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Professional Master Thesis

Financial Restructuring: analysis and applications

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Summary

Introduction

On March 6, 2023, I began my internship at KPMG Italy in the Deal Advisory business unit and, more specifically, in the Turnaround and Restructuring team in the office of Padova (PD), in the region of Veneto, in the North-East of Italy.

The internship lasted for 3 months, until June 6, 2023. Subsequently, I was officially hired as a consultant under a 3-year apprenticeship contract, starting from June 10, 2023.

The Turnaround and Restructuring line of service provides advisory services to medium and large-sized Italian (and in some cases international) companies that are facing an advanced financial crisis with the goal of identifying the best path for crisis recovery. This may involve a Private Restructuring path, through actions such as capital increases, distressed M&A operations, or transactions with private equity funds, or a Public Restructuring procedure that involves the Court interventions for crisis management procedures outlined by the law. In both cases, KPMG serves as the companies' advisors and manages financial analysis, business plan definition, and the communication with the relevant parties.

There are many reasons that drove me to apply for this position, but primarily, I would like to emphasize my strong interest in the world of corporate crisis which I find fascinating: my work offers me the opportunity to interact with nationally renowned companies that are facing severe financial crises and collaborate with them to determine the best restructuring path to avoid bankruptcy and save their establishment in the Italian industrial scenario.

Secondly, I believe that consultancy provides a highly stimulating environment where the fast pace of work encourages the development of a problem-solving and flexible mindset. Most importantly, it offers the technical skills necessary to become an expert in the field.

This report aims at presenting my internship, both from a technical and a personal point of view. In the first chapter of this document, I introduced KPMG at a general level, delving specifically into a detailed description of my relevant business unit. I then dedicated significant space to the activities carried out during the internship, focusing on the two main projects I worked on during the internship period (and partially after my hiring), highlighting both the theoretical and technical aspects, along with the tasks I personally undertook.

In the second chapter, I conducted an Academic Research on the concept of "Restructuring," analyzing the causes of corporate crises, the technical tools for assessing the level of crisis, and the options for corporate restructuring within the context of Private Restructuring.

Finally, in the third chapter, I wanted to emphasize how my academic path, particularly certain exams at Université Paris-Dauphine, contributed to my choice of undertaking this internship and helped me throughout the whole internship.

Chapter 1. Presentation of the internship

1.1 – Company and Department

KPMG is one of the world's largest professional services firms, offering audit, tax, and advisory services to clients in a wide range of industries that today operates in over 146 countries and territories around the world, with approximately 236.000 professionals[1]. KPMG has a strong reputation for its work in a variety of industries, including financial services, healthcare, energy, and technology. The firm's clients include some of the world's largest and most recognizable companies, as well as small and mid-sized businesses, government agencies, and non-profit organizations.

1.1.1 – Activities, Goals and Specificities

KPMG operates in several key business areas and serves different types of clients and industries. In terms of services offered, the company's portfolio includes the following business units[2]:

- **Audit and Assurance**: This service helps company to enhance their credibility and transparency by giving comfort to information of both financial and non-financial nature. The portfolio of services includes, among the others, i) financial statement audit, ii) assurance services, iii) transaction services and iv) fairness option. The firm's audit services cover a wide range of industries, including banking, insurance, healthcare, and manufacturing, among others.
- **Tax and Legal:** This service aims at providing companies with tools and solutions to successfully manage both business transformation processes and complex multidisciplinary changes which can involve i) international regulations, ii) market pressures on issues such as ethic and transparency or iii) corporate governance changes.
- **Advisory:** This service supports companies of all sizes and from all production sectors in the processes of change, performance improvement and long-term sustainable value creation. The Advisory department is structured in 3 sub-departments: i) Management Consulting, ii) Deal Advisory (the Business Unit of my internship) and iii) Risk Consulting. KPMG's advisory practice offers a range of consulting services to help clients improve their business performance, manage risk, and drive growth. This includes services related to

[1] KPMG International website: https://kpmg.com/xx/en/home/insights.html
[2] KPMG Italy website: https://kpmg.com/it/it/home/services.html

mergers and acquisitions, debt restructuring (financial and operational restructuring), strategy and operations, digital transformation, and cybersecurity.

- **Accounting:** This service provides professional services in the fields of administrative and accounting management, both in outsourcing and operational support logic, in order to allow companies to deal with and manage i) the multitude of changes in the competitive scenario, ii) the changes in the regulatory environment and iii) the technological innovation.

Considering the company's extended range of actions and the wide range of services offered, it is possible to affirm that the main *goal* of KPMG is the continuous pursuit of excellence and professional quality. More specifically, KPMG showcases a broad range of **goals** and **objectives** that guide its operations and strategic direction. Working at KPMG, I can affirm that the main goals that the company pursues can be described as follows[3]:

- Delivering high-quality services: KPMG's primary goal is to provide clients with high-quality services that help them achieve their business objectives by i) maintaining the highest standards of professional excellence, ii) investing in the development of its people, and iii) leveraging technology and innovation. For this reason, we undergo continuous training by participating in courses on topics of corporate ethics and communication, as well as on the latest technical and legal developments in the field of the business unit we belong.
- Building trust and confidence: KPMG places a high value on trust and integrity, and strives to build strong relationships with clients, regulators, and other stakeholders. This is undoubtedly the aspect that struck me the most about KPMG's corporate culture: I realized that one of the necessary characteristics for advancing in this industry is the ability to gain the trust and collaboration of clients. I have witnessed how essential this is for working effectively and achieving efficient results, benefiting both the client and us as advisors.
- Making a positive impact on society: KPMG is committed to making a positive impact on society, both through its client work and its corporate social responsibility initiatives. KPMG is committed to follow ESG criteria and, again, we receive an ongoing training on this subject.

[3] KPMG Italy website: https://kpmg.com/it/it/home/about/governance/values-culture.html

1.1.2 – Brand positioning, market share and competitors' overview

In terms of brand positioning, KPMG is continuously growing within the consultancy industry. In particular, the year 2022 was a year of strong growth for KPMG. KPMG International announced aggregated global revenues of $35 billion for the fiscal year 2021/2022 (October 1, 2021 - September 30, 2022) which reflects a 14% growth compared to the previous year [4].

For what concerns the **competitive scenario**, KPMG competes with other accounting and professional services firms in the market. Some of its main competitors include the other members of the "*Big Four*" accounting firms (Deloitte, EY, and PwC), as well as other large multinational firms such as Accenture, Bain & Company, and McKinsey & Company.

According to the data provided by the *Global 2000*[5] in 2022, KPMG provided:

- Tax services to 472 companies (23% of market share)
- Advisory services to 626 companies (32% market share)
- Audit services to 481 companies (23% market share)

KPMG's position in the market can also be measured in a number of ways, including i) its ***client base***, and ii) its ***reputation***.

1. KPMG's **client base** is diverse and includes many of the world's largest companies across a wide range of industries, including financial services, healthcare, technology, and consumer goods.
2. KPMG is also **well-regarded** in the industry and has received numerous awards for its services. For example, in 2021, KPMG was named the Best Global Accounting Firm by the International Accounting Bulletin[6]. Moreover, in 2022 KPMG in the US was recognized in the Fortune Magazine's 100 Best Companies to Work For list, ranked at 39[7]. For what concerns KPMG Italy, It is worth mentioning that in 2021 the Italian Corporate Finance team was awarded as the best Italian Financial Advisor of 2021 during the Mergermarket European M&A Awards[8].

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[4] KPMG International website: https://kpmg.com/it/it/home/about/performance.html

[5] The Global 2000 is a combination of the Forbes Global 2000 and the Fortune Global 500. Total number of companies featuring in the Global 2000 are 2.049.

[6] The *International Accounting Bulletin*, also known as *IAB*, is a trade magazine that is published on a monthly basis and focuses on the global accounting industry.

[7] For an overview of the other awards and acknowledgments: https://kpmg.com/xx/en/home/about/who-we-are/awards-and-recognition/recognition-for-our-culture.html

[8] For more information: https://kpmg.com/it/it/home/media/press-releases/2022/04/mergermarket-kpmg-best-financial-advisor-2021.html

1.1.3 – KPMG in Italy

In Italy, KPMG has been present for 60 years and today, with over 5.000 professionals, 6.000 clients and a comprehensive portfolio of services that meets the needs of the domestic and international market, KPMG is the most important professional services "platform" active in the Country[9].

In Italy, KPMG accounts **25 offices** throughout the Country, with the Head-Quarter located in Milan.

Territoriality is indeed an important factor in interpreting the needs of small and medium-sized entrepreneurs, which differ from region to region; therefore, KPMG's network has a widespread presence on the Italian territory, strengthened by a strategy of *"proximity"* of professionals to the needs of local businesses according to the Italian entrepreneurial environment.

The Italian territory is divided into 5 geographical areas, each coordinated by a reference office.

- ***Area 1***: Lombardy (except Mantua) - **Milan** office coordination.
- ***Area 2***: Piedmont and Liguria – **Turin** office coordination.
- ***Area 3***: North-East (Friuli-Venezia Giulia, Veneto and Trentino-Alto Adige) - **Padua** office coordination.
- ***Area 4***: Central Italy (Emilia-Romagna, Tuscany, Umbria and Marche) – **Bologna** office coordination.
- **Area 5**: Southern Italy and Islands (Abruzzo, Basilicata, Calabria, Campania, Lazio, Molise, Puglia, Sardinia and Sicily) - **Rome** office coordination.

