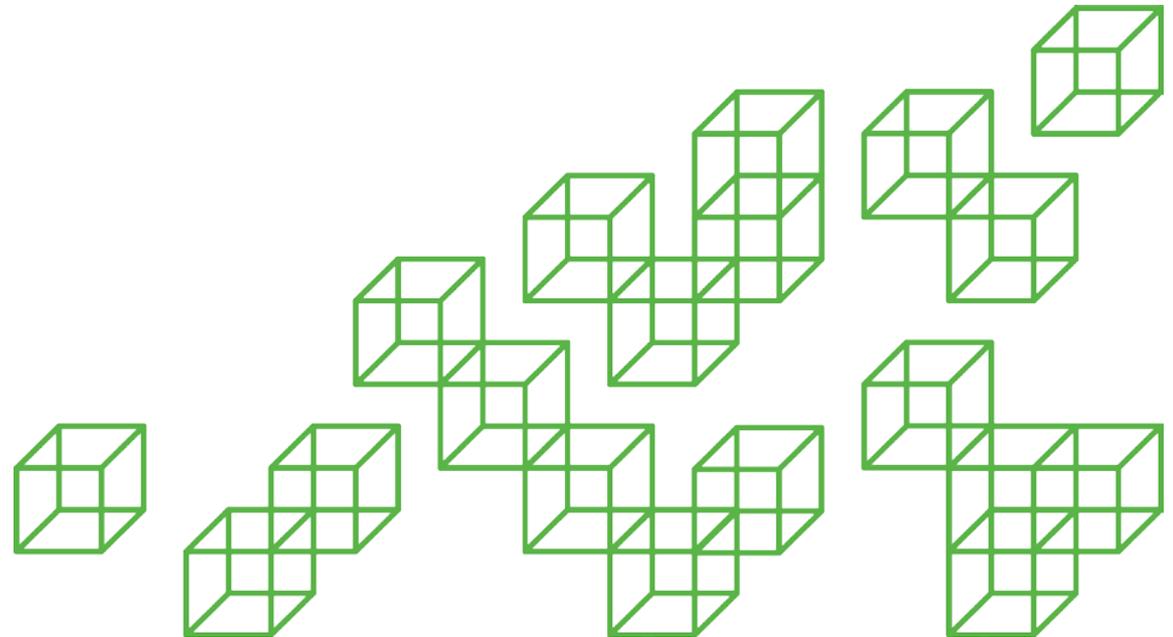


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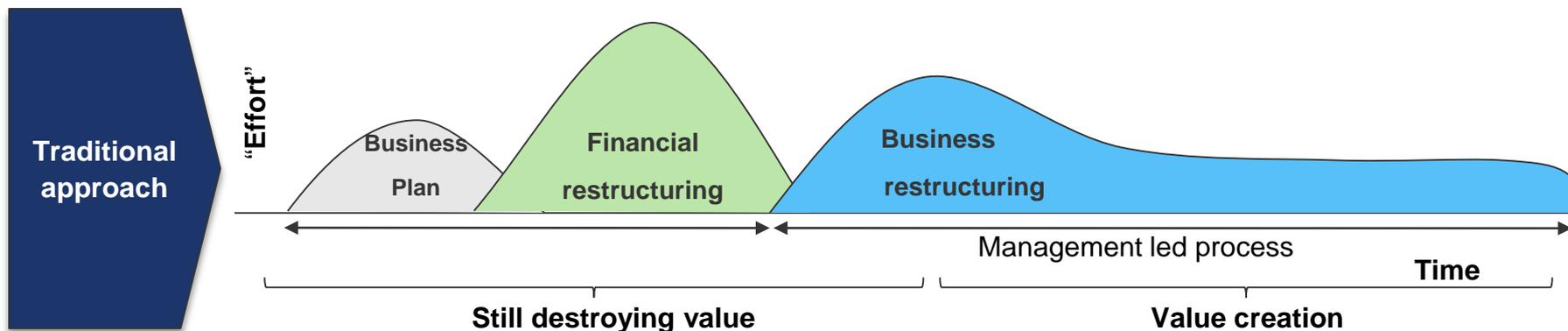


Holistic Turnaround approach and deleveraging as a critical restructuring tools



2

Traditionally you first define a business model, than you renegotiate the capital structure and finally you can implement the plan



Traditional Golden Rules apply:

- Keep it simple
- You can analyze anything in 6 weeks
- If you cannot implement it in 18 months, you simply cannot implement it
- Focus on short term....

