

Case Study

Cred, Inc.



M&A Advisor - Winner of The Chapter 11 Reorganization of the Year (between \$250MM and \$500MM) as Financial Advisor to the Debtor, Cred, Inc.

THE FIRE

Cred, Inc (“Cred”) was founded in 2018 as “a global financial services platform serving retail and institutional clients in 183 countries.” Its customers would transfer cryptocurrency to it sometimes under loan or financing agreements. Cred would then invest that cryptocurrency with third-party asset managers that allowed customers to achieve a current yield on their crypto holdings. Cred also allowed customers to deposit their crypto holdings with it and borrow against them while being paid a fixed rate of interest.

In March of 2020, Bitcoin, amid the stock market downturns during the COVID pandemic, wavered, falling to \$8,000 per coin. Ensuing redemptions began to occur and on March 12, 2020, Bitcoin plunged from \$7,935 to \$4,826 per coin in a single day. *More than 39% decline!*

The rapid bitcoin devaluation caused Cred to realize millions of dollars in losses to their hedging strategy holdings. Worse yet, it was effectively unable to reinstate its hedging strategy since Cred did not possess the required fiat liquidity. All this resulted in the company finding itself in a "naked short" position vis-a-vis its crypto lending business model. Concurrently, as the price of bitcoin began to bounce off lows and then rise, tens of millions of dollars in value was lost.

Cred then began seeking capital to fund its "crypto buyback" and reinstate its hedging program. It reached out to its biggest borrowers (and Cred founder/investor Lu Hua) who founded moKredit, a Chinese company that makes micro-loans (< \$5.00) to gamers. moKredit could not repay the \$38 million dollar loan owed to Cred citing significant default rates on its micro-loans. This as it was explained, was due to the Chinese government's unwillingness to enforce consumer loan agreements in the wake of COVID-19. Cred then discovered that another of its third party money managers was *actually an imposter!* Cred had been defrauded and had more than eight hundred Bitcoin stolen from it.

To add to the litany of missteps, Cred’s Chief Capital Officer (“CCO”) resigned and absconded with over two hundred Bitcoin. It was later discovered by the independent bankruptcy Examiner in the case, that the CCO had been convicted of wire fraud in Britain and sentenced to a 3-year prison sentence, *before escaping* and becoming an international fugitive.

Finally, Cred had an un-systemic, chaotic and, in some instances, nonexistent due diligence process. It had poor accounting functions, dismal internal controls and lack-luster compliance functions. Senior operating

and financial management were in over their heads. And, between millions in losses, mounting claims by approximately 6,300 world-wide creditors and rapidly shrinking liquidity, Cred sank into extreme distress.

THE RESCUE

Two weeks prior to the chapter 11 Petition date, MACCO was engaged as Financial Advisor to Cred working closely with the debtor's bankruptcy counsel, Paul Hastings.

MACCO's team dove into the engagement and delivered, on an expedited basis, a comprehensive factual assessment that analyzed the company's current state of operations and financial position while rendering clear and actionable operating restructuring advice. Deliverables included: unraveling complex, confusing and poorly documented cryptocurrency and fiat transactions; validating both loan and creditor claim amounts; and notably, validating the nature, type and value of Cred's assets.

MACCO developed complete and extensive cash forecasts, providing guidance on operational decisions, prepared the debtor's schedules and statement of financial affairs and creditors matrix assuring bankruptcy compliance. MACCO also developed and implemented an asset management and liquidity plan that assured the debtor could continue "operations" in chapter 11 while providing security that its fungible assets were safe. Almost immediately after filing the case, The Office of the United States Trustee in Wilmington, DE ("UST") filed its motion to appoint a chapter 11 trustee, alleging Cred was an elaborate Ponzi scheme. Other creditors and parties-in-interest also filed motions to convert or dismiss the case.

Utilizing the information and data developed by MACCO, Sr. Managing Director and accounting expert Paul Maniscalco, working in concert with Managing Director Pablo Bonjour ("Bonjour"), MACCO's cryptocurrency authority, prepared for several crucial hearings. Bonjour testified at several of these on the nature of cryptocurrency, including types and values of coins, coin trading, Cred's business model and its asset holdings among other subjects. His testimony and MACCO's work provided a factual basis that allowed the bankruptcy court to over-rule the UST's and other parties motions resulting in the debtor who remained in possession. The court did appoint an independent Examiner.

THE RESULT

MACCO remained the debtor's financial advisor subsequent to the resignation of Cred's senior management and the appointment of an independent chief restructuring officer ("CRO"). Working collaboratively with the CRO, MACCO was empowered, in a highly challenging and complex landscape, to implement necessary changes to preserve cryptocurrency and cash while assuring safe and regulatorily compliant operations, including verifying payments to vendors, professionals and others from Cred's liquidated assets. MACCO also worked seamlessly with legal counsel and financial advisors to the committee of unsecured creditors. All these actions resulted in a process that led to a successful plan confirmation in approximately four months.

MACCO's recommendation to hold assets resulted in some of Cred's cryptocurrency holdings increasing in value by as much as 400% in some cases during the pendency of the case.