Alba : Restructuring on all Fronts

Case Study Presentation

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Executive MBA (2020 -22)

International Financial Reporting

Task Group1:

- Find annual report 2013 for Alba and
  - present the general business of Alba including ist corporate structureand managements expectation for the future
  - use the income statement and cash-flow statement and present the economic performance of ALBA over the last 5 years
  - use the balance sheet and the notes and describe the financing strucutre and financial risk-management strategie of ALBA including major changes over the last years

- Use the Moodys industry report on waste management and
  - explain the relevance and meassurement of size
  - explain the relevance and meassurement of Profitability and Operating Efficiency
  - explain the relevance and meassurement of Cash Flow and Interest Coverage in their asessment of the credit quality of companies in this industry
- Use the Moody`s parameters to develop the rating of Alba

Agenda

1. Introduction

The general business of Alba including its corporate structure and managements expectation for the future

2. Economic performance

Last 5 years economic performance from the income statement and cash flow statement

3. Finance Structure & Risk management

Using the balance sheet and the notes to describe the financing structure and risk-management strategy over the last years

4. Moody Industry Standard Report

Explanation of the relevance and measure of Factors from Moody’s Industry Standard report

5. Rating of Alba

Developing the rating of Alba based on the Moody’s industry Standard Report

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1.Introduction

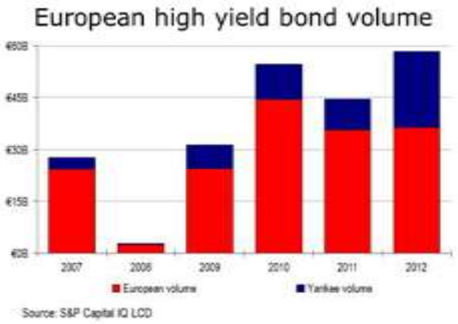
What is ALBA

Value Chain -- licensing, collecting, sorting, recycling, compounding, processing, trading and end user business

Corporate Structure

Shareholders & Board of Directors

EU High yield Bond



Alba: Case Study

Management's Expectation for Future:

Goal 1:

Create one single financing structure from (Currently financed by)variety of banks

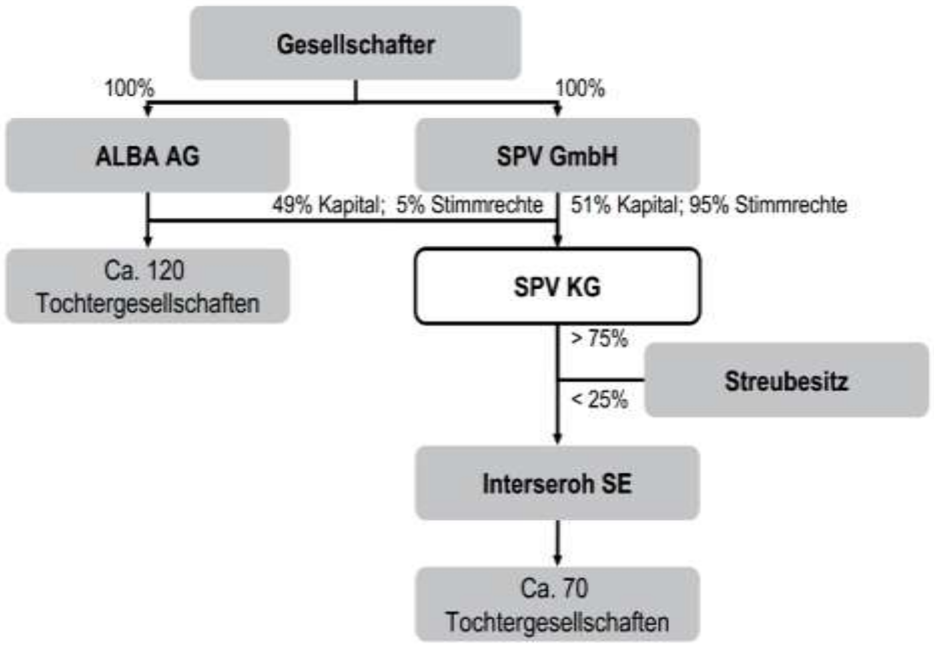
Goal 2:

