"Transaction Ready" als Prinzip der strategischen Unternehmensführung

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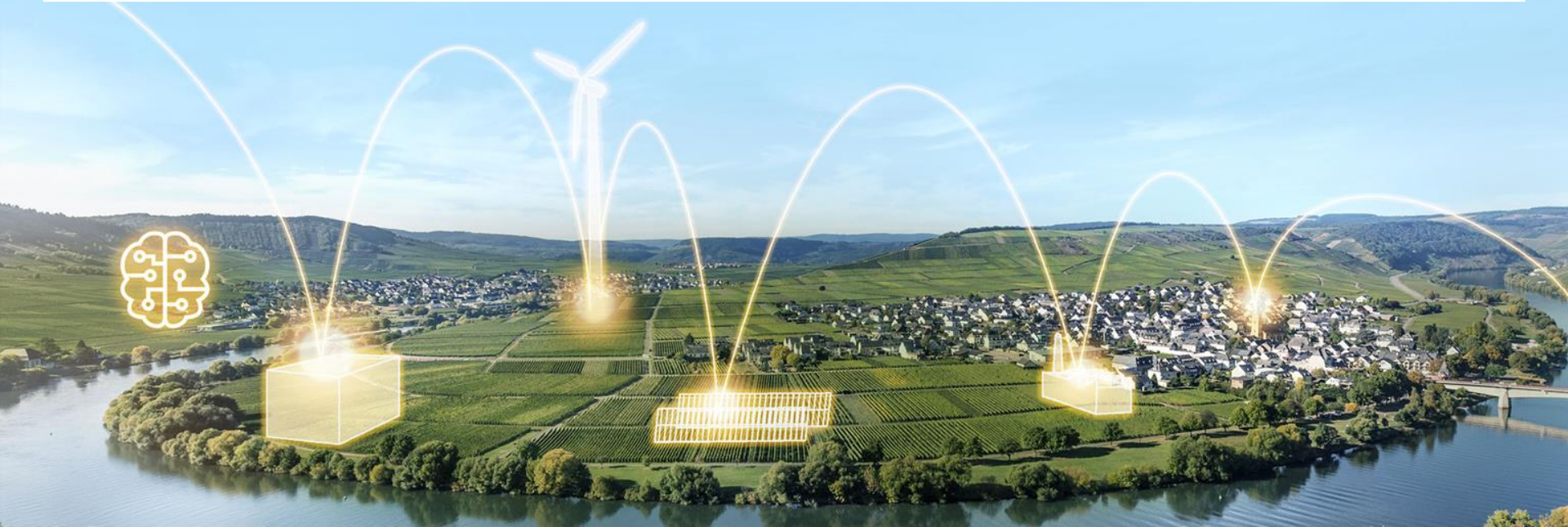

Intro: Is your company transaction-ready?

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- Your KPIs and incentive systems are strongly focused on EBIT/EBITDA ☑
- Management takes a lot of care for one-off effects and how to properly present them to stakeholders ☑
- Historicals for the last 5 years are not comparable (e.g. due to restructuring), you rather focus on budget deviations ☑
- Controllers analyse earnings, based on reporting packages entered into the consolidation systems ☑
- Your plan figures seem to realistic, however the drivers are not always transparent or consistent ☑

