

Knowing the right time for Capital Restructuring

Sector Insight | 2024

**EXECUTING AT THE MOST
STRATEGIC MOMENT**



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On the relevance of capital
restructuring

« *In the realm of corporate management, capital restructuring has become an indispensable tool, enabling businesses to effectively deploy financial resources and enhance their long-term competitiveness. This strategic initiative transcends mere financial transactions, playing a pivotal role in how companies optimize their capital structure to adapt to evolving market conditions and capitalize on opportunities for growth and value creation.* »

KEY FACTS – CAPITAL RESTRUCTURING

1

Debt and Equity Balance

Capital restructuring typically includes adjusting a company's debt-to-equity balance. A company might strive for a 60/40 debt-to-equity ratio to optimize its financial structure.

2

Effects on the Industry

Four major sectors are anticipated to encounter significant restructuring challenges: real estate and construction, retail, automotive and healthcare.

3

Government Support

Fiscal response to the COVID-19 crisis was three times larger than the response to the 2008-09 financial crisis (over \$10 trillion among G-20 countries).

4

Increase in Restructuring

A survey by Deloitte reveals that 90% of restructuring experts anticipate a rise in restructuring activities over the next 12 months.

CAPITAL RESTRUCTURING

Capital restructuring entails adjusting the balance between debt and equity within a company's capital framework. This strategic maneuver can be undertaken for several reasons, including enhancing profitability, addressing crises such as bankruptcy or hostile takeover attempts, or adapting to evolving market conditions. Timing plays a critical role in capital restructuring decisions. Let's delve into the essential factors concerning the identification of restructuring needs and determining the optimal timing for their implementation:

Recognition of Restructuring Expenses

A comprehensive formal plan for the restructuring is necessary. The company must generate a genuine expectation among affected parties that the plan will proceed, either by starting to implement it or by disclosing its key aspects.

Assumed obligation

Recognition of restructuring costs occurs when there is an existing obligation—either legal or constructive—arising from a past event, and when costs can be reliably estimated. There is a comprehensive formal plan that details various aspects of the restructuring. The entity has established a genuine expectation among affected parties that the plan will be implemented.

Evaluation of Restructuring Provisions

- Restructuring provisions encompass direct expenses resulting from the restructuring process, including employee termination benefits, consulting fees specifically tied to restructuring, onerous contract provisions, costs related to terminating contracts, and anticipated expenses from ceasing operations until final disposal.
- Costs linked to continuous operations, such as retaining or relocating employees, administrative functions, marketing efforts, or investments in new systems, are not considered part of restructuring provisions.

Optimal timing for restructuring

Financial Performance Considerations

If your company's financial performance is declining, it may signal the need for capital restructuring.

Interest Rate Dynamics

Interest rate environment significantly impacts decision-making. Low interest rates may favor leveraging with additional debt.

Market Conditions Influence

During bullish markets, equity issuance may be more favorable, whereas debt might be preferable in bearish conditions.

Alignment with Strategic Goals

Significant investments or acquisitions may necessitate restructuring to secure adequate funding.

Impact of Regulatory Changes

Changes in regulations or tax laws can alter the attractiveness of different financing options.

Lifecycle Considerations

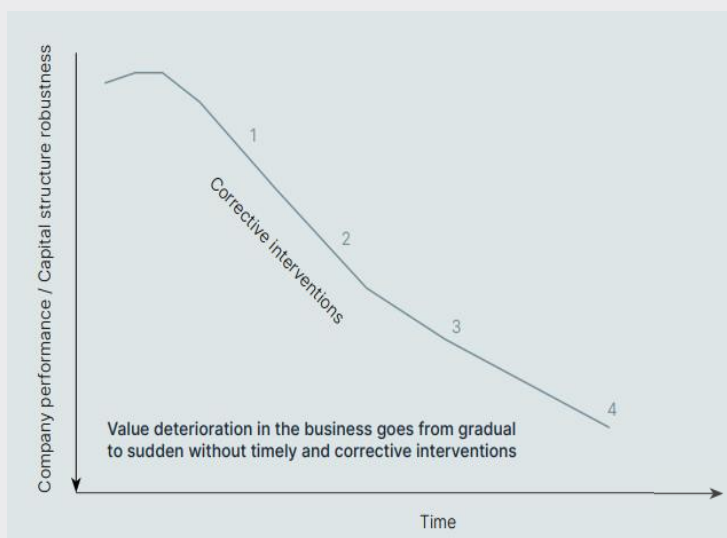
Different stages of a company's lifecycle demand varying capital structures. Early-stage, high-growth firms may lean towards equity financing, while established enterprises might prioritize debt management.

