## Financial restructuring Getronics' search for a solution

### 1. Introduction

The last couple of year's economic growth in Europe was problematic. Several larger well-known corporations had to cope with financial distress. Some even had to file for bankruptcy. Some problems were due to wrong accounting practices and even fraud,others to wrong entrepreneurial strategies and or depressed markets. In a normal situation the need for a restructuring is usually the result of insufficient cash and or the (threatening) breach of major covenants of financial contracts with banks and to a much lesser extent a breach of bond covenants. A financial restructuring can at times be realized such that the company concerned can survive.
Strong solutions are needed to solve these problems. Generally a structured approach has to be followed. This has to be done thoroughly and in time to prevent a collapse or a costly filing for suspension of payments. This often is a complex problem as legal, tax, and also accounting and corporate governance issues have to be considered. Priority however always has to be given to the financial aspects as the continuity of the company is at stake.

The first step in a restructuring process is to understand the causes of the shortfall and or changed attitudes of the creditors. This has to be accompanied by the range of possible solutions. Valuation is the key to understanding the problems and finding solutions. To that end all the options have to be evaluated. The goal is to identify the credible option that presents the greatest (risk adjusted)net present value and is at the same time acceptable to the creditors. The present business worth, or the going concern scenario, has to be determined and similarly the liquidation value and the value with the major restructuring possibilities. Present value estimation of future cash flows is needed for each of these scenarios. It is important to include the effect of timing, the potential to enhance value and the realities of selling assets. A necessary step that has to be taken early in the process is determining the possibilities of a stand-alone solution or the need for strategic partner or merger. Even relinquishing ownership and control is a serious scenario to be investigated.

When considering a major business overhaul the proper business mix for the new situation should be determined. This implies valuing the individual assets and also subsidiaries including individual projects and their contribution to the value of the company in the light of market developments. One has to keep in mind that the contribution to the core business in this precarious turn around situation is of less importance than the shorter-term contribution to the net cash flows in the short run. The company has to gain time and sufficient room for maneuver to reorient itself. One has to make emotionally disturbing decisions including cutting into historically important parts of the company or of divestments. In practice a refocusing of the business together with major cost reductions frequently are the major elements of a restructuring of an ailing company.

The possibilities and obstacles are to be considered in the light of market conditions. E.g. as there can be sizable discrepancy between current asset prices and the discounted cash flow valuation in illiquid markets this has to be taken into account. There may be considerable uncertainty over how competing options will affect the company's market value too. One also has to take into account conditions set by major creditors mostly banks and at times major bondholders. This evaluation process results in decisions concerning assets to be retained and sold. Prompt action is than required to prevent prospective buyers from profiting from the financial downturn of the company. Apart from the sale of assets it is nearly always necessary to enter into new financial transactions. This is because the high level of debt and the concomitant heavy annual interest burden has often been the major reason behind the problems of the firm.

In the case of a restructuring the financial structure best suited for the firm has to analyzed, that is the debt / equity ratio is to improve to achieve a much lower weighted average cost of capital and also to achieve more positive net cash-flows. Most restructurings customize the debt structure around expected future cash flows. Reducing interest rates, deferring interest payments, shifting and stretching out maturities usually achieve this. Deciding the best financial structure also implies determining the optimal kind of equity and the mix of debt and or hybrid financing. The mix of short term and long-term debt, the amount of foreign currency financing, the option of issuing convertibles, hybrids, and mezzanine financing all have to be considered. Frequently a major contribution to the solution is the issue of debt tranches that in at a future date can be converted into equity. So debt-equity swaps are serious options and likewise asset-backed funding. Specific solutions like multiple debt tranches of differing seniority and collateral is sometimes also worth considering.

Raising new equity capital is frequently part and parcel of the solution but only if the rest of the solution is already known and most likely acceptable to the different stakeholders, foremost bondholders and major creditors (and existing shareholders). A difficult task is to make new securities attractive to investors. The issue of warrants to existing shareholders can be needed to promote a positive market reaction to a new securities issue.

