



CASE STUDY
[RESTRUCTURING]

LOCATION AND RESTRUCTURING CONCEPT FOR AN MDAX GROUP'S EQUITY INVESTMENT

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TOGETHER.

HASELHORST ASSOCIATES

Task

RESTRUCTURING CONCEPT & CONSOLIDATION OF EUROPEAN LOCATIONS

The client's division is an international leader in the field of large-scale industrial plants and their components. The department placing the order is responsible for the construction of chemical plants. A few years ago, a company which manufactures polycondensation plants was acquired with the goal of a further expansion of the group's business. This subsidiary provides engineering and plant solutions for the packaging and textile industries worldwide. The subsidiary expected to make a loss on account of the strong level of competition in Asia, the political situation in Turkey (a core market), and a temporary drop in demand due to the end of a technology cycle. Haselhorst Associates was tasked with the preparation of a restructuring concept and with reviewing potential options for the consolidation of the company's two European locations.

Approach

PHASE I: CORPORATE AND MARKET ANALYSIS TO ENSURE VALID TOP-LINE PLANNING

Haselhorst Associates' project team first of all developed valid top-line planning, i.e. a forecast of the expected incoming orders, scope of services and sales for the company's key project and plant types. Historical data and project calculations were evaluated for this purpose and market, competition and price analyses were performed.

PHASE II: UPDATING OF BUSINESS PLANNING AND SCENARIO ANALYSIS

As a second step, a financial planning model was established for a 5-year business planning period. Besides factoring in the different top-line planning variants, the consultants also simulated scenarios for cost-cutting and restructuring measures as well as their impacts on the income statement, the balance sheet and cash flow. Precise verification of the individual positions fully validated the plausibility of the short- and medium-term business planning, which was updated accordingly.

PHASE III: PREPARATION OF THE RESTRUCTURING AND LOCATION CONCEPT

Three different scenarios were considered in the concept for the consolidation of the company's two European locations: incorporating either of these two locations in the other location or, alternatively, retaining and optimizing the existing structure. As well as a commercial analysis based on the financial planning model, the assessment also

Background

TURNAROUND OF AN EQUITY INVESTMENT SUBJECT TO CORPORATE GROUP LIABILITY

It is frequently necessary to restructure equity investments or group subsidiaries in financial difficulties. These companies are often independent legal entities. However, in most cases the level of integration between the parent group and the equity investment or the subsidiary is such that a group liability obligation applies. This means that some restructuring approaches (such as insolvency) are not possible. Instead, it will be necessary to achieve a turnaround by means of the entity's reorganization, cost-cutting measures and the realignment of its business. While the group is authorized to instruct the entity in question, it is solely the management of the equity investment or the subsidiary which is responsible for putting measures into practice. This is particularly so for measures of legal significance, such as in the areas of contract or personnel law. For these reasons, a restructuring concept cannot be executed with the group's management alone and must, above all, be coordinated and implemented together with the subsidiary's management.

reflected a multi-dimensional scoring model covering indirect factors. The following criteria (amongst others) were included: the locations' unique selling points, employees' competences and willingness to relocate, strategic assets, the personnel structure and the availability of resources in case of new hirings, restructuring risks and legal aspects. All three potential approaches also included a comprehensive cost-cutting and structural adjustment program.

PHASE IV: DECISION-MAKING PAPER AND RECOMMENDATION

Haselhorst Associates summarized the planning scenarios and location assessments and thus identified a series of different courses of action. This provided the basis for a transparent comparison of alternatives and an in-depth recommendation which was discussed in great detail with the equity investment's management. The restructuring proposal was presented to the department's management and the division's executive board within the scope of an overall presentation which was followed by a decision-making paper. The management approved the team's recommendation. The consultants were subsequently tasked with the detailed preparation of the planned restructuring measures as well as the establishment of an organizational structure enabling their implementation.

THE FIVE PROJECT PHASES

I. MARKET ANALYSIS AND TOP-LINE PLANNING

- > Corporate data and project calculations
- > Evaluation of market and competitive environment
- > Forecast of incoming orders and mixture of services
- > Sales planning for projects and plants

II. BUSINESS PLANNING AND SCENARIO ANALYSIS

- > Financial planning model
- > Integration of various top-line scenarios
- > Simulation of cost-cutting and restructuring
- > Review and updating of business planning

III. LOCATION AND RESTRUCTURING CONCEPT

- > Alternatives: merger vs. retention of locations
- > Addition of qualitative assessment to planning
- > Scoring model-based evaluation
- > Assessment of locations: USPs, strategic assets, etc.

