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Cabelte restructuring by OxyCapital

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Abstract

Title: Cabelte Restructuring by OxyCapital

This case study describes OxyCapital's intervention in Cabelte's operational and financial restructuring. Despite Cabelte's strong debt burden, OxyCapital believed that the Group's financial difficulties were temporary and that it had growth potential if the said restructuring would be implemented. Hence, while striving for an operational turnaround, OxyCapital managed to reach an agreement among not only the several banks but also the Group's shareholder for the financial restructuring. The transaction included the acquisition of a majority stake on the Group's share capital and of a significant part of Cabelte's bank debt by OxyCapital's Corporate Restructuring Fund.

Keywords: acquisition of credits; liquidity crisis; restructuring; Corporate Restructuring Fund.

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Cabelte restructuring by OxyCapital

August 7th, 2012 was the day of the closing of the call option agreement between Cabelte's shareholder and the Corporate Restructuring Fund (CRF)[1] managed by OxyCapital. After six months of hard work analyzing potential opportunities that would fit the Fund's investment policy, everything was finally ready for an important step of the first closing of this first-time fund.

OxyCapital's associate Joe[2], knew that there was still a lot of work to do. First, the twenty-one banks involved in the transaction would have to agree on the financial restructuring plan. Following this, the operational turnaround would have to be absolutely successful in order to generate enough cash flow to repay the €166M necessary to ensure the recovery of the Fund's investment.

But at 5 p.m. the telephone rang and the news arrived: the shareholder had cancelled the meeting. "It seems that Cabelte was able to get a €3M funding", Joe explained to the team.

Cabelte

Founded in 1938, Cabelte is a Portuguese cable manufacturer, leader in the national market with consolidated sales of €237M and an accounting EBITDA of €16M in 2011. At that time, Cabelte Group was operating three plants (Arcozelo and Ribeirão in Portugal and Pamplona in Spain) where it manufactured low, medium and high voltage cables (representing approximately 69% of sales), cables for the automotive industry (approximately 18% of sales) and telecommunication cables (the remaining 13%). The holding company (Atlanticables) was entirely held by a single shareholder and Cabelte Holding held the four main operational units: Cabelte Cabos Elétricos (100%), Cabelte

[1] See **Exhibit 1** for the context of the set-up of CRF and its investment policy.
[2] Name has been changed for the sake of confidentiality. See **Exhibit 2** for short biographies.

Incasa (100%), Cabelauto (50.6%)[3] and Cabelte Metals (100%). (See **Exhibit 3** for Cabelte's organizational structure).

The cable industry

Cable manufacturers are part of an international and fragmented industry. Prior to the economic crisis, the largest players – such as General Cable, Nexans and Prysmian – invested in new capacity in an attempt to attain a global scale to face the strong bargaining power of suppliers of raw materials and the entrance of low cost country players in the developed markets. The main components of cables are commodities (aluminum and copper) whose prices are defined in the international markets. Hence, long-term contracts are generally indexed to the price of raw materials such that the final client supports any volatility involved[4]. (See **Exhibit 4** for data on the LME spot prices of copper and aluminum).

Despite the strong competition, the growth perspectives for the industry are positive. Firstly, population growth in the emerging markets is expected to drive an increase in consumption of energy and telecommunications and thus, create the necessity for large investments in electrification and communication networks – for instance, Brazil is expected to invest approximately €12.4bn[5] until 2020 in transmission lines[6]. Furthermore, the rise of the renewable energy will result in a need for large investments in both distribution and transmission networks to serve solar and wind farms. Finally, despite the slowdown of investment in the developed countries, these countries will need to invest in the maintenance of existent lines. In fact, it is estimated that 83% of the transmission lines in Europe will reach their lifetime of 40 years between 2010 and 2014[7].

The investment opportunity

The deterioration of Cabelte's activity started in 2009 with the economic crisis. In 2010, similarly to the other players in the industry, the Group was able to slightly recover its sales, but at the expense of a lower margin. (See **Exhibit 5** for Cabelte's historical consolidated financial statements and **Exhibit 6** for a summary of the historical financials

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[3] Cabelauto is a joint venture with Somitomo, a Japanese conglomerate, which holds 49.4% of the company.
[4] Cabelte sales are indexed to the London Metals Exchange (LME).
[5] The equivalent for R$30bn using the exchange rate at December, 31st 2011.
[6] Source: Ministério de Minas e Energia, Empresa de Pesquisa Energética. 2011. "Plano Decenal de Expansão de Energia 2020".
[7] Source: McKinsey & Company data (March 2012).

of selected players). In 2011, the contraction of the European demand and the reduction of the large utilities' investment programs resulted in a 12.1% reduction of the sales volume from 62kton in 2010 to 55kton in 2011. The Group was able to profit from a higher average LME price of the metals and thus, consolidated sales decreased only 2.7% from €244M in 2010 to €237M in 2011. Regardless, the gross margin shrank from 25.1% in 2010 to 23.2% in 2011, mainly due to price pressures in both Portugal and Spain, a consequence of the recession felt in both countries. Furthermore, Cabelte entered the United Kingdom market, which implied an aggressive price policy, and interrupted its sales to Libya, as a result of the civil war, where the Group had historically managed to capture higher margins.

In order to face the recessive demand environment in Europe, the board hired Mr. Mário Pais de Sousa[8] as an external consultant who would be supported by two audit and consultancy firms to create a strategic turnaround plan for Cabelte. The result was Project 1/15/15: a unified company with a 15% EBITDA margin in 2015. The strategy's three pillars were severe cost-cutting, the optimization of raw material purchases and a focus on the products and markets with the highest value. As a consequence, it forecasted €12.5M savings in 2013, revenues of €247M (a 16% increase from the management projection for 2012 sales) and EBITDA of €27M (compared to €4M expected at the end of 2012). Even by assuming a strong operational performance, the business plan pointed out €10.4M of cash needs in 2013. It was in this context that the major creditor presented the opportunity to OxyCapital.

