



Opportunity to acquire (parts of) one of the largest heavy machinery and metallurgical engineering facilities in Central Europe



August 2019



# Once a leading CEE heavy machinery facility is up for sale in an asset deal from insolvency administrator

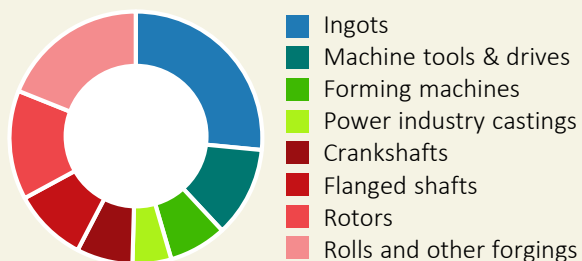
## Geographical location



## Selected customers



## Product portfolio, 2017



PILSEN STEEL\* is a **heavy machinery and metallurgical engineering facility** with 160-year history based in Pilsen, Czech Republic. The company produces large, sophisticated and custom-made components for power engineering, shipbuilding, wind power generation, nuclear and other industries.

High **steel quality, integrated manufacturing, wide range** of goods and unique experience in the production of **large and heavy components** with biggest **pattern shop in Europe** belong to key competitive advantages of the company.

PILSEN STEEL's assets include: (a) **steelmaking** shop capable to produce up to 150 Kt of steel p.a., (b) steel and iron **foundry** shop (up to 150 t of net weight), (c) **forge** shop capable to produce 45 Kt of forged weight p.a., (d) **machining** shop.

The company currently has **570 employees** in headquarters and four independent divisions. Its **product portfolio** focuses on:

- **Ingots** - round ingots ranges up to 1.0 m in diameter and 45 t in weight, polygonal ingots with weight up to 200 t;
- **Castings** - high quality steel and iron castings up to 150 t net weight for power generation turbines, engine blocks, compressors, pumps and gear boxes; large castings for heavy machinery and nuclear industry;
- **Forgings** - crankshafts, windmill shafts, rotors, rolls, ship shafts, forgings for shipbuilding, wind power and nuclear energy industries, rolling mills, etc., including fine machining. Forged bars and black forgings up to 21 m length.

## Transaction

- The company filed for **insolvency** in January 2019 and since then its operations were fully interrupted. Employees are, nonetheless, still kept on the payroll.
- In June 2019 the insolvency court gave full disposition rights to an **insolvency administrator**, who hired TARPAN Partners to **approach potential investors**.
- Disposal is structured as an **asset deal**, with no liabilities or warranties, which makes it a simple and safe transaction.
- Primary goal is to sell the company (or its parts) as a **going concern**, however, purchase of **parts or individual assets** is also possible.
- **Indication of interest** is required at latest by **September 16, 2019**.

\* PILSEN STEEL Ltd. and Pilsen Estates Ltd. (further also as "company")

# Ability and know-how to produce super clean steel and custom-made castings with net weight up to 150 t; unique pattern shop



