SOS CONFERENCE 2025

Cape Town, South Africa

4-5 September

WELCOME & OPENING

Day 2


SOS CONFERENCE 2025
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Presentation Deck
Day 2

Topic 6: Early Warning Signs and Non-Financial Signs of Distress

Early Warning Signs and Non-Financial Signs of Distress

Working Group Leader	
Bruce Berry	DBSA

Panelists & Presenters	
Bruce Berry	DBSA
Wolfgang Richter	KfW
Steffen Pohl	EBRD
Alexander Mostovoy	BSTDB
Candace Abrahams	DBSA

Discussion Topics

- **Defining Early Warning Signs**
  - Leading and Lagging Indicators
  - Types of Early Warning Signs
- **Unpacking Early Warning Signs Relevance for Lenders**
  - EWS linkages to effective Credit Risk Management
- **Unpacking Operational Frameworks for EWS**
  - What the risk governance, processes should like
- **Delving into EWS Catalogues**
  - Deep dive into typical sectoral signals to watch out for
- **Navigating appropriate actions**
  - What should you do when signs appear?

EWS…
What are they &
Why do they matter ?

Early Warning Signs – What are they?

- Leading or Lagging Early Warning Signs detect deterioration in a borrower's creditworthiness for potential or actual default.
- **Leading Indicators** are forward-looking to **anticipate** deteriorating credit quality before it manifests into financial distress.
- **Financial** signs or triggers -
  - Declining profits or earnings forecasts, increased leverage or debt service ratios, decline in sustainable cash flow, delayed or deferred maintenance regimes
- **Non-Financial** signs or triggers -
  - Management, Governance or Organisational issues viz. management dysfunction, loss of key personnel, unresponsiveness, supply chain disruptions, key-man events, abrupt changes to auditors, legal actions, regulatory actions and/or requirements
- **Conduct or Transactional** signs or triggers
  - Unusual transaction patterns, declining payment discipline, missed covenant compliance, changes in borrower behaviour or utilization patterns
- **Market Indicators** signs or triggers
  - Credit rating downgrades, falling share prices, widening spreads, increasing difficulty accessing funding in the market, deteriorating macroeconomic indicators (changes in inflation, unemployment levels, GDP etc)

Early Warning Signs – What are they?

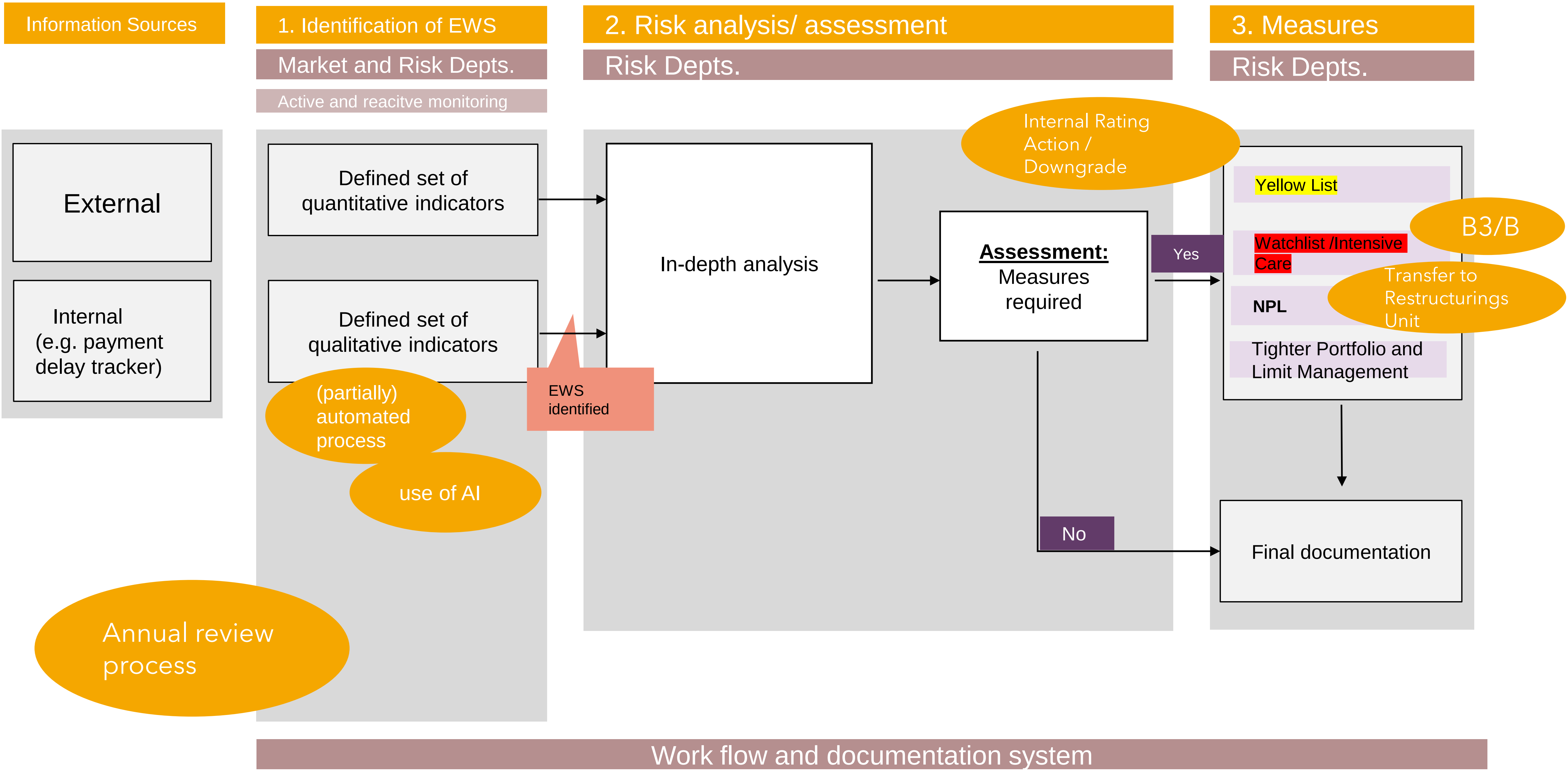
- Leading or Lagging Early Warning Signs detect deterioration in a borrower's creditworthiness for potential or actual default.
- **Lagging Indicators** reflect issues that have already occurred and **confirm** deteriorating credit quality.
- **Financial Statement Data**
  - Significant deviation from forecasts
  - Missed or delayed strategy or business plan execution or meeting investment milestones
  - Significant drop in asset quality or collateral value
- **Credit Performance**
  - Past due payments triggering loan default
  - Migration to Watchlist or special monitoring status
  - Internal or external credit downgrades
- **Portfolio Level Trends**
  - Negative migration in credit risk grades across portfolio segments
  - Increased provisioning or write-offs
  - Rising non-performing loan ratios

Early Warning Signs – Why do they matter?

- They are **critical tools in credit risk management**, particularly for large and/or complex exposures and they foster:
- **Proactive risk management**. Lenders can identify signs of financial distress early, enabling timely intervention before a borrower defaults. This helps to reduce credit losses, preserve capital, and maintain credit portfolio quality.
- **Enhanced decision-making**. Triggers provide data-driven insights to support better decision making around loan restructuring, covenant renegotiation, collateral management, considerations of the impact of ESG risks, exit strategies.
- **Regulatory compliance**. Regulated FI's must have robust risk management frameworks. Early warning systems help meet regulatory requirements viz. Basel, IFRS 9 expected loss provisioning or local supervisory guidelines.
- **Portfolio monitoring and stress testing**. They support ongoing portfolio surveillance, enabling detection of sectoral or geographic vulnerabilities, scenario stress testing, adjusting risk appetite and exposure limits.
- **Improved borrower engagement**. By detecting issues early, Lenders can engage with borrowing clients constructively, offering support or restructuring options before problems escalate. This strengthens relationships and reduces reputational risk.
- **Cost efficiency**. Timely detection of risk reduces the need for expensive recovery processes, litigation or write-offs. It further enables allocating resources more efficiently across credit monitoring teams.