Figure 1 – KPMG's territorial organization in Italy

[9] KPMG Italy website: https://kpmg.com/it/it/home/misc/search.html?sp_p=any&q=offices&sort=_score&page=2&sp_c=9

1.1.4 – Specificities regarding the internship: Department and Position

For what regards the position of the department where I performed my internship in the general organization of the company, I was hired as an intern in the **Deal Advisory** business unit and, specifically, in the team dedicated to **Turnaround and Restructuring** services in the office in Padua (Veneto), which is the general reference office for the North-East Italian territory.

As mentioned before, the Deal Advisory business unit is part of the Advisory macro-segment which has the main purpose to support companies (both listed and private) in searching new market opportunities based on the stage of their business, in order to assure business' continuity and development trough i) growth, ii) investments or iii) turnaround. The Deal Advisory business unit, in Italy, in structured in 4 main areas[10]**:**

1. **Turnaround and Restructuring** which counts 68 professionals, 6 partners and 5 offices.
2. **Deal Transformation** which counts 32 professionals, 3 partners and 3 offices.
3. **Corporate Finance** which counts 154 professionals, 15 partners and 5 offices.
4. **Transaction Services** which counts 122 professionals, 10 partners and 5 offices

The Turnaround and Restructuring team specifically operates as a financial advisor and interlocutor in the interaction with companies and investors (or financial institutions) with the aim of supporting its clients in the identification and implementation of the best restructuring path which, according to the specific market context in which the company operated and to the company's current business model, can be defined "**Operational Restructuring**" or "**Financial Restructuring**"[11].

Some of the specific Restructuring services offered by KPMG Italy include:

- **Debt workout and insolvency**: KPMG works with clients to develop and implement strategies to address situations of financial distress or insolvency. This can include i) negotiating with creditors, ii) developing workout plans iii) or assisting with the sale or divestiture of assets (Distressed M&A). These activities represent the core business of my team.
- **Financial and operational restructuring**: KPMG works with clients to develop and implement strategies to improve their financial and operational performance, including cost-cutting measures, operational efficiencies, and working capital improvements.
- **Debt advisory and capital restructuring**: KPMG advises clients on the optimal capital structure for their business and helps them to access the capital they need to finance their operations. This can include i) negotiating with lenders (primarily banks and / or other

[10] KPMG Italy website: https://kpmg.com/it/it/home/services/advisory.html
[11] These topics will be further defined and explained in the second chapter.

financial institutions), ii) raising new debt or equity capital and iii) restructuring existing debt.

The environment that I found in my team was very welcoming, and from the beginning, everyone made themselves available to me. Specifically, my team, as is customary in consulting, is organized with a hierarchical structure, with the partner at the top and, below, senior managers, managers, assistant managers, senior consultants, and consultants. Typically, the career progression involves a 3-month internship and 3 years as an apprentice as a consultant before advancing to the first level of seniority, which is senior consultant.
One of the characteristics of the restructuring division is the fact that most of the work is carried out on-site at the client's company. This is for a twofold reason: on one hand, it allows for establishing a relationship with the client and the opportunity to interact with them in person, and on the other hand, it provides much faster access to the required documentation. From this perspective, I was very fortunate: just one week into my internship, I was immediately sent with my team to the client's location, allowing me to immerse myself in the real world of consulting right from the start.

1.1.5 – Trainees’ Welcome Programs

KPMG pays special attention to the placement of trainees. In particular, it is important to highlight that the first working week is devoted to the training of the trainee, both from a theoretical and a practical point of view mainly by assigning the trainee to a mentor (tutor) who follows the trainee during the entry-phase.
My first day as an intern at KPMG firstly involved a general introduction to the company and the Office by my mentor and the provision of the company’s laptop and telephone. Then, I devoted myself to fulfilling the mandatory online courses that are necessary to learn the rules and principles underlying the organization. Online courses are available on a special platform provided by the company, named ***KPMG Knowledge Academy*** and can vary in duration, ranging from 1 to 8 hours. All trainees must take online courses, which are differentiated according to the reference Business Unit. Among the main courses that I completed, I found particularly interesting and educational the following ones:

- “***GDPR and Privacy***”: this course responds to specific mandatory periodic update training requirements on General Data Protection Regulation (*GDPR*) defined at the level of the KPMG International Network and arising from the update of the Italian Legislation.
- “***Anti-Money Laundering (AML)***”: this course provides an overview of new developments related to AML regulations, with a focus on the obligations and penalties involved.

- "***KPMG Advisory's Organizational, Managerial and Control Model***": The purpose of this course is to train all trainees on the main regulatory profiles pertaining to the Administrative Responsibility of entities pursuant to Legislative Decree no. 231/2001, as well as to provide the necessary knowledge relating on the main aspects concerning the Organizational Model adopted by KPMG Advisory as well as the operational tools to be adopted in the management of professional activities.

The second phase of the trainee's training is generally devoted to understanding the use of company applications, which are functional for the performance of daily tasks and compliance with internal procedures. Among these, the training includes the use of the major **databases** that are essential for conducting market analysis or having at hand the main business data of any company that is the subject of interest. In particular, I was taught how to use the following databases, which also served as the main reference tools throughout my internship:

- ***EuroMonitor International***: database which provides detailed historical and forecast analysis by country, sector and consumers with thousands of reports and market research available.
- ***Refinitiv Workspace***: database which provides news, financial data, analyst reports, company filings, etc.
- ***Statista***: provides statistics, reports, dossiers, and forecasts compiled on the basis of data from both research and surveys and over 22.000 secondary sources.
- ***EIU – Economist Intelligence Unit***: business unit of the Economist Group providing forecasts, research and market analysis on over 200 countries and sectors.
- ***Orbis / Europe***: European database containing descriptive, financial and ownership information on more than 11 million public and private companies in 41 countries.
- ***AIDA****:* database which provides the financial statements (Income Statement and Balance Sheet) of every Italian company.

1.2 – Works and activities carried out during the internship

First of all It is important to specify that all the activities carried out during my internship and, in general, all the activities carried out in the Turnaround and Restructuring department are developed and structured around **projects**: each member of the team is scheduled to one or more projects that can vary in duration (from a few weeks to several months) depending on the complexity of the deal, client-imposed timelines, or the nature of the activities involved in the project itself.

This means that every working day is different, according to the project you are working on: during my experience in these months, I had the opportunity to participate in several projects that were completely different from each other, which allowed me to become familiar with various dynamics and understand the multitude of facets that this work entails.

In particular, in this paragraph, **I will describe the two most significant projects** in which I participated during my experience, focusing on the activities carried out as well as well as the technical issues and tools involved: Financial Restructuring project and Business Plan Review project.

1.2.1 – Financial Restructuring Project

- **Overview of a Financial Restructuring Project**

The mission of a Financial Restructuring project at KPMG involves the development of a business plan[12] on behalf of a Company aimed at understanding which will be the most feasible solution for solving the company's crisis. Indeed, in the context of the Turnaround Restructuring division, the majority of the client companies are entities in a distressed situation; therefore, the objective of the business plan is to investigate the prospective scenarios that the company in question may face, based on historical data and market trends. Depending on the restructuring scenario identified for the company, additional documents can be prepared based on the business plan and then shared with banks or investors.

[12] A **Business Plan** is a comprehensive document that outlines financial projections of a business for a period that can range between 5 to 10 years. It serves as a roadmap for the company's operations, growth, and potential investors, detailing how the business intends to achieve its objectives and navigate challenges. In the context of restructuring, a business plan refers to a model outlining the financial strategies a company intends to take in order to reorganize, revitalize, or turnaround its operations. In KPMG the business plan is modeled in Excel and then presented to clients in a Power Point document.

- **Overview of the Project: the company and the issues involved**

The very first project I was involved in in March when I started my internship regarded the financial restructuring of a company that had been in a critical situation for several years. I was really happy to have the opportunity of being involved in this project, since I was told that It is not very frequent that an intern is immediately staffed in such an important project.

The company under review operated in the shipbuilding industry and was characterized by a job-order basis business model[13]; therefore, each job-order involved the construction of ships.

The financial distress largely stemmed from the industrial profile and, in particular, from the inability to implement the appropriate pricing strategies with customers and suppliers to cover the company's production costs, resulting in a significant decline in key profit margins for most of the company's job-orders (*the topics related to the causes of a company's crisis will be further explained and addressed in Chapter 2*).

- **Missions**

This project has had several missions and objectives, which have gradually diversified over time based on i) the scenario outlined in the business plan and ii) the evolution of the company's financial situation.

1. Initially, in the first phase, the main objective of the project was to perform the Excel-modeling of the business plan, containing the economic-financial projection of the situation of the company in the next 5 years in order to identify the best scenario of restructuring of the company itself.
2. Subsequently, we evaluated the entrance in the company of financial or industrial partner[14] available to inject new finance into the company through the acquisition of a portion (or the totality) of the company's shares. For this reason, in this second phase, our main objective as advisors of the company was prepare the necessary documentation (*Information Memorandum*) to support the potential operation of distressed M&A that would have been delineated.
3. In the third phase, It became necessary to provide additional documentation to the banking system so that it would be available to support any new financing considering

[13] A **job-order business model** refers to a company that operates based on contracts, normally lasting more than one year, for the production of an asset (or combination of assets) or for the supply of non-serial goods or services which together form a single project. Unlike mass production, in a job-order business model, the company produces only on specific request and technical specifications requested by the client. This type of business model is generally found in companies that operate in the construction of works, buildings, roads, bridges, **ships**, plants, and in the provision of services.

