

CLIENT

A COMPANY MANUFACTURING EXTRUDED HIGH DENSITY POLYETHYLENE SHEET AND A WIDE ARRAY OF THERMOFORMED PRODUCTS.

COMPANY PROFILE

FAMILY OWNED WEST MICHIGAN CONGLOMERATE

4 DISTINCT BUSINESS COMPANIES OR SEGMENTS EACH WITH ITS OWN PRODUCT LINES

ANNUAL REVENUES \$35 MILLION

165 EMPLOYEES, 4 LEASED MANUFACTURING FACILITIES

CHALLENGE

LOANS FROM THE COMPANY'S SENIOR SECURED LENDER WERE SERIOUSLY UNDERSECURED, AND A RECENT HISTORY OF SIGNIFICANT OPERATING LOSSES HAD PLACED ITS STANDING WITH THE LENDER AT RISK. THE COMPANIES HAD BEEN OWNED BY A GROUP OF FOUR BROTHERS. HOWEVER, A FEW YEARS PREVIOUSLY, LEGAL AND OPERATIONAL CONTROL HAD BEEN TRANSFERRED TO AN OUTSIDE GROUP OF SO-CALLED INDUSTRY SPECIALISTS WHO WERE OPPOSED TO ANY RECOVERY EFFORTS BY AN OUTSIDE CONSULTANT. THIS STALEMATE PREVENTED A VOLUNTARY CHAPTER 11 PETITION AND ENCUMBERED PREVIOUS EFFORTS TO SELL CERTAIN OPERATING SEGMENTS OF THE GROUP TO RAISE CASH FOR APPLICATION TO THE BANK'S LOAN. THE BANK WAS PREPARED TO IMMEDIATELY LIQUIDATE THE COMPANY UNLESS A CREDIBLE TURNAROUND PLAN WAS DEVELOPED BY A TURNAROUND PROFESSIONAL AND IMPLEMENTED IN SUCH A WAY THAT WOULD DEMONSTRATE A DRAMATIC IMPROVEMENT IN ITS COLLATERAL POSITION.

FINDINGS

OPERATING PROFITS WERE OVERSTATED AND COLLATERAL ASSETS BEING REPORTED TO THE SENIOR LENDER ON BORROWING BASE REPORTS WERE SIGNIFICANTLY OVERSTATED AS A MEANS TO CONTINUE BORROWING ADDITIONAL OPERATING CASH. CASH FLOWS WERE NOT BEING MONITORED OR MANAGED, MACHINERY AND EQUIPMENT WAS NEGLECTED AND FALLING INTO DISREPAIR, AND SUPPLIERS WERE NOT BEING PAID. THE RELATIONSHIP WITH THE BANK WAS DETERIORATING AND MISTRUST AMONG THE PARTIES WAS GROWING. COLLECTION LAWSUITS WERE MOUNTING, AND THE CASH AVAILABILITY EXTREMELY LIMITED. OPERATING PROCESSES REQUIRED STREAMLINING, AND PRODUCT PRICING WAS HIGHLY SUBJECTIVE. ACCOUNTS RECEIVABLE WERE LARGELY UNCOLLECTIBLE DUE TO THE LACK OF CREDIT POLICIES AND FAILED COLLECTION EFFORTS. INVENTORIES WERE SERIOUSLY OVERSTATED AND IMPROPERLY MANAGED.

RESULTS

AFTER EJECTION OF THE SPECIALTY MANAGEMENT GROUP, THE CONSULTANT WAS APPOINTED CHIEF RESTRUCTURING OFