

CORPORATE RESTRUCTURING AND TURNAROUND

September, the 21 st 2018

L #4

Leverage definition:

*«to work with others' money is better
than to work with our money»*

...ready for the **«TurboFinance»?**

Balance Sheet

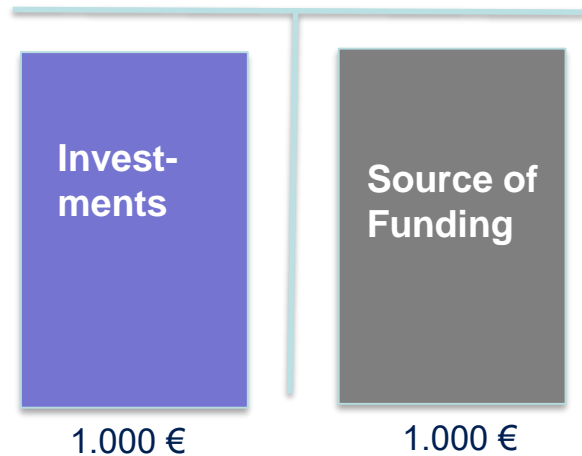
NewCo: 1.000 euro initial equity

Balance Sheet

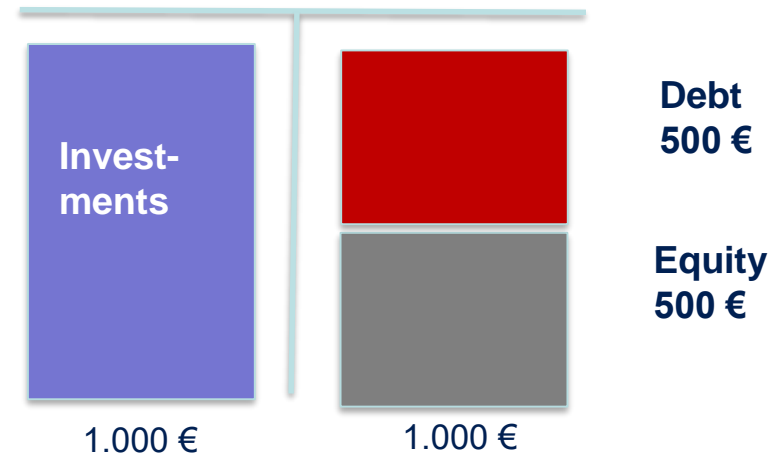
Assets («DARE»)		Liabilities («AVERE»)	
CASH	1.000 €	Initial Net Equity	1.000 €
Total Assets	1.000 €	Total Liab.	1.000 €

Leverage.....

Balance Sheet



Balance Sheet



Operating Marging (on investments): 50€ (5%)
Tax 50%; Interest rates near to zero
Return on Equity $25 / 1000 = 2,5\%$

?

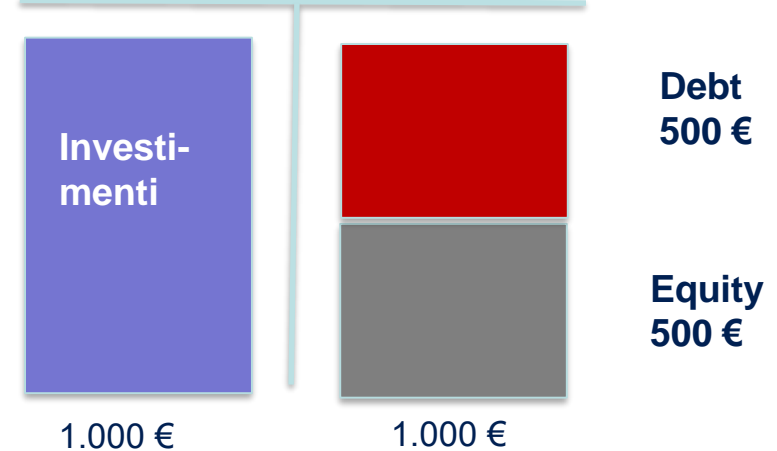
Leverage.....

