

PHOENIX FROM THE ASHES – TURN- AROUND AS A REAL OPPORTU- NITY

Shadows on the wall, the smell of smoke everywhere, panic spreading... Economic crises like COVID-19, and disruption generally, act like fire accelerants for ailing companies. Incipient commoditization of the business model and changing customer needs can quickly push a company to the brink. Covenant breaches and insolvency may be imminent or have already occurred.

For banks and shareholders, the immediate question in such cases is whether further financing of the restructuring is reasonable and can be achieved within the required time. An objective and sound forecast of the company's ability to continue as a going concern is therefore necessary. This alone might present the company with insurmountable challenges. In these circumstances, a consultant is not enough: the parties need an experienced partner who can manage the situation and set the direction for all stakeholders.

The growing intensity of the fire makes rescue difficult. Right from the start, it is a race against time. Those parts of the company that cannot be rescued must be abandoned, and all attention focused on whatever can be salvaged. Our restructuring managers have a wealth of experience in dealing with such situations and the associated challenges, which require not just in-depth restructuring expertise but also a tried-and-tested toolkit and a well-coordinated team with comprehensive management skills.

However, if the company is to survive this ordeal by fire, a profound transformation of the business model and a refocused asset portfolio are essential. All parties must contribute to this. Our team does more than just act as a moderator: we also take entrepreneurial risks. Interim management and variable remuneration models show our commitment to all stakeholders from the very beginning.

When we leave the company, it is back on the road to competitiveness and restructuring has taken place across all areas of the business. Our toolkit analyzes the degree of implementation and success of the measures at all times. Errors are eliminated immediately, and additional measures are initiated.

In the end there is success – not of the old company, but of a new business that has been through the fire with us and risen, phoenix-like, from the ashes!

Our restructuring approach

Three phases on the way to sustainable competitiveness

1.

2.

3.

FAST, RADICAL COST REDUCTION

STABILIZED CASH FLOW WITH A SOUND RISK-EARNINGS RATIO

MARKET-ORIENTED BUSINESS MODEL AND REFOCUSSED ASSET PORTFOLIO

ENSURING ABILITY TO CONTINUE AS A GOING CONCERN

IMPLEMENTATION OF BANKING CAPABILITY

CREATION OF COMPETITIVENESS

Know-how

Professional and proven restructuring approach (also in bankruptcies)

- Reliable and fast continuation reports with a strong focus on covenants
- Standardized and proven tools, processes, and analyses throughout the restructuring process
- Short-term securing of survivability and medium-term increase in competitiveness

Remediation management

- Professional management of all stakeholders in all process phases
- Extensive experience in restructuring cases as an entrepreneur together with banks

Enabler

Investor network

- Extensive investor network
- Possible investment to strengthen equity base

Strong, extensive network of experts and consultants

- Network of over 3,000 functional and industry experts
- Experienced interim managers for various specialist areas including CRO
- Rapid scaling of available resource pools

Entrepreneurial remuneration

- Full flexibility of consulting fee
- Optional investment through PE arm Stern Stewart Capital

Phase 1: Ability to continue as a going concern

Whether it is worth investing in a turnaround depends on the operational and financial situation of the company as well as on the sustainability of the business model and the expected market development. Simply crossing your fingers and hoping for the best is not an option: an objective assessment is key.

After an in-depth analysis of the causes of the corporate crisis by our restructuring managers and industry experts, either through an independent business review or a formal going concern forecast, we assess the strategic continuity of each business area. First, the causes of the company's imbalance are analyzed. A deep understanding of the relevant market, competitors, and regulations is a core requirement here. Once we have a clear picture of the underlying causes of the crisis, the concept for the turnaround is defined as part of a comprehensive business plan. In our experience, companies over the years tend to evolve cost-side structures that hinder efficiency. The same applies to encrusted management structures. It is vital to identify quickly where potential savings can be made and the amounts involved. Our standard toolset enables us to identify cost and liquidity potentials on the basis of a reliable data analysis. However, any efficiency and liquidity initiatives must not reduce sales capabilities. Quite the contrary, the professionalization of the sales approach and the optimization of pricing represent integral parts of the restructuring concept.

Our approach includes not only an independent business review or a continuation forecast according to generally applicable principles, but also an industry-specific strategic view of the market and the company's business model. This is the only way to estimate the actual transformation need and to arrive at a sound assessment of the company's viability as a going concern.

The result of the first phase is a detailed and objective basis for the lender's decision-making. It includes a holistic restructuring concept, financing requirements for each restructuring phase, and a debt sustainability concept with an underlying repayment plan.