[14] A **Financial partner** in the context of M&A refers to an individual, company, or financial institution that collaborates with a business to provide capital through the acquisition of the company or another extraordinary operation (Private Equity Funds, Venture Capitalists, Investment Banks, etc.) while an **Industrial partner** refers to a company or entity that operates within the same or a related industry as the target company and aims to combine forces with the target company to create synergies or expand market presence.

that the provision of liquidity by the industrial or financial partner would have helped the company to recapitalize and support the return of funding. Therefore, the mission was to perform the "*Short Term Cash Flow*" which is the estimate of the inflows and outflows of the company in a 6-month period time, based on the collection of credit receivables and the payment of trade payables and financial expenses.

- **Activities carried out: technical issues and tools involved**

<u>Market Analysis</u>

In the first phase, in order to elaborate the correct assumptions on the evolution of the company's revenues for the business plan, my first task was to analyze the company's reference market from two points of view: macro-economic reference context and the company's reference business. The market analysis is indeed very important to gain a general knowledge of the sector in which the company operates as well as to understand how to project its financials.

For the **<u>macro-economic context analysis</u>**, I developed an analysis, both historical and provisional, on the evolution of GDP (*Gross Domestic Product*) and of inflation in Italy (which is the company's reference country) and in the geographical areas where the company's main clients resided. This analysis started from the assumption that the company's reference business was very cyclical and, consequently, very sensitive to market fluctuations in terms of growth and inflation, which is why it was necessary to analyze the prospective macro-economic environment in order to assess how the latter might impact the company's ability to maintain its commercial power towards its customers.

Secondly, I was asked to perform a detailed analysis of the **<u>reference business</u>** of the company under three points of view:

- **<u>Industrial</u>**: I analyzed the market value of the company's business based on i) the number of transactions, ii) the investments made in the sector, iii) the global public expenditure in the shipbuilding industry, iv) the global production value.

  In addition, I analyzed the financial and industrial data of the company's <u>main competitors</u> to obtain a benchmark of the target market. For the selection of competitors, I liaised directly with the company's management while for the extraction of financial data, KPMG has access to the AIDA database from which it is possible to obtain the financial statements of Italian companies. For each competitor, I prepared a balance sheet analysis highlighting historical key ratios (e.g., EBITDA, NFP, etc.) and an analysis of the products and services offered.

- **Financial**: I analyzed the global financial stability of the company's reference sector mainly based on the global investments made in this sector. The competitor's analysis also helped me to size the stability and the characteristic of the Italian shipbuilding industry.
- **Market trends**: I analyzed the main market trends of the sector in order to understand the future outcomes of the business.

To perform all the analysis explained, the main tools I used to collect data where: EuroMonitor, EIU (Economist Intelligence Unit) and IMF (International Monetary Fund) and all the data were processed in Excel.

Business Plan Analysis

In the first phase of the project, I also directly contributed to the preparation and analysis of the Business Plan. In particular, my analysis was focused on the company's job-orders in progress (namely, job-orders related to ships whose construction has had already begun but was not yet completed), with the aim of analyzing historical and prospective financial margins. My analysis was indeed preliminary to understand the company's revenues dynamic and allowed my seniors colleagues to implement the company's revenue and costs projection in the business plan correctly.

In order to conduct this analysis, I personally worked with the company's project managers who provided me with the *PEFs*[15] of the individual job-orders in progress, through which I was able to reconstruct for each of them the following Excel models:

- The job-order income statement: This is a simplified income statement model in which I allocated the revenues from the collection of job-order invoices and the costs, which were divided into direct production costs and direct production personnel costs. The final result I obtained was the job-order Gross Margin which is a primary indicator of the job-order profitability (if positive) or loss (if negative).
- The job order balance sheet: This is a simplified balance sheet model in which I allocated job-order account receivables (resulting from the receipt of prospective invoices), job-order payables (resulting from payables to suppliers of raw materials) and advance payments received from customers. The final result I obtained is the job-order Net Working Capital, which allowed me to understand the financial disbalance of every job-order.
- The job-order cash flow: I developed a cash flow-model for every single job-order to analyze the level of liquidity absorbed historically and the liquidity needs generated

[15] The acronym **PEF** (Pianificazione Economico-Finanziaria) can be translated as *Economic and Financial Budget*: it is a document generally prepared in Excel by the project managers of a company working on a job-order basis which estimate the income and expenditure of each job order from the time the contract is signed until the delivery of the order.

prospectively, and I realized that the situation was very dramatic, as every job-order was facing negative margins for the next years. It was truly impactful to realize that a company with significant industrial potential was on the verge of failing due to a lack of liquidity. This made me understand that every business, no matter how established, can always face management errors that jeopardize its existence.

Moreover, in this process, my seniors colleagues explained to me the technical concept of financial modeling in Excel to realize a business plan so that I would have been able to update it by myself in the future. Indeed, the first input to build a business plan model in Excel is always the financial statements (Income Statement and Balance Sheet) provided by the company's management that allow to reconstruct the historical financial background of a company and which then serves as a starting point to generate the assumptions for the financial projections in the next 5 to 10 years. Every time the company releases an update version of its statements (generally four time in a year but sometimes on a monthly basis according to the situation of the company), the business model should be updated because the input, and therefore the projections, may change significantly. Then they taught me how to model and make projections for the items of the Income Statement and the Balance Sheet, as well as how to estimate the company's future investments, personnel costs and exposure to the banking system. Thanks to their explanation, I learned financial modeling in Excel and I was able to update completely by myself some parts of the business plan (especially the part related to the projections of the items of the Income Statement) when the company released an updated version of its statement in June.

Information Memorandum

In the second phase of the project, I was responsible for the preparation of the Information Memorandum, so I learned that it is a document that, during a corporate acquisition transaction, is generally processed by the advisors of the company subject to the transaction to present to potential buyers the target company and the global investment opportunity. The main difficulty of this document is that It has to be formal and without any personal opinion on the subject, therefore the wording and the presentation of the numbers is very challenging. Specifically, I developed a Power Point document (supported by all the analysis conducted in Excel) distinguished in the following parts:

- **Executive Summary**: I provided a concise overview of Company, presenting its business model, products and services and key financials of the past 3 years.
- **Company Overview**: In the section of the document, I described the Company's history, corporate structure and organizational chart. I also deepened the description of the core business of the Company, by providing a detailed analysis of its products and services and of its commercial presence.

- **Market Analysis**: In this part, I explained the analysis conducted in phase 1
- **Historical Analysis**: In this section, with the support of the Company's management, I firstly outlined the roots of the crisis and the impact that those issues has had on business in the recent years. Then, with the support of the senior team, I analyzed the financial statements of the Company (P&L, Balance Sheet and Cash Flow), providing comments and detailed description on the main voices of the statements (such as EBITDA, Net Working Capital, Net Financial Position, etc.). I also presented the Company's bank exposure and trade payables overdue.
- **Business Plan**: In this part, supported by the senior team, we presented the Business Plan of the Company and the strategic guidelines for its implementation. We also included my personal analysis of the job-orders: for each of them, I developed a slide that showed the job-order P&L, Balance Sheet and Cash Flow, as well as the details regarding the client, the technical issues of the order, the starting date of the production and the need for the issuance of a performance bond. I was very proud that my personal work was included in the InfoMemo to be presented to investors, It was a very great achievement to me.

1.2.2 – IBR – Independent Business Review

- **Overview of an Independent Business Review Project**

The Independent Business Review ("IBR") consists of an independent professional opinion on the plausibility of a company's future commercial, organizational and financial evolution. It is, in practice, a study aimed at confirming (or refuting) the reasonableness of the business plan that has been drawn up by the management of a company in order to allow to make "informed decisions" constructed from solid data from another company. Usually, this service is of interest to individuals to whom the company has requested financing or capital increases (for example, private equity funds). but can be requested (as in the case of the project that I followed) by industrial or financial operators who wish to make an investment or an M&A transaction in the target company.

- **Overview of the Project: the Company and the issues involved**

In June, I was involved with the senior team in the development of the IBR of the Business Plan of a target company on behalf of a client, who was willing to acquire the majority of the stake in the target, which was a company active in the shipbuilding industry of luxury yachts and sailing boats. The acquisition by the buyer, who belonged to a different industrial sector, followed a strategy of diversification and internationalization. This type of project was an exception for my Restructuring team, which normally deals with companies in crisis. In this case, however, the companies involved in the M&A operation were both financially very strong. Therefore, I was very lucky to participate in an almost exclusive deal for my business unit, and of national scope.

- **Missions**

As advisors to the buyer, the IBR's mission was primarily to validate the assumptions made by the target's management on the projected income statement. To do so, It was fundamental developing a detailed analysis of the projected revenues distinguished by product, regions of product delivery, and clients. For this reason, our analysis primarily focused on the following points:

1. Evolution of revenues and margin: The objective of this analysis was to identify which brand of the target and, specifically, which vessels were most profitable for the company. It should be emphasized that, following the excellent performance of the boating industry in recent years, we are witnessing a trend of price and orders normalization for luxury vessels in response to macroeconomic changes. The analysis aimed at verifying that the target had a solid margin and well-positioned vessels in the market to withstand the market slowdown.

