



RESTRUCTURING

# Succeeding in turbulent times & beyond

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ADVISORY



## NEGATIVE SCENARIO

### “Second wave of the crises” (FT Moscow)

- Flat or further decline of economic activity
- Export suffer from not recovered commodity prices
- Manufacturing and trading sectors will deteriorate
- Further drop in equity
- Domino effect of bad debt up to 30%
- Access to financing restricted - liquidity problem will worsen

## POSITIVE SCENARIO

### “Recession is over” (Bernake)

- Recovered but still volatile commodity, energy prices, FX
- Competitive pressure squeeze the margins
- Liquidity needed to safeguard ongoing business operations
- Extension of market position by investing in new opportunities
- Access to financing is still restricted (Global lending 1HJ – 49%)
- Growing working capital requirements

**Internal sources is the main focus throughout financing alternatives**

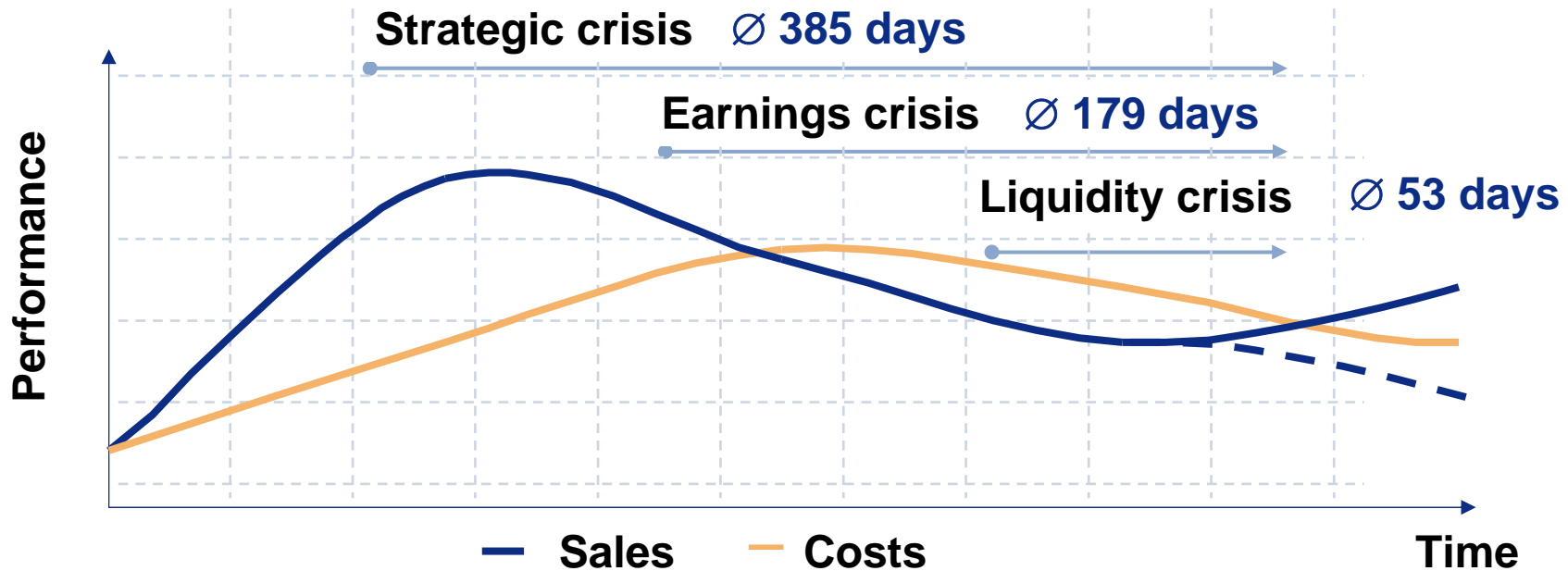
# How much time do you have...?



***crisis***

**“To survive in the ~~new global economy~~ will require massive consistent effort and immediate bold action! Without further delay, I am putting together a 10 year plan to study the problem further.”**

...depends on where you are!

