



Finding the way forward

Deal Advisory / Germany

With our support, you could enhance your business's value through Restructuring.



Enhancing value through financial restructuring.

Your vision. Our proven capabilities.

KPMG is a global network of independent professional firms with 145,000 employees in 152 countries. In Germany, KPMG is one of the leading advisory, tax, law and auditing firms, with 8,600 employees at 25 locations.

As forward-looking specialists, KPMG professionals combine innovative services and deep sector knowledge with the foresight that comes from experience — helping you to stay in front of the issues and make the right decisions based on your restructuring needs.

Restructuring Advisory

A proactive approach to managing financial stress.

In today's rapidly evolving economy, a company must take a proactive approach to liquidity, performance and debt issues that result in financial stress. Management needs to ask the tough questions and make what are sometimes difficult decisions to help avoid insolvency and ensure sustainable growth.

As objective third-party advisors, KPMG professionals can help you gain a clearer understanding of liquidity issues and what immediate steps should be taken to help stabilize the company. Once the

business is stabilized, we can assess your performance, explore your restructuring options, and begin building support among relevant stakeholders. After working to rapidly clarify your circumstances, we move to develop an achievable plan of action, then work alongside you to implement it. Once the plan is put into action, we continue to monitor performance, helping to ensure that early quick wins are followed by a successful turnaround that returns the company to full health.

Learn more about how KPMG professionals can help you develop and implement processes designed for a sustainable level of strategic, operational and financial change.

Support throughout the restructuring process

- ¹Initial Appraisal & Stabilization
- ²Stress Diagnostic & Options Assessment
- ³Financial Restructuring
- ⁴Operational Restructuring & Implementation
- ⁵Ongoing Monitoring

This document reflects a wide range of services and does not differentiate between those services that are permissible or not permissible for KPMG audit clients and their affiliates. In addition, certain software and technology services, joining with third parties in service delivery, are also subject to potential independence restrictions based upon the facts and circumstances presented in each situation.



¹Initial Appraisal & Stabilization

How advanced is the crisis and what is necessary to stabilize my company?

Start with quick wins to improve liquidity.

A restructuring is not necessarily prompted by a crisis across the company. For example, an otherwise healthy company might have only a single subsidiary that needs restructuring, and the degree of restructuring required can vary from refinancing a loan to redeveloping the company's core business model.

However, a restructuring is a crisis in the sense that something must be done — and done immediately. It is most often required when a company's performance is unable to keep pace with its financial obligations to creditors and other stakeholders. Warning signs include a significant decline in profits (or even negative profitability for several years), a serious lack of liquidity, or problems in refinancing loans with banks and other lenders.

The first step for a company facing the possibility of a restructuring is to make a quick, but thorough, assessment of short-term (13-week) cash requirements and decide whether the company can meet those requirements. At the same time, stakeholders need to stabilize the situation by reducing outgoing payments, accelerating incoming payments, and pursuing other quick wins to improve liquidity.

Ask The Right Questions

Why do I need a PMO?

One of the challenges of restructuring is the need for a project structure to help ensure a successful outcome. From clearly defined responsibilities and crucial workstreams, to launch activities and external communications, sound structures must be erected quickly. KPMG can support the establishment of a project management office (PMO) designed to help the company reach milestones, maintain turnaround momentum, and achieve desired outcomes.

How can liquidity quick wins be achieved?

To support immediate improvements in liquidity, we identify trapped cash and ways to release it, and help you better manage debtors and creditors so that incoming cash flow is accelerated while outgoing payments are slowed. At the same time, we look for any additional risks to liquidity and develop strategies to avoid them.

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The earlier you start with restructuring the better. A proactive approach accompanied by buy-in from relevant stakeholders will result in more options for both financial and operational restructuring.

Why conduct 13-week liquidity planning?

An effective, short-term assessment of liquidity is essential in stabilizing the company, and is a process that KPMG professionals can guide you through. This assessment should provide a clear picture of the company's current cash status and any liquidity gaps that may occur in the immediate future. The assessment should also include a thorough creditor and debtor analysis that helps determine the quality of your data and track payment due dates more effectively. Lastly, it should identify any cross-border cash pools that may present further risks.

How is a solvency test (S 11) carried out?

Management has a legal duty to assess the company's ability to meet all financial obligations. In support of this duty, we help to conduct an illiquidity test, identifying the company's current liquidity status, supporting direct liquidity planning and reporting, and consolidating intercompany payments.

What implications does this test have on my accounting policies?

The 'going concern' assumption is the most important point when preparing annual accounts for a company. We assist management in forming a 'going concern' opinion that is based on realistic planning assumptions and has an accurate planning horizon. We also review restructuring concepts prepared by third parties and identify critical key issues and problems along with possible solutions.

How can I establish effective cash management?