2. Evolution of the number of vessels sold and their average selling price: This analysis was conducted at a geographical level, distinguishing between Europe, America, and the Rest of the World, with the aim of analyzing in which geographic area the majority of luxury yacht sales were concentrated. The mission was to examine the target's geographic diversification and its commercial leverage with key clients: since luxury yachts are sold at very high prices, it was essential to understand the target's ability to command higher prices while simultaneously not losing its loyal customer base.
3. Competitor's analysis: The missions of in this phase was to compare the investments (CapEx) made by the target with the sectorial average through the analysis of the balance sheets of the main competitors, in order to verify that the target company was not undercapitalized.
4. Backlog analysis[16]: This was the most important analysis of the IBR because allows to understand the number of orders expected in the next two years and, above all, to analyze the seasonality of the business, checking if orders exhibit any seasonal patterns and identifying during which phase of the year most of them are concentrated.

- **Activities carried out: technical issues and tools involved**

Management's interviews and competitors' analysis

In this project I was firstly involved with my team in management's interview. In fact, in a project of this nature where is required an objective assessment of a business, it is crucial to gather as much information as possible to attain a comprehensive understanding of the business itself. In this case, through various calls and company site visits, we interviewed the CEO and CFO of the company who shared with us the characteristics of their company and the rationales used for constructing the business plan. Another essential element of the IBRs are the so-called "expert calls," which involve conversations with industry experts. I had the opportunity to interact with a luxury-shipbuilding industry expert, from whom I gained insights into the key features of the sector, such as macroeconomic interactions, customer characteristics, market trends, and the primary international competitors. This allowed me to select the right competitors for competitor's analysis. For this analysis, I was able to apply the market analysis knowledge I had acquired in the previous project, further refining them as in this case the analysis requested by

[16] The term "**Backlog**" is used to refer to orders that an industrial company has already secured but has yet to fulfill, commonly present in the order portfolio. In the analysis of a company, the backlog provides insights into the potential revenue level that the company can achieve. By monitoring the backlog over time, a company can also gain insights into changes in market demand, shifts in customer preferences, and potential challenges in meeting delivery timelines.

the client was focused on CapEx (Capital Expenditures)[17]. The main challenge in this case was sourcing information about the companies' investments, as some of the major competitors were not Italian and, therefore, presented different financial statements or did not disclose their financials. For this reason, I utilized the AIDA database for Italian competitors, and I reconstructed the CapEx for each of them from the financial statements obtained, building a simple Excel-model trough which comparing the results obtained. For the international competitors, I managed to retrieve their financial data primarily through publications on dedicated websites and by using the *Refinitiv* database. Depending on the company's nationality, I had to examine their methods of constructing income statements and balance sheets in order to obtain a CapEx value that was consistent on an economic and financial level with the data for Italian companies.
I have to admit that this was very challenging and difficult since I have never dealt before with non-Italian financial statements. In this way, comparing the average CapEx of the competitors with the target's one, I was able to provide an assessment of the financial stability of the target and its capacity for business expansion through new investments.

Backlog analysis

Then, supported by the senior team, I analyzed the backlog. This phase was challenging and required almost two weeks of analysis, as the company had provided us with a very dense and complex Excel file containing all the orders received in the past 3 years. The file also included details such as the selling price, customer information, and delivery times, extending up to 2025.
Firstly, we categorized the data in a hierarchical manner, dividing the orders by brand, and then within each brand, by customer and geographical area. Therefore, I was able to analyze the revenue coverage level from the backlog, that is how much of the future revenue depends on the orders already taken and in the delivery phase in the coming years.
This kind of analysis is what I appreciate the most of my job: from a single Excel file containing only numbers, through a detailed analysis and interpretation of these numbers, I can fully comprehend how a business operates (both in crisis and non-crisis scenarios) and what is its commercial strategy for market positioning. I firmly believe this is exceptional because it provides a qualitative and comprehensive view of the company you're working on, but always starting from a purely quantitative analysis that ensures objectivity.
Finally, the analysis that interested me the most was related to the seasonality of the business: we created an Excel model to identify the number of monthly orders for the company under analysis from 2020 to 2023 and compared them with the months when the main global nautical events

[17] **CapEx**, short for "Capital Expenditures," refers to the funds that a company invests in acquiring, upgrading, or maintaining physical assets such as buildings, machinery, equipment, technology, and other long-term assets. These expenditures are made with the intention of generating future benefits for the company, often contributing to its growth, productivity.

take place. It was very interesting to understand how the majority of the company's orders were concentrated in the months following the nautical shows, and then gradually decreased until the next nautical show.

All these analyses, along with other minor analyses conducted described before, have been integrated into a Due Diligence Power Point document that I prepared with my team.
In this phase, considering that the IBR is a professional opinion of a business, I really had to learn how to presents our outcomes in a professional and accurate way, to make sure that the professional opinion was objective and only based on the numerical findings.

1.3 First impressions, skills and challenges

- **General consideration**

My first impression of the internship was very positive because I immediately realized that this experience would be very educational, technically and humanly, thanks to the interaction with different people and to the highly important technical issues involved in every project. And this impression was confirmed because the internship has been a highly rewarding experience: I had the opportunity to engage and interact with high-caliber individuals, such as managers, CEOs, CFOs, lawyers, bankers, and other consultants and learning from their long-term experience. Despite being an intern, I participated in high-level, confidential discussions and worked with well-established companies in the Italian business landscape, and in some cases, on an international scale.
Undoubtedly, this is one of the most remarkable aspects of working in consulting as well as another very positive impression I had at the beginning of my internship: the constant interaction with client companies and their executives enables the creation of an extensive network and offers exposure to diverse people, businesses, markets, and experiences. Most importantly, It helps to gain a solid knowledge of different business and develop cross-cutting knowledge. This contributes to my personal and professional enrichment.
A general observation about my internship is the fact that, almost coincidentally, the two main projects I worked on were related to companies operating in the shipbuilding sector, one of which was facing severe financial crisis while the other exhibited very strong financial performance. This allowed me to compare the business models of the two companies and understand the distinctive features required to excel within this industry, of which I now have a deep understanding.

- **Hard skills and soft skills**

The internship has strengthened my hard skills and soft skills. With regards to hard skills, I have enhanced my knowledge of Excel and PowerPoint, which are the two primary tools used in consulting for conducting analyses and formally presenting them. Specifically, I have learned to manage complex databases in Excel by utilizing macros and formulas, which were taught to me by my seniors to expedite analysis times and to be able to immediately comprehend transmitted databases, regardless of their format. Furthermore, I have become adept at using various corporate databases to gather information for conducting market analyses and, in general, the underlying analyses for each project (AIDA, Refinitiv, Orbis, EuroMonitor, etc.).
From a technical and professional standpoint, the newly acquired knowledge is truly numerous: right from the start, I greatly appreciated the fact that my seniors took the time to explain to me in detail the underlying theories behind each type of analysis I was to conduct. In fact, I have learned financial modeling techniques for modeling a business plan from start to finish in Excel, I have learned the concepts and how to realize an IBR and an Info Memo, and I have learned techniques for restructuring a company in crisis as well as the technical issues of distressed M&A.

As for soft skills, the internship has allowed me to learn how to effectively engage and communicate with clients to obtain the necessary information, but most importantly, to establish a trusting long-term relationship with them. Specifically, what I admire about my seniors collogues is their ability to convey to the client that everything is always under control and to instill confidence and trust in our work, even in situations where perhaps the lack of data or other contingencies make the analyses challenging, so I hope I will better develop this skill too.
Furthermore, I have learned to work under stress and develop the right organizational skills to meet deadlines. It's important to emphasize that the consulting world is a fast-paced environment where deadlines are part of daily life, and often there is a risk of compromising the work due to client pressure. From this perspective, I have learned to prioritize the tasks assigned to me and client requests in a way that allows me to complete my assignments within the established timelines, correctly and always with a high degree of attention to detail.
Another important skill I have learned to develop is problem-solving. While all my seniors have always been supportive, there are moments when work timelines require adaptation and independent work. In these situations, where seeking clarification may not be an option, I have learned to remain calm and find ways to solve complex issues on my own, relying on my abilities and the numerous resources available to us in our databases.
The internship also allowed me to develop significant flexibility and adaptability. Throughout my experience, I frequently worked on-site at client companies in different regions of Italy, adjusting to their schedules and methodological requests.

Overall, I realized that the essential quality to approach this job successfully is to maintain a calmly proactive attitude, which allows for thinking outside of one's comfort zone to find the easiest and fastest solutions for tasks. It's also important to be open to feedback from superiors and consider it as an opportunity for professional growth. Thanks to this experience, I feel greatly enriched on both a personal and professional level. I've learned to address certain negative aspects of my personality and consistently demonstrate my willingness to take on challenges and embrace new learning opportunities.

