Independent Business Review
The Deloitte methodology
Deloitte Malta
Risk Advisory - Banking

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The Deloitte restructuring approach

*Restructuring Services (RS) works with ‘Stressed’ to ‘Insolvent’ businesses*

RS are delivered by partners with specialist “situational” skills and experience, working closely with our Consulting, Corporate Finance and Tax teams, to advise and support corporates directly, or their creditors, or investors.
Our creditor advisory and IBR offering

The Deloitte business review - Overview
When the business is showing signs of stress/distress, it needs to be reviewed to assess its current state and be able to formulate robust restructuring advice. Such a review takes the form of:

- Company Business Reviews (CBRs) for PE’s; and
- Management Independent Business Reviews (IBRs) for creditors.

Extent of our scope may vary depending on who is the client and influence of banks

Business plan review + Stakeholder analysis and valuation/options review = Deloitte business review

CBR often restricts our scope to Business Plan review, which is insufficient for creditors, although CBR providers are able to support Management through the restructuring process thereafter.
Phase I
The business plan review

Establishing a base line EBITDA and cash flow that everyone agrees is a basis for negotiating a restructuring and improves prospects for a robust restructuring and successful exit.
Phase I

Value of the business plan review process

Mitigates the risk that stakeholders will end up back at the table and increases the prospect of a robust restructuring and successful exit.

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<tr>
<th>Basis of review</th>
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<tr>
<td>• Sector skills and experience</td>
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<tr>
<td>• Insights and ‘intelligence’</td>
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<tr>
<td>• Commercial review</td>
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<tr>
<td>• Operations review</td>
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<td>• Modelling capability</td>
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<tr>
<td>• Stakeholder dynamics</td>
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<tr>
<td>• Management assessment</td>
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<tr>
<td>• Specialist teams as needed - tax, treasury, pensions, real estate, insurance, accounting</td>
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<table>
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<th>Benefits</th>
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<td>• Real multi-dimensional challenge to management forecasts: commercial, operational, financial</td>
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<td>• Realistic set of ‘post-vulnerability’ numbers to baseline and track future performance</td>
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<td>• Risks/upsides are fully evaluated</td>
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<td>• ‘Close-up’ assessment of the business and strength/depth of its management team</td>
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<td>• Reliable basis for valuation/options review</td>
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IBR is much more than just an analysis of management’s numbers
Phase II
Stakeholder analysis, valuation and options review

Benefits:
- Determine potential outcomes for stakeholders
- Contingency planning to protect downside
- Recommendations on the optimal course of action for our clients
- Financial, tax and operational structuring advice
- A “road-map” to deliver preferred solution

An effective IBR will identify the key issues for stakeholders and evaluate the full range of options, providing a reliable basis for our conclusions and advice to creditors.
Creditor advisory

Key workstreams

Leveraging off our strategic, commercial and financial review, bringing together a wide range of other skills to deliver robust restructuring advice.

Valuations

- Value now and indicative value post implementation of the reorganisation plan
- Determine where value breaks
- Hence determines potential outcomes for all stakeholders

Options review

- Review and benchmark lender returns under all options
- Establish lender led option as alternative to sponsor/equity holder
- Develop lender solution to point where it can be implemented

Delivery of solutions

- Delivery mechanism – consensual or non-consensual
- Assess rights of parties to the financing documents
- Commercial support to lawyers in delivery

Modelling outcomes

- Financial funding model to overlay post vulnerability trading plan
- Flex model to reflect funding structures, interest and equity shares
- Returns analysis to stakeholders to benchmark options

Financial and tax structuring

- Debt capacity and structuring advice
- Accounting / audit input to new structure
- Full tax steps and implementation exercise required

Management team

- Identifying new management or alternatives to existing management
- Define roles going forward
- Structure Management Incentive Plan

Pension negotiation

- Trustees obliged to seek elimination of deficits as soon as possible
- Debt restructuring potentially increases ability to service pensions
- Negotiate future funding profile before debt compromise

M&A support

- Consideration of potential buyers
- Disposal of non-core activities
- Exit considerations

Coordination/leadership of stakeholders throughout the restructuring process
Contingency planning is often critical

Contingency planning may be required either as a discrete exercise, or as part of a wider IBR solution, providing financial stakeholders with an understanding of options and thus respective negotiating positions and leverage.

- Benchmark for robust restructuring advice
- Evaluation of Stakeholder options including: – “Fall back” contingency options; and – Alternative consensual solutions
- Detailed “Plan B” analysis;
- In depth negotiation of consensual terms;
- Stakeholder and/or Project Management.
- Enforcement could be holdco/opco prepack
- Complex/contentious insolvency
- Consensual could be through shareholder enforcement

Business Plan Review

Contingency options
Stakeholder analysis

Detailed contingency planning

Consensual options

Consensual negotiation/advisory support

Solution through enforcement

or

Consensual restructuring

Functional/sector specialists, operational and commercial due diligence, tax, valuations, etc.
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