Investment rationale

When analyzing Cabelte, OxyCapital saw a deteriorated activity and €182M of net debt at the end of 2011, which corresponded to 11.3x the reported EBITDA on the same year. Thus, the team recognized the need for an urgent operational and financial restructuring. But was it a good target for the CRF? Was it a viable business? Was it enough for an above hurdle return?

Despite being very conscious about the associated risks, OxyCapital decided to go ahead with the transaction because of the Group's stable revenue generation and presence

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[8] See **Exhibit 2** for short biographies.

in developed European markets, its growth potential through exports and the potential to attain higher margins after the planned operational restructuring.

Revenue generation was stable due to a recurrent order book from a solid client base. Cabelte's main clients were European utilities in Portugal (such as EDP and PT), Spain (such as Iberdrola and Endesa) and other countries and in 2012, eight of the ten largest clients had recurrent annual contracts. Also, the Group's small dimension in an international industry enables closer relations with clients and greater flexibility, adjusting production to clients' needs, without relaxing the recognized quality of its products[9].

Additionally, Cabelte had been making an effort to position itself in the markets that are expected to drive the expected growth within the industry. In 2010, 65% of Cabelte's sales were in the Iberian market, 18% in the rest of Europe and 17% in the rest of the world but by November 2012, the Iberian market represented only 55% of Cabelte's sales whereas the rest of Europe represented 21% and the rest of the world 24%. Lastly, opportunities for consolidation were identified.

In sum, OxyCapital believed in Cabelte's growth potential but knew that the urgent operational and financial restructurings must be both simultaneous as well as complementary. For the process to start, the shareholder must give the Fund the irrevocable option to enter into the Group's share capital and acquire the credits. However, on the day that the agreement was to be signed, Cabelte managed to raise another €3M of financing, which was considered the liquidity buffer needed to continue operating independently and the meeting was cancelled.

The troubled 2nd Semester of 2012

After the cancelled closing meeting, Mr. Pais de Sousa was nominated CEO of Cabelte and started to implement the planned operational restructuring. However, the lack of short-term financing led to a deterioration of the Group's financial situation, including several registered factory stoppages due to the lack of raw materials, €10M in missed orders and several overdue payments to key suppliers. Thus, the commercial risk rocketed and banks considered that the credit risk increased as well. In this period, the Group

[9] In order to supply European utilities, Cabelte products were certified. A certification process takes, on average, two years, reducing the probability of new entrants.

suffered the cancelation of a factoring facility valued at €23M and of several credit insurance contracts, which made suppliers started to demand advanced cash payments of the raw materials purchases, worsening the working capital problem.

Consolidated sales plummeted 30% from €237M in 2011 to €165M in November 2012, explained not only by a lower quantity sold (39kton compared to 55kton in 2011) but also by a decrease of the average price per ton. The gross margin decreased from 23% in 2011 to 21% in November 2012. Also, Cabelte's total debt in November 2012 was of €195M, of which €177M was bank debt. In spite of that, the Group was able to reduce SG&A costs on 17% and staff costs on 13%, the first visible consequences of the operational restructuring.

In sum, even with the start of the operational restructuring, the working capital problem led Cabelte to register a negative €9M EBITDA in 2012 and €199M in bank debt spread amongst twenty-one banks. (See **Exhibit 7** for the distribution of Cabelte's debt among banks and companies). The urgent need for an intervention was finally clear.

Negotiating with the shareholder

On December, 7th 2012, a call option agreement with the shareholder was finally signed, which gave the Fund the option to acquire 75.5% of Atlanticables' share capital and credits - in exchange for 1€ and the release of the shareholder personal guarantees over the credits – and the shareholder was also given the possibility to stay as non-executive president of the board.

Since the cancellation of the agreement in August, OxyCapital had been working closely with Mr. Pais de Sousa and believed that the management team would have a crucial role for the success of the transaction. Thus, it should also have an important participation on the Group's share capital in order to ensure that interests were aligned, provided that the Fund would stay as the majority shareholder in order to be able to lead the restructuring. Thus, 24.5% of the share capital was transferred to the management team, such that the team would have the same percentage of ownership as the shareholder and the CRF would hold 51%. (See **Exhibit 8a** and **8b** for the shareholders structure before and after the call option is exercised).

The final structure will be adjusted after the total amortization of the credits and if the company is considered to be stabilized. Therefore, the previous shareholder was given the option to repurchase up to one third of Atlanticables' share capital that can only be exercised if the said conditions are verified. If so, the CRF will transfer to the management team the number of shares that would equalize the percentage of ownership of each of the three parties. (See **Exhibit 8c** for the shareholders structure after the repurchase option is exercised).

However, the CRF's call option could only be exercised if the Fund managed to sign an agreement with the banks involved to acquire the €71M of credits of the operational companies and if a sufficient liquidity buffer, which would allow the operations to restart working at their normal pace, was achieved. Therefore, OxyCapital negotiated with Cabelte's major creditors €10M in cash to repay what was overdue to suppliers, to purchase raw materials and to finance the one-week lead time estimated at the time. Additionally, the said banks approved €8M in factoring facilities and export advances as well as €8M of bank guarantees to restore working capital.

Joe explains "If the deal would have been closed previously, the commercial risk would have been lower and banks would probably not have needed to provide the working capital financing. When a firm is in such a critical situation, time definitely matters. There was no need for Cabelte to reach a treasury rupture".

