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From the Selected Works of SAJJAD KHAKSARI

Summer July 20, 2015

Grandi Navi S.p.A SEMINAR CASE STUDY

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Introduction

Grandi Navi S.p.A. ("Grandi Navi"), is an Italian yacht manufacturer that is listed on the stock exchange of Milan. The company is facing a series of legal and financial problems, of both national and international character.

Before proposing a solution to the company, we analyze very carefully its current situation. In order to do so, we consider the different kinds of problems Grandi Navi has to deal with and sketch the situation.

In a second paragraph we discuss the general financial restructuring options a company could consider and try to link them to this specific case.

Of all the possible options we present in the second paragraph, we will select the one that seems the most realistic for Grandi Navi and work it out in detail in the last chapter of this report.
1. The current situation of Grandi Navi S.p.A.

In order to sketch the situation of Grandi Navi, we consider the following key areas. Indebtedness, Competition, Greek subsidiary and Shares.

1. Indebtedness

The following table represents the several debts of Grandi Navi to its various creditors:

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Amount of debt</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syndicated Senior bank</td>
<td>300 million</td>
<td>January 2017</td>
</tr>
<tr>
<td>Mezzanine bank</td>
<td>100 million</td>
<td>January 2018</td>
</tr>
<tr>
<td>Bondholders</td>
<td>800 million</td>
<td>December 2019</td>
</tr>
<tr>
<td>Suppliers</td>
<td>100 million</td>
<td></td>
</tr>
</tbody>
</table>

It’s important to take into consideration also the following security interests and guarantees on the financial indebtedness:

- The subsidiaries have provided guarantees in respect of the bank and bond debt.
- Trade debts are unsecured.
- Senior and mezzanine lenders benefit from:
  - Security over Grandi Navi’s real estate property in Italy
  - Pledges over Grandi Navi’s key trademarks
  - Pledges over the share capital of Grandi Navi and its subsidiaries

Because of the structure of the syndicate of senior lenders, unanimous votes or even significant majorities are unlikely.

2. Competition

Because of the weaker presence of Grandi Navi in uber-yacht market, due to the new ‘oligyacht’ project intruduced by Navi Migliori in 2012, the company is facing cashflow issues. They are not sure of meeting the financial ratios agreed with bank creditors for the 2015 financial statement. Grandi Navi does, however, still have a strong presence in the mini- and midi-yacht market.
3. Production problems in Greece

One of Grandi Navi’s main subsidiaries is located in Greece. In 2014, the shipyard workers went on general strike in protest against the anti-austerity measures imposed by the Greek government, which resulted in two arrests, delays to production and a lot of negative publicity. The Greek subsidiary is a holdback for the group’s acquisition by Navi Migliori.

4. Shares

So far, Grandi Navi has only issued ordinary shares. Grandi Navi is listed on Milan stock exchange and has a credit rating of BB- with negative outlook. In order to fund new acquisitions or other kinds of investments, the shareholders authorized the board of directors to issue new shares, up to 30% of the current share capital.

The bondholders are aware of the potential restructuring and are assembling an ad hoc committee. The current majority shareholders are willing to sell their shares. Franco Navali and Navi Migliori are potential buyers. Other details regarding the current situation of Grandi Navi are represented on the figure on the first page of this report.

2. Financial restructuring options

To deal with the firm’s struggles we consider six financial restructuring ways:

1. Resurrection

This strategy consists of enhancing the performance of the company in a very quick way, so that there is no need for relief from the creditors. This can avoid harmful decisions of creditors against the company. In the case of Grandi Navi, resurrection is not a suitable plan. The company is already facing big (accumulated) financial problems, which means it is impossible for it to ‘resurrect’ in such short notice. The answer for Grandi Navi will have to be a more complex one.

2. Refinancing

This strategy usually involves finding a new source of capital to do one of two things:

- take out existing lenders entirely
- provide supplemental funding in addition to the lending facilities already in place
A traditional refinancing takes the form of a new financing facility with lower interest rates, when interest rates have dropped since the initiation of the original loan. This could be a good strategy for Grandi Navi S.p.A., but it’s really unlikely that the creditor banks are willing to accept this solution. The existing big indebtedness of Grand Navi as well as the global difficult situation of financial institutions will probably lead the creditors to refuse any supplemental funding.