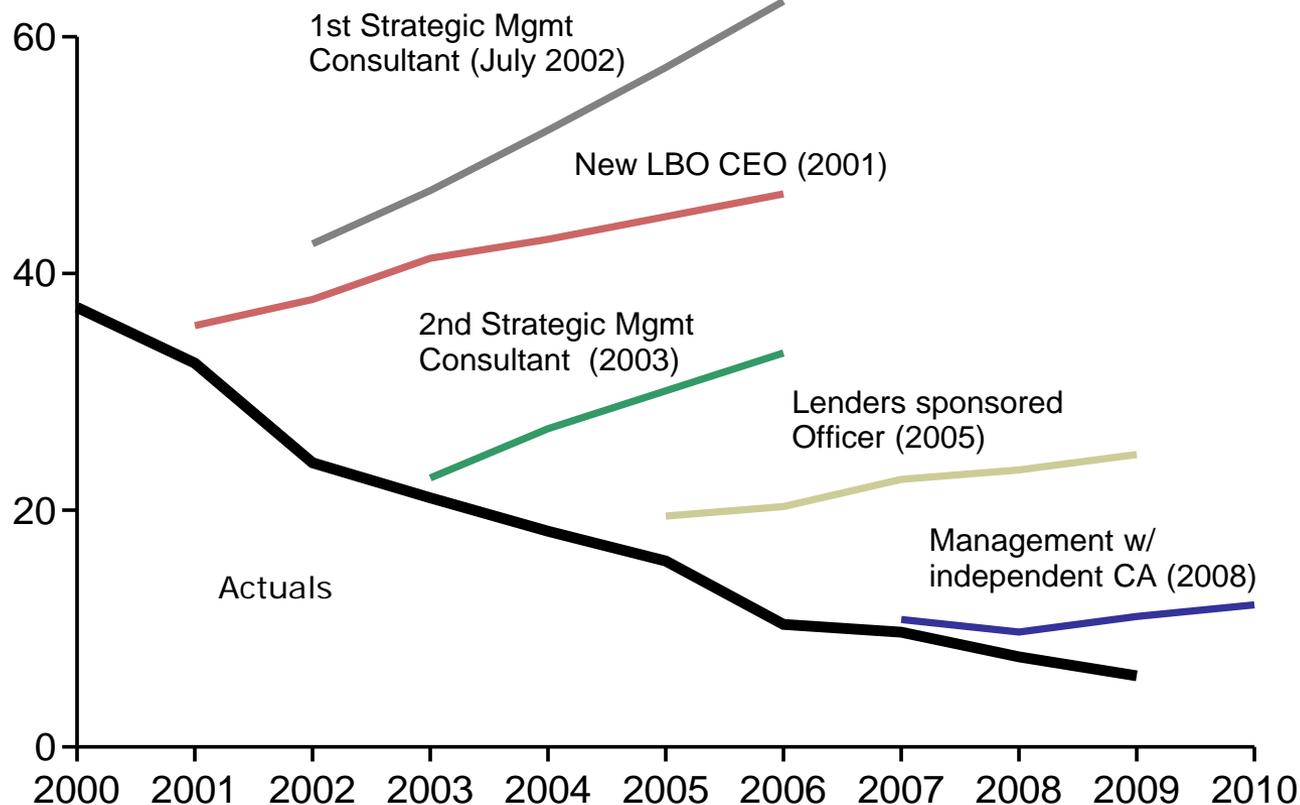
financial restructuring based on expected performance ...

“Cake size” must be firmly grounded in facts and identified actions, organized in an achievable path

