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## **Ambar's Corporate Turnaround: From Insolvency to Expansion**

Roman Vadimovich Konoplev

Master in Finance

Supervisor:

Professor Rui Manuel Meireles dos Anjos Alpalhão, Associate Professor, ISCTE  
Business School, Finance Department (IBS)

October, 2020



BUSINESS  
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## **Abstract**

In 2013, at the Commercial Court of Vila Nova de Gaia, was being discussed Ambar's insolvency, after 30 workers had filed a request for insolvency of this Portuguese stationery company. Ambar was extremely indebted, the production had come to a halt, the company had no raw material to work with and its employees had not been paid for several months. Six years later, in 2019, the company was selling to more than 500 clients in 25 countries, exporting 40% of total sales, and planning to invest €10 million to expand its business and to develop a sustainable growth strategy. With the present Case Study, we aim to explore the concept of Corporate Turnaround in a simple and engaging way, with the intention of inviting Master's students to participate in the Case Resolution, by choosing a real-life example. In order to do so, this project follows the process since the first signs of distress until the insolvency process, and explores the successful recovery of Ambar and the company's expansion. By providing a detailed analysis of Ambar's external factors, describing the insolvency procedures in Portugal, offering an analysis of the Corporate Turnaround Process, discussing the implemented measures and other factors that contributed for the recovery, and given the 2020 worldwide pandemic situation - with an increasing amount of company failures and growing unemployment -, this Project presents an additional value for companies in similar conditions and may be used as a helpful guide.

JEL Classification: G30, G33

Key words: Corporate Distress, Insolvency, Liquidation, Corporate Turnaround

## Sumário

Em 2013, no Tribunal de Comércio da Vila Nova de Gaia, estava a ser discutida a insolvência da Ambar, após 30 trabalhadores terem apresentado um pedido de insolvência desta empresa de papelaria Portuguesa. A Ambar estava extremamente endividada, a produção estava parada, a empresa não tinha matéria prima para trabalhar e os trabalhadores não tinham sido pagos durante vários meses. Seis anos depois, em 2019, a empresa tinha mais de 500 clientes em 25 países, exportava 40% das vendas totais, e planeava investir €10 milhões para expandir o seu negócio e desenvolver uma estratégia de crescimento sustentável. Com o presente Estudo de Caso, pretendemos explorar o conceito de *Turnaround* Empresarial de uma forma simples e cativante, com a intenção de convidar os estudantes de mestrado a participar na sua resolução, escolhendo um caso real. Para tal, este projeto segue o processo desde os primeiros sinais de dificuldade até ao processo de insolvência, e explora a recuperação bem-sucedida da Ambar e a expansão da empresa. Ao providenciar uma análise detalhada dos fatores externos da Ambar, descrever os procedimentos de insolvência em Portugal, oferecer uma análise do processo de Turnaround Empresarial, e discutir as medidas implementadas e outros fatores que contribuíram para a recuperação, e tendo em conta a situação pandémica mundial de 2020 - com um crescimento de falências de empresas e crescente desemprego -, este Projeto apresenta um valor adicional para as empresas em condições semelhantes e poderá ser utilizado como um guia.

Classificação *JEL*: G30, G33

Palavras Chave: Crise Empresarial, Insolvência, Liquidação, *Turnaround* Empresarial

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## 1. Case Exposition

“Ambar at the end of the line after leading school fashion with one hundred workers” (Ambar em fim de linha após liderar a moda escolar com mil trabalhadores), (Jornal de Negócios, 31/05/ 2013).

2013. One of the oldest Portuguese stationery companies and once one of the greatest Portuguese companies, Ambar, is on the verge of liquidation. The company's situation is constantly discussed in the media. Two directors, Rosa Magalhães and Mário Pinto are trying to avoid the extinction of Ambar. Will they succeed?

### 1.1 History

The company history will be divided into three parts to provide a distinction between the different stages that the company passed through. The stages correspond to two different management teams - founder Américo Barbosa followed by his daughter Isabel Barbosa -, with the last stage staying undefined until the case is solved, given the uncertainty in the company's future.

#### 1.1.1. Stage I - Creation and Management by Américo Barbosa

Ambar was founded in 1939 in the city of Porto by Américo Barbosa, having bookbinding and production of small-scale equipment as its main activity. During the first years the company gained its share on the market and, in 1947, due to impressive growth, the company was covering the entire Portuguese territory and selling in Angola, at the time a Portuguese colony.

Throughout the years, Ambar executed several capital expenditures (CapEx) and invested large amounts in the newest technologies to adapt its production capacity to the growing demand for its products and to extend its portfolio.

The first major capital expenditure was performed in 1966. From bookbinding, the company expanded to production and specialization of a vast majority of stationery products and other office utensils. Due to the growing labour need, before completing thirty years, in 1968, the company employed one thousand workers, a relevant number for a Portuguese company in the sixties. Additionally, given the significant company size and its market share, Ambar decided to distinguish its brand as one of the most important assets of the company, the promotion of which would be supported by two factors: quality of the produced goods and quality of the service.

In 1976, a fire destroyed the only manufacturing facility of Ambar, forcing the company to start from zero. Given the experience in the stationery industry, and the solidarity spirit among the workers, Ambar managed to give a quick response to the incident and performed several investments in the newest technologies gaining competitive advantage.

The first non-Portuguese subsidiary was created in 1987, in Madrid, with the purpose of facilitating expansion to the Iberian and central European markets. Additionally, in the same year, there was an expansion to the African market.

As a result of another major investment performed by the company, in 1993, Ambar became one of the first companies in Portugal to have a robotic warehouse - installed in Lisbon, to facilitate storage and distribution of its goods.

In 1996, Américo Barbosa, the founder of Ambar died, and the ownership of the company was passed to his daughter, Isabel Barbosa. Due to Américo Barbosa's efforts, throughout the years the company had gained a significant market share and had become one of the leading stationery companies in Portugal.

### 1.1.2. Stage II - After Américo Barbosa

After having been appointed Chairwoman, in 1996, Isabel Barbosa became the company's CEO in 2001. Additionally, in this year, another investment was performed in the new information system SAP R/3. The system was implemented to provide automation and simplification of the processes, the ultimate objective of the company being to maintain its leading position in the industry and to facilitate the expansion to new markets.

“Ambar S.A - Ideas on Paper” was created in 2004 to materialize and communicate to the market the reorientation of the company. There were some visible changes in the brand, including aesthetically more attractive products and new design, among others. Additionally, the new guidelines were defined by three vectors: Exportation, Investigation & Development, and Marketing & Communication.

Finally, in 2010, Ambar decided to reorganize its production and to focus on three different business niches: School, Office, and Home.

### 1.1.3. Stage III - Insolvency

In 2013, Ambar was one of the oldest companies operating in the stationery industry in Portugal and one of the most experienced and versatile in the field. During its 74 years, the company received several awards and client recognition for its outstanding position on the market and excellent products.

In 2013, Ambar was present in more than 30 countries, as a result of continued management effort to develop the best stationery products in the market and to demonstrate the competitive strength of a Portuguese company in several foreign markets.

Nonetheless, in 2013, 30 employees of Ambar filed an insolvency request with the Commercial Court of Vila Nova de Gaia.

## 1.2 PESTLE

PESTLE analysis facilitates the identification of external factors affecting the company and incorporates political, economic, social, technological, environmental, and legal categories.

Given the volatility of the external factors, in order for this analysis to better represent the current situation of the company, it must be studied for a specific moment in time. For this case study, the PESTLE analysis will be performed for the year of 2013, when the managers faced the insolvency request and had to analyse the situation to start Ambar's turnaround.

### 1.2.1. Political

A democratic regime (parliamentary democracy) was re-implemented in Portugal after the Portuguese Carnation Revolution of 25 of April, in 1974. Since then, the country has been known by being a stable nation where freedom of expression exists and where the Universal Declaration of the Human Rights is upheld. The Portuguese hymn ("A Portuguesa") and the Portuguese Flag are the two most important symbols of the country which are highly respected and protected by the population.

The Portuguese Constitution defines the President of the Republic as one of the two sovereign bodies elected by universal suffrage. At the time of Ambar's organizational distress, the President was Aníbal Cavaco Silva from *Partido Social Democrata* (PSD). The second sovereign body is the Assembly of the Republic, which is composed by 230 representative members of their parties.

Besides this, the fact that Portugal is one of the members of the European Union (EU), since 1986, attracts foreign investors. The globalization being felt, the idea of fair trade and less barriers to trade around Europe have been factors responsible for attracting foreign

investment. The regulation applied for the countries of EU is the same for all of them and the stability of a country is considered as a favourable indicator that diminishes the chance of a major variation of the value of investors' portfolios.

### 1.2.2. Economic

The economic crisis that occurred between 2008 and 2009 may be identified as the main external factor that explains failure and bankruptcy of many companies. In Portugal, the consequences of this crisis endured for several years being its effects still felt in 2013.

The analysis of economic indicators such as unemployment rate and Gross Domestic Product (GDP) growth rate may provide a better understanding of the external post-crisis economic context in Portugal. Additionally, the contribution of the manufacturing industry for the Portuguese GDP and the importance of Small and Medium Enterprises (SME) for this economic indicator will be accessed.

The unemployment rate directly affects the purchasing power of the Portuguese population - the higher unemployment leads to the diminishing amount of money available in the families. As seen in Figure 1, the unemployment rate was around 8% of the active population in 2008, while in 2013 it grew more than twofold to almost 18%.

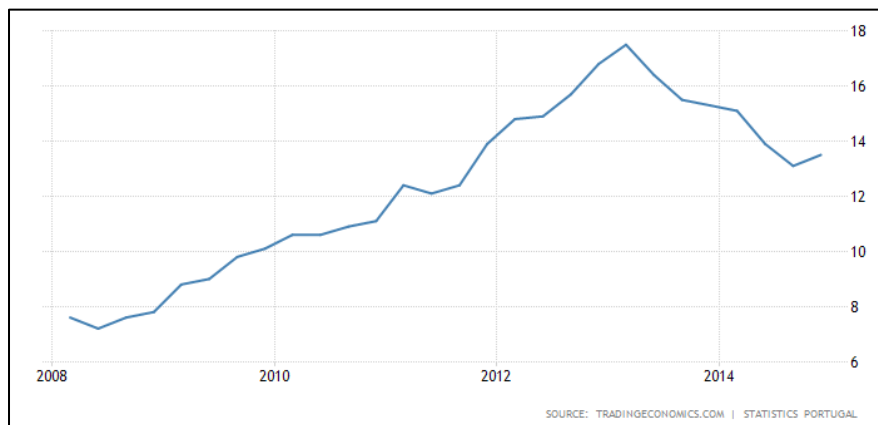


Figure 1 Portuguese Unemployment Rate (%). Source: Trading Economics.

By performing an analysis of the Portuguese GDP annual growth rate evolution presented on Figure 2, it is possible to observe that the economic contraction started in the last quarter of 2008 and presented an improvement in 2010. In the beginning of 2011 the rate turned negative, recovering only in the last quarter of 2013.

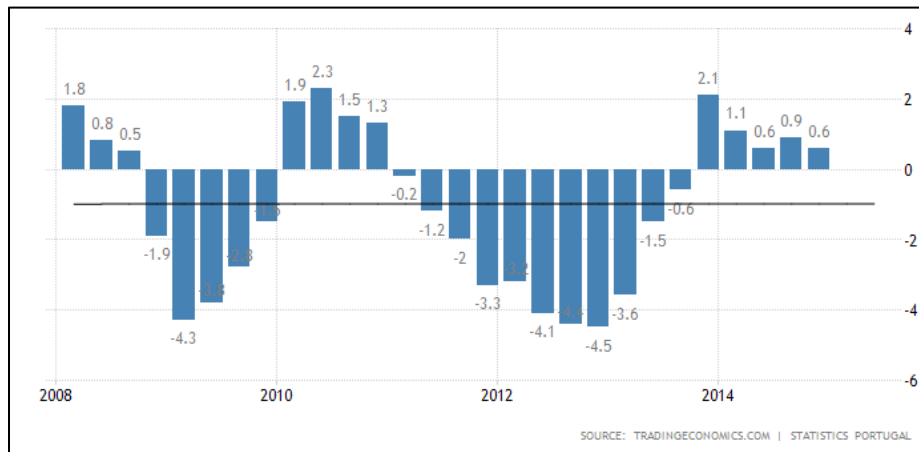


Figure 2 Portuguese GDP Annual Growth Rate (%). Source: Trading Economics.

Moreover, as can be seen on Figure 3, in the beginning of 2013, the manufacturing industry contributed with €5,3026 billion to the Portuguese economy, representing 2,34% of the global GDP of €226,37 billion. Given the fact that Portugal is a developed country, primary and secondary sectors have a lower weight than the service sector.



Figure 3 Portuguese GDP From Industrial Production (€M). Source: Trading Economics

Finally, from Figure 4 and Figure 5, retrieved from Pordata, it is possible to identify the large weight of SMEs on the Portuguese economy. In 2013, SMEs represented 99,9% of all enterprises and contributed with €48,18 billion for the Portuguese GDP.

