

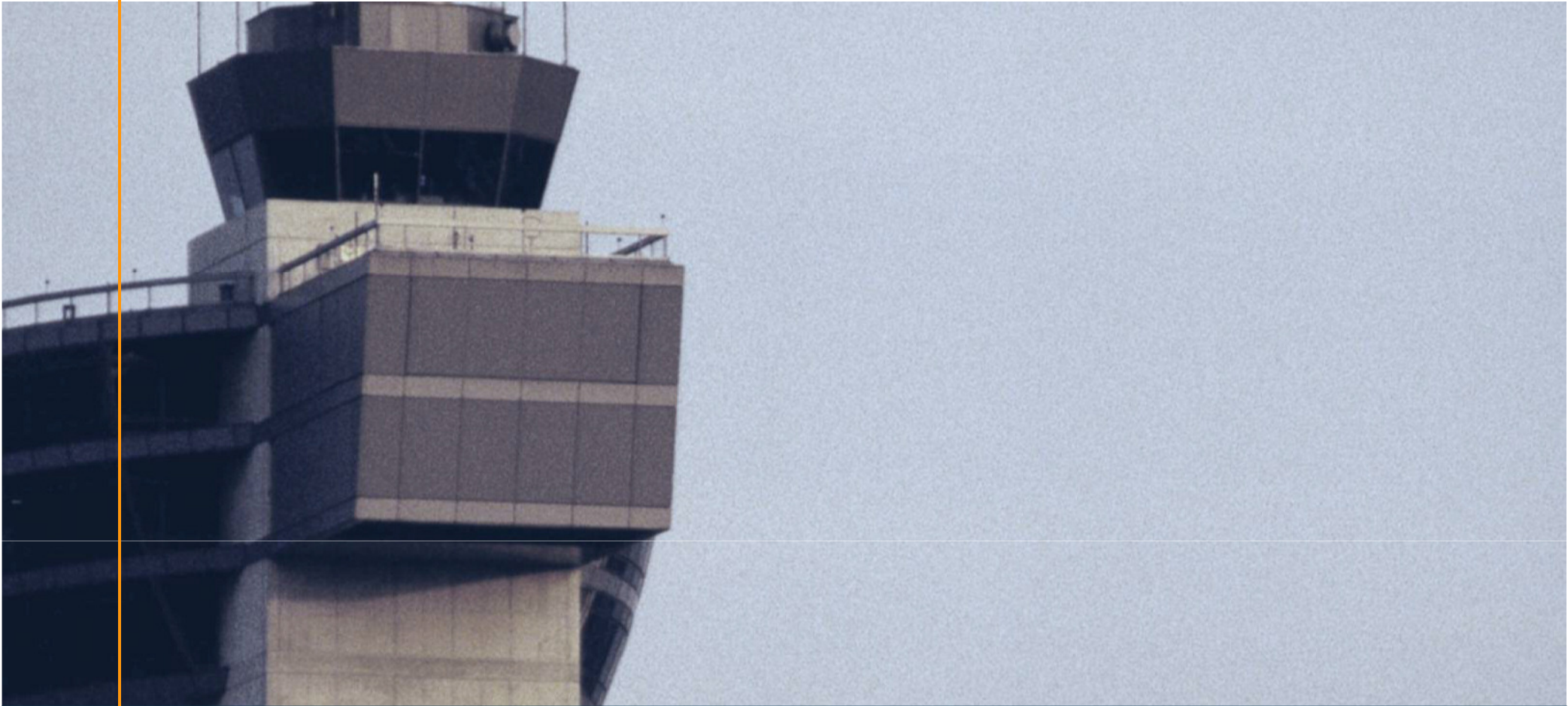


# Flying through the turbulence

## Strategic solutions to the current crisis

Bucharest, March 31, 2009

**Roland Berger**  
Strategy Consultants

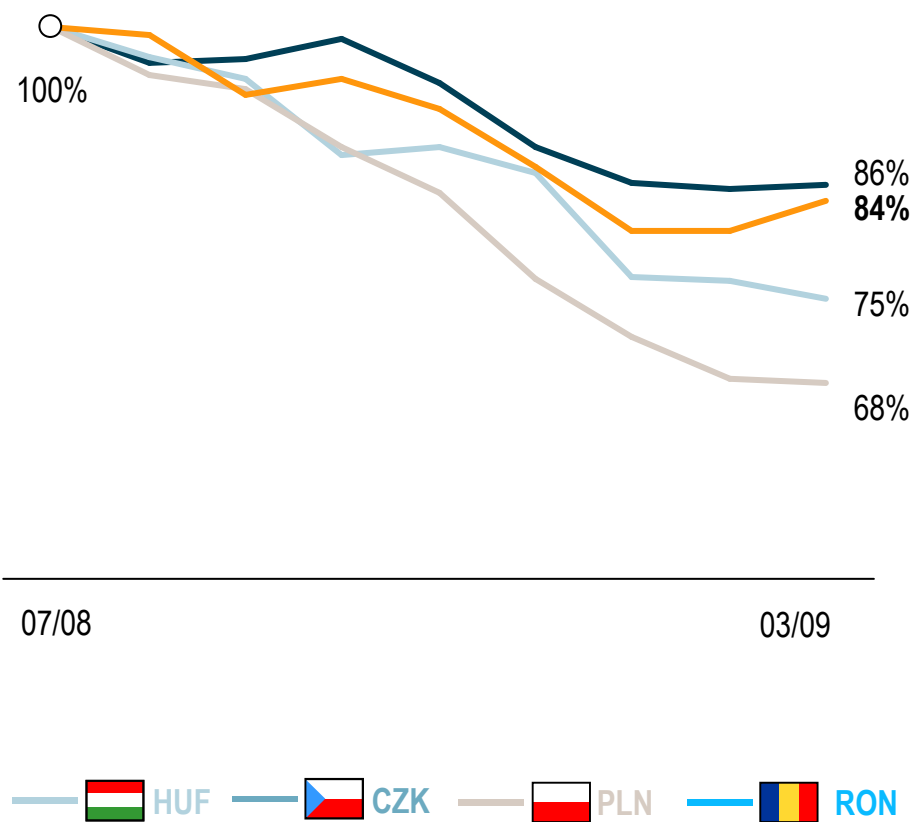


## A. The high altitude view of the region

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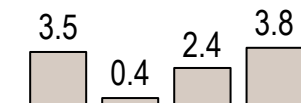
# The current economic outlook in the region has gradually deteriorated over the last nine months

## Exchange rate development vs. EUR [%]

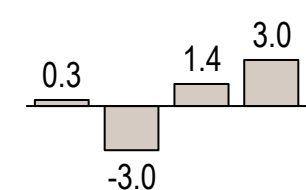


## Real GDP forecast [% real change p.a.]

### Czech Rep.



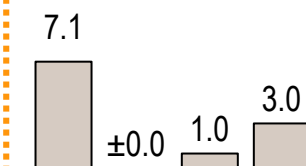
### Hungary



### Poland



### Romania



2008 2009 2010 2011

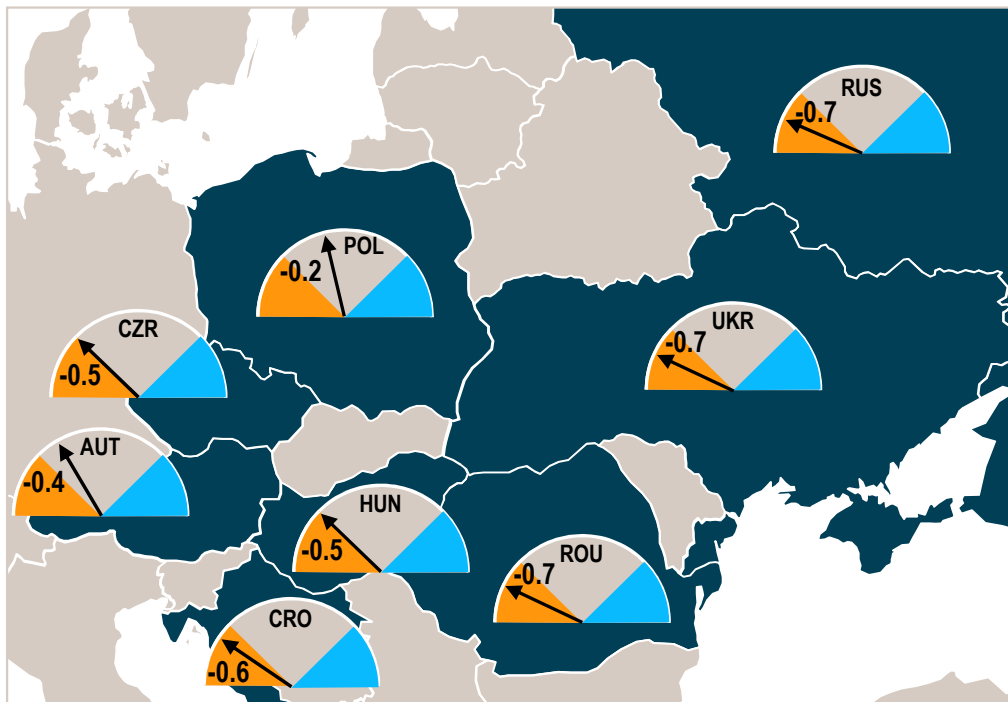
2008 2009 2010 2011



## B. The view from the ground

# Most of the managers in the region are rather pessimistic about the near economic future

Mood barometer by country [average value]