CASE EXAMPLE

Jewelry manufacturer production volume

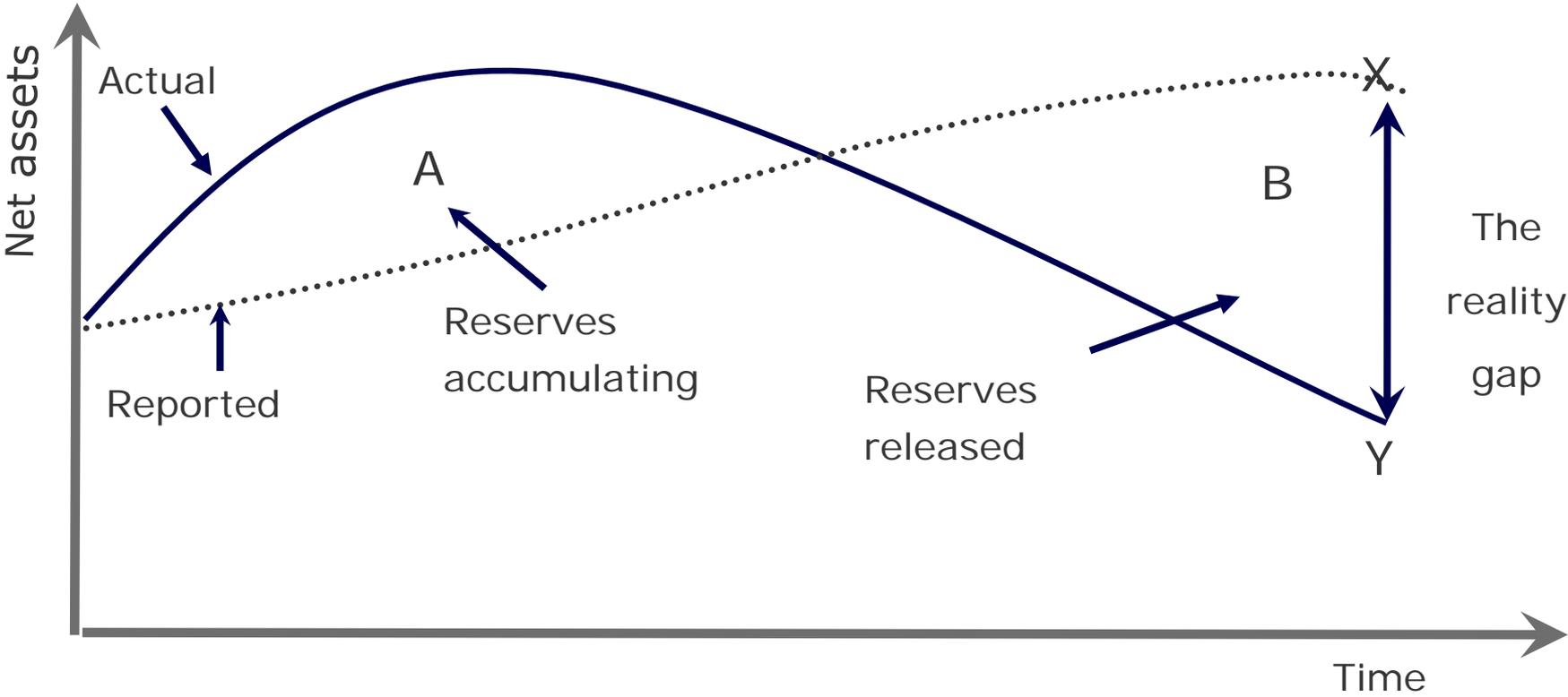
2000-2009, Tons of pure gold



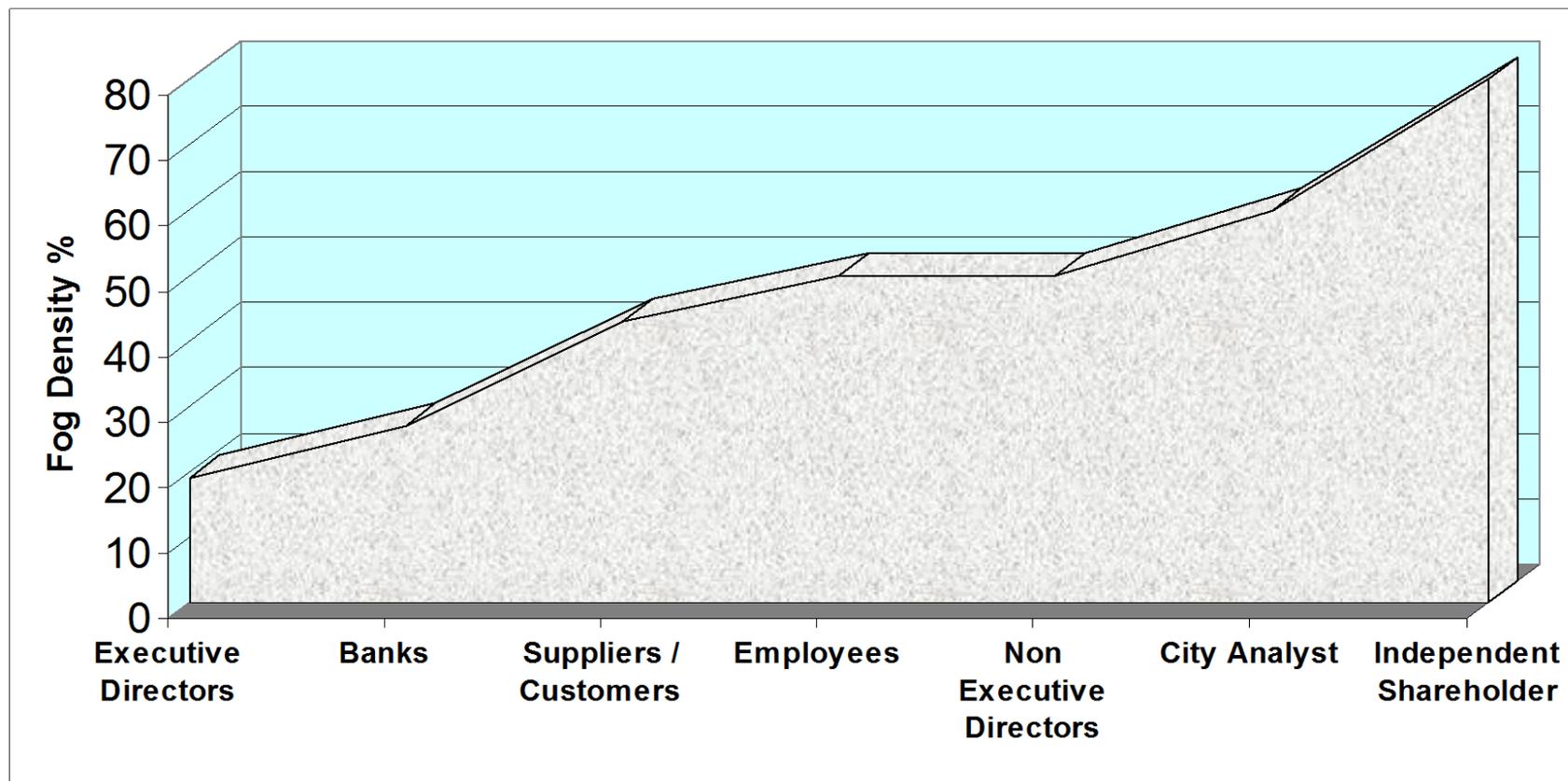
- ▶ Despite an underlying market decline, all business plans implied a sharp change in trend
- ▶ Significant gaps already from the first year
- ▶ Plans developed by strategic management consultants proved to be particularly unrealistic