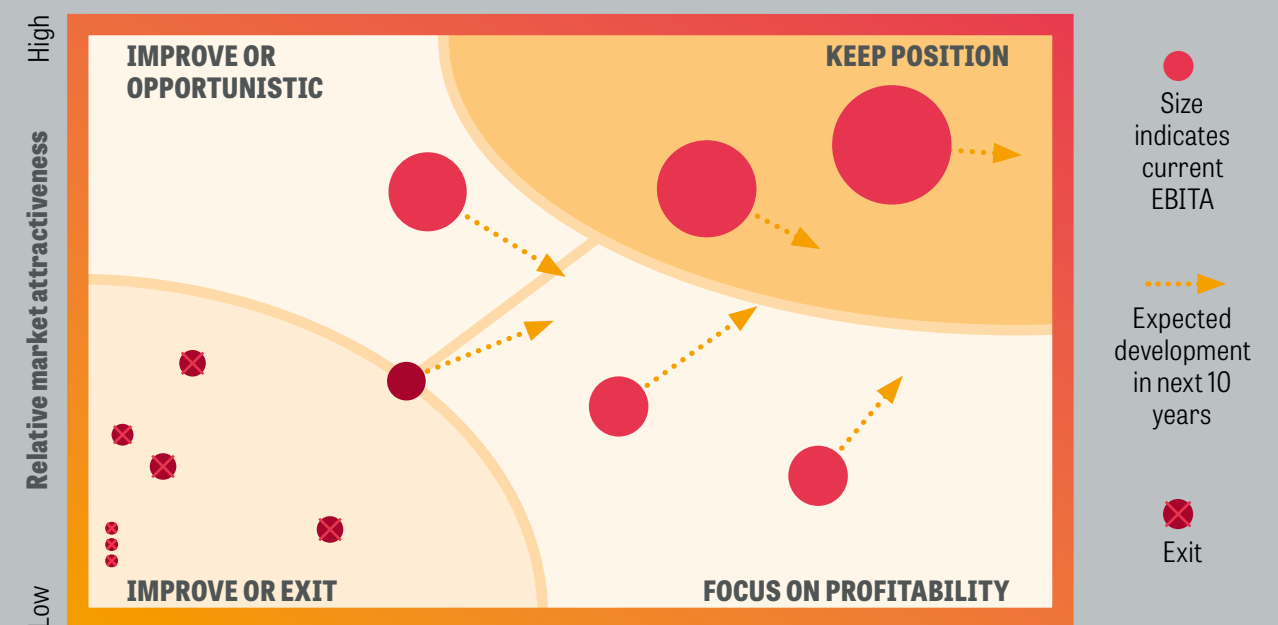
PRODUCT PORTFOLIO OPTIMIZATION

Stern Stewart & Co. was called in to assist a German lighting manufacturer whose sales were plummeting in a growing market. What it found was a flagrant example of product portfolio mismanagement.

The requirements for the company's product portfolio had changed as a result of new customer needs, decreasing willingness to pay, and the entry of new competitors.

In collaboration with our senior product experts from the lighting industry, the product portfolio was adapted, and cost reduction targets were defined on the basis of international benchmarks.

Streamlining the product portfolio enabled significant savings in production while also reducing the depth of added value in the lower price segments through increased outsourcing.



OVERVIEW: STERN STEWART & CO.'S HOLISTIC RESTRUCTURING CONCEPT

The Stern Stewart & Co. restructuring concept includes not only an analysis of the causes of the company's imbalance but also a recommendation on whether it is viable as a going concern. All the measures are combined in a comprehensive business plan that shows the impact of the restructuring on the income statement (P&L), cash flow, and balance sheet.

Phase 2: Bankability

To restore bankability and the capital market's confidence in the company, the restructuring concept must be implemented rigorously.

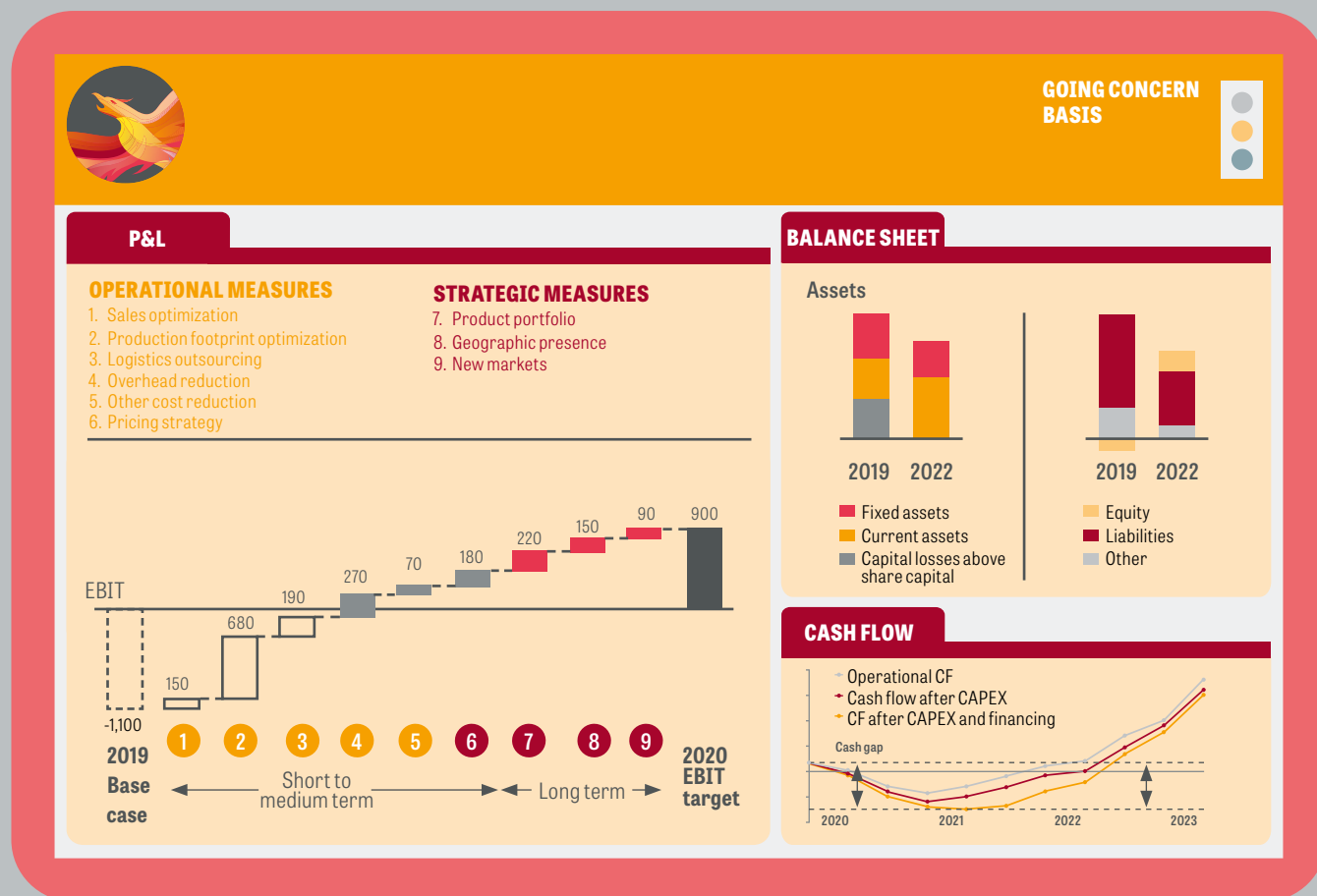
Applying the structural measures is likely to prove particularly challenging, as in most areas the entire value chain will need to undergo a thorough optimization. Errors in these areas can be particularly expensive. To ensure success, we make strategic use of our senior product experts. Boasting decades of management experience in the relevant industry, they are key management consultants in the restructuring and can even act as interim managers if required.

IMPLEMENTATION OF STRUCTURAL MEASURES MUST BEGIN IMMEDIATELY.

From day one of the restructuring, cash and cost control plays a decisive role. Tight liquidity and cost management is the core prerequisite for ensuring that the financing requirements are manageable. Our professional liquidity management tool ensures the greatest possible transparency and enables timely countermeasures in the event of liquidity bottlenecks. The Stern Stewart & Co. restructuring database creates a direct comparison of data analytics with fields of action and ensures quick wins on the cost side.

Alongside quick wins, structural measures are initiated in all key areas, namely costs, sales/margin, and NWC/CAPEX.

On the cost side, the challenge is to leverage significant effects quickly without impairing the company's marketability. We work with our senior experts and all stakeholders to develop ambitious savings targets, and can identify the areas of greatest potential based on our extensive benchmarking database and best practices from countless projects. Together with the company's management, we structure the cost blocks from the bottom up using zero-based budgeting. This method massively enhances both effectiveness and efficiency. Taking the right action immediately and achieving maximum security for the company is the name of the game.



CASE STUDY: ENSURING LIQUIDITY

Especially in financially precarious situations, a company must act fast to gain complete transparency about its current liquidity situation. Our approach is to set up a “cash war room” in which the company's controlling officers work with our team to draw up a daily cash requirement plan, with the support of Stern Stewart & Co. data analytics, in particular the liquidity management tools.

At a trading company, Stern Stewart & Co. immediately created the internal transparency required for a continuation program. In the cash war room, each payment was assessed for its necessity and each claim for its risk. Drawing on this evaluation, the Stern Stewart & Co. liquidity management tool was able to quickly calculate the daily cash requirements and thus enable the company to continue operating, despite its extremely limited liquidity reserves. Furthermore, the tool used its simulation capability to estimate the effect of various assumptions on liquidity and to calculate a target corridor for future liquidity by using statistically calculated extreme values.



The immediate transparency created by this tool at an early stage of the restructuring provides a basis for deciding on future measures and shows the team the current challenges in the process.

CASE STUDY: QUICK WINS ON COSTS AND CASH

A company in the supply industry had to cut its expenses significantly in the short run in order to avoid insolvency. Based on our extensive database of measures, we were able to quickly identify P&L areas with short-term savings potential entailing substantial liquidity releases, and implement those savings fast. Measures such as fleet optimization, suspension of leasing for company cars, travel cost reduction, suspension of sponsorship activities, and termination of redundant insurance contracts were analyzed immediately and turned out to be effective and quick cost and liquidity measures.

These short-term actions create the necessary maneuverability to implement medium- and long-term measures.



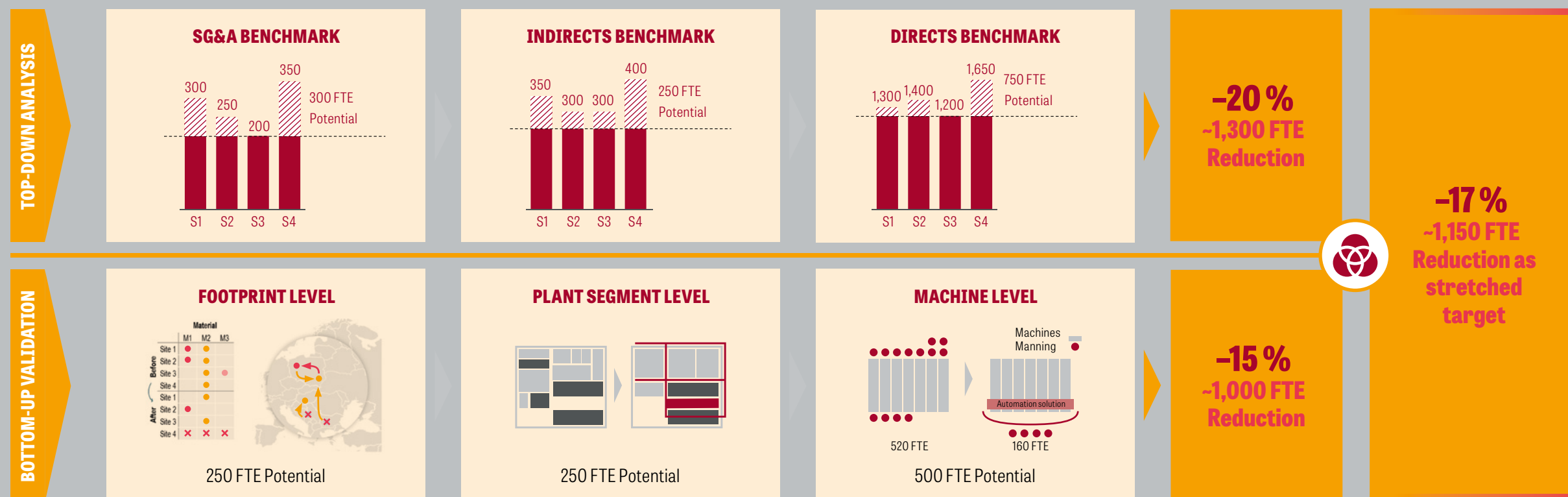
Stabilizing cash flow by increasing sales sounds simple – until you actually have to do it. In the area of short-term sales optimization, effects are regularly achieved through improved pricing strategies and the consistent optimization of sales channels. Comprehensive data analytics identifies unexploited potential. In addition, an optimized sales organization results in significant cost effects.

