



RESTRUCTURING STUDY

International 2010

After the economic crisis – Growth and financing

Roland Berger
Strategy Consultants

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The results by region can be ordered on request at press@rolandberger.com



A Aims and methodology

Our study

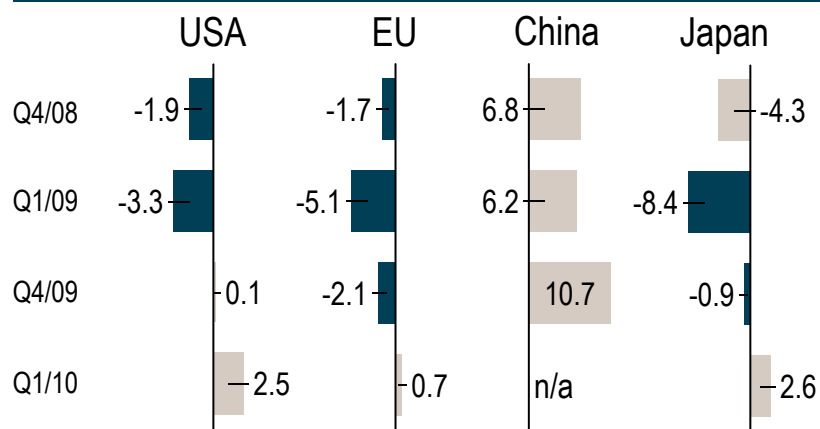
Foreword

- > In spring 2010, Roland Berger Strategy Consultants conducted a study of trends in restructuring for the sixth time since 2001
- > We sent questionnaires to CEOs and managers at around 5,600 companies in various industries and experienced a return rate of 8.5%
- > The aim of the study was to find out how strongly and in which areas the crisis is still affecting companies in 2010 and what managers view as the opportunities in the upcoming recovery
- > The study's key findings are presented for the six core regions of Western Europe (WE), Central & Eastern Europe (CEE), Middle East (ME), USA, China and Japan
- > The detailed results for each region are then presented separately

Now that the economic crisis has bottomed out, a slightly positive growth trend is expected for the future

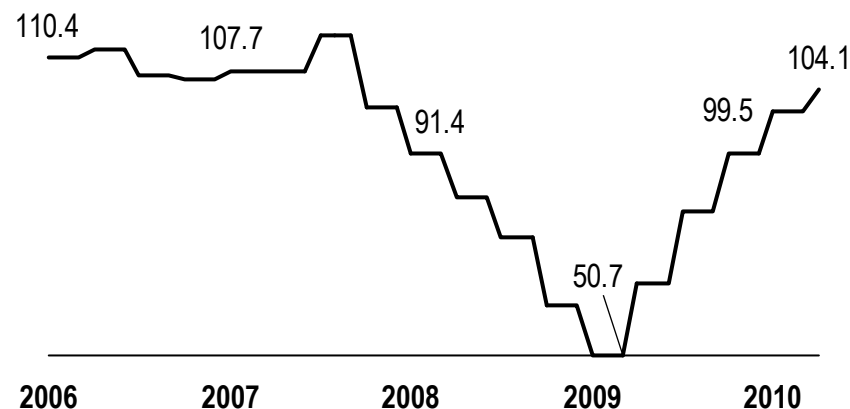
Current economic environment

GDP growth [%]



- > The business trend saw significant improvement compared with previous quarters
- > Business in the USA improved strongly, with GDP up 2.5%
- > Europe also saw positive movement, with +0.7% growth in Q1 2010
- > Japan's growth was the highest (+2.6%) in the first quarter of 2010

IFO global business climate index¹⁾



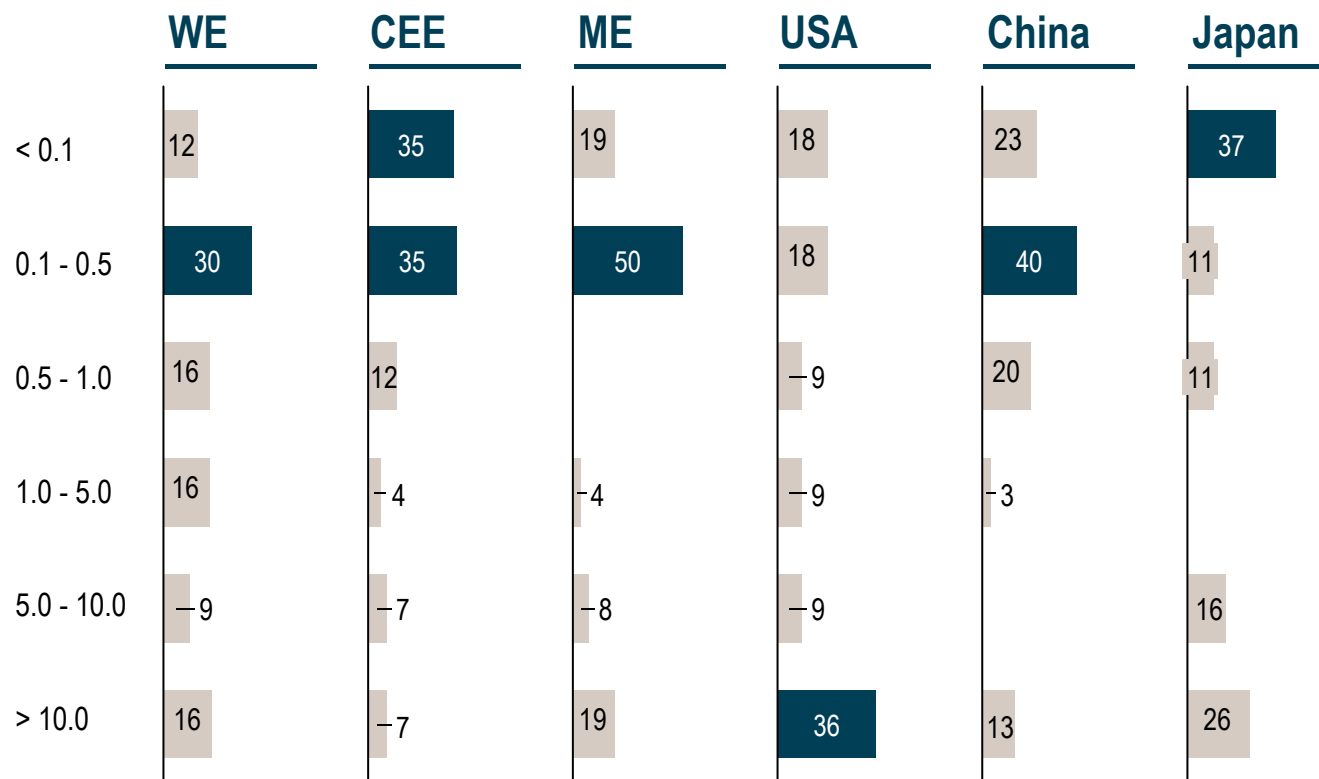
- > As an early indicator of economic development, the IFO global business climate index continued to improve in Q2 2010
- > Expectations for the second half of 2010 are positive in all regions, although not quite as strong as in the previous quarter

1) Index values (2005=100)

Source: Ifo; Consensus; EIU; Roland Berger

The results enjoy a high level of validity as they are based on a global survey of companies of almost all sizes

Size of surveyed companies, based on sales [EUR bn, %]

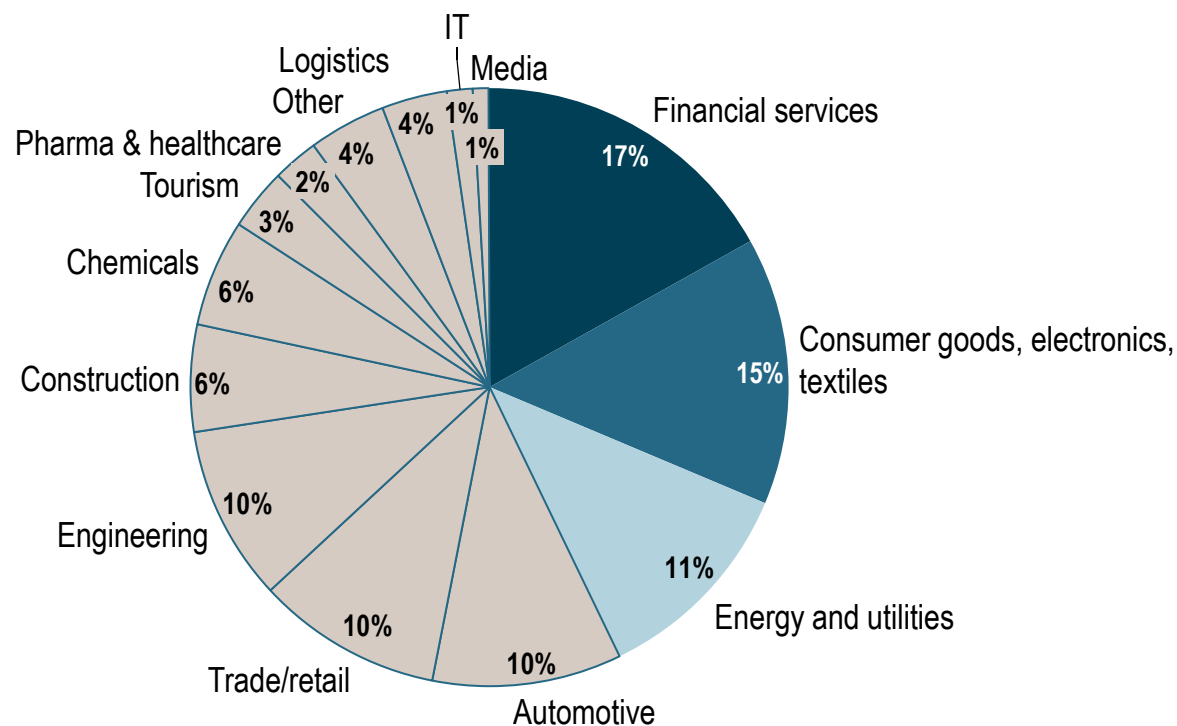


- > Companies in all size categories participated in the study in WE and CEE – In CEE there was a predominance of smaller companies
- > In the USA it was mainly very large companies or very small ones that took part
- > Participants in ME, China and Japan were mainly small companies or very large ones

COMMENTS

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

Study respondents by industry [in %]



- > Companies from 14 different industries participated
- > The variety of industries gives the results of the study general applicability
- > Accounting for more than >10% each, the financial, consumer goods, electronics and textiles industries and the energy and utilities sectors are the most strongly represented

COMMENTS

B Brief summary

Roland Berger
Strategy Consultants



The worst of the economic crisis has passed – Companies across the globe are again focusing on growth strategies

Highlights of the international restructuring study 2010

- > During the crisis:
 - **Liquidity situation was critical for 40% of companies** – Liquidity was protected in the crisis predominantly by means of operational actions
 - **Focus on cost reduction** – In total, personnel costs were cut by an average of 9% worldwide
- > After the crisis:
 - **Companies view the worst of the global crisis as over and expect to see a market improvement from the middle of 2010** – But there is still the burden of rising unemployment in the short term
 - **71% think that Asia will benefit most from the growth** – 69% intend to focus on their core business during the upturn, financing this with their own money
 - **75% plan to conduct more growth and sales initiatives** – Fairly low focus on cost cutting in the future