Source: business plan documents, AlixPartners analysis

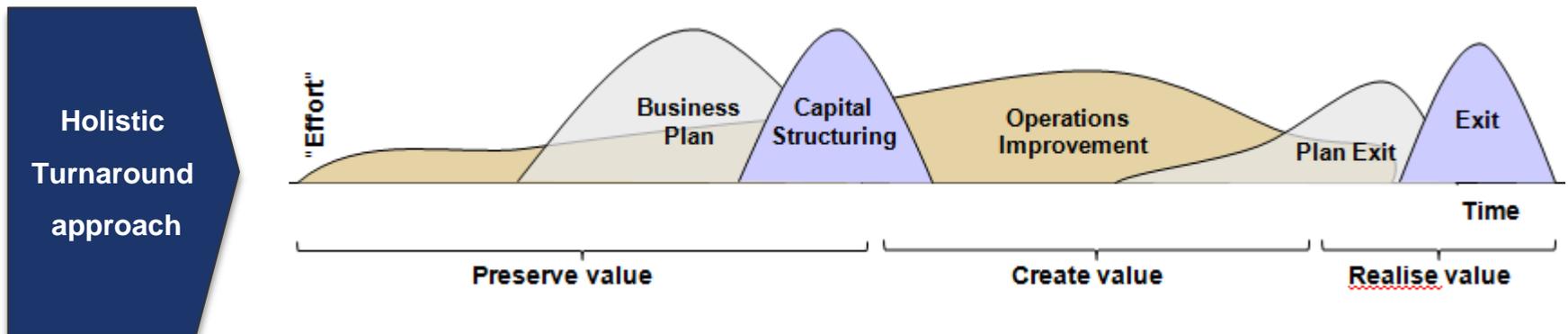
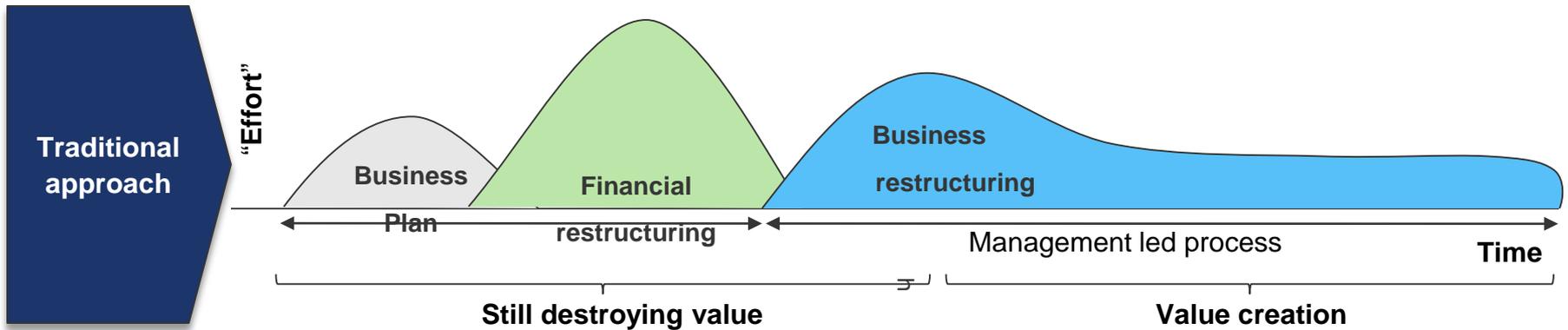
The Reality Gap



The Fog Index



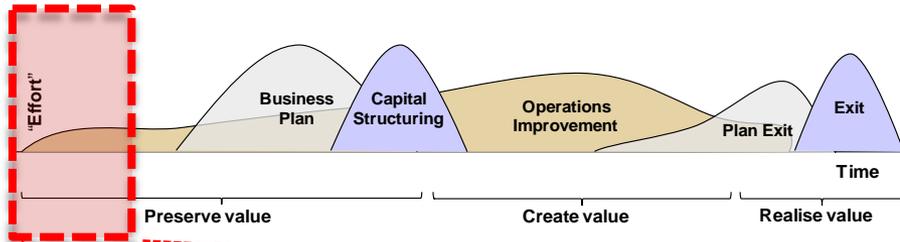
Holistic Turnaround implies upfront operational effort to optimize cash and operations, then negotiate support and implement initiatives