Planning the financial restructuring

After the agreement with the shareholder was signed, OxyCapital's team needed to prepare the financial restructuring while the management team focused on improving the Group's operations. So, on January 2013, with Mr. Pais de Sousa at the helm of the operational restructuring, the team was dedicated to the analysis of the impacts of an in-court negotiation against an out-of court one. Since OxyCapital believed in Cabelte's value as a going-concern, its team particularly considered the possibility of pursuing an SRP (Special Revitalization Procedure)[10]. The team found that although an SRP would allow a 4-year grace period for both bank debt and for account payables (resulting in a positive impact of €19M), the risk of not being able to finance short-term needs was considered too high: for instance, under this scenario the commercial funding lines might be cut off (resulting in a negative impact ranging from €4M to €23M), suppliers may

[10] A legal framework launched by the Ministry of the Economy in the context of the external assistance program which allowed a debtor that is considered temporarily insolvent to continue operating while negotiating with its lenders. The goal of this legal framework was to set clear rules and therefore to faster the decision making process.

execute the guarantees (resulting in a negative impact of €1M) or require advanced payments (resulting in a negative impact of €5M) and credit insurance contracts to suppliers could be cut off (resulting in a negative impact of €5M). At the end of the month, the team met with the major creditors to present the aforementioned conclusions. Based on the identified risks, they decided against the SRP and instead chose to create a plan that would allow Cabelte to continue satisfying its financial responsibilities to lenders that did not participate in the CRF.

Following a 4 hour-long meeting, the banks alerted that only €1M of the €10M of new money injected into the Group in December was leftover, forcing OxyCapital to realize that it would need to intervene as the Group's treasury was near rupture and the risk of bankruptcy was too high. The team would need to support the CEO in the implementation of the operational restructuring.

Three analysts moving to Arcozelo

On February 11th, Joe and two analysts moved to Cabelte's headquarters in Arcozelo. Joe describes the arrival: "it was a financial and productive chaos". Due to the operational restructuring, the former CFO and approximately twenty production senior officers had been dismissed. "At least there was a commercial director who could work on the order book", Joe says. There were almost no control mechanisms: productive planning was not reliable (weekly actual sales were usually 20% to 40% below plan), there was no control over wastes and scrap, no planning for the purchase of raw materials and no control of the order book. Furthermore, liquidity was managed on a daily basis and there was no control over collections and credit risk.

Moreover, liquidity was an enormous problem: due to the cancellation of the credit insurance contracts and the use of the €10M of new money, there was no available cash and thus, there was no room for any mismatch between the plan and reality. The only lifebelts were the factoring facilities and the export advances that had not yet been used at that point. It was clear that gauging the value of the Group's sales as well as of the quantity of raw materials was both an utter and urgent necessity in order to understand which guarantees the team should ask for.

Joe says: "It needed to work like a Swiss watch". For Cabelte to be able to use the factoring facilities, the invoices needed to arrive not later than noon-time, so that the bank could approve them internally and transfer the money to suppliers before 2 p.m., in order to be received on the next morning. This was critical as suppliers would load their trucks only after receiving the money and only then would the raw materials arrive on time to ensure production for the next day. Joe continues “you fell asleep without being sure that the mill would have raw materials to work the day after tomorrow and if you would have cash to pay the salaries of the 694 workers”.

The team lived in Arcozelo for three cold, rainy, dark and stressful months, creating planning and control mechanisms and ensuring the day-to-day liquidity management. Joe and the analysts worked as an interim CFO, acting as the right hand to the CEO.

Negotiating with banks

At the same time, OxyCapital was responsible for leading the financial restructuring. At this point in time, Cabelte could be considered insolvent since it was not able to satisfy its responsibilities: the year of 2012 ended with a negative €9M EBITDA and the forecasted debt servicing for 2013 was €16M. However, OxyCapital’s rationale in entering this transaction was its belief that this was a temporary situation and that the Group had growth potential that would be achieved with the team’s commitment to the operational restructuring plan.

The team had already decided against an in-court restructuring due to the associated risks and the need for an urgent solution. Although it would be a faster solution, it would be harder to reach a unanimous agreement amongst all creditors. Each creditor must firstly recognize that the value of the firm as a going concern is higher than its liquidation value and then accept the value distribution proposal.

In order to prove that the value of the firm as a going concern was higher than the liquidation one, the team calculated the recovery rate that would be achieved by the banks in the event of liquidation, by splitting the value of the assets by each claim in accordance to seniority rules (see **Exhibit 9** for the calculation of the recovery rates in different scenarios). It was forecasted that in the base scenario, the debtholders would recover 17% of their claims in liquidation compared to 48% in the going concern alternative. Furthermore, the fact that the acquisition of credits would make the Fund Cabelte’s major creditor represented a strong incentive for OxyCapital’s team to maximize the value of the Group. With this, in the case of accepting the going concern alternative, banks could count on the commitment of the private equity firm to the success of the operational restructuring and, thus, on the materialization of the forecasted recovery rates.

In order to ensure that the twenty-one banks would timely and unanimously accept the value-distribution proposal, the team designed a structure that grouped claimers and resembled an in-court negotiation. The goal was to mitigate the probability that an individual claimer would have an incentive to hold out for more favorable treatment.

After an iterative negotiation process, two more banks joined the Fund and an agreement among all of the other banks that would ensure the minimization of the debt burden in the first years of operations and the new money necessary to finance this period was reached.

Financial restructuring

The agreement among the banks that participated in the Fund was signed on March, 26th 2013, expressing the unanimous acceptance of the proposed terms. (See **Exhibit 10** for a summary of the approved debt restructuring and **Exhibit 11** for the sources and uses of the transaction).

The CRF acquired the €71M of credits of the operational companies (Cabelte Cabos Elétricos, Cabelte Incasa, Cabelauto and Cabelte Metals) of the six banks that decided to participate in the Fund, excluding the commercial debt (factoring facilities, export advances, etc). The credits were acquired at their nominal value but were restructured: there were no mandatory amortizations and the interest payments were capitalized. These credits were to be remunerated at EURIBOR 6M + 7.5%.

The €38M of commercial debt of the operational companies (factoring, confirming, export advances, etc.) were maintained in order to continue financing Cabelte's operations and were to be remunerated at an average of EURIBOR 3M + 3%.

The €65M of credits of the holding companies were maintained but restructured: there were no mandatory amortizations and the interest payments were capitalized. The loans were to be remunerated at EURIBOR 3M + 2.5%.

The €14M of credits of the operational companies from banks that decided not to participate in the Fund were restructured such that the loans were to be progressively amortized in five years (12.5% in 2013 and 2014 and 25% in each of the following years) and remunerated at EURIBOR 12M + 3%.

The €13M of new money raised by the Group in 2012 were also restructured: the loans were to have a bullet amortization in 10-years' time and to be remunerated at EURIBOR

12M + 4.75%. The possibility to have early amortization provisions, if at *pari passu* with the amortization of the debt acquired by the Fund, was also agreed upon.

The repayment priority was defined as follows: firstly, the operational credit lines and the credits of the banks that did not participate in the Fund should be amortized; secondly, it should be paid the interest on the credits acquired by the Fund; thirdly, the CRF's credits should be amortized; and only then, the interest and principal of the credits of the holding companies should be paid.

In order to minimize the downside for the Fund in the case of bankruptcy (an event that was likely if the out-of-court restructuring were to fail), the entity acquiring the share capital was purposely a different one from the one acquiring the credits. In a liquidation scenario, shareholder loans are considered subordinated to all other credits: the value of the assets would be first distributed to the privileged creditors (employees, tax authority and secured loans), then to the common creditors (in the proportion of their claims) and only after to the subordinated creditors. Hence, the 75.5% of Atlanticables' share capital was acquired by Coax (an investment vehicle) while the €71M of credits were acquired by the CRF, for the Fund to be positioned as common creditor.

Finally, for the call option of Atlanticable's share capital and credits to be exercised, the Fund needed to ensure the short-term financing needed to support the startup of Cabelte's operations. Although €8M of factoring facilities and export advances and €8M of bank guarantees had already been raised in December 2012, the conclusion of the Due Diligence revealed that the lead time of the factories was three weeks instead of the one week estimated by the management team, implying an extra cash need of €4M. Furthermore, the Due Diligence team found orders that were not budgeted implying a €10M new line of export advances and a new line to fix the LME price with an €11M plafond. These lines were grouped within the operational credits and were contracted under the same conditions.

No longer on the precipice

On March, 26th 2013, the CRF exercised the call option, becoming Cabelte's majority shareholder and acquiring the aforementioned credits. Two months later, in May 2013, a new CFO was hired and the liquidity problem was stabilized. Although there was still a lot of work to do, Cabelte was no longer on the precipice.

OxyCapital’s Managing Partner says: “What was done was absolutely extraordinary. If the team had not intervened, a viable company with an enormous growth potential would be liquidated and 694 people would have lost their jobs.”

Exhibit 1 The Corporate Restructuring Fund

In April 2011, the Portuguese economy entered a financial assistance program and registered a -2.8% GDP contraction and a 14% unemployment rate. The recessive economic environment severely affected the Portuguese non-financial corporations whose revenues and EBITDA decreased 9% and 25%, respectively, in 2012.

Furthermore, the Portuguese non-financial corporations were extremely indebted. In 2012, the debt of the non-financial companies reached €698B, which represented 411% of the country's GDP and 87% of the Portuguese corporations had net debt superior to 5x EBITDA. Also, 29% of the non-financial corporations had negative equity values, meaning that they were exclusively financed by external capital, and 41% reached EBITDA levels inferior to its interest payments.

For the Portuguese economy to recover in a sustainable way, a deleveraging process would need to start. It was in this context that Mr. Miguel Lucas decided to raise a restructuring fund and to create OxyCapital along with other partners. The main purpose of the Corporate Restructuring Fund was to lead the financial and operational restructuring of companies that were struggling due to financial difficulties but that could still grow, namely through an increase of exports or through consolidation. Banks would commit capital in exchange of units of participation in the Fund that would acquire the credits of the selected companies. The CRF first closed in August 2012 with an initial capital of €360M.

Sources: Bank of Portugal. December 2011 and October 2012. "Statistical Reports".; OxyCapital; Central de Balanços do Banco de Portugal. November 2013. "Análise sectorial das sociedades não financeiras em Portugal 2012/2013".

