



M&A Academy

Safeguarding value through business
restructuring

21 January 2010

Agenda

The Scene

Value Break

Options & Estimated Outcomes

Shareholder Management & Negotiation

Section one

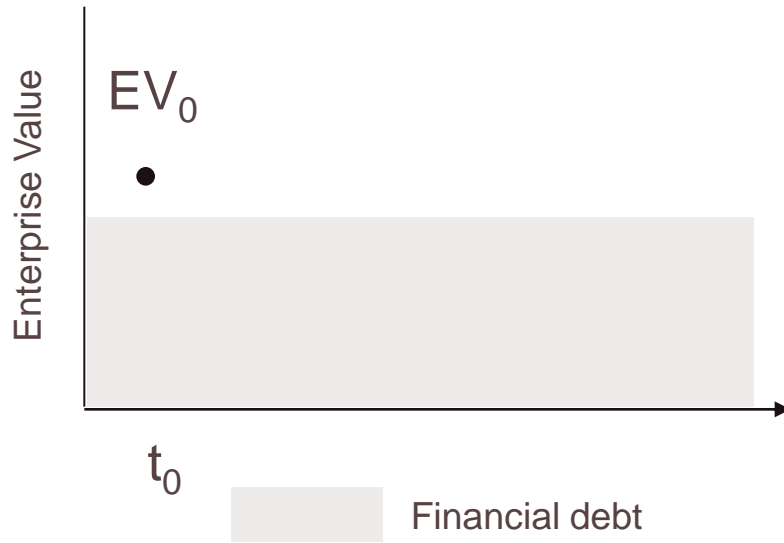
The Scene

Value Break

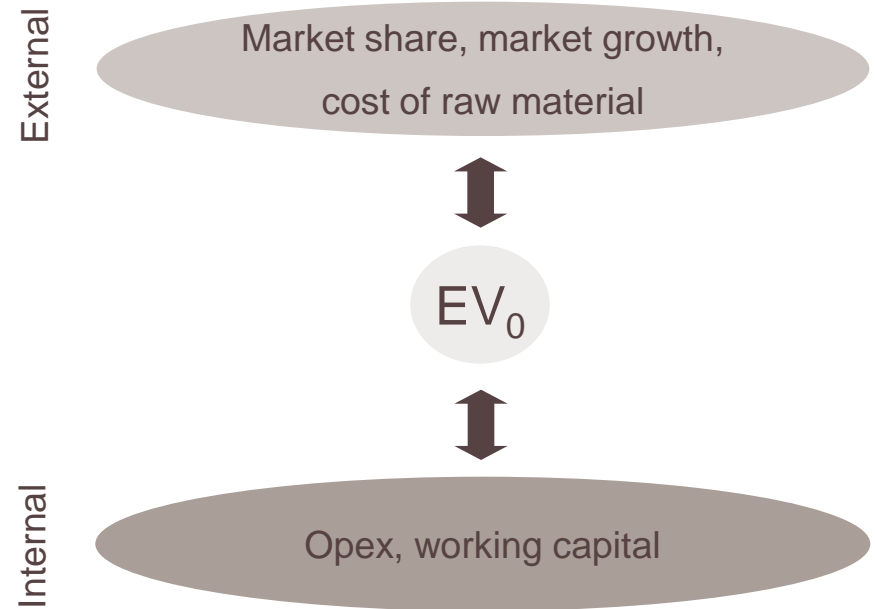
Options & Estimated Outcomes

Shareholder Management & Negotiation

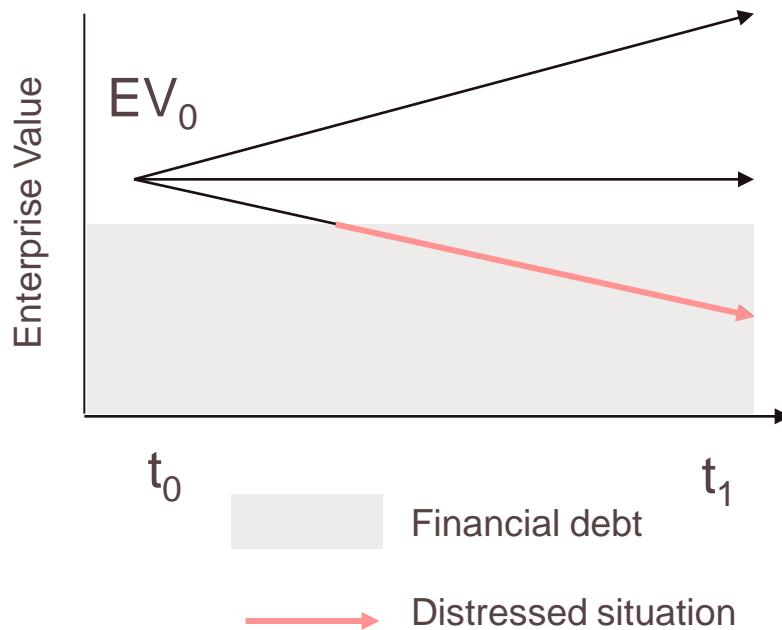
The Scene



- Initial investment in t_0 is dependent upon expectations on internal and external factors



The Scene



- Actual evolution of the key value drivers can lead to very different outcomes
- Focus of the presentation is the downward path...
- What are the causes of the differences with original expectations?
 - internal
 - external
- What should we expect for the future?