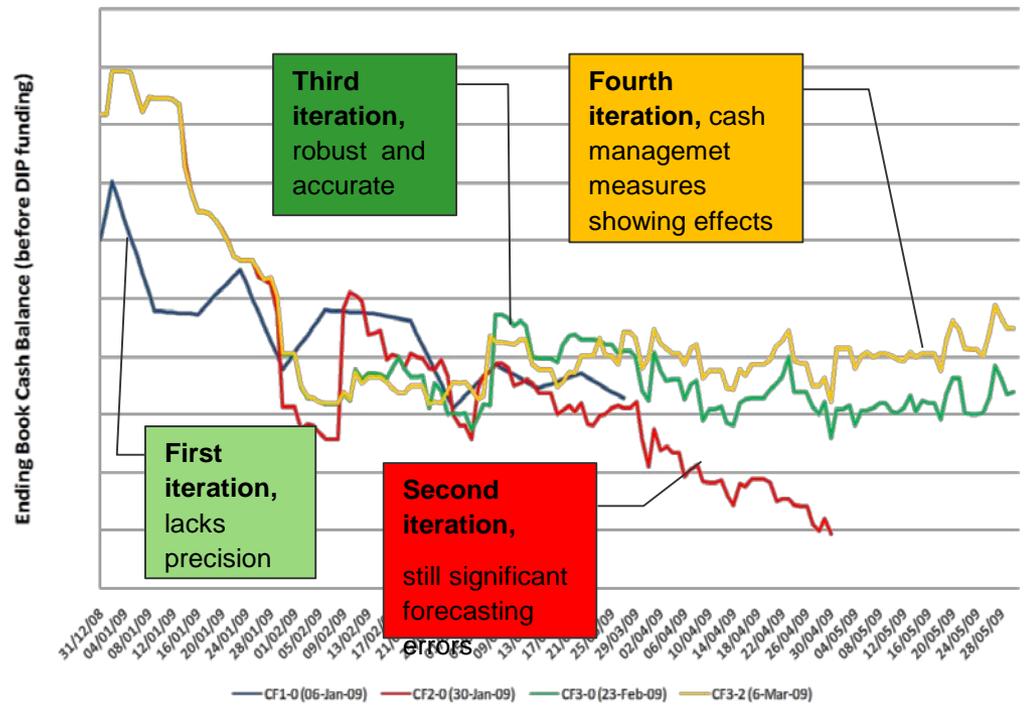
Immediate focus on cash and operational restructuring allows:

- to preserve asset value for the benefit of all stakeholders
- to fully understand the company before working on a comprehensive plan
- to become a credible broker for all stakeholders gaining their cooperation

Client example: establish cash flow forecasting accuracy then extend to management

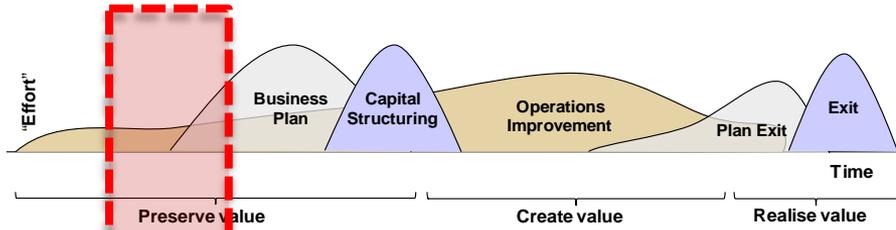


Large Manufacturing Company – Cash Flow Forecasting and Management



1. Collections and disbursements forecasts established early for all main operating entities
2. Rigorous variance analysis conducted a weekly basis or more often, feeding back into new forecasts
3. Foundational control to coordinate initiatives accelerating collections and delay disbursements across the organization

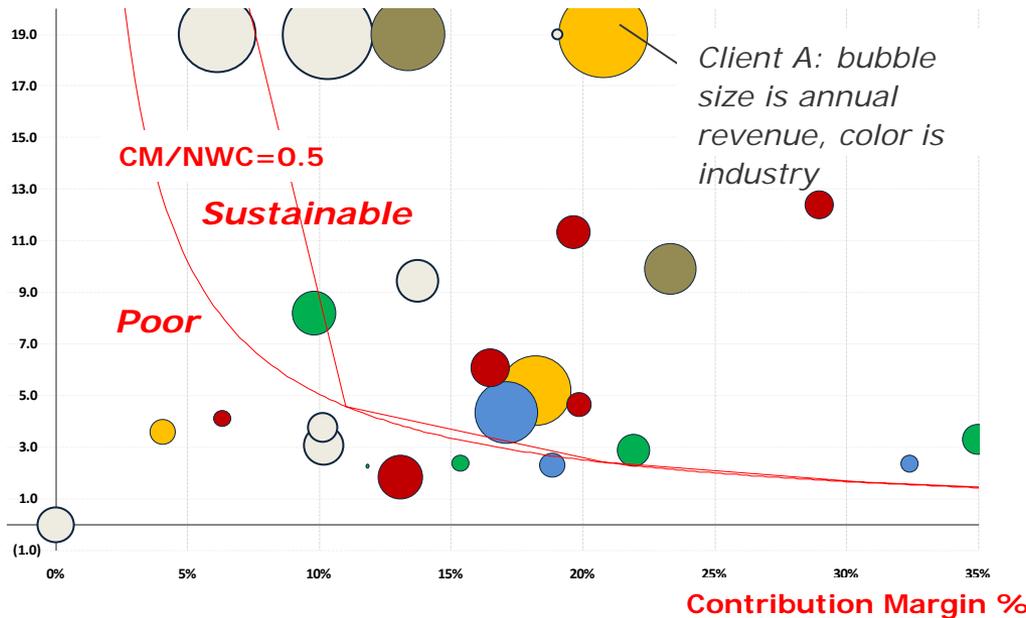
Client example: launching operational restructuring actions while developing the business plan



Largest Italian EMS – Business portfolio review, client trimming strategy and launch of negotiations