Access Capital markets by issuing its first corporate bonds

ALBA - Restructuring

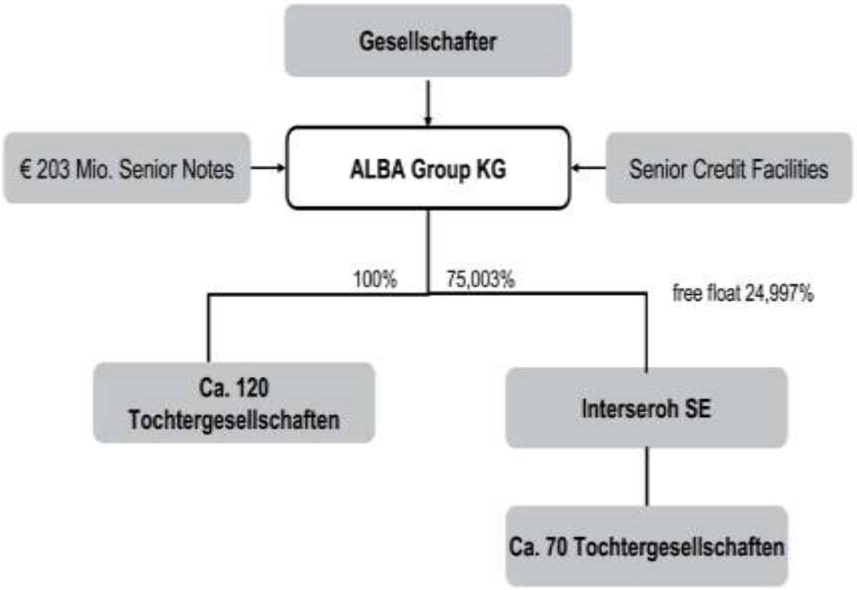
Corporate Structure

- Current Structure



Management Expectation

- **Financial Goal :** design and create a restructured single dimensional entity codifying/unifying all three subsidiary companies both in cooperate and financial structure
- **Economic goal :** A sustainable and future-oriented recycling solution company
- **Target Structure**



Timeline of ALBA

Year	Invention
1968	Founded by Franz Josef Schweitzer
1973	"Berlin model" - Waste seperation system
1984	Plastic recycling facility - Business Expansion
1998	Went Public
2000 and 2010	Successful stock of the Decade (458%)
	10 EU, China, US employing 8.500(7.750in 2010)
	Purchasing Cost -- 5m to m
2010	Restructure their business -- Organizational and Financial Struct
	ALBA AG, Interseroh SG(Stock Listed) & Isabell GmbH & Co. KG
	ALBA Group plc & Co. KG
	Isabell Finance Asset Management GmbH & Co. KG.
2010	Combined Revenues -- 2.73billion
	ALBA AG Continuously increased its Stake
Apr-11	Issued 7 year Bond with 8% Coupon
May-11	Interseroh SE signed P&L Transfer Agreement
	One ALBA Group
Jan-11	Restructuring is done
21st April 2011	Bond is placed on the market

Way forward for ALBA Group

“ Diversification of financial sources to avoid dependencies (Bonds, ABS market Banks, leasing and forfeiting)

- Spreading liabilities over longer time horizon (2/3 to 7 years)
- Having bonds as 40% of on balance financial liabilities
- Creating an international syndicate of banks
- Financing through in-house bank (central cash pooling and loan distribution)
- A high financial security quota through interest hedges (All open position in foreign exchange were to be hedged)
- Deleveraging – Target goal between 2.5 and 3 x EBITDA

Consolidation Process

Focus on a Smooth process

- ❑ Several insertions
- ❑ Eliminating
- ❑ Re-branding
- ❑ Changes of legal status

ALBA's Consolidation

Selection of financing Bank :

Potential Core Banks, Potential Syndicate Banks, Banks that were withdrawing from the group's operations

Key Challenges –

- ❑ Issue of Bond emissions
- ❑ Consortium for the bond emission process was established along with 3 major banks (Commerzbank), Contract negotiations were prepared.
- ❑ Deutsche Bank, Commerzbank, UniCredit, 2 State banks, 2 regional banks and four international banks
- ❑ Covenants – Fixed Leverage Ratio, Fixed Equity Ratio and Interest Coverage