... 2x velocity

Balance Sheet



Balance Sheet



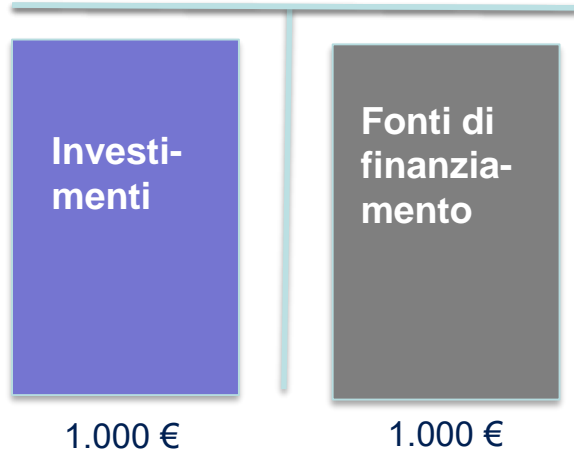
Operating Marging (on investments): 50€ (5%)
Tax 50%; Interest rates near to zero
Return on Equity 25 / 500 = 5%

$$\text{Yield } 25 / 500 = 5\%$$

Leverage.....

... 10x velocity

Balance Sheet



Balance Sheet



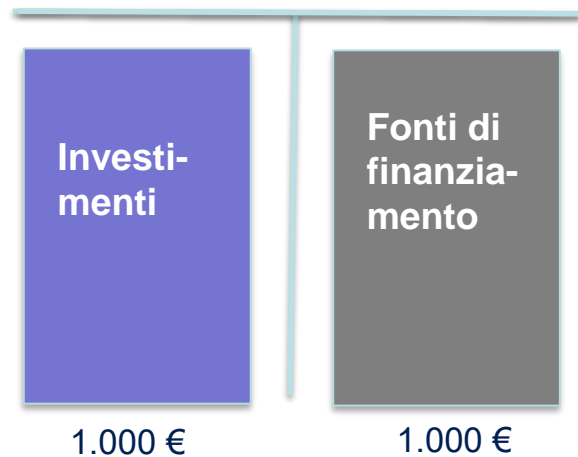
Operating Marging (on investments): 50€ (5%)
Tax 50%; Interest rates near to zero
Return on Equity 25 / 100 = 25%

Yield 25 / 100 = 25%

Leverage.....

... 20x velocity

Balance Sheet



Balance Sheet



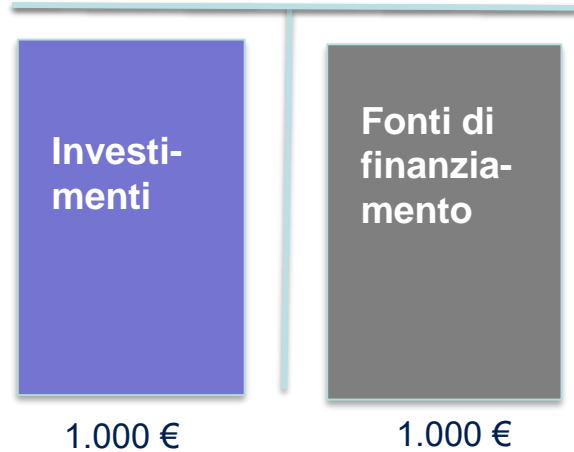
Operating Marging (on investments): 50€ (5%)
Tax 50%; Interest rates near to zero
Return on Equity 25 / 50 = 50%

Yield 25 / 50 = 50%

Leverage.....