Some common causes of corporate distress

Strategic issues

- Strategy does not fit market and resources
- Service portfolio is not balanced/adequate
- Growth is too fast/unsatisfactory
- Complexity of the services is too high
- Diversification is too high/low
- Dependence on few suppliers/customers
- Technological gap
- Succession plan/Power-sharing is unclear

Structural issues

- Inefficient business/management structures (too many entities and unused synergies)
- Numerous locations
- Inefficient processes and organisational structure
- Low-performing management information system (MIS)
- Retention of unprofitable locations/business units

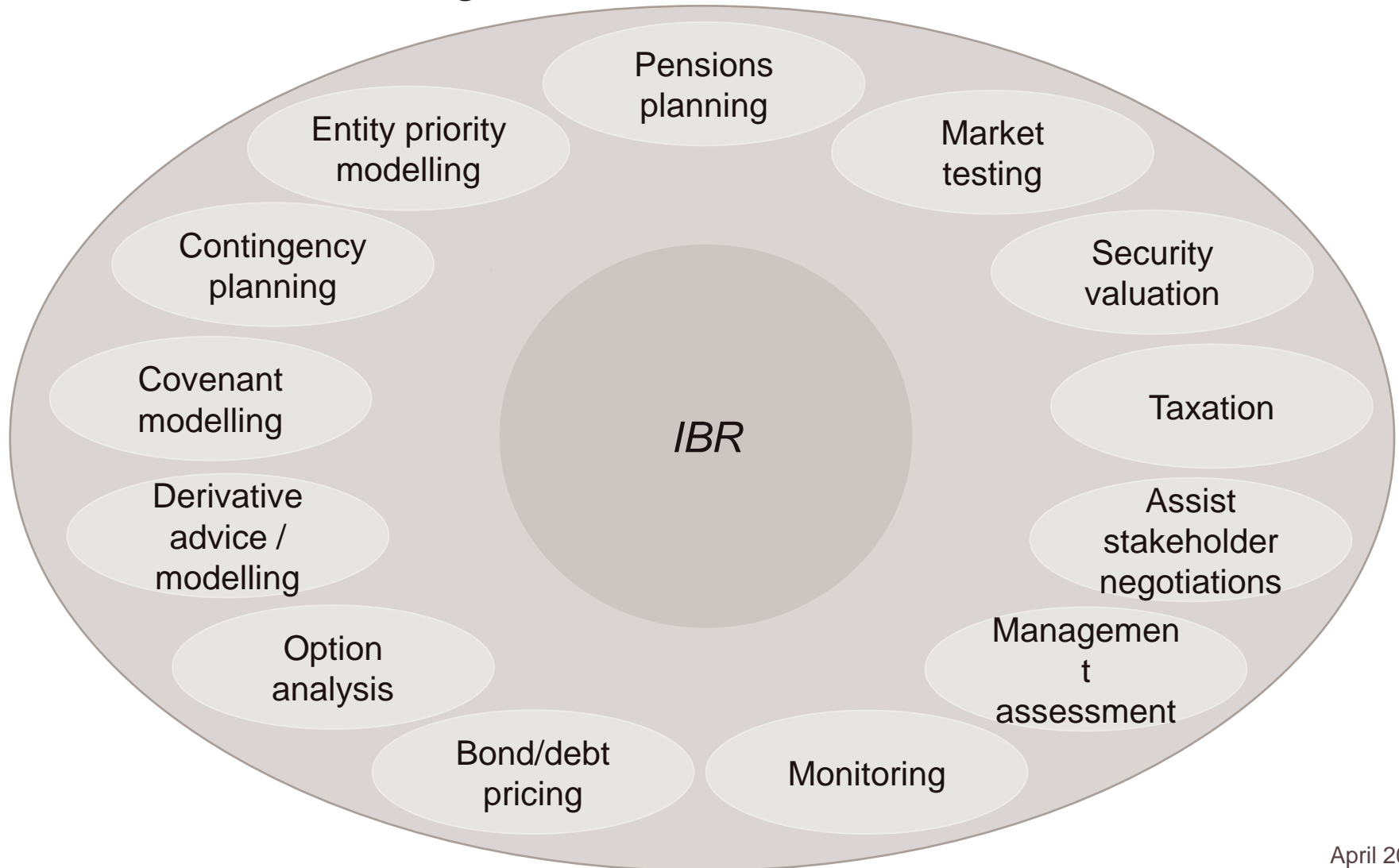
Operational issues

- Low productivity/efficiency
- Inadequate costing/controlling (exceeding budgeted costs)
- Cost measures neglected for a long time
- Entry of competitors with differing cost structures/superior product offerings
- Lack of know-how in some areas (e.g. logistics, product design, etc.)
- Inadequate cash flow management

