RESTRUCTURING INSTEAD OF DOWNSIZING

SUSTAINABLE CRISIS MANAGEMENT

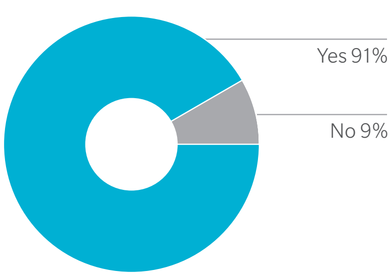
Companies are faced with a multitude of challenges: growing uncertainty about the future of the economy, shifting markets, fiercer competition, and the increasing demand for access to capital, to name a few. To prevent and manage future crises, a company's owners and management must develop and implement long-term strategic, business design, and operations measures. These are the findings of Oliver Wyman's study "Restructuring Instead of Downsizing – Success Factors for Sustainable Crisis Management."

Persistent uncertainty about the future economic cycle and changing market and competitive environments make it increasingly likely that crises will occur more frequently. However, after having successfully recovered from the crisis years 2008/2009, the majority of German companies are optimistic about the future.

MORE PRONOUNCED CYCLICAL FLUCTUATIONS

The stronger cyclical fluctuations that can be seen today can be traced back to growing globalization and increasingly networked processes along the supply chain. Therefore, it is important for all companies, and especially those in industries that are particularly vulnerable to changing economic conditions, to prepare themselves for different economic scenarios. Almost 90 percent of the companies and investors surveyed for the study think that the euro crisis poses a threat to Germany's economic development. And more than 90 percent of the respondents believe that if another economic crisis were to occur, it would be much more serious than the one in 2008/2009. In their opinion, this is because today loans are less readily available; foreign markets, in particular BRIC countries, cannot compensate for the business lost to the extent they did in the past; companies have already fully exploited their cost-reduction potential; and governments cannot provide as much support.

If there is another economic crisis, will it be more serious than the one in 2008/2009?



CHANGE AS AN OPPORTUNITY

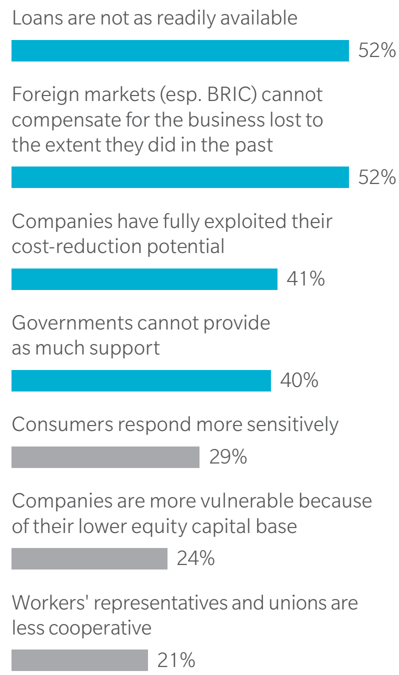
For some time now, markets and competition have been in a state of permanent change. As a result, many industries are facing major challenges, especially the renewable energy sector, machinery and automotive companies and the retail industry. When asked to identify and assess current market changes, the majority of the executives interviewed said that price pressure had become more severe. Furthermore, the respondents believe that geographical shifts – particularly to China and emerging markets – constitute an important trend. Increasing productivity, globalizing the value chain, and improving innovative ability are essential if companies are to benefit from these market shifts, not least because these factors secure market access and make it possible to supply the right products at competitive prices.

Most of the surveyed companies believe that the changes in the market and competitive environment should be understood as opportunities. Benchmarks established during the study reveal that, compared with other international companies, many German enterprises have an excellent position in the market and sound financial resources. Thus, they are well equipped to turn these new developments into an advantage. Only one-third of the companies see the changes as a threat. The study shows that companies and investors must have an in-depth understanding of the trends in a specific market and competitive environment if they want to avoid risks and make the most of the developing opportunities.

GROWING REQUIREMENTS

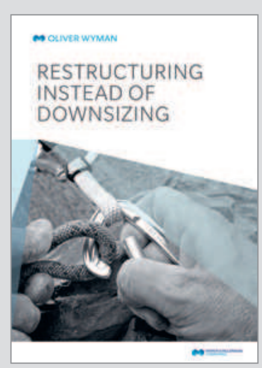
In the years to come, many companies will have a substantial need for capital. However, the rules governing corporate financing will be different. Banks have become more sensitive to risk, and their creditworthiness assessments have become stricter. Of the financiers interviewed, 64 percent said that the approval processes had become more demanding, and 44 percent stated that loans require higher collateral. Moreover, investors are analyzing different risks than in the past. Of the respondents, 54 percent are investing more time and resources in analyzing a company's market environment and positioning. And 46 percent are carrying out more future-oriented creditworthiness assessments. The study gave no indication of a credit crunch. Only a small minority of the investors surveyed had decided to reduce or terminate their investments early.