... 40x velocity

Balance Sheet



Balance Sheet

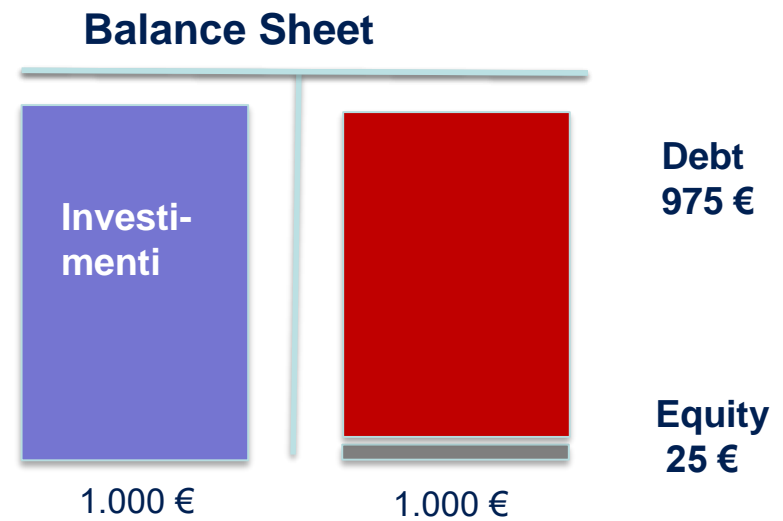


Operating Marging (on investments): 50€ (5%)
Tax 50%; Interest rates near to zero
Return on Equity 25 / 25 = 100%

Yield 25 / 25 = 100%

Leverage.....

... 40x velocity



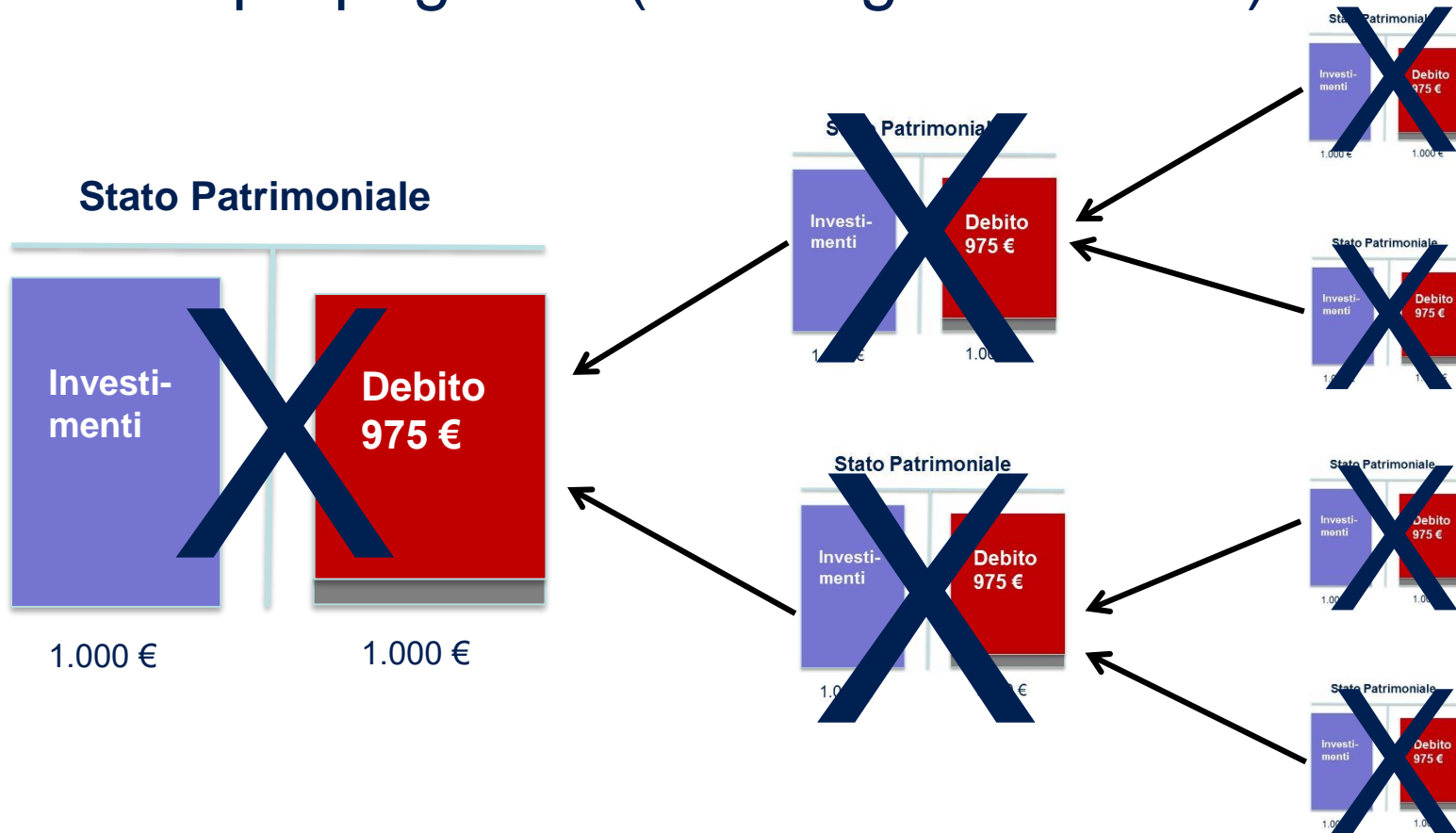
Basic rule #1: «more leverage = more return»