FOUR STAGES OF THE STRESS CURVE

What are some early indicators and actions businesses can take?

Imagine a corporate stress curve, where various stress factors emerge at different stages along the curve.

It's crucial to assess your position on this curve - time may not be on your side once signs of stress or distress become apparent. If there's a disconnect between executive perception and reality, it can quickly lead to tough decisions with limited options available.



1. Graph represents the company performance / Capital as business deteriorates over time
2. Downward sloping curve, indicates that as time progresses, without intervention, a business's performance and capital can deteriorate
3. High probability for a successful restructure if there is early intervention at the outset of stress or distress.
4. Options become limited as the business goes down the curve if there are no corrective interventions

Indicators of stress:

- Declining financial performance (e.g., decrease in sales, narrower profit margins)
- Cash flow challenges (e.g., deteriorating cash flow, increased interest expenses)
- Breaches or pressure on debt covenants
- Extended creditor terms and delayed debt payments
- Creditors and suppliers taking action or imposing stricter terms (e.g., requiring early payment)
- Decreased morale resulting in higher staff turnover and lower service levels
- Emerging concerns about business continuity
- Delays in finalizing financial statements

WHAT CAN WE DO FOR YOU?

Capitalmind Investec is a global M&A and corporate finance advisory firm that enables its clients to sell, buy and finance businesses at the best terms.

We are ambitious minds who share one culture, common values and an entrepreneurial spirit. We invest significantly to thoroughly understand your business and are determined to lead your deals to great success - no matter what!

Your matter

- Are you seeking an assessment of potential financing choices for restructuring?
- Do you require "emergency funding" to bridge a liquidity shortfall?
- Are you in need of effective liquidity management solutions?
- Has the operational profit of your company become inadequate to sustain its current capital structure?
- Have your capital providers indicated further participation is contingent upon specific conditions?

These questions encompass a broad spectrum, each with corresponding solutions.

Our proposal

Capitalmind Investec assists with the development, communication, and negotiation of refinancing strategies. Our experts support companies navigating crisis scenarios, as well as potential capital providers, in formulating, communicating, and negotiating solutions. Capitalmind Investec provides guidance on debt restructuring initiatives and aids in managing relationships with capital providers and suppliers. Additionally, we contribute to devising and executing plans for short-term liquidity enhancement and strengthening the company's financial liquidity. We engage with all stakeholders involved in the process, anticipating future needs and striving for mutually acceptable solutions:

Our experts possess comprehensive knowledge of the typical tasks and challenges associated with refinancing in restructuring scenarios. They understand the intricacies of recapitalization strategies and the urgency with which they need to be prepared and executed.

Our commitment

We provide comprehensive support throughout the entire process. Our experts have extensive experience working with all stakeholders, offering comprehensive professional and legal support in financial restructuring.

Our work consists of:

- Analysis of the current situation and development of financing concepts,
- Formulation of a financing strategy,
- Preparation of documents for approaching relevant financing partners,
- Analysis and identification of suitable financing partners,
- Structured engagement with potential financing partners,
- Obtaining term sheets, negotiating and optimizing terms, and support until contract signing and disbursement.

YOUR CONTACT PERSONS

Capitalmind Investec has extensive experience in advising on financing solutions. With dedicated financing experts across Europe, we can help you achieve your strategic goals.



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Recent debt transactions advised by Capitalmind Investec




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revolving credit
facility

Financial advisor

Industrials




ALEX & GROSS

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Facility

Financial advisor

Business Services



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promissory note


Investment firm



Financial advisory -
Recapitalization of
€130m debt facilities




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Spareparts



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working capital
financing


Beverage



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with a volume of
€10m

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Real Estate Holding




Capital raising
backed by

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GmbH**


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Refinancing




Gym operator



**BERNER GROUP
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