UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER'S THESIS

DISTRESSED ASSETS AS INVESTMENT OPPORTUNITIES FOR PRIVATE EQUITY

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Ljubljana, February 2017

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The undersigned Tara Rožman, student at the University of Ljubljana, Faculty of Economics, (hereinafter: FELU), author of this written final work of studies with the title Distressed Assets as Investment Opportunity for Private Equity, prepared under supervision of izr. prof. dr. Aleš Berk Skok.

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INTRODUCTION

What factors caused such economic conditions, where Slovenian companies became over-indebted and unable to access bank financing needed to repay their existing debts? We start our research by analysing debt-fuelled growth in the boom years of the Slovenian economy and factors that caused accumulation of debt in the capital structure of non-financial companies. The first factor we examine is favourable financing of the domestic banks on the European interbank market that stimulated domestic banks to make more borrowings to their clients, non-financial companies in the first place. From 2004 to 2008, liabilities of Slovenian banks to foreign banks increased from more than 4.2 billion € to over 16 billion €, respectively. Simultaneously, growth rate of bank loans to non-financial companies increased in the period from 2004 to 2007 and reached a peak in 2007 with over 37% growth rate (Selected data from banks' balance sheets, 2016). Low interest rates on bank loans to private sector in the years from 2002 to 2007 was second important factor that led to increased demand for bank loans. Before the financial crisis started, interest rates dropped towards the reference interest rate and in 2007 reached the lowest value since 2002. As a result, leverage of the Slovenian companies measured as debt-to equity ratio increased from 88% in 2004 to 146% in 2008 (Bank of Slovenia, 2009b; 2015b). The fastest debt accumulation was recorded by companies in especially cyclical sectors such as construction and real estate, where economic expansion and higher government spending on projects created conditions for the very high growth (Bank of Slovenia, 2015a).

At the end of 2008, exogenous factors from the global market, such as lower foreign demand and reduced investments activity together with the very high economic growth and rising property prices in the domestic environment, pushed the Slovenian economy into the recession. In 2009, the Gross Domestic Product (hereinafter: GDP) growth rate in Slovenia experiences sharp decline of 7.8% (Real GDP growth rate, 2016). What impact had these changed macroeconomic conditions on the performance of the highly indebted Slovenian companies? Already in 2009, the real output of the Slovenian industry dropped by 11% and the real output of the manufacturing sector decreased by 19%. Deteriorated terms of trade and reduced foreign demand primarily affected real output and the value added of the Slovenian manufacturing companies as the most export-driven. In 2009, two digit decline in output was recorded in almost all industries. As a response to a growing refinancing and liquidity risks, the Slovenian banks significantly reduced the amount of loans approved to their clients. Since the beginning of the financial crisis until 2014, the amount of approved bank loans to non-financial companies declined by almost half. Additionally, Slovenian banks raised the required collateral coverage for new loans to protect themselves from the risk of falling prices of pledged assets, which posed an additional burden and financial constraint to already indebted companies. The decline in bank lending to non-financial companies, regardless of their performance in the first years after the outbreak of the financial crisis, significantly deteriorated their cash flows and increased the number of bankruptcy cases (Bole, Prašnikar, & Trobec, 2014).

The excessively indebted companies were not able to neutralise the pressure in the short term, which led to an increased inability to repay their outstanding loans. Therefore, the amount of non-performing loans started to accumulate on the banks' balance sheets. From 2008 to 2012, the share of non-performing loans in the overall loan portfolio of the Slovenian banks increased from 4.2% to 15.2%, respectively (Bank nonperforming loans to total gross loans - Slovenia, 2016). Due to the accumulation of non-performing loans, domestic banks faced severe liquidity risks and declining profitability. For that reason, Bank Assets Management Company (hereinafter: BAMC) was established with an aim to strengthen and restructure banks with fundamental importance in the entire banking system that run into serious liquidity and solvency issues. By the end of 2014, non-performing loans in the total nominal value of 5.2 billion € were transferred from the six largest Slovenian banks to BAMC. The BAMC currently sells claims, equity and real estate it owns to potential investors (BAMC d.d., 2015).

In the second part of the paper we provide an overview of the potential role of private equity funds in this scenario. We considered private equity funds as the potential investors in distressed companies. In the economic literature, private equity is defined as a medium- to long-term arrangement for providing funds and managing closely-held companies in order to create and increase the value and generate capital gains (Caselli, 2010). Private equity funds raise capital from institutions and individuals and invest in equity of private companies. The whole process of establishing, running and exiting private equity funds lasts from 10 to 12 years. In this period, private equity funds undertake different investment strategies and seek for different characteristics in potential portfolio companies, which depend on the company's life cycle stage (Leleux, 2015; Levin, 2004; Caselli, 2010). After the predetermined period of time during which private equity funds manage investments, one of the exit strategies is used to sell (or liquidate) the investment with a goal to maximize the capital gains. Furthermore, we explain corporate turnaround strategy as one of the private equity strategy that focuses mainly on distressed companies with debt repayment issues. Baker, Filbeck and Kiymaz (2015) explain turnaround investing as seeking and purchasing companies in the financial distress with poor performance at low price with prospect that implemented turnaround changes will bring the price up. Turnaround investors in most cases enter the company with full control after incorporating extremely low valuation into their purchase offer that adulterate existing equity holders.

Are there still some companies within the BAMC's portfolio that despite being highly indebted could bring high returns in the future for the private equity investors due to the industry growth potential, perspective business model, attractive product portfolio or some other competitive advantage? This was the main research question that we tried to answer in the master thesis. For this purpose, we collected data for 575 companies whose debt was transferred from the Slovenian banks to the BAMC during 2013 and 2014. We have further narrowed down the initial sample based on the selected criteria, so that we were able to create a list of companies for which we believe to have the highest potential for the future growth

and would be appropriate for the investment portfolio. The main idea was that companies facing a financial distress if restructured and managed effectively, could bring high returns to the potential investors. In most cases, equity of distressed companies is reduced to zero due to the high amount of debt and therefore, estimated economic value of these companies is much lower than economic value of healthy companies. This situation creates an opportunity for private equity investors to increase companies' cash flows and to exit an investment with higher capital gains.

The master thesis is divided into five chapters and the structure follows the presented research frame. The first part provides a theoretical overview of the factors that caused increased borrowings by domestic companies during the pre-crisis period, the impact of the financial crisis and bank measures on the companies' performance and the process of transfer of non-performing loans to the BAMC with an aim to restructure the Slovenian banks facing serious liquidity problems. The second part includes the theoretical overview of private equity and especially turnaround strategy in the context of investing in companies under the financial distress. The third part presents theoretical approaches for valuation of distressed companies and explains the main strategies of corporate restructuring. In the fourth part we give the macroeconomic overview and outlook for the Slovenian economy and economies of its main trading partners. The fifth chapter presents the research methodology, data and variables that appear in empirical part and the final selection of companies suitable for the investment portfolio. Then we provide comprehensive analysis, valuation restructuring proposal for each company within the investment portfolio. The last section gives a conclusion of the master's thesis that summarizes the purpose and highlights the main findings of the empirical research.

1 FACTORS THAT LED TO HIGH INDEBTEDNESS OF SLOVENIAN CORPORATE SECTOR AND THE NEED FOR BAMC ESTABLISHMENT

More than seven years have passed since the outbreak of the financial crisis in Slovenia, but some companies and even the whole economic sectors still feel the severe effects and negative consequences of the financial crisis on their business performance. During the period from 2009 to 2014, Slovenian economy was affected with several recessions. The global financial crisis interrupted high and steady flow of bank loans to the Slovenian non-financial companies, causing a situation where companies could not raise new loans necessary for paying off their outstanding debts. The amount of non-performing loans in total gross loans at the Slovenian banks increased significantly in the period from 2009 and 2012. In order to protect themselves, banks significantly decreased the number of issued loans to non-financial companies, regardless of their performance and growth potential. The Bank Assets Management Company was established in 2013 and in the same year, it took over an amount of bad loans from Slovenia's largest state owned banks that were facing

serious liquidity issues. The last financial crisis forever changed Slovenian corporate landscape and the financial structure of many companies.

1.1 Factors causing debt accumulation in the Slovenian companies

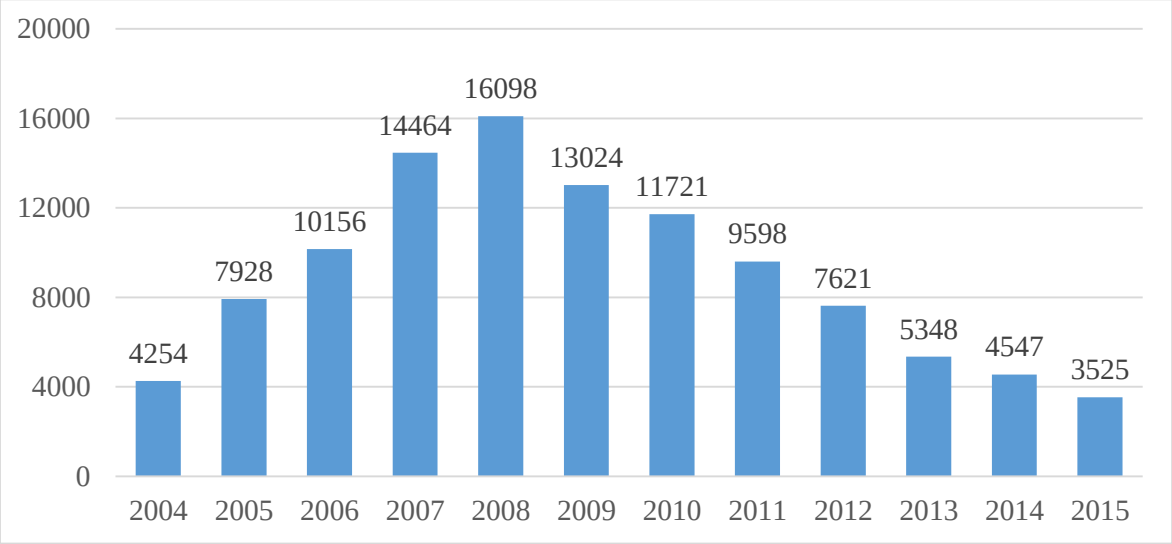
When Slovenia accessed the EU and joined Exchange Rate Mechanism (hereinafter: ERM) II in 2004, nominal interest rates on loans started to decrease and constraints on the equity flow were loosened. Growing capital market changed the focus from bank deposits to capital market securities and, as a result, net investment outflows of domestic banks increased. Mencinger (2013) sarcastically names the years between 2005 and 2008 ‘’the period of gambling’’. He explains that indigenous thinking was replaced by the modern mentality, based on which wealth can be created through acquisitions opportunities in the former Yugoslav countries and purchases of ‘’high-return’’ securities in various foreign and domestic funds.

The extensive supply of favourable loans from external sources to domestic banks encouraged spurring of directs investments net outflows. Acceleration of the public spending, decreasing tax rates (i.e. expansionary or pro-cyclical fiscal policy) and higher external demands, triggered by the fall in the sovereign credit risk after Slovenia accessed the EU, forced very high economic growth in the years before the financial crisis began (Bole, 2009). Reform of the taxation system was one of the main reasons that in the years between 2005 and 2009 caused pro-cyclical effects in the economy, by slowly eliminating payroll taxes and reducing both effective personal income tax and effective corporate tax. Such fiscal reforms led to a slow decline in the labour costs and caused government structural deficit to increase up to 2% of GDP between 2007 and 2008. Due to these reasons, Slovenian GDP growth consistently surpassed annual growth rates in the Euro area and reached the peak in 2007 with the GDP growth rate of 6.9% (Real GDP growth rate, 2016). Fast economic growth during the pre-crisis period in Slovenia was to a great extent financed with the favourable foreign loans in the European interbank market.

Perhaps one of the most important reasons for the strong growth in the bank lending to the domestic private sector was increased financing of domestic banks on the foreign financial markets. Development of borrowings by the domestic banks on the foreign wholesale market for loans is shown in Figure 1 below. From 2004 to 2008, liabilities of the Slovenian banks to foreign banks grew from more than 4.2 billion € to over 16 billion €. After 2009, high growth in borrowings was replaced by 20% average yearly decline in banks’ borrowings from the foreign banks. Domestic banks ignored deposits of the non-banking sector as a source of financing because of the high liquidity on the foreign financial markets in the same period. Additionally, rates of return on the capital market substantially surpassed interest rates on bank deposits. This situation caused surge of loan-to-deposit ratio in the Slovenian banking system from 95% in 2004 to 164% by the end of 2008 (IMAD, 2013), which made banks more exposed to any external risk connected with refinancing loans on the wholesale

market for loanable funds (Bole, 2009). As a result, Slovenia's total gross external debt increased and more than doubled in the years between 2004 and 2008 from 56% of GDP or 15 billion € to 108% of GDP or 40 billion €, respectively (Bank of Slovenia, 2008).

Figure 1. Liabilities of Slovenian banking system to foreign banks (borrowing on the international wholesale market) from 2004 to 2015, in million €



Source: *Selected data from banks' balance sheets*, 2016.

Figure 2 shows net external financial position of the Slovenian financial sector and non-financial corporations measured as net liabilities to the rest of the world as a percentage of GDP[1]. Net financial position of the Slovenian financial sector with the rest of the world shows that from 2005 until the global financial crisis erupted, net debt of the financial sector was constantly high and reached 29% of GDP in 2008. This was a result of banking sector's intensely borrowing from foreign sources. Proportion of the financial sector's net debt to the rest of the world started to slowly decrease after 2008, but still remained relatively high until 2010. In 2012, this ratio saw a sharp decline as a consequence of the financial sector's limited funding from the rest of the world and higher financing costs. In the following years domestic banks continued to actively repay debt to foreign lenders and reliance on foreign financing have declined. In 2014, financial sector recorded positive net financial position to the rest of the world.

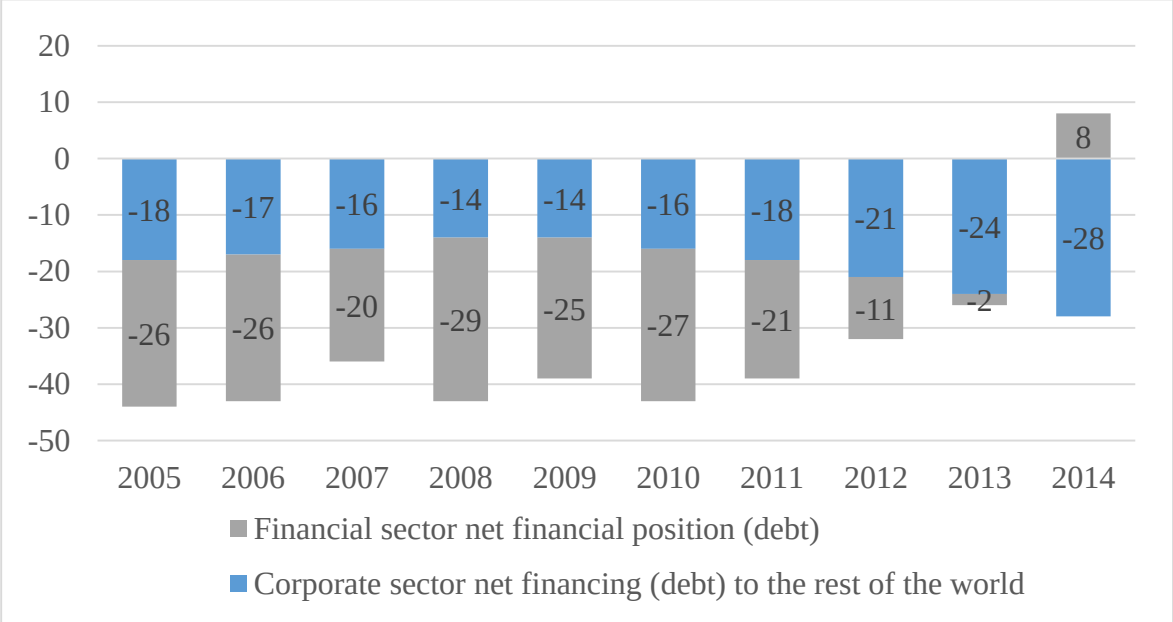
This was in contrast with the corporate sector's net debt to the rest of the world, where this ratio decreased in the years before the financial crisis from 18% of GDP in 2005 to 14% of GDP in 2008, as companies could easily obtain financing for they activities from domestic sources. Net debt of Slovenian companies increased substantially after the financial crisis

[1] According to the financial accounts methodology of the Bank of Slovenia, the Slovenian economy consist of resident institutional units; Non-financial corporations include market producers whose principal activity is the production of goods and non-financial services; Financial sector comprise Bank of Slovenia, other monetary financial institutions (e.g. commercial banks, savings banks and money-market funds), non-MMF investment funds, other financial intermediaries, Financial auxiliaries, Captive financial institutions and money lenders, Insurance corporations and Pension funds.

began, as domestic banks reduced their financing and limited credit supply to the corporate sector. This resulted in increased borrowings from the foreign banks and surge in companies' foreign net debt to GDP ratio from 14% in 2008 to 28% in 2014.

In the observed period, prevailing instrument in the structure of Slovenian liabilities to the rest of the world were loans. Proportion of loan financing to GDP increased from 25% in 2003 to 41% in 2008 (Bank of Slovenia, 2009b), but started to decrease from 2008 onwards, as part of the intensive foreign debt repayment by domestic banks and non-financial sector. After the financial crisis, net financing through foreign loans started to decrease gradually on the expense of financing though issued securities, such as bonds and commercial papers to foreign lenders (Bank of Slovenia, 2014b).

Figure 2. Net financial liabilities against the rest of the world: Slovenian financial sector and non-financial corporate sector, annually (% of GDP)

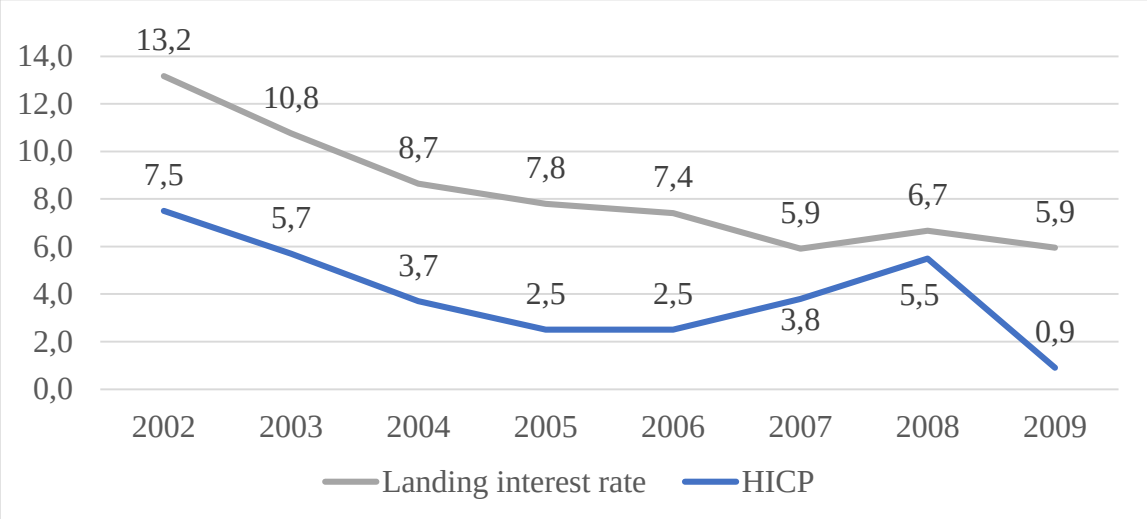


Source: Bank of Slovenia, *Financial Stability Review for 2012,* 2012; Bank of Slovenia, *Financial Stability Review for 2014,* 2014; Bank of Slovenia, *Financial Stability Review for 2015,* 2015.

Low interest rates on loans to the private sector in Slovenia were one of the important factors that led to an increased demand for bank loans in the years before joining the EU until the financial crisis started. In the period before the EU accession, nominal interest rates on loans started to decline quickly towards average interest rates of the Euro area, which was not accompanied by the equal decline of the domestic inflation rate towards the Euro area average inflation rate. Lower interest rates increased expectations for higher profits and the demand for the real estate increased, causing the surge in real estate prices. From 2002 to 2007, interest rates on loans to the private sector decreased significantly. Especially before the financial crisis started, interest rates dropped towards the reference interest rate and reached the lowest value of 5.9% in 2007, which led to a higher demand for loans. At the

same time, annual inflation rate was high, which contributed to the overheating of the Slovenian economy. Measured by the Harmonised Index of Consumer Prices (HICP), inflation rate in Slovenia decreased significantly in the period between 2002 and 2005 from 7.5% to 2.5%. From 2006, inflation rate started to grow and reached its peak of 5.5% in 2008, just before the outbreak of the financial crisis. Fast economic growth and high inflation pushed up the rapid growth of salaries both in public and private sector, just before the outbreak of the financial crisis, which notably reduced the cost-competitiveness of the domestic economy (Bank of Slovenia, 2015a). Movements of the both nominal interest rates on loans to the private sector and the inflation rate in Slovenia are shown in Figure 3.

Figure 3. Lending interest rates of banks to the private sector and inflation rate in Slovenia from 2002-2009, annually (in %)

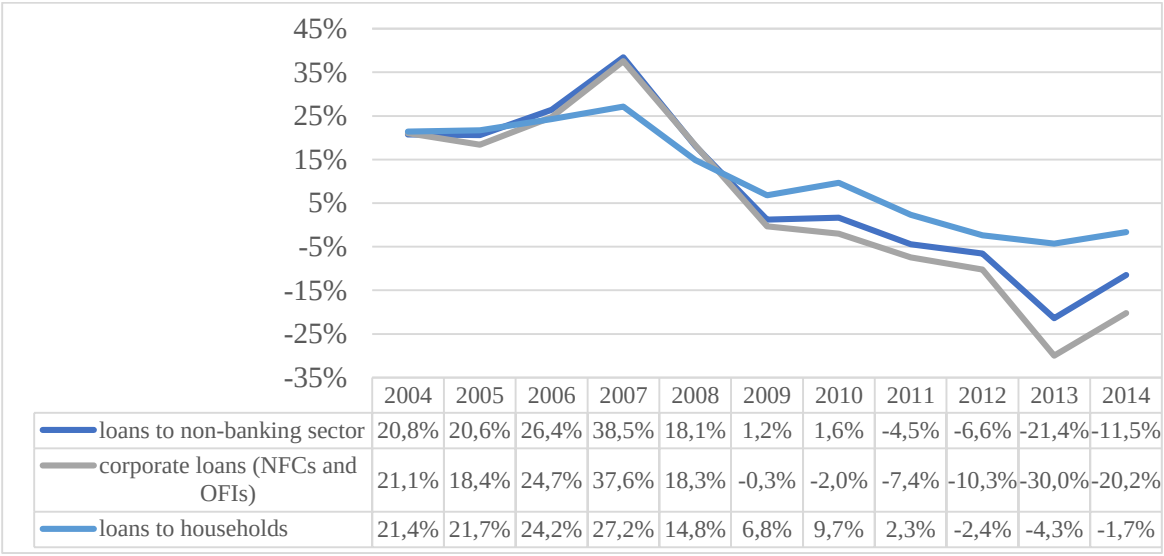


Source: *Lending Interest Rate in Slovenia*, 2016*; The Harmonised Index of Consumer Prices (HICP) - annual data*, 2016.

Lower interbank interest rates and easy accessible financing stimulated Slovenian banks to make higher borrowings to the non-banking sector, non-financial corporations and households. In the period from 2004-2008, assets of the Slovenian banks were growing on average by more than 17% per year (Selected data from banks' balance sheets, 2016). Growth in the lending varied between the three sectors in the pre-crisis period, especially from 2006 onwards. Year-over-year growth rate of loans to the non-banking sector was increasing from 2004 to 2007 and reached over 38% by the end of 2007. Growth rates of loans to the corporate sector were also rising in the same period and peaked in 2007 with over 37% growth rate by the end of the year. An upward trend in banks' lending to non-financial companies was mainly supported by the short-term loans. Growth in household loans was also very high in the years before the crisis but grew at lower rates than loans to non-banking sector and non-financial corporations. Growth of corporate loans surpassed growth in loans to households by more than 10 percentage points in 2007. In 2008, average annual growth in loans to all three sectors declined sharply and growth rates of loans to non-banking sector

and non-financial corporations more than halved by the end of the year (see Figure 4). By the end of 2009, year-on-year growth rate of loans to non-financial companies turned to negative 0.3% and deteriorated further in the following years. From 2012 to 2013, bank loans to non-financial companies declined by more than 21%, which was the biggest decline in the whole observed period.

Figure 4. Bank loans to non-banking sector, non-financial companies and households, growth rates (year-on-year in %)



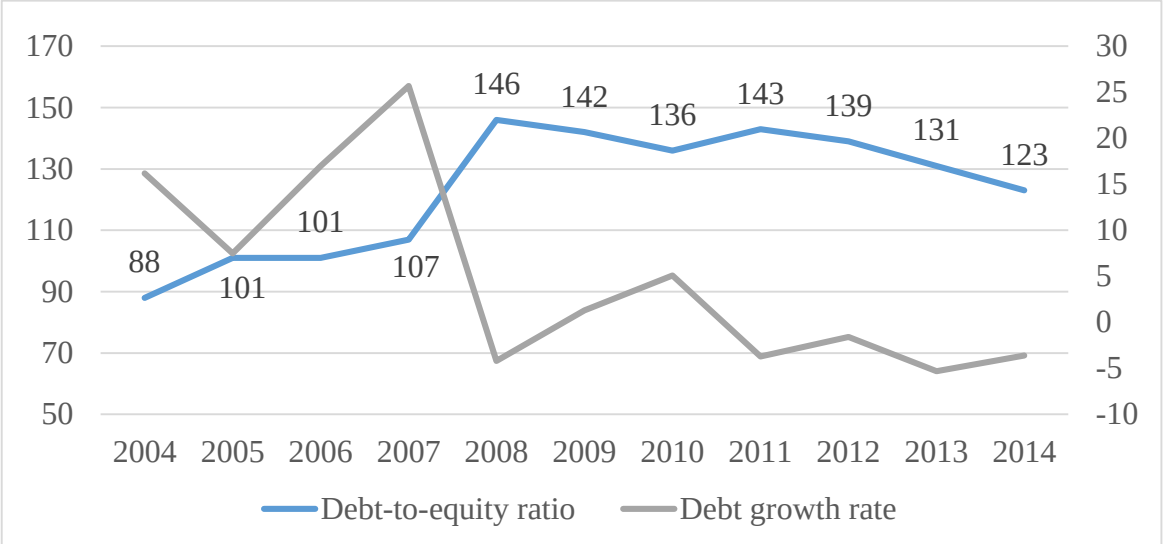
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
loans to non-banking sector	20,8%	20,6%	26,4%	38,5%	18,1%	1,2%	1,6%	-4,5%	-6,6%	-21,4%	-11,5%
corporate loans (NFCs and OFIs)	21,1%	18,4%	24,7%	37,6%	18,3%	-0,3%	-2,0%	-7,4%	-10,3%	-30,0%	-20,2%
loans to households	21,4%	21,7%	24,2%	27,2%	14,8%	6,8%	9,7%	2,3%	-2,4%	-4,3%	-1,7%

Source: *Selected data from banks' balance sheets,* 2016*;* own calculations.

Banks with the majority of the foreign ownership were dominating lenders to the non-banking sector in the years between 2004 and 2008. Foreign banks could obtain better conditions and lower costs of funds from their parent banks and have used this benefit to increase their market share. Foreign banks increased their market share by offering loans to the non-banking sector at reduced interest rates. Consequently, rivalry among domestic banks intensified, which was manifested in both loosening of lending conditions for corporate loans (e.g. reducing collateral requirements) and declining interest rates on loans. Growth rate of loans from the foreign banks surpassed growth rate of loans from the Slovenian-owned banks to the non-banking sector between 2002 and 2008, which resulted in much higher loan-to-deposit ratio at foreign banks in the period before the financial crisis. On the other hand, cheaper sources of financing from parent banks made foreign banks more stable and protected when the financial crisis erupted (Bank of Slovenia, 2015a). On the other side, banks overlooked the importance of encouraging households' savings that consequently had a negative impact on banks' liquidity at the outbreak of the financial crisis. The letter can be best described by the fact that from 2004 to 2008, bank loans to non-banking sector were growing on average at 20% annually, while in the same period deposits by non-banking sector grew below 10% per year (Bank of Slovenia, 2009b).

Due to the favourable economic conditions and borrowing terms, the Slovenian companies increased their leverage substantially in the years between 2004 and 2008. Expressed as debt-to equity ratio, leverage of the Slovenian companies increased from 88% in 2004 to 146% in 2008. The main reason for high leverage during the pre-crisis period was a very high growth rate of debt. An average growth rate of debt between 2004 and 2007 was above 16.5% with a highest growth rate of 26% recorder in 2007, just one year before the financial crisis emerged (see Figure 5). On the other hand, equity proportion in the total liabilities of the Slovenian companies declined from 53% in 2004 to only 41% in 2008. Inappropriate financing structure of domestic companies in favour of increasing debt before 2008 caused problems for many companies in accessing new debt financing during and after the financial crisis. Domestic banks increased credit standard for new loans and started to assess creditworthiness of their clients more cautiously during the crisis. In addition to the high amount of debt, plunging value of equity due to the negative conditions on the capital market was another negative factor that made acquiring funds even more difficult for companies. Debt-to-equity ratio of the Slovenian corporate sector reached the highest value of 146% in 2008, decreased by 10 percentage points until 2010, but still remained very high in the years that followed.

Figure 5. Debt-to-equity ratio in % (left) and net debt growth rate in % (right) at Slovenian companies from 2004 -2014, annually (in %) [2]



Source: Bank of Slovenia, *Financial Stability Review*, 2009-2016.

In the period before the financial crisis started, highest financial leverage[3] was recorded by companies in the transportation and storage sector, where this ratio equalled 405% in 2007, meaning that total financial and operational liabilities were four times higher than the total

[2] Debt-to equity ratio and debt growth rate data for 2015 were not presented in Figure 5, because final values for 2015 were not given in the last available Financial Stability Report at the time of writing this paper (only Q2 2015).

[3] Companies' financial leverage was calculated as sum of financial and operating liabilities divided by equity.

amount of equity. Another example of highly indebted sectors in 2007 were construction sector and real estate with financial leverage ratio of 401% and 220%, respectively. During the period 2004-2007, none of the listed sectors did not record decline in financial leverage ratio. Indebtedness of manufacturing sector increased from 86% in 2004 to 116% in 2007 and this growth was positive during the entire period 2004-2007 (Bank of Slovenia, 2009b).

Financial accelerator effect is well described by Koyama (2015), according to which a high lending of domestic banks on the one hand and the rising value of collateral on the other hand, accelerated corporate sector borrowing even further. The Slovenian companies, mainly reliant on debt financing, invested intensely in non-core business activities, such as financial investments and real estate. Lower interest rates on loans in the pre-crisis period in Slovenia raised companies' profitability expectations and stimulated higher demand in the real estate market that consequently led to an increase in the real estate prices. An increase in the real estate prices created real estate boom, which resulted in the higher asset value of collateral and enabled even higher borrowings. Moreover, high lending activity of domestic banks and high average growth rate of government investments between 2006 and 2007, mainly triggered by the construction of the national motorway system, additionally supported accelerated process of economic bubble creation. Banks provided considerably high amount of loans for construction projects secured only by the rising value of both residential and commercial property, by which they exposed themselves to large risks. In the years before the crisis, the difference between increasing retail property prices and property construction costs implied higher gains for many real estate agents (Bank of Slovenia, 2015a).

Moreover, besides investments in the highly profitable construction projects, similar mistakes in domestic banks' investment decisions was uncontrolled financing of management buyouts (hereinafter: MBOs), which caused a significant damage to the banking sector's income statement after 2008. In most cases, MBOs were financed with funds provided by banks. Decisions on loans were influenced by the disputable relations between large banks and top management of state-owned companies. In majority of cases, managers formed the financial subsidiaries that received funds from banks and later acquired companies through these subsidiaries. Cash flows generated from acquired companies were used for paying back loans to banks. For as long as companies generated enough cash flow, loans to banks were repaid, but after the crisis started, cash flows dropped rapidly. According to Koyama (2015), it was an unfavorable situation that the second round of privatization in Slovenia started just before the global financial crisis.

The fastest debt accumulation was recorded by companies in especially cyclical sectors such as construction or real estate, where economic expansion and higher government spending on projects created conditions for very high growth. Another example of highly leveraged companies was financial holding companies (FHC) that tried to attain as much control as possible over the economy during the boom period, mostly through investments in different, usually unrelated projects, without a clear strategy for the companies' future growth and

without efficient governance in place. In most cases, such investments were financed only with debt, issued by commercial banks. Additionally, before the crisis started, there was a growing concern over a mismatch between the investments life-cycle and maturities of loans that the companies used as a source of financing (Bank of Slovenia, 2015a).

1.2 Implications of the global financial crisis on the Slovenian economy, banking system and the performance of non-financial companies

The world economy experienced a huge fall in the economic activity in the first quarter of 2009 and a modest growth approaching the year-end. As reported by the IMF (2010), the global output decreased by 0.6% and international trade volume[4] fell by almost 11% in 2009. In 2009, the world trade prices expressed in Euros saw a significant decrease in almost all categories, with the biggest decline recorded in average prices of crude oil (almost 33% reduction) and metals (almost 25% reduction) followed by the agriculture raw materials and prices of food (12 % and almost 10%, respectively).In 2009, the real output contracted by 4.1% in the Euro area and by 2.4% in the U.S. According to the IMF (2010), the economic situation in 2008-2009 also worsened in Slovenia's five major trading partners[5] (Germany, Italy, Croatia, France and Austria) with the biggest real GDP decline of 5.8% recorded in Croatia, followed by Italy and Germany, both with a negative GDP growth of 5% in 2009.

On the other hand, the emerging crisis in the interbank market for loans raised liquidity risks for the Slovenian banks as the share of foreign debt in the liabilities of domestic banks was high. Negative effects of the global financial crisis and stricter lending conditions posed by domestic banks had negative consequences on the operating performance of many companies. In years during and after the economic downturn, it became very difficult for companies with high level of debt to obtain longer-term financing from domestic banks.

1.2.1 Materialization of the global financial crisis in Slovenia

The first signals of the financial distress occurred in the early 2007 after the significant fall in the overvalued real estate prices in the United States. The crisis first spread across the whole U.S. investment banking sector and then to other non-banking financial institutions that mainly used mortgage-backed securities as a collateral coverage for their outstanding debt. Crisis and uncertainty in the U.S. financial sector grew quickly into a global problem, not only limited to financial institutions that were exposed to investments in the U.S. subprime mortgage market. Due to the growing uncertainty regarding the assets' real value on the banks' balance sheets, the likelihood of financing on the interbank (wholesale) lending market diminished overnight, causing losses for European banks as well. After the bankruptcy of the American investment bank Lehman Brothers in autumn 2008, the risk of

[4] Average of annual percentage change for world exports and imports in U.S. dollars.
[5] Export of goods in services volume measured in the U.S. dollars. Slovenia's 5 largest trading partners together comprise approximately 50% of total export (International Monetary Fund, 2016).

a collapse on the international financial market became evident and governments of the European Union Member States adopted a series of measures in order to maintain stability of the financial system. Facing with the collapse in the activity on the Euro Area interbank market, it was clear that the top priority for the Slovenian banks and the government is to take immediate actions in order to mitigate risks connected with the refinancing of the domestic banking system (Caprirolo, 2010).

Endogenous factors, such as high lending and rising property prices and exogenous shocks coming from the global financial market, pushed the Slovenian economy into the recession at the end of 2008 and most of the macroeconomic indicators quickly worsened in November. The GDP growth rate reduced significantly from the previous years and equalled 3.3% in 2008. The GDP growth rate reduced significantly from the previous years and equalled 3.3% in 2008. In 2009, Slovenian economy experienced a sharp decline in GDP growth of 7.8% (Real GDP growth rate, 2016). A reduction in the foreign demand and lower capital investments of domestic producers (gross fixed capital formation) were main factors that caused a decline of real GDP in 2008. Both factors deteriorated further in 2009, which was accompanied by a deferred reduction of household consumption due to the worsening situation in the Slovenian labour market (IMAD, 2010). The deterioration of the economic conditions caused job losses and consequently, an unemployment rate in Slovenia increased considerably. By the end of 2009, a harmonized unemployment rate in Slovenia rose to 6.4%, which was 2 percentage points more than for the same period in 2008, but still lower in comparison to the 10.2% decrease in the whole Euro area (Total unemployment rate, 2016). By the end of 2009, the number of total registered unemployed people reached 96,672, which was more than 35% increase compared to 2008. In 2009, the total employment decreased by 2.4%, which was most apparent in the manufacturing sector with almost 10% less jobs compared to 2008. Other sectors also experienced a drop in employment in the same year, most notably in the construction sector (almost a 6% drop in 2009). The employment reduction and slower growth of wages and salaries led to the reduction of households' purchases of all products, most notably durable goods and real estate that were main drivers of the growing household consumption in the years before the crisis (IMAD, 2010).

Alongside the reduction in the domestic demand in 2009, the main reason for the drop in activity of the Slovenian industry was lower demand from the foreign markets and deteriorated terms of trade, which primarily hit manufacturing companies as the most export driven. During the period of the economic boom (2003-2008), Slovenia's external trade was opening-up rapidly[6] but was stopped in the final quarter of 2008 due to the global financial crisis. Export of goods and services decreased in absolute terms by more than 3.8 billion € from 2008 to 2009, measured in 2008 prices, which was equivalent to over 16% decrease in

[6] According to GDP and main components (2016), in the period between 2004 and 2007, an average annual growth of exports of goods and services in Slovenia was more than 13% measured year-over-year, while in the same period, this growth was around 7% in the Euro area.

the relative terms (year-over-year). The sharp drop in the Slovenian export had its foundation in the high dependence on exports as one of the main drivers of the economic growth, as well as in the decline of the trade activity in the whole EU, which was Slovenia's main trading partner with a share of almost 70% in the total exports of goods and services in 2009. Average exports of goods and services to GDP ratio contracted by more than 10 percentage points from its peak in 2007 until 2009 or from 67.6% to 57.2% of GDP, respectively. In 2009, export of services decreased to a smaller extent than the export of goods (1.2 percentage points against 7.6 percentage points from 2008 to 2009), which confirms the fact that the economic crisis had a greater negative effect on trade of goods than on the trade of services. Vanishing the international trade affected not only Slovenia but also a majority of the small (measured in number of total population) and open European economies that also experienced a decrease in an average foreign trade (both export and import) to GDP ratio compared to the pre-crisis levels (GDP and main components, 2016).

The decline in world exports had a lower negative effect on manufacturing of motor vehicles and chemical products in Slovenia than on the other export-intensive industries as their portion in the Slovenian major export markets began to rise in the second part of 2009 (IMAD, 2010). The total terms of trade ratio, which is the ratio between the index of export prices and the index of import prices, increased by 4.2% in 2009 (Terms of Trade, 2016). Moreover, the current account deficit reduced significantly from more than 2,017.2 million € in 2008 to only 203 million € or 0.6% of GDP by the end of 2009. The contraction of the current account deficit was mainly a result of the decline in the trade deficit in goods, as the decrease in the total import of goods was higher than the decrease in the total export of goods and the more favourable terms of trade. Expressed in the nominal terms, the export of goods dropped by 19%, while import of goods fell by 24.5% in 2009 (Balance of Payments - Slovenia, 2016).

The economic crisis affected both output and the value added by the manufacturing companies as they were most exposed to the negative economic situation in both foreign and domestic market. A decrease in the real output of the manufacturing sector in 2009 was 8 percentage points higher than in the whole industry (19% and 11%, respectively). Real growth in the output of the manufacturing sector turned negative in 2008 after the years of steady growth and deteriorated further in 2009, which led to almost 18 percentage points higher decline of output than in 2008 (19.1% and 1.5%, respectively). In 2009, two digit declines in output was recorded in almost all manufacturing sectors, except in manufacturing of motor vehicles, trailers and semi-trailers (9.3% decline), basic pharmaceutical products and preparations (7.7% decline), paper and paper products (4.2% decline) and food (7.4% decline). A high decline in the output was also recorded in the construction sector (16.8%) and transportation and storage (13%) (GDP Production structure - Slovenia, 2016). The lower economic output and the decline in the labour productivity led to an increase in the ratio between labour costs per employee and GDP per employee, measured in the current prices from 1.9% in 2008 to 5.6% in 2009. One of the main reasons for the higher labour

costs in the overall economy was an implementation of the different wage system in the public sector that caused over 6.5% increase in average gross earnings (Bank of Slovenia, 2009a). In 2009, the ratio of unit labour costs per employee per unit of value added in the manufacturing sector was much higher than in the overall economy (9.1% and 6.3% respectively), mainly because manufacturing sector reported a significant drop in the gross value added (IMAD, 2012). Rising labour costs and drop in the productivity during the years of the economic crisis also had an indirect impact on the deterioration of the economy export competitiveness, which is the drop in the market share relative to its trading partners, through the impact on the higher export prices of goods.

Investment activities of domestic companies also declined substantially after the collapse in the global trade and consequently reduced the number of orders. As already explained, a significant decline in the production output happened, mainly as a result of a big drop in exports, decreased capacity utilization, which led to a reduction of investments of the manufacturing companies in machinery and equipment by more than 23% from 2008 to 2009. Companies' investments in transport equipment especially decreased to more than 48% in 2009 (Investment in fixed assets by technical structures and activity of investor, 2016). The second important driver of more than 32% year-on-year reduction in capital formation in 2009 was a downward trend of investments in the construction industry, as the construction of commercial and residential buildings and the road construction contracted substantially. To some extent, the decline in the construction industry was anticipated, however, the economic crisis speeded it up. Furthermore, limited funding harshly obstructed or delayed realization of construction and another investments projects (IMAD, 2010).

1.2.2 Government and banks' responses to the financial crisis

Worsened economic conditions and extended financial crisis started to materialize in 2009, which was reflected in the financial statement of the Slovenian banking system. Net interest income of banks decreased in 2009 compared to 2008 due to the lower demand for loans and falling interest rates on loans, which was partially compensated for by greater non-interest income. From the end of 2008 until 2013, net provision and impairments expenses increased sharply as a consequence of worsening quality of portfolios and negative economic conditions, which had a further negative impact on the net profit of the Slovenian banking system. Net profit of Slovenian banks more than halved in 2009 comparing to 2008 and stood at 121 million € (Bank of Slovenia, 2009a). In the following years, the economic situation further deteriorated, which also reflected in the net interest loss and net profit loss of Slovenian banks from 2010 to 2013. From 2008 until the end of 2013, the net profit was falling sharply and reached a record loss of 3.59 million € in 2013 (Bank of Slovenia, 2014a). Furthermore, an average growth rate of total assets of Slovenian banks decreased significantly from 18.5% in 2008 to 9.7% in 2009. Average annual growth of banks' total assets continued to decline also in the following years and by 2014, the total value of banks'

assets decreased by more than 20% comparing to 2009 value (Selected data from banks' balance sheets, 2016).

Foreign banks that were directly exposed to U.S. financial instruments reduced their foreign investments in order to improve their own liquidity. Investments in U.S. securities reported by the Slovenian banks in August 2008 were only 193 million € or 0.4% of total banks' assets (Bank of Slovenia, 2015a), which was relatively low in size comparing it to western European banks. Nevertheless, negative trends from the global financial markets manifested in lower investments and reduced credit activity of domestic banks, therefore the financial crisis expressed primarily in the form of a banking crisis (Bank of Slovenia, 2008). The lack of trust among bank investors and uncertainty on the financial market led to a reduction of the interbank lending. During the financial crisis, refinancing risk was partly mitigated by the following government interventions (Bole, 2009):

- Higher government guarantees for deposits of household sector,
- Government guarantee to domestic banks to support them with accessing funds in foreign interbank markets,
- Rise in stock of government longer-term deposits in Slovenian banks.

In November 2008, EU finance ministers agreed to increase a minimum guarantee on households deposits to 50 thousand €, and Slovenia among other few EU Member States introduced the unlimited deposit guarantee. With this measure implemented by the saving banks and government, the domestic banks deposits became the safest and the most attractive saving option, regardless of lower returns. Unfavourable conditions and high volatility in the capital market between 2008 and 2009 caused losses for many investors and made them switch from the capital market to more safe assets, such as deposits and savings. Only in the middle of 2009, banks started to obtain financing on the foreign markets through issuing bank securities (mainly bonds) that were guaranteed by the government. In 2009, two Slovenian commercial banks (NLB d.d. and Abanka Vipa d.d.) accessed financing from the foreign sources by issuing 3-year government-guaranteed bonds with a total nominal value of 2 billion and a fixed interest rate. In the second quarter of 2010, the state-owned bank SID banka d.d. also issued 5-year bonds with a total nominal value of 750 million € with a main purpose to secure enough liquidity for financing export at domestic firms. The specific role of SID bank in the overall Slovenian banking system is reflected by the fact that in 2009, the government increased its total assets by 45% or 937 million €. SID bank dedicated most of those assets for long-term financing of domestic banks and a smaller part for direct loans to companies. In 2009, the government directed part of receipts from bond issues in the total nominal value of 4 billion € and issues of a few treasury bills in the total nominal value of 1.05 billion to domestic banks in the form of long-term deposits, while the rest was spent on debt repayment and current spending. The total government deposit at domestic banks increased from 1.4 billion € in 2008 to 3.5 billion € in 2009. In 2010, the government exit strategy became effective, which laid out slow abandonment of government intervention in

the financial institutions and reduction in government deficit to below 3% of GDP until 2013 (Bank of Slovenia, 2010).

According to Bole (2009), the government intervention policies mitigated refinancing risk in the Slovenian banking system in the short-term, although implemented measures did not prevent credit crunch in the retail credit market. There are three main arguments for the ineffective measures of the central bank in mitigating the collapse on the retail market for loanable funds. Firstly, implemented measures did not alleviate unpredictability on the interbank lending market to such an extent that would enable domestic banks to obtain refinancing at longer-term maturities. Short-term financing obtained from the foreign sources could barely supply banks with enough liquidity for the timely debt repayments to foreign creditors. Secondly, central bank interventions could not prevent the information capital reduction, which is the banks' ability to estimate creditworthiness and future solvency of their clients. This situation was a consequence of a growing uncertainty on the international financial markets and worsening of domestic economic conditions. In order to compensate for the potential risks, domestic banks raised the required collateral coverage for loans, applied strict standards for granting loans and increased credit rationing, which significantly reduced both number of new loans and number of automatically renewed loans to their clients. Thirdly, the implementation of government measures as a response to rising risks in the Slovenian banking system was delayed in comparison with the timing of government interventions in other western European countries.

Immediate responses of domestic banks to the financial crisis and related refinancing and liquidity risks were to increase interest rates on deposits, sell liquid assets, obtain refinancing from European Central Bank (hereinafter: ECB) and to tighten the lending conditions. Both short-term (up to 1 year) and long-term (more than 1 year) interest rates on deposits of non-banking sector saw a significant increase from Q3 2008 until Q1 2009, not only in Slovenia but also across the whole Euro area. Since the beginning of the financial crisis, average interest rates on long-term deposits in Slovenia went up and were notably higher than in the whole Euro area, which was not the case for short-term interest rates on deposits. Due to the higher interest rates on long-term deposits, share of long-term deposits in total stock of deposits at domestic banks increased from almost 15% in 2008 to 21% in 2009 and 29% in 2010 (Bank of Slovenia, 2011). In addition to the increased long-term deposits at domestic banks, the ECB interventions in the form of loans with longer-term maturity and a fixed interest rate additionally alleviated refinancing and liquidity risks at domestic banks in 2009. In June 2009, the ECB provided a liquidity injection of 442 billion € to the Euro area banking system as a response to the strong demand. From the onset of the financial crisis until the end of 2009, liabilities of the Slovenian banks to ECB increased from around 0.5 billion € to 2.1 billion € (Caprirolo, 2010).

During the years of high economic uncertainty, banks' capability in evaluating their client's performance and future solvency was significantly reduced, which resulted in the

implementation of more conservative credit risk policies. The Slovenian banks raised the required collateral coverage for new loans to the corporate sector in order to protect themselves from the risk of falling prices of pledged assets. As reported in (Bole et al, 2011), from 2008 to 2010, the collateral coverage per unit of required loan raised from 0.8 to 1.1 respectively. The prices of both commercial and residential real estate fell significantly in 2009 due to the negative economic conditions and falling demand for the real estate. Growth in residential real estate prices (both new and existing dwellings) decreased by 10% from 2008 to 2009, then improved slightly in 2010, but continued to decrease again from 2011 to 2014. Residential real estate prices decreased by 26% from its peak in 2008 until 2014 (SMARS, 2015). Commercial real estate prices also fell significantly in the first year of the financial crisis. The commercial real estate prices dropped by 11% in 2009 and decreased by additional 12% in 2010. From the peak in 2008 until 2014, office prices in Slovenia fell by 33% (Bank of Slovenia, 2015b). The fall in the real estate prices had a negative effect on the value of assets in companies' balance sheets. During the recovery period, an increase in the real estate prices was not in line with an increase in the number of realized transactions in the real estate market. As real estate represented main collateralization instrument for domestic banks, they were exposed to excessive risks connected with the decline in real estate prices and lower demand for the real estate, especially for the commercial real estate. The high share of real estate in the overall value of collateral at domestic banks (around 70%) created liquidity problems during the economic crisis, especially after many companies failed to repay their loans and declared bankruptcy due to the problems insolvency. This led to a situation where banks were unable to collect amounts that their borrowers owed them and therefore took possession of real estate used as collateral. Many expropriated real estate that banks' had in their possession was afterwards hard to sell as domestic real estate market diminished.

An ongoing downturn of the banking system's position in the post-crisis period led to an implementation of stricter measures and higher requirements by the Bank of Slovenia. The Bank of Slovenia applied stricter rules in a period of just a few months by raising minimal capital requirements (capital adequacy ratios) for domestic banks in line with the Basel III framework[7]. As a result, series of stricter measures were also imposed by domestic banks to their clients, which seriously endangered liquidity of the highly indebted private sector in the post-crisis period. Due to the prolonged financial crisis and worsening credit ratings of the Slovenian companies, banks began to monitor, collect information and review credit portfolios of their clients more frequently in order to timely detect any potential risks. Even though banks received high surge of capital from ECB in 2009, they did not increase their lending activity to non-financial corporations (Bank of Slovenia, 2015a).

[7] From June 2011, Basel Committee on Banking Supervision proclaimed another set of broad reform rules with a goal to improve the risk management, strengthen control and regulation of the banking sector.

1.3 The poor financial conditions and corporate sector's performance

Various studies aim to support the theory that financial distress, financial constraint and financial leverage negatively influence on operating company's performance and restrict the potential for the future growth. Different explanations and definitions of these factors can be found in economic literature. According to Beaver et al. (2011), financial distress occurs when the company is not able to pay its financial obligation at a point when they fall due. In the theory, insolvency is another expression commonly used for such condition. For the term financial constraints, different definitions and interpretations can be found. Most authors understand it as an inability to obtain funds to finance the desired investment. Finally, financial leverage means borrowing money to finance company's growth and is usually measured with debt-to-asset ratio. Therefore, the higher the amount of debt, the higher the financial leverage. Financial leverage could be either positive or negative. Positive financial leverage occurs when the company generates higher return on its assets than what debt costs and the opposite for negative financial leverage (Periasamy, 2009). All indicators of poor financial conditions mentioned above were present in many Slovenian companies in the post-crisis period, therefore an inability to obtain additional financing even increased. Consequently, many companies' performance weakened even further as many companies were unable to repay their debt and fund their ongoing activities.

1.3.1 The impact of financial constraints, distress and leverage on company's performance

We can come across quite many researches trying to find the relationship between finance constraints or inability to obtain external finance and company's growth, performance, investments and even survival. Different authors have been aiming to prove that an inability to obtain external funds can significantly influence company's existence and future. According to Musso et al. (2007), financial constraint visibly increases the company's possibility to stop operating. Their research was based on French manufacturing companies and also proved that access to external funds can significantly increase the potential for growth, regarding sales, number of employees and capital. The research of Campello et al. (2009) goes even further and focuses on financial constraints caused by the financial crisis in 2008 and how it influenced companies in Europe, United States and Asia. The results of survey performed on CFOs with 1,050 companies' show that lack of external finance led to lower investments, employment and research and development expenditures. Companies were selling their assets in order to finance their operations and omitted important investment opportunities, because they were not able to borrow externally. Moreover, Frazzati et al. (1988) prove that inability to obtain bank loans can increase the sensitivity to internal funds and consequently, important investments and research and development expenditures depend solely on cash flows generated within the company. Since investments in research and development are one of the most important drivers of company's success and keep a company in line or even ahead of competitors, it is crucial that funds for such investments

are constantly available. This is true especially for manufacturing and other research and development intensive companies. Mostly, such funds cannot be fully generated within a company or certain economic conditions, such as the financial crisis in 2008, prevent the company to generate sufficient cash flows to finance attractive investments. Additionally, Dongmei (2011) confirms that performance risk of research and development of intensive companies increases with their finance constraints. Lamont et al. (1997) tried to prove a direct relationship between financial constraint and company's performance, which was in this case, measured with stock returns. The study proves that financial constraints do have a negative effect on company's value and that more financially constrained companies generate lower returns. A company's performance can also depend on working capital and as evidence suggests, investment in working capital also depends on financial constraint. Hill et al. (2010) proved that companies with lower financial constraint and with more internal funds available are likely to invest more in working capital.

The relationship between financial leverage and corporate performance has been studied by many authors as well. Among others, Opler et al. (1994) proved a significant relationship. They suggest that during the times of the economic downturn, the companies with higher leverage are more likely to lose their market share compared to less leveraged competitors. Moreover, they managed to prove that companies with higher leverage can lose up to 26% more on sales, compared to less leveraged companies. Lang et al. (1995) upgrade these findings by supporting the relationship between financial leverage and company's growth. They suggest that companies that have high amount of debt in their capital structure are not able to exploit growth opportunities. Liquidity issue is another important factor that can significantly affect company's performance. Such relationship is proved by Saleem et al. (2011), which suggest that liquidity is a very important condition for achieving the desired performance. Illiquidity may cause different issues that can lead to loss of customers, suppliers, market share and finally poor overall performance. Liquidity issue as well as other factors, internal or external, can lead to financial constraint conditions or inability to obtain external funds.