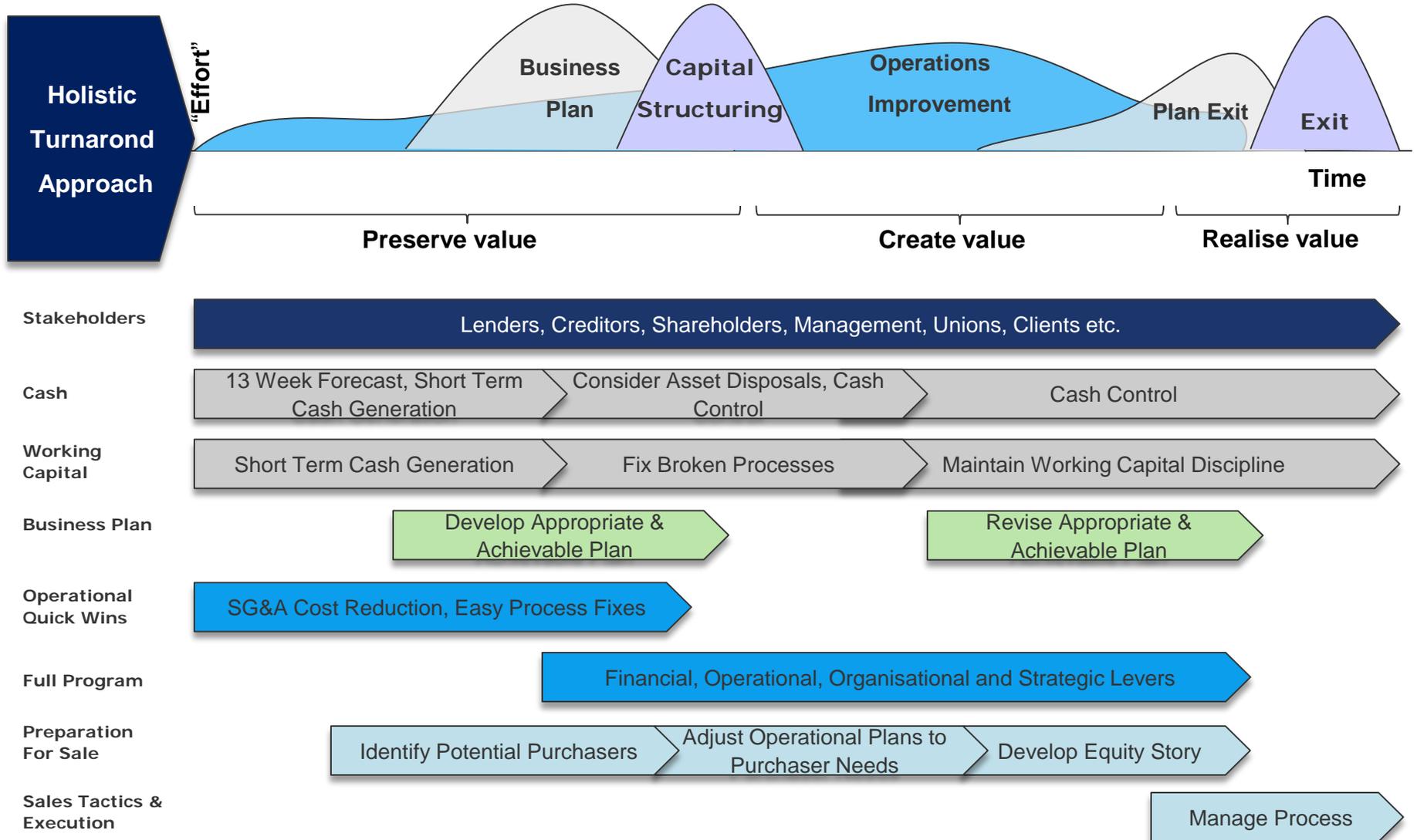
Sales / NWC

Mapping of client sustainability



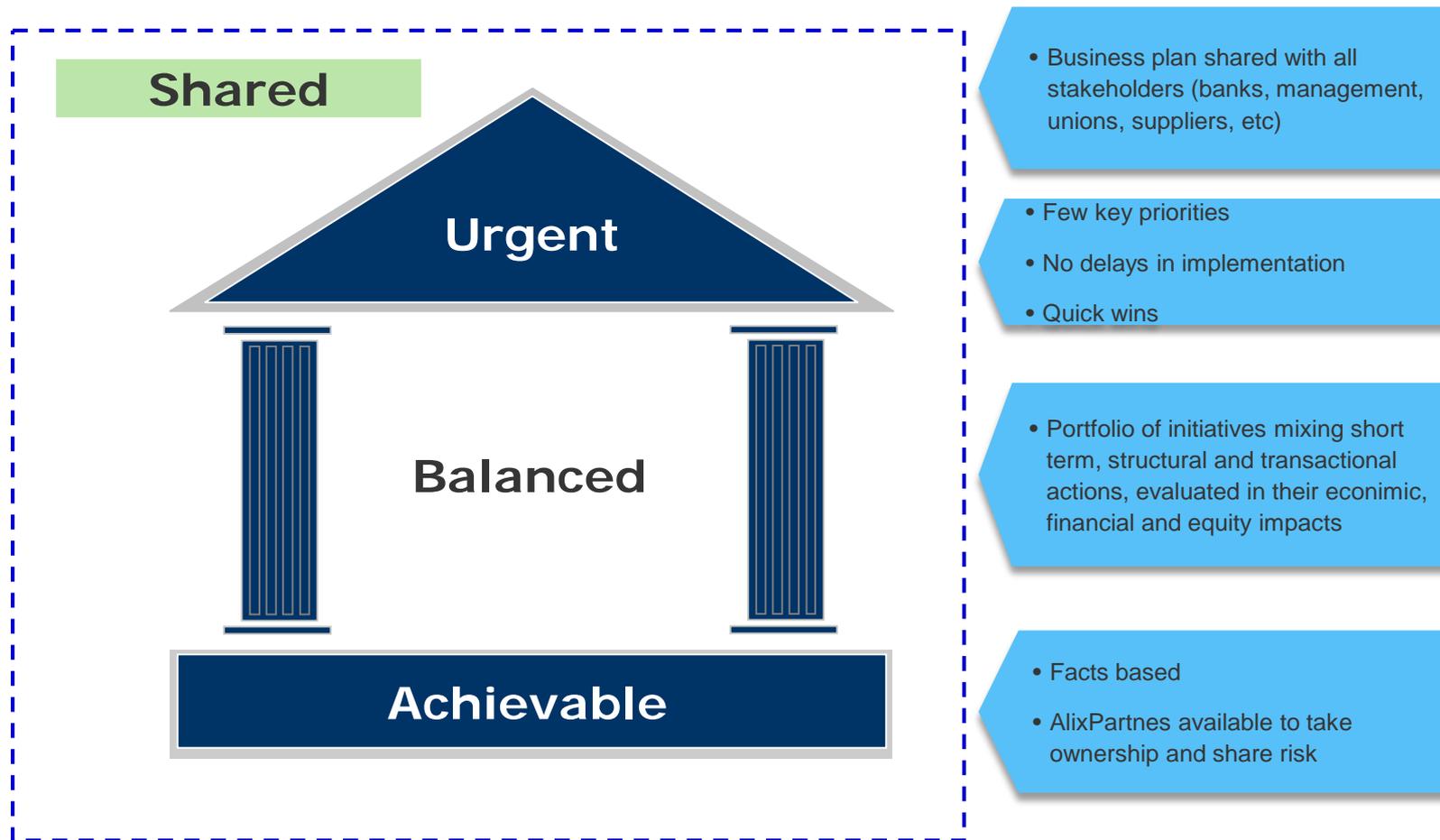
1. Rigorous assessment of client economic contribution and absorption of capital (1 month) 4 wk
2. Review of client sustainability with key account managers (2 weeks) 6 wk
3. Client prioritization by segment / industry, realistic 3 years trading outlook (1 week) 8 wk
4. Client Black / Red lists identification (1 week) 12 wk
5. Preparation of negotiation strategy, identification of negotiation team and training (2 weeks) 16 wk

AlixPartners holistic approach integrates financial, operational and transactional know-how to drive successful transactions



A credible business plan is a delicate mix of achievable targets, balanced initiatives and urgent action in a shared context

The Holistic Turnaround Plan



High indebtedness makes a successful turnaround more difficult

Liquidity constraints