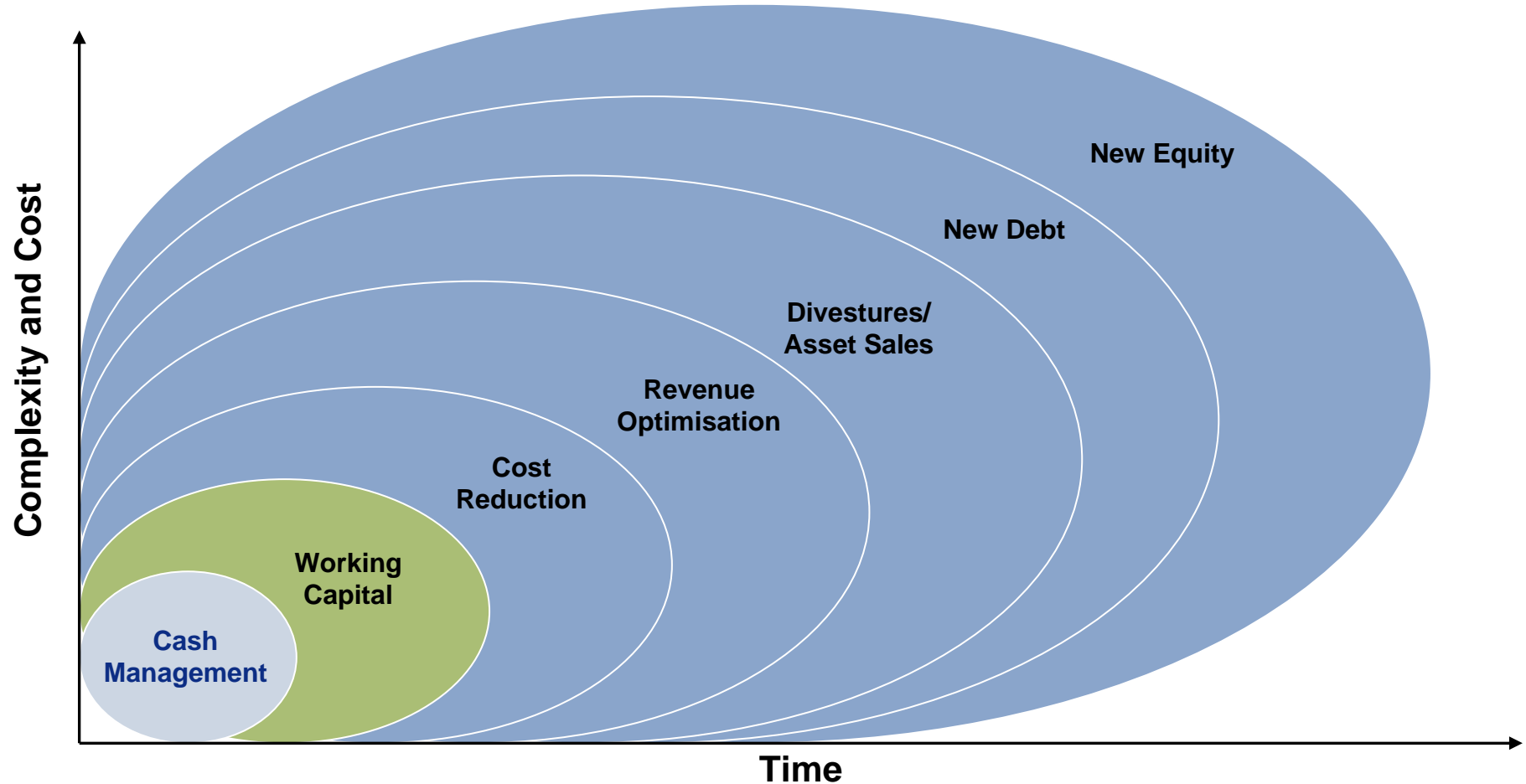


Source: Hausschild, Grape, Schindler: Typologien von Unternehmenskrisen im Wandel (2006)

# But, where to start...?



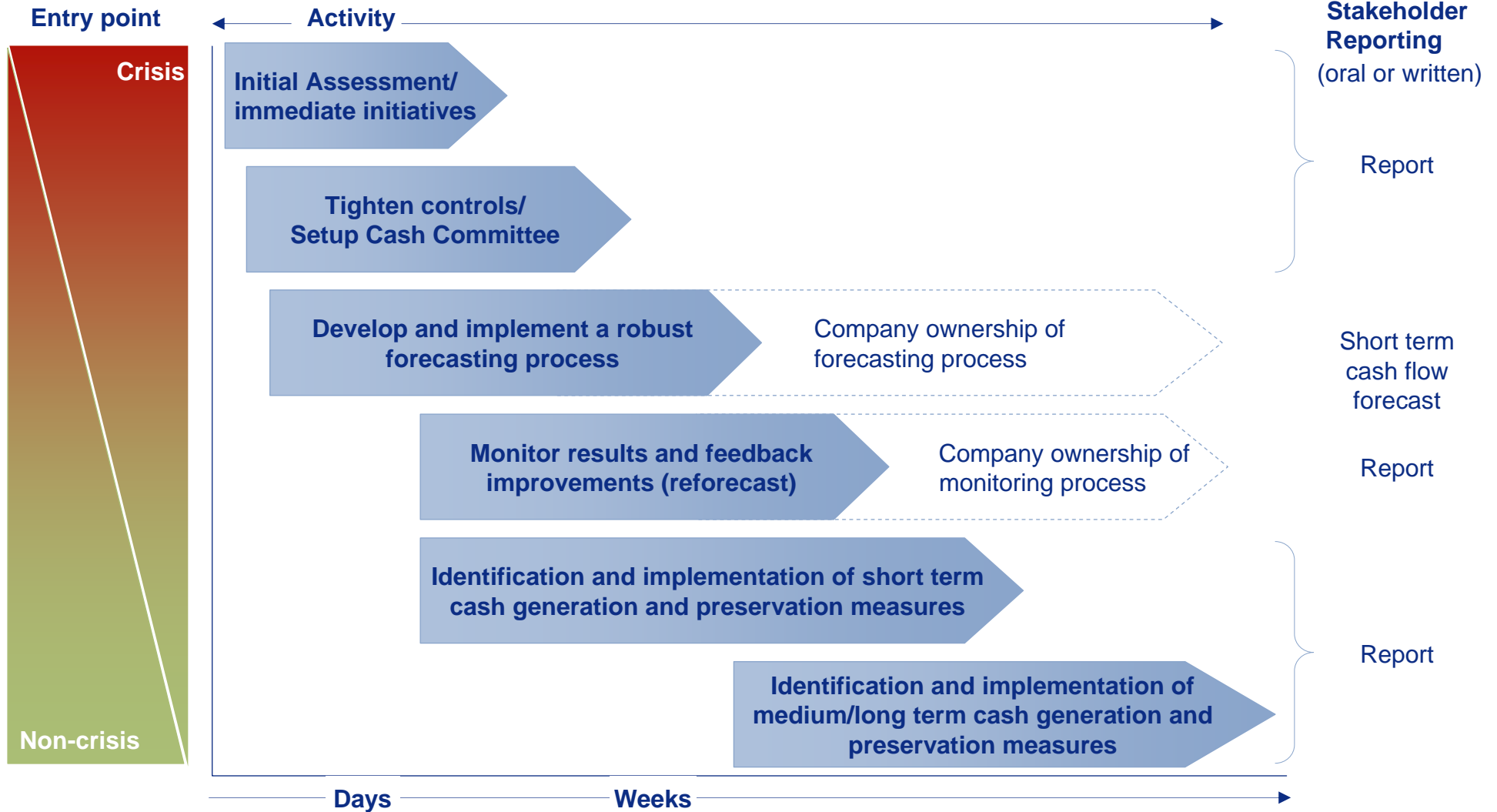
# Cash is King!



**A survey of 1000 of the largest European companies in 2007 revealed over €600 billion of excess cash tied up due to inefficient working capital management...**

*Source: CFO Magazine July 2007*

# How we do it: KPMG's Crisis Cash Management Proposition



# A Initial assessment



First meeting with Management

Analyze STCFF instruments

Analyze cash controls in place

Sample testing of cash controls in place

Recommendations

- Management's perspective
- Overview of bank accounts and facilities
- Understand the flow of cash
- Current cash position
- Immediate cash issues, including Payroll
- Current initiatives and options
- Cash flow forecast
- Cash controls



# B Setup cash committee (task force)



## Purpose

- Highly visible and effective measure in focusing a business on cash control and improvement's
- Determine available headroom (bank facilities and the current cash position)
- Recognise short-term funding requirements (short-term cash flow forecast)
- Implementing new short-term cash management controls, where necessary
- Develop and implement short-term cash generation and preservation initiatives and action plans.