We have a proven ability to successfully implement a bottom-up zero-based budgeting approach in conjunction with top-down benchmarking. A notable example is the successful restructuring of a European packaging manufacturer. After the company was taken over by a private equity investor, its long-term competitiveness was secured by reducing the head count by a third.

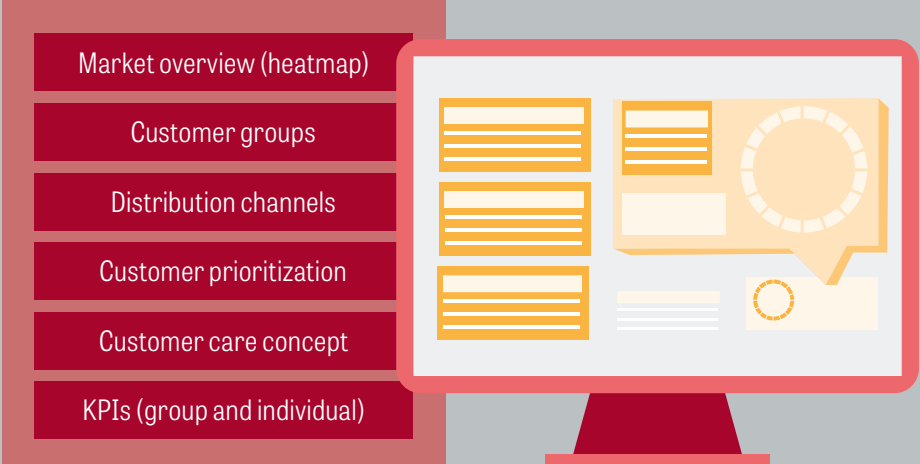
We began by carrying out a top-down benchmarking in order to make an initial assessment of potential savings. The performance and size of the workforce at each production facility were compared with internal and external benchmarks. A significant discrepancy was found between the performance and the leading benchmark, which enabled substantial potential savings to be identified.

To validate these results, we then applied a bottom-up zero-based budgeting approach. The optimal structure of the future target organization was designed and evaluated first at the footprint level, then at the location level, and finally at the machine level. The resulting potential savings were compared with the top-down analysis and the final target organization was thus defined on the basis of stretched targets. In this way, the measures were adapted to the new target levels and significantly higher optimization potentials were achieved.

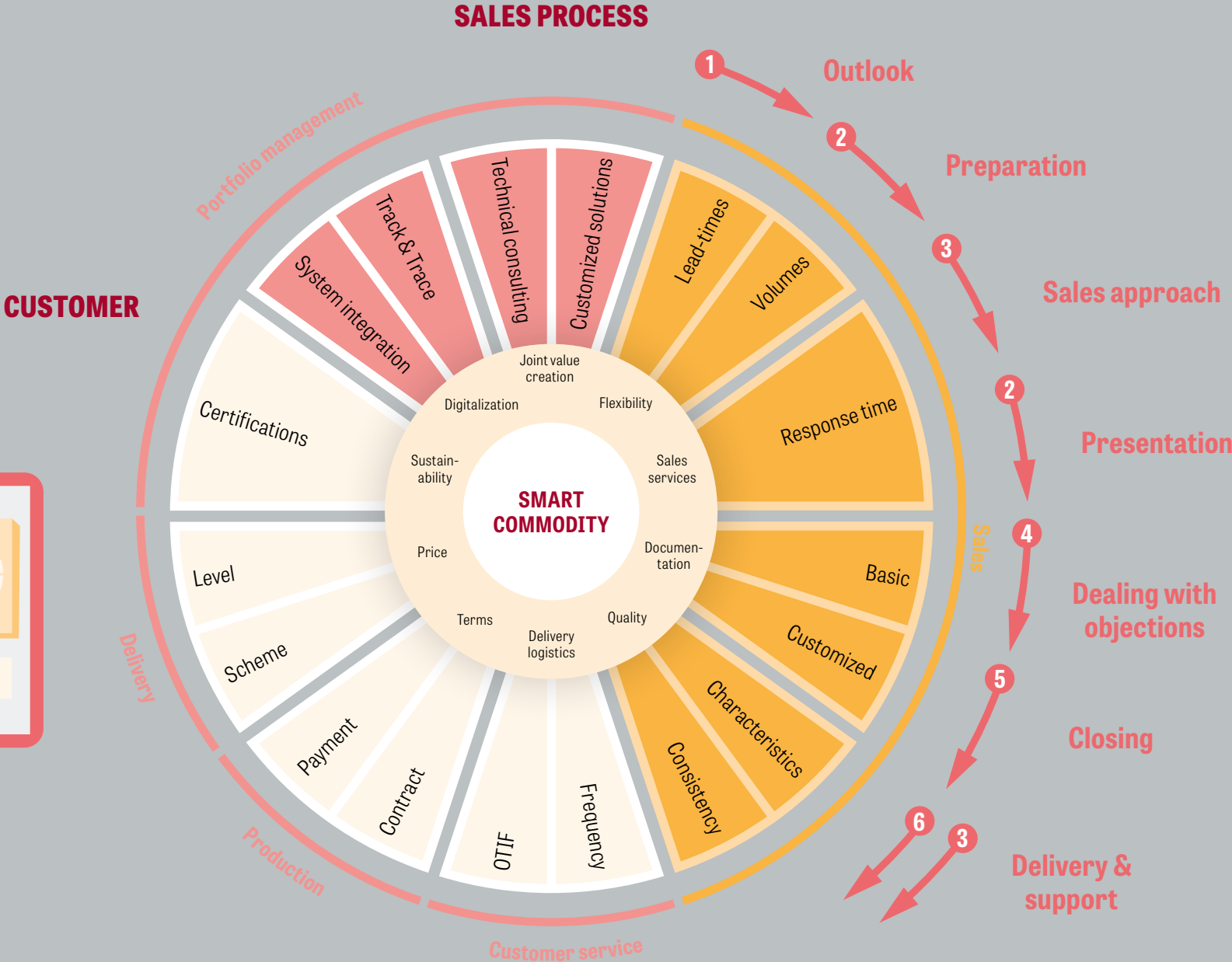
CASE STUDY: BENCHMARKING AND ZERO-BASED BUDGETING



CASE STUDY: SALES AND PRICING OPTIMIZATION



- Market overview (heatmap)
- Customer groups
- Distribution channels
- Customer prioritization
- Customer care concept
- KPIs (group and individual)



WAY FORWARD

- Develop a strategic sales funnel and optimize the customer portfolio
- Continue to roll out the sales presentation approach and customer care concept
- Manage a streamlined system and rigorously monitor compliance with certain sales levers
- Introduce an incentive system to promote and maintain the sale of smart commodities

The sales organization of a large food company was no longer performing strongly. Our approach was to break up its outdated structures and create a brand-new sales organization that could deliver sustainable, profitable growth and help the company to soar again.

