

The EMSA Capital approach to carve-outs and special situations



EMSA Capital is a Central and Eastern Europe-focused investment firm that has been active in the region since 1992 and pioneered turnaround and performance-improvement investing

in CEE. The firm invests in private equity and special situations and is currently managing its third fund, the CEE Special Situations Fund, with capital of over EUR 93 million.

Tomas Holly is a managing director at EMSA, where he focuses on turnarounds, restructurings, complex carve-outs, and special-situation investments. Before joining EMSA, Tomas worked in Deloitte's financial advisory practice in Central Europe and is both a CFA charterholder and a fellow of the Association of Chartered Certified Accountants.

Drawing on decades of investing in complex situations across Central and Eastern Europe, Tomas discusses carve-outs, restructurings, and what it takes for a business to perform under new ownership.

EMSA didn't start out as a traditional private equity house. How did it evolve into a Special Situations investor in CEE?

EMSA grew out of a strong turnaround and restructuring background. The team originally operated as the European arm of a US turnaround advisory firm, CRG Partners, before moving away from pure advisory work, which was less developed in Europe than in the US. Instead they began acting as "GPs for hire," stepping into underperforming private equity portfolio companies when management teams broke down, including taking over the management of a fund and overseeing the disposal of assets. We work from Vienna because it is a good location for Central and Eastern Europe, particularly for being close to regional banks like UniCredit, Raiffeisen or Erste. Banks are actually one of our key counterparties. When companies struggle to service their debt, we are often one of the few investors willing to buy secured creditor positions.

Given the history, is Special Situations investing a young practice in Central and Eastern Europe?

Yes, very much so. It's far more developed in the US, where you have restructuring funds, distressed funds, and vulture funds. One reason is that European banks are generally less aggressive as creditors than US banks. In CEE in particular, this type of investing is still quite young. There are a few comparable players, such as Mutares, but they tend to focus primarily on larger transactions in Western Europe.



We are a bit of a niche. Banks like to speak to us when they have difficult situations in their loan books, especially the workout departments. On the other hand, fundraising is challenging. For many LPs, investing in CEE is already a niche. When you add Special Situations to that, the universe of interested investors becomes very small.

It is a double-edged sword. There is less competition, but also a smaller investor base.

You started your career at Deloitte. How does your perspective differ now, sitting on the investor side?

At Deloitte, even as a junior, I was working on relatively large transactions that followed a fairly standard process. There was a template, a structure, and things usually moved along those lines. Now as an investor, especially in smaller and more complex situations, nothing is plain vanilla. Processes change as you go along. For example, in the Bravo transaction that we worked on with Clairfield, we initially explored an MBO with our minority partner. At the same time, we got ready to launch a regular sales process in case the MBO could not be financed. That meant we had to structure documentation that could work for two very different scenarios.

This kind of flexibility was not something I experienced in large-cap advisory work. With smaller deals, you often have to invent solutions as you go, because standard structures simply do not fit.

The initial intention was to sell the Bravo group as a whole; how did it end up being a carve-out?

Bravo manufactures metal roofing products. It is a very simple industrial product: steel coils are roll-formed into roof tiles. Installation of the products is straightforward, and the business has been very successful in Germany, selling through DIY chains such as Hornbach.

The growth story was about replicating that success in France. We marketed the business primarily to German and French private equity firms. However, after the war in Ukraine started, many of those investors lost interest in businesses with exposure to steel, and energy, and in countries neighbouring Ukraine, such as Romania in our case.

A Czech strategic investor showed interest, but they were only interested in Germany and the Czech Republic. France and Romania were of limited interest to them. The deal structure they proposed created a problem for our minority partner, who would have been locked into a long-term minority position with a family-owned strategic buyer with no exit strategy, and this was a real obstacle.

At that point, together with Clairfield, we sat down and asked what other structures could work. That is how the carve-out or split solution emerged: the Czech and German businesses were carved out and sold to the strategic buyer, and the Romanian and French businesses remained with the minority shareholder, who then had a clear path to buy out our stake. The execution part then worked out thanks to good cooperation between our minority partner, the strategic investor, us, and the advisors, including Clairfield and CMS Austria.

That sounds straightforward. Were there any added complexities?

The manufacturing split itself was relatively simple. There were four production facilities, one in each country: Germany, Romania, the Czech Republic, and France. Those could be cleanly allocated, even though the Romanian site produces about 95% of the product portfolio while the French facility produces only about 20%.

