

RESTRUCTURING STUDY

Germany 2010

After the economic crisis – Growth and financing



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A Aims and methodology

Roland Berger
Strategy Consultants



Our study

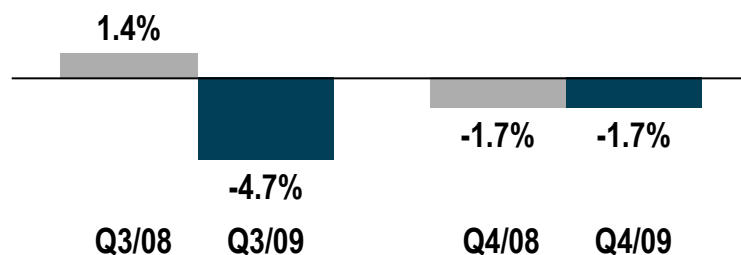
Foreword

- > In February and March 2010, Roland Berger Strategy Consultants conducted a study of trends in restructuring for the sixth time since 2001. In addition to this study there will be an international study which will be presented in May
- > In Germany, executives and directors of approx. 800 companies from different industries were surveyed, with a response rate of approx. 14%
- > The aim of the study was to find out how strongly and in which areas the crisis is still affecting companies in 2010 and what managers view as the opportunities in the upcoming recovery
- > These results were compared with those of previous studies in order to make statements on general trends

The worldwide economic crisis is the starting point of the study – Weaker recession since late 2009

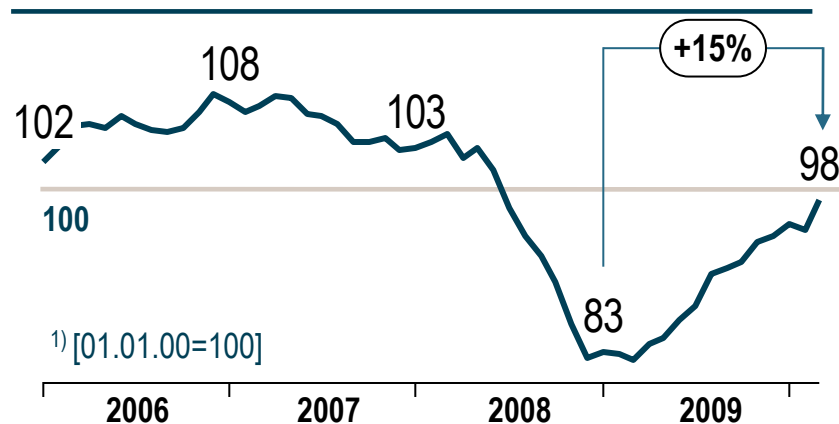
Current economic environment

GDP growth in Germany [%]



- > Economy has done really badly since late 2008 compared to previous year's quarterly figures – **record-breaking recession** in Germany
- > **Recession weakened** in late 2009 to -1.7%

IFO business climate index¹⁾

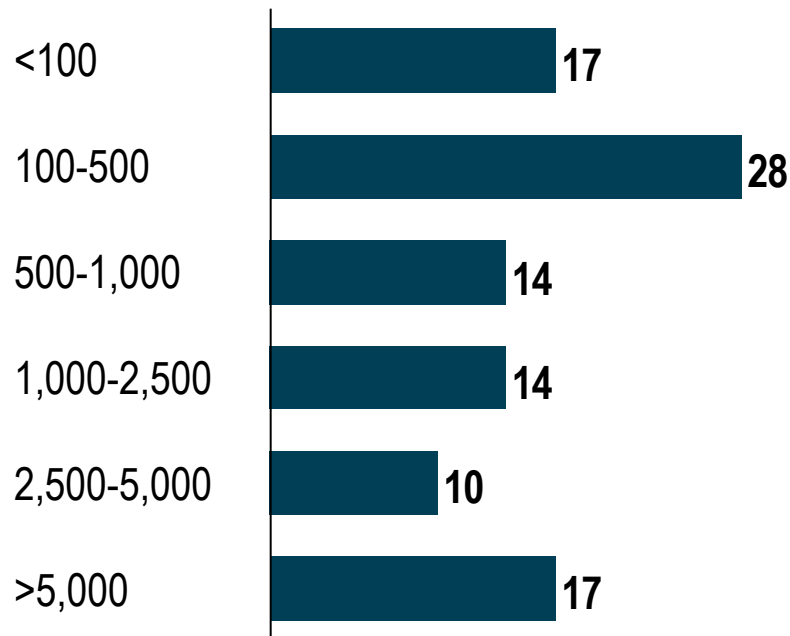


- > The **IFO business climate index** measures the current business situation as well as expectations for the next 6 months
- > It serves as an **early warning indicator** for economic trends and shows industry expectations of an **end to the crisis**

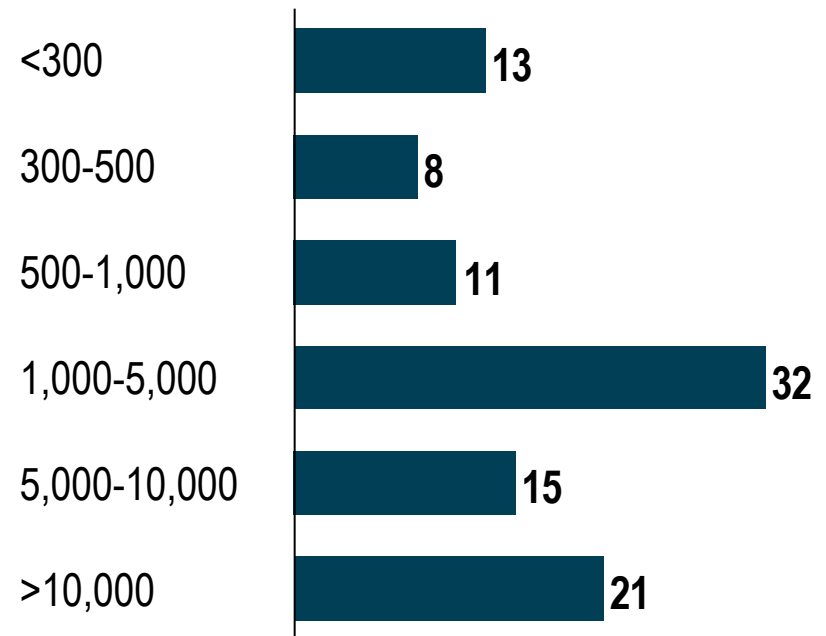
The restructuring study covers companies of all sizes – From SMEs to large corporations

Size of companies included in Germany [%]

Sales [EUR m]

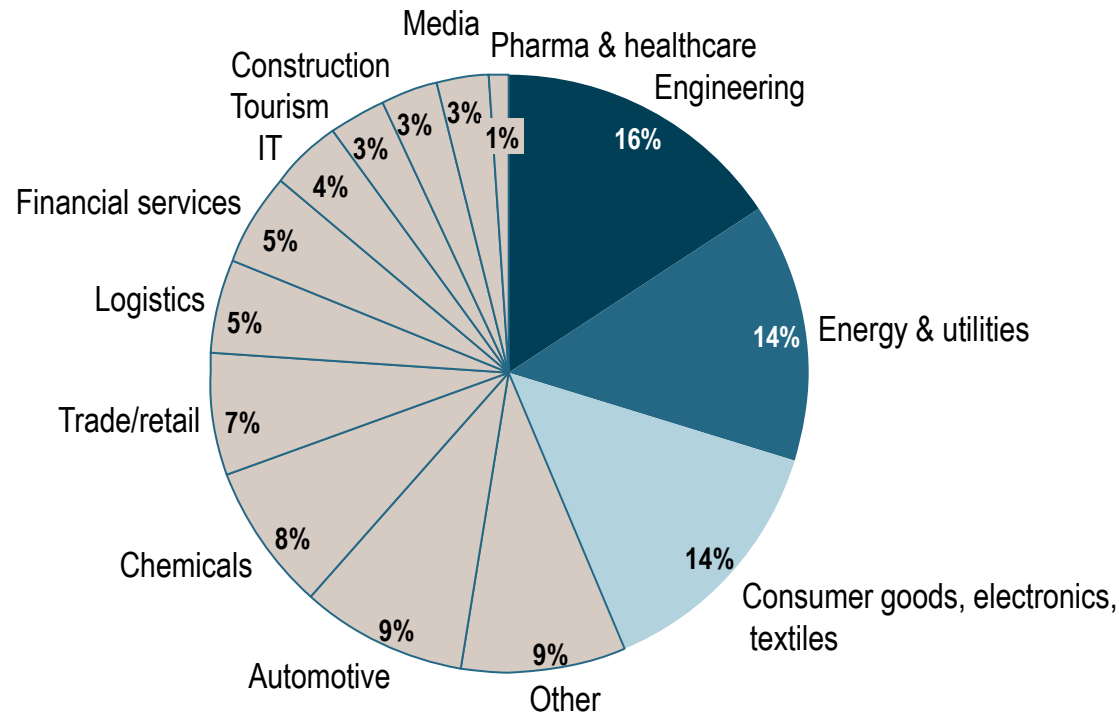


Workforce



The large number of industries covered guarantees the general applicability of the results