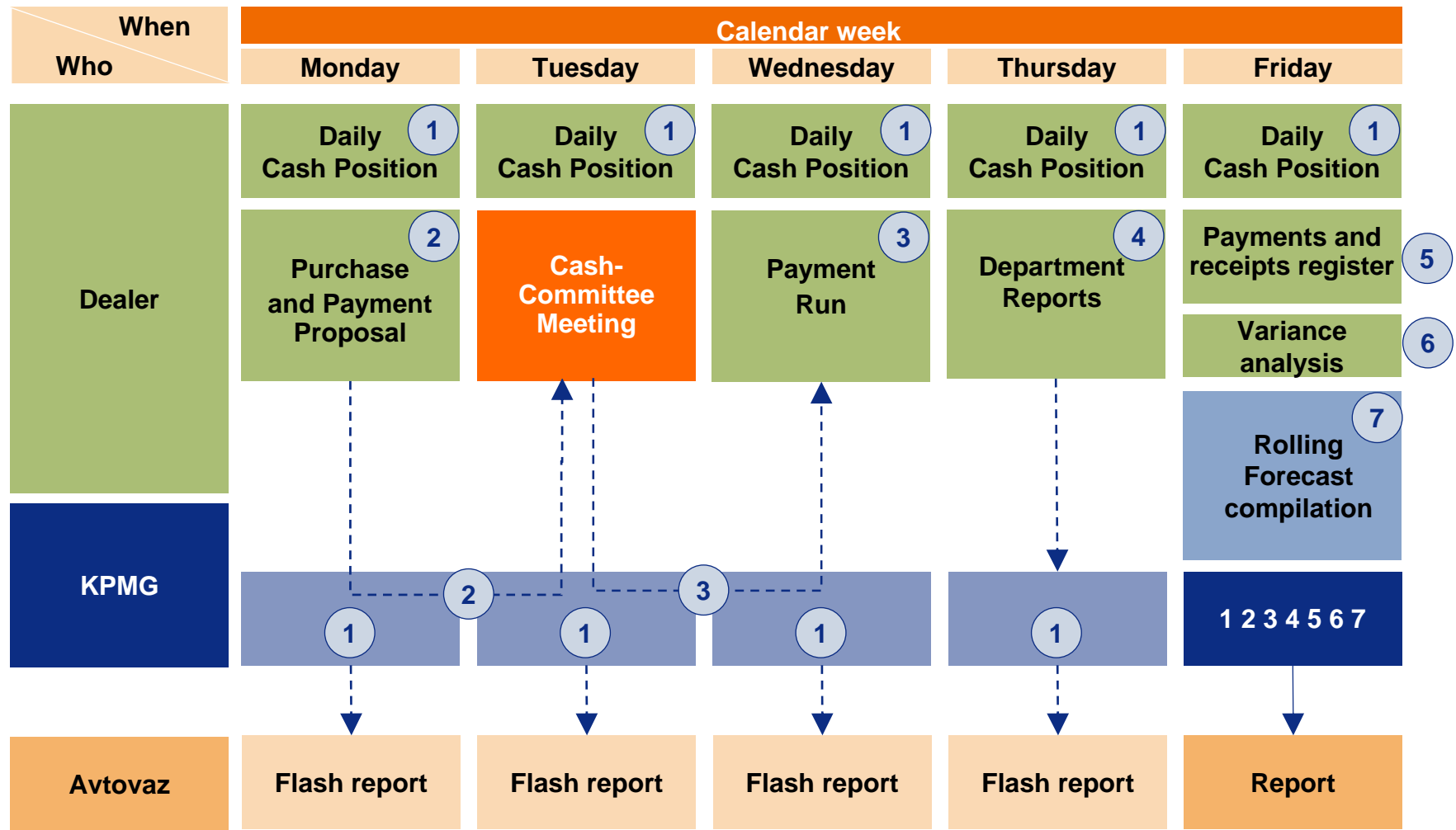
## Composition of the Cash Committee

- Depending on size and structure of the company but cross-functional
- Key role: Treasury and finance department
- Non-finance representatives: senior people responsible for sales, purchasing, production and stock management.

## How KPMG can assist

- To help identify members of the Cash Committee
- Initially facilitate the meetings
- Drive progress and maintain momentum
- Challenge existing working practices
- Challenge decisions being made by the Cash Committee
- Help establish and maintain action plans and tracking tools
- Report to Lenders / Shareholders