1.3.2 Impact of the banks' measures on the performance of Slovenian companies after the crisis

Debt accumulation in the pre-crisis period and consequently high indebtedness of the Slovenian companies additionally limited access to bank financing. In addition to the lower demand from foreign and domestic market during the global crisis, the companies were also faced with tightened financing terms imposed by domestic banks. Already in 2008, the effects of the financial crisis and tightened lending conditions were reflected in the financing of companies through shorter maturities of approved loans. It became difficult for companies to obtain longer-term financing from domestic banks. Additionally, newly approved short-term loans were lower in volume than during the pre-crisis period. The domestic banks reduced the amount of approved loans to companies by 13% on average from 2009 to 2012

and by 48% until 2014 (Selected data from banks' balance sheets, 2016). On the other hand, banks were facing difficulties with repaying obligations to their lenders and with refinancing loans therefore they focused on improving the structure of their own portfolios. Firstly, banks started to collect claims for government loans and for overdue loans payments with the higher value of collateral, as these claims assume lower capital costs connected with collection. Secondly, banks started to sell assets from their balance sheets and reduced supply of loans to their clients.

The phenomenon of declining firms' asset value during the financial turmoil is well described by (Krishnamurthy, 2009) through the first amplification mechanisms. The described mechanism occurs during the financial crisis when a negative impact on borrowing firms' balance sheets, such as falling value of assets used as collateral for the outstanding debt, forces firms to quickly sell the assets. Rapid liquidation of assets additionally drives down asset prices and thus the value of the collateral, which has a further negative impact on shrinking balance sheets and deepening the crisis. In such conditions, firms find themselves stuck in a vicious cycle where declining market prices of their assets limit access to new funds needed to repay the existing debt and demand for liquidity further increases. If rapid sales of firms' assets continue to push down the market prices and thus the value of firms' assets during the longer period of time, this can lead to the outspread insolvency of the entire economy.

High debt financing during a boom period imposed double burden for companies during the financial crisis (Bank of Slovenia, 2009b). Firstly, highly indebted companies had higher costs of servicing their growing debt, which did not impose any excess burden during the years of high economic growth and rising operating profits. After the crisis erupted, it became more difficult for such companies to repay the outstanding financial obligations to their lenders from much lower income and during the much worse economic conditions. Secondly, due to stricter rules applied by the domestic banks when borrowing funds to largely indebted companies, it became more difficult and expensive for those companies to access new loans that were necessary for covering current operating and financial obligations. Such actions significantly slowed down the recovery of corporate sector, aggravated liquidity issues and the economic activity. According to (Bank of Slovenia, 2010), 22% of companies in the manufacturing sector, 25% of companies in the construction sector and 20% of companies in the retail sector that participated in the SORS[8] survey listed funding constraints as one of the most significant unfavorable elements of their business in 2009.

[8] Statistical Office of the Republic of Slovenia

In addition to the increased collateral coverage, the domestic banks adopted credit rationing strategy[9] that significantly reduced both number of new credit agreements and the number of automatically renewed credits. As shown in (Bole, Prašnikar & Trobec, 2011), in the period between 2007 and 2010 banks' credit rationing decreased by nearly 20%. Curtailing supply of loans to non-financial companies regardless of their performance in the first years after the outbreak of the financial crisis significantly deteriorated their cash flows and increased the number of bankruptcy cases (Bole et. al, 2014). Moreover, cutting supply of loans had negative consequences on business activity and performance of both highly indebted companies and their customers and suppliers, which caused contagion to spread, in some cases, across the entire supply-chain of the industry. The total number of bankruptcies of Slovenian companies increased significantly already in 2009. The share of non-financial corporations' bankruptcies in the overall number of bankruptcies was very high during the observed period (2008-2014) and increased from 49% in 2009 to 92% in 2013. The total number of bankruptcies has been growing steadily during the observed period, except in 2012 when this number slightly decreased compared to 2011. From 2012 onwards, a sharp increase in the number of bankruptcies of domestic companies could be noticed Table 1, which was the consequence of the new law[10] that became effective in the middle of 2013 The new law specified the advance payments to companies that voluntarily apply for their own bankruptcy or if employees file the bankruptcy against company due to the unpaid salaries. In 2014, both total number of initiated bankruptcy cases and number of initiated bankruptcies against non-financial companies only was the highest in the observed period.

Table 1. Number of initiated bankruptcy procedures against companies at year-end, from 2008-*2014*

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Non-financial companies	64	119	436	587	517	874	1122
All companies	88	242	515	681	590	950	1314

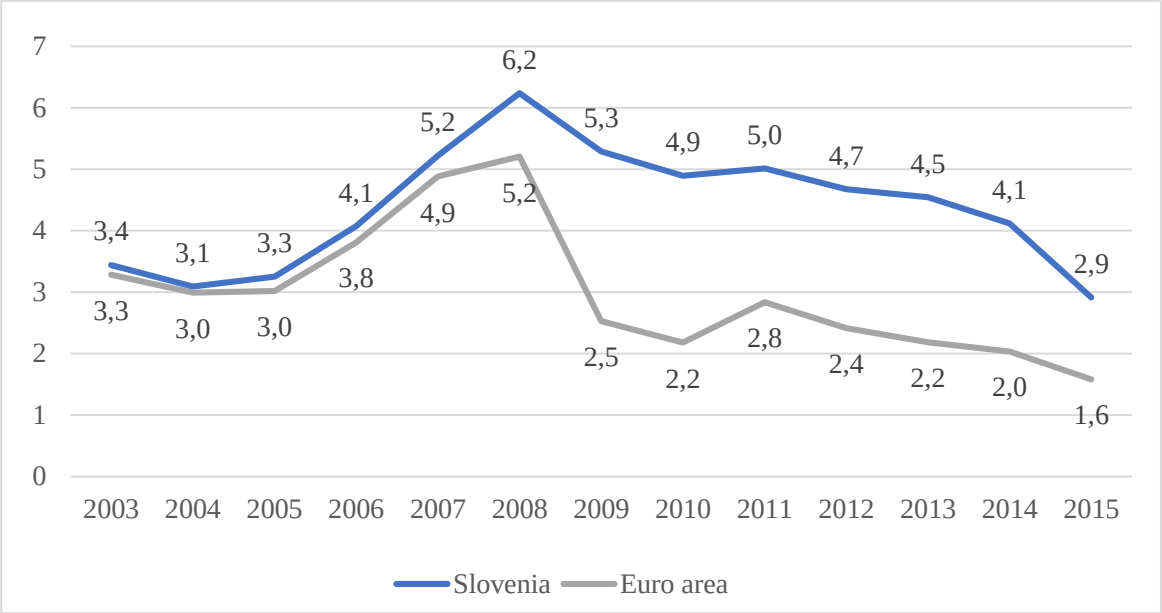
Source: Bank of Slovenia, *Financial Stability review for 2016,* 2016b.

High level of bank interest rates on loans was one of the factors that significantly influenced high financial expenses at Slovenian companies. The domestic banks initially decreased interest rates on loans to companies at the end of 2008 and in the beginning of 2009, but afterwards did not make any significant reductions of interest rates until 2014. As shown in Figure 6 and 7 below, interest rates on loans to non-financial corporations were significantly above interest rates in the Euro area. In 2009, the difference between interest rates in Slovenia and the Euro area was 2.76 percentage points for corporate loans over 1 million € and 2.19 percentage points for corporate loans up to 1 million €.

[9] In the cited literature, credit rationing is defined as a proportion of approved bank loans in total demanded volume of loans

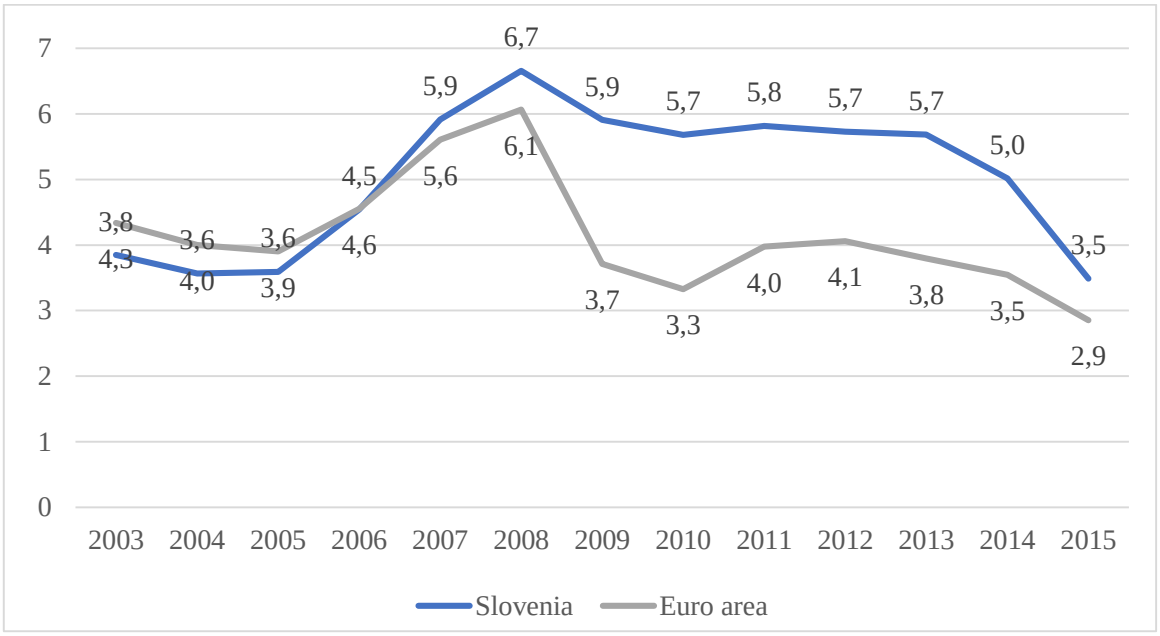
[10] Amendments to the Insolvency Act adopted by the National Assembly in March 2016

Figure 6. Interest rate on new loans over 1 million € with initial rate fixation of up to one year to Slovenian and Euro area non-financial companies from 2003 to 2015, average % per year



Source: *Bank interest rates - Loans*, 2016.

Figure 7. Interest rate on new loans up to 1 million € with initial rate fixation of up to one year to Slovenian and Euro area non-financial companies from 2003 to 2015, average % per year



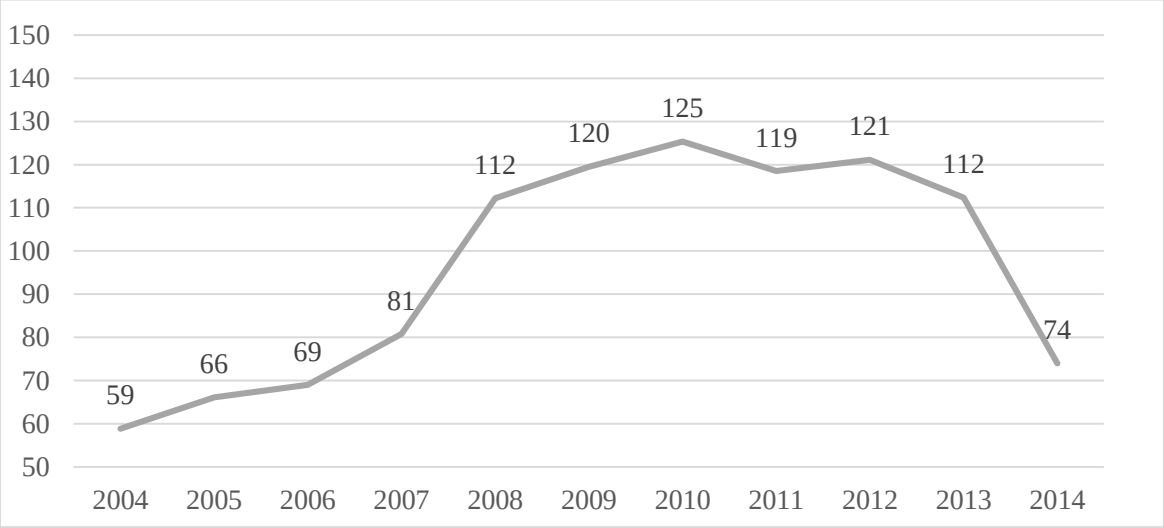
Source: *Bank interest rates - Loans*, 2016.

The spread between interest rates on loans in Slovenia and in the Euro area widened for both small and big loans from 2009 onwards, mainly as a consequence of the lowering interest rates on loans to corporations in the Euro area. Average interest rates on small loans to Slovenian non-financial corporations remained high and stable from the first reduction in

2009 until the end of 2013. Interest rates on corporate loans over 1 million € were lower than interest rates on corporate loans up to 1 million € during the whole observed period and also declined faster in the post-crisis period. In both cases, interest rates were relatively high and did not work stimulating towards the recovery and deleveraging of companies. The first notable decrease in interest rates on companies' loans after 2009 was in 2014 and 2015. Interest rates on new loans over 1 million € decreased to 3.5% in 2015, which was 1.6 percentage points less than in 2013 and interest rates on loans up to 1 million € equalled 3.46% in 2015, which is 2.2 percentage points less than in 2013 (Bank interest rates - Loans, 2016).

As a result of the previously described factors such as high borrowings before the crisis, a reduction in the number of orders and consequently falling profits of companies during the crisis, stricter lending conditions imposed by domestic banks and high interest rates on loans, net debt of Slovenian companies surged in the first years of the financial crisis. Indebtedness of domestic companies was the highest in the period from 2008 to 2010, measured in both debt-to-equity ratio and companies' net debt to GDP ratio. As already shown in Figure 5, debt-to-equity ratio of the Slovenian corporate sector reached the highest value of 146% in 2008. The decreasing trend of debt-to-equity ratio from 2012 onwards was the result of cut in loans supply to companies and accelerated debt repayments, which led to lower amount of debt in companies' balance sheets. Similarly, net corporate debt to GDP ratio grew from 2008 to 2010 and reached the peak of 125% of GDP in 2010 (see Figure 8).

Figure 8. Net debt of Slovenian companies, 2004-2014, annually (as % of GDP)



Source: Bank of Slovenia, *Financial Stability Review*, 2009-2015

From 2012 onwards, this ratio started to decline as total amount of companies' debt decreased. One of the reasons for lower corporate debt was a significantly higher number of bankruptcy cases from 2012 onwards. Notable signs of deleveraging appeared in 2014, when both debt-to-equity ratio and net debt to GDP reduced significantly as a result of intensive

debt repayments and initiated compulsory settlements against many companies, which in most cases assumed debt-for-equity swaps and debt write-offs. Additionally, the number of initiated bankruptcy procedures against non-financial companies peaked to 1122 in 2014. In 2014, debt-to-equity ratio stood at 123%, which is almost 20 percentage points less than in 2009, while corporate debt to GDP equaled 74% in 2014, which is even 46 percentage points less compared to 2009. Lower indebtedness ratios in 2014 show that domestic companies normalized the level of debt, however their capital structure still lacks equity, which represents the basis for the future growth (Bank of Slovenia, 2015b). High indebtedness is a limiting factor for companies to use bank loans as a source of financing new investments.

As showed by Bole et al. (2014), companies in the manufacturing sector showed substantially better performance than companies in the service and construction sector in the period after the crisis, measured in the amount of generated cash flow. After 2008, the cash flow of manufacturing companies started deteriorating rapidly and reached the bottom in 2009. From this point onwards, cash flow in the manufacturing sectors started to improve and finally stabilized in 2010. Companies in the service sector also successfully overcame a further decline of cash flows in 2010. Companies in the construction sector did not show significant improvements in the cash flow levels after the big decline in 2009 and growth was practically flat until 2011. Finally in 2012, cash flow in construction sector improved notably. In general, cash flow levels improved for companies in all three sectors after the sharp fall in 2009, but still remained far below the pre-crisis levels. In 2012, cash flow level of companies in the manufacturing and service sector stood at around 60-70% of the pre-crisis levels, while the cash flow of companies in the construction sector stood at only 40-50% of cash flow levels before the crisis.

1.4 Establishment of BAMC and debt transfer from Slovenian banks to BAMC

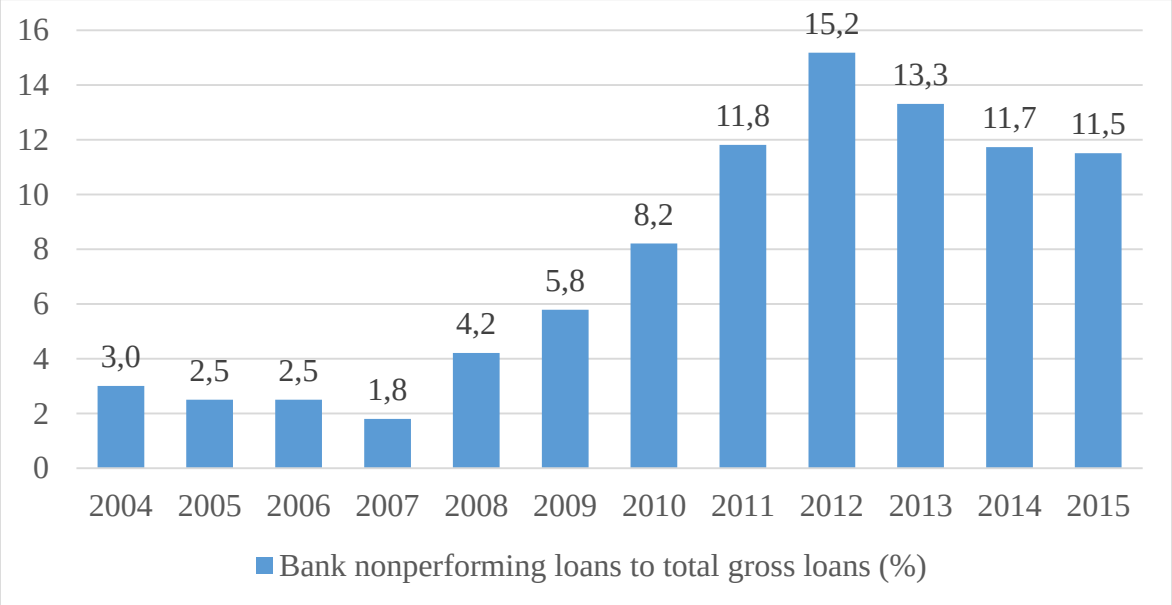
During the boom period, lenders, in the first place banks, were not critical enough about the rising business optimism and in the ambition to increase their operating profit approved loans easily. The outcome was a problematical capital structure of Slovenian companies as many new investments were financed with debt. At the same time, a share of equity financing in the capital structure of companies decreased substantially, which made companies more vulnerable to any negative shocks. After the outbreak of the financial crisis in Europe and sudden contraction of financing in the wholesale loan market, the domestic banks became unable to fully refinance their foreign loans and therefore had to reduce the number of new and renewed loans issued to their clients (Bole, 2009). Companies with the high amount of leverage were unable to raise new loans necessary to repay the existing loans and finance core business activities. As a result of the high borrowings by companies before the crisis, non-performing loans at the domestic banks increased substantially from 5.8% to 15.2% of total gross loans in 2009 and 2012, respectively. In order to refinance and support banks with the crucial importance for the overall banking system's stability, Slovenian government

constituted the Bank Assets Management Company and in 2013, some of non-performing assets were transferred from state banks to this newly established entity (BAMC d.d., 2015).

1.4.1 BAMC: Establishment and the main purpose

In the period from 2008 to 2012, share of non-performing loans in the overall loan portfolio of Slovenian banks increased significantly as shown in Figure 9. Before the financial crisis started, companies were able to repay their loans in a much greater extent due to the stable and rising operating profits. From 2008 to 2010, share of non-performing loans almost doubled and reached 8.2% of total banks' loans in 2010. From 2010 onwards, the proportion of non-performing loans at domestic banks continued to rise and peaked in 2012, when share of non-performing loans reached 15.2% of the total value of loans. From 2012 ahead, share of non-performing loans in the total loans on the banks' balance sheets started to decrease gradually as a result of non-performing loans transfer from large state-owned banks to the BAMC. In 2015, share of non-performing loans in the overall loan portfolio of Slovenian banks equalled 11.5%, which is 3.7 percentage points less than in 2012. Even though the share of non-performing loans to total loans started to decrease in the recent years, this value is still far above pre-crisis values of 2-5%.

Figure 9. Bank non-performing loans to total gross loans in Slovenia, from 2004-2015, annually (in %)



Source: *Bank nonperforming loans to total gross loans - Slovenia*, 2016.

Due to the accumulation of non-performing loans, the domestic banks faced severe liquidity risks and declining profitability, therefore the need for the recovery of the Slovenian banking system grew. For that reason, at the end of 2012, the Slovenian government adopted a new

regulation[11] that lays down state's measures in strengthening the banks' stability and in May 2013, the BAMC was established. The BAMC is the state-owned company assigned to strengthen and restructure banks with the fundamental importance in the entire banking system that runs into serious liquidity and solvency issues. Until the end of 2013, the Slovenian government recapitalized two biggest Slovenian banks and the BAMC took over a large portion of their non-performing assets, mainly loans. In 2014, non-performing assets of additional four banks that faced solvency problems were transferred to the BAMC in order to manage non-performing assets more comprehensively and effectively and to combine claims towards single debtors that have unsettled loans in more than one bank. Banks in return received performing capital and stepped in 2014 with an adequate level of liquidity and balance sheets cleaned from bad loans from the past. The BAMC's mission is to (BAMC - Strategic goals, 2016):

- Strengthen the Slovenian banking and financial system by taking over bad assets from banks that have systemic importance in the overall financial system,
- Advocate confidence of the Slovenian financial system and to work according to the highest global governance standards,
- Maximize the return on the value of obtained assets,
- Enable and support sustainable restructuring of Slovenian companies.

The main concept behind the BAMC establishment is not to sell the acquired assets too quickly and in economic conditions when is difficult to form the market prices, but to restructure assets and sell them again when a situation on the market improves and prices of assets stabilize. The BAMC's task includes three main phases: the acquisition of non-performing assets from financial institution, management and restructuring of assets and assets selling to potential investors. The BAMC's main strategic objectives are to (BAMC - Strategic goals, 2016):

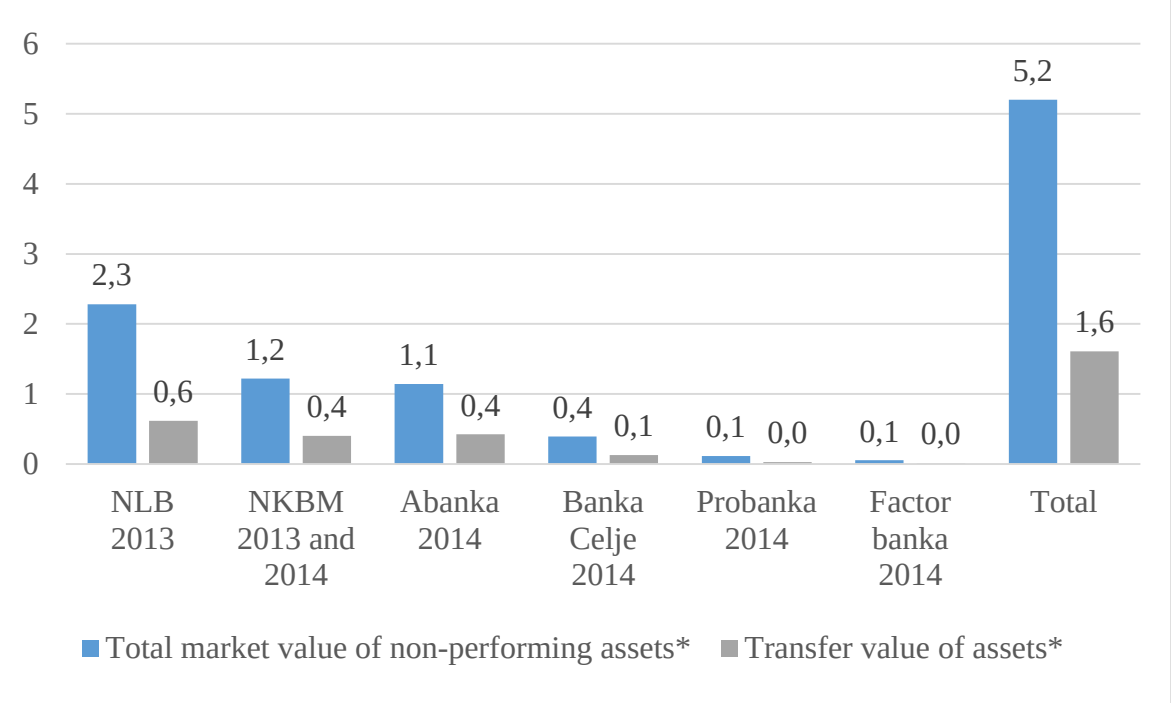
- Reimburse the value of government guaranteed bonds that were issued in order to cover payments for transferred claims and to achieve the required 8% return on equity initially invested by the Republic of Slovenia,
- Manage acquired assets actively and invest in assets in order to achieve higher added value and therefore higher returns,
- Work with a goal to restructure the troubled companies in a way that is economically reasonable and legitimate and to support revival and continuation of the business activity in Slovenia.

[11] Law on Slovenia's measures to strengthen bank stability (Uradni list Republike Slovenije No 105/2012).

1.4.2 Process of transferring non-performing claims to BAMC

In 2013, after BAMC signed contract with the two largest state-owned banks Nova Ljubljanska banka (hereinafter: NLB) and Nova Kreditna banka Maribor (hereinafter: NKBM), it took over total of 425 claims from these two banks by the end of the year. The total nominal value of claims transferred from NLB to BAMC amounted to 2.28 billion € and the total nominal value of claims transferred from NKBM was 1.22 billion €. Total nominal value of transferred non-performing assets, mainly loans, from the two largest banks was worth 3.3 billion € and transfer value was 1.008 billion €, which was around 30% of the nominal value. Until the end of 2014, BAMC also took over claims from Abanka and Banka Celje with an overall value of over 1.55 billion €. Furthermore, the BAMC also acquired non-performing loans in the total nominal value of 173 million € from Probanka and Factor banka that was in accordance with the BAMC strategy to encompass non-performing assets against individual debtors and to achieve more effective assets management. The negotiated price of claims that the BAMC took over from these two banks was 38.6 million €. Nominal and transfer values of non-performing assets transferred from six Slovenian banks to BAMC during 2013 and 2014 are presented in Figure 10. In 2014, the BAMC started to manage portfolio of total 575 non-performing loans of companies (BAMC d.d., 2015).

Figure 10. Assets gross exposures and transfer prices by bank in 2013 and 2014, in billion €[12]



Source: Bank Assets Management Company d.d., *Annual report of BAMC for 2014*, 2015.

[12] 93% of total non-performing assets that were transferred to BAMC consisted of loans

The BAMC acquired assets at a discount or transfer value, which was lower than the nominal value of non-performing assets reported on banks' balance sheets. After non-performing assets were transferred to BAMC, the analysis and assessment of fair value of each non-performing asset followed, which resulted in the total loss of 108 million € acknowledged by the BAMC. The government provided 1.012 billion € of equity in the form of government guaranteed bonds for purchasing of non-performing loans during 2013 and 2014. The BAMC afterwards transferred government bonds with the actual yields ranging from 1.4% to 4.5% to banks in return for their non-performing loans and other assets. The BAMC was not involved in the decision and the composition of the claims' list and transfer prices that will be applied for each case. In order to maximize the return on its portfolio, BAMC currently sells claims (loans), but equity and real estate holds to potential investors (BAMC d.d., 2015).

After all non-performing assets of companies were transferred from bank balance sheets to the BAMC, compulsory settlement procedure was initiated against many companies. On the other hand, during this process, many companies also filed for bankruptcy. From 2010 to 2014, Slovenian companies repaid their debt to banks in the total amount of almost 6 billion €, mainly through loan repayments, write-offs and debt-for-equity conversions. In 2014, banks' lending to the corporate sector decreased from previous year reached the lowest value in the last 10 years. The two important factors that influenced the significant reduction in the corporate sector indebtedness from 2012 onwards were the valuation of non-performing loans transferred to the BAMC and the total number of bankrupt companies. It should be emphasized that the majority of companies whose non-performing loans were transferred to BAMC filed for bankruptcy (Bank of Slovenia, 2015b).

2 PRIVATE EQUITY FUNDS AND TURNAROUND STRATEGY

Private equity is a very broad and complex field and includes various actions and strategies that investors undertake when it comes to funding companies at different stages and conditions. Moreover, the private equity's definition cannot be uniquely interpreted, since different authors and even different parts of the world see and define private equity differently. Among other known strategies of private equity funds, there are few that mainly focus on distressed companies with debt repayment issues. One of those is turnaround strategy that indicates turnaround investing as seeking and purchasing companies in financial distress with poor performance at low price with the prospect that implemented turnaround changes will bring the price up (Baker et al., 2015).

2.1 Private equity

In general, private equity is a medium or a long-term arrangement of providing funds and managing closely-held companies in order to create and increase the value and generate capital gains (Caselli, 2010). The term private equity is sometimes confused with the term

venture capital, but there is a major difference between these two types of funding in term of involvement, type and the size of companies that are being invested in. The difference in definitions even exists among different countries or continents. According to the definition originating from America, the venture capital is the type of private equity focusing on investments in newly established companies and providing funds for expansion in later phases, while the European version strictly separates both types of investments based on the life cycle of the company invested in. Venture capital invests solely in start-ups, while private equity mainly invests in older companies in later stages of a life cycle. Investment in expansion phases of the company is in European version of definition threated as a separate type of investment (Caselli, 2010). Some other authors even treat those two terms interchangeably. For instance, according to Levin (2004), venture capitalists plan and perform different types of private equity investments, such as start-ups, leveraged buyouts, turnarounds and others. Furthermore, private equity or venture capital refers to identifying potential investment, providing funds, introducing new management into a company and monitoring the performance. Investments include venture capital professionals that advise and monitor the management board or serve as managing board of directors in a company. For the purpose of this paper, we will use those terms as suggested by Leleux et al. (2015) and treat private equity as term for the whole industry and venture capital as segment of early stage investments within the private equity industry.

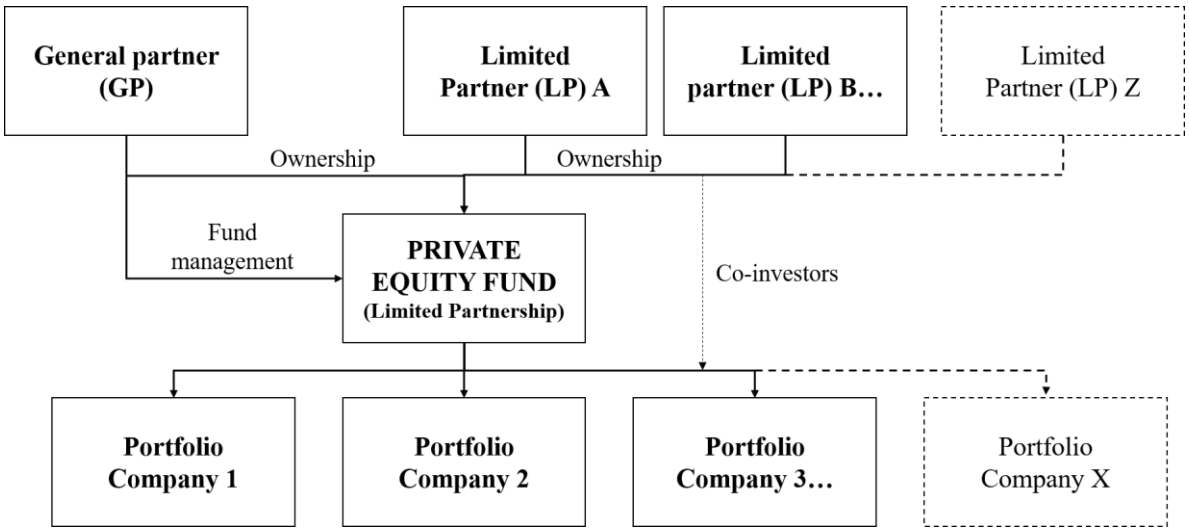
When referring to private equity more in detail, we understand private equity funds as investors that raise capital from different institutions and individuals and do not primarily invest their own funds, however in some cases their own contribution is required. They seek for opportunities in bigger pension funds, banks and investment firms that do not have their own knowledge or expertise to make such investments by themselves. On the other side, private equity funds explore market for start-up companies seeking for initial capital, companies in financial troubles, facing financial constraints or companies in need of capital to boost the growth. Due to substantial risks involved and high expected returns, such cases require extensive due diligence prior the investment and close supervision afterwards (Lerner et al., 2005).

It was not until 1946 that what we understand today as private equity began to expand into an asset class investment and formed an industry. The first private equity fund was established in the USA, called American Research and Development by General Georges Doriot in order to make a high-risk investment combined with professional management and research and development skills into companies based on technology developed for World War II. Afterwards, the investments turned out as a very successful and the industry expended further. The expansion was at highest at the beginning of 21st century when funds raised by private equity firms grew from 92 billion $ in 1997 to 361 billion $ in 2005 and further to 664 billion $ in 2007. Afterwards, the global financial crisis hit the private equity industry as well (Levin, 2004; Leleux et al., 2015; Preqin, 2013).

2.1.1 Private equity structure and investment process

As mentioned before, private equity fund usually gathers funds from institutions and individuals and invests in equity of private companies. Therefore, the private equity fund consists of Limited Partner (hereinafter: LP) and General Partner (hereinafter: GP) and is often called Limited Partnership working under terms of Limited Partnership Agreement. LP represents an individual or institution providing capital, while GP selects and manages the investment. Such partnership lasts for about 10 years including 4 to 5 years of investment period when new investments can be made. After the termination of the agreement, all investments must be sold or liquidated. As the name suggests, Limited Partners have limited liabilities toward the limited partnership or private equity fund in the amount of investment, while General Partner has unlimited liability, but they can manage the companies within the portfolio. Normally, each fund has its own General Partner to avoid cross contamination. It is common that separate management team is involved in the partnership with the aim to manage and monitor the operations or advise management boards of portfolio companies. One of the simplest structures of Private equity fund is presented in Figure 11, however those can differentiate among different countries and continents (Hudson, 2014; Lerner et al., 2005; Leleux et al., 2015).

Figure 11. Private equity – Limited Partnership structure



Source: Leleux et al., *Private equity 4.0: Reinventing value creation*, 2015.

In order to avoid conflicts of interest, General Partners are in general encouraged to invest in Private Equity Fund themselves and become Limited Partners as well, however they are allowed to choose the investments they wish to invest in. As a result, Limited Partner initiates conditions prior the investment for General Partners to participate pro rata in all investments. At the end of the investment, profit allocation according to the industry's standards, is as follows: 20% of net profit goes to GP and 80% of net profit is distributed among LPs, with proportions to the invested capital. In some cases, a different allocation can be determined.

For example, 100% of net profit is distributed to LPs based on capital invested until specific IRR is achieved; thereinafter total net profit above the achieved IRR is allocated to GP. In addition to allocated profit, GP also receives management fees on quarter or semi-annual basis in an annual amount of 1.5% to 2.5% of funds invested (Levin, 2004; Leleux, 2015).

The process of establishing, running and closing Private Equity Fund lasts about 10 to 12 years. As presented in Figure 12, it starts with fundraising where GP seeks for investors, such as banks, pension funds, individuals, etc. that are willing to take part in Limited Partnership and act as Limited Partners. A minimum amount has to be raised to initiate a first close and proceed with investments. Thereinafter, the fundraising will continue until the final close and investors joining the Private Equity Fund later have to pay a small fee for the delay. The second part of the process is called a deal flow, which consists of seeking for opportunities, performing due diligences, investing in companies, improving their operations, introducing new management and others activities in order to create or increase the value of portfolio companies. In general, 10 to 15 such companies are included in one Private Equity Fund and when it comes to Venture Capital Fund even more. After the investment period, the Private Equity Fund exits all portfolio companies and is liquidated (Leleux, 2015).

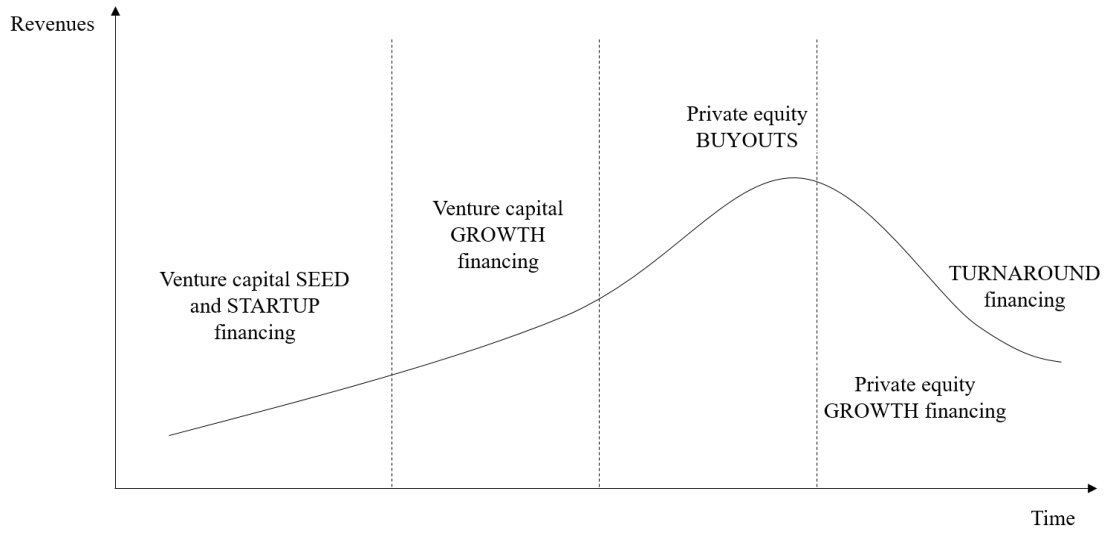
Figure 12. Private Equity Fund life cycle

Source: Leleux et al., *Private equity 4.0: Reinventing value creation,* 2015.

2.1.2 Private equity transaction types

As evident from the practice, Private Equity Funds undertake different investment strategies and seek for different characteristics in the potential portfolio companies. In the theory we can come across expressions, such as private equity market segments, typical private equity transactions, clusters of investments within private equity or similar. What is common to all of them is that strategies are spread along the stages of a company's life cycle (Leleux, 2015; Levin, 2004; Caselli, 2010). Traditional types of private equity investments are seed financing, start-up financing, early stage financing or expansion financing, replacement financing or buyouts and vulture financing or turnaround (Caselli, 2010). Similarly, as evident from Figure 13, Leleux et al. (2015) divide strategies of investing among venture capital financing and private equity financing. The first group includes seed, start-up and growth financing and second buyouts, growth and turnaround financing.

Figure 13. Private equity strategies along company's life-cycle



Source: Leleux et al., *Private equity 4.0: Reinventing value creation,* 2015.

Starting at the beginning of a company's life cycle, private equity funds invest in a new idea of a product or service and it is the so-called seed financing. According to Caselli (2010), seed financing is the transformation of research and the development into a business idea. Such investments provide funds for business plan formation, prototype development and additional research before an actual product or service is launched on the market. The amount invested is usually lower than with other types of private equity due to the high risk involved and uncertainty returns. The investor's role is definitely not a passive one in these cases. Despite, they are not managers of newly established companies, they support research, patents development and manage any sudden risks occurring (Leleux et al., 2015).

The second typical private equity transaction positioned under the term venture capital is start-up financing. These types of investments refer to funds provided to the entrepreneur or a business that already has a developed product and is ready for the market. Funds invested are used to buy equipment, material, inventory and other essentials to move the business forward. The investors' involvement in this case is higher than with seed financing, since the investors' role is to support the business plan, understand the business and develop the strategy for launching the product. Additionally, investors typically own significant shares of the business. The risk with such investments is very high due to the market's questionable response on a new product. The expected IRR is possible to estimate, however possible return delays must be incorporated into the valuation (Levin, 2004; Leleux et al. 2015).

The next type of private equity investments focuses on companies at their growth stage. The so-called expansion financing faces the moderate amount of risk, since the company is well positioned on the market and the business is growing. Private equity investors play an important role in such cases providing funds for a new plant, a new product, an international

expansion or other activities requiring a massive amount of money. In addition to investing capital, the role of private equity investors expand into providing support and advising with growth challenges. The amount of shares held by investors is quite low with this type of investments due to investors' aim to diversify the portfolio (Caselli, 2010; Levin, 2004).

Replacement financing or buyouts refer to providing funds to the stable and mature companies in growth phase facing important strategic decisions and are mainly used for strategic or acquisition actions. Based on Caselli (2010), it represents a suitable way to fund spin-off projects, substitution of shareholders, family buy-out or buy-in and others. The risk with such investments is quite low, mainly due to the successful and well established business model and management team, but it highly depends on sector and market. Leleux et al. (2015) further divide this category of investment into Management buyouts (MBO), Management buy-ins (MBI), Buy-in management buyouts (BIMBO), Institutional buyouts (IBO) and finally, Leveraged buyouts (LBO). The first two categories are more or lessthe same with the only difference of how the transaction initially comes together. MBO refers to enabling the existing management teams to purchase a significant company's share, while with MBI, a new management team is put together to buy out the target. BIMBO is a combination of those two strategies. Under institutional buyouts, we understand private equity buying company's shares and working with an existing or introducing a new management team. Such transaction's aim is that management team takes over the acquired company. Leverage buyouts do not differ from others in terms of transaction; however in this case, private equity establishes a new company, which borrows funds needed to purchase the target (Levin, 2004; Caselli 2010; Leleux et al., 2015; Fraser-Sampson, 2007).

Finally, the last strategy or type of private equity investments focuses on companies facing financial or business difficulties. In most cases, such companies are experiencing declining revenues, operating losses and/or over-indebtedness. This strategy is mostly called the turnaround strategy or vulture financing. Under the turnaround strategy, funds invested are used to fill the gap generated due to the negative growth and to support future restructuring. The main role of a private equity fund is therefore not solely financial, but especially entrepreneurial. The knowledge on business model and industry is essential for private equity fund to possess when entering turnaround investment. These kind of investments are very risky and returns are hardly predictable (Levin, 2004; Caselli 2010).

2.1.3 Private equity exit strategies

After the predetermined period of time during which private equity funds manage investments, one of the exit strategies is performed to liquidate the investment with an aim to maximize capital gains. The exit strategy is commonly planned in advanced, even from the beginning when the investment is being structured. The most common exit strategies executed by private equity funds are Initial Public Offering (hereinafter: IPO), Trade Sales and Secondary Buyouts and dividend recapitalization (Povaly, 2007). In practice, half of all

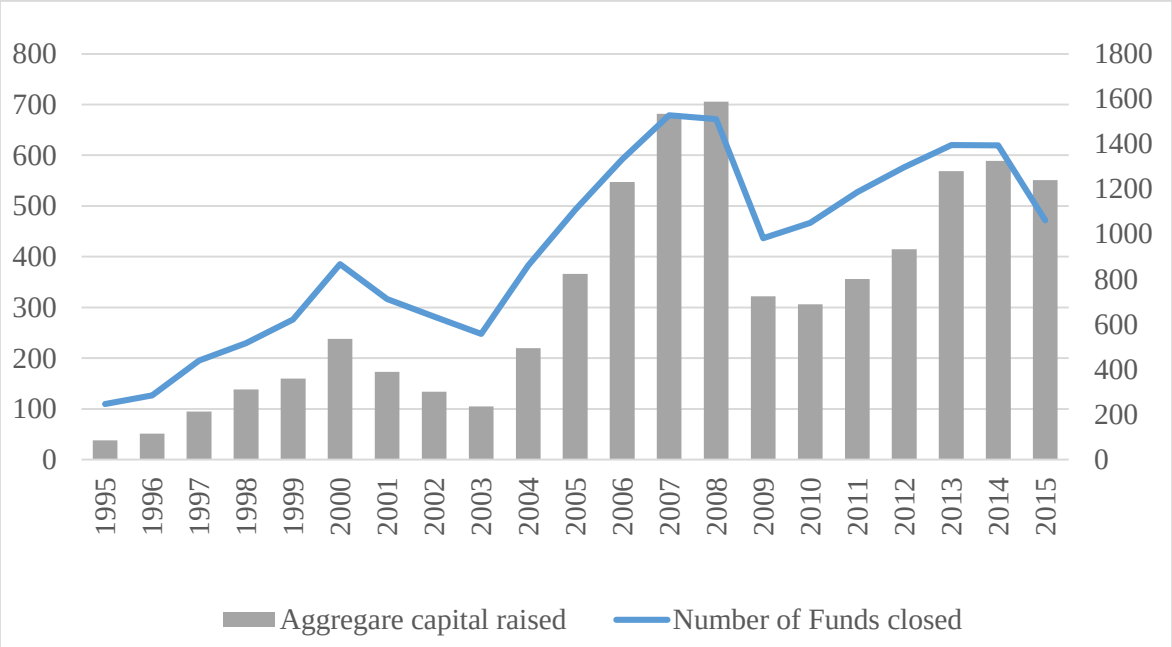
exit strategies are trade sales, followed by secondary buyouts and IPOs. Trade Sale refers to the transaction where the company is sold to a strategic buyer, often to a company within the same industry. Such transaction's main advantage is an involvement of a single buyer and consequently, the simplification of the selling process, while with other strategies, regulatory restrictions may apply. The secondary buyout is another widely used exit strategy and indicates the investment's sale to another private equity fund. Investors should choose such exit strategy when they want to shorten the life-time of their involvement, or when the investment outgrows the investor's financial capabilities. The last of the most common exit strategies is IPO, referring to listing the company on the stock market for public sale. Even though the IPO can generate the highest return among all exit strategies, some disadvantages should be considered. For example, legal restrictions and the prohibition of full exit due to IPO terms, which can prolong and raise the costs of the transaction significantly. Finally, the dividend recapitalization is the strategy, where the company issues new debt to repay the stockholders as well as private equity fund with a special dividend (Levin, 2004; Baker et al., 2015).

When choosing among possible exit strategies, private equity fund often takes different factors into consideration, such as macroeconomic conditions, regulations and taxes, exit costs, access to leverage, conditions on stock market regarding the expectations, performance of the investment, commitments of private equity fund and others. Trade sale is the most favourable exit strategy when a buyer can offer high EBITDA multiple and information asymmetry is low. When choosing trade sale, investors' goal is an easy exit with a single buyer and low costs. The goal with secondary buyout is to gain the access to leverage and avoid distress selling and is performed when the target is not able to offer a buyback. IPO as an exit strategy is in most cases a signal for investors that private equity fund was very successful and therefore the private equity funds follow this strategy expecting high returns. Favourable conditions for IPO are stock market's expectations for prices to increase and the pressure for debt repayment in case the investment was financed by leverage (Baker et al., 2015).

2.1.4 Private equity market

Private equity investments grew enormously in the last two decades and reached the peak on the threshold of the financial crisis in 2008. Private equity funds raised more than 700 billion US$ of capital in 2008, which is five times more than in 1998. The first period of rapid growth hitting the top in 2000 was due to the raising industry of internet companies being financed by venture capital funds. Solely the fundraising of venture capital increased from 12 billion US$ in 1995 to more than 111 billion US$ in 2000. Due to numerus failures of early stage companies being financed by venture capitalists, returns began to drop. Average returns dropped from 200% in 2000 to negative 40% by the end of 2001.

Figure 14. Global private capital fundraising in billion US$ (left) and number of funds closed (right) by year of final close, 1995 - 2015



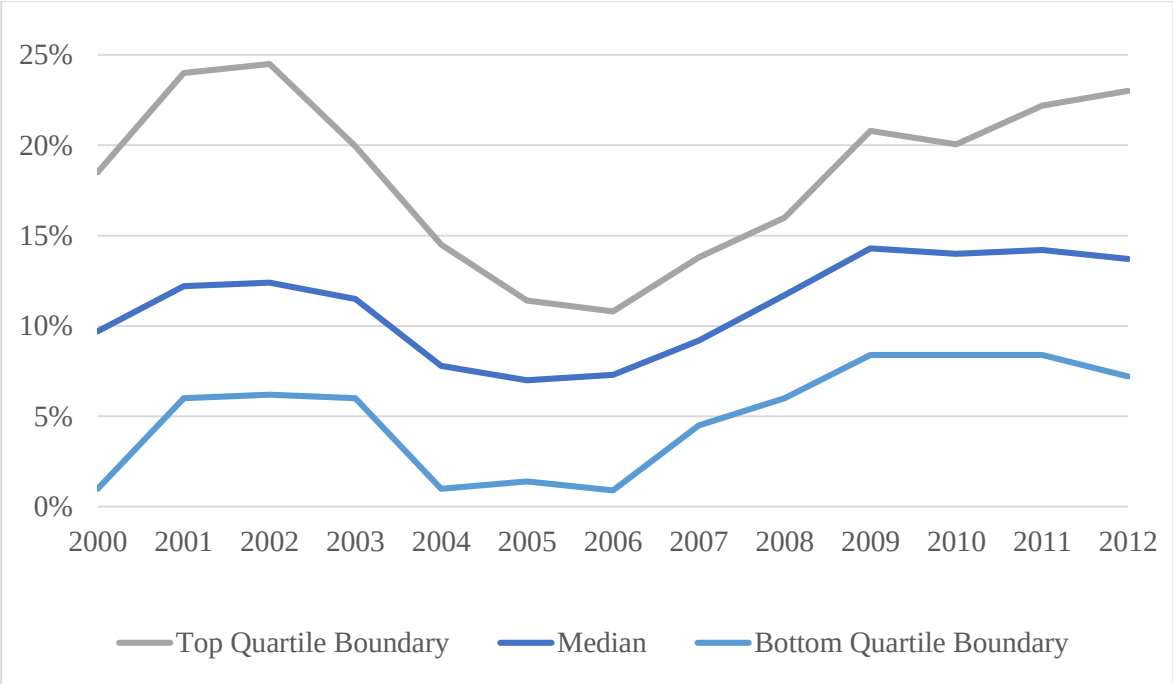
Source: Preqin. *2016 Preqin Global Private Equity & Venture Capital Report*, 2016.

As evident from Figure 14, the industry needed four years to recover and started rising again, however this time on the wings of buyout investments. In 2008, the industry hit records by returns, sizes, value of assets under management and amount of funds raised. After the financial crisis broke, the entire financial industry, including private equity, faced the downturn. Despite that the industry has recovered and is growing once again, the historical levels of capital raised and invested have not been reached yet. Nevertheless, private equity industry transformed from an alternative asset class into a mainstream, considering the fact that it covers various types of assets, is present in almost all geographical regions and includes some of the most famous buyouts and venture capital investments in the history (Preqin, 2016; Cendrowski et al., 2012).

Preqin (2016) recently introduced new term Private Capital, which refers to a broader aspect of private equity including private equity, private debt, real estates and infrastructure. In terms of private capital industry, there were 4.2 trillion US$ of assets under management in 2015, out of which 2.4 trillion US$ were private equity industry's assets under management. Solely private equity industry raised 288 billion US$ with 689 funds closed in the same year. The most recent data show that on the one hand, aggregate value of 3556 buyout deals in 2015 amounted to 411 billion US$ and on the other hand, the value of 1620 buyout exits amounted to 416 billion US$. Furthermore, the value of 9241 venture capital deals equalled 136 billion US$ and the value of 1053 exits equalled to 73 billion US$. This comparison supports the fact that buyout activities represent the biggest part of the private equity industry. Returns on private equity investments were influenced by conditions on the market

and therefore, the variations through time were present. Nevertheless, the survey performed on 100 Limited Partners globally by Preqin (2016) in December 2015 shows a strong improvement in exceeding Limited Partners' expectations on their investments compared to previous years. Approximately 94% of investors felt that their private equity investment met or exceeded their expectations. Median net Internal Rate of Returns (hereinafter: IRR) and quartile boundaries by vintage years 2000-2012 are presented in Figure 15 (Preqin, 2016).

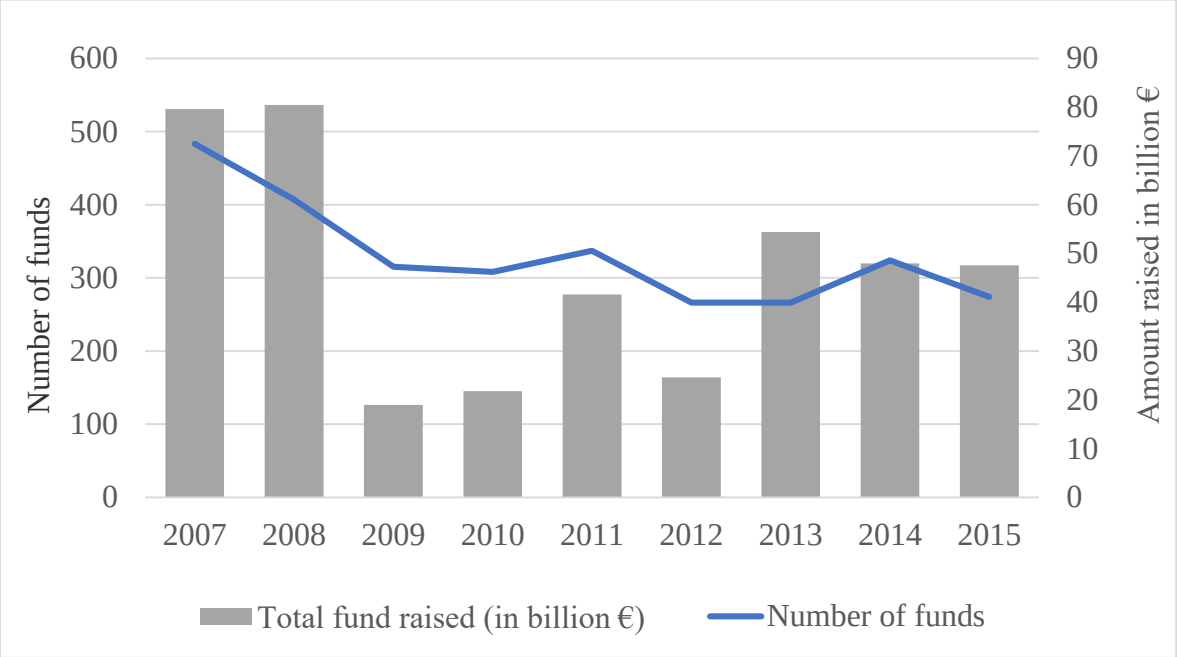
Figure 15. Margin net Private equity IRR and quartile boundaries by vintage years 2000-2012



Source: Preqin, *The 2016 Preqin Global Private Equity & Venture Capital Report*, 2016.

