

12 October 2017

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# AGROKOR – too big to fail – Croatia redux

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## BACKGROUND

• Established in 1980, by Ivica Todoric a former flower trader, he expanded throughout the former Yugoslavia to include the import and export of cereals, oil-crops fruits and vegetables.

⑩ Expands dramatically throughout Croatia during Franjo Tudman presidency, acquiring First Croatian Oil Factory and DIP Turopolje in 1993, and Unikonzum and Ledo in 1994.

• Issues three Eurobond issues during 2012 totalling EUR 886m equivalent.

⑩ Becomes largest retailer in the Balkans following EUR 261.8m acquisition of Mercator in 2014.

⑩ Mercator acquisition funded by a EUR 485m PIK Toggle loan and a EUR 210m term loan from VTB (Austria). Included the mandatory restructuring of USD 1bn of Mercator debt.

⑩ Largest employer in the Balkans with 60,000 employees, represents 16% of Croatian GDP.

• As at end 3Q16, Ivica Todoric – Agrokor’s founder and CEO owned 95.52% of the company, with 2.07% held by the EBRD and 1.64% by other minor shareholders.

## EVENTS LEADING TO ADMINISTRATION FILING

19 September 2016

Launches EUR 100m syndication of short-term loan facilities – follows broader refinancing of EUR 500m of short-term facilities via BNP, GS, CS, JPM, and Sberbank.

28 October 2016

Concludes EUR 340m loan restructuring with VTB (Austria).

18 January 2017

Agrokor announces pulled syndication of club loan – PIKs come under pressure on fears that they will fail to refinance in September 2017.

1 February 2017

*Debtwire* releases 3Q16 credit report – senior bonds fall seven points.

10 February 2017

Russian ambassador applies political pressure - seeks early debt repayment to Sberbank/VTB – cautions about further lending.

22 February 2017

*Debtwire* [article](#) discloses potential insolvency triggers – queries liquidity position and outlines local legal framework.

## EVENTS LEADING TO ADMINISTRATION FILING

10 March 2017

PIKs choose Moelis and Freshfields as advisors.

17 March 2017

Agrokor reportedly seeks EUR 300m loan from Sberbank - first time that the company admits there is a liquidity issue and a need for restructuring.

17 March 2017

Listed subsidiaries issue FY16 earnings - [intergroup borrowings and payables soar](#).

28 March 2017

Croatian Parliament drafts law for systematically important companies.

31 March 2017

Standstill signed by six creditor banks - in return for CRO appointment.

31 March 2017

Subsidiaries bank accounts blocked, suppliers launch bankruptcy petitions.

## EVENTS LEADING TO ADMINISTRATION FILING

4 April 2017

CRO Tony Alvarez - 'situation is very serious, no guarantee we will succeed'.

6 April 2017

Parliament approves 'Lex Agrokor' - enters into gazette late same evening.

7 April 2017

Company is filed for extraordinary administration by Ivica Todoric.

10 April 2017

Ante Ramljak appointed as Extraordinary commissioner.

## LEX AGROKOR

- Law for extraordinary administration procedure for strategically important companies
- Applies to companies with 5000 employees and HRK 7.5bn (EUR 1bn) of debt commitments
- Moratorium on payments for 12-months – extendible for further three months
- Allows commissioner to take actions needed for the regular operations of the debtor
- Allows payments to reduce systemic risk – if approved by creditors council
- Workers claims have priority status – protecting jobs (at co and suppliers) is key aim
- Creditor council by legal ranking – but can be further subdivided along economic interest lines
- Creditors have 60 days to submit claims – can be challenged within 8 days of submission
- Disputed claims heard in court – enforceable doc can instruct civil proceedings
- Restructuring requires simple majority in each class, 2/3 of creditors in aggregate to approve
- Can flip into bankruptcy proceedings at any time – if no likelihood of successful outcome

## LEX AGROKOR

### Key differences from pre-insolvency and insolvency law

- Allows super senior financing (post filing)
- Political oversight- advisory committee headed by a finance ministry appointee
- Supplier payments can be made during process - if approved by creditor council

### Uncertainties

- Treatment of intercompany claims
- Rights of listed subsidiaries - can minority shareholders make claims too?
- Bills of exchange - who should submit claims, the suppliers or the holder?
- Repurchase agreements, rights of repo counterparties to retain shares
- Pledged shares from restricted group - can these be recovered?



## EVENTS SINCE THE FILING

13 April 2017

Agrokor receives EUR 80m loan – but Russian banks ‘opt out’ – loan less than EUR 150m requested.