The development of the right strategy for refinancing and organizational restructuring is more complicated. In developing the right approach to return to a viable company several issues have to be tackled. One has to take into account the following:

- When a situation of financial distress occurs business uncertainty with respect to the distressed firm has increased out of proportion for investors and creditors. Financial trust has to be earned once more. This often implies the need for some overshooting of corporate restructuring actions to appease particular interest groups. These groups successfully request frequently major reorganizations and a change in management.

- The prospective levels of cash and cash flows from non-core assets retained moreover have to be sufficient to withstand a prolonged market downturn.

- Management has to consider the conditions dictated by prevailing situation of the company, in particular the existing contractual financial, social and commercial relations. In practice these side conditions and the prevailing market situations prohibit many solutions. At the same time the need for a restructuring is evident so a fair balance has to be struck between the interests of many stakeholder groups. Different investors have different perceptions of value and have distinct motives. Bondholders and major creditors want to be fully compensated for principal and interest lent to the firm, employees want to keep their jobs and benefits, business suppliers require payments for goods and services, customers of course expect deliverance. Apart from "vultures" however they have at the same time an interest in finding more structural solutions and defer principal and even interest payments in combination with the debt restructuring and restructuring of contractual arrangements to recover greater value in the future. In that way they can avert legal expenditures and payment delays of a bankruptcy proceeding. Under normal circumstances these creditors may be better served by negotiating an asset sale and debt restructuring. However in specific circumstances a bankruptcy filing - not to mention a planned liquidation- could be more beneficial to the creditors. So clearly a restructuring cannot be completed without the necessary bondholder approval. Existing shareholders want the highest recovery of their equity investments, but are also willing to cooperate if the continued business promises higher returns than insolvency or break-up of the firm. Each of these investor groups has to be kept on board for a successful restructuring operation. Input of employee representatives is needed to keep the human workforce committed to the firm while at the same time agreeing with major cost cutting measures. Clearly good investor relations and financial transparency is a minimum condition for survival of the company. So frequently one sees the involvement of creditor banks of bondholder committees, social partners and even major shareholders in restructuring processes.

How things can go awkwardly wrong is illustrated by the restructuring experience of Getronics.

**2. The initial position of Getronics**

Getronics is an Amsterdam based IT services and infrastructure group. The group provides a range of services and employed some 28,000 staff in some 18 countries worldwide. Moreover it has a broad product offering, significant market expertise and a large blue chip customer base (in particular the government and banking sectors) and important strategic alliances with major IT partners. Its position in managed services and outsourcing business in general is strong. Moreover the nature of its business is recurring. It has solid market positions in the Benelux countries as well as in the US, the UK and Spain.

The shares of the group traded on the Euronext Amsterdam exchange plummeted in 2000 and in subsequent years. The fall of share prices was related to wider industry trends - mainly a Europe-wide slowdown in information and communication technology spending after the internet and millennium spree together with fierce pricing pressures reducing margins - but there were many problems that were specific to Getronics.

During the boom times of the nineties it had acquired many firms. Getronics had experienced a strong growth owing to these actions. It had tended to buy middle range companies with local expertise. It could not extricate much more business from its existing operations. It more-over needed to become pan-European to satisfy the wishes from its major clients (in particular banks and other multinationals) that became more European oriented and wanted similar IT structures in European countries. Then in 1999 Getronics bought Wang Global for € 1.8 billion. Wang Global it self had acquired Olivetti's Olsy system integration business an Italian based company in March 1998. But the costs involved in the subsequent restructuring proved to be too much to bear for Wang Global. The write-downs severely ate into quarterly earnings, investors saw the failure of the acquisition and Wang's share price fell sharply. European IT consultants firms were at that time in a very strong position. Most of them had very high valuations and high P/ E ratios so US acquisitions were cheap. Their net revenues were very favorable. An intense competition took place among European IT firms to become more global.