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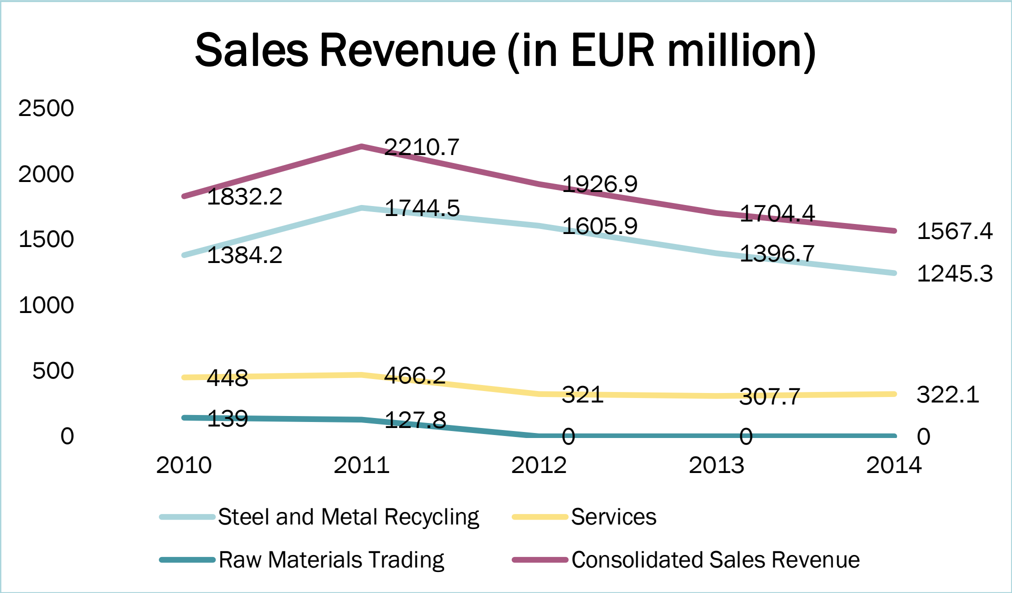
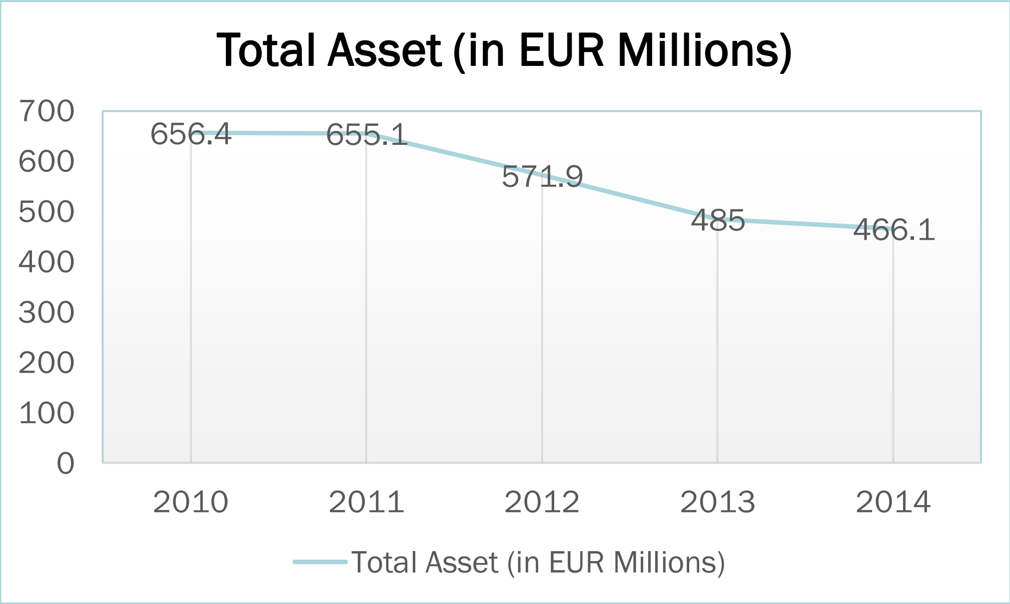
Consolidated Income Statement over 5 years

	2014	2013	2012	2011	2010	2009
Consolidated sales revenue in EUR million						
Steel and metal Recycling	1.245,3	1.396,7	1.505,9	1.744,5	1.384,2	832,5
Services	322,1	307,7	321,0	466,2	448,0	287,8
Raw Material Trading (company sold on 1/10/2011)	-	-	-	127,8	139,0	146,3
	1.567,4	1.704,4	1.826,9	2.338,5	1.971,2	1.266,6
EBITDA (earning before interest, taxes, depraciation and amortisation) in Euro million	33,7	26,2	68,1	77,0	86,6	46,8
EBT (earning before taxes)	- 33,4	- 42,1	37,8	40,4	42,0	3,8
Consoldidated Earning before taxes in Eur Million	- 39,9	- 43,6	33,4	37,2	34,1	0,9
Total assets in EUR Million	466,1	485,0	571,9	655,1	656,5	659,5
Equity Ratio in %	28,7	30,1	31,9	28,3	30,0	24,1
Return on Equity in %	- 29,8	- 29,8	18,3	20,1	17,4	0,6
Return on capital employed in %	- 4,8	- 5,3	8,8	8,8	9,5	3,4
Number of employees (averaga)	1.691,0	1.857,0	1.910,0	1.959,0	1.774,0	1.836,0
Number of shares	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0
Divedend per shares in EUR	3,25	3,25	3,25	3,25	0,25	0,11

Economic Performance Analysis



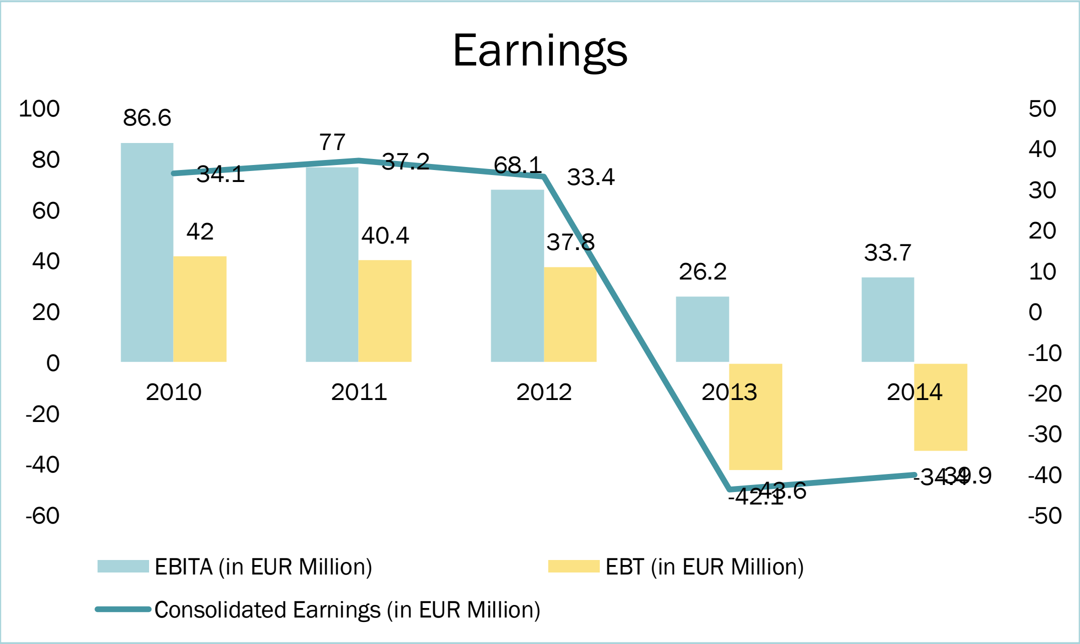


The main markets are two :