- **Challenges**

Despite the acquired skills, the internship posed numerous challenges for me. Firstly, the greatest challenge was working at a fast pace in an environment where errors needed to be minimized. Especially in the beginning, I struggled to balance the ability to work quickly while maintaining a high level of attention, as some analyses required time that unfortunately was not always available. In addition, expectations were consistently high, and even as an intern, I was always requested the most impeccable work in order to meet clients' expectations.
Another significant challenge was dealing with multiple projects simultaneously, which is a characteristic of consulting. This demanded an immediate ability to organize and meet deadlines for all projects. Moreover, it required a flexible mindset to remember the specific characteristics and details of each project, so as to avoid confusion.
Another difficulty that I want to highlight concerns data interpretation. Working with different companies, it's natural that the data provided by them are different, both in terms of format and content. In the consulting world, standard procedures don't exist because each company (and therefore each project) is unique, requiring analyses tailored to its specific business. This is why the challenge I encountered was understanding what the company needs and consequently how the data should be processed to meet those requirements.
In conclusion, I firmly believe that all these challenges are part of a professional growth journey, and they inspire me to always give my best in order to overcome them.

Chapter 2. Academic Research

2.1. – Introduction

As an intern in KPMG's business unit dedicated to Turnaround and Restructuring, I have had the opportunity to gain and insight and a tangible knowledge of the different options that can be envisioned when a company faces a distressed situation. In particular, the preparation of the business plan and the overall business situation can give rise to different scenarios, which are generally divided into **Private Restructuring** processes and **Public Restructuring** processes.
The objective of this chapter is to analytically describe what "Restructuring" actually means providing definitions, analysis and examples based on a literature review, with the aim to ask the following research question: ***which are the evidences and the analytical methods for assessing if a company is undergoing a financial distressed situation and, in case of distress, what are the various intervention options within the context of Private Restructuring available to the company itself***?
The rationale for undertaking this theoretical analysis is derived from the very first project I participated to as an intern in KPMG (*as discussed in the previous chapter*) during which the main **problematic** was identifying the causes of the company's crisis and examining all the possible restructuring solutions to find the most feasible one.
As evident, I was immediately exposed to sensitive and highly technical issues. This prompted me to dedicate this chapter to a **comprehensive analysis of the definitions and causes of a company's crisis, the indicators signaling the need for restructuring, and the possible private solutions for its recovery.**

2.2 – Corporate crisis: evidences and assessment

2.2.1 – The evidences of Corporate Crisis

The concept of "Corporate Crisis" over the past years has been the center of many researchers, articles and publications, leading to several different definitions of it according to i) the timing of the crisis, ii) the managerial causes and iii) the financial issues behind the subject. Specifically, according to Guatri's publication (1995), "*the crisis takes the form of instability of profits that leads to ruinous economic and capital losses, with consequent disruptions in financial flows, loss of credit worthiness due to a lack of trust from the financial community, but also from customers and suppliers, thus triggering a dangerous vicious circle*".

In order to assess the situation of distress, It is important to emphasize that the acknowledgment of the causes and the symptoms of it is the preliminary way to avoid the spread of the distress itself. The root cause of such distress is often the inability to generate profits and cash flow, leading to difficulties in meeting financial obligations. According to Denis & Denis (1990), three consecutive years of net losses can be considered as distress, but there are other underlying factors that contribute to this situation and cause a financial distressed situation (Caselli et al. 2021):

1. **Inadequate strategy and business model**

   One primary cause is the adoption of an inadequate strategy and business model, leading to a lack of competitiveness in the market. This deficiency in competitiveness, in turn, results in a failure to achieve desired topline growth, operational inefficiencies, and lower EBITDA margins compared to industry competitors. Furthermore, the poor business performance indirectly impacts the cost of indebtedness for the company and when the company's financial results become worse, creditors become more cautious and demand higher returns on their investment, reflecting the increased risk associated with the company's operations (Ayers, B.C. et al. 2010). This heightened cost of borrowing further diminishes the company's profitability, creating a challenging environment for recovery.

2. **Managerial overconfidence**

   Managerial overconfidence can have detrimental consequences for companies. When CEOs and managers exhibit excessive self-assurance, they may make risky decisions that prove to be highly damaging to the organization. For instance, they might choose to expand into a new market without thoroughly assessing the associated risks and making substantial upfront investments. Alternatively, they may place all their bets on a product or innovation that fails to gain market acceptance or falls short of expectations.

3. **Expensive asset structure**

   The financial performance and operational resilience of companies are greatly affected by an expensive asset structure characterized by high fixed investments (including tangible and intangible assets) and substantial capital expenditures (CapEx). This creates challenges in achieving satisfactory returns on assets (ROA) and returns on investment (ROI) above the cost of capital, leveraging economies of scale, and covering depreciation and amortization expenses. The problem is further compounded during periods of reduced demand, leading to excess capacity and an inability to sustain fixed overheads.

4. **Unsustainable capital structure**

   An unsustainable capital structure occurs when a company encounters difficulties in financing its ongoing operations, often due to imbalances in working capital. For example, if the ratio between the money owed to the company (receivables) and the money it owes to others (payables) becomes disproportionate or if inventory levels become excessively high, it can strain the company's capacity to meet its financial obligations. Moreover, an under-capitalized company or one with a high level of debt compared to its equity (known as the debt-to-equity ratio) faces inherent risks in maintaining its operations. Insufficient capitalization can restrict the company's ability to invest in growth initiatives, cover necessary operational expenses and respond effectively to market fluctuations. Similarly, a heavy debt burden can heighten the company's financial vulnerability, making it difficult to manage interest payments and ultimately impacting its overall financial well-being.

Along with these factors, Capizzi (2012) proposes other two categories of factors that can trigger a crisis:

- **Macro-economic factors**: This category can include factors such as a i) global financial crisis (that can lead to the contraction of revenues, devaluation of assets or increase in inventory), ii) geopolitical tension (with an impact on raw materials' prices volatility and, therefore, on company's margins) and iii) globalization which can drive an increase in competitiveness among emerging economies.
- **Sectoral factors**: This category can include factors such i) the changes in the regulations of a specific sector, ii) innovation, which can increase the competitiveness among companies due to the introduction of new product or processes in the market, iii) the change in competition, which can result in more contractual power by clients or suppliers and thus in a reduction of margins and an increase in financial expenses.

The above-mentioned factors are generally the driving causes of a company's financial crisis and could lead to the following negative outcomes (Miles, D.A. 2011):

- **A significant decrease in available cash**: During a financial crisis, companies often experience a sharp decline in their accessible cash reserves. This reduction in available cash can result from various factors such as decreased sales, liquidity issues, or inability to collect outstanding receivables. The diminishing cash flow places immense strain on the company's ability to meet its financial obligations, including payments to suppliers, lenders, and employees.
- **Increase in the Debt/Equity ratio**: Another characteristic of a financial crisis is the occurrence of losses and a subsequent reduction in equity. Adverse market conditions,

poor financial management, or external shocks can contribute to losses, which erode the company's equity base. Simultaneously, the Debt/Equity ratio tends to rise as companies resort to additional borrowing or debt restructuring measures to navigate the crisis. The increased leverage further amplifies the financial risk and instability faced by the company.

2.2.2 – Financial Distress: definitions and actions

Tutino and Ranciaro (2015) have categorized financial distress' evidences into three distinct stages of crisis, each characterized by specific attributes and escalating severity:

1. The first stage is called "**Underperforming Business**" and is marked by the company's suboptimal performance leading to a credit downgrade, while management still maintains control.
2. In the second stage, called "**Restructuring Business**", the company may undergo a restructuring procedure (which could be private or public), which eventually leads the company to a decline in equity value.
3. Finally, in the third stage, called "**Insolvent Business**", the most critical phase, the company is in severe financial trouble and requires legal intervention to appoint an administrator and liquidate assets to minimize losses.

In order to ensure the continuous functioning of the company, there are a range of measures that must be undertaken which include both **short-term** actions (focused on preserving the going concern status), as well as **long-term initiatives** aimed at substantial transformation of the business model and capital structure.

- In the **short term**, the main objective is to preserve the company's continuity of operations; this may involve appointing experienced advisors who can provide strategic guidance and expertise during the crisis. Additionally, the company should establish new operational priorities in order to prioritize essential activities and ensure the efficient allocation of resources. Moreover, to maintain liquidity and meet the current financial obligations, the company should guarantee an effective management of facilities and working capital.
- Simultaneously, it is essential to focus on **long-term objectives** that will bring about significant changes and create a solid foundation for the company's future. One key aspect is conducting a comprehensive review of the business model understanding the company's strengths, weaknesses, and potential opportunities, enabling strategic adjustments and improvements.

Another important aspect that should be highlighted regards the fact the company needs to develop a strategy for identifying areas for optimization, cost reduction, and operational efficiencies because by implementing targeted measures to enhance performance, the company can strengthen its competitive position and financial stability.
Furthermore, evaluating the liquidation scenario is crucial because although it may not be the preferred outcome, understanding the potential impact of liquidation and assessing the associated risks provides valuable insights for decision-making and risk management.
In certain cases, financial restructuring or divesting non-core assets may be necessary to bring about the desired changes. This strategic realignment allows the company to restructure its debt, improve its capital structure, and focus resources on core business activities with higher growth potential.