Study respondents by industry in Germany [%]

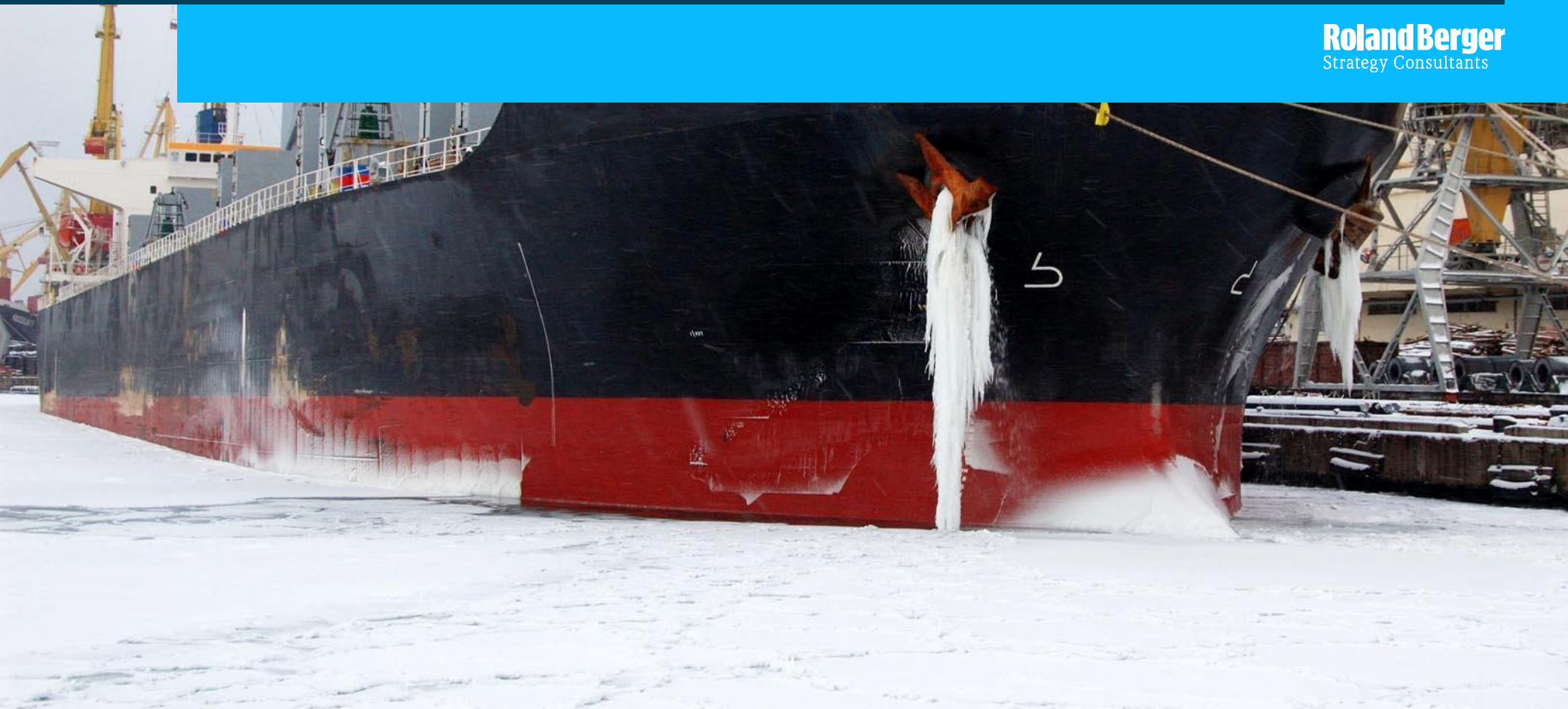


- > Participating companies from over 14 different industries
- > Due to the range of industries covered, the results of the study are generally applicable
- > Engineering, energy and consumer goods are best represented, with over 10% each

COMMENTS

B Brief summary, Germany

Roland Berger
Strategy Consultants



Companies are still cautious about economic recovery in 2010 – Major growth expected from 2011

1 Most think the worst is over and expect major growth from 2011 – But in the short term, worse situation regarding unemployment and lending

- > 57% of those surveyed think the worst is over
- > Most of those surveyed expect economic growth in 2010 of 1-1.5% – in 2011 most expect growth of 1.5-2%
- > 54% of the surveyed companies expect to reach their sales level of 2007/8 until 2011 – even 73% until 2012
- > But especially regarding unemployment and lending, worsening of the situation expected in the short term

2 Cost cuts and working capital actions already in place – In the future, growth and sales initiatives will be the main focus

- > Following the focus on cost cutting in 2009 (74%), in 2010 companies are planning growth and sales initiatives (83%)
- > Most are planning to restructure for 12-18 months, max. – thus, restructuring is currently still ongoing
- > Management commitment and a holistic concept are mission-critical for restructuring – fast implementation still important, but is of lower priority due to action already taken in the crisis

3 Personnel costs reduced 10% in 2009 (goal: 12%) – Layoffs for business reasons often avoided due to good co-operation of all parties involved

- > In the crisis, companies tried to avoid layoffs (mentioned as least important measure of reducing personal costs) – good co-operation of all parties involved paid off
- > Part-time working schemes to cut costs (e.g. less overtime and more short-time working) became more important
- > Fewer planned layoffs in 2010 versus 2009
- > Personnel costs already reduced by approx. 10% on average – target savings of 12% on average

Liquidity situation still somewhat critical – Insufficient financing options are slowing growth

4 26% companies experienced critical liquidity situations during the crisis, currently 9% are still at risk – focus on operational measures to ensure liquidity

- > Especially operational measures were taken during the crisis to ensure liquidity (e.g. receivables management and stock reduction)
- > Structural measures among the surveyed companies (e.g. bank loans, 34%) are less successful
- > Especially critical are reduced commercial credit insurance limits (30%) and credit lines (16%) – current situation remains tense
- > 50% of those surveyed complained about deteriorating credit terms regarding higher security requirements und increased interest rates

5 German companies are focusing strongly on Asia for growth – Insufficient financing options are impeding future growth significantly

- > Growth is clearly expected in Asia (79%) – Less positive expectations for Europe (10%)
- > Opportunities during the recovery are seen in generating growth with new products and focusing on the core business
- > The majority of companies (69%) are planning to finance future growth using their own resources
- > 26% of the surveyed companies listed insufficient financing options as standing in the way of future growth – 17% say that risk aversion on the part of management or shareholders is a potential impediment to future growth

6 Four core lessons learned from the crisis include creating liquidity buffers, strengthening equity, making cost structures more flexible and paving the way for future growth

- > Higher liquidity reserves and equity ratios are necessary to prepare for future crises
- > Permanently optimizing working capital is considered a key operational action to ensure liquidity
- > Create variable cost structures especially for personnel, to flexibly respond to slumps in business volume – supported by effective early warning indicators
- > The basis for future growth through sales initiatives should already be laid during the crisis, capitalize on competitors' weaknesses