1. Services
2. Steel and metal recycling

The company of raw material were sold effective October,1, 2011.
The decrease in Sales 2014 compared to 2013 is due to the lower prices and lower quantities.
Additionally the exchange rate losses particulary in the last quarter. The total Earning decreased because the total sales decreases and the cost remain mainly at the same level.

Alba: Case Study



- Steel and Metal Recycling represents 80% of total sales.
- That market segment is heavily inflenced by **economic development on the national and international markets** for steel and non-ferrous metals.
- After the Chinese steel enetred the world market, the opportunity of sales in Europa decreased.

Cash Flow Statement of Alba

Consolidated Cash Flow Statement for the period from January 1 to December 31, 2014		
	2014	**2013**
Gains from disposals of assets	-1,6	-0,9
Changes in Pension and other provisions	-0,8	-5,9
Changes in net operating assets	-20,4	33
Interest payment	-8,4	-10,2
Income tax payments	-4,5	-2,6
Cash Flow from operational activity	**-2**	**39,6**
Compnay acquisition	0	-2,4
Company disposals	0	11,9
Payments received from the sales of assets	2,8	5,3
Investments in property, plant and equipment (not including finance leases)	-7,7	-6
Other Investment	-0,8	-2
Cash flow from investment activity	**-5,7**	**6,8**
Raising of financial liabilities	1,5	16,2
Rapayment of financial liabilities	-0,4	-4,5
Repayment of finance lease liebilities	-1,8	-1,7
Dividends to minority shareholders	-0,1	-0,3
Profit to the ALBA Group plc & Co. KG	3,5	-35,3
Cash flow financing activity	**2,7**	**-25,6**
Cash-effective changes in cash and cash equivalents	-5	20,8
Cash and cash equivalents at the start of the period	59,9	39,1
Cash and cash equivalents at the end of the period	**54,9**	**59,9**

Assets bought or sold

Company disposal

Change in the strategy, from loans to equity.Profit to Alba Group, sell of shares

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Risk Management System Strategy of Alba

Risk and opportunity management in the ALBA SE group is geared to securing the continued existence of the Company and to guaranteeing a long-term increase in corporate value. The Goal of the well-structured Rick Management is not to avoid the risk but to manage it in the best way in order to reduce or to react in a faster way if required.

1)Strategic and operational corporate planning

To ensure that the risks could be identified on long term basis in order to have the opportunity to react

2)Internal reporting

To ensure that all relevant information are share by all levels of the organisation

3)Compliance system

To support the management team to identify and respond to the risks related to the compliance topics, that could cause penalities, sanctions, damage payment, decrease of profit or in worst case reduce the possibility to find new partner.

4)Treasury management,

To record, quantify and monitor the finance risks. The aim is to identify early the future finance risk, like **price change** and currency risks through derivate financial instruments. For example a way to reduce the risk could be establish debtor and creditor limits.

5)Early risk identification system

- Identification assessment
- Documentation and communications of risk
- Monitoring all process

Risk Classification at Alba

Risk class	Description	Likelihood of occurring
1	< 5 %	very unlikely
2	5 % - < 10 %	unlikely
3	10 % - < 50 %	possible
4	50 % - < 70 %	likely
5	70 % - 90 %	very likely

The probability that they can happen

- **Very unlikely** = risk that occurs only in exceptional conditions
- **Very likely** = risk that could be expected within 2 years

Degree of the effect	Definition of the negative effect on the business activities, the financial and earnings situation and the cash flow.
A	< 1 %
B	1 % – < 5 %
C	5 % - < 20 %
D	20 % - < 50 %
E	> 50 %

Likelihood of occurring					
1	L	L	L	L	M
2	L	L	L	M	M
3	L	L	M	M	H
4	L	M	M	H	H
5	L	M	H	H	H
	A	B	C	D	E
	Effects				

Taking in consideration the probability of the negative effect :