	Steelmaking	Foundry (incl. Pattern shop)
Description	<ul style="list-style-type: none"> <li>A wide range of <b>high-grade steel</b> types from structural to high-alloy and corrosion-resistant steels for the power industry.</li> </ul>	<ul style="list-style-type: none"> <li>High quality steel and ductile/grey iron castings as per <b>customer specifications</b> for wide range of industries. Large <b>castings</b> with net weight up to <b>150 t</b>.</li> <li>Unique <b>modelling know-how, largest pattern shop in Europe</b>.</li> </ul>
Capacity*	Max.: Steel <b>150 Kt</b> p.a., Iron 20 Kt p.a. / Current: Steel <b>75 Kt</b> p.a., Iron 12 Kt p.a.	Max.: <b>110 ths. Nh</b> p.a. / Current: <b>28 ths. Nh</b> p.a.
Employees	<b>65 FTE</b> (blue-collar 13, workmen 52)	<b>136 FTE</b> (blue-collar 32, workmen 104), of that <b>33 FTE</b> in pattern shop
Key assets	<ul style="list-style-type: none"> <li><b>70 t electric arc furnace</b>, avg melting time of 120 mins, electricity cons. 360 kW/t, total reconstruction in 2011, 5 pcs. of oxy-fuel burners.</li> <li>50 t electric arc furnace, 600 kW/t, not in operation (backup).</li> <li><b>ASEA-SKF ladle furnace</b> with capacity of 40 – 150 t, with induction mixing, average melting time 120 minutes, electricity consumption 110 kW/t.</li> <li><b>VOD equipment</b>, production of stainless steels.</li> </ul>	<ul style="list-style-type: none"> <li>Fully equipped self-standing <b>pattern shop</b>, including <b>5-axis CNC milling cutter</b> (table 4.8 x 2.8 m, height 1.2 m).</li> <li><b>12 mixers</b> with capacity of 15 – 50 t/hour.</li> <li><b>2 mixture regeneration machines</b> with capacity of 60 t/hour.</li> </ul>
Key products	<ul style="list-style-type: none"> <li><b>Bottom-poured steel ingots</b> poured in controlled argon atmosphere.</li> <li><b>Polygonal ingot</b> sizes from 3 – 200 t, <b>round ingots</b> 1.5 t – 45 t, <math>\varnothing</math> 0.3 - 1.0 m. Micro purity guaranteed as per DIN 50602 K4 max. 10, total oxygen content max. 15 ppm.</li> </ul>	<ul style="list-style-type: none"> <li>Components for <b>steam, gas, wind and water turbines</b>.</li> <li>Engine blocks and other castings for <b>diesel engines, compressors, pumps</b> and gearboxes. Large castings for <b>heavy engineering</b> and <b>nuclear industry</b>.</li> <li>Steel castings up to <b>300 t</b> and iron castings up to <b>150 t</b> of raw weight.</li> </ul>

\* Maximum technological capacity / capacity with current workforce

# Forge with fine machining is leader in 4-stroke crankshafts and other large forgings (up to 130 t) for a wide range of industries