2.2.3 – The assessment of a distressed company

A company is considered to be in default when it cannot fulfill its obligations because the value of its assets is not sufficient to cover them (Brealey, R. et al. 2022). This situation arises when the company's liabilities exceed its total assets, resulting in zero or negative equity. In relation to financial crises, the initial manifestation occurs when there is a failure to meet the obligations outlined in loan agreements, specifically the covenants on debt. These clauses are incorporated into the loan contracts and grant the lender the right to modify certain contractual terms when specific events outlined in the clauses take place. By adhering to these clauses, the relationship between the creditor and debtor is subjected to specific limitations, and any violation of these constraints permits the creditors to demand early repayment of the loan or initiate negotiations for revised financing terms.
In addition to this, there are several important financial and non-financial indicators that should taken into consideration since they may help to assess a situation of financial distress:

- A decline in revenues and profitability (e.g. lower EBITDA margin, negative EBITDA, strong decline in revenues, etc.) along with a strong reduction in liquidity;
- Failure to meet business plan targets (e.g. higher prices than expected, less revenues than forecasted, etc.).
- Loss of market share and underperformance compared to competitors.
- Worsening working capital (e.g. higher trade receivables, inability to lengthen suppliers payment terms, etc.).
- An increase in net financial position (e.g. decrease of cash and cash equivalents, strong increase of financial exposure, etc.).

- Reduction in capital expenditure and delayed investments (e.g. negative CapEx, increase of amortization, etc.).
- Insufficient cash flow (e.g. negative cash flow from operating activities).
- High turnover of management personnel.

Moreover, when assessing a company which is undergoing a distressed situation, there are specific financial metrics that are crucial to be constantly monitored to assess the company's Debt Sustainability; the following metrics are considered to be the most significant and, thus, the most used in Consultancy when assessing the situation of a company (Beltrame F. et al. 2021):

- **Net Debt/EBITDA**: This ratio provides an estimation of the number of years required to repay the debt and Its purpose is to assess the company's capability to address net financial debt using cash flows generated from ongoing operations. In terms of analysis, It should not exceed 3x to avoid being perceived as a default risk. Nevertheless, the acceptable level may vary depending on the company's industry and cash flow stability. Some industries, such as cyclical industries, generally have low to zero debt, while infrastructure businesses can operate at a higher ratio of 7x or 8x and still maintain an investment-grade rating. A high Net/EBITDA ratio could also result from a declining EBITDA, which may be a temporary effect and does not necessarily imply a default risk.
- **Net Debt/Equity**: This ratio represents the leverage of a company, meaning the amount of debt compared to equity as a source of financing. Companies with high leverage are more susceptible to external factors or market shocks and therefore to a potential crisis.
- **Debt Service Coverage Ratio (DSCR)**: DSCR is a metric that indicates the financial sustainability of a company's debt. In other words, it assesses the future ability (within the next 6 months) of a business to meet its financial obligations using the cash flows generated from its operational activities. Indeed, the DSCR is a ratio with the "operating cash flow" in the numerator and the "debt service cash flow" in the denominator and measures the cash available to cover annual debt interest and principal payments against interest and principal. A DSCR below 1 indicates that the company lacks sufficient cash to pay all the principal and interest payments due in the year. A reasonable level for DSCR would be around 1.2x.
- **Interest Coverage Ratio (EBITDA/Interest)**: This ratio’s objective is to monitor the company's capacity to fulfill its financial obligations by utilizing operational resources. Therefore, It demonstrates the company's ability to pay interest on its outstanding debt from its current operations' profitability. This ratio should at least be 4x.
- **Level of Cash and Availability of Committed Lines**: This represents the unused portion of the credit lines that can be accessed at any given time, meaning the amount of credit

that is still available to be borrowed. This metric represents a key indicator of an entity's financial strength, liquidity position, and ability to respond to unforeseen circumstances or investment opportunities.

2.2.4 – Indebtedness structure

Another important part of the assessment of a distressed company is represented by the structure and severity of its outstanding debt. The complexity and the overall process of restructuring heavily depend on the debt structure of the company which is necessary to analyze in order to decide which action to take. Debt can be segmented according to the following criteria (Martynova, M. et al. 2008, Caselli S. et al. 2021):

- **Short-term vs. Long-term**: debt can be classified according of its maturity, therefore It is possible to distinguish between shorter types of indebtedness, usually of a more commercial nature, such as factoring or trade payables, and longer-term financial loans or bonds.
- **Senior vs. Junior**: according to the seniority of the debt, some lenders can have the right to be satisfied before other lenders. Indeed, senior creditors have the right to be paid before junior (subordinated) creditors and, of course, have a much less risky profile.
- **Secured vs. Unsecured**: security packages give creditors rights over certain company assets or shares and reduce the risk profile of the creditor.
- **Private vs. Public**: private lenders usually have much more information compared to public ones, who can, in fact, rely only on publicly available data.

2.3 – Corporate Restructuring - Overview

The process of resolving financial distress is commonly known as "***Restructuring***," which Agarwal and Helfat et al. (2009) have defined as a sequence of actions implemented by a company to avert bankruptcy and improve profitability, stability, and liquidity. <u>The decision to restructure can be made by the company's management team or shareholders, who may be concerned about the company's future prospects, or by creditors who perceive their open positions to be at risk</u>.
The two types of restructuring that a company may undertake to avoid bankruptcy depend on the actions taken and can be identified in Asset Restructuring and Financial Restructuring (Beroli G. 2000).

- **Asset Restructuring**

Asset Restructuring involves a detailed analysis of the company's business model to identify the businesses, branches, assets, and products that contribute to value creation. It aims to eliminate assets that require significant resources and management attention, are not crucial for the company's survival and future, or are too expensive to restructure. Simultaneously, asset restructuring aims to fix and reorganize the core strategic activities of the company to strategically reposition it and establish a foundation for future growth. In order to determine what to retain and what to discard, it is crucial to map the strategic areas in which the company operates and evaluate the synergies and connections between them, which can be made by differentiating the core business areas and others. There may be some cases where recovery becomes more challenging when the core business loses its attractiveness because it becomes more challenging to re-adapt the business. In such cases the focus must shift towards critical resources, branding, technologies, and innovative capabilities.

- **Financial Restructuring**

Financial Restructuring involves a thorough examination of the company's capital structure, solidity, and debt sustainability to identify and take necessary actions to address any issues, protect the interests of creditors, and preserve the status of going concern. In the concept of financial restructuring, there are several sub-typologies of actions that can be envisioned in order to contain the spread of the crisis:

- **Debt Restructuring**. It consists of an analysis of the allocation of resources and their alignment with the purposes of the company. Potential strategies include renegotiating bank debt (*further described in the following paragraphs*), rescheduling debts owed to suppliers, developing repayment plans with suppliers, and settling tax debts.
- **Procurement of new resources**. The acquisitions of new sources of liquidity, both from credit institutions that the company is already familiar with and from new ones, is fundamental to secure the required cash for implementing the actions necessary to overcome the crisis. New resources may also be obtained through divestures or M&A operations.
- **Shareholders' intervention**. Shareholders' intervention on capital showcases their belief in the operation and the company; their intervention can include i) making capital contributions, ii) waiving shareholder funds in exchange for equity, iii) and declining interest or previously approved profits.

2.3.1 – Private Workouts and Restructuring options for business recovery

In this second part of the chapter, after discussing the structural causes that can lead a company to face a distressed situation and giving a definition of restructuring, the focus is on private restructurings, which are asset or financial restructuring methods of recovery for a company that do not comprise the involvement and intervention of the Court.

Indeed, when entering restructuring, companies have two legal options available to them: Private Workouts (or Out of Court Restructurings) and In-Court Procedures.

In the option of **Private Restructuring**, the company collaborates with its shareholders and creditors to develop a restructuring plan which will delineate the most feasible restructuring option (*as further described later on this paragraph*). These kinds of workouts typically generate higher recovery rates, provide more flexibility for all parties involved, and the ability to protect the company's reputation (Gaughan, P. 2013). However, successfully implementing a private workout requires a high level of consensus, if not unanimity, among lenders.

On the other side, **In-Court Procedure** involve a legal authority, often a judge, driving the restructuring process. It ensures fair and equal treatment of all creditors and can result in either a successful restructuring or, if the restructuring fails, a liquidation procedure that brings an end to the company's existence. The key advantages of in-court procedures include the presence of a third party to supervise and coordinate the process, safeguarding creditors' rights, and the ability to impose specific solutions on dissenting creditors through a process known as "cram down." However, in-court procedures have a significant impact on the company's reputation and can harm its intangible assets.

Private workouts comprise several advantages compared to In-Court Procedures, among which (Garrido, Jose M. 2012):

- **The debtor's business can easily adapt and be flexible to meet its specific needs:** given the fact that such procedures are disconnect by any kinds of jurisdiction intervention, they provide flexibility and velocity to arrange agreements with creditors or choose the solution that better adapt to the debtor's business.
- **Ease of negotiation**: Compared to formal insolvency proceedings, a workout offers a less confrontational approach and creates a more favorable environment for negotiations.
- **Timing issues**: Workouts generally have shorter durations when compared to formal insolvency procedures, as the involvement of the judicial system in the latter can cause significant delays in the negotiation process. Therefore, negotiations between creditors and the debtor can progress more quickly.
- **Lower costs**: Private workouts are less costly in terms of i) money, ii) time and iii) reputation.