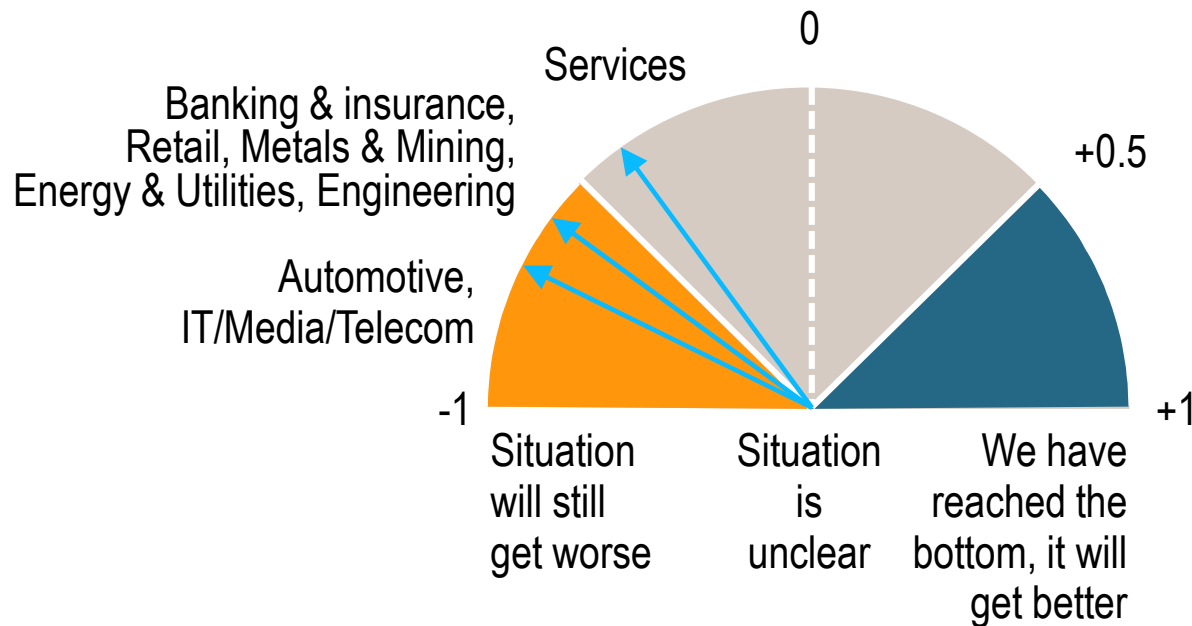
1 ... We have reached the bottom, it will get better  
 0 ... Situation is unclear  
 -1 ... Situation will still get worse

## COMMENTS

- > Romanian managers are among the most pessimistic, together with those from Russia and Ukraine
- > The vast majority of the Romanian managers fear the situation will further deteriorate
- > Austria and Poland are relatively more optimistic among the analyzed countries

# Not surprisingly, there is a dull ambience in most industries across the region

Mood barometer by industry [average value]