With annual survey performed on 1200 private equity companies in Europe, Invest Europe provides a comprehensive insight into European private equity industry. As evident from the figure below, European private equity industry faced similar variations in comparison to global markets in recent years. In total, private equity funds in Europe raised approximately 47.6 billion € in 2015, which is almost half of the amount raised in 2008, but it is 2.5 times more compared to 2009. Number of funds decreased as well since the beginning of the financial crisis from top 483 in 2007 to 274 in 2015. Not only in global terms, but also in Europe, buyout segment or strategy of private equity funds is the most common. The buyout strategy is followed by 70% of European private equity funds. Regarding the source of funds, 15% comes from pension funds, 10% from government institutions, followed by sovereign wealth funds, funds by funds, insurance companies, etc. (Invest Europe, 2016).

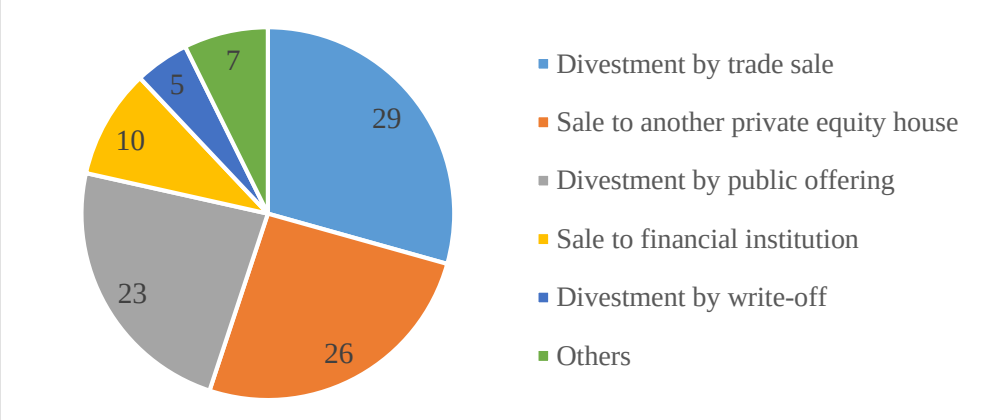
Figure 16. Number of funds (left) and total capital raised (right) by European private equity in billion €, 2007-2015



Source: *Invest Europe. European Private Equity Activity Data 2007 – 2016*, 2016.

Regarding the investment side of European private equity industry, there were 5273 investment deals in 2015 amounted to 47.4 billion €. This is 25 million € less compared to the peek year 2007. More than 77% of all investments were buyout deals, followed by growth capital (13%) and later stage venture capital (4%). In total, 47 turnaround investments amounted to 197 million € in 2015. Turnaround strategy was more often followed in the years after the financial crisis eruption, more precisely from 2009 to 2011, when more than 100 turnaround investments were performed. Private equity funds in Europe invest in various industries. In best years, in terms of funds invested, consumer goods and retail was the most popular industry with over 10 billion €raised funds, followed by business and industrial products, consumer services, business and industrial services and so on. With regards to the recent years, the most popular industries are the industry of business and industrial products (17%), consumer goods and retail (14%), life science (13%), computer and consumer electronics (10%), financial services (10%) etc. After a certain period of time holding the investment, private equity funds undertake different exit strategies. In terms of amount generated by divestments, the best performing exit strategy was trade sale representing 29% of total divestment amount in 2015. The Figure 17shows the distribution of total amount divested among all exit strategies in 2015. Other broadly used exit strategies besides trade sale are sales to another private equity fund, followed by divestment through public offering and divestments by other, less popular strategies.. Around 5% of total divested amount was divested by write-offs in 2015 (Invest Europe, 2016).

Figure 17. Distribution of total amount of private equity funds' divestments by exit strategies in 2015 (in %)



Source: Invest Europe, *European Private Equity Activity Data 2007 – 2016,* 2016.

2.2 Turnaround strategy

Companies can find themselves in distress situation out of many reasons, Bibeault (1981) divides them into external and internal reasons. External reasons include few events and trends that can significantly affect the business' core and can be further divided into economic change, competitive change, government constrains, social change and technological change. The main internal reason for a company's decline is according to Bibeualt (1981) bad management, which is incompetent, has narrow vision or is performing displaced activities. All that leads to an opportunity for private equity fund to perform an investment based on turnaround strategy, which includes providing financial aid and managerial assistance to distressed companies in order to increase their value by performing corporate and financial restructuring (Caselli, 2010).

Corporate or financial distress can be identified through various characteristics that companies with financial issues mostly have in common. The majority of those companies face zero growth or even decrease in revenues, regardless to the conditions on the market and in the industry, which are probably caused by poor management and operating inefficiencies. Moreover, negative growth in revenues is often followed by declining margins due to the price wars and different actions of reducing prices to retain customers and revenues. On the next stage, companies continue with assets divesting to evade default on debt repayment and big pay outs for dividends and purchases of their own stocks. In addition to the mention characteristics, distress companies most likely experience high indebtedness as well. Poor performance leads to creditors' mistrust and debt repayments, obtained in successful times, which becomes a great issue (Damodaran, 2010).

Four different terms have been mostly used as indicators of corporate distress in practice. Those are failure, insolvency, default and bankruptcy (Altman & Hotchkiss, 2006). Failure

indicates cases, where the rate of return on invested capital is significantly lower than current rates on comparable investments or economic indicators show insufficient revenues for covering costs. Insolvency occurs when company fails to meet its short-term obligations. Bankruptcy is a further stage of insolvency and represents more incurable rather than temporary condition when the company's total debt exceeds its value of total assets. The last among corporate distress conditions is default, which indicates debtor's violation of loan covenants stated in loan agreement and can be followed by legal procedures (Altman & Hotchkiss, 2006).

Investing private capital into companies that are in financial distress with the aim to improve their performance is called distressed private equity (Leleux et al., 2015) and it was showing a significant increase in importance in private equity industry in the recent years. Preqin (2011) distinguishes between three types of private equity fund under the term distressed private equity:

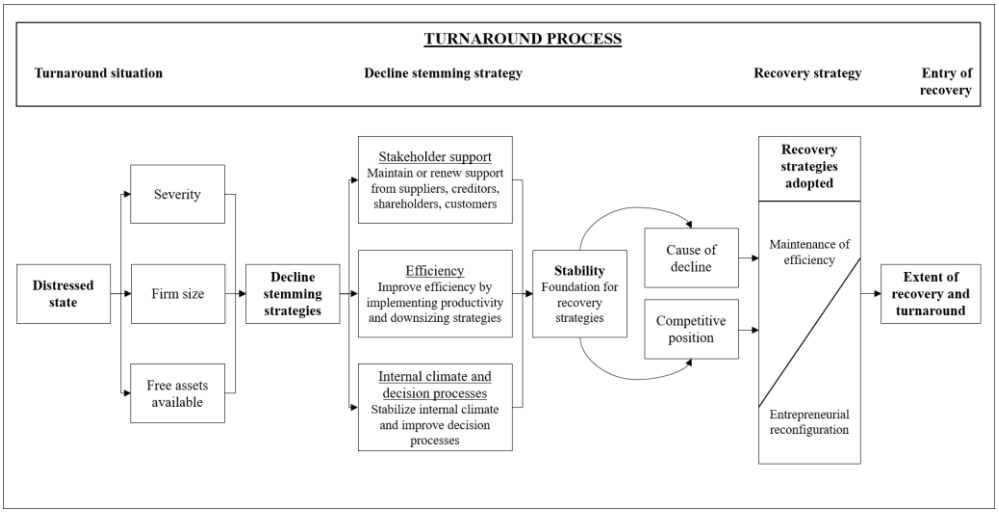
- Distressed debt – refers to investors purchasing debt securities with the high likelihood of default that are trading below their par value;
- **Turnaround** – involves investors purchasing equity in companies that fell into financial distress and;
- Special situations – include investments that exploit special and complex cases where companies are trading at inefficient prices due to the expected or actual events.

There are a lot of different explanations available describing what turnaround of a company is and what does it include. Considering a broader meaning of a corporate turnaround, Bibeault (1981) suggests that corporate turnaround indicates positive and continuous changes in company's performance after several years of poor performance and high indebtedness. Yadav (1992) additionally explains that turnaround situation is a unique period of time in company's history and requires different and uncommon actions compared to usual activities.

Secondly, we concentrate on turnaround as a strategy of a private equity fund. Baker, Filbeck and Kiymaz (2015) explain turnaround investing as seeking and purchasing companies in financial distress with poor performance at low price with the prospect that implemented turnaround changes will bring the price up. Turnaround investors mostly enter the company with high influence or even full control after incorporating extremely low valuation into their purchase offer that adulterate existing equity holders. According to Caselli (2010), turnaround or replacement investing represents 50% of all private equity markets in Europe and it refers to financing of companies in need for managerial assistance and financial aid to change, reorganize and restructure. In general, turnaround investment represents middle to high risk for investors and requires a high level of involvement lasting three to five years on average (Khan, 2010).

As already mentioned before, most companies suitable for turnaround actions are in financial distress, have cash crisis and could possibly fail in the foreseeable future. Such cases can be further distributed into three groups (Shaughnessy & Harrigan, 2009): lost cases that no effort, money or time can save, companies that would revive after a capital injection and cases that need a precise due diligence to identify possible survivors that could be restructured under turnaround management team. When choosing a company to invest in and perform turnaround, Shaunghnessy and Harrigan (2009) suggest focusing on cases with products that are valued by customers and have a cost justified business model. Furthermore, stakeholders' commitments of making important changes in order to help a company revive are keen evidences that the investor should look for when choosing a case for turnaround.. Among those, investors highly value committed shareholders, motivated employees, devoted customers, flexible suppliers and efficient distribution channel. Turnaround process model, introduced by Smith and Grave (2005), consists of two main phases. The first phase, the so-called Decline stemming phase, is aiming to stop the downturn in order to improve company's performance by gaining support of all stakeholders, undertaking the activities that improve efficiency and cash flows, developing better internal management and decision-making process. The goal of the second phase, called the recovery phase, is to find and eliminate the cause of financial distress (see Figure 18).

Figure 18. Turnaround process consisting of two main phases: the decline stemming strategy and the recovery strategy



Source: Smith M. & Graves C., *Corporate turnaround and financial distress,* 2005, p. 308, Figure 1.

3 CORPORATE VALUATION AND RESTRUCTURING

There are many different methods and models existing for the purpose of company's valuation. Some are used only in specific situations, under specific conditions or as an extension for other methods, while others are widely known and frequently used. Nevertheless, all valuation methods can be divided into three main groups: income approach, market approach and asset approach. In the following section, we will solely focus on few

methods within each group that are commonly used in practice (Moles et al, 2011; Hitchner, 2011). In some cases, corporate valuation can be quite challenging, mostly when a company is in financial distress, which must be incorporated in final value. Damodaran (2010) presents various methods for valuation of companies facing financial difficulties. For instance, discounted cash flows modifications, simulations or discounted EBITDA multiple.

In order to improve performance and increase the value of a company in financial distress, changes need to be done. Those changes are mostly interpreted as corporate restructuring. Corporate restructuring includes any changes in company's product portfolio, capacity, capital structure, ownership structure or control that are not typical or natural for the business (Godbole, 2013).

3.1 Corporate valuation

The income approach is widely used when it comes to investments of equity in privately held companies. The valuation is composed of future cash flows or payments in numerator and return rate expected by investors in denominator. One of such approaches is the discounted cash flow method (hereinafter: DCF). This method requires the estimation of an expected forthcoming economic income or net cash flows, discount rate or cost of capital and the terminal value. The capitalized cash flow method (hereinafter: CCF) is a simplified version of DCF, where the cost of capital and growth rate is assumed to stay the same for the whole period or to infinity. The formula for calculating the company's present value by DCF method is as follows:

$$V_F = \frac{NCF_1}{(1+k)^1} + \frac{NCF_2}{(1+k)^2} + \frac{NCF_3}{(1+k)^3} + \frac{NCF_n}{(1+k)^n} + TV \quad (1)$$

where *NCF* stands for estimated future net cash flows from operations, *k* stands for cost of capital, *g* stands for growth rate, *n* stands for the last year when net cash flows are expected or being estimated and *TV* stands for terminal value or company's value in year *n + 1*. Calculation of terminal value is presented in the equation below (2). An alternative method for calculating the terminal value is the exit multiple model, which is commonly used by investors exiting their investment after a specific period of time. This method suggests using the multiplier of performance indicators such as EBITDA, EBIT, net income or other from publicly available industry data (Hitchner, 2011).

$$TV = \frac{NCF_n \times (1+g)}{(k-g)} \quad (2)$$

The main concept behind the market approach is to value the company based on similar and comparable cases from the industry. This kind of valuation can be based on similar recent transactions or comparable publicly traded companies. Rosenbaum and Pearl (2013) show two methods under market approaches to company valuation. First, comparable company analysis is based on the evaluation of similar companies operating under the same

conditions, in the same industry and facing the same risks. Those provide a benchmark for the analysis and a target company evaluation, under the assumption that comparable companies will have similar multiples. Second, comparable transaction analysis considers concluded transactions of similar companies with the same business model and targeting the same clients to that evaluated as a base for evaluation. As well as comparable company analysis, it assumes similar transactions to provide similar valuation multiples. In addition, Hitchner (2011) suggests direct market data method (hereinafter: DMDM) as being appropriate when using similar transactions as indicators of company's value. This method is based on a large number of private transactions reported for databases that serve as a benchmark. The main characteristics talking in favour of market approaches are that they are quite simple to understand, fairly easy to use and that actual data or market data are used for the evaluation. However, it can happen that a similar transaction is not performed or a comparable company does not exist. Furthermore, market approaches are not as adjustable as other valuation approaches (Hitchner, 2011).

When using market approaches for the valuation of a company's equity, different performance parameters can be used in an equation. Based on the selected parameter, corresponding multiples from comparable companies or transactions should be applied. As a performance parameter, the investor usually uses sales, earnings before interests, taxes, depreciation and amortization (hereinafter: EBITDA), earnings before interests and taxes (hereinafter: EBIT), net income or book value. In addition to the value of equity, the existing debt should be incorporated. Therefore, a company's total value equals the value of equity plus the value of debt. The basic formula the investors use when estimating the amount they should pay for company's equity is as follows:

$$V_E = \left[\left(\frac{Price}{Perforamnce\ Parameter} \right)_{comparable} \times Perforamnce\ Parameter \right] - V_D \quad (3)$$

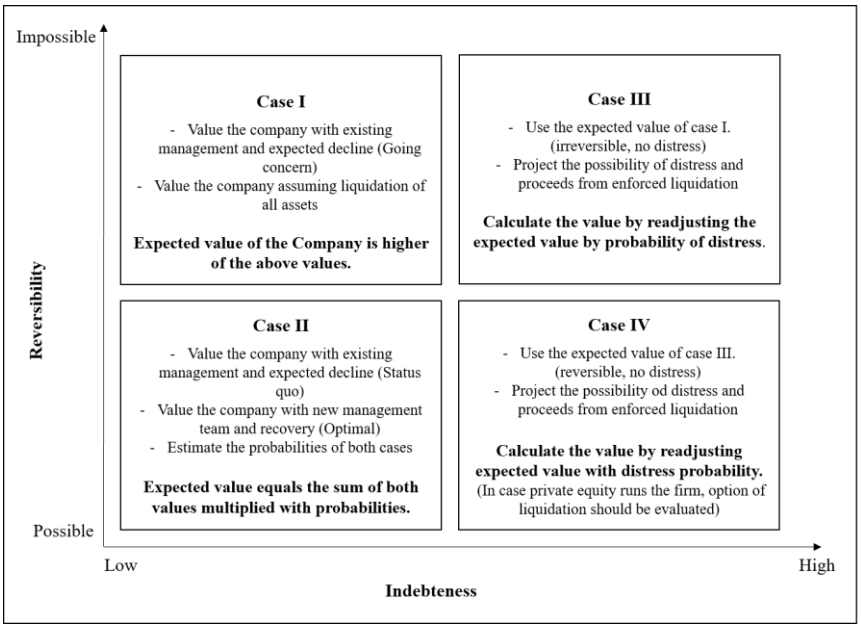
where *Price / Performance Parameter* represents the multiple based on comparable cases from the market, *Performance Parameter* represents the value of selected parameter for the company being evaluated, for instance EBITDA and V_D represents the value of outstanding debt of the company being evaluated (Hitchner, 2011).

The third group of valuation approaches is asset approach, which includes two different methods. Namely, replacement cost method and adjusted book value. They are both based on book or market value of company's assets. First, replacement costs refer to the costs of replacing all assets as in their current condition and as of the valuation date, while second, adjusted book value equals the sum of estimated market values of all assets, tangible and intangible. The second approach is appropriate when it comes to valuating a holding company where all assets are publicly traded (Moles et al, 2011).

3.2 Valuation of distressed companies

As a matter of fact, traditional valuation models presented in the previous section consider companies to operate indefinitely and grow in the future and do not incorporate the possibility of distress or declining markets. Damodaran (2010) suggests incorporating the possibility of distress into DCF by adding additional information. First, whether the company's operations can be revived by implementing changes and introducing a new management team and second, how possible the default is. With this in mind, four different paths presented in the Figure 19, could be followed while valuating a troubled company (Damodaran, 2010).

Figure 19. Framework for the evaluation of companies with downturn in operations and revenues decline



Source: Damodaran A., *The dark side of valuation: Valuing young, distressed and complex businesses*, 2009, page 376, Table 12.2.

In Case I, the company is on the one side dealing with flat or decreasing revenues and margins resulting from the shrinking market or declining sector and therefore the moderate possibility of distress in the foreseeable future and on the other side, it has a low or average amount of debt. For such cases, we evaluate the company by following two methods. The first is the value calculated as the company is continuing with its operation in current circumstances with DCF method (existing management team and downturn in revenues) and the second is the value derived from the liquidation of all assets as an alternative to the first value. This considers the fact that existing assets could be exploited better in different circumstances by different company. Higher of the values calculated should be considered as the Expected value of the company (Damodaran, 2010).

Case II represents the company facing a troubled time, however the revival is possible and indebtedness is low. Reversibility is highly possible if the company has been in trouble before and has successfully recovered, the industry is strong and growing as well as other companies within the industry or macroeconomic trends show improvements on the market. In order to evaluate such companies, it is suggested to calculate value in the three following steps: First, calculate the value as the company will continue operating without any changes (Status quo), second, calculate the value as turnaround is performed by new management and/or new ownership (Optimal value) and third, estimate the probability of the turnaround. As a result, the Expected value equals the weighted average of Status quo value and Optimal value (Damodaran, 2010).

Cases III and IV assume companies being in distress meaning being unable to cover their financial or operating obligations. As a consequence of distress, companies must sell their assets and use the cash from sale to repay the debt and pay back the investors. Moreover, the distress costs can increase even further. For instance, a bad reputation can cause decrease in sales due to the lost customers, employee turnover increases, suppliers' conditions strikes and creditors cease lending money. As a result, the effect of possible distress should be incorporated in the valuation using the DCF method, however some arguments were presented saying that such implications are not necessary or are already implemented in the method. We could point out arguments, such as large companies are very unlikely to bankrupt, the capital is easily accessible, the discount rate includes the riskiness and the expected free cash flows are adjusted for the possibility of distress (Damodaran, 2010).

Based on given points in the previous paragraphs, Damodaran (2010) presents various approaches to incorporate the possibility of distress into company's value. The first approach suggested is to run simulations including various circumstances that will cause distress and consequences of distress, resulting in average across all simulated values as an expected value of the company. The second approach follows the DCF modification by introducing various scenarios from optimistic to pessimistic and cash flows under those, resulting in the expected value of the company as weighted average of scenarios. In contrast to the traditional approach for estimating discount rate, when cost of capital is calculated out of regression betas with distress companies, it is suggested to use bottom-up unlevered beta and current market debt to equity ratio.

As an alternative to the modified DCF presented above, we can calculate the company's value by using a relative valuation. As stated by Damodaran (2010), revenues and EBITDA multiples are usually used to evaluate companies in financial distress. Analysts often subjectively apply adjustments or discounts to multiples at the point when comparing the company to similar cases. The multiple adjustments can be determined by finding comparable companies that experienced financial distress as well, but this cannot be done unless there are a huge number of such companies in the industry. The next possible solution is to adjust the multiple solely by using specific objective criteria, yet finding such criteria

might also be very hard. Finally, the third option is to imply the possibility of distress into the valuation.

$$Value\ of\ the\ firm = Value\ based\ on\ healthy\ firms * (1 - \pi_{distress}) + Distress\ sale\ value * \pi_{distress} \quad (4)$$

where $\pi_{distress}$ equals the probability of distress over the valuation period and can be estimated through the statistical approach or based on bond rating and empirical default rates in that rating (Damodaran, 2010).

In practice, when performing market approach valuation of a company, the analysts often introduce discounts to adjust the multiple. Discounts on value multiple can be applied for different conditions. For example, the discount for private or unlisted companies was presented by Keoplin et al. (2000), Kooli et al. (2003), Paglia and Harjoto (2010), Officer (2007) and others. Officer (2007) proves that an average marketability discount on EBTDA multiple for unlisted companies is 17%. In addition to the discount on private companies, Officer (2007) presents the discount on the value of unhealthy companies that is based on the comparison between discounts on deals' values of healthy and unhealthy private companies. The results show that unhealthy private companies are on average sold on 10% greater discount than healthy private companies compared to the listed companies. Moreover, Block (2007) introduces the research that divides the discounts by industries and proves that manufacturing sector has the highest discount for EBITDA multiple among all industries, which equals 36%.

3.3 Corporate restructuring

Financial and operational restructurings are the two distinct types of corporate turnaround and restructuring strategies that are most often described in the academic literature. Financial restructuring refers to a strategy, which aims to improve the capital structure of a company and serves as a basic strategy for carrying out turnarounds. Some examples of financial restructurings used in companies under financial distress could be to renegotiate deferred debt repayments with its lenders or to offer debt-for-equity swaps. On the other side, operational restructuring goes beyond debt and equity restructurings and setting financial goals. Operational restructuring refers to a strategy that aims to regain and increase long-term profitability of companies facing financial distress. It is an essential strategy for determining success or failure of turnaround efforts. In order to enable long-term changes in troubled companies, turnaround business must incorporate operational restructuring that starts with an in-depth analysis of business processes, employees, procedures and documenting the current situation. Depending on the company's business model, some examples of operational restructuring efforts are: cost-cutting, cash flow control, price adjustments, pool purchasing, downsizing (and/or lowering personnel costs), sale of unprofitable businesses or product lines. Carefully selected and well managed operational restructuring strategy could result in significant improvements in distressed companies

performance such as: increase in productivity, higher equipment utilization, boosting revenues, lower costs and higher customer satisfaction. Which strategy (or combination of strategies) a company should implement depends on its current financial strength. In nearly all turnarounds and bankruptcy cases, financial and operational restructuring takes place at the same time in order to keep the business going and to recover (or improve) liquidity. The implementation of both financial and operational restructuring has an essential role in carrying out successful turnarounds and increasing economic value of companies under financial distress (DePamphilis, 2010).

The main tasks that the management team shall perform when restructuring the company are recognizing the problem, finding and implementing the solutions and ensuring a sufficient amount of funds to support the restructuring throughout the whole time. It is highly important that all tasks and actions are performed fast in order to keep the company alive. In many cases, the restructuring team has less than a year to complete phase one in the restructuring process, which is getting the company back on track of operational profitability. Changes under phase one are dramatic in most cases and can significantly change conditions and company's environment. The second phase of the restructuring process takes more time, since it aims to get the company's best performance. At the beginning of the restructuring process, it is very important for the restructuring team to find supporters of changes among employees, to find the right causes of financial distress and prevent the cash from leaking. Finding the right causes can be difficult and usually time consuming; however it is one of the most important steps in the restructuring process. In many cases, companies blame the recession, industry, taxes, regulations and other factors for their situation. One of the best strategies to find a true reason is by talking to employees on all levels, even repeatedly (Vance, 2009).

Companies can fail out of many different reasons. In the first place, it is essential to identify and distinguish between the reason for the failure and effects of the failure. The failure can originate from operations, products, employees, market or elsewhere and then can be rapidly spread across the whole company and cause problems elsewhere. The most common problems of companies in financial distress are the following (Vance, 2009):

- declining gross margins,
- unreasonably high overhead,
- collection problems,
- loss of an important customer,
- increased competition,
- high manufacturing costs,
- high marketing and sales costs,
- high and changing material and goods costs,
- inability to deliver the promised goods,
- high product costs, *(continued)*

- outmoded products,
- ineffective advertising and
- inability to bring the products to market, etc.

One of the most appropriate ways to identify the cause of problems is to to compare current key performance indicators with historical values and competitors' performance.. The ratios list for diagnosing company's performance and identifying company's strengths and weaknesses are mostly focused on operations. These are for example, gross profit margin, revenues per employee, days sales outstanding (DSO), inventory turnover, days sales of inventory (DSI), return on assets etc. Furthermore, in order to identify company's overall performance, Vance (2009) suggests calculating the following ratios : sales growth, COGS in revenues, gross margin, overhead expenses in revenues, sales and marketing expenses in revenues, other operating expenses and earnings from operations in revenues. Based on ratios calculated, the problem's origin can be identified and actions can be taken. For instance, if the percentage of the overhead expenses in revenues has been increasing significantly, despite declining revenues, the problem might lie in inappropriate marketing or wasting money for other, non-product related costs. Moreover, if revenues growth is lower than the industry's average, the problem might lie in the product itself or in a relationship with the customers. After identifying the problem, the restructuring model should be developed, through which the effects of various changes can be traced. One of such models is an income statement, where the effects of different changes can be presented. For instance, what happens with the result if the overhead costs are reduced by a certain percentage or how an increase in revenues affects operating profit (Vance, 2009).

4 MACROECONOMIC OVERVIEW AND FORECAST OF EXISTING AND POTENCIAL MARKETS

Several recessions in the period between 2009 and 2014 negatively influenced Slovenia's business environment, leading to a high public deficit and unemployment rate. During the economic crisis, Slovenian development and economic position deteriorated substantially comparing to the Euro area and its largest trading partners. From 2014 onwards, the economic situation and export competitiveness started to improve (IMAD, 2016a). In 2016, Slovenia was ranked as 29th out of 189 countries on the Ease of Doing Business ranking, which is relatively well compared to other Eastern European countries. On the other hand, Slovenia was ranked relatively low on the Getting Credit ranking and occupied the 126th place, which is the result of still tight lending conditions posed by domestic banks. Slovenia has a relatively low corporate tax rate and high innovation potential, but competitiveness should improve in order to attract more investors and boost the export (Ease of Doing Business in Slovenia, 2016). We tried to explain how an expected macroeconomic outlook in Slovenia's main trading partners and movement of factors, such as world prices of goods and exchange rates, could influence growth potential of Slovenian export-oriented companies.

4.1 Slovenian economy

Worsened macroeconomic conditions and the prolonged crisis negatively influenced both, the population's welfare and living conditions as well as the output and profitability of domestic companies. After years of the weak economic growth and the delayed recovery from the financial crisis, the situation finally started to improve in 2014. From the negative real GDP growth of 1.1% in 2013, macroeconomic situation improved and annual real GDP growth rate increased to 3% in 2014 and 2.9% in 2015. The main drivers of the improved economic activity in 2014 and 2015 were higher foreign demands and enhanced government investments. The banking system's recovery and initiated financial and ownership restructurings of the over-indebted Slovenian companies also positively contributed to the higher economic output. After a surge in the government deficit to 15% of the GDP in 2013 as a consequence of the government-backed bonds issue necessary for the recapitalization of the domestic banks, government deficit decreased to below 3% of GDP in 2015 (General Government Deficit, 2016). Competitiveness of the Slovenian export-driven companies started to recover in the years after the financial crisis and contributed towards the higher economic growth in 2015. As reported by the IMAD (2016b), Slovenian companies should focus on increasing productivity, which is necessary for achieving the higher cost competitiveness, catching up with the rapid development and strengthening of the overall economic position. Higher investments could boost productivity growth in Slovenian companies in the short-term, but are still limited by the low lending activity of the domestic banks. In the recent years, cost and price competitiveness factors have improved, which made a positive impact on the position of the export companies in the foreign markets.

Slovenian economy is export-driven with export of goods and services contributing to almost 78% of the total GDP in 2015, which is almost 14 percentage points more than in 2010. This is much higher comparing it to the Euro area average, where the total export of goods and services contributed to 46% of the GDP in 2015. After the big decline in growth regarding the export of goods and services in 2009, mainly due to the lower demand from the foreign markets, total export started to increase again in 2010 and it grew at an average rate of 5.3% per year until 2015. From 2014 to 2015, the total export increased by 5.2% and amounted to 30 billion € in 2015. Export of goods made more than 80% of the total value of Slovenian export in 2015 and its share in the total export of goods and services was very stable from 2010 onwards. Export of goods grew at an average rate of 6% from 2010 to 2015 and stood at 5.3% in 2015 (Average exports of good, 2016). According to IMAD (2016a), growth rate of goods export is projected to decrease to 3.5% by the end of 2016, but it will increase again in 2017 and reach 5% growth by 2018.

In 2014, total export of goods consisted mainly of consumer goods (46% of the total export), followed by capital goods (25% of the total export) and intermediate goods (23% of the total export). Slovenia's largest export product groups and their relative share in the value of the total export from 2010 to 2014 are summarized in Table 2 (Product Exports by Slovenia to

all countries, 2016). As can be noticed in the table, structure of the main product groups relative to the total export did not change significantly during the observed period. In 2014, five main export product groups together made 70% of the overall export of goods, while top ten product groups together made almost 95%. Slovenia exports the majority of manufactured goods to the European Union (76% of the total export in 2015) and this share was showing an increasing trend in the last five years (Exports and imports by Member States of the EU/third countries, 2016). Slovenia's five main trading partners together made almost 54% of the total export, while ten main partners together made 70% of the total export of goods and services in 2014. Germany is the Slovenian key trading partner and 20% of the total export of goods went to this country, followed by Italy with 11.6%, Austria 8.9%, Croatia with 7.7% and France with 5.1%. These shares decreased from 2013, except for Croatia and Austria. Moreover, Slovenia generated 4.4% of the total export of goods in Russia, almost 1.9% in the U.S. and 0.6% in China (Slovenia Exports By Country and Region, 2016). Due to the high concentration of the Slovenian export, future macroeconomic prospects of the Slovenian main trading partners have a direct impact on the performance of the Slovenian manufacturing companies and consequently, on the progress of the whole country as export represent one of the main drivers of the economic growth.

Table 2. Export product share in in the total export of goods in Slovenia, 2010-2014, in %

Product Group	**2010**	**2011**	**2012**	**2013**	**2014**
Machinery and Electronic	24.2	23.6	23.7	23.5	22.9
Chemicals	14.7	14.4	15.6	16.2	15.8
Transportation	14.5	13.1	12.3	12.1	13.3
Metals	12.4	13.2	12.8	12.0	12.1
Plastic or Rubber	6.4	6.8	6.6	6.8	6.6
Miscellaneous	6.7	6.5	6.3	6.2	6.4
Fuels	4.2	5.7	6.4	6.6	6.1
Wood	6.2	6.0	6.0	6.1	6.1
Textiles, Clothing and Footwear	4.0	3.9	3.9	3.9	4.0
Food Products	3.1	3.1	2.8	2.8	2.8
Other[13]	3.6	3.7	3.7	4.1	3.9
Total	**100**	**100**	**100**	**100**	**100**

Source: *Product Exports by Slovenia to all countries,* 2016.

In order for manufacturing companies to increase their export competitiveness, it is necessary that the government and its institutions ensure and establish a stimulating business environment for companies' operations, innovation and the future growth. In the recent years, Slovenia has made progress towards the simplification of procedures for establishing new companies, improving the environment for start-up companies and reducing bureaucracy procedures, such as shortening long procedures for obtaining various permits

[13] Stone and Glass products, Animal, Hides and Skins and Minerals

(IMAD, 2016a). Moreover, as the result of improving banking system's stability, deleveraging and higher profitability of companies, investment environment in Slovenia has also improved in the recent years. In 2016, Slovenia scored well on the Ease of Doing Business ranking relatively to other Eastern European countries. Out of 189 countries included in the ranking, Slovenia occupied 29th place, which is above Croatia (40th), Bulgaria (38th), Romania (37th) and Czech Republic (36th) (Ease of Doing Business in Slovenia, 2016).

Country's tax system and tax rates are significant factors that the potential investors take into account when making the decision about their future investments. Since 2013, value added tax (VAT) standard rate in Slovenia stands at 22% and reduced rate at 9.5%, which is the middle VAT rate comparing it to the other EU countries. Companies that operate in Slovenia are obliged to pay corporate tax on the income earned within the specific taxable period. In an effort to improve the competitiveness of the country's corporate tax system, the government decided to reduce the corporate income tax rate from 20% to 17% in 2013. Slovenia ranks advantageously on corporate tax compared to Croatia (20%), but unfavourable comparing it to Bulgaria's rate (10%) (Euromonitor, 2015a). In case that the company's headquarter is in another country but the company operates in Slovenia, than the tax has to be paid on the profits realized in Slovenia. Sole proprietors or individuals, who own the business, pay a progressive personal income tax. Which progressive tax rate will be applied depend on the earned income level, therefore possible tax rates are: 16%, 27%, 41% or 50%. More information about the general tax rates applied in Slovenia are summarized in Table 3.

Table 3. Overview of the general tax rates applied in Slovenia

Tax	**Applied tax rates**
Value Added Tax (VAT)	22% - standard and 9.5% - reduced
Corporate Income Tax	17%
Personal Income Tax	progressive rates: 16%, 27%, 41% and 50%
Social Security Contributions	16.1% paid by the employer 22.1% paid by the employee
Tax Relief	100% relief on the amount invested in R&D up to 40% relief on the value of purchased equipment and machinery and intangible long term assets
Payroll Tax	abolished from 2009 onwards
Capital gains tax	from 0% to 25% (depends on the holding period of the capital asset)
Property Tax	2% on immovable property and 0% on other property

Source: *Slovenia Business Point - Tax regulations in Slovenia*, 2016.

Table 4 presents real growth rates of the total value added per sector, which had the highest share in the total GDP from 2008 to 2015 and additionally forecasts for the next three years. All sectors recorded a drop in the value added in 2009 as a consequence of the financial crisis. The highest drop in total value added was recorded in the construction and

manufacturing sector. In the years that followed, the highest growth in value added was recorded by the manufacturing sector as situation on the global and domestic market started to improve. On the other side, the recovery in other sectors was lagging behind. In 2014, higher value added growth rates were achieved in each sector, especially in the construction sector. It is estimated that value added growth rate of the Slovenian manufacturing sector will decrease in 2016, but it will start to generate higher added value in 2017. In 2018, gross value added of the manufacturing sector is expected to grow at 3.9% rate and represent 21.4% of the total country's GDP (IMAD, 2016a).

Table 4. Gross value added per economic activity, real growth rates 2010 to 2018, in %

Economic activity	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Manufacturing	0.2	-16	7.3	2.8	-3.2	-0.5	5.5	5.8	3.7	3.9	3.9
Construction	4.7	-13.4	-18.2	-10.1	-7.7	-8.7	9.5	-3.3	-11.5	4	3
Trade, transportation and storage, accommodation and food service	4.3	-8.5	1.2	1.7	-4.1	0	3.5	4.3	3.2	2.7	2.6
Real estate activities	6.1	-0.2	1.6	-0.4	0.4	0.5	1.4	1.2	1.4	1.5	1.5

Source: *GDP Production structure - Slovenia,* 2016*;* IMAD, *Spring forecast of economic trends,* 2016.

Due to the fact that the Slovenian market is relatively small in size and volume, manufacturing companies usually decide to extend their activities on the foreign markets. Manufacturing sector has the largest contribution to the overall Slovenian export and also the highest value added to GDP. On the other hand, manufacturing companies, especially export driven, are less resistant to any external shocks, such as a drop in the foreign demand, worsening of the terms of trade and volatility in prices of basic commodities and energy. However, regardless of their high indebtedness, manufacturing companies have also showed the higher ability to adapt to the changed economic conditions and to find new customers for their products during and after the financial crisis. Slovenian manufacturing sector has always been very dependent on the external trading and thus influenced by the changes in global trade flows (Euromonitor, 2015b). We believe that with well-selected restructuring strategy, Slovenian manufacturing companies in a financial distress have a large potential for the future growth. The potential of Slovenian export-oriented companies to create high value added depends not only on the successfully selected and implemented restructuring strategy, but also on the positive macroeconomic outlook in the global market.

4.2 Foreign markets

In 2009, as a consequence of the global economic crisis, GDP growth declined sharply in Slovenian trading partners as well as in the whole Euro area, while Emerging and Developing Asia recorded very high growth of the real output (see Table 5). Slovenia was among the countries who were hit the worst by the crisis and with one of the highest drop in GDP among the listed countries. A slow recovery from the financial crisis was mostly pronounced in Slovenia, Croatia and Italy as well as in the Euro area overall. In 2014, the economic situation improved significantly in all countries, except in Croatia and Italy, where the first evident signs of improvement appeared in 2015. In 2016, the same or lower real economic growth is expected in all countries except in Austria, Croatia and Italy. Until 2021, the highest economic growth is estimated for Asian countries, followed by the United States, Croatia and France.

Table 5. Overview of real GDP growth (%) in Slovenia, main trading partners, Euro Area and Asia

Country	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2021**
Slovenia	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.9	1.7	2.4	1.5
Germany	1.1	-5.6	4.1	3.7	0.4	0.3	1.6	1.7	1.5	1.6	1.2
Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.3	0.8	1	1.1	0.8
Austria	1.5	-3.8	1.9	2.8	0.8	0.3	0.4	0.9	1.2	1.4	1.1
France	0.2	-2.9	2.0	2.1	0.2	0.6	0.6	1.3	1.1	1.3	1.9
Croatia	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.6	1.9	2.1	2
Euro area (19 countries)	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.7	1.5	1.6	1.5
United States	0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	2.4	2.5	2
Emerging and Developing Asia	7.2	7.5	9.6	7.8	6.9	6.9	6.8	6.6	6.4	6.3	6.4

Source: *Real GDP growth rate*, 2016*;* IMF, *World Economic Outlook,* 2016.

From the current macroeconomic outlook we can conclude that the economic situation in Slovenia's main trading partners is expected to improve until 2017 and large reductions in the economic output are not projected for the next five years. Moreover, even though the economic growth in the Asian countries is expected to slow down until 2021, it is still expected to remain high in comparison with the Euro area and United States, therefore Slovenian export companies could invest more energy and resources into increasing their presence in these markets and searching for new potential customers for their products.

Important determinants of the global business environment in the next three years are also the expected USD/EUR exchange rate and movements in prices of basic commodities. From 2015 onwards, the U.S. dollar currency is expected to slightly weaken against the Euro currency, but is still expected to remain stronger than it was before 2015. Forecasts regarding the exchange rates between the U.S. dollar and Euro are favourable for exporters selling in the countries where prices of goods are expressed in U.S. dollars, such as United States or China. This situation is unfavourable for companies that import raw or intermediate

materials from markets where prices are set in the U.S. dollars. Oil prices are expected to decrease significantly in 2016 and slightly start improving in 2017 and 2018, which could bring additional profits to car makers and producers of car parts. Average world trade prices of metals will continue to decline in the next two years, but will start to grow again in 2018. Lower prices of metals could be an opportunity for Slovenian manufacturers that use metals as their basic input materials to achieve higher margins on their products.

Table 6. US$/€ exchange rate, 2010 - 2015 and forecasts

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
US$/€ exchange rate	1.327	1.393	1.286	1.328	1.329	1.090	1.111	1.114	1.114

Source: IMAD, *Spring forecast of economic trends,* 2016.

Table 7. Oil price Europe Brent spot price (US$ per barrel) and World trade prices of Metals (annual % change of prices in US$), 2010 - 2015 and forecasts

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Oil price, Europe Brent Spot Price	79.61	111.26	111.63	108.56	98.97	52.32	35.00	41.50	45.10
World trade prices of Metals	48.20	13.50	-16.80	-4.30	-10.30	-23.10	-14.10	-1.50	2.81

Source: *Petroleum and other liquids – Spot prices,* 2016; IMF, *World Economic Outlook,* 2016

5 DEVELOPMENT OF PRIVATE EQUITY FUND PORTFOLIO OUT OF CASES ON BAMC

As mentioned before, we believe that there are companies in the BAMC's portfolio that could bring significant returns to investors, whether debt is being repaid and corporate restructuring is being performed. Such companies have the potential in their products, employees, business model, market or industry. In order to find such companies in the sample of 575 companies retrieved from BAMC, we performed various qualitative and quantitate research methods. Afterwards, the final 8 companies were selected, analysed and potential investments and returns were calculated.

5.1 Methodology

The master thesis' empirical part is mainly based on a combination of both qualitative and quantitative research methods. The research consisted of three main phases. In the first phase, we performed the analysis of factors that led to high indebtedness and poor operating

performance of many Slovenian companies. Based on this research we decided to take the sample of companies whose debt was transferred to BAMC as non-performing loans.

The second phase included the analysis of the sample of 575 companies, whose financial data were obtained from AJPES and the sample's narrowing in order to get the companies most suitable for the investment portfolio. All items of balance sheet and income statement as determined by Slovenian Accounting Standard were included in the analysis. Furthermore, variables and ratios indicating company's performance and financial situation were calculated. Table 8 includes the calculated indicators of company's performance and Appendix C lists all ratios calculated for the further analysis' purpose. Variables' calculations presented in Table 8 were adjusted in order to exclude effects of impairments and write-offs that significantly corrupt companies' performance. EBIT was therefore calculated as the sum of operating profit or loss reported by the company and revaluation operating expenses associated with intangible fixed assets and tangible fixed assets and revaluation operating expenses associated with operating current assets. The reason behind this approach is often high revaluation operating expenses that companies face due to the financial problems and are not directly related to operating efficiency. Such expenses can significantly disfigure true operating performance of a company. EBITDA was calculated as the sum of EBIT and amortization and depreciation. Finally, by calculating analytical Net income as the sum of EBIT and the difference between financial income from loans granted and financial expense from financial liabilities, we aimed to show the company's performance without impairments and write-offs of financial investments that happened to be substantial at many companies within the sample and would probably be lower in more favourable financial conditions.

Table 8. List of variables calculated for the purpose of the analysis

Variable Name	**Calculation Formula**
EBIT	$EBIT = (aopt151 - aopt152) + (aopt146 + aopt147)$
EBITDA	$EBITDA = EBIT + aopt145$
COGS	$COGS = aopt129 + aopt130$
SALES	$SALES = aopt126 - aopt124$
NET_ INCOME	$NET\ INCOME = EBIT + aopt160\ - aopt169$

Note. *Labels for balance sheet and income statement items (aopt*) are listed in Appendix D.

For ratios calculated out of both, balance sheet and income statement items, we calculated the average of the current year and the previous year value for balance sheet amount in order to get the consistency of numerator and denominator, since balance sheet amount reflects the value in specific moment. For the first year of the observed period (2008), the actual value of the current year was used for calculations, since the previous year's value is not available. All equations of ratios calculated for the purpose of the analysis are presented in Appendix C. Other variables retrieved from AJPES and included in the database are

Company name, Status and Industry. Status has two different values: normal and bankruptcy. Out of status, a dummy variable was created, called the Status-dummy, where 0 is normal and 1 is bankruptcy. Variable Industry indicates an official sector that the company is operating in with the corresponding Standard classification of Activities (SKD)[14].

The third phase consisted of the analysis of companies selected for the investment portfolio. Firstly, we estimated each company's value of equity in order to propose the maximum price that should not be exceeded when purchasing a company. The companies' valuation was conducted with the help of the market approach. In detail, we performed the valuation method using EBITDA multiples. The multiplies from similar transactions or comparable companies for specific industry were obtained from Damodaran Online webpage, gathered and updated by Aswath Damodaran on a yearly basis. Data used for the analysis were last updated on 5 January 2016. In order to get the most accurate comparison, we calculated the average of EBITDA multiples for Western Europe and Emerging markets. Furthermore, we applied the private company discount of 36% on EBITDA multiple and discount for unhealthy companies of 10%, as proposed in the corporate valuation section above, so 46% discount on EBITDA multiple in total. Secondly, we performed the detailed analysis of companies' historical performance[15]. The analysis included the general overview of each company, its product portfolio and main markets. Furthermore, companies' financial data were analysed. We analysed balance sheet and income statement items and used these values to calculate ratios. Detailed costs' analysis was also performed in order to find each company's critical areas, which have to be improved. Thirdly, based on the analysis and industry forecasts, we suggested corporate restructuring activities with an aim to increase revenues and reduce costs. Afterwards, the potential revenues growth and effects of costs optimization were estimated. As a result, EBITDA projections were calculated for the following six years from 2016 to 2021. From the estimated value of EBITDA for 2021 and EBITDA multiple, the potential exit value of each company was calculated.

As the main indicators of the investment portfolio's success, we calculated the Internal Rate of Return (hereinafter: IRR) and Investment Multiple for each company and for the investment portfolio as a whole. IRR was calculated using the initial investment value that equals the sum of company's economic value and value of assets for sale, potential cash flows calculated as EBITDA projections for the upcoming years reduced by the 17% corporate tax rate, which equals 17% in Slovenia and potential exit value of a company in 2021. The distribution to paid-in-capital ratio (hereinafter: DPI) or also called the Investment multiple represents the ratio between exit value of an investment and paid-in-capital or initial investment value. Those two measures are widely used for measuring the success of private equity funds and therefore, we find them appropriate to estimate the potential return of this investment portfolio (Appelbaum and Batt, 2014).

[14] Official list of classifications (SKD) can be retrieved from http://www.stat.si/klasje/tabela.aspx?cvn=5531.
[15] At this point financial data for 2015 were included in the analysis.

5.2 Data collection and preparation

Data gathering and sample preparation process consisted of two main phases. In each of the phase we excluded companies, which did not meet the requirements for further analysis. The first phase requirements are current existence of the company with ongoing operations and available financial data. The first reason for such requirements is that companies have to possess some valuable assets that would be bought by investors and in case of erased companies, such assets are untraceable. The second reason is a requirement of available financial data for evaluation and analysis of the company. In the second phase we excluded all companies without a complete range of financial data from 2008 and 2014, those having assets lower than 1,000,000 € and revenues lower than 1,000,000 €. The reasons behind sample narrowing in the second phase are a necessity of complete financial data for comprehensive and detailed analysis and a company's sufficient size to excite an interest in investors.

5.2.1 Initial sample description

In 2014, the BAMC publicly issued the comprehensive list of 575 companies, whose debt was transferred from Slovenian banks to BAMC. The mentioned 575 companies were used as an initial sample for our research, but the initial sample was further narrowed and adjusted as explained in the section above.

After obtaining the sample, the key information and financial data for years between 2008 and 2014 were gathered through AJPES (The Agency of the Republic of Slovenia for Public Legal Records and Related Services). The companies were further divided into five groups, according to their current status. Such are normally operating companies, bankrupt companies, companies in the liquidation process, erased companies and companies without available financial data. The sample's structure is presented in Table 9.

Table 9. Structure of the initial sample regarding companies' status

Status of the company	**Number of cases in the group**	**Percentage of total (%)**
Normally operating	189	32.9
Bankruptcy procedures	288	50.1
Liquidation procedures	3	0.5
Erased	69	12.0
Unavailable financial data	26	4.5
Total	**575**	100

Source: *Finančni podatki slovenskih podjetij*, 2016.

In the next phase of data gathering process, erased companies and companies with unavailable financial data were excluded from the sample. The remaining 480 companies were further analysed and it was recognized that for 293 companies, only a part of the financial data is provided for the observed period from 2008 to 2014. In the majority of such cases we understand that the reason behind the missing data is a bankruptcy procedure, in

which case companies are not obligated to report their financial results to AJPES. Therefore, we excluded such cases from the further analysis. Furthermore, 16 companies out of the remaining 187, had assets lower that 1 million € in 2014 and additionally, 82 companies had revenues lower than 1 million € in 2014. Such companies were excluded from the analysis as well. The remaining 89 companies formed the final sample, which was used to perform the selection process and to create private equity portfolio of 8 companies. The summary for sample narrowing is presented in Table 10.

Table 10. Process and conditions for sample narrowing

Step	Condition	Number of excluded cases	Remaining number of cases
1	Listed in Slovenian Business Register (Existing company)	69	506
2	Available any financial data on AJPES	26	480
3	Available financial data for whole observed period (2008 - 2014)	293	187
4	Assets value in 2014 higher than 1 million €	16	171
5	Revenues in 2014 higher than 1 million €	82	**89**

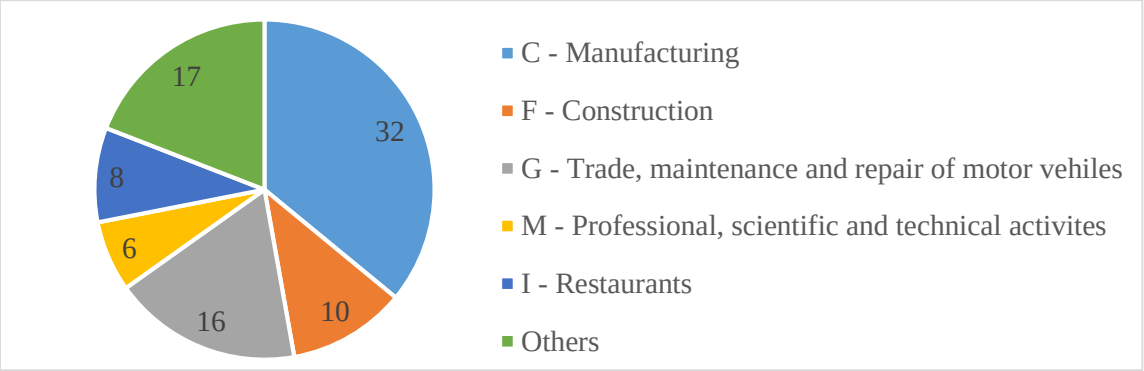
The final sample consists of 623 observations, 89 companies each with financial data for the following 7 years from 2008 to 2014. Each observation has set of 253 variables. Among those, 216 variables represent balance sheet and income statement items as determined by Slovenian Accounting Standards and 1 variable uniquely identifies one company (Company's ID). Moreover, 32 variables represent values and ratios calculated from balance sheet and income statement items for the purpose of the further analysis.

5.2.2 Descriptive statistics

After the process of data collection and sample preparation, the data were imported in Data analysis and Statistical Software STATA, which was initially used for the preparation of database and secondly for the analysis. In this section, we present and describe the descriptive statistics of the previously mentioned 89 companies with available financial data from 2008 to 2014 and assets and revenues in 2014 higher than 1 million €. Firstly, it is important to mention that the sample mainly consists of normally operating companies, only 4 out of 89 companies are in bankruptcy at the time of writing the paper (July 2016). Regardless of the status, those companies were operating in 2014 and financial data are available. The sample includes companies in almost all industries according to the standard national classification. Most companies operate in industry C – Manufacturing (36%), F – Construction (11%) and G – Trade, maintenance and repair of motor vehicles (16%). Among

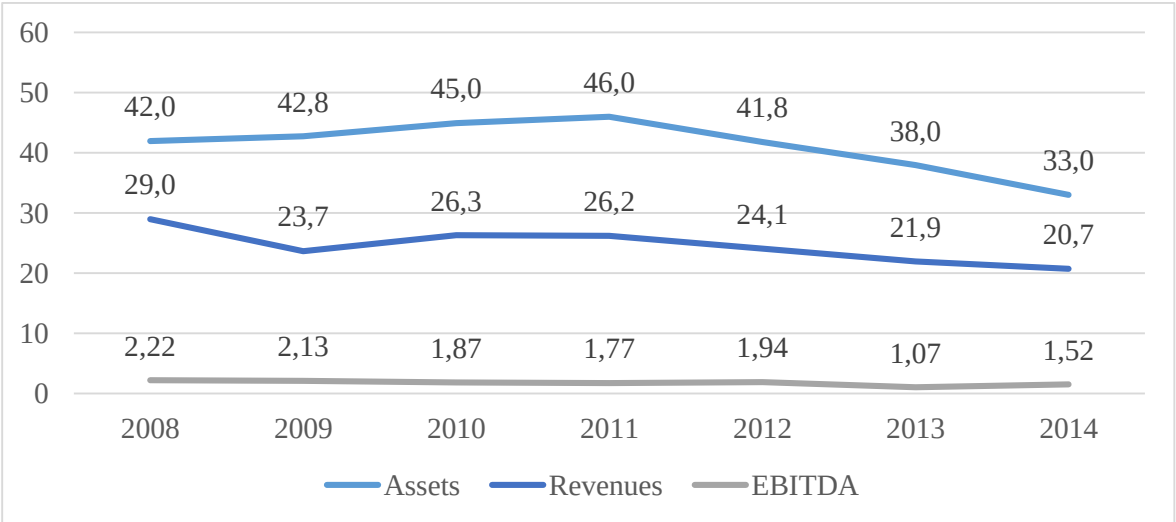
others, industries with 5 or less representatives in the sample are included and those are A – Agriculture, E – Water supply, sewerage and waste management, H – Transportation and storage, J – Information and communication, K – Finance and insurance activates, N – Other business activities, Q – Health and social work, R – Arts, entertainment and recreation and S – Other activities. The remaining 5 industries (B – Mining and quarrying , D – Electricity, gas, steam and air conditioning supply, P – Education , T – Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use and U – activities of extraterritorial organisations and bodies) do not have representatives among companies in the sample.