Companies think the worst is over – Following a period of cost cutting in 2009, the focus is once again on growth

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

- > According to the companies surveyed, the economy bottomed out between the end of 2009 and the start of 2010 in the global average
- > The economy is expected to grow 1.1% in 2010 and 1.6% in 2011 – most optimism in China (8.5%) and the USA (2%) in 2010
- > Companies worldwide expect the next major growth phase in mid-2010 on average – or at the start of 2010 in the case of the USA
- > Globally, unemployment (66%) and taxes (53%) are expected to rise, while 51% expect more restrictive lending practices – 58% of firms worldwide experienced a drop in sales volume first hand and 29% expect this to happen in 2010

2 After implementing cost cuts and working capital actions, growth and sales initiatives will be the main focus – Management commitment is the key success factor in restructuring

- > After a focus on cost cutting in 2009 (74%), more growth and sales initiatives (75%) are planned for 2010 – Japan intends to conduct more cost cutting activities as well as its growth initiatives
- > The majority (62%) of companies worldwide expect restructuring to last a maximum of 12 months – 44% in Japan expect >18 months
- > Management commitment is crucial to successful restructuring – fast implementation is relegated to second place because companies now focus on the longer-term implementation of growth and sales actions

3 Personnel costs already cut 9% in 2009 – Cost reduction targets already met

- > Personnel costs were already cut by an average of 9% across the world in 2009 – only Europe is expected to see a reduction in personnel costs in the future
- > 91% of survey respondents in the USA cut their personnel costs by more than 10% in 2009 – thereby reaching the targeted savings
- > Instituting a hiring freeze (73%), cancelling wage increases (72%) and making layoffs (71%) were the top 3 actions – in Europe, and in Germany especially, short-time work arrangements meant fewer layoffs

Liquidity situation still critical in some cases – Lack of finance and risk aversion are main impediments to growth

4 40% of companies worldwide experienced critical liquidity situations during the crisis, currently 20% are still facing tight liquidity – Focus on operational actions to ensure liquidity

- > Companies ensured liquidity in the crisis primarily through operational actions (e.g. debtor management and inventory reduction)
- > Structural actions and external financing mostly realized through traditional bank loans (34% worldwide)
- > Cuts in commercial credit insurance limits (22%) and credit lines (21%) were a major problem – current situation only slightly better
- > 56% of survey respondents report a deterioration in credit terms in relation to higher interest, 54% saw stricter financial covenants – higher interest particularly relevant in the USA (86%), WE (62%) and CEE (58%)

5 Asia will benefit the most from the growth – Insufficient risk management and financing options are impeding future growth significantly

- > 71% of survey respondents worldwide think Asia will benefit from the upturn in 2010 (85% in 2011) – Europe to benefit the least
- > 69% of survey respondents intend to focus on their core business during the upturn – 61% plan growth with new products
- > The vast majority of companies (69%) plan to finance future growth with their own money
- > Risk aversion among management and/or shareholders is the key internal impediment to growth for 29% of the companies surveyed worldwide – 28% see a lack of financing options as the biggest external barrier

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

- > Higher liquidity reserves and equity ratios are needed in order to be prepared for future crises
- > Permanent optimization of working capital is the key operational action to safeguard liquidity
- > Variable cost structures, especially in terms of personnel, need to be created to enable companies to react flexibly to any slump in their business volume – supported by effective early indicators
- > Create a basis for future growth in the form of sales initiatives while the crisis is still ongoing, exploit competitors' weaknesses

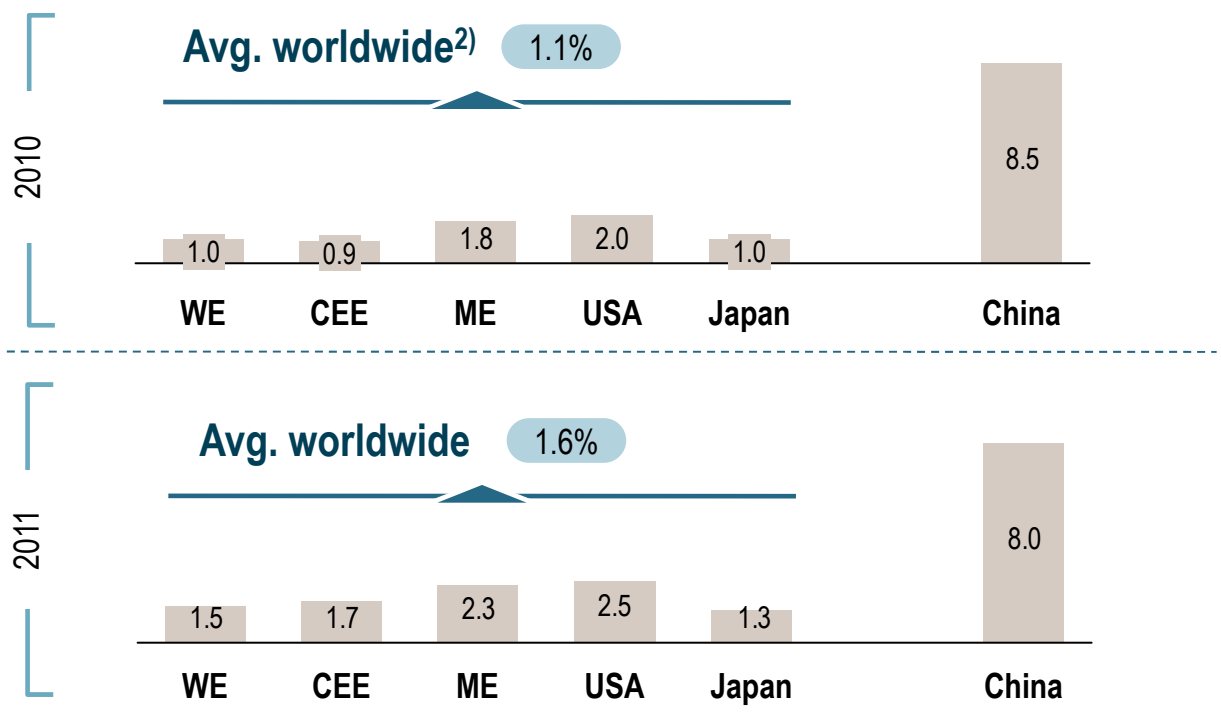
C Key results

Roland Berger
Strategy Consultants



Worldwide (except China), companies expect economic growth (GDP) of approx. 1.1% in 2010 and 1.6% in 2011

Economic growth in each region in 2010 and 2011 (GDP) ¹⁾



- > The economy (GDP) is expected to grow by an average of 1.1% in 2010 and 1.6% in 2011 in the surveyed regions worldwide (with the exception of China)
- > Modest expectations for WE, CEE and Japan, with approx. 1% growth (GDP) on average in 2010 – slight increase in 2011
- > The USA and ME are more positive, with approx. 2% growth (GDP) in 2010 on average (2.5% in 2011)
- > The average expectation for China is approx. 8.5% GDP growth in 2010 and 8% in 2011 – way above the global average

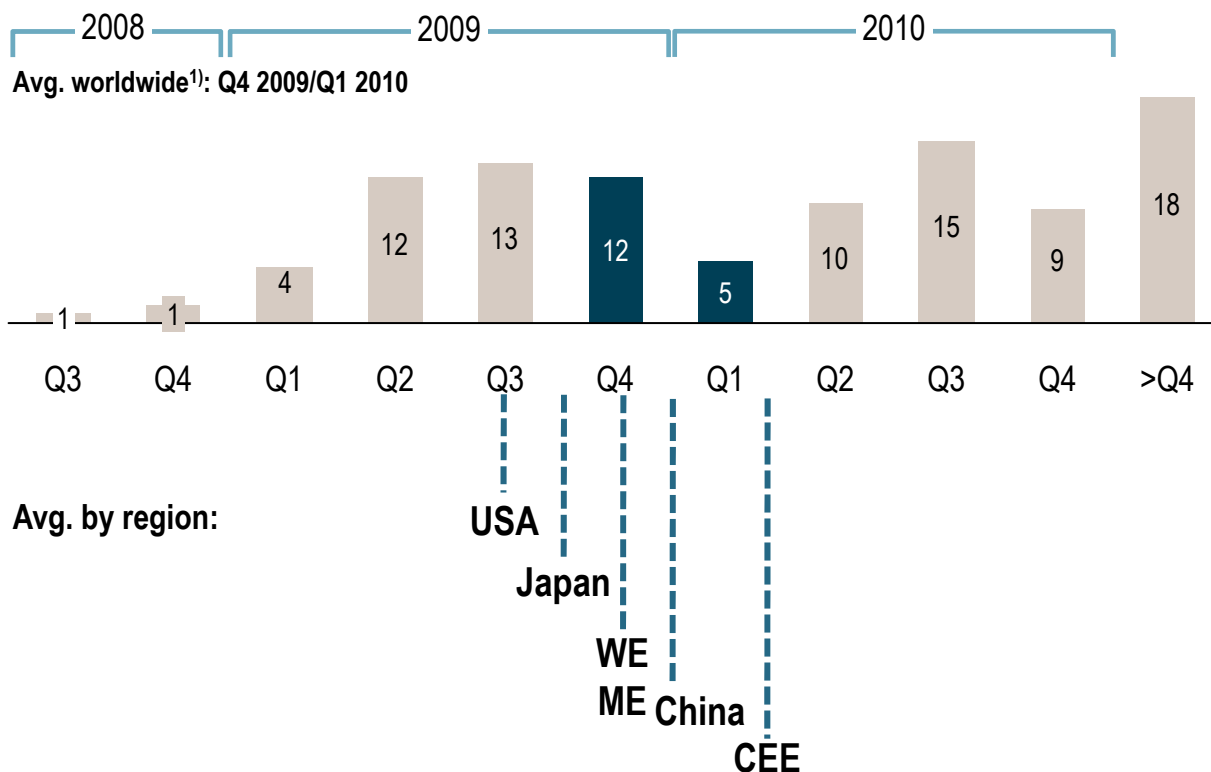
COMMENTS

1) Weighted average growth per region

2) Weighted average worldwide, except China

Globally, most companies believe the economy bottomed out in late 2009/early 2010