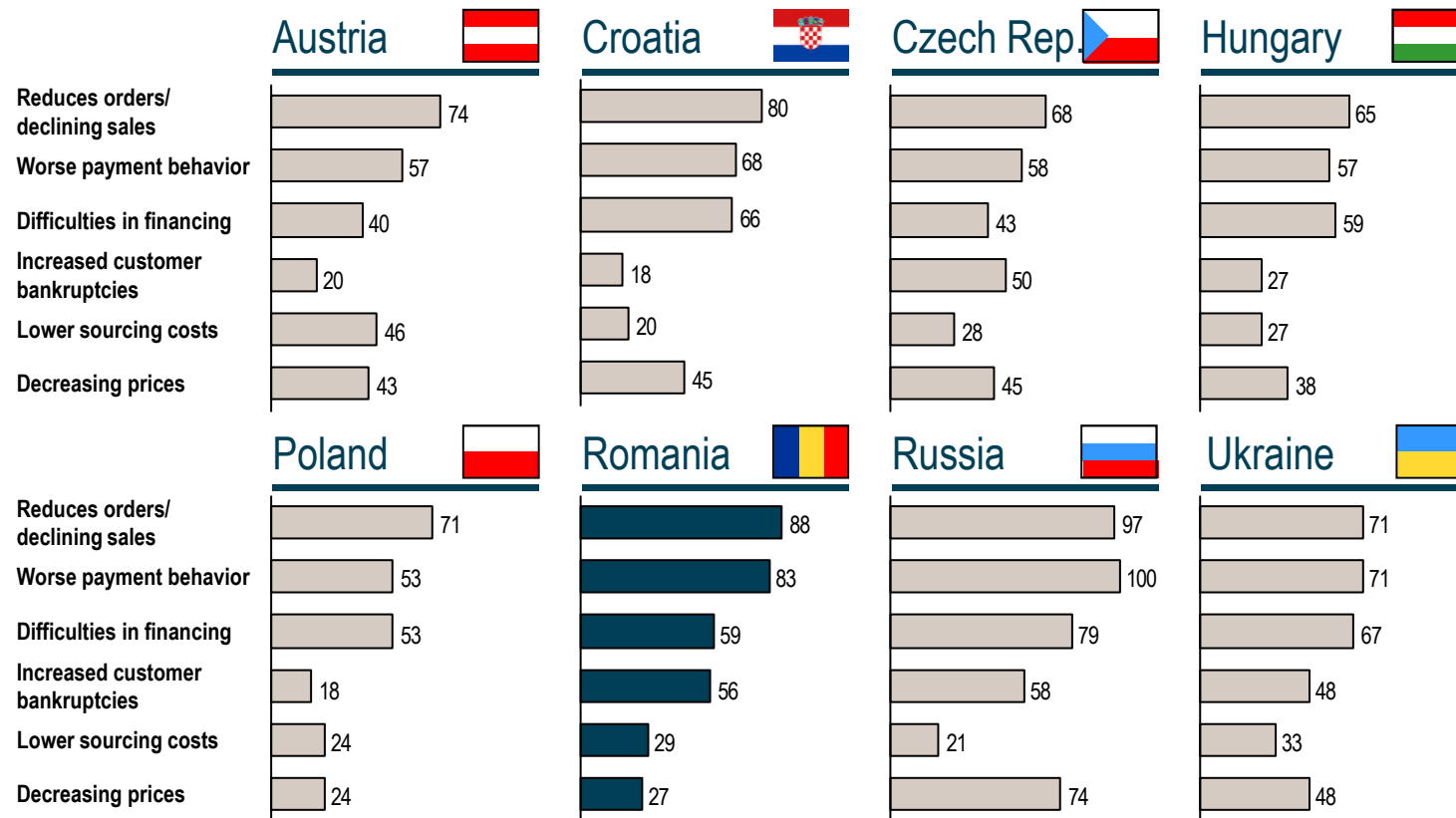


## COMMENTS

- > As expected, most industries are full of pessimism
- > However, the services sector is the only one with an uncertain outlook

# Regardless of nationality, companies' top problems are reduced orders, worse payment behavior and financing difficulties

Which effects do you already feel in Q1 2009 in your company?  
[Multiple answers possible, in % of answer frequency]



## COMMENTS

- > Countries facing effects of the crisis to similar extent: top problems are reduced order entry, worse payment behavior and difficulties in financing
- > Romania and Poland are least affected by decreasing prices



## C. Instructions for a safe flight

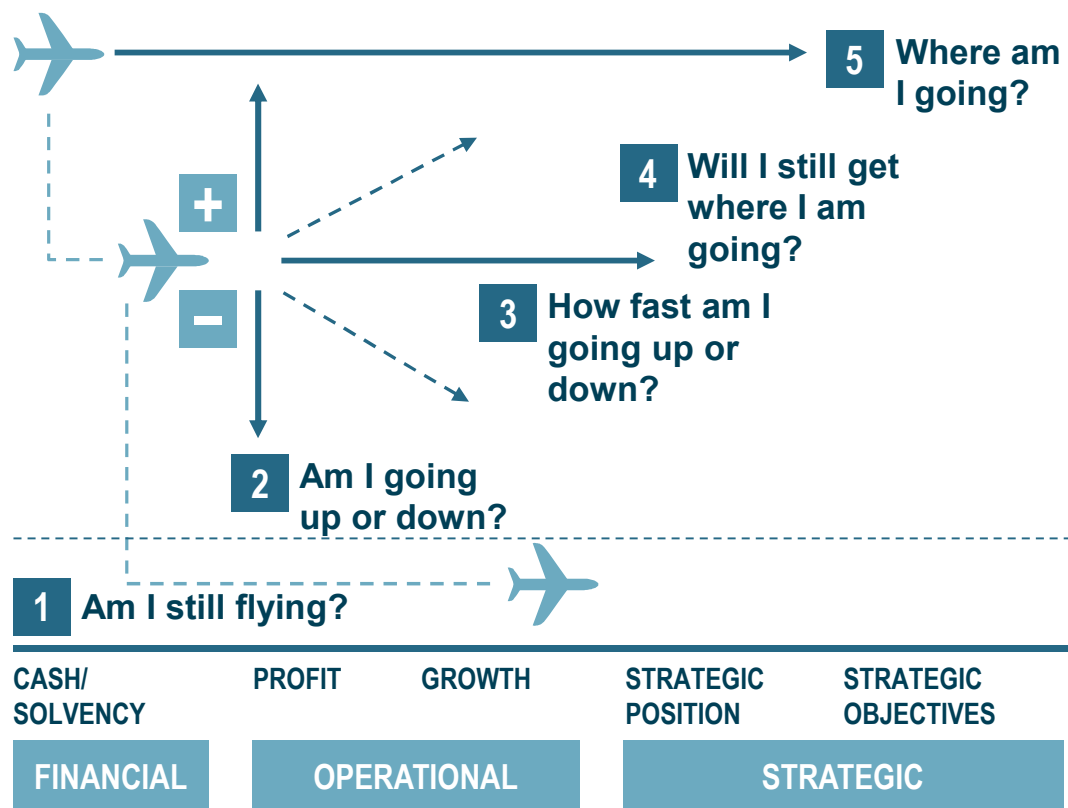
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Strategy Consultants