Years	Small- And medium-sized enterprises			
	Total	Micro	Small	Medium
2008	± 60,471.4	± 21,797.7	± 19,612.8	± 19,060.9
2009	57,957.3	21,410.7	18,319.3	18,227.3
2010	56,853.9	20,310.9	17,958.8	18,584.1
2011	52,814.3	18,137.6	17,260.3	17,416.4
2012	47,345.7	16,038.3	14,919.8	16,387.5
2013	48,183.3	15,869.3	15,767.2	16,546.8
2014	49,450.6	16,714.7	15,694.0	17,041.9

4  
 Gross value added in small and medium-sized enterprises: total and by size  
 Data Sources: INE - Integrated business accounts system  
 Source: PORDATA  
 Last updated: 2020-02-18

Figure 4 Gross Value Added in Portuguese SMEs: total and by size (€M). Source: Pordata

Years	Size		
	Total	Small- and medium-sized enterprises	Large
2008	± 1,261,452	± 1,260,302	± 1,150
2009	1,223,578	1,222,488	1,090
2010	1,168,265	1,167,168	1,097
2011	1,136,256	1,135,153	1,103
2012	1,086,915	1,085,894	1,021
2013	1,119,447	1,118,427	1,020
2014	1,147,154	1,146,119	1,035

4  
 Enterprises: total and by size  
 Data Sources: INE - Integrated business accounts system  
 Source: PORDATA  
 Last updated: 2020-02-14

Figure 5 Number of Enterprises in Portugal: Total and by Size. Source: Pordata



1.2.3. Social

According to statistics retrieved from Pordata, in 2013, the Portuguese population was 10 473 025 represented in the age pyramid displayed on Figure 6.

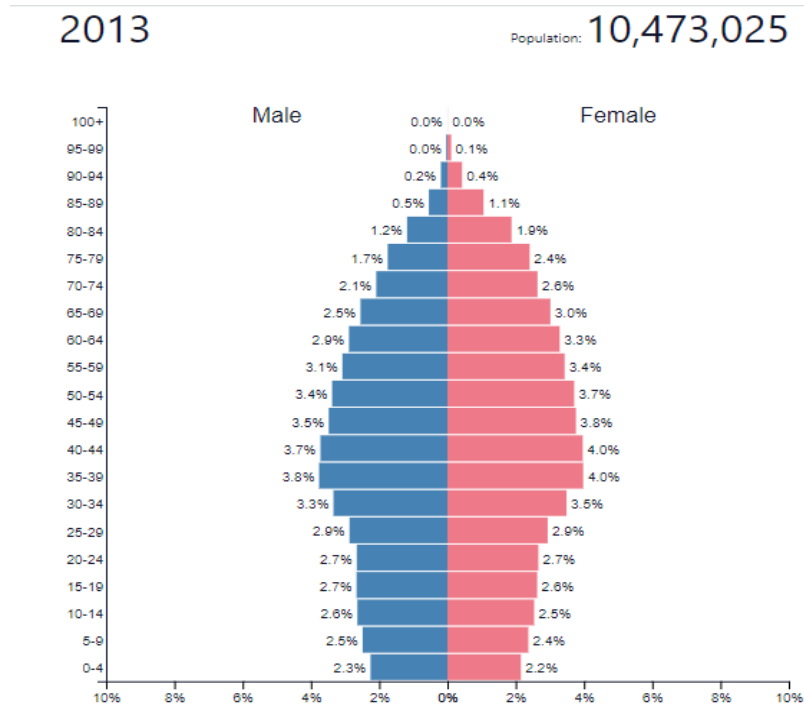


Figure 6 Portuguese age pyramid (2013). Source: Pordata

The analysis of the contracting pyramid from the figure above indicates the aging tendency of the Portuguese population which results from diminishing number of newborns - caused by family planning -, and advances in the medicine, that allow an increase of the life expectancy. The demographic trends require the companies to adapt to the necessities of the population and to define the client target for its products. Ambar’s revenue is directly affected by the aging population since the demand for the school products decreases.

The modification of population habits and the identification of social trends also represent a major interest to the companies. During the twentieth century the illiteracy rate

in Portugal suffered a drastic decrease as a result of the introduction - and the successive increase - of the compulsory education (which led to the reduction of the school dropout) and the investment in education. As displayed on Figure 7 since 1970 the illiteracy rate dropped from 25,7% of the Portuguese population older than 10 years old to only 5,2% in 2011. The lower illiteracy rate leads to the larger demand for the stationery products.

Years	Sex		
	Total	Males	Females
1960	x	26.6	39.0
1970	25.7	19.7	31.0
1981	18.6	13.7	23.0
1991	11.0	7.7	14.1
2001	9.0	6.3	11.5
2011	5.2	3.5	6.8

4  
 Illiteracy rate, according to the Census: total and by sex  
 Data Sources: INE - X, XI, XII, XIII, XIV and XV  
 General Population Census  
 Source: PORDATA  
 Last updated: 2015-06-26

Figure 7 Illiteracy rate in Portugal: Total and by Sex. Source: Pordata

Additionally, the stationery industry tends to show seasonality, with higher demand during the academic year. This creates a necessity to produce goods and services that present a constant demand during the year, to avoid major losses in the off-peak periods, being also possible to export products to countries with different type of seasonality.

#### 1.2.4. Technological

In 2013, the favourable location of Portugal, lower rents, and cheaper and highly qualified human resources, along with the existent sustainable technological innovation,

drew the attention of foreign investors - which, eventually, led to the hosting of the Web Summit, in 2016, and the accommodation of digital hubs of large companies (such as Volkswagen and Mercedes). In other words, Portugal has been capable of constantly adapting and innovating on technologies.

This continuous technological innovation requires companies to quickly adapt to new trends in the production, by investing in human resources through education. Firms specialized in paper printing and stationery products, in general, may suffer significant losses with the implementation of e-papers and other stationery substitutes that appeared as a result of the innovation of new technologies in Portugal. These trends are leading new technologies to have a higher attractiveness to the new generation - since it allows the performance of diverse tasks using only a computer or smartphone -, and will eventually lead to obsolescence of paper products (such as notebooks).

On the other hand, one way that Ambar can use technology in its favour is to invest in product customization (for example, by using laser technology), which will lead to products that are more attractive for its customers than the original standard goods. Additionally, in order for the company to follow the innovative trend and to obtain competitive advantage, it is necessary to invest continuously in the newest technologies and machinery.

#### 1.2.5. Legal

Portugal is a State in which upholds the Rule of Law, and one of the countries with the longest Constitutions in the world (*Constituição da República Portuguesa*).

All the companies with activity in Portugal need to follow the Trade and Companies Codes, which stipulate the practices and the mandatory rules to be followed by the companies to conduct business activities in Portugal.

Ambar, as a Portuguese company with activities in Portugal, needs to follow the rules stipulated by the Portuguese Government as well as the guidelines stipulated by the EU.

Moreover, the growing concern with the environmental changes is also enforced through environmental laws and regulations that must be followed.

#### 1.2.6. Environmental

Due to the higher concern with ecological issues and sustainability, some policies have been implemented to protect the environment. Companies must follow several responsibility requirements to prove the compliance with international environmental laws.

Transforming industries need to act in accordance with additional guidelines regarding the use of natural resources. In the stationery industry, companies, such as Ambar, must follow several programs with concern to the use of wood for paper, as Programme for the Endorsement of Forest Certification (PEFC) and Forest Stewardship Council (FSC).

Moreover, the companies must reduce noxious gas emissions during the production process. This level of emissions is controlled by the Portuguese Government according to internationally recommended rules to reduce the effects of production on global warming.

Given the large paper usage and consequential waste, Ambar promotes recycling of paper for different generations - the company incentivizes its customers to recycle the purchased goods after being entirely used, produces recycling kits for its younger clients and uses reprocessed materials to produce notebooks and other utensils.

#### 1.3. Intervention of the Portuguese Government

Given the importance of the largest companies to the countries' economy - from the labour, social and economic points of view -, the government supervises major alterations in the organizations and when necessary may decide to intervene to avoid greater impacts.

Ambar's decline was discussed at the Portuguese Parliament, on various occasions. In order to obtain information about Ambar, several documents were retrieved from the archive of Assembly of the Republic.

The first mention about the company's alarming situation raised a question addressed to the Ministry of Labour and Social Solidarity, in April of 2010. On the occasion it was stated that Ambar had not been increasing salaries for seven years, offering barely more than the Portuguese legal minimum wage.

In May, Ambar was preparing to perform a major layoff of 32 workers. The reason behind this new layoff was the outsourcing of one of company's departments. However, only thirty workers were put in layoff, in June 2010, when the company filed the officially required documents to do so. According to the retrieved documents from the archive and from the site of General Confederation of Portuguese Workers ("*Confederação Geral dos Trabalhadores Portugueses*"), Ambar evolved from 722 workers in 2000, to 340 in 2008, and finally to 261 in July 2010. Moreover, the company managed to post profits of €4 million in 2007 and 2008.

According to the document of 17<sup>th</sup> of May of 2012, Ambar had the most modern and advanced equipment for its industry and with that infrastructure should be able to get competitive advantage obtaining larger profits comparing to its direct competitors Firmo and Ancor. Nonetheless, Ambar was far behind, with a sales decrease of 40% in comparison to previous year, while the competitors presented a 10-20% growth, being the deviation justified by the company's management as due to the ongoing market crisis.

One week later, a political party met Ambar's workers and had the opportunity to question them about the problematic situation of the company. The sales volume was dropping, the company was in arrears before the Portuguese Social Security, there were unpaid salaries and the organization was not meeting its tax obligations, decreasing successively the number of employees to 180 in 2012. Additionally, the Chairman had been using the company monies to acquire shares from other shareholders.

Furthermore, another concern needed to be addressed: the amount of €5 million received by Ambar from *Fundo Imobiliário Especial de Apoio às Empresas* (FIEAE). After

the money was invested, the company did not present any visible improvements, became indebted to the fund and was not able to repay the amount in the negotiated terms.

Finally, there were six different management teams in six years and the company was constantly changing the division heads - leading to a major instability in the company.

#### 1.4. Media

In February 2013, thirty of 153 workers filed a petition with Commercial Court of Vila Nova de Gaia for the insolvency of Ambar to be declared, justified with salaries in arrears, lack of raw material and a debt of nearly €20 million (Expresso, 24/12/2017). The workers seemed to have no confidence in Isabel Barbosa administration to save the company from liquidation (Jornal de Negócios, 31/05/2013).

Several months later, in July, the court-appointed directors Armando Rocha Gonçalves and José da Costa Araújo, proposed the liquidation of the company to the shareholders, after concluding the economic unfeasibility of Ambar (Público, 12/08/2013). This request was presented as a direct consequence of the harmful management of the board president and heir of Américo Barbosa (Porto Canal, 07/08/2013), Isabel Barbosa (Notícias ao Minuto, 18/12/2013).

The above-described recommendation was declined by all shareholders during the court session in Commercial Court of Vila Nova de Gaia. In the same meeting, the judge appointed finance director Rosa Magalhães and director of human resources Mário Pinto to become directors of the indebted company (Público, 13/08/2013). The new directors had two months to show results of the recovery, being the liquidation decision suspended during this period (Jornal de Notícias, 12/08/2013).

Before the meeting of Ambar's shareholders, in October, the company received a proposal of capital injection from Explorer Investments, a private equity firm, acting as manager of Fundo Revitalizar Norte, a government-sponsored fund aiming at investing in SMEs. This proposal would be promptly approved by the shareholders, but the deal was not

going forward before Ambar met one precedent condition: the financial debt should not exceed €3,5 million (Jornal de Negócios, 15/10/2013).

To achieve this level of debt, Isabel Barbosa had to waive €4,5 million owed to her by Ambar. Besides this, the company had to hand over an asset to *Turismo Fundos*, from FIEAE, reducing its debt in €5,5 million. It was also necessary to revoke the financial leasing contract with local bank Millennium BCP and to surrender another asset to this bank, to obtain the waiver of €3,3 million, and bring capital owed to MBCP to €500 thousand.

Additionally, Ambar's paid-in capital would be reduced to zero and brought back to €1,5 million subscribed by Fundo Revitalizar Norte (Jornal de Negócios, 15/10/2013), guaranteeing an equity floor of €100 thousand (Porto Canal 28/10/2013).

The conditions described above were accepted by the shareholders, even though the approval was only reached by a narrow margin of 0,05% of the votes. One of the largest creditors, Millennium BCP, did not accept the conditions, since it meant a haircut of 88 percent of the debt, instead of 62 percent previously accepted by the bank (Jornal de Negócios, 10/12/2013).

During the negotiations, Rosa Magalhães and Mário Pinto developed a turnaround plan which included several measures, such as the reduction of the company's fleet and the payment of part of the rents in arrears (Porto Canal, 07/08/2013), as well as the maintenance of 105 out of 142 job positions provided by Ambar up to this point (Dinheiro Vivo, 08/01/2014).

In January 2014, the Commercial Court of Vila Nova de Gaia approved the final version of the turnaround plan, followed by the authorization of MBCP that was achieved at the end of the month (Público, 21/01/2014).

