



A Bridge Past Covid-19

The new paradigm of business restructuring

Webinar no. 2

April 29, 2020

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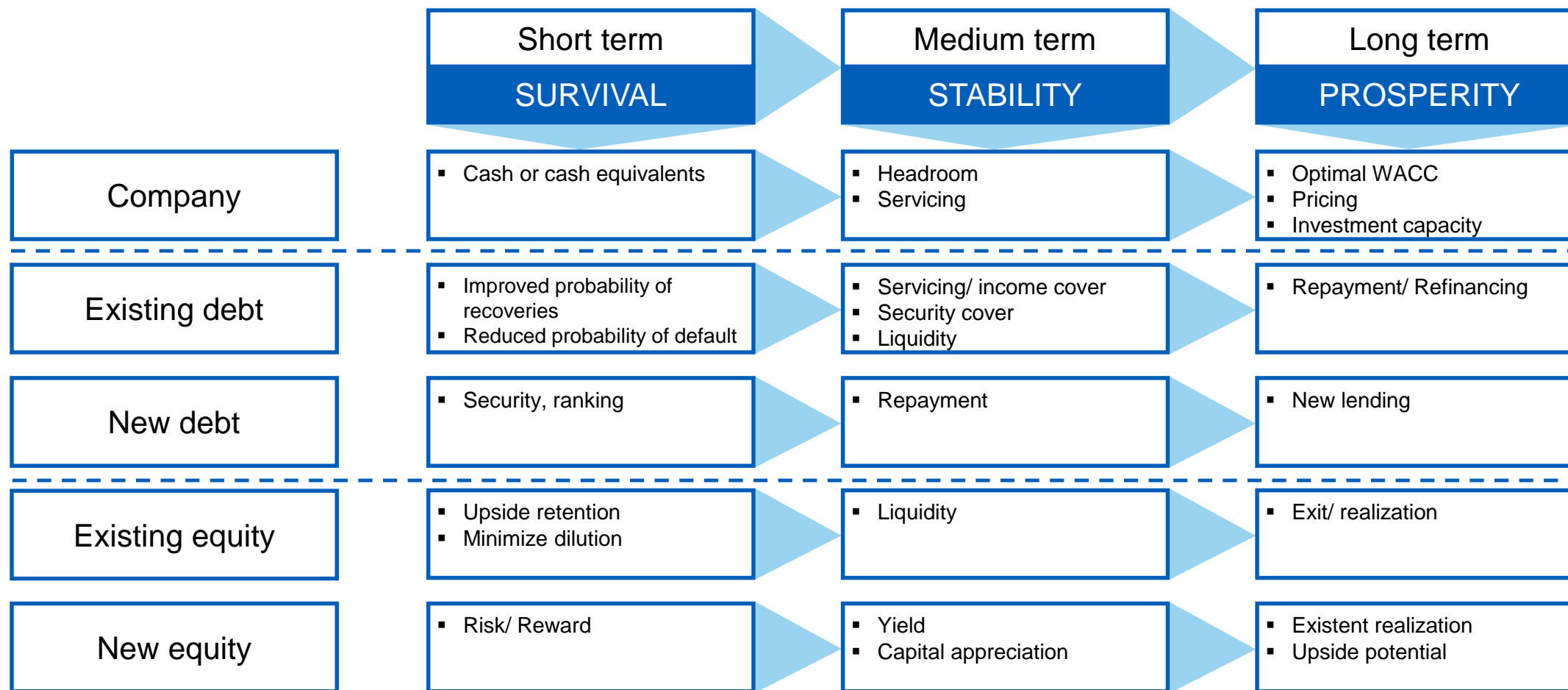


Economic crisis - liquidity and how to take a structured approach in the short-term



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Financial restructuring over time



Financial stress testing and resilience (1/2)