# Correctly assessing the current status and designing an appropriate roadmap are crucial for a company's survival

Alternative outcomes of the status assessment

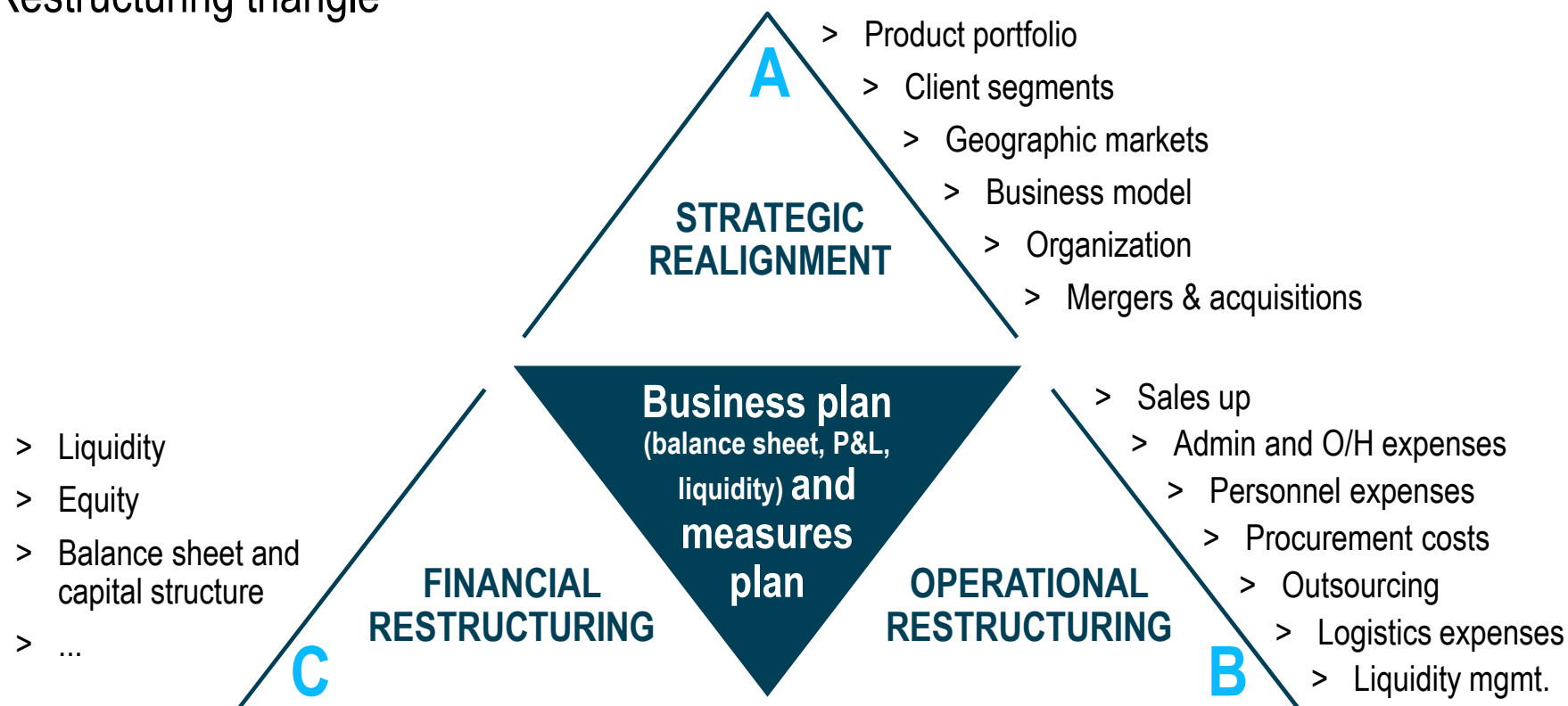


Suggested actions and RB support

- ➔ Set/check course **A** Strategy review
- ➔ Accelerate **B** Sales Up
- ➔ Pull up **C** Fitness program
- ➔ Scramble **D** Comprehensive restructuring
- ➔ (Soft) landing **E** Short-term Liquidity

# Therefore a holistic approach should be adopted integrating all strategic, operational and financial levers

## Restructuring triangle



**Our philosophy is to provide comprehensive advisory and implementation support for companies in distress and serious turnaround situations**

# Facing a challenging environment, management's attention needs to focus on four key business topics

## Management topics in focus

### 1 COSTS AND WORKING CAPITAL

- > Cost reduction: operational and structural
- > Focus on and challenge all cost types and all activities
- > Reduction/optimization of accounts receivable, accounts payable and inventories

### 2 PRODUCTIVITY

- > Flexibilization of production and value-adding processes
- > Break-up the value chain and reduce depth of own production

### 3 TOP LINE DEFENSE

- > Defend current market position, it is less costly than acquiring new customers
- > Reposition smartly to adapt to new market setting
- > Build growth base for better times following the crisis

### 4 FINANCIAL MANAGEMENT

- > Scenario analysis
- > Forecasting
- > Involvement of financiers
- > Liquidity management

**All actions taken need to be implemented consequently and quickly**

## Three key messages for successful restructuring can be derived from our extensive experience



Key learnings from real life restructuring

**Restructuring  
requires ...**

- 1** ... the involvement of all stakeholders into the restructuring process and their support!
- 2** ... counteraction through a comprehensive, holistic approach!
- 3** ... quick recognition of restructuring needs and stringent implementation of actions!