There is a good chance, that your company is not (fully) transaction ready ⚠

Alpiq in a nutshell

ALPIQ

Active in 30 European countries

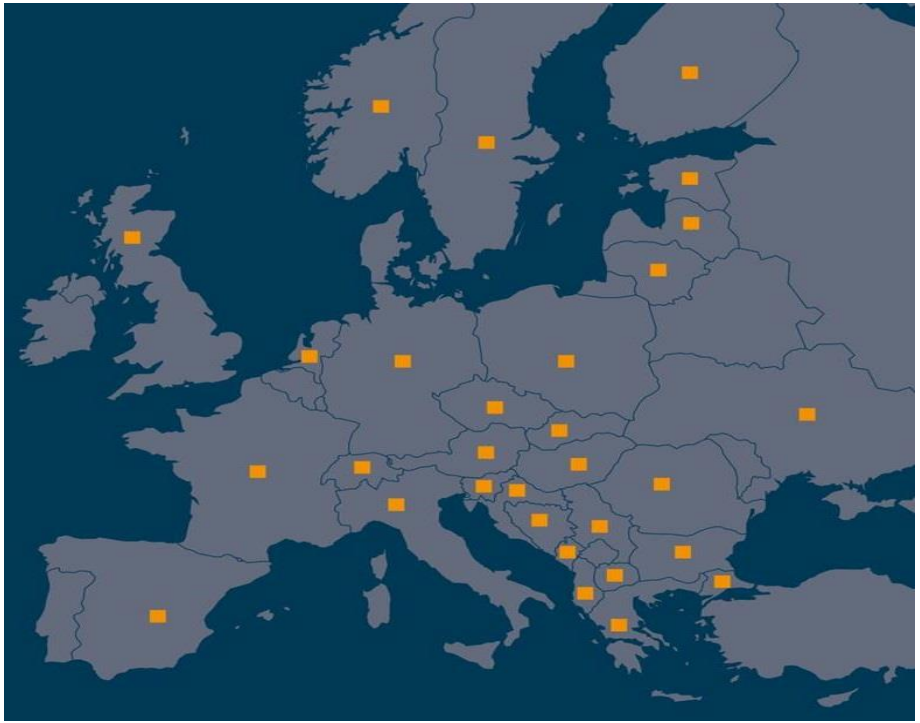
Net revenue 2018: CHF 5.2 bln.

EBITDA before exceptional items: CHF 166 million

Approximately 1’550 employees

Headquarters of the company in Lausanne (Switzerland)

Listed on the SIX Swiss Exchange



Energy sector – fundamental changes

Energy sector – fundamental changes
Mega trends …

Megatrend: decentralisation

- Decentralisation causes grid instabilities
- Rising demand for flexible power production
- Alpiq well positioned across Europe with its highly flexible power plant portfolio

Megatrend: decarbonisation/denuclearisation

- Decarbonisation/denuclearisation results in fewer conventional power plants
- Trend towards electricity bottlenecks and increase in price peaks in Europe
- CO_2-free hydropower is the key to the energy future

Megatrend: digitalisation

- Digitalisation turns the energy market upside down
- New business models developed from customers' point of view
- Alpiq well positioned as an early mover in the energy industry

… drive a revolution of today's energy business.

ALPIQ

- Prosumer
- Diversified energy producer with central <u>and</u> decentral production assets
- Digitalisation: Algorithmic Trading, new high-scalable services, platforms, digital value chain end-to-end

1. **Massive de-leveraging of the industry**
2. **Investments in new businesses, technologies and infrastructure, new cooperations**

Alpiq business model evolved

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Diversification, hedges and scope

Historical core business

Production

Decentralised production by third parties

New renewable energies

International thermal production

Swiss production (hydropower and nuclear power)

Marketing

Digital solutions

Origination and retail

International electricity trading

Asset optimisation

Customers

Prosumer

Grid operators

Industry and commerce

Utilities

De-Leveraging by Divestments
Alpiq has a track record of M&A transactions

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- A2A
- Energiever-sorgungstechnik
- Edipower
- Energ.It S.p.a.
- Energiakolmio OY
- Kraftwerk Havelland GmbH
- Nant de Drance SA (15%)

- Swissgrid (Netzübertrag)
- Repower
- SES SA
- Alpiq Réseau SA
- Madland Kraftverk AS
- Monthel