NB: Underpinning this is the need for development and regular review of qualitative and quantitative early warning indicator catalogues, using appropriate IT and data infrastructure, definition of process for triggered early warning signals: increase the frequency of monitoring, inclusion on the watchlist, discussion and decision on countermeasures etc., and Specific watchlist reporting regularly to be reviewed by the head of the risk management function as well as other top management.

Operational Framework for Early Warning Signals (EWS)



Information Sources
1. Identification of EWS
Market and Risk Depts.
Active and reacitve monitoring
2. Risk analysis/ assessment
Risk Depts.
3. Measures
Risk Depts.
External
Internal (e.g. payment delay tracker)
Defined set of quantitative indicators
Defined set of qualitative indicators
(partially) automated process
use of AI
EWS identified
In-depth analysis
Internal Rating Action / Downgrade
Assessment: Measures required
Yes
No
Yellow List
Watchlist /Intensive Care
B3/B
NPL
Transfer to Restructurings Unit
Tighter Portfolio and Limit Management
Final documentation
Annual review process
Work flow and documentation system

Early Warning Signals (EWS) Catalogue

Signals to Watch

Corporates

- Significant payment delays
- External rating downgrades, also regarding country of domicile
- Delays in contractual reporting requirements, (imminent) breach of financial or non-financial covenants
- Decline in value of collateral
- Qualified audit opinion
- Signs of liquidity constraints
- DSCR lower than 1.0x (12 months) or ADSCR lower than 1.0x
- Deterioration of key financial figures (revenues, EBITDA, EBITDA margin, equity, …..)
- Negative financial, market or other information
- Other relevant information, e.g. on increased reputational risk, compliance issues, ESG risk etc.
- And many others …

Banks / Financial Institutions

- Significant payment delays or delays in providing collateral, also to third parties
- External rating downgrades
- Increase in CDS spreads
- Decline in share price
- Negative financial or other information, suggesting a deterioration in creditworthiness
- Change of ownership
- Increased political or economic instability or suspension of payments by the country of domicile
- Covenant or other relevant contract breach etc.
- Other relevant information, e.g. on increased reputational risk, compliance issues etc.
- And many others …

Sovereigns

- Deterioration of qualitative factors (e.g. political and economic stability, security situation)
- External Rating Downgrades
- Deterioration of CDS-spreads or FX-rates or relevant macroeconomic indicators
- Significant payment delays, moratorium
- Others

Industries

- 33 industry segments to be quarterly reviewed by dedicated team – special focus on banking/finance
- Average ratings, rating changes, watchlist and NPL ratios and changes per segment being tracked over time
- Monitoring of changes in the industry segment outlooks

Examples of some industry key triggers …

Energy & Natural Resources

- Drop in oil / gas / mineral prices
- Environmental compliance issues
- Operational disruptions (e.g. strikes, accidents)
- O&M and project performance variations

Telecommunications & Technology

- Declining ARPU (average revenue per user)
- Regulatory changes (e.g. spectrum fees)
- Cybersecurity breaches

Manufacturing & Industrials

- Inventory buildup or decline in order book
- Supplier insolvency
- Supply chain disruptions
- Rising input costs or FX volatility

Agriculture & Agri business

- Adverse weather forecasts (e.g. droughts, floods, extreme temperatures)
- Commodity price drops
- Delayed harvests or exports

What should you do when Early Warning Signs appear ?

Identified trigger(s)…. What next?

- **Act swiftly and strategically**: To mitigate risk and protect both the Lender and the client relationship
- **Validate the Warning signal**
  - Confirm accuracy: Ensure the trigger is not a false positive by reviewing data sources and context.
  - Assess materiality: Determine the severity and potential impact on the borrower's creditworthiness.
- **Deep-dive risk assessment**
  - Conduct a credit review: Reassess the borrower's financials, business model, and sector outlook.
  - Stress test: Model different scenarios (e.g., interest rate hikes, revenue drops) to gauge resilience.
  - Engage internal stakeholders: Involve credit risk, relationship managers, legal and sector specialists.
- **Client engagement and increased monitoring**
  - Initiate dialogue: Reach out to the client to understand the root cause and their mitigation plans.
  - Request updated information: Ask for recent financials, cash flow forecasts, or business updates.
  - Gauge willingness to cooperate: A cooperative client is more likely to recover with support.

Identified a trigger(s)…. What next?

- **Deploy risk mitigation actions**
  - Tighten terms: reduce limits, shorten tenors, or increase pricing
  - Enhance security: request additional collateral or guarantees or start liquidating some collateral to reduce exposure
  - Restructure the loan: adjust repayment schedules or offer temporary relief (e.g. deferments, condonations, waivers)
  - Transfer to watchlist or special assets unit: for closer monitoring and tailored recovery strategies.
- **Escalate and report**
  - Flag internally: Update risk ratings and escalate to credit committees if needed.
  - Document actions: Maintain a clear audit trail of decisions and communications.
  - Update provisioning: Adjust expected credit loss (ECL) models under IFRS 9 or equivalent frameworks.
- **Monitor closely**
  - Increase monitoring frequency: move from quarterly to monthly or even weekly reviews.
  - Track remediation progress: ensure the borrower is following through on agreed actions
  - Watch for further deterioration: be ready to escalate to recovery or legal action if needed.

More Takeaways…

Comprehensive List of Early Warning Indicators & Signals

Comprehensive List of Early Warning Indicators and Early Warning Signals

Financial Indicators

- Declining revenue or profits
- Negative cash flow
- Increasing leverage (debt-to-equity ratio)
- Deteriorating Liquidity Ratios (e.g., current ratio, quick ratio).
- Delayed or Missed Financial Reporting.
- High or Rising Accounts Receivable/Payable Days
- Frequent Renegotiation of Loan Terms.
- Declining Return on equity.
- Declining Return on assets.
- Currency composition, maturity, cost of debt.
- Stability and diversity of funding sources; refinancing risk.
- Solvency, shareholder support.
- Earnings volatility.

Operational and Business Indicators

- Decline in Market Share or Sales Volume.
- Legal or Regulatory Actions Against Business (Litigation, taxation, regulatory compliance).
- Adverse Media Reports.
- Key Customer or Supplier Loss.
- Macro variables, competitive pressures, quality of regulatory system, legal framework, political risk.
- Potential impact of legal and regulatory changes.
- Demand prospects, client structure, book order.
- Market stability, key market risks.
- Supply chains stability, diversification, dependency, volatility.

Comprehensive List of Early Warning Indicators and Early Warning Signals

Management and Shareholders

- Quality of management.
- Integrity.
- Reputation and operational risk.
- Management labor relations.
- Management shareholder relations.
- Ownership structure.
- Inter-group relations and support.
- Corporate governance issues.

Macroeconomic and Sectoral Indicators

- Sector-specific Downturns.
- Rising Interest Rates.
- Currency Fluctuations (for export/import-heavy firms).
- Inflation Pressure.
- Policy Changes or Geopolitical Instability.

Payment Behaviour Indicators

- Missed or Late Loan Payments.
- Frequent Overdrafts with other lenders.
- Sudden Increase in Credit Utilization.
- Early Withdrawal from Term Deposits from other bank (to raise liquidity).

Behavioural and Interaction-Based Indicators

- Reduced Customer Engagement.
- Negative Sentiment in Communications.
- Requests for Loan Restructuring or Moratorium.
- Lack of collaboration from the Borrower

Rating Agencies Indicators

- Credit Score Downgrade.
- Negative Events in Credit Reports.
- Loss of Credit Rating or Lowering by Rating Agencies.
- Increase in Number of Credit Inquiries.