In a comprehensive analysis phase, we identified relevant markets, target groups, and sales channels. A key part of this process was determining and then prioritizing customer groups. The lack of a systematic customer care concept had resulted in a considerable imbalance

between expenditures, customer care, and customer profitability. With our approach, unprofitable customer relationships could be identified and corrected, for example by means of radical price renegotiations.

Digitizing the sales process is another critical, long-term optimization stage.

Significant cash reserves lie dormant in the value chain as net working capital and can be used for internal financing. Suppliers are very willing to take on financing in order to secure the customer, particularly in cases of major restructuring. Unnecessary inventories in the value chain can be reduced, while the collection of overdue receivables and the adjustment of payment terms are essential levers on the sales side. Despite the restructuring situation, we can often improve the internal financing significantly and reduce bank financing needs.

CASE STUDY: NWC OPTIMIZATION

Stern Stewart & Co. was able to release cash worth €60 million from an automotive supplier within four months by optimizing receivables, inventory, and liabilities. Using a lighthouse strategy, in which selected measures were successfully implemented in a pilot project and afterwards applied to other business areas, successes were quickly scaled up to the entire organization.



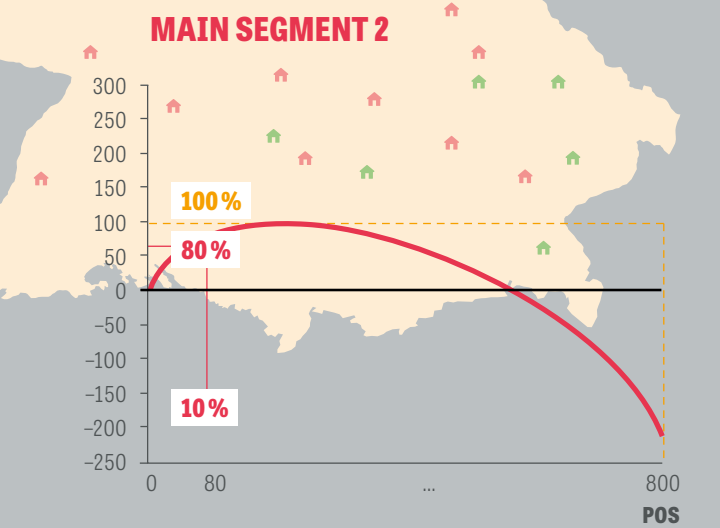
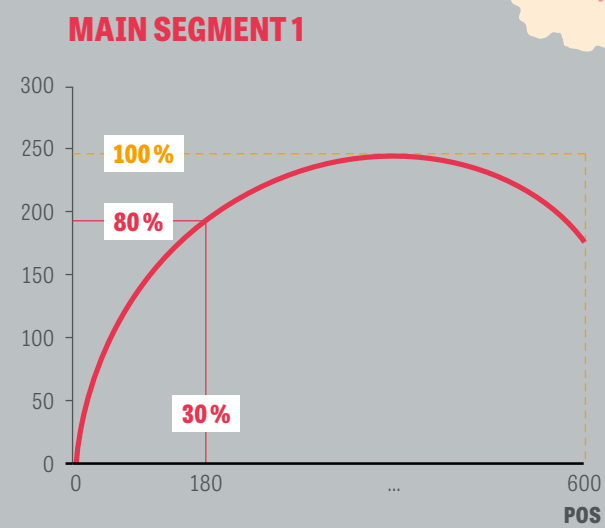
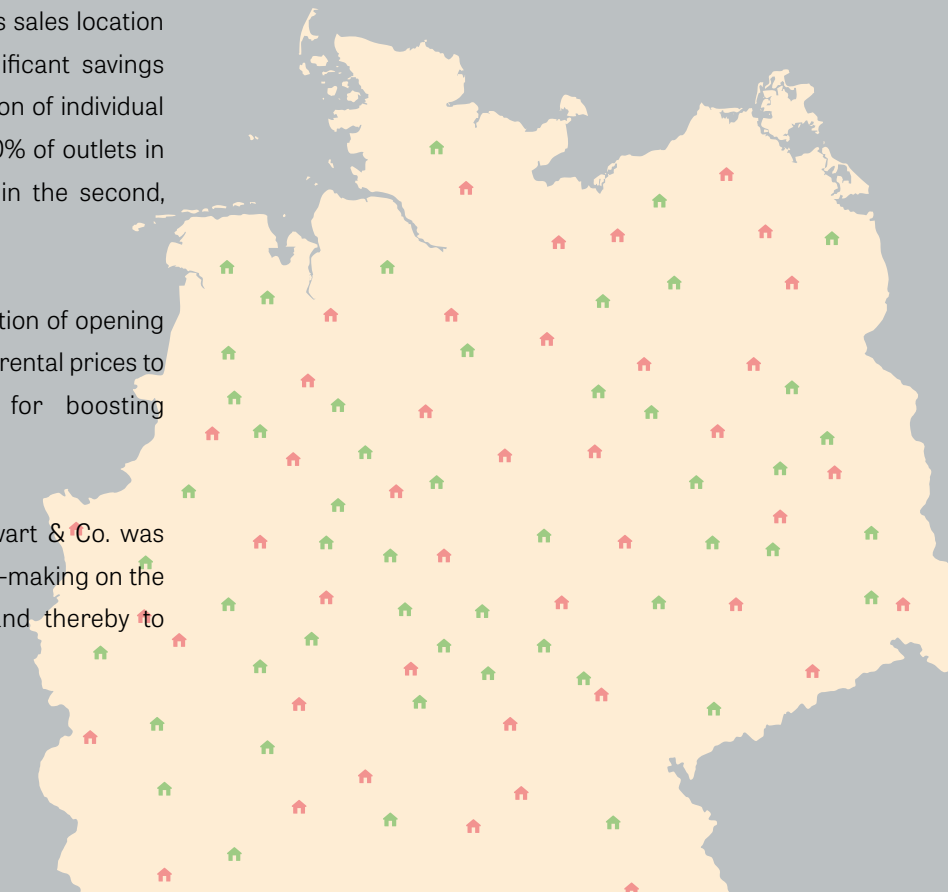
In addition to obvious short-term measures such as renegotiating payment terms on the supplier side, longer-term and more complex solutions like AI-based requirement planning and an automated scheduling system were also introduced as part of the project. On the sales side, dunning was professionalized and the overall dunning process made significantly shorter.