IV. DECISION-MAKING PAPER

- > Final assessment of business scenarios
- > Comparison of different courses of action
- > Determination of agreed recommendation
- > Decision-making paper for the division's executive board

V. ORGANIZATION OF IMPLEMENTATION

- > Preparation of measures: tasks and effects
- > Definition of responsibilities and competences
- > Setup of management accounting: measures, progress
- > Integration in group reporting

PHASE V: DEFINITION OF MEASURES AND PLANNING OF IMPLEMENTATION UNIT

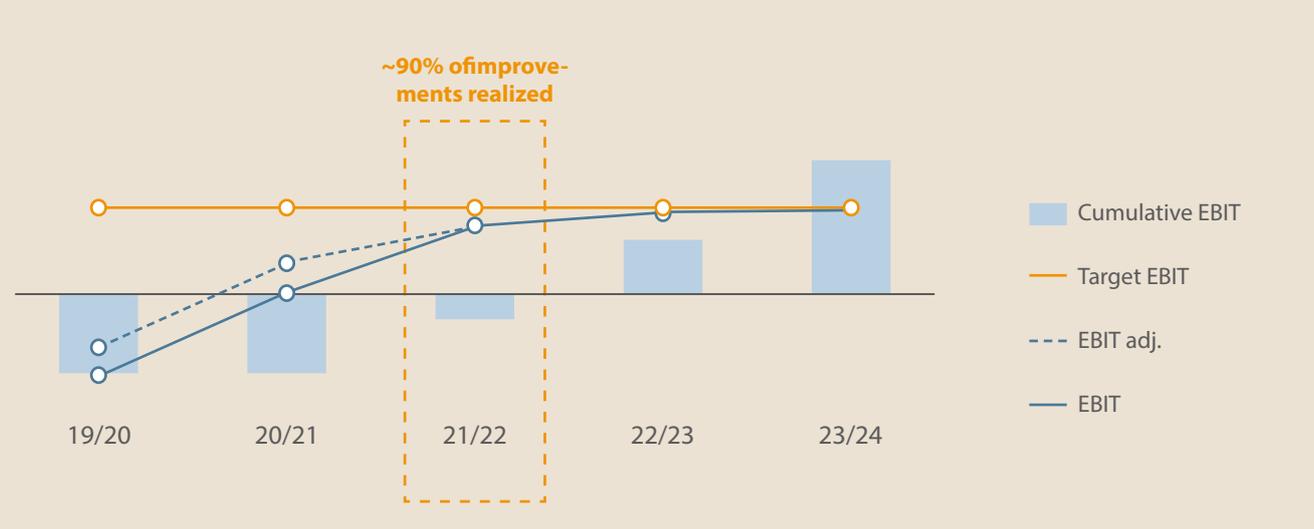
The necessary measures were now prepared in detail. In this context, all of the key steps for their implementation, the anticipated effects and a binding schedule were defined, the project managers determined and relevant competences assigned. In addition, the project team implemented a measure and progress reporting tool, which was integrated in group reporting at the department and division levels. This enabled transparent monitoring of the level of progress achieved in the implementation of the restructuring measures and the management's steering of the process.

Benefit

RAPID IMPROVEMENT IN BUSINESS PERFORMANCE

The restructuring concept envisaged structural adjustments at both of the European locations. This ensured the preservation of the specific advantages and competences of the different locations and thus also the company's strategic market position and its attractiveness in the event of a possible sale. Since neither of the locations was closed or transferred, this scenario entailed the lowest volume of restructuring costs. After only around 1.5 years, the restructuring and further cost reductions and efficiency measures had already returned the equity investment's earnings to within the group's required target range. Business processes were also optimized on a long-term basis, e.g. in the areas of project implementation, procurement and administration. Moreover, market development goals were identified on the basis of the planning assumptions, e.g. in relation to the price level and the target margins for individual plant and project types.

PROFITABILITY AND EBIT IMPROVEMENT IN THE APPROVED SCENARIO





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