Client solutions: an example

Cashflow management is key to protect, maintain and create value

Careful cashflow management becomes critical once there is any concern about a company being able to avoid formal insolvency. A short time is usually needed to identify properly the company's financial position and an appropriate cash management exercise will buy that time.

Identifying and implementing strategies to achieve the solvent restructuring of a business suffering financial stress is a key focus of Mercer & Hole's Corporate Advisory Services. In circumstances where that stress is acute, having the corporate finance and restructuring expertise immediately to hand allows the identification and delivery of a strategy to maximise the ongoing value in a business, whether using a formal process to restructure debt, or securing the new investment necessary for the business to prosper.

The issues for our client

Following a default on repayment terms to a secured creditor, the board of a manufacturing business producing marine and industrial generators approached Mercer & Hole for advice. The directors were concerned that the company may be insolvent on both a balance sheet and a cashflow basis, and that its significant operating costs would not be covered by forecast revenue.

The business had traded successfully for a number of years prior to the economic slowdown but had reacted to the financial crash by seeking to pursue a strategy of differentiating its product by quality, part of which included the acquisition of an acoustic housing manufacturer for the generators. This acquisition proved difficult to manage and failed to generate the anticipated integration savings, draining the business of cash. At the same

Reemployment of 21 of 34 staff

Results in the sale of the business and assets

A significant return to creditors

Identify where the value is in any scenario

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time, the company failed to respond quickly enough to the impact of the financial crisis on its customer base and the consequential threat to its order book and income.

How we helped

The first step was to create a short term cashflow forecast based on realistic expectations of receipts and on crucial payments only. We sought to identify whether an increase in value could be achieved by finishing and delivering several part complete generators. That proved to be the case and the cashflow forecast indicated that it gave the company three weeks to achieve a solvent solution.

On receipt of our financial analysis, both secured creditors agreed to defer enforcement action to allow for an accelerated M&A process to be undertaken while the units were being built out. The cashflow forecast also provided the directors with comfort that they should not be not exposed to wrongful trading claims if the company could not be sold, as finishing and delivering the part complete generators would improve the position of the creditors as a whole.

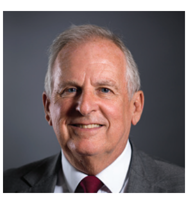
The solution

It appeared that a restructured form of the business may well be a viable prospect if debt levels relating to the acquisition could be reduced, sufficient equity funding could be introduced to restructure the cost base, and a revised market strategy were to be pursued. We therefore created a prospectus, identified potential interested parties, instructed valuers, and circulated Non-Disclosure Agreements on receipt of expressions of interest. Several parties came forward, but after two weeks it became apparent that a solvent disposal would not be possible due to the debt levels and equity requirement, and that an insolvency procedure would be required.

Preserving the future business

Administration and the cessation of trade was combined with continued marketing, resulting in the sale of the business and assets, re-employment of 62% of the workforce, and a significant return to creditors. The value created through the engagement our team to identify the ability for a brief period of trading, which allowed the distressed M&A exercise, which in turn resulted in a post administration sale, changed the outcome from a prospective shortfall for the secured creditors to a significant return to unsecured creditors and the reemployment of 21 of 34 staff. This approach highlights the need to identify where the value is in any scenario, and how time can be won to pursue a successful outcome from a distressed position.

If you are unsure of which future strategy works for your business the Mercer & Hole Corporate Restructuring team are here to help. Please contact one of our partners below.



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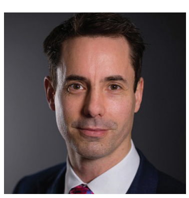

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