## 1.5. Insolvency Process in Portugal

In Portugal, when a company starts to fail its obligations to the stakeholders, for example by not paying its suppliers or loan interests, it is mandatory to inform the authorities. This warning may be presented by the company's administration, any creditor or the public administration, and it is delivered either by requesting a Special Revitalization Process ("PER", *Processo Especial de Revitalização*) when there are payment failures which not deemed permanent, or by going for an insolvency request when the company fails the majority of its obligations and is seen as having no chances of getting back on track. The company's delay of the announcement that leads to an aggravation of distress may be considered guilty insolvency being the management fined or even sentenced to prison. On the other hand, if the administration does not agree with the presented request, this may be challenged within 10 days.

After an insolvency request is delivered to the Commercial Court, the case is analysed, and the company is declared either insolvent or not insolvent. When the company is considered insolvent, the firm's creditors must claim the amounts owed to them by the company, which are assessed by the Court to set their fair value. After all the creditors' debts are analysed, a final listing with all the amounts owed is created and disclosed.

At the same time, the Court appoints an insolvency manager ("administrador de insolvência") to manage the company, analyse its financial position and prepare an opinion for the Court. This opinion includes the managers' judgment and recommendation whether to proceed to liquidation or to propose a company turnaround plan, and is analysed by the judge and the company's creditors before a final decision is taken. This decision is subject to appeal in the 5 days following the verdict issuance.

The turnaround plan sets all the necessary details regarding the measures to be implemented, timings and objectives of the company, and will proceed to implementation if approved. On the contrary, if the decision is to proceed to liquidation, the company is instructed by the Court to sell all its assets in 6 months (through the good offices of the



insolvency manager), and the proceeds to be paid to the creditors, usually settling the outstanding debts only partially.

#### 1.6. Ambar report by court administrators

The report elaborated by insolvency administrators Armando Rocha Gonçalves and José da Costa Araújo described the situation lived in Ambar and was presented to Commercial Court of Vila Nova de Gaia on 2 of August 2013. To support the analysis, the accountability of the company was evaluated and considered transparent - giving confidence about the presented information.

The company's situation at the time was the following: Ambar had daily operating losses of €10 thousand, only selling the existent stocks and not producing any goods, its liabilities were €14,5 million being superior to its assets, while 90 workers of 150 had suspended their contracts.

Regarding financial indicators, the decreasing sales trend along with net income can be observed on Table 1. During the presented period, the sales volume reduced drastically, suffering a decline of approximately €17,7 million from 2009 to 2012.

*Table 1 Sales and Net Income between 2009 and 2012*

	2009	2010	2011	2012
Sales (€)	23 859 988,12	19 606 363,66	11 569 446,37	≈ 6 200 000
Net Income (€)	(1 946 345,60)	(3 668 840,50)	(3 545 172,05)	≈ (3 500 000)

According to administrators, Ambar's insolvency was a result of economic crisis combined with alterations of the stationery industry structure - due the growing market share of the largest retailers. On the other hand, the collapse had been delayed by several capital

injections made by Isabel Barbosa accumulating an amount due of €4 million, allegedly being invested after the insistency of top management that it would turnaround the company.

Another factor that affected Ambar's demand was the competition of products imported from Asia, being its prices lower than the ones practiced by the company. According to administrators, if Ambar matched the competition prices, the profits would not compensate the effort - being insufficient to turnaround.

One of the major problems of the company was its incapacity to sell - Ambar's financial situation did not allow the acquisition of any raw materials, the company lost its producing licenses and selling contracts, was not producing own brand labelled products and was not able to negotiate factoring or credit contracts with banks given the associated risk.

Additionally, the administrators pointed to the Ambar 'problematic' assets - in 2010 the company sold with a buyback option to *Fundo Imobiliário Especial de Apoio à Empresas (FIEAE)* its warehouse used to stock all the goods, raw material, and goods-in-process. Past two years, Ambar stopped paying the rent of the asset accumulating an amount of €150 thousand in arrears. Moreover, Ambar was not paying the company *Construções Armazéns Via Rápida S.A* the rents of its factory and expedition facilities, being alerted of the possible eviction.

Furthermore, the car fleet used by the company's administration was contracted to a car rental company, being due the amount of several rents. Finally, Ambar was owing the amount of the financial leasing to Millennium BCP regarding its most valuable asset - the headquarters of the company -, and the rent amount of other assets to the family of Américo Barbosa.

To conclude, the report proposed immediate liquidation of the company by selling its assets, the brand Ambar, remaining stocks and machinery; since the company had very low probability to recover from the situation, rebuild profits or recover its clients. According to the same report, a recuperation attempt would only delay the liquidation, decrease even more the value of Ambar's assets, and aggravate its financial situation.

### 1.7. Ambar's response to the report

Four days after the report was presented, Ambar released the response, in which it explained the liquidation decision as a result of a lack of familiarity with the case demonstrated by insolvency administrators. Despite the clear indication given by the court to provide a recuperation plan, appointing for this case two insolvency managers instead of one, the administrators showed no interest to participate in the turnaround, calling themselves "observers". According to the company, the verdict to liquidate had been made before the administrators looked to the company's conditions, since no calculations were presented, being the decision supported by the "voice of experience". Given this situation, Rosa Magalhães and Mário Pinto, during the meeting that occurred on 11 of July 2013, assumed the administration of the insolvent company under supervision of insolvency managers.

In the response, Ambar justified existing distress as a result of management inaction - Isabel Barbosa had indicated her intention to reduce the company's size to ease the management. Given that, the company reduced the offer by shutting down several production lines, there was waste of stocks and mismanagement of human resources - paying large amounts in indemnities after firing workers and by not having a correct hiring strategy. Additionally, the commercial conditions were altered unilaterally, and the licenses were let expired or abandoned. The described actions resulted in the loss of the company's credibility and customer mismanagement.

The administration inaction was also noticeable regarding the daily losses of €10 thousand referred by the insolvency managers, being this amount unaltered since 2011, aggravating the company's economic situation. Moreover, it is suggested that additional investments made by Isabel Barbosa, referred in the report, added no value to the company since the management strategy remained unaltered.

Furthermore, the company rejects the argumentation regarding the generic industry losses as a consequence of economic crisis, responding with numbers of Ambar's direct competition - Ancor presented a sales increase of 20% relatively to 2012 and Firmo re-entered the stationery market in 2012. Besides this, Ambar was also competing with

stationery companies with products produced in Spain and with local small stationery stores, which followed a low-price strategy that Ambar was not always capable to match.

To conclude, the turnaround plan justified non-liquidation of Ambar from different points of view. First of all, the sale of machinery, warehouses, and other tangible assets would not generate enough money to pay all the creditors; on the other side, the utilization of these assets to restart the production - being the equipment efficient and capable to offer competitive advantage -, would provide major profits. Additionally, Ambar's turnaround would preserve the employment of workers by not contributing to the general high unemployment rate in Portugal. Finally, being the company one of the most ancient and versatile stationery businesses, the effort of preserving the brand Ambar should serve as enough motivation by itself.

#### 1.8. Is there hope?

January 21, 2014. Rosa Magalhães receives a call from the company's lawyer indicating that Millennium BCP had just authorized the proposed turnaround plan. Now, it is time for action.

## 2. Teaching Note

### 2.1. The case target audience

The present case study was constructed to be explored during the Master's degree classes in Finance and Management.

### 2.2. Educational Objectives

The resolution of the present case study should fulfil the educational objectives specified below:

- Explain the complexity of managing distressed companies, their daily difficulties, and the possible consequences - closure of the company or turnaround. Describe the insolvency procedures in Portugal.
- Explain the concept of corporate turnaround and the variety of measures that companies may implement. Demonstrate the importance of a meticulous analysis of the situation to facilitate the implementation of the most suitable measures. Emphasize the importance of corporate turnarounds for the future months.
- Give the students the possibility to become an active participant in the case situation - to analyse given information, to elaborate their own turnaround plan and discuss the chosen measures during the class. Alert for the non-linearity of procedures followed during a corporate turnaround and the uniqueness of each case.

Finally, the usage of a real case supports and completes the theoretical part of the course and gives a different approach to the matter, allowing students to gain a new perception of the reality.

### 2.3. Literature Review on Corporate Turnaround

When an unexpected event threatens the existence of the company, corporate crisis or organizational decline occurs. In the existing literature there are different definitions of organization decline. Weitzel and Jonsson (1989) suggest that decline occurs when the company fails to identify the threats that put in danger its continuity. Jeyavelu (2009) defines organizational decline as the deterioration of the company economic performance which may be complemented by the reductions of human or financial resources. Finally, Heggde and Panikar (2011) add that distress not only must put in danger the survival of the company but also must occur for a significant time period.

The analysis of a corporate crisis involves the identification of the issue, which were its causes and effects, and how it is possible to be solved (Schmuck, 2013). According to D'Aveni (1989), there are several indicators that may be used to timely identify the organizational decline, such as profits decline, lower liquidity, lower capacity of the company to acquire more debt and the reduced company attractiveness for highly qualified human resources. On the other hand, Weitzel and Jonsson (1989) suggested that even the simultaneous decline of several parameters does not necessarily lead to organizational decline but may be the result of the temporary corporate turbulence which differs from decline by its brevity (Cameron and Kim, 1987).

The causes that originate corporate distress are diverse and can be classified as external or internal. The first type is related with factors that are out of management control, for example political and economic conditions or technological changes. On the other hand, internal causes of distress depend on the competency of the managers, which could be, for example, the implemented strategies or the supplier selection (Filatotchev & Toms, 2006).

The distress in the company frequently leads to the conflict between the shareholders and the creditors. According to D'Aveni (1989), in the distress situation the shareholders

may use funds made available by the creditors to invest in projects with higher risk exposure. The company's managers need to address this issue to control the stakeholder's interests.

If the company is not able to counter the distress, this may lead to bankruptcy which implies bankruptcy costs. These costs can be directly correlated with the bankruptcy procedures such as payments and fees to the bankruptcy lawyers, or indirectly correlated through the overall loss of the business attractiveness and demand decrease (Ahn, 2019).

However, part of the companies that experience corporate distress manage to reverse the decreasing trend and to recuperate the firm's performance by completing the corporate turnaround. For this study, the definition of corporate turnaround is presented by Chowdhury (2002) as the recovery of the company from a life-threatening performance decline and the return to the initial level of performance.

Before discussing the possible measures and restructurings that a company may implement to respond to distress it is necessary to define the time interval that allows the analysis of the turnaround.

Chowdhury (2002) suggests a four-stage turnaround model, which starts with the beginning of the decline, followed by the initial acknowledgement of the distress, and implementation of the first measures. The third stage corresponds to the period given for the first results of the implemented measures and the last stage corresponds to the final outcome - a successful turnaround, or a liquidation and bankruptcy of the company. Moreover, Schmuck (2013) adapted the previous study and developed a more detailed model by providing the time (in years) with one year for each stage, except for the third stage that may take until two years.

The framework for the corporate turnaround was provided by Schweizer and Niehaus (2017) and consists of three bases - context, process, and content. The context analyses the internal and external factors of distress and may be identified through the analysis of the company's internal issues and the PESTLE analysis. On the other hand, the process identifies the approach to be used, which can be retrenchment or recovery. Retrenchment is defined by Arogyaswamy, Barker III, and Yasai-Ardekani (1995) as the process of the company's asset reduction and/or cost cutting to improve the firm's efficiency, being the principal objective

to “stop the bleeding”. On the other hand, recovery is defined by Schmitt and Raisch (2013) as the strategic reorientation that leads to the improvement of the company's position with the ultimate goal being the production of a long term growth strategy (Robbins and Pearce 1992).

The previous studies debate the role of the retrenchment and the relation between retrenchment and recovery. According to Robbins and Pearce (1992), without retrenchment the company has less probability of achieving turnaround, therefore retrenchment is mandatory for every company facing distress. On the other hand, Barker and Mone (1994) considered retrenchment as a consequence of the previous performance of the company, having questioned the results of Robbins and Pearce (1992), finding it incomplete and unjustified theoretically and empirically. Arogyaswamy et al (1995) questioned the utilization of the retrenchment in companies facing more challenges than inefficiency, such as a poor decision-making process, low levels of support from the key shareholders and a weakening internal climate.

While several studies defend that retrenchment and recovery stages are opposite and not intended to be used simultaneously, others indicate the benefits of using these sequentially. Filatotchev and Toms (2006) adapted the Robbins and Pearce (1992) study and recommended the addition of the realignment stage before entering the retrenchment and recovery stages. The additional phase would be used by the managers to establish financial thresholds gaining the shareholders' confidence and support, handling, at the same time, their expectations.

Finally, the content of the corporate turnaround consists of measures that a company may implement. According to Schweizer and Niehaus (2017) the corporate restructuring involves the restructuring of the management, operations, financial structure, and portfolio of the firm. Nonetheless, for a turnaround to occur, it is not necessary to combine all the mentioned measures.

The improvement of the operational efficiency of the firm is the main purpose of the operational restructuring, which is achieved by implementing cost cutting strategies, and, at the same time, by increasing revenues (Schmuck, 2013). According to Sudarsanam and Lai (2001), operational restructuring is the first measure to be implemented by the companies,



and the most appropriate procedure for the short run. Following the same study, the first stage of operational restructuring implementation must be the cost cutting, which can be sufficient to turnaround some companies; the second phase is to focus on revenue generation, by increasing sales with a reduction of prices (or increasing them, if the demand is inelastic), and by investing in marketing, with the final goal of stimulating the demand for the products.