C Key results, Germany

Roland Berger
Strategy Consultants

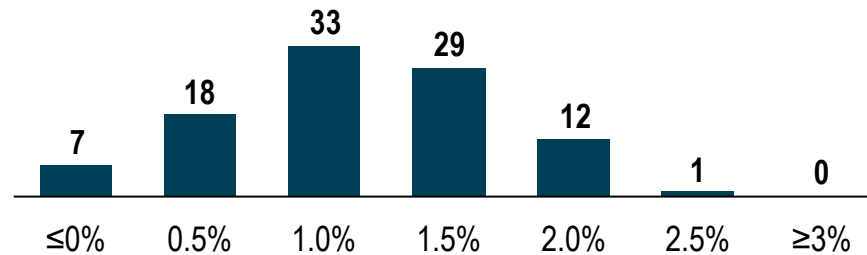


Still low expectations in terms of economic growth – 2010 hesitant at 1-1.5%, 2011 positive at 1.5-2%

Effects of the economic crisis in 2010 and 2011 [% of responses]

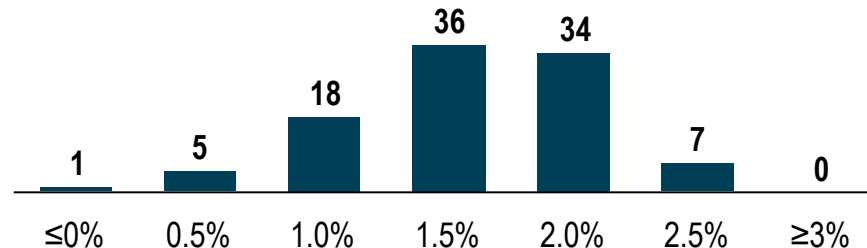
Economy in 2010

(Change in GDP in Germany year-on-year)



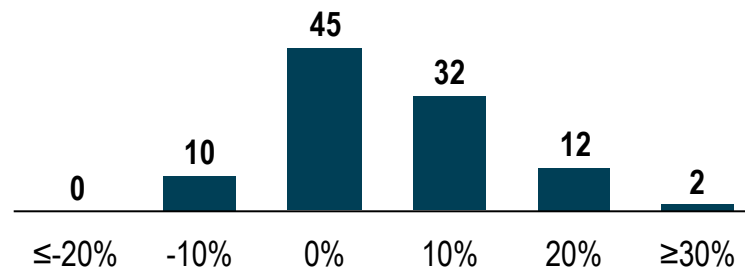
Economy in 2011

(Change in GDP in Germany year-on-year)



Own company

(Change in sales 2010 year-on-year)



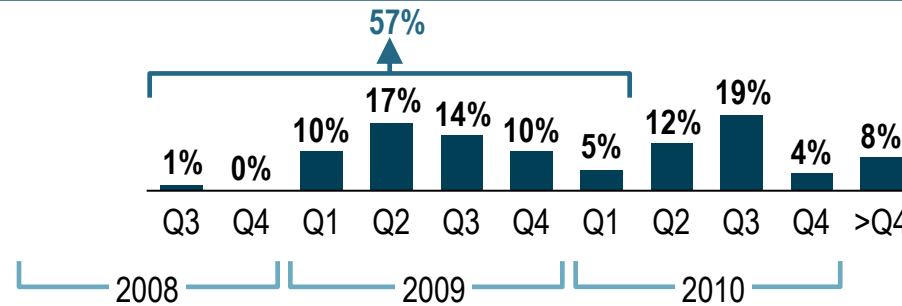
- > The majority of those surveyed expect economic growth in 2010 of between 1 and 1.5% – In 2011, the majority of those surveyed expected growth of between 1.5-2%
- > Overall slightly positive expectations for GDP growth in 2011
- > Various expectations in terms of own company – 10% expect a drop in sales, only 14% expect sales to improve by 20% and more

COMMENTS

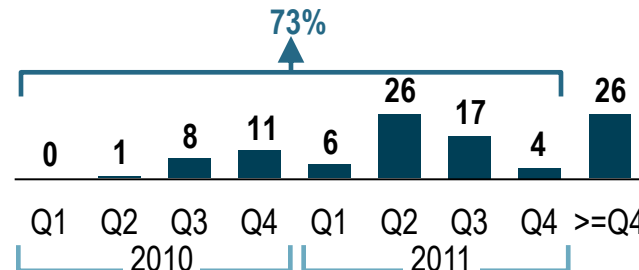
Majority of companies (57%) believe that the worst is over and expect clear growth by 2011 (73%)

Progress of recovery [% of responses]

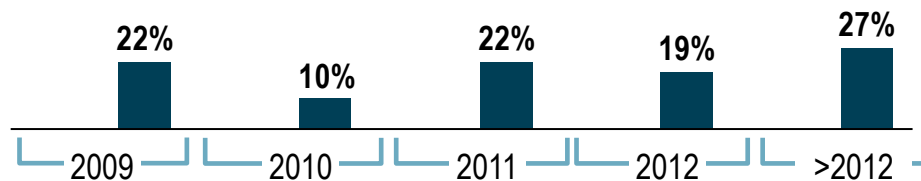
When did (or when will) the economic crisis bottom out?



When do you expect the next clear growth phase to begin?



When do you expect your company to get back to its 2007/2008 level of sales¹⁾



- > 57% of those surveyed thought the crisis had already bottomed out
- > 73% expected clear growth by the end of 2011 at the latest
- > 90% of companies expect a U- or L-shaped recovery – effects of recovery will not be clearly felt until 2011 or even 2012
- > 54% of the surveyed companies expect to reach their sales level of 2007/8 until 2011 – even 73% until 2012

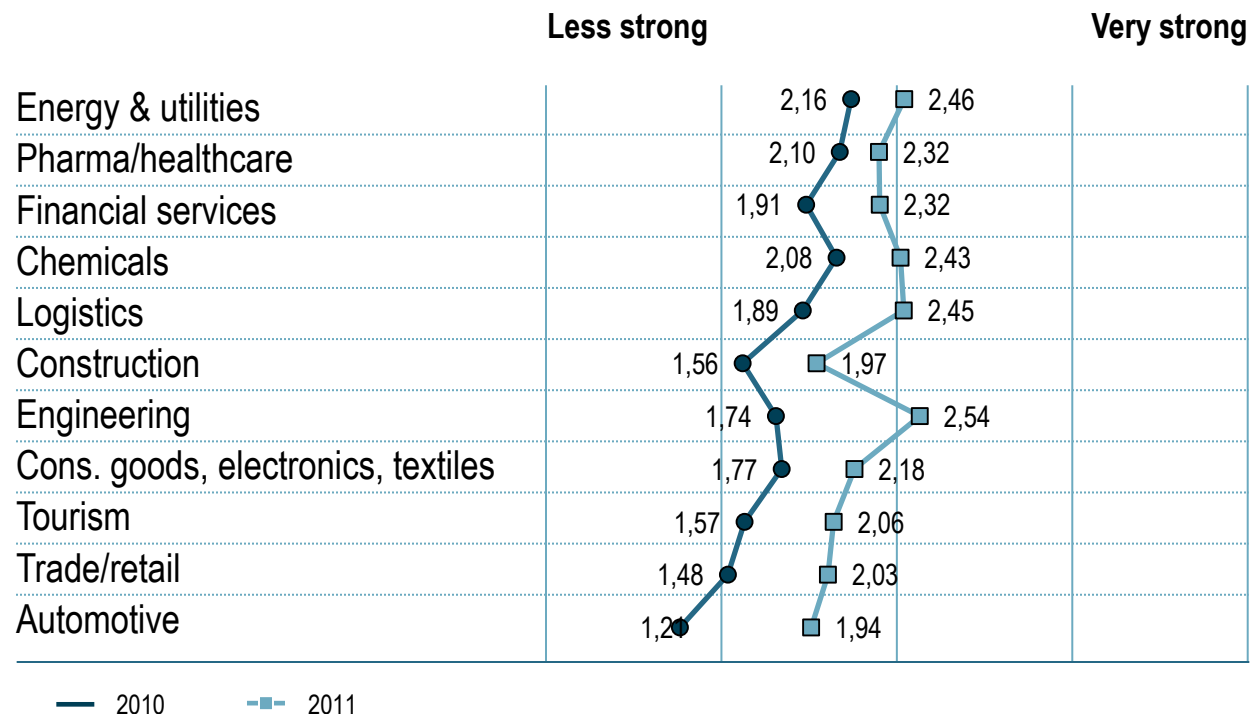
COMMENTS

1) 16 of 22% have not felt any impacts of the crisis

Automotive and engineering industries are expecting the strongest growth between 2010 and 2011

Industries profiting from the recovery [avg. of responses]

Which industries will profit most from the recovery in 2010 and 2011?