Q&A

Topic 7: Efficiency of SO Teams

Efficiency of SO Teams

Working Group Leader	
Ilir Fani	EBRD

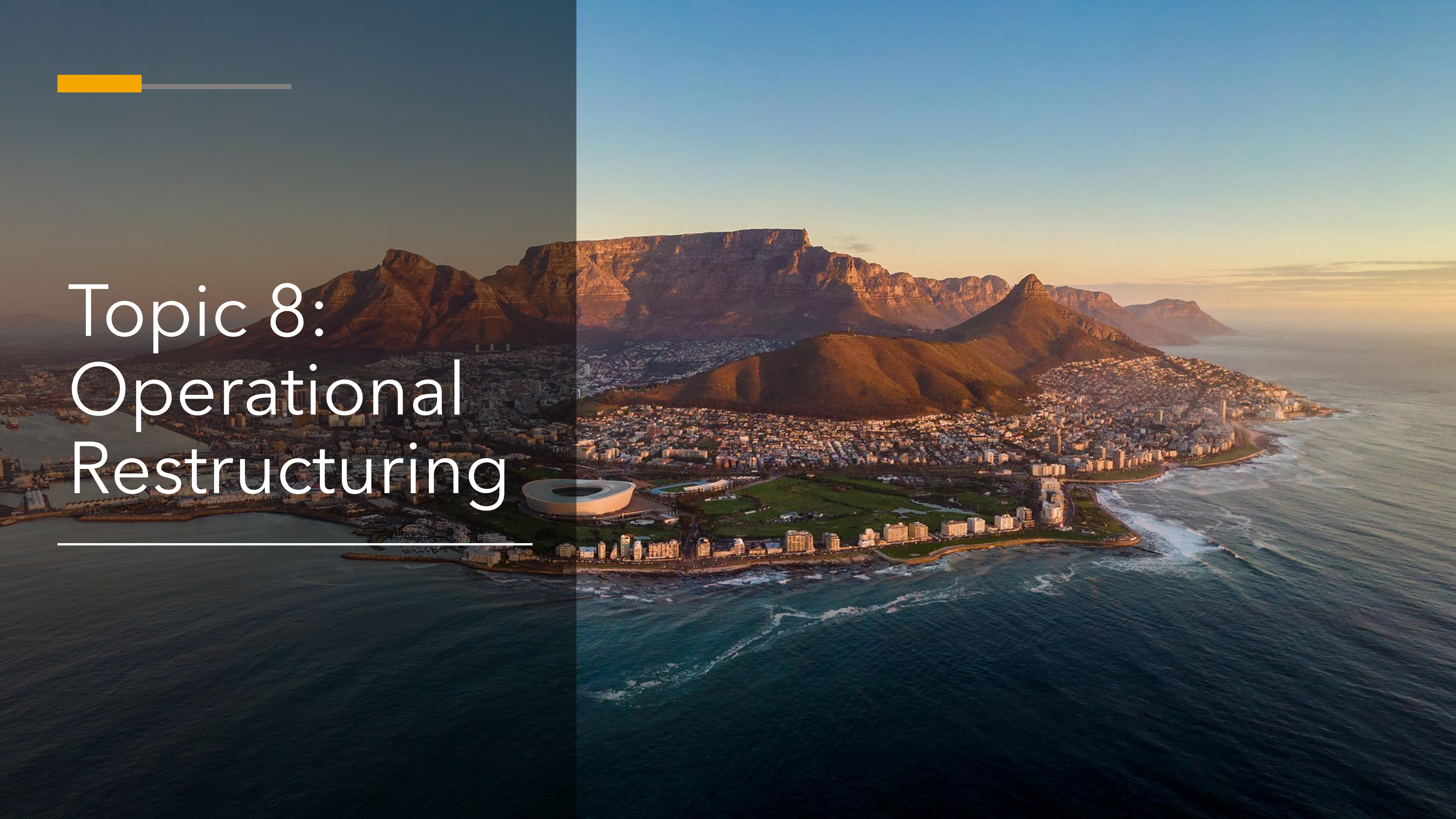
Panelists	
Ilir Fani	EBRD
Wolfgang Richter	KfW
Geoffroy van der Straeten	EIB
Bruce Berry	DBSA

Coffee and Tea Break

11h00 - 11h30

30 Minutes

Topic 8: Operational Restructuring



Operational Restructuring

Working Group Leader	
Santtu Pöyhönen	FinnFund

Presenters	
Santtu Pöyhönen	FinnFund
Marcel Vogt	FinnFund
Emma Whalley-Hands	PWC
Russel Isakow	PWC

Our Presenters

Emma Whalley- Hands

Parter: Special Situations & Turnaround, PwC South Africa

Overview: Has contributed as part of the PwC leadership in the United Kingdom, Canada and South Africa firms, having spent **20 years** in total with the global PwC network

Russell Isakow

Director: Special Situations & Turnaround, PwC South Africa

Overview: Has worked across some of South Africa's largest turnarounds and organisations over the past **16 years**, across many different industries and geographies - incl. Germany, Australia, Kenya, Zimbabwe, Botswana, Namibia, and Mozambique

Santtu Pöyhönen

Head of Special Operations and Nairobi Office, Finnfund

Overview: Experienced restructuring and turnaround professional with a +15 years history of supporting operational improvement programmes, internal case teams and external steering committees in a journey to seek for the best outcomes

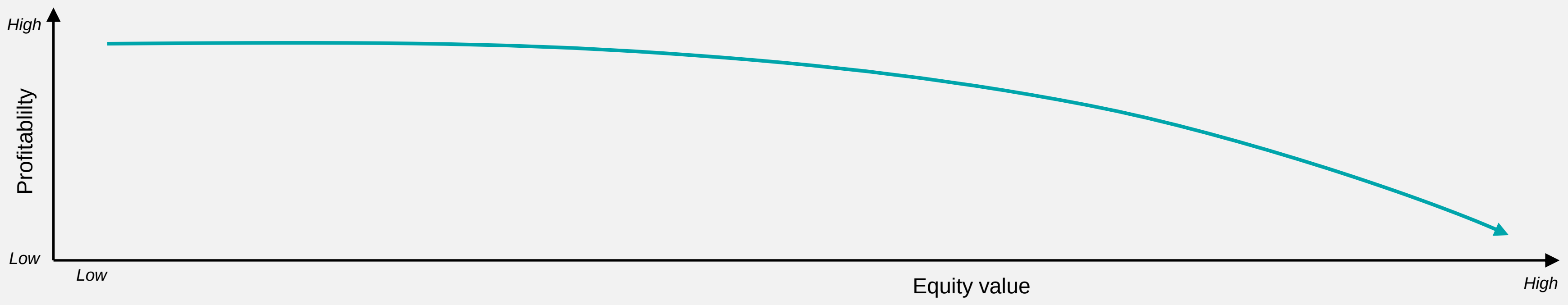
Marcel Vogt

Portfolio Manager, Special Operations Finnfund

Overview: 6+ years of experienced in M&A, Strategy work, Value Creation and Restructuring and Transformation projects. Background in consulting from Germany and Finland

