Debt Restructuring and Insolvency:
Reviving Corporate Growth in Slovenia

EBRD’s strategy and experience in the region

Jean-Marc Peterschmitt, Managing Director, CSEE
Jolanta Gabriel, Head of Office, Slovenia
EBRD and Restructuring

Agenda:

EBRD Strategy for Slovenia

EBRD’s role in restructuring transactions

Case Studies:

• Sofia Med, Bulgaria

• Nectar/ Fructal M&A, Serbia/Slovenia

• Ciech, Poland

EBRD indirect support via Special Situation Funds
New strategy for Slovenia 2014-2017 (to be approved on 26 February 2014)

A key priority is expanding the role of the private sector and promoting good corporate governance.

Clear need of restructuring in the corporate sector to support recovery and stimulate growth.

The EBRD’s strategy supports and complements Slovenia’s National Reform Programme.

EBRD acts as a catalyst for balance sheet restructuring by providing new money on the basis of sound banking principles.
Increased demand from clients in the Region as a result of:

- Deterioration of performance of underlying operating businesses (fall in demand and increased costs)
- Significant lack of liquidity / funding – both debt and equity
- Increasing NPLs in local banks portfolios
- Lack of experience in a downturn and of restructuring at many banks led to protracted lenders negotiations and lack of working capital or capex lines for businesses to operate

⇒ Selectively, EBRD can be a “new money provider” and unlock situations – but heavy scrutiny.
Lessons Learnt from the Region

Restructuring projects face several obstacles:

• **Inappropriate recognition of the situation** – delayed reaction by the management, shareholders and lenders;

• **Lack of precedents in the various countries** – lenders are not experienced; many jurisdictions favour equity holders and/or require new bankruptcy legislation;

• **Poor financial management** within companies in restructuring and lack of local restructuring expertise;

• **Most companies face tight liquidity** with a large volume of payables, leading to pressure also from suppliers, which can escalate the situation fast. **Short-term solutions go wasted.**
Restructurings are challenging and risky. New money requires appropriate structuring:

- Requires higher margins, sometimes equity upside
- Robust security packages and super-seniority - “last in-first out” structures

Work on selected “doable” cases to ensure a higher success rate.
- Many situations observed: too late or deadlock between stakeholders

EBRD principles:

- Viable operating business cases leading to recovery in profitability
- Balance sheet and/or operational restructuring required
- Existing lenders developed or willing to develop sound restructuring proposals and follow best practices in restructuring
- Fair burden sharing between lenders and shareholders and recognition of real equity value
- EBRD doesn’t rescue existing shareholders or lenders but helps saving viable operating businesses
- Focus on long term solutions and not quick temporary fixes
Case Study: SOFIA MED

**Project Summary**

<table>
<thead>
<tr>
<th>Client</th>
<th>Sofia Med</th>
<th>Signed</th>
<th>And funded 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Bulgaria</td>
<td>Product</td>
<td>Senior Loan</td>
</tr>
<tr>
<td>Sector</td>
<td>Non-ferrous Metals</td>
<td>Amount</td>
<td>EUR 40mn</td>
</tr>
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**Summary Profile:**

- Producer of a wide range of rolled and extruded copper & zinc semi-finished products;
- Leading copper processing facility in EE with 20% market share in Europe; 80% exports;
- Part of Viohalco Group, one of the biggest Groups in Greece;
- Viohalco invested in boom years EUR 130m to expand processing capacities; Highly leveraged company 8x and the Sponsor of approx. 6x

**Key Reasons for Restructuring:**

- Commodity industry - severe drop in demand and LME copper prices rose by 50%
- 70% of the debt was ST with annual renewal, all with Greek banks
SOFIA MED – Restructuring Summary

Sponsor committed to increase its “equity/quasi equity” by EUR 50 million through conversion of inter-group receivables into share capital and additional stand-by equity to support the repayment capacity.

Banks committed rollover of existing LT debt and ST debt to bullet repayment in 2017, but no haircut due to Sponsor commitment.

EBRD committed – EUR 30 m LT Working Capital and EUR 10 m of CAPEX (new money)

Company committed to restructuring plan supported by robust commercial, technical and financial DD
Nectar, a family owned business in Serbia - the Bank’s client since 2007 - one of the leading juice and soft drinks producers in Western Balkans

February 2011: Nectar approached EBRD with a proposal to support the financing of acquisition of Fructal, the leading juice producer in Slovenia with 2010 sales of EUR 56.3m

In 2011 financial troubles of the owner led to the enforcement and sale of the Fructal shares by financing banks

Rationale for the acquisition: Fructal’s regional brand recognition despite the years of underinvestment, complementary product assortments, geographical coverage and distribution and integration synergies

The transaction was Nectar’s first large scale acquisition outside of Serbia
Purpose of financing:

- Acquisition of 93.7% of Fructal shares
- Creation of a regional champion able to compete with international brands in the Western Balkan region, particularly in post EU accession period.