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



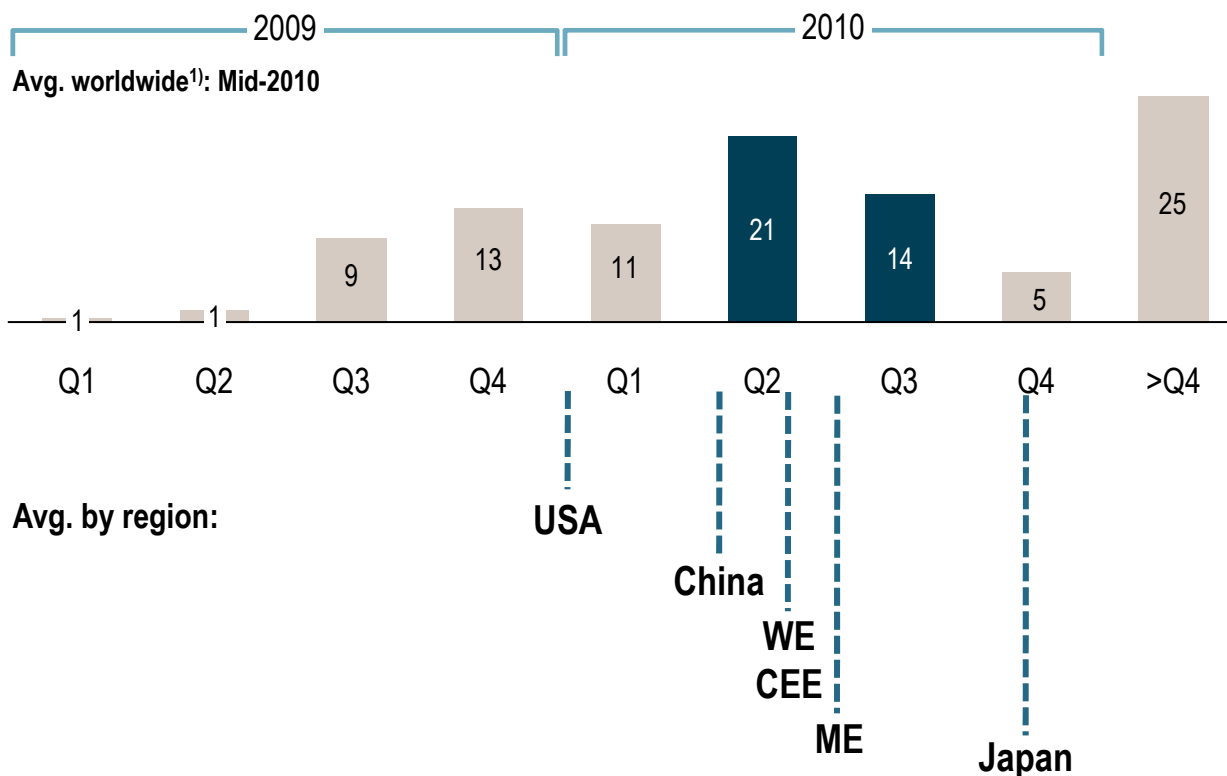
- > On average globally, the respondent companies think that the economy bottomed out between the end of 2009 and the start of 2010
- > However, 18% of respondent companies think that the lowest point will come after 2010
- > The USA, Japan, WE and ME experienced the worst of the crisis at the end of 2009
- > China's crisis bottomed out early in 2010; for the CEE it will be Q2 2010

COMMENTS

1) Average of weighted responses worldwide
Source: Roland Berger, Restructuring Study 2010

From a global perspective, most companies expect a clear growth phase to start in the middle of 2010

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



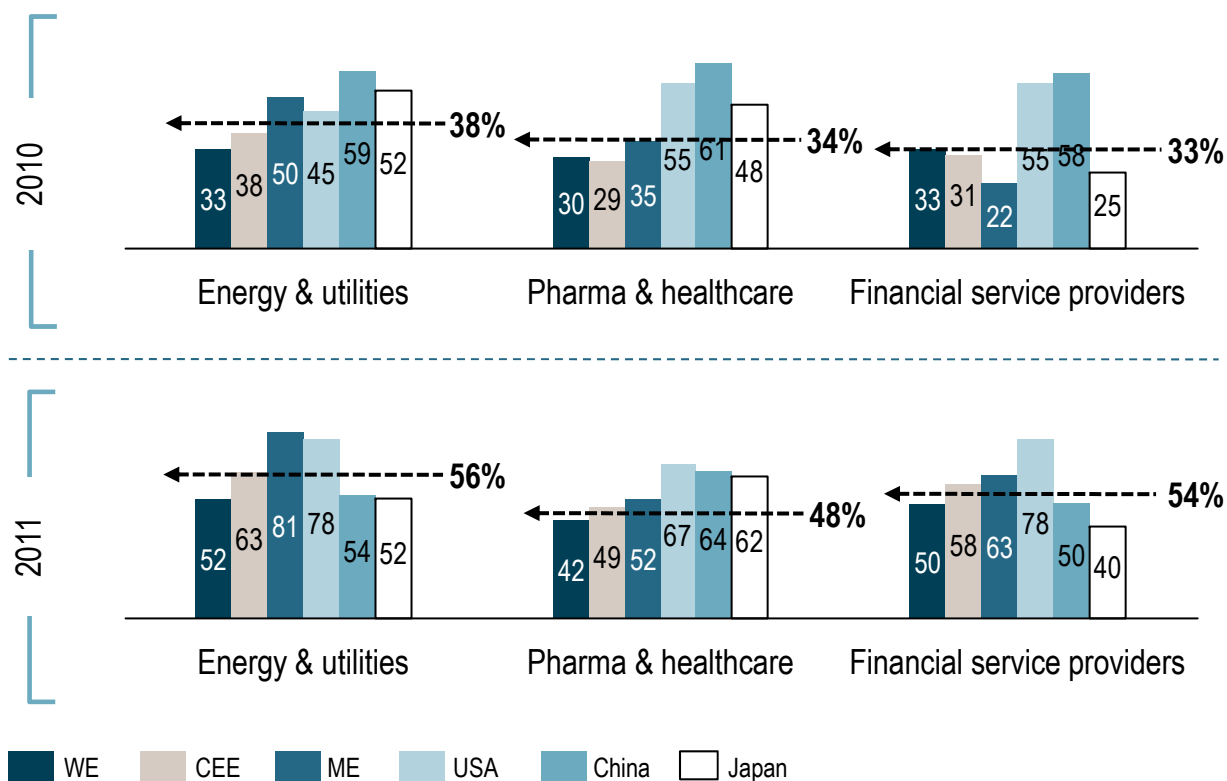
- > On average globally, the respondent companies expect the next clear phase of growth in mid-2010
- > However, 25% of respondent companies do not expect growth to start before the end of 2010
- > The USA is already in a phase of growth
- > China, CEE, WE and ME anticipate their next phase of growth in Q2 or Q3 2010
- > Japan is more pessimistic, with growth expected only at the end of 2010

COMMENTS

1) Average of weighted responses worldwide
Source: Roland Berger, Restructuring Study 2010

Energy & utilities, pharma & healthcare and financial service providers profit the most from the recovery

Industries profiting from the recovery [avg. of responses] ¹⁾



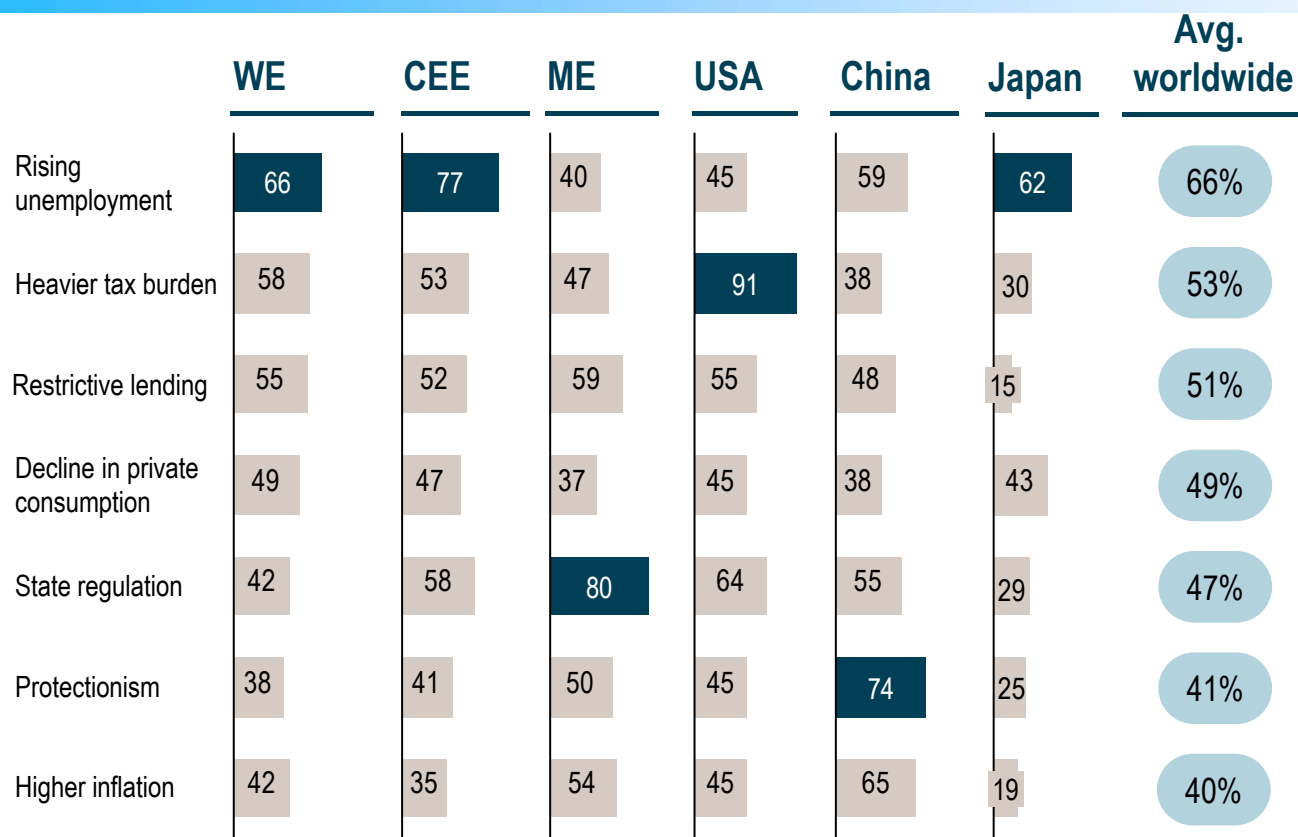
- > Energy and utilities will benefit the most from the upturn, according to the companies surveyed (avg. 38% of responses in 2010 and 56% in 2011)
- > As in 2009, the pharma and healthcare industries are expected to do well as the economy picks up (avg. 34% of responses in 2010 and 48% in 2011)
- > Financial service providers, hard hit by the crisis in all regions in 2009, will benefit strongly in 2010 (avg. 33%) and 2011 (avg. 54%) as the economy recovers

COMMENTS

1) % of "very strong" and "strong" responses — Average of "very strong" and "strong" responses worldwide

Unemployment and taxes are expected to be higher and lending practices more restrictive, in particular

Areas where situation is expected to deteriorate further [% of responses]