# "Sudden" sales declines due to difficult markets can hit companies severely – comprehensive restructuring required

## Learning # 1 – Stakeholder involvement 1/2

		
Initial situation	<ul style="list-style-type: none"> <li>&gt; Sales decline by ~40% in 2006 – resulting in a negative <b>EBIT of EUR -14 m</b></li> <li>&gt; <b>Inefficient production steering</b> and capacity utilization</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Severe slump</b> of automotive sales in Q4/2008 hits suppliers directly</li> <li>&gt; <b>Credit insurers back out</b> of automotive supplier industry</li> </ul>
Restructuring approach	<ul style="list-style-type: none"> <li>&gt; <b>Holistic restructuring concept</b> <ul style="list-style-type: none"> <li>– Optimization of product portfolio</li> <li>– Footprint optimization</li> <li>– Reduction of material cost</li> <li>– Working capital optimization</li> </ul> </li> <li>&gt; <b>Continuous communication</b> of progress of operational restructuring <b>to all stakeholders</b></li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Ongoing operational restructuring</b>, mainly lay-offs of personnel</li> <li>&gt; Approach of shareholders and financiers for <b>bridging financing not successful</b></li> <li>&gt; Focus placed solely on <b>financial restructuring</b></li> </ul>
Result	<ul style="list-style-type: none"> <li>&gt; <b>Turnaround</b> achieved in 2008</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Insolvency</b> in December 2008</li> </ul>

**All stakeholders need to be involved in and support the restructuring process!**

# Without the support of all key stakeholders, the restructuring effort is likely to fail

## Learning # 1 – Stakeholder involvement 2/2

<u>Creditors</u>	<u>Shareholders</u>	<u>Top management</u>	<u>Line management</u>	<u>Suppliers / vendors</u>	<u>Clients</u>
<ul style="list-style-type: none"> <li>&gt; <b>Support</b> management and external help</li> <li>&gt; <b>Push</b> for implementation and results</li> <li>&gt; Provide <b>'conditional' breathing room</b> for a debtor</li> <li>&gt; Get involved in <b>progress monitoring</b></li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Support</b> management and ensure <b>management's buy-in</b> for changes</li> <li>&gt; <b>Push</b> for results</li> <li>&gt; Get actively involved in <b>progress monitoring</b></li> </ul>	<ul style="list-style-type: none"> <li>&gt; Act in <b>emergency mode</b> giving restructuring effort <b>highest priority</b></li> <li>&gt; <b>Supervise and execute</b> change</li> <li>&gt; Ensure <b>involvement</b> of other employees</li> <li>&gt; Negotiate with <b>internal stakeholders</b></li> </ul>	<ul style="list-style-type: none"> <li>&gt; Ensure <b>changes happen</b> on an operating level</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Get involved in <b>problem solving</b></li> <li>&gt; Provide <b>breathing room</b> throughout the process</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Get involved in <b>problem solving</b></li> </ul>

# Successful restructuring demands a comprehensive approach, blind cost cutting focused on headcount is not an answer

## Learning # 2 – Comprehensive approach 1/2

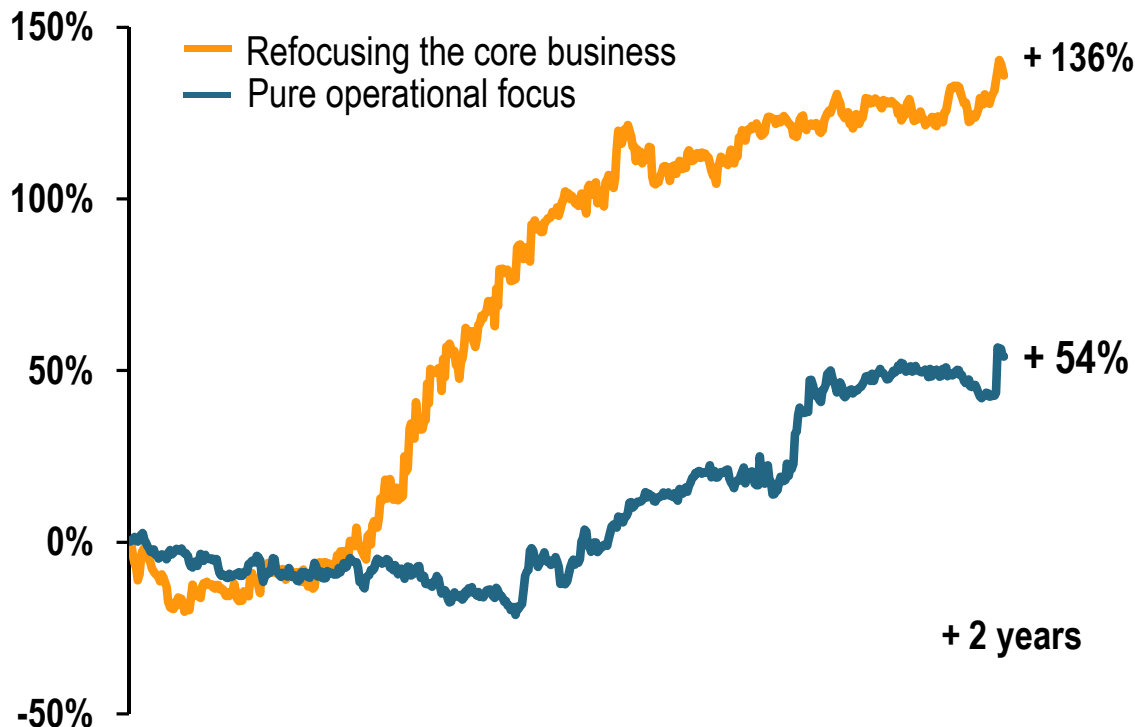
	<b>TA Triumph-Adler</b> The Document Business	<b>PHOTO PORST</b>
Initial situation	<ul style="list-style-type: none"> <li>&gt; <b>Declining sales</b> in various business areas: Office, tourism, leisure, engineering</li> <li>&gt; A <b>loss maker</b> for many years</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Slumping sales</b> of photographic equipment and services</li> <li>&gt; <b>Cost-intense branch network</b> throughout Germany and parts of Western Europe</li> </ul>
Restructuring approach	<ul style="list-style-type: none"> <li>&gt; Started in 2001</li> <li>&gt; Focus placed <b>on core business</b> of output solutions</li> <li>&gt; Subsidiaries sold off</li> <li>&gt; Consequent cost cutting</li> <li>&gt; <b>Strategic alliance</b> with Asian hardware manufacturer Kyocera-Mita, taking a controlling stake in Triumph-Adler</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Cautious adjustment</b> of cost structure and branch network to reduced sales</li> <li>&gt; <b>Late entry</b> in digital photo business – strong competition by discount retailers and <b>no solid top line-improvement</b></li> <li>&gt; Frequent change of company ownership <b>weakened restructuring efforts</b></li> </ul>
Result	<ul style="list-style-type: none"> <li>&gt; <b>Turnaround</b> achieved in 2006</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Insolvency</b> in June 2002</li> </ul>