KPMG can support the establishment of a structured and transparent cash management process that is suited to the size and structure of the company, along with effective cash forecasting that

provides you with a more accurate view of what is coming, including advance notice of potential liquidity gaps. Cash generation is another key part of the process, as we identify ways to generate cash from inside the company through sale and leaseback arrangements, asset-backed facilities, and factoring. We can also help set up and maintain a cash desk, if required.

What if my company breaches a covenant?

To determine whether the business is compliant with its financial and non-financial covenants, we assist management in performing a covenant compliance check. Services include establishing robust financial monitoring to ensure regular covenant testing and compliance, and forecasting acceptable covenants for financing solutions. If a covenant breach has occurred, or the situation has changed in a way that existing covenants are no longer applicable, we can help management to negotiate new and adequate covenants.

How would formal insolvency affect my company?

Management needs to clearly understand the potential consequences of insolvency. We begin by assessing the corporate group's willingness to consider disposal via insolvency or restructuring. We then evaluate possible insolvency processes and jurisdictions. Considerations include potential reputational risks, the current financial structure, make-up of creditors and stakeholders, and the potential for loss of asset value.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates.

²Stress Diagnostic & Options Assessment

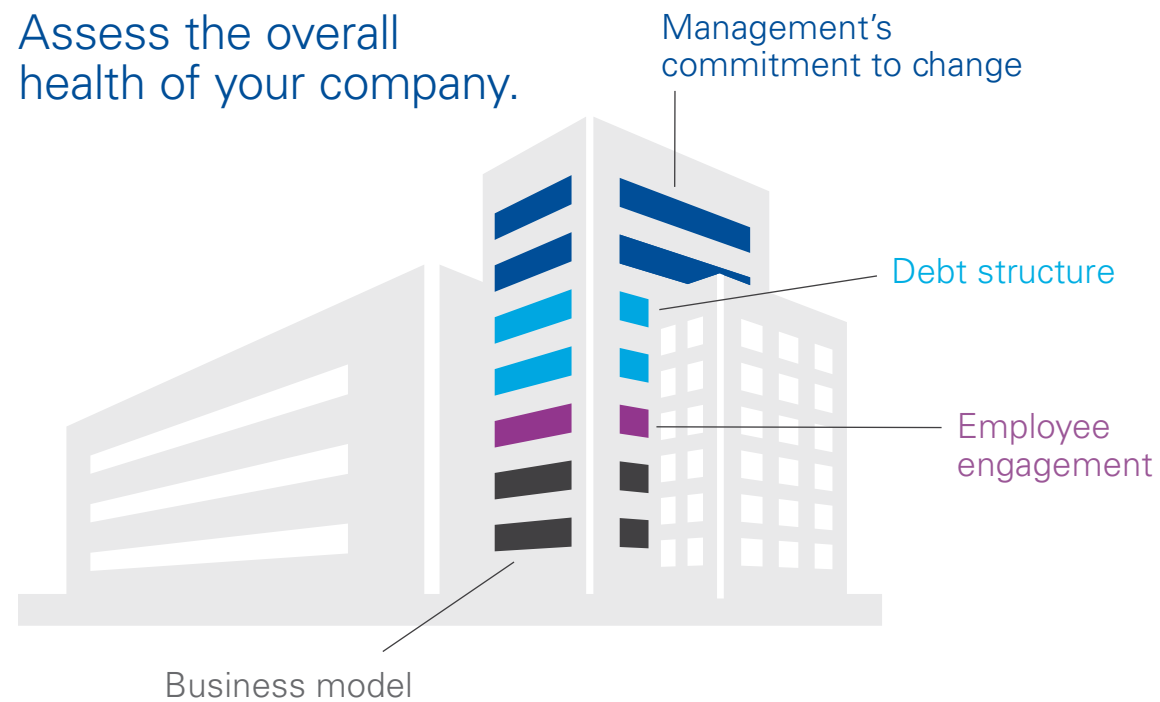
What are the reasons for the crisis and what are my options?

Your goal is to accurately identify the problem and select the appropriate course of action.

During this phase, fundamental assumptions about the company's operations, debt structure and business model need to be carefully examined and rigorously challenged. This process should involve both quantitative assessments based on hard numbers as well as qualitative judgments about the overall health of the company, employee engagement and whether management is fully committed to change.

As with the initial phase — appraisal and stabilization — management needs to recognize the possibility of distressed asset sales or even insolvency. A realistic assessment of the situation can help mitigate the risk of such measures being necessary.

Assess the overall health of your company.



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Recognize that the root causes of problems almost invariably lie within the company. Management might want to blame outside factors, such as changing markets, but if the company cannot adapt to market volatility, that says something about the inflexibility of its business model and why that model needs to be changed.

Ask The Right Questions

In which markets is my company active?