Very strong and strong

x% Average of weighted responses worldwide

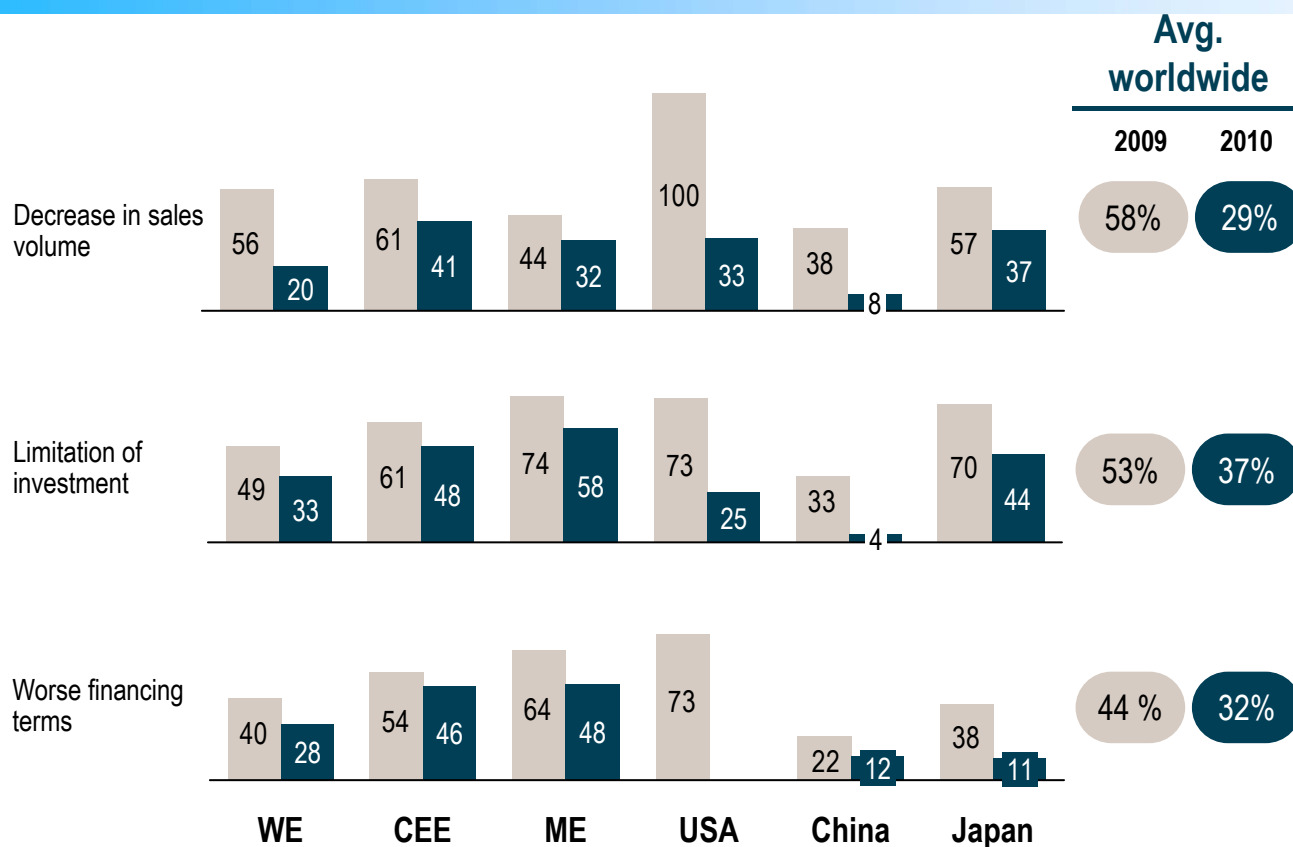
Source: Roland Berger, Restructuring Study 2010

- > 66% of respondents worldwide see a further rise in unemployment as likely
- > About half of the companies surveyed anticipate a deterioration in the situation with regard to the tax burden, lending practices and private consumption
- > ME fears a rise in government regulation in particular (80%)
- > 74% in China expect an increase in protectionism

COMMENTS

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

Impact of the crisis on companies [% of responses] ¹⁾



- > Companies worldwide were mainly hit by falling sales volumes during the crisis in 2009 – especially the USA (100%)
- > The crisis is easing up – falling sales in particular are becoming less relevant (29%) in 2010
- > In spite of planned growth, 37% of companies anticipate a curb on investments in 2010
- > Problems with financing (32%) remain an issue in 2010

COMMENTS

■ 2009 ■ 2010 1) % of "very strong" and "strong" responses

Source: Roland Berger, Restructuring Study 2010

During the crisis companies worldwide reduced costs and generated liquidity – Now the focus is once again on growth

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

	WE	CEE	ME	USA	China	Japan	Avg. worldwide	
In place	Adjust business plan	72	80	83	82	76	82	76%
	Cost reduction program	75	79	50	82	58	90	74%
	Personnel actions	62	67	71	82	57	89	65%
	Growth/sales initiatives	62	63	52	64	71	73	63%
Planned	Adjust business plan	56	73	75	70	57	67	63%
	Cost reduction program	62	72	43	60	46	100	64%
	Personnel actions	43	62	62	56	57	100	51%
	Growth/sales initiatives	74	78	70	80	71	100	75%

- > Adjusted business plans (76%) and cost reduction programs (74%) were used to a greater extent in the crisis and will remain fairly important in the future
- > The focus will be more firmly placed on growth and sales initiatives (rising from 63% to 75%) in the future – working capital actions such as better inventory management (53%) will also remain crucial in the future

COMMENTS

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

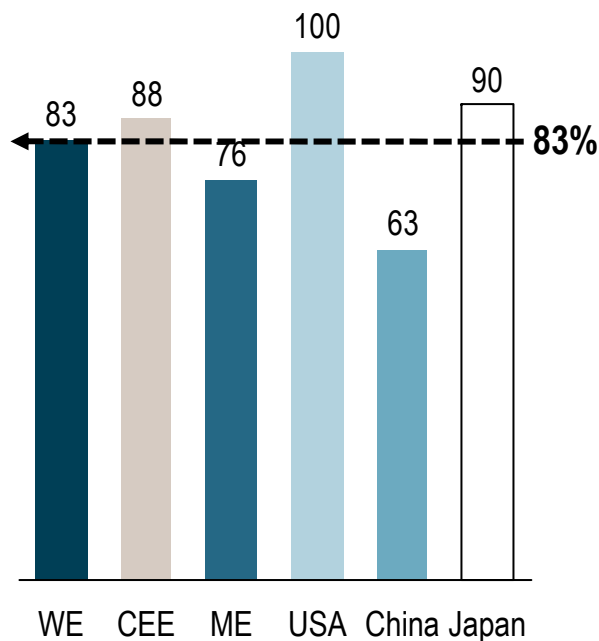
Source: Roland Berger, Restructuring Study 2010

Management commitment, fast implementation and intensive project monitoring are the top success factors

Top success factors of restructuring [% of responses] ¹⁾

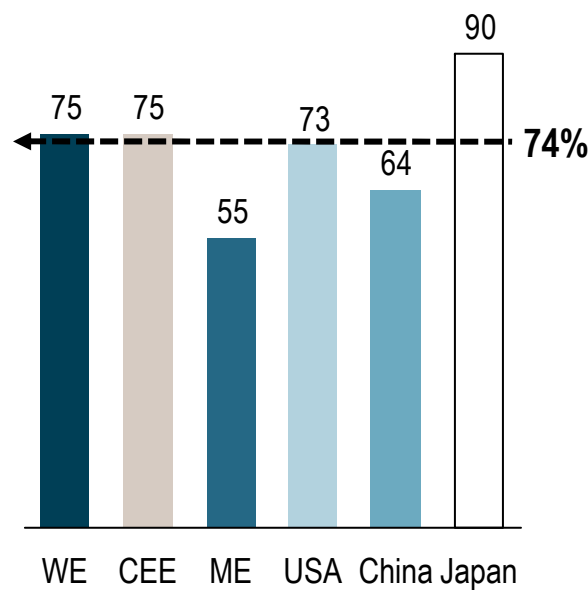
Top factor # 1

Management commitment



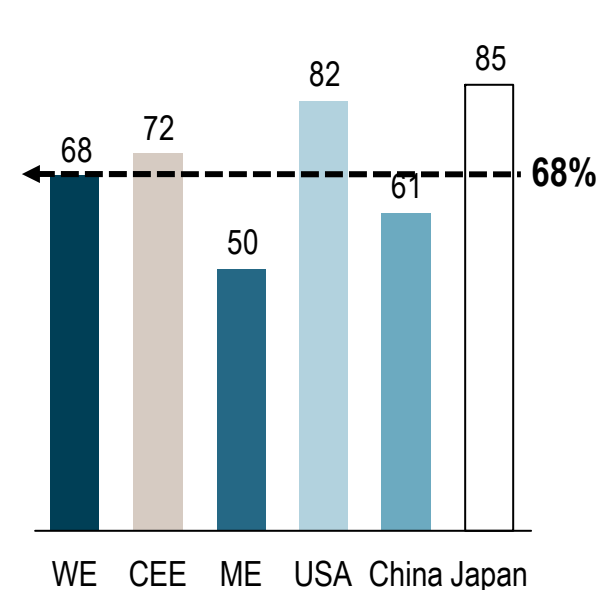
Top factor # 2

Fast implementation



Top factor # 3

Intensive project monitoring

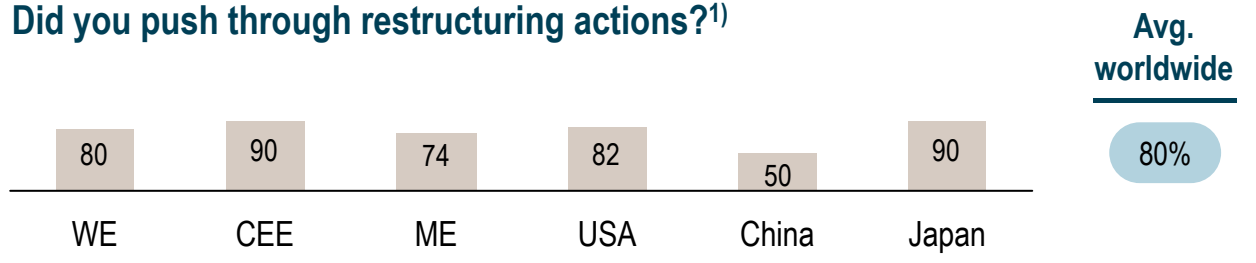


1) Multiple responses possible - - - - - Average of weighted responses worldwide

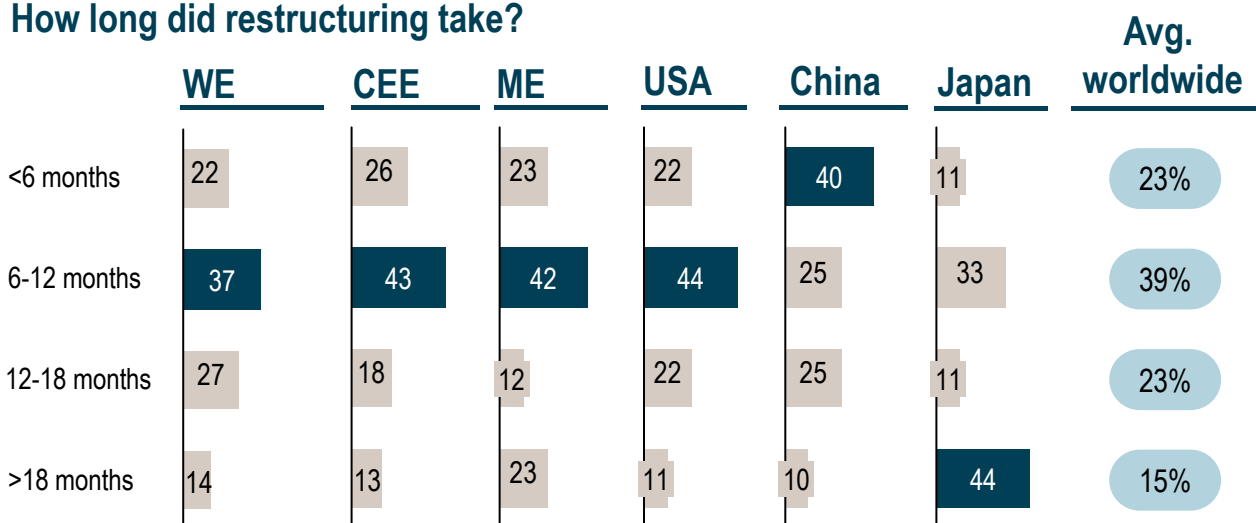
80% pushed through restructuring actions – Majority plan on a maximum of 12 months for restructuring