The complexity centred mainly around the brand licensing, IT systems, and non-compete arrangements.

All entities operated under the same brand, so we had to introduce transitional licensing agreements. The buyer acquired the business with a three-year right to use the brand, giving them time to decide which brands they actually needed.

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The IT was partially centralised. The group ran on Microsoft ERP software, with local versions for accounting due to different country accounting regulations, but everything was hosted on a central server in Romania. That needs to be unwound in the first year post-transaction.

Finally, we had to manage market overlap. Existing country responsibilities were respected, but for new markets such as the Netherlands, Scandinavia, Italy, and Poland, no formal agreement was reached. In the end, those issues were handled pragmatically rather than contractually.

Were there any complications with international customers across multiple countries?

Bravo works with international DIY retailers such as Hornbach and Adeo. Bravo often supplies them in multiple countries. However, this was not a major issue because typically, even when there is a group-level relationship with the headquarters, contracts are usually signed locally. So the Romanian entity has a contract with the retailer in Romania, and the German entity has a separate contract with the same retailer in Germany.

How did you manage employees during the split?

Most employees were clearly assigned to local entities, so that was not an issue. The only complexity concerned a small number of group-level employees. In those cases, employees stayed with the company in the country where they were employed for social security and tax reasons, and services were invoiced between entities if needed. It affected only a handful of people. The interesting thing is that there is good cooperation between both buyers and, at least during the transition period, Bravo is continuing to operate under one group management.

Is carve-out investing something you actively look for?

Yes, it is an area we like. Many private equity firms say they invest in carve-outs, but in practice many situations are too complex for them.

Often there isn't a clear history of profitability because it's a division of a larger conglomerate and accounting is centralised. Sometimes the sales force is centralised, or the subsidiary gets 50% or more of sales from the head office team. For many funds, that level of performance uncertainty is a dealbreaker. For us, it is something we are willing to work with, provided the price reflects the risk. That usually means paying two to three times EBITDA rather than the six times a typical PE fund might pay.

You specialise in Special Situations. Does that mean you have a higher appetite for risk?

Yes and no. Our view on risk comes very much from experience.

The fund we are currently exiting was set up in 2011, right after the Lehman-driven shock in Eastern Europe. At that time, development finance institutions such as IFC and EBRD wanted to bring liquidity into the region, because banks were tightening lending and reducing credit lines to

manufacturing companies. There was a real concern about unemployment in CEE. Part of that capital went into private equity funds like ours.

During the 2011–2015 investment period, my colleagues made a range of investments, including some very difficult ones. One example was a hospital bed manufacturer in Poland that we bought from a bankruptcy trustee.

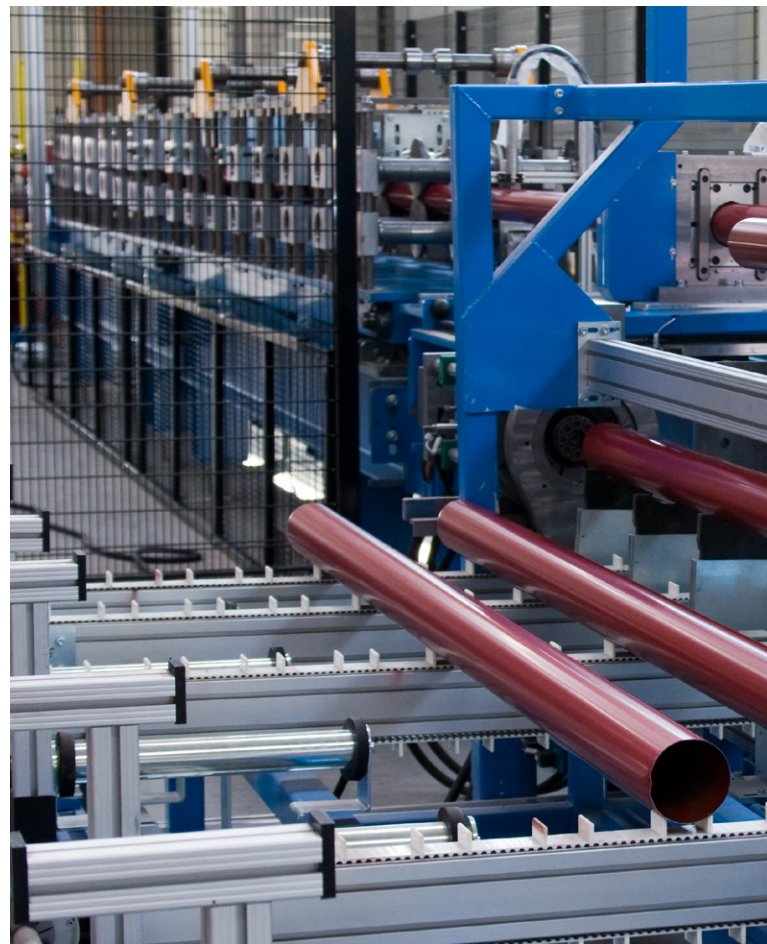
The company had effectively been out of the market for a couple of years. While it still had a factory, employees, and a brand, it could not participate in public tenders while in bankruptcy. Most hospital beds are sold through public tenders, often organised by ministries of health or defence, sometimes in countries like Saudi Arabia or Belarus.