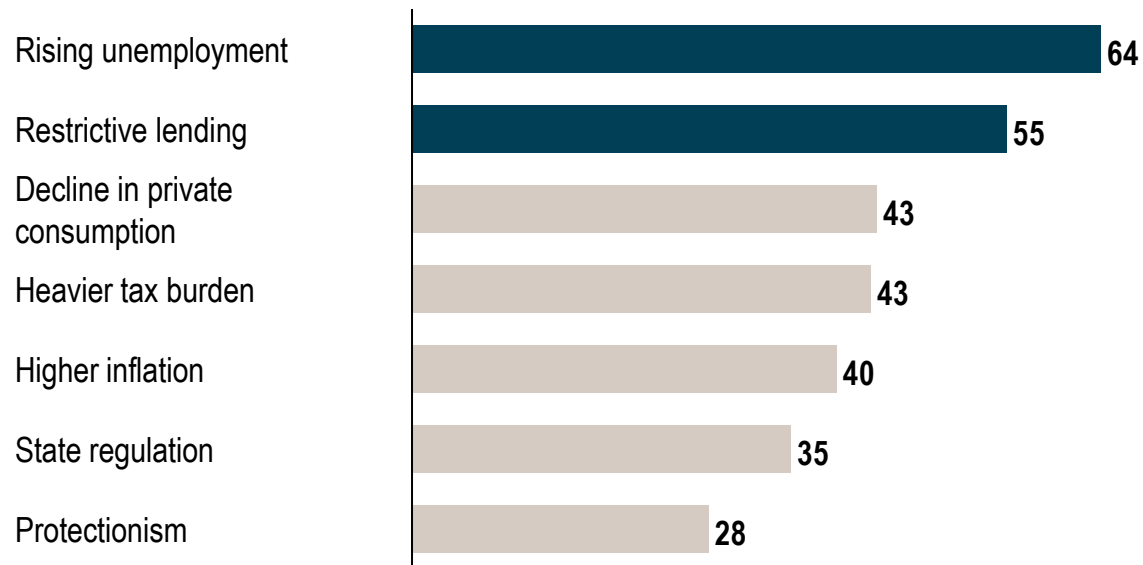
- > Strongest recovery expected in industries strongly dependent on the general economic situation
- > Automotive experiencing weak recovery in 2010 – but like engineering, strong growth is expected between 2010 and 2011
- > Trade/retail is decidedly gloomy compared to 2009 – this ties with the expected decline in consumer spending

COMMENTS

Expected worsening of the situation in the short term with regard to unemployment and lending

Impact of the crisis on selected areas [% of responses] ^{1,2)}

Areas where the situation is expected to deteriorate further still



- > 64% of those surveyed thought that further deterioration in the unemployment situation was likely
- > Restrictive lending considered even more of a critical issue in 2010 than in 2009 (46% of those surveyed in 2009 complained of difficulties getting hold of new loans)
- > 43% are expecting a drop in private consumption in 2010

COMMENTS

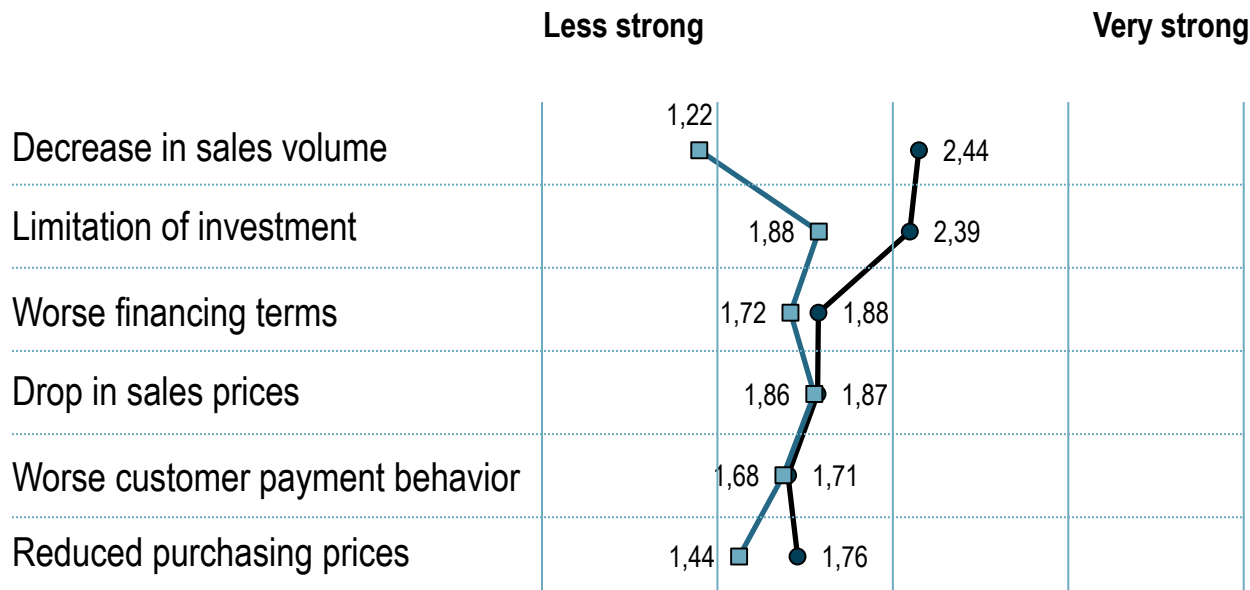
1) % of "very strong" and "strong" responses

2) Multiple responses possible

Crisis hit companies mainly through a drop in sales volume – Crisis visibly easing up in 2010

Impact of the crisis on companies [% of responses]

In what ways have you been hit by the crisis in 2009 and 2010?



- > Crisis is becoming less severe – Above all, the drop in sales and the investment freeze are less important issues in 2010
- > Investments react to the crisis with a certain time delay – remain an issue in 2010
- > Payment behavior of customers has remained relatively stable during the crisis