1. Introduction

Asking the right questions early on will help diagnose what stage of distress

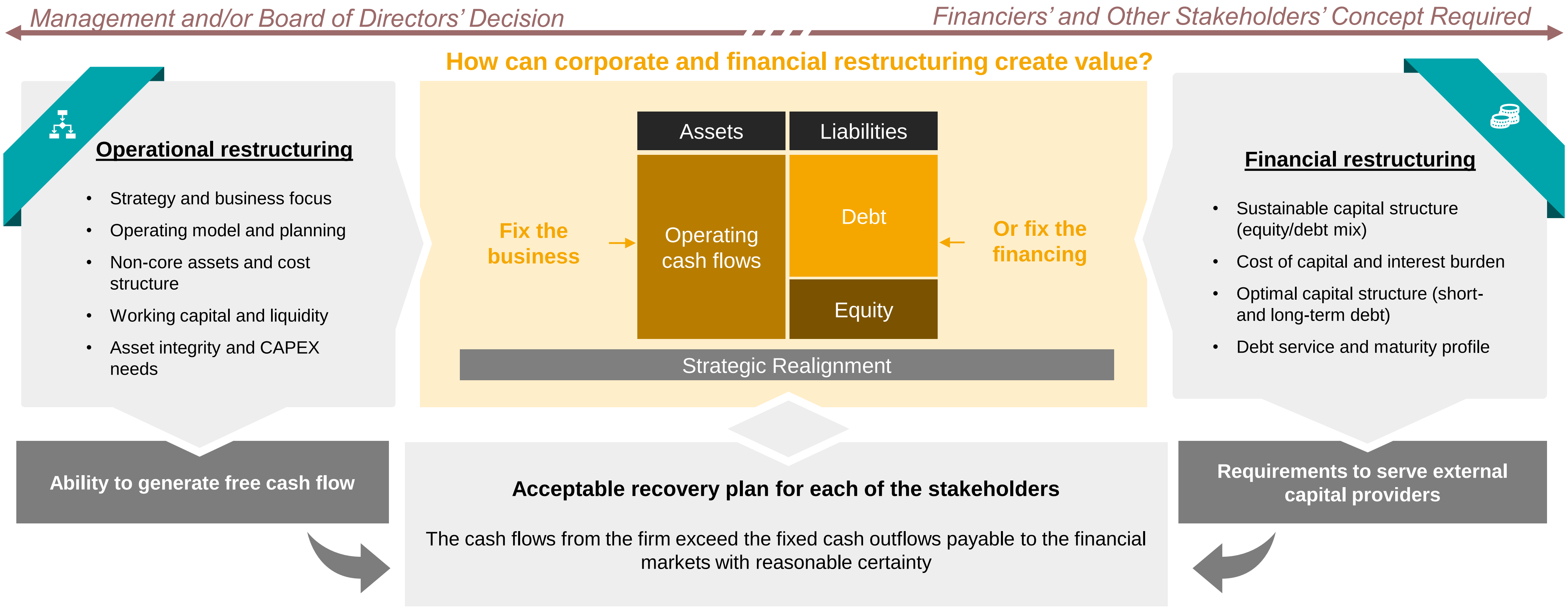


Classical transformation	Turnaround	Restructuring	In-court proceedings
Strategic Crisis	Profitability crisis	Liquidity crisis	In-court proceedings / bankruptcy
• The company is losing its competitive position. • Sales numbers may stable or even growing. • Profitability is already behind the peer group. • Transforming is needed to recover the competitive position and profitability.	• Sales are being stagnated or declining, and profitability is turns clearly negative. • The company starts to burn cash reserves. • In order to safeguard its' operations there is need to launch a turnaround.	• Continuing to burn cash leads to a liquidity crisis and the company may soon lack the financial resources to keep operating. • At this point mgmt. • Typically loses the ability to make changes on its own, and other stakeholder, such as banks, may have a say in trying to restructure the company.	• Typically the last resort of the recovery options which expose the company to several unforeseeable risks.

In liquidity crisis stage owners are typically already holding out-of-money option instead of equity

2. Operational vs Financial Restructuring

A successful turnaround usually addressed both operations and the balance sheet

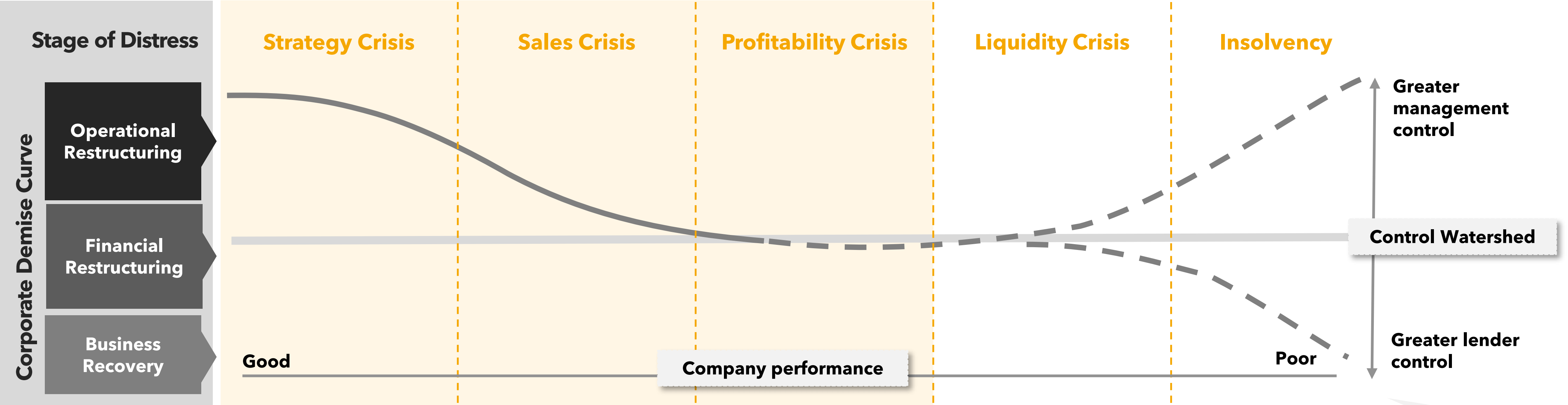


There are key differences between a value creation and value preservation approach

	Value Creation		Value Preservation	
	Growth	**Margin Expansion**	**Underperformance**	**Distress**
Triggers	A period of sustained business expansion, characterised by rising revenues, increasing market share, and active investment in capacity and capability to capture emerging opportunities	A phase where growth is complemented by deliberate efforts to improve profitability through efficiency gains, cost optimisation, and strategic pricing, without slowing momentum	Operational or financial issues that affect performance but are recoverable with internal corrective actions. The business remains fundamentally sound	Represents a more critical state where the company faces systemic issues that threaten its financial viability, requiring urgent external intervention (including lender engagement)
Financial	Strong year-on-year revenue growth; healthy liquidity and reinvestment levels	Improving gross and EBITDA margins; reduced operating cost ratios	Minor liquidity constraints, occasional covenant waivers	Repeated breaches, emergency funding requests, ongoing cash burn
Operational	Opening new sites, adding product lines, scaling workforce	Process streamlining; productivity enhancements; procurement savings	Isolated operational inefficiencies	Key management exits, supplier disruptions, production halts
Behavioural	Transparent, forward-looking communication with lenders; proactive opportunity sharing	Disciplined capital allocation; data-led performance reviews	Slight delays in communication	Evasive behaviour, inconsistent explanations, board turmoil
External	Market tailwinds; favourable competitive positioning	Stable input costs; beneficial supplier terms	Navigating sector shifts	Regulatory penalties, severe load shedding, community unrest

Source: PwC South Africa

The earlier you ask the right questions the higher the likelihood you identify the right options



Key Indicators	Strategy Crisis	Sales Crisis	Profitability Crisis	Liquidity Crisis	Insolvency
	• Wrong investments • Missing product market fit • Strategic misalignment between board, shareholders and management • Misunderstanding of position within competitive landscape • Wrong capital structure	• Decline in sales • Increase in working capital • Increased production complexity • Loss of market share • Increasing production costs • Quality issues • Overcapacity	• Decline in relative and absolute profitability • Increasing difficulties in obtaining financing • Losses decrease equity • Decrease in cash reserves • Insufficient cutting of fixed costs	• Difficulties paying due liabilities and principal payments • Inability to serve interest payments • Increasing gaps in liquidity • Supplier relationships are worsening	• Inability to pay • Over-indebtedness • No going concern

Key focus

While the stages of crisis are illustrated as sequences, they often occur in parallel

3. Responding to distress signals

In a Strategy crisis the focus is on setting a clear direction and making decisive strategic choices

How to identify a Strategy Crisis?