The managerial restructuring may be performed by changing the company CEO, the board of the directors or the top management team. The replacement sends a positive signal to the market regarding the future changes in the company (Schmuck, 2013) and provides additional diversity to new management team (Schweizer and Niehaus, 2017). Moreover, Sudarsanam and Lai (2001) emphasized that the managerial restructuring can be effective, even if the distress of the firm is not the company's manager responsibility. On the other hand, the internal managers may offer a higher specific understanding of the business and by maintaining these managers the company retains the credibility of the shareholders and increases the likelihood of the successful turnaround (Schweizer and Niehaus, 2017).

On the other hand, changes in the capital structure of the firm, to alleviate the interest and the debt burden, are essential for the implementation of the financial restructuring. This type of restructuring may be divided in equity based or debt-based strategies. Equity strategies comprise dividend reductions or cuts and equity issues. Debt-based strategies consist in debt renegotiation involving the modification of the interest or principal that may be reduced, a change in the maturity - usually extended -, and, finally, offering the possibility to the creditors to swap their debt for equity (Sudarsanam and Lai, 2001).

The fourth type of restructuring, asset restructuring, can be divided in two groups: asset investment and asset divestment strategies. The investment strategy involves capital expenditures, such as acquisition of machinery and production facilities, made with the intent to achieve a higher efficiency of the production, and obtain competitive advantage. Mergers and acquisitions are a particular case of asset investment. Alternatively, asset divestment comprises disposals of non-generating cash properties and non-core assets, with the purpose of raising cash (Sudarsanam and Lai, 2001).

Another important factor that affects the success of a turnaround is the manager's leadership skills. According to Slatter, Lovett, & Barlow (2006), leadership is a mandatory

skill for the manager to be able to perform the corporate turnaround. Following the same study, the manager of the company must have the necessary leadership characteristics, such as the ability to define priorities, to be decisive, to transmit confidence to the shareholders, and to have negotiation skills; being the key for a successful corporate turnaround. On a different note, Khandwalla (1984) considered that the management skills required to perform a turnaround may differ from the necessary skills to manage the company during its daily activities.

#### 2.4. Suggested Questions

Before starting the development of the case study during class, the following questions must be addressed to the students:

1. Do you agree with the insolvency managers' assessment of Ambar's future?
2. Do you think it is possible to bring the company back to profitability?
3. How important is the capital inflow in distress situations? Where would you obtain the required capital?
4. Design a turnaround plan for Ambar. Which measures should the company implement?

#### 2.5. Class Plan

The present case study was developed to be solved during one session of 90 minutes. The steps for the case resolution are the following:

1. The case exposition is presented to the students in PowerPoint - which can be found in Appendix D.
2. After the case exposition, students can ask questions that may have arisen.

3. When all doubts are clarified, the students must form groups of 4.
4. The groups must answer the suggested questions, having 15 minutes for this matter.
5. The remaining time of the class serves to discuss the presented answers by the students and compare with the case solution. The guidelines for the correct case solution will be presented in the following chapter.

## 2.6. Case Solution

While the first two questions presented to the students were made to initiate the discussion about the case, being all responses valid as long as explained, the solution of the case is provided by responding the last two questions and is supported by the annexed file in PowerPoint.

2.6.1. How important is the capital inflow in distress situations? Where would you obtain the required capital?

Corporate turnarounds frequently generate the necessity to modify some part of the company, for example to acquire new production machinery, develop new distribution channel or hire new employees, which means that the company must invest to be able to make alterations. In this case, Ambar, being highly indebted and almost not producing goods, could not generate enough money to repay its creditors by itself. Given that, the capital injection was crucial for the restarting of the production - to buy raw materials, invest in new machinery and to call back some workers with suspended contracts.

Among several types of funds with different interests, expectations and risk aversions, the most suitable solution for Ambar to obtain the necessary capital would be a hedge fund. This type of fund invests in debt of the distressed - but potentially recoverable -

firm and expects the turnaround of the same, to obtain large profits. Given the associated risk of bankruptcy, the debt of the company is cheap, and the potential profits are large, allowing hedge funds to compensate the investment. In this case, Explorer Investments was expected to invest - its portfolio includes SMEs and other companies with similar conditions to the ones presented by Ambar. On a different note, going to a bank to ask for a loan would not be a solution - the poor financial situation of the company having a high bankruptcy risk, without having any valuable assets to use as collateral does not attract bank lenders.

During several months, Ambar counted on the injection from Explorer, trying to achieve the conditions asked by the fund, but in the end the investment did not move on (Jornal de Negócios, 25/09/2014). Therefore, Ambar had to find a new capital source.

The new investors that showed interest in the recuperation of Ambar were 2 textile companies - Valérius and Coscelos, managed by José Ferreira and José Costa, respectively. It is important to mention that the new managers had experience in corporate turnarounds, having participated in the recuperation of several Portuguese companies, such as *Filobranca*, *Lima Têxteis*, *Calçado Campeão Português* and *Covidel* (Eco Sapó, 10/01/2019).

The initial agreement involved the investors' responsibility for €3,5 million of liabilities, and the necessary investment was meant to be around €1,5 million. With these conditions, the ownership of Ambar would be divided in the following way: a 15% stake for Rosa Magalhães, a 15% stake for Mário Pinto, a 35% stake for José Ferreira and a 35% stake for José Costa (Expresso, 24/12/2017).

However, the real conditions of the company were different from the ones announced earlier. The liabilities were €4,5 million and the investment capital requirement was around €5 million. Given this fact, the investors proposed a different ownership, with José Ferreira owning 50% of Ambar and José Costa owning the remaining 50% (Expresso, 24/12/2017). After acknowledging the real dimension of the distress, the new administration had to recalculate the necessary investment and concluded that this would only be possible if the capital structure were altered, being the ownership split in two between investors.

The capital injection was performed as following: first, the company's equity, including all types of reserves, was used to repay as many creditors as it permitted; then the

new investors injected the mentioned amount of €5 million using part of it to replace the equity. With this operation (in Portuguese “*operação harmónio*”), previous company’s owners saw their share of the company being reduced drastically (or even disappear) and were replaced by new investors.

Finally, it is important to understand the reasons behind the investment proposal withdrawal from Explorer Investment and, on the other hand, the motivation of the new investors. The estimation of Ambar’s enterprise value, calculated by using the enterprise multiples and EBITDA, may offer the necessary answers. The ratio between enterprise value of the company and EBITDA of the year provides the investors an idea of whether the company is undervalued or overvalued - the higher the obtained enterprise multiple, the more overvalued the company may be in comparison to its profits. In the present case study, this formula will be used for a different objective - to estimate Ambar’s enterprise value and to identify whether the company is profitable for the investors or not. For this matter, three different multiples will be used: 5, 6 and 7; to estimate potential Ambar’s value in each case. The estimated Ambar’s enterprise value can be observed on Figure 8.

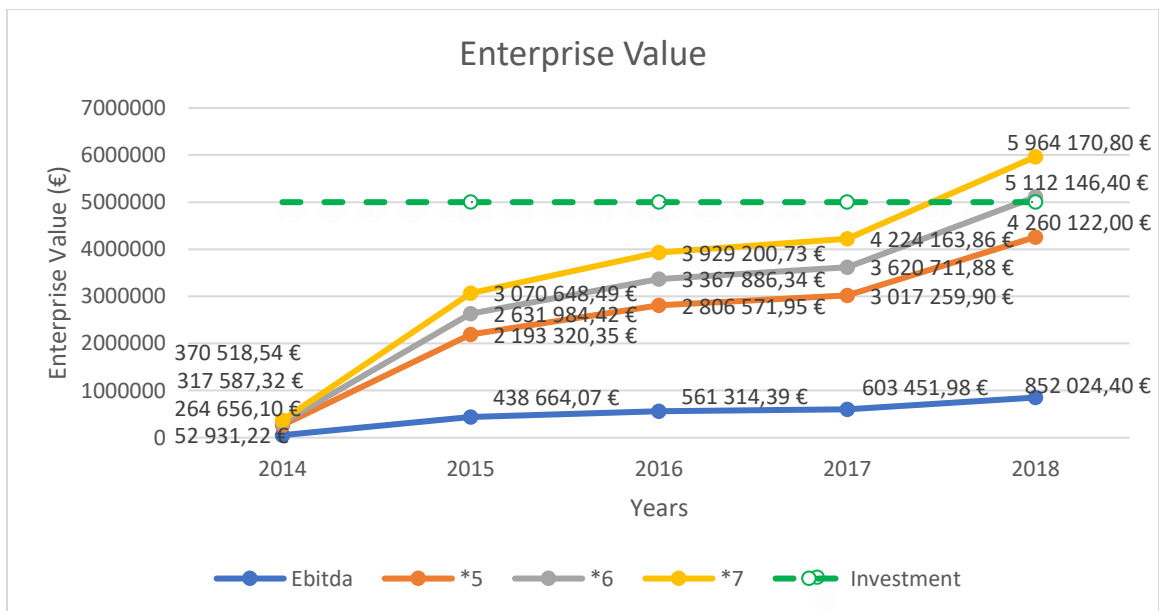


Figure 8 Ambar's enterprise value (€)

For the investors, given the initial investment of €5 million and the obtained EBITDA values, *ceteris paribus*, the company would only start to become profitable in 2018, assuming enterprise multiples greater or equal to 6 (breakeven at 5,87); which results in an enterprise value of more than €5,11 million. Given that, it is possible to conclude that in 2014 a capital injection in Ambar was not appropriate for the short-term profit-oriented investors given the slow recuperation of the invested amount.

To conclude, two possible reasons that led Explorer Investments to not invest in Ambar may be identified. Most importantly, the company did not achieve the necessary debt level of €3,5 million, presenting €4,5 million. Additionally, according to information retrieved from website of *Fundo Revitalizar Norte* the fund limits its investment in SME at €1,5 million per year - an amount that was not compatible with Ambar's immediate and relatively high investment necessity, that, even assuming an optimistic evolution estimation, presupposed waiting several years until obtain profits.

Regarding new investors, in case of success, José Ferreira and José Costa could add another company to their curriculum of successful corporate turnarounds, by saving one of the most important and ancient stationery companies in Portugal, at the same time diversifying their portfolio. This motivation was confirmed by José Ferreira, as a project that was readily accepted after a suggestion made by a consultant, being the experience in corporate turnarounds crucial for the decision to invest (Eco Sapo, 10/01/2019).

2.6.2. Design a recuperation plan for Ambar. Which measures should the company implement?

The new managers implemented several measures, in order to turnaround the company and to make it profitable once again. For this purpose, it was necessary to pay the company's debts, to clean its image and to invest in machinery. Besides this, it was also required to diversify Ambar's portfolio, to expand to other markets, and to restore the

customer loyalty through the restructuring of several processes of the company (Expresso, 24/12/2017).

To be able to start the recovery of the distressed company, the first goal is to “stop the bleeding” - reduce daily losses and discard non-profitable assets. To do so, the proposed recuperation plan included concentration of the production in a single place, proceeding, at the same time, to the disposal of other non-key assets. Additionally, renting contracts of automobile fleet of 10 cars and 30 cell phones was cancelled, allowing the company to repay the amount in arrears to the renting company, cutting some costs.

Moreover, distressed companies usually present low liquidity and are not capable to promptly repay its debts. To avoid legal disputes and guarantee a normal flow of the daily activities it is necessary to negotiate with the shareholders the payment postponement of the amount due. To obtain liquidity companies may also resort to factoring or bank loans.

Factoring consists of the agreement between the company and the bank or factoring company, in which the latter takes responsibility for the company's debt or invoices. For example, when the company makes a sale with payment conditions of 30 - 60 days, the bank advances promptly the established percentage (advance rate) of the invoice amount until the client pays the total value. When the payment occurs, the bank transfers the remaining quantity to the company being the process finished. This procedure allows the company to obtain liquidity to perform its daily activities and to reinvest the advanced amount in future deals. Finally, it is important to note that factoring has a proportional interest cost of the obtained credit, being necessary to compute these costs into the final margin of the product sold.

In 2013 and 2014, Ambar was not capable to obtain neither factoring nor other bank loans or services due the bankruptcy risk of the company. As an alternative, the new administration, and earlier Rosa Magalhães and Mário Pinto, managed to negotiate the payment to its creditors in several instalments, which was facilitated by Special Revitalization Process. According to the response to insolvency administrators document, the payment of one part of amount in arrears to *Construções da Via Rápida S.A*, as well as to the family of Américo Barbosa, was made on 11 of July 2013 with the expectation to compensate another instalment on 8 of August of the same year. Additionally, layoff and

contract suspensions of the workers allowed the company to preserve the employment and to reduce the costs during the decline, attenuating the situation.

With the entrance of new administration, the company re-entered many distribution channels stimulating the demand for its products (Marketeer Sapo, 01/10/2019). Moreover, the company started the promotion of brand Ambar by producing own labelled products and by acquiring new partnerships and licenses which were let expired anteriorly.