Short term – Bleed control

- Costs and liquidity saving initiatives
 - No regrets – supplier credit
 - Counter to BAU – CX postponement
 - Last resort – operation revisiting
- Robust 13-17w* CF based on 2-3 scenarios and input sensitivities ... assumptions not seen so far
- Challenge STCF by timing, quantum and probability
- Asses the impact of CF scenarios on cash reserves, facility headroom and financial covenants
- Early discussions with the banks

Medium term – Zero CF

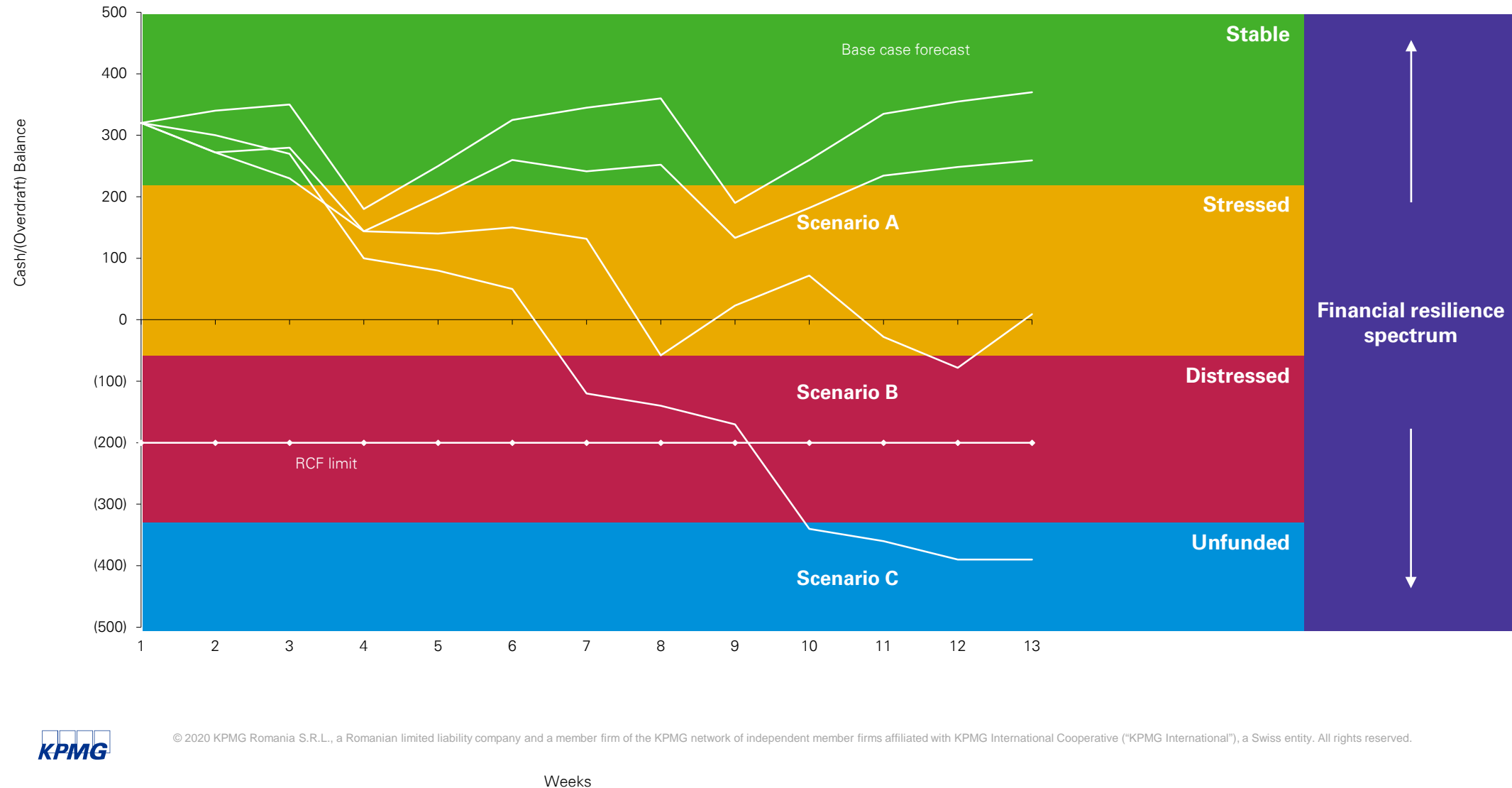
- Forecast full financial statements
- Introduce 13w CF and 4w actual CF to current financial analysis pack
- Allocate CF targets outside Finance function