# C Tighten controls: Process streamlining



# D Prepare short term cash forecast (STCF)



Cash Flow Forecast (in £000) Week ending Week #	Analysis of variations			10-Week-Forecast										Analysis of variations		
	Actual Weekly 13-Jun 24	Forecast Weekly 13-Jun 24	Variance Weekly 13-Jun 24	Forecast Weekly 20-Jun 25	Forecast Weekly 27-Jun 26	Forecast Weekly 4-Jul 27	Forecast Weekly 11-Jul 28	Forecast Weekly 18-Jul 29	Forecast Weekly 25-Jul 30	Forecast Weekly 1-Aug 31	Forecast Weekly 8-Aug 32	Forecast Weekly 15-Aug 33	Forecast Weekly 22-Aug 34	Forecast 25 33	Forecast prev. week 25 33	Variance
<b>Cash position</b>																
<b>Opening balance</b>	6,086	6,086	0	6,689	6,090	1,479	257	2,411	3,109	1,710	1,742	3,919	2,574	6,689	6,385	304
<b>Trading Receipts</b>																
Accounts receivable	6,469	5,774	695	3,945	3,646	3,149	3,926	4,122	1,912	1,305	2,424	2,501	994	26,929	24,141	2,788
New sales receipts	-	96	(96)	120	1,019	1,659	1,791	2,154	2,442	3,629	2,610	2,657	2,726	18,081	20,784	(2,703)
Receipts total	6,469	5,870	599	4,065	4,665	4,808	5,717	6,276	4,354	4,934	5,034	5,158	3,720	45,010	44,925	85
<b>Other receipts</b>																
VAT & other taxes	-	0	-	-	306	-	1,594	-	-	-	-	600	-	2,500	2,194	306
Other	219	398	(179)	178	-	3	52	-	0	53	-	-	-	286	108	178
Other receipts total	219	398	(179)	178	306	3	1,646	-	0	53	600	-	-	2,786	2,302	484
<b>Intercomp.</b>																
Intercompany (accounts rec.)	579	576	3	831	841	580	524	642	785	412	-	-	-	4,615	4,029	585
Intercompany (new sales rec.)	-	0	-	-	-	-	-	-	-	-	500	500	500	1,000	1,500	(500)
Intercompany (loan rep.)	-	0	-	-	1,000	-	-	-	-	-	-	-	-	1,000	1,000	0
Intercompany (Cash-Pool)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Intercompany total	579	576	3	831	1,841	580	524	642	785	412	500	500	500	6,615	6,529	85
<b>Receipts total</b>	7,267	6,844	423	5,074	6,812	5,390	7,887	6,918	5,139	5,346	5,587	6,258	4,220	54,411	53,756	654
<b>Payments</b>																
Scheduled accounts payable	3,112	3,064	49	2,894	4,808	6,014	2,839	4,394	4,849	5,042	2,863	4,997	2,773	38,700	38,590	110
Payroll	1,139	1,139	0	1,139	1,840	-	890	1,678	-	-	796	-	-	5,204	5,204	0
Other Payroll payments	1,815	1,765	49	1,815	1,840	-	1,470	1,409	1,678	-	533	1,393	-	4,805	4,805	0
Pension contributions	150	150	0	150	-	-	-	150	-	-	-	-	-	303	303	0
Sales agent funding	224	220	4	224	-	-	533	-	-	-	-	153	-	533	533	0
VAT & other taxes	209	208	1	209	-	-	-	-	-	-	-	-	-	0	0	0
Automatic transfers	16	0	16	279	148	131	-	267	12	228	15	264	12	1,344	1,344	0
Insurance	-	0	-	-	467	-	-	-	-	-	-	-	-	467	467	0
Bank interest	-	0	-	-	1,718	-	-	-	-	43	-	-	-	1,761	1,761	0
Term loan paydown	-	0	-	-	5,409	-	-	-	-	-	-	-	-	5,409	5,409	0
Other payments	-	0	-	2,500	-	-	-	-	-	-	-	-	-	2,500	2,500	0
Intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
<b>Payments total</b>	6,664	6,545	119	5,673	13,923	6,612	5,732	6,220	6,538	5,313	3,411	7,603	2,785	61,026	60,915	111
<b>Net cash flow for period</b>	603	298	304	(599)	(7,111)	(1,222)	2,155	698	(1,399)	33	2,176	(1,345)	1,435	(6,615)	(7,159)	544
Closing balance before draw down	13,225	6,689	304	6,090	(1,021)	257	2,411	3,109	1,710	1,742	3,919	2,574	4,009	74	(774)	848
WC-Facility	-	0	0	-	2,500	-	-	-	-	-	-	-	-	2,500	2,500	0
Draw down	-	0	0	-	726	-	-	-	-	-	-	-	-	726	726	0
Headroom	3,226	3,226	3,226	3,226	726	726	726	726	726	726	726	726	726	726	726	0
<b>Closing balance after draw down</b>	6,689	6,385	304	6,090	1,479	257	2,411	3,109	1,710	1,742	3,919	2,574	4,009	2,574	1,726	848
Ancillary Facility	4,020	0	0	4,020	0	0	0	0	0	0	0	0	0	4,020	0	0
Utilization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Headroom Ancillary Facility	4,020	4,020	0	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	0
Total headroom	13,935	13,631	304	13,336	6,225	5,003	7,157	7,855	6,456	6,488	8,865	7,320	8,755	7,320	6,472	848
Additional Headroom (Sub co)	4,046	2,105	1,941	4,251	2,974	1,552	2,083	3,658	2,996	2,411	2,678	4,025	4,975	4,025	4,126	(101)
<b>Due Accounts Payable Calculation</b>																
Opening balance	3,159	3,159	0	3,158	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,158	3,000	158
New due payables	3,111	2,905	206	2,736	4,808	6,014	2,839	4,394	4,849	5,042	2,863	4,997	2,773	38,543	38,590	(47)
Payments	3,112	3,064	49	2,894	4,808	6,014	2,839	4,394	4,849	5,042	2,863	4,997	2,773	38,700	38,590	111
Closing balance	3,158	3,000	158	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	(0)

Cash inflow

Cash outflow

Facilities and headroom

Actual vs forecast

Short term liquidity forecast on a 10 week rolling forecast basis

Forecast vs. Re-Forecast

# F Monitor results/re-forecast



## Actual vs. forecast

### Purpose

- Daily/weekly comparison of actual result versus forecast
- Line item review to identify variances
- Timing variance vs. permanent variance

### Benefits

- Identify errors in:
  - forecasting methodology
  - completeness of cash flow
- Impact of variances shown are reflected in the preparation of new forecast

## Forecast vs. reforecast

### Purpose

- Comparison of current forecast to previous forecast
- Explain differences in weekly flows

### Benefits

- Identify changes in assumptions
- Determine any corrective action required in advance of finalising forecast
- Major changes in forecast can be explained to stakeholders in advance

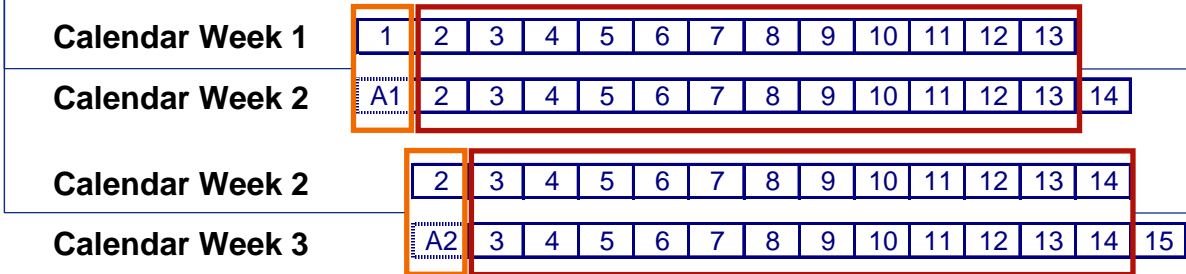
	Analysis of variations			10-Week Forecast										Analysis of variations					
	Actual	Forecast	Variance	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Variance	
<b>Cash inflow</b>	6,000	6,000	0	6,000	6,000	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	5,970	30
<b>Cash outflow</b>	6,000	5,770	230	6,000	5,990	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740	260
<b>Facilities and headroom</b>	0	230	(230)	0	10	230	230	230	230	230	230	230	230	230	230	230	230	230	230