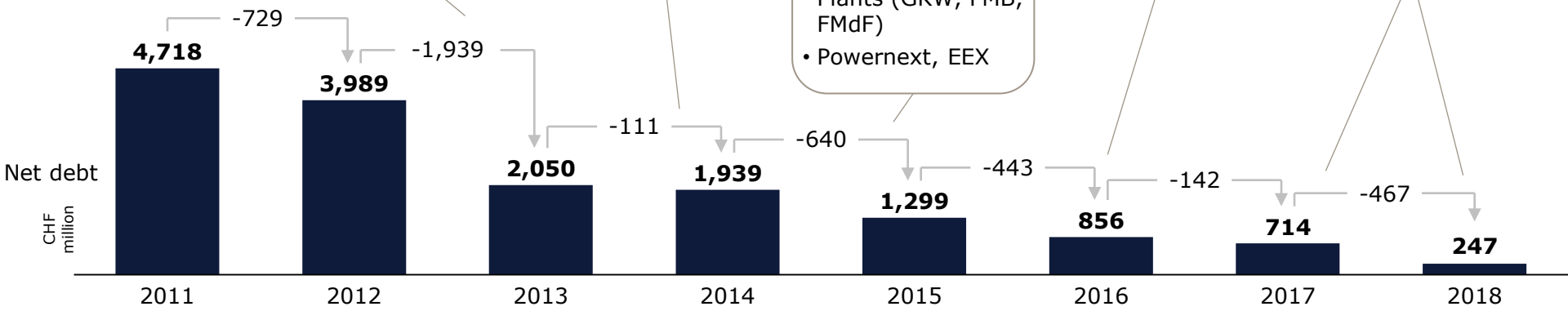
- Kraftszer Kft.
- Swissgrid (loan tranche)
- Dünnern Kraftwerk AG

- Bayet (3CB SA)
- Alpiq Hydro TI SA
- Sabloal Energie Eoliana S.R.L.
- Sevre Kraftv. AS
- Ytre Oppedal Kraftverk AS
- Swissgrid shares & loan
- Hydro Power Plants (GKW, FMB, FMdF)
- Powernext, EEX

- Alpiq Versorgungs AG (AVAG)
- AEK Energie AG
- Romande Energie Commerce SA
- Swissgrid AG
- Project- & Power Plant portfolio Norway

- 2017:
- Tysvaer Vindp. AS
- Aurica
- EW Goms AG

- 2018: Engeneering Services



→ Net debt reduced by 4’500 MCHF, 26+ divestments

Transaction Ready

Transaction Ready
Why is it a management principle?

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Outside Perspective
"Best Owner"

- Business shall be owned by whomever can generate the highest cash flow out of it
- Windows for attractive M&A transactions open and close on short notice
- Best price and low transaction costs, if «homework» is done

Inside Perspective
"Return on Capital"

- Management actions supporting M&A often in line with ROIC enhancement
- Company must exploit all synergies & potentials to assess if it is best owner
- Focuses Management on value creation

Transaction Ready
Equity value is the key parameter!

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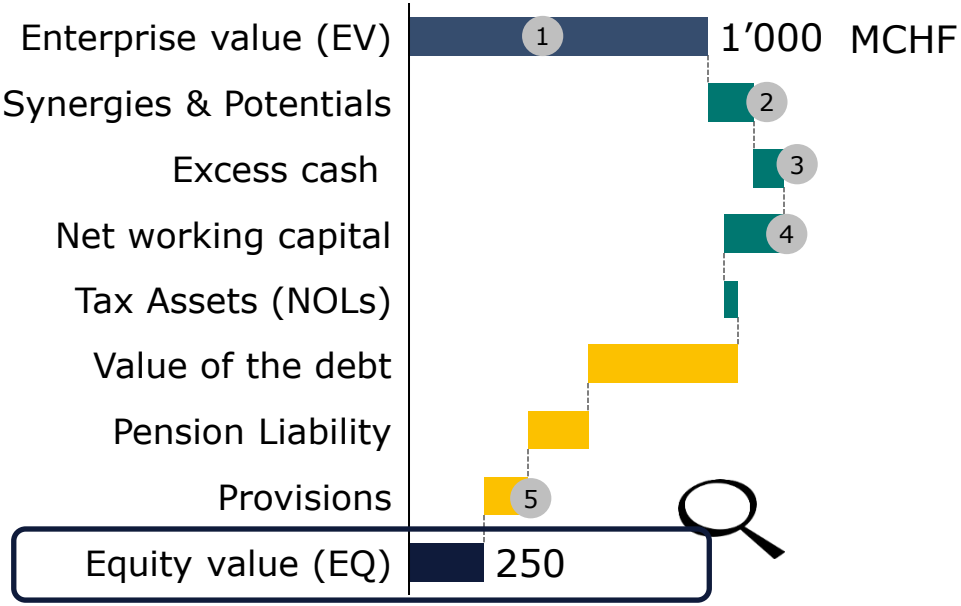
Illustrative– Typical Valuation items in M&A-Transactions