Long term - Growth

- Assess the potential impact of short-term disruption on longer-term financial behavior by customers and suppliers
- Reengineer customer journeys and processes to take account of altered behaviors

* CF forecast on 13-17 weeks

Financial stress testing and resilience (2/2)



Liquidity and financing

Short term – Bleed control

- Draw down to maximum all existing funding
- Holistic view of the full range of options to support liquidity
- Identify and risk grade the levers which can be used to accommodate different scenarios
- Approach banks
- Payment alleviation options
- Review VAT processes
- Spending freezes and tighten authorization
- 'Self-help plan' to preserve & generate cash

Medium term – Zero CF

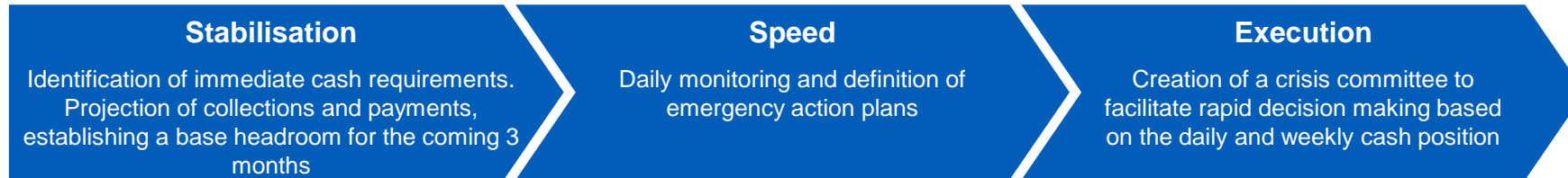
- Establish a cash-focused culture
- Set up a central cash management team
- Work with suppliers to understand their funding pressures and how they may impact your operations

Long term - Growth

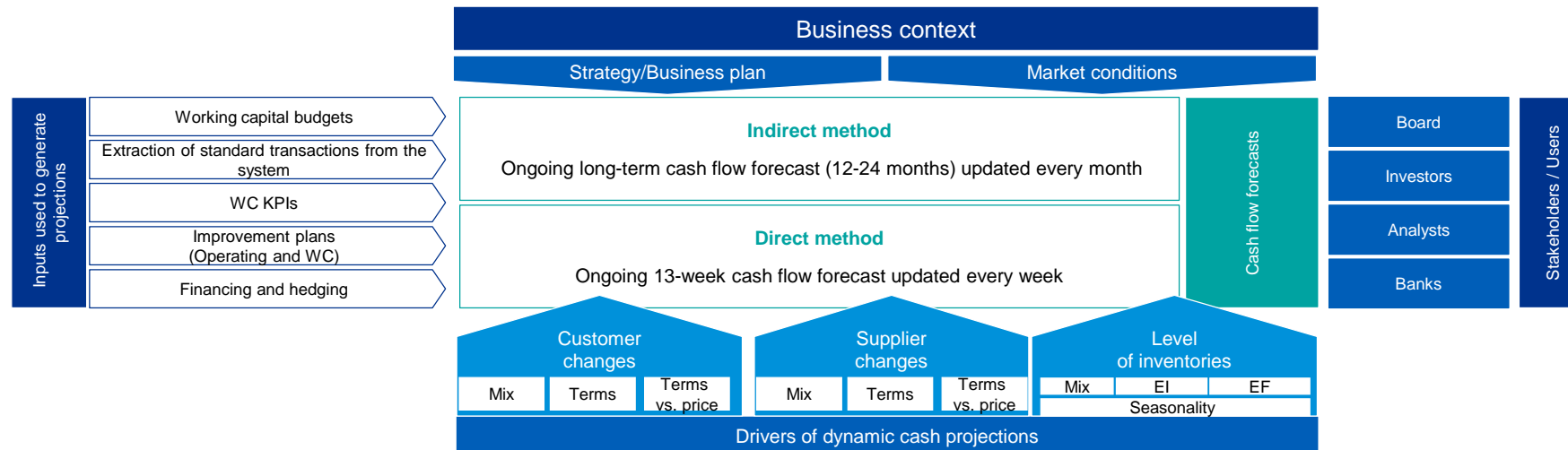
- Embed regular and annual CF into budgetary and financial management cycles
- Funding arrangements for uncertain future
- Long term financing to support a return to normalized trading conditions, including investment and growth
- Sustainable strategic W/C programme to ensure that liquidity is optimized under normal and stressed conditions

