



# Advanced Workout Strategies

**German Distressed Corporate Loan Conference**

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Frankfurt, 5 October 2005

# Strategic vs. financial investment considerations

ORLANDO

## Strategic

- Can it become a valuable business, will someone buy it eventually?
- Does it have a healthy core?
- Do we know how to fix it?
- Is there enough margin of error?
- Do we like its competitive position?

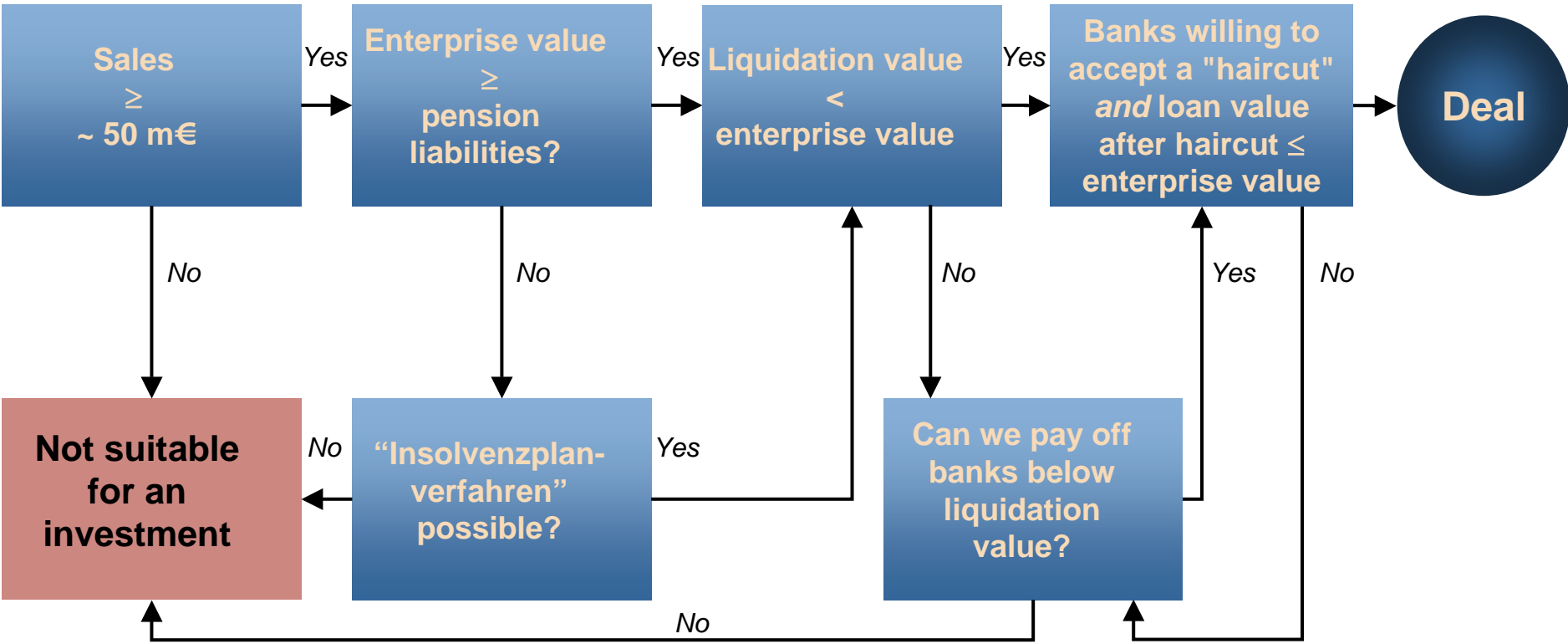
## Financial

- Can we get our money out quickly (loan repayments)?
- Are excess assets self-liquidating (receivables, inventory)?
- Are we going to pay taxes?
- Can we get operating funds?

**Most considerations are strategic. There are very few good deals on bad businesses!**

# Pre-insolvency purchases

## Decision tree



# Post-insolvency purchases (1/2)

The nasty "bargain inventory purchase" problem

Profit & Loss	Balance sheet pre-insolvency		Balance sheet after purchase	
	Assets	Liabilities	Assets	Liabilities
■ Sales 100	■ PPE 30	■ Equity 10	■ PPE 30	■ Equity 30
■ EBITDA 8	■ Inventory 10	■ Loss -10	■ Inventory 0	■ Payables -
■ Capex 2	■ Receivables 15	■ Payables 10	■ Receivables -	
	■ Shortfall -45			
<b>Agreed valuation: 30 cash &amp; debt free</b>	<b>Σ ASSETS 10</b>	<b>Σ LIABILITIES 10</b>	<b>Σ ASSETS 30</b>	<b>Σ LIABILITIES 30</b>

The nasty "bargain inventory purchase problem"

Balance sheet one year after purchase			
Assets		Liabilities	
■ PPE	30	■ Equity	30
■ Inventory	10	■ Net operating profit after tax	4
■ Receivables	15	■ "Phantom Profit"	10
		■ Tax on "Phantom Profit"	-4
		■ Cash gap	⚡ 15
<b>Σ ASSETS</b>	<b>55</b>	<b>Σ LIABILITIES</b>	<b>55</b>

Lessons

- Rebuilding the net working capital requires lots of cash
- Phantom profits on bargain inventory purchases are a "black hole for cash"
- Tax loss carry forward is lost



Very unattractive scenario

Must have	Nice to have	Deal-breaker
<ul style="list-style-type: none"><li>■ Sales <math>\geq</math> 50 m€</li></ul>	<ul style="list-style-type: none"><li>■ Sales &gt; 150 m€</li></ul>	<ul style="list-style-type: none"><li>■ Pension liabilities &gt; enterprise value</li></ul>
<ul style="list-style-type: none"><li>■ Adequate gross margins (<math>\geq</math> 20%)</li></ul>	<ul style="list-style-type: none"><li>■ Big and stable gross margin</li></ul>	<ul style="list-style-type: none"><li>■ Dying product line</li></ul>
<ul style="list-style-type: none"><li>■ EBIT perspective <math>\geq</math> 5 m€ p.a.</li></ul>	<ul style="list-style-type: none"><li>■ Can acquire 100%</li></ul>	<ul style="list-style-type: none"><li>■ Liquidation more profitable for banks than partial write-off</li></ul>
<ul style="list-style-type: none"><li>■ Majority purchase</li></ul>	<ul style="list-style-type: none"><li>■ Excellent competitive position</li></ul>	<ul style="list-style-type: none"><li>■ "We need the money by Friday"</li></ul>
<ul style="list-style-type: none"><li>■ "Some" due diligence possible</li></ul>	<ul style="list-style-type: none"><li>■ Inherent growth</li></ul>	
<ul style="list-style-type: none"><li>■ Healthy core</li></ul>	<ul style="list-style-type: none"><li>■ Banks have no collateral</li></ul>	

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