Actual vs forecast

Short term liquidity forecast on a 10 week rolling forecast basis

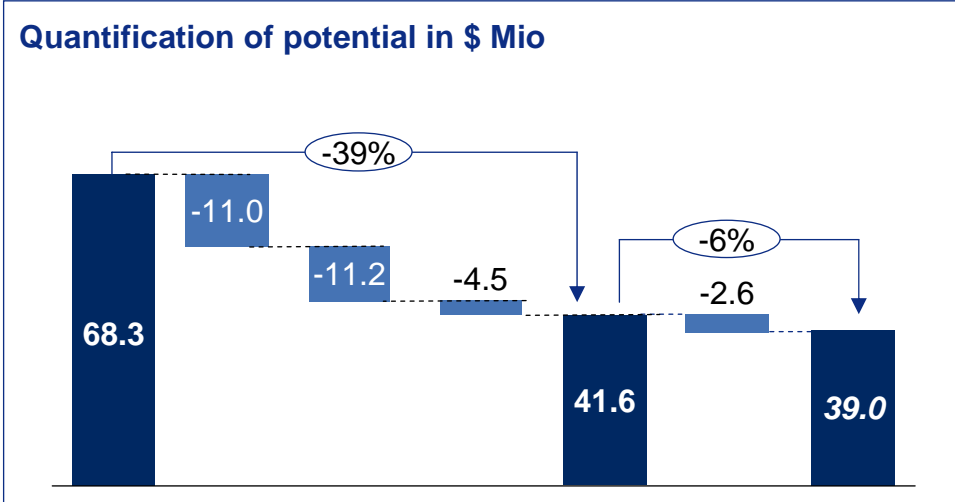
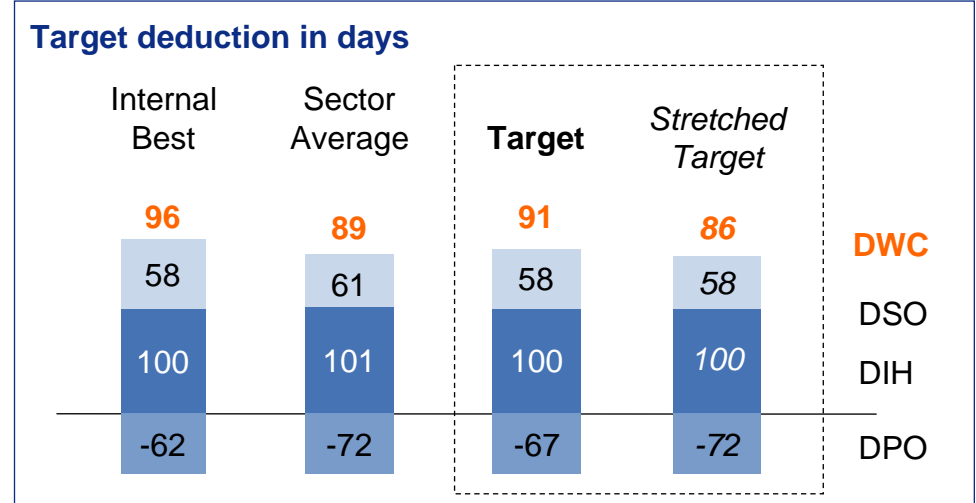
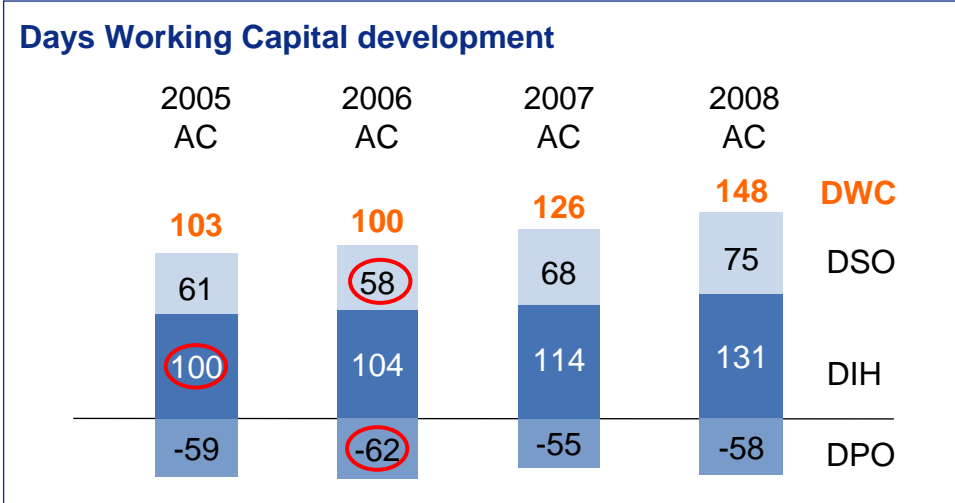
Forecast vs. Re-Forecast