- Declining market relevance (loss of competitive positioning)
- Strategic drift: unclear or outdated vision
- Failure to adapt to changing consumer or regulatory trends
- Overexpansion or diversification without clear rationale
- Leadership paralysis or internal misalignment at the top

How to act in a Strategy Crisis?

- Ensure that there is stakeholder alignment about the Strategy and the long term vision of the company
- Encourage early governance changes if misalignment persists
- Ensure that strategic progress is tracked and has clear accountabilities
- Further funding should be tied to aligned updated Strategy and have clear implementation plan
- Request independent business reviews (IBRs) at board level and use external advisors to stress-test strategy

Case study Context

- The company's strategy became reactive, focused on short-term fixes rather than long-term positioning.
- A wide and unfocused product portfolio diverted resources away from profitable core lines.
- Weak foresight led to missed opportunities in regional and export markets where competitors gained ground.

1

Given the context of the case study, what **key questions** would you **ask?**

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Strategy Crisis

Case study Context

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Sample of Mentimeter Results

How do you achieve positive cash flow?	ABC analysis	Understanding market ... what is your competitor doing what you are not?
How long has the CEO been leading this company?	What is the staff turnover in this company?	How's the engagement of staff in the company?
What do you consider your core lines to be? For these which are the key regional and export markets you wish to target?	Where do you want your company to be relative to the competition in 5-10 years?	What is your core star product/service that will lead your profitability in 5 years?
Who will be your clients in coming 5 years?	What is the breakdown of your revenues by product?	What is your competitive position?
Is your business proposition sustainable?	What is your strategic plan to counter attack the current situation?	Are they overtrading their working capital?

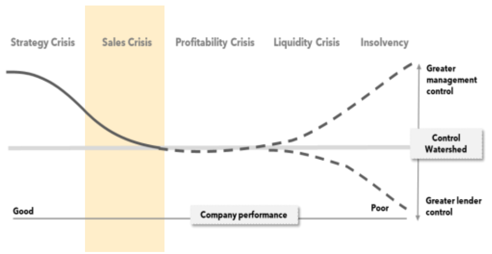
Key Insights

The audience's line of questioning clustered around five big themes:

1. Strategic clarity – does the business have a credible long-term plan?
2. Competitive awareness – does it understand its market and competitors?
3. Leadership strength – is the team capable and credible enough to execute?
4. Execution discipline – are KPIs, financials, and structures aligned?
5. Resilience – can the business adapt to shocks and avoid repeating drift?

In a Sales crisis focus is on stabilising revenues by protecting key customers and rebuilding demand

Sales Crisis



How to identify a Sales Crisis?

- Declining order books, volumes, or backlog
- Loss of key accounts or customers defecting to competitors
- Weak salesforce effectiveness (low hit rates, morale issues)
- Product/service misalignment with customer demand
- Over-reliance on a single customer or channel

How to act in a Sales Crisis?

- Probe revenue forecast assumptions – require evidence
- Ensure that there is no disconnect between revenue forecast is tied to sales pipeline
- Insist on customer concentration analysis and retention plans
- Encourage management to protect profitable customers first
- Embedded tracking of key KPIs to key reports
- Support introduction of commercial turnaround specialists

Case study Context

- Market share steadily declined as competitors leveraged scale and stronger integration across the value chain.
- Poor demand forecasting created mismatches between supply and customer requirements, leading to lost sales and stock surpluses.
- The sales team struggled to defend key accounts while also failing to capture growth in emerging customer segments.

2

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Sales Crisis

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2

Given the context of the case study, what **key questions** would you **ask?**

Sample of Mentimeter Results

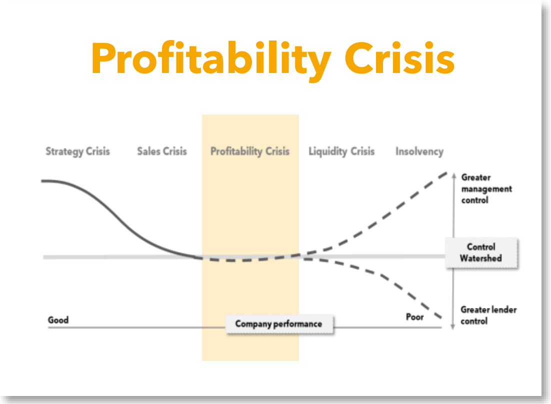
What's the compensation scheme of the sales staff?	How is your sales team incentivised?	What new or innovative products can be pursued to regain market share?
What is your market share against your company competitors?	How is your company responding to the loss of market share?	History of forecast vs actuals, prospects and hit rates
Who are your key customers, and how much do they represent out of total sales? (trying to assess customer dependency risk)	What information have you used to forecast demand? What might you focus on instead?	Who are your targeted customers that will boost your pipeline and revenue?
Where could you grow? What should you change to attract that new clientele?	Is the economic environment conducive for the specific sector the company is?	Where could you grow? What should you change to attract that new clientele?

Key Insights

The audience's line of questioning clustered around six big themes:

1. Customer focus & retention – do you really know what your customers want and why they stay/leave?
2. Salesforce effectiveness – is the sales team skilled, structured, and incentivised to win?
3. Competitive benchmarking – what are competitors doing differently and how do you respond?
4. Segmentation & growth – which customer groups deliver the most value, and where are the missed opportunities?
5. Forecasting & data – is the business using accurate, reliable inputs to plan sales?
6. Pricing & value proposition – are products priced and positioned to compete sustainably?

A Profitability crisis requires restoring margins with cost discipline and operational efficiency



How to identify a Profitability Crisis?

- Sustained negative or shrinking gross margins
- Escalating fixed costs relative to revenue
- Inefficient production/operations (low asset utilisation)
- Product mix heavily skewed to low-margin offerings
- Reliance on third-party contractors or costly suppliers

How to act in a Profitability Crisis?

- Push for transparent profitability reporting by SKU/customer
- Require visibility on fixed vs variable cost breakdowns
- Tie financing to progress on cost-out initiatives and ensure clear tracking with accountability
- Encourage scenario modelling of margin recovery
- Consider conditional capital injections for efficiency projects

Case study Context

- Manufacturing inefficiencies and underperforming operations drove up costs across the business.
- High product and supply chain complexity inflated overheads and made cost control difficult.
- Over-reliance on third-party service providers added further inefficiencies and eroded margins.

3

Given the context of the case study, what **key questions** would you **ask?**

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Profitability Crisis

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3

Given the context of the case study, what **key questions** would you **ask?**

Sample of Mentimeter Results

Is the company doing regular maintenance?	How much cash are you burning every week	Can you renegotiate third-party service contracts?
How do you variable cost compare with competition?	Where is the data to underpin assumptions	What is the driver of your cost increases?
Could you provide a breakdown of the sales per product and gross margin?	What is your daily/monthly/annual full operating capacity?	What assumptions around input costs need to be adjusted, and can those costs be better managed?
Has a sensitivity analysis on key cost drivers been done?	How do you streamline operations to reduce cost while maintaining quality?	Is your business cyclical?, how do sales perform throughout a typical year?

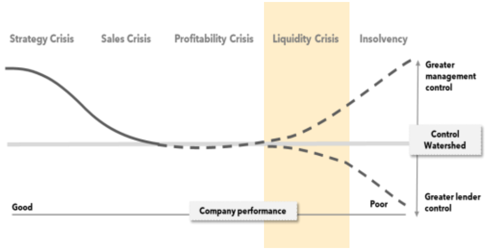
Key Insights

The audience's line of questioning clustered around six big themes:

1. Cost visibility – do you know your real cost drivers and how they compare to peers?
2. Efficiency and utilisation – are you maximising assets and eliminating inefficiencies?
3. Third-party reliance – can supplier or contractor terms be renegotiated?
4. Benchmarking – how do your margins and costs stack up against the industry?
5. Financial data transparency – is reporting robust and tested with sensitivity analysis?
6. Restructuring options – what assets, staff, or products should be reduced to right-size the business?