2.3.2 – Stakeholders involved

As the initial step in financial restructuring, it is essential to identify the key stakeholders involved throughout the process of Private Workouts (Caselli, S. et al. 2021). First, the i) company and its management team are among the primary stakeholders who control and coordinate the process, while the ii) Board of Directors declares the crisis and decides on the restructuring. In the process of a private workout, the main object of the company would be to minimize restructuring costs as well as to guarantee the continuity of the business and its operations. On the other side, iii) majority shareholders supervise the board's work, manage relationships with lenders, and can become a source of liquidity while, of course, iv) minority shareholders play a minor role. Financial advisors are the most important stakeholders who has the role to coordinate and supervise the restructuring process. When financial advisors are hired, the procedure usually involves the following steps:

1. **Business Plan Definition**: The business and financial plan focuses on fixing profitability and capital structure, with an emphasis on cash flow. It provides a framework for decision-making, resource allocation, and risk management, guiding the organization towards its financial goals. Additionally, the business plan places particular emphasis on evaluating and improving the company's capital structure, which involves assessing the mix of debt and equity.
2. **Restructuring Proposal**: Based on the business plan created in step one, the company (advised by the financial advisor) puts together a restructuring proposal to present to its lenders/bondholders.
3. **Presentation of Proposal**: The company presents its restructuring proposal to its lenders/bondholders.
4. **Coordination Committee**: The lenders form a committee to oversee the proposal, manage their relationship with the company, ask for information, and put pressure on the management team.
5. **Standstill Request**: The company presents a request for a Standstill Agreement, which prevents the lenders from demanding payment, claiming rights, suing the company, or starting legal actions for a specific period of time. This agreement gives the company time to reorganize and focus on the restructuring proposal, while avoiding individual actions from lenders that could hinder the process.
6. **Negotiation, Approval, and Signing**: After considerable back-and-forth between the parties, the final approval is reached. The more fragmented the debt is, the higher the number of consensual lenders will be needed. Once an agreement is reached, the company begins implementing the plan.

2.3.3 – Restructuring options for business recovery

There are several options that a borrower can explore to go through a restructuring. Generally, in order to avoid court procedures, the company, based on the scenario outlined in the business plan, would try to explore one of the following interventions that falls under the category of Private Restructuring:

1. **Renegotiating the terms and conditions of its debt**
2. **Refinancing**
3. **Divestures**
4. **Distressed M&A activity**

1) Renegotiating the terms and condition of its debt

When a company experiences a severe liquidity crisis and its financial structure becomes unbearable, or when it breaches a covenant, it can opt to **renegotiate the terms and conditions of its debt**, for example by reviewing the contractual conditions such as amortization schedule, rates and covenants. The purpose is to forecast the repayment flows on the basis of the cash flows expected in the financial plan and It is the most applied form of intervention. The renegotiation tools available depend on whether the debt is private or public. For private debt, the borrower can choose between two main solutions (International Monetary Fund):

- **Covenant reset**: It involves modifying the conditions for financial covenants to make them more lenient, based on the company's recent financial difficulties. This usually comes with a fee called "*amendment fees*" and/or a spread increase granted to the creditors, and the approval typically requires the assent of a 51% majority of creditors. On the other side, in some cases, such as those experienced during the COVID-19 pandemic, companies may request "*Covenant Holidays*," which suspend the terms for a specific period of time.
- **Amend-to-extend**: Amend-to-extend is a strategy in debt restructuring where the maturity of the existing debt is extended. This approach allows the borrower to alleviate immediate financial pressures by spreading out the repayment schedule over a longer period. According to the International Monetary Fund (IMF), an amend-to-extend agreement is considered more invasive because it requires the unanimous approval of all creditors involved in the debt arrangement. The IMF explains that in an amend-to-extend scenario, the borrower proposes modifications to the terms of the existing debt, primarily the repayment deadline, which provides the borrower with additional time to meet their financial obligations and potentially improve their financial position. However, due to the

impact this strategy has on the original agreement, it necessitates the agreement and consensus of all creditors involved.

For public debt, the borrower can pursue several actions in the market, such as:

- **Tender Offer:** A tender offer consist of repurchasing bonds from bondholders at a predetermined price which is generally set below the bond's par value but above its current market value, with the aim of incentivizing bondholders to sell their bonds back to the issuer. The IMF highlights that for a tender offer to achieve high participation rates, the terms of the buyback must be highly attractive to bondholders.
- **Exchange Offer**: An exchange offer refers to the process of exchanging a debt security with another instrument, subject to the approval of all creditors involved. The International Monetary Fund (IMF) explains that the exchange offer requires the unanimous agreement of all creditors participating in the debt arrangement and highlights that in such procedure the borrower proposes the substitution of the original debt security with a different financial instrument.
- **Open-market Deal:** An open-market deal refers to a transaction similar to a tender offer, but with the flexibility to repurchase only a portion of the securities rather than the entire amount. This approach allows the issuer to selectively buy back a specific portion of the outstanding securities from bondholders.

2) **Refinancing**

Apart from renegotiating the debt terms and conditions, another solution for restructuring may be **refinancing**. However, refinancing is typically used as a means of buying time and delaying the problem since It can be challenging for the company to secure financing and investors while facing financial difficulties. Moreover, given the company's financial distress situation, the feasibility of this operation could not result as great, since It may be really complicated for the company to find a credit institute available as a new source of financing.
A positive advantage of this kind of solution is that in situations where market conditions are favorable and interest rates are low, refinancing can help to extend the maturity of the debt and reduce interest costs.
On the other side, It should be highlighted that this procedure can be very difficult, especially because commercial investors, such as banks, are often reluctant to provide cash outside of a formal restructuring process without a super seniority grade as this can result in a further inability to repay the source of financing allowed. However, some investors, particularly hedge

funds, are specialized in lending new money to companies in difficult situations to gain control over time. During my experience in KPMG, we had the possibility to deal with these funds which have a strong experience in financing highly distressed companies.

3) Divestures

Divestitures are asset restructuring deals that involve the sale of a non-core business, product line or asset which can result in an injection of liquidity within the company and, at the same time, implement operational efficiency. However, divestures processes can be risky and, to same extend, detrimental for the overall restructuring process; thus, it is required a deeper analysis of the feasibility of such operation. There are several circumstances that can be identified as potential causes for a divesture process decision (Mulherin, J. et al. 2000):

- **Poor integration and connection with the core business**: In this case, a specific business unit or an asset is not aligned with company's core operations and strategic objectives and, thus, reduce the efficiency of the company itself. Therefore, the company may decide to divest from non-core entities in order to focus its resources and efforts on areas where it has a competitive advantage.
- **Poor performance and high remediation costs**: There could be situations where a division or product line consistently underperforms and requires disproportionately high expenditures to rectify its deficiencies. The divesture from these underperforming entities can enable the company to reallocate resources to more promising areas and improve overall operational efficiency.
- **Inverse Synergies**: Sometimes, a business line within a company may be underutilized and could potentially thrive if separated from the parent company. In such cases, divestiture allows for the independent operation and strategic focus of the business line.
- **Immediate proceeds and cash injections**: Divestiture provides an expedient means of generating immediate proceeds and injecting much-needed cash into the company.

Although each divestiture has its unique characteristics and follows a distinct sequence of events, a generalized six-step process can be outlined as follows (Gaughan, P. 2018):

1. The first step requires the management of the parent company to decide whether a divestiture is suitable after conducting a comprehensive financial analysis of alternatives.
2. In step two, a restructuring plan must be formulated, including details such as the disposition of assets and liabilities, and the formation of a divestiture team consisting of management from different corporate functions.

3. Step three involves finding a buyer, which is often facilitated by the financial advisor, and negotiating with interested parties.
4. Step four involves obtaining shareholder approval of the plan, which may be necessary depending on the transaction's significance and state laws.
5. If approval is required, the plan is submitted to shareholders at a meeting, and a proxy statement requesting approval of the spinoff is sent to stockholders.
6. Finally, in step six, the deal is completed according to a prearranged timetable, with consideration exchanged and the division separated from the parent company.

4) **Distressed M&A Activity**

Mergers and Acquisitions (M&A) have gained significant traction as a strategic approach to corporate restructuring on a global scale over the past three decades (Bhattacharya, S.). This growth is substantiated by the escalating volume of M&A transactions and the substantial value associated with successfully completed deals. These transactions can be categorized using various criteria, each providing distinct insights. For instance, one classification criterion involves considering the country of origin for both the acquiring and target firms, distinguishing between domestic transactions and those involving cross-border activity. Another criterion involves assessing the position or stage of the acquiring and target firms within the industry's value chain, resulting in classifications such as horizontal (where both firms operate within the same stage), vertical (where the firms operate in different stages), and conglomerate (where the firms belong to different industries). Furthermore, the financial condition of the target firm at the time of acquisition serves as an additional criterion for classification. If the target firm is undergoing financial or economic distress or facing legal bankruptcy proceedings, the M&A process is called "Distressed M&A".

Distressed M&A represents a distinct category within the realm of mergers and acquisitions, exhibiting substantial differences when compared to non-distressed or "traditional" M&A transactions (Bryan S. et al. 2009). Distressed M&A primarily regards the search for industrial or financial partners in order to recapitalize the distressed company, which may be a sign of trust for banks because If current shareholders are unable to provide the required recapitalization, alternative third-party investors, such as industrial partners in cases of synergies or financial partners like private equity funds, can be engaged to assist in the reorganization and turnaround efforts. From the industrial / financial partner's point of view, in distressed M&A operations, the focus shifts towards acquiring assets, shares, or businesses that are associated with a seller or target company experiencing financial distress. This spectrum encompasses a range of scenarios, where the target company's financial situation may vary significantly. At one end of the spectrum, the target company may find itself in a relatively more favorable position, having some leeway or engaging in initial discussions with its lenders regarding its future cash requirements. These circumstances typically involve a company that recognizes its financial challenges and seeks to address them proactively through ongoing dialogue and negotiations. Conversely, towards the other end of the spectrum, the target company may be immersed in advanced negotiations pertaining to a restructuring process or find itself involved in a formal insolvency proceeding. These situations indicate a higher level of financial distress, requiring more extensive measures to rectify the company's financial situation. Distressed M&A comprises various M&A options other than divestitures, such as i) equity carve-outs, ii) spin-offs, and iii) sell-offs.