## STCFF rolled forward for 2 weeks





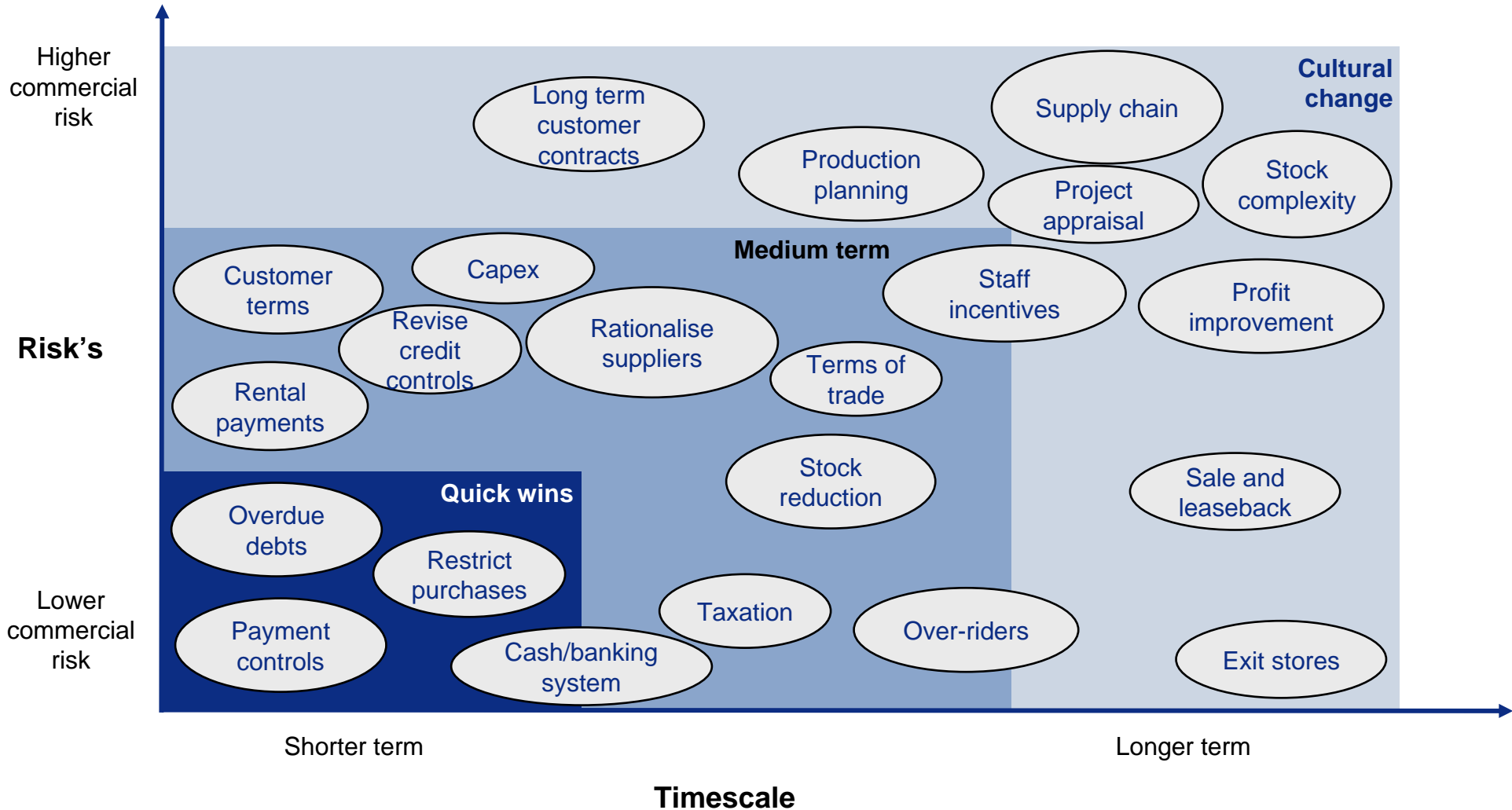
# Identification of cash generation measures: Principles



### Impact on Shareholder Value

	2008 AC	Target	Stretched Target
Working Capital	\$ 68.3 Mio	\$ 41.6 Mio	\$ 39.0 Mio
WC Intensity	28.5%	17.3%	16.2%
Cap. Employed	\$ 137.5 Mio	\$ 110.7 Mio	\$ 108.1 Mio
ROCE	4.2%	5.2%	5.3%

# G Identify short-term cash initiatives: Size of the prize



# H Implement cash initiatives: Process flow



## Project Gate Structure



## Implementation Management

### Gate 1: Identification (Potential identified)

- Definition of an idea for consideration (high level)

### Gate 2: Quantification (Potential evaluated)

- Detailed calculation (bottom up) with verified assumptions

### Gate 3: Approval (Potential decided)

- Approval for realisation by management or project office or the steering committee

### Gate 4: Implementation (Potential in progress)

- All necessary measures terminally implemented and legally protected

### Gate 5: Realised (Potential effective)

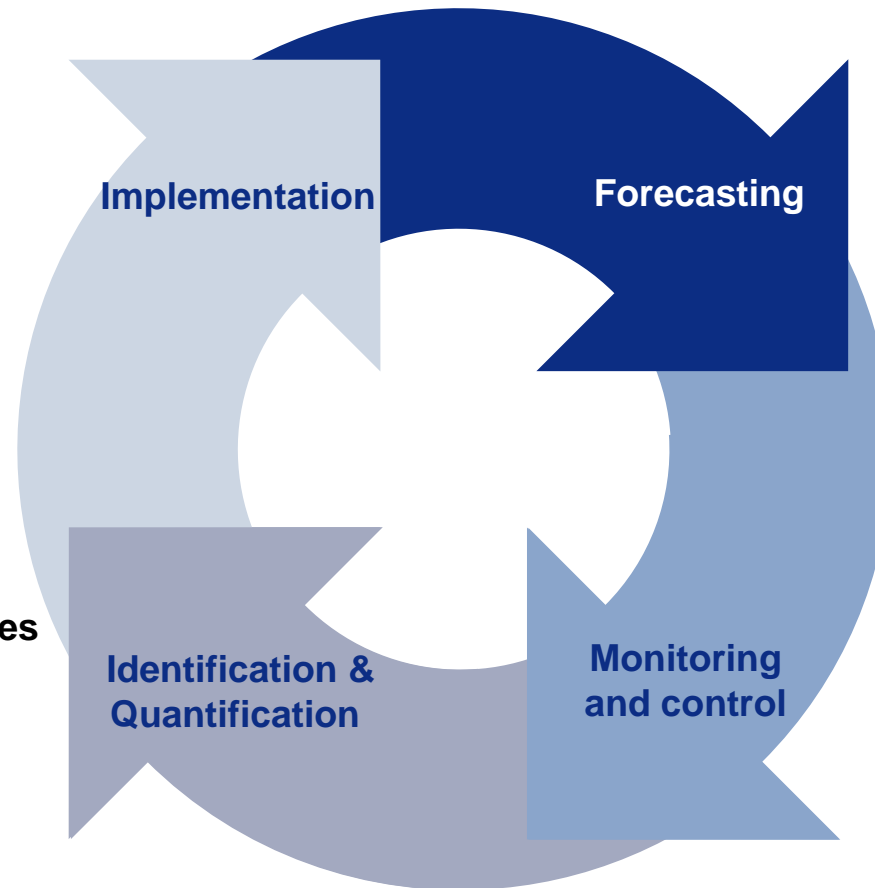
- Time span between final realisation and P&L or cash efficiency expired
- The measure realised is to its full extent P&L or cash efficient

# Summary



- Hands-on
- Benefits tracking
- Communication
- Coaching and skills transfer

- Identification opportunities
- Quantification
- Prioritise
- Milestones



- Liquidity position
- Cash driver analysis
- Short term forecasts
- Funding levels and working capital requirements