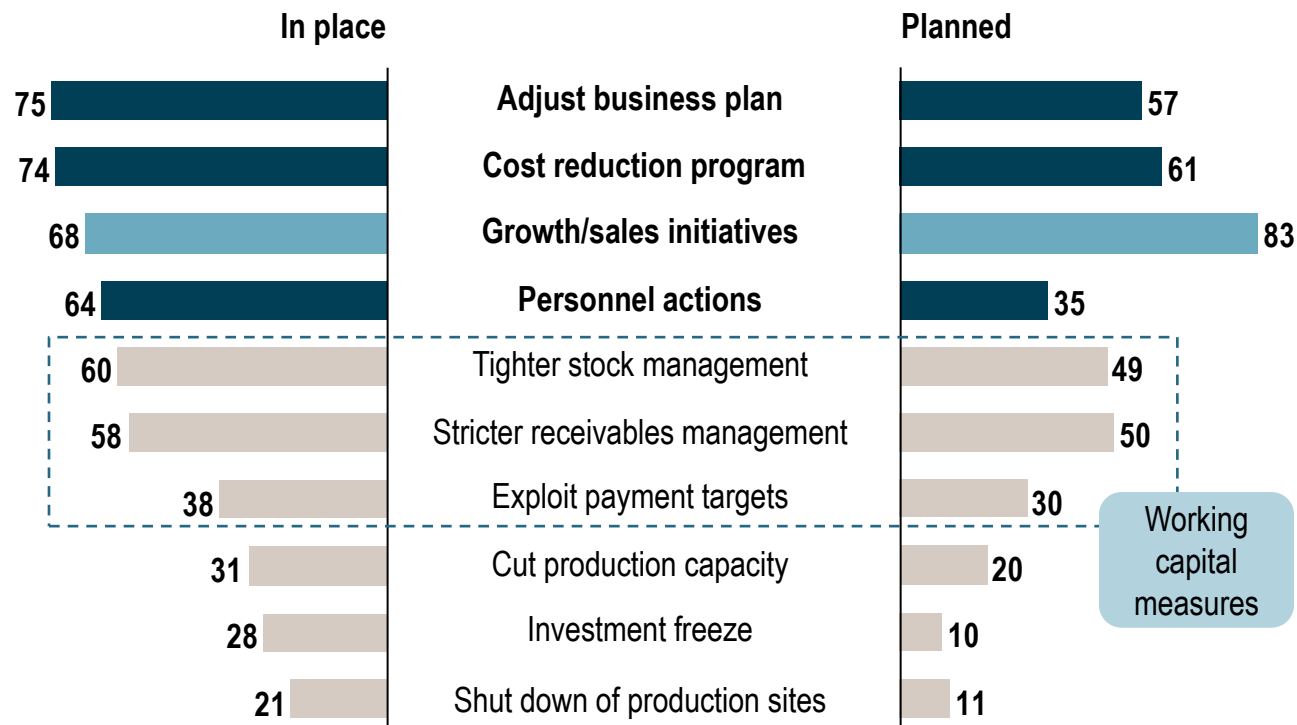
COMMENTS

— 2009 - - 2010

In the crisis, companies cut costs and generated liquidity – Main focus is now on growth

Importance of measures taken to counter the crisis [% of responses]^{1,2)}

How important are the various actions that your company has taken or plans to take?



- > Adjusting the business plan and introducing a cost reduction program are considered just as important in 2010 as in 2009 (75%)
- > From now on the focus will be more strongly on growth and sales initiatives (83%) – working capital measures will remain central

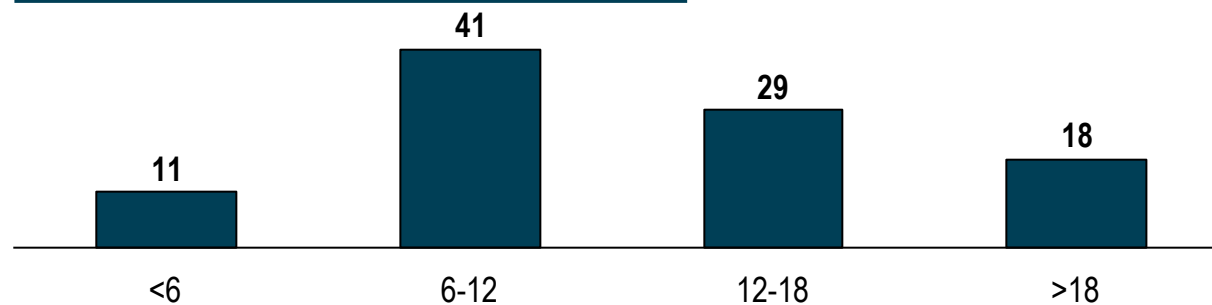
COMMENTS

1) % of "very important" and "important" responses 2) Multiple responses possible

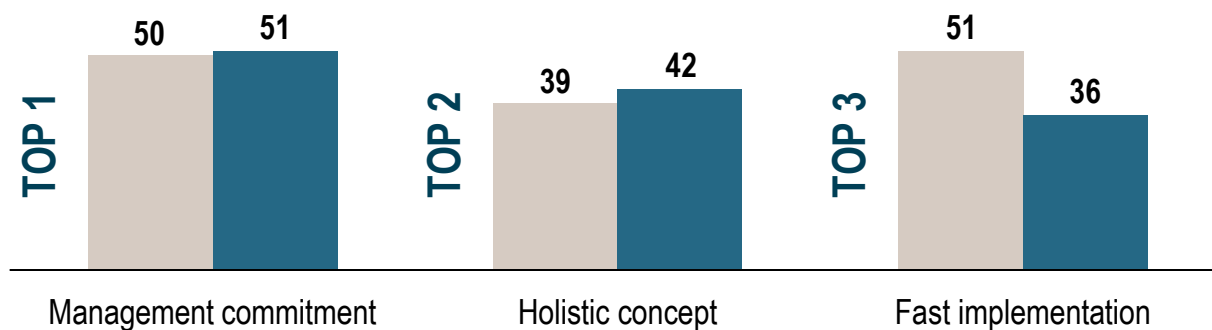
Most companies are planning to restructure for 12-18 months max. – Top success factor is management commitment

Duration of restructuring and top success factors [% of responses]¹⁾

Planned duration of restructuring (months)



Top success factors in restructuring



- > 81% of those surveyed have stepped up their restructuring actions in the company
- > 88% of companies are planning to restructure for 6-12 months or longer
- > Top 3 success factors unchanged – fast implementation remains important, but is less of a priority now due to action already taken during the crisis

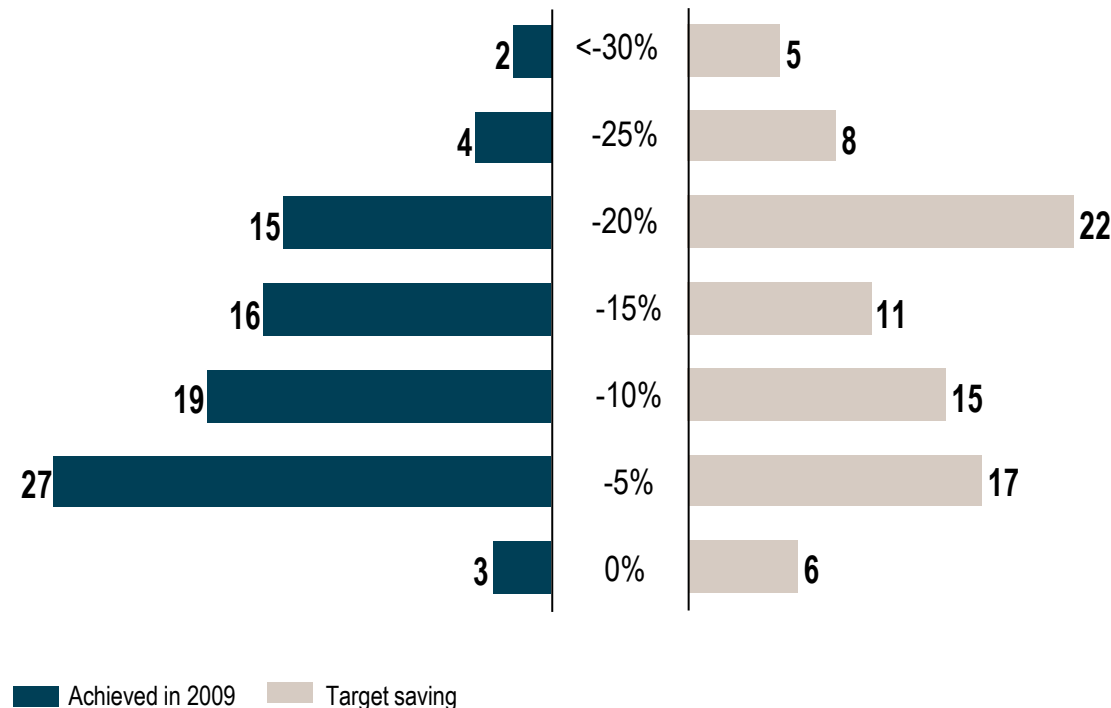
COMMENTS

■ 2009 ■ 2010 1) Multiple responses possible

Personnel costs already cut by 10% on average in 2009 – Further cost reduction expected (goal: 12%)

Reduction in personnel costs [% of responses]

How much have you (or will you) cut personnel costs by?