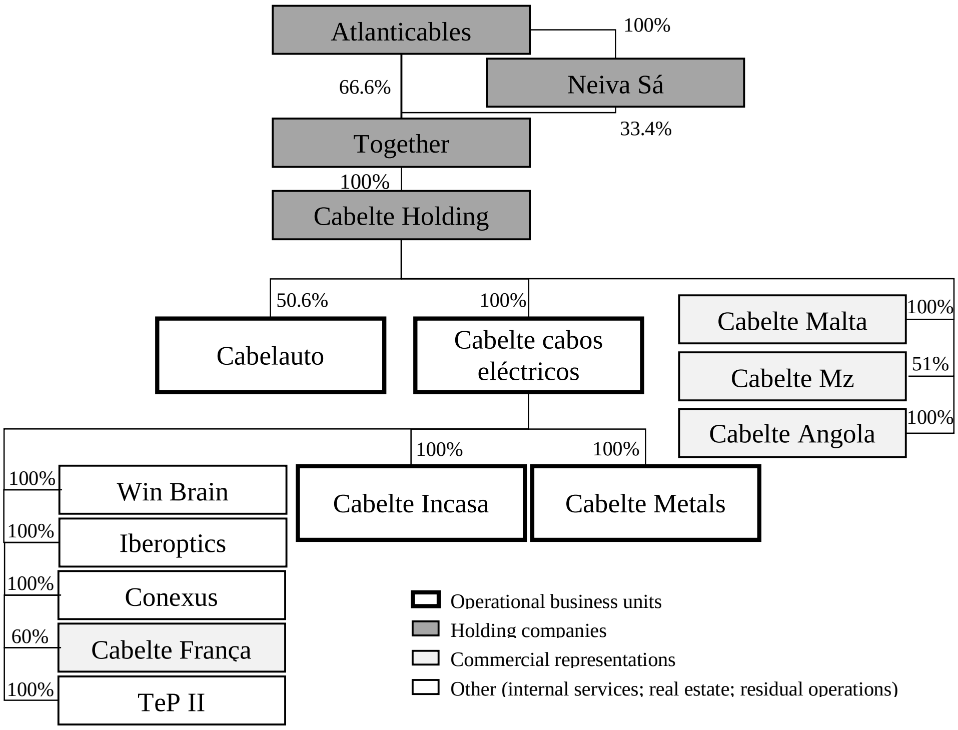
Exhibit 2 Short biographies

Miguel Lucas Mr. Lucas is the Managing Partner and co-founder of OxyCapital. Mr. Lucas was a Managing Partner of McKinsey & Company and is member of the strategic council of Universidade Católica, where he completed a degree in Management and Administration. Mr. Lucas holds an MBA from Harvard Business School.

Mário Pais de Sousa Mr. Pais de Sousa was a consultant for the restructuring of Cabelte before being nominated CEO. Prior to his first role in Cabelte, Mr. Pais de Sousa was the CEO of Grupo Vista Alegre Atlantis, had been the vice-president of Robert Bosch as well as the CEO of Vulcano-Termodomésticos.

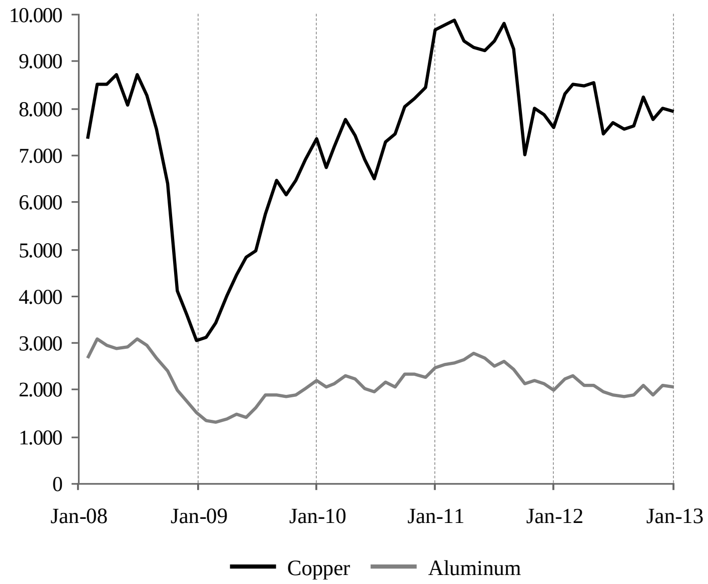
Joe Before joining OxyCapital as Associate, Joe was an Analyst at a top management consultancy firm. He holds a Masters in Finance from Nova SBE.

Exhibit 3 Organizational structure



Source: OxyCapital

Exhibit 4 The London Metals Exchange spot price for copper and aluminum (USD/ton)



Source: Bloomberg

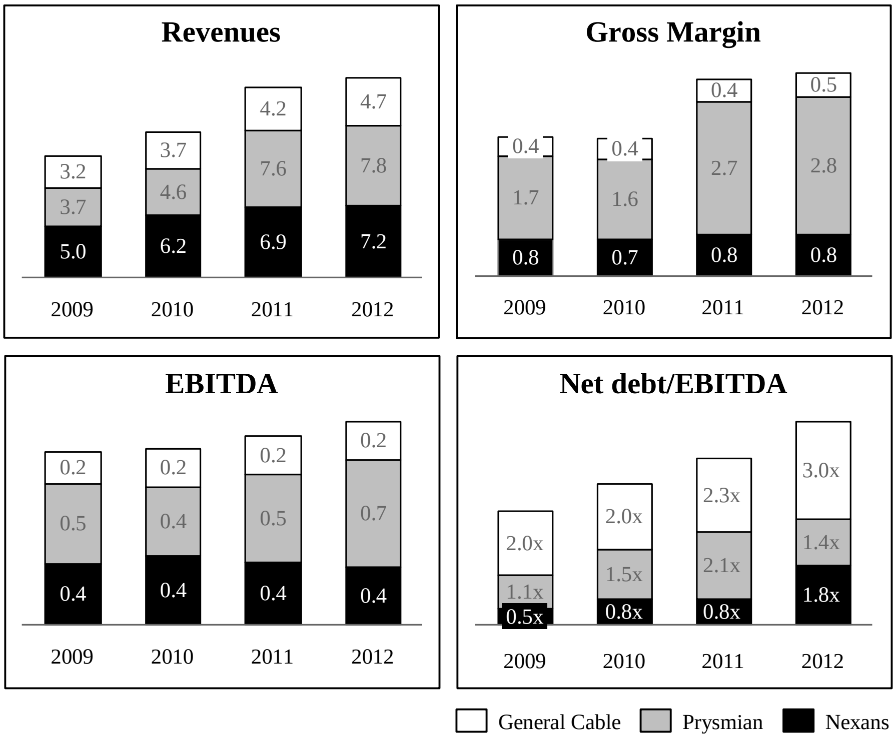
Exhibit 5 Cabelte's historical consolidated financial statements (M€)

