Advanced Training of Judges in Aspects of Bankruptcy and Reorganization

Neum, 16-17 Sep 2004

REORGANIZATION PLAN

What does the Reorganization Plan include?

- Method, time, amount of satisfaction of creditors;
- Conversion of claims into equity;
- New indebtedness and guarantees;
- Debt write-off;
- Compensation method;
- Financial forecast and types of measures to be taken in order to restore debtor's PROFITABILITY ...

ASSESSMENT OF PROFITABILITY

How ever important is to repay debts on time (solvency), the PROFITABILITY is equally important, i.e. ability to generate satisfactory profit.

ASSESSMENT OF PROFITABILITY

Ratios for evaluation of company's ability to generate profit:

- Borderline profit (return on sales)
- Assets turnover
- Return on assets
- Debt to equity
- Return on equity

ASSESSMENT OF PROFITABILITY

1. BORDERLINE PROFIT (Return-on-sales Ratio)

BP = Net profit / Net sales

This ratio shows % per each unit of sales which results in net profit. (for example 6.3% says that 6.3 fenings of each mark of sales remain in the company after all expenses are paid)

ASSESSMENT OF PROFITABILITY

2. TURNOVER RATIO

TR = Net sales / Total assets

The ratio shows efficiency in utilization of assets in order to achieve sales.

(A company with higher turnover utilizes its assets more productively than a company with lower turnover)

ASSESSMENT OF PROFITABILITY

3. Return-on-assets Ratio

RA = Net profit / Total assets

This ratio shows the ability of company's resources (assets) to generate profit, and efficiency in company's utilization of its assets (i.e. turnover of assets)

ASSESSMENT OF PROFITABILITY

4. Debt to equity ratio

This is the ratio between financing sources provided by lenders and shareholders.

Debt to equity=Total liabilities/Equity

(for example, is this ratio is 1, then total liabilities are equal to equity – IMPORTANT FOR SOLVENCY ANALYSIS)

ASSESSMENT OF PROFITABILITY

5. Return-on-equity Ratio

This is a very interesting ratio for shareholders who want to know how much they made with their investments in company.

Return = Net profit before tax/Average shareholder equity

PRACTICAL EXAMPLES

1. CASH BUDGET (Cash projections)

- projection of cash income
- projection of cash expenses
- identifying cash requirements

2. Projection of Balance Sheet and Income Statement

- Good understanding of past operations
- Give priority to conservative approach
- Carefully project sales