Financing package:

- EBRD: 8 year (2 years grace) senior secured acquisition loan of EUR 35 million
- Nectar: EUR 8m equity
- EUR 15 m parallel loans from SG Serbia to Nectar and EUR 12m loan from NKBM to Fructal

Key challenges / takeaways

- Completion of integration of both companies and realisation of synergies, valuation
- Viability of financing structure – grace period, repayment profile and covenants, refinancing risk and post-acquisition leverage, security package
- Corporatization of family owned business
Leading Polish chemical company; product used for glass, furniture, agriculture, plastics, building materials and may others.

Almost 7000 employees; EUR 1 billion revenues;

Partially privatised in 2005 via WSE; largest shareholder at the time State Treasury of almost 37%; others Pioneer Investment Management, PZU, free float almost 38%

EBRD followed the company for many years and decided not to support financial restructuring in 2009 as a result of disagreements among the lenders

EBRD led successful restructuring of capital structure in 2010 and committed to take part in future capex funding.
Ciech – why restructuring?

- Ciech operates in a cyclical industry – commodity chemicals – through down-cycle EBITDA can halve in 2-3 quarters
- Bullish management overspending at the top of the market – unprofitable acquisitions financed with new debt
- High leverage – the business was struggling to service debt through the down cycle – over 5.3 x Debt/EBITDA
- Debt maturities were upcoming with no capacity for repayment of refinancing on a stand alone basis
- No more risk appetite from existing lenders to add new money
- As a result critical capex was postponed
- Although there was value in the business with strong fundamentals, the issues made any further privatisation impossible
• Total deal size reached EUR 400 million, split as follows:
• EBRD – EUR 78 million senior loan for capex, energy efficiency and environmental programme;
• Local banks: EUR 212 million to refinance existing indebtedness; existing lenders rescheduled its financing;
• Equity investors: EUR 110 million through rights issue at significant discount of almost 30% (once the restructuring between banks was agreed) – overall 2x oversubscribed trust in the growth story and successful financing package rather than lifeboat rights issue;
• Sale of non-core assets of EUR 50 million;
• All new financing was inter dependent: No deal if any bank or equity investors pulls out;
• The Company adopted restructuring plan agreed with PWC and the lenders.
Common Lessons Learnt

- **Timing factor is key** - recognition of problems before too late
- **Extensive due diligence** process is necessary up front: market review, legal due diligence, financial due diligence preferably by one of big 4,
- Recognition of **true equity value** of the company
- **Execution complexity** – financial, operational and organisational restructuring at the same time is challenging and requires strong management as well as external consultants
- **Agreeing new strategy and restructuring plan** focused on optimisation of core business with specific benchmarks and timeframe, supported by the management; sale of non-core assets
- **Clarification of roles of board vs. role of executive management**
- **Independent CFO is invaluable in all cases**
- **Restructuring processes are heavy and risky.** Turnaround requires intensive monitoring. New investors can be very hands-on.
Equity Funds

EBRD in Restructuring Situations via Special Situation Funds
### 1. Fund Description
- **Fund Size:** EUR 90 million including EBRD’s investment of EUR 17 million
- **Investment Strategy:**
  - Achieve intensive improvements of distressed, under-performing and turnaround companies in CEE/SEE
  - Develop a balanced portfolio focused on heavy lifting required for
    (i) those companies going into liquidation, administration or bankruptcy, and
    (ii) those that need restructuring and turnaround management

### 2. Target Companies
- **Target:** companies with good potential but suffering from underperforming assets and operations due to lack of liquidity or access to capital, bankruptcies and liquidations, non-core divestitures and assets, shareholder disputes or management shake-ups, and unsuccessful mergers and expansions
- **Ticket Size:** EUR 5 to 25 million in middle market companies mainly through majority stakes or controlling interests

### 3. Countries of operation
- Albania, Armenia, Azerbaijan, Bosnia & Herzegovina, Bulgaria, Croatia, Estonia, FYR Macedonia, Georgia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine

### 4. Fund Managers’ Offer
- **Products:** (i) direct control equity, or (ii) control equity investment combined with debt  (iii) bridge capital to a transaction
- **Value-Add:** hands-on approach to develop and implement financial, operational and organizational restructuring completed by potential strategic (re)positioning of the company and business development
- **Active investor:** direct control in the day-to-day activity of the company by taking board seats, nominating key management positions, taking part in strategic decisions of the business among others

### 5. Current Investments: EUR 28 million in 3 companies
- **Food retailer in Azerbaijan - Azeri Retail (04/2011):** re-launch the largest food retailer in Baku - focus on operational and financial restructuring, reformatting and allowing the company to complete its turnaround plan
- **Manufacturer of medical equipment in Poland - Famed (01/2013):** full acquisition of the company (in liquidation at the time of investment) - focus on operational restructuring, rebuilding the sales and distribution channels, product re-development and managing the expansion of the business
- **Metal roofing and water collection player in Romania - Bravo (03/2013):** controlling stake into the company - focus on cleaning up the balance sheet and bringing back the company into the market
Case Study: Food retailer in Azerbaijan - Azeri Retail (1/2)

When pictures tell a thousand words… Pre-Involvement of the Fund Manager – April 2011
When pictures tell a thousand words… and then post involvement! – August 2013
ADM CEECAT Recovery Fund

**Key Highlights**

1. **Fund Description**
   - **Fund Size**: EUR 265 million including EBRD’s investment of EUR 53 million (20% fund share)
   - **Investment Strategy**:
     - Focus on expansion investing in small and mid-sized companies across Central Eastern Europe, Central Asia and Turkey
     - Focused on non-operational but rather financial distress.

2. **Target Companies**
   - **Target**: Opportunity | Target Company | Investment Thesis
     - Growth Capital | Good company, impaired liquidity | Support the company to take advantage of the crisis to consolidate or grow its market share
     - Corporate Restructuring | Good company, bad balance sheet | Reorganise the capital structure and allow the company to survive and grow
     - Working Capital Finance | Reduced capacity utilisation as no access to working capital | Long term working capital solution
     - Refinancing | Converting short term debt into long term debt | Preventing the company from entering into default or bankruptcy

3. **Countries of operation**
   - Countries of **Central Eastern Europe & Central Asia** including among others Turkey, Bulgaria, Romania, Russia, and Ukraine

4. **Fund Managers’ Offer**
   - **Products**: equity, preferred equity, structured equity, loans with warrants, loan & equity, convertible
   - **Value-Add**: (i) hands-on Fund Manager; (ii) proximity in geographic, sectors and market knowledge; (iii) working capital management; (iv) strategic advise, (v) governance and management

5. **Current Investments in 9 companies**
   - **Construction Materials, Turkey (01/2011)**: Financial restructuring
   - **Healthcare, Turkey (04/2011)**: Working capital, debt restructuring with existing lender
   - **Healthcare, Turkey (04/2011)**: Debt and organization restructuring, with working capital injection
   - **Fuel Retail, Ukraine (09/2011)**: Creation of a new structure for expansion
   - **Food, Turkey (12/2011)**: Shareholder restructuring
   - **Tower/Telecom, Russia (03/2012)**: Second round equity
   - **Battery & Lubrificants, Bulgaria (04/2012)**: One time settlement with debt and operational restructuring
   - **Auto Components, Turkey (08/2012)**: Working capital, debt restructuring with new lenders.
   - **Agriculture Irrigation, Russia (10/2013)**: business expansion, working capital
## Case Study: Healthcare providers and services, Turkey

### Company
- Healthcare providers & services in Turkey
- The Group is an integrated healthcare services provider, operating six hospitals in Turkey.
- The Group has an operationally strong business model which can sustain higher EBITDA margins than other players in the market due to a strategy focused on foreign tourists in the region.

### Investment Structure
- Acquisition financing for the Group to acquire another hospital chain in the region
- Equity injection for working capital purposes
- ADM Capital has negotiated downside protections

### Key Highlights
- Revenues and EBITDA of the Group multiplied by 2 from 2010 to expected 2013E
- The Group has taken steps to decrease both fixed and variable costs at existing hospitals which will remain one of the main focuses
- Cost cutting measures taken by the management have been reflected in the performance of the company
- In light of increasing competition and related costs, the Group has commenced a plan to acquire another hospital and is also in talks with several banks, leasing companies for a potential long term financing or sale and lease back financing as the Group owns the lands and buildings of the hospitals.

### Value Add
- Negotiated a rescheduling with main lender at entry and assisted with bank relations through investment
- Introduced new budgeting and KPI reporting program
- IFRS audit with big 4 auditor
- ADM appointed finance director
- Introduction of new cost cutting projects