	2010	2011	2012
Revenues	244	237	172
Costs of goods sold	(185)	(177)	(134)
Selling, general and administrative expenses	(23)	(20)	(18)
Staff costs	(23)	(21)	(21)
Other revenues and expenses	3	(2)	(8)
EBITDA	**16**	**16**	**(9)**
Depreciation and amortization	(5)	(4)	(6)
EBIT	**11**	**12**	**(14)**
Interest and similar income and expenses	(10)	(12)	(16)
Profit Before Taxes	**1**	**(0)**	**(31)**
Income tax for the period	(1)	(1)	(1)
Net Profit	**0**	**(1)**	**(31)**

	2011	2012
ASSETS		
Tangible assets	45	42
Goodwill	82	100
Other non-current assets	16	13
Non-current assets	**143**	**155**
Inventory	23	19
Account receivables	32	28
Other current assets	14	9
Cash and cash equivalents	4	1
Current assets	**73**	**56**
Total ASSETS	**217**	**211**
OWNERS' EQUITY		
Capital	2	2
Share premium	17	17
Reserves	1	1
Retained earnings	(19)	(37)
Revaluation surpluses	11	18
Other changes in owner's equity	(1)	1
Profit for the period	(1)	(25)
Minority interests	11	4
Total owners equity	**19**	**(19)**
LIABILITIES		
Provisions	1	3
Long-term loans	84	126
Other non-current liabilities	9	8
Total non-current liabilities	**94**	**137**
Account payables	36	30
Short-term loans	49	43
Other current liabilities	19	21
Total current liabilities	**103**	**93**
Total LIABILITIES	**197**	**230**
Total OWNERS' EQUITY AND LIABILITIES	**217**	**211**

Source: Annual reports and OxyCapital

Exhibit 6 Historical financials of selected wire and cable players (€M)



Source: Bloomberg

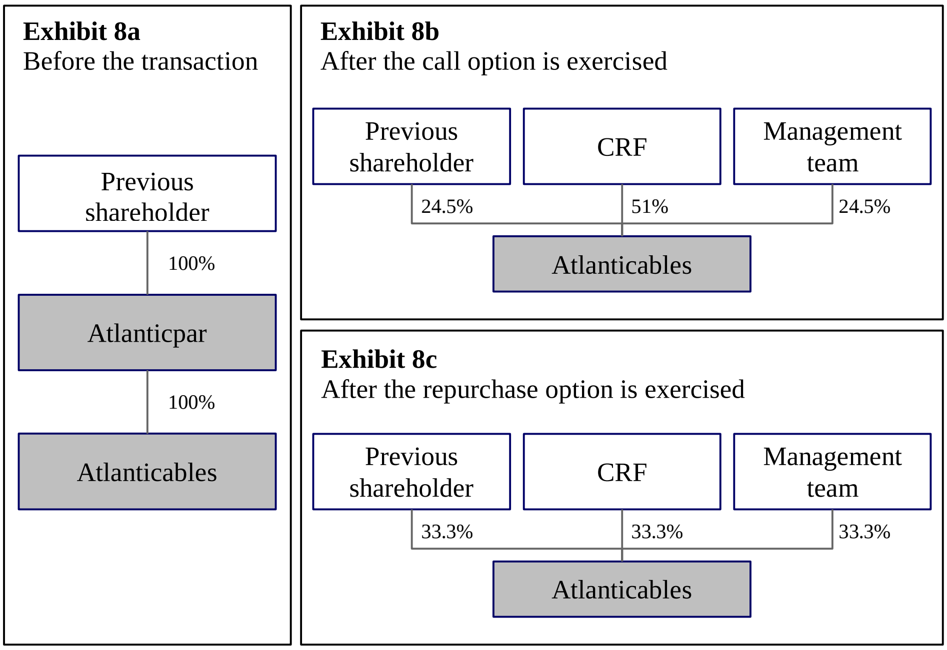
Exhibit 7 Cabelte's debt in January 2013 (€M)

	Company											
Bank	**Atlanticables**	**Neiva SA**	**Together**	**Cabelte Holding**	**Wall Space[1]**	**Cabelte**	**Cabelauto**	**Incasa**	**Metals**	**Win Brain**	**Iberoptics**	**Total**
A	11	17	6	23		45	0					**102**
B			3	4	12	36	0			0		**43**
C						3	2	6			0	**12**
D						6			1			**7**
E						6						**6**
F						4	2		0			**5**
G						3			1			**4**
H								2				**2**
I						2						**2**
J						2	0					**2**
K						1		0	1			**2**
L						2						**2**
M						1	0					**2**
N						1	0					**2**
O						1			0			**1**
P						0	0		0			**1**
Q						1						**1**
R						1						**1**
S								1				**1**
T								1				**1**
U									1			**1**
V								0				**0**
W								0				**0**
X								0				**0**
Y						0						**0**
Total	**11**	**17**	**9**	**27**	**12**	**104**	**5**	**10**	**4**	**0**	**0**	**199**

[1]Despite not being part of the Group, Wall Space is a real estate company fully held by the shareholder, to which belong the buildings where Cabelte operates its factories.