- **Equity carve-outs**

A carve-out involves the partial sale of a business division, wherein a parent company offers a minority stake of a subsidiary to external investors. Rather than completely selling off a business unit, a company opting for a carve-out sells a portion of the ownership in that division or transfers operational control while still maintaining an ownership stake. This strategy enables a company to leverage a business segment that might not align with its central operations. The parent company must decide how much of the subsidiary to sell, and the sale is typically limited to 20% to allow for full tax and accounting consolidation of the subsidiary.

- **Spin-offs**

A spin-off involves the establishment of a distinct and self-reliant entity, wherein the ownership of subsidiary shares is allocated among the parent company's shareholders. In the process of a spin-off the parent company segregates a specific division to establish an autonomous entity. The market reception for spin-offs is better than for equity carve-outs, with a strongly positive effect on stock prices. However, parents' operating performance shows little to no improvement after the transaction, with some studies highlighting worsened performance (DePamphilis, D. 2018). Moreover, spinoffs require significantly less time to implement than equity carve-outs.

- **Sell-offs**

Sell offs are the simplest transaction of the three, involving the sale of assets or part of or whole subsidiaries, in exchange for cash or other securities. Sell-offs do not create third entities, and the entity being sold does not close down. The announcement of a sell-off has a mildly positive effect on the parent company's stock price, but long-term stock performance is ambiguous. Empirical studies show that operating performance improves significantly, especially for focus improving transactions.

All of the restructuring solutions that have been described aim to restore the operativeness of a company in a distressed situation by helping it recover the liquidity it needs to resume its operations and, most importantly, satisfy its various stakeholders (creditors, shareholders, employees, etc.).

In some cases, the serious condition of distressed of a company may make each of the indicated solutions unworkable, offering as the only solution the intervention of the court with a formal procedure in the context on In-Court Restructuring.

Chapter 3. Conclusion

3.1 – Academic contribution of the training

In this section of the document, I find it really important to emphasize that the courses I pursued throughout my academic career, in particular those undertaken during the second year of my Master's program at the Université Paris-Dauphine, have markedly enriched the execution of my internship. Their diverse yet synergistic nature has equipped me with a range of interdisciplinary insights which I have effectively employed during my internship.

To be more specific, I can say that thanks to my choice to pursue the Double Degree program, I have been fortunate to receive a solid education both from an academic point of view, on a theoretical and practical level, but also on a human level, thanks to the attendance of some courses that proved to be truly enlightening for my decision to pursue a career in consulting.

During the Bachelor's degree and first the year of the Master's degree, Ca' Foscari University of Venice provided me with solid technical knowledge especially in the fields of corporate finance and law, which proved to be extremely crucial to pass the technical interviews and, once hired, to have right from the start correctness of the technical elements that I faced during the internship.

Regarding my experience at Université Paris-Dauphine, I am extremely grateful to Professor Reinoso, who, thanks to his long experience in the consulting world, was able to transmit to me through his courses human and professional soft skills that helped me develop a good approach to working at KPMG.

Specifically, the "*Leadership in Finance*" course, although very short, addressed extremely useful issues that I was able to encounter firsthand during my internship experience, including:

- <u>The ability to deal with stress and pressure</u>: Professor Reinoso taught us how to deal with our own stress but also how to not be influenced by other's people stress. In particular, I found very beneficial his advice of practicing visualization exercises when facing work-related anxiety. These exercises involve mentally envisioning the successful completion of our tasks, with the aim of cultivating a positive mindset that mitigates the stress associated with the situation. To be more specific, he advised us to picture specifically how we will feel once the job is done, which will be the positive reaction of our peers and the validation that we will get from our bosses because all of these actions trick our brain and make us feel less stressed. I practiced this advice very frequently, especially at the beginning of my internship when I was always afraid of delivering a work because I was scared of the feedback that I would have been given, which increased the level of my stress and anxiety.
- <u>The ability to develop effective communication skills</u>: Through various exercises and examples, Professor Reinoso taught us about effective listening and effective communication skills. Regarding effective listening, he recommended that we should

always pay close attention not only to what is explicitly said by a person, but also to what is not said: nonverbal actions, tone of voice, and body language can in fact provide essential information to make sure we receive the correct message. I have had the opportunity to confirm the validity of this advice in dealing with clients: very often, during meetings, carefully observing the client can capture valuable messages about how he or she desires a certain outcome. In other cases, I have had some clients remain silent during meetings and it has been possible to glean indications of their desires from just a few nods or glances. For what concern effective communication skills, he suggested us some methodologies to be clear and concise when we have to speak in public in order to make sure to be fully understood and do not panic.

Another courses that I found very useful besides interesting was "*Business Simulation and Entrepreneurship*", taught by Professor Reinoso as well. This course taught us how to deal with a consultancy-project from the beginning: since It was a simulation exercise, where we pretended to be the advisors for an M&A transactions, we had to learn how to gather information from the client ("interpreted" by Professor Reinoso), how to elaborate those information and how to effectively communicate our results once we found the solution to the project. Thanks to this course, I really had a taste of what working in consultancy actually means because I had to learn how to overcome some issues as the lack of information, the difficulty of understand the data, the ability of respecting several deadlines and the importance of being polite and kind with the client. Moreover, since It was a team-work assignment, I had the possibility to work in a team, learning how to coordinate the work and communicate with my team-mates to deliver a good job.

Finally, the course "*Risk Evaluation and Project Finance*" taught by Professor Roques, despite being part of the ECF track and featuring content somewhat distant from the focus of my internship, it nonetheless proved to be highly valuable from a technical perspective. This was primarily due to the extensive utilization of Excel throughout the course, which greatly contributed to my skill set and proficiency. In particular, thanks to this course I learned how to perform a sensitivity analysis which basically consists of a technique employed in financial modeling to examine how changes in various independent variables impact a particular dependent variable within specific conditions.
Sensitivity analyses are very frequently used when developing a business plan: indeed, a business plan is built upon a set of qualitative but especially quantitative assumptions (such as inflation, percentage increase of revenues or cost, increased numbers of employees, etc.) and It is extremely important to test how the change in one of these variables could impact the overall outcome of the business plan and the project financial scenario of the company subject on analysis.

Overall, however, I can say that each course I took during the Master's program was very useful for my growth especially because I had the opportunity to relate to highly experienced professors who gave me a great interest in their work and motivated me to embark on this professional career

3.2 – Assessment of the work done and perspectives on the long-term professional project

Overall, my internship in the Turnaround and Restructuring business unit at KPMG Italy has been an experience that has enabled me to mature from various perspectives, most notably on a personal level. Although It may sound controversial, given the intricate nature of the consulting environment, my time at KPMG has provided me with the opportunity to manage my anxiety. I have developed a deep passion for this work and have embarked on a journey of self-improvement to better manage my anxiety. I am learning to approach tasks with a clear mind and sense of calm, fully convincing myself that I am more than capable of performing the assigned tasks to the best of my ability. Reflecting on the months of my internship, I realize how much I have grown and how many unexpected milestones I have achieved. First of all, after completing the three-month internship, I was officially welcomed into the Restructuring team in June as a consultant under a three-year apprenticeship contract. I am immensely proud of this accomplishment, considering the remarkably low retention rate of interns post-internship.

Over the past six months of working at KPMG, I am gradually recognizing the progress I am making in terms technical skills: a tangible testimony to this growth is the fact that I am being given increasingly complex tasks and projects that require a high level of responsibility and precision.

In fact, since my formal employment, I have noticed a shift in the way my superiors approach me. I now have direct interaction with senior managers and partners and, despite the work remains high-demanding and complex, I am gratified to learn directly from individuals with decades of experience in the fields of corporate restructuring and financial modeling for M&A transactions.

For what concerns my future, my long-term plan is to stay for at least another two to three years in the consulting world because I think that is the period needed to learn comprehensively how to do this work. Afterwards, I would like to apply the knowledge I will have acquired by specializing within some large company, perhaps abroad where I could have the possibility to deal in an international environment. This internship has undoubtedly reaffirmed my expectations, and I am excited to continue my journey of growth and learning within the dynamic and challenging environment at KPMG.

Appendix

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Curricular internship final review

During her 3 months internship period Greta has been involved in two main projects:

Financial restructuring project. During this project Greta supported the team in the Business plan preparation, directly working with the client to collect and process information, developing autonomously the market analysis and the infomemo of the company. Moreover Greta was involved in the preparation and analysis of some part of the Business Plan, with the supervision of the senior team

Business plan review project, which was a part of a whole Due Diligence activity followed by KPMG Deal Advisory. In particular, Greta supported the team in the management interviews and in the document preparations, particularly focused on the backlog analysis

Greta's performance has been excellent: she has proven to be reliable and focused on her tasks.
Following her 3 months internship period, Greta has been hired with an apprenticeship contract as part of the KPMG Deal Advisory Team.

Date
1 Agosto 2023

Mentor Signature