CASE STUDY: POINT-OF-SALE FOOTPRINT OPTIMIZATION

Stern Stewart & Co. analyzed a retailer's sales location strategy and was able to identify significant savings potential. A closer look at the contribution of individual locations to net income showed that 30% of outlets in the first main segment, and just 10% in the second, accounted for 80% of the total.

Additional analyses, such as the correlation of opening hours with sales volume and the ratio of rental prices to sales, identified further measures for boosting profitability.

Drawing on these analyses, Stern Stewart & Co. was able to provide a clear basis for decision-making on the continuation of each sales location and thereby to significantly reduce the footprint.



A sustainably optimized CAPEX structure often follows as a logical consequence: if the focus is no longer on all sales channels and products, it makes sense to part with some production, logistics, or marketing centers. This in turn gives rise to the following question: which properties does the company need to own and at what point can hidden reserves be materialized through suitable refinancing and operator structures, or a commercially viable operator model be set up with a suitable partner?

We provide end-to-end, all-inclusive advice, which saves time and needless complications. Moreover, as well as developing structured solutions, we can also help you to select the right partner to work with. Our Stern Stewart & Co. network includes numerous global investors and strategic partners with different investment and risk focuses. This enables us to quickly validate commercial structural models and deliver solutions in the restructuring process.

The success of a restructuring plan only becomes apparent once the measures are implemented. And when it comes to putting the plan into action, we don't simply support a company from the sidelines: our entrepreneurial approach means that we remain fully engaged in the process – braving the heat of the flames, so to speak. That's why we operate with variable remuneration components, and also why we regularly fill interim management positions from our network of experts, to ensure effective and efficient implementation.

We guarantee maximum transparency throughout the process. As well as planning liquidity and earnings on a daily basis, our tools also precisely measure the contribution of each initiated measure to the result, which we then report to all stakeholders. Complete transparency and clear communication are key factors in restructuring. By working together as a team, we make a success of the process and, once the fire has died down, help the phoenix to rise from the ashes.

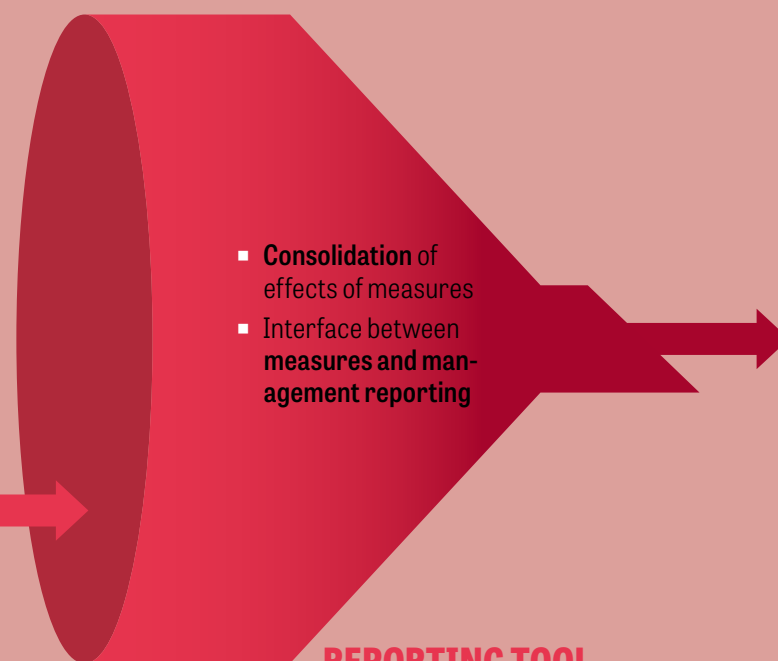
TOOLKIT: STERN STEWART & CO. MEASURE TRACKING

GOAL:
Support the turnaround and ensure constant transparency on the progress of the measures

- Monthly **tracking of costs and liquidity measures** including headcount effects
- Tracking of **sales and margin development** for a monthly EBITDA bridge



REPORTING INPUT

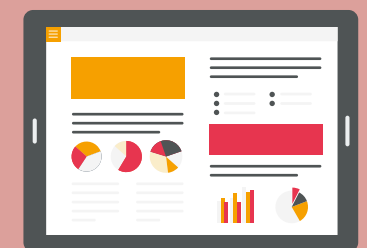


- **Consolidation** of effects of measures
- Interface between **measures and management reporting**

REPORTING TOOL LANDSCAPE



MANAGEMENT REPORTS



All implementation measures are tracked in a central measure tracking tool. Each measure is broken down by activity level, milestones are defined, and a precise time schedule is determined. For each measure and defined activity, a person is named with final responsibility. The ramp-up of the effects is based on the action plan, which is defined and coordinated with all stakeholders.