Cash management and monitoring

- 1 The first area of focus is an immediate stabilisation of cash and a contingency plan.



- 2 Subsequent to stabilisation phase, cash flow projections under different business performance scenarios, identifying the different structural and financing requirements that the company will have to face.



- 3 Once the risks that the company will have to face have been identified, the specific solutions and action plans will be defined. These plans have to be drawn up by specialists in financing, optimisation of WC and operations and supply chain.



Preventive restructuring – present and future



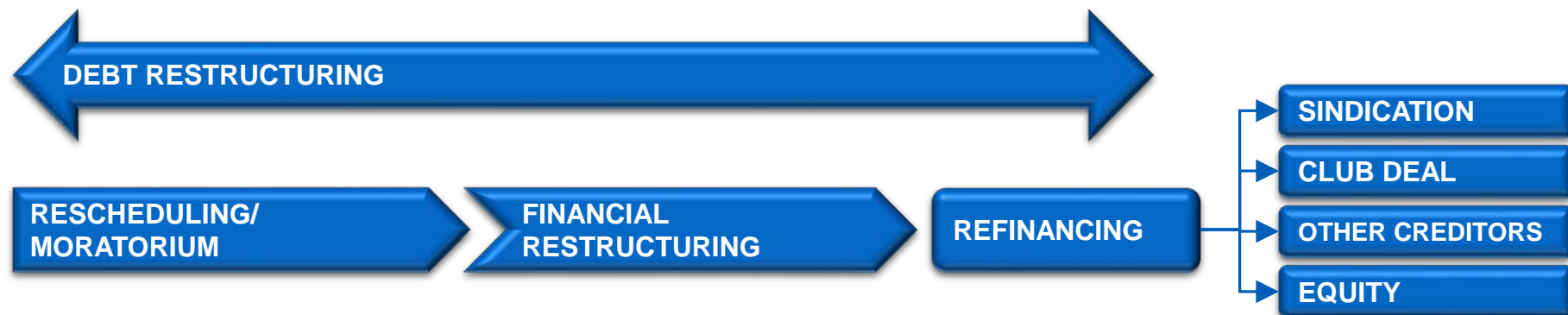
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Amiable debt restructuring

IMPLEMENTING THE AMIABLE RESTRUCTURING



- The debtor requests a rescheduling/ moratorium
- Establishing the transactions frame with all the involved parties
- Defining the restructuring objectives
- Preparing a working document for determining the available options
- Evaluating the main options
- Structuring solution (and plan "B")
- Establishing the treatment for the non-participating creditors (as a general rule, payment according to the rule *business-as-usual*)
- Negotiating and finalizing the transaction

How do we choose: pre-insolvency or insolvency?