In later stages of crisis cash preservation and going-concern protection are essential

Liquidity Crisis



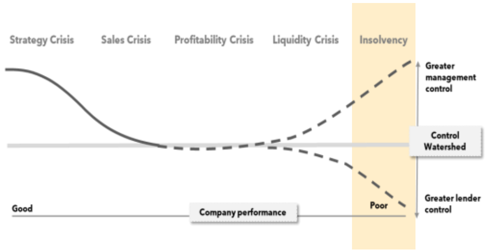
How to identify a Liquidity Crisis?

- Persistent negative operating cash flows
- Breaches of debt covenants
- Reliance on short-term funding or emergency facilities
- Delayed supplier/customer payments
- Erosion of trust with lenders (increasing scrutiny)

How to act in a Liquidity Crisis?

- Require weekly cash flow reporting
- Provide short-term liquidity only if viable turnaround plan exists
- Push for independent verification of liquidity forecasts
- Insist on ringfencing proceeds from disposals
- Consider debtor-in-possession or super-senior funding if appropriate

Insolvency



How to identify Insolvency?

- Inability to pay debts when due
- Negative equity or unsustainable balance sheet
- Creditors enforcing claims
- Collapse in supplier/customer confidence
- Regulatory or legal actions triggered

How to act in Insolvency?

- Decide: support restructuring or accept losses?
- Form creditor committees to negotiate consistently
- Push for strong turnaround leadership
- Consider debt-for-equity swaps to preserve long-term value
- Protect security interests while avoiding value-destructive fire sales

4

How has asking the **right questions early** helped **assess** the situation and **guide** the client through a **successful turnaround**?

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How has asking the **right questions early** helped **assess** the situation and **guide** the client through a **successful turnaround**?

Sample of Mentimeter Results

Understanding cash flow and cash position	Being in control rather than on the back foot	Why are we keeping the CFO in place?
It helped me assess the entrepreneur ability to address the challenges	Help client take a step back and reflect rather than always be in action mode.	Helped to determine the cost vs sales
Identify key drivers and allowed more time to conduct a proper assessment of business viability	It helps prime management for change and put them in the right mindset for necessary change.	Not having an immediate panic-made decisions that turned out to be hurtful than helpful.
Asking the right questions creates a reality check. It grounds people in the severity of the situation. Acknowledging the problem's scale makes it possible to find solutions.	It assisted in getting a better understanding of the issues in-depth and also added value in us assisting the client to better diagnose the issues and also work together on solutioning	IBR is useful but it does not always solve the core issues, such as management competence and unexpected market and / or political volatility.

Key Insights

Participants emphasised that asking the right questions early:

1. Clarifies financial reality (cash, viability, cost vs sales).
2. Keeps stakeholders in control, not reactive.
3. Primes management for change by confronting issues directly.
4. Tests leadership competence and governance strength.
5. Creates a platform for collaborative problem-solving.

4. Conclusion

What Can You Do to Support a Successful Turnaround?

Start with the right questions

Early diagnosis of distress is critical – it helps identify the stage and **shape the most effective path forward.**

Shift the mindset

From **"What should management do?"** to **"What can you do?"**

Your role is pivotal

- Provide capital
- Endorse restructuring plans
- Engage constructively with creditors
- Drive stakeholder alignment and mgmt. focus
- Enable leadership change

Collaboration is key

Turnarounds succeed when investors, shareholders, and management **work together – unlocking recovery and long-term value.**

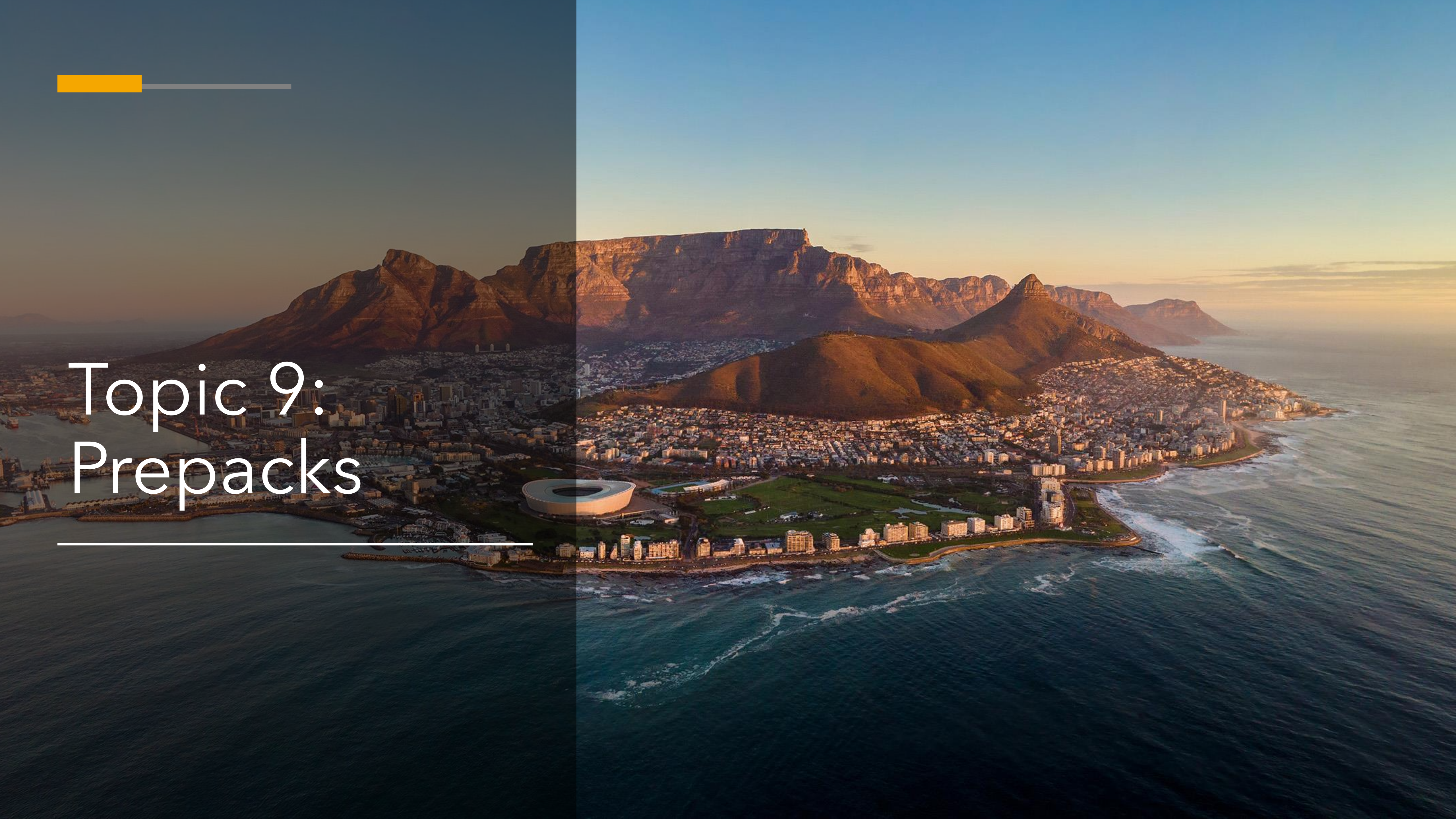
Q&A

Lunch Break

12h30 - 13h30

60 Minutes

Topic 9: Prepacks



Prepacks

Working Group Leader	
Mikko Kuuskoski	FinnFund

Presenters	
Mikko Kuuskoski	FinnFund
Reinier Douqué	BII

Agenda

1. Introduction to pre-packs
2. Real life example
3. General considerations
4. Round table discussion

1. Introduction to Prepacks

A Pre-pack is a sale of a company's business /assets, agreed before entering administration

Key requirement

- The key requirement in an administration is to achieve the best possible value to the creditors.
- The insolvency practitioner can argue in favour of a sale where the company struggles to trade in administration because lack of liquidity or where the company's goodwill would be lost in a "free fall administration".

