Italian "Chapter 11" investment opportunity

Equity €2,100,000
Pension liabilities €500,000

Asset for sale	Seller	Sector	3 years IRR	Country	Date
Stock, machinery, factory leasing contracts, goodwill, patents, know-how	Northern Italian Court	High-Tech textile	547% (without leverage)	Italy	March 2014

Target company	Target was founded in 1960 and is a worldwide known high-tech textile company manufacturing and selling Italian made technical woven fabrics for fashion, sports, medical and other high-tech sectors. Since its inception the company exported about 50% of its turnover in Germany, Austria, France, UK, USA and other countries and until 2002 operated a fully owned US subsidiary. In its history the Company has been supplying the most important fashion companies such as Armani, Tod's, D&G, Patrizia Pepe, Max Mara, Change, Napapijri, Hugo Boss, Polo Ralph Lauren, Diane Von Furtenberg, Closed, Zenobia. The Company also supplied the sports industry (Colmar, Bogner, Spyder, Ellesse, Schoeffel, Dubin, Belfe, Speedo, Tyr, Akron, Jaked, Mizuno, Blue Fusion, Sundek, Swimwearanywhere, Hom, Faconnable, Triumph, Alaska, Animo, Chervò, Sparco, Alpinestar, Sabelt, Dainese and others) as well as other industries such as the medical wear, the protective work wear, the space industry and others. The Company is worldwide known for its high performance fabrics, quality, customization and "Made in Italy" and because sponsored sports teams to develop new products. Four years ago the Company suffered a financial distress caused by a mix of reasons and is currently operating under a creditor protection scheme of Italian law.

Background

Until the end of the last century, the Company only supplied the fashion industry that had been growing constantly for over two decades. In 2000 machinery investments were made with bank loans, turnover and bank debt were both about €24mm. Average price per meter of product sold was €7 with sales in excess of 3.5 millions of metres. From 2001 to 2005, turnover decreased to €9mm because of Asian entrants, further to that the company changed its target market and production bounced back to €14mm with an average price of product sold of €14 per meter. During those years the number of staff decreased from 120 to 65. The following global financial crisis hit the Company hardly as banks progressively closed their credits lines. In 2006 the Company had about €13mm of credits lines, at the beginning of 2010 only €3mm and from March 2010 none. In 2010 the Company sold products for about €2.5mm to the Italian Army who did not pay its invoice. Notwithstanding, the Republic of Italy issued fines to the Company for unpaid tax and VAT. Subsequently the Company filed a lawsuit and the matter took wide national media attention. The dispute is still ongoing although the invoice was later partly paid. As a consequence, in 2011, the Company proposed a composition with creditors agreement that was admitted by a Northern Italian Court in March 2013 and approved in October 2013 by the creditors. This Army deal caused problems not just to the Company but also to other 4 partners who had entered in a JV for the Army tender. One partner went went bankrupt about a year ago.

During all those difficult years the Company never stopped manufacturing and delivering products although has not been supported by any bank facility. Since 2010 it has been operating with positive EBITDA under a creditor protection scheme that froze the Company non-operational debentures. The Company was leased to an Italian large group in September 2012 with an option to purchase the Company's assets at a later stage. However, the Group later suffered a financial distress and did not fulfil its obligations toward the Company. According to the law, the Court is willing to resolve the lease contract and that implies that the purchase option will expire. Both the Company and the Court agreed to take legal action against the Group.

Investment

The law allows to purchase the existing Company or its assets. Each option has different tax and legal implications.

The composition with creditors agreement includes a cash payment of €2.100.000 to the Court that in turn will serve the creditors and about €500.000 of pension liabilities that the investor should take over together with the purchased assets.

Terms of payment of Italian composition with creditors deals are negotiable with the Court procedure. For instance, the €2.100.000 can be paid in one year, later or with instalments. In all the event the the business can be taken over at closing with a lease contract giving full right to run it immediately. In the events of deferred payments the Court will seek for a solid guarantee.

The Company is currently operating without any bank facility and, since 2010, is running a positive EBTDA.

Since the composition with creditors payment can be deferred, the actual €2.100.000 equity injection can serve the Company financial needs for year one. Hence, no bank facility or other short term financing is needed in year one for running the business in addition to the initial equity.

Rescue Partners has produced a full three years business plan and is available to discuss terms with interested potential investors.

Real estate, stock, and other assets

The Company's factory was surveyed in November 2011 and valued over €9mm, the outstanding leasing debt is around €4.5mm. The industrial complex is located not far from Milan, totals 19.000 sqm of which 13.000 sqm of constructed buildings. The Company has an offer from an investor to buy a plot of 7.500 sqm for about €1.2mm. The leasing contract can be renegotiated.

The Company owns about 80.000 kg. of yarns and about 1.000.000 mt. of fabrics. Management believes such stock is worth in excess of €2.5mm while plant and machineries are worth in excess of €1.9mm. Not considering the implicit real estate value owned by the Company, management believes the Company owns €4.400.000 of physical assets. In addition the Company owns other intangibles assets and runs a positive EBITDA business.

Business reorganization

The Company currently employs about 28 staff to deliver a yearly production of 500.000 meters at an average price of €14. The Company has a reorganization plan to save on employment costs and plans to keep, in-house, all business function such as purchases, lab-tech, quality control, sales and back office. The Company only lacks good managerial resources to perform a proper financial management and control.

Sales and business strategy

The Company is globally known and the uniqueness of its production recognized. However, because of the financial distress the Company has not been able to develop its potential internationally for lack of funding and its business has actually imploded. Management believes that once the financial health is re-established old client will immediately start purchasing products.

The Company targets the so-called Technical Textiles and Smart Fabrics and Interactive Textile (SFIT) sector. SFIT or intelligent textiles represent the next generation of fibres, fabrics and related items. Some advanced clothing for protection, safety, fashion or comfort are being developed while this new market is at its early stage.

The Company has developed strategies in the nanosphere, nanotechnologies, plasma treatment and other innovative technologies such as producing fabrics for wearable T-shirts designed for eHealth applications (tele-monitoring of vital signals for chronic patients and athletes and tele-consulting of parameters remotely monitored). Smart fabrics can also be used in other sectors such as ergonomic chairs and seats for different purposes. Excellent prototypes of such products have been tested and the business line is ready to be launched.

Competition

In 1956 the Company founder invented the two way stretch fabrics and was appointed the “king of lycra” for decades. Since then, the Company originated innovative fabrics every year using new fibers, new textile and finishing processes. The Company owns of 1 of the 2 cold plasma machines available in Europe and truly compete only with only one Swiss player. Other players present in the European market just partially compete while Asian and US players are not organized to compete with the Company.

Financial projections

Figures are extracted form the Rescue Partners business plan

In € x Mil.	Year 1	Year 2	Year 3
Revenues	4,5	5,5	7,5
EBITDA	0,5	0,8	1,5
Pre-tax profit	0,3	0,4	1,1
Net debt	0	0	0
Net Equity	2,2	2,5	3,2
EV	3,6	6,1	11,5

Ongoing legal actions	The Company also offers an upside potential for the extraordinary income deriving from certain legal actions undertaken against various parties.
Composition with creditors procedure **The Italian law**	The Italian bankruptcy law welcomes equity investors in composition with creditors procedures. An investor helping the Company to emerge from distress ranks in top priority (either 100% or 80% depending on the investor profile) in any subsequent bankruptcy when a liquidation would firstly serve the rights of the rescuing investor.
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