Figure 20. Distribution of companies in the sample by industry



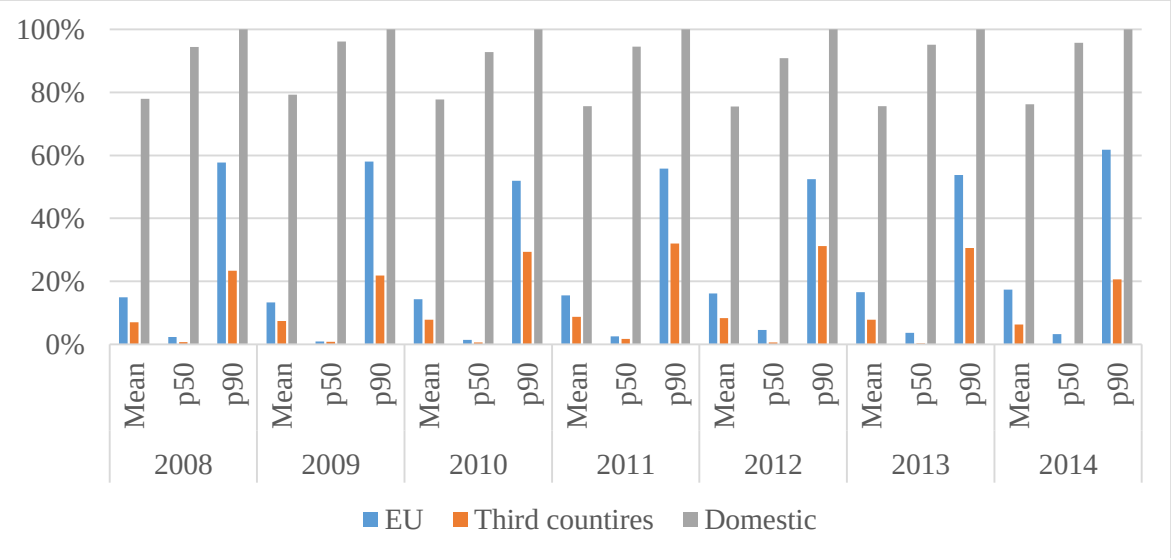
As it can be seen from the financial data of 89 companies in the sample, an average value of assets has decreased in the observed period, as well as an average value of revenues. In 2008, an average company in the sample had 42 million € of assets, while in 2014, this number decreased to 33 million €. Average revenues decreased from 29 million € in 2008 to 20.7 million € in 2014 as well. At the same time, an average EBITDA also decreased, from 2.2 million € in 2008 to 1.5 million € in 2015.

Figure 21. Assets, revenues and EBITDA of average company in the sample through the observed period, in million €, 2008 – 2014



As evident from Figure 22, the sample consists of companies mainly selling on the domestic (Slovenian) market. However, 10% of companies in the sample generated more than 61.7% of all revenues on the EU markets in 2014. This value increased for 4 percentage points since 2008. An average company generated 23.7% of all revenues on the foreign markets in 2014, while in 2008, less than 22%. 25% of all companies in the sample generated more than 45% of all revenues on foreign markets (EU and third countries) in 2014.

Figure 22. Mean, median and 90th percentile of revenues generated on domestic, EU and third countries' markets, in %, 2008 - 2014



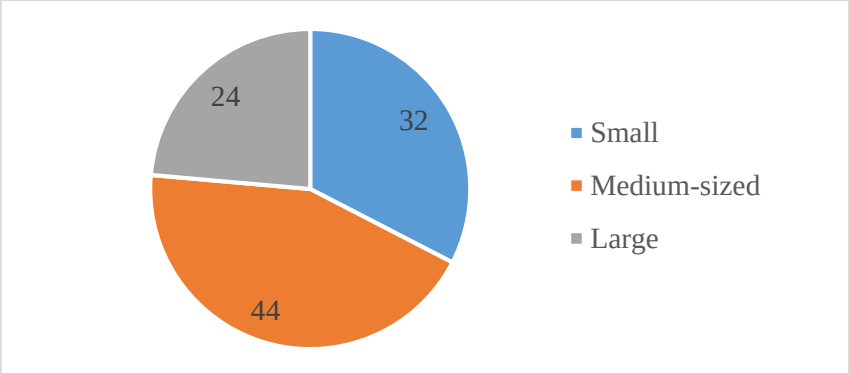
Based on the sample's source, we assume companies to be highly leveraged. After the analysis of main ratios indicating the company's indebtedness, we understand that the average company in the sample has more debt than it can bear. Debt-to-equity ratio of the average company in 2014 equalled 8.7, including negative cases as well, moreover, half of the companies in the sample had debt-to-equity ratio higher than 1.2 and 22 companies had negative debt-to-equity ratio. In 2014, the times interest earned ratio of an average company in the sample equalled 2.58. Additionally, 47 companies in the sample had times interest earned ratio in 2014 equal or higher than 1. The second important ratio indicating company's ability to repay debt is cash coverage ratio. An average company's cash coverage ratio in the sample of 89 companies equalled 10.2 in 2014, but few extreme positive values exist. Median cash coverage ratio of the sample was 1.7 in 2014 and 63% (56 out of 89) of companies had this ratio higher than 1. An average company in the sample had 142.58 employees in 2014. Half of the companies in the sample had more than 60 employees in 2014.

According to Companies' Act ZGD-1 (Slovene: Zakon o gospodarskih družbah), company's size is determined, based on the combination of the following three criteria:

- Small company → number of employees is 50 or less, value of assets is lower than 4 million € and revenues are lower than 8 million €;
- Medium-sized company → number of employees is between 51 and 250, value of assets range between 4 million € and 20 million € and revenues range between 8 million € and 40 million €;
- Large company → number of employees exceeds 250 employees, value of assets exceeds 20 million € and revenues exceed 40 million €.

Based on those criteria, we divided companies into three groups for each of the characteristics: number of employees, assets and revenues. The company's size was determined when the company was distributed into the same group (size) by at least two different criteria. In case the company was distributed into three different groups by three different criteria, the medium-size was selected as the size of such company. Based on the analysis above, the distribution of the sample by size is presented in Figure 23.

Figure 23. Distribution of sample by company size based on three criteria: number of employees, value of assets and revenues generated in 2014 (in %)



5.2.3 Final selection process

The process of selecting companies suitable for the proposed investment portfolio was conducted on the sample of 89 companies, which were described above. Throughout the selection process, we implied more conditions that resulted in final 8 companies that were further analysed and evaluated. Based on the fact that the Slovenian market is very limited regarding the size, we believe export-oriented companies have a higher potential for growth. Furthermore, nearly 78% of Slovenian GDP is generated by export and therefore, we decided to narrow down the sample by excluding all companies that are not export-oriented. For the purpose of dividing companies into two groups, export-oriented and non-export oriented, we used domestic sale ratio calculated as ratio between revenues generated on the domestic market and total revenues. The condition for the distribution in the previously mentioned two groups is as follows: whenever the domestic sale ratio is higher than 85%, the company is not export-oriented and opposite. According to this rule, 31 out of 89 companies are export-oriented and were included in the further analysis.

Despite of the fact that manufacturing sector was highly influenced by the financial crisis and the value added decreased significantly in the years following the financial crisis, the sector still contributes the most to the Slovenian GDP. Furthermore, manufacturing sector experienced a fast recovery in the recent years and the expected growth rates of gross value added are the highest among all sectors. Even though the manufacturing sector is less resistant to economic shocks, it represents one of the strongest sectors in the world and considering the fact that the global economy is expected to grow in the next years, we decided to narrow down the sample to companies operating in manufacturing sector. In the sample, manufacturing sector is marked with letter C as determined by the standard classification of activities SKD. Therefore, we excluded all companies operating in sectors other than C – manufacturing. Based on this condition, 9 companies were excluded from the further analysis and 22 companies remained.

Out of 22 companies, we excluded 14 companies that we do not find suitable for the investment portfolio due to the following reasons: 4 companies have already been sold by BAMC, 5 companies are privately owned and claims of BAMC are not for sale and 5 companies are not suitable for the portfolio, either because of their poor financial conditions, business model or low potential for future growth. The detailed analysis and evaluation of the remaining 8 companies suitable for an investment portfolio is presented in the following section.

5.3 Valuation, restructuring and exit strategies of portfolio companies

Potential investment portfolio suitable for private equity fund following turnaround strategy consists of 8 Slovenian manufacturing companies that have either their shares or claims available for sale. Those companies are Aplina d.o.o., shoe-making company, Beti d.d., producer of textile fibres, TT Okroglica d.d., manufacturer of technical and industrial textiles, Aha Emmi d.o.o., producer of aluminium products, Liv Kolesa d.o.o., manufacturer of wheels and castors, wheelbarrows and other technical metal products, Litostroj Jeklo d.o.o., company specialized in steel casting production, MLM d.d., manufacturer of different aluminum components for automotive, electrical, white goods and cooper industries and Fori d.o.o., manufacturer of sheet metal and plastic products and semi-products for the automotive and home appliance industry.

5.3.1 Alpina d.o.o.

Alpina, tovarna obutve, d.o.o. (shorter name: Alpina, d.o.o., hereinafter: Alpina) is the Slovenian based company that was founded back in 1947 when different shoe-making workshops united under one name, Žiri Shoe Factory. In 1951, a sport footwear factory changed the name to Alpina and in the next year, the company started to produce practically all types of footwear. During the following years 1953-1960, the company established its own retail chain after the opening of the first retail store in Sarajevo and started with the

machine and assembly line production. During 1970s, Alpina opened a new production facility in Žiri, the factory for assembling modern and sports footwear and the first computer centre. In 1985, the company produced its first 2 million pairs of shoes and reached almost 2,000 employees. During the 1990s, the company expanded its operations and opened another subsidiary Alpina CRO in Croatia and set some important milestones after becoming the first Slovenian company that received ISO 9001 Certificate in retail industry. Furthermore, it introduced new computer technologies for footwear industry: water jet cutter and sewing machine. The company further expanded in 2001 after acquiring shoe manufacturing company Fogs D.L.J. from Sarajevo and establishing another subsidiary Alpina Siro in Romania in 2004. Between 2002 and 2010, the company received several awards and medals for an outstanding innovation, design and quality of its sport footwear, mainly in cross-country ski boots category. Until 2012, Alpina consisted of total 131 retail divisions operating in Slovenian and other five South Eastern European markets (Alpina – Tradicija, 2016). The basic information about the company is summarized in Table 11.

Table 11. The summary of main characteristics of Alpina

Industry	C 15.200 – Manufacture of footwear
Headquarter	Žiri, Slovenia
Ownership	Limited liability company, 100% owned by BAMC
Total financial liabilities	22.8 million € at 31.12.2015
EBITDA	1.8 million € in 2015
Export	74% of total revenues in 2015
No. of employees	360 on average in 2015

Source: Alpina, d.o.o., *Annual Report of Alpina d.o.o. for 2015*, 2016.

Today, Alpina is an international company for development, production, marketing and sales of footwear in Slovenia and worldwide. Production is organized in company's own production facilities in Slovenia (30% of total production) as well as in subsidiaries abroad (70% of total production) and production contractors during the production peaks. The major part of Alpina's output is produced in countries with lower production costs in order to maintain overall cost competitiveness. The production facilities are located in the company's headquarter in the Slovenian town Žiri, in two subsidiary companies in Bosnia and Herzegovina (hereinafter: BiH), one company in Romania and one in China. In the territory of former Yugoslavia, together with its subsidiaries, Alpina manages its own retail network that consists of 95 stores (together with its franchise stores). In May 2014, the company established its first online store for the Slovenian market and in October 2015, the online store for the Croatian market was introduced as well.

As of 31 December 2015, Alpina Group consists of a parent company Alpina and additional 12 companies that are incorporated in consolidated financial statements; one company in Slovenia and 11 abroad. Alpina's daughter company A-Prodaja d.o.o. was established in

2007 and from 2009 onwards, it performs sales services within the Alpina retail network in Slovenia. Alpina CRO d.o.o. manages retail network of 31 stores in Croatia, Alpina BH d.o.o. 13 stores in BiH and Alpina Yug d.o.o. 8 stores in Serbia. Besides its production and retail companies, Alpina owns one company in Ukraine (Alpina UA, Ltd.) and one in U.S. (Alpina Sports Corp.). Alpina UA operates as a wholesale distributor of Alpina sports and fashion footwear and Alpina Sports is a joint venture company, which represents Alpina in the U.S. market and sells its sports footwear. Companies Alpinamak d.o.o. in Macedonia and Alpina Kos sh.p.k. in Kosovo are the two out of twelve companies owned by Alpina, which are currently in the closing process. Alpina is either full or major owner of all twelve companies that are part of Alpina Group.

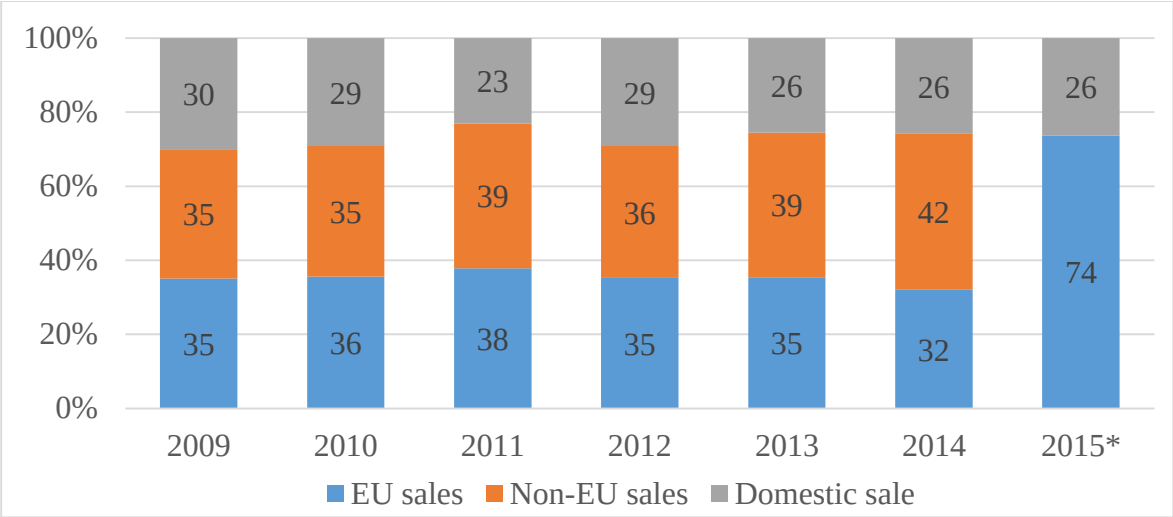
Based on the number of employees, value of assets and achieved revenues in 2015, Alpina ranks as a big company. At the end of 2015, Alpina employed 359 people. In the total educational structure, there were 29% of employees with primary and lower secondary education, 54% of employees that had completed the third, fourth and fifth level of education, 11% of all employees obtained their Bachelor or equivalent degree and 6% of employees had Master or Doctoral degree. The educational structure has not changed significantly in 2015 compared to the previous years as a result of a low employee fluctuation (Alpina d.o.o., 2016).

5.3.1.1 Product portfolio and main markets

Alpina sells its products under its own brand Alpina and successfully complements its sales portfolio with purchased footwear. Company's product and sales portfolio consists of fashionable footwear, leisure and sports footwear. Each product line consists of wide-range of product categories. The production and sales portfolio of sport footwear includes shoes for winter sports, such as cross-country ski boots and alpine skiing footwear and mountaineering boots. Alpina is selling shoes in more than 50 countries around the world through sales distributors, agents, wholesalers and its own subsidiaries. Cross-country ski boots that wear Alpina brand represent the most important product category within the sport footwear product line and holds 24% of global market share. With its share in global sales of cross-country ski boots, Alpina brand stands alongside its biggest competitors Fischer and Salomon that each holds 25% of the global market share. Alpina makes endorsement deals with many winter sport athletes' in order to increase brand awareness for its sport footwear and to position on the global market. The company's constant growth is based on quality materials, innovations, improving functionality, comfort and design. The company pays a special attention to developing shoes for cross-country skiing. Innovation and creativity are important pillars of Alpina's future growth and can be observed through R&D team active collaboration with Slovenian and international research institutes, technological centres, faculties and other institutions in the field of health, sport and engineering (Alpina d.o.o., 2016).

As presented in Figure 24, Alpina's export to both EU and non-EU customers increased from 2008 to 2011. In 2008, Alpina generated around 67% of total revenues on the foreign markets and until 2011, this share increased to 77%. From 2011 to 2013, export share in total revenues slightly decreased and stood at 74% in 2013 and remained on the same level over the next two years. In 2014, Alpina generated a major part of its revenues from export to non-EU countries (42%), followed by export to EU (32%) and domestic sales (26%). It is important to notice that sales' share to non-EU customers increased from 36% in 2012 to 42% in 2014. The amount of revenues generated from export to non-EU and EU customers separately in 2015 was not yet available at the time of writing this paper.

Figure 24. Shares of domestic sale, EU sale and non-EU sale in total revenues of Alpina (in %), 2008 – 2015



Note. *For year 2015 the split between EU sales and Non-EU Sales is not available, therefore 74% represents the total foreign sales.

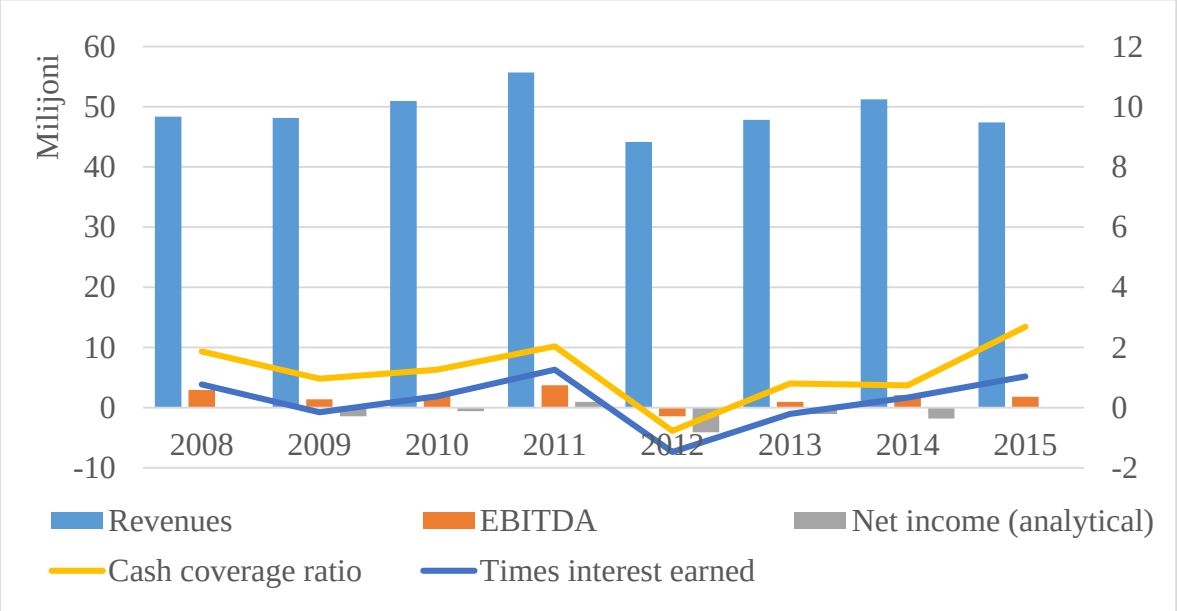
5.3.1.2 Financial overview

During the observed period, Alpina's revenues were increasing steadily from 2008 to 2011 and hit the peak of 55.6 million € in 2011 (see Figure 25). However in 2012, the company reported 21% decrease in revenues compared to the previous year, mainly due to the sales downturn on foreign markets. After 2012, revenues increased by 8% and 7% in 2013 and 2014, respectively, due to higher sales to foreign customers. In 2015, Alpina's revenues decreased by 8% and stood at 47.4 million €. The decrease in revenues is a consequence of lower sales of Alpina sports footwear due to the warmer winter, lower sales of fashion footwear in the Russian market and lower domestic sales due to decrease in the number of stores (7 stores less in 2015). EBITDA was increasing from 2009 to 2011, but in 2012 decreased significantly to negative 1.42 million €. This was the result of over 20% drop in revenues and negative operating profit in 2012. In 2013, EBITDA grew again and this trend continued also in 2014, when EBITDA reached 2.05 million €. In 2015, EBITDA decreased by 11% from the previous year mainly owing to the drop in revenues. The operating profit

(EBIT) was the highest in 2011, but from 2012 onwards, the company faced the operating loss each year until 2014, the highest one in 2012, when it reached 2.7 million €. The operating loss of 2.7 million € in 2012 occurred, among others, due to the higher valuation adjustments made to the company's working capital. In 2013, the operating loss narrowed down and eventually turned to profit in 2014, as a consequence of company's higher revenues in 2014 and higher operating expenses from revaluation of current assets that were added back to the reported amount of EBIT. From 2014 to 2015, Alpina's operating profit decreased by 25% as a result of reduced revenues and disproportionally lower operating expenses. Analytical net income was positive in 2008, 2011 and 2015 in other years of the observed period, Alpina reported total loss that hit the lowest value in 2012. In 2013, the company reduced loss to 1 million €, but the total loss increased again in 2014. The analytical net income turned positive in 2015, which was the result of significantly lower financial expenses compared to the previous year.

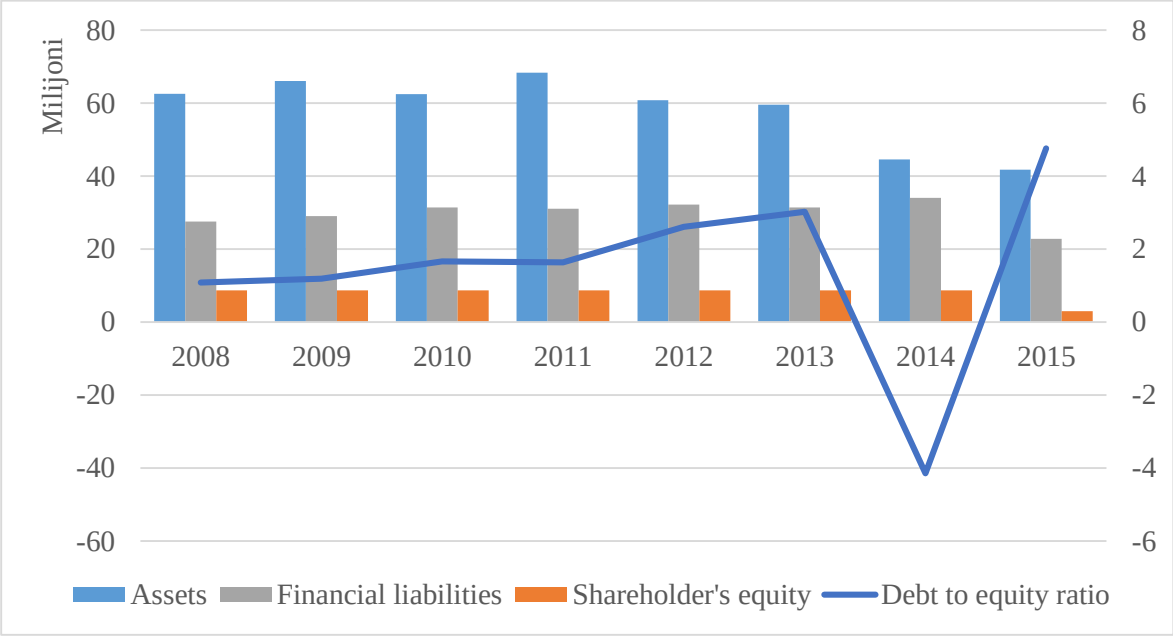
As evident from Figure 25, cash coverage ratio was greater than 1 in the period between 2008 and 2011, indicating that the company had sufficient amount of EBITDA to cover interest payments. However, in 2012, the cash coverage ratio turned negative due to the negative value of EBITDA suggesting the company's inability to cover interest payments on its debt. During the following two years, cash coverage ratio was positive, but below 1. Alpina had almost 2.8 million € of interest expenses for loans received by banks in 2014. In 2015, the ratio improved significantly and equalled 2.68 as a result of over 75% reduction of interest expense on debt. On the other side, times interest earned ratio indicates that amount of EBIT was not enough to cover Alpina's interest expenses in the whole observed period except in 2011 and 2015.

Figure 25. Revenues, EBITDA and analytical net income in million € (left), cash coverage and times interest earned (right) of Alpina, 2008 - 2015



As shown in Figure 26, the value of company's total assets was decreasing since 2011 and equalled 41.8 million € in 2015. Overall, total assets decreased for more than 38% from 2011 to 2015 due to the decrease in the value of long-term assets. Additionally, short term assets decreased for over 5 million € between 2011 and 2015 on the behalf of lower financial investments among others. In 2014, Alpina wrote-off the loan given to Alpina Holding in the amount of 2.2 million € and decreased the book value of financial investments in the related companies for 4.1 million € in total. The total equity of Alpina decreased significantly in the observed period, from 25 million € in 2008 to 4.8 million € in 2015. The decrease was caused by net losses and transferred net losses from the previous years, however, as already mentioned, those losses are the result of loan write-offs and impairments, especially in 2014. Alpina even recorded a negative value of total equity in 2014, as a result of high net loss in the amount of 17.6 million €. The value of share capital remained unchanged in the period from 2008 to 2014 and amounted to 8.6 million €, however, it decreased to 3 million € in 2015. In 2015, after the initiated compulsory settlement against Alpina was confirmed, the BAMC converted 12 million € of debt into equity and gained full ownership of the company. The BAMC used 9 million € of converted debt to cover company's previous year loss and 3 million € became the new value of share capital.

Figure 26. Total assets, total financial liabilities and shareholders' equity in million € (left) and debt to equity ratio (right) of Alpina, 2008 – 2014

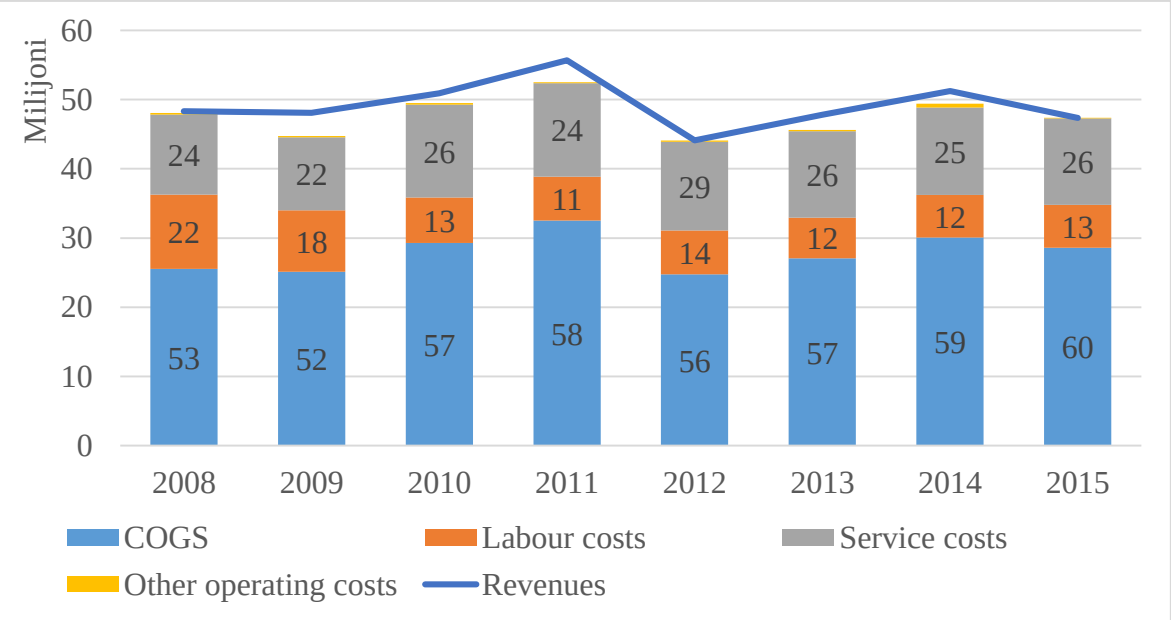


The company's financial liabilities increased by 24% in the period from 2008 to 2014. In 2013 and 2014, long-term loans provided by major creditors NLB, NKBM and Abanka were transferred to the BAMC. In 2015, the compulsory settlement procedure was initiated against the company due to high amount of unsettled debt towards banks that amounted to 34 million € in 2014. In 2015, total financial liabilities equalled 22.8 million €, which was a 33% decrease compared to the previous year due to already mentioned debt-to-equity swap.

Moreover, after the compulsory settlement procedure was confirmed, loans, including outstanding interest payments were reprogrammed until 2024, which significantly reduced the amount of short-term debt on the behalf of the long-term debt on the company's balance sheet. Debt-to-equity ratio was higher than 1 throughout the observed period except in 2014, when it turned negative due to negative value of total equity. In 2015, the ratio increased significantly and equalled 4.76, as a result of 65% decrease in the value of company's share capital and still a high amount of total debt.

In 2015, the total operating costs decreased by 9% from the previous year and equalled 49 million €, which was 1.6 million € higher than the value of company's revenues generated in the same year. In the structure of total revenues, the highest share in 2015 had cost of sold goods (COGS) with 60%, followed by service costs and labour costs with 26% and 13% share, respectively. From 2012 to 2015, the share of service costs in total revenues decreased by 3 percentage points. These costs include reimbursement costs to employees related to work, transport costs, rents and other service costs. In the structure of total service costs in 2014, the highest share of 80% had other service costs, which included manufacturing services from company' related companies in Bosnia and Romania and other non-production costs, such as transaction and bank service fees, equipment maintenance, insurance premiums, advertising, entertainment, security of property, utilities, student work and foreign trade fees (Alpina d.o.o., 2016). Labor costs decreased by more than 40% in the observed period and by 9 percentage points as a proportion of total revenues due to the decrease in the number of employees. In 2015, other operating costs decreased from the previous year by 4 percentages as percentage of total revenues as well as in absolute terms. Alpina's revenues and main categories of operating costs are presented in Figure 27.

Figure 27. Total revenues in million € and operating costs by type in million € and as percentage of total revenues of Alpina, 2008 - 2015



5.3.1.3 Restructuring measures and company valuation

Damodaran Online provides Enterprise value (EV) to EBITDA multiple for Western Europe and Emerging markets, which for shoe industry equals 9.92 and 9.08, respectively. Therefore, the average multiple used for the company's valuation equals 9.5. Based on the gathered data, the estimated value of Alpina's equity can be calculated using the following equation:

$$V_E = \left(\frac{EV}{EBITDA} * DISCOUNT * (EBITDA_{2015})\right) - V_D$$

$$= (9.5 * (1 - 0.46) * 1.81\ mio\ €) - 22.83\ mio\ € = -13.54\ mio\ € \quad (5)$$

The company's economic value of 9.3 million € was calculated by applying discounted multiple to the value of EBITDA in 2015. In order to calculate the estimated value of equity, the total amount of debt must be subtracted from the calculated economic value. By subtracting 22.83 million € of total financial liabilities in 2015 from 9.3 million €, we get the negative equity value of 13.54 million €.

Based on the analysis of company's background and performance during the observed period, we proposed a few strategies for improvements that the potential investors could implement during the company's restructuring process. The proposed strategies could serve as the basis for the company's future growth.

If we start from revenues, we believe that the company has a potential to increase its sales from the existing product portfolio, which consists of sport, leisure and fashion footwear. According to the Transparency Market Research (2016), the total value of the worldwide footwear market stood at 208.7 billion US$ in 2014. Growing at Compound Annual Growth Rate (CAGR) of 2.5%, it is estimated that the value of the global footwear market will increase to 258.2 billion US$ until 2023. Therefore, we assume that Alpina has a potential to follow the growth rate of the global footwear market.

Online sales are another opportunity that Alpina could exploit more in order to increase revenues from the existing product portfolio. Alpina currently has two online stores, one for the Slovenian market and other for the Croatian market. According to B2C E-Commerce (2016), worldwide revenues from online sales of clothes and shoes are expected to grow from 298.1 million US$ in 2016 to 469.5 million US$ in 2020, which corresponds to an annual growth rate (CAGR) of 12.02% from 2016 to 2020. In Europe, revenues from online sales of clothes and shoes are expected to grow at an annual growth rate (CAGR) of 10.73%, in Asia at 14.72% CAGR and in the U.S. at 7.46% CAGR. We believe that the expansion of Alpina's online shop to other markets, especially Asian and also European, could support the further growth in revenues. We estimated that by expanding its online business to other

markets, Alpina could increase its revenues by 2% annually in 2016 and 2017 and by 5% annually from 2017 until 2021.

Health awareness and active life style trend is another opportunity for Alpina footwear as it produces wide variety of shoes for recreational activities, such as hiking shoes and other outdoor shoes for men and women. As reported by Forbes (2016), the so-called athleisure clothing trend is expected to significantly impact an increase in sales of apparel, footwear and accessories in the future years. It is estimated that athletic shoes will have the biggest volume on the global footwear market in the years from 2016 to 2020 and global athletic apparel sales will increase by 83 billion US$ until 2020. Additionally, Alpina could increase its brand awareness and brand recognition globally through athlete endorsements. In addition to other marketing activities, such as advertising, having successful sportsmen that promote the brand could be a big advantage for Alpina. Strong brand awareness could lead to higher revenues, especially on the foreign markets. We assumed that athletic lifestyle trends and enhanced marketing activities will lead to growth in Alpina's revenues by 3% per year in 2016 and 2017 and by 5% per year from 2017 onwards.

On the cost side, we see the high priority in decreasing Alpina's operating costs. Due to the fact that the cost of sold goods have the largest share of 58% in total operating costs, we believe that the company should have an additional purchasing and sourcing activities toward obtaining lower prices of input materials from suppliers in low-cost countries not only in Asia, but also in the Balkan region. The company could also use synergies within the Alpina Group to negotiate lower annual prices of input materials by making annual contracts with supplier of key materials. We estimated that by applying optimizations in the area of purchasing the company could reduce its cost of goods sold in relative terms (as a percentage of revenues) by 2 percentage points in 2016 and by additional 1 percentage point in 2017 and 2018.

Another major cost category are service costs, or more precisely, other service costs, which amounted to more than 10 million € in 2014 or 20% of total revenues. As already mentioned, these costs include non-production costs that we believe could be significantly reduced by introducing or upgrading the existing information system that could facilitate better control of accounting, HR, marketing and sales costs. Even though the detailed breakdown of these costs are not available in the most recent annual report, we believe that high consulting costs could be included in this category, since the company is in the middle of the financial restructuring process and in such cases, banks usually require consultants to help companies optimize operations and consequently reduce debt. These costs would be to a certain extent reduced if the private equity fund would buy the company and introduce its own management team.

Another possibility for Alpina could be to close down its low performing subsidiaries and stores. In this way, the company could decrease its operating costs and focus its resources

only on profitable businesses that create high added value. By doing so, Alpina could lower its non-manufacturing costs, such as general and administrative costs and service costs or more specifically, renting costs that in 2014 amounted to 1.2 million €. Additional option that could be beneficial for Alpina is to centralize or even outsource certain functions within the Alpina group, such as marketing and sales, human resources and maintenance in order to decrease its general and administrative costs. We estimated that the company could reduce its service costs as percentage of revenues by 2 percentage points in 2016 and by additional 2 percentage points in 2017.

We also believe that Alpina could lower inventory level and inventory related costs by applying more stringent inventory management. In 2015, inventories represented over 30% of total assets or 14.5 million € in absolute terms. Inventories of finished products had the highest share of 47% in total inventories in 2015, which is an increase from the previous year. In 2015, days' sales of inventory ratio (DSI) were 180 days, which means that the company needed 180 days to sell its inventory of finished goods. High DSI ratio warns to potential obsolescence risks for products due to fast changing trends, especially in the fashion shoes category. The optimization of company's inventory level could be possible by a better demand forecasting, by improving production planning and shortening of the production cycle. This can be achieved by introducing or upgrading company's information system and by strengthening existing supply chain organization.

Table 12. EBITDA projections based on impacts of possible operational restructuring for Alpina in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	47.37	50.92	54.74	61.58	69.28	77.94	87.69
Revenues growth (%)		7.5	7.5	12.5	12.5	12.5	12.5
COGS	28.60	29.54	31.20	34.49	38.80	43.65	49.10
% of revenues	60	58	57	56	56	56	56
Cost of services	12.49	12.22	12.04	13.55	15.24	17.15	19.29
% of revenues	26	24	22	22	22	22	22
Cost of labour	6.18	6.10	7.12	8.01	9.01	10.13	11.40
% of revenues	13	13	13	13	13	13	13
Other operating costs	0.11	0.10	0.11	0.12	0.14	0.16	0.18
% of revenues	0.2	0.2	0.2	0.2	0.2	0.2	0.2
EBITDA		**2.96**	**4.27**	**5.42**	**6.10**	**6.86**	**7.72**

Finally, based on the described factors, we estimated the potential positive impact of the proposed strategies and opportunities on future growth of EBITDA in the next five years, starting from 2015. Calculated EBITDA projections are summarized in Table 12. As we can see from the table, by implementing proposed changes during the restructuring process, the

potential investors could increase company's EBITDA from 1.81 million € in 2015 to at least 7 million € in 2021. As a result, exit value of company's equity, assuming investors would exit the investment in 2021, has a potential to rise to 73 million €.

5.3.1.4 Investment value estimation and IRR calculation

In the previous section, we described how we calculated company's economic value and the value of equity and suggested some strategies that should improve company's operating performance and bring higher profits for a private equity investor in the future years. The company's economic value is the amount that the potential investor should not exceed when placing an offer for the company. In Alpina's case, the total amount of financial and operating liabilities that were included in the analysis exceed its estimated economic value of 9.3 million € by almost 15 million €. Therefore, the potential investor should negotiate almost 15 million € liabilities write-off with the BAMC and other creditors.

First, we started the analysis by selecting financial and operating liabilities that will be included in the calculation of the investment value. Therefore, we separated company's liabilities into those owed to BAMC and those owed to other creditors. In the liabilities owed to BAMC, we included both current and long-term financial liabilities in the amount of 2.8 and 15.2 million €, respectively. In 2015, the BAMC owned almost 80% of the company's total financial liabilities, mainly long-term debt. Other liabilities include both current and long-term financial liabilities, such as loans provided by other banks in the total amount of 4.7 million € in 2015. Moreover, other liabilities include long-term operating liabilities of 3 thousand €, current operating liabilities for employee compensation and payroll taxes in the amount of 0.29 million €, current operating liabilities towards the government and other institutions in the amount of 0.42 million €, as well as other current liabilities that in 2015 amounted to 0.7 million €. Therefore, the total amount of liabilities that will be used in the further calculation equals 24.2 million €.

Total value used to estimate investment value includes company's calculated economic value (EV) and company's assets held for sale (assets that are not used for business purposes). Alpina did not acknowledge any assets held for sale in the balance sheet in 2015, therefore, the total value included in the further calculation equals to the calculated economic value of 9.3 million €. In the next step, we divided liabilities into those on which 100% haircut (reduction of value) should be applied, liabilities whose values should be partially reduced and liabilities whose values cannot be reduced. In the total liabilities whose value should be 100% reduced, we included other short-term and long-term operating liabilities in the total value of 0.71 million €. We did not find any specific explanation of numbers that lay behind these costs; therefore, we assumed that those are mainly delayed interest payments for received short-term and long-term banks loans. After we identified all liabilities that we assumed should be 100% reduced, we deducted the sum of these items from the total liabilities intended to be written-off and got the remaining amount of liabilities

to be written-off. The total liabilities whose value cannot be reduced include the current (payroll) obligations for government and other institutions and compensation for company's employees in the form of VAT, income tax, salaries (wages), insurance premiums and other benefits. In 2015, the sum of liabilities whose amount cannot be reduced equalled to 0.7 million €. Finally, the total amount of liabilities whose value should be partially reduced include current and long-term loans transferred from commercial banks to BAMC during 2013 and 2014 in the total amount of 18 million € and current and long-term loans from other two commercial banks in the total amount of 4.7 million €. After we identified all liabilities that have to be partially reduced, we calculated each item's share in their sum. In the last step, we multiplied calculated percentages with the remaining amount of liabilities for the write-off in order to get the necessary write-off amount of each item. In this way, we got that the total Alpina's debt owed to BAMC should be reduced by 11.3 million € and debt owed to banks by 2.9 million €, which is equivalent to 62% haircut of each category. In 2015, the value of Alpina's total equity was positive and therefore, was not considered as an additional cost for the potential investor.

Therefore, the total estimated investment value for the potential investor amounts to 9.3 million €, which equals the total amount that has to be repaid to Alpina's creditors after applied haircut on debt. By investing in Alpina, the potential investor would gain the company's full ownership with an agreement to repay the remaining amount of debt to company's creditors. Detailed calculation of the investment value is given in Appendix E.

Despite the high amount of initial debt, the potential return on this investment is noteworthy. Considering the initial investment of 9.3 million €, cash flows presented in Appendix E reduced by tax amount and exit value of 73 million € in 2021, we get IRR of 78%. Furthermore, the DPI equals 7.89. Therefore, Alpina represents a suitable company for the proposed investment portfolio.

5.3.2 Beti d.d.

BETI Tekstilna industrija d.d. (shorter name: BETI d.d., hereinafter: Beti) is the Slovenian producer of textile fibres that was founded in 1989 in town Metlika in the south-eastern part of Slovenia. The first activities started back in 1956 under a different company's name "Belokranjska trikotažna industrija" that rapidly became the biggest company in the whole region. Through its long history, Beti continuously improved and adapted its operations to changing the business environment in Slovenia and abroad. Today, Beti is an international company that produces and sells textile fibres that are used in the textile industry in different segments and for various purposes, such as knitting, weaving purposes, manufacturing of fabric, bands or for technical purposes. Production is organized in the industrial zone Metlika and consists of 30.000 m^2 building space and additional 80.000 m^2 of land. As stated in the Beti d.d. 2014 annual report, the number of orders in 2014 exceeded company's available production capacities. Advantages of this production's location are close distance to river

Kolpa, train station, border crossing with Croatia and easy accessibility to international airports in Zagreb and Ljubljana (Beti d.d., 2016). In the table below are presented some basic information about the company.

Table 13. The summary of main characteristics of Beti d.d.

Industry	C 13.100 – Preparation and spinning of textile fibres
Headquarter	Metlika, Bela krajina, Slovenia
Ownership	Unquoted public limited company (100% of equity held by one shareholder)
Total liabilities	6 million € in 2015
EBITDA	746 thousand € in 2015
Export	91% of total revenues in 2015
No. of employees	150 on average in 2015

Source: Beti, d.d., *Annual Report of Beti d.d. for 2015*, 2016.

Beti is organized as public limited company in 100% ownership of one shareholder and is not listed on the stock exchange. In 2015, the total share capital amounted to 750 thousand € and was divided into 30 ordinary shares with nominal value of 25 thousand € each. In 2014, all subsidiary companies that Beti was managing since 2011 were sold and closed in liquidation procedure or bankruptcy proceedings were initiated against them. These events influenced the company's number and structure of employees. At the end of 2014, the total number of employees was 164, which were 9 employees more than in 2013. Based on the number of employees, assets' value and achieved revenues in 2014, Beti ranks as a middle size company. From 2011 to 2013, the total number of employees decreased for about 30% mainly due to the reorganization after bankruptcy and liquidation procedures that were initiated in Beti's subsidiary companies. In 2013, Beti's knitting unit PC Pletiva was abolished and the majority of workers received redundancy, while others were redeployed. The company's educational structure is relatively favourable depending on the industry and all together 9% of employees have higher education, university degree or master's degree. At the end of 2014, there were 26% of employees that are older than 55 years, 23% of employees between 50 and 54 years, 33% of employees between 40 and 49 years, 14% of employees between 30 and 39 and only 4% of total employees younger than 29 years. This is quite an unfavourable age structure as almost one third of all employees are older than 54 years and only 4% of employees are younger than 29 years, which suggests that the company should invest more resources into attracting and retaining young professionals (Beti d.d., 2016).

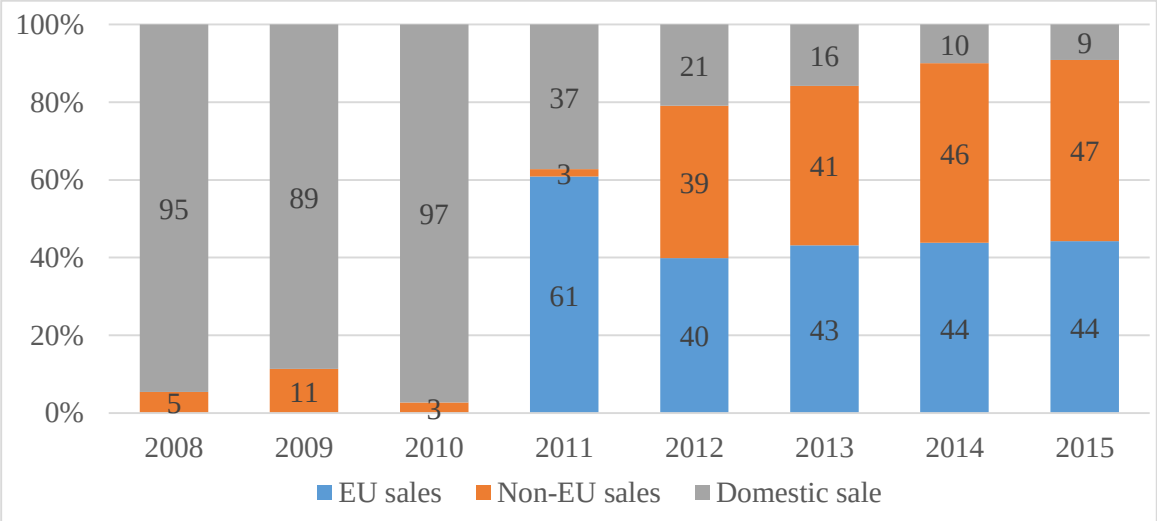
5.3.2.1 Product portfolio and main markets

Beti sells its products under its own brand name and has products portfolio that consists of three main product lines (Beti - PC Preja):

- Dyed textured yarns – coloured synthetic fibrous materials that can be produced and customized in a very short period of time according to the customers' wishes;
- Raw and white textured yarns - which is synthetic fibrous textile material produced straight from the texturing process that is appropriate for use in many segments of textile industry;
- Functional yarns – recycled yarns made from consumer's waste, such as fishing nets, PET plastic and other post-consumer waste collected worldwide; and other functional yarns with additional product sub-categories, such as antibacterial yarns, insulation yarns, permanent moisture yarns and fir generating fibre yarns.

The company is one of the leading European producers of dyed polyamide yarn and its products are embedded into many products used by well-known fashion brands. In 2015, the company generated most of its revenues from selling yarn and small part of revenues from selling knitted fabrics. In 2015, Beti sold more than 90% of its total yarn production to customers abroad, mostly in the U.S., EU, Russia, Belorussia and Middle East (Beti d.d., 2016). As presented in Figure 28, only 9% of company's total revenues in 2015 were generated from the domestic customers. From 2008 until today, the structure of revenues based on the sales destination changed significantly. In 2008, export represented only 5% of the total revenue and since then the share of exports in total revenues increased significantly, firstly in 2011 and trend of rising export continued until 2015 and reached 91% of the total generated revenues. In the recent years (2012-2015), export was increasing on both EU and non-EU markets, while share of domestic sales decreased significantly.

Figure 28. Shares of domestic sale, EU sale and non-EU sale in total revenues of Beti d.d. (in %), 2008 - 2015

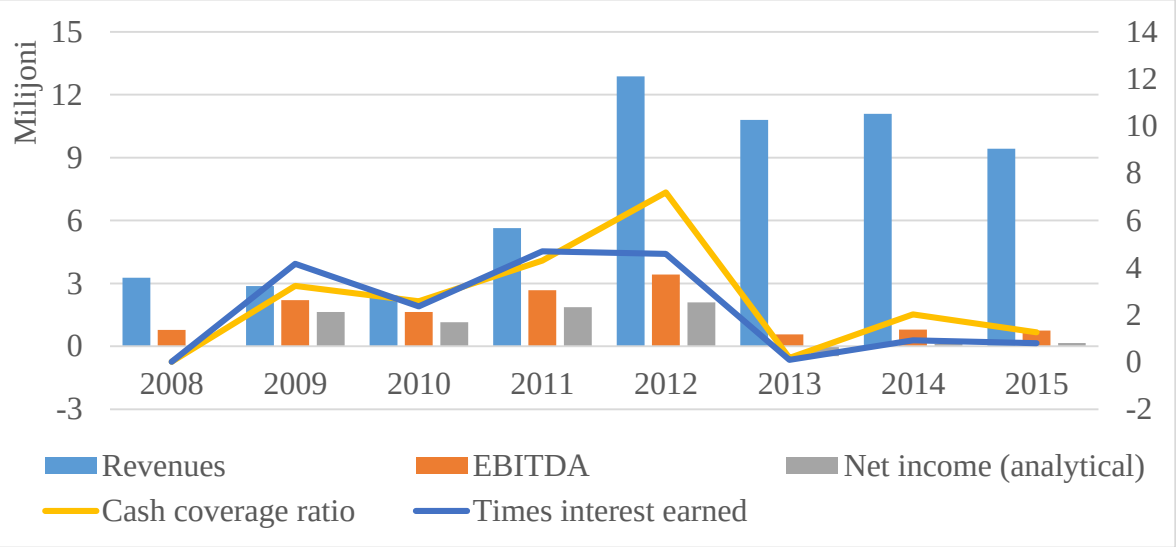


5.3.2.2 Financial overview

During the observed period, the company's total revenues were changing from year to year. From 2008 to 2010, Beti's revenues decreased for more than 25% as a consequence of

deteriorating results of the Slovenian textile industry and lower number of orders. From 2010 onwards, revenues started to increase and reached almost 13 million € in 2012, which was the highest value in the observed period and the result of increased exports to non-EU markets. In 2013, revenues declined as a consequence of lower orders from the two main customers and in the same year, the company decided to gradually close subsidiary PC Pletiva and until May 2013, the production of technical fabrics was stopped. From 2014 to 2015, revenues decreased by 15% as a consequence of decline in sales on all markets, especially in the non-EU markets of Russia and Belarus. EBITDA was positive through the whole observed period. In 2012, EBITDA reached 3.4 million €, which was also the highest amount in the observed period and more than 4 times higher than in 2008. From 2012 to 2015, the value EBITDA reduced significantly. In 2015, EBITDA stood at 0.15 million €, which is 14 times lower than the value in 2014. The company's operational profitability measured through EBITDA margin shows negative trend in the observed period. The share of EBITDA in total revenues ceased significantly in the recent years to only 5% in 2013. The ratio improved somewhat in 2014 and 2015 to 7% and 8% respectively, but still strongly suggests the Beti's need for cost optimization from its current operations. Net income was positive during the observed period, except in 2013, when the company reported loss of almost 0.5 million €. Except in 2015, the operating costs were growing faster than revenues, which are reflected in decreasing net profit margin. Both EBITDA margin and net profit margin slightly improved in 2015 as a consequence of 1.5 million € decrease in operational costs, but due to the reduced revenues in 2015, both ratios remained low (8% and 2% respectively).

Figure 29. Beti's Revenues, EBITDA and Net income in million € (left), cash coverage and times interest earned (right), 2008 – 2015

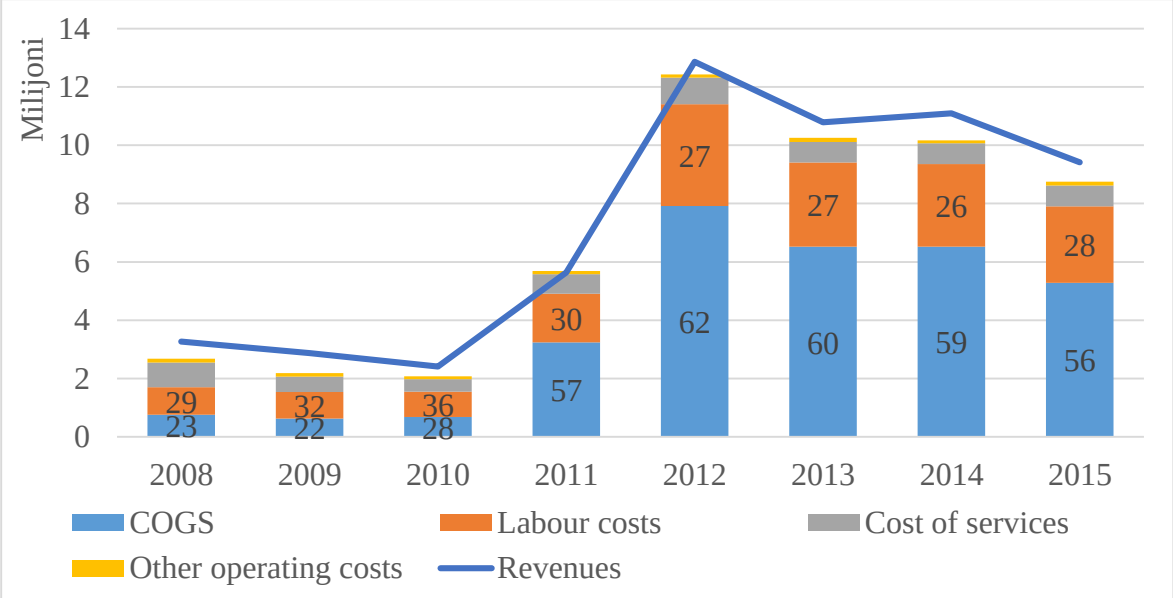


As we excluded the effect of revaluation in the previous years on Beti's cash flow, cash coverage ratio was significantly above 1 in the period from 2009 and 2013 indicating that company's EBITDA was sufficient to cover total interest expenses. In 2013, cash coverage

ratio decreased to 1 but started to improve again in 2014. In 2015, ratio was 5.73 as a result of improving EBITDA and lower financial expenses compared to 2014. Times interest earned also shows that company's operating profit was enough to cover interest expenses during the whole observed period. While looking at indebtedness ratios presented in Figure 29, we have to keep in mind that we calculated Beti's operational profit (EBIT) by excluding the negative effect of write-offs from the revaluation of intangible and tangible fixed assets and current assets that occurred in the past years, thus we added back write-offs to the value of operational profit. Movements of Beti's revenues, EBITDA, net income, cash coverage ratio and times interest earned are presented in Figure 29.