1. Based on repeatable FCF & EBITDA
2. Eventually paid based on plans presented
3. Is a Cash residual after operating is deducted
4. Deviations to "Normal" NWC levels
5. Risks are always deducted

Management focusing on Equity value will also increase the return to the shareholder (even w/o M&A transaction)

Key Concept: Due Diligence (DD)

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	Key questions of the DD	Who usually performs the DD
Financial Due Diligence	• What is the past & present performance of the company	• Transaction advisory team of a consulting firm (EY, PWC, DT, KPMG)
Commercial Due Diligence	• What is the likely future performance of the company	• Strategy team of a consulting firm (McKinsey, EY etc.)
Tax, Legal Due Diligence	• Are there any e.g. legal or tax issues or opportunities the buyer hat to be aware of?	• Experts of e.g. law firm or tax consultants

Tools applied contribute significantly to informed decision making in M&A

Transaction Ready
Management principle & Framework

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Organisation & Culture focused on value generation

KPI & Incentives	Business Plan	Risk Items	Net Work. Capital	Synergy & Efficiency
"Normalized & Cash flow"	"Observable drivers"	"Ring-fenced & addressed"	"Levels & swings"	"Potentials realized"

«Transactionable» Management & Legal structure

Integrated Planning & Reporting systems

Transaction Ready
M&A methods to drive internal processes

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Organisation & Culture focused on value generation

DD	DD	DD	DD	
• Quality of Earnings	• CYT/FYO • Commercial	• Tax • Legal • Pension	• Cash & Debt items • NWC	
KPI & Incentives	**Business Plan**	**Risk Items**	**Net Work. Capital**	**Synergy & Efficiency**
"Normalized & Cash flow"	"Observable drivers"	"Ring-fenced & addressed"	"Levels & swings"	"Potentials realized"

«Transactionable» Management & Legal structure

Integrated Planning & Reporting systems

KPIs & Incentives
Budget Bridge vs.Quality of Earnings (QoE)

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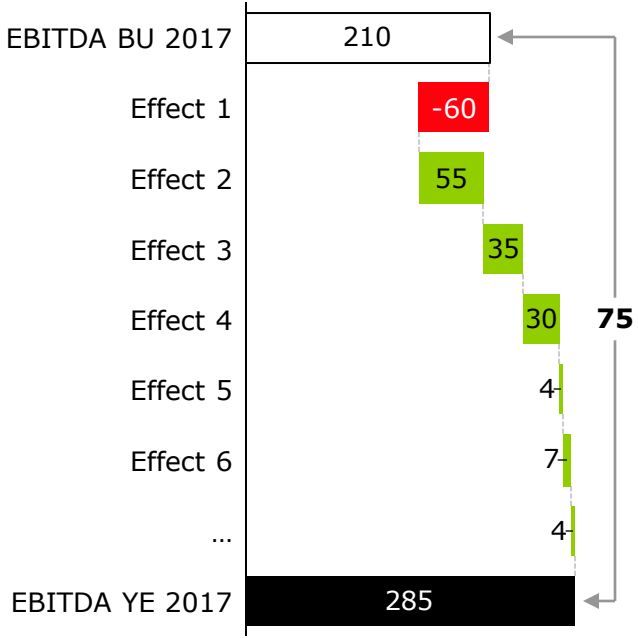
Budget bridge