Context

- Fine demarcation between the state of financial difficulty and the state of insolvency
- Lack of a viability test - a filter for restructurable businesses in pre-insolvency and those recommended to be subject to insolvency
- Company's dilemma:

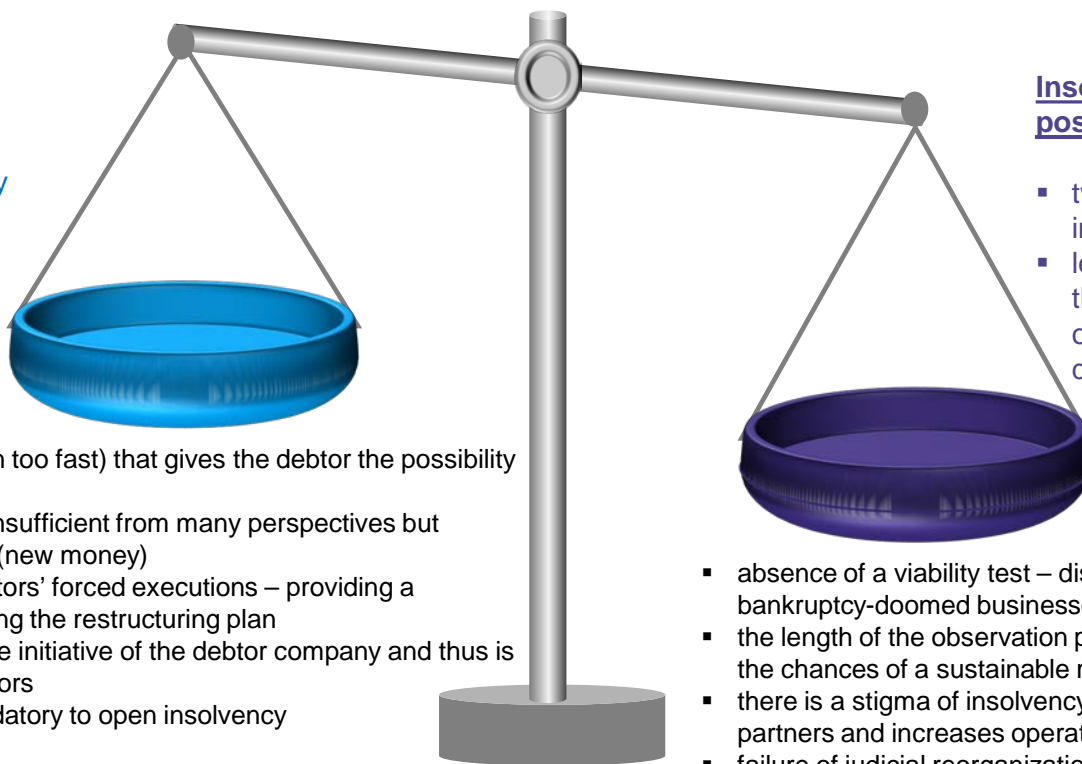
The intention of continuing the business through preventive restructuring vs. The legal obligation to file your own insolvency application

Pre-insolvency restructuring

- condition: financial difficulty status
- as a general rule it is initiated by the debtor
- the benefit of negotiating the restructuring proposal simultaneously with several creditors, within a formal

Preventive concordat:

- a very fast and flexible process (even too fast) that gives the debtor the possibility of a second chance
- the current regulatory framework is insufficient from many perspectives but especially for attracting new funding (new money)
- allows suspension of individual creditors' forced executions – providing a collaborative framework for negotiating the restructuring plan
- the negotiated agreement is left at the initiative of the debtor company and thus is often viewed with suspicion by creditors
- failure of restructuring makes it mandatory to open insolvency



Insolvency restructuring of the debtor in possession

- two circumstances: presumed insolvency or imminent insolvency
- legal obligation of the legal representatives of the company to make the application for the opening of insolvency proceedings within 30 days of the date of the insolvency

Judicial reorganization:

- a long and grainy procedure that often leads to a decrease in value due to the speed of the process
- absence of a viability test – distinguishing between reorganisable and bankruptcy-doomed businesses
- the length of the observation period (often over one year) significantly decreases the chances of a sustainable restructuring
- there is a stigma of insolvency, which significantly decreases the confidence of partners and increases operational costs
- failure of judicial reorganization leads to bankruptcy