Duration of restructuring projects conducted [% of responses]

Did you push through restructuring actions?¹⁾



How long did restructuring take?



- > 80% of respondents worldwide put increased effort into pushing through restructuring actions in their company – CEE and Japan lead the regions in this respect, with the figure at 90%
- > Two thirds of companies in CEE, ME, USA and China plan less than one year for restructuring (avg. 62% worldwide) – 44% of Japanese firms, on the other hand, plan on restructuring taking more than 18 months

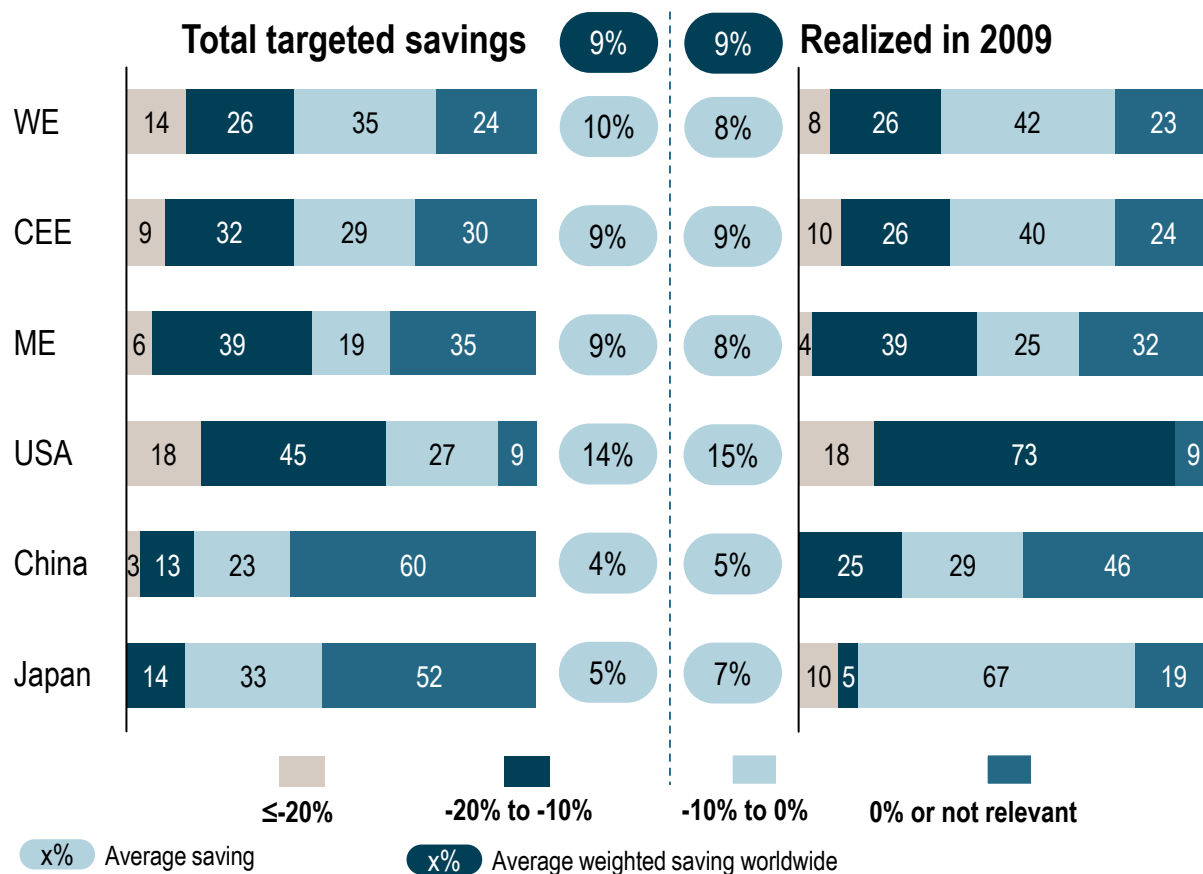
COMMENTS

1) % of "yes" responses

Source: Roland Berger, Restructuring Study 2010

Personnel costs already cut by 9% on average in 2009 worldwide – Not much more cost reduction anticipated

Reduction in personnel costs [% of responses]

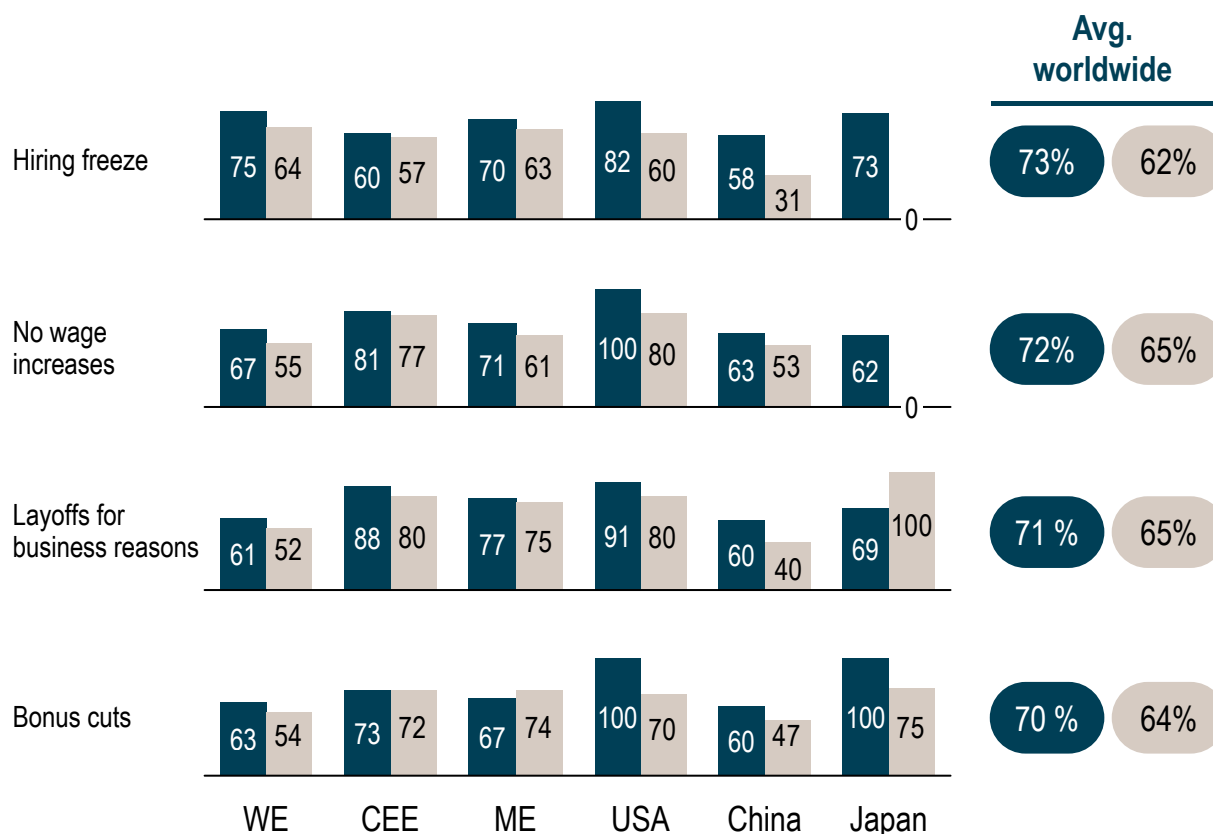


- > Across the globe, companies have already cut personnel costs by a total of 9% on average – little in the way of cost reductions expected for the future
- > 91% of respondents in the USA reduced their personnel costs in 2009 by more than 10% – even exceeding savings targets
- > 34% of firms in WE brought their personnel costs down by more than 10%, while 40% plan to do this in the future – some reductions still outstanding
- > China and Japan exceeded their targeted savings slightly

COMMENTS

Four main actions to cut personnel costs – Fewer actions planned in the future

Actions for cutting personnel costs [% of responses] ^{1,2)}



- > Hiring freeze (73%) and no wage increases (72%) were the top 2 actions employed to cut personnel costs in 2009
- > Companies also laid off people for business reasons in 2009 – layoffs were especially relevant in the USA (91% in 2009) and CEE (88% in 2009) in 2009
- > Companies plan fewer such actions in the future, but the level is set to remain slightly higher than normal

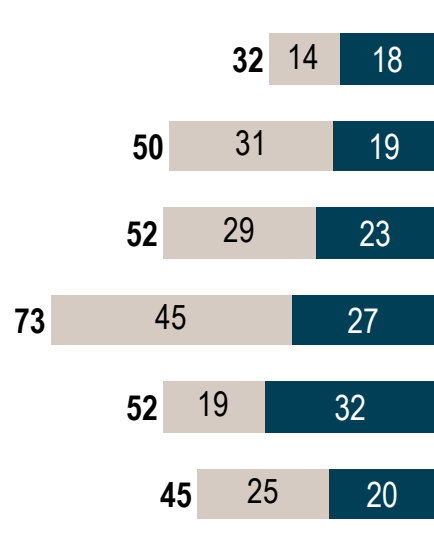
COMMENTS

1) Important to very important 2) Multiple responses possible ■ In place ■ Planned
Source: Roland Berger, Restructuring Study 2010

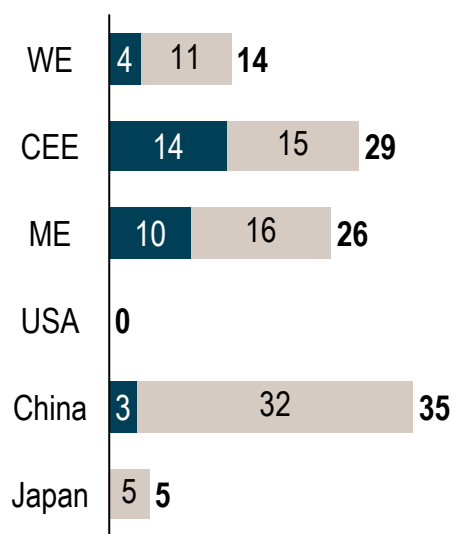
During the crisis, the liquidity situation became critical for 40% of companies – Currently 20% still at risk

Assessment of liquidity situation [% of responses]

Was your liquidity situation critical during the crisis?



