A Near-Fatal Relapse

Relentless growth almost finished Oerlikon. A painful restructuring has saved the group for the moment – just as it did ten years ago. The company failed to learn from past mistakes.

By Irina Jaekel

In March 2010, Swiss technology group OC Oerlikon was teetering on the brink of collapse. With almost no liquidity left, it faced repayment of a CHF 600 million (EUR 424m) loan at the end of the month. The fate of 16,000 employees was at stake while a vitriolic dispute between the majority shareholder, Russian oligarch Viktor Vekselberg, and his creditors was threatening to cut the already slim chances of an agreement to zero. Investors were losing faith: Citigroup and Germany's WestLB, the leader of the bank syndicate, sold part of their Oerlikon credits to the private equity firm Texas Pacific Group and other hedge funds at a discount of 30 per cent. The Swiss conglomerate, it seemed, was headed for extinction.

As it turned out, the group narrowly avoided disaster. It has clawed back some breathing space through a complex and painful debt-to-equity swap that will see the lenders take a 21 per cent stake in the group while watering Renova's stake down from 57 to 39 per cent. Still, Mr Vekselberg has agreed to pitch in another CHF 401 million to participate in the capital increase necessary to refurbish the group with equity. The plan is likely to work, simply because the alternatives are even worse. "I expect that the majority of the subscription rights will be exercised," says Michael Foeth, an analyst at Vontobel, a Swiss bank. Otherwise, the banks would be forced to step in. In any case, Oerlikon's net level of debt will be reduced by CHF 1.3 billion, and Mr Vekselberg will have made one of his worst investments.

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A downhill slide

How could a company that only two years earlier had reported an operating profit of roughly CHF 700 million fall so deep? When Mr Vekselberg bought his first stake of 10 per cent in 2006 from the former majority owner Victory Holding, it looked like a good idea. Oerlikon turned over around CHF 2.2 billion and was sitting on CHF 372 million in cash. That same year, however, Oerlikon laid the foundation for its later failure.

Shortly before, Thomas Limberger had joined from General Electric (GE) to become the new CEO. His mandate from the two Austrian owners of Victory Holding, Ronny Pecik and Georg Stumpf, was to restructure the Swiss conglomerate and turn

OC Oerlikon

When the past still held a bright future: Oerlikon on 8 May 1907, one year after its foundation.

it from a relatively focused technology firm into an industrial behemoth like GE, with diverse business units. That, it was decided, was to happen by acquiring healthy companies and burdening them with debt. The trio set their eyes on Saurer AG, at the time the world's number one maker of machinery for the textile industry and a niche supplier in the automotive sector. "Saurer had a very strong balance sheet, which gave the necessary scope for subsequent transactions," says Reto Amstalden, an analyst at the brokerage firm Helvea. Oerlikon forked out CHF 1.84 billion for Saurer – a steep price for which Oerlikon took out a syndicated loan of EUR 2.5 billion, priced at 450 basis points.

Little rationale

There was little industrial logic behind the deal. Oerlikon should have known better than to buy up assets that had nothing to do with its business model; it has outgrown itself once before. The company reached its commercial zenith in the 1980s, employing 37,000 workers across its extended structure. But by the 1990s, Oerlikon Buehrle Holding, as it was then called, had become a heavily indebted company and, in 1999, eventually had to be dissolved. Only six years later the Saurer acquisition catapulted Oerlikon straight back into its own past.

The deal seemed at first to have paid off. 2007 was a record year for Oerlikon. Sales rose to CHF 5.63 billion, partly helped by Saurer's impressive figures. An exuberant management embarked on a huge investment, share buy-back and M&A programme. Three smaller acquisitions followed. Oerlikon's debts soared to CHF 1.68 billion in 2009, compared to net cash CHF 427 million in 2005, before the Saurer acquisition.

Then, crisis broke out. The profligate attitude of the previous years came home to roost. Last year, Oerlikon had to digest CHF 202 million of goodwill impairment losses on its assets. At the end of 2009, its equity had crumbled from CHF 1.9 billion two years earlier to CHF 520 million. The company responded with hasty emergency measures, selling nine companies over the past two years at dumping prices to attract investors in a buyer's market. To no avail: "Oerlikon's management reacted too late and did too little. It was simply not radical enough," says Mr Amstalden. The company was lost.

A future like the past

Two years from now, Oerlikon will have once again become a completely different company. It must continue to divest and fundamentally change its business model if it does not want to plunge straight into the next crisis. To achieve this, the company must first stop wanting to be a conglomerate – a lesson it should have learned in 2006. If the message has not sunk in this time, Oerlikon should brace itself for another relapse into the past. ||

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