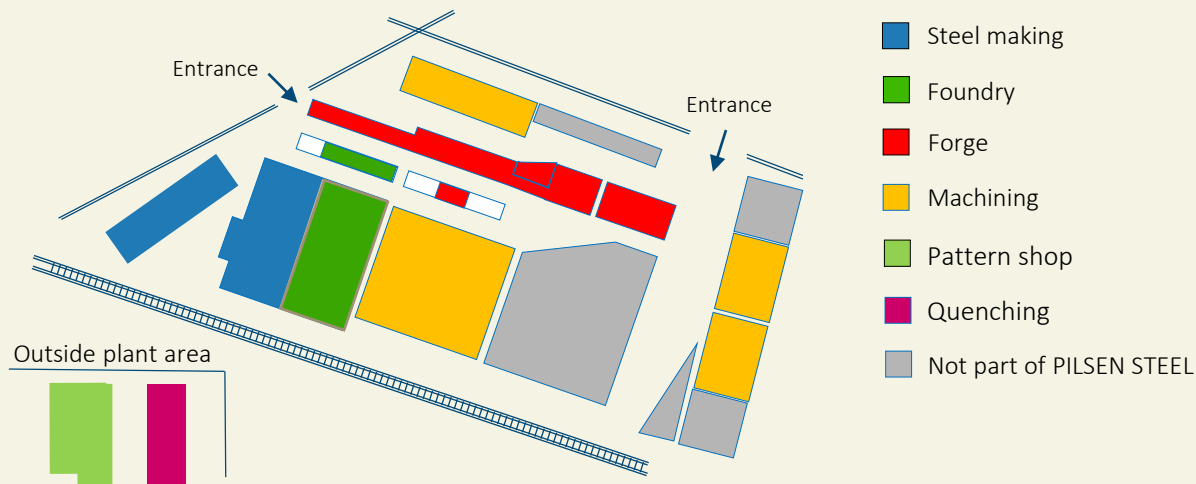


	Forge (incl. Quenching)	Machining
Description	<ul style="list-style-type: none"> <li>Open die forgings with weight up to <b>130 t</b> (max. ingot 200 t).</li> <li>Ability to forge heavy <b>crankshafts</b> up to <b>13 m</b> in length and other custom-made products. Market leader in <b>main shafts for wind turbines</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Fully equipped shop for rough and fine machining of company's products.</li> <li>More than <b>80 machine tools</b> with a max. machining ability of up to <b>140 t</b> for non-rotational components and up to <b>80 t</b> for rotational components.</li> </ul>
Capacity*	Max.: 45 Kt p.a. / Current: 21 Kt p.a.	Max.: 450 ths. Nh p.a. / Current: 180 ths. Nh p.a.
Employees	63 FTE (blue-collar 14, workmen 49)	137 FTE (blue-collar 31, workmen 106)
Key assets	<ul style="list-style-type: none"> <li><b>Forge:</b> 2 hydraulic presses with capacity 33 MN and 120 MN (spacing 6 000 mm), 8 car-type heating furnaces (length up to 13 m), combined car-type furnace (length 22 m), 8 car-type and 2 shaft cooling furnaces.</li> <li><b>Heat treatment:</b> 7 horizontal furnaces (length up to 9 m), 8 vertical furnaces (depth up to 24 m), horizontal and vertical water and oil <b>quenching tanks</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy-duty precise lathes from SKODA (up to <math>\varnothing</math> 3.3m and length 15 m) for machining of <b>rotational components</b>.</li> <li>Complex production line for <b>machining of heavy monolithic crankshafts</b> (weight up to 32 t, length up to 12.5 m).</li> </ul>
Key products	<ul style="list-style-type: none"> <li>Leader in heavy <b>crankshafts</b> for four stroke diesel engines, compressors and pumps.</li> <li>Major supplier of <b>main shafts for wind power plants</b> of all sizes.</li> <li><b>Rolls</b> and forgings for <b>shipbuilding</b> and <b>power</b> industries.</li> <li>Forged <b>bars</b> .</li> </ul>	<ul style="list-style-type: none"> <li>Finalization of forge a foundry products of the company.</li> </ul>

\* Maximum technological capacity / capacity with current workforce

# Company's premises exceed 198 K m<sup>2</sup>; its financial situation was seriously deteriorating under management of previous owner

## Company's premises – main production area



- The company's premises take up an **area of 198 K m<sup>2</sup>**, of that 42 K m<sup>2</sup> is steelmaking, 42 K m<sup>2</sup> foundry (of that pattern shop 9 K m<sup>2</sup>), 45 K m<sup>2</sup> forge (of that quenching 7 K m<sup>2</sup>) and 54 K m<sup>2</sup> machining.
- The premises are close to the city center of Pilsen, have direct **railway access** and are in proximity of **highway** connecting Prague and Nuremberg.

## Headquarters' employee structure



## Selected financials, EUR M\*

	2008	...	2016	2017	2018
<b>Sales</b>	<b>239.0</b>		<b>29.8</b>	<b>38.3</b>	<b>32.7</b>
Material & energy	144.9		31.1	40.3	21.9
Services	45.4		4.2	7.9	5.5
Personnel	24.8		12.7	14.0	14.7
Change in inventory	(25.4)		(3.0)	(6.8)	11.7
Other, net	0.7		1.2	4.3	1.9
<b>EBITDA</b>	<b>48.7</b>		<b>(16.4)</b>	<b>(21.3)</b>	<b>(23.1)</b>
D&A, write-offs	13.0		11.0	5.3	15.9
<b>EBIT</b>	<b>35.7</b>		<b>(27.5)</b>	<b>(26.6)</b>	<b>(39.0)</b>

\* Consolidated PILSEN STEEL, Pilsen Estates, Pilsen Toll, converted at avg EUR/CZK FX for respective years

- Until 2010, the company was owned by Russian OMZ. Results from **2008** demonstrate the capacity of the company in its **peak years**.
- The next owner, Mr. **Igor Shamis**, was not able to secure sufficient demand and the company results were substantially deteriorating. Macroeconomic crisis, Russian sanctions, and global overcapacity led to insolvency (reorganization) in 2012-14.
- Since 2014, the company was owned by its largest 2014 creditor, **Vneshekonombank** (VEB Kapital), a Russian state institution. The results have not improved since then.
- Current estimate is that **re-launch of the company's operations** as going concern would require ~15-20 EUR M additional funding. The future owner should also be able, in medium-term, to secure demand exceeding ~100 EUR M.