Basic rule #2: «more return = more default risk»

Industry Leverages/Industry Velocities

Textile	x2	Industrial Real Estate	x8
Chemical, Food, Energy	x2,5	Commercial Bank	x20
Public Services, Utilities	x3	Investment Bank	x60
Residential Real Estate	x6	Hedge Fund	x80

Crisis propagation («contageon effect»)



30 euro of Asset Loss (that is 3% of Assets) means Default...!

Industry Leverages/Industry Velocities

Textile	x2	Industrial Real Estate	x8
Chemical, Food, Energy	x2,5	Commercial Bank	x16
		<i>...and if we apply the Originate-to-Distribute Business Models (Credit Treasury)?</i>	
Public Services, Utilities	x3	Investment Bank	x60
Residential Real Estate	x6	Hedge Fund	x80

Industry Leverages/Industry Velocities

Textile

**Chemical, Food
Energy**

**Public Services,
Utilities** **x3**

**Residential Real
Estate** **x6**

Credit Risk Transfer:

1) Cash Securitizations:
ABS, CLO, CDO, RMBS,
CONDUIT, etc.

2) Synthetic Securitizations:
Main Index, Xover Index, Capital
Structure Indexes, etc.

**Industrial Real
Estate** **x8**

**Commercial
Bank** **x16**

$$\frac{\text{Earnings}}{\text{Asset Sales}} \times \frac{\text{Asset Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}} = ROE$$