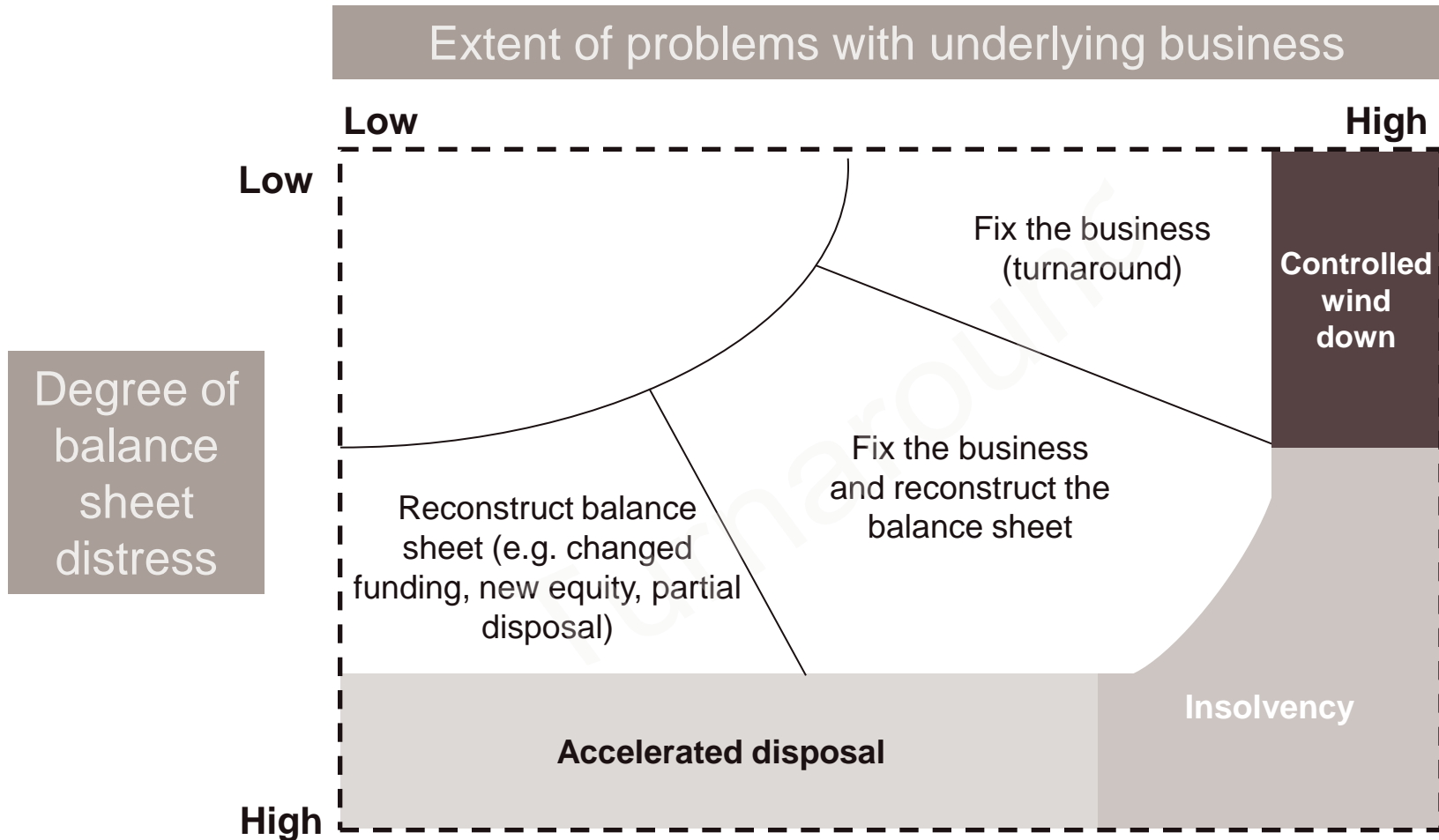
Cultural issues

- Paralysis/Holding on to status quo
- “Princedom”
- Overly dependent on one person/passiveness of remainder of management
- Opposition to changes/attempts to change
- Misconduct of management towards employees
- Permanent restructuring situation
- Inadequate incentive systems

An IBR forms the common information platform which is the basis of a restructuring...



The high level option review of an IBR is the basis for further restructuring advice...



Section two

The Scene

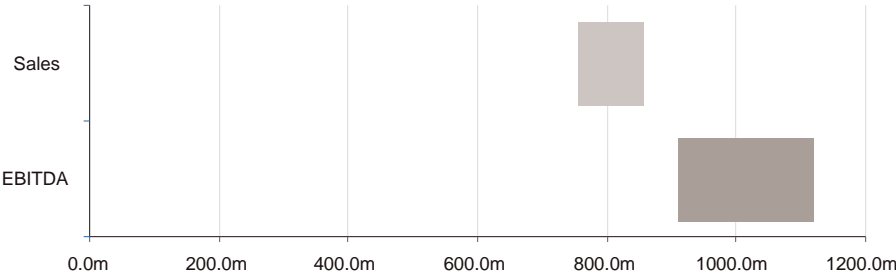
Value Break

Options & Estimated Outcomes

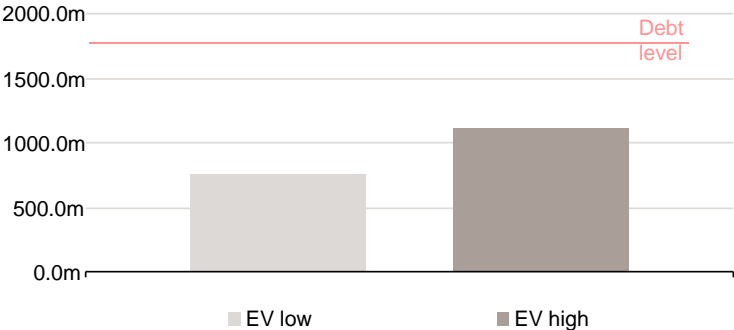
Shareholder Management & Negotiation

Indicative market value of XYZ is around €1.0b, which is well below committed gross debt facilities

Enterprise Value XYZ based on Sales and EBITDA market multiples

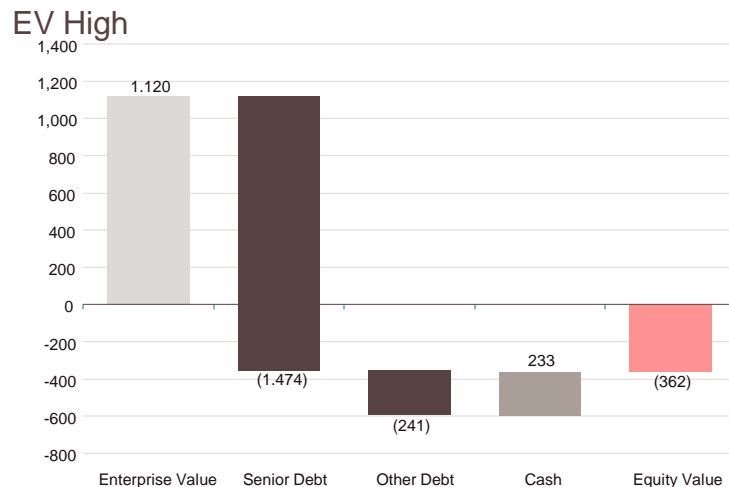
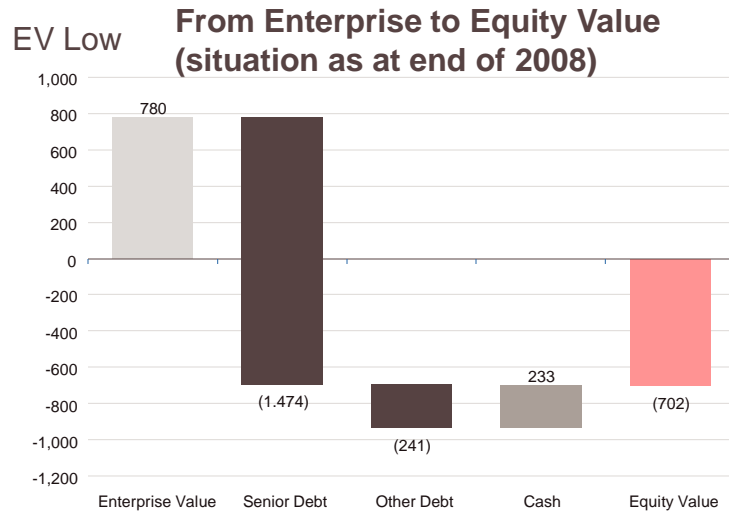


Enterprise Value versus Debt level



- For calculating Enterprise Value an assumption has been made regarding 2009 Sales and EBITDA. A range of respectively €290m - €330m and €130m - €160m has been used.
- The Senior notes are currently trading at 23 cent (source: Reuters). Although we have no trading information on the other debt facilities, market value of all debt facilities is likely to be below nominal value.
- Debt level excludes shareholder loan of €682m as at end of 2008.

