

# How debt restructuring got a traffic mobility leader back on the road



**ISAAC SARPONG:** Isaac is the Partner in charge of Tax Services. He has over 26 years' experience in the provision of multi-faceted advice to both local and international clients in taxation, accountancy, audit & assurance, and corporate law, among others. Isaac is a Chartered Accountant, a Chartered Tax Practitioner and a Lawyer.



## Austria's Kapsch TrafficCom surpassed its transformation goals and completed a critical debt restructuring with support from EY-Parthenon.

### Case study

#### The better the question

**1** **How can you reshape a mature business for today's markets?**  
*Multiple challenges meant Kapsch TrafficCom had to reduce costs and restructure its debts fast.*

Johann Kapsch laid the foundations of the Kapsch Group in 1892 when he set up a precision engineering workshop in Vienna, to build Morse telegraph devices and telephone equipment. Now headed by Georg Kapsch, the fourth generation to lead the family business, the organization has continuously adapted its offering to meet changing technologies and customer demands.

Today its subsidiary, Kapsch TrafficCom, is a global leader in technology solutions that keep traffic moving while protecting the environment. Its portfolio includes sophisticated electronic tolling systems and artificial intelligence powered intelligent transport management platforms that can predict congestion before it happens, allowing for a reduction in emissions and helping cities better plan traffic patterns. The business employs more than 4,000 people in over 25 countries and has implemented successful projects around the world.

As urbanization continues to rise, with more than two-thirds of the global population due to live in urban areas by 2050<sup>1</sup>, demand for advanced systems like Kapsch TrafficCom's - that keep transport moving, helping to increase productivity and ease air pollution - is set to escalate. However, in the early 2020s, Kapsch TrafficCom was itself in danger of grinding to a halt.

Following years of successful growth, the early 2020s saw revenues decline. Despite earlier reorganizations, the organization's operations remained tailored to previous higher revenue levels. Project postponements driven by the COVID-19 pandemic, significant-order cancellations, high fixed costs and high leverage squeezed profits and cash flow and left the business struggling to service its debts.

Kapsch TrafficCom acted proactively to address these challenges and present a business strategy to key stakeholders that would deliver greater efficiency and profitability. To deliver this, the CEO, Georg Kapsch, looked to external advisors for help. "After years of extremely strong growth, we realized that we needed to bundle and harmonize our many decentralized projects more effectively," he says. Kapsch chose the EY-Parthe-

non team, led by Ben Trask, due to the immediate chemistry between the two teams and as a result of the effort they put into drafting a bespoke solution to his company's challenges.

#### The better the question

**2** **Close collaboration underpinned partnership**  
*The EY-Parthenon team's review showed the need for urgent changes in strategy, operations and financing.*

EY-Parthenon's first step was to carry out an independent business review to assess Kapsch TrafficCom's situation and outlook. This confirmed the company needed to make urgent strategic, operational and financing changes to generate positive earnings and meet its debt obligations.

EY-Parthenon worked closely with the management team to develop a performance improvement program that would both establish a basis for discussions with creditors and also achieve the ambitious target of a €35 million improvement in EBIT within 12 months, through cost reductions and revenue growth initiatives.

This program, for which EY-Parthenon scrutinized every aspect of the business, included:

- ▶ Improving workforce planning, productivity and profitability
- ▶ Sustainable cost reductions, including improved management structures, automation and improved procurement systems
- ▶ Top-line growth programs, such as renegotiating contract clauses, proactive sales initiatives and new-customer acquisition approaches
- ▶ Portfolio optimization, including winding down non-profitable businesses and start-up collaborations
- ▶ Centralizing and streamlining decentralized project management, achieving efficiencies and helping enable clearer decision-making processes

At the same time, EY-Parthenon teams advised Kapsch TrafficCom on its capital structure options, to help the business manage its debt obligations. Multiple options were investigated to maximise the chance of a successful outcome including identifying and agreeing terms with potential re-financing partners.

As part of this complex procedure, the EY-Parthenon team supported the engagement and coordination of multiple stakeholders. Their transparent and collaborative approach helped build confidence in the process. "We had regular contact with existing creditors to understand their perspectives and position," says Ben Trask, EY-Parthenon Partner, Turnaround and Restructuring, Ernst & Young Parthenon Management Consulting GmbH. "As we ran parallel refinancing processes, we also had frequent discussions with possible refinancing parties about a potential transaction. Regular dialogues with legal counsel and advisors on all sides was also essential. Open and transparent communication with all parties was critical to ensuring a successful outcome".<sup>2</sup>

#### The better the world works

**3** **Transformation targets topped and debt successfully restructured**  
*Communication and trust paved the way to a secure future for the business and its people, stabilized the sector and retained key regional skills.*

Kapsch TrafficCom's turnaround program far exceeded its initial transformation targets of €35 million. Within one year, the company delivered a remarkable €60 million EBIT improvement. This improvement is well above average in the industry. Comparable turnarounds typically achieve around half of this figure, making these results even more significant. In another milestone, with the EY-Parthenon team's help, the company successfully agreed a financing terms with its existing lenders, bringing new money and capital structure stability to the business.

Regular honest communication - and mutual trust - between Kapsch TrafficCom and EY-Parthenon were fundamental to the dual success. "In our discussions with the management team we were never the 'yes person'. We always sought to prioritize the company's long-term interests, even if that meant disagreeing," says Trask.

Georg Kapsch acknowledges the value of such honest and robust communication. "The customer may have the final decision but he is not always right. It is the advisor's role to challenge the client and convince them with well-founded arguments. This approach significantly advanced our collaboration with EY-Parthenon and led to our successful outcomes," he says<sup>3</sup>.

“

**In our discussions with the management team we were never the 'yes person'. We always sought to prioritize the company's long-term interests.**

**Ben Trask**  
EY-Parthenon Partner, Turnaround and Restructuring, Ernst & Young Parthenon Management Consulting GmbH

Failure to successfully restructure this business not only risked the loss of almost 4,000 jobs, but the closure of the business risked destabilizing the entire transportation technology sector in Europe. This would have resulted in a loss of specialized knowledge and could have caused significant economic ripple effects in the wider supply chain.

#### References

1. 68% of the world population projected to live in urban areas by 2050, says UN. <https://www.un.org/uk/de-sa/68-world-population-projected-live-urban-areas-2050-says-un#:~:text=Calendar,68%25%20of%20the%20world%20population%20projected%20to%20live%20in%20urban,increase%20to%2068%25%20by%202050.>
2. Industriemagazin 06/2024
3. Industriemagazin 06/2024

#### Tax and Finance Operate

EY teams can help you reimagine your tax and finance operating model to keep pace with evolving regulation, technology and talent demands. Constantly adapting your own capabilities is challenging and costly. Instead, with our Tax and Finance Operate (TFO) solution, you can co-source select activities, leveraging our significant investment in technology, people and process.

Shape the future with confidence. Please send an email to [isaac.sarpong@gh.ey.com](mailto:isaac.sarpong@gh.ey.com) and copy in [kofi.akuoko@gh.ey.com](mailto:kofi.akuoko@gh.ey.com).

#### About EY

EY is a global leader in assurance, tax, strategy and transaction and consultancy services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, clients and for our communities.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

#### Find out more:

**Address:** 60 Rangoon Lane, Cantonments City, Accra.  
**P. O. Box** KA16009, Airport, Accra, Ghana.  
**Telephone:** +233 302 772001/772091  
**Email:** [info@gh.ey.com](mailto:info@gh.ey.com),  
**Website:** [ey.com](http://ey.com)