It is critical to fully understand the company's markets and segments, current and future growth drivers, and potential market share. To help you gain that understanding, KPMG employs primary and secondary research, market sensitivity and cyclical analyses, identification of game-changing technology or trends, and an overview of the regulatory landscape.

Who are my competitors and what are they doing or doing better?

Having a clearer picture of the company's competitors provides greater insight into where the company stands. KPMG can conduct a competitor overview that evaluates key current competitors by market, segment or region and assesses the impact of new competitors. We may also uncover new insights into the company's competitive strengths, market share and value chain.

Who are my customers and what are their needs?

Through in-depth analyses of customer segments, distribution channels, customer behavior and feedback, we are able to provide the company with a clearer view of who its customers are, what they need, where they can be found, how they behave, and how they perceive the company. These insights are then used to shape business planning in ways that can help deliver financial impact.

Is my business strategy still valid?

To help you determine the validity of your business strategy, we analyze your portfolio and current situation, and define key value drivers. We look for new opportunities to enhance value and stimulate growth, including possible acquisitions for which we define strategic criteria and profile potential targets.

How can I establish a solid financial model within my company?

We can help develop or redefine your financial model by examining basic planning assumptions, assessing operational planning components, and deriving a realistic P/L, balance sheet and cash flow plan. We can also assess possible risks and their probability, and include a general discount on revenues and/or a specific discount due to a single risk.

Should non-core assets be sold?

In stressed or distressed situations, the question of whether to sell non-core assets must be carefully evaluated. In addition, any sale must be prepared properly to achieve an adequate price, because once the market is aware of the necessity to sell, prices will drop significantly. We can help value the assets that are intended to be sold, prepare a list of potential buyers, and approach the most qualified buyers.

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3 Financial Restructuring

What financing options are available for the turnaround of my company?

Communications with all stakeholders should be transparent, up to date and comprehensive.

In this phase, the objective is to focus on specific options for financing. These involve bottom-line considerations about profits as well as balance sheets and cash management. The outcome of these considerations will often lead to divisions and product lines undergoing significant change. In effect, the company is deciding what to keep, what to retain and what to reorganize based on financial imperatives.

Because this phase involves widespread and highly visible changes in the company, information should be delivered to all relevant stakeholders in an appropriate and timely fashion. Employees should not learn about the restructuring in the public media. Clients need to be kept informed about the future availability of products and product support. Suppliers should also be 'kept in the loop' as they may stop delivering important parts to the company, or at least ask for advance payments.

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Communication with banks in particular should be comprehensive, ongoing and transparent. The banks may need to bring in new money, waive principal payments or perform other actions vital to the success of the restructuring. The right communications can support a strong, confidential relationship between the company and its banking partners.

Ask The Right Questions

Which divisions/products are operating at a loss?

To help contain operational loss, we identify low margins and assess both the overhead costs and distribution of overhead costs for each division, product or region. We then set realistic benchmarks for each division or product and identify opportunities to improve contribution margins. If we find any inaccuracies in the margin accounting system, we make the needed cost attribution adjustments.

How would I benefit from working capital management?

We can help improve working capital management by reducing inventories and optimizing supply chain management. We can also help improve liquidity by shortening debtor payment periods and optimizing creditor management in ways that extend payment periods.

How can I restructure my balance sheet?

Over-indebtedness results in an obligation to file for bankruptcy if the 'going concern' prognosis is no longer positive. To avoid this situation, we can help negotiate debt waivers with financing parties, assist in creditor negotiations, prepare concepts for capital increases or cuts, and analyze possible tax and legal implications resulting from restructuring measures.

How can I address communication issues with the Board and committees?

We can support transparent communication to shareholders and help management to decide whether information must be reported to shareholders or treated as confidential due to legal risks. We can also assist in preparing presentations on the current situation and the turnaround plan for management and Advisory Board meetings.

What does transparent reporting look like?

KPMG has experts who are familiar with the IDW S6, which is required by German banks, and for which the standard banks need to accompany a restructuring process. We can help prepare a turnaround concept according to the IDW S6 and help ensure that all legal requirements set out by the German Federal Superior Court are covered through the report. We can also prepare an independent business review (IBR), as international banks often request them.

To which stakeholders do I need to communicate?

KPMG services are designed to help you evaluate which employees need to be informed about what. We can also help prepare a communication strategy to address issues related to the workers' council, and support communications with shareholders, suppliers, clients and the media.

How can I benefit from a debt advisor?

Acting as debt advisor, we can help you develop a debt strategy in an effective and confidential manner. We prepare financing structures, evaluate potential options and improve your negotiating position. Debt Advisory realizes alternative financing, finds new investors and also actively raises the money needed in difficult circumstances. The large numbers of debt advisory transactions we've completed help us attain desirable financing conditions for our clients.