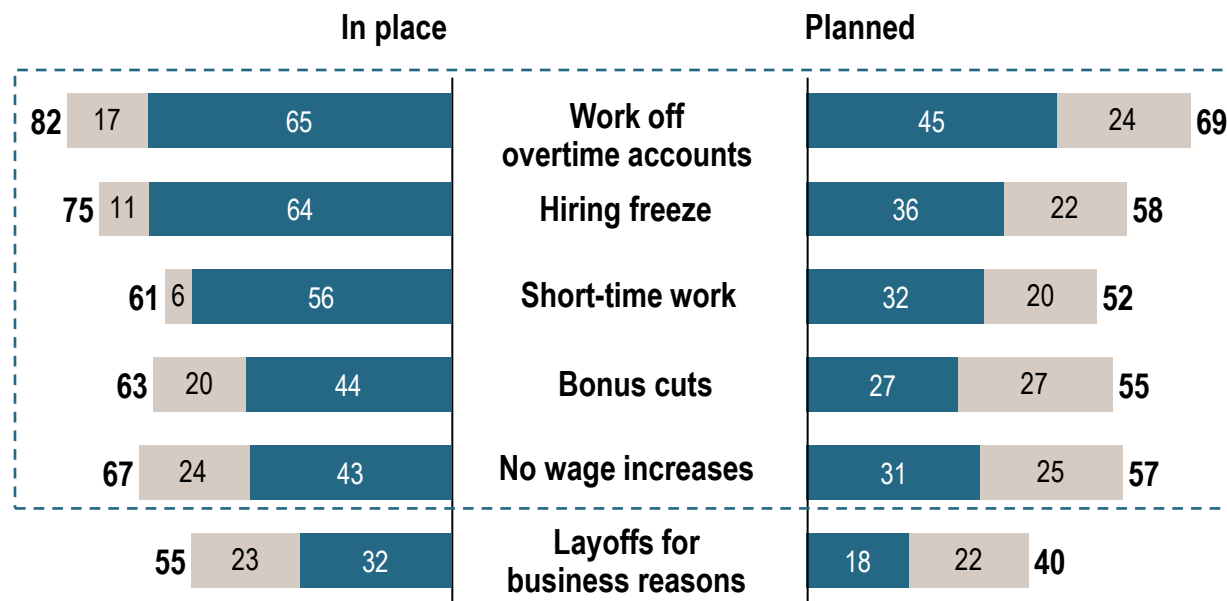
- > Large parts of the reduction in personnel costs (approx. 10% on average) were already achieved in 2009, however final cuts are still planned (avg. goal: 12%)
- > In 2009, 21% of companies surveyed had already cut personnel costs by 20% or more – in 2010, 35% of those surveyed are planning cuts on this scale

COMMENTS

Cuts in personnel costs were achieved by everyone playing their part, often without recourse to layoffs

Importance of reducing personnel costs [% of responses]

How important are measures aimed at cutting personnel costs?



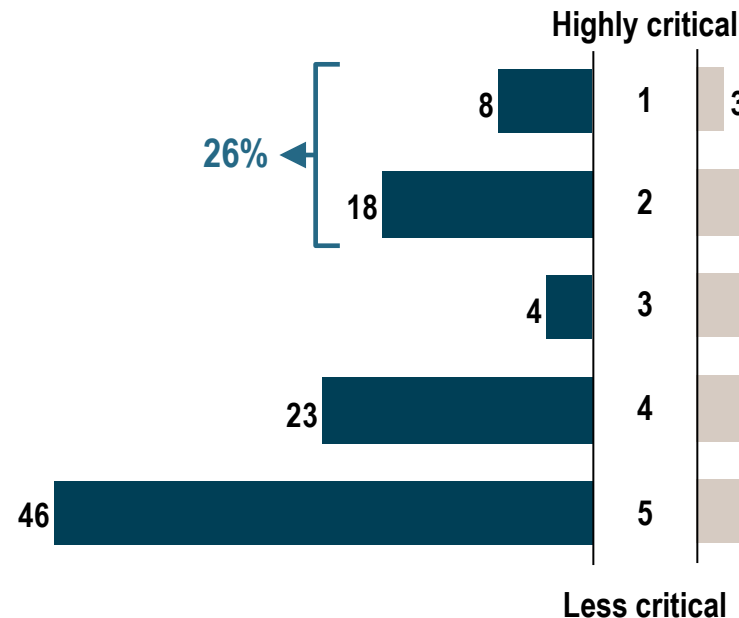
- > Unlike in 2009, most companies are not planning to increase the number of layoffs for business reasons in 2010
- > Priority are flexible measures such as running down overtime accounts and bringing in short-time work
- > Measures aimed at reducing personnel costs will be continued in 2010 but less strongly

COMMENTS

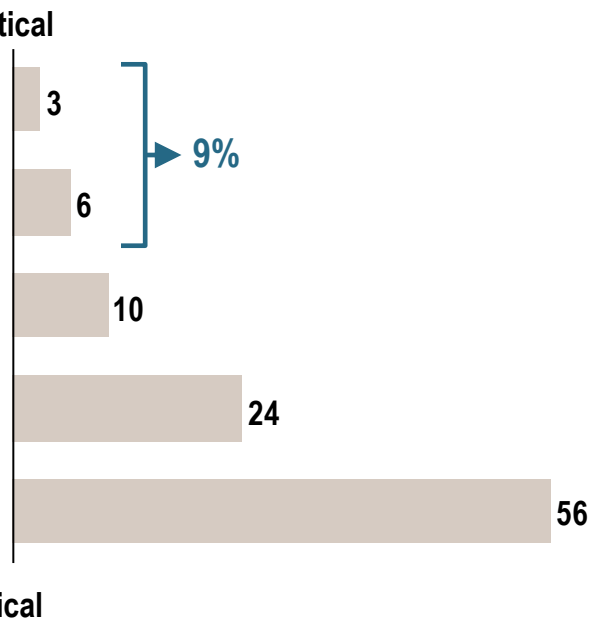
During the crisis, the liquidity situation became critical for a quarter of companies – Currently 9% are still at risk

Assessment of liquidity situation [% of responses]

Was your liquidity situation critical during the crisis?



Is your liquidity situation still critical due to the crisis?



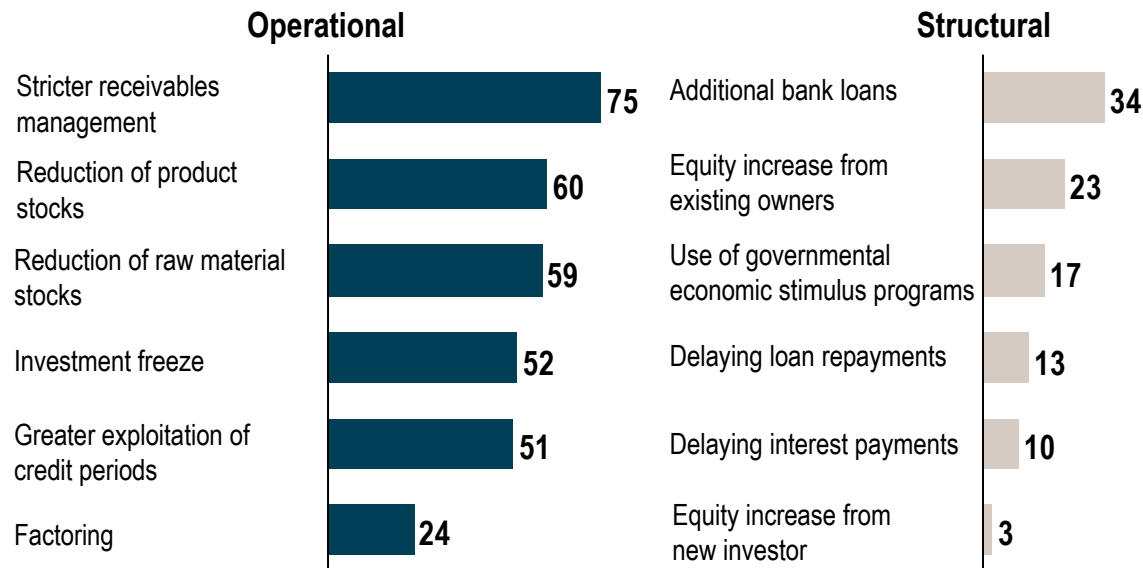
- > Overall, the liquidity situation is somewhat less tense than before
- > 26% of companies surveyed said that their liquidity situation was critical during the crisis (8% said it was highly critical)
- > 9% of companies said their current liquidity situation was still critical – for 3% of them highly critical

COMMENTS

Liquidity was ensured mainly through operational cash management – External financing was less successful

Actions taken to ensure liquidity [% of responses]¹⁾

What action did you take to ensure liquidity?