We thought we were paying a reasonable price, but in reality, it took us three years just to get the company back into the market and back to profitability. Even though the company never went into negative EBITDA, for a typical closed-end PE fund with a five- to seven-year life, heavy lifting cases like this simply take too long to create value.

Based on that experience, we now focus on the softer end of Special Situations. We look for companies that are still operating, and at least around breakeven or slightly profitable.

Banks also play a role here. Even if you inject working capital, banks usually want to see two or three years of profitability before refinancing. So if it takes you one or two years to stabilise the business, you are already five years in before you can properly finance growth. That is very difficult within a PE time frame.

On top of that, struggling companies often lose customers. You are then trying to win them back in a competitive market, and you are not Apple or Microsoft. There are always competitors happy to take your place. That is why



we avoid very heavy turnaround cases today.

On the other hand, carve-outs fit your investment approach particularly well.

Carve-outs are often more attractive, because industrial groups usually do not sell loss-making businesses. They tend to close those down. What they sell is often viable, but comes with incomplete management, shared systems, or missing functions.

This is where we are comfortable. We regularly step in as interim CEO, CFO or Chief Restructuring Officer, even across borders. For example, my colleague and I currently take turns acting as CEO of a PVC window factory in Romania while we complete the management team. That process typically takes six to twelve months, after which we step back and let professional management run the business.

For us, carve-outs are an attractive source of deals precisely because there is often limited competition. Many traditional private equity funds will not touch them due to the operational risk.

Do you think corporates make good buyers of carve-outs, or does private equity have inherent advantages?

I cannot really speak for corporates in general. What we have seen is that large conglomerates rarely acquire carve-outs; instead, they are bought by smaller, local strategic players. These buyers usually know the market very well and already have customers which gives them the confidence that they can be profitable from day one.

We do not always have that comfort. Very often, we are not industry players, or we do not yet have deep industry-specific knowledge. We also often step in with an incomplete management team, which means we do take some risk, especially in the first year, which can be loss-making.



How do carve-out opportunities usually come onto your radar?

It would be nice to say that we have a large analytical team that screens listed companies, reads annual reports, and looks for subsidiaries that might be for sale. But that's not how it works for us. Most of our situations come from banks, particularly from workout departments.

We speak both to headquarters-level teams in places like Vienna, for example, at UniCredit or Erste, and to local workout teams in Romania, Poland, the Czech Republic, and Slovakia. These tend to be financially distressed cases, but at the softer end. We try to get involved before an exposure has fully moved into a workout situation, because once it does, it usually means there are already more serious issues to deal with.

