more than 15,000 law firms



Irvine HQ: one of two Stretto offices near Market Place; signage still shows company's old name

and their clients through brands like Best Case Bankruptcy, CINcompass and CIN Legal Data Services.

"It's a very powerful market share player, north of 80% in the bankruptcy attorney industry," Carson said.

The buy will help Stretto create what he calls "the only end-to-end bankruptcy-technology platform in the market."

Knows Competition Well

Its competitors in consumer bankruptcies include Kansas-based **Axos Fiduciary Services** and **TrusteSolutions**, a unit of Houston-based **Financial Software**

Solutions LLC.

Competitors for corporate restructurings include New York-based **Prime Clerk**, which is being bought by **Duff & Phelps**.

There's also its old firm, KCC, in El Segundo. "We're out there competing against them every single day," Carson said.

This time around, Stone Point has given Stretto "a long runway to stretch our wings."

"No one is in a rush to exit," Kurtzman said. "We're doing what we always wanted to do."

"What Stretto is going to do in the Chapter 7 industry and expanding into Chapter 11 is an execution of the vision we had a decade ago." ■