After it became known that Wang Global was for sale management of Getronics became interested. Only a limited due diligence was possible due to NASDAQ regulations. Though there were doubts it decided to buy Wang Global. Getronics paid Wang Global stockholders a large premium (some 35%) over the prevailing share price. It bid some $ 1.8 billion directly and also bought Olivetti's share in Wang for $ 218 million.

At the time Wang Global looked like a fine asset as it claimed it had just completed it's restructuring. Moreover for Getronics it meant a foothold in the US and an important position in most countries in Europe. It implied that it would become the third largest company in Europe. Instead of a European company it became a global player. The company now could offer expertise in network and desktop services in addition to the existing application development, and systems integration projects, management and IT consulting and maintenance and support. It was to be led by a new managing director, as the CEO left the company in April 1999. The new CEO was a former chairman of a management consultancy firm who was involved in the takeover deal.

**Consequences**

The $ two billion acquisition came at a price though. Wang Global was twice the size of Getronics. To finance it Getronics had to issue new equity as well as new debt. In May 1999 Getronics issued some € 773 million additional ordinary equity shares. In addition it issued cumulative preference shares to an amount of € 232 million. These preferential shares initially were to carry a cumulative dividend annually of 5,7%. The shareholders concerned were a group of banks. Share capital in total increased by € 1,010 million. It also issued a € three million convertible employee debenture convertible loan. This loan could be redeemed on January 2002 and January 2003 respectively. In April 1999 Getronics issued € 350 million subordinated convertible bonds due 2004 at 113.21%

But Getronics still needed some bridging finance. So it also agreed a € 500 million short-term bridge facility with banks. The syndicated revolving facility with a rate linked to Euribor was to mature in October 2000. Next in March 2000 it issued € 500 million 0.25% subordinated convertible bonds 2000 due 2005 at 116.01%.

The acquisition thus implied a sharp increase in debt. Long-term debt rose to € 1101 million in 2000 including the subordinated debts maturing in 2004 and 2005 respectively. Yet the level of solvency and the relatively low interest costs at the end of 2000 gave the impression that the financial footing of the company was still sound.

There were doubts however in the financial markets. The future revenues from sales in the very competitive US market with its slim margins were uncertain. It was also questionable if Getronics could reckon on a growth in market share. Getronics was disadvantaged as it was relatively unknown to American corporations. So the abilities of Getronics to redress the losses of Wang Global were problematic from the start.

Moreover Getronics became owner of new European subsidiaries not all, which were profitable. In particular the French, Italian and German subsidiaries were making losses. In addition management of Getronics had to become accustomed to operate in a multiple of new unknown markets and products. It was probably unaware of the operational and financial risks involved: initially it even stuck to its original philosophy of minimal integration among its subsidiaries. It wanted to remain a decentralized and flat organization. And as there was only a limited overlap between Wang Global and Getronics, management over Wang Global was allowed to remain in control in the US. The main target at the start only was to integrate the Dutch subsidiary into the European conglomerate and to create centers of excellence in different countries and regions. Strikingly, only scant attention was paid to the losses that had earlier besieged Olsy and Wang Global.

Buying Wang Global indeed proved to be costly: restructuring costs of this subsidiary originally estimated at € 240 million had to be increased to € 400. Revenues fell short of expectations. This and the general deterioration of general market conditions led Getronics to perform an impairment test on the capitalized goodwill. This test was done discounting estimated future cash flows of the former Wang Global units. As result of these present value exercises there were impairments in 2001 and 2002 respectively of € 930 and € 375 million. These impairments contributed to a large extent to the consolidated operating losses of 882 million and 362 million in these years. So while the estimated cost of acquiring Wang Global was some 2368 million in billion at the end of 1999, in 2002 a mere book value of these intangible fixed assets remained of € 654 million.

Furthermore it became apparent that the scale of operations in some countries was too small to be profitable. The organization was too much decentralized to enable a common international approach as required by Getronics' customers. So the company decided to dispose of its activities in Greece and Scandinavia.