- Operating cash flows drained by debt service
- Liquidity urgencies may affect business decisions
- Management efforts focused on liquidity generation

Lack of financial flexibility



- Fixed assets already pledged and unavailable for new credit support
- Limited access to alternative forms of financing (factoring, guarantee, etc)
- Divestments precluded in the 'zone of insolvency'

Poor credit rating



- Unavailable credit insurance leads to reduced supplier payment terms
- Higher cost of financing

Limitation to business development



- Bid, performance and advance payment bonds are normally unavailable
- Bad balance sheet structure prevents access to highly structured clients

Inability to attract quality management



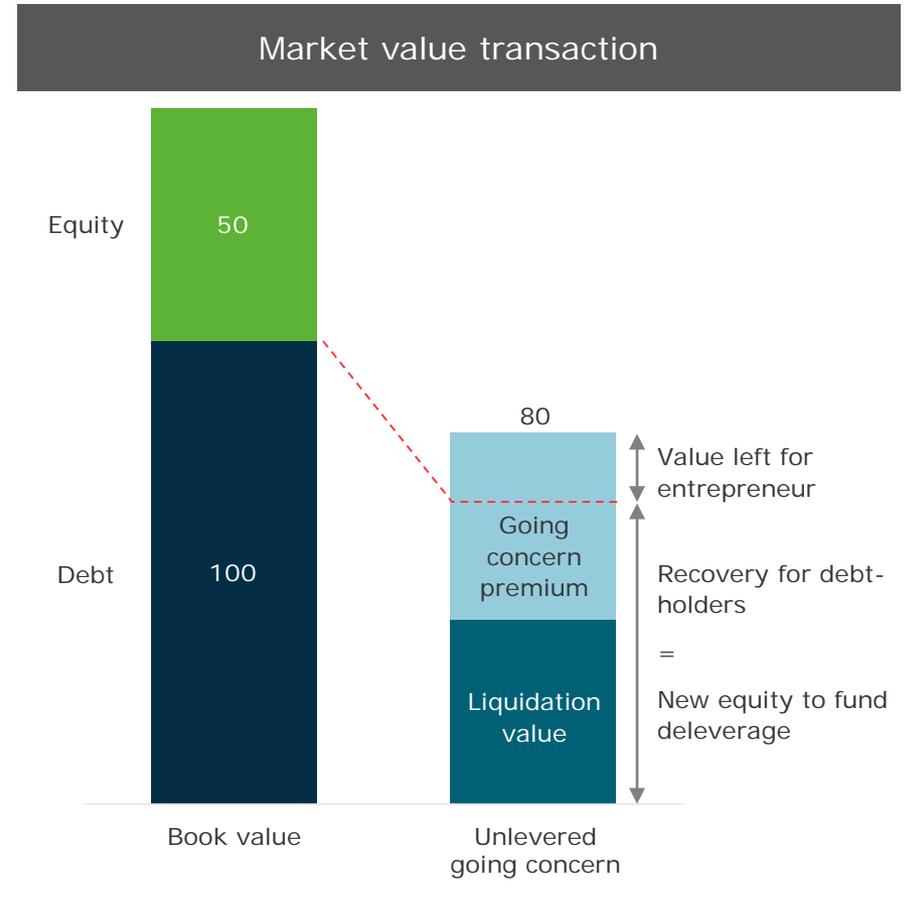
- High employee turnover – especially key people
- Difficulties in attracting top-quality managers for vacant positions
- Limited retention plans through insufficient liquidity