L= Low risk

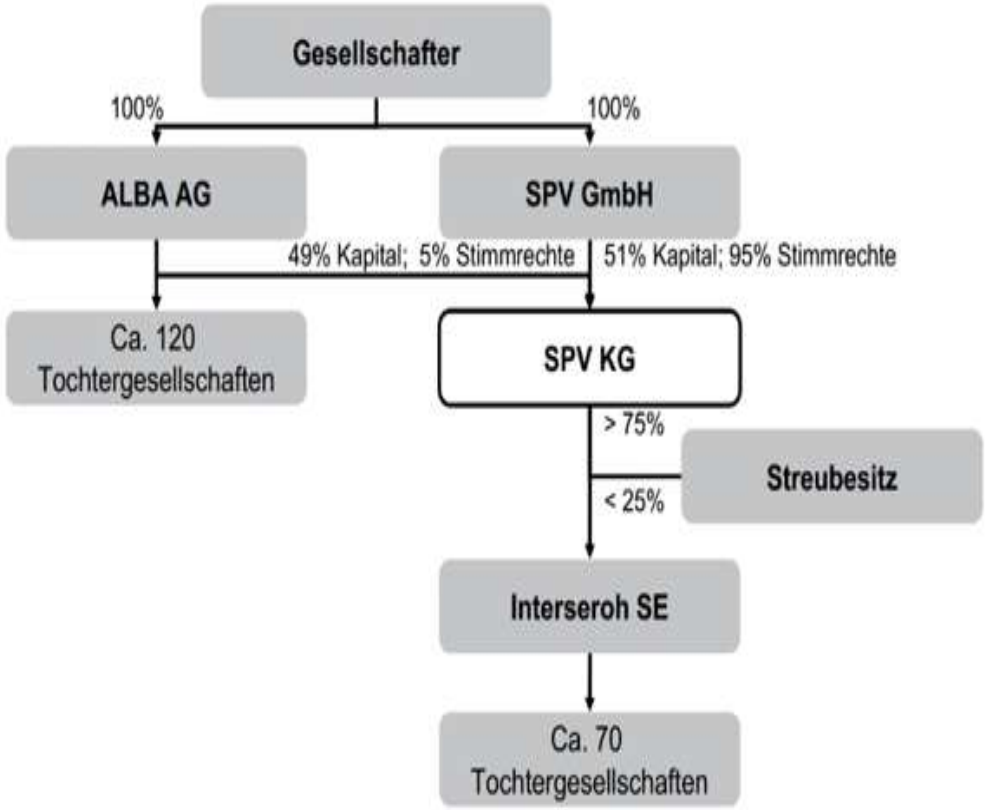
M=Medium Risk

H= High Risk

Organization Restructure

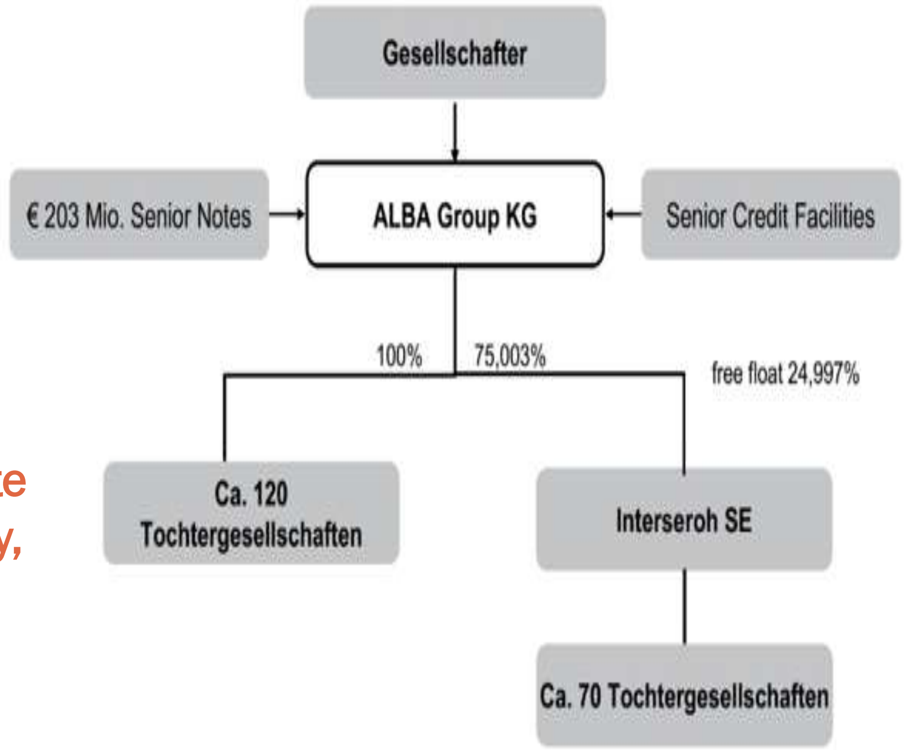
The company is divided into 3 different companies: ALBA AG, Interseroh SE and SPV GmbH