3. Re-equitizing

A re-equitizing means a further issuing of shares. This infusion of equity is probably the quickest source of money that can be employed as working capital. But nevertheless, Grandi Navi is in troubled conditions. S&P corporate credit rating is BB- with a negative outlook. The bad financial situations makes it unattractive for outsiders to invest in the company and many yet existing money sources would rather advance new money in the form of debt rather than equity. Indeed, in case of liquidation investors will lose their money (debt always needs to be paid before equity).

Anyway, given the fact that they authorized the board of directors to issue a significant number of new shares, the shareholders clearly don’t exclude the action of re-equitizing and might see it as a (partial) solution. This means that there is a good faith by current investors in the recovery of the company.

4. Re-amortizing

A re-amortization involves changing the amount of debt or the time schedule for the payments. Grandi Navi has cashflow issues that can affect negatively the financial ratio agreed with banks for the year 2015 and thus lead to bad consequences. A re-amortization should be considered.

For example, extending the repayment schedule over January 2017 in the case of the syndicated senior bank or December 2019 in the case of the Mezzanine bank, could give the company more time to recover financially. Interests during the downtime might be deferred entirely, rolled up as payment-in-kind interest, or written off.

Such a solution requires an agreement with bank creditors. In the case of syndicate of senior lenders, due to its internal structure composed by 20 banks and financial institutions, any vote would be unpredictable and the existence of such an agreement is highly unlikely.
5. Sell as a going concern

A fifth option is to sell Grandi Navi. The proceeds can be used to pay creditors. Usually a business brings more return when it is sold as a going concern than when it is sold in pieces. Anyway, this is not always true and we also have to take into account that a potential buyer, Navi Migliori S.p.A., is not interested in acquiring the Greek subsidiary.

The reasons for which a company can be sold at a higher price in its entirety, are the efficiency of the business, the developed supply and distribution channels and the goodwill in the operating business. Grandi Navi owns a total of 5 subsidiaries so its whole structure would not be affected so much by taking away one of them. Furthermore, the Greek subsidiary has recently caused delays in delivering orders and, therefore, a lot of negative publicity. The brand reputation can be positively affected by detaching this subsidiary and thus increasing the overall value of Grandi Navi.

An early decision to sell can be critical. The later the intervention to sell, the less successful it usually is because the distress reaches dire proportions. The company is in a bad financial situation but it’s important to notice that is still performing well in the little-mid yacht market.

6. Liquidation

This means selling the business in pieces, usually after it has been shut down. Liquidation brings the least value for the business, and it is accompanied by the greatest disruption: loss of jobs, loss of supply and distribution contracts, loss of institutional knowledge and goodwill and a poor return for the creditors.

It’s true that the company is in a poor financial situation, but still has margins to grow in new markets and to become profitable again. Liquidation is not the more embraceable or advisable option. Besides, some of the other solutions discussed in this paragraph are certainly not impossible and are worth considering.

To conclude this paragraph, we decide that the 5th option, to sell as a going concern, is the most applicable on the situation of Grandi Navi. Next, a specific solution is worked out.
3. Proposed Solutions

1. Delisting

The first part of our solution expects that Grandi Navi S.p.A. is delisted from the Milan stock exchange. “Delisting typically occurs when a company goes out of business, declares bankruptcy, no longer satisfies the listing rules of stock exchange, has become a private company after a merger or acquisition, wants to reduce regulatory reporting complexities and overhead, or if the stock volumes on the exchange from which it wishes to delist are not significant”. In case of delisting the shareholders have two options: either sell their shares before the delisting date or remain shareholders in what will become a privately owned company.

Considering the actual situation of Grandi Navi S.p.A., this action is necessary in order to be able to do all the restructuring operations more freely outside of the market and with fewer constraints. As for the shareholders, it is really unlikely that they will be able to sell their shares before this operation due to the bad economic and financial situation of the company, so they will keep owning their shares also in the private company.

2. Company Division

After the delisting, the second operation that has to be done is to create two societies, one composed only by the Greek shipyard and one composed by all the other assets. The scope of this operation is to separate the Greek shipyard from the rest of the company in order to satisfy all the Navi Migliori’s requirements for the acquisition of Grandi Navi.

The two society created are:

- Grandi Navi Greek Company, with all its assets and liabilities (debts, interest rates, workers and everything related to the Greek shipyard).