13 April 2017

Bondholder committee revealed – AXA, Fidelity, Jupiter, Knighthead and T Rowe Price – PJT Partners and Hogan Lovells.

18 April 2017

Bondholders offer EUR 400m of super senior financing.

18 April 2017

Temporary creditor committee appointed – Sberbank, Zagrebacka Banka, Kras, Knighthead Capital and Toni Raic.

19 April 2017

Memorandum on bills of exchange launched – to protect suppliers from recourse claims. Valid until 31 May.

20 April 2017

Administration extended to 20 affiliates – for those with 25% stake or more.

## EVENTS SINCE THE FILING

25 April 2017

AlixPartners appointed as restructuring advisor - PwC to provide audit on FY16 accounts - KPMG to assess creditor claims.

26 April 2017

Sberbank considers selling EUR 1.1bn of loans - indicative offer in mid-30s - bank provisions 50% of its exposure.

26 April 2017

Slovenia passes 'Lex Mercator' - to protect subsidiary from Croatian claims.

11 May 2017

Debt stack revealed as at 31 March.

11 May 2017

Commissioner sets early June deadline for new money provision - seeking better terms to EUR 80m facility (L+ 497bps).

30 May 2017

Company issues RFP for another advisor - talks intensify over new money provision - as key summer sales period looms.

## EVENTS SINCE THE FILING

2 June 2017

Temporary creditor committee meets for second time, roll-up legality discussed.

7 June 2017

Committee meets again to discuss new money proposal (to mitigate roll-up concerns).

8 June 2017

Terms of new money announced.

## NEW MONEY FACILITY

- EUR 1.06bn of facilities, of which EUR 530m is new money (doubled-up to avoid roll-up legality issues)
- EUR 480m underwritten by bondholders headed by Knighthead Capital Management
- Domestic market tranche arranged by Zagrebačka banka
- New financing to secure sustenance of ongoing business operations of Agrokor and operating companies.
- Existing banks and suppliers have ability to participate, alongside ad hoc committee members.
- Non-committee members have ability to subscribe if banks fail to take-up entitlements.
- EUR 480 million is structured as a long-term loan, and the key conditions are 1:1 refinancing of funding lenders' debt before the initiation of Extraordinary Administration procedure based on drawn amounts on new loan and interest of 4% annually accrued to principal or 3.8% cash payable annually.
- Super senior with 15-month's maturity – fund's company to the end of extraordinary administration period
- EUR 150 million from new financing is agreed to be used for repayment of old debt to suppliers
- On top of the EUR 480 million, EUR 50 million is agreed upon for creditors who are suppliers and who can provide goods or services instead of money, under identical terms as financial creditors with 1:1 refinancing of their old debt.

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## NEW MONEY FACILITY

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**EUR 150m made available for settlement of pre-petition trade claims, split into three pools:**

**Pool A (up to EUR 30m):** Dedicated pool for 'micro' suppliers, defined as family farms (OPG), small entrepreneurs, small and micro-suppliers with annual revenue less than HRK 5.2 million, maximum of HRK 2.6 million in assets and up to 10 employees

**Pool B (EUR 110 - EUR 120m):** This pool is open to all suppliers (except the Pool A micro-suppliers). Suppliers must confirm they will return to historic and/or industry standard terms of supply in order to be eligible; and

**Pool C (up to EUR 10m):** Discretionary pool for settlement of pre-petition trade suppliers in accordance with identified business needs.

## SUBSEQUENT EVENTS

21 June 2017

Bills of exchange breakdown disclosed: HRK 2.762bn to 30 largest suppliers, HRK 3.919bn to operating subsidiaries.

22 June 2017

Sberbank tries to auction off 18.53% Mercator stake (minimum EUR 40.58m) - failed, takes stake.

5 July 2017

Total of 20 lenders participate in the roll-up, mixture of international funds, local & international banks. Sberbank declines to take part.

10 August 2017

10,782 out of 12,051 claims now processed (deadline early September). Performance figures released for January-June 2017.

25 August 2017

305 applications from suppliers to participate in EUR 50m trade finance facility.

31 August 2017

Temporary Creditor Council approves payments of up to EUR 120m made to 'old-debt' of suppliers.

29 September 2017

Agrokor says PwC audit on 2016 financials is due end of week beginning 2 October.

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## NEXT STEPS

- Initial draft viability plans submitted – to be completed by 30 September.
- Table containing confirmed and disputed claims will be delivered to the Commercial Court in the middle of October.
- Restructuring outline plan expected during November.