Objective and concepts brought

Directive 2019/1023 of 20 June 2019 has entered into force on 16 July 2019

The Directive must be transposed into national law until 17 July 2021

The Directive recognizes that current process are way too formal and take a very long time

Debtors accessing preventive restructuring procedures remain totally, or at least partially, in control of their assets and the day - to - day operation of their business, and have access to a more flexible approach to recovery

As opposed to current Concordate, restructuring plan may become binding upon dissenting classes even when it is not approved by affected parties (cross - class cram - down)

The EU Directive 2019/1023 entered into force on 16 July 2019, having three main aims:

- To ensure that Member States put in place measures to raise the **efficiency of restructuring, insolvency and discharge of debt procedures** more widely, thus preventing build-up of more non-performing loans
- To guarantee that member states have a **preventive restructuring framework** – including the need of a restructuring plan in certain cases;
- To warrant that **entrepreneurs have a second chance** through an effective debt discharge mechanism;

New concepts

- Debtors accessing preventive restructuring procedures remain totally, or at least partially, **in control of their assets** and the day - to - day operation of their business.
Debtors may benefit from a **stay of individual enforcement actions in order to support the negotiations of a restructuring plan.**
 - The initial duration of a stay of individual enforcement is limited to a maximum period of no more than 4 months;
 - The total duration of the stay of individual enforcement should not exceed 12 months.
 - The stay of individual enforcement actions means **the stay of the opening insolvency proceedings.**
- It is possible to appoint a practitioner in the field of restructuring in order to assist the debtor and the creditors in negotiating and drafting the restructuring plan. The creditors are split into classes depending on their claim nature and collateral;
- A restructuring plan may become binding upon dissenting voting classes even when it is not approved by affected parties (cross - class cram - down);
- Provisions regarding protection for new financing, interim financing and other restructuring related transactions are introduced.

Implementation status and next steps

The Directive requires that each member state implements at least one set of early warning tools “EWS”

Viability testing and transparency checks – creating trust for the creditors is an important process

Restructuring frameworks, from complex ones to SMEs

Practitioners in the field of restructuring

Establishing standards – for large companies, as well as SMEs

Implementation status

- The implementation level is reduced in the EU, and there seems to be a confusion between financial restructuring and preventive restructuring (turnaround), with an emphasis on the method and not the underlying cause;
- In Romania, there is no formal progress yet in developing the national legislation and proper regulation in terms of restructuring specialists and institutions needed into this process.
- Each member state should implement at least one set of “**Early Warning Tools**” that allow “upstream” early detection of difficulties and real chances of success. This requires a strong cooperation with the financial institutions and other relevant actors in the economy;
- As the **Directive is extremely flexible**, the national legislation needs to be developed very soon and together with main players in the economy so that **financial institutions to have sufficient time to implement adequate internal frameworks**;
- The “restructuring practitioner” concept needs to be regulated;

What's next?

- Starting from **July 2019**, member states have **two years to implement the Directive** into national legislation (plus in additional year if they encounter particular difficulties during implementation)
- Financial institutions should be prepared to implement an **adequate internal framework** (and corporate governance mechanisms) in order to effectively respond to restructuring requests from debtors in a structured manner
- Financial institutions should be very active and involved into the legislation development process, specially for defining the “Early Warning Signs”