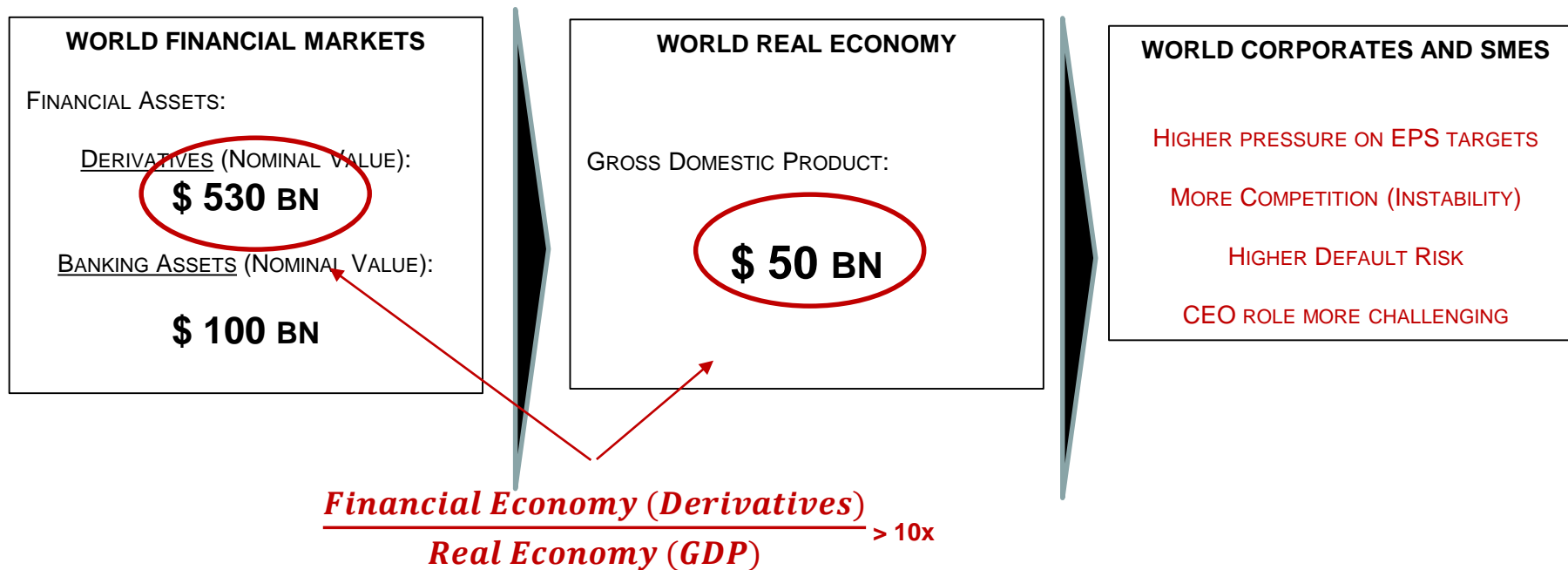
Investment Bank **x60**

Hedge Fund **x80**

Wall Street – «Money never sleeps»



ARE MARKET CRISIS RARE EVENTS?



<HELP> per spiegazioni.
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EquityDMMV