Phase 3: Competitiveness

The operational turnaround has been successful, the ability to continue as a going concern is assured, the confidence of the capital market in the company is restored. The company is now entering the most critical phase, one that will determine its future viability. The restructuring offers a unique opportunity for the business to set the course for long-term competitiveness.

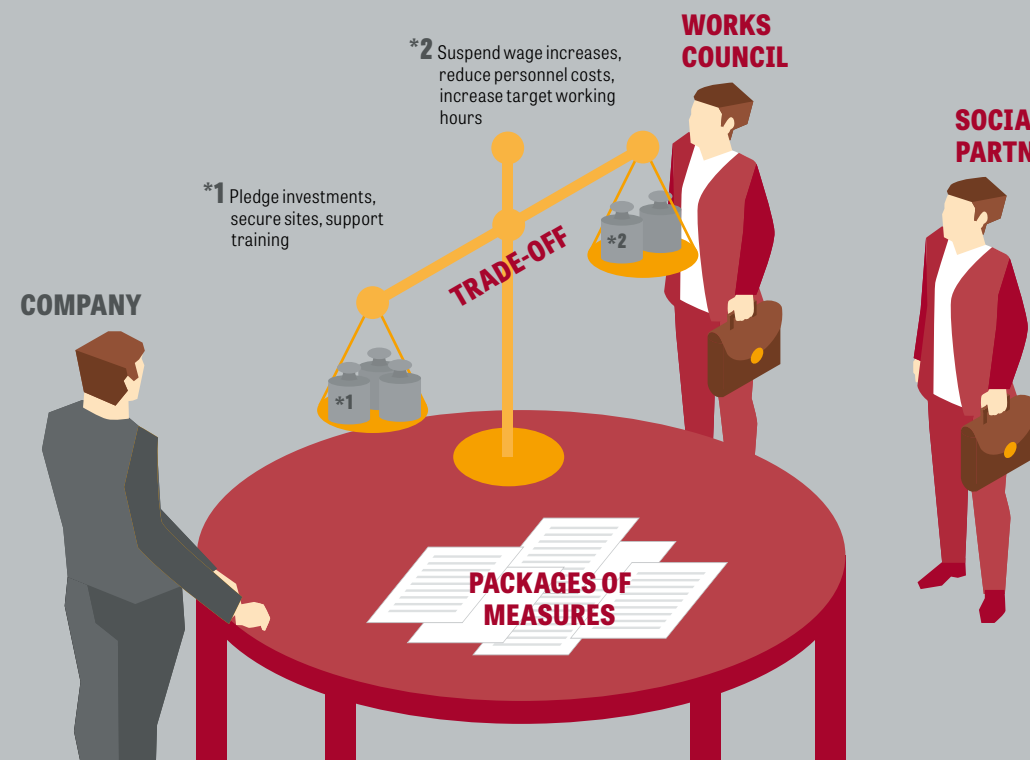
Achieving this requires support and a willingness to compromise from all sides. The process can be drastic and can generate resistance, especially from employees and their representatives: after a series of tough negotiation rounds in the first phases, in which the immediate scope of the restructuring was agreed, renegotiations can represent major hurdles. Once again, transparency is the key to success.

Our teams act as moderators, but our service goes way beyond this. A comprehensive information base, detailed scenario analyses, sound solutions devised by our experts, and comprehensive process and stakeholder management are important success factors that ensure the company's long-term competitive orientation.

THE RESTRUCTURING WILL DECIDE THE FATE OF THE COMPANY.

I. CONCEPT PHASE

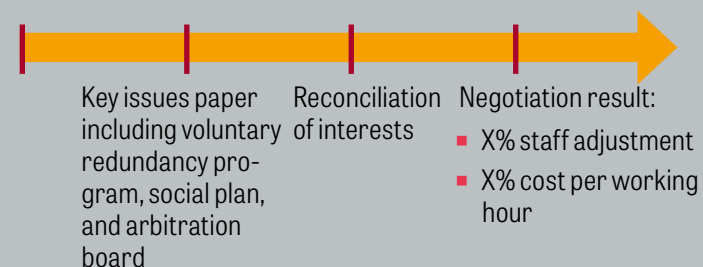
Preparation of an integrated negotiation team and back office (lawyers, consultants, etc.)



SOCIAL PARTNERS

II. NEGOTIATION PHASE

Full transparency and involvement of social partners from the very beginning. Cooperative approach in implementing the negotiation results



III. IMPLEMENTATION PHASE

Cooperative approach in implementing the negotiation results



CASE STUDY: NEGOTIATIONS WITH EMPLOYEE REPRESENTATIVES

As we know, lengthy negotiations with social partners can slow down restructuring processes considerably, at a time when speed is of the essence. A large aircraft maintenance company needed professional help to prepare and conduct negotiations, in order to ensure its continued survival.

To begin with, we focused on developing a market-oriented, resilient story, from which we then derived packages of specific measures. These formed the basis for discussions in the subsequent negotiations with the social partners.

In the negotiation phase, the packages of measures were translated into a key issues paper (including a social plan) and then finalized to create a reconciliation of interests. Involving the social partners as early as possible and ensuring full transparency at all times was key to a successful outcome.

In our experience, a cooperative approach is the best way to implement the final package of measures. In this particular case, this meant that a high proportion of the planned staff cuts were achieved through voluntary redundancies.

However, defining the right business model for the company is much more important than a successful negotiation. A structured approach and a team of experts who can question the approach based on in-depth industry knowledge are key assets here.

Our support involves developing this approach and providing the right experts. When it comes to prioritizing and implementing the strategic realignment, the Stern Stewart & Co. network acts as an enabler in two ways: on the one hand, functional experts provide support (with the business model, portfolio, supply chain, production, etc.) and, on the other hand, a broad investor network offers the potential to accelerate transactions and structure suitable financing models.