Factors that influence the success of a restructuring procedure





State Aid facilities in the current context



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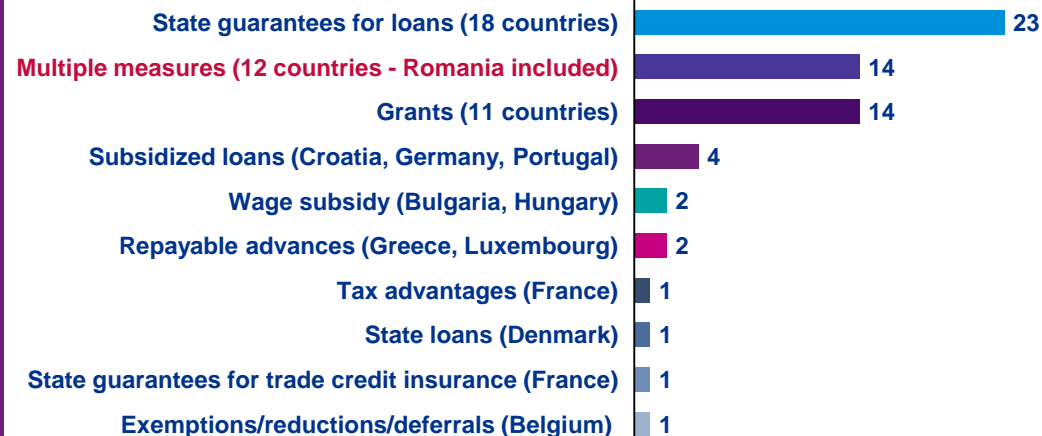
State Aid and subsidies to mitigate COVID-19 effects in EU

With the aim of relieving the economic impact suffered by companies in the context of COVID-19 pandemic, governments at EU level have implemented so far multiple instruments, including state guarantees for loans, subsidized loans, direct grants, tax exemptions, tax deferrals and other tax advantages, suspension, reduction or reimbursements of input costs or equity

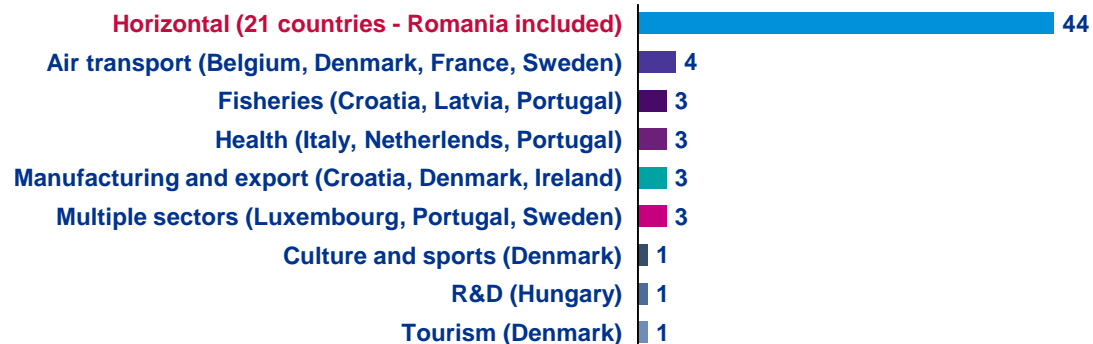
Key aspects

- The European Commission has been extremely active in approving State aid measures notified to it by EU Member States in response to COVID-19 crisis, the limits approved so far exceed an amount of **EUR 670 bn.**
- The majority of measures have been approved under the **COVID-19 Temporary Framework**, adopted by the European Commission on 19 March.
- **Romania** took multiple measures, across all sectors, with focus on SMEs, with a disposable budget of **EUR 3.3 bn.**
- The majority of the aid measures approved by the Commission are not sector specific. The most common aid measures to date have been **loan guarantees schemes**, although a number of alternative types of aid are covered by the Temporary Framework.

