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Recapitalization
Accounting advisory

Whether a company can deal with equity issues arising in the course of its business may prove to be a crucial factor since companies are required to protect their creditors and comply with statutory regulations, bank covenants and various tender criteria at the same time. There are a number of ways to consolidate a company's equity position and to eliminate the negative equity. Nonetheless, businesses need to be aware of the necessary resources, the time required for the process, as well as the long-term consequences of the method selected before they make decisions.

Recapitalization methods

Method	Description	Advantage	Disadvantage	Required time
Cash to equity	Increase equity with **cash contribution**—quota to be provided with premium to have the capital reserve offset the negative profit reserve	Enables to pay dividend, might be a long-term solution	Considerable cash needed (which might be repaid as loan)	App.45-60 days
Additional payment to equity	Provide **additional payment to the capital** and once the equity position is recovered as a result of profitable operation, the amount provided needs to be repaid	Easy and flexible way, original loan agreements need not be amended	Possible only with cash and deed of foundation should include this possibility (if not, it should be amended), future capital structure & legal issues in changing control	Funds can be provided right after the resolution
Debt to equity	**Capitalization of affiliated loan** — quota to be provided with agio to have the capital reserve offset the negative profit reserve	Enables dividend distribution, might be a long-term solution, may resolve the non-deductibility problem of IC interest expense	Possible transfer pricing issues, tax rules may vary among taxation systems, reduces fixed income at shareholder	App. 45-60 days
Non-cash contribution to equity	**Contribute asset (any other than cash) to equity**—quota to be provided with agio to have the capital reserve offset the negative profit reserve	Enables dividend distribution, might be a long-term solution, no cash is needed	Tax rules may vary among taxation systems (including transfer pricing)	App. 45-60 days
Conditional capital reduction	**Capital reduction** with simultaneous capital increase—in the latter phase cash to equity, debt to equity or non-cash contribution to equity methods are available	Enables to pay dividend, might be a long-term solution, lower share capital might be useful	Publication is needed, for increases see other methods, depending on which is used	App. 120-140 days
Revaluation of Assets	Use fair value measurement or **revaluation** methods on financial and even non-financial assets	No monetary or any other transaction, only accounting treatment is necessary	Valuations can result in loss, might be only short-term solution, high exposure to changes in market conditions, changing of accounting policy is necessary, more like a preventive action, possible issues with dividend payment.	App. 60-90 days
Restructuring: business line separation	Fair value measurement through **transferring a business line to another entity** (preferential transfer of assets)	No significant cash needed, might be a long-term solution, gain realized could not be upfront taxable	Possible transfer pricing issues, tax rules may vary among taxation systems, more like a preventive action	App. 120-140 days
Restructuring: merger and transformation	Fair value measurement through **merger, de-merger, or legal transformation**	No significant cash needed, might be a long-term solution	Possible transfer pricing issues, tax rules may vary among taxation systems	App. 120-140 days
Other	**Other methods** of recapitalization might be developed for particular situations and entities considering and evaluating actual special circumstances			

Key drivers

Many facts and circumstances need to be considered for the optimal decision:

Cash resources needed	Time needed to implement	Potential legal issues
Potential tax issues	Capital buffer for future losses	Potential effects on future P&L
Effects on potential future restructuring	Potential effects on future dividends	Potential limitations due to third party commitment (loan covenants)

How we may assist you?

- We prepare case studies for evaluating the feasibility of potential solutions.
- We help implement the selected solution.
- By our in-depth experience and comprehensive knowledge in accounting, audit, taxation, legal and valuation issues – provided by one team.

Why Deloitte?

Deloitte is a name known and trusted by key stakeholders, including boards, chiefs of finance, information and security officers, as well as audit committees. Our people carry out their work with client interests in mind while ensuring the integrity of both our clients and the firm and avoiding any conflict of interest. We have wide experience in auditing companies with outsourced Shared Service Centers accounting, and we have access to the best practices through our global, regional and local teams. Our audit services are not limited to expressing opinion on our clients' financial statements: our industry-focused professionals assist our clients in achieving their business objectives and improving risk management and profitability through the regular provision of tailored advice.

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