...causing the value of XYZ to be breaking into debt, with shareholders having no value



- The estimated Enterprise Value is well below face value of debt facilities, resulting in a negative Equity Value. Based on these indicative valuations Shareholders are underwater.
- Senior debt holders are between 24% and 47% under water, depending on which outcome of the high level multiple valuation is applied.
- Debt level excludes shareholder loan of €682m as at end of 2008.

Key point in the analysis: estimating the enterprise value

	Low distress	High distress
Non Reversible		Forced liquidation
Reversible	"Going concern"	

- Valuation method / approach depends upon the situation:
 - Reversibility
 - Distress
- What are the causes of the differences with original expectations?
- What should we expect for the future?

➔ Importance of information
➔ Importance of IBR

Valuation method depends upon the situation

	Low distress	High distress
Non Reversible		Forced liquidation
Reversible	"Going concern"	

- Difference between distress as a result of poor operational performance versus financing issues
 - Distress as a result of poor operational performance comprehends diagnosis of current situation, working out scenarios and taking measures
 - Distress as a result of financing is relatively easy: it requires a new split between capital providers
- In theory, option valuation as shares are a residual claim on the company's assets
- In practice, combination of standard valuation methods (adjusted net assets, DCF, market comparable) are used

Distress has a negative impact on value for two reasons

Severity of distress	Impact on value
No distress	Value = “as is” value + value growth opportunities + strategic value
‘Light’ distress	Value = “as is” value, growth and strategic investments not feasible anymore
‘Severe’ distress	Value < “as is” value, normal activities start to deteriorate as concerns about continuation of company increase
‘Very severe’ distress	Value = liquidation value

- A lower expected future cash flow to providers of capital due to the negative impact of distress on the business
 - Accelerating effect on sales decline: clients might fear for after sale services;
 - Employee turnover increases leading to higher HR costs;
 - Working capital increases.
- A higher required return by capital (debt and equity) providers due to increased uncertainty

Value sensitivity to distress factor is usually higher for companies with "intangible" assets and activities

- Companies have no legal ownership of intangible assets (with the exception of intellectual property)
- Examples:
 - Customer relationships
 - Supplier relationships
 - Assembled workforce
 - R&D

Information problems play a crucial role in valuing distressed companies

- Many companies in distress have low operating performance. Furthermore, they lack a clear understanding of the current situation, which is required for a reliable forecast
- The gathering of information necessary to perform a valuation requires time, which is not always available in distress situations
- Assumptions can not always be checked as a due diligence is sometimes not possible
- Information problems result in a discount on the value

Distress leads to conflicts of interest between shareholders and providers of debt

- Debt providers can reduce shareholder value by enforcing their claims, for example by selling strategic parts of the business or postponing necessary capital expenditures
- Shareholders can reduce value to debt providers by making risky investments
- These problems arise in distress since the future of the company is highly uncertain and information asymmetry is high

Yet, rebuilding value and getting out of distress requires trust and agreements from all parties

Section three

The Scene

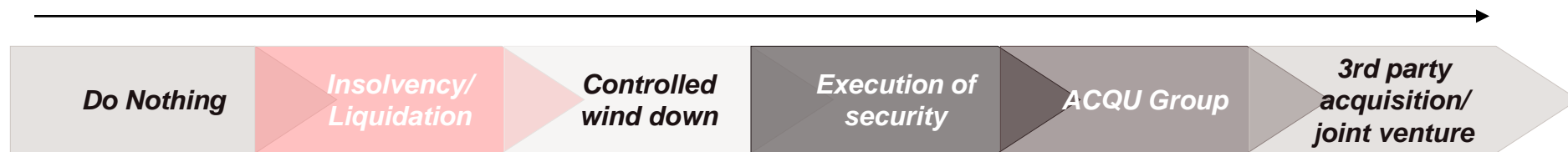
Value Break

Options & Estimated Outcomes

Shareholder Management & Negotiation

Options & Estimated Outcomes

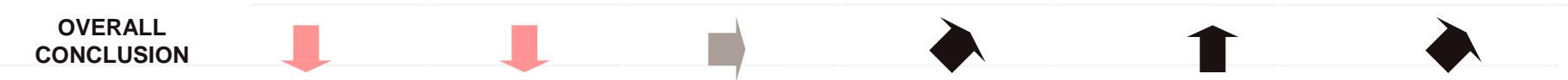
Complexity and required support from other stakeholders