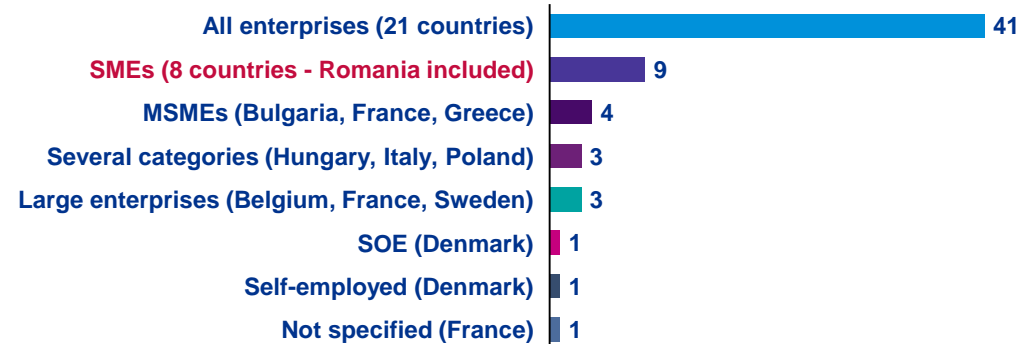
of measures by Type



of measures by Sector



of measures by Recipient



Source: World Bank – COVID 19 Aid Workbook – www.worldbank.org

Extension of scope for Temporary Framework - Recapitalization

Key aspects

- In some circumstances, **short-run liquidity support may not be enough** to compensate for the emergency measures to protect the health of the European citizens, measures that are putting a strain on many companies that face a **reduction in equity with negative consequences on their ability to finance their activities on the long term**.
- As such, on 9 April 2020, the European Commission has sent to Member States for consultation **a draft proposal to further extend the scope of the State aid Temporary Framework** by enabling Member States to provide **recapitalizations to companies in need**.
- Since such public interventions may have a significant impact on competition in the Single Market, they should remain **measures of last-resort**.
- The recapitalization measures will also be **subject to clear conditions** with respect to:
 - **state's entry, remuneration and exit from the companies concerned**
 - **strict governance provisions and**
 - **appropriate measures to limit potential distortions of competition**.
- Other conditions can be imposed, for example a **credible restructuring plan** should accompany such recapitalization, also to avoid that public funds go into companies which are unlikely to be viable in the long run.
- The conditions to be imposed to firms which receive such type of state aid in the form of recapitalization are aimed to **avoid distortion of competition** and tilting the level playing field, and **avoid legal challenges from competitors**.

State Aid Facilities – National level

Timeline:

- 4 April 2020 – GEO 42/2020 amending the legal framework of IMM Invest Romania and approving the State Aid Scheme
- 24 April 2020 – Methodological Norms for IMM Invest Romania Program
 - 1) one or more **investment loans** and/or one or more **loans for working capital** guaranteed by the State in a percentage of maximum 80% of the financed amount and raising the limit of public guaranteed loan from RON 1,250,000 to a maximum of RON 10,000,000 – available for all types of SMEs
 - 2) one or more **loans for working capital** guaranteed by the State in a percentage of maximum 90% of the financed amount – available only for microenterprises and small enterprises
 - 3) grant of 100% of the interest rates, the administration fee and the risk fees, up to EUR 800,000
- 31 December 2020 – timeframe of the state aid scheme
- 31 March 2021 – timeframe for payment of the grant

Details of the State Aid Facilities

Costs

- Interest rate = ROBOR 3M + margin (2.5% for working capital loans and 2% for investment loans)
- Risk fee
- Administration fee
- No prepayment fee

Maturity

- Max 72 months – investment loans
- Max 36 months (+36 months) – working capital loans

Purpose

- Not for refinancing of other loans
- Not for financing of projects funded through state aid or EU funds

Eligibility criteria

Criteria

- 1) SMEs
- 2) No decision to recover other state aid or if the case, such decision was fulfilled
- 3) No other state aid facility was requested for same eligible costs
- 4) Not in difficulty on 31 December 2019, but in difficulties due to COVID-19 pandemic
- 5) Submit a statement that none of its employees as of 4 April 2020 will be laid off
- 6) No litigation as defendant against Public Finance Ministry or the selected credit institution
- 7) No unpaid credits (including leasing) during second half of 2019
- 8) No insolvency procedure was opened
- 9) Makes available additional security to cover the difference up to at least 100% of the financing
- 10) No unpaid budgetary debts (if any, they must be paid through the working capital loan)
- 11) No major incidents with promissory notes are registered in the Payment Incidents Register in the second half of 2019 and no interdiction to issue cheques at 31 December 2019

Q&A

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