- > Clear focus on operational actions aimed at ensuring liquidity, especially operational cashflow management
- > Factoring was less important (24%)
- > Companies turned to structural actions and external financing, primarily in the form of traditional bank loans (24%)
- > Equity increase, especially from existing owners (23%)

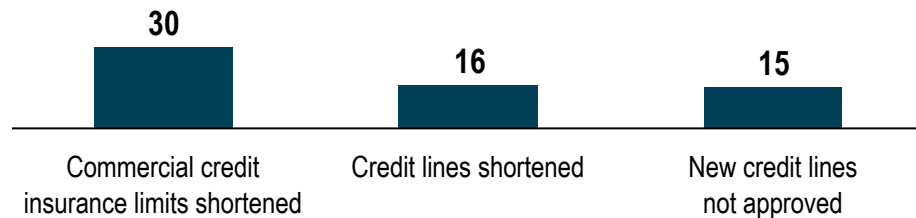
COMMENTS

1) Multiple responses possible

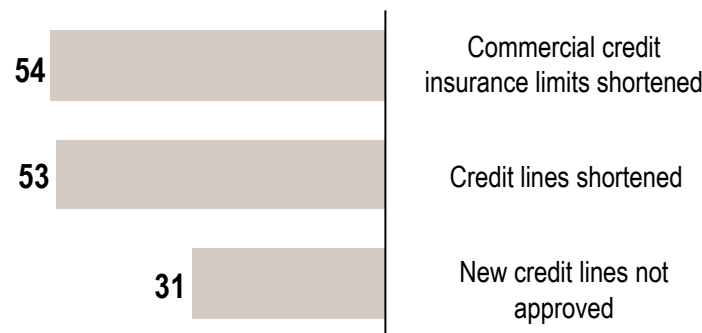
Especially critical are commercial credit insurance limits and credit lines – Current situation remains tense

Impact of the crisis on financing [% of responses]

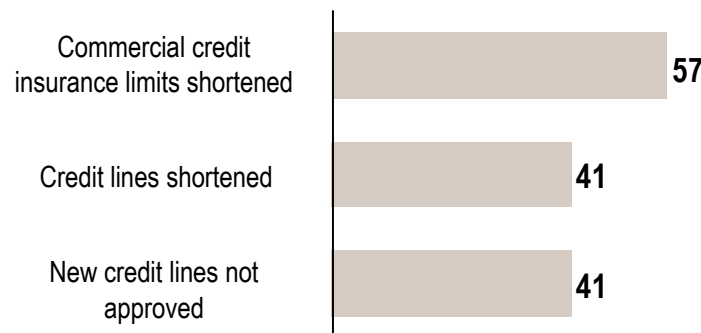
Negative effects of the crisis on corporate financing¹⁾



If yes, how critical were they for your company?²⁾



If yes, is the situation still the same?¹⁾



- > 30% of the companies surveyed said they had experienced a scaling back of commercial credit insurance limits during the crisis – 57% of companies say the situation remains the same today
- > 16% of the companies surveyed complained that their existing credit lines were cut during the crisis – 41% of companies say the situation is unchanged today

COMMENTS

1) % of "yes" responses

2) % of "very critical" and "critical" responses

Credit terms deteriorated for around half of companies during the crisis

Deterioration in credit terms [% of responses]¹⁾

How have credit terms for additional bank loans deteriorated?



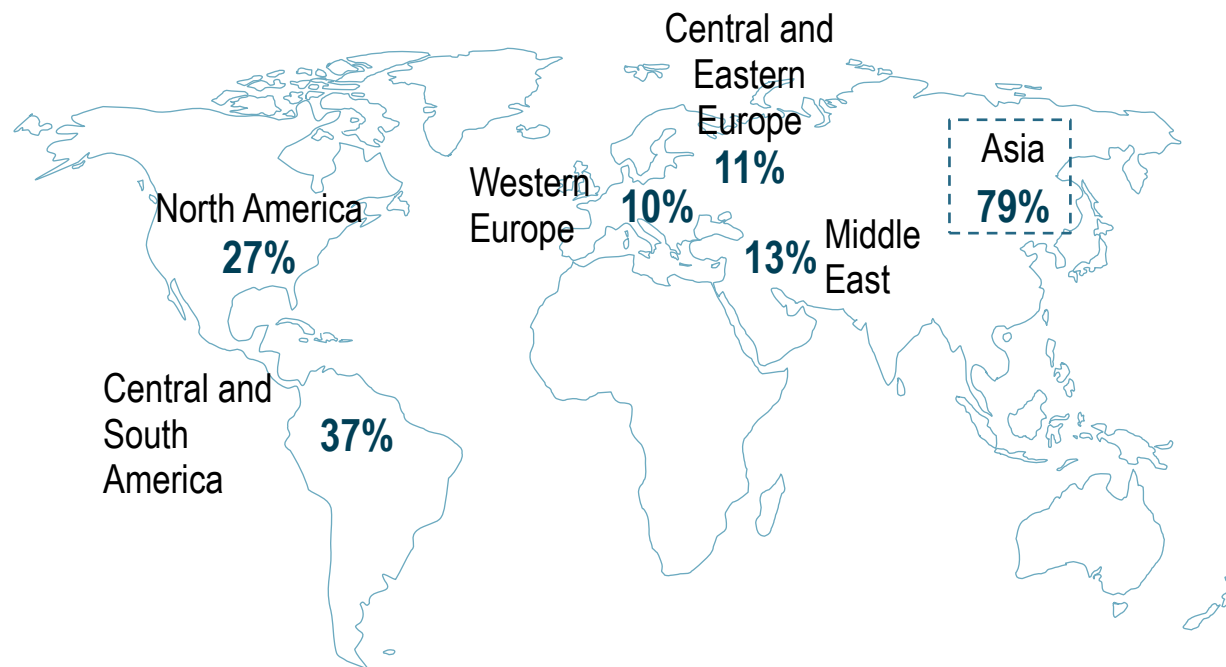
- > Nature of deterioration ranges from higher interest rates (50%) to increased security requirements (51%)
- > Companies said that "soft" issues such as increased reporting/information obligations were particularly relevant (56%)
- > Fewer companies complained of shorter loan periods (27%)

COMMENTS

1) Multiple responses possible

German companies are focusing strongly on Asia for growth

Regions set to profit from the recovery in 2010 [% of responses]¹⁾



- > 79% of those surveyed thought that Asia would profit from the upcoming recovery in 2010 (89% in 2011) – companies already saw very positive opportunities for Asia in 2009
- > Companies have lower growth expectations of Western, Central and Eastern Europe in 2010 – however, 33% thought that Western Europe will already profit from the recovery in 2011
- > Forecasts for North America also improve from 2011 onward (42%)