General market conditions meanwhile deteriorated quickly. Operational results fell. In 2000 Getronics gave three profit warnings. Share prices fell, as management could not persuade investors that it was capable of a turn around. Similarly over 2001 management had to report a large operating loss. Once again share prices dropped. In May 2001 the CEO had to step down. A new board was appointed with the former deputy chairman in charge.

**Table: Annual results of Getronics from 1999 to 2002**

| In mill. of € | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| Revenues | 3,667 | 4,127 | 4,149 | 3,595 |
| Gross profits | 782 | 845 | 723 | 637 |
| Operating results | 118 | 60 | -1,040 | -409 |
| EBITAE 1) | 259 | 248 | 150 | 71 |
| Cash flow from operations | 337 | -18 | 202 | 180 |
| Working capital | 109 | 426 | 440 | 187 |
| Group equity | 1,276 | 1,261 | 535 | 124 |
| Net debt | 800 | 1,011 | 619 | 319 |
| Solvency ratio | 39,2% | 50,5% | 37,9% | 34,3% |
| Current ratio | 1.19 | 1.29 | 1.34 | 1.17 |
| Interest cover | | 7.4 | 4.9 | 5.2 |
| Net income per share | 0.36 | 0.14 | -3.04 | -1.03 |
| Closing share price at 31 Dec. | 26.40 | 6.26 | 3.64 | 0.58 |

1) Defined as EBIT before exceptional items
2) Defined as risk bearing capital as % total assets less securities and cash
Source: Annual reports of Getronics

## 3. The search for a solution

### 3.1. Management policies

Initially management was focused in increasing turnover and market share. Management realized large contracts with multinational companies. At the same time it gave priority to servicing, as this was considered more profitable than installing and managing computers and networks. After the sharp increase in costs the managing board took several cost cutting measures. In November 2001 it announced a major reduction in its work force. It moreover reduced its working capital drastically. The sale lease back of real estate was intensified. Improving margins became more important. Management also started a € 970 million program of disinvestments of what was called non-core activities. Yet at the same time it continued acquiring companies as part of its strategy to achieving scale in specific European countries like France and Germany. It even bought a Brazilian company, which was at odds with the former Europe oriented strategy and not understandable in the light of its quickly deteriorating financial position.

Since mid-year 2001 the company tried to restructure its balance sheet, through disinvestments and through a reduction of its excessive debts. Getronics realized a limited conversion of the two outstanding convertible bonds 2004 and 2005 into shares to the extent of € 295 million. Together with buy backs through market transactions the level of debt was reduced to € 450 in March 2002. Meanwhile many subsidiaries (particularly in Italy, France, Germany, Switzerland and the US) incurred losses. As operational results deteriorated it once again became necessary in 2002 to sell a major asset. It sold its unit "Government Solutions" for € 224 million. However this only provided only a temporary solution to the balance sheet and meant a structural reduction in revenues. Additional cost cutting was needed: Getronics in November 2002 announced plans to axe more jobs. At the end of 2002 the company once again had to issue a profit warning. Next the financial ratings of Getronics were lowered. In the rating reports several negative factors were singled out, like the continued below-peer-average profitability in depressed market conditions with increasing price pressure on core services, the reduction in the company's business base and the low net interest ratio. In the wake of these announcements share prices fell once again. Shares lost over 95 percent of their value in 2002. Then Getronics reported a net loss over the year of € 409 million on revenue of € 3.6 billion and a rise in gross debt.

### 3.2. Proposals for financial restructuring

The serious deterioration of Getronics' financial profile and in view of the recurring losses seemingly inability to meet the debt repayments in 2004 led to pressure of creditor banks, some of which also owned preferential shares for a series of measures. In December 2002 Getronics reached agreement with a small group of core banks concerning a new secured revolving credit facility of € 200 million due December 2004 with an extension of one year with lender approval. The interest rate was initially set at Euribor plus 300 basis points, to be reduced (with a minimum level of 0.75%) with an improvement of the credit rating of Getronics. Covenants were agreed related to interest cover and the senior debt / EBITDA ratio. There were restrictions on cash usage and on cash in secured bank accounts. Cash in the sum of € 30 million was to be held in two joint ventures (in Belgium and the Netherlands) and € 58 million in secured bank accounts. € 75 million of the facility together with available cash was to be used to repay the € 295 million drawn under the existing syndicated facility, due to mature in April 2004 and to facilitate additional financial restructuring. Some € 55 million of the facility was meant for working capital purposes and the remaining € 75 million was freely disposable. This credit facility reduced the credit exposure of the banks by € 95 million. At the same time the risk and collateral position of the banks improved.