Is your liquidity situation still critical due to the crisis?



Avg. worldwide 40% 20%

■ % of "very critical" responses ■ % of "critical" responses

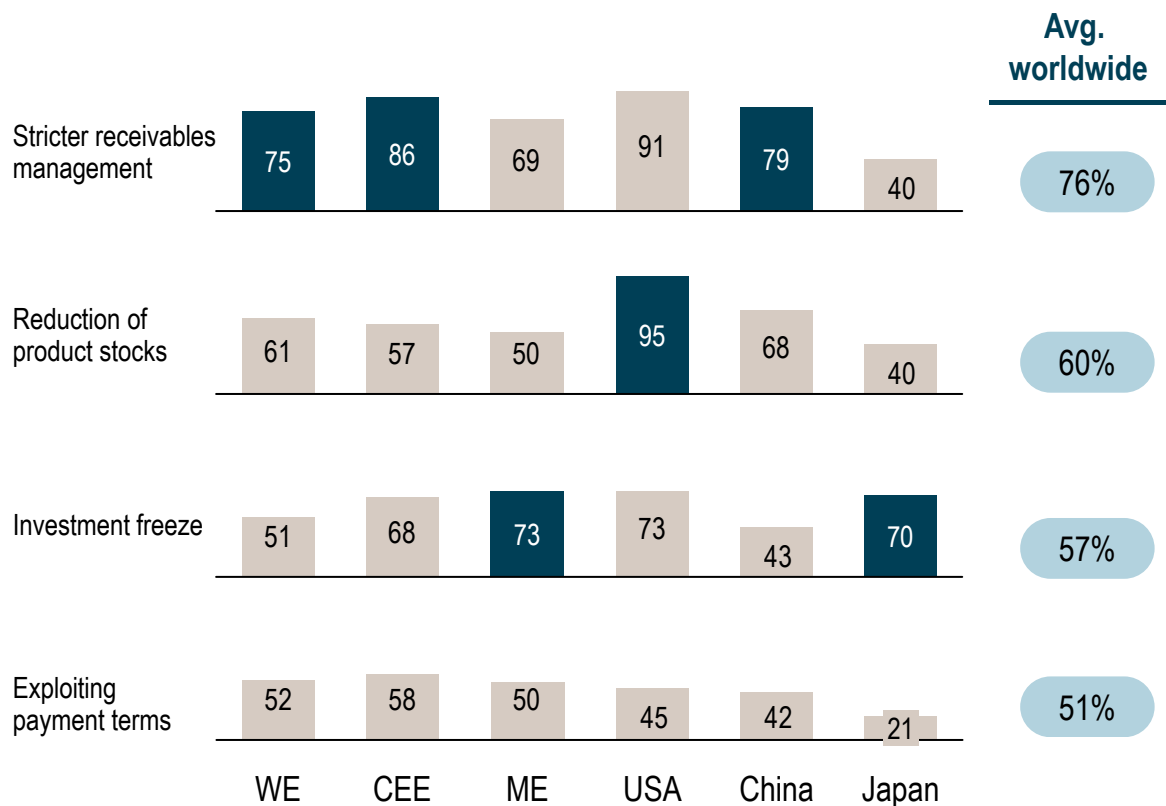
Source: Roland Berger, Restructuring Study 2010

- > 40% of the respondents worldwide suffered a critical liquidity situation during the crisis – 20% of respondent companies still consider the situation to be critical
- > There are still more firms than usual in a critical liquidity situation in China, CEE and ME
- > Just 4% of companies in WE rate their current situation as very critical
- > The situation has eased markedly in the USA and Japan (0% very critical)

COMMENTS

Liquidity was ensured mainly through operational cash management – Stricter receivables mgmt. holds top spot

Operational actions taken to ensure liquidity [% of responses] ¹⁾



- > Clear focus on operational actions to ensure liquidity – especially operational cashflow management
- > 76% of companies worldwide improved their receivables management system to protect liquidity
- > WE, CEE and China focused on stricter receivables management
- > Inventory reductions were particularly relevant in the USA
- > Freezing investments was a highly relevant action in ME (73%) and Japan (70%) in particular

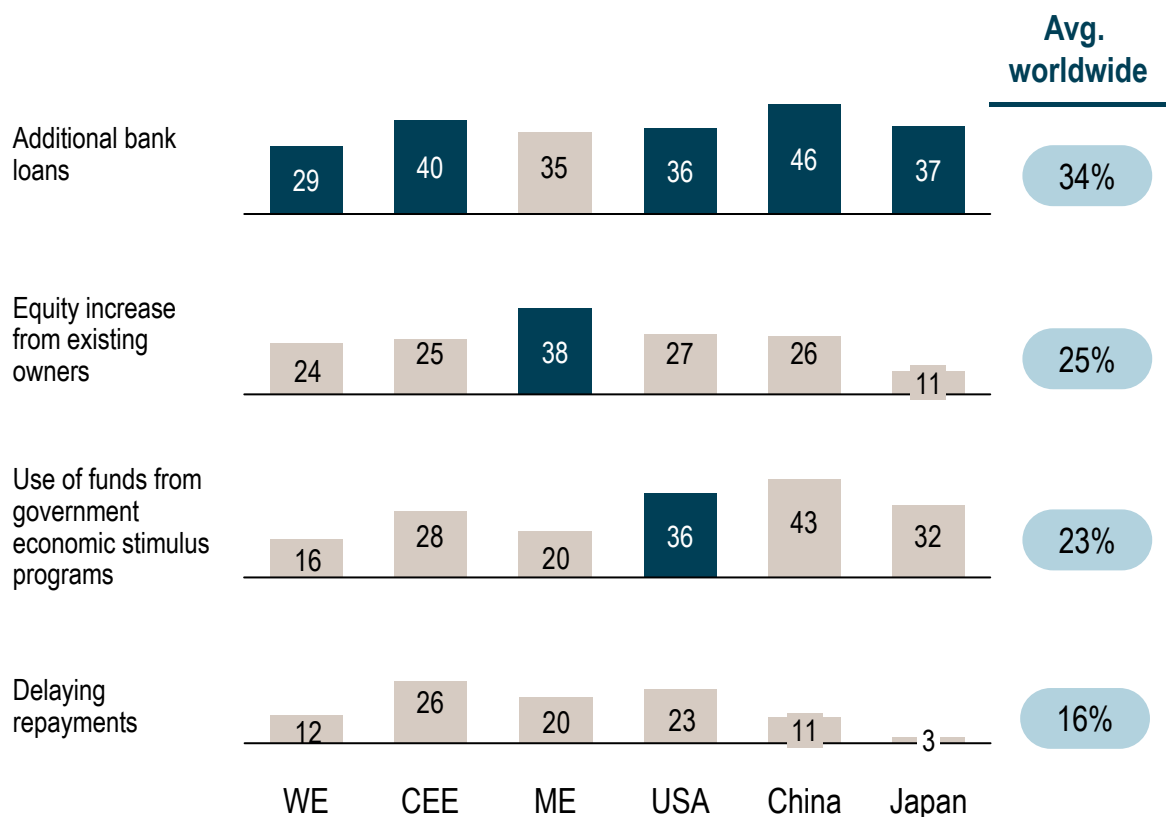
COMMENTS

1) Multiple responses possible

Source: Roland Berger, Restructuring Study 2010

Structural actions had less of an impact – Only 34% took out additional bank loans

Structural actions taken to ensure liquidity [% of responses] ¹⁾



- > Structural actions and external financing was realized primarily through traditional bank loans (34% worldwide) – low level of relevance compared with operational actions
- > ME relied increasingly on increasing equity capital through existing shareholders (38%)
- > The USA (36%) and China (43%) saw more firms take up the offer of funds from government economic stimulus programs

COMMENTS

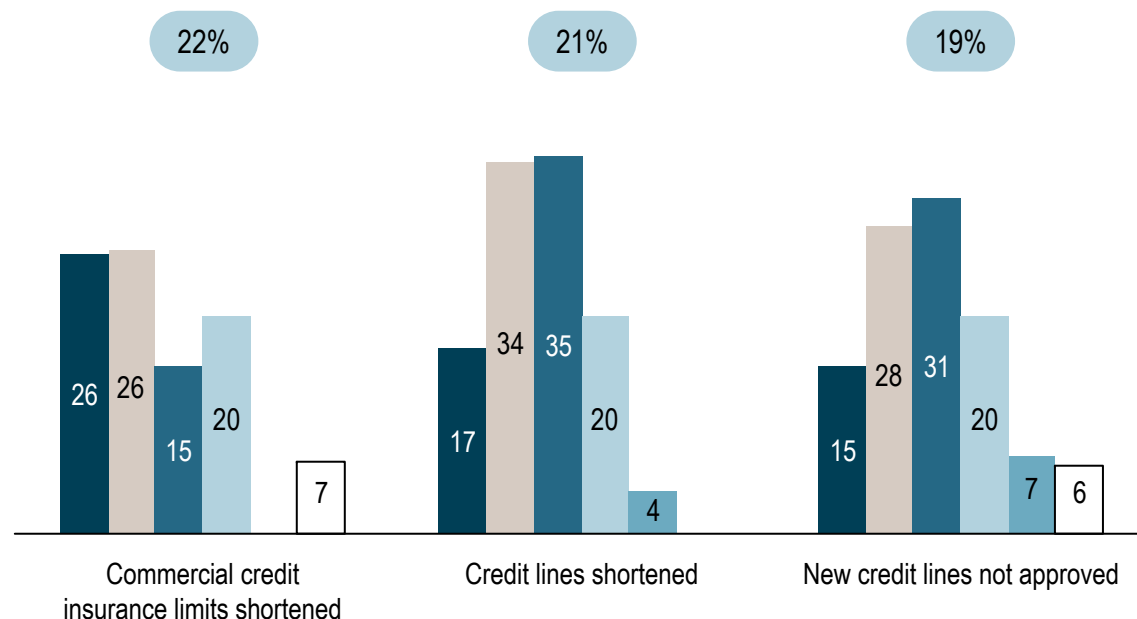
1) Multiple responses possible

Source: Roland Berger, Restructuring Study 2010

Cuts in commercial credit insurance limits and less favorable credit terms put a squeeze on financing – Asia barely affected

Impact of the crisis on financing [% of responses] ¹⁾ (1/2)