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## KEY QUESTIONS

- Repo agreements, how do they rank?
- Is there any value to be extracted from non-Croatian entities, if so how?
- Croatian government involvement – will they push for oversight/controls over new owners?
- Can Sberbank frustrate the process?

## LITIGATION

July 2017

Sberbank opposes UK recognition of extraordinary administration process – hearing scheduled end October.

18 August 2017

Sberbank files lawsuits at London Court of International Arbitration.

30 August 2017

Serbia court rejects recognition proceedings – opposed by Intesa and Sberbank. Appeal filed 14 September.

6 September 2017

Sberbank challenge to roll-up rejected by Zagreb court.

22 September 2017

Ivica Todoric plans to sue Croatian Government over nationalisation of private property.



## NEW BUSINESS STRUCTURE



## PERFORMANCE (JANUARY – JULY 2017)

HRKm	Retail and Wholesale	Food	Agriculture
Revenue	8,793m	5,010m	1,587m
Gross margin	1,153m	1,812m	406m
Gross margin %	13.1%	36.2%	25.6%
EBITDA	-203m	757m	184m
EBITDA %	-2.3%	15.1%	11.6%

- **Retail and Wholesale** includes 5 companies summarised results:
  - Retail: Konzum Croatia, Konzum B&H, Tisak
  - Wholesale: Velpro centar and Velpro B&H
- **Food** includes 9 companies summarised results:
  - Beverages: Jamnica, Sarajevski kiseljak and Roto dinamic
  - Ice Cream and Frozen Food: Ledo, Frikom and Ledo Citluk
  - Oil: Zvijezda and Dijamant
  - Meat: PIK Vrbovec
- **Agriculture** includes 4 companies summarised results:
  - Belje, PIK Vinkovci, Vupik and Agrokor Trgovina

- Summarised YTD results, i.e. no elimination of intercompany transactions and no consolidation adjustments.
- Revenue includes sales of goods and services (domestic and foreign).
- EBITDA = EBIT + Depreciation and amortisation + value adjustments and impairments + provisions.
- COGS calculated as cost of materials plus cost of goods sold +/- change in inventory.
- Preliminary results, bookings for July 2017 not fully completed.
- FY16 audit is still ongoing and certain audit adjustments not yet recorded by companies – may result in changes of seven months results reported by companies (amounts and/or classification).

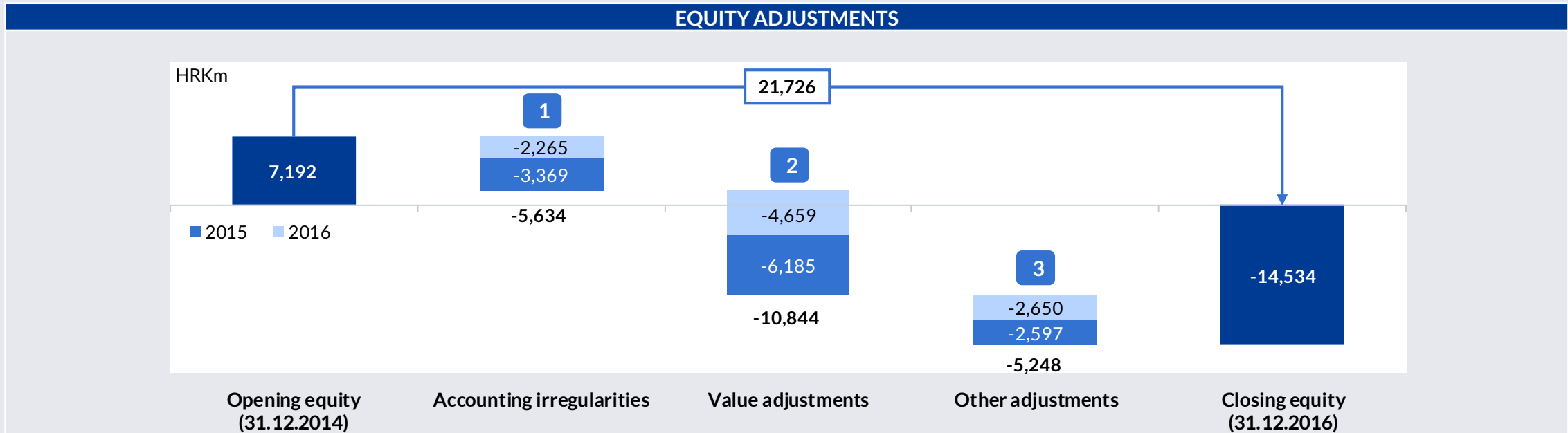
## PERFORMANCE (FY 2016)