**Crisis needs to be counteracted through a comprehensive, holistic approach!**

# Roland Berger restructuring cases clearly show that a holistic approach is significantly more beneficial

## Learning # 2 – Comprehensive approach 2/2

### Avg. Outperformance of DAX-Index (risk adjusted)





### Comments

- > Restructuring efforts are **pre-dominantly concentrated on operational efficiency** improvements, primarily cost cutting
- > An operational focus holds significant improvement potential (54% on average)
- > A holistic approach (encompassing strategic, operational and financial restructuring) **can deliver twice as much improvement** potential (136% on average)



# Time is key in undertaking restructuring efforts, counteraction taken too late may lead to major problems

## Learning # 3 – Quick reaction 1/2

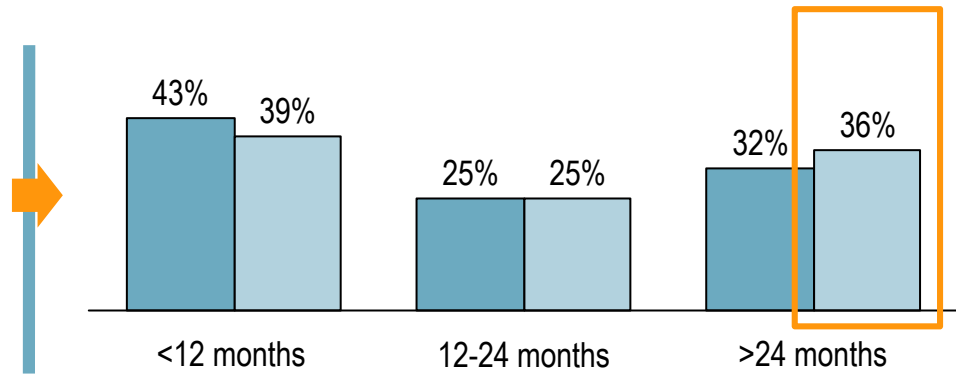
		
Initial situation	<ul style="list-style-type: none"> <li>&gt; <b>Significant budget deviation</b> caused by strongly declining sales on national market</li> <li>&gt; Resulting in an <b>EBIT of EUR -18 m</b> in 2001</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Faced <b>severe competition</b> by porcelain manufacturers from <b>low cost countries</b></li> <li>&gt; <b>Shrinking market</b> for high quality and leading design porcelain</li> <li>&gt; <b>Inappropriate cost structure</b></li> </ul>
Restructuring approach	<ul style="list-style-type: none"> <li>&gt; <b>Quickly putting stringent focus</b> on high class ceramics – leading in quality and design</li> <li>&gt; Strict operational <b>cost cutting</b>, primarily purchasing and SG&amp;A in <b>very concentrated timeframe</b></li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reduction of operational cost mainly by <b>continuous layoffs</b> since 2000</li> <li>&gt; <b>No stringent and concentrated approach</b> to cost reduction</li> <li>&gt; <b>Inconsequent adjustment</b> of product portfolio to shrinking market</li> </ul>
Result	<ul style="list-style-type: none"> <li>&gt; <b>Turnaround</b> achieved in 2003 (EBIT of EUR 15 m)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Insolvency</b> in January 2009</li> </ul>

