



INSIDE STORY – DECEMBER 2015 – GERMANY

Carlsson: An international luxury brand and the challenge of insolvency

Carlsson is a strong luxury brand on the global market for car tuning. The small German company, which is number two of the Mercedes-Benz tuning companies, was forced to file for insolvency at the end of April. This case shows the challenges posed by insolvency of an international brand and the possibilities of restructuring a company under independent administration if the latest legal possibilities in Germany are taken advantage of.

Carlsson Autotechnik: the road toward insolvency

Carlsson Autotechnik GmbH, founded in 1989, rapidly developed into one of the leading tuning companies for Mercedes Benz and other vehicle manufacturers and importers in Germany. The company, domiciled in Merzig in the federal state of Saarland, designs and develops accessories for automobiles such as aluminum wheels, aesthetic body parts, high-caliber interior furnishing or sports running gears with which the efficiency of the vehicle is enhanced and the vehicle is customized. Alongside these products, the company also sold its own developments such as the automobile C25, which shows the broad product range and competence of the company. These sportive luxury vehicles were sold worldwide for some €500,000 per vehicle.

In 2012, a Chinese investor wanting to improve access to the Chinese automobile market, one of the largest, fastest-growing markets in the world, became the majority shareholder in Carlsson. The Chinese investor surprisingly ceased his payments at the beginning of the year, as there were disputes among the shareholders. Ultimately, Carlsson became insolvent, filing for insolvency before the Municipal Court of Saarbrücken, Branch office Sulzbach, on April 28, 2015. The Municipal Court appointed the Saarbrücken Attorney at law Dr. Robert Schiebe as the controlling preliminary administrator not requiring the consent of the management. In other respects, the Carlsson Management Board was in a deadlock, as one of the managers whose consent was required had laid down his office.

Insolvent business continued to operate for seven months

In 2013 Carlsson still had revenues of €30 million. This declined to €18 million in 2014, as the company's performance on the Chinese market was weak, with vehicle manufacturers increasingly offering their own accessories. As the order situation was good at first glance and talks with

customers and suppliers were positive, the business was still able to be operated without restrictions during the insolvency.

According to German law, employees are entitled to up to three months' insolvency pay, an insurance benefit from the Federal Employment Agency, making it an unsecured creditor. These benefits, together with further restructuring possibilities under Insolvency Law, relieved the company and enabled continuation.

The insolvency was of course a strain on the Carlsson employees. However, through open communication they were able to be convinced that Carlsson can overcome insolvency over a foreseeable period of time and that it offers good prospects for the future. For this purpose, the business had to be restructured and a new investor had to be found. All orders were to be delivered to the customer on time as usual. The foremost defined goal of insolvency receivership was to maintain the company and its value. Accordingly, both the Management Team and the remaining employees continued to work with loyalty and dedication during the insolvency. In this way, dismissals were avoided and the knowhow concerning the key processes in the business was maintained. Had bearers of the knowhow been dismissed, restructuring would not have been possible.

The creditors of Carlsson are the Daimler Benz group, various banks and suppliers; banks such as the Daimler-Benz Bank enjoy special rights, as their claims are secured to a large extent. A creditor committee was formed early on out of one representative of the employees, one from the Unemployment Office, one logistics specialist, one parts producer and one IT service provider. This committee was consulted on all important decisions.

In talks, Mercedes as a major customer, but also other customers, were able to be convinced to maintain business relations with Carlsson. As a major step toward restructuring, the insolvency receivership employed different consultants who inspected the finances and accounts and took charge of external communication.

Continuation of the business and the sales process were hampered by the abstruse attitude of the Chinese long-standing shareholder. No constructive solution could be reached in negotiations with China and the important Chinese market remained completely barred.

Brand maintenance in insolvency: presentation of a newly developed sports limousine at the IAA Frankfurt Auto Show

In order to maintain the value of the company and to revive the sales process, Carlsson as a brand had to be cared for throughout the insolvency. This international brand is a significant asset of the company built up over many years through numerous marketing activities. For this reason, the insolvency receiver took the business decision to develop the sports limousine Carlsson CC 63 Rivage on the basis of the Mercedes C 63 S and to present it at the IAA Auto Show in Frankfurt in September, a decision harboring significant risks for the receiver.

As Carlsson is an important image agent for the state of Saarland and a model business in the automotive industry, the state government pledged its support in negotiations and sponsored the presentation at the IAA. Alongside Mercedes board members and important trading partners, the Minister-President, Mrs. Kramp-Karrenbauer visited Carlsson's stand at the fair. The positive feedback of the trading partners was very helpful in the continuation of the business. Moreover, a strong response in the international specialist media was able to be achieved through the PR activities. This was another way in which more investors from the automobile sector became aware of Carlsson.

International investor process with 250 potential investors and sale to an international vehicle supplier

During the investor process over 250 national and international potential investors were addressed. As exclusively financial investors backed out, there were four tenderers from the vehicle trade sector and the supply industry left over, who had paid large down payments. The creditor committee unanimously decided in favor of the offer of Sambo Motors Co. Ltd, a strategic investor, on November 19. The international company group Sambo Motors from Korea had revenue of over \$1 billion US dollars in 2014, with 3,000 employees.

On December 4, 2015 Sambo Motors took over Carlsson with its entire staff. The newly founded Carlsson Fahrzeugtechnik GmbH intends to grow in the state of Saarland and to offer special series in addition to accessory parts. In future, Carlsson is also to develop products for the international automobile market and to consolidate its position in Germany and Europe. The new owner intends to strengthen Carlsson as a luxury brand and to offer high-quality tuning of vehicles on the international automobile market. In addition, new business areas such as engineering services for the development of vehicles are to be created. The development of a new automobile has been announced for 2017. This independent development is planned as a successor model to the C 25 by Carlsson. Carlsson intends to create new jobs in the state of Saarland already in 2016.

Insolvency is a chance to start over

Using the tools of German Insolvency Law, Carlsson initiated a new start. During insolvency Carlsson was maintained as a well-known brand in the international automotive industry, as this brand is a significant asset. The new owner, the international company group Sambo Motors, wants to burnish the luxury brand Carlsson. Thus, for the federal state of Saarland and the employees, insolvency turned out to be an opportunity and opens up new perspectives. The case shows how a company can be restructured and an international luxury brand can survive insolvency unscathed by taking advantage of the new legal possibilities of the ESUG.

Dr. Robert Schiebe
Founder and owner of Schiebe und Collegen
www.schiebe.de
saarbruecken@schiebe.de