- Monitoring cash
- Monitoring process
- Variance analysis
- Back testing

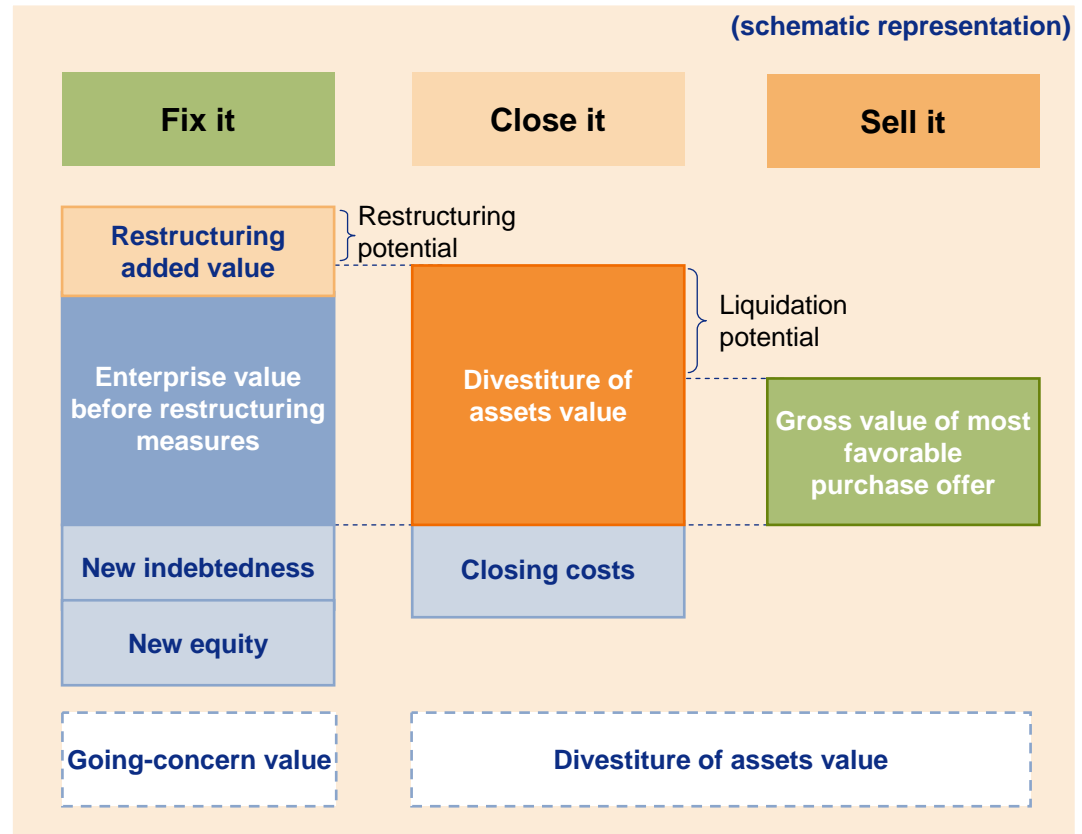
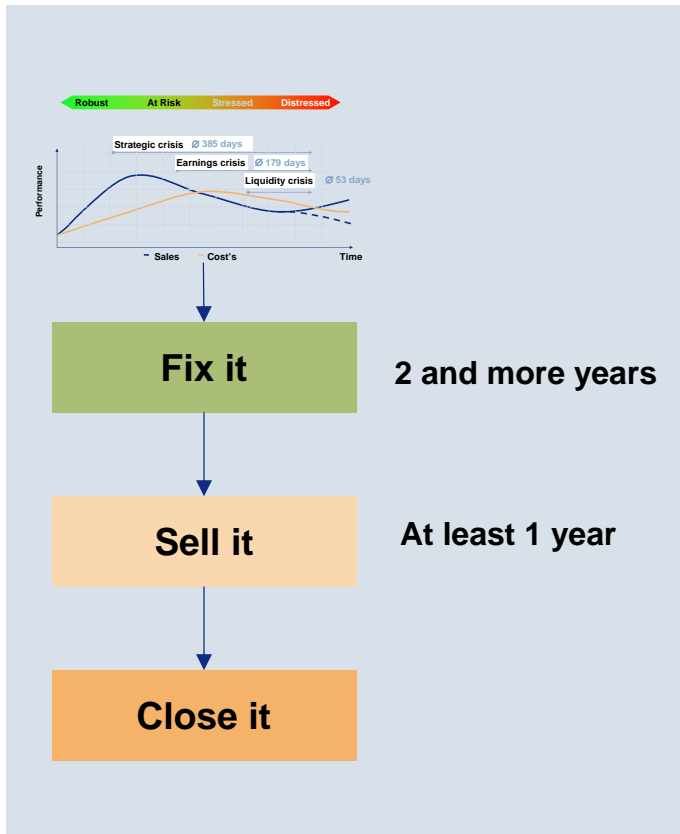
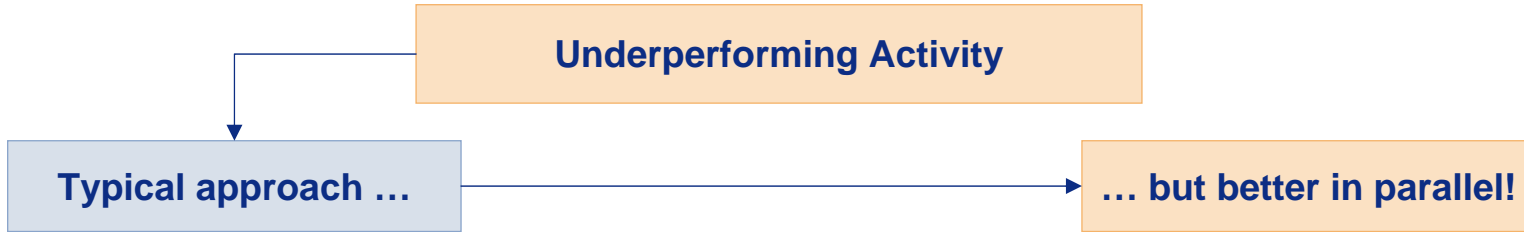