The operating costs were lower than total revenues during the observing period, except in the last two years. In 2015, COGS and labour costs had the highest share in total revenues with 56% and 28% share, respectively. COGS were increasing through the whole observed period in line with revenues, but dropped by 20% in 2015. Labour costs started to decline since 2012 as a consequence of the decreasing number of employees in both absolute terms and as a percentage of revenues. Service costs also show a decreasing trend from 2012 onwards, both in absolute terms and in total revenues. In 2015, service costs represented 8% of total revenues, which is by 18 percentage points less than in 2008. Write-offs were very high in the years from 2009 to 2012, mainly due to the revaluation of fixed and current assets' book value as due to the change in market prices. Beti's revenues and main categories of the operating costs are presented in Figure 30.

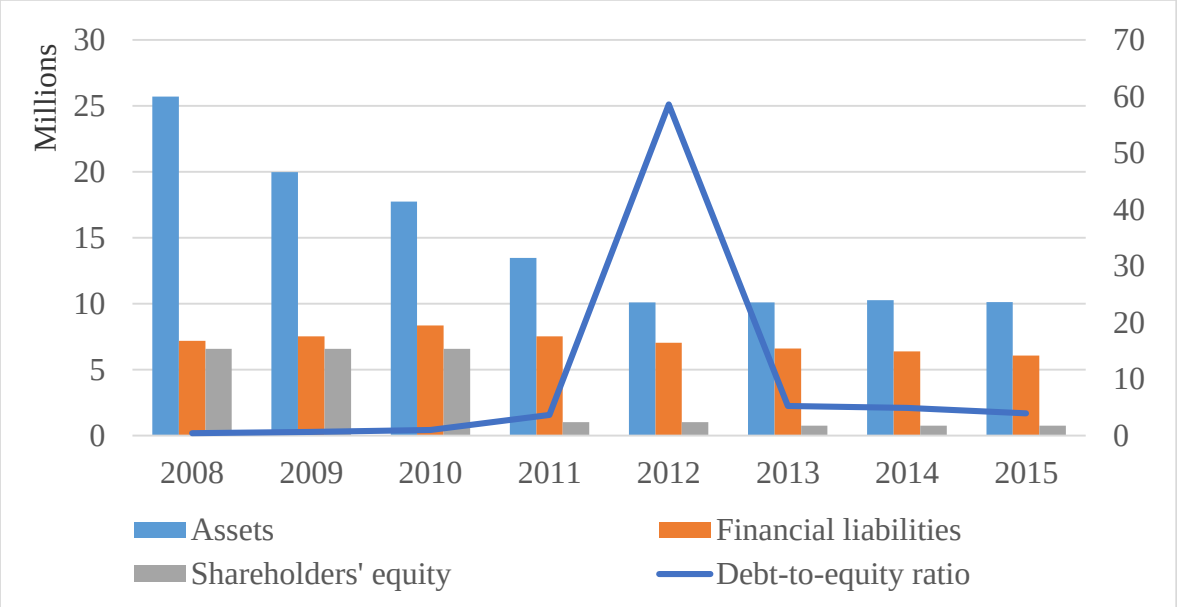
Figure 30. Total revenues in million € and operating costs by type in million € and as percentage of total revenues of Beti, 2008 - 2015



Total values of Beti's assets were decreasing by 20% on average from 2008 to 2012 due to the reduction in both long-term and short-term assets. From 2012 onwards, total asset value remained stable and did not change significantly. In 2015, value of total assets amounted

10.1 million €, which was 25% less than in 2011. Beti's total equity contracted significantly during the observed period and reached the lowest value of only 120 thousand € in 2012. The reduction in total equity was mainly the result of decline in share capital that stood at 750 thousand € in 2015, which was 27% lower than 2011 value and even 89% lower than 2010 value. From 2013, total value of equity started to increase slowly and equalled 1.5 million € in 2015. Total financial liabilities were high during the whole observed period and on average represented 82% of total liabilities. Financial liabilities mainly consisted of long-term and short-term obligations towards banks. In the proportion of Beti's total financial liabilities, short-term financial liabilities had the highest share, averaging 79% from 2008 to 2014. During 2014, total unsettled claims of commercial banks against Beti d.d. were transfers to BAMC and at the same time, the company started negotiations with BAMC about rescheduling of the short-term debt repayments. In July 2015, Beti and BAMC signed an agreement, which regulates long-term credit relationship between two sides until 2022. After debt restructuring agreement was reached in 2015, the company transferred more than 6 million € of short-term financial liabilities to long-term financial liabilities on its balance sheet. From 2013 to 2015, the company reduced its financial liabilities for more than 0.5 million € as a result of deleveraging process. Debt-to-equity ratio was increasing through the whole examined period, especially from 2011 onwards, which was the result of both declining equity value as well as high amount of debt. In 2012, debt-to-equity value surged as a consequence of incurred net loss of 1.5 million €, which reduced the total value of equity to only 120 thousand €. Additionally, in 2012, the company recorded a very high amount of debt towards banks that amounted to 7 million € in 2012. From 2013 onwards, debt-to-equity ratio shows a decreasing trend, which goes in line with the company's efforts to reduce the total amount of debt.

Figure 31. Total assets, shareholders' equity and total liabilities (left) and debt to equity ratio (right) of Beti, 2008 – 2015



5.3.2.3 Restructuring measures and company valuation

According to data obtained from Damodaran online, Enterprise value to EBITDA multiple for Western European companies and emerging-markets companies that operate in the apparel industry equal 8.76 and 15.02, respectively. Based on this, average multiple used for the valuation is 11.89. As manufacture of textiles is a superordinate category of preparation and spinning of textile fibres, we believe that Enterprise Value Multiple for apparel industry is a good approximation for Beti's industry. Based on the collected data, we assessed Beti's value of equity with the following equation:

$$V_E = \left(\frac{EV}{EBITDA} * DISCOUNT * EBITDA_{2015}\right) - Vd =$$

$$(11.89 * (1 - 0.46) * 0.746\ mio\ €) - 6.08\ mio\ € = -1.29\ mio\ € \qquad (6)$$

First we calculated the company's economic value by multiplying 46% discounted EBITDA multiple by the amount of EBITDA in 2015. In order to calculate the estimated value of equity, it is necessary to subtract the total amount of debt from the calculated economic value of the company. After subtracting total financial liabilities that in 2015 equaled 6.08 million € from the calculated 4.79 million €, we get the negative value of company's equity of 1.29 million €. Therefore, with an agreement to repay Beti's unsettled amount of debt to its lenders, investors should not pay more than 1 € for the company.

Based on the analyses of company's background, industry, product portfolio as well as key items from the company's balance sheet and income statement in the last 8 years, we were able to suggest a few strategies that the potential investors may consider during the restructuring process. In the context of identifying opportunities within the industry, it is important to mention that global fibre industry is faced with two main challenges (Fpt Securities, 2014):

- First, the need for reducing production costs and increasing efficiency in order to achieve competitive advantage based on lower prices. Developing countries such as China, India, Bangladesh, Vietnam, Turkey and Thailand put an additional pressure on textile manufacturers in the developed countries as they have lower production costs, due to the mass production and economies of scale.
- Second, fast changing trends and rising needs from the global market require production flexibility and capability of making quick adjustments within the product portfolio.

Starting from the Beti's cost side, we see a big opportunity in optimization of operating costs. From 2008 to 2012, the operating costs were higher than revenues and from 2013 equal or slightly below revenues. This situation caused Beti's long-term illiquidity and inability to repay financial obligations towards its lenders. As already showed, labor costs represent one third of total operating costs and this share increased from 2011 to 2015, even though the total number of employees decreased by almost a third. This could be a consequence of high

redundancy payments due to the employees' age or other compensation payments to current employees. The reduction of labor costs is possible by increasing productivity through implementation of advanced computer technologies and machinery, by improving employees' skills and by optimizing working processes (reducing waste, increase utilization, minimize non-value adding activities etc.). Improving employees' age structure is also necessary from the productivity perspectives, which can be achieved by replacing older employees with younger workforce and experienced managers that could bring new energy and ideas in the company. We estimated that by better control of labor costs, work automation and improving age structure can lead to the reduction of labor costs as percentage of revenues by 2 percentage points in 2016 and by additional 1 percentage point in 2017.

It is also necessary that Beti lowers costs of input goods and raw materials as they represented 60% of total revenues in 2015 and show increasing trend in the recent years. This could be done by searching for alternative, cheaper sources or negotiating better prices at current suppliers. Additionally, the company's management should consider lowering overall service costs, such as transport services, rents and reimbursement to employees in connection with work, which represented 8% of the total revenues in 2015. Another possible option for Beti could be also to transfer production facilities to countries with cheaper production inputs and renting costs, such as China, India or even some Balkan countries, such as Serbia, Romania, Bulgaria and Moldavia. We estimated that by applying optimizations in the area of purchasing the company could reduce its cost of goods sold in relative terms by 1 percentage point in 2016 and by additional 1 percentage point in 2017.

On the revenues' side, we should consider that Beti's performance is closely dependent on the trends in the global apparel industry as it produces textile fibers (yarn), which are the main intermediate components for apparel manufacturers. Based on the FPT Textile and Apparel industry report, it is projected that apparel industry will reach 2.11 billion US$ by 2025, which corresponds to CAGR of approximately 5% in the period from 2012 to 2025. If we assume a linear relationship between increasing output of finished goods (clothing) and intermediate components, we could estimate that the preparation and spinning of textile fibres has a potential to grow 5% per year from 2017 to 2025 (FPT Securities, 2014).

Beti is a relatively small company measured in the number of employees and annual output and it would be practically impossible to obtain cost advantages over big competitors and to compete only on the basis of price. We think that a better option for Beti would be to differentiate its product portfolio and to position as a manufacturer of high quality textile fibres that could meet requirements of high quality materials and to target only middle to high-end segment of brand-name apparel manufacturers. In this way, Beti could set higher prices for its high quality yarn and consequently lead to higher revenues. Additionally, it could be also an opportunity to increase sales of natural and recycled fibres that already exist within the company's portfolio by targeting producers of eco-friendly clothes in existing and

new markets. We assumed that eco-friendly trends in apparel industry will lead to growth in Beti's revenues by 1% annually from 2016 onwards.

Due to the fact that the number of orders from existing customers started to decrease in the recent years, the company should find and attract new customers or expand into new markets. The company could achieve this by investing in online marketing activities, direct sales and increasing brand awareness by emphasizing collaboration with some of the largest apparel companies, such as Victoria's Secret, Hugo Boss and Triumph. In order to achieve this, the company should first invest in modernization of production machinery and equipment, purchasing of various kinds of fibres and other special production inputs. On the long term, it would also be necessary to increase production capacities as the company currently operates near to its maximum capacity. We estimated that the enhanced marketing and sales activities would lead to growth in Beti's revenues by 1% annually in 2016 and by 2% annually from 2017 onwards. The potential positive impacts of optimizations on Beti's revenues in the next five years, starting from 2016 are presented in Table 14. As we can see from the table, by implementing the proposed changes, potential investors could increase Beti's EBITDA from current 0.75 million € in 2015 to at least 3.53 million € in 2021. As a result, the exit value of Beti's equity could potentially increase to 42 million € (BITDA multiple multiplied by EBITDA projection for 2021).

Table 14. EBITDA projections based on impacts of possible operational restructuring strategies for Beti in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	9.42	10.08	10.78	11.54	12.34	13.21	14.13
Revenues growth (%)		7	7	7	7	7	7
COGS	4.16	4.33	4.64	4.96	5.31	5.68	6.08
% of revenues	44	43.0	43	43	43	43	43
Cost of service	0.7	0.71	0.75	0.81	0.86	0.92	0.99
% of revenues	8	7	7	7	7	7	7
Cost of labor	2.62	2.62	2.62	2.77	2.96	3.17	3.39
% of revenues	28	26	24	24	24	24	24
Other operating costs	0.2	0.10	0.11	0.12	0.12	0.13	0.14
% of revenues	1.0	1.0	1.0	1.0	1.0	1.0	1.0
EBITDA		**2.32**	**2.66**	**2.88**	**3.09**	**3.30**	**3.53**

5.3.2.4 Investment value estimation and IRR calculation

The total amount of Beti's financial and operating liabilities that were included in the analysis of the total investment value are by 0.88 million € higher than its calculated economic value of 4.79 million €. Therefore, the potential investor would have to negotiate

0.88 million € debt write-off with the BAMC and other creditors, so that investment value does not exceed the calculated economic value when placing an offer for the company.

We started the analysis by selecting financial and operating liabilities that will be included in the calculation of the investment value and for that reason, we divided company's liabilities into those owed to BAMC and those owed to other creditors. The company's liabilities owed to BAMC include long-term financial liabilities, or more specifically, long-term loan in the amount of 5.97 million € and interest payable for received loan in the amount of 106 thousand €. In 2015, Beti did not carry any short-term debt, which is the result of the debt restructuring agreement with BAMC. Other liabilities included in the analysis consist of operating liabilities, such as long-term liabilities from compulsory settlement (obligations to suppliers and other) and current operating liabilities related to employee compensation and payroll taxes in the amount of 0.13 million € and current operating liabilities owed to the government and other institutions in the amount of 87 thousand €. Therefore, the total amount of Beti's liabilities that will be used in the further calculation of the investment value equals to 7.2 million €. The total value used in the further calculation equals the sum of company's calculated economic value and assets held for sale. In 2015, Beti acknowledged almost 1.6 million € of assets held for sale in its balance sheet that relate to the property in the Republic of Croatia and assets that are used neither for business purposes nor for rental purposes. Moreover, these assets are not pledged as a security for company's liabilities. Therefore, the total value included in the further calculation amounts to 6.4 million €.

In the following step, we divided liabilities into those on which 100% haircut should be applied, liabilities whose value should be partially reduced and current liabilities whose value cannot be written-off. In Beti's case, we did not identify any liabilities that could be 100% reduced. The total liabilities whose value cannot be reduced at all include the current (payroll) obligations for government and other institutions in the amount of 87 thousand €, compensations for company's employees in the form of VAT, income tax, salaries (wages), insurance premiums and other benefits in the amount of 135 thousand € as well as liabilities arising from compulsory settlement procedure in the amount of 0.94 million € in 2015. Therefore, the sum of Beti's liabilities whose amount cannot be reduced equals to 1.2 million €. At last, the total amount of liabilities for which we assumed could be partially reduced, consists of long-term loan owed to BAMC in the total amount of 6.1 million €. This is also the only item we assumed for the write-off in Beti's case. In this way, we got that total Beti's liabilities owed to BAMC should be reduced by 0.88 million €, which corresponds to 100% of the required debt haircut. In 2015, the company's total equity was positive and therefore, it was not considered as an additional cost for the potential investor.

Finally, the total investment value equals to 6.4 million €, which is equivalent to the total amount that the potential investor has to pay back to Beti's creditors after applied haircut on debt. The BAMC is currently selling only Beti's claims and it does not have any ownership stake in the company, therefore, by investing in the company, the potential investor would

become the company's major creditor. After becoming the major creditor, the potential investor could require an immediate debt repayment and if we assume that Beti's owner would not be able to pay the full amount back to the investor, a debt-to-equity conversion would follow. In this way, the investor would become a major shareholder in the company and remove (squeeze-out) minority shareholders in return for the cash compensation. The detailed calculation of the investment value is given in Appendix E. Considering the investment value of 6.4 million € and the potential increase in value to 42 million €, we can conclude that the return on this investment is highly promising and Beti should be considered for the proposed investment portfolio. The IRR for this investment equals 68%, while DPI equals 6.6.

5.3.3 Tekstilna tovarna Okroglica d.d.

Tekstilna Tovarna Okroglica d.d. (shorter name: TT Okroglica d.d., hereinafter: TT Okroglica) is a Slovenian manufacturer of technical and industrial textiles that was founded in 1957. The company's headquarter and production facilities are situated in a small place Volčja Draga in the western part of Slovenia, near the Italian border. The company first began with the textile production using weaving method and since 1966, the company introduced lamination production. Lamination technique, which is a production of fabric in two, three and multiple layers, was further developed over the years and today, the company is a specialist with 40 years of experience in this field (TT Okroglica, d.d., 2016). The basic information about the company is summarized in the table below.

Table 15. The summary of main characteristics of TT Okroglica d.d.

Industry	C 13.960 – Manufacture of other technical and industrial textiles
Headquarter	Volčja Draga, Slovenia
Ownership	Public limited company 93.83% owned by Fori Group d.o.o. Velenje and related parties and 6.17% by small shareholders
Total financial liab.	4 million € in 2015
EBITDA	1.8 million € in 2015
Export	95% of total revenues in 2015
No. of employees	97 on average in 2015

Source: TT Okroglica d.d., *Annual Report of TT Okroglica d.d. for 2015*, 2016.

TT Okroglica produces and sells high-quality industrial textiles and components for customers mainly in automotive and cable industry, but also started to expand to other industries such as construction, pharmacy and medical devices. In the automotive sector, company's technical textiles are used for different purposes, such as stuffing in seat covers and face fabric for armrests and headrests. In cable industry, its tapes are used for the protection of different types of cables from potential internal or external disruptions. Furthermore, the company produces absorbent pads and in 2014, it started with the development of building insulation materials for construction. Table 15 summarizes the

company's basic information. The company's vision is to become a major supplier of technical textiles for the leading multinational Tier and Original Equipment Manufacturers (OEM) in the automotive industry and one of the largest worldwide suppliers of power cable tapes. The company aims to realize its vision with the use of cutting-edge laminating technology and with offering a broad product portfolio of high-quality, competitive and environmentally friendly technical textiles to its customers in the automotive and cable industry and also by finding new customers within other industries, where laminated technical textiles are used. Some of the company's main competitive advantages are (TT Okroglica d.d., 2016):

- quality products and own know-how,
- integrated and quality solutions and high responsiveness to customers' requirements,
- price competitiveness by following the cost-effectiveness strategy and setting competitive prices for products, comparable to other producers within the industry and
- flexibility and reliability towards customer requirements regarding the delivery dates, new product offers and customized solutions.

TT Okroglica is legally organized as a public limited company, majority owned by the Fori Group (Fori Skupina d.o.o., Velenje), which holds more than 93% of the company's total shares together with its related parties. From 2008 to 2015, the company's registered shared capital did not change and amounted to 684.7 thousand €. Based on the number of employees, value of assets and achieved revenues in 2015, TT Okroglica ranks as a middle size company. At the end of 2015, TT Okroglica had 97 employees on average based on the working hours within the year, which were 15 employees more than in the same period of the previous year. In the total educational structure in 2015, there were 25% of employees that completed primary and lower secondary education, 45% of employees that completed the third, fourth and fifth level of education and 34% of employees with Bachelor, Master and doctoral degree (TT Okroglica d.d., 2016).

5.3.3.1 Product portfolio and main markets

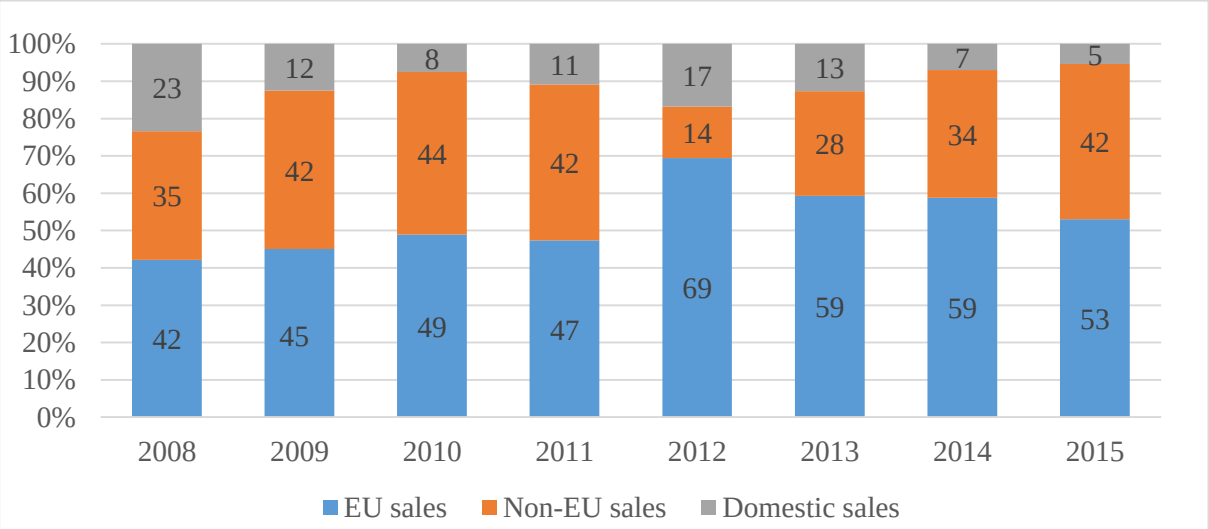
TT Okroglica has a broad products portfolio that consists of three main programmes (TT Okroglica - Programi, 2016):

- Automotive industry programme, which consists of laminated pads for different vehicle interior parts, such as armrests, headrests and seat covers etc. Products within this programme are mainly developed based on requirements and projects of various OEMs;
- Cable industry programme, which consists of products used by cable manufacturers for different purposes, such as water and heat blocking, separation, binding, conductivity etc. The company sells tapes for cable industry under the own brand TOP tapes and offers tapes for various cable categories, such as power cables, telecommunication cables, optical fibre cables and special cables; *(continued)*

- Cattex absorptive pads, which consists of highly absorptive and patent protected pads used mainly for medical purposes and in production of cat litter boxes as it effectively absorbs liquids and reduces odours. Additionally, from 2014, this program includes insulation materials used in building construction.

TT Okroglica sells its products to many renewed companies in the automotive and cable industry and also to other buyers of laminated pads, such as packaging companies. The company's products are embedded into vehicles of many well-known companies, such as Mercedes, Škoda, BMW, Audi, Toyota, Opel, Honda, KIA etc. Since 2014, the company intensified its marketing activities for cable products in order to further strengthen TOP Tapes brand and presented its product on the most important international trade fairs. The company is currently positioned as a reliable producer of a quality cable product on Russian and Middle East markets and plans to expand on the U.S., Asian and Indian market as well (TT Okroglica d.d., 2016). TT Okroglica is the export-oriented company that generated more than 90% of its revenues from the foreign markets in 2014 and 2015. In 2015, the company collected the largest part of its revenues from the EU customers, but this share shows decreasing trends from 2012 onwards, on the behalf of non-EU customers. This is a consequence of a falling production of motor vehicles in Europe, especially in Central and Western European countries and rising production of motor vehicles in BRIC countries and Turkey. Proportion of non-EU sales in total revenues increased substantially from 14% in 2012 to 42% in 2015, while the proportion of domestic sales in total revenues dropped significantly from 17% in 2012 to only 5% in 2015 (see Figure 32).

Figure 32. Shares of domestic sale, EU sale and non-EU sale in total revenues of TT Okroglica (in %), 2008 - 2015

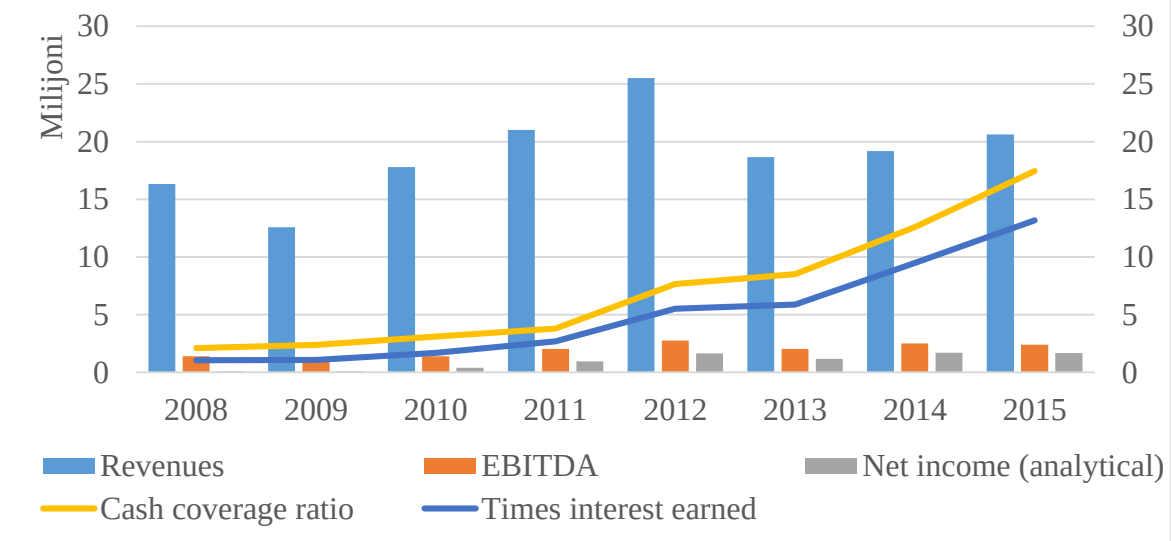


5.3.3.2 Financial overview

In the period from 2009 to 2012, the company's revenues doubled and reached 25.5 million € in 2012, which was the highest value of revenue in the whole observed period 2008-2015.

In 2012, automotive industry in Europe recorded a decline in vehicles sales, which ranged between 3% and 11%, depending on the model. The trend of declining vehicles sales in Europe continued also in 2013, which explains a big drop in revenues in the same year as EU sales represented 60% of the company's total revenues, generated mainly from customers in the automotive industry. From 2013, revenues show an upturn trend and reached 20.6 million € in 2015, which is a 7% increase from 2014. EBITDA was positive in the whole period from 2008 to 2015, which means that the company had enough cash flows to cover interest payment to its lenders. In 2013, EBITDA decreased by more than 25% after a period of steady growth. After 2013, it started to grow again as a result of increase in revenues. In 2015, EBITDA decreased by 4% compared to 2014 due to the 10% increase in operating costs, which surpassed growth rate of revenues in 2015. Net income was also positive in the whole observed period and shows an upward trend, except in 2013, when it dropped by more than 25%, due to the previously mentioned negative trends in the auto industry and consequently, reduced number of orders. Cash coverage ratio was high during the whole observed period and surged especially from 2011 onwards, which indicates that the company was able to cover interest payments. This is a consequence of higher EBITDA from 2011 and by 60% reduced financial obligations from 2011 to 2015. In 2015, cash coverage ratio reached the record high value of 17. Times interest earned increased from 2011 and reached value of 13.2 in 2015, which was almost 5 times higher than 2011 value. High value of time interest earned above means that the company was able to repay its financial obligations from the generated operating profit during the observed period. Movement of revenues, EBITDA and net income in absolute terms as well as cash coverage and times interest earned are presented in Figure 33.

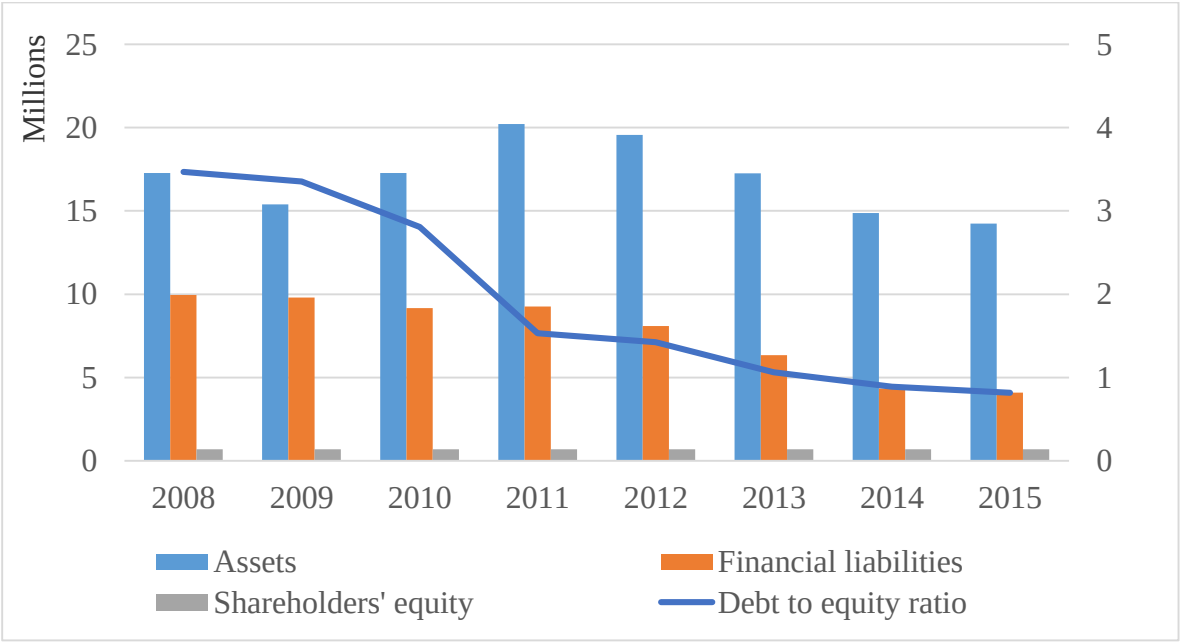
Figure 33. Revenues, EBITDA and analytical net income in million € (left), times interest earned and cash coverage (right) of TT Okroglica, 2008 - 2015



Value of company's total assets was decreasing in the period from 2011 to 2015 as a consequence of decreasing value of long-term assets. In 2015, company's total assets

amounted 14.2 million €, out of which 45% represented long-term assets. Value of company's equity increased significantly in 2011 due to the increase in the revaluation surplus, current net profit and net profit transferred from the previous year. Shared capital remained the same during the observed period and equaled 685 thousand €. In 2015, the company's equity stood at 5 million €. Total liabilities show a decreasing trend in the observed period and were reduced by more than 35% from 2011 to 2015. Share of financial liabilities in total liabilities show a decreasing trend and were reduced by over 20% from 2011 to 2015 and comprised 45% of total liabilities in 2015. From 2013, the company significantly lowered its financial liabilities, both short- and long-term, which is a clear sign of company's deleveraging process. In 2015, total financial liabilities stood at 4 million €, which was half less than the 2012 value. In 2013, non-performing loans of NLB bank provided to Fori Group were transferred to BAMC and in 2014, Abanka and Probanka transferred their non-performing loans as well. During 2014, negotiations regarding debt-reprogramming with banks and lessors took place, which resulted in signing the Stand-still agreement, according to which Fori Group had to temporarily fulfil its contractual obligations toward banks, which enabled a continuation of negotiations regarding the final restructuring of company's debt. In May 2015, the company signed debt Master Restructuring Agreement with banks and lessors, which aims to reduce liquidity risks and secure fix interest rates for company loans and ensures that all debt towards banks and BAMC will be fully repaid until the end of 2019.

Figure 34. Total assets, total liabilities and shareholders' equity in million € (left) and debt to equity ratio (right) of TT Okroglica, 2008 - 2015

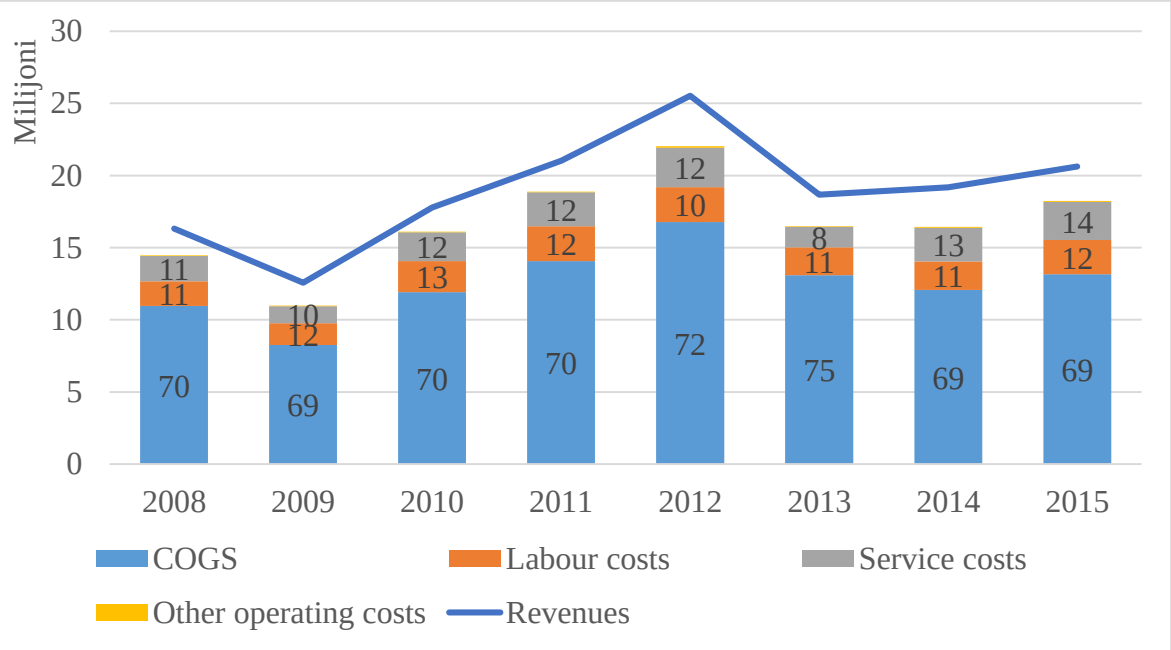


Debt-to-equity ratio was declining from 2011 onwards and in 2015 reached the lowest value of 0.8 within the whole observed period. The decreasing value of debt-to-equity ratio can be attributed to lower financial liabilities from 2011 onwards as a consequence of company

deleveraging process. The value of debt-to-equity ratio dropped below one in both 2014 and 2015, meaning that the company was able to finance its activities and future growth not only through debt, but also through retained earnings, which is a path to a more stable business in the future. Company's assets, financial liabilities and debt to equity ratio are presented in Figure 34.

During the whole observed period, TT Okroglica's total operating costs were in line with the level of its revenues. The company's total operating costs increased significantly in the period from 2009 to 2012, but decreased by 25% in 2013 as a result of drop in all main operating cost categories presented in Figure 35. In 2015, the highest share in the total revenues had cost of goods sold (COGS) with 64% share, followed by service costs and labour costs with 13% and 11% share in total revenues, respectively. Labour costs were relatively stable during the observed period, although in 2015, labour costs increased by 18% from the previous year as a result of additional employments. The company's service costs consist of manufacturing service costs, costs of transport services, maintenance costs, costs of intellectual and personal services, rents and other. Service costs considerably increased since 2013 due to the higher costs of fairs, advertising and entertainment, higher rents and reimbursement of costs to employees related to their work. The value of TT Okroglica's revenues and main categories of operating costs are presented in Figure 35.

Figure 35. Total revenues in million € and operating costs by type in million € and as percentage of total revenues of TT Okroglica, 2008 – 2015



5.3.3.3 Restructuring measures and company valuation

Based on data retrieved from Damodaran online, Enterprise value to EBITDA multiple for Western Europe and emerging markets companies in auto parts industry equals 7.77 and 13

respectively. Based on this, we get that average multiple used for the company's valuation equals to 10.35. As the company generates around 70% of its revenues from sales of industrial textile for automotive industry or more specifically to OEMs that produce car interior parts, we believe that Enterprise Value Multiple for auto parts industry gives a good approximation for the company's industry. Based on the collected data, we estimated TT Okroglica' value of equity with the following equation:

$$V_E = \left(\frac{EV}{EBITDA} * DISCOUNT * (EBITDA_{2015})\right) - V_D$$

$$= (10.85 * (1 - 0.46) * 2.4\ mio\ €) - 4.09\ mio\ € = 9.37\ mio\ € \quad (7)$$

As presented in the equation above, the company's economic value of 13.43 million € was calculated by applying 46% discounted EBITDA multiple to EBITDA of 2.4 million € in 2015. Finally, we calculated an estimated value of company's equity by subtracting the total amount of debt in 2015 from the calculated economic value. After subtracting the total amount of debt that in 2015 amounted 4.09 million € from 13.43 million € of company's economic value, we get the value of 9.37 million €.

Based on the analyses of the company's background, the product portfolio and main markets as well as company's financial and operating performance during the last 8 years, we were able to propose a few strategies that the potential investors may consider during the company's restructuring process. On the cost side, we see an opportunity for further optimization of company's operating costs. In 2015, company's material costs represented more than 65% of the total operating costs and six key product groups together make 88% of the total material purchasing value. Purchasing activities in the future should be directed towards lowering the prices of input materials, improving purchasing conditions (particularly terms of payment) and searching for alternative sources of materials and material suppliers not only from low cost countries (hereinafter: LCC), but also from Central and Eastern European countries, such as Bulgaria, Czech Republic, Macedonia, Romania, Serbia and Turkey. Purchasing and sourcing goals could be achieved through the following activities (TT Okroglica d.d., 2016a):

- strategic partnership with the most important suppliers,
- regular meetings with suppliers and performing regular audits,
- annual contracts (annual price reductions) and quantitative rebates,
- searching for new strategic suppliers from LCC and CEE countries,
- collaboration with suppliers in order to optimize suppliers production costs,
- optimization of inbound logistics and
- making use of synergies within the Fori Group in order to obtain better purchasing conditions.

We estimated that by improving purchasing conditions and obtaining better prices of input materials, the company could reduce its cost of goods sold in relative terms (as a percentage of the total revenues) by 1 percentage point in 2016 and by additional 2 percentage points in 2017. In addition to material costs, we notice that the company has high service costs and that share of service costs in the overall operating costs show an upward trend from 2013 onwards. Service costs increased significantly in the recent years and equaled 2.6 million € in 2015, which is 88% higher than in 2013. The highest contribution to the higher service costs in 2015 had fairs, advertising and entertainment costs, intellectual and personal service, rents, and other service costs. We assumed that the company could reduce its service costs in relative terms through a better cost control by 1 percentage point in 2016 and by additional 2 percentage points in 2017.

Based on the collected data, we believe that the company has a great potential for increasing its future revenues from all three product categories. According to OICA (2016), in 2015, the global production of motor vehicles grew by 1.1%. The biggest improvement from 2014 was recorded in the European Union, where the production of motor vehicles increased by 6.1% (3.3% in the whole Europe), 7.3% in India, 3.3% in China and 16.1% in Turkey. As reported in Global light vehicle production forecast from 2015 to 2022 (2016), the light motor vehicles production is expected to grow by 4% annually from 2015 until 2020. TT Okroglica should increase its presence in the markets with a high potential for future growth of motor vehicles production, as sales of its products are directly related to the performance of car manufacturers and OEMs. The company could increase its presence in Asian markets and Turkey by searching new distribution and logistics channels and by increasing presence at the biggest trade fairs in these markets.

As already mentioned, TT Okroglica's cable products (tapes) are used by manufacturers of different types of cables, such as power cables, telecommunication cables and optical fibre cables and the company's growth is highly dependent on future expected growth in the cable industry. According to Research and Markets (2016), the global power cables market will grow at a CAGR of 7.9% in the period between 2016 and 2020. Strengthening the presence of TOP tapes brand in the Asian-Pacific market could be a good decision for TT Okroglica due to the fact that spending for power infrastructure in this market is estimated to increase as a result of high industrialization and urbanization in countries such as India and China.

Finally, we estimated a potential positive impact of the proposed strategies on TT Okroglica's future cash flows in the next six years starting from 2016 and estimations are presented in Table 16. As we can see from the table, by implementing the proposed changes, the potential investors could increase amount of EBITDA from 2.4 million € in 2015 to at least 3.51 million € in 2021. Assuming investors would exit the company in 2021, the potential exit value of equity could potentially reach 36.4 million €. According to this and the purchase value of 9.4 million €, the IRR for this company equals 63.2%. The exit value of the company could potentially be 3.9 times greater than the initial investment.

Table 16. EBITDA projections based on impact of possible restructuring strategies for TT Okroglica in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	20.60	21.63	22.71	23.62	24.56	25.30	25.81
Revenues growth (%)		5	5	4	4	3	2
COGS	13.16	13.63	14.31	14.88	15.48	15.94	16.26
% of revenues	64	63	63	63	63	63	63
Cost of service	2.65	2.81	2.73	2.83	2.95	3.04	3.10
% of revenues	14	13	12	12	12	12	12
Cost of labour	2.35	2.35	2.35	2.60	2.70	2.78	2.84
% of revenues	11	11	10	11	11	11	11
Other operating costs	0.07	0.09	0.09	0.09	0.10	0.10	0.10
% of revenues	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EBITDA		**2.75**	**3.24**	**3.21**	**3.34**	**3.44**	**3.51**

TT Okroglica is part of Fori Group (Fori Skupina), which consists of several business subjects and incorporates activities, such as technical engineering, production and trade. BAMC is currently selling claims toward Fori Skupina as a whole. This includes claims toward Fori d.o.o. (8.8 million €), Emo-Tech d.o.o., the daughter company of Fori d.o.o. (7.4 million €), Elvel d.o.o. (4.7 million €), TT Okroglica (2.6 million €) and Fori Skupina d.o.o. (0.9 million €), all together in the total amount of around 24 million €. By purchasing the package of claims towards Fori Group, the potential investor would become the major creditor of all listed companies that would increase its bargaining power in negotiations with the owner. BAMC currently owns around 72% of TT Okroglica's debt only, which is equivalent to 2.6 million € (BAMC d.d, 2016).

On the other side, we concluded that purchasing 72% of TT Okroglica's debt from BAMC would not be an appropriate investment for the private equity portfolio. We concluded that this based on the performed analysis of the company's financial and operating performance and estimated economic value. As it was already mentioned, the amount of TT Okroglica's total liabilities reduced significantly from 2012 onwards and debt ratios improved notably as well. In 2015, Fori Group signed Master Restructuring Agreement (MRA) with its major creditors, which has an impact on lower future insolvency risks for all companies within the Fori Group. The calculated economic value of TT Okroglica equals to 13.43 million €, which is significantly above the value of its financial liabilities in 2015. Therefore, despite still significant amount of debt in 2015, the company does not show any signs of financial distress and is not suitable for the private equity turnaround.

5.3.4 Aha Emmi d.o.o.

AHA EMMI, predelava aluminija d.o.o. (shorter name: AHA EMMI, d.o.o., hereinafter: Aha Emmi) is a Slovenian producer of aluminium products that was founded in 1946. The company first started as a small workshop with 7 employees that was buying, cutting, producing and selling wooden items only by order. In 1969, the company introduced new activities, which was manufacturing of various aluminium products and bought equipment for production of metal strips obtained by cold rolling technique and also began with processing of pressed aluminium profiles used for household equipment. In the same year, the number of employees reached 150. In 2005, aluminium has been flagged as the metal of the future and in the same year, the company decided to build its own facilities for aluminium anodizing, i.e. surface treatment of aluminium. In 2010, the company reached its record sales, upgraded its mechanical surface processing and created new strategic partnerships with companies Bosch and Philips. The company's headquarter and production facilities are located in a small town Slovenska Bistrica, in the north-eastern part of Slovenia, near the highway Graz-Maribor-Ljubljana (Aha Emmi d.o.o., 2016*)*. The key information about the company is summarized in the table below.

Table 17. The summary of main characteristics of Aha Emmi d.o.o.

Industry	C 25.990 – Manufacture of other fabricated metal products
Headquarter	Slovenska Bistrica, Slovenia
Ownership	Limited liability company, 100% owner is BAMC
Total financial liabilities	7 million € in 2015
EBITDA	569 thousand € in 2015
Export	72% of total revenues in 2015
No. of employees	341 in 2015

Source: Aha Emmi d.o.o., *Annual report of Aha Emmi d.o.o. for 2015,* 2016.

Aha Emmi produces metal (mainly aluminium) semi-finished and finished products that fulfil the highest standards of leading manufacturers in different industries worldwide. The company's production and sales activities are organized based on the industry for which products are intended (Aha Emmi d.o.o., 2016):

- Home appliance industry (appliance handles, TV frames, etc.),
- Interior equipment - kitchen, bathroom, office, garden furniture, sanitary equipment (aluminum parts for furniture, doors, etc.),
- Construction industry,
- Electrical industry,
- Automotive industry and
- Medical device industry.

Based on the number of employees, value of assets and achieved revenues in 2014, Aha Emmi ranks as a middle size company. At the end of 2015, the company had total 341 employees on average, based on the working hours within the year, which were 10 employees more than in 2014. In 2014, the most represented age group were employees between 40 and 49 years old (38% of total employees), followed by employees aged between 30 and 39 years (35% of total employees), 13% of employees aged between 20 and 29 years and 14% of employees were older than 50 years. In 2014, educational structure of employees was mainly dominated by employees who completed vocational or technical secondary education (62% of total employees) and there were 9% of employees who finished higher professional or university education. The company's vision is to become "European centre of excellence for complete technological solutions of aluminium components." The company's mission is to expand the operational chain and become a complete manufacturer of components primarily for the higher-end products. Aha Emmi places a special emphasis to surface treatment of metals, especially to special effects and strives to become a strategic partner for technological solutions for aluminium and development of complex services and processes (Aha Emmi d.o.o., 2016).

In the beginning of 2014, NLB and NKBM claims towards Aha Emmi worth almost 9 million € were transferred to BAMC. The company's main problem was high indebtedness, primarily because of guarantee obligations for bank loans of other companies' part of Aha Group. In 2014, on the proposal of BAMC, the company's largest creditor, the court issued a decision on the initiation of compulsory settlement proceedings against the debtor. The decision approving the compulsory settlement was concluded in 2015. From January 2015, BAMC became a full owner of Aha Emmi with 100% share capital that amounted to 989.4 thousand € in 2015. Prior to that company's owner, the Aha Group Ltd. was holding it, which had 100% of the share capital that amounted to 5.4 million € in 2014.

5.3.4.1 Product portfolio and main markets

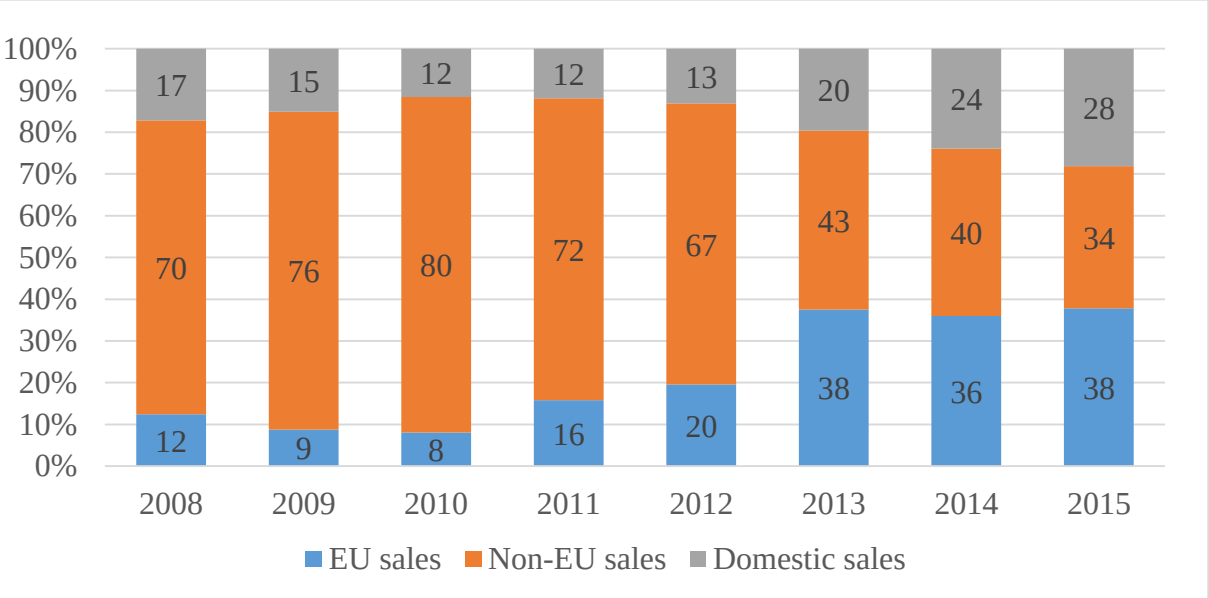
The company's product portfolio mainly consists of semi-finished and finished products used for different purposes and in various industries (Aha Emmi - Mechanical treatment of aluminum, 2016):

- aluminium profiles produced by mechanical or chemical surface pre-treatment of aluminium or through aluminium anodizing process,
- semi-finished or finished aluminium products produced with different mechanical treatment techniques depending on the customers' needs,
- metal strips of different profiles made using profile rolling technique, such as aluminium round, oval and square tubes, profiles used in construction or other industries,
- wooden products, such as packaging (boxes, pallets, linings) as well as roofing, planks and boards and
- double modulation floors with wide range of linings made from different materials, such as PVC, linoleum, parquet, ceramics, rubber lining and textile.

The company generates most of its sales from aluminum processing (80.18%). To the total revenues, wooden products contribute with 5.83%, while steel products make 13.99% of total revenues. With its diversified sales program, Aha Emmi is present on the global market. Buyers are the renowned companies, such as Ikea, Gorenje, Bosch, Impol Plastika Skaza, Invacare, Liebherr, Siemens and many others. The company's largest customer is the company Ikea. The company's management expects to increase future revenues primarily from products manufactured through aluminum mechanical processing and using mechanical and electrochemical aluminum surface treatments (Aha Emmi d.o.o., 2016).

In 2015, the company generated most of revenues from export with 72% share in total revenues. In the structure of export, sales to customers within the EU had higher share than sales to non-EU customers. Structure of revenues changed significantly since 2012, when most of the revenues were generated from non-EU customers. From 2012, share of domestic sales increased significantly from 13% in 2012 to 28% in 2015. In the same period, sales to EU countries increased from 20% to 38%, while sales to non-EU countries dropped from 67% to 34%. Structure of company's revenues based on customers' location is presented in Figure 36.

Figure 36. Shares of domestic sales, EU sale and non-EU sales in total revenues of Aha Emmi (in %), 2008- 2015.

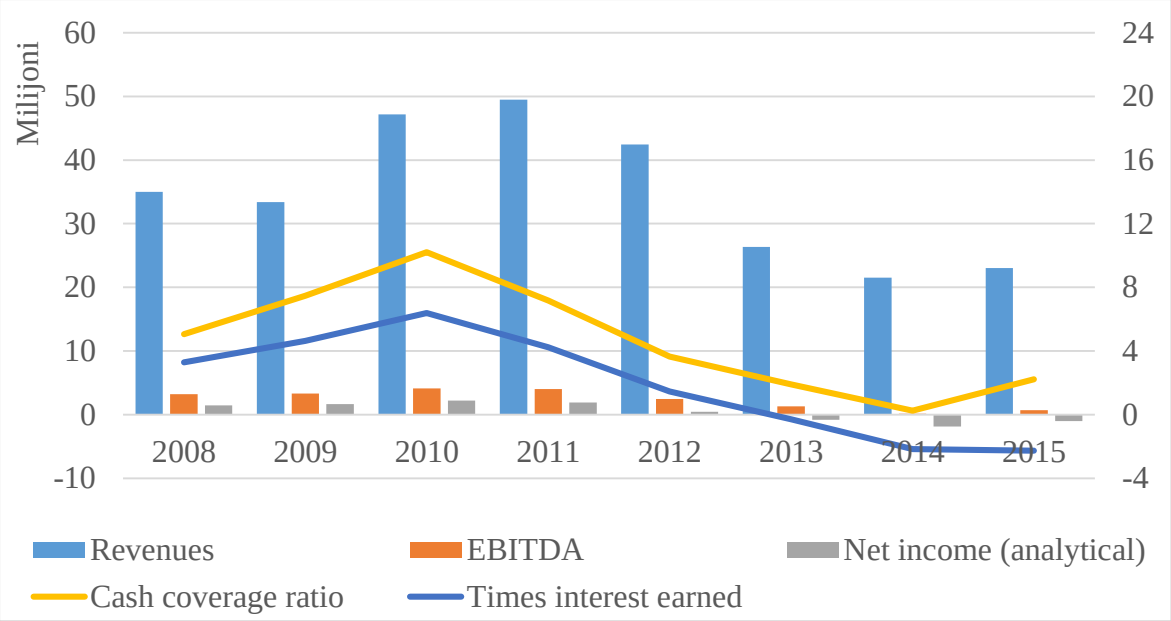


5.3.4.2 Financial overview

Aha Emmi revenues decreased significantly in the recent years, mainly due to the termination of an important production program at the largest customer Ikea as well as due to the negative consequences of company's over indebtedness and related compulsory settlement procedure that was initiated in 2014. During the compulsory settlement, operating was especially difficult and demanding, both in terms of communication with business

partners and from the business perspective itself, as company was lagging behind its production and sales plans. From 2012 to 2014, the company's revenues almost halved and reached the lowest value since the financial crisis. In 2014, a drop in revenues was mainly a result of 23% decline in sales of interior equipment to Ikea. In 2015, revenues grew by 7% and showed that the company started to recover slowly from negative events in the previous years. EBITDA was positive during the whole observed period unlike the operating profit (EBIT), which turned negative in 2013 and decreased even further in 2014 and 2015. As a consequence of diminishing revenues in 2014, EBITDA fell to only 147.5 thousand €, but improved considerably in 2015 to 569.2 thousand €, which was still much lower in comparison with the previous years. After fourfold decrease in company's net income from 2011 to 2012, it turned negative in 2013 and the loss was recorded also in the following years. In 2015, an incurred loss was lower than in 2014 as a consequence of higher revenues in 2015 (see Figure 37).