# Indications of interest are required by September 16, 2019

## Transaction

- PILSEN STEEL comprises of two relevant companies: **PILSEN STEEL** Ltd. (with all the employees, machinery and operations) and **Pilsen Estates** Ltd. (owning part of the real estate). Both companies (resp. their assets) are for sale and under full control of the insolvency administrator.\*
- **TARPAN Partners** was selected by the insolvency administrator as an **exclusive financial advisor to approach potential investors**.
- As the company's operations are interrupted and employees still on the payroll, indications of interest and further sale process is organized in an **accelerated manner**.

\* Prior to insolvency, Pilsen Toll Ltd. was used as a financing (tolling) entity

## Indication of interest and next steps

- **Indication of interest** is required by **Sep. 16, 2019, 14:00 CET** and should include:
  - **Who** is making the bid, description of the bidder and/or reference to website
  - Specification of interest:
    - **Entire** company as going concern
    - **Parts** (incl. description which parts) **of company** as going concern
    - Specific **assets** of the company, incl. description which assets
  - Indication of **strategic rationale** of acquisition and indicative plans post acquisition
  - **Confirmation** of sufficient funding for running (part) of the company as going concern
  - **Signature** by the relevant entitled person within the organization
- Indications of interest will be evaluated during second half of September, while **preference will be given to those interested in acquiring (parts of) the company as going concern**.
- Distribution of information memorandum and NDA to interested parties shall follow after evaluation of indications of interest.

### If you are interested send...

... scan of signed indication of interest to TARPAN Partners and Insolvency administrator via email.

.... original of indication of interest should follow within a week to TARPAN Partners via mail.

Queries or questions shall be directed to TARPAN Partners.

### TARPAN Partners

Jan Chalupa

Managing Partner

Tel.: +420 724 023 175

chalupa@tarpanpartners.com

Michal Palata

Senior manager

Tel.: +420 724 639 140

palata@tarpanpartners.com

TARPAN Partners

Na Strži 1702/65,

140 62 Prague 4, Czech rep.

www.tarpanpartners.com

### INSOLVENCY

Jaroslav Brož

Insolvency administrator

Tel.: +420 731 507 997

jaroslav.broz@bbv-ak.cz

### DISCLAIMER

This offer will be available only to a Recipient, who agrees with the conditions stipulated in this disclaimer. For the purposes of this disclaimer, the term "Recipient" means (i) any person, to whom the company TARPAN Partners s.r.o. (hereinafter "TARPAN Partners") made this offer available; and (ii) any person, who received this offer from the person mentioned in article (I). The information contained in this offer is intended to provide the Recipient solely with a general and brief overview and it is not its goal to address any specific requirements. It especially does not represent any form of advisory or recommendation. The Recipient or any other person should not rely on the information disclosed herein when making any business decision (or refraining from any business decision) regarding any matters included in this offer or discussed by the Recipient and TARPAN Partners or their affiliates, as it is not the purpose of this information. Upon acknowledging the aforesaid, the Recipient is fully reliable for any consequences resulting from using this offer and for all his business decisions, including, without limitation, entering into any agreements. This offer or information disclosed herein do not represent any contract proposal and do not bind any person legally in any way. This offer will be available to the Recipient, only if he agrees to negotiate about its subject solely through TARPAN Partners and to refrain from contacting the owner, directly or indirectly, by other means than through the TARPAN Partners company. This offer may include information that is not publicly available; such information are confidential and intended solely for the Recipient to enable him to consider feasibility options relating to the above described transaction. The Recipient is obliged to protect such information and he is not entitled to disclose it to any third parties. The whole contents of the offer is subject to copyright with all rights reserved. It is not allowed to copy (whole or any part of), distribute (by electronic means or otherwise), amend, include or use the offer or any part of it for any public or commercial purposes without a prior written consent of TARPAN Partners. The recipient understands that he may be made liable for any damage (including consequential damage and loss of profit) incurred by TARPAN Partners or any of its affiliates due to breach by the Recipient of the conditions stipulated in this Disclaimer.