# Stabilized and now...?

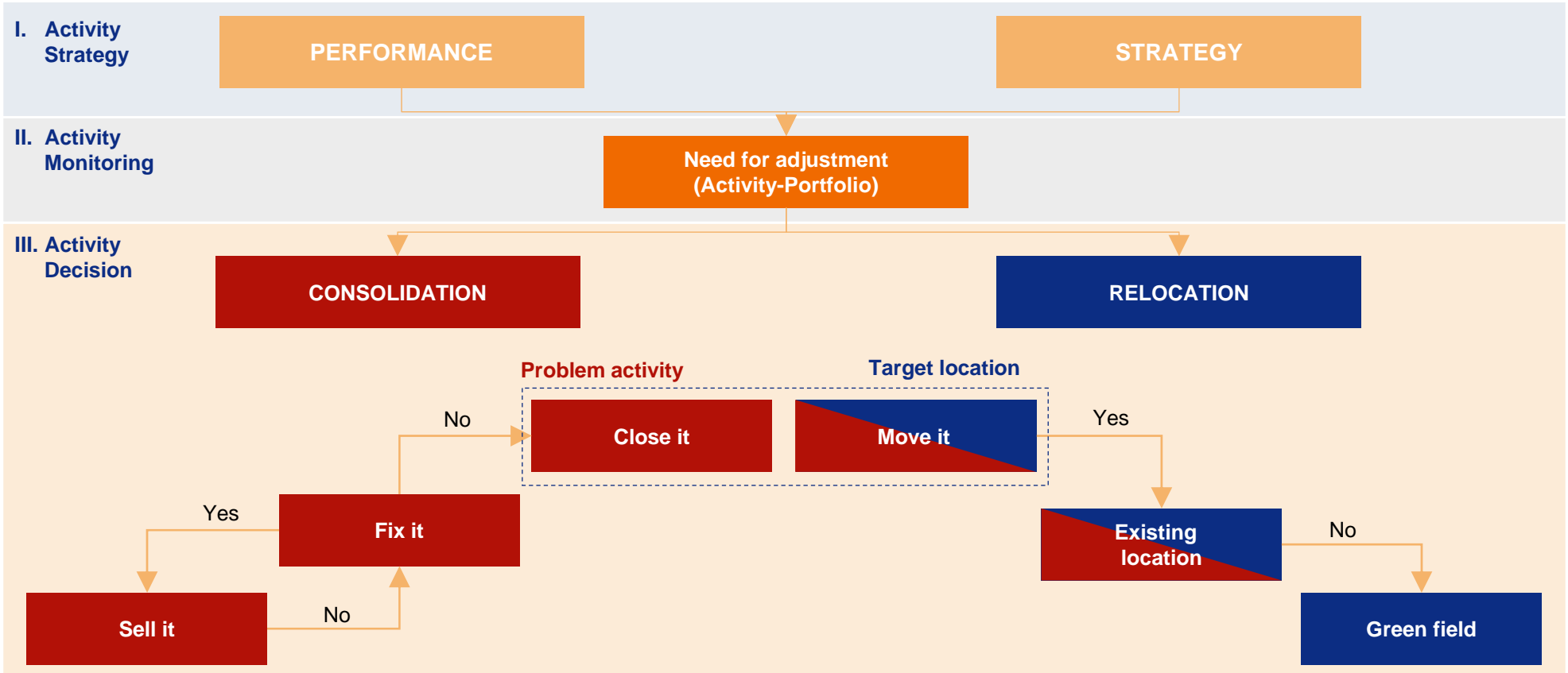


**“Yes, our investments are diversified:  
20% out the window, 65% down the drain,  
and 15% gone with the wind.”**

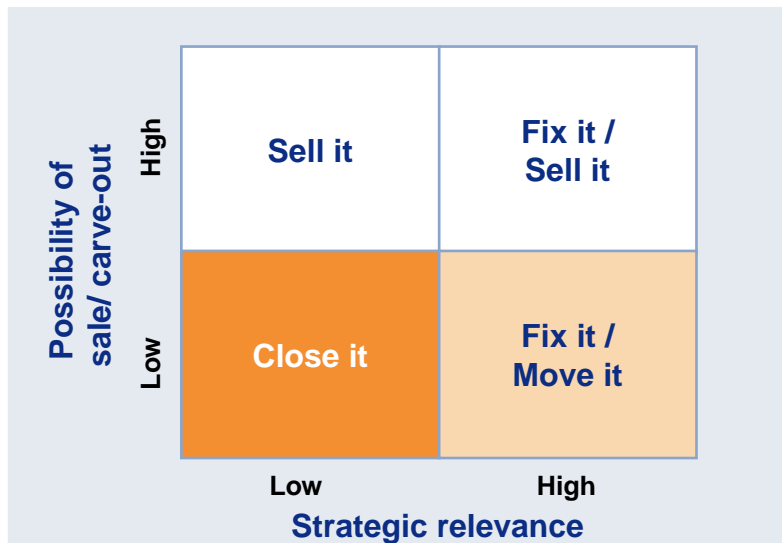
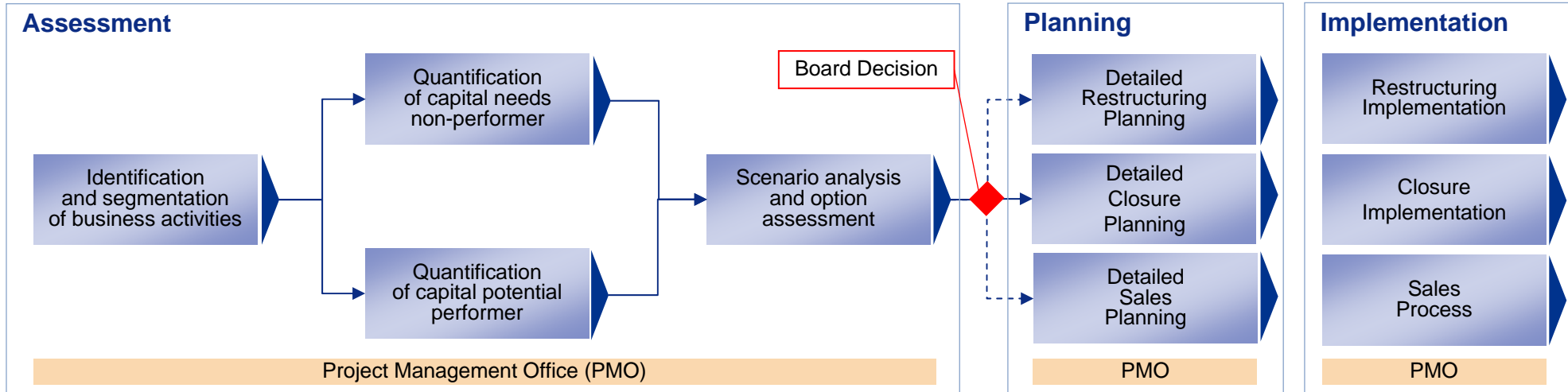
# Do you have a thorn in the side?



# Decision tree: Guess or calculation?



# Consolidate: Continued vs discontinued operations



		Non-Performer			
Performer					
Going Concern	Sell it	Sell it	Fix it	Move it	Close it
Going Concern Planning	P&L/ liquidity effects from sale	P&L/ liquidity effects from sale	Restructuring costs and value added	Relocation costs and value added	Closure costs and value added



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