Exhibit 1: Initial Structure



The Goal is to create one single company, unifying all threee companies

Exhibit 2: Target Structure



Finance Structure

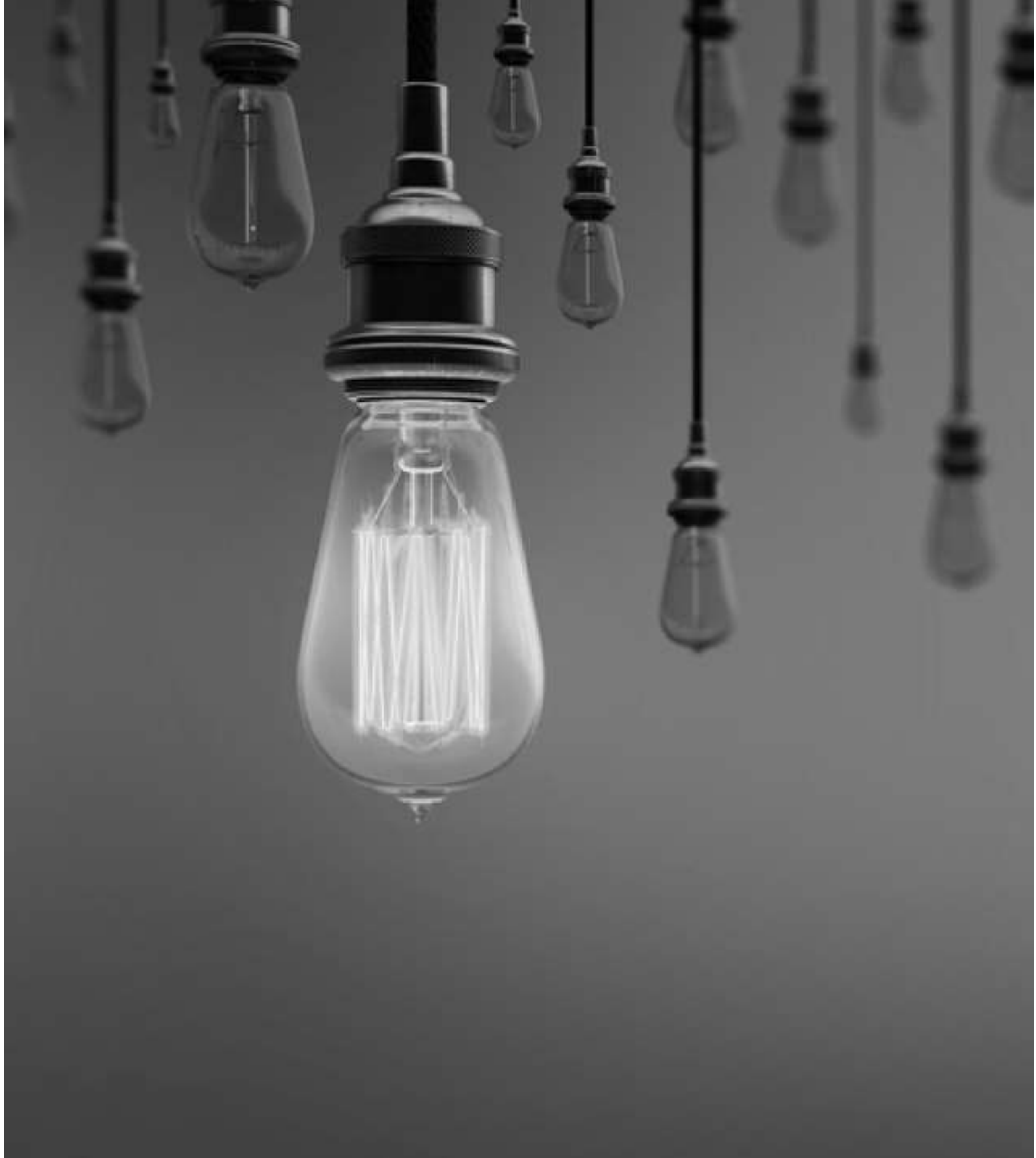
The organisation change required also to redefine the finance structure within the Group, with the following goals:

1. To create a **single financing structure**
2. To **reduce its dependence on the banks** and access to the capital market by issuing its first corporate bond

1. **Full control and profit transfer** agreement that allows the holding company on one single financing strategy for all the ALBA Groups members
2. **Centralized and decentralized training** to ensure the respect of the guidelines within the Group. Once a year there is the revision of the organisational guidelines.
3. Using a standard consolidation software for generating **the consolidated financial statement**
4. The reports are coming from the segment and divisions entity and collected in **one final report**, presented to the Administrative Board and approved by the letter.
5. In order to start the process in issuing bond, having changed the organisation in **one centralized finance point**, it would be easier to calculate a good rating.

Types of Risks

- ❑ Default Risk
- ❑ Liquidity Risk
- ❑ Currency Risk
- ❑ Interest Risk
- ❑ Price Change Risk



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Rating Methodology

This rating methodology explains Moody's approach to assessing credit risk for companies in the solid waste management industry

The grid contains four key factors that are important in our assessments for ratings in the solid waste management sector:

- Size
- Profitability and Operating Efficiency
- Cash Flow and Interest Coverage
- Financial Policies

Highlights of this report include

- An overview of the rated universe
- A description of the key factors that drive rating quality
- Comments on the rating methodology's assumptions and limitations, including a discussion of rating considerations that are not included in the grid.

Factor 1 : Relevance of size

Why it Matters

The Economical relevance
They bigger the location scopes of operations, the lower the risk the exposure/external to negative economic developments of any one region

The Ecological relevance
The larger the size of disposal facilities, the broader the geographic footprint since landfills financially offer transfer stations and collection operations that are within the limited distance of the given market

Measurement of size

Metric : Revenue (in $)

Description
1. Measures the net consolidated revenue that results when a collection operation or a transfer station of a company pays tipping fees to a related disposal company for delivering waste to either a company-owned transfer station or landfill.

Weightage : 10%

Metric: Number of Active Transfer Stations and Landfills

Description
1. Measures the number of active transfer stations and landfills which provides a useful insight into the absolute and relative size Alba SE.
2. It is also an indicator for geographic diversity, given the economic incentives not to saturate a market with excess capacity in transfer stations or landfills.