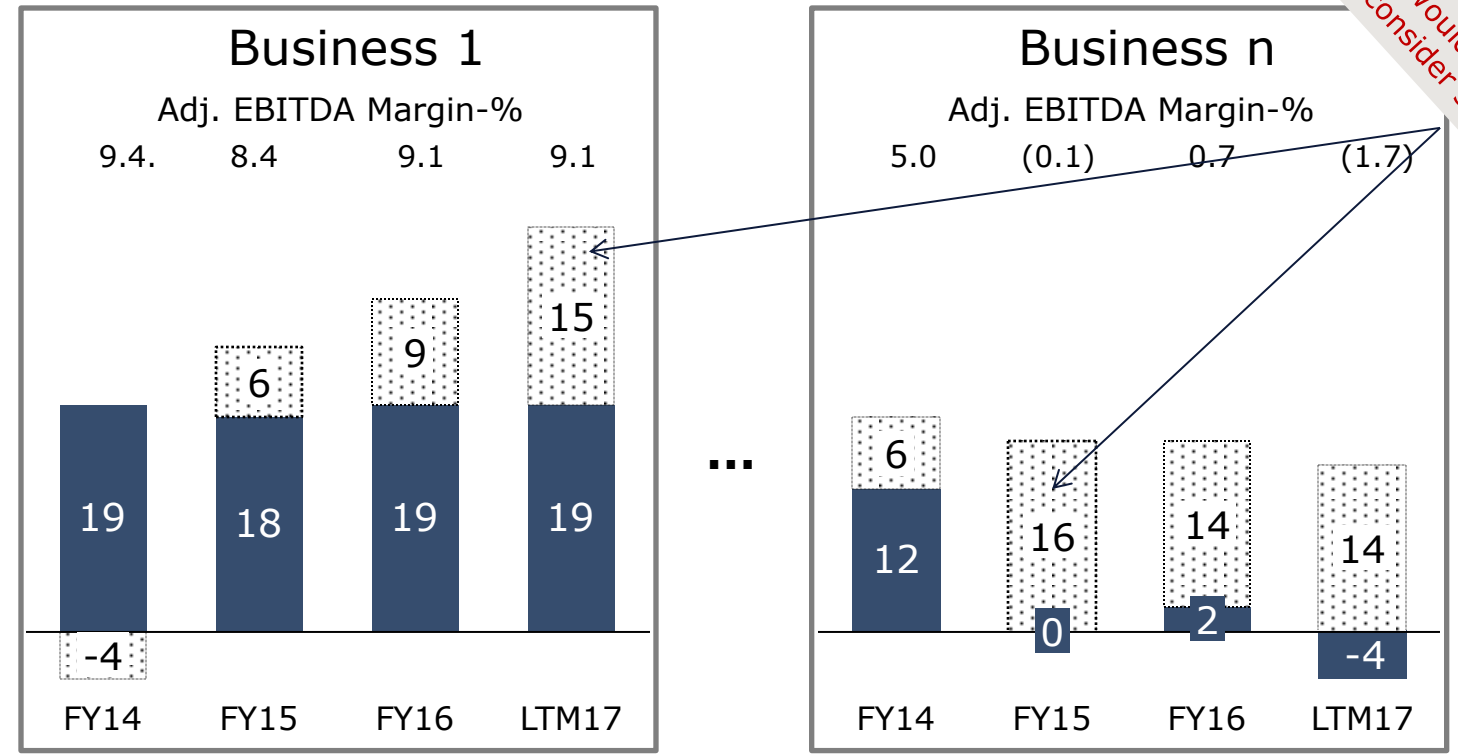
Focus is explaining!
«Often lost in details»

QoE analysis aims at identifying the proportion of the earnings that are readily repeatable over a series of reporting periods.