Scenario 1:	Scenario 2:	Scenario 3:	Scenario 4:	Scenario 5:	Scenario 6:
<p>This scenario entails ABC not taking any action.</p> <p>However, as the Company is unable to fulfil its financing obligations and will continue to do so in the long term, we feel it is likely that returns to ABC in this scenario are lower than for the alternatives presented</p>	<p>ABC can apply for bankruptcy in the Dutch courts as the Company is in breach of its covenants. This would result in a full liquidation of the properties, likely to result in distressed sales prices.</p> <p>Although this option appears to be a quick resolution, proceeds from a public auction of the properties at distressed price levels would significantly reduce value compared to the other options.</p>	<p>A controlled wind down would mean slowly selling the properties to prevent distressed sales prices. Liquidity support would most likely be required. Also careful consideration should be given to historical real estate tax liabilities</p> <p>Although the realised value from a gradual sale of the properties will most likely be higher compared to a liquidation scenario, the lack of control and payment of non recurring costs may be an impediment to optimise the value of the portfolio.</p>	<p>This scenario entails ABC to enforce its share pledge or the property securities by filing a petition to the court.</p> <p>ABC would take full control of the assets while no longer being liable for non recurring cash flows of some €1.7m in FY10. However, it could trigger a RETT liability of ca. €3.5m and would potentially require substantial management attention.</p>	<p>ACQU Group has proposed to take over the Group, whilst injecting €0.5m of equity upfront and an additional total amount of ca. €4.3m in 2009 and 2010 of which €3.2m is to be financed by ABC. In addition, ACQU has proposed to bring a Budapest shopping mall into the group to boost cash flows. The proposal is conditional upon the ABC loan facility remaining intact.</p> <p>Although the proposal from ACQU Group seems attractive, it is not likely to remain in place as ACQU assumes a property value of €100m and positive cash flow.</p>	<p>In this scenario, ABC would take control of the properties or the Company through execution of security, but immediately thereafter sell all or part of it to a third party, together with stapled financing as envisioned by ABC.</p> <p>The consequence for the value of the ABC credit facility would depend on the negotiations with any such third party.</p>

Overview of options

	Do nothing	Insolvency/ liquidation	Controlled wind down	Execution of security	ACQU Group	3rd party acquisition/ JV
Control over process	Only indirectly	None	Only indirectly	Full control	Need current shareholder support	ABC can decide on shareholders
Potential for cost savings	Limited	No further costs	Limited	Yes	Likely but depends on ACQU	Yes
Speed of resolution	Very slow	Fast	Slow	Depends on plans ABC	Negotiations ACQU likely to be quick	Unknown
Financing of existing claims	Full exposure	None	18 months exposure	None	No exposure for ABC	None
RETT liability	Unlikely	None	Unlikely	Yes, €3.5m	None	Depends on structure
Long term exposure to current portfolio	Yes	No	No	Depends on plans ABC	Yes, through financing of portfolio	Yes, through financing of portfolio and potential JV
Benefit from upward potential	No	No	No	Yes, if LT hold strategy is chosen	Depends on structure ACQU deal	Probably
Valuation real estate	Unlikely to improve in current structure	Very poor	Reasonably close to CW valuation	Reasonably close to CW valuation	Depends on market development	Depends on market development



Options & Estimated Outcomes

Indicative financial implications of the possible options; we would like to emphasize that the numbers are intended for discussion purposes only and will be subject to further iterations going forward

€ in millions	Do nothing	Liquidation	Controlled wind down	Execution of security	DARE Group	3rd party acquisition / JV
Outstanding principal YTD09	(78.9)	(78.9)	(78.9)	(78.9)	(78.9)	(78.9)
Interest arrears YTD09	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
Free cash flow	10.4	0.6	5.5	4.9	0.6	3.1
Non recurring costs	(1.8)	(0.5)	(1.8)	-	(0.5)	(1.8)
Cost saving potential	-	-	-	1.5	-	-
Interest payable	(21.1)	(1.1)	(10.8)	(9.7)	(1.1)	(5.8)
Catch-up capex	(0.3)	-	(0.3)	(0.3)	-	(0.3)
RETT liability	-	-	-	(3.5)	-	(3.5)
Third party cash injection	-	-	-	-	-	-
Asset sale / refinancing value	54.7	34.0	54.7	56.9	38.9	49.3
Advisory costs	(0.4)	(0.2)	(0.2)	(0.9)	(0.3)	(0.6)
Management reinforcement	(0.4)	-	(0.3)	(0.4)	-	-
Estimated outcome	(42.7)	(50.9)	(37.0)	(35.3)	(46.1)	(43.5)
Key assumptions *	Current situation is continued for another 4 yrs.	Liquidation at the start of FY10.	Sell all properties at the end of FY11 (after 2 yrs).	Execution of mortgage pledge, assumed that BoS takes secured assets on the B/S; sell all properties at the end of FY11 (after 2 years), except the properties with upside potential according to CW; RETT liability materialises in FY10.	Assumed to sell the Company at the end of FY10; the original proposal will be kept in place, the shopping center is not valued.	Execution of mortgage pledge, assumed that BoS takes secured assets on the B/S; Sell all properties at the end of FY10. RETT liability materialises in FY10.

*) General assumptions:

- In all scenarios, the free cash flows are used to make interest payments;
- Interest payments are compounded each year over the principal and the interest arrear at a rate of 5.6%;
- Cost savings are based on high level assumptions, refer to the appendix;
- RETT cannot be recouped from a future buyer;

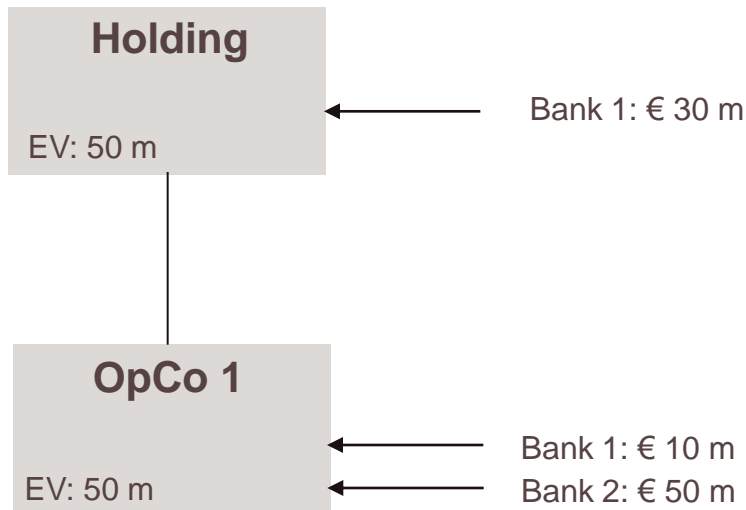
Note: For the underlying details of each of the above scenarios, we refer to the separate datapack as part of the option paper
PricewaterhouseCoopers

April 2009
Slide 21

Valuation of the different options requires many different inputs

- Different options means different business plans
- Each option might have different tax consequences (i.e. an asset deal is not a share deal)
- Prices achieved in a forced sale are different from prices achieved in an orderly sales process
- A speedy process is required
 - balance between efficiency and accuracy;
 - expertise and experiences are key
- When the cause is mostly operational, the situation is "reversible" and time is "available" => Not 1 min to 12:00...