At the end of 2014, the economic situation of Ambar was being restored, and the company rehired 25 of its former workers who had seen their contracts being suspended. (Jornal de Negócios, 17/11/2014).

After Ambar's downsizing implemented for several years, the new administration aimed for the expansion. For this matter, the company had 12 employees in the investigation department analysing the market and seeking for investment opportunities. The performed analysis showed a low recognition of the brand Ambar by the younger population which, in 2017, led the company, along with *Faculdade de Ciências da Universidade do Porto*, to introduce Ambar Science. The new line was created for the clients with an age comprehended between 3 and 14 years and introduced new didactic products and toys forming new learning processes. After the introduction of Ambar Science - with a total investment of €500 thousand -, the new line was expected to represent 25% of the generated revenues in a few years.

To conclude, Table 2 summarizes the implementation of restructurings by Ambar, specifying concrete measures and compares with the ones proposed in the literature review.



Table 2 Theory vs Reality

<b>Literature Review</b> <b>Restructurings</b>	<b>Ambar's Measures</b>
Operational	<p>-in the first stage, cost cuts, by cancelling renting contracts and implementing layoff</p> <p>-in the second stage, restoring distribution channels, acquiring licenses and new partnerships, production of own labelled products to increase recognition of the brand. After analysing the market and understanding the low recognition of the brand, Ambar created Ambar Science in 2017 increasing the portfolio of produced goods</p>
Management	<p>-the new investors became the new managers of the company, having experience in successful corporate turnarounds</p>
Financial Structure	<p>-mostly debt focused strategies - payment of the amounts in arrears to Ambar's creditors was controlled by Special Revitalization Process, which cut a significant part of due amount and postponed payments to alleviate the pressure and allowed the company to gain the necessary liquidity to perform its daily activities</p>
Asset Portfolio	<p>-both asset-divestment and asset-investment strategies were implemented. During the retrenchment stage, the company proceeded to the return of leased assets, disposal of several non-key assets, concentrating its production in a single location. During the recovery stage, with the capital injection, a significant capital expenditure was performed - around €2 million in the first year to update machinery, followed by punctual investments intended for some adjustments (CapEx presented in Chapter 2.7)</p>

### 2.6.3. Other Factors

As mentioned before, Ambar's workers had no confidence in Isabel Barbosa administration, preferring to declare company insolvency. The leadership skills showed by Rosa Magalhães and Mário Pinto to keep fighting for the company continuity, preserving dozens of job positions, were crucial for the success of Ambar's turnaround.

The two directors' aptitude to elaborate the initial turnaround plan, to assume the risks and the responsibility over the company recovery, to search for the investors and the resilience showed to overcome the difficulties in the process, led the company's workers to believe in the future and to work together towards the same objective - Ambar's Corporate Turnaround.

In the end, after 25 years in Ambar, Rosa Magalhães and Mário Pinto had to abandon this project - in 2015 -, since the company did not achieve the revenues forecasted in the turnaround plan, and for having a different view about the Ambar's future (Jornal de Negócios, 11/11/2015). Nonetheless, it is essential to emphasize their importance in the recuperation process.

Additionally, companies in a similar situation to Ambar's in 2013, which consider using this case study as a guide to achieve corporate turnaround, must understand the non-linearity of corporate turnarounds and recognize the uniqueness of each case created by internal and external factors. For example, in Ambar's case, there was one peculiarity: given the Ambar's importance to the Portuguese history and stationery business, the judge appointed two insolvency administrators instead of one. That being said, it is necessary to understand that another company, for example one with a minor historical importance for the country but better financial indicators, could not have the same treatment - leading to less significant efforts to keep the company operating.

2.7. Ambar's Situation after 5 years

After the implementation of the measures described above, the company managed to achieve a corporate turnaround, continuing its activity. On Figure 9, retrieved from the recuperation plan presented by the company in 2013, it is possible to observe the sales evolution between 2002 and 2012 signalled with red points, with the blue ones representing the forecasted values for the following years.

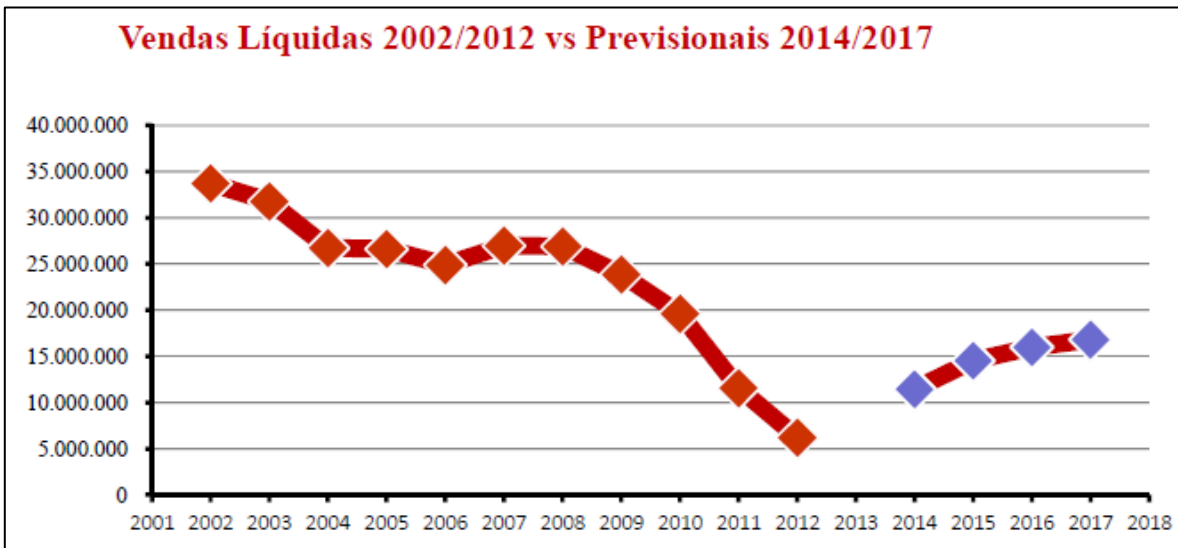


Figure 9 Sales evolution and Forecast (€). Source: Ambar's Turnaround Plan

On the other hand, Table 3 summarizes the real values of several indicators, retrieved from Ambar's balance sheet, kindly provided by the company.

Table 3 The Numbers of Ambar's progress

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Sales (€)</b>	269 428,43	5 473 000,99	6 375 194,45	6 915 147,53	8 148 771,96
<b>EBITDA (€)</b>	52 931,22	438 664,07	561 314,39	603 451,98	852 024,40
<b>Net Income (€)</b>	22 954,97	45 991,34	69 749,06	121 647,19	161 474,96
<b>CapEx (€)</b>	2 000 000,00	198 895,35	25 288,28	381 920,58	103 840,77
<b>Equity (€)</b>	522 954,97	568 946,31	638 695,37	760 342,56	921 817,52
<b>ROE</b>	4,4%	8,1%	10,9%	16%	17,5%
<b>ROIC</b>	0,83%	1,93%	3,53%	3,28%	4,74%

After the necessary Capital Expenditure was made in 2014, the success of Ambar's turnaround was depending on the company's capacity to generate sales. As it can be seen, there was a large sales increase in the first year, followed by a gradual growth, which led to the improvement of other indicators. Special emphasis must be done on Return On Equity (ROE) that indicates the effectiveness of the company's assets. Although Ambar's ROE presented an impressive growth from 4,2% in 2014 to 17,5% in 2018, it must be analysed carefully, as it is necessary to highlight the low level of equity that facilitated the achievement of two-digit level of ROE. On the other hand, Return on Invested Capital (ROIC) gives the investors the indication of how efficiently the company is using the capital injection to generate returns. As it can be seen on Table 3, Ambar's ROIC increased gradually from 0,83% in 2014 to 4,74% in 2018 increasing the effectiveness of invested capital.

Three years after the entrance of the new investors, in 2017, Ambar had 500 clients in more than 25 different countries and was presenting a good economic health, preparing to invest €10 million to move to new facilities in Barcelos. Additionally, the company was planning to reach a sales volume of €20 million, exporting 60% of the total value until 2022 (Expresso, 24/12/2017).

One year later, the exports represented 45% of total sales, being expected to obtain revenues of €10 million in 2019 (Eco Sapo, 10/01/2019). Moreover, to improve the sustainability of production of its products and reduce wastes, Ambar created a partnership with Valérius for reusage of textile company leftovers, which would be utilized in production

of cotton paper for notebooks and other products (Observador, 06/04/2019). With this measure the company promoted environmental awareness and demonstrated the company's values.

Finally, in 2020, Ambar keeps investing in school products with new design increasing the recognition of the brand by the younger population. Additionally, the company demonstrated flexibility and proactivity having started the production of protection masks commercialized by Lidl (NiT, 30/08/2020).

### 3. Conclusion

The present case study was created for Master's degree students of Management and Finance, to explain the process of corporate turnaround, using for this matter a real example: the Corporate Turnaround performed by Ambar - one of the most ancient and important stationery companies in Portugal.

After the completion of this case study several conclusions may be drawn. The first and most important conclusion is the possibility to achieve corporate turnaround without implementing drastic measures. In particular cases, a 'simple' adjustment of the failing components may be enough to reverse the decreasing trend. In Ambar's case, it was necessary to reverse the downsizing implemented for several years, to re-establish lost licenses and partnerships, and to diversify the company's portfolio - increasing the company's clientele -, by making the necessary capital expenditures to support a proper measures' implementation.

Moreover, it is important to emphasize the discrepancy between the actions made by professional insolvency managers - whose role is to develop corporate turnarounds and who decided to liquidate Ambar -, and the real 'saviours' of the company - the director of human resources and the financial director, who, even without experience in corporate turnarounds, started the implementation of the necessary realignments and through hard work managed to initiate the salvation of Ambar from Liquidation.

Additionally, the uniqueness of each case, created by the combination of internal and external factors, historical background of the company, and the willingness of interested parties to contribute for the recovery or to simply "bury" the company forces the managers to deal with each corporate turnaround in a different manner, by making the necessary adjustments.

On the other hand, it is necessary to point out to the lack of publicly available financial information, being the realization of the case dependent on the willingness of the company to share key information. Otherwise, the case jeopardizes being shallow, adding no value

from the financial point of view. In this particular case, it was necessary to contact not only the company administration, but also another source - Rui Neves, the journalist who accompanied the case.

In the end, the success of the Corporate Turnaround of Ambar may be considered a National Victory, given the importance of this company for the History of Portugal and its economic, social, and technological contribution during its 81 years of existence.

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EMPRESAS • INDÚSTRIA

### **Ambar em fim de linha após liderar a moda escolar com mil trabalhadores**

Trinta dos 150 efectivos pediram a insolvência da empresa em tribunal e já não acreditam na salvação.



Lusa. (2013, August 07). Trabalhadores da Ambar contestam relatório que defende liquidação da empresa. *Porto Canal*. Retrieved from <http://portocanal.sapo.pt/noticia/5245>

## **Trabalhadores da Ambar contestam relatório que defende liquidação da empresa**

07-08-2013 17:35 | Economia  
Fonte: Agência Lusa

Mota, D. (2013, August 12). Ambar decide se fecha ou avança em outubro. *Jornal de Notícias*. Retrieved from <https://www.jn.pt/local/noticias/porto/porto/ambar-decide-se-fecha-ou-avanca-em-outubro-3368493.html>

## Ambar decide se fecha ou avança em outubro

Dora Mota  
12 Agosto 2013 às 16:41



TÓPICOS

Pais



Os credores da Ambar decidiram esperar mais dois meses para decidir o futuro da antiga indústria de papelaria do Porto, dando aos atuais administradores tempo para apresentar um plano de recuperação. O relatório da insolvência que previa o fecho e a liquidação dos ativos não foi aprovado na assembleia de credores desta segunda-feira.