What factors could aggravate a possible new crisis?
Participants could select more than one response



ABOUT THE STUDY

The study "Restructuring Instead of Downsizing – Success Factors for Sustainable Crisis Management" was carried out during the first six months of 2012 in German-speaking countries. More than 100 executives of investment and other companies from various industries with differing ownership structures were interviewed online. The majority of the companies represented were medium sized and posted a profit in 2011. The study comprises the responses of the surveyed financiers and companies, and is supplemented by opinions and analyses of Oliver Wyman. It provides suggestions on how to successfully and sustainably master corporate crises.



Today, the investors' belief about a company's business prospects plays an even stronger role in the provision of capital than in the past. Of the financiers interviewed, 90 percent said that they put higher demands on companies with a poor outlook. By contrast, only 47 percent said the same for companies with a promising future.

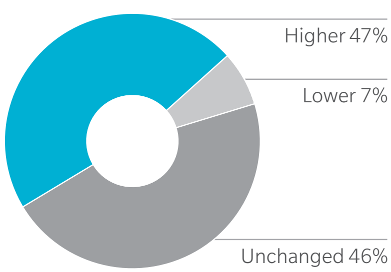
RISING COST OF CAPITAL

Basel III will lead to growing capital costs and tie up a company's collateral. At the same time, there will be a larger number of financing parties. In addition to traditional commercial banks, institutional investors play a bigger role. These include insurance companies, equity funds, and hedge funds that invest in minority stakes, subordinated capital, or bonds of companies. Whether or not a loan is granted also depends on an intensive risk assessment on the part of investors.

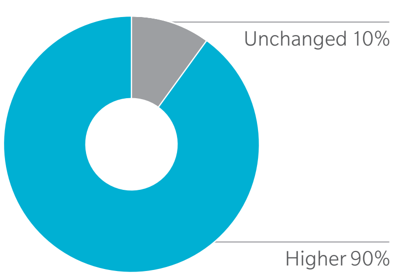
Basel III will especially affect companies with poor creditworthiness, a high-risk market environment, and an unconvincing business design. Because of increasingly future-oriented internal bank ratings, these companies will score lower values, which may lead to liquidity bottlenecks. Higher costs of capital not only burden cash flow but also hinder access to capital and reduce the capacity for new loans. Thus, due to Basel III, it is increasingly important that companies find a suitable form of communication to assure the investors' trust.

Current compared to past investor demands
Number of mentions in %
of the investors surveyed

On companies with **good** prospects



On companies with **poor** prospects



NEW EVALUATION CRITERIA

Investors apply interesting criteria for assessing a company's business prospects. Traditional factors such as current or historical financial data, transparency, and trust in the company's partners remain high up on the list. However, for 70 percent of the surveyed financiers, these aspects have been overtaken in importance by the company's financial plan for the coming years, as well as the strategy, and business design relative to its market and competitive environment.

AN OPEN DIALOG

Companies with a need for capital are called on to develop strategies that avoid risks and unlock the potential of their specific market environment. These strategies must be communicated clearly and convincingly to investors. Furthermore, companies must prepare measures for different economic scenarios, so that they will be equipped to respond to impending crises more holistically, proactively, and at an earlier stage. Measures targeting strategic and operational restructuring play a prominent role in this.

SUSTAINABLE CRISIS MANAGEMENT

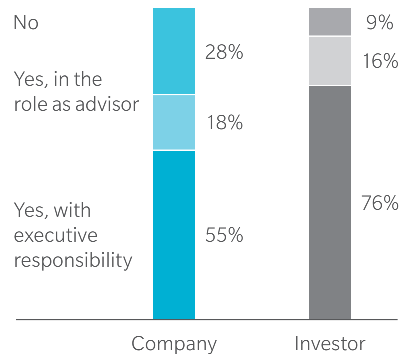
Standard tools for achieving a short-term turnaround such as headcount reductions, working capital cuts, and working-time model adjustments are still important for managing through the next crisis. But the study participants doubt that these short-term measures will achieve long-term restructuring success. Such quick cost-reduction measures were applied during the most recent crisis – but if another crisis should arise, these measures will largely be replaced by measures designed for the long term. Of the companies surveyed, 45 percent believe that strategic realignment will be much more important for overcoming a future crisis than it was in the past. And 64 percent say the same for portfolio optimization. Furthermore, in operational restructuring, companies are putting a stronger focus on production relocation, process optimization, and product-cost reductions.

A POWERFUL TEAM

The study participants believe that this places new demands on a restructuring consultant. In addition to cost-reduction and financing know-how, he or she needs to have an in-depth industry understanding as well as methodological expertise in strategy development and operational optimization. He or she must also be able to act as a mediator between the interests of the financial parties. Both companies and investors believe that it is important to appoint a Chief Restructuring Officer (CRO) to ensure the success of complex restructuring efforts. However, 70 percent of the study participants say that the CRO and the restructuring consultant should not be from the same company. Rather, they should come from independent partners and form a powerful and effective team.

The long-term success of a restructuring effort hinges on these four elements: a coherent strategy, a robust business design, a financing concept that is aligned with both, and possibly external support to meet the diverse competence needs.

Criteria for evaluating a company's prospects before deciding to make a loan or investment
Number of mentions in % of the investors surveyed, deviations from 100% may occur due to rounding



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Criteria for evaluating a company's prospects before deciding to make a loan or investment
Number of mentions in % of the investors surveyed, deviations from 100% may occur due to rounding