Distress as a result of financing: new split between capital providers



- Easier if all debt holders are all at the same level in the Group
- Complexity might arise when different debt holders are located at different operating levels:
 - recovery or debt equity swaps might not be the same for all parties...
 - value of the debts will depend upon their subordination characters and the estimated enterprise value...

➔ Negotiation ...

Section four

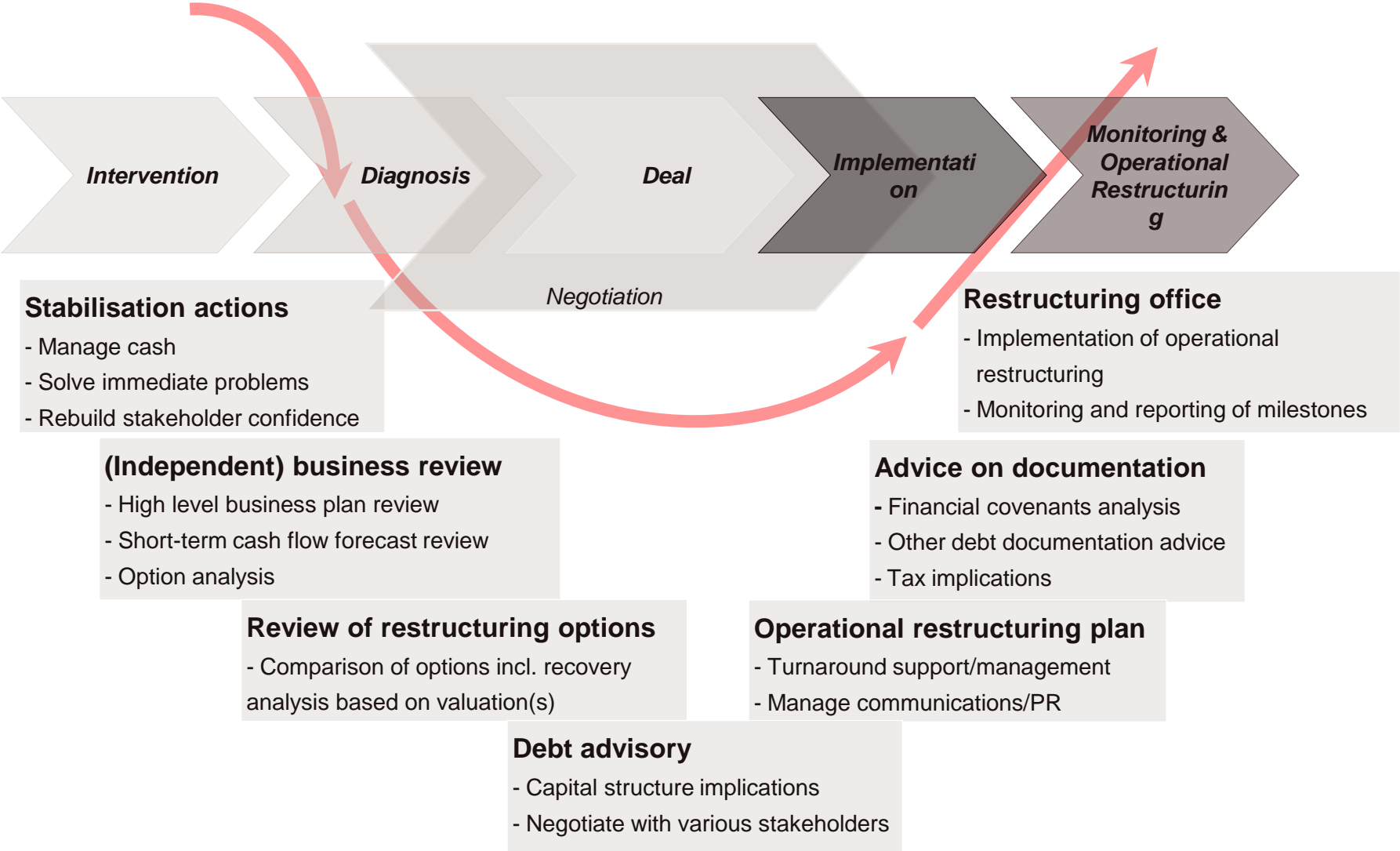
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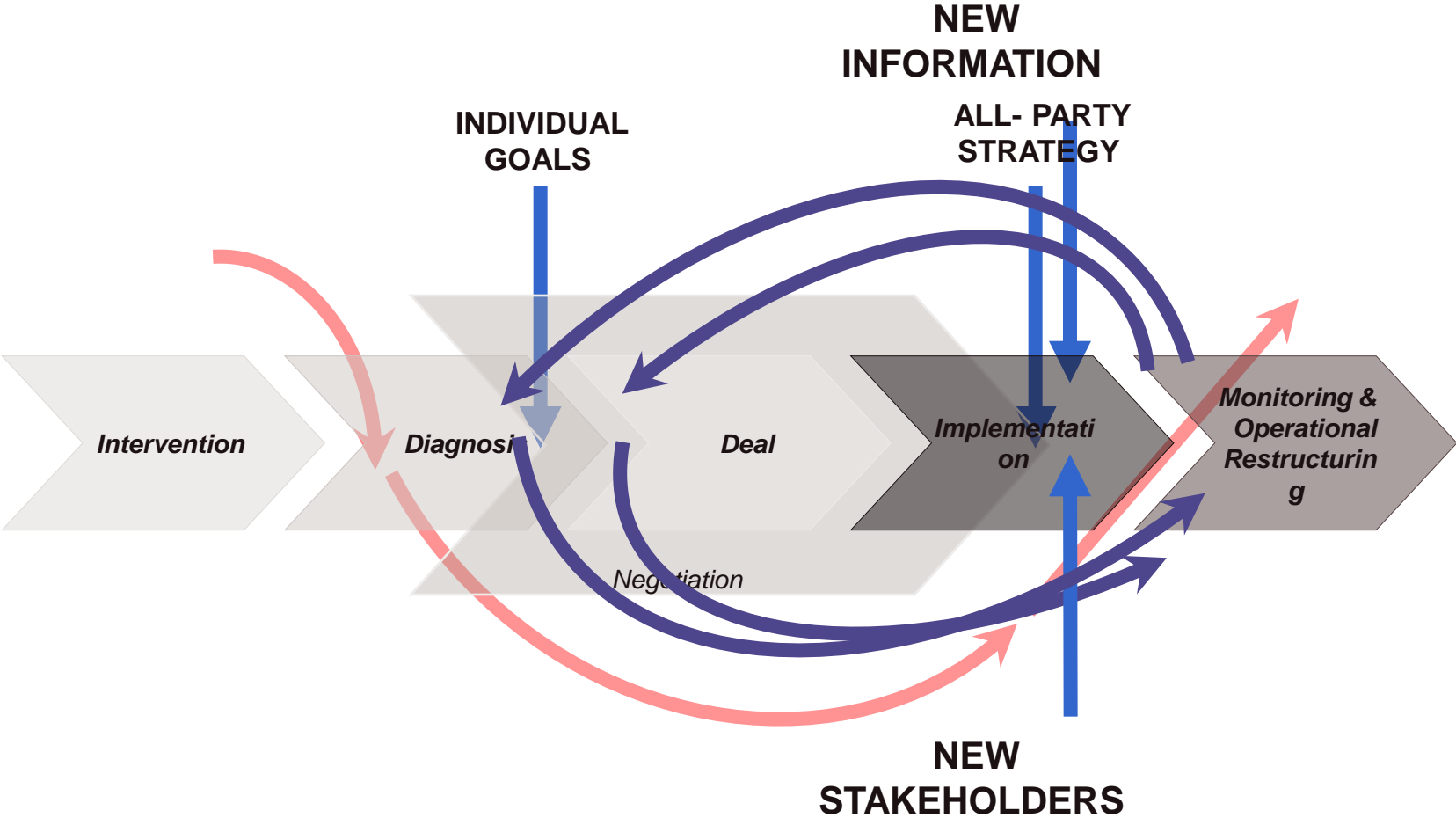
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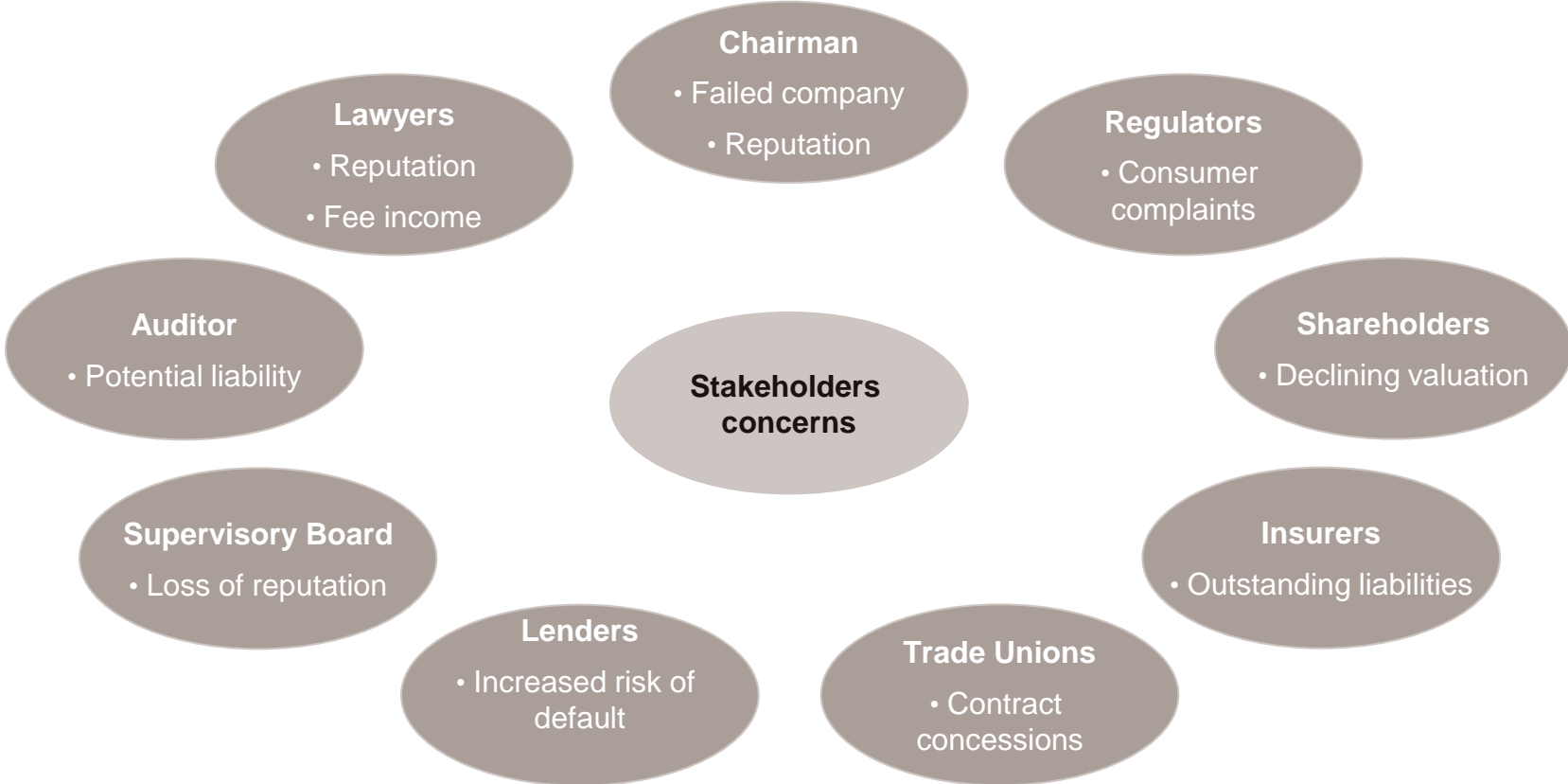
The restructuring lifecycle






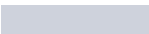



What is most challenging phase in a financial restructuring?