Avg. worldwide¹⁾



■ WE ■ CEE ■ ME ■ USA ■ China □ Japan

1) Average of weighted responses worldwide
Source: Roland Berger, Restructuring Study 2010

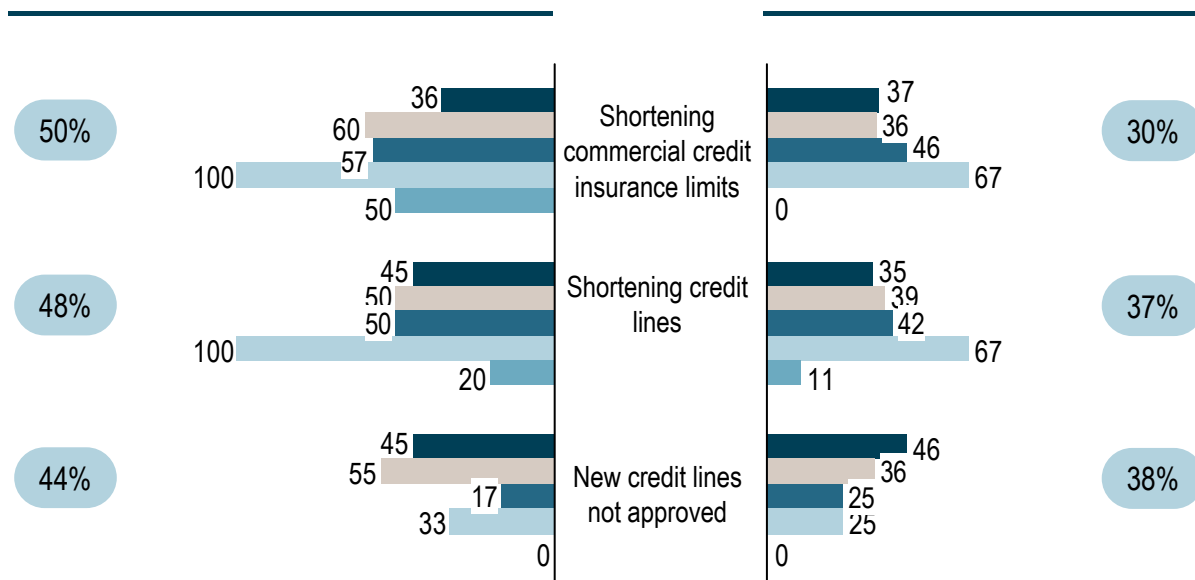
- > Cuts in commercial credit insurance limits (22% worldwide) are reported in Europe, ME and the USA
- > Shorter existing credit lines are especially relevant in CEE (34%) and ME (35%)
- > 19% worldwide report that lenders did not approve new credit lines – especially firms in CEE (28%) and ME (31%) claim that the crisis had a major impact on the granting of new credit lines
- > China and Japan not very badly affected by these aspects overall

COMMENTS

Approx. 50% of firms affected by cuts in commercial credit insurance and credit lines ended up in a critical situation

Impact of the crisis on financing [% of responses] ¹⁾ (2/2)

How critical were the effects of the crisis for your company?²⁾



WE
 CEE
 ME
 USA
 China
 x% Average of weighted responses worldwide

1) % of responses of companies on whom the crisis had a negative impact (see slide 27)

2) % of responses stating "very critical" and "critical" impact 3) % of "yes" responses

Source: Roland Berger, Restructuring Study 2010

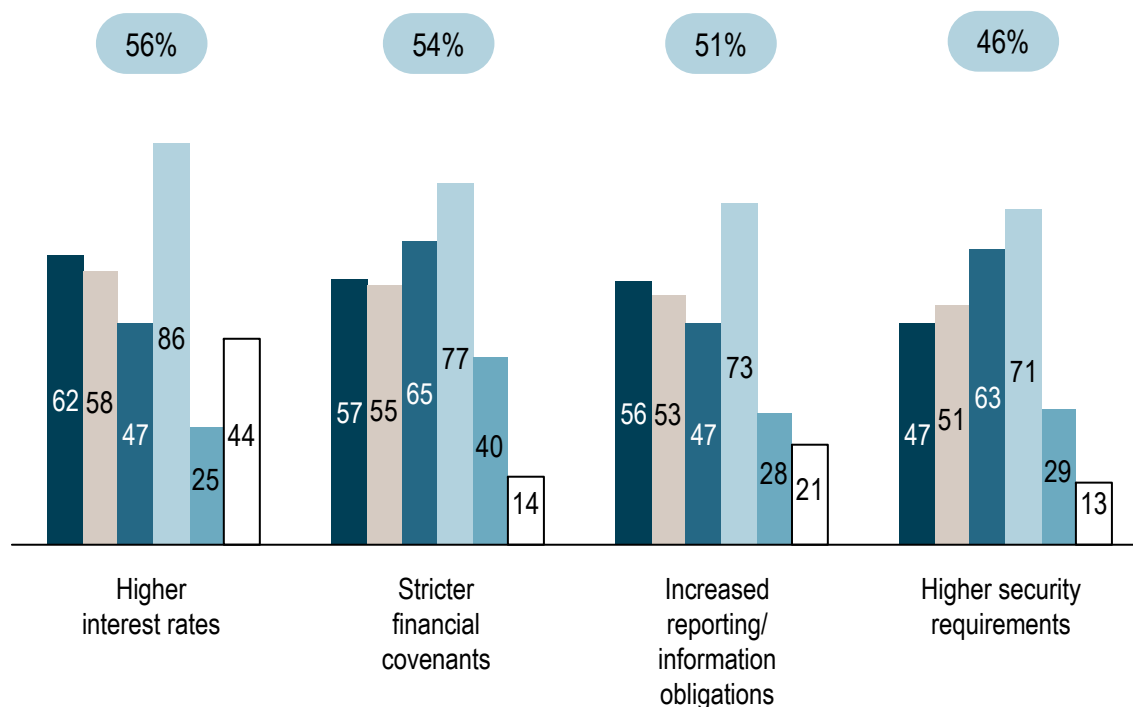
- > The situation during the crisis became critical for 50% of companies whose commercial credit insurance lines were shortened in the course of the crisis – 30% of them say the situation is still the same today
- > The situation during the crisis became critical for 48% of companies whose existing credit lines were shortened in the course of the crisis – 37% of them say the situation is still the same today

COMMENTS

Credit terms deteriorated for around half of companies during the crisis

Deterioration of credit terms [% of responses] ¹⁾

Avg. worldwide²⁾



WE CEE ME USA China Japan

1) Multiple responses possible 2) Average of weighted responses worldwide

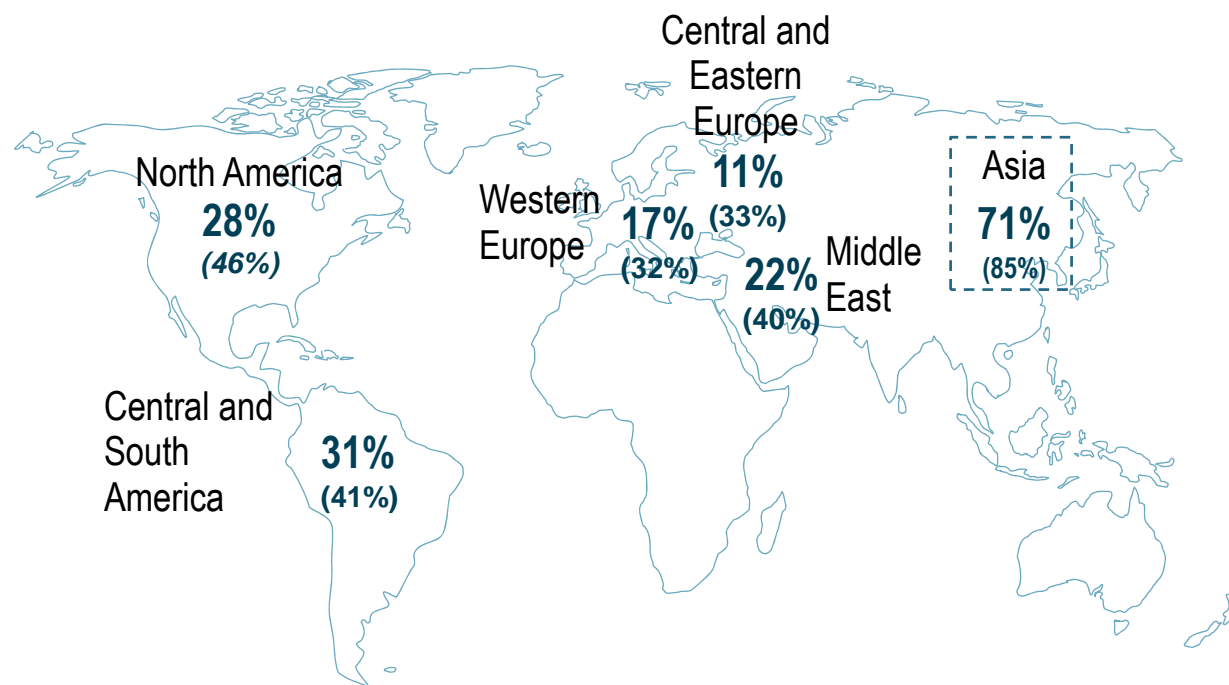
Source: Roland Berger, Restructuring Study 2010

- > Relevant areas in which terms deteriorated range from higher interest rates (56%) through increased collateral requirements (46%)
- > Higher interest rates were especially relevant in the USA (86%), WE (62%) and CEE (58%)
- > The deterioration of credit terms was less pronounced in Japan overall
- > More than half of respondents now have to meet stricter financial covenants

COMMENTS

Companies worldwide are focusing strongly on Asia for growth – Europe bringing up the rear

Regions set to profit from the recovery in 2010/11 [% of responses] ¹⁾



- > 71% of respondents worldwide think Asia will profit from the upturn in 2010 (85% in 2011) – Asia was already considered to have better opportunities in the crisis in 2009
- > Respondents anticipate little in the way of growth in Western Europe and in Central and Eastern Europe in 2010 – but 32% of respondents think Western Europe will benefit from the economic recovery as soon as 2011
- > Forecasts for North America also improve dramatically in 2011 (46%)