Source: OxyCapital

Exhibit 8 Atlanticables' shareholders structure



Source: OxyCapital

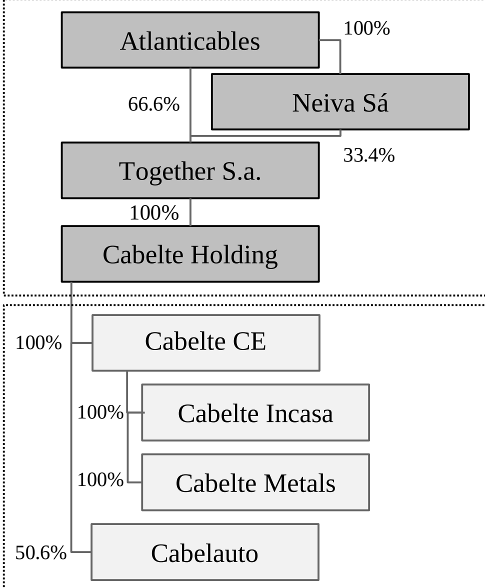
Exhibit 9 Debtholders recovery rates in liquidation and as a going concern (€M)

	Liquidation			Going Concern		
	Conservative	**Base**	**Optimistic**	**Conservative**	**Base**	**Optimistic**
Value of the assets	89	98	112	75	117	153
Bankruptcy costs	24	24	24	0	0	0
Factoring contracts	40	40	40	40	40	40
EV to distribute amongst creditors	**25**	**34**	**48**	**35**	**77**	**113**
Bank debt	162	162	162	162	162	162
Account payables	35	35	35	0	0	0
Total debt	**197**	**197**	**197**	**162**	**162**	**162**
Debtholders recovery rate (%)	**13%**	**17%**	**24%**	**22%**	**48%**	**70%**

Liquidation scenarios were built based on the discount applied to the value of the assets in case of a fire-sale; Going concern scenarios were built based on the level of implementation of the operational measures that were part of the operational restructuring plan.

Source: OxyCapital

Exhibit 10 Summary of the financial restructuring



Holding Companies
The debt of the holding companies was maintained but restructured such that there were no mandatory amortizations nor interest payments. The repayment starts when the debt of the operational companies is completely amortized.

Operational Companies
The debt of the banks in the fund was acquired but restructured such that there were no mandatory amortizations nor interest payments.

The debt of the banks that did not participate in the fund was restructured: it should be amortized in 5 years.

The commercial debt (factoring facilities, export advances, etc.) was maintained.

Source: OxyCapital

Exhibit 11 Sources and uses of the transaction (€M)

Sources		Uses	
CRF's investment	**75**	**Credits acquired by the CRF**	**71**
Debt of the holding companies	**65**	**Restructuring and transaction costs**	**4**
New money	**13**	**Maintained debt**	**131**
		Debt of the holding companies	65
Operational debt	**53**	New money	13
Commercial lines	38	Commercial lines	38
Banks that did not participate in the CRF	14	Banks that did not participate in the CRF	14
Working Capital financing	**29**	**Working Capital financing**	**29**
Total	**235**	**Total**	**235**

Source: OxyCapital

Discussion questions

Cabelte restructuring by OxyCapital

1. In which way did OxyCapital add value?
2. Discuss the rationale for a bank to participate in a restructuring fund.
3. Would it be possible for the banks to arrange a successful restructuring without participating in a fund?
4. Why are there some banks that still not participate in restructuring funds?
5. Compare the shareholder situation if the company would be liquidated and if the restructuring will be well succeeded.
6. What are the limitations of the agreed restructuring? How do they affect Cabelte's current activity?

Teaching notes

Cabelte restructuring by OxyCapital

Cabelte should be interpreted as an extremely indebted Group where financial problems contaminated operations and led a viable company almost to insolvency, namely due to a liquidity shortage. It should be reinforced that in such a case both the operational and financial restructurings must be simultaneous, such that the operational turnaround is not conditioned by liquidity pressures and the company generates enough cash flow to grow and to face the new calendar of amortizations. However, it is important to recognize that negotiating with creditors at the same time as restructuring operations requires an extreme effort and coordination. OxyCapital intervention relaxed this burden, minimizing management distraction.

1. In which way did OxyCapital add value?

OxyCapital's intervention maximized the perceived value of Cabelte as a going concern and minimized the probability that the operational restructuring would fail. By acquiring the credits, the CRF became the Group's largest creditor, which has aligned the Fund's interests to Cabelte's value maximization and by leading the financial restructuring, OxyCapital allowed the management team to focus on the operational turnaround. Furthermore, the private equity firm continuously supported the management team on its challenging task. At the end of the day, the belief in Cabelte's value as a going concern and the structure of the financial restructuring proposal made possible a unanimous agreement among the twenty-one banks and the shareholder.

It is also important to notice that OxyCapital's intervention allowed both the operational and the financial restructuring to be simultaneous and thus to complement each other. As such, it was possible to overcome the extreme liquidity shortage the Group was facing and to profit from all the benefits associated with the restructurings.

2. Discuss the rationale for a bank to participate in a restructuring fund.

For a bank, entering into a restructuring fund implies the transformation of its credits into units of participation in the fund. An equity participation is junior to the credits and is not secured by real guarantees. Furthermore, such an operation implies that the bank abdicates having a direct control over the company's cash flow distribution since its stake in the company was transferred to an external entity. The participation in restructuring funds is also associated with the need to pay management and success fees.

As such, a bank would enter a restructuring fund if it believes it is maximizing the recovery probability of the loans to companies that would be bankrupt if not restructured. A financial restructuring allows a reduction of the debt burden and, thus, the generated cash flow can be reinvested in the company, allowing it to recover. Notice that when a company is facing severe difficulties, if a complete restructuring process is not implemented, the most probable outcome is for the company to start failing the principal payments on its loans. If so, a bank would have non-performing loans in its balance sheet and would need to register a loan-loss provision on the full loan amount. Since provisions directly affect the annual net income, the Common Tier I capital[11] would also be directly affected. Therefore, participating in a restructuring fund avoids severe capital consumptions in order to maintain the Common Tier I ratio at the required 4.5% of risk-weighted assets under the Basel III regulatory framework[12].