Weightage : 10%

Total Weightage of the Factor: 20%

Factor 2 : Relevance of profitability and Operating Efficiency

Why it Matters

It shows how management are managing capital expenditure and maintaining business productivity level through effective operations and investments that leads to a long-term sustainable performance.

Measurement of size

Metric : EBIT per Ton ($)

Description

1. This is a good indicator that shows that Alba has the capacity to proactively manage its operations to achieve returns from its most valuable assets.
2. This metric measures profitability rather on the growth in market share.

Weightage : 5%

Metric : EBITA to Average Assets (%)

Description

1. This measures cash profitability before its financial obligation (Operating expenses and interest payment).
2. It shows how well a company is performing relative to the level of investment in its operations.

Weightage : 10%

Metric : Revenue per Employee ($)

Description

1. Labor being the single cost component in an industry, Revenue per employee is an indicator of comparable operatiing efficiency.

Weightage : 5%

Total Weightage of the Factor: 20%

Factor 3: Relevance Cash Flow and Interest Coverage

Why it Matters

Cash Flow and Interest Coverage are important indicators of an issuer's financial flexibility. The metrics of this Rating Factor provide good insight on the issuer's ability to meet, from internally generated cash flows, interest expense obligations, capital expenditures, whether for maintaining its current level of operations or for growth, and scheduled debt amortization and or debt maturities.

Measurement of size

Metric : EBIT to Interest (x)

Description : This ratio measures an issuer's ability to cover the cost of borrowed money.

Weightage : 10%

Metric : Free Cash Flow to Debt (%)

Description : This ratio provides an indication of a company's ability to make debt repayments after

i) Interest payments
ii) All investments necessary to maintain assets in their current productive capacity
iii) All investment necessary to grow the business, and
iv) Dividends

Weightage : 7.5%

Metric : Cash Flow from Operations to Debt (%)

Description : This ratio provides an indication of a company's ability to service its debt if it were to stop making dividend payments and capital expenditures

Weightage : 10%

Total Weightage of the Factor: 27.5%

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Rating Factor / Sub-factor Weighting

BROAD RATING FACTOR	BROAD RATING FACTOR WEIGHTING	RATING SUB-FACTOR	SUB-FACTOR WEIGHTING
Size	20.0%	Revenues	10.0%
		Number of Transfer Stations and Landfills	10.0%
Profitability and Operating Efficiency	20.0%	EBIT per Ton	5.0%
		EBITA to Average Assets	10.0%
		Revenue per Employee	5.0%
Cash Flow and Interest Coverage	27.5%	EBIT to Interest	10.0%
		Free Cash Flow to Debt	7.5%
		Cash Flow from Operations to Debt	10.0%
Financial Policies	32.5%	Debt to EBITDA	17.5%
		Enterprise Value to Total Liabilities (a)	10.0%
		Financial Strategy	5.0%
Total	100.0%		100.0%

(a) {[EBIT*(1-tax rate)]*[Remaining Landfill Capacity / Tonnage in the Period]}/Total Liabilities

ALBA SE Rating based on Moody's Report

#	Factor Name	Weightage	Factor Description	How it Is measure	Weightage	Status of Alba	Moody's rating
Factor 1	Size	20%	Geographic scope of operations	number of transfer stations and landfills / number of disposal facilities	10%	750	Aa
				Revenue ($)	10%	1.883 billion	Ba
Factor 2	Profitability and Operating Efficiency	20%	Measuring the effectiveness of Management running its business	EBIT per Ton ($)	5%	<0.0	Ca
				EBITA to Average Assets (%)	10%	7,20%	Ba
				Revenue per Employee ($)	5%	€1.1 million	Aaa
Factor 3	Cash Flow and Interest Coverage	27,50%	Issuer's financial flexibility	EBIT to Interest (x)	10%	-2,07	Caa
				Free Cash Flow to Debt (%)	7,50%	-11,37%	Ca
				Cash Flow from Operations to Debt (%)	10%	-4,5%	Caa
Factor 4	Financial Policies	32,50%	Financial strategy and leverage metric	Debt to EBITDA (x)	17,50%	1,3	Aa
				Enterprise Value to Total Liabilities (x)	10%	negative	Ca
				Financial Strategy	5%		Baa

ALBA SE Rating based on Moodys

#	Factor Name	Factor Description	How it Is measure	Moody's rating		Weightage	
Factor 1	Size	Geographic scope of operations	number of transfer stations and landfills / number of disposal facilities	Aa	3	10%	0,3
			Revenue ($)	Ba	12	10%	1,2
Factor 2	Profitability and Operating Efficiency	Measuring the effectiveness of Management running its business	EBIT per Ton ($)	Ca	21	5%	1,05
			EBITA to Average Assets (%)	Ba	12	10%	1,2
			Revenue per Employee ($)	Aaa	1	5%	0,05
Factor 3	Cash Flow and Interest Coverage	Issuer's financial flexibility	EBIT to Interest (x)	Caa	18	10%	1,8
			Free Cash Flow to Debt (%)	Ca	21	7,50%	1,575
			Cash Flow from Operations to Debt (%)	Caa	18	10%	1,8
Factor 4	Financial Policies	Financial strategy and leverage metric	Debt to EBITDA (x)	Aa	3	17,50%	0,525
			Enterprise Value to Total Liabilities (x)	Ca	21	10%	2,1
			Financial Strategy	Baa	9	5%	0,45