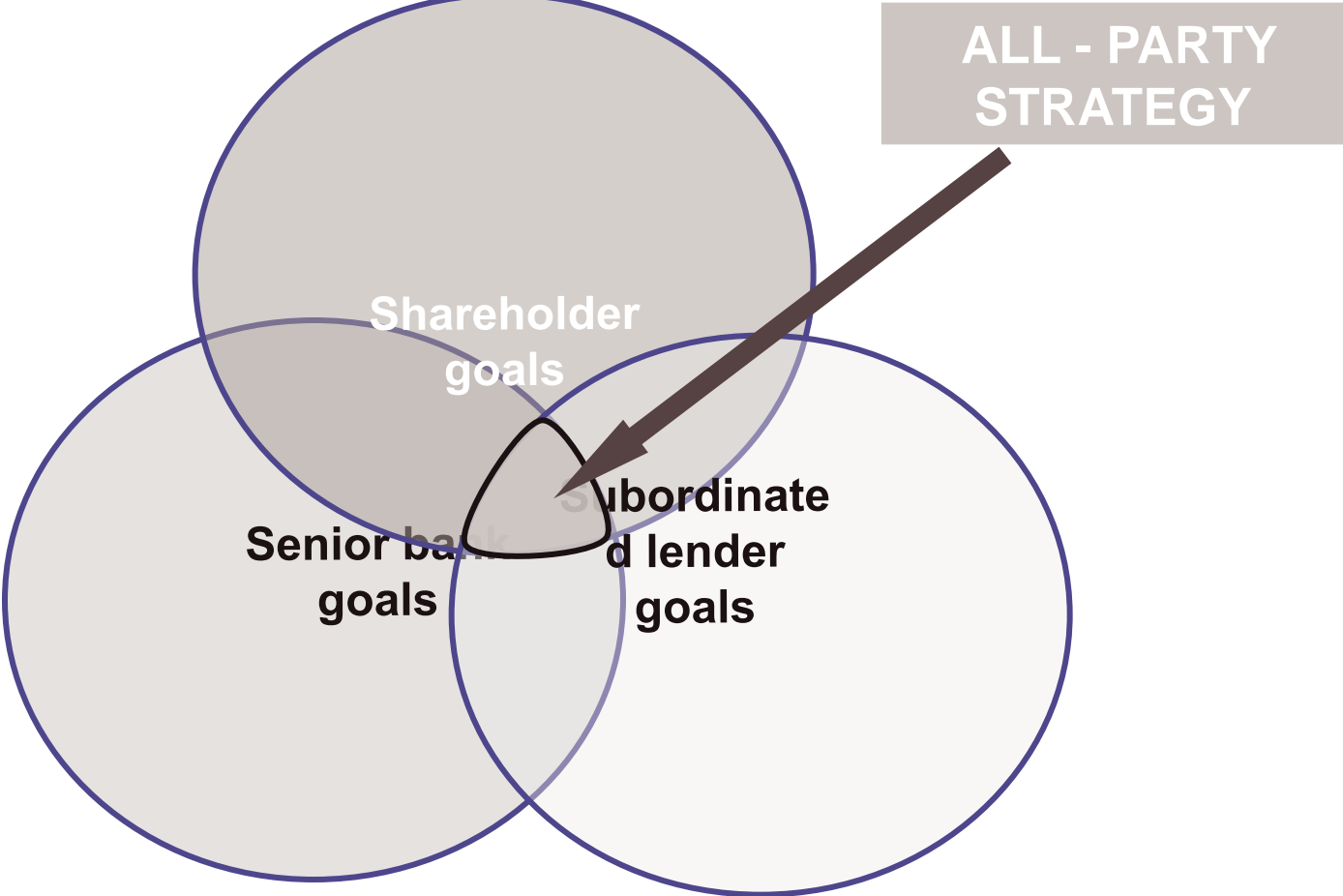
Managing stakeholders during a restructuring process is complex and time-consuming



Likes and dislikes of key stakeholders

<p>Company / Management</p>	<ul style="list-style-type: none"> • Appropriate incentivisation • Certainty of outcome • Consensual restructuring deal • Keeping control • Headroom in facilities/covenants • Stability in stakeholder base 	<ul style="list-style-type: none"> • Interrogation by other stakeholders advisors • Fees – banks/advisors • Unwaived defaults • Providing more security • Tight covenants • Having to manage cash tightly • CRO 
<p>Banks</p>	<ul style="list-style-type: none"> • Control / influence • Performing debt • Security • Fees • Simplicity • Tight covenants • Consensual deals • Stable relationships 	<ul style="list-style-type: none"> • Bondholders / vulture funds • Non-performing debt • Equity type investments • Debt write-offs • Surprises / last minute changes • US based approaches in European deals 
<p>Junior lenders</p>	<ul style="list-style-type: none"> • Straight talking • Doing things their way • Easily tradable instruments • High margins / share in upside • Risk – if can smell return • Cash prepayments • Clear exit strategy • Tax efficient structures 	<ul style="list-style-type: none"> • Banks and bankers • Detail • Process • Restrictions particularly on trading • Covenants and default risks • Non-US based approaches 
<p>Shareholders</p>	<ul style="list-style-type: none"> • Retaining their stake • Creation of equity value • Keeping control / influence • Links to management • Tax efficient structures • Clear exit strategy 	<ul style="list-style-type: none"> • Further investment • Loss of value / interest / control • Covenants and default risks • Junior lenders • Banks' advisors • Press leakage 

Moving and aligning the primary stakeholders through the eye of the restructuring



Summary

- Time
- IBR: what are the causes of the distress ?
- Expertise and experience to assess the options: speed is key
- Negotiation
- Every case is different

In case of practical questions

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