When leverage becomes debt overhang, it is a deterrent to attracting new resources

The market for going concern premium could be the trigger for pursuing sustainable restructuring

There are three barriers to this greater value being unlocked:

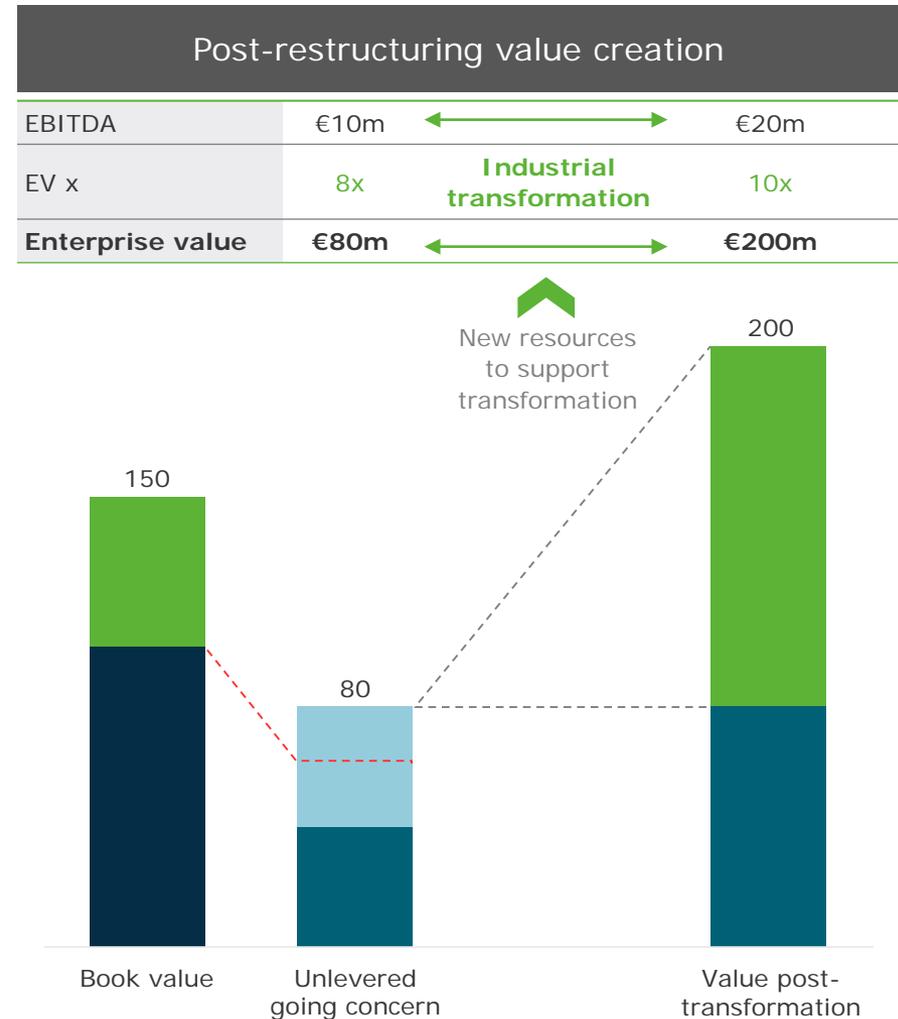
- New capital must be injected into the company – likely by a third-party investor
- The capital structure must be deleveraged
- There must be a mechanism allowing debt and equity providers to negotiate their fair share of the going concern's higher value versus liquidation.



An efficient market mechanism should allow new capital to flow into a distressed company to unlock the going concern value

The ultimate goal is to be able to pursue the industrial transformation needed to prosper in the market

- A successful turnaround, exploiting new technology and digitisation, will eventually increase the value of the company well above the going concern as-is, to the benefit of all stakeholders involved:
 - Original shareholders will have retained at least part of their share in the company and realised value
 - New equity providers would have realised a return on their investment consistent with their cost of capital
 - Original debt providers can benefit from the extra value created through appropriate mechanisms (e.g. cash sweeps, earn-outs)
 - New debt providers will contribute to a 'healthy' leverage of the company





In today's fast-paced global market, timing is everything. You want to protect, grow or transform your business. To meet these challenges, we offer clients small teams of highly qualified experts with profound sector and operational insight. Our clients include corporate boards and management, law firms, investment banks, investors and others who appreciate the candour, dedication and transformative expertise of our teams. We'll ensure insight drives action at that exact moment that is critical for success. When it really matters.

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