

# Strategies when cash runs out



## About the client

The director of a security company working for major infrastructure contractors came to us seeking advice in relation to its solvency. He had received a demand from HM Revenue & Customs stating their intention to proceed with a winding-up petition as a result of unpaid PAYE and NI contributions.

Cash constraints had arisen as a result of a number of separate problems including late payment of debts; issues with the company's confidential invoice discounting facility, which restricted its ability to draw down at the rate required; and miscalculations, when tendering for contracts, of auto-enrolment pension obligations and of the implications of the London living wage. The Company was no longer able to pay its debts as they fell due, despite a (very marginally) solvent balance sheet.

## How we helped

We quickly established that the company's major asset was a significant debtor book, which was potentially vulnerable to contractual counter-claims on liquidation. The cash constraints meant that a drop dead date, past which the Company could not trade without worsening the position of its creditors, was identified. This provided a small window of opportunity to seek a solvent disposal of the shares or, failing that, a sale of the business and assets. Either would greatly improve the outcome for the stakeholders over allowing the compulsory liquidation to proceed.



Saving Jobs



Maintaining Services



Protecting book debts



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## The solution

Using the corporate finance and restructuring expertise within Mercer & Hole's Corporate Advisory team, we formulated a three-pronged strategy, to achieve a share sale; a pre-packaged administration sale; or continuation of service, preservation of employment and protection of the debtor book by customers taking services in-house.

Launching the accelerated M&A process, the team identified potential interested parties, circulated a teaser document, and issued non-disclosure agreements, prior to providing access to a dataroom of information for initial due diligence to be undertaken. The result of this approach was that within a few days, and, crucially, prior to the expiry of the moratorium, one interested party had submitted an offer to acquire the shares and another had offered to purchase the business from a pre-pack administration.

## Last minute challenges

While the share sale would obviously have been highly advantageous as it would have resulted in the satisfaction of all liabilities in full, it continued to be somewhat aspirational in the time available. Offers were progressed, but the purchaser stepped back from the deal and, it being the final day of the moratorium, a fall-back plan was invoked to avoid a messy cessation of trade and large scale redundancies.

## Fast thinking results

Emergency meetings were convened with the major contractors, at which we were able to set out proposals for the continuation of security services over the busy Christmas period, which included safeguarding jobs. The proposals additionally sought to protect the book debts, eliminating the prospect of counter-claims being raised, and ensuring that asset realisations would be maximised in the administration, while at the same time significantly reducing the expected quantum of creditor claims.

## Preserving the future

Within eight hours the proposals for the transfer of employees and the continuation of operations had been agreed by all parties, assets were protected and creditor claims were minimised. 53 of the 55 non-director employees were transferred to new employment, with the outstanding employee costs underwritten by the main contractors and secured against the book debts. Crucially, services were maintained over Christmas enabling planned engineering works to be carried out.

We continued to work with the incoming employers during the post-Christmas period in order to ensure that operations continued smoothly and to finalise the realisation of the book debts. The administration proposals were approved unanimously by creditors and we expect to make a significant distribution to ordinary creditors in due course.

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.



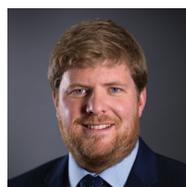
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