The probability of a default or even bankruptcy when the convertible March 2004 would mature led the management of Getronics in January 2003 to offer a debt-to-equity swap to cut its leverage. Getronics made a tender offer for its two subordinated convertible bond issues. These notes were to be exchanged for ordinary share capital and up to € 140 million in cash. They would also obtain about € 100 million new convertible bonds.

The 2004 convertible bond would be exchanged for a consideration with a value of up to 110% of its nominal amount, and the 2005 convertible bond would be exchanged for consideration with value of up to 109.1% of its nominal amount. All in all it some € 569 million was at stake. The actual value of the consideration was to depend on the Getronics' share price at the close of the invitation. After the offer 250 old ordinary shares were to be exchanged for one ordinary share.

Getronics created a framework by which it could effectively set the terms on which the bondholders could effectively convert their bonds into equity. Holders of the convertibles were allowed to convert up to 36% of the stock at a much lower conversion price. Getronics set a low minimum conversion price. To protect shareholders against dilution, the bondholders were to bid in a book building exercise to set the final conversion price. Moreover these bondholders were to offer to accept less stock in return for their bonds. The management threatened the bondholders with the alternative of filing for bankruptcy. The conversion proposal however resulted in a sharp fall in shares. This fall together with the proposed loss of principal contributed to bondholders rejecting the modalities and to forming a committee of bondholders to enter negotiations with the managing board for improved modalities. Another group of bondholders was at the same time demanding immediate cash payment arguing that the sale of "government solutions" (mentioned earlier) implied a breach of a bond covenant. Representatives of hedge funds buying bonds at the relatively low market prices with the proceeds of short selling Getronics shares joined this group. This short selling earlier intensified the fall in share prices.

In February 2003 the managing board succumbed to the bondholders. It now offered bondholders a much higher equity component (81.5% of ordinary shares) together with a reduced cash element of up to € 75. It implied that ordinary shareholders, who at the time were holding 95% of the shares, were left with just 3.5% of the equity (the January proposal implied 43 % of equity). Other preferential shareholders were to retain only 15% ordinary shares forfeiting unpaid preferred dividends. Ordinary shareholders and holders of the cumulative financing shares were to receive warrants entitling them to an additional 7% and 3% of the enlarged ordinary share capital post transaction respectively. Bondholders would as a result not only suffer a significant loss but would become shareholders at the expense of original shareholders. There would be a strong dilution of shareholder value. Moreover the debt would be offloaded on the balance sheet. In terms of market capitalization the whole company would be valued at just € 37 million.

The unpopular offer for both bondholders and shareholders and the downgrading by rating agencies led tot a deterioration of the share price to very low levels. Public confidence in the company was rapidly reduced. Shareholders were preparing a legal challenge to the deal. Moreover there was the likelihood that the specialized unit of the Amsterdam Court of Justice would block the issue of new shares to the bondholders and launch an investigation that could take months to conclude.

### 3.3. "Entrepreneurial" solution

Then following a clash between management and the supervisory board concerning the handling of he financial crisis management once again changed hands. Towards the end of February that year a new chairman and a new CFO were appointed. The following month this new management announced its intention to drop the refinancing approach by way of the bondholders. It decided on an "entrepreneurial solution" package of restructuring.