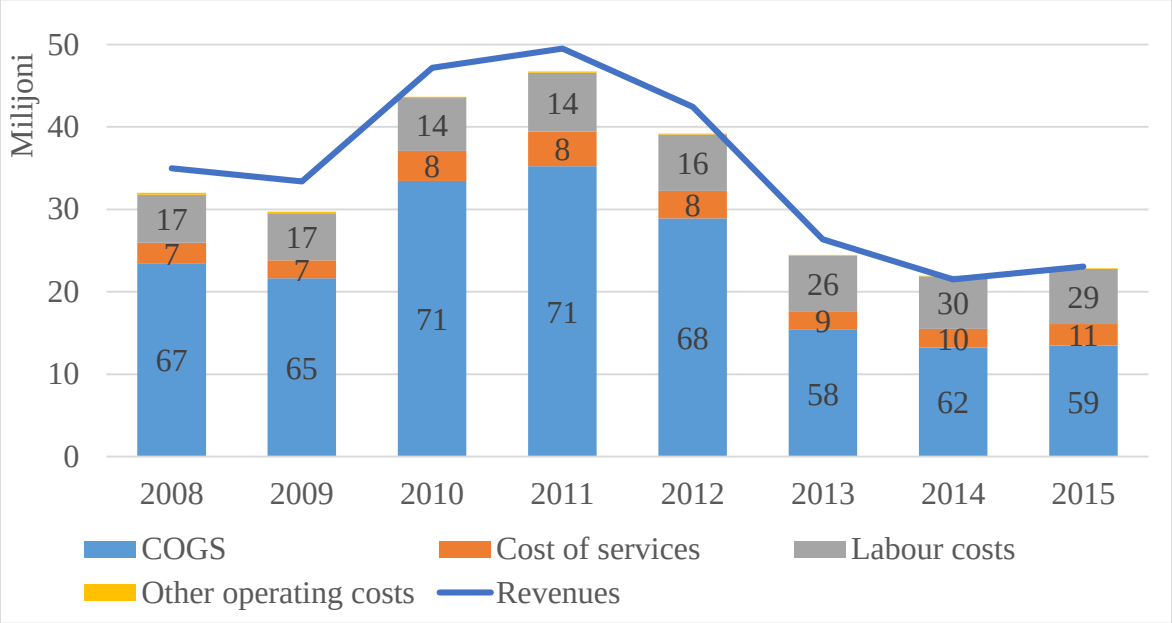
Figure 37. Revenues, EBITDA and analytical net income in million € (left), cash coverage and times interest earned (right) of Aha Emmi, 2008 - 2015



The company's operating costs were high in both, absolute terms and relative to its revenues, during the whole observed period. In both 2014 and 2015, the operating costs exceeded the total value of revenues and amounted to 24.2 million € in 2015. In 2015, the highest share in total revenues had COGS and labor costs with 55% and 29% share, respectively. We can notice that COGS were especially high in 2010 and 2011, both in absolute terms and as percentage of revenues. The increase could be a result of higher world prices of aluminum and steel, which represents the basic materials for Aha Emmi's production. In 2013, COGS almost halved in absolute terms and by 10 percentage points as a proportion of the total revenues. In 2013, the share of labor costs in total revenues increased by 10 percentage points from the previous year, as a consequence of significantly lower revenues, while in absolute

terms labor costs did not change considerably from 2012 to 2015. Service costs show a downward trend in absolute terms since 2012, but increased slightly in 2015. Service costs consist mainly of costs of subcontractors' services, transportation costs, transaction and bank service fees, equipment maintenance, reimbursements of costs to employees related to work, insurance premiums, intellectual and personal services, advertising, entertainment, security of property, utilities, student work and foreign trade fees (Aha Emmi d.o.o., 2016). In 2015, the share of service costs in total revenues was 11%, which is also the highest share in the observed period. Movements of Aha Emmi's revenues, operating costs and its main categories are presented in Figure 38.

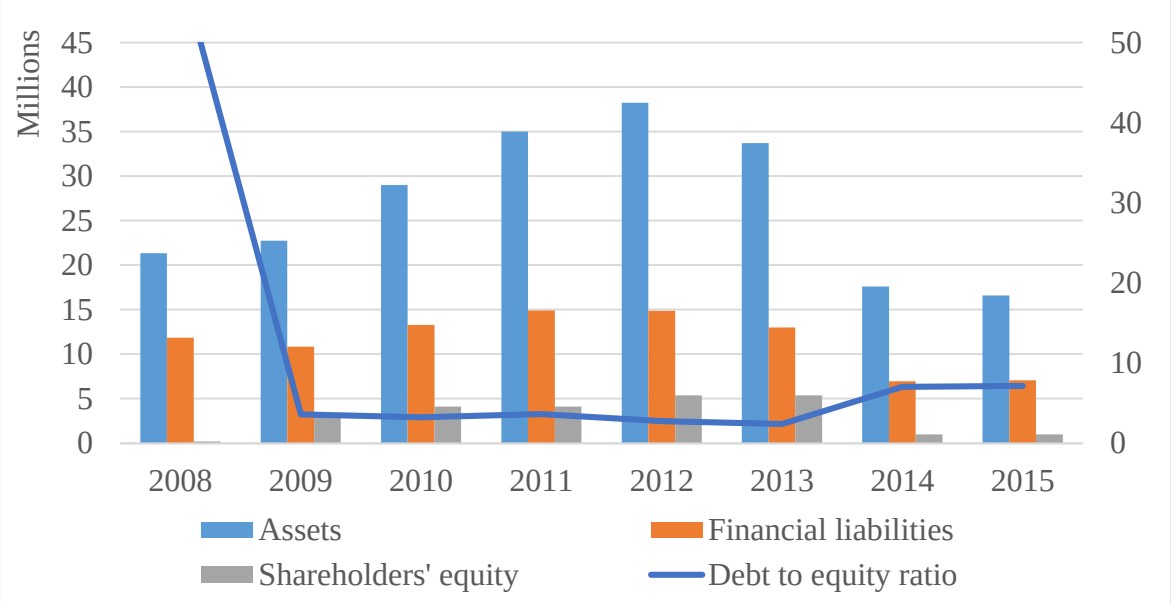
Figure 38. Total revenues in million € and operating costs by type in million € and as percentage of total revenues of Aha Emmi, 2008 - 2015



The value of Aha Emmi's total assets reduced significantly in 2014 as a consequence of decrease in the value of both long-term and short-term assets. Value of long-term assets was lower in 2014 compared to 2013 and the largest contribution towards 50% reduction had value of loans to companies within the Aha Group (5 million € loans were removed from the balance sheet) and value of tangible assets, such as land, buildings, equipment etc. reduced by 3.8 million €. Within the short-term assets, the largest contribution towards 40% lower short-term assets in 2014 had 2.4 million € of short-term loans that were removed from the balance sheet in 2014 as well as value of receivables that were 1.8 million € lower in 2014. In 2015, the value of total assets was 1 million € lower than in 2014 and stood at 16.6 million €. The value of the company's total equity decreased from 12.2 million € in 2013 to only 2.2 million € in 2014. From 2013 to 2014, the value of shared capital reduced from 5.4 million € to 989 million €, respectively. Moreover, in 2014, Aha Emmi recorded net loss of 2.3 million €, which to a great extent contributed towards decrease in the value of total equity. In 2015, the value of total equity equaled 1.6 million €, which was lower than in 2014, as a

result of an increase in the current net loss and transfer of net loss from the previous year. Total financial liabilities of Aha Emmi reduced significantly in 2014 and 2015 as a consequence of debt restructuring process and confirmed compulsory settlement procedure. Total financial liabilities reduced from 13 million € in 2013 to 7 million € in 2015, as a result of over 5 million € reduction in short-term debt towards banks. In the structure of total financial liabilities in 2015, 68% share had long-term financial liabilities. Both long-term and short-term financial liabilities were decreasing from 2013 onwards. Even though Aha Emmi significantly reduced debt in 2014 and 2015 compared to the previous years, deleveraging process was not evident from debt-to-equity ratio due to the reduction in the company's equity in 2014. This ratio increased from 1.06 in 2013 to 3.2 and 4.5 in 2014 and 2015, respectively. Times interest earned turned negative in 2013 and remained negative during three consecutive years due to the negative operating profit. In 2015, this ratio equaled negative 2.6, meaning that the company was not able to cover its financial obligations of 199 thousand € towards banks from its operations. Cash coverage was positive during the observed period although it showed a downward trend from 2010 until 2014. In 2014, it equaled only 0.25, meaning that the company did not have sufficient amount of cash to cover its financial obligations. In 2015, due to the higher EBITDA and lower financial obligation toward lenders, cash coverage ratio improved substantially and equaled 1.85. Movements of the company's assets, financial liabilities and key indebtedness ratios are presented in Figure 39.

Figure 39. Total assets, shareholders' equity and total liabilities in million € (left) and debt to equity ratio (right) of Aha Emmi, 2008 – 2015



5.3.4.3 Restructuring measures and company valuation

Based on the data available on Damodaran online, we can see that Enterprise value to EBITDA multiple for companies operating in metals and mining industry from Western

Europe and Emerging Markets equals 4.9 and 11.4, respectively. Therefore, the average multiple used for the company's evaluation is 8.15. Based on the presented data, we were able to estimate equity value of Aha Emmi with the following equation:

$$V_E = \left(\frac{EV}{EBITDA} * DISCOUNT * (EBITDA_{2015})\right) - V_D =$$

$$(8.15 * (1 - 0.46) * 0.69\ mio\ €) - 7.06\ mio\ € = -4.01\ mio\ € \quad (8)$$

As shown in the equation, we calculated estimated value of the company's equity by subtracting the total amount of debt from the calculated economic value of the company discounted by 46%. After subtracting the total amount of debt that amounted to 7.1 million € in 2015 from 3.05 million € of company's economic value, we get the value of the company's equity equals to negative 4.01 million €.

Based on the previous analyses of the company's background, industry, product portfolio, main markets as well as the company's financial and operating performance from 2008 to 2015, we were able to propose a few strategies that could have a positive effect on the company's future cash flows. The proposed strategies could serve to potential investors as a starting point in the restructuring process of Aha Emmi.

Firstly, we see a potential for savings in the reduction of the company's operating costs. In 2015, material costs represented more than 51% of total operating costs and included costs of the basic materials used in the production process. The basic materials in Aha Emmi's production are metals, mainly aluminium (80%) and to a lesser extend steel (14%), thus any increase in world prices of these basic materials could significantly increase company's total material costs. Annual prices of aluminium are expected to increase on average by 3% per year from 2017 to 2021, while prices of iron are expected to decrease by 15% from 2016 to 2018 and then increase again in 2019 (Commodity Prices Forecast, 2016). Therefore, it is important for Aha Emmi to negotiate future annual aluminium prices with its key suppliers in order to protect itself from negative consequences of an increase in prices from 2016 onwards. Moreover, the company could negotiate lower annual prices with key suppliers of steel based on the expected decrease in prices of iron until 2019. The company could also obtain lower annual prices of basic metals by ordering higher quantities from one supplier and by making a long-term purchasing deals or by finding alternative suppliers in low-cost countries.

Aha Emmi should dedicate resources and energy in the rationalization in production, such as increasing productivity on existing equipment and investing in new technological equipment with a focus on automation of production. A special focus should be on the implementation of lean production concept, other modern methods of production management and on raising the quality level, which will in turn mean lower costs due to the poor quality products (customer complaints, work in progress and production scrap). In 2013

and 2014, Aha Emmi reported a high number of customers' complaints, especially in the profit center Ikea, where costs reached 0.55% of total revenues generated in 2014 or over 118 thousand € in the absolute terms. This was mainly the result of poor quality management of the manufactured products. The reported situation indicates that the company should dedicate more time and resources for improving quality management through the whole organization, especially quality control of purchased materials from suppliers and quality control of finished products in order to reduce costs of customers' complaints and reputation risks. We estimated that negotiations of long-term purchasing contracts as well as improved quality system could lead to a reduction in Aha Emmi's cost of goods sold in relative terms by 2 percentage points in 2016 and by additional 2 percentage points in 2017.

Secondly, service costs represent 11% of total operating costs and if we exclude subcontractor costs, transport, rents and reimbursements to employees connected to work, we can notice that other service costs increased by 15% from 2014 to 2015. These costs could be significantly reduced by optimizing work in non-production departments or by finding cheaper external service suppliers. As stated in Aha Emmi annual report for 2015, the company invested in upgrade of its existing information system, which will support rationalization of costs in non-production departments, such as administration, HR, marketing and sales. We assumed that these activities will lead to a decrease in Aha Emmi's service costs in relative terms by 2 percentage points in 2016 and by additional 2 percentage points in 2017.

Thirdly, by introducing modern management concepts, Aha Emmi could significantly reduce the inventories' level, especially work in progress that in 2015 accounted for 22% of total inventories and also to reduce the production throughout time and consequently, days' sales in inventory that equalled 93 days in 2015. In this way, the company would gain extra flexibility and significantly reduce the risk of write-offs of obsolete products, as it was the case with certain Ikea programs.

On the revenues side, Aha Emmi should focus on production and sales of its most profitable products that have higher added value, such as finished aluminium products for major home appliance manufacturers and to consider termination of certain product lines that are not profitable anymore or have a low added value. In 2014, sales of decorative products, especially metal handles for home appliance industry increased by 5.25% and based on the forecasts provided by Household appliances consumption value worldwide 2013-2020 (2016), worldwide home appliances consumption will grow by almost 3.5% annually from 2015 until 2020, therefore, we can assume that the company has a potential to increase its revenues in this segment in the next five years. Moreover, the company's revenues from sales to medical device industry is increasing each year both in value terms and also in terms of the number of customers and the number of different products manufactured for this industry (Aha Emmi d.o.o., 2016). We estimated that sales to new customers in medical device

industry can lead to an increase in company's revenues by 3% in 2016 and by additional 4% annually from 2017 until 2021.

Table 18. EBITDA projections based on impact of possible restructuring strategies for Aha Emmi in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	23.03	24.64	26.12	27.69	29.35	31.11	32.98
Revenues growth (%)		7	6	6	6	6	6
COGS	13.49	14.29	15.15	16.06	17.02	18.04	19.13
% of revenues	59	58	58	58	58	58	58
Cost of service	2.6	2.46	2.35	2.22	2.35	2.49	2.64
% of revenues	11	10	9	8	8	8	8
Cost of labour	6.65	6.65	6.65	6.92	7.34	7.78	8.24
% of revenues	29	27	25	25	25	25	25
Other operating costs	0.87	0.07	0.08	0.08	0.09	0.09	0.10
% of revenues	0.4	0.3	0.3	0.3	0.3	0.3	0.3
EBITDA		**1.16**	**1.89**	**2.41**	**2.55**	**2.71**	**2.87**

Finally, we estimated a potential positive impact of proposed strategies on future cash flows of Aha Emmi in the next six years, including 2016. The calculated EBITDA projections are summarized in Table 18. As we can see, by implementing the proposed changes, the potential investors could increase EBITDA from 0.57 million € in 2015 to at least 2.87 million € in 2021.

5.3.4.4 Investment value estimation and IRR calculation

The total amount of Aha Emmi's financial and operating liabilities that were included in the calculation of the total investment value are by 5.5 million € higher than its calculated economic value of 3 million €. We assumed that the potential investor should not exceed company's economic value when placing an offer for the company. Therefore, the potential investor would have to negotiate 5.5 million € reduction of debt with the BAMC and other creditors, so that investment value does not exceed company's economic value.

In the first step, we selected financial and operating liabilities that will be included in the calculation of the investment value. For that reason, we have separated company's liabilities into those owed to BAMC and those owed to other creditors. In the liabilities owed to BAMC, we included long-term financial debt in the amount of 3.3 million €. Other liabilities include both current and long-term financial liabilities, such as received bank loans and guarantees in the total amount of 2.4 million €, short- and long-term financial obligations for guarantees from non-bank lessors in the amount of 0.3 million € and other debt in the total amount of 0.3 million € in 2015. Other liabilities include long-term operating liabilities

arising from compulsory settlement procedure in the amount of 1 million €, current operating liabilities for employee compensation and payroll taxes in the amount of 0.7 million € and current operating liabilities towards the government and other institutions in the amount of 68 thousand €. Additionally, other liabilities include other current liabilities in the amount of 0.5 million €, which relate primarily to the interest payable. Therefore, the overall amount of Aha Emmi liabilities that will be used in the further calculation equals 8.5 million €.

Total value used to estimate investment value includes company's calculated economic value and company's assets held for sale. Aha Emmi did not report any assets held for sale in its balance sheet in 2015, therefore, the total value included in the further calculation equals to the calculated economic value of 3.1 million €. In the next step, we divided liabilities into those whose values will be 100% reduced, liabilities whose values should be partially reduced and liabilities whose values cannot be reduced at all. In the total liabilities whose value should be 100% reduced, we included other current financial liabilities and other current operating liabilities in the total value of 0.8 million €. We did not find any specific explanation of number that lies behind other current financial liabilities in the amount of 0.3 million €, therefore, we assumed that those refer to interest payments on long-term debt. After we identified all liabilities that we assumed should be 100% reduced, we subtracted the sum of these items from the total liabilities to be written-off and got the remaining amount of liabilities for the write-off. The total liabilities whose value cannot be reduced include the current liabilities owed to government and other institutions, employee compensation in the form of payroll taxes, VAT, income taxes, salaries (wages), insurance premiums and other benefits as well as liabilities from the compulsory settlement procedure. Therefore, the sum of Aha Emmi liabilities whose amount cannot be reduced equalled to 1.8 million € in 2015. Finally, the total amount of liabilities whose value should be partially reduced include long-term loans transferred from commercial banks to BAMC in the total amount of 3.3 million €, current and long-term financial debt owed to banks in the total amount of 2.4 million € (long-term loan from Delavska hranilnica and its current portion in the amount of 0.95 million €), long-term guarantee obligations to others in the amount of 0.3 million € and other short-term financial liabilities in the amount of 0.3 million €. After we identified all liabilities that have to be partially reduced, we calculated each item's share in their sum. In the last step, we multiplied calculated percentages with the remaining amount of liabilities for write-off in order to get the necessary write-off amounts of each item. In this way, we got that the total Aha Emmi's debt owed to BAMC should be reduced by 2.6 million €, debt owed to other banks by 1.9 million € and financial obligations for received guarantees by 0.2 million €, which is equivalent to 79% haircut on each item. In 2015, the value of Aha Emmi's total equity was positive and therefore, not considered as an additional cost for the potential investor.

Finally, the total estimated investment value for the potential investor amounts to 3 million €, which is the total amount that has to be repaid to company's creditors after applied haircut on debt. By investing in Aha Emmi, the potential investor would gain the full ownership of

the company. Considering the initial investment of 3.1 million € and exit value of 27.3 million €, IRR could potentially reach 90%. Furthermore, the investment multiple for this company equals 8.9. Based on exit value, purchase value and initial debt value, we can conclude that Aha Emmi could visibly contribute to the return of proposed investment portfolio. Detailed calculation of the investment value is provided in Appendix E.

5.3.5 Liv Kolesa d.o.o.

Liv Kolesa, proizvodnja, predelava in trgovina d.o.o. (hereinafter: Liv Kolesa) is a Slovenian manufacturer of wheels and castors, wheelbarrows and other technical products from metal located in Postojna. The company was established in 1998 and today, it ranks as a medium size company with 112 employees on average in 2015. The company's vision is to become one of the most important manufacturers of transportation wheels in Europe by developing high quality products jointly with main customers. Revenues of Liv Kolesa are in majority generated on the foreign markets, since they sell their products in 50 countries around the world. The biggest market of Liv Kolesa is Germany. The big portion of company's debt was in 2013 transferred from banks creditors to BAMC. Afterwards in 2014, the debt was converted to equity and DUBT became the company's full owner. The summary of main characteristics of Liv Kolesa is presented in Table 19.

Table 19. The summary of main characteristics of Liv Kolesa

Industry	C 30.920 – Manufacture of bicycles and invalid carriage
Headquarter	Postojna, Slovenia
Ownership	100% BAMC
Total financial liabilities	8.76 million € at 31.12.2015
EBITDA	0.68 million € in 2015
Export	81% of total revenues in 2015
No. of employees	112 on average in 2015

Source: Liv Kolesa d.o.o., *Annual report of Liv Kolesa d.o.o. for 2015*, 2016.

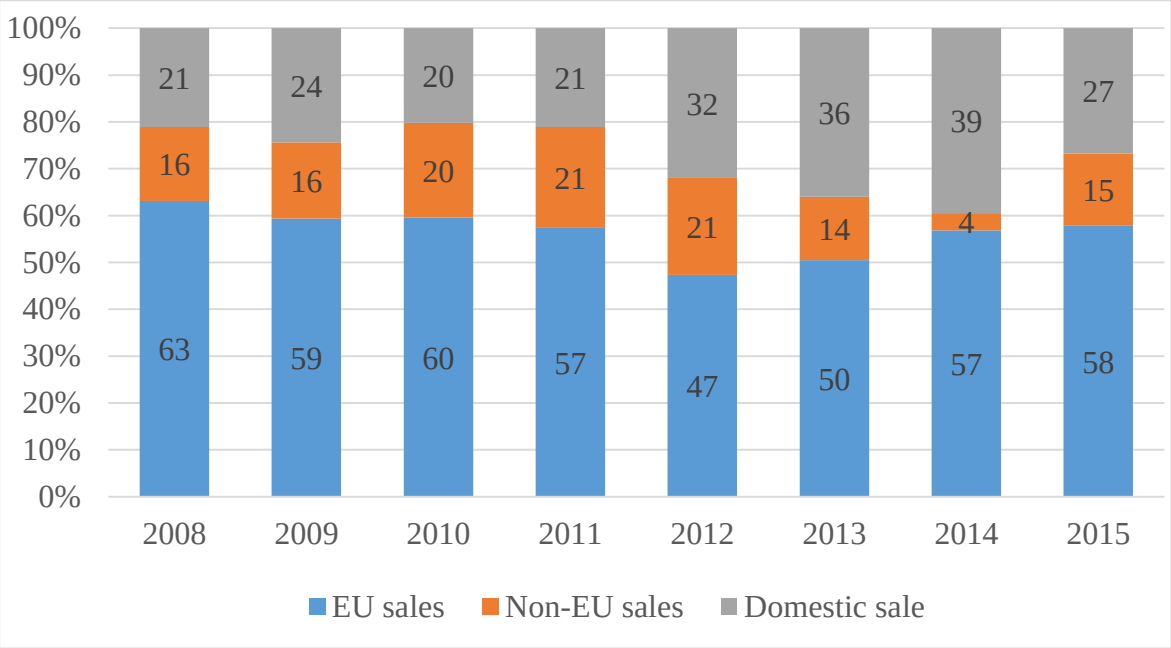
The company's main strengths lie in broad product assortment, export orientation, long-term and strong relationships with their customers and high dedication to research and developments. The company aims to satisfy their customers with product adjustments according to their needs. Its sales are based on business to business wholesale as well as 23 stores located around Slovenia. The company buys the material from nearly 50 different suppliers from 14 different countries. In regards to suppliers, it is crucial for the company to maintain long term relationship in order to prevent material prices to rise. The main risk the company faces is the liquidity risk. Due to the financial illiquidity that the company experienced in the past years, it was unable to produce and deliver the required amounts of products to customers. The company's reputation suffered and customers' trust weakened. On the other hand, payments to suppliers were delayed as well. Consequently, the prices of material increased and revenues decreased. With this in mind, the financial liquidity is one

of the most important conditions that the company should improve in the near future. By providing sufficient funds for servicing working capital, the operations and results could improve significantly (Liv Kolesa d.o.o., 2016).

5.3.5.1 Product portfolio and main markets

The company follows the strategy of manufacturing reliable, user-friendly, efficient and safe products. The company's product portfolio includes four main groups of products, namely, wheels and castors, wheelbarrows, technical products and additional program. The group of wheels and castors includes more than 1600 different products. Among those we can find such for standard use, for disposal system, for rough floors, for furniture, stainless products, institutional and many others. All products within the group come in different sizes and shapes and are made of rubber, metal and polyamide. The second large group of products is wheelbarrows that can be used in construction businesses, agriculture or horticulture. Wheelbarrows are offered fully welded, partly welded or self-assembled. As well as wheels and castors, also wheelbarrows are offered in different sizes, shapes and colors. The third group contains different technical products for various industries. For example, spare parts for automotive industry, white-technology industry, sanitary engineering industry and others. Additional products in the company's product portfolio are waste bins on two wheels in different sizes, waste containers on four wheels, roll-containers, trolleys, etc. (Liv Kolesa - programi, 2016).

Figure 40. Shares of domestic sales, EU sale and non-EU sales in total revenues of Liv Kolesa (in %), 2008- 2015.



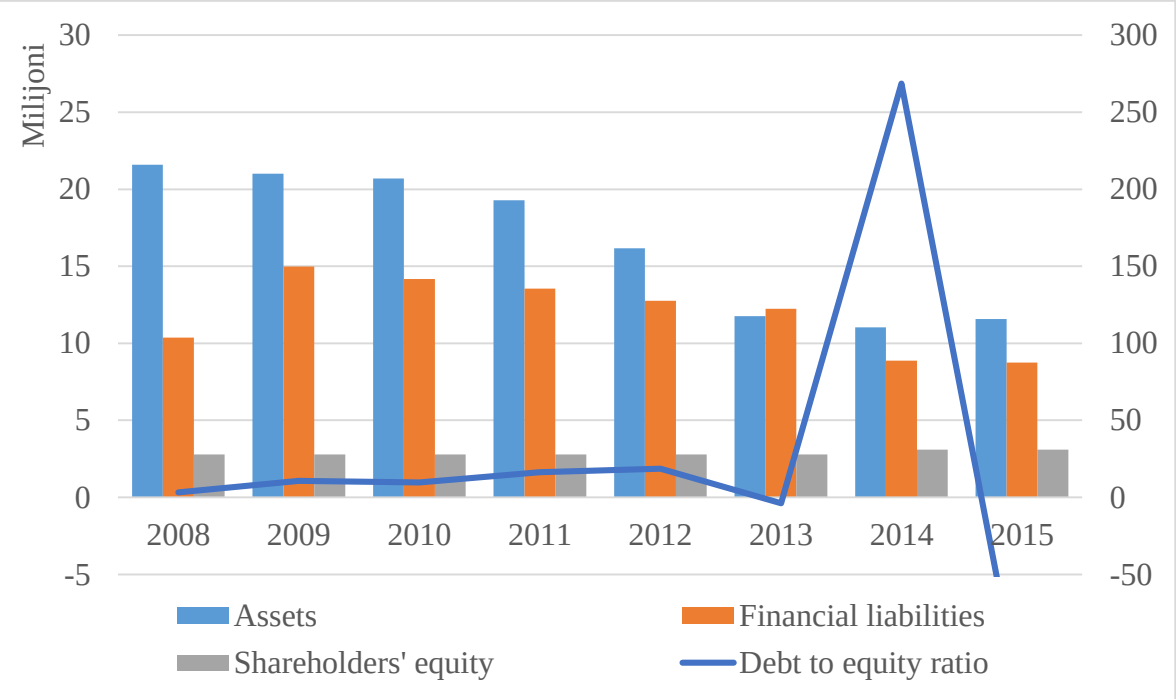
The company is highly export-oriented. It generated nearly 73% of total revenues in the foreign markets in 2015. Out of total revenues, 58% was generated in EU countries and 15%

in non-EU countries. Export share has been decreasing since 2010 and reached the bottom in 2013 with only 61% of total revenues being generated in the foreign markets, however the company again increased the export as percentage of total revenues in 2015.

5.3.5.2 Financial overview

Total assets of Liv Kolesa have been decreasing since the beginning of the observed period. The total amount shrank for more than 10 million € from 2008 to 2015. In 2015, Liv Kolesa had 11 million € in total assets. The biggest share represented fixed assets, buildings in particular, in total amount of 5 million €, inventories in total amount of 1.9 million € and trade receivables in total amount of 1.7 million €. The company had only 64 thousand € of total equity. Despite the fact that shared capital amounted to 3.1 million € in 2015, the company reported transferred losses in total amount of 3.07 million €, which resulted in a very low amount of total equity. In 2008, total liabilities represented 48% of the amount of total assets, however this percentage increased for 28 percentage points throughout the observed period to almost 76% in 2015. In 2015, the company had 8.7 million € of total financial liabilities, mainly long-term financial liabilities toward banks, the BAMC in particular.

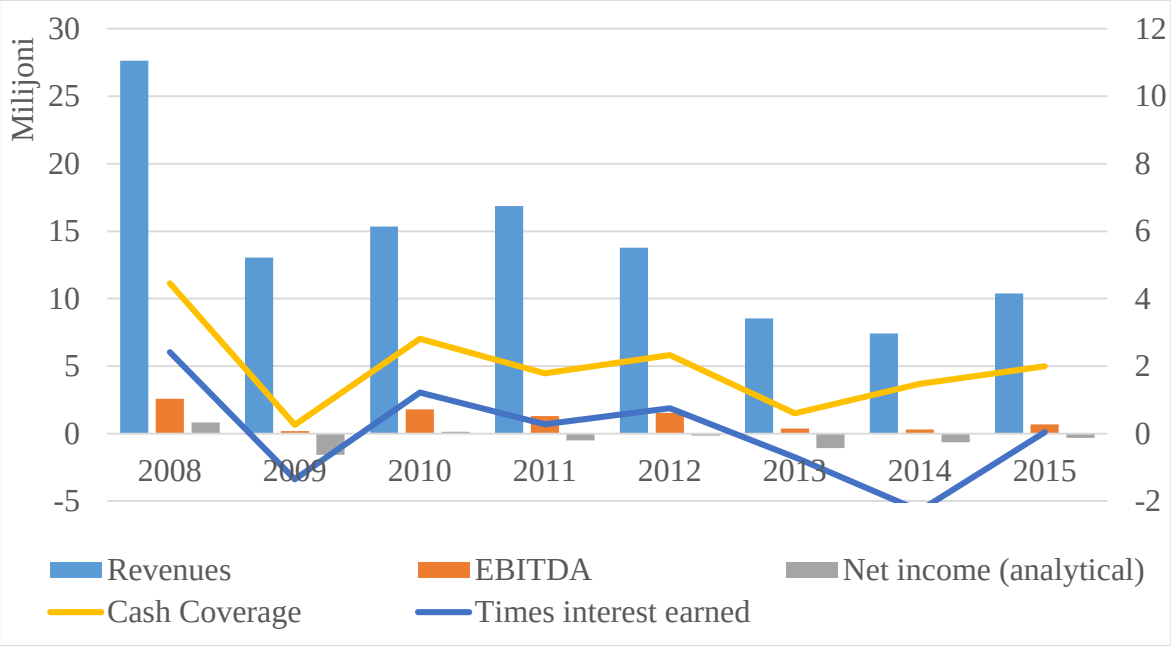
Figure 41. Total assets, shareholders' equity and total financial liabilities in million € (left) and debt to equity ratio (right) of Liv Kolesa, 2008-2015



The performance of Liv Kolesa was in great extent influenced by the financial crisis. As evident from Figure 42, the downturn of revenues was the biggest in 2009, when revenues were halved. In the following years, the performance improved slightly, however the company experienced a new decline in 2013 and 2014. The main reasons for the decline of

revenues after 2012 were financial restructuring that the company went through in 2013 and 2014 and the natural disaster in February 2014 that caused the loss of production and consequently, the loss of revenues. Movements of EBIDA were similar to those of revenues. In 2015, the company generated 684 thousand € of EBITDA and negative 329 thousand € of net income. Liv Kolesa had enormous problems with debt repayment, since its cash flows from operations barely covered interest expenses.

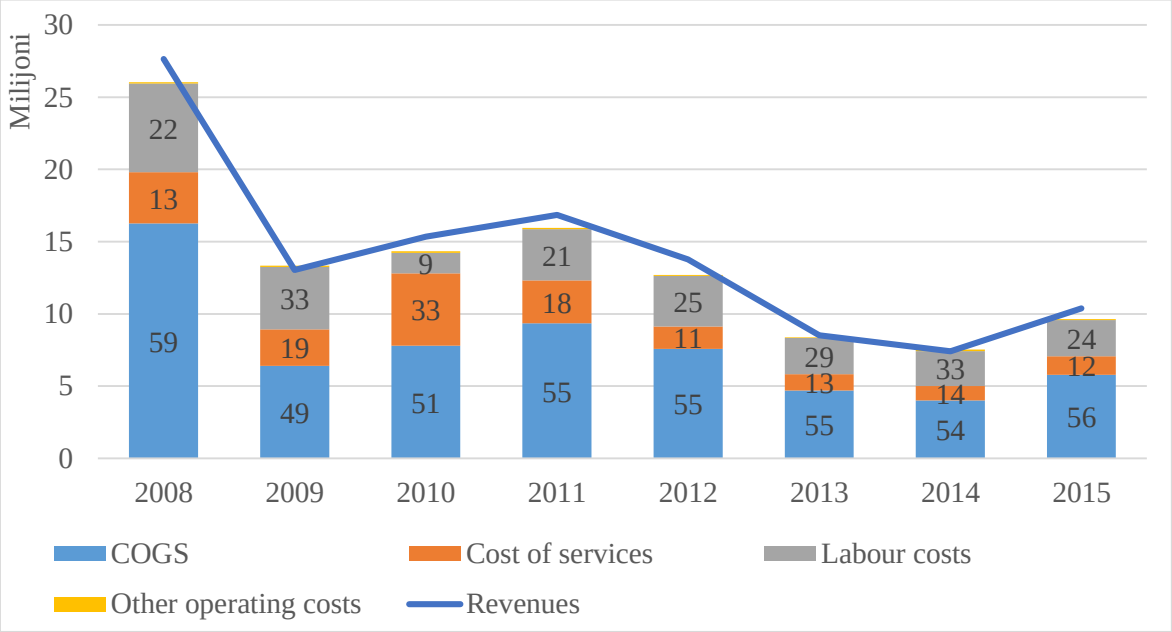
Figure 42. Revenues, EBITDA and analytical net income in million € (left) and cash coverage and times interest earned (right), 2008 - 2015



The company's performance is in great extent dependent on material prices and consequently on its relationships with suppliers. Due to liquidity problems, the company was unable to establish and maintain healthy and long-lasting relationships with suppliers. Material prices were unstable and unpredictable. Moreover, the company faced unfavourable terms regarding payment conditions. All that led to delays in material delivery, unreasonably high prices and interruptions in production.

With sufficient liquidity and some restructuring activities, all costs could be optimized. As it is evident in Figure 43, COGS as percentage of revenues has been increasing from 2009 and reached the peak in 2015. The company managed to decrease costs of services as percentage of revenues in 2015 compared to 2013 and 2014 for 2 and 1 percentage points, respectively. Labour costs have been decreasing since 2013 in absolute terms, due to the reduction in the number of employees by almost a third. In 2010, the company generated around 15 million € of revenues with 1.4 million € labour costs or 9% of total revenues, while in 2015, the company generated only 10 million € of revenues with 1 million € of additional labour costs.

Figure 43. Total revenues in million € and operating costs by type in million € and as percentage of total revenues Liv Kolesa, 2008 – 2015



5.3.5.3 Restructuring measures and company valuation

The valuation of Liv Kolesa is based on market approach using EBITDA multiple method. EBITDA multiple retrieved from Damodaran Online for the rubber and tires industry equals 7.07 and reduced by the private company and unhealthy company discount equals 3.81. The value of equity is as follows:

$$V_E = \left(\frac{EV}{EBITDA_{discounted}} * EBITDA_{2014}\right) - V_D =$$

$$(3.81 * 0.684\ million\ €) - 8.71\ million\ € = -6.14\ million\ € \quad (9)$$

As it is evident from the calculation above, the value of equity with 8.71 million € of financial liabilities taken into consideration, equals negative 6.14 million €. With an agreement to repay the companies' debt, the investors should not pay more than 1 € for the company.

Based on Trading Economics (2016), industrial production will grow slowly in the following years. Despite the significant growth of 2.8% in the beginning of 2016, it is expected to grow by 1% until 2020. We assume growth will be bigger for Liv Kolesa than the industry, because the company has a potential to regain lost customers and expand to new markets with their broad product assortment. Furthermore, Liv Kolesa also manufactures products for automotive industry and home appliance industry, where the growth is expected to be higher (Global light vehicle production forecast from 2015 to 2022, 2016; Household appliances consumption value worldwide 2013-2020, 2016). We assume the revenues growth will be

higher in the beginning of the forecast period and slowed down by 2021. We included growth rates for industrial production industry and average growth of automotive and home appliance industry in proportions 80% and 20%, respectively. On the costs side, we assume liquidity issues to be eliminated and based on that we predict the percentage of COGS in revenues will decrease by establishing long-term relationships with suppliers, gain better payment terms and agree on lower prices. Other production costs will also decrease by establishing continuous production, without delays and interruptions. We assume the company will not increase the number of employees until 2018 and afterwards, labour costs will increase with revenues, however labour costs as percentage of revenues will remain stable.

Table 20. Revenues, operating costs and EBITDA projections for Liv Kolesa until 2021 in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	10.37	12.36	14.41	16.41	18.34	20.08	21.56
Revenues growth (%)		19	17	14	12	9	7
COGS	5.79	6.67	7.49	8.21	9.17	10.04	10.78
% of revenues	56	54	52	50	50	50	50
Cost of service	1.28	1.36	1.58	1.81	1.83	2.01	2.16
% of revenues	12	11	11	11	10	10	10
Cost of labor	2.5	2.50	2.50	3.50	3.85	4.22	4.53
% of revenues	24	20	17	21	21	21	21
Other operating costs	0.68	0.12	0.14	0.16	0.18	0.20	0.22
% of revenues	1	1	1	1	1	1	1
EBITDA		**1.70**	**2.69**	**2.74**	**3.30**	**3.61**	**3.88**

Based on the assumptions presented in Table 20, we estimate that EBITDA will improve significantly in 2016 and then grow further and reach 3.88 million € in 2021. If private equity fund exits the investment in 2021, the company could be sold for 27 million €.

5.3.5.4 Investment value estimation and IRR calculation

In the section above, we presented the valuation of Liv Kolesa d.o.o. at the present point and the potential economic value of the company in 2021 resulting from the successful turnaround. The potential gain for the investor is not solely dependent on future operating performance, but also on negotiations regarding purchase price or investment value. Investors should bear in mind that the economic value of a company should not be exceeded when negotiating the price. In case of Liv Kolesa, the value of company reaches 2.8 million €, which is the sum of company's economic value (2.6 million €) and value of assets for sale. In other words, the value of assets that is not vital for company's operations. On the other hand, total liabilities that are not directly connected to company's everyday operations and

should be repaid equal 10.2 million €. This leads us to the difference of 7.4 million € and this is the amount of liabilities the investors should request to be written-off.

In order to buy Liv Kolesa at the target price, the investor could follow different strategies and one of such is presented below. The company has 10.2 million € of financial and operating liabilities towards BAMC and other creditors that are mostly overdue and represent a burden for company's operations. Those liabilities were divided by creditors. In total, the BAMC provided 8.4 million €, which is more than 90% of total liabilities included in this analysis. The remaining 0.7 million € are liabilities toward employees (0.25 million €), government (28 thousand €), other banks (0.14 million €) and liabilities resulting from compulsory settlement (0.3 million €). The investor could negotiate the haircut for some of those liabilities. We assume the haircut could not be negotiated for liabilities toward government, employees and those resulting from compulsory settlement. The sum of those liabilities equals 0.6 million €. There are some liabilities that investors could request 100% haircut and those are overdue interest payments, liabilities of Mersteel on BAMC, which were transferred to Liv Kolesa after Mersteel went bankrupt and other current operating liabilities, which are not specifically described. As a result, we assume 0.89 million € of liabilities could be written-off completely. For the remaining 7.7 million € of liabilities, the partial haircut should be negotiated. Among those are liabilities toward BAMC (7.56 million €) and liabilities toward other banks (0.12 million €). Based on the total required write-off of 6.3 million € and 100% write-off of some liabilities (0.89 million €), the partial haircut should reach at least 71% for those remaining liabilities.

As a result, the investor could offer to pay 2.2 million € to BAMC for their liabilities and 100% share of the company. At the same time, the investors could agree to repay other debt as presented above. In order to make a financially efficient investment, the investor should not invest more than 2.83 million € in Liv Kolesa. After becoming the full owner of the company, the investor could perform turnaround as suggested in the previous section and significantly increase the company's value. Based on this, the potential IRR for Liv Kolesa equals 109% and the company can reach at least 9.7 times higher value in 2021 compared to the initial investment. This creates sufficient potential return for including Liv Kolesa in the proposed investment portfolio. The detailed calculation of the investment value is presented in Appendix E.

5.3.6 Litostroj Jeklo d.o.o.

Litostroj Jeklo d.o.o. or Litostroj Steel Ltd. (hereinafter: Litostroj) has a 60-year-old tradition starting in 1947 of steel casting production. In detail, it is a manufacturer of sophisticated shaped castings made of steel and parts for turbines, pumps and other machines made of steel. The company is a part of an elite group of manufacturers of components for different kinds of turbines and electromechanical systems and it covers 10 to 15% of global demands.

The majority owner of Litostroj is BAMC with 55.18% stake in equity, followed by Probanka owning 24.31% and Abanka owning 7.18% of the company. Litostroj is part of Litostroj Group including also Litostroj Ravne d.o.o., Litostroj Potisje d.o.o., Litostroj PTS d.o.o. and the parent company ACMG d.o.o. The company employed 198 people on average in 2015, 18 less than in 2014 and is ranked as a large company according to the number of employees and value of revenues (Litostroj Jeklo d.o.o., 2016; Litostroj Jeklo – General, 2016). The main characteristics of Litostroj Jeklo are summarized in Table 21.

Table 21. The summary of main characteristics of Litostroj Jeklo

Industry	C 24.520 – Casting of steel
Headquarter	Ljubljana, Slovenia
Ownership	55.18% BAMC
Total financial liabilities	27 million € at 31.12.2015
EBITDA	-2.6 million € in 2015
Export	80% of total revenues in 2015
No. of employees	238 on average in 2015

Source: Litostroj Jeklo d.o.o., *Annual Report of Litostroj Jeklo d.o.o. for 2015*, 2016.

The company's vision is to become one of the leading manufacturers of steel castings and components of turbines. It aims to become well-known for high quality products with exceptional characteristics by exploring the market, listening to customers and investing in research. The company's mission is to produce high quality products that meet customers' expectations and earn sufficient amount of funds to finance future research and development. One of the most important segments of the market, where Litostroj is present, is a renewable energy and it represents the biggest opportunity for the future due to the raising demand for this type of energy and high investments involved in global terms. The biggest customers of Litostroj are Alstom, Andriz Hydro, Voith Hydro, Hitachi and Power Machine-LMZ. For other international customers, Litostroj has sales representatives in India, China and South America. According to the company's opinion, the main driver of success is the company's reputation through customers' perspective, which is based on financial condition, quality of products, environment protection and concern for employees. The main source for finding new projects and exploring trends of building hydro energy systems, Litostroj uses Hydropower&Dams and Hyro Review webpages. The competitors of Litostroj can be found all around the world, however those from West Europe countries are in most cases more expensive, those from East Europe are cheaper, but have a poor reputation, other competitors from India, China, Brazil and Japan are in most cases cheaper, but they mostly cover local demand (Litostroj Jeklo – General, 2016; Litostroj Jeklo d.o.o., 2016).

One of the main weaknesses of Litostroj is their current financial conditions. Due to financial illiquidity, problems with suppliers of material occurred and consequently caused delays in

the delivery of final products to customers. Suppliers are not willing to sell the material without advanced payment, which Litostroj cannot provide. Additionally, bank guarantees are required for most business deals, however banks are not willing to provide them. The company believes that the stabilization of financial conditions would bring back the customers and the suppliers would deliver materials without advanced payments. On the other side, the main potential for growth lies in increasing investments in renewable energy around the world. Since the company is globally oriented, it has an opportunity to exploit such investments. Renewable energy sector has been growing in the past years and is expected to expand further. According to International Energy Agency (2015), renewable energy will represent the largest source of electricity production growth in the next five years. Around 24% of total investments in renewable energy will go for hydro energy, in majority to non OECD countries. Additionally, the developed countries plan to reduce nuclear electric power production and replace it by renewable energy. Foundry industry on the other side is expected to grow as well. Based on Deutsche Industriebank (2015), the steel casting market will experience the highest growth between 2015 and 2020 in China (12.5%), followed by Asia-Pacific region (4%) and Eastern Europe (3.8%).

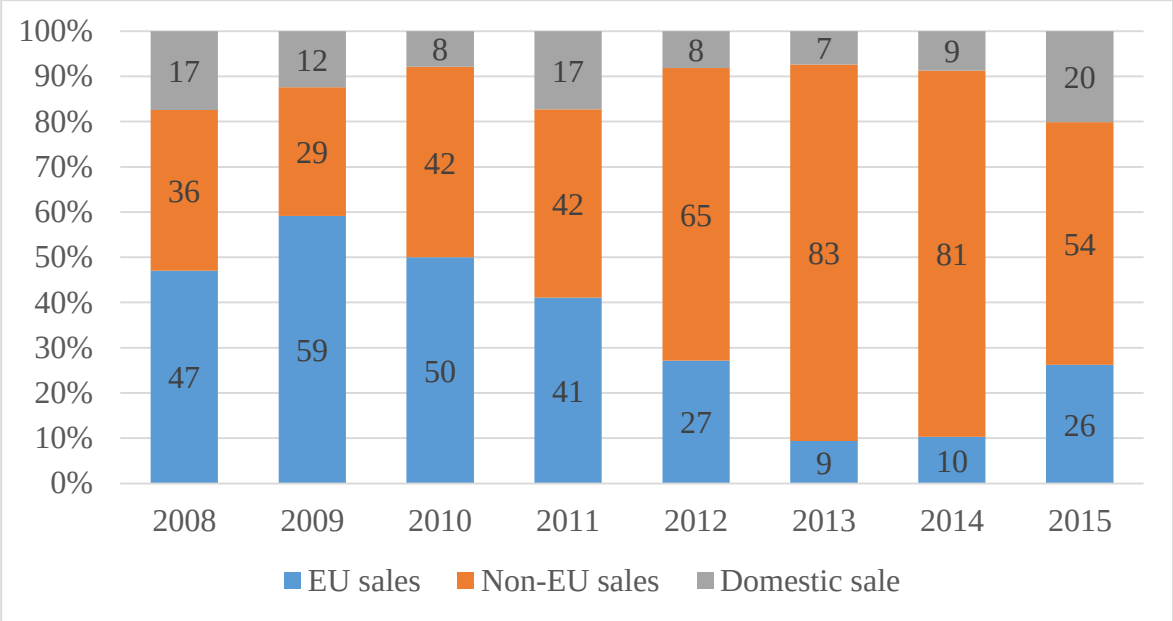
5.3.6.1 Product portfolio and main markets

Litostroj has a wide range of foundry products that can be divided into four main groups. Namely, water turbines, thermal turbines, pumps and valves and machine building. The company ranks as one of the leading producers of high quality components for different types of water turbines, such as Francis turbines, Kaplan turbines and Pelton turbines. Francis turbines are the most popular water turbines in the world today and are mainly used for electrical power production. In addition to electrical power production, they can also be used as a pump in case of low power demand. Kaplan turbines are propeller-type turbine with adjustable blades and are in some ways an improvement of Francis turbines. Innovative Kaplan turbines are commonly used for electrical power production around the world and enable efficient high-flow and low-head hydro power production. The third, Pelton turbines are specially designed to follow a changing demand for electricity with adjustable spear head that controls water flow rate. The second group of products are thermal turbines, which include the production of valve castings and outer and inner castings for steam and gas turbines out of low and high alloyed steel resistant to heat. Under the third group of products, pumps and valves, the company produces housing and impelled of pumps used by ships for dredging of river and sea grounds. Finally, the machine building includes castings for shipbuilding, mills and cement industry (Litostroj Jeklo d.o.o., 2016).

As mentioned before, Litostroj is present in many countries all around the world. Litostoj generates the majority of revenues on the foreign markets. Since 2008, more than 80% of total revenues were generated on the foreign markets each year. In 2013 and 2014, the majority of foreign sale represented the sale in non-EU markets. In 2015, the domestic sale as a percentage of total revenues increased significantly, for 11 percentage points and

represented 20% of total revenues. On the other hand, sales to non-EU countries decreased by 27 percentage points as percentage of total revenues and represented only 54% in total revenues.

Figure 44. Shares of domestic sales, EU sale and non-EU sales in total revenues of Litostroj (in %), 2008- 2015

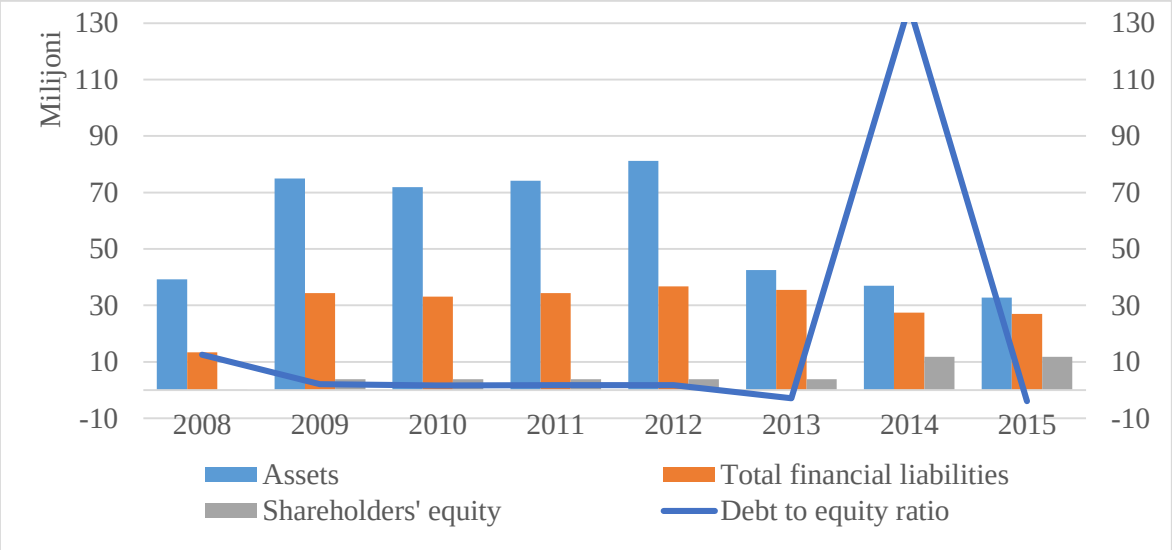


5.3.6.2 Financial overview

Litostroj's financial condition is not very promising. As it is evident in Figure 45, the amount of asset halved from 2012 to 2015. Total financial liabilities almost reached the amount of total assets in 2015. Total assets amounted to 32 million € in 2015, 4 million € less than in 2014 and nearly 10 million € less than in 2013. The change in 2014 was mainly caused by the decrease in short-term assets, inventories of unfinished goods in detail, however in 2015, the value of long-term assets, especially financial investments and fixed assets, decreased significantly.

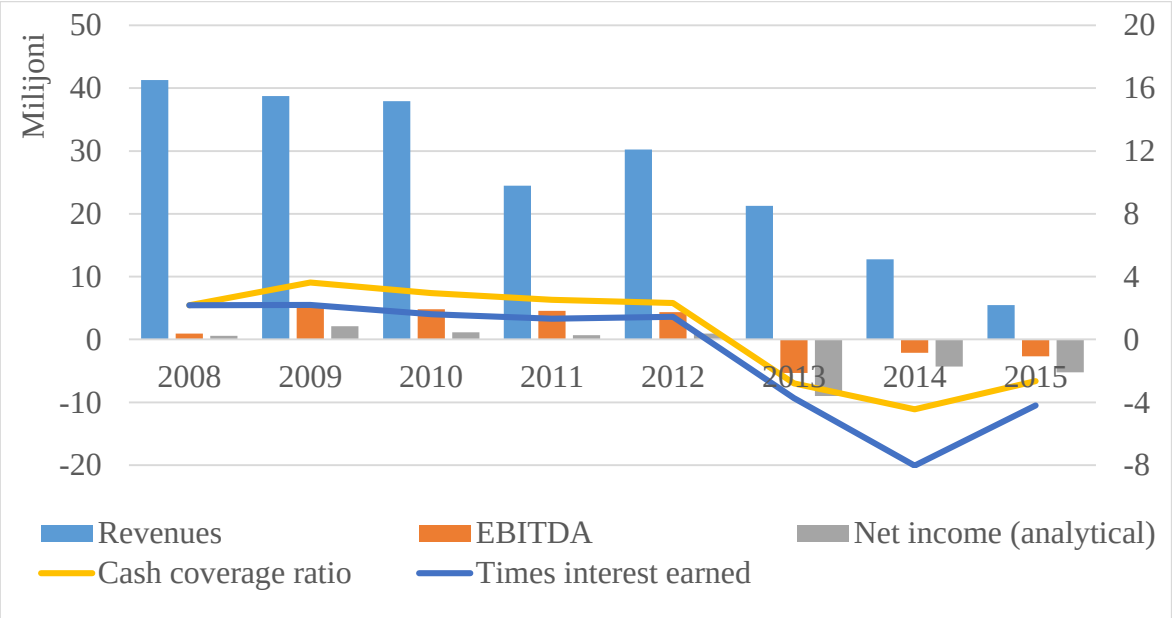
The company was forced to lower the value of unfinished goods by 2.6 million € in 2014, because of several orders cancellations. Total equity amounted to negative 12 million € in 2013 and increased to positive 200 thousand € in 2014 due to 8 million € increase in shared equity, which was converted from the debt toward BAMC. Consequently, total financial liabilities decreased from 35 million € in 2013 to 27 million € in 2014. In 2015, total equity decreased again to negative 6.8 million €, due to the total loss of 7 million €. As a result of liquidity problems in 2015, the company experienced inability to cover its other short-term obligations toward suppliers, employees and the state, which increased for nearly 3 million € compared to 2014.

Figure 45. Total assets, shareholders' equity and total financial liabilities in million € (left) and debt to equity ratio (right) of Litostroj, 2008 - 2015



In the observed period, the company experienced a steep downturn in revenues as well as operating profit and net income. Despite the rising industry, high indebtedness caused Litostroj to collapse completely. Insolvency and illiquidity as effects of high indebtedness prevent the company to meet the demand on the market. They were not able to obtain funds to finance an ongoing production and the working capital neither bank guarantees for business deals, not to mention funds for research and development and other important activities to keep the track with competitors. All that led to a decrease of total revenues by 87% from 2008 to 2015.