Having a fund acquiring the credits and leading the restructuring process means that the process will be managed by an independent and professional team and maximizes the probability of reaching a unanimous agreement among creditors and consequently of the success of the financial restructuring. Moreover, as the majority shareholder and simultaneous the largest creditor with a residual claim, the fund is able to align the incentives of the management team to value creation, which also maximizes the probability of success of the operational restructuring.

Finally, the fact that the company's operations are maintained allows the bank to continue generating income from the commissions and interests charged when financing

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[11] Common Tier I Capital includes common shares, stock surpluses, retained earnings, accumulated other comprehensive income and other disclosed reserves and common shares from subsidiaries.
[12] The Basel Committee of Banking Supervision of the Bank of International Settlements. December 2011. "Basel III: a global regulatory framework for more resilient banks and banking systems".

the said operations. In the case of Cabelte, there have been €38M of commercial lines that were maintained and were to be remunerated at an average of Euribor 3M + 3%.

3. Would it be possible for the banks to arrange a successful restructuring without participating in a fund?

Firstly, the immense difficulty on reaching a unanimous agreement among several banks should be considered. Without an external independent party leading the process, each bank has always incentives to reject the agreement, since it is very difficult to find solutions that would benefit each one equally.

Furthermore, even in the event the banks would agree on hiring a new management team to lead the operational restructuring, it would be extremely difficult to ensure that the team would be striving for the interest of each bank equally. Without holding an equity participation, creditors would be unable to align interests by transferring a percentage of the company's shares to the management team.

Lastly, even in the extreme scenario where all banks agree on the restructuring terms and are able to hire an independent management team, a bank would not be able to reach a deal with the company's shareholder. In a transaction with a restructuring fund, the share capital is acquired for a symbolic value but in exchange for the release by the fund of the shareholders' personal guarantees over the acquired debt. However, for a bank, compensating a shareholder would create a moral hazard problem. Indeed, if a bank itself would release the shareholders' personnel guarantees on its credits, every shareholder would have the incentive to over indebt his company and the role of guarantees in credit risk mitigation would simply disappear. In contrast, a fund is an independent entity with a higher bargaining power.

4. Why are there some banks that still not participate in restructuring funds?

Some banks consider the capital consumption increase when a loan starts not to perform not to be high enough *vis-à-vis* the fees they would need to pay for participating in a restructuring fund, as well as the loss of seniority, guarantees and of control over the distribution of the company's cash flows.

In fact, one should notice that the magnitude of the capital consumption increase would depend on the specific characteristics of the loan before it starts not to perform.

For instance, banks with more conservative provision models would be less affected by the need to register a provision on the full amount of the loan.

Despite the aforementioned benefits of participating in restructuring funds, these entities are commonly thought to be used to clean banks' balance sheets. If the fund is used to rescue non-viable firms, just for the sake of avoiding the recognition of provisions in a given year, the units of participation would be devalued over time, requiring the banks to recognize provisions in a certain point in time. If so, the problem was only delayed, not solved. Some banks point that private equity firms would have the incentive to approve investments regardless the viability of the companies since the general partner receives management fees on assets under management. Therefore, the participation on restructuring funds is an opened debate, expectant for successful examples.

5. Compare the shareholder situation if the company would be liquidated and if the restructuring will be well succeeded.

In liquidation, the shareholder has the residual claim and his stake has no value. Also, his personal assets would be appropriated since the personal guarantees would be executed. On the other hand, the restructuring proposal enables the shareholder to maintain 24.5% of the holding company, his personal guarantees are cancelled and he stays as non-executive director.

At a first glance, the shareholder benefits immensely from the transaction. However, one should notice that his equity participation is worthless, since the current business plan gives an enterprise value lower than the total value of the debt. In that sense, the release of the personal guarantees are considered to compensate the lower recovery rates that banks would attain and the almost 700 families that would be affected by the unemployment problem in a liquidation scenario.

6. What are the limitations of the agreed restructuring? How do they affect Cabelte's current activity?

Due the liquidity problem Cabelte was facing, the transaction structure involved the maintenance of the €38M of commercial lines and €29M of working capital financing lines, remunerated at an average of Euribor 3M + 3%. In addition, the €14M of debt to the banks that did not participate in the CRF was agreed to be progressively amortized in the first five years following the transaction and to be remunerated at Euribor 12M + 3%.

Therefore, even after the transaction, Cabelte's treasury is still pressured by large annual interest payments on the debt.

Another limitation of the financial restructuring is its incapacity of dealing with international credit insurance companies. Cabelte's troubled period led to the cancelation of several credit insurance contracts which are important sources of working capital financing since they are required for suppliers credits. Once a contract is lost, it takes approximately two years for a credit insurance company to reassess the credit quality of the Group. Hence, Cabelte's growth and international expansion is conditioned by the access to this source of working capital financing, creating more pressure in liquidity management.

What happened?

Since CRF's entrance in Cabelte in the first semester of 2013, the Group's operational performance has been improving. After the negative €9M EBITDA in 2012, Cabelte registered sales of €220M and an EBITDA of approximately €14M in 2013. In 2014, despite a 13% decrease in the average annual price of the raw materials, the Group expects to achieve €230M of sales and an EBITDA of approximately €15M. Although the number of workers decreased 13% since the beginning of the restructuring process, production is expected to increase 44% from 70kton in 2012 to 101kton in 2014, which reflects significant productivity gains. Furthermore, the production quality has been improved, illustrated by the reduction of the registered average number of defects per month from 177 in 2012 to 35 in 2014. Also, the sales to the Portuguese market represented 35% in 2012, but only 30% in 2013 and are expected not to be higher than 20% in 2014.

However, Cabelte is still considered very indebted with a net debt to EBITDA ratio of 5.7x in 2013 and 5.6x in 2014. This ratio disregards the debt to the CRF and the debt of the holding companies (since there are no mandatory amortizations nor interest payments) and includes all the debt associated with the working capital financing.