- The focus of Getronics was to remain on its core business of the end-to-end integration and management of ICT systems.
- The balance sheet should be strengthened.
- A turn around of under-performing country operations was necessary to restore profitability.
- Policies were to be directed to disinvestments and liquidation of non-core and structurally under-performing assets.
- There was a need for implementing centralized cash management systems and procedures.
- Continual review of the business strategy was needed to refine the market position of Getronics and to seek strategic partners to strengthen core activities, geographical coverage and capacity.

Foremost it was necessary to restructure financially. So next it divested assets (Human Resource Solutions, or HRS) with a one-off gain in 2003 for € 315 million, sold an interest in a Norwegian company for € 11 million, while intending to sell other assets worth some € 40 to 50 million in cash, securitized receivables for an estimated € 50 million and reduced working capital requirements. The operational restructuring included intensified cost cutting (in particular a headcount reduction of about 850 jobs) with one-off cost savings between € 50-60 million. This cost saving is similar to the restructuring charge. Getronics started a global skilling program including an intake of young graduates. It started a program of consolidation of the company's global data and helpdesk facilities and supporting IT-infrastructure. Redundant offices were closed. About ten under performing assets were closed or disposed of.

The management team of Getronics' Italian company was replaced. This subsidiary that made heavy losses had to undergo a major restructuring and likewise the Dutch subsidiary. Total restructuring costs were estimated to be € 65 million. Later it appeared that the costs of the Italian lay-offs would mainly borne by the Italian public sector. As a result the losses of the Italian subsidiary would be vanish at the beginning of 2004.

The management board settled its dispute with the bondholders. They agreed that Getronics would use the net proceeds of € 315 million coming from the divestment of HRS and other proceeds from divestments for redemption of bondholders and a repayment of bank debt. So in June 2003 bondholders 2004 and 2005 were paid € 325 million in cash. The remainder of the outstanding bond debt (€ 250 million) was converted into a normal bond loan with a principal amount of € 480 million, bearing an interest rate of 13%. This loan was to be paid off from 2004 to 2008 through quarterly payments through an annuity scheme. The option of conversion into shares was dropped.

Banks replaced their credit facility of December 2002 by a new credit facility of € 100 million. Of this amount € 75 million carried no restrictions. It allowed the release of cash collaterals of some € 55 million.

At the same time Getronics was able to draw up a tax optimization plan using the current financial position on a global basis. As a result some € 83 million was released from deferred tax liabilities.

In October 2003 Getronics announced the issue of € 100 million 5.5% senior subordinated convertible bonds due 2008 only available for European institutional investors. The net proceeds were € 71.2 million. This probably was done to prevent hedge funds from participating and so negatively influencing the development of share prices once more. Proceeds from the convertible bonds were expected to help to meet some € 100 million worth of payments scheduled for 2004 under its outstanding 13 % senior subordinated notes due 2008.

Cash restructuring costs and the high coupon on subordinated debt continued to affect Getronics' funds from operations, which were negative in the third quarter of 2003. Thanks to increasing orders and a reduced cost base EBITDA had nevertheless improved. The unaudited figures for fourth-quarter 2003 were better than expected.

The recent convertible issuance (and expected refinancing) among a selected group of institutional investors intended to keep its annual interest burden relatively small as well as limit amortization requirements on the subordinated bonds over the next several years. With Getronics' planned equity increase of € 240 million at the end of February 2004 the financial problems probably has been solved: the cash generated will be used to retire the company's subordinated, € 250 million, 13% installment bond due in 2008. These developments even resulted in a notching up of Getronics' rating by Standard and Poor's B+ from B with the perspective of a further improvement. So presently the financial woes seem to be over.