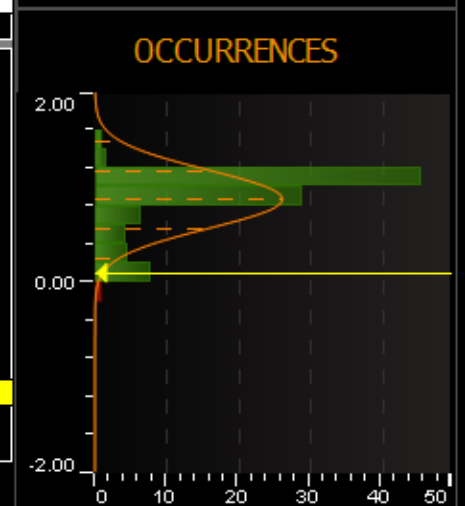
95) Mercati		Vzne		% 1 anno		Mercati dei paesi sviluppati													
Indice azn primario				Valuta			CDS			(CMAN)			Oblig			Ts int			BT
Paese	Valore	Ora	Vzne%	Valore	Ora	Vzne%	5an	Ora	Vzne%	Rend	Ora	Vzne%	Tasso	Ora	Vzne%				
1 Australia	3769.00	08:47	-32.70	.70	20:34	-25.82	89.11	04/17	+0.00	4.199	08:51	-31.879	3.70	12:45	-52.93				
2 Austria	1831.08	17:39	-54.92	1.29	20:34	-18.61	115.94	04/17	+1160.16	3.043	19:34	-26.723	1.48	04/20	-69.23				
3 Belgio	1856.69	18:05	-52.80	1.29	20:34	-18.61	67.44	04/17	+183.34	3.338	19:34	-20.952	1.48	04/20	-69.23				
4 Canada	9177.07	20:34	-35.54	1.24	20:34	+22.90				1.875	20:30	-41.075	1.00	12:45	-71.83				
5 Danimarca	256.38	17:21	-39.76	5.76	20:34	+22.67	66.57	04/17	+393.11	2.934	19:34	+0.000	2.94	11:00	-41.17				
6 Finlandia	5251.05	17:31	-44.42	1.29	20:34	-18.61	43.00	04/17	+218.52	2.552	19:34	-38.135	1.48	04/20	-69.23				
7 Francia	2969.40	18:10	-40.15	1.29	20:34	-18.61	43.50	04/17	+335.00	2.636	19:34	-35.877	1.48	04/20	-69.23				
8 Germania	4486.30	20:19	-34.44	1.29	20:34	-18.61	40.94	04/17	+582.25	2.326	18:00	-40.538	1.48	04/20	-69.23				
9 Giappone	8924.75	09:00	-34.84	97.78	20:34	-5.36	69.86	04/17	+399.00	.850	11:59	-7.626	.62	04:51	-26.08				
10 Grecia	1973.25	04/16	-50.24	1.29	20:34	-18.61	156.79	04/17	+264.62	4.605	19:34	+5.740	1.48	04/20	-69.23				
11 Hong Kong	15750.91	10:01	-36.29	7.75	20:34	-.56	106.47	04/17	+84.84	1.752	10:25	-20.521	.89	05:15	-55.55				
12 Irlanda	2377.65	18:10	-62.02	1.29	20:34	-18.61	223.61	04/17	+743.81	4.191	19:34	-.303	1.48	04/20	-69.23				
13 Italia	17731.00	17:40	-47.67	1.29	20:34	-18.61	107.22	04/17	+251.52	3.178	19:34	-25.871	1.48	04/20	-69.23				
14 N. Zelanda	2698.80	07:31	-24.88	.55	20:34	-30.30				4.331	07:41	-34.306	3.05	04/20	-65.73				
15 Norvegia	210.78	17:25	-45.43	6.83	20:34	+36.47	38.09	04/17	+677.24				2.82	12:07	-55.45				
16 Paesi Bassi	233.77	18:05	-50.76	1.29	20:34	-18.61	64.67	04/17	+634.89	2.561	19:34	-36.616	1.48	04/20	-69.23				
17 Portogallo	6709.04	18:08	-40.01	1.29	20:34	-18.61	72.32	04/17	+122.51	3.134	19:34	-26.536	1.48	04/20	-69.23				
18 Regno Unito	3990.86	17:35	-34.11	1.46	20:34	-26.53	85.13	04/17	+597.75	2.368	19:34	-46.218	1.51	12:45	-74.41				
19 Singapore	1874.85	11:10	-40.88	1.51	20:34	+11.55				1.390	11:01	-19.136	.68	05:32	-46.00				
20 Spagna	8718.20	17:36	-37.39	1.29	20:34	-18.61	82.53	04/17	+186.56	2.942	19:34	-29.967	1.48	04/20	-69.23				
21 Stati Uniti	836.92	20:34	-39.80	86.60	20:24	+20.25	42.18	04/17	+414.39	1.805	20:33	-37.796	1.10	12:45	-62.15				
22 Svezia	731.10	17:44	-25.51	8.69	20:34	+47.33	72.78	04/17	+691.09	2.245	19:34	-45.240	.90	04/20	-80.76				
23 Svizzera	5065.18	17:30	-31.72	1.17	20:34	+15.51				1.256	19:34	-55.039	.40	12:45	-86.07				

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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SPREAD SUMMARY

Last	.1000
Mean	.8603
Off Avg	-.7603
Median	.9950
StDev	.3057
Off Avg StDev	-2.49
Percentile	3.00
High 10/09/07	1.5500
Low 07/08/08	-.0750



ARE MARKET CRISIS RARE EVENTS?