Lusa. (2013, August 12). Credores da Ambar aprovam recuperação da empresa. *Público*. Retrieved from <https://www.publico.pt/2013/08/12/economia/noticia/credores-da-ambar-approvam-recuperacao-da-empresa-1602906>

EMPRESAS

## Credores da Ambar aprovam recuperação da empresa

Proposta dos administradores judiciais, que propunha a liquidação da empresa de produtos de papelaria do Porto, foi recusada

Lusa - 12 de Agosto de 2013, 17:37



A Ambar chegou a facturar mais de 30 milhões de euros LUÍS EFIGÉNIO/ARQUIVO

Silva, A. R. (2013, August 13). Ambar ganha novo fôlego com apoio dos credores a plano de recuperação. *Público*. Retrieved from <https://www.publico.pt/2013/08/13/jornal/ambar-ganha-novo-folego-com-apoio-dos-credores-a-plano-de-recuperacao-26949784>

## Ambar ganha novo fôlego com apoio dos credores a plano de recuperação

Ana Rute Silva · 13 de Agosto de 2013, 0:00



Empresa de material escolar chegou a facturar 20 milhões

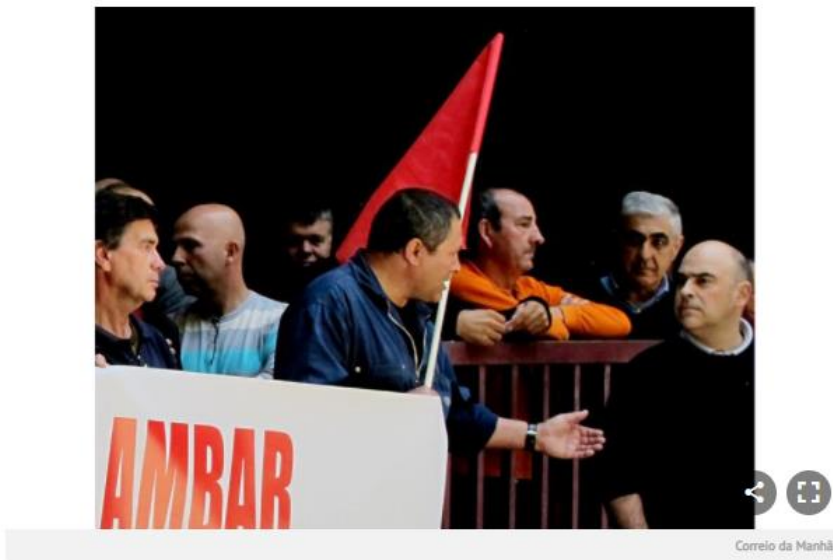
**Plano para liquidar a histórica empresa de produtos de papelaria foi chumbado em tribunal. Há novos investidores em vista**

Neves, R. (2013, October 15). Explorer só assume 3,5 milhões de dívida e injecta até 4,5 milhões na Ambar. *Jornal de Negócios*. Retrieved from [https://www.jornaldenegocios.pt/empresas/pme/detalhe/explorer\\_so\\_assume\\_35\\_milhoes\\_de\\_divida\\_e\\_injecta\\_ate\\_45\\_milhoes\\_na\\_ambar](https://www.jornaldenegocios.pt/empresas/pme/detalhe/explorer_so_assume_35_milhoes_de_divida_e_injecta_ate_45_milhoes_na_ambar)

EMPRESAS • PME

## Explorer só assume 3,5 milhões de dívida e injecta até 4,5 milhões na Ambar

A Explorer Investments só injecta dinheiro na Ambar, via Fundo Revitalizar Norte, se a dívida financeira da empresa for reduzida a 3,5 milhões de euros. Os credores têm dez dias para decidirem se aprovam ou chumbam o plano de recuperação.





Lusa. (2013, October 28). Plano de recuperação da Ambar ainda sem conclusão apesar de voto contra do BCP. *Porto Canal*. Retrieved from <http://portocanal.sapo.pt/noticia/9930>

## Plano de recuperação da Ambar ainda sem conclusão apesar de voto contra do BCP



28-10-2013 18:34 | Economia  
Fonte: Agência Lusa

Lusa. (2013, December 10). Recuperação da Ambar em risco devido a reclamação do BCP. *Jornal de Negócios*. Retrieved from [https://www.jornaldenegocios.pt/empresas/detalhe/recuperacao\\_da\\_ambar\\_em\\_risco\\_devido\\_a\\_reclamacao\\_do\\_bcp](https://www.jornaldenegocios.pt/empresas/detalhe/recuperacao_da_ambar_em_risco_devido_a_reclamacao_do_bcp)

EMPRESAS

## Recuperação da Ambar em risco devido a reclamação do BCP

O plano de recuperação da Ambar está em risco de não avançar porque o BCP, um dos principais credores da empresa, apresentou em tribunal um requerimento reclamando irregularidades na votação do documento.

*Lusa*  
10 de Dezembro de 2013 às 13:18

Lusa. (2013, December 18). Tribunal aceita plano de recuperação da Ambar. *Notícias ao Minuto*. Retrieved from <https://www.noticiasao minuto.com/economia/147857/tribunal-aceita-plano-de-recuperacao-da-ambar>

## Tribunal aceita plano de recuperação da Ambar

O Tribunal do Comércio de Gaia deu 'luz verde' ao plano de recuperação da Ambar, rejeitando as reclamações apresentadas pelo BCP, um dos maiores credores da empresa de produtos de papelaria do Porto.



© 2013



11:40 - 18/12/13 POR LUSA  
ECONOMIA GAIA

Lusa. (2014, January 08). BCP recorre para a Relação do Porto para travar plano de recuperação da Ambar. *Dinheiro Vivo*. Retrieved from <https://www.dinheirovivo.pt/empresas/bcp-recorre-para-a-relacao-do-porto-para-travar-plano-de-recuperacao-da-ambar-12648814.html>

## BCP recorre para a Relação do Porto para travar plano de recuperação da Ambar

08 Janeiro, 2014 • 17:58

PARTILHAR

- Facebook
- Twitter
- WhatsApp
- E-mail

+



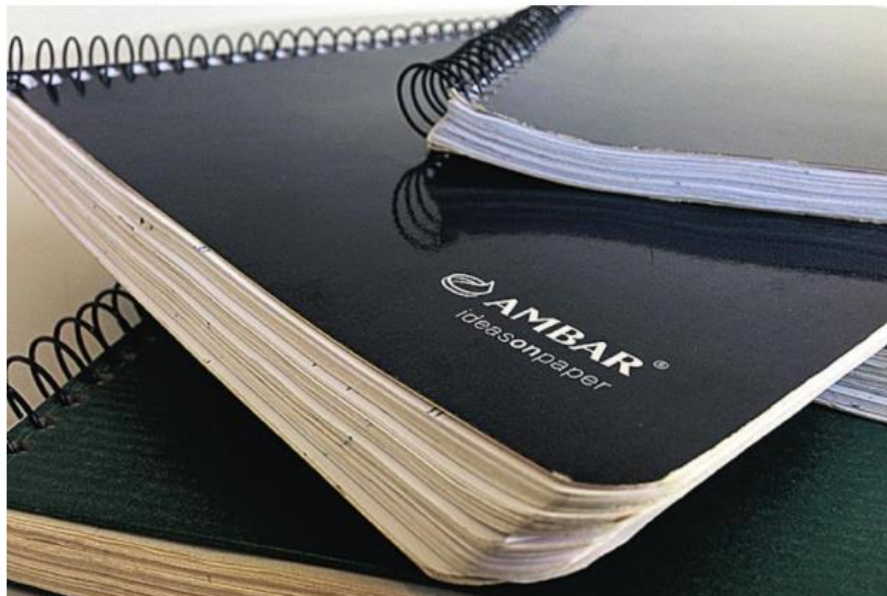
Soares, R. (2014, January 21). BCP garante nova vida à Ambar ao desbloquear plano de recuperação. *Público*. Retrieved from <https://www.publico.pt/2014/01/21/economia/noticia/bcp-da-garante-nova-vida-a-ambar-ao-desbloquear-plano-de-recuperacao-1620557>

## BCP garante nova vida à Ambar ao desbloquear plano de recuperação

Empresa de artigos de papelaria já definiu novas linhas de produtos escolares e vai retomar outros que tinha descontinuado.



Rosa Soares · 21 de Janeiro de 2014, 18:40



Ambar está formalmente em recuperação MIGUEL MADEIRA

Neves, R. (2014, September 25). Têxteis Valérius e Coscelos controlam 70% da Ambar. *Jornal de Negócios*. Retrieved from [https://www.jornaldenegocios.pt/empresas/industria/detalhe/2014\\_09\\_25\\_texteis\\_valerius\\_e\\_coscelos\\_controlam\\_70\\_da\\_ambar](https://www.jornaldenegocios.pt/empresas/industria/detalhe/2014_09_25_texteis_valerius_e_coscelos_controlam_70_da_ambar)

EMPRESAS • INDÚSTRIA

## Têxteis Valérius e Coscelos controlam 70% da Ambar

"Foi só show-off." Afinal, o Revitalizar Norte, que é gerido pela Explorer Investments, acabou por não injectar um só cêntimo na Ambar, emblemática empresa de produtos de papelaria.



Larguesa, A. (2014, November 17). A história de Armando Pereira, que a Ambar voltou a contratar. *Jornal de Negócios*. Retrieved from <https://www.jornaldenegocios.pt/empresas/detalhe/a-historia-de-armando-pereira-que-a-ambar-voltou-a-contratar>

EMPRESAS

## A história de Armando Pereira, que a Ambar voltou a contratar

A histórica firma de artigos de papelaria retoma o ritmo produtivo e já reintegrou 25 trabalhadores que suspenderam contrato durante a negociação do plano de recuperação.



Paulo Duarte - Negócios

Neves, R. (2015, November 11). Ambar fica sem os líderes da recuperação. *Jornal de Negócios*. Retrieved from

[https://www.jornaldenegocios.pt/empresas/industria/detalhe/ambar\\_fica\\_sem\\_os\\_lideres\\_da\\_recuperacao](https://www.jornaldenegocios.pt/empresas/industria/detalhe/ambar_fica_sem_os_lideres_da_recuperacao)

EMPRESAS • INDÚSTRIA

## Ambar fica sem os líderes da recuperação

A CFO e o director de Recursos Humanos da Ambar, que lideraram o plano de recuperação desta histórica indústria de papelaria, venderam os seus 30% do capital e saíram da empresa ao fim de 25 anos de "casa".






Cardoso, M. (2017, December 24). Como a Ambar mudou o jogo. *Expresso*. Retrieved from <https://expresso.pt/economia/2017-12-24-Como-a-Ambar-mudou-o-jogo>

ECONOMIA

## Como a Ambar mudou o jogo

24.12.2017 às 14h00



José Vilas Boas Ferreira, presidente da Ambar, quer continuar a diversificar os segmentos de negócio   
LUCILIA MONTEIRO

Felismino, E. (2019, January 10). Ambar aposta no exterior para chegar aos 10 milhões de faturação. *Eco Sapo*. Retrieved from <https://eco.sapo.pt/2019/01/10/ambar-aposta-no-exterior-para-chegar-aos-10-milhoes-de-faturacao/>

Empresas

# Ambar aposta no exterior para chegar aos 10 milhões de faturação

Elisabete Felismino  
10 Janeiro 2019



Depois do PER, a Ambar, empresa que completa 80 anos, está a apostar forte no mercado internacional. Empresa cresce a dois dígitos desde 2014, altura em que entraram os novos acionistas.

Lusa. (2019, April 6). Aos 80 anos de vida, a portuguesa Ambar quer aumentar peso das exportações para 60%. *Observador*. Retrieved from <https://observador.pt/2019/04/06/aos-80-anos-de-vida-a-portuguesa-ambar-quer-aumentar-peso-das-exportacoes-para-60/>

INÍCIO / EMPRESAS

Seguir

## Aos 80 anos de vida, a portuguesa Ambar quer aumentar peso das exportações para 60%

A empresa de material escolar e de escritório Ambar, que este mês celebra 80 anos, quer aumentar dos atuais 40% para 60% o peso da faturação no exterior até 2021, apostando na Europa, PALOP e EAU.

Agência Lusa  
Texto

06 abr 2019, 13:43



► José Ferreira é um dos dois empresários de Barcelos da área têxtil e automóvel que em 2014 adquiriram 70% do capital da Ambar  
JOSÉ COELHO/LUSA



Marketeer. (2019, October 1). Foco nas novas gerações. *Marketeer Sapo*. Retrieved from <https://marketeer.sapo.pt/foco-nas-novas-geracoes>

## Foco nas novas gerações

Por **Marketeer** — em 09:53, 1 Out, 2019

Há 80 anos, Américo Barbosa fundou no Porto a Ambar, uma empresa dedicada à encadernação. Hoje, a actividade da empresa engloba produtos para escritório, material escolar, gift, brinquedos científicos e pedagógicos e Fine Papers.

Salgueiro, M. (2020, August 30). Lidl lança coleção de máscaras reutilizáveis para miúdos e adultos desde 1,99€. *NiT*. Retrieved from <https://www.nit.pt/compras/lojas-e-marcas/lidl-lanca-colecao-de-mascaras-reutilizaveis>

## Lidl lança coleção de máscaras reutilizáveis para miúdos e adultos desde 1,99€

A produção é feita em Portugal e recebeu um certificado CITEVE. Mais barato do que isto é difícil.



30/08/2020 às 11:55



texto  
Maria Salgueiro

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Ambar. (2014-2018). *Balance Sheets 2014-2018*. Porto.