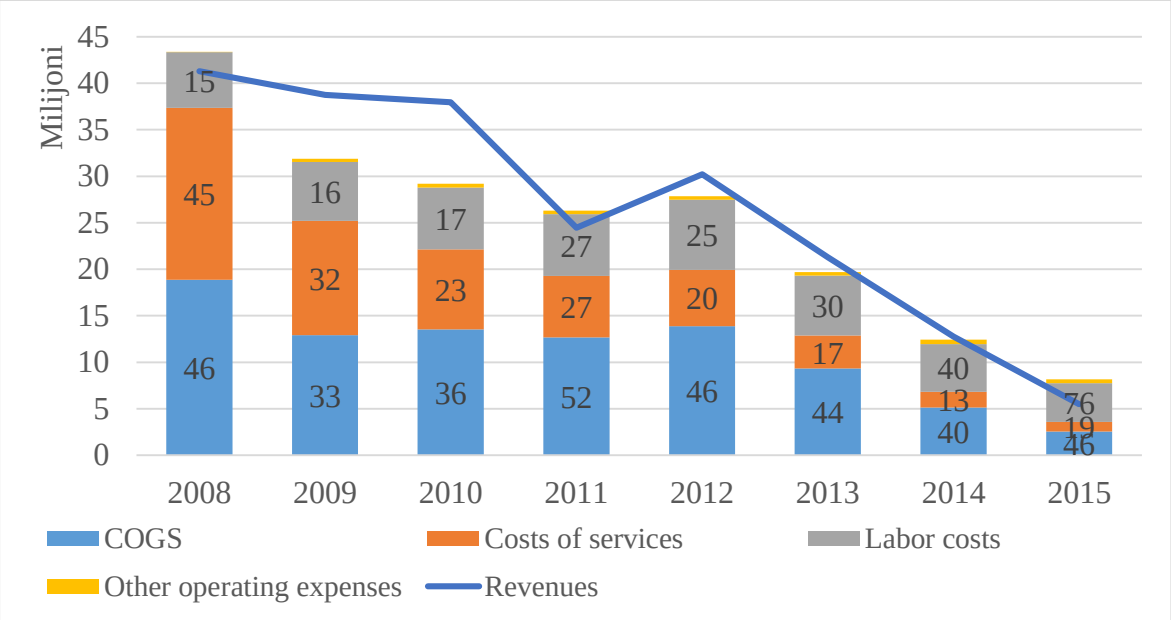
Figure 46. Revenues, EBITDA and analytical Net income in million € (left) and times interest earned and cash coverage ratio (right) of Litostroj Jeklo, 2008 - 2015.



Moreover, they lost important customers and trust with suppliers, which additionally brought revenues down. The company was unable to reduce operating expenses as fast as revenues dropped in 2013 and consequently, EBITDA turned negative. Moreover, due to high interest expenses and 13 million € of impairments made on financial investment, net income turned negative as well.

The company reported 2.5 million € of COGS, 4.1 million € of labor costs and 1 million € of costs of services in 2015. All categories of operating costs decreased in the observed period with revenues, however the decrease in labor costs was not even with the decrease in revenues. For instance, in 2009 labor costs represented only 16% of the amount of revenues, while in 2015 they equaled 76% of the amount of total revenues. Cost of services has been decreasing with revenues and as percentage of revenues, however in 2015, cost of services as percentage of revenues increased again to 19%.

Figure 47. Total revenues in million € and operating expenses by type and as percentage of total revenues of Litostroj Jeklo, 2008 - 2015



5.3.6.3 Restructuring measures and company valuation

We are not able to evaluate the equity for Litostroj as we can with other companies within the portfolio, since EBITDA was negative in 2015. Therefore, we assume the value of equity to be 0 €. With an agreement to repay its debt, the investors should not pay more than 1 € for the company to BAMC.

The company's restructuring would be possible only with sufficient funds to finance current operating obligations and recovery of creditworthiness. By doing that, the company would gain the customers back and suppliers' trust. Industry of electrical power and investment in renewable energy provides sufficient potential for growth. According to the Frankfurt

School-UNEP Centre (2016) renewable energy with 286 billion $ of investments reached a new record in 2015, which is 4 times more than the amount of investments in 2004. Furthermore, half of all newly added power generation capacities were from renewable energy sources and production costs have been decreasing and are forecast to continue decreasing in the following years. In 2015, investments in renewable energy sources increased by 5% in global terms, only China increased the amount of investments by 17%. The main opportunities lie in Middle East, China, North America and India. In general, investments in renewable energy are expected to increase for 25% by 2020 or 5% annually. The demand for products of Litostroj also depends on general electrical power industry. Electricity demand and consumption are closely related to world population and GDP. Both are expected to grow significantly in the following years and consequently, electricity consumption is forecast to continue growing as well, on average 1.4% per year (BP, 2015). With all that in mind and assuming that the company's liquidity improves, we can project revenues to grow 6.4% per years solely on industry movements. In addition, we assume that the company regains the lost customers and improves sales of other products, which would bring revenues to historical levels by 2021.

Costs as percentage of revenues were determined based on values in 2015 and average historical values. COGS on average represented 40% of revenues in the observed period, costs of services on average represented 24%, while costs of labor represented 25%. We should bear in mind that labor costs could represent even lower percentage, because the company was operating with the same level of labor costs (6 million €) in 2009 when it had 25 million € of revenues and in 2013 with only 12 million € of revenues. Furthermore, costs of services and COGS could be reduced with time by regaining historical efficiency and re-establishing long-term relationships with suppliers. Based on that we assume that the labor costs will drop significantly in 2016, because the company has too many employees and some would need to be dismissed. In the long term, the company should reach historical value of labor costs in total revenues (25%). That could also be achieved with new employments after 2017, when the company recovers. We assume COGS decrease a bit in 2016 due to better deals with suppliers and higher efficiency in the production process. After that we assume that COGS stay 40% of revenues until 2021. Regarding the cost of services, we believe the company could lower those significantly by spending money carefully and avoid unnecessary costs. Nevertheless, in one of the possible scenarios, Litostroj could have 4.05 million € of EBITDA in 2021. The calculation is presented in Table 22.

Based on the assumption that private equity fund exits the investment after 6 years in 2021 with EBITDA equal to 4.05 million € and based on the average EBITDA multiple for steel industry being 7.25, we were able to calculate the company's exit value. The company's value could potentially reach 29.4 million € in 2021.

Table 22. Revenues, operating costs and EBITDA projections for Litostroj until 2021 in million €

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	5.48	6.03	6.93	8.32	10.40	13.52	18.25
Revenues growth (%)		10	15	20	25	30	35
COGS	2.55	2.41	2.77	3.33	4.16	5.41	7.30
% of revenues	46	40	40	40	40	40	40
Cost of service	1.04	1.02	1.11	1.33	1.56	2.03	2.55
% of revenues	19	17	16	16	15	15	14
Cost of labour	4.17	3.62	3.60	3.66	3.74	3.78	4.16
% of revenues	76	60	52	44	36	28	25
Other operating costs	0.38	0.06	0.07	0.08	0.10	0.14	0.18
% of revenues	7	1	1	1	1	1	1
EBITDA		**-1.09**	**-0.62**	**-0.08**	**0.83**	**2.16**	**4.05**

Despite the potential increase in Litostroj's value, we conclude that the investor should not include this company in the investment portfolio. This decision is mostly based on Litostroj's current financial situation and the company's negative economic value. Every investment in this company would exceed its value and therefore, the investment is too risky.

5.3.7 Mariborska Livarna Maribor d.d.

Mariborska Livarna Maribor d.d. (hereinafter: MLM) is a manufacturer of different aluminum components for automotive, electrical, white goods and cooper industries. According to SKD, it operates in machining industry and is one of the biggest Slovenian manufacturing companies. The majority owner of MLM is BAMC with 67% share in total share equity, followed by Republic of Slovenia, owning 32.7% of the company. Based on the value of assets, revenues and number of employees, the company is placed in the group of large companies. The main characteristics of MLM are summarized in Table 23.

Table 23. The summary of main characteristics of MLM

Industry	C 25.620 – Machining
Headquarter	Maribor, Slovenia
Ownership	67% BAMC
Total financial liabilities	29 million € at 31.12.2015
EBITDA	1.2 million € in 2015
Export	89% of total revenues in 2015
No. of employees	514 employees in 2015

Source: Mariborska Livarna Maribor d.d., *Annual report of MLM d.d. for 2015,* 2016.

MLM set up three additional entities, namely MLM ARMAL d.o.o., Beograd, MLM Alutec Bugojno d.o.o. and Armal Internacional GmbH with an aim to promote sales on the foreign markets. Only MLM Armal d.o.o. is still operating, the last two are in the process of liquidation or in bankruptcy procedure. MLM had 514 employees in 2015, 61 more compared to the year before and 278 less compared to 2008 (MLM d.d., 2016).

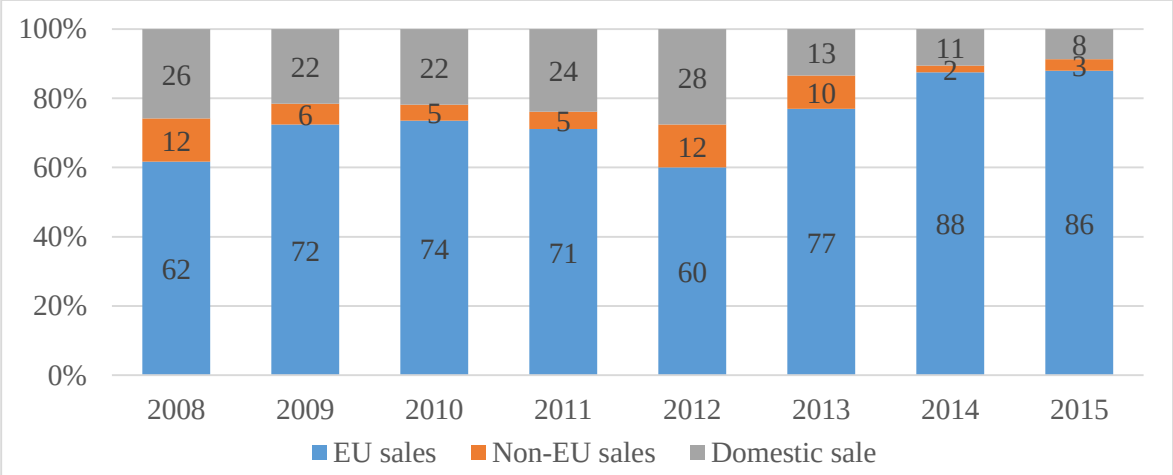
The company's mission is to incorporate knowledge and innovative technology in products that are recognizable by high quality, high value added and clear identity. It aims to continue with sales on the European markets and gradually penetrate into non-EU markets. The company's vision is to focus on production of aluminum alloys and increase, even double the sales of die-castings to global automotive industry. The company aims to increase their competitiveness with investments in new technologies, by optimizing manufacturing processes and by meeting customers' requirements. The company's main opportunities lie in their products, which fulfill high quality standards based on the gained quality certificates and with expansion to non-EU markets. Furthermore, some weaknesses that the company currently faces could be reduced and turned into opportunities. The main weakness of the company originates from inefficient operations, especially purchasing of materials and inventory management. Due to high dependence on material prices, this is one of the most important areas that MLM should improve. Moreover, long-lasting relationships with limited number of suppliers could improve payment terms and increase rabats. MLM's main materials are aluminum, copper and nickel. The company has already implemented some changes in purchasing department and processes, which could be optimized even further. Another weakness that is present in this case is liquidity problem, which can significantly affect costs of material and services. Insufficient amount of funds to finance the working capital can mean higher material prices and worse payment terms with suppliers. Additionally, MLM currently experiences inefficient flow of material, resulting in higher inventory costs. This could be improved by the centralized system for material collection, material storage and stock control. Despite the moderate financial problems, MLM still invests in research and development of new products. In 2014, they managed to develop 43 new products mainly for the biggest customers in automotive industry (MLM d.d., 2016).

5.3.7.1 Product portfolio and main markets

Product portfolio of MLM includes broad spectre of tools and mechanical aluminium die-casting. The first is semi products from casted aluminium with mechanical treatment, called PE Alutec. Different types of tools are being produced, such as tools for press-die casting, cutting tools, tools for chill casting and forging tools. It is the fastest growing programme, regarding revenues. MLM manufactures serial products as well as specific, adjustable products with the help of 3D modelling. 90% of all products produced within this group are sold to automotive industry and the remaining 10% are sold to electrical and machine industry. Consequently, this segment of MLM production mainly depends on trends in automotive industry, especially personal vehicles, however there is an opportunity to expand

into transportation vehicles segment as well. Some of the important customers of MLM are Volkswagen, BMW and Mercedes-Benz. Under PE Alutec, the company also manufactures tools for die-castings and pressed parts, however strong competition is present on the market for these segments. Pressed parts are mainly sold to companies in the construction industry, which have not yet recovered from the last financial crisis. The second programme includes forged semi products from brass alloys developed for broad spectre of industrial customers. Simple shaped to custom shaped drop-forged forgings are suitable for further mechanical treatment for the installation in final products. Additionally, MLM produces radiators under Aklimat brand, however in the smaller production volume. It expects to re-enter the markets of Russia and Ukraine and increase the sales on western markets. This segment highly depends on sales activates and prices of aluminium (MLM – Proizvodi, 2016; MLM d.d., 2016).

Figure 48. Share of revenues generated on domestic, EU and non-EU market for MLM (in %), 2008 - 2015



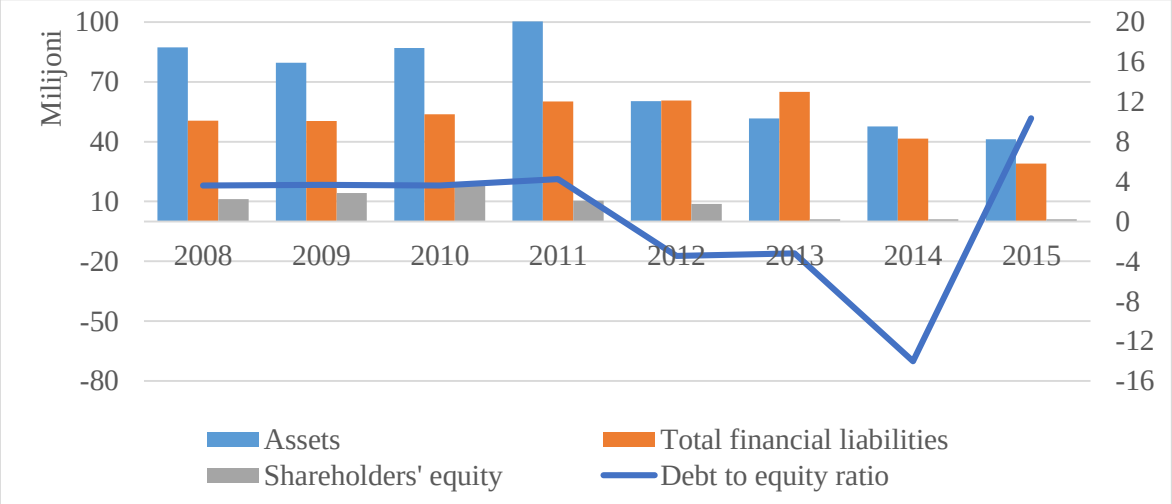
MLM is export-oriented company with more than 89% of total revenues generated on the foreign markets in 2015. Share of sales on the domestic market has been constantly decreasing in the observed period and in total shrank by 18 percentage points to 8% of total revenues in 2015 (see Figure 48). Out of the foreign sale, more than 90% is generated on the EU markets. Non-EU markets represent considerable opportunity and potential for MLM.

5.3.7.2 Financial overview

Financial and operating performance of MLM was in great extent influenced by the financial crisis. Total assets decreased for more than 50% from 2008 to 2015. In 2015, MLM had around 41 million € in total assets, out of which 30 million € in fixed assets, 5 million € in inventories and 4 million € in trade receivables. Total financial debt has been increasing since 2008 until it reached the peak (64 million €) and exceeded the value of total assets in 2013. Afterwards, MLM went through a compulsory settlement and financial restructuring forced by banks creditors. At this time, BAMC became the majority shareholder by

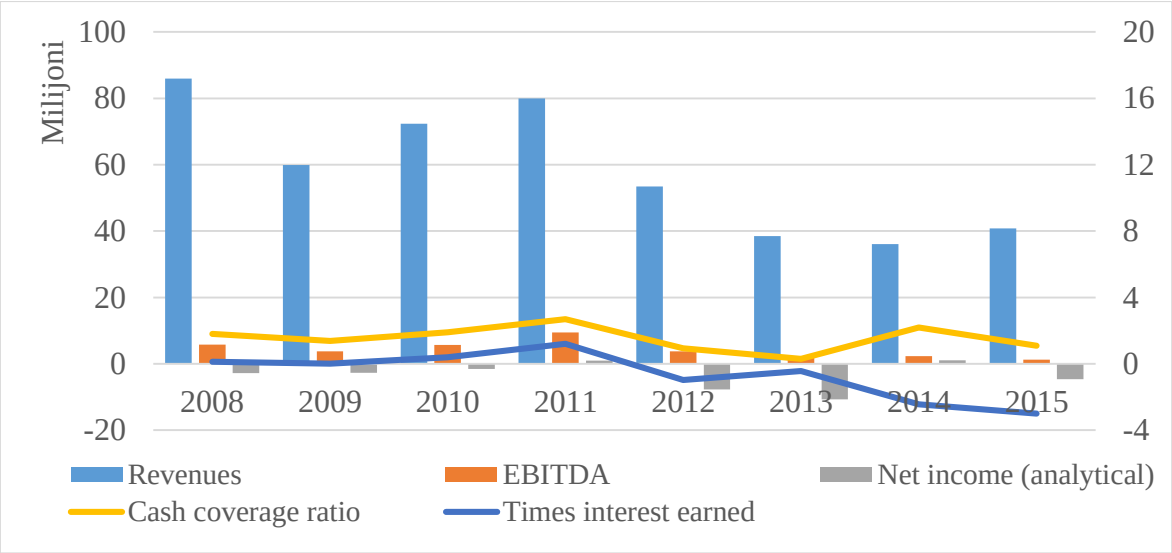
converting part of the debt to equity. Total financial liabilities were reduced to 29 million € in 2015 and total equity turned positive after being negative for the last three years. Total equity amounted to 2.8 million €, out of which shareholder equity amounted to 1 million € in 2015.

Figure 49. Total assets, shareholders' equity and total financial liabilities in million € (left) and debt to equity ratio (right) of MLM, 2008 – 2015



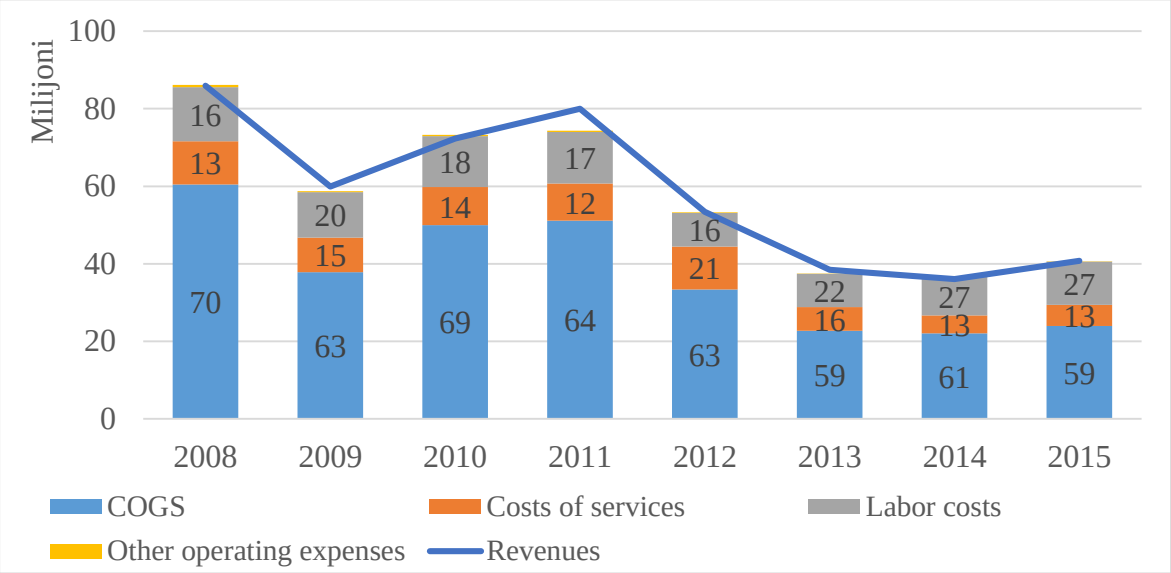
Revenues of MLM followed the declining trend of total assets, but the company experienced the increase in revenues for 13% in 2015 compared to 2014. The upturn was mainly driven by an increase in sales on the EU markets, which were 3 million € higher than in the previous year. Despite the increase in revenues, EBITDA and net income continued to shrink. Based on times interest earned ratio, MLM did not manage to generate sufficient funds to meet interest obligations in 2015.

Figure 50. Revenues, EBITDA and analytical Net income in million € (left) and cash coverage and times interest ratio (right) of MLM, 2008 - 2015



According to operating performance in the previous years, MLM has a potential to improve its operating efficiency. Labour costs for instance, increased in 2015, despite the fact that the company generated similar or higher level of revenues with lower labour costs in the past (see Figure 51). Furthermore, COGS highly depend on market prices of material and engagement of purchasing department in the market analysis and negotiations with the suppliers. Therefore, the reorganization of purchasing process and activities could reduce COGS significantly. Cost of services, which includes transportation costs, marketing costs and similar could be optimized as well. In 2015, those costs represented 13.4% in total revenues, which is 1.4 percentage points more than in 2011.

Figure 51. Total revenues in million € and operating costs by type in million € and as percentage of total revenues of MLM, 2008 - 2015



5.3.7.3 Restructuring measures and company valuation

The company's valuation is based on market approach using EBITDA multiple method. EBITDA multiple retrieved from Damodaran Online for the metal and mining industry equals 8.1 (average of Western-Europe and emerging markets EBITDA multiple) and reduced by private company and unhealthy company discount equals 4.4. The value of the equity is as follows:

$$V_E = \left(\frac{EV}{EBITDA_{discounted}} * EBITDA_{2014}\right) - V_D =$$

$$(4.4 * 1.2\ million\ €) - 28\ million\ €\ = -22.5\ million\ € \qquad (10)$$

As evident from the calculation above, the value of the equity with 28 million € of financial liabilities taken into consideration, equals negative 22.5 million €. With an agreement to repay the companies' debt, the investors should not pay more than 1 € for the company.

Exit value of the company was calculated based on simple projections made for revenues, operating costs and EBITDA. Since automotive and construction industries are the main markets of MLM, growth projection for those two industries were included in the revenues growth estimation. Based on Global light vehicle production forecast from 2015 to 2022 (2016), the global automotive industry production will grow from 88.6 million units produced in 2015 to 107.5 million units produced in 2021, resulting in 3.5% average annual growth rate. We assume the growth rate to be a bit higher than average in 2016 to 2018 (4.5%) and lower between 2019 and 2021 (2.5%). According to Building Radar GmbH (2015), the growth rate of construction industry will reach 2.5% on an annual basis in the following years. Proportions of automotive industry and construction industry growth rate included in total revenues growth rate are 80% and 20%, respectively. Furthermore, we assume an expansion on non-EU markets could contribute 2% in 2016 to 10% in 2021 to revenues growth with a progressive increase through the period. On the costs side, we estimated future values based on historical shares in total revenues, suggested improvements and material prices projections. Regarding COGS, prices of aluminium will rise, 1% annually until 2021, while other material prices are expected to decline (International Monetary Fund, 2016). Since the volatility in material prices is uncertain and can be affected by various factors, such as economic conditions and exchange rates, we assume the improvements in purchasing department presented in the company's overview and potential increase in material prices will result is stable COGS as percentage of revenues. We assume cost of labour to decrease as percentage of revenues by maintaining fixed number of employees, regardless of revenues growth. This assumption can be supported by the fact that the company successfully operated with labour costs amounting to only 16% of total revenues in 2008, 2011 and 2012 (see Table 24).

Table 24. Revenues, operating costs and EBITDA projections for MLM until 2021 (in million €)

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	40.76	43.41	47.10	51.67	57.71	65.16	73.04
Revenues growth (%)	13	6.5	8.5	9.7	11.7	12.9	12.1
COGS	23.93	25.18	27.32	29.97	33.47	37.79	42.36
% of revenues	59	58	58	58	58	58	58
Cost of service	5.47	5.64	5.65	6.20	6.93	7.82	8.76
% of revenues	13	13	12	12	12	12	12
Cost of labor	11.17	10.85	11.30	11.88	12.70	13.03	13.15
% of revenues	27	25	24	23	22	20	18
Other operating costs	0.03	0.04	0.09	0.10	0.12	0.20	0.22
% of revenues	0.1	0.1	0.2	0.2	0.2	0.3	0.3
EBITDA		**1.69**	**2.73**	**3.51**	**4.50**	**6.32**	**8.55**

Based on the assumption that the investor will exit the company in 2021, we can estimate that the exit value of the company could potentially reach 69.7 million € by 2021.

5.3.7.4 Investment value estimation and IRR calculation

In the valuation of present value of investment in MLM, we took into consideration the fact that BAMC holds only 67% of shares in MLM. The owner of the remaining 23% is Slovenian Sovereign Holding (Sln. *Slovenski državni holding*; hereinafter: SDH), the representative of the Republic of Slovenia. We assume the investor would enter the company by investing 100% of the total current value of the company (4 million €). In case of MLM, the investor should negotiate the price and debt repayment terms with both owners and thereby become the company's full owner.

As of 31 December 2015, MLM had nearly 33.5 million € of liabilities toward BAMC, SDH, other banks and other creditors. Nearly 60% of those are liabilities toward BAMC, around 7% are liabilities toward second owner – the Republic of Slovenia, split between SDH and SID Bank. Total liabilities exceed the company's value by more than 27 million €. The company's value was calculated as the sum of economic value and the value of assets for sale. In order to avoid paying more for the company than it is worth, the investor must negotiate certain haircuts on existing debt. However, a haircut cannot be applied to 4.5 million € of debt, since this is the debt toward government and employees and the debt resulting from compulsory settlement. On the other hand, we could assume 100% haircut for overdue interest for loans provided by banks and other current operating liabilities in total amount of 0.4 million €. This leaves us with 27 million € of required haircut on the rest of the debt. We assume the equal % of haircut is applied to all liabilities. Among those are liabilities toward BAMC (19.8 million €) and other banks (4.8 million €), liabilities toward SDH and SID Banka (2.5 million €) and other financial liabilities (1.5 million €). Based on the calculation presented in Appendix E, the required haircut on those liabilities reaches 95%.

The investors could make the following offer. They would offer BAMC 1.03 million € for their 67% share in the company and 100% of their claims and 0.13 million € to SDH for their 23% share and claims of SDH and SID Bank. They would need to agree with other creditors to apply 95% haircut on their claims as well. They would also repay 0.9 million € of liabilities toward government and employees. If we assume the RS's interest is to keep the company operating, keep employees employed and to repay creditors, we can say that SDH (RS) would accept this offer.

Based on the initial investment, potential cash flows and potential exit value, we assume this company could generate IRR of 91% and the investment multiple could reach nearly 11.7. Despite the huge value of total liabilities in 2015 (36 million €), the potential return on this investment is highly promising. As a result, MLM shall be included in the proposed investments portfolio.

5.3.8 Fori d.o.o.

Fori d.o.o. (hereinafter: Fori) is a manufacturer of sheet metal and plastic semi-products and products for automotive industry and the industry of home appliances. The company was founded in 1989 as a producer of simple components for home appliances. The Fori's majority shareholder is Fori Skupina d.o.o., owning 73% of the company, followed by natural person owning 20% and the remaining 7% is owned by NTU d.d. Fori Skupina d.o.o. is the parent company of Fori Group, which also includes TT Okroglica d.d., Qingdao Sinsitec Ltd., China, Fori Products d.o.o., NTU ENA d.o.o. and Zastava Tapacirnica a.d., Serbia. Fori d.o.o. owns 81.65% equity share in Emo-Tech d.o.o. and 28.19% equity share in IGEA d.o.o. – in liquidation. The main characteristics of Fori are summarized in Table 25.

Table 25. The summary of main characteristics of Fori

Industry	C 27.510 – Manufacture of electric domestic appliances
Headquarter	Velenje, Slovenia
Ownership	73% Fori Skupina d.o.o.; 20% natural person; 7% NTU d.d.
Total financial liabilities	13 million € as at 31.12.2015
EBITDA	1.4 million € in 2015
Export	48% of total revenues in 2015
No. of employees	66 on average in 2015

Source: Fori d.o.o., *Annual report of Fori d.o.o. for 2015*, 2016.

The company currently owns three production facilities, two in Slovenia and one in Serbia. In Velenje, it manufactures products and components solely for the industry of home appliances and in Slovenj Gradec, it manufactures products for both main industries. In 2013, Fori settled an additional production facility in Serbia to cover demand of both main production programs.

The company's mission is to design, develop and produce products that will make people happy when using them in the kitchen or while being in a car. The Fori's vision is to become a recognizable OEM supplier of semi-products and finished products for automotive and home appliance industry. It aims to be recognized by reliability, innovation, flexibility and care for environment. The main strength of Fori lies in its products. Broad assortment, fast response to market needs and high quality are some of the main features of Fori's production. Moreover, in 1997, Fori implemented ISO 9001 quality standard, in 2000 ISO 14001 environmental standard and in 2009 obtained ISO/TS 16949 quality certificate for automotive industry. Great design of products combined with new technologies and environmental-friendly materials is another advantage of Fori. It invests a significant amount in design and cooperates with external design experts in order to produce nice looking products. According to Fori, high quality, extended functionality and aesthetics are product

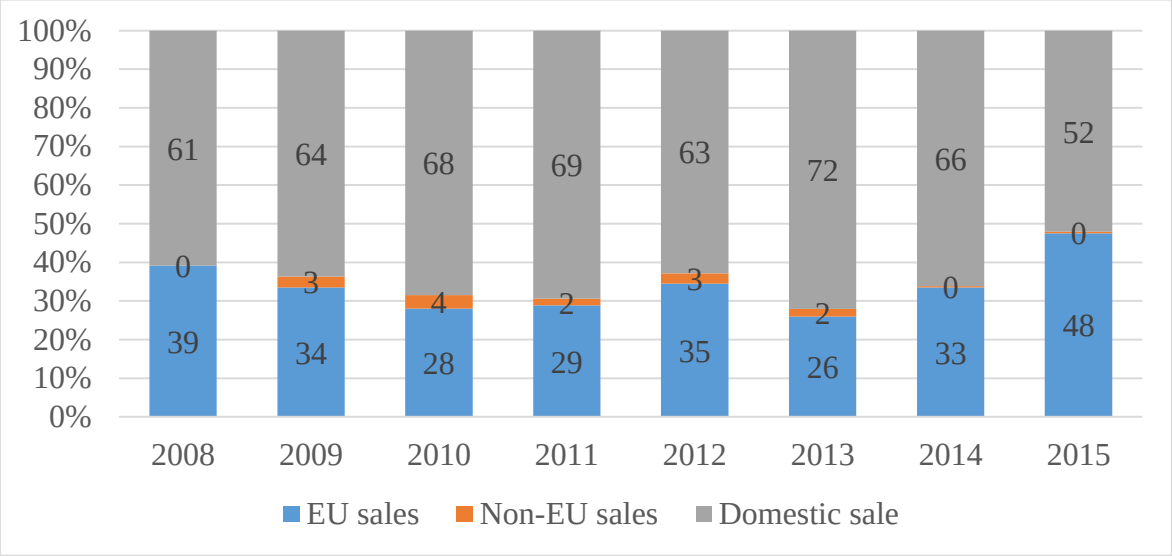
features most valued by customers of home appliances. Furthermore, Fori has an advantage of being present in low cost countries. This opens the opportunity for cheaper materials and consequently cheaper production. On the other hand, the company's main weakness is high liquidity risk, which could negatively affect sales and operating expenses. Furthermore, efficiency of purchasing process could be improved. Because Fori purchases the material from more than 120 different suppliers, volatility of material prices can increase and COGS can be hard to predict. Fori could establish long-term relationships with few suppliers and consequently improve terms and stabilize prices. Another weakness of Fori is stagnating home appliance industry, which it highly depends on. However, it could be turned into an opportunity for future growth by expansion of sales into Easter European market and other non-EU markets. By establishing its own boutique brand for home appliances with great design, Fori could enter new markets and stimulate stagnating sales of home appliances program. In addition to that, also revenues from automotive industry could be further increased by establishing long-term relationships with customers outside EU. Because Fori entered automotive industry just a few years ago, there is still a high potential for market share increase (Fori d.o.o., 2016).

5.3.8.1 Product portfolio and main markets

Fori divides its products into three main groups, based on the industry they serve, namely, household appliances, cars and integrated solutions. Under the group of household appliances, Fori produces built-in appliances of gas hobs, sinks and inox cooking centres, as well as plastic or steel metal components, wires and pumps that can be various kinds and are adjusted to customer's needs. The main customers for this group of products are Gorenje d.d., BSH, Atag, Končar kučanski aparati d.d., Blanco, Petra Electric and De Longhi. The second group of products includes plastic and metal steel parts for cars. In the recent year, Fori managed to gain new customers and expand automotive programme significantly. In 2012, it started with the bigger production of plastic and metal steel interior car parts. Today, it produces interior parts for the leading global vehicle manufacturers, such as Ford, Škoda, Volvo and BMW. Fori's main customers for this segment are Faurecio, Antolin, JCI and Grammer and Fori has signed long-term partnership agreements with all four. Regarding the third group of products, Fori recognized the opportunity in offering comprehensive support for product development. With the variety of the available technology, it receives an increasing number of requests for help in solving construction issues that customers face thought the entire process of product creation (Fori – Programi, 2016).

In the past, Fori was generating more than 60% on the domestic markets and the remaining revenues were generated mainly on EU markets. In 2015, Fori significantly increased its share of revenues generated on EU markets. It increased from 39% in 2008 to 48% in 2015. On the other side, the share of domestic sales decreased in 2015 from its peak in 2013 for 20 percentage points. This change was mainly driven by the increase in sales of plastic and metal steel interior car parts.

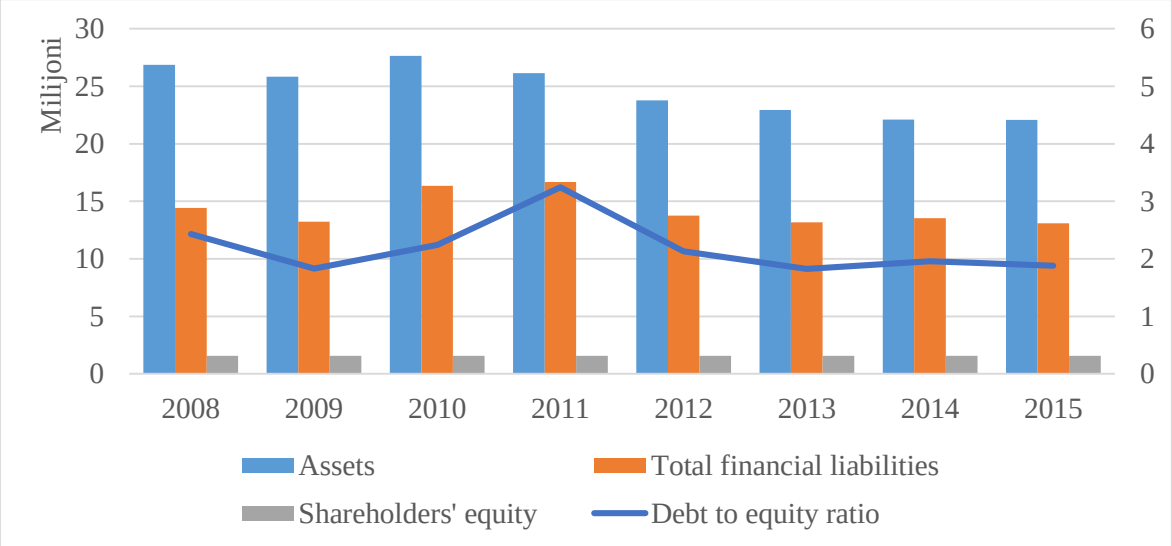
Figure 52. Share of revenues generated on domestic, EU and non-EU market for Fori (in %), 2008 – 2015



5.3.8.2 Financial overview

Fori has not experienced substantial changes in the values of total assets and total liabilities throughout the observed period. The value of total assets reached the peak in 2010 with 27 million €, until 2015 the value decreased by 5 million € to 22 million €. A similar pattern can be observed for total liabilities. From the highest value of 16 million € in 2011, total liabilities decreased for 3 million € until 2015. Except from 2011, debt-to-equity ratio was around 2 for the whole period. Under short-term assets, the company had the biggest portion in receivables, around 4.2 million € in 2015, out of which 1.2 million € were receivables toward the companies within the Group.

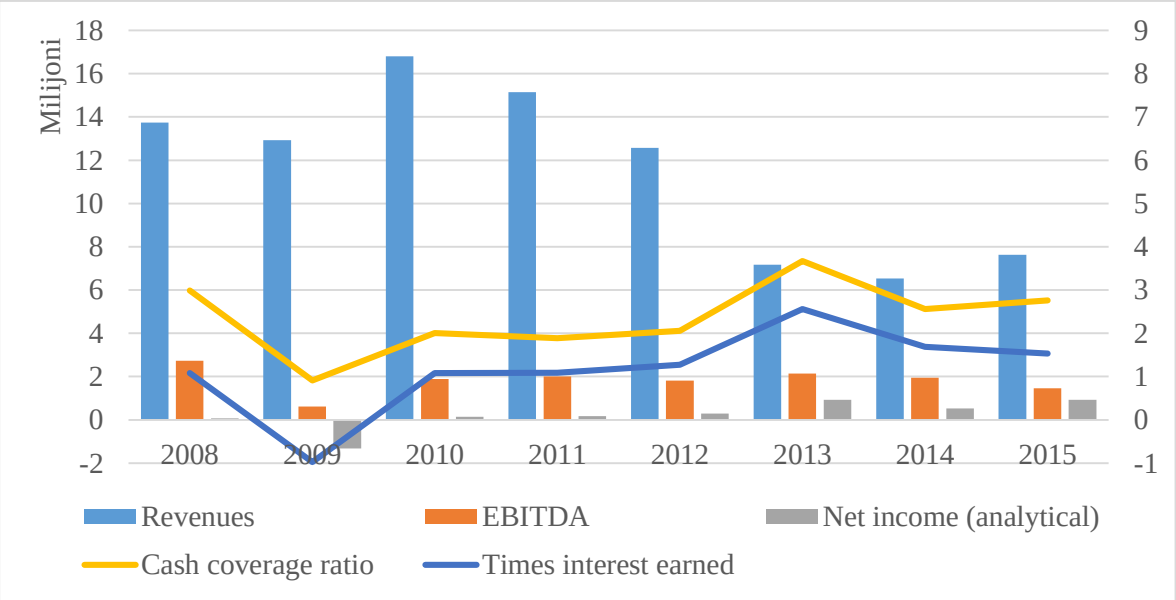
Figure 53. Total assets and total liabilities in million € (left) and debt to equity ratio (right) of Fori, 2008 – 2015



Moreover, the company provided short-term loans to companies within the Group in amount of 1.2 million €. As of 2014, the company also tries to sell its share in Emo-Tech d.o.o., the daughter company, the value of which amounts to 3.6 million € and is included in long-term financial investments. On top of total liabilities of Fori, the investors should take into account an additional 7.5 million € of financial liabilities of Emo-Tech, which generated only 1 million € of revenues in 2015 and is definitely not able to repay its own debt.

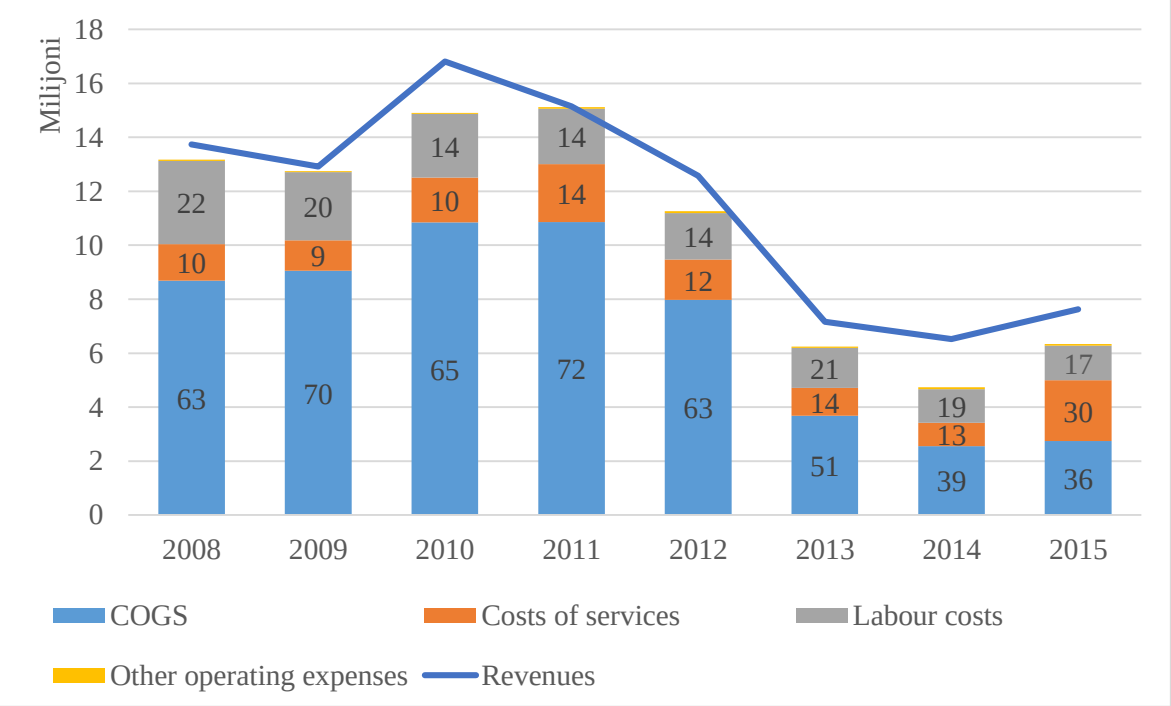
Fori faced a significant decrease in revenues in the recent years. After the financial crisis in 2010, they managed to reach the peak of 16 million € in revenues, however in the following years, revenues decreased for more than 50%. In 2014, it generated only 6.5 million € of revenues, the company improved in 2015 and revenues increased by 1.2 million € (see Figure 54). 48% of total revenues were generated on EU markets, the rest on the domestic market. Since 2011, the share of foreign sale increased by 17 percentage points. Around 40% of revenues in 2014 were generated by home appliance program and around 32% by automotive programme. Due to the fast growth of automotive sales since 2012, it is expected that this segment will grow further and will represent a major share in revenues by 2021. Despite the changes in revenues, the company managed to keep EBITDA on the same level since 2010, around 2 million €, only in 2015 EBITDA fell to 1.5 million €. Based on that we can assume the company improved its operating efficiency enormously since 2010. Total equity of Fori equalled 6.9 million € in 2015, out of which shared capital represented 1.5 million €, the rest were capital reserves (2.2. million €) and fair value reserves (2.9 million €). The ability of covering financial obligations is presented with cash coverage and times interest earned ratio. Both ratios show that the company has been generating sufficient cash flow for covering its interest obligation since 2010.

Figure 54. Revenues, EBITDA and analytical Net income in million € (left) and Cash Coverage and Times interest ratio (right) of Fori, 2008 - 2015



Based on the costs analysis presented in Figure 55, we can see that Fori managed to improve its costs efficiency with time. In 2015, COGS represented only 36% in total revenues, which is half the share compared to 2011. The share of costs of services in total revenues was also decreasing since 2014, however in 2015, the share increased significantly again to 30%. The increase was caused by an unusually high amount of other costs of services (1.8 million €), for which the explanation is not available. The number of employees has been decreasing since 2008 and accordingly, total labour costs decreased as well, however as share in revenues labour costs increased in 2015 compared to 2010-2012 for 3 percentage points. In the last three years, the company managed to decrease the share of labour costs in total revenues by 4 percentage points.

Figure 55. Total revenues in million € and operating expenses by type and as percentage of total revenues of Fori, 2008 - 2015



5.3.8.3 Restructuring measures and company valuation

The company's valuation is based on market approach using EBITDA multiple method. Since the company is operating in home appliance industry, as well as in auto parts industry, we combined EBITDA multiple of both industries and calculated an average of both. EBITDA multiple retrieved from Damodaran Online for the auto parts industry equals 10.3 and for furn/home furnishing industry[16] equals 11.2, the average of both equals 10.8. Furthermore, we reduced the multiple by the private company and unhealthy company

[16] Based on companies included in Furn/Home furnishing industry by Damodaran we believe EBITDA multiple fort this industry is most appropriate for the valuation of Fori

discount and the final EBITDA multiple used for the evaluation of Fori equals 5.8. The calculation of the value of equity is as follows:

$$V_E = \left(\frac{EV}{EBITDA_{discounted}} * EBITDA_{2014}\right) - V_D =$$

$$(5.8 * 1.45\ million\ €) - 13\ million\ €\ = -4.5\ million\ € \quad (11)$$

As evident from the calculation above, the value of equity with 13 million € of financial liabilities taken into consideration, equals negative 4.5 million €. With an agreement to repay companies' debt, the investors should not pay more than 1 € for the company. Because owners will probably not be willing to sell the company, the investor can consider buying BAMC claims toward Fori, which are currently on sale.

Exit value of the company was calculated based on simple projections made for revenues, operating costs and EBITDA and based on the assumption that the private equity investor becomes a full owner of Fori, after buying claims from BAMC and converting them into equity. Since automotive and home appliance industries are the main markets of Fori, growth projection for those two industries were included in the revenues' growth estimation. According to Global light vehicle production forecast from 2015 to 2022. (2016), the global automotive industry production will grow from 88.6 million units produced in 2015 to 107.5 million units produced in 2021, resulting in 3.5% compounding annual growth rate. We assume the growth rate to be a bit higher at the beginning and slowed down in the later years. Based on Household appliances consumption value worldwide (2016), home appliance global consumption will grow on average by 3.5% until 2020. For the purpose of this analysis, we assume the growth will slow down by 0.2 percentage point each following year. Similarly as automotive industry, the growth will be higher in the first years and will slow down afterwards. Because Fori's production for automotive industry has increased substantially since 2012, we assume it will represent at least 50% share in total revenues by 2017. Based on that, we took an average of both growth rates to calculate revenues prediction. Moreover, the estimated growth rate was increased, based on the knowledge that the company has just entered automotive industry and has a potential to significantly increase the market share. Furthermore, there is a potential for expansion on non-EU markets and establishment of own home appliance brand, which was also included in the estimated growth rate.

On the costs side, we assume COGS will stay on 2015 level as percentage of revenues. For costs of services we predict to decrease in 2016 compared to 2015 to 2014 level as percentage of revenues and afterwards, further optimization on costs of services can be performed. We assume labour costs will stay stable at 17% as share of total revenues in order to establish the opportunity for the company to hire new employees with increasing revenues.

Based on the assumption that the investor will exit the company in 2021, we can estimate the exit value of the company potentially rise to 53 million € by multiplying projected EBITDA for 2021 and EBITDA multiple presented above (10.8).

Note that Fori d.o.o. is part of Fori Group (Sln. *Fori Skupina*). BAMC is currently selling claims toward Fori Group as a whole. This includes claims toward Fori d.o.o. (8.8 million €), Emo-Tech d.o.o., daughter company of Fori d.o.o. (7.4 million €), Elvel d.o.o. (4.7 million €) and TT Okroglica (2.6 million €) and Fori Skupina d.o.o. (0.9 million €). All together in total amount of 25 million € (BAMC d.d., 2016). By purchasing the package of claims toward Fori Skupina, the investor would become the biggest creditor of all the listed companies.

Table 26. Revenues, operating costs and EBITDA projections for Fori until 2021 (in million €)

	Actual	**Pro forma**					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	7.63	8.61	9.70	10.68	11.75	12.62	13.47
Revenues growth (%)		12.8	12.7	10.1	10.0	7.4	6.8
COGS	2.74	3.10	3.49	3.84	4.23	4.54	4.85
% of revenues	36	36	36	36	36	36	36
Cost of service	2.25	1.20	1.26	1.28	1.29	1.26	1.35
% of revenues	30	14	13	12	11	10	10
Cost of labour	1.28	1.46	1.65	1.82	2.00	2.14	2.29
% of revenues	17	17	17	17	17	17	17
Other operating costs	0.06	0.07	0.06	0.06	0.07	0.06	0.07
% of revenues	0.8	0.8	0.6	0.6	0.6	0.5	0.5
EBITDA		**2.77**	**3.24**	**3.67**	**4.16**	**4.61**	**4.92**

5.3.8.4 Investment value estimation and IRR calculation

Fori d.o.o. is part of Fori Group and BAMC is selling the claims toward five companies within the Group. We would suggest buying claims only toward Fori and daughter company Emo-Tech. In total BAMC holds more than 15 million € of debt toward Fori and its daughter company, which is more than 73% of total liabilities included in the analysis. Beside liabilities toward BAMC, Fori has 5.6 million € of debt provided by other creditors. On the other hand, the value of company equals 10.3 million €, which is the sum of economic value (8.5 million €) and the value of assets for sale (1.8 million €). Based on that, we can tell that the debt exceeds the value of company by 11 million €. At the same time, this represents the required haircut that investors should achieve with negotiations.

The same as with previous cases, we suggest the liabilities toward government (0.2 million €) and employees (0.2 million €) as well as financial lease (0.3 million €) are repaid in total, while other current operating liabilities, for which there is not any explanation what is

included, should be written-off in total. For the remaining 20.6 million € of liabilities, the investors should negotiate partial haircut. With an aim the price for claim does not exceed the value of a company, there should be partial haircut of 54% introduced to those claims. BAMC and other banks would need to sell their claims for little less than half of the current value.

An investor should offer 7.5 million € to BAMC and 2.3 million € to other creditors as well as agree to repay the debt toward government (0.2 million €) and employees (0.2 million €) and continue repaying financial lease. In return, it would become the owner of all claims toward Fori. With the assumption that there are no guarantees provided for loans by owners of Fori Group or any other company within the Group, the investor could enter the company as follows. By requesting immediate repayment of debt from Fori and Emo-tech, which we assume it will not be possible based on the company's financial situation, the investor could force owners of Fori to make debt to equity swap and he could ideally become the company's full owner.

Despite the substantial value of total liabilities in 2015 (13 million €) and liabilities of the daughter company Emo-Tech d.o.o. (6 million €), the potential return on this investment is highly promising. The potential IRR of the company equals 58% and DPI could potentially reach 5.2. As a result, Fori shall be included in the proposed investments portfolio.

5.4 Hypothetical turnaround portfolio of private equity fund

Hypothetical turnaround portfolio of private equity fund developed and presented in this master thesis consists of 6 Slovenian manufacturing companies. All of 6 companies are still operating and are available for sale at BAMC. As already mentioned in the previous section, we suggest not including Litostroj Jeklo and TT Okroglica in the portfolio. Private equity fund would need to place bids for shares or claims of companies included in the portfolio. Since the debt of those companies is huge and none of those companies can repay it in current conditions, there is a high potential for favorable outcome in negotiations for price with BAMC. Private equity fund should negotiate the deal in a way to become the majority shareholders by repaying outstanding debt of those companies. In case BAMC would agree on reducing the amount of outstanding debt, the price for companies could increase, however the price should not exceed the calculated current value of companies. Considering the above calculations and assumptions, we can conclude that the required initial investment for this investment portfolio should not exceed 37.8 million €.

When private equity fund would decide to buy the companies within the portfolio, specific expertise and knowledge would be required in order to achieve EBITDA projections as presented for each company. Primarily, the fund would need managers with experiences in dealing with distress companies and turnarounds. Secondly, managers with experiences in manufacturing, metal industry, automotive industry, home appliances industry and similar

would be needed. Furthermore, since costs cutting would be necessary in most of the cases, knowledge and experiences in this area would be appreciated as well. On top of that, good negotiation skills of managers are required, due to many negotiations required with the suppliers for material prices.

After the period of six years, we assume the fund will exit the portfolio of companies by selling them at prices presented in the previous sections for each company. Based on this, we can assume that exit value of all 8 companies together could reach 292.8 million €. Therefore, IRR of the portfolio is 77% and the investment multiple equals 7.7. All cash flows, initial investment values and potential exit values are summarized in the Table 27.

Table 27. Projections of initial investments, cash flows, exit values, IRRs and DPIs for all 8 companies included in the investment portfolio

	2016	**2017**	**2018**	**2019**	**2020**	**2021**			
	Initial investment	**CF2**	**CF3**	**CF4**	**CF5**	**CF6**	**Exit Value**	**IRR**	**DPI**
Alpina	-9.30	3.54	4.50	5.06	5.69	6.40	73.31	78%	7.89
Beti	-6.36	2.21	2.39	2.56	2.74	2.93	42.01	68%	6.60
Aha Emmi	-3.05	1.57	2.00	2.12	2.25	2.38	27.26	90%	8.93
Liv Kolesa	-2.83	2.23	2.27	2.74	3.00	3.22	27.44	109%	9.71
MLM	-5.96	2.27	2.92	3.74	5.25	7.09	69.69	91%	11.70
Fori	-10.30	2.69	3.05	3.45	3.82	4.08	53.13	58%	5.16
Total	**-37.79**	**14.51**	**17.13**	**19.67**	**22.75**	**26.11**	**292.82**	**77%**	**7.7**

CONCLUSION

With an increased number of companies obtaining unmanageable amounts of debt in the pre-crisis period and consequently falling into financial distress, the potential for private equity turnaround investments was established in Slovenia. Despite of the fact that many companies went bankrupt or were liquidated, we managed to extract those that show a potential for future growth. The sample of 575 companies having debt transferred to BAMC from the Slovenian banks being analysed, are narrowed down in order to establish the private equity investment portfolio. As it was learned and proved by the analysis, most of the companies have a negative estimated value of equity and can be consequently bought at high discount, in other words, for low price. Even so, the potential for revenues growth and costs optimization is significant with all companies suggested for the investment portfolio and therefore, potentially high returns could be generated.

The initial sample, consisting of 575 companies, was narrowed with an aim to extract companies with a possibility of a turnaround and high potential for growth. The narrowing

process was performed in three main phases, including different conditions that were initiated and based on which companies were excluded for further analysis. In the first phase, we excluded companies that are not listed in the Slovenian Business Register, financial data are not available and revenues and assets did not reach 1 million € in 2014. In the second phase, we implemented two additional conditions, based on which only export oriented companies and manufacturing companies were included in further analysis. Afterwards, we examined which of the final 22 companies' shares or claims are for sale and formed the possible investment portfolio of 8 companies that were further analysed and evaluated.