➤ Mortgage Backed Securities

➤ Leverage

➤ Bloomberg



*Margin Call
Movie*



Decision Making
during a Crisis



Dayak

MARGIN CALL



-
- Cynicism and motivation
 - A problem is appearing...
...speed of reaction



What to do?

- Escalation
- +
- Second Opinion

h. 2.15
1 ora per decidere



Board Meeting





Key Take Aways

- Tell always the Truth
- Top management success: is not a matter of I.Q. but a matter of Vision&Execution (anticipating the future)
- To be:
 - the smartest?
 - the fastest?
 - the cheaters?

CRISIS MANAGEMENT/COMMUNICATION

- Immediate sell-off
- Organisation Reshuffle
+
Change Managers
- SEC Investigation
- New Guide Lines

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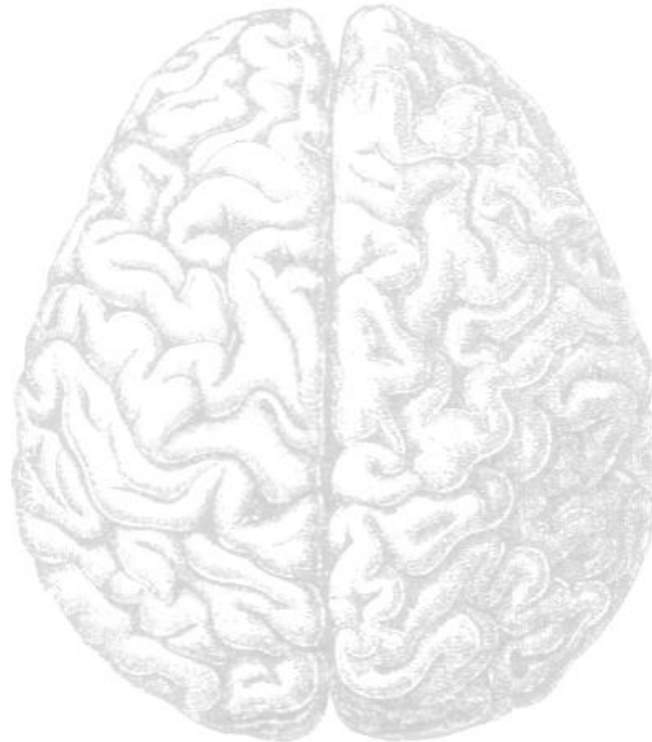
Market & Media
Communications





Emotions vs Rationality

Right-hand Brain vs Left-hand Brain







What about the
«untold» story?
This movie
doesn't tell us
«all the truth»...

Long Position

100 bonds;
price 1€;
value 100€

h.8.00 sell 20 bonds at 1€
h.9.00 sell 20 bonds at 0.95€
h.11.00 sell 20 bonds at 0.85€
h.13.00 sell 20 bonds at 0.70€
h.15.00 sell 20 bonds at 0.65€

Cash 83€

If you didn't do any sell...

Valore Titoli 65€

Loss 35€

Short Position

Before sell-off: buy the right to sell
10 bonds a 1 € (Put Option)

After sell-off: buy 100 bonds at
65€ and sell at 100€ according
to Put Option

Cash out 65€

Cash in 100€

Profit 35€

- Long Position (wait & see): $100 - 65 = 35$ **LOSS**
- Long Position (you are the fastest to sell): $100 - 83 = 17$ **LOSS**
- Long Position (and the fastest): $100 - 83 = 17$ **LOSS**
- + Short Position (and very smart): $100 - 65 = 35$ **Profit**

18 Net Profit



Goldman Sachs' 'Fraud' Explained: How They Pulled Off The Alleged Scheme

By Arthur Delaney

