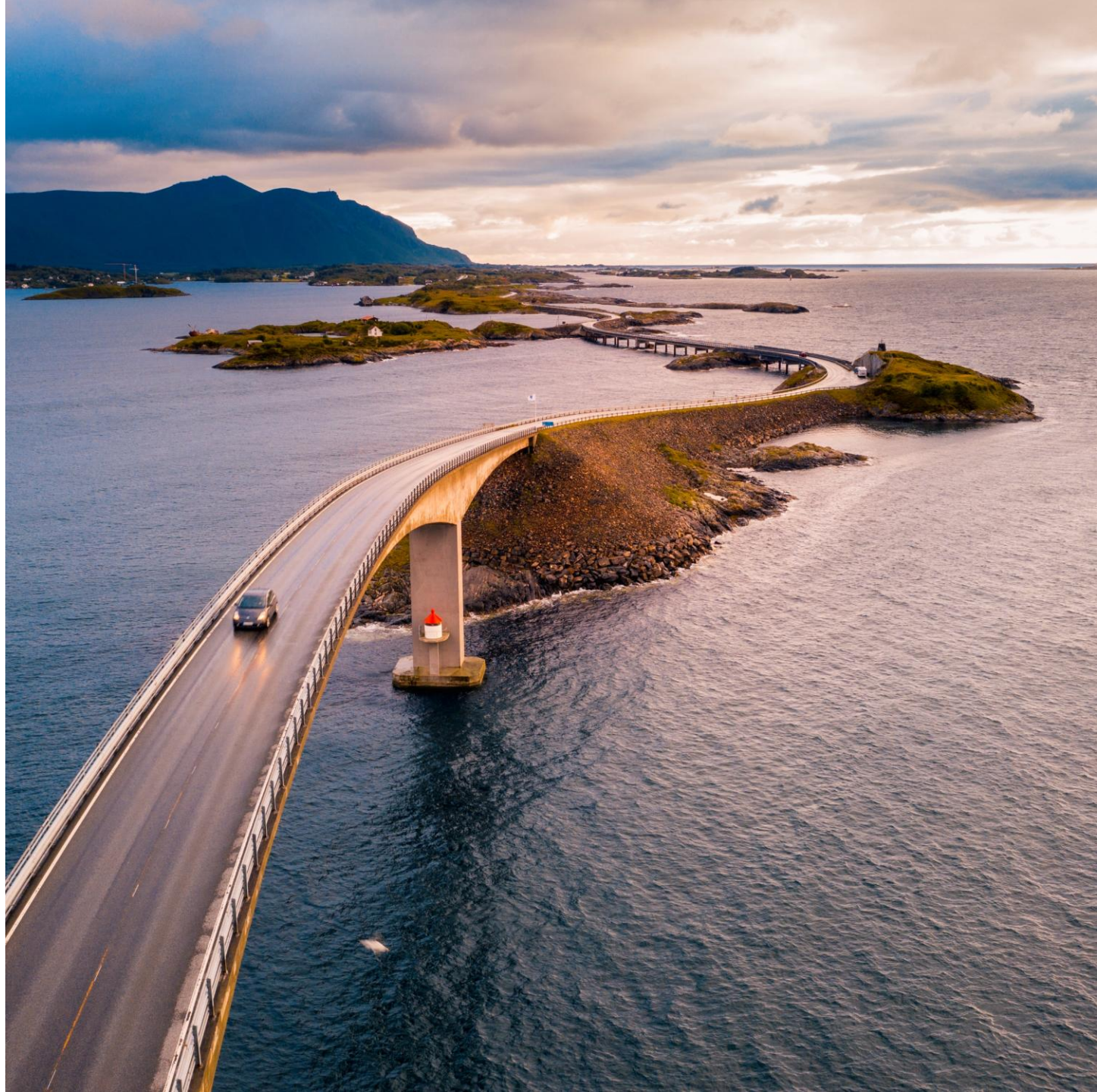


Operational restructuring as enabler in restructuring process

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June 2024

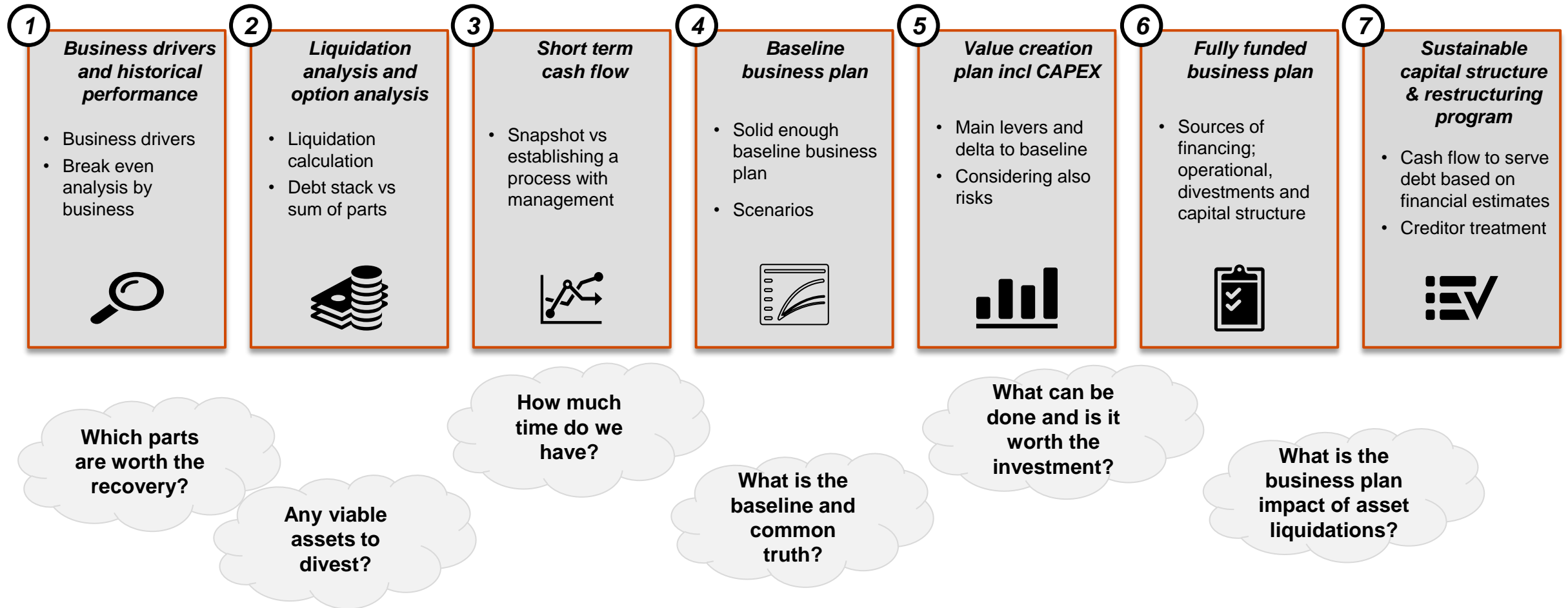