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de Sousa, A. F. (2019, January 11). *Tudo que precisa de saber sobre insolvência e recuperação de empresas com dificuldades*. Retrieved from *Jornal Económico*: <https://jornaleconomico.sapo.pt/noticias/tudo-que-precisa-de-saber-sobre-insolvencia-e-recuperacao-de-empresas-com-dificuldades-396555>

## 5. Appendices

### Appendix A – CapEx Calculation

	A	B	C	D	E
1	<b>2014</b>	<b>Tangible Assets</b>			
2	Initial	0,00			
3	Final	1 976 305,00			
4	Depreciation	23 695,00			
5	<b>CapEx</b>	<b>2 000 000,00</b>	<b>CapEx = Final - Initial + Depreciation</b>		
6					
7	<b>2015</b>	<b>Tangible Assets</b>		<b>2016</b>	<b>Tangible Assets</b>
8	Initial	1 976 305,00		Initial	1 860 868,71
9	Final	1 860 868,71		Final	1 558 300,59
10	Depreciation	314 331,64		Depreciation	327 856,40
11	<b>CapEx</b>	<b>198 895,35</b>		<b>CapEx</b>	<b>25 288,28</b>
12					
13	<b>2017</b>	<b>Tangible Assets</b>		<b>2018</b>	<b>Tangible Assets</b>
14	Initial	1 558 300,59		Initial	1 592 936,08
15	Final	1 592 936,08		Final	1 311 387,68
16	Depreciation	347 285,09		Depreciation	385 389,17
17	<b>CapEx</b>	<b>381 920,58</b>		<b>CapEx</b>	<b>103 840,77</b>

Figure 10 CapEx Calculation

### Appendix B - ROE Calculation

	2014	2015	2016	2017	2018	
19						
20	Net Income (€)	22 954,97 €	45 991,34 €	69 749,06 €	121 647,19 €	161 474,96 €
21	Equity (€)	522 954,97 €	568 946,31 €	638 695,37 €	760 342,56 €	921 817,52 €
22	<b>Return On Equity</b>	<b>4,4%</b>	<b>8,1%</b>	<b>10,9%</b>	<b>16,0%</b>	<b>17,5%</b>
23						
24	<b>ROE = Net Income / Equity</b>					

Figure 11 ROE Calculation

## Appendix C – ROIC Calculation

	A	B	C	D	E	F
1		2014	2015	2016	2017	2018
2	EBIT	29 236,22 €	123 962,04 €	230 740,64 €	251 289,06 €	412 122,54 €
3	Total Assets	3 520 542,23 €	6 497 572,37 €	6 707 364,18 €	7 826 258,67 €	8 777 712,26 €
4	Cash and Other Equivalents	11 951,30 €	79 871,48 €	167 521,77 €	167 655,50 €	89 416,16 €
5	ROIC	0,83%	1,93%	3,53%	3,28%	4,74%
6						
7	<b>ROIC = EBIT / ( Total Assets - Cash and Other Equivalents)</b>					
8						

Figure 12 ROIC Calculation



Appendix D – PowerPoint Presentation

# Ambar's Corporate Turnaround: from Liquidation to Expansion

## Introduction

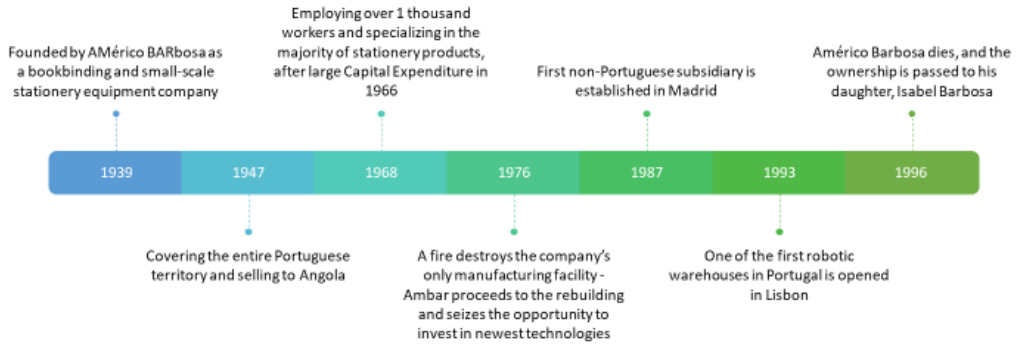
- One of the oldest Portuguese stationery companies, Ambar, is on the verge of bankruptcy
- Two company's directors - Rosa Magalhães and Mário Pinto - are trying to avoid Ambar's liquidation
- Will they succeed?

### Ambar at the end of the line after leading school fashion with 1,000 workers

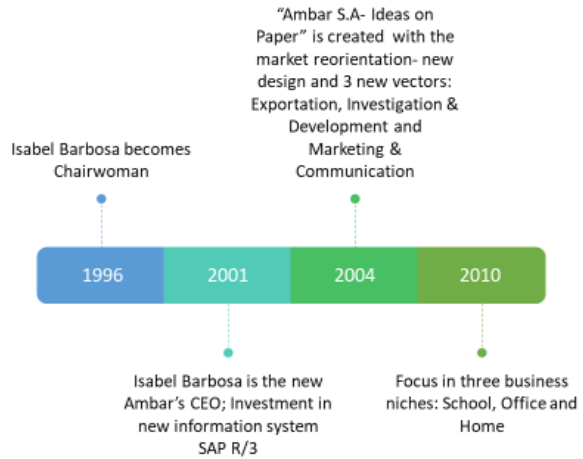
Thirty of the 150 employees have filed for bankruptcy of the company in court and no longer believe in salvation.

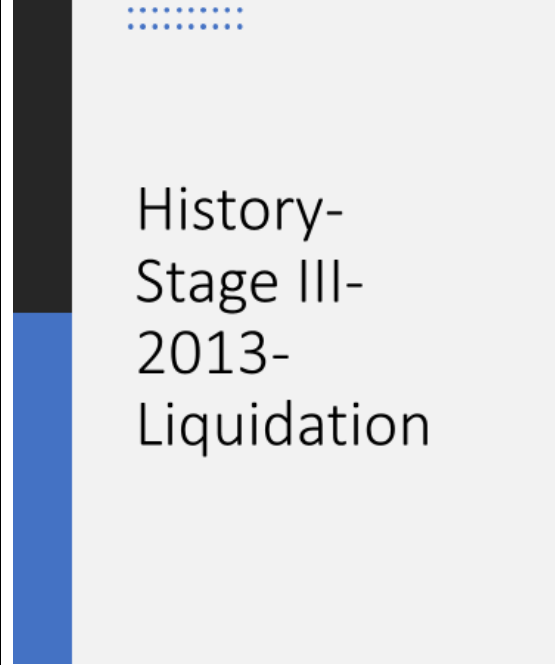


# History-Stage I- Américo Barbosa



# History-Stage II- Isabel Barbosa





## History- Stage III- 2013- Liquidation

- In 2013, Ambar was one of the oldest and most versatile stationery companies in Portugal.
- During its history, Ambar received several awards and client recognition for its outstanding efforts and excellent products.
- Ambar was present in more than 30 countries
- Nonetheless, 30 employees of Ambar filed an insolvency request with the Commercial Court of Vila Nova de Gaia

PESTLE

## Political



- Parliamentary democracy reimplemented after the Portuguese Carnation Revolution, in 1974
- Stability
- Freedom of expression
- Universal Declaration of the Human Rights is upheld
- Two sovereign bodies elected by universal suffrage- President of the Republic and Assembly of the Republic
- Membership of European Union- globalization, fair trade and less barriers to trade around Europe

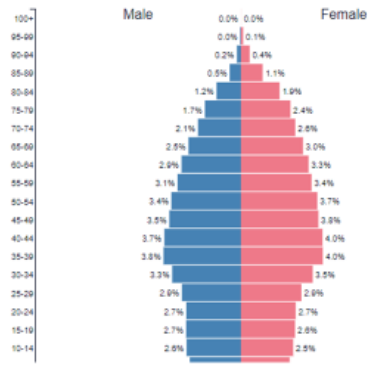
## Economic



Portuguese GDP Annual Growth Rate (%). Source Trading Economics

- The economic crisis occurred between 2008 and 2009, led to the failure and bankruptcy of many companies. In Portugal, its effects were still felt in 2013
- Negative GDP Growth Rate
- High unemployment rate
- High weight of Small and Medium Enterprises on the economy

## Social



Portuguese age pyramid (2013). Source: Pordata

- Aging tendency of Portuguese population - diminishing number of newborns and advances in the medicine increase life expectancy
- Demand for school products affected
- Lower illiteracy rate, resulted from introduction and increase of the compulsory education, stimulates demand for stationery products
- Seasonality in stationery industry - higher demand during the academic year

## Technological



- The favourable location of Portugal, lower rents, cheaper and highly qualified human resources, and the existent sustainable technological innovation drew the attention of the foreign investors - leading to the hosting of the Web Summit in 2016 and the accommodation of digital hubs of large companies
- Quickly changing trends lead to the continuous adaptation
- Technologic paper substitutes - computers and smartphones
- Customization & continuous investment

## Legal



- Rule of Law
- Longest Constitution in the world
- The companies follow the Trade and Companies Codes
- Guidelines stipulated by the European Union

## Environmental



- Higher concern with ecological issues and sustainability
- Careful use of the natural resources in transforming industries
- Programme for the Endorsement of Forest Certification (PEFC) and Forest Stewardship Council (FSC)
- Reduction of noxious gas emissions during the production
- Recycling of paper

## Portuguese Assembly Archive

- April 2010 - Ambar has not increased salaries for 7 years, offering barely more than the Portuguese legal minimum wage
- June 2010 - Ambar fires 30 employees due the outsourcing of one department. The number of employees decreased from 722 in 2000, to 340 in 2009 and to 261 in 2010
- May 2012 - Ambar, with one of the most modern and advanced equipment, presents a sales decrease of 40% relative to 2011 while competition grows 10 - 20%. Sales volume is dropping, Ambar is in arrears to Portuguese Social Security and has not paid salaries for several months. The company had 6 different management teams in 6 years leading to major instability

## Media

- February 2013 - thirty workers file a petition for the insolvency of Ambar to be declared, justified with salaries in arrears, lack of raw material and a debt of nearly €20 million
- July 2013 - court-appointed insolvency directors - Armando Rocha Gonçalves and José da Costa Araújo - propose the liquidation of Ambar. The shareholders do not approve the proposal and the Court appoints Rosa Magalhães and Mário Pinto as company administrators giving two months to demonstrate the results of the turnaround
- October 2013 - company receives a proposal of capital injection from Explorer Investments, a private equity firm, acting as manager of Fundo Revitalizar Norte, a government-sponsored fund aiming at investing in SMEs, with several conditions, one of which - debt level should not exceed €3,5 million.
- November 2013 - proposed financial conditions accepted by shareholders by a margin of votes of 0,05%. MBCP does not accept the conditions, since it meant a haircut of 88 percent of the debt instead of 62 percent accepted earlier by the bank
- January 2014 – Millennium BCP accepted the conditions and the turnaround plan is approved by the Commercial Court of Vila Nova de Gaia

## Insolvency Process in Portugal

- When the company shows the first signs of distress, such as failure to meet stakeholders' obligations, it must inform the authorities. When there are major failures, the company may request Insolvency, while minor failures may be solved by requesting Special Revitalization Process ("PER")
- When the case is delivered to the Commercial Court, it is analysed, and the company is declared either insolvent or not insolvent
- When the company is declared insolvent, the creditors must claim the amounts owed to them by the company, which are assessed by the Court to determine their fair value
- The Court appoints an insolvency manager to manage the company, analyse its financial position and prepare an opinion – to proceed to the liquidation of the company or to propose a turnaround plan

## Insolvency Process in Portugal (cont.)

- This opinion is analysed by the judge and the company's creditors and the final decision whether to declare insolvency or not is made
- If the turnaround plan is approved by the Court, having the necessary details regarding the measures to be implemented, timing and objectives of the company, it will proceed to the implementation
- If the decision is to proceed to liquidation, the company is instructed by the Court to sell all its assets in 6 month and to deliver the received amount to the creditors



## Report by Insolvency Administrators

	2009	2010	2011	2012
Sales (€)	23 859 988,12	19 606 363,66	11 569 446,37	=6 200 000
Net Income (€)	(1 946 345,60)	(3 668 840,50)	(3 545 172,05)	=(3 500 000)

*Ambar's Sales and Net Income between 2009 and 2012*

- Transparent accountability - giving confidence about the presented information
- Daily operating losses of €10 thousand, only selling the existent stocks and not producing any goods. Ambar's liabilities were €14,5 million being superior to its assets, while 90 workers of 150 had suspended their contracts
- Ambar's insolvency justified as a result of economic crisis and growing market share of the largest retailers

## Report by Insolvency Administrators (cont.)

- The collapse had been delayed by several capital injections made by Isabel Barbosa accumulating an amount due of €4 million, allegedly being invested after the insistency of top management that it would turnaround the company
- Ambar's demand was also affected by the competition of products imported from Asia with prices that Ambar was not capable to match
- The incapacity to sell resulted not only from the lack of raw materials, but also from the loss of production licenses and selling contracts
- Ambar had not been producing own brand labelled products and its poor financial condition did not allow to ask for loans or negotiate factoring contracts

## Report by Insolvency Administrators (cont.)

- The company's assets was also object of analysis - several warehouses and factory and expedition facility rents had not been paid accumulating large amounts in arrears
- The amount of several leasing instalments relative to Ambar's headquarters was in arrears to Millennium BCP
- **Decision:** proceed to immediate liquidation of Ambar's assets, brand Ambar and remaining stocks and machinery, since the company had very low probability to turnaround. Any delay in the decision to liquidate would decrease even more the company asset's value.