COMMENTS

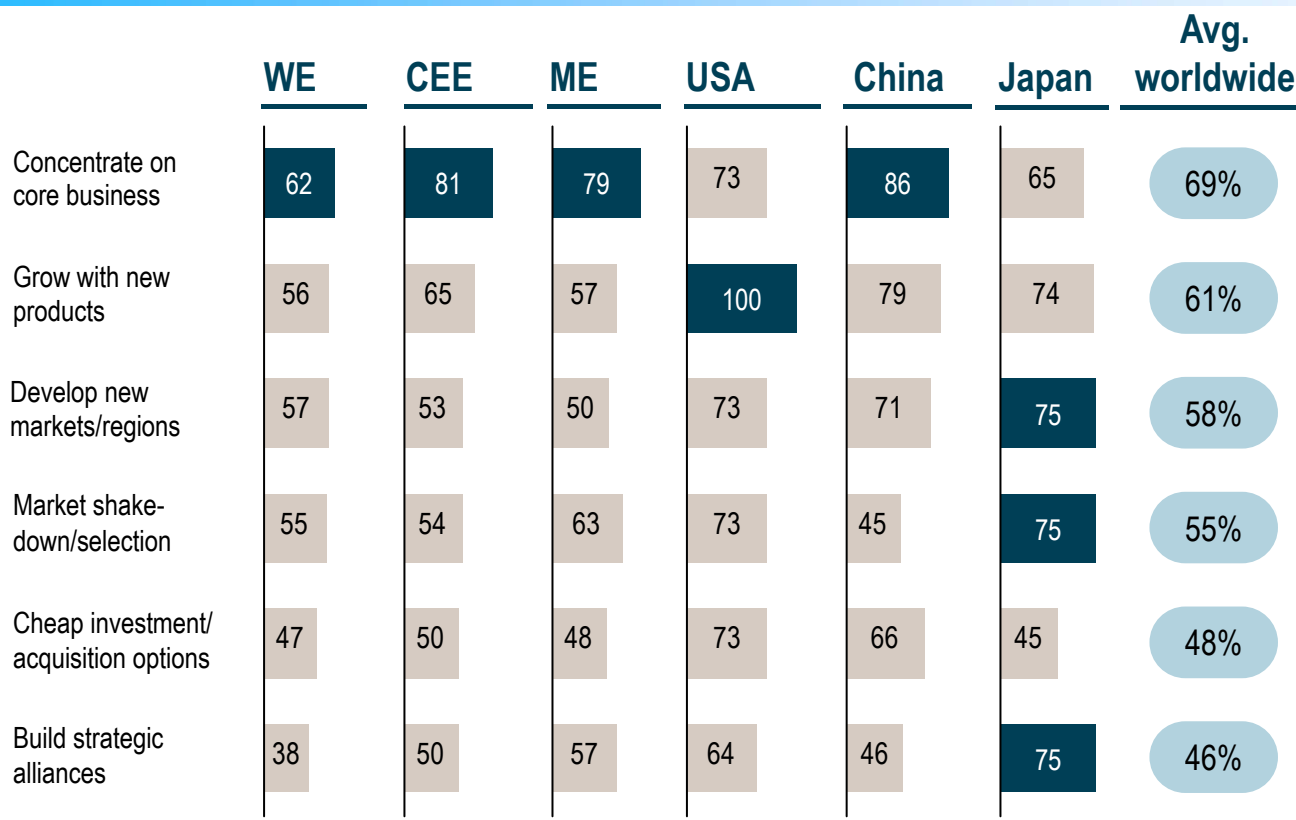
X% = 2010 (X%) = 2011

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

Source: Roland Berger, Restructuring Study 2010

Companies worldwide focus on their core business during the economic upturn – New products and markets follow

Opportunities for companies during the recovery [avg. of responses]



Very important to important

x% Average of weighted responses worldwide

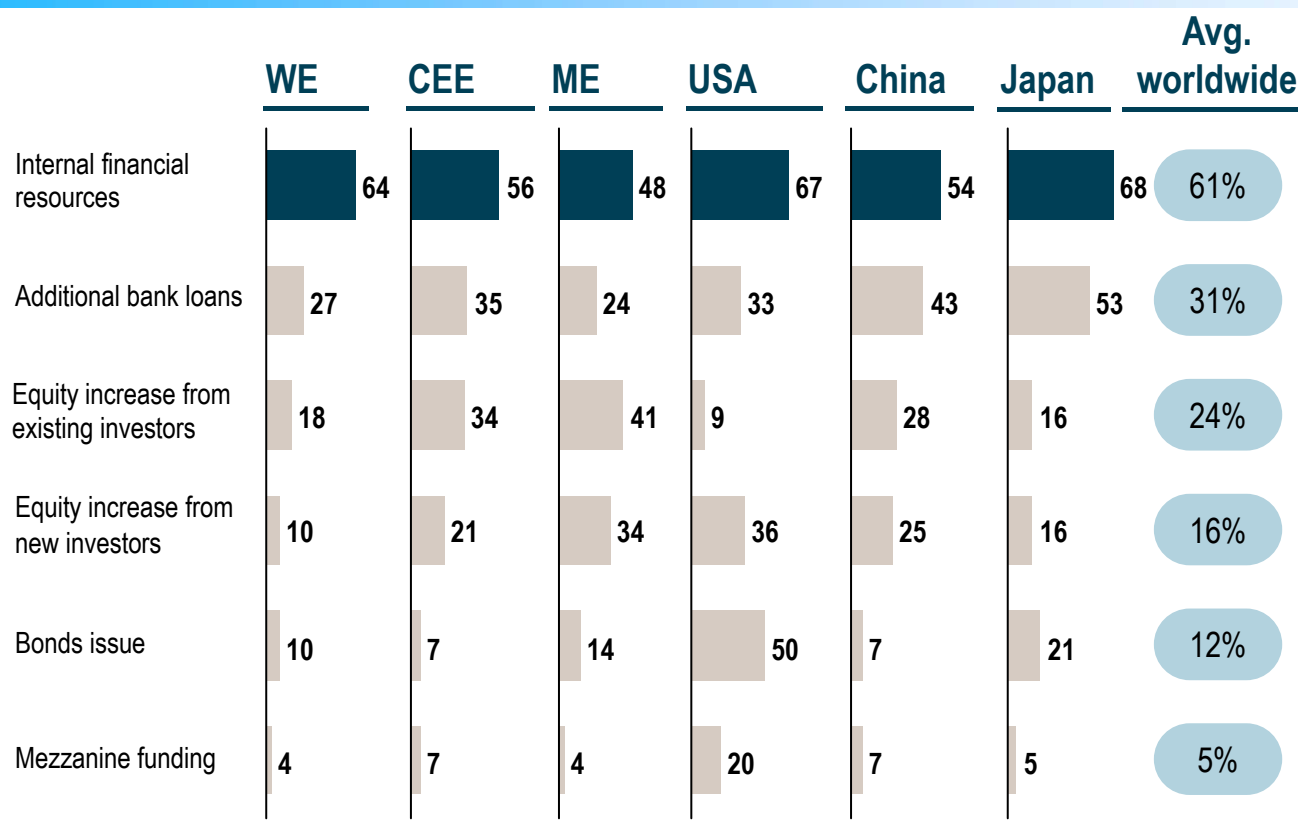
Source: Roland Berger, Restructuring Study 2010

- > 69% of respondent companies worldwide plan to focus on their core business as the economy recovers – 61% want to grow with new products
- > The USA places its focus on growth with new products (100%)
- > Japan uses the upturn to open up new markets/regions and build strategic alliances

COMMENTS

Overwhelming majority of companies worldwide plan to finance future growth using their own resources

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



- > Respondent companies (69%) rate their ability to finance themselves as very important
- > Traditional bank loans (33%) are the dominant form of debt financing – increasing equity through existing (19%) or new investors (9%) is less relevant
- > Issuing bonds on the capital markets and mezzanine financing have barely any relevance

COMMENTS

Very important to important

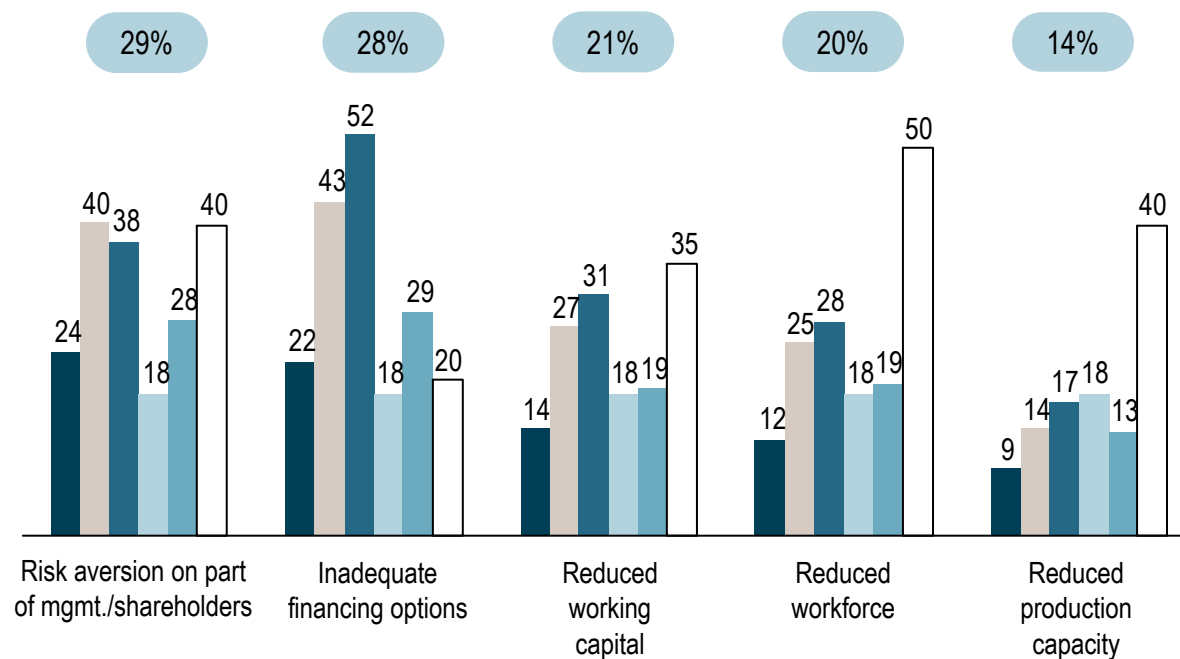
x% Average of weighted responses worldwide

Source: Roland Berger, Restructuring Study 2010

Risk aversion and a lack of financing options are impeding future growth

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

Avg. worldwide²⁾



- > 29% of companies worldwide perceive a very high to high threat of risk aversion on the part of management or shareholders putting the brake on economic recovery
- > 28% see a lack of financing options as a potential barrier to future growth
- > Japanese firms think their diminished personnel numbers and production capacities restrict their ability to grow

COMMENTS

■ WE ■ CEE ■ ME ■ USA ■ China □ Japan

1) % of very high to high risk responses 2) Average of weighted responses worldwide

Source: Roland Berger, Restructuring Study 2010

We have weathered the crisis and recovery is in sight – Four core lessons learned

Lessons learned from the crisis

1

INCREASE LIQUIDITY BUFFERS

An economic downturn can affect liquidity sooner than you think

- > Create higher **minimum liquidity reserves**
- > **Optimize working capital** continuously to cope with any future crises

2

ENSURE A COMFORTABLE EQUITY RATIO

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

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

3

ENSURE FLEXIBLE COST STRUCTURES

Prepare cost structures for any possible decline in business volumes

- > Create **variable cost structures** (especially in **personnel**)
- > Introduce additional **reporting/early-warning systems**

4

PREPARE FOR FUTURE GROWTH

Establish a basis for future growth in good time

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