Is the sale of the company or subsidiaries an option for me?

If a distressed sale appears to be an option, we help develop a financial structure for a sale of all or part of the business. After planning how to separate the business financially and operationally, we map the universe of potential buyers based on current circumstances and relevant M&A activity. When required, we can execute a third party valuation.

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4 Operational Restructuring & Implementation

How do I improve the operating performance of my core business?

The implementation process should be flexible enough to accommodate new developments.

The business adage “plan your work and work your plan” certainly applies to restructuring. Careful analysis, an objective assessment of problems and the careful development of feasible strategies are essential for success.

However, restructuring is a dynamic process, and new developments can change circumstances for everyone. The company may not be performing according to plan, and new options might have to be considered.

If further restructuring is required, you should address problems as soon as possible. Otherwise, the situation may worsen, causing a loss of confidence and making it harder to enhance or preserve value.

Ask The Right Questions

How does the operating model that my company targets look?

We evaluate the degree of vertical integration and identify where improvements in processes or procurement are needed to better work the plan. We enhance the organization structure and support adjustments in the workforce to improve the efficiency of the company, in addition to helping adjust overhead structures and develop a sustainable location strategy by analyzing the problems and future potential of various locations.

Which operational measures are essential?

In evaluating operational measures, we support a bottom-up validation of potential improvements, defined responsibilities and time schedules that detail activities and milestones are required. Planned measure effects must also be integrated into overall business planning.

Which initiatives can improve my revenues?

In efforts designed to improve revenues, we analyze the profitability of specific products in the company portfolio and make appropriate adjustments in pricing, service or sale channels. We develop

strategies for entering new markets and winning new clients in existing markets, and we strive to increase sales effectiveness by aligning the sales structure to match customer segments, and by optimizing sales processes and support functions.

How can I achieve greater cost efficiency?

To optimize research and development costs, we analyze current and future projects and improve cost transparency for ongoing projects (actual versus budget). We can also help optimize procurement prices and conditions, consolidate supplier portfolios, support ‘build versus buy’ decisions, and help increase sales and marketing effectiveness by optimizing sales structures to exploit market potentials.

How can an interim manager or CRO help me?

KPMG can support interim management or a Chief Restructuring Officer (CRO) for German companies. In either case, we can assist and recommend the best-suited specialist for each situation and support external management capabilities as required.

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Consensus among stakeholders is essential to implementing a successful turnaround and avoid insolvency for the company. Everyone must recognize the urgency of the situation and agree on a course of action.



⁵ Ongoing Monitoring

How can I assure the successful implementation of my turnaround concept?

Success is a turnaround that needs to happen only once.

You want to avoid a situation in which a restructuring will have to be repeated in a few years because the company did not recognize the severity of its situation, failed to change the way it did business, and then spent the capital it borrowed.

Ongoing monitoring and reporting by an independent third party can help mitigate the risk of a less-than-successful turnaround. In many cases, this monitoring can continue for up to two or three years as the company begins to see the benefits of the restructuring. Keep in mind the importance of addressing rigorous and detailed reporting requirements, often requested by the financing parties.

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The benefits of restructuring can begin almost immediately with quick wins that help reduce expenses and improve liquidity. However, do not let these early benefits justify reduced efforts in implementation and support. Details that have been overlooked or minimized can turn into serious issues — even at this stage of the restructuring.

Ask The Right Questions

How can I safeguard the success of the turnaround plan through transparent reporting?

To safeguard project progress and the success of the turnaround, we can supervise tasks, competencies and responsibilities on an ongoing basis. Through KPMG TrAction, a proprietary software tool, we monitor the progress of a turnaround plan and address the needs of banks for reporting on a weekly and monthly basis. In addition, we develop documentation about project progress that can be shared in regular reports to stakeholders.

How do banks pursue the request for a third-party opinion?

KPMG can support various requests from banks for a third-party opinion. We can verify management's market development assumptions with external sources, identify necessary changes in the business model due to market developments, and identify macro- and micro-economic threats that might affect the company's future development. We can also analyze the company's planning assumptions, check planning processes and verify arithmetical accuracy and assess legal risks.

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Deal Advisory

How can I continue to create, enhance and preserve value?

From mergers and acquisitions to divestitures, the key to any transaction is to realize its full expected value, and that means being able to answer critical questions at every phase of the transaction lifecycle.

KPMG's Deal Advisory services are designed to help you know what questions to ask and how to find the answers.

For more information on Restructuring and other Deal Advisory services, please visit:

www.kpmg.de/deal-advisory

- Portfolio Management
- Buy Side Services
- Partnering & Joint Venture Services
- Fund Services
- IPO Services
- Sell Side Services
- Turnaround Services
- Restructuring Services
- Insolvency Services

Deal Advisory

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