- Newco Grandi Navi Company (comprehending all the original Grandi Navi company), with its assets and liabilities.

First of all it is necessary for Grandi Navi to receive a formal offer from Navi Migliori confirming their intent to acquire the company with the exclusion of the Greek shipyard. All the current liabilities of the company will be taken on by the Newco Company. As for the Greek company, it will only inherit the liabilities associated to the Greek shipyard. In order to undertake this step, a qualified majority vote will be needed (with a majority of 2/3 of the shareholders, because it is an extraordinary operation) and both the creditors and the bondholders must agree.
3. Navi Migliori Acquisition

The following step would be the acquisition of the entirety of New-Co Grand Navi shares by Navi Migliori. The cash obtained with the divestiture of almost the entire company will be reinvested in a capital increase of GN Greek Company that will consequently increase its economic power. At this point, they have the following two options:

- Maintain the same company structure;
- Verify if the founder of Grandi Navi, Franco Navale, and his two friends are still interested in investing 100 million € for acquiring a significant percentage of shares of the new Greek Company;

In the second case, they could buy the shares from:

- The two equity funds, considering they are not able to add any more cash in the company and they are ready to sell;
- The minority shareholders, if they want to sell all or part of their shares;
- Both of them, in this case they will become the majority or the only shareholders of the company.

(All of this depends not only on whether or not the shareholders and private equity funds are willing to sell their shares, but also on the value of the new company compared to the offer of 100 million euros.)

4. Long-term business Plan

With new assets available, a new business plan will be created ad hoc to give Grandi Navi Greek company a stronger position in the market. Considering the current situation, the best possibility for the new company is to define a long-term business plan (at least 5 years).

Given that in the European and American market there’s the strong presence of Navi Migliori (due to the recent acquisition of almost the entire Grandi Navi company), with almost no possibility of a fair competition, the target would be becoming the market leader in the Asian market. In order to do so, a market research is necessary to understand the interests and tastes of Asian tycoons (Thai, Chinese, Emir etc.), which might enlarge the chance of success of the company’s new product. With this target in mind, the new Grandi Navi company must develop a new Uber-Yacht capable to compete with the Navi Migliori Oligyacht. Design is perhaps the most important characteristic for this kind of product. Hiring a well-known big yacht designer to develop the project can be a successful decision. At the end, the product exhibition in key strategic fairs with strong participation of potential customers is strongly recommended.
They could consider to invest in R&D. The yachting industry isn’t made of high R&D budgets, the role of innovators is really left to the power units, propulsion systems, electronics manufacturers, and chemical companies. Anyway, investing in technologies can radically change the industry rules as happened with the fiberglass or hydrofoil innovations. Developing and protecting technologies with IP, that can be employed in the same or different industries, provides a sound and stable scalable economic growth.

A potential R&D investment are renewable energy systems to produce eco-Yachts with a modern design and technology. Patenting these R&D products and exploiting their benefits can be a big step forward for the company as a competitor in the Global Market. Considering the high level of interest in renewable energy from countries like EAU, the ‘eco-Yacht’ could be a great success.

Another fact to be considered is that today’s business is an ‘e-Business’: young technologies such as smartphones are central players. So the new Grandi Navi S.p.A. could create its own Smartphone Application available for Android and Mac operators. This Application could, for example, help them to keep in touch with customers, to create a community of Yacht owners, to provide Yacht owners information about their current location, a GPS navigating system on sea, a way to find other Yacht owners that also choose to use the application and are sailing close to them... To create this App. naturally Grandi Navi would have to spend money, so they could outsource this opportunity to some Information Technology App. Maker companies.

Before the launch of their new product, it could be an interesting option to Re-list the new company on an Asian stock exchange (Honk Kong, Tokyo or Shanghai) in order to try to capitalize the launch of the new product, for increasing the value of the society and for finding new possible shareholders, willing to make huge investments in it.

4. Conclusion

As a conclusion one can say that there is a possibility for Grandi Navi to recover and regain their economical importance. There is no direct need for liquidation.

On the other hand, in order for the proposed solution to be successful, the company needs the approval of a lot of stakeholders (the current shareholders, Navi Migliori, Franco Navale,...).

However, there is a way out, but action has to be undertaken now. We want to emphasize the fact that the longer Grandi Navi waits to sell, the less successful a step it would probably be.
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