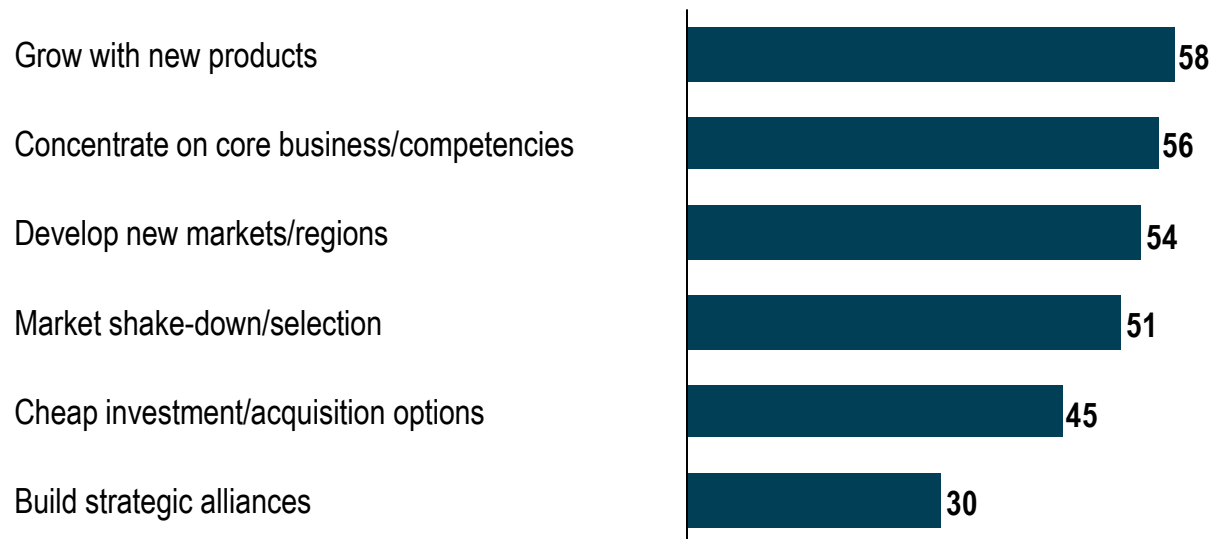
COMMENTS

1) % of "very strong" and "strong" responses

Companies are using the recovery to grow with new products and open up new markets/regions

Opportunities for companies during the recovery [avg. of responses]^{1,2)}

Areas offering opportunities during the recovery



- > 58% of the companies surveyed hope to use the recovery to grow with new products
- > 56% plan to concentrate on their core business or competencies
- > 54% want to use the recovery to develop new markets and regions

COMMENTS

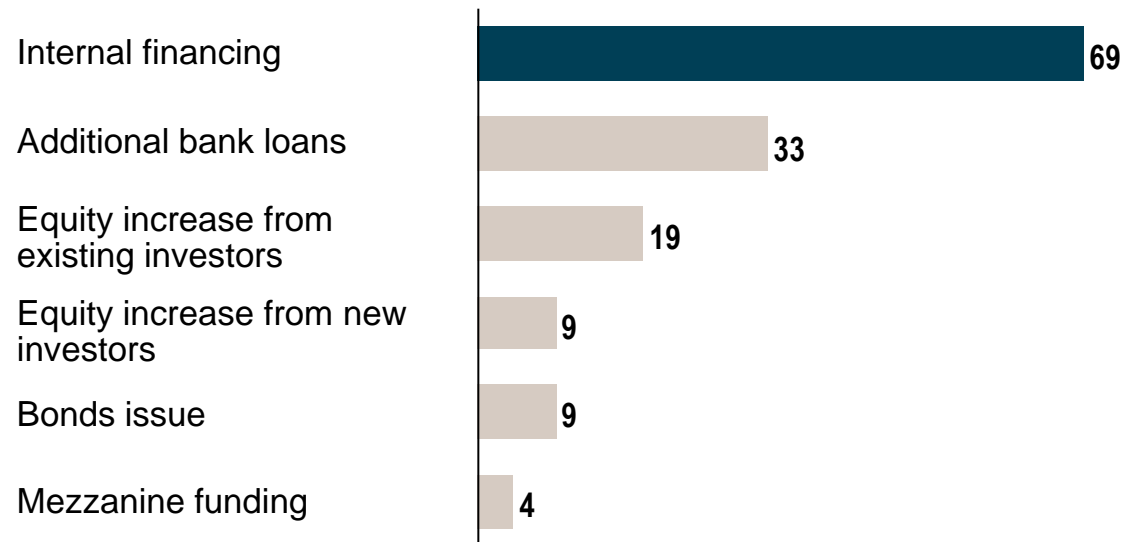
1) Multiple responses possible

2) % of "very important" and "important" responses

Majority of companies plan to finance future growth using their own resources

Financing future growth [% of responses]^{1,2)}

How are you planning to finance future growth?



- > 69% of companies surveyed plan to finance future growth using their own financial resources
- > Traditional bank loans (33%) are the most common form of borrowing – equity increases from existing investors (19%) or new investors (9%) is less popular
- > Issuing bonds on the capital market and mezzanine funding are rare

COMMENTS

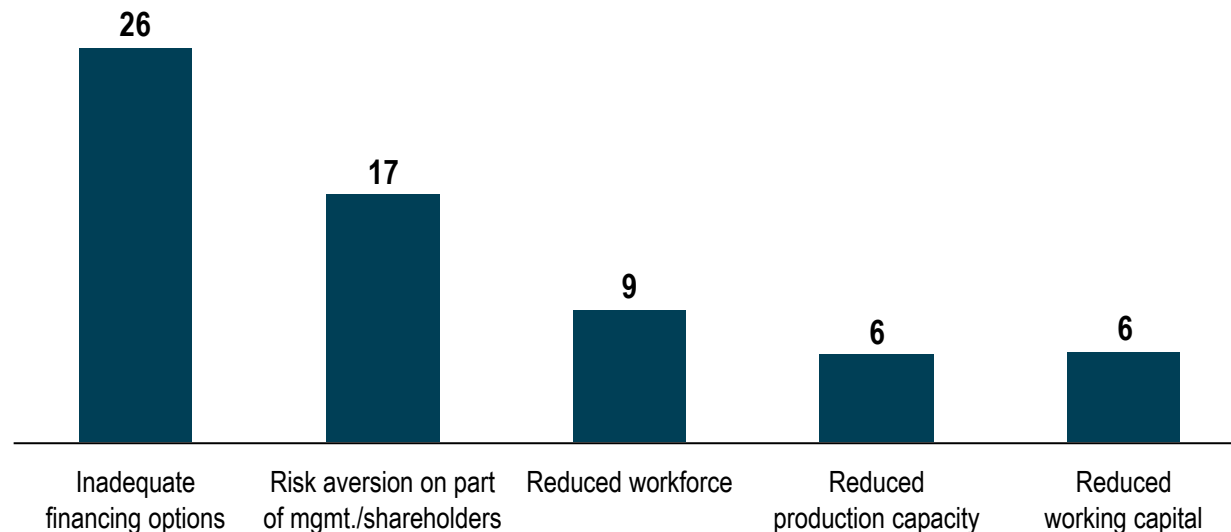
1) % of "very important" and "important" responses

2) Multiple responses possible

Lack of financing options is impeding future growth

Potential impediments to recovery [avg. of responses]^{1,2)}

Actions/events impeding future growth



- > 26% of companies see a high to medium risk of inadequate financing options impeding recovery
- > 17% say that risk aversion on the part of management or shareholders is a potential impediment to future growth

COMMENTS

1) Multiple responses possible
2) % of "high risk" and "medium risk" responses
Source: Roland Berger, Restructuring Study 2010

Crisis continues, but recovery is in sight – Four core lessons learned

Lessons learned from the crisis

- 1 INCREASE LIQUIDITY BUFFERS**

An economic downturn can affect liquidity sooner than you think

 - > Create higher **minimum liquidity reserves**
 - > **Optimize working capital** continuously to cope with any future crises
- 2 ENSURE A COMFORTABLE EQUITY RATIO**

The slump in revenues during the crisis hit equity sharply in many companies

 - > Reduce dependency on **borrowing** (i.e. leverage) by increasing the level of equity
 - > **Contract the balance sheet**, e.g. by making use of alternative forms of financing (e.g. factoring) and selling off non-essential assets
- 3 ENSURE FLEXIBLE COST STRUCTURES**

Prepare cost structures for any possible decline in business volumes

 - > Create **variable cost structures** (especially in **personnel**)
 - > Introduce additional **reporting/early-warning systems**
- 4 PREPARE FOR FUTURE GROWTH**

Establish a basis for future growth in good time

 - > Don't make future growth impossible when **cutting costs**
 - > Plan **growth and sales initiatives** in parallel with cost actions
 - > Exploit **competitors' weaknesses** during the crisis

What have CEOs learned from the crisis?

CEO quotes

"Cash is king"

"Don't endanger the restructuring success"

"Strict liquidity management is still important"

"Grow without borrowing"

"Get in there and make the most of opportunities for acquisitions"

"Think very carefully about any new investments"

"Keep communicating"

"Don't forget about the next crisis"



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