**Quick recognition of restructuring needs and stringent implementation of actions!**

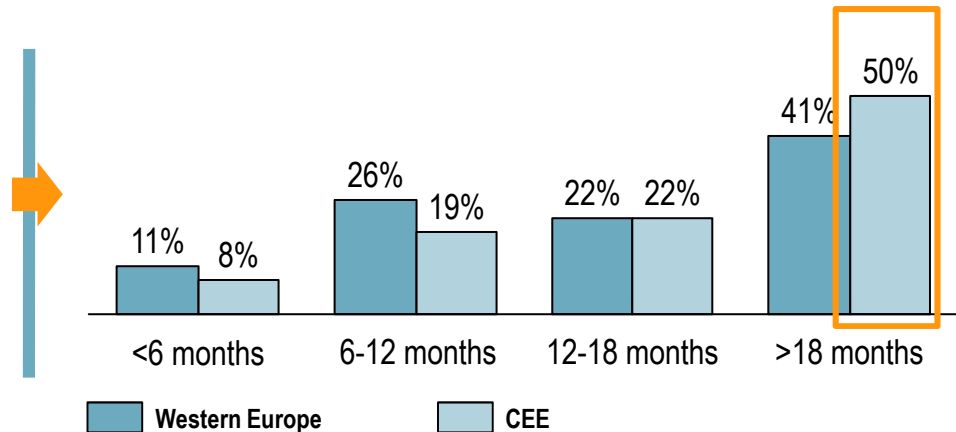
# The sooner the restructuring actions are taken, the shorter and easier the restructuring will be

## Learning # 3 – Quick reaction 2/2

Time between crisis recognition and restructuring commencement



Length of restructuring efforts



### Comments

- > CEE companies **take more time** between crisis recognition and commencement of restructuring efforts than their Western European peers
- > As a result, restructuring is **longer, deeper, more painful and more likely to fail!**



## F. Roland Berger credentials

**Roland Berger**  
Strategy Consultants

## Roland Berger is one of the leading consulting firms in the CEE region

### Roland Berger Strategy Consultants in CEE

- > We have offices in the vast majority of the countries in the region
- > We were among the first consultancies to expand into the region, opening most of our offices more than 15 years ago
- > We have a joint regional consultant pool with more than 200 professionals
- > We successfully combine local knowledge with international industry experience
- > During our presence in the region we have developed a deep knowledge of local cultures and business practices

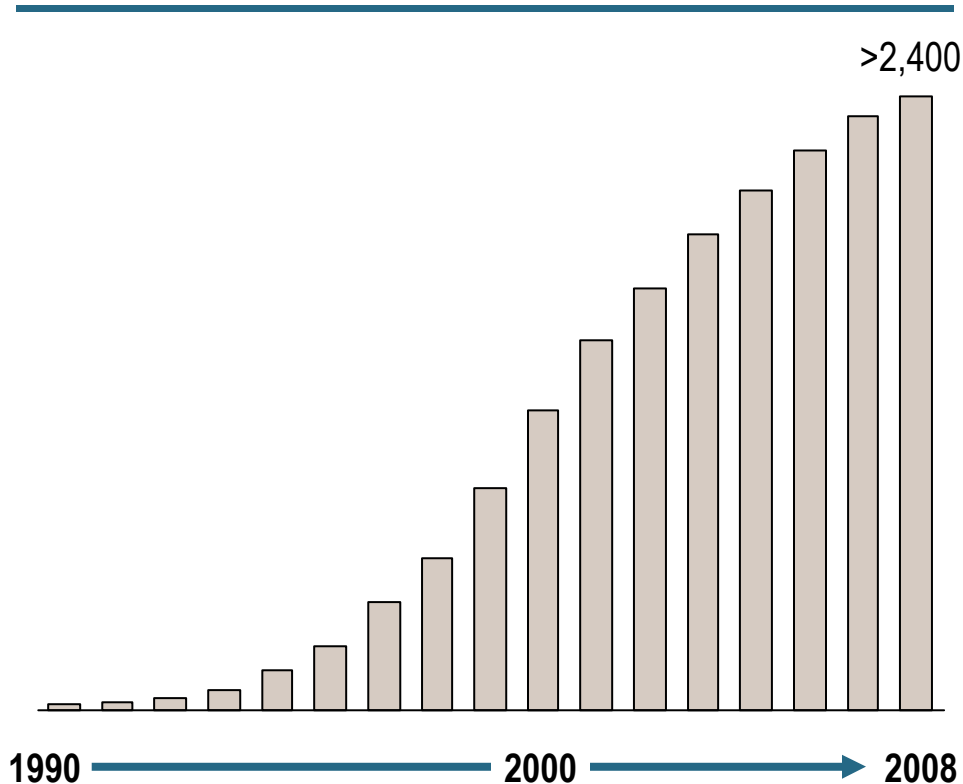


● Office ○ Project office

# We have gained significant knowledge through more than 2,400 restructuring projects

Our restructuring projects in Europe

Number of restructuring projects (cumulated)



Examples

 2006-2007	 2003-2007	 2004-2007	 2003-2007
 2002-2005	 2007	 2003-2007	 2004-2007
 2001-2004	 2003-2004	 2005-2006	 2003-2005
 2001-2004	 2003-2004	 2002-2003	 2000-2003
 2002-2003	 2002-2003	 2007	 2001-2003

**Roland Berger**  
Strategy Consultants



**Delivering results!**