## Ambar's Response to the Report

- Liquidation decision is justified with the lack of familiarity with the company situation demonstrated by insolvency managers
- The distress is justified with management inaction- Isabel Barbosa had indicated her intention to reduce Ambar's size to ease the management. Given that, the company reduced the offer by shutting down several production lines, there was waste of stocks and mismanagement of human resources.
- Commercial conditions were altered unilaterally, the licenses were let expired and abandoned.
- The company confirmed the operating daily losses of €10 thousand being this amount unaltered since 2011



## Ambar's Response to the Report (cont.)

- The argumentation regarding generic industry losses as consequence of economic crisis was rejected by the company - Ambar's direct competitor Ancor presented sales increase of 20% relatively to 2012 and Firmo re-entered the stationery market in 2012.
- **Conclusion:** non-liquidation of Ambar. **First**, the sale of the company's assets would not generate enough money to pay all the creditors - the utilization of these assets would provide major profits. **Second**, the continuity of Ambar would preserve the employment not contributing to the general high unemployment rate in Portugal. **Finally**, given the company's importance to the Portuguese history and economy, to save Ambar from liquidation should be a sufficient motivation by itself

## Summary





## Target Audience

- Master's students in Finance and Management

## Educational Objectives

- ❖ Explain the complexity of managing distressed companies, their daily difficulties, and the possible consequences - closure of the company or turnaround.
- ❖ Describe the insolvency procedures in Portugal.
- ❖ Explain the concept of corporate turnaround and the variety of measures that companies may implement.
- ❖ Demonstrate the importance of a meticulous analysis of the situation to facilitate the implementation of the most suitable measures.
- ❖ Emphasize the importance of corporate turnarounds for the future months.
- ❖ Give the students the possibility to become an active participant in the case situation - to analyse given information, to elaborate their own turnaround plan and discuss the chosen measures during the class.
- ❖ Alert for the non-linearity of procedures followed during a corporate turnaround and the uniqueness of each case.

## Literature Review - Corporate decline

- Failure to identify the threats that put in danger the company continuity
- Deterioration of the economic performance which may be complemented by reduction of human or financial resources
- Occurred during significant time period

## Literature Review - Analysis of corporate crisis

- Several indicators to identify organizational distress:
  - Profits decline
  - Lower liquidity
  - Lower capacity to acquire more debt
  - Reduced company attractiveness for highly qualified human resources
- Even the simultaneous decline of several parameters does not necessarily lead to organizational decline, but may be the result of corporate turbulence
- Corporate distress vs Corporate turbulence
  - Corporate turbulence occurs during shorter time period

## Literature Review - Causes of Corporate decline

- Internal vs External factors
- Internal factors depend on managers competency, for example: implemented strategies or supplier selection;
- External factors are out of management control - for example: political, economic or technological changes

## Literature Review - Framework for Corporate Turnaround

- Four-stage model



## Literature Review - 3 Bases of Corporate Turnaround

### Context

Internal & External factors identified through analysis of company's internal issues and PESTLE Analysis

### Process

Identify the approach to be used:  
Retrenchment vs Recovery

### Content

Measures to be implemented on:

- Operations;
- Management;
- Financial Structure;
- Asset Portfolio

## Literature Review - Process: Retrenchment vs Recovery

- Retrenchment is the process of the company's asset reduction and/or cost cutting to improve the firm's efficiency- "stop the bleeding"
- Recovery is the strategic reorientation that improves the company's position being the main goal to produce a long-term growth strategy
- **Do retrenchment and recovery complement each other, or should the manager choose one of them?**

## Literature Review - Content of Corporate Turnaround

Operational	Managerial	Capital Structure	Asset Portfolio
<ul style="list-style-type: none"> <li>• First measure to be implemented – most suitable for the short run</li> <li>• First stage- cost cutting (sufficient to turnaround some companies)</li> <li>• Second stage- increase revenues through price reductions and investment in marketing and product promotion</li> </ul>	<ul style="list-style-type: none"> <li>• Change the company CEO, board of directors or the top management team.</li> <li>• Sends a positive signal regarding future changes, provides diversity</li> <li>• On the other hand, the maintenance of internal managers who offer higher specific understanding of the business retains shareholders credibility</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in Capital Structure to alleviate interest and debt burden</li> <li>• Equity based vs Debt Based</li> <li>• Equity based - dividend reductions or cuts and equity issues</li> <li>• Debt based - debt renegotiation, offer the creditors an option to swap debt for equity</li> </ul>	<ul style="list-style-type: none"> <li>• Asset Investment vs Asset Divestment</li> <li>• Asset Investment - capital expenditures to acquire machinery or production facilities and mergers &amp; acquisitions</li> <li>• Asset Divestment - disposal of non-generating cash properties and non-core assets to raise funds</li> </ul>

## Literature Review - Leadership in Corporate Turnaround

- The leadership skill of the managers affect the success of the corporate turnaround
- It is crucial to have several characteristics, such as the ability to define priorities, to be decisive, to transmit confidence to the shareholders and to have negotiation skills
- On the other hand, management skills required to achieve the corporate turnaround are not necessarily the same to manage the company in its daily activities



## Suggested Questions

1. Do you agree with the insolvency managers' assessment of Ambar's future?
2. Do you think it is possible to bring the company back to profitability?
3. How important is the capital inflow in distress situations? Where would you obtain the required capital?
4. Design a turnaround plan for Ambar. Which measures should the company implement?



## Class Plan

1. The case exposition is presented to the students in PowerPoint
2. After the case exposition, students can ask questions that may have arisen.
3. When all doubts are clarified, the students must form groups of 4.
4. The groups must answer the suggested questions, having 15 minutes for this matter.
5. The remaining time of the class serves to discuss the presented answers by the students and compare with the case solution.

# Case Solution

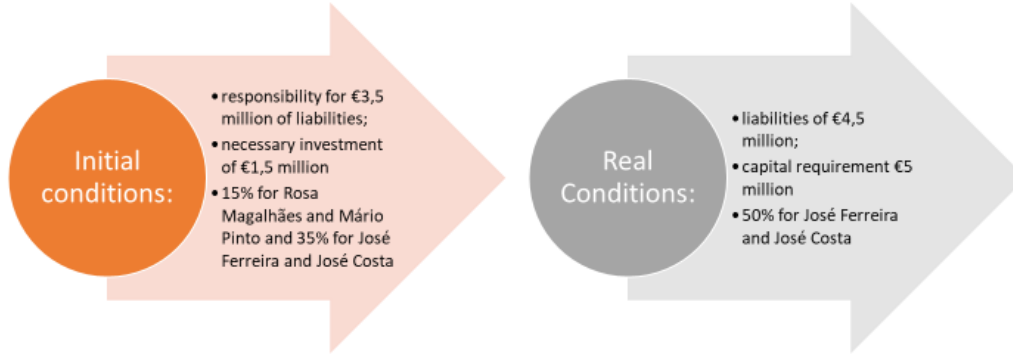
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## 3. How important is the capital inflow in distress situations? Where would you obtain the required capital?

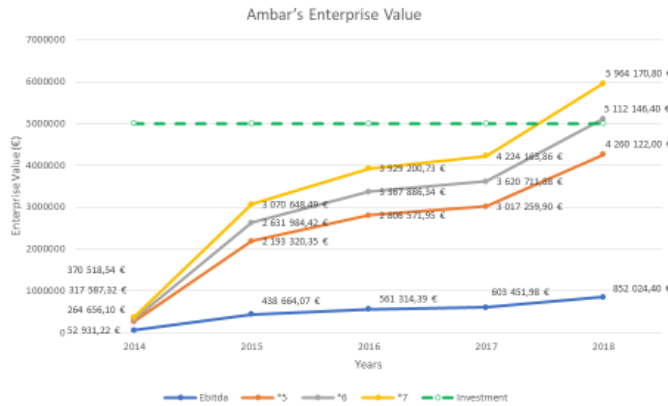
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- Ambar is not capable to produce or sell
- A capital expenditure is required to restart the production – to buy raw materials, invest in new machinery and to call back some workers with suspended contracts
- **Where would you obtain the required capital? Funds versus Bank loan?**
  - Hedge fund – invests in cheap debt of distressed – but potentially recoverable – firms and expects its turnaround to obtain large profits
  - Explorer Investments – invests in SMEs and other companies in similar conditions to Ambar
  - Bank loan – high bankruptcy risk, no valuable assets to use as collateral, do not attract bank lenders
- Explorer Investments withdraws the proposal
- New investors - Valérius and Coscelos - two textile companies managed by experienced in corporate turnaround directors

### 3. How important is the capital inflow in distress situations? Where would you obtain the required capital?



### 3. How important is the capital inflow in distress situations? Where would you obtain the required capital?



- It is possible to estimate Ambar's Enterprise value by using EBITDA values.
- In general, *ceteris paribus*, the company would only start to become profitable in 2018 assuming enterprise multiples greater or equal to 6

### 3. How important is the capital inflow in distress situations? Where would you obtain the required capital?

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- Reasons that led Explorer Investments to withdraw the proposal:
  - Ambar did not achieve the necessary debt level of €3,5 million, presenting €4,5 million
  - Fundo Revitalizar Norte limits its investment at €1,5 million per year- an amount that would not be sufficient for Ambar to initiate corporate turnaround
- Motivations of the new investors:
  - Add another company to their curriculum of successful turnarounds by saving one of the most important and ancient stationery companies in Portugal
  - Diversify their business portfolio

### 4. Design a turnaround plan for Ambar. Which measures should the company implement?

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- To restore Ambar's initial performance level, it was necessary to pay the company's debts, to clean its image and to invest in machinery. Additionally, it was also required to diversify Ambar's portfolio, to expand to other markets and to restore the customer loyalty.
- The first step was to "stop the bleeding"- through the reduction of automobile fleet, concentration of the production in a single place, non-key asset disposal and other cost cuts
- Payment postponement - realization in several installments facilitated by Special Revitalization Process

4. Design a turnaround plan for Ambar. Which measures should the company implement?

- Reentrance in distribution channels, promotion of brand Ambar - production of own labelled products and new partnerships and licenses
- After acknowledging the low recognition of the brand by the younger population, Ambar, along with *Faculdade de Ciências da Universidade do Porto*, introduced AmbarScience – new line of didactic toys for the clients aged between 3 and 14 years. The new line cost the company €500 thousand and was expected to represent 25% of the generated sales in a few years.

4. Design a turnaround plan for Ambar. Which measures should the company implement?

Literature Review	Ambar’s Measures
<b>Restructurings</b>	
<b>Operational</b>	-in the first stage, cost cuts, by cancelling renting contracts and implementing layoff  -in the second stage, restoring distribution channels, acquiring licenses and new partnerships, production of own labelled products to increase recognition of the brand. After analysing the market and understanding the low recognition of the brand, Ambar created Ambar Science in 2017 increasing the portfolio of produced goods
<b>Management</b>	-the new investors became the new managers of the company, having experience in successful corporate turnarounds
<b>Financial Structure</b>	-mostly debt focused strategies - payment of the amounts in arrears to Ambar’s creditors was controlled by Special Revitalization Process, which cut a significant part of due amount and postponed payments to alleviate the pressure and allowed the company to gain the necessary liquidity to perform its daily activities
<b>Asset Portfolio</b>	-both asset-divestment and asset-investment strategies were implemented. During the retrenchment stage, the company proceeded to the return of leased assets, disposal of several non-key assets, concentrating its production in a single location. During the recovery stage, with the capital injection, a significant capital expenditure was performed - around €2 million in the first year to update machinery, followed by punctual investments intended for some adjustments

## Other Factors

- Leadership skills showed by Rosa Magalhães and Mário Pinto
  - assumed the responsibility and the inherent risks;
  - led the company's workers to work together towards the same objective
- Uniqueness of the case
  - two insolvency managers instead of one;
  - major efforts to keep the company operating

### Situation after 5 years

- After the necessary capital expenditure was made, the success of the Ambar's Turnaround was depending on the company's capacity to generate sales.
- ROE achieved two-digit percentage – partly sustained by low Equity level
- ROIC increased to almost 5%

	2014	2015	2016	2017	2018
Sales (€)	269 428,43	5 473 000,99	6 375 194,45	6 915 147,53	8 148 771,96
EBITDA (€)	52 931,22	438 664,07	561 314,39	603 451,98	852 024,40
Net Income (€)	22 954,97	45 991,34	69 749,06	121 647,19	161 474,96
CapEx (€)	2 000 000,00	198 895,35	25 288,28	381 920,58	103 840,77
Equity (€)	522 954,97	568 946,31	638 695,37	760 342,56	921 817,52
ROE	4,4%	8,1%	10,9%	16%	17,5%
ROIC	0,83%	1,93%	3,53%	3,28%	4,74%

## Conclusion

- Possibility to achieve corporate turnaround without implementing drastic measures- a 'simple' adjustment of the failing components may be enough to reverse the decreasing trend
- In Ambar's case, it was necessary to reverse the downscaling implemented for several years, to re-establish lost licenses and partnerships and to diversify the company's portfolio - increasing the company's clientele; supporting a proper measure implementation by making the necessary Capital Expenditures

## Conclusion (cont.)

- The discrepancy between the actions made by professional insolvency managers - whose role is to develop corporate turnarounds and who decided to liquidate Ambar -, and the real 'saviors' of the company- the director of human resources and the financial director, who, even without experience in corporate turnarounds, started the implementation of the necessary realignments and through hard work managed to initiate the salvation of Ambar from Liquidation
- Professional opinion to liquidate vs resilience and hard work