Course of the presentation

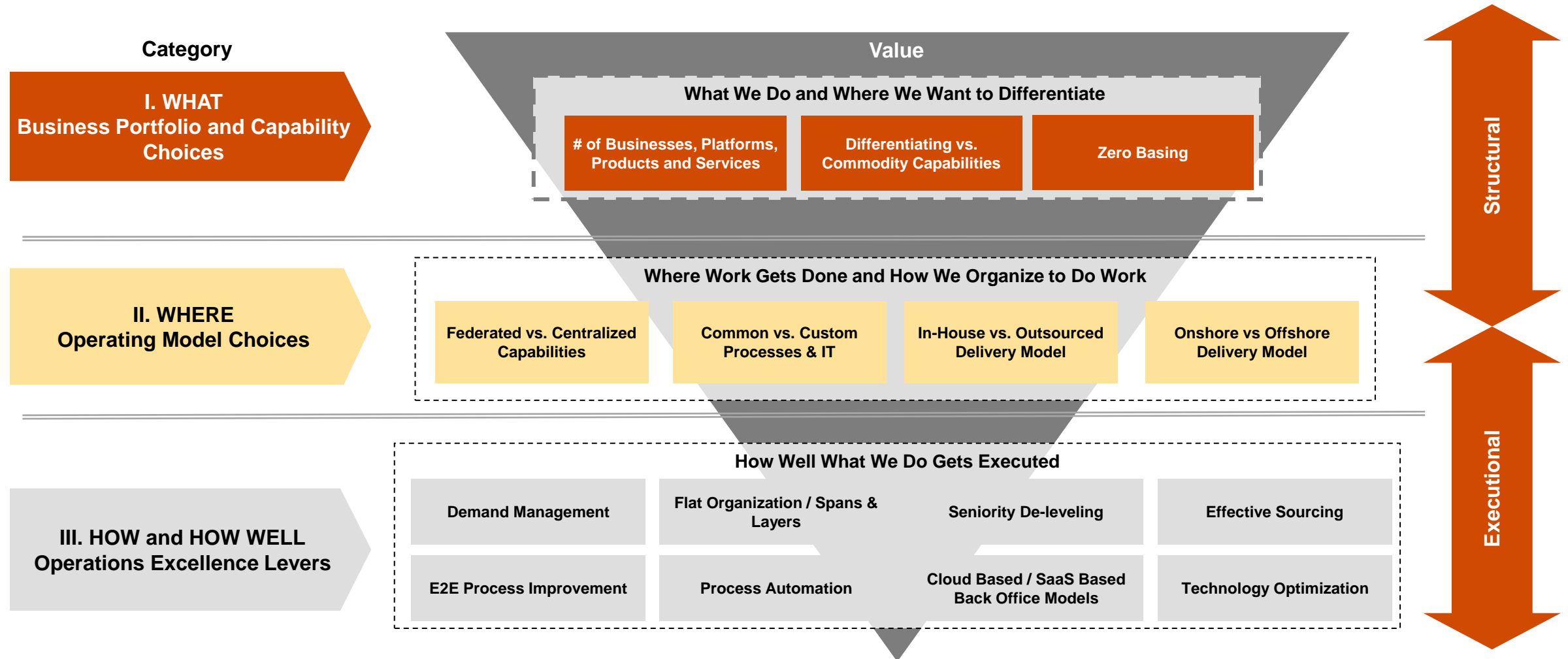
- 1. Operational restructuring – Why?
- 2. Where is the beef?
- 3. Background into two cases
- 4. Case outcomes
- 5. Conclusions based on case experience

