

Debt Investing, Restructuring & Turnaround

Sole CEE Independent Credit Investment Platform



Non-Performing Loans (NPL): Turnaround Opportunity

Are you the 'Black Sheep'?

- Corporate & RE transactions in distress
- Dried liquidity to carry on business operations
- Banks willing to press insolvency/bankruptcy

Whom Can We Help

- EBITDA \geq 0 (barely)
- Working Capital \geq 0 (barely)
- Debt / EBITDA \geq 10 (10....40)
- Negative Equity
- Unfinished & non-income generating RE
- Debt > €5.0m
- Decent owner

Why 'Black Sheeps' Cannot Save Themselves?

- Banks have 'moral hazard' problem to restructure/haircut debt to the company owners
- Cumbersome legal system
- Lack of 'know how' (after the companies outgrow the family business size)
- No/Limited local PE/'business angels' funding

Our Strategy

- **Acquire & restructure the debt**
- **Execute corporate turnaround**

Debt Restructuring (Approach/Step 1)

■ Acquire the Debt from 'Old Banks' to:

- Bring Debt / EBITDA < 4.5x via Haircut
- Extend maturity and re-profile the Debt so that the Company can fully service it over 5-9 years
- Refinance ANAF or other expensive liabilities (fines, penalties, accumulated interest, etc.)
- Provide working capital capacity (new cash)
- Mitigate 'hostage funding' risk
- Reprofile the Debt to match cash flows & their currency

This is achieved by London acquisition finance liquidity allowing Artemis to haircut & consolidate 'Old Debt' from 'Old Banks'

'New_Co' Corporate Turnaround (Approach/Step 2)

■ Turn the Company back to profitability:

- Manage/outsource disposal of Non-Core RE/Assets/Participations
- Streamline the corporate structure based on industry best practices
- Bring in fresh equity/mezzanine/competent management to switch equity from negative to positive
- Re-finance the Debt
- Prepare for expansion, listing, acquisition and exit

This is achieved by bringing new equity partners (PE/HFs) and specialist advisors (RE, management consultants, etc.)

Case Study (1): What We Found

Spanish Defaulted Company with Upside Potential

- Large Spanish Commercial Bank ('Old_Bank') approached Artemis NL in Sep 2013 to sell its €50m defaulted exposure to a large Spanish household appliance producer ('Defaulted_Co')
- Defaulted_Co had an ill-conceived expansion strategy in LATAM in 2009-2011 when it lost €40m during the crisis and retail sales downturn
- Investment attractions vs. challenges:
 - ✗ Negative equity
 - ✗ Additional €50m debt to other 5 Spanish banks and regional and central tax authorities
 - ✗ Total Debt / EBITDA ~25x (EBITDA of €4.0m)
 - ✓ Owned non-core of RE assets of €20m across Spain
 - ✓ Owned ready to be sold inventories in warehouses and own shops of €12m
 - ✓ Recognised brand in Spain (innovative design, products loved by locals)
 - ✓ Proximity to CIS/CEE/EU markets with export growth potential

Case Study (2): What We Did

Restructuring Action Plan

| | | |
|---|--|---|
| #1. Intangible Asset Valuation | <ul style="list-style-type: none"> Artemis asked 'Big 4' to value the brand of Defaulted_Co which came to ~3xEBITDA | <p>← Created new €12m collateral/asset to monetise</p> |
| #2. Debt Consolidation & Haircut | <ul style="list-style-type: none"> Artemis negotiated with Old_Bank and agreed that a viable scenario would be to acquire all debt (total €100.0m including other banks and tax authorities) for circa 30% i.e. €30m via 6-month acquisition loan extended by APAC bank | <p>← Debt/EBITDA went down from 25x to 7.5x</p> |
| #3. Divestment Programme | <ul style="list-style-type: none"> Artemis hired a specialised RE manager to dispose of the non-core RE with agreed targets in 2015 and 2016 | <p>← New €20m liquidity to be used for Debt repayment and Working Capital</p> |
| #4. Refinancing & Exit | <ul style="list-style-type: none"> Artemis proposed to New_Co and its new commercial credit providers the following funding structure: <ul style="list-style-type: none"> Equity: Artemis invited a Strategic_Investor (the largest producer outside China) to provide €14.0m of equity against 50% of New_Co Debt: split between €18.0m amortising 7-year debt and €6.0m 1-year roll over working capital credit line The funding to the New_Co is structure to be repaid by: <ul style="list-style-type: none"> €18m (out of €20m) proceeds from divestment programme €6m+interest from operating cash flows | <p>← New cash of €8m brought for Working Capital</p> <p>← Debt restructured based on New_Co cash flow capacity to service</p> |

Case Study (3): Artemis Value Added

■ Artemis Value Added to all parties:

- ✓ **Legacy Funding Banks:** provided the fastest and highest recovery from Defaulted_Co (vs. insolvency/bankruptcy)
- ✓ **Regional tax authorities:** Defaulted_Co repaid all liabilities (incl. penalties) in full and 4 times faster before the deadline
- ✓ **Defaulted_Co shareholders ('Original_Owner')**: helped them to avoid bankruptcy/insolvency and instead increase the equity value by €80m from minus €60m to +€20m
- ✓ **Strategic_Investor:** provided opportunity to enter EU market with nice ROE

■ Key Competitive Advantages of Artemis proposition: Artemis is the sole entity in RO able to:

- Access London-based acquisition liquidity to consolidate debt from all 'Legacy Debt Providers' for a total of up to 7x of EBITDA.
- Secure friendly JV/Co-ownership solution for 'Original_Owner' that reflects each stakeholder's contribution and drag-along/tag-along + exit expectations
- Manage the whole process 'door to door'

What We Can Do

- The Company (SME) is ONLY financially stable if:
 - Debt / EBITDA is $< 4.5x$
 - Working Capital support the sales strategy
 - Expenses / overheads are under control
 - Management is professional & competent

Artemis can create all these pre-requisites

- **Next Steps**: we're open for business to hear from banks/clients about:
 - Corporate opportunities
 - RE un-finished/under/sub-performing assets
 - Companies with EBITDA > 0 and Debt / EBITDA $> 8x$
 - Pragmatic/open-minded owners interested in getting an equity swing of from minus 13x EBITDA to +7x EBITDA

Wake Up! To paraphrase Gordon Gekko, 'insolvency/bankruptcy is for whips'

Contacts and Disclaimer

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