Sum 12,1

EXHIBIT 4

GRID-INDICATED RATING	AGGREGATE WEIGHTED TOTAL FACTOR SCORE
Aaa	$x < 1.5$
Aa1	$1.5 \le x < 2.5$
Aa2	$2.5 \le x < 3.5$
Aa3	$3.5 \le x < 4.5$
A1	$4.5 \le x < 5.5$
A2	$5.5 \le x < 6.5$
A3	$6.5 \le x < 7.5$
Baa1	$7.5 \le x < 8.5$
Baa2	$8.5 \le x < 9.5$
Baa3	$9.5 \le x < 10.5$
Ba1	$10.5 \le x < 11.5$
Ba2	$11.5 \le x < 12.5$
Ba3	$12.5 \le x < 13.5$
B1	$13.5 \le x < 14.5$
B2	$14.5 \le x < 15.5$
B3	$15.5 \le x < 16.5$
Caa1	$16.5 \le x < 17.5$
Caa2	$17.5 \le x < 18.5$
Caa3	$18.5 \le x < 19.5$
Ca	$x \ge 19.5$

Grid Inidcated Rating for Alba → **Ba2**

Thank you

Backup

Income Statement for the last 6 years

Group´s Key Figures						
Income Statement (over last 5 years)						
	2014	2013	2012	2011	2010	2009
Consolidated sales revenue in EUR million						
Steel and metal Recycling	1.245,3	1.396,7	1.505,9	1.744,5	1.384,2	832,5
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Number of shares	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0	9.840.000,0
Divedend per shares in EUR	3,25	3,25	3,25	3,25	0,25	0,11

EXHIBIT 5

Size (20%)

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Revenue	10%	≥$25 b	≥$12 to $25 b	≥$6 to $12 b	≥$3 to $6 b	≥$1 to $3 b	≥$0.15 to $1 b	≥$0.05 to $0.15 b	<$0.05 b
Number of Transfer Stations and Landfills	10%	≥800	≥400 to 800	≥200 to 400	≥100 to 200	≥50 to 100	≥25 to 50	≥10 to 25	<10

EXHIBIT 6

Profitability and Operating Efficiency (20%)

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
EBIT per Ton	5%	≥$30.00	≥$25.00 to $30.00	≥$21.00 to $25.00	≥$17.00 to $21.00	≥$13.00 to $17.00	≥$9.00 to $13.00	≥$0.00 to $9.00	<$0.00
EBITA to Average Assets	10%	≥25%	≥19% to 25%	≥15% to 19%	≥11% to 15%	≥7% to 11%	≥3% to 7%	≥0% to 3%	<0%
Revenue per Employee	5%	≥$420	≥$370 to $420	≥$320 to $370	≥$270 to $320	≥$220 to $270	≥$170 to $220	≥$125 to $170	<$125

EXHIBIT 7

Cash Flow and Interest Coverage (27.5%)

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
EBIT to Interest	10%	≥15x	≥9 to 15x	≥5.5 to 9x	≥3 to 5.5x	≥1.75 to 3x	≥1 to 1.75x	≥-.5 to 1x	<-.5x
Free Cash Flow to Debt	7.5%	≥35%	≥20% to 35%	≥12% to 20%	≥8% to 12%	≥4% to 8%	≥0% to 4%	≥-5% to 0%	<-5%
Cash Flow from Operations to Debt	10%	≥55%	≥45% to 55%	≥35% to 45%	≥25% to 35%	≥15% to 25%	≥5% to 15%	≥-5% to 5%	<-5%

EXHIBIT 8

Financial Policy (32.5%)

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Debt to EBITDA	17.5%	<1x	≥1 to 1.75x	≥1.75 to 2.5x	≥2.5 to 3.25x	≥3.25 to 4.5x	≥4.5 to 7x	≥7 to 9x	≥9x
Enterprise Value to Total Liabilities (a)	10.0%	≥7.5x	≥5.5 to 7.5x	≥4 to 5.5x	≥3 to 4x	≥2 to 3x	≥1 to 2x	≥0.5 to 1x	<0.5x
Cash Flow from Operations to Debt	5%	Very conservative policy. Stable metrics, no "one-off" movements. Public commitment to Aaa rating	Stable and conservative policy. Commitment to Aa rating range. Track-record of stable metrics	Predictable financial policy; shareholder and creditor interest in balance; no big shifts in metrics, possible event risk through debt-financed acquisitions. Commitment to high investment grade	Shareholder-friendly financial policy; Possible track-record of rating migration following acquisitions. Commitment to investment grade	Aggressive shareholder-friendly financial policy; growth strategy focused on leveraged acquisitions	History of debt-funded acquisitions and shareholder distributions; pays out financial cushion	Unmanageable debt burden, re-structuring likely	Unmanageable debt burden, re-structuring imminent

(a) {[EBIT * (1- tax rate)] * [Remaining Landfill Capacity / Tonnage in the Period]} / Total Liabilities