FINANCIAL SUMMARY (HRKm)					
INCOME STATEMENT	2015 reported	2015 restated	Δ change	2016	Δ 2016 vs 2015 restated
Revenues	49,403	47,747	-3.4%	46,173	-3.3%
Cost of sales	(39,023)	(38,156)	-2.2%	(37,409)	-2.0%
Gross profit	10,380	9,591	-7.6%	8,764	-8.6%
Gross profit margin	21.0%	20.1%	-4.4%	19.0%	-5.5%
Adjusted EBIT	2,575	(1,012)	-139.3%	(7,018)	-593.8%
Adjusted EBIT margin	24.8%	-10.5%	-142.5%	-80.1%	659.3%
Adjusted EBITDA	4,196	2,396	-42.9%	(2,604)	n.m.
Interest expense	(2,361)	(2,781)	17.8%	(3,714)	33.6%
Net income	1,178	(3,603)	-406.0%	(11,047)	206.6%
BALANCE SHEET	2015 reported	2015 restated	Δ change	2016	Δ 2016 vs 2015 restated
Cash & cash equivalents	2,609	597	-77.1%	557	-6.7%
Trade & other receivables	5,857	6,146	4.9%	3,459	-43.7%
Inventories (current)	7,582	6,331	-16.5%	5,271	-16.7%
Total current assets	20,375	19,444	-4.6%	12,273	-36.9%
Total assets	52,820	52,068	-1.4%	41,753	-19.8%
Trade & other payables	15,942	10,110	-36.6%	10,599	4.8%
Total current liabilities	24,327	28,748	18.2%	27,872	-3.0%
Total debt	25,844	40,891	58.2%	41,800	2.2%
Net debt	23,235	40,294	73.4%	41,243	2.4%
Total liabilities	45,301	54,997	21.4%	56,287	2.3%
Shareholders' equity	7,519	(2,928)	-138.9%	(14,534)	396.3%

FINANCIAL SUMMARY (HRKm)			
CASH FLOW STATEMENT	2015	2016	Δ 2016 vs 2015
Funds from operations	4,310	2,094	-51.4%
Changes in working capital	(660)	847	n.m.
Interest paid	(2,202)	(2,181)	-0.9%
Income tax paid	(219)	(356)	62.4%
Operating cash flow	1,229	405	-67.1%
Capex	(1,491)	(1,750)	17.4%
Free cash flow (FCF)	(261)	(1,345)	414.4%
Debt raised	3,860	3,344	-13.4%
Debt repaid	(1,704)	(2,783)	63.3%
FCF after debt raised/repaid	1,894	(783)	-141.3%
RATIO ANALYSIS	2015	2016	Δ 2016 vs 2015
Net debt/adj. EBITDA	5.5x	-15.8x	-386.0%
Total debt/adj. EBITDA	6.2x	-16.1x	-360.6%
Adj. EBITDA/interest expense	1.8x	-0.7x	-139.5%
Total debt/equity	3.4x	-2.9x	-183.7%
Cash/short-term debt	0.4x	0.0x	-91.1%