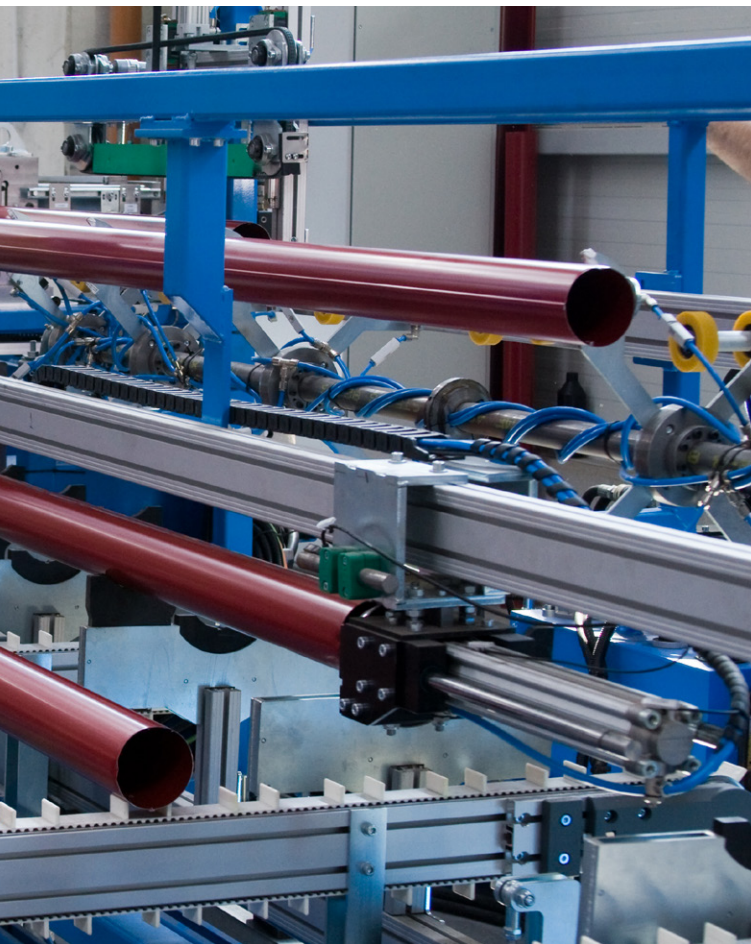
That is one source of deals. For carve-outs specifically, however, opportunities usually come through advisors and brokers, such as Clairfield or the Big Four.

You've worked as an advisor yourself and have a strong financial background. What does an advisor bring you, and what does Clairfield bring in particular?

In general, what advisors bring to us is capacity. There is a huge amount of work involved in an M&A transaction, and we are usually deeply involved in managing our portfolio companies. If we tried to run a sales process ourselves, we would inevitably neglect day-to-day management of the business.

Advisors come in and take over all the labour-intensive parts of the process: preparing the pre-marketing materials, the teaser, having initial calls with potential buyers, and speaking to their network across different countries. For us, it's a worthwhile investment to hire an advisor and let them handle this. They do it every day, and they do it better and faster than we could within the same timeframe.

The second point is buyer identification. If advisors put together a long list of potential investors, they will do a better job than we would, simply because of focus and timing. Maybe if you gave us six months, we could identify



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the same 100 names. But we don't want that list in six months. We need it in three weeks.

This becomes especially important in the lower midmarket. If you are selling a company with EUR 200 million of revenue and EUR 20 million of EBITDA, the buyer universe is relatively clear. By contrast, when you are selling a smaller company with EUR 60 million of revenue, like Bravo, or EUR 20 million of revenue, as in another transaction where Berend Yntema from Clairfield advised us, the pool of potential buyers increases considerably with a well-connected advisor, and often includes many smaller, local players. I will not find a buyer in Spain with EUR 20–30 million of revenue in any database, but reputable advisors will.

Another important aspect for us was senior involvement. One thing we really valued in working with Berend and Kai was that we were dealing directly with managing partner level on a day-to-day basis, including during negotiations. If I was working with a Big Four firm, I might see the managing partner at signing, but during the process I would mainly work with a senior manager. That makes a difference. Negotiation experience matters, especially when things go wrong. When the first Bravo transaction fell apart, we had only a couple of weeks to keep the process alive and rethink the structure. It was extremely helpful that Berend and Kai were there, because we were able to develop an alternative transaction structure very quickly.

We've now worked with Clairfield on three disposals since we took over management of the Special Situations fund in 2019. Piotr Kolodziejczyk handled the first one in Poland, and Berend handled the two Romanian transactions. That consistency also matters.

And there is also the human side. We value direct, honest feedback. Sometimes that can be uncomfortable in the moment, but it helps you address issues quickly and move forward. In negotiations, that kind of directness is also important. It creates clarity with counterparties and allows us, as owners, to be pragmatic and reach workable compromises. That dynamic works very well for us.

To finish, how do you see the outlook for your sector in 2026?

We have had some ups and downs since COVID, and I think the bottom of the cycle is behind us. Even without geopolitical resolution, and despite being directly affected by the war in Ukraine, margins should start to improve because companies have already adjusted their cost bases.

Demand has been postponed rather than destroyed. You can delay replacing a roof or windows for a year or two, but not indefinitely.

We also expect to see some re-industrialisation trends in Europe, driven by supply-chain resilience, defence, clean tech, and pharmaceuticals. We are not investing directly in high-tech, but there will be suppliers to those industries that could become interesting opportunities. After several difficult years, there are good reasons to be optimistic. ■



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