Besides organic realignment, we also regularly support restructurings and subsequent M&A transactions. This is particularly important if the critical size for long-term success is not in place or where there is significant potential for a forward or backward integration of the company.

Even in the most difficult situations, we act collaboratively in the interests of all stakeholders and create entrepreneurial solutions that lead to a joint restructuring success.

CASE STUDY: BUSINESS MODEL TRANSFORMATION

Through our Stern Stewart & Co. network, we filled the CTO position at a large German lighting manufacturer with a top management expert from the lighting industry. This person was the ideal choice to drive the change from a traditional and now commoditized product business to a leading provider of innovative lighting solutions and digital services.

Our network relationships enable us to immediately gain access to new customer groups and successfully implement the realignment of sales to the chosen key account approach. By interacting closely with decision-makers, we anticipate market trends at an early stage and proactively develop new business areas.

In one instance, we were able to establish a service-based operator model in record time by working with our contacts from the financial sector. This business model enables customers to switch to an energy-efficient lighting solution even in times of tight liquidity – without additional expenditure and paid for entirely by energy savings.



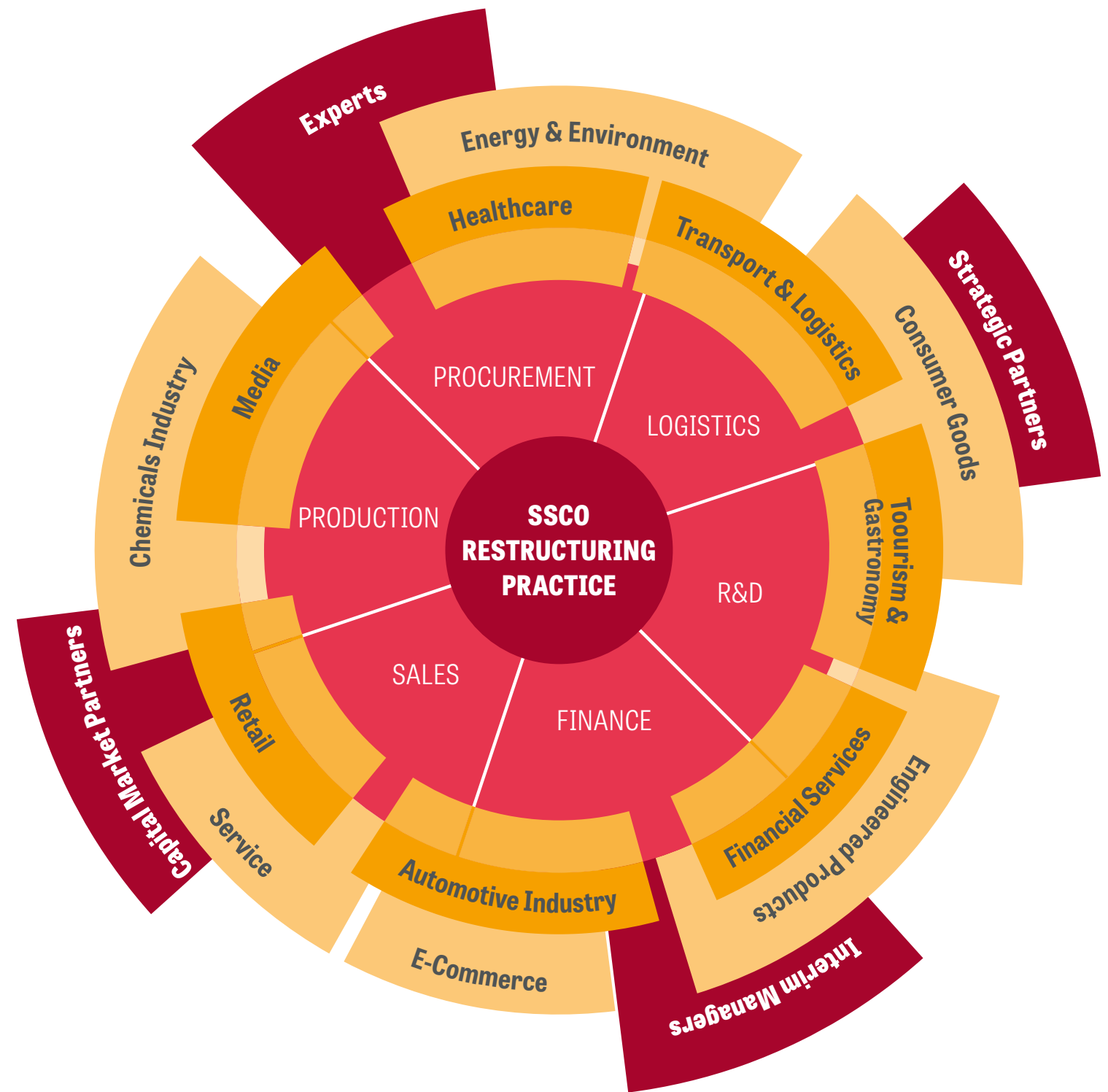
Expert network and remuneration

The **Stern Stewart & Co. restructuring practice** consists of experienced consultants with years of relevant restructuring experience in the manufacturing, trade, and services sectors.

The **Stern Stewart & Co. expert network** comprises over 700 senior experts across all industries and functions. We make targeted use of these individuals in order to fully exploit their extensive experience and methodological knowledge for project success.

We are not consultants, but entrepreneurs with excellent consulting skills. Our entrepreneurial approach is reflected in our **flexible remuneration structure**. We offer three models (which can also be combined) to promote equal interests and joint restructuring success:

- Daily rate-based remuneration
- Performance-based remuneration based on clearly defined KPIs
- Investment by Stern Stewart Capital



Stern Stewart & Co.

Stern Stewart & Co. is the independent consulting boutique. With a truly entrepreneurial team of independent thinking personalities. The center of gravity of an open universe of cutting edge know-how. Advising clients in transformation, transaction, performance, and strategy.

Stern Stewart Capital is our investment arm. With a striking impact for our clients, investors and the society at large. Creating target value in transformation and turnaround.

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