Items to be corrected are

- special and non-recurring
- not in the correct period
- derived from the application of aggressive accounting
- not backed by underlying operating cash flow

KPIs & Incentives
How to analyze and present earnings

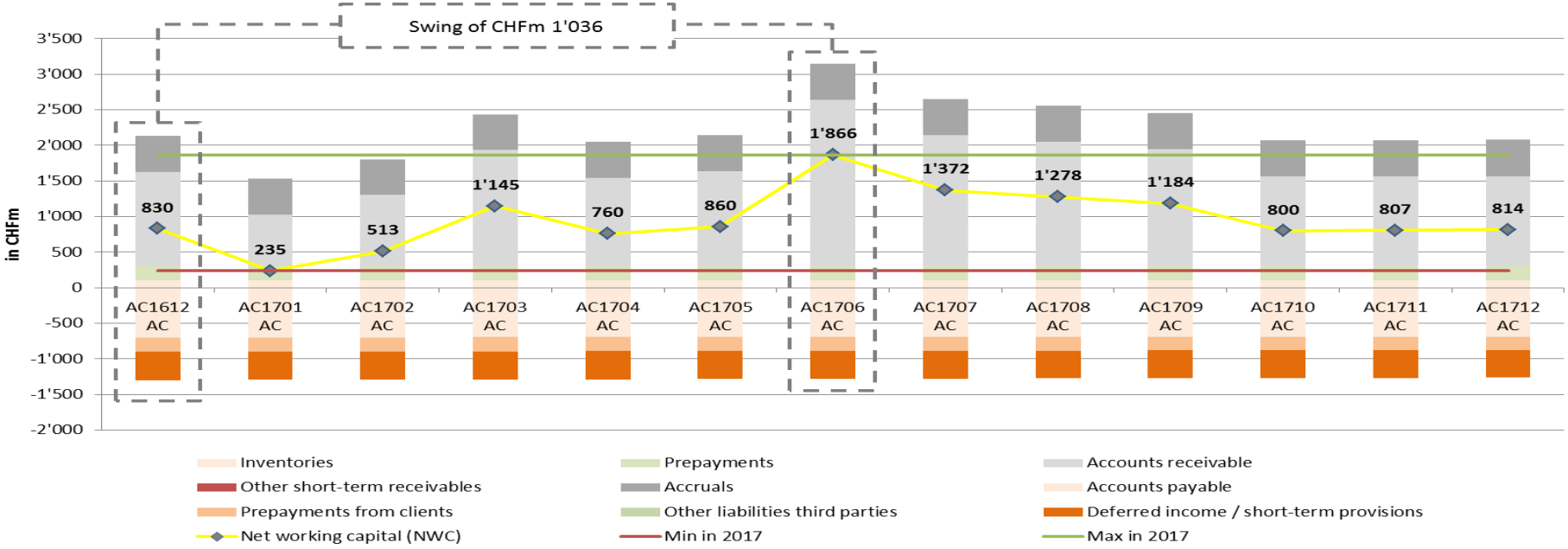


In case of doubts: Would an investor consider such items?

QoE-Adjustments

Normalized (recurring) earnings

Net Working Capital
Understand development and drivers



High NWC levels = Lower ROIC
High swings = High Operating Cash needs

Net Working Capital
What the CFO/Controllers can do?

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- Split the B/S per business not legal entities
- Create awareness («Talk the B/S»)
- Set up appropriate analysis (f.e. «B/S roll-forward per Business»)
- Implement appropriate O2C- and P2P-Policies (f.e. Min/Max payment targets)
- Allow investments in back office processes (f.e. to enable continuous invoicing and ordering)
- NWC KPIs and reporting
- Embed NWC in the incentive system
- Value oriented B/S management (f.e. factoring overdue receivables to a “better owner”)

Summary – Transaction Ready
Things that worked well in Alpiq

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1. Finance Business Partner Organisation focused on cash flow enhancement. Recurring activity centralized in SSC
2. Central Finance organisation under CFO line ensures transparency und efficiency
3. Dedicated planning & modelling team for strategic initiatives
4. Integrated system (oneMIS), allows Controllers to drill to the single invoice and reveal QoE Adjustments
5. VDD for internal purposes –
   ”you know what you really have”