Court involvement

- In the UK the process does not require court sanction
- However, the court may be involved in appointing an administrator or determining any disputes arising from the pre-pack

Quick process

- Once an administrator is appointed, they will immediately close the sale
- The sales price is based on a marketing exercise (conducted on an accelerated basis) / by reference to independent professional valuations

A Pre-pack deal is a well structured and efficient process

Engage a licensed insolvency practitioner

- The company's directors or secured creditors engage a licensed insolvency practitioner in an advisory capacity to assess the company's financial state and advise on the best course of action
- There is an understanding that the insolvency practitioner will be appointed as the administrator when the company goes into administration
- This indirectly imposes a duty on the insolvency practitioner to be mindful of their duties under the Insolvency Act (a duty owed to all creditors)

Sale process

- The insolvency practitioner runs the sales process and negotiates the sale terms with the chosen buyer

Formal appointment

- When everything is in agreed form, the insolvency practitioner is formally appointed
- The appointment can be made out of court by anyone of the companies, the directors or a qualifying floating charge holder

The sale

- The insolvency practitioner executes the sale on behalf of the company
- The buyer is free to trade the business and/or assets, largely free of the historical (some transfer to the buyer by operation of law e.g. certain employee liabilities).
- Unsecured creditors find out about the pre-pack post the event

A Pre-pack deal has several advantages compared to traditional administration

- Avoids ongoing administration costs
- Allows the sale of the business as a ‘going concern'
- Preserves the value of the company and its assets (particularly ‘work in progress')
- Ensures continuity for employees during the sale process and in a business sale, the employees’ accrued rights transfer automatically to the buyer (“TUPE” transfer).
- The ‘brand’ unlikely to be compromised by adverse publicity.

However, there are also various concerns when it comes to Pre-pack deals

Transparency

The "Phoenix" syndrome

Accountability

Administration Regulations 2021

2. Real Life Example

Alone the threat of a pre-pack resulted in similar results than an actual pre-pack deal

Background information:

- Long list of reserved matters that limited company operationally
- Investor group requiring a lot of time to make decisions
- Complex balance sheet with ordinary, preference shares and shareholder loans resulting in misaligned objectives within the investor group
- Company had severe financial difficulties
- As a result of the shareholder misalignment, one party got frustrated, brought in a 3rd party and threatened with a pre-pack

Pre-pack threat resulted in:

- Strong shift of negotiation power, scrambling for realignment and ultimate creation of two "camps"
- Streamlined views across the two investor groups, however getting there was not easy
- Significant trimming of the reserved matters and clearer balance sheet and ownership structure
- Completed rescue financing with 3rd party, however with a high discount and dilution for incumbent investors

3. Considerations

The increasing popularity of pre-packs has a range of implications for our institutions

Pre-pack implications:

- Fast and efficient process
- Tool to clean ownership structure and streamline shareholder agreements
- Potential litigation
- Reputational risks
- Threat alone can yield similar results, but need to be ready to also execute

Institutional considerations:

- How likely is it to get internal approvals for a pre-pack deal?
  - Primary driver is securing the continuation of the business
- It is not always the best alternative for lenders
- Should option for pre-packs be assessed already in the legal due diligence?
- Does not using it result in a negotiation disadvantage?
- When you manage private money, how do you balance between pre-packs and reputational risks?

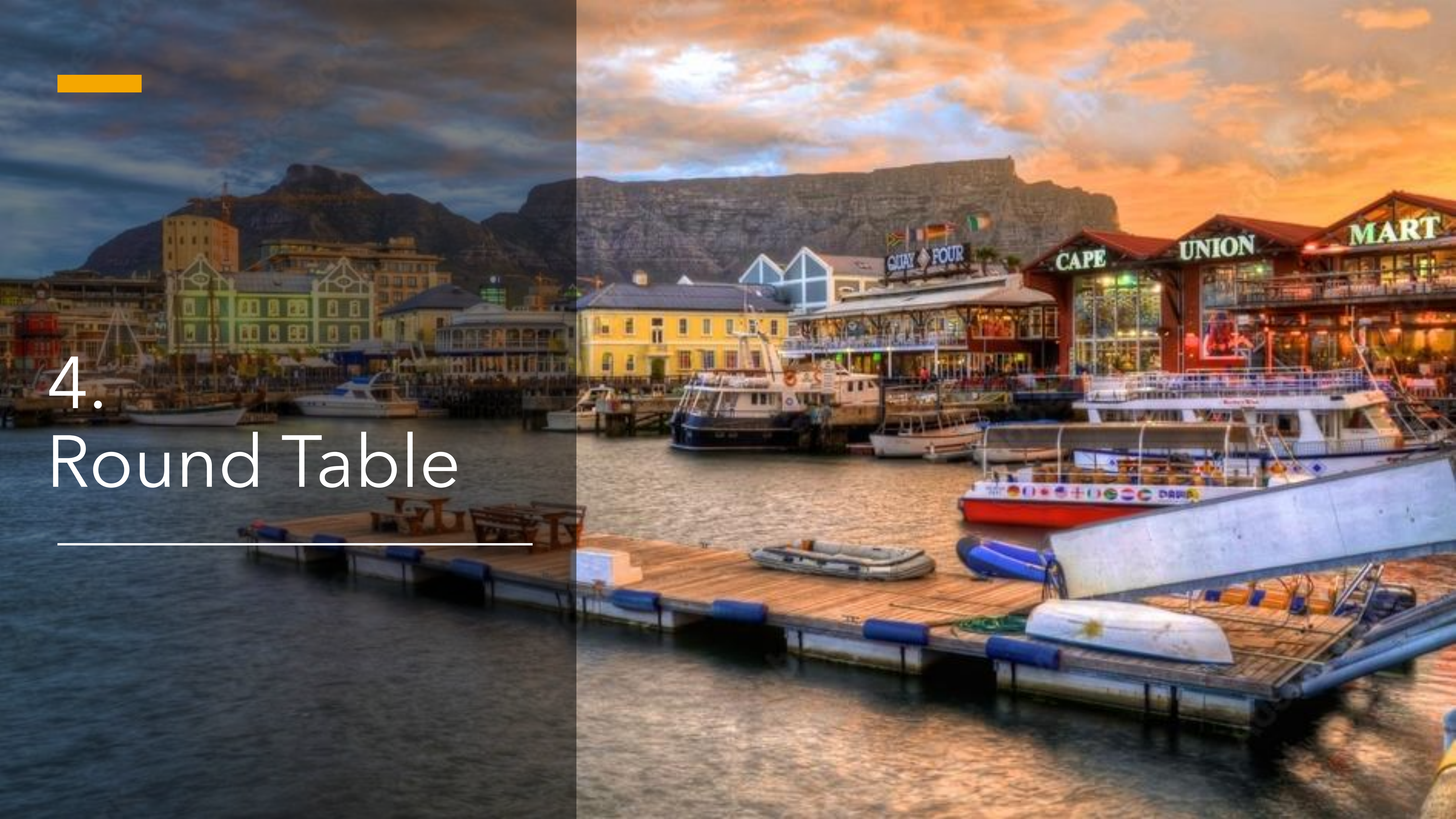
Pre-pack deals have different implications for shareholders and creditors

For creditors

- Reduced costs in the insolvency process
- Greater asset realisations available for distribution to creditors
- Less competing claims against the insolvent company
- Future lending possibilities