Operational restructuring - Why?



Usually the portfolio related levers provide greatest impact

Phased approach to be considered for levers with less impact



Background into cases SRV and Stockmann from operational restructuring perspective

Case SRV (2019-2020)

- Listed construction company operating in Finland and Russia, focusing on residential development, contracting and landmark area development
- “Risk identification”
- Solid construction business with low project slippage for regular projects
- Non-liquid assets of ~€700m financed with relatively short maturity debt of ~€400m
- Creditor driven process to stabilise the situation and liquidity, later phases followed as well

Case Stockmann (2020-2021)

- Listed department store company owning real estate and a fashion brand, filed for corporate restructuring due to Covid
- Non-performing department store business in Finland and Baltics, used to operate also in Russia, but exited earlier due to unfavourable business environment
- “5 year rolling business plan”
- Cash flow contribution from the fashion business

Outcome of SRV process

Key topics

- ✓ **“What are we recovering?”** Healthy construction business with a broken balance sheet and capital tied to illiquid assets – common baseline was a key
- ✓ **Plan for downsizing** construction development to meet the healthy volume and shifting to contracting in order to release operational capital
- ✓ **Asset liquidation** plan and financial restructuring plan

Rationale

1. “We need to build ourselves to firm ground” – yes, but only if the construction business is competitive as a starting point => exit parts of portfolio that were unsustainable
2. “If you give money to construction company...” – adjust the volume to meet the healthy level through amount of capital made available
3. Common baseline on feasible options, which assets to dispose - and communication of the impact of alternative solution to co-investors of the assets
4. Urgency due to short term liquidity concern – restructuring agreed just prior to Covid(!)

Outcome of Stockmann process

Key topics

- ✓ **“How come you did not close any locations”**
- ✓ **Retain cash flow generating businesses;**
Keep cash generating fashion business, divest real estate
- ✓ Business plan with **headroom for risks and capex**

Rationale

1. Fix cost is...fixed; All store locations that are locally at break-even, contribute to fix costs
2. Keep cash generating fashion business in order to secure recurring cash flow for debt service, divest real estate in order to deleverage
3. Business plan to include headroom for risks, capex and cash balance swing – i.e. cash flow for debt service in short vs long perspective

Conclusions

- Financial restructuring without operational restructuring plan is potentially only debt restructuring
- Identify business drivers and look for ones that have an impact; do not embrace all opportunities, but prioritise
- Sizing the costs against conservative volume plan and/or ensuring that all areas are net contributors
- Few words on taking the management forecast as is...
- Having a shared understanding of which business is to be recovered, why and how leads to mutual understanding between stakeholders (in an ideal world at least)
- Excessive cost and capex cutting leads to zombie business with marginal cash flows and interest from the owners (who might be also creditors)
- Plan for scenarios and risks – and track the progress

In case you have any questions please do not hesitate to contact

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