The proposed investment portfolio consists of 6 companies. Namely, Alpina d.o.o., Beti d.d., Aha Emmi d.o.o., Liv Kolesa d.o.o., MLM d.d., and Fori d.o.o. Litostroj Jeklo d.o.o. and TT Okroglica d.d. were excluded after detailed analysis, because they are unsuitable for turnaround strategy. Based on the analysis, we can say that all companies have a high potential for growth if the burden of debt would be removed. They operate in rising industries, have high quality products and a good know-how, but they face liquidity problems that prevent them from obtaining new customers or even cause the loss of key customers or orders. All companies were evaluated with the help of EBITDA multiple method and all 6 companies have a negative value of equity. This represents the potential for high return, since companies can be bought for low prices. Furthermore, we proposed restructuring activities for each company, assuming the debt would be repaid and liquidity issues would be eliminated. Based on the industry forecasts and the analysis of operating performance, we developed forecast for EBITDA until 2021. All companies showed significant potential for revenues growth, costs optimization and consequently, EBITDA growth.

We can conclude that the sample of companies having non-performing loans transferred to BAMC definitely does not consist solely of lost cases. There are opportunities for turnaround investments, since many companies fall into troubles due to financial constraint and liquidity issues. By analysing specific cases, we proved that with certain operating and financial restructuring activities, the value of companies could be remarkably increased. Because private equity funds usually introduce their own management team of restructuring specialists, we suppose the proposed investment portfolio is an ideal opportunity for private equity fund focusing on turnaround opportunities.

Finally, we should expose main limitations applicable to this research. One of such limitations is the possibility of companies' sale included in the investment portfolio during the composition of this master thesis, however we believe few more companies could make into the proposed investment portfolio in case any of the suggested companies would be sold. Furthermore, we tried to support our decisions throughout the selection process and final analysis by relevant theory and macroeconomic data. However, there are still some assumptions made partly on a subjective opinion. Lastly, we should bear in mind that some financial data and other information reported by companies could be mistaken or untrue.

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APPENIDXES

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Appendix A: Summary in Slovene Language

Ali v portfelju prezadolženih podjetij na DUTB lahko najdemo takšna, ki bi v prihodnosti s kombinacijo finančne stabilnosti, rasti industrije, dobrega poslovnega modela, atraktivnih produktov ali druge konkurenčne prednosti prinašala zadovoljive donose investitorjem privatnega kapitala? To je bilo glavno raziskovalno vprašanje, na katerega smo poskušali odgovoriti v tej magistrski nalogi. S tem namenom smo zbrali finančne in druge podatke za 575 podjetij, katerih dolg je bil v letih 2013 in 2014 prenesen iz slovenskih bank na Družbo za upravljanje s terjatvami bank (DUTB). V nadaljevanju smo na podlagi različnih kriterijev zožili začetni vzorec podjetij tako, da smo dobili seznam podjetij, za katera verjamemo, da imajo največji potencial za prihodnjo rast in bi bila primerna za investicijski portfelj privatnega kapitala. Ideja raziskave je bila, da lahko podjetja po prestrukturiranju ali preobratu, ki ga izvede sklad zasebnega kapitala, izboljšajo svojo finančno situacijo ter uspešnost in tako zagotovijo visok donos za investitorje. V večini primerov je vrednost kapitala takšnih podjetij zaradi visokih dolgov nič ali celo negativna in posledično je ekonomska vrednost podjetij dosti nižja in tako je investitorju omogočen vstop v podjetje z nižjo investicijsko vrednostjo, kot bi bila v primeru finančno in poslovno uspešnega podjetja. Tako se za investitorje pojavi priložnost za občutno povečanje vrednosti podjetja, ki posledično prinaša visoke kapitalske donose ob izstopu. Struktura magistrske naloge sledi predstavljenemu raziskovanemu okviru.

Vzroki, ki so vodili do prezadolženosti slovenskega korporativnega sektorja, in potreba po ustanovitvi DUTB.

Faktorji, ki so povzročili kopičenje dolga v slovenskih podjetjih

Raziskavo smo pričeli z analizo hitre rasti slovenskega gospodarstva v času pred gospodarsko krizo in vzrokov za kopičenje dolga v kapitalski strukturi nefinančnih podjetjih. Kot prvi vzrok za prezadolženost smo vzeli pod drobnogled ugodno financiranje domačih bank na Evropskem medbančnem trgu, ki je spodbudilo domače banke, da so povečale število danih posojil svojim strankam, predvsem nefinančnim družbam. Med letoma 2004 in 2008 so se obveznosti slovenskih bank do tujih bank povečale s 4,2 milijarde € na več kot 16 milijard €. Hkrati se je povečala tudi vrednost danih posojil slovenskih bank nefinančnim podjetjem in dosegla največjo (37 %) rast v letu 2007 (Selected data from banks' balance sheets, 2016). Nizka obrestna mera za posojila privatnemu sektorju med letoma 2002 in 2007 predstavlja drugi pomemben faktor, ki je privedel do visokega povpraševanja po bančnih posojilih. Tik prek gospodarsko krizo so obrestne mre padle do vrednosti referenčne obrestne mere in tako leta 2007 dosegle najnižjo vrednost po letu 2002. Kot posledica se je zadolženost slovenskih podjetij (merjeno kot razmerje med dolgom in kapitalom) povečala z 88 % v 2004 na 146 % v 2008. Poleg tega se je vrednost neto dolga slovenskih podjetij zvišala z 59 % vrednosti BDP-ja v 2004 na 112 % v 2008 (Bank of Slovenia, 2009b; Bank of Slovenia, 2015b). Najhitrejša akumulacija dolga je bila vidna predvsem pri podjetjih v

cikličnih industrijah, kot so gradbeništvo in nepremičnine, kjer gospodarska rast in večja državna potrošnja ustvarjata pogoje za hitro rast (Bank of Slovenia, 2015a).

Vpliv globalne finančne krize na slovensko gospodarstvo, bančni sistem in uspešnost nefinančnih podjetij

Materializacija globalne finančne krize v Sloveniji

Na koncu leta 2008 so zunanji vplivi z globalnih trgov (med drugim manjše povpraševanje in nižja stopnja investiranja) skupaj z visoko gospodarsko rastjo in rastjo cen nepremičnin na domačem trgu potisnili slovensko gospodarstvo v recesijo. Leta 2009 se je obseg BDP-ja zmanjšal za 7,8 % (Real GDP growth rate, 2016). Izvoz blaga in storitev se je med letoma 2008 in 2009 zmanjšal za več kot 3,8 milijarde € oziroma 16 %. Kakšen vpliv so te spremembe makroekonomskih pogojev imele na prezadolžena slovenska podjetja? Že leta 2009 se je realni pridelek slovenskih podjetij zmanjšal za 11 %, realni pridelek proizvodnih podjetij pa za kar 19 %. Slabši pogoji trgovanja in manjše tuje povpraševanje so primarno vplivali na nižji realni pridelek in manjšo dodano vrednost slovenskih izvozno usmerjenih proizvodnih podjetij. Občuten padec v realnem pridelku so poleg podjetij v gradbenem sektorju (16,8 %) izkusila tudi podjetja v transportno-skladiščnem sektorju (13 %) (Investment in fixed assets by technical structures and activity of investor, 2016). Po razpadu globalnega trga in zmanjšanju števila naročil se je znižala tudi investicijska aktivnost domačih podjetij. Leta 2009 so se v primerjavi z letom 2008 investicije slovenskih proizvodnih podjetij v stroje in opremo zmanjšale za več kot 23 %, investicije v transportna sredstva pa za kar 48 % (Investment in fixed assets by technical structures and activity of investor, 2016).

Odgovor vlade in bank na finančno krizo

Slabše gospodarske razmere so se odražale tudi v finančnih izkazih slovenskega bančnega sistema. Povprečna letna rast celotnih sredstev slovenskih bank je padla z 18,5 % v 2008 na zgolj 9,7 % v 2009. Med letoma 2009 in 2014 se je vrednost celotnih sredstev bank zmanjšala za več kot 20 %. Poleg tega se je v letu 2009 čisti dobiček slovenskih bank razpolovil, v prihajajočih letih pa se je rezultat še poslabšal (Bank of Slovenia, 2009a; Selected data from banks' balance sheets, 2016). Nekatere banke so se takoj odzvale na gospodarsko krizo in likvidnostno tveganje tako, da so zvišale obrestne mere na depozite, prodale likvidna sredstva, ki so jih pridobile od Evropske centralne banke (ECB) in zaostrile pogoje kreditiranja (Caprirolo, 2010). V času visoke ekonomske negotovosti se je zmožnost bank za ocenitev poslovne uspešnosti in zmožnost odplačevanja dolga svojih strank vidno zmanjšala, kar je vodilo do uvedbe bolj konservativnih politik kreditnega tveganja (Bole, 2009). Vlada je med gospodarsko krizo z raznimi ukrepi, kot so garancije domačim bankam za pridobitev finančnih sredstev na tujih medbančnih trgih in povečanje državnih dolgoročnih depozitov v slovenskih bankah, nekoliko omilila tveganje refinanciranja. Leta 2009 je država namenila del sredstev pridobljenih z izdajo državni obveznic, v skupni

nominalni vrednosti 4 milijarde € za domače banke v obliki dolgoročnih depozitov. Skupno so se državni depoziti v slovenskih bankam povečali z 1,4 milijarde € v letu 2008 na 3,5 milijarde € v letu 2009 (Bank of Slovenia, 2010).

Poleg nižjega povpraševanja na domačem in tujem trgu so se slovenska podjetja soočala tudi s poostrenimi pogoji financiranja, ki so jih uvedle slovenske banke. Kopičenje dolga v slovenskih podjetjih v času pred gospodarsko krizo (in posledično prezadolženost) je še dodatno omejilo dostop do virov financiranja po tem, ko je kriza izbruhnila. Zaradi večjega tveganja refinanciranja in likvidnostnega tveganja so slovenske banke vidno zmanjšale obseg in število odobrenih kreditov svojim strankam. Leta 2009 se je dotedanji naraščajoči trend obsega danih kreditov nefinančnim podjetjem obrnil in prvič po več letih stabilne rasti postal negativen. Od začetka finančne krize do leta 2014 se je vrednost odobrenih kreditov nefinančnim družbam skoraj razpolovila. Poleg tega so slovenske banke, da bi se zavarovale pred padanjem cen zastavljenih sredstev, dvignile zahteve za zavarovanje novih kreditov in s tem dodatno obremenile in finančno omejile že tako prezadolžena podjetja. Še dodatno pa so visoke obrestne mere od leta 2008 naprej vidno prispevale k visokim finančnim stroškom podjetij in posledično slabšemu poslovanju (Bank interest rates – Loans, 2016).

Slabo finančno stanje in poslovanje podjetniškega sektorja

Vpliv finančnih omejitev, finančnih težav in zadolženosti na uspešnost podjetij

Različni avtorji so si prizadevali potrditi teorijo, da imajo finančne težave, finančne omejitve in prezadolženost negativen vpliv na poslovanje podjetja in omejujejo možnost rasti podjetja. Beaver et al. (2011) ugotavljajo, da se finančne težave pojavijo, ko podjetje ni zmožno odplačati svojih obveznosti, ko te zapadejo v plačilo. Za pojem finančne omejitve se v literaturi pojavlja več definicij in razlag. Večina avtorjev finančne omejitve opredeljuje kot nezmožnost pridobitve zunanjih virov financiranja za financiranje željene investicije. Lamont et al. (1997) so z merjenjem donosa delnic želeli dokazati, da obstaja direktna odvisnost med finančno omejenostjo in uspešnostjo podjetja. Študija je pokazala, da ima finančna omejenost negativen vpliv na vrednost podjetja in da podjetja, ki se soočajo z finančno omejenostjo, generirajo manjše donose. Poleg tega so Frattai et al. (1988) dokazali, da omejitev pridobitve bančnih kreditov povečuje odvisnost od notranjih virov financiranja in so posledično pomembne investicije ter raziskave in razvoj odvisne zgolj od denarnih tokov, ki se ustvarijo znotraj podjetja. Naslednji pojem zadolženost se meri kot razmerje med vrednostjo dolga in sredstev podjetja ter predstavlja količino finančnih sredstev, ki financirajo rast podjetja. Tako večji delež dolga v strukturi financiranja podjetja pomeni večjo zadolženost podjetja. Opler et al. (1994) so dokazali, da obstaja odvisnost med zadolženostjo in uspešnostjo podjetja. V času gospodarskega zatona je za podjetja z večjo zadolženostjo bolj verjetno, da bodo izgubila tržni delež v primerjavi s podjetji z manjšo zadolženostjo. Poleg tega so dokazali, da lahko prezadolžena podjetja izgubijo tudi do 26 % prihodkov več kot manj zadolžena podjetja.

Vpliv bančnih ukrepov na uspešnost slovenskih podjetjih po finančni krizi

Posledice finančne krize in zaostrenih pogojev kreditiranja so bile vidne pri financiranju podjetij kot krajša ročnost odobrenih kreditov. Domače banke so med letoma 2009 in 2012 v povprečju zmanjšale število odobrenih kreditov podjetjem za 13 % na leto in skupnih 48 % do leta 2014. Visoka stopnja zadolževanja v času gospodarskega razcveta pred krizo je kasneje, v času krize, ustvarila dvojno breme za podjetja. Prezadolžena podjetja so imela visoke stroške odplačevanja kreditov, hkrati pa je bilo odplačevanje kreditov zaradi nižjih prihodkov težje kot v času ekonomske rasti (Selected data from banks' balance sheets, 2016). Poleg strožjih zahtev zavarovanja kreditov so slovenske banke uvedle tudi strožje kriterije za odobritev kreditov, ki so povzročili zmanjšanje tako števila na novo odobrenih kreditov kot tudi števila refinanciranj. Kot so predstavili Bole et al. (2011), je stopnja odobrenih kreditov glede na celotno povpraševanje med letoma 2007 in 2010 padla za skoraj 20 %. Po podatkih Bank of Slovenia (2010) je 22 % podjetij v proizvodnem sektorju, 25 % podjetij v gradbenem sektorju in 20 % podjetij v trgovskem sektorju, ki so sodelovala v anketi SORS, opredelilo finančne omejitve kot največji problem v njihovem podjetju v letu 2009. Krčenje ponudbe kreditov nefinančnim podjetjem je povzročilo občutno zmanjšanje njihovih denarnih tokov in posledično privedlo do številnih stečajnih primerov (Bole et al., 2014). V 2009 je število stečajev med slovenskimi nefinančnimi podjetji naraslo na 119, kar predstavlja 46 % rast v primerjavi s predhodnim letom. Do leta 2014 pa je ta številka narasla na kar 1122 primerov (Bank of Slovenia, 2016).

Kot so pokazali Bole et al. (2014), so podjetja v proizvodnem sektorju v času po gospodarski krizi prikazala vidno boljše rezultate, merjeno v količini ustvarjenih denarnih tokov, kot podjetja v gradbenem in storitvenem sektorju. Po drastičnem padcu v letu 2009 so proizvodna podjetja takoj začela izboljševati svoje rezultate, ki so se stabilizirali že v letu 2010. V letu 2012 pa so vrednosti ustvarjenih denarnih tokov dosegale 60 do 70 % vrednosti pred krizo, medtem ko so gradbena podjetja ustvarila zgolj 40 do 50 % omenjene vrednosti.

Ustanovitev DUTB in prenos dolgov podjetij s slovenskih bank na DUTB

DUTB: Ustanovitev in glavni namen

Med letoma 2008 in 2012 se je delež slabih kreditov v celotnem portfelju kreditov slovenskih bank povečal s 4,2 % na 15,2 % (Bank nonperforming loans to total gross loans – Slovenia, 2016). Zaradi kopičenja slabih kreditov so se domače banke soočile z velikim likvidnostnim tveganjem in nižjo dobičkonosnostjo. Družba za upravljanje s terjatvami bank (DUTB) je bila ustanovljena s ciljem utrditve in prestrukturiranja slovenskih bank. Do konca leta 2014 je skupna nominalna vrednost slabih kreditov, ki so bili preneseni s šestih največjih slovenskih bank na DUTB, dosegla 5,2 milijarde €. Od leta 2012 naprej se je delež slabih kreditov v bilancah bank začel postopoma zmanjševati, med drugim kot posledica prenosov na DUTB. DUTB je v letu 2014 začel upravljati s portfeljem slabih kreditov 575 podjetij in se sedaj ukvarja s prodajo lastniških deležev, nepremičnin in terjatev do teh podjetij. Med tri

glavne naloge DUTB spadajo: prevzem slabih kreditov, upravljanje in prestrukturiranje sredstev ter prodaja sredstev potencialnim investitorjem (BAMC, 2015).

Skladi privatnega kapitala in strategija preobrata

Privatni kapital je zelo široko in kompleksno področje, ki zajema različne aktivnosti in strategije, ki jih izvajajo investitorji pri financiranju podjetij v različnih življenjskih ciklih in stanjih. Na splošno je privatni kapital srednjeročno ali dolgoročno izvajanje financiranja in upravljanja podjetja z namenom povečanja vrednosti in ustvarjanja kapitalskega donosa (Caselli, 2010). Med drugimi znanimi strategijami, ki jim sledijo investitorji privatnega kapitala, so tiste strategije financiranja, ki se izključno ukvarjajo s podjetji v finančnih težavah. Ena od teh je strategija prestrukturiranja ali preobrata (ang. *turnaround*), ki odkupi podjetja v finančnih težavah za nižjo ceno, kot bi jo v normalnih pogojih, in izvede razne aktivnosti ter uvede spremembe za izboljšanje poslovanja podjetja in s tem poveča vrednost podjetja (Baker et al., 2015). Poleg te strategije poznamo tudi strategijo financiranja *start-up* podjetij, financiranje rasti, managerske odkupe, tvegani kapital in drugo. Strategije skladov privatnega kapitala se raztezajo vzdolž življenjskega cikla podjetja (Caselli, 2010).

Sklad privatnega kapitala običajno zbere denar posameznikov ali raznih finančnih institucij in ga investira v kapital podjetij. Tako je sklad sestavljen iz upravljalcev sklada, ki zberejo denar, investirajo in izstopijo iz podjetij ter investitorjev, ki zgolj zagotovijo finančna sredstva. Najpogostejša oblika sklada je tako partnerska organizacijska struktura. Povprečen obstoj takšnega partnerstva traja nekje do 10 let, medtem ko slad izstopi iz podjetij po 4 ali 5 letih. Dogovori glede deljenja donosa so različni. Upravljalci sklada običajno prejmejo provizijo ali pa so delno udeleženi v donosu, ki ga dosežejo (Hudson, 2014; Lerner et al., 2005; Leleux et al., 2015). Ko se sklad odloči za izstop iz podjetij (ko doseže željeni donos, kar v večini primerov ne presega pet let), lahko to stori na več različnih načinov. Najbolj pogosta v praksi sta združitev ali prevzem s strani drugega podjetja, ki predstavlja polovico vseh strategij izhodov, sledijo sekundarni odkupi in prva javna ponudba delnic.

Vrednotenje podjetij in prestrukturiranje

V praksi obstajajo številne metode za ocenjevanje podjetij. Nekatere se uporabljajo zgolj v posebnih primerih in pod posebnimi pogoji ali pa kot pomoč drugim metodam, medtem ko so druge zelo priznane in v praksi pogosto uporabljene metode. Metode ocenjevanja lahko delimo v tri glavne skupine: dohodkovni pristop, tržni pristop in na sredstvih zasnovan način ocenjevanja. Ko se podjetja soočajo s finančnimi težavami pa lahko ocenjevanje postane dosti težje. Metoda, ki se pogosto uporablja v teh primerih in smo jo tudi mi uporabili za namene ocenjevanja podjetij, je diskontirana EBITDA multipla (Damodaran, 2010). Različne diskontne stopnje se uporabljajo za vrednotenje podjetij v finančnih težavah in drugih primerih. Za namene te magistrske naloge, kot predlaga Officer (2007), smo vpeljali diskontno stopnjo na EBITDA multiplo v višini 17 %, ker so podjetja v privatni lastni, ter

diskontno stopnjo 36 %, kot je dokazal Blok (2007), za proizvodna podjetja v finančnih težavah.

Z namenom izboljšanja poslovanja podjetja in zvišanja vrednosti podjetja se morajo vpeljati določene spremembe. Te spremembe poznamo pod pojmom poslovno prestrukturiranje, ki zajema vse spremembe, vpeljane v produkte podjetja, kapacitete, strukturo financiranja, lastniško strukturo ali druge spremembe, ki niso značilne za normalno delujoče podjetje Damodaran (2010).

Makroekonomski pregled in napovedi za obstoječe in potencialne trge

Kako lahko makroekonomska napoved za glavne tržne partnerice Slovenije in gibanje kazalcev, kot so globalne cene dobrin in menjalni tečaj, vpliva na potencialno rast slovenskih izvozno usmerjenih podjetij? Slovensko gospodarstvo je izvozno usmerjeno, saj je izvoz blaga in storitev predstavljal kar 78 % BDP-ja v 2015. Med letoma 2010 in 2015 se je izvoz blaga v povprečju povečal za 6 % na leto in je v 2015 predstavljal 80 % celotnega slovenskega izvoza (GDP and main components, 2016). V 2014 je skupina petih glavnih vrst blaga skupaj predstavljala kar 70 % celotnega izvoza, medtem ko je skupina desetih največjih izvoznih skupin blaga dosegla kar 95 % (Product Exports by Slovenia to all countries, 2016). Zaradi velike koncentracije slovenskega izvoza imajo makroekonomske napovedi glavnih trgovinskih partneric velik vpliv na uspešnost slovenskih proizvodnih podjetij v prihodnje. Do leta 2021 imajo največjo napovedano rast azijske države, ki jim sledijo Združene države Amerike, Hrvaška in Francija (IMF, 2016).

Pomembni kazalniki stanja gospodarskega okolja so pričakovana gibanja cen osnovnih življenjskih potrebščin in pričakovana gibanja tečaja USD/EUR. V prihodnjih letih je pričakovano, da bo ameriški dolar nekoliko slabil v primerjavi z evrom, ampak je kljub temu pričakovano, da bo ostal nad vrednostjo iz leta 2015. Napovedi za menjalni tečaj USD/EUR trenutno kažejo v prid podjetjem, ki prodajajo v države, kjer so cene izražene v ameriških dolarjih, kot so Združene države Amerike in Kitajska. Te razmere pa so neugodne za podjetja, ki uvažajo material in polizdelke iz omenjenih držav. Za cene goriv se pričakuje, da bodo v letih 2017 in 2018 naraščale, kar bi lahko pozitivno vplivalo na uspešnost podjetij, ki proizvajajo avtomobile ali rezerve dele. Povprečne cene kovin bodo v prihodnjih dveh letih še naprej padale, vendar se pričakuje, da se bo trend v letu 2018 obrnil. Nižje cene kovin so ugodna napoved za slovenska proizvodna podjetja, ki jih uporabljajo kot glavni material v svojih proizvodih in jim to omogoča doseganje večje razlike v ceni.

Oblikovanje investicijskega portfelja za sklad privatnega kapitala iz podjetij na DUTB

Metodologija, vzorec in opisna statistika

Empirični del magistrske naloge temelji na kombinaciji kvalitativne in kvantitativne raziskovane metode. Raziskava je sestavljena iz treh glavnih faz. Prva faza je zajemala

analizo faktorjev, ki so vplivali na prezadolženost in slabe rezultate slovenskih podjetij. Na podlagi te raziskave smo se odločili za vzorec podjetij, katerih dolg je bil prenesen na DUTB. Druga faza je zajemala analizo vzorca 575 podjetij. Finančne podatke teh podjetij za leta 2008 do 2014 smo pridobili na AJPES-u. Analizirali smo jih z namenom zoženja vzorca na podjetja, ki bi bila primerna za investicijski portfelj. V sklopu analize smo izračunali številne kazalnike uspešnosti podjetij. Najprej smo izključi vsa podjetja, ki so bila izbrisana in več ne obstajajo ali nimajo vseh finančnih podatkov, potrebnih za analizo. Nato smo v naslednjem koraku izključili vsa podjetja, katerih sredstva in prihodki niso presegli 1 milijona € v letu 2014. Tako smo prišli do vzorca 89 podjetjih, na katerem smo izvedli podrobnejšo analizo in opisno statistiko. 36 % oziroma 32 podjetij v vzorcu je takšnih, ki poslujejo v proizvodnem sektorju, ostala podjetja so razdeljena med gradbeni sektor, prodajo, vzdrževanje in popravila motornih vozil, restavracije in drugo. Analiza vzorca je pokazala, da se je vrednost sredstev podjetij skozi opazovano obdobje zmanjševala, prav tako so padali prihodki. Trend EBITDA je bil v obdobju od 2008 do 2013 negativen, z izjemo v letu 2012 in 2014. Podjetja v vzorcu generirajo večino svojih prihodkov na domačem trgu, 10 % pa je takšnih podjetij, ki ustvarijo več ko 61,7 % na tujih trgih. Po velikosti podjetij je v vzorcu 44 % velikih podjetij, 32 % srednje velikih, ostalo pa so mala podjetja.

Izbor podjetij za investicijski portfelj

Skozi postopek izbora smo vpeljali več kriterijev, na podlagi katerih smo iz seznama izključili podjetja, za katera verjamemo, da nimajo ustreznega potenciala za rast. Najprej smo se odločili, da iz seznama izključimo vsa podjetja, ki niso izvozno usmerjena, saj je slovenski trg zelo majhen in ne predstavlja ustreznega potenciala za rast. Kot kazalnik smo uporabili razmerje med prodajo na domačem trgu in celotno prodajo. V primeru, da je kazalec za podjetje presegel 85 %, je bilo podjetje izključeno iz seznama. Vzorec je bil zmanjšan na 31 podjetij. Glede na dejstvo, da se je proizvodni sektor zelo hitro izvlekel iz gospodarske krize in da prispeva največ k bruto domačemu proizvodu Slovenije, smo se odločili, da v nadaljnjo analizo vključimo vsa podjetja, ki poslujejo v proizvodnem sektorju. Po vpeljavi tega kriterija je ostalo 22 podjetij. Po podrobnem pregledu posameznega podjetja smo izključili 14 podjetij iz različnih razlogov. Nekatera so v privatni lasti, DUTB pa ne prodaja terjatev do teh podjetij ali pa je delež terjatev na DUTB v celotnih terjatvah zelo majhen in bi bil vstop v podjetje zelo otežen ali celo nemogoč. Spet druga podjetja pa imajo zelo slabe finančne rezultate, neatraktiven poslovni model ali nizek potencial za rast. Izbrali smo 8 podjetij, ki smo jih podrobneje analizirali in so potencialni kandidati za investicijski portfelj.

Vrednotenje, prestrukturiranje in strategija izhoda podjetij v investicijskem portfelju

Podjetja

Podrobna analiza osmih podjetij je vsebovala tudi leto 2015 in je pokazala, da je 6 od teh podjetij primernih za investicijski portfelj. Podjetje Alpina d. o. o. se ukvarja s proizvodnjo

športnih čevljev in čevljev za prosti čas ter ustvari 74 % svojih prihodkov na tujih trgih, del tudi izven EU. V letu 2015 je EBITDA podjetja dosegla 1,8 milijona €, ekonomsko vrednost pa ocenjujemo na 9,3 milijona €. Z ustreznim odpisom dela dolga bi lahko investitor dosegel 78 % IRR na investicijo. Drugo podjetje, ki smo ga vključili, je podjetje Beti d. d., ki se ukvarja s proizvodnjo raznih tekstilnih izdelkov. Večino prihodkov podjetje Beti ustvari na tujih trgih, EBITDA podjetja pa je v letu 2015 znašala 750.000 €. Na podlagi izračuna ocene ekonomske vrednosti bi celotna investicija v podjetje znašala 6,4 milijona €, z ustreznimi ukrepi in prestrukturiranjem podjetja pa bi se lahko vrednost podjetja bistveno povečala. Potencialni IRR bi lahko dosegel 82 %. Naslednje podjetje je Aha Emmi d. o. o., ki pa proizvaja končne produkte in polizdelke iz aluminija. V letu 2015 je podjetje nekoliko izboljšalo svoje poslovanje, ko je ustvarilo 700.000 € EBITDE. Večina prihodkov podjetja je bila ustvarjena na tujih trgih. Celotna vrednost investicije je ocenjena na 3,1 milijona €, kar je bistveno manj od vrednosti vseh dolgov podjetja, zato morajo investitorji ob nakupu podjetja zahtevati delni odpis dolga. Z ustreznim prestrukturiranjem in vpeljavo sprememb ima podjetje velik potencial za rast in lahko ustvari viden donos za investitorje. IRR lahko doseže tudi 92 %. Četrto podjetje v portfelju je Liv Kolesa d. o. o., ki se ukvarja s proizvodnjo transportnih koles, samokolnic in podobnih kovinskih proizvodov. Podjetje je v letu 2015 ustvarilo 680.000 € prihodkov in je 81 % celotnih prihodkov ustvarilo na tujem trgu. Ocena ekonomske vrednosti podjetja je 2,6 milijona €, kar predstavlja tudi investicijsko vrednost, ki jo investitor lahko ponudi za odkup podjetja in terjatev. Z ustreznim prestrukturiranjem, izboljšanjem finančne stabilnosti in drugimi ukrepi bi lahko podjetje ustvarilo dober donos za investitorja. Potencialni IRR bi lahko dosegel 115 %. MLM d. d. je naslednje podjetje, ki pa je delno v lasti Slovenskega državnega holdinga (SDH), katerega bi investitor moral vključiti pri pogajanjih za odkup podjetja s ciljem, da bi vstopil v podjetje kot 100 % lastnik. Podjetje je v letu 2015 ustvarilo EBITDA v višini 1,2 milijona €, kar pa ne zadostuje za odplačevanje velikih dolgov. Ocena investicijske vrednosti podjetja je 4 milijone €, medtem ko ima podjetje več kot 33 milijonov € dolga. Tako bi za nakup lastniškega deleža in terjatev podjetja investitor moral zahtevati visok odpis dolga, da bi bila investicija donosna. V primeru, da investitor investira 4 milijone € in poveča vrednost podjetja z ustreznimi ukrepi prestrukturiranja, lahko IRR doseže tudi 95 %. Zadnje podjetje v portfelju je Fori d. o. o., ki je del Skupine Fori. Za namene analize tega podjetja smo predpostavili, da druga podjetja v skupini ali lastniki podjetij v skupini niso dala garancij za kredite podjetja Fori. Fori je namreč v 100 % privatni lasti, vendar pa je večina terjatev do podjetja v lasti DUTB. Podjetje se ukvarja z razvojem, proizvodnjo in prodajo polizdelkov in izdelkov iz pločevine, plastike, cevi in žice za industrijo bele tehnike in avtomobilsko industrijo. EBITDA podjetja je v letu 2015 znašala 1,4 milijona €. Ocena investicijske vrednosti podjetja je 10,3 milijona €, vendar pa vrednost dolga krepko presega to oceno. Z delnim odpisom dolga pri nakupu terjatev in kasneje aktivnostmi prestrukturiranja lahko podjetje doseže IRR v višini 66,4 %.

Podjetje TT Okroglica ni ustrezno za investicijski portfelj, ki ga oblikujemo, ker ni primer za prestrukturiranje ali preobrat. Poslovanje TT Okroglice je dobro in dolg podjetja ne

presega vrednosti podjetja. Zaradi tega je za investitorje privatnega kapitala, ki zasledujejo strategijo preobrata, neatraktivna in smo jo izključili iz končnega seznama. Podjetje Litostroj Jeklo d. o. o. ima na drugi strani, kljub poslovnemu potencialu, negativno vrednost EBITDA in s tem je njegova ekonomska vrednost negativna in vrednost dolga ogromna. To bi za investitorje pomenilo, da bi v vsakem primeru preplačali vrednost podjetja ne glede na ceno, ki bi jo ponudili trenutnim lastnikom. Zaradi tega smo podjetje izvzeli iz končnega seznama podjetij za investicijski portfelj.

Hipotetični portfelj investicijskega sklada privatnega kapitala je tako sestavljen iz šestih podjetij in lahko doseže viden donos. Z ustreznim prestrukturiranjem podjetij in vpeljavo sprememb bi lahko IRR ob izstopu iz podjetij po šestih letih dosegel 83 %. Skupna investicijska vrednost portfelja je 33,58 milijona €, potencialna vrednost ob izhodu pa lahko doseže 292,82 milijona €. To prinaša 8-kratno povečanje vrednosti investicije. Za izpeljavo investicije bi sklad privatnega kapitala potreboval strokovnjake na področjih pogajanj z dobavitelji in kupci za zniževanje cen materialov in podobno. Poleg tega bi potrebovali znanje iz poslovanja podjetij v določenih sektorjih, kot je proizvodni sektor, in specifičnih industrijah, kot so avtomobilska industrija, industrija bele tehnike, kovinska industrija in podobno. Med najpomembnejšimi kompetencami, ki bi jih ekipa managerjev potrebovala, pa so tudi izkušnje z upravljanjem podjetij v finančnih težavah, znanje iz optimizacije stroškov in izkušnje z uvajanjem korenitih sprememb.

Sklep

S tem, ko se je število prezadolženih podjetij zviševalo in so tako pristala v finančnih težavah, se je na drugi strani pojavila priložnost za investitorje privatnega kapitala, ki zasledujejo strategijo preobrata. Finančne težave in visoke vrednosti dolga so vrednosti podjetij drastično znižale in s tem ustvarile prostor za velike donose, ki bi jih bilo možno doseči ob boljši strukturi financiranja in ustreznem prestrukturiranju poslovanja podjetij. Ta magistrska naloga zasleduje cilj analizirati seznam 575 podjetij, katerih dolg je pristal na DUTB, in oblikovati portfelj podjetij, ki imajo največji potencial za rast in bi tako investitorjem prinesla velike donose. Vzorec 575 podjetij smo na podlagi določenih kriterijev zožili na končnih 8 podjetij in jih podrobneje analizirali. 6 od teh podjetij je po analizi ustrezalo kriterijem za uvrstitev v investicijski portfelj, ki ima viden potencial za velik donos. Na podlagi celovite analize lahko povemo, da je prezadolženost konkretno načela slovensko gospodarstvo in posledično podjetja. Veliko podjetij ima kakovostne proizvode s potencialom, dobre poslovne modele, ljudi z ogromno znanja in druge kvalitete, kar bi ob finančni stabilnosti prinašalo uspešno poslovanje podjetij. Kljub slabemu poslovanju v zadnjih letih pa bi z ustreznim prestrukturiranjem in zadostnimi finančnimi sredstvi, ki bi ustvarila likvidnost, lahko podjetja spet dosegla ali celo presegla rezultate iz let pred gospodarsko krizo.

Appendix B: Abbreviations

BAMC - Bank Assets Management Company

BIMBO - Buy-in management buyouts

CAGR – Compound Annual Growth Rate

COGS – Costs of Goods Sold

DCF - Discounted Cash Flow Method

DSI - Days sales of inventory

DPI - Distribution to Paid-in-capital Ratio

DSO - Days sales outstanding

EBIT - Earnings before Interest and Tax

EBITDA – Earnings before Interest, Tax Depreciation and Amortization

ECB - European Central Bank

GDP - Gross Domestic Product

GP - General Partner

IBO - Institutional buyouts

IPO - Initial Public Offering

IRR - Internal Rate of Returns

LBO - Leveraged buyout

LP - Limited Partner

MBO - Management buyout

SKD – Standardna Klasifikacija Dejavnosti [Standard classification of Activities]

US$ - United States Dollar

Appendix C: Equations used for the calculation of rations included in the analysis

Table 1: The list of ratios calculated for the purpose of the analysis

Variable Name	Calculation Formula
ROE	$ROE = \frac{NET\ INCOME}{aopt57_{avg}}$
ROA	$ROA = \frac{NET\ INCOME}{aopt1_{avg}}$
INVENTORY_TURNOVER	$INVETORY\ TURNOVER = \frac{COGS}{aopt34_{avg}}$
CASH_CVERAGE	$CASH\ COVERAGE = \frac{EBITDA}{aopt169}$
AR_TURNOVER	$ACCOUNT\ RECEIVABLES\ TURNOVER = \frac{aopt110}{aopt50_{avg}}$
AP_TURNOVER	$ACCOUNT\ PAYABLES\ TUNROVER = \frac{COGS}{aopt93_{avg}}$
DSI	$DSI = \frac{365}{INVENTORY\ TURNOVER}$
DSO	$DSO = \frac{365}{AR\ TURNOVER}$
DPO	$DPO = \frac{365}{AP\ TURNOVER}$
DEBT_TO_ASSETS	$DEBT\ TO\ ASSETS\ RATIO = \frac{aopt76 + aopt87}{aopt1}$
DEBT_TO_EQUITY	$DEBT\ TO\ EQUITY\ RATIO = \frac{aopt76 + aopt87}{aopt56}$
TIME_INTEREST_EARNED	$TIME\ INTEREST\ EARNED\ (TIE) = \frac{EBIT}{aopt169}$
GROSS_PROFIT_MARGIN	$GROSS\ PROFIT\ MARGIN = \frac{(SALES\ - COGS)}{aopt110}$
OPERATING_PROFIT_MARGIN	$OPERATING\ PROFIT\ MARGIN = \frac{EBIT}{aopt110}$
NET_PROFIT_MARGIN	$NET\ PROFIT\ MARGIN = \frac{NET\ INCOME}{aopt110}$
NET_PROFIT_MARGIN	$NET\ PROFIT\ MARGIN = \frac{NET\ INCOME}{aopt110}$
MATERIAL_COSTS_TO_SALE	$MATERIAL\ IN\ SALES = \frac{aopt129 + aopt131}{SALES}$

(continued)

SERVICE__COSTS_TO_SALE	$SERVICES\ IN\ SALES = \frac{aopt134}{SALES}$
LABOUR_COSTS_TO_SALE	$LABOUR\ COSTS\ IN\ SALES = \frac{aopt139}{SALES}$
EU_SALE	$EU\ SALES = \frac{aopt115}{aopt110}$
OTHER_MARKET_SALE	$OTHER\ MARKETS\ SALES = \frac{aopt115}{aopt110}$
DOMESTIC_SALE	$DOMESTIC\ SALES = \frac{aopt115}{aopt110}$

Appendix D: Description of balance sheet and income statement items (aopt)

Table 2: Balance sheet items

Balance sheet item	aopt
ASSETS	001
A. Fixed (Long-Term) Assets	002
I. Intangible assets and long-term deferred costs and accrued revenues	003
1. Intangible assets	004
Long-term industrial property rights	005
Goodwill	006
Long-term deferred development costs	007
Other intangible assets	008
2. Long-term deferred costs and accrued revenues	009
II. Tangible assets	010
Land	011
Buildings	012
Plant and equipment	013
Other tangible assets	014
Biological assets	015
Tangible fixed assets under construction and manufacture	016
Advances for tangible fixed assets	017
III. Investments in real estate	018
IV. Long-term financial investments	019
1. Long-term financial investments other than loans	020
Shares and stakes in Group's companies	021
Other shares and stakes	022
Other long-term financial investments	023
2. Long-term loans	024
Long-term loans to companies in the Group	025
Long-term loans to other entities	026
V. Long-term operating receivables	027
Long-term operating receivables to companies in the Group	028
Long-term operating trade receivables	029
Long-term receivables to other entities	030
VI. Deferred receivables for tax	031
B. CURRENT ASSETS	032
I. Assets (disposal groups) intended for sale	033
II. Inventories	034
Material	035
Work in process	036
Products	037
Merchandise	038
Advances for inventories	039
III. Short term financial investments	040
1. Short-term financial investments other than loans	041
Shares and stakes in Group's companies	042
Other shares and stakes	043
Other short-term financial investments	044
2. Short-term loans	045
Short-term loans to companies in the Group	046
Short-term loans to other entities	047
IV. Short-term operating receivables	048
Short-term operating liabilities to companies in the Group	049
Short-term trade receivables	050
Short-term operating receivables to other entities	051
V. Cash	052
C. SHORT-TERM DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES	053
Off-balance assets	054
LIABILITIES	055
A. Equity Capital	056

(continued)

I. Called capital	**057**
1. Share capital	058
2. Uncalled capital (deduction item)	059
II. Capital surplus	060
III. Profit reserves	061
1. Legal reserves	062
2. Reserves for treasury shares and own business stakes	063
3.Treasury shares and own business shares (as a deductible item)	064
4. Statutory reserves	065
5. Other revenue reserves	066
IV. Revaluation adjustment surplus	067
V. Retained net profit from previous periods	068
VI. Retained net loss from previous periods	069
VII. Net profit for the period	070
VIII. Net Loss for the period	071
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	072
1. Provisions	073
2. Long-term accrued costs and deferred revenues	074
C. LONG-TERM LIABILITIES	075
I. Long-term financial liabilities	076
1. Long-term financial liabilities to Group's companies	077
2. Long-term financial liabilities to banks	078
3. Other long-term financial liabilities	079
II. Long-term operating liabilities	080
1. Long-term operating liabilities to Group's companies	081
2. Long-term trade payables	082
3. Other long-term operating liabilities	083
III. Deferred liabilities for tax	084
Č. SHORT-TERM LIABILITIES	085
I. Liabilities included in the disposal groups	086
II. Short-term financial liabilities	087
1. Short-term financial liabilities to Group's companies	088
2. Short-term financial liabilities to banks	089
3. Other short-term financial liabilities	090
III. Short-term operating liabilities	091
1. Short-term operating liabilities to Group's companies	092
2. Short-term trade payables	093
3. Other short-term operating liabilities	094
D. SHORT-TERM ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	095
Off-balance liabilities	096

Table 3: Income statement items

Income statement item	aopt
A. Net revenues (111+115+118)	110
I. Net revenues in the domestic market (112 do 114)	111
1. Net revenues from sales of goods and services excluding rents	112
2. Net income from rents	113
3. Net revenues from sales of goods and materials	114
II. Net revenues from sales in the EU (116+117)	115
1. Net revenues from sales of goods and services	116
2. Net revenues from sales of goods and materials	117
II. Net revenues from sales outside the EU (119+120)	118
1. Net revenues from sales of goods and services	119
2. Net revenues from sales of goods and materials	120
B. INCREASE IN THE VALUE OF INVENTORIES OF PRODUCTS AND WORK IN PROGRESS	121
C. DECREASE IN THE VALUE OF INVENTORIES OF PRODUCTS AND WORK IN PROGRESS	122
Č. CAPITALIZED OWN PRODUCTS AND OWN SERVICES	123
D. SUBSIDIES, GRANTS, ALLOWANCES, COMPENSATIONS AND PTHER REVENUE ASSOCIATED WITH THE BUSINESS EFFECTS	124
E. OTHER OPERATING REVENUES	125
F. GROSS REVENUES (110+121-122+123+124+125)	126
G. OPERATING EXPENSES (128+139+144+148)	127
I. Costs of goods, materials and services (129+130+134)	128
1. Cost of goods sold and materials	129
2. Cost of material used (131 do 133)	130
a) Costs of materials	131
b) Energy costs	132
c) Other costs of material	133
3. Cost of services (135 do 138)	134
a) Transportation services	135
b) Rent	136
c) Reimbursement to employees in connection with work	137
d) Other costs of services	138
II. Labour costs (140 do 143)	139
1. Wage costs	140
2. Pension insurance costs	141
3. Other social security costs	142
4. Other labour costs	143
III. Write-offs (145 do 147)	144
1. Depreciation	145
2. Operating expenses from revaluation of intangible and tangible fixed assets	146
3. Operating expenses from revaluation of current assets	147
IV. Other operating expenses (149+150)	148
1. Reservations	149
2. Other costs	150
H. Operating profit (126-127)	151
I. Operating loss (127-126)	152
J. Financial income (155+160+163)	153
Interest revenues	154
I. Income from investments (156 do 159)	155
1. Income from investments in group companies	156
2. Income from investments in associated companies	157
3. Financial revenues from operating receivables to others	158
4. Financial revenues from other investments	159
II. Income from loans (161+162)	160
1. Income from loans to group companies	161
2. Income from loans to others	162
III. Financial income from operating receivables (164+165)	163
1. Financial income from operating receivables to group companies	164

(continued)

2. Financial income from operating receivables to others	165
K. Financial expenses (168+169+174)	166
Interest expenses	167
I. Financial expenses from impairments and investment write-offs	168
II. Financial expenses from financial liabilities (170 to 173)	169
1. Financial expenses for loans received from group companies	170
2. Financial expenses from loans received from banks	171
3. Financial expenses from issued bonds	172
4. Financial expenses from other financial liabilities	173
III. Financial expenses from operating liabilities (175 to 177)	174
1. Financial expenses from operating liabilities to group companies	175
2. Financial expenses for trade payables and bills payable	176
3. Financial expenses from other operating liabilities	177
L. Other income (179+180)	178
I. Subsidies, grants and similar revenue not associated with products and services	179
II. Other financial income and other revenues	180
M. Other expenses	181
N. Total profit (151-152+153-166+178-181)	182
O. Total loss (152-151-153+166-178+181)	183
P. Income tax	184
R. Deferred tax	185
S. Net profit for the year (182-184-185)	186
Š. Net loss for the year (183+184+185 or. 184-182+185)	187
Average number of employees based on hours worked in the accounting period (to two decimal places)	188
Number of months of operations	189

Appendix E: Investment value calculation for companies in the investment portfolio

Table 4: Alpina

Analysis		€
Total included liabilities	***(1)***	***24,207,790***
BAMC		18,094,108
Other liabilities		6,113,682
Total included value of company	***(2)***	***9,295,068***
Company's economic value		9,295,068
Assets held for sale		0
Total liabilities - required write-off	***(3) = (1) - (2)***	***14,912,722***
Liabilities that cannot be written-off	***(4)***	***704,474***
Government and other institutions (VAT, taxes, etc.)		417,970
Compensation to employees and payroll taxes		286,504
100% liabilities write-off	***(5)***	**707,682**
Other long-term operating liabilities		3,000
Other current operating liabilities		704,682
Remaining required write-off	***(6)= (3)-(5)***	**14,205,040**
Liabilities partial write-off	***(7)***	**22,795,634**
BAMC		18,094,108
Other banks		4,701,526
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		79
Other banks (%)		21
Total write-off amount	***(9)= (6)*(8)***	**14,205,040**
BAMC		11,275,297
Other banks		2,929,744
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**62**
Total investment value	***(11)= (7)-(9)+(4)***	**9,295,068**

Table 5: Beti

Analysis		€
Total included liabilities	***(1)***	***7,240,798***
BAMC		6,079,637
Other liabilities		1,161,161
Total included value of company	***(2)***	***6,361,574***
Company's economic value		4,790,230
Assets held for sale		1,571,344
Total liabilities - required write-off	***(3) = (1) - (2)***	***879,224***
Liabilities that cannot be written-off	***(4)***	***1,161,161***
Government and other institutions (VAT, taxes, etc.)		87,228
Compensation to employees and payroll taxes		134,827
Liabilities from compulsory settlement		939,106
100% liabilities write-off	***(5)***	**0**
Remaining required write-off	***(6)= (3)-(5)***	**879,224**
Liabilities partial write-off	***(7)***	**6,079,637**
BAMC		6,079,637
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		100
Total write-off amount	***(9)= (6)*(8)***	**879,224**
BAMC		879,224
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**14**
Total investment value	***(11)= (7)-(9)+(4)***	**6,361,574**

Table 6: Aha Emmi

Analysis		€
Total included liabilities	***(1)***	***8,519,010***
BAMC		3,277,497
Other liabilities		5,241,513
Total included value of company	***(2)***	***3,051,601***
Company's economic value		3,051,601
Assets held for sale		0
Total liabilities - required write-off	***(3) = (1) - (2)***	***5,467,409***
Liabilities that cannot be written-off	***(4)***	***1,793,416***
Government and other institutions (VAT, taxes, etc.)		68,211
Compensation to employees and payroll taxes		742,607
Liabilities from compulsory settlement		982,598
100% liabilities write-off	***(5)***	**821,606**
Other short-term financial liabilities		301,965
Other short-term operating liabilities		519,641
Remaining required write-off	***(6)= (3)-(5)***	**4,645,803**
Liabilities partial write-off	***(7)***	**5,903,988**
BAMC		3,277,497
Other banks		2,359,818
Received guarantees		266,673
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		56
Other banks (%)		40
Received guarantees (%)		5
Total write-off amount	***(9)= (6)*(8)***	**4,645,803**
BAMC		2,579,038
Other banks		1,856,923
Received guarantees		209,843
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**79**
Total investment value	***(11)= (7)-(9)+(4)***	**3,051,601**

Table 7: Liv Kolesa

Analysis		*€*
Total included liabilities	***(1)***	***9,179,723***
BAMC		8,438,102
Other liabilities		741,621
Total included value of company	***(2)***	***2,825,516***
Company's economic value		2,600,000
Assets held for sale		225,516
Total liabilities - required write-off	***(3) = (1) - (2)***	***6,354,207***
Liabilities that cannot be written-off	***(4)***	***580,088***
Government and other institutions (VAT, taxes, etc.)		28,800
Compensation to employees and payroll taxes		245,288
Liabilities from compulsory settlement		306,000
100% liabilities write-off	***(5)***	**893,136**
Unpaid overdue interest for debt on DUTB		430,536
Mersteel debt on DUTB		445,000
Other current operating liabilities		17,600
Remaining required write-off	***(6)= (3)-(5)***	**5,461,071**
Liabilities partial write-off	***(7)***	**7,706,499**
BAMC		7,562,566
Other banks		143,933
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		*98*
Other banks (%)		*2*
Total write-off amount	***(9)= (6)*(8)***	**5,461,071**
BAMC		5,359,075
Other banks		101,996
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**71**
Total investment value	***(11)= (7)-(9)+(4)***	***2,825,516***

Table 8: MLM

Analysis		€
Total liabilities	***(1)***	***33,469,317***
BAMC		20,046,624
Republic of Slovenia (SID Bank)		2,457,667
Other liabilities		10,965,026
Total value of company	***(2)***	***5,955,519***
Company's economic value		5,500,000
Assets held for sale		455,519
Total liabilities - required write-off	***(3) = (1) - (2)***	***27,513,798***
Liabilities that cannot be written-off	***(4)***	***4,471,000***
Government and other institutions (VAT, taxes, etc.)		121,844
Liabilities from compulsory settlement		3,609,026
Compensation to employees and payroll taxes		740,130
100% liabilities write-off	***(5)***	**429,392**
Other current operating liabilities		33,377
Interest for loans - DUTB		234,817
Interest for loans - other banks		161,198
Remaining required write-off	***(6)= (3)-(5)***	**27,084,406**
Liabilities partial write-off	***(7)***	**28,568,925**
BAMC		19,811,807
Other financial liabilities		1,540,516
RS		2,457,667
Other banks		4,758,935
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		69
Other financial liabilities (%)		5
RS (%)		0
Other banks (%)		17
Total write-off amount	***(9)= (6)*(8)***	**27,084,406**
BAMC		18,782,332
Other financial liabilities		1,460,467
RS		2,329,960
Other banks		4,511,648
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**95%**
Total investment value	***(11)= (7)-(9)+(4)***	**5,955,519**

Table 9: Fori

Analysis		
Total included liabilities	***(1)***	***21,079,254***
BAMC		8,143,345
Other liabilities		5,337,909
Liabilities of daughter company (Emo-tech) - BAMC		7,598,000
Total included value of company	***(2)***	***10,304,327***
Company's economic value		8,458,358
Assets held for sale		1,845,969
Total liabilities - required write-off	***(3) = (1) - (2)***	***10,774,928***
Liabilities that cannot be written-off	***(4)***	***405,994***
Government and other institutions (VAT, taxes, etc.)		205,050
Compensation to employees and payroll taxes		200,944
100% liabilities write-off	***(5)***	**17,843**
Other current operating liabilities		17,843
Remaining required write-off	***(6)= (3)-(5)***	**10,757,085**
Liabilities partial write-off	***(7)***	**20,655,417**
BAMC		15,741,345
Other banks		4,914,072
% of liabilities partial write-off	***(8)***	**100**
BAMC (%)		*76*
Other banks (%)		*24*
Total write-off amount	***(9)= (6)*(8)***	**10,757,085**
BAMC		8,197,897
Other banks		2,559,188
Total % of partial liabilities write-off	***(10)= (9)/(7)***	**52**
Total investment value	***(11)= (7)-(9)+(4)***	**10,304,327**

Appendix F: List of final 22 companies

Table 10: List of final 22 companies in the sample

Company		**Reason***
ELAN	No	Already sold
LIV KOLESA	Yes	Ownership share of DUTB is for sale
SISTEMSKA TEHNIKA	No	Already sold
AHA PLASTIK	No	Already sold
LITOSTROJ JEKLO	Yes	Ownership share of DUTB is for sale
AHA EMMI	Yes	Ownership share of DUTB is for sale
TT OKROGICA	Yes	Claims of DUTB are for sale
PINUS TKI	No	Already sold
ALPINA	Yes	Ownership share of DUTB is for sale
MLM	Yes	Ownership share of DUTB is for sale
LESNA TIP, OTIŠKI VRH	No	Private foreign owner, DUTB claims are not for sale
CIMOS	No	Not suitable for the portfolio based on financial condition - limited potential for growth
POLZELA	No	Not suitable for the portfolio based on financial condition - limited potential for growth
AERO	No	Not suitable for the portfolio based on financial condition - limited potential for growth
GORIČANE,	No	Not suitable for the portfolio based on financial condition - limited potential for growth
BETI	Yes	Claims of DUTB are for sale
GORIŠKE OPEKARNE	No	Privately owned, DUTB claims are not for sale
FORI	Yes	Claims of DUTB are for sale
GALEX	No	Not suitable for the portfolio based on financial condition - limited potential for growth
KLEMETAL	No	Privately owned, DUTB claims are not for sale
G - M&M	No	Privately owned, DUTB claims are not for sale
PARON	No	Privately owned, DUTB claims are not for sale

*Note: As of 15.5.2016