For shareholders

- Retain some equity in the restructured company
- Opportunity to invest additional capital into the restructured business
- Avoid negative publicity that might come with a more public insolvency process

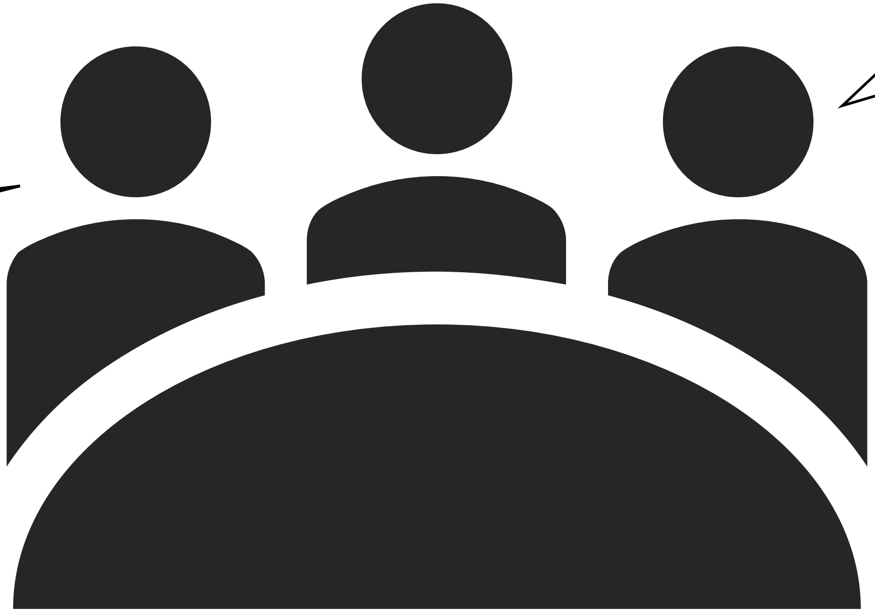


4. Round Table

Please share your thoughts and considerations

Do you have any experience with pre-packs?

What is your organisation’s approach towards pre-pack deals?



Do you see them as a useful tool?

Other thoughts and considerations?

Q&A

Topic 10: Restructuring and Governance

Enhancing Lender Group Coordination and Decision-Making

Restructuring & Governance

Working Group Leader	
Oleg Ivaniychuk	responsAbility Investments AG

Presenters	
Oleg Ivaniychuk	responsAbility Investments AG
Alieda Baig	responsAbility Investments AG

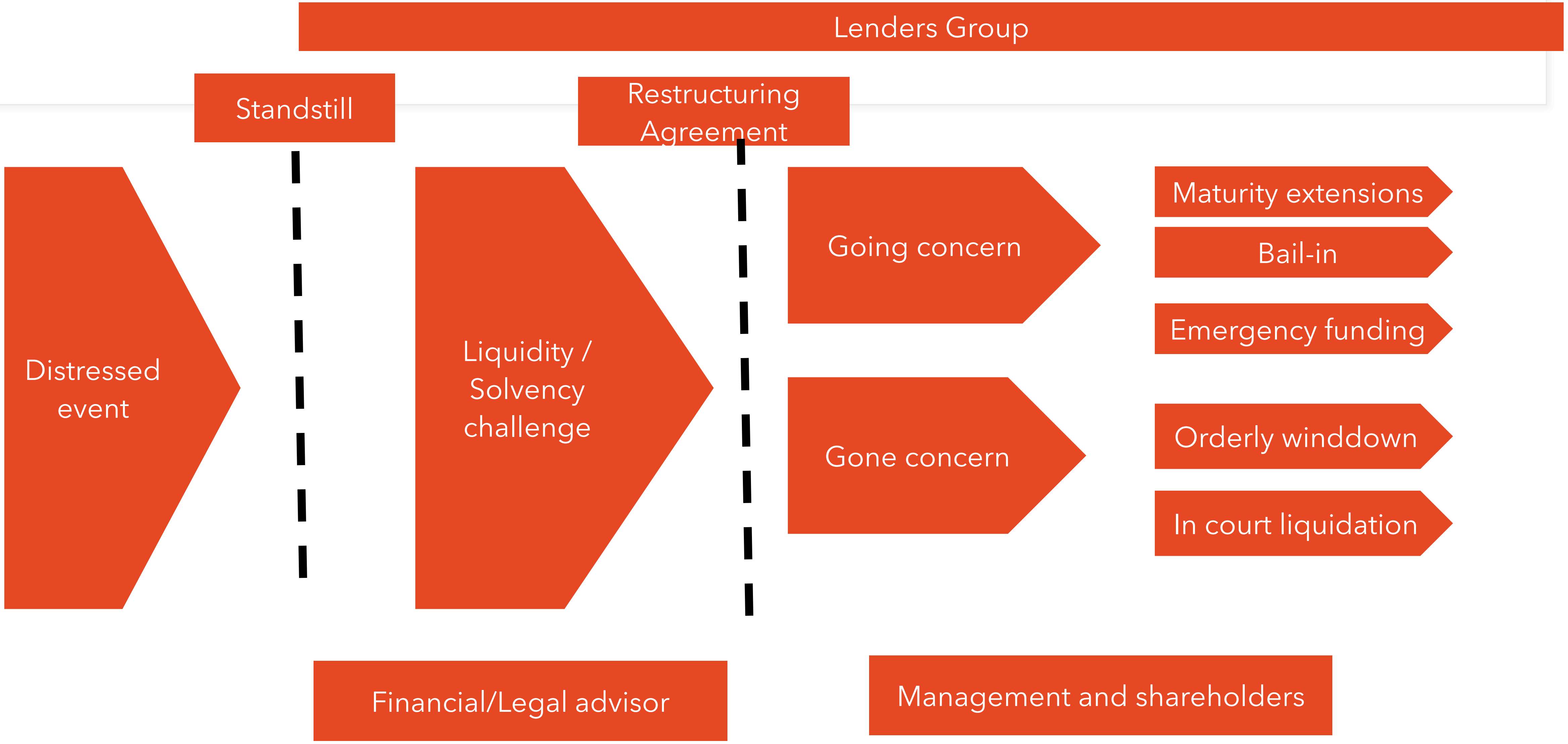
Multiple levels within a restructuring

Lenders - Borrower

Lenders - Regulator

Lenders - Lenders

Lenders group purpose



Lenders need to drive the process in the absence of functioning frameworks

- Underdeveloped court system and clear legal/regulatory frameworks and/or inefficient execution of regulation
- This is the nature of emerging markets and sectors, like unregulated NBFIs, where DFIs/MIVs are operating
- If there is interest in resolving those inefficiencies, it needs to be addressed on the lenders’ level

Current lender group governance approach

Steering Committee

- Defining and implementing strategy
- Coordination
- Engaging advisors
- Handling management/shareholders

A lot of responsibility, but little to no authority

Challenges

" Restructuring Genius"

- Cash distribution
- Winddown vs. going concern (getting rid of the borrower vs optimizing recoveries)
- Using contingent capital
- Weaponizing approval process
- Using steering committee to lobby for individual interests
- Small lenders holding the group hostage

Consequences

- Losing precious time before reaching any outcome
- Fatigue and distraction due to non-material points/conflicts

Usually, the group can achieve a higher recovery outcome by acting together

How to enhance the process?

- Continue like now, reinventing the wheel with every new project and allocate precious time/energy on ironing out lenders' disagreements, instead of focusing on the borrower

- Or develop a framework for decision-making based upon majority (number/exposure) in the respective debt class

- Framework can include guidelines for exceptions: exit with haircuts and/or allocating liquidation value equivalent to the minority which cannot/doesn't want to cooperate – it needs to be accepted by the majority

We should not incentivize destructive behavior

Q&A

SOS CONFERENCE 2025

Cape Town, South Africa

4-5 September

CLOSING

Day 2