Source: Debtwire calculations, company financials

# AUDIT FINDINGS FOR FY16 RESULTS

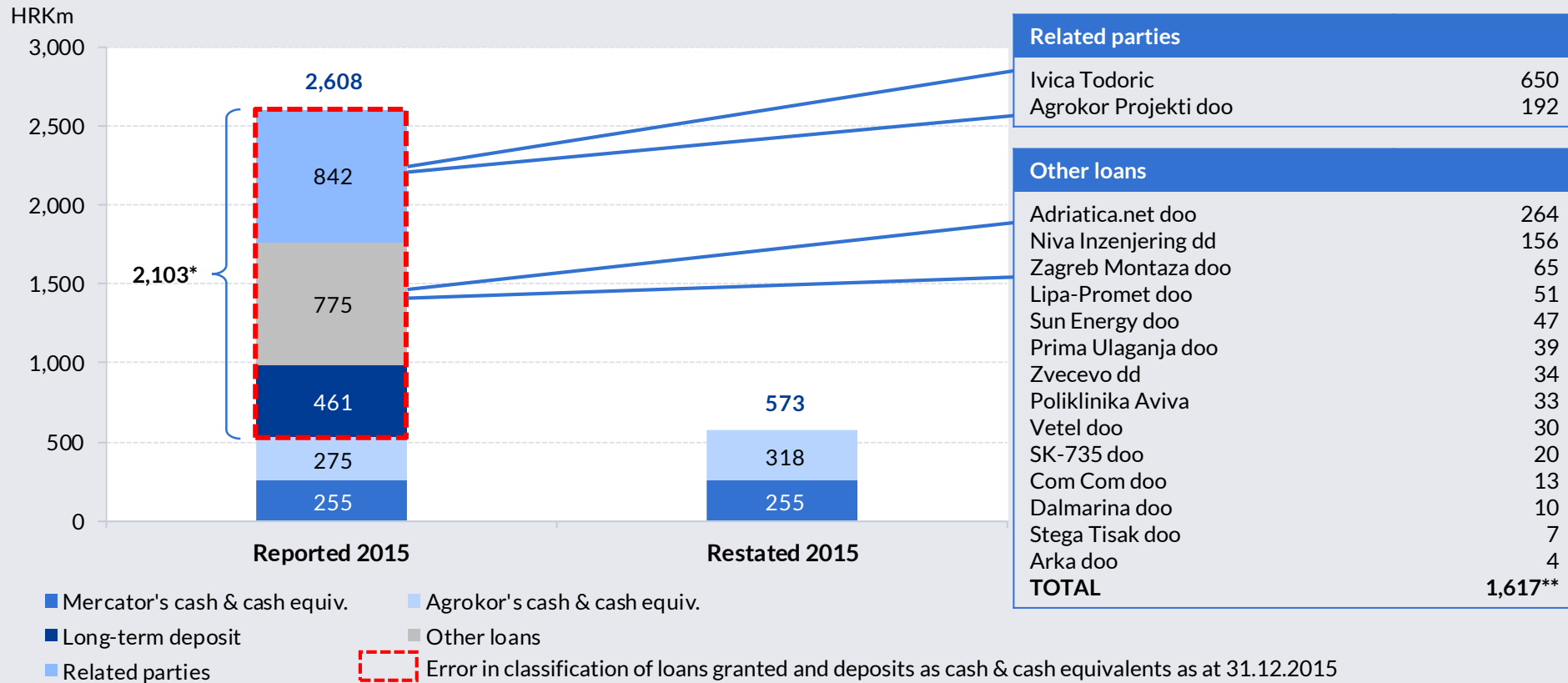


- 1) **Accounting irregularities:** improvement of the result through non-disclosure of operational and financial expenses totalling HRK 2.3bn, non-disclosure or improper classification of borrowings totalling HRK 2.3bn, [inadequate classification of loans granted as cash and cash equivalents](#), failure to consolidate the entity AdriaticaNet
- 2) **Value adjustments:** tangible and intangible assets and receivables
- 3) **Other adjustments to equity in 2015 and 2016:** reclassification of operational lease to financial lease, increase in expenses, drop in sales in 2016

Source: [Audit findings for FY16 Consolidated Group and Agrokor d.d.](#) \* According to the presentation, or HRK 2,073m based on calculations. \*\* According to the presentation, or HRK 1,617m based on calculations.

# AUDIT FINDINGS FOR FY16 RESULTS

## INADEQUATE CLASSIFICATION OF LOANS GRANTED AS CASH AND CASH EQUIVALENTS



Source: [Audit findings for FY16 Consolidated Group and Agrokor d.d.](#) \* According to the presentation, or HRK 2,073m based on calculations. \*\* According to the presentation, or HRK 1,617m based on calculations.

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## SPEAKERS

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### Chris Haffenden

Prior to becoming a financial journalist, Chris Haffenden spent over 15 years in financial markets, primarily as a bond trader. From trading Australian Eurobonds at Barclays in 1989, he established a US dollar corporate bond desk before moving to trade Emerging Market debt in 1995. He was responsible for their EM proprietary trading book spanning the Mexican, Asian and Russian crises. Chris moved to Jefferies International covering European High Yield, trading European and Asian Convertibles during the TMT bust. He also worked on a number of restructuring advisory pitches.

Chris joined *Debtwire Europe* in 2004. His primary focus was restructuring covering high profile situations becoming Deputy Editor in 2010. In early 2011, he launched *Debtwire's* European structured finance coverage. He was managing editor of *Debtwire ABS Europe* focusing on distressed real estate and legacy CMBS restructuring. In May 2015, he took charge of *Debtwire CEEMEA*.

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