**4. The future** As the debt problem has been solved for the time being management has to turn its attention to its ordinary business. Getronics still has an appetite for acquiring other companies, not directly profitable so the recovery of EBITDA probably will be hampered. This is the more so as the company still faces strategic and operational problems that will require substantial time to overcome:

- Getronics is still restructuring its business, with a particular centralizing financial reporting, cash management and integrating its IT tools.
- There is an on-going challenge of managing a broad base of multi-national operations spread across several different countries. At the same time there is a need for free cash flow generation that is more than needed for the costs of restructuring. The restructuring costs probably are significant for the next few years. With the low profitability in the soft IT-services market and the restructuring costs there remains a on-going funding requirement.
- In particular the US subsidiary has to live up to its promises; if not another correction of the book value of intangibles has to be carried through implying continued losses.
- There are execution risks of existing plans to reduce costs and restructure operations and to align capacity with demand. Similarly there are financial risks involved in the international collaboration with partners like Microsoft, Cisco and Dell and the global banks.
- The visibility of Getronics in IT services markets has to improve. A development of a sound integral commercial strategy is highly opportune. This is needed as the IT services market is only slightly growing or even flat. Customers are less inclined to invest so competition is very intense. Competitors also have carried out cost reductions.

Any change in financial outlook remains dependent on improvements in both the company's cash flow generation and underlying profitability. The reluctant economic recovery in Europe and the problems mentioned above indicate that profit prospects for the near future probably remain dim.

**5. Conclusions**

Several lessons can be drawn from the experience of Getronics:

- With hindsight clearly the buying strategy of Getronics to become a global player has been far too optimistic. Moreover management of Getronics to easy gave in to pressures of its multinational customers, changing its focus from becoming a pan-European company to a global player without sufficiently taking into account the resources and organization that this business model would require in the short term and the possibilities for the company to deliver the services it promised. Due diligence was carried out unsatisfactory and the management model chosen proved a disaster. Knowledge of the new markets it was going to operate in was inadequate. The consequences of the acquisition for the organization were ill-judged.
- Financial considerations as well as market signals have to long been neglected by a to expansive and optimistic management. Instead of getting rid of "bleeders" and getting lean and mean as soon as possible management preferred increasing turnover together with gradual sell offs and as a result costly reorganizations. Management apparently gambled on a significant market recovery and efficiency gains at the selling site of its operations. With respect to reorganizations it was far to optimistic as to the time required to realize a normal functioning multinational organization.
- In the interest of short-term shareholder value Getronics issued both to little debt and to little new equity to buy Wang Global and subsequently turn around the loss making new entities. As a result of insufficient additional finance and wrong turn around policies to little resources were available to cope with losses and the write offs. In the end the debt problem had to be solved by cash payments from selling profitable assets and a reduction in working capital.
- In trying to prevent to high annual interest payments on ordinary debt the company issued to many convertibles, with the envisaged conversion to take place in a to short time frame. The cumulative conversion problem as a result proved to be costly. Though overall profitability most likely was satisfactory the poorly financed acquisition resulted in an awkward debt conversion with a risky drain of liquidity. It even could have resulted in the downfall of the company.
- The merits of financial solutions and instruments to solve the forthcoming problems were insufficiently scrutinized. For instance realizing a debt-equity-swap with a concomitant strong dilution of shareholder value affects share prices negatively and so reduces the value of the offer itself. The possibilities of hedging by market participants apparently were overlooked. Neglecting possible influences of proposals on market price developments of shares is a grave mistake.
- Expensive time was lost and costly credit facilities and consultancy services were incurred in trying to develop new financial restructuring approaches that protected bondholders at the expense of shareholders. Specialized outside mediation - like by hiring a chief restructuring officer- taking adequately account of the interests of different stakeholders would most likely have provided better results.
- Getronics sold significant parts of the company called non-core but contributing very much to operational profits. This takes time to compensate for. The company as a consequence faces a cash drain in 2004 and much higher annual interest costs due to the € 480 million bond issue.
- Bondholders have thus far been redeemed to a large extent and bank creditors have been compensated fully. The real value of the company to shareholders has been reduced drastically. They are the real losers. Their loss however is not as much as with earlier solutions proposed by the managing board. The shareholders usually remained quiet. Annual shareholder meetings hardly implied opposition to board proposals. Shareholders used their feet as the fall of share prices showed. This is one reason why dividends for shareholders are probably unlikely before 2006.

To close, the case is a prima facie illustration of the need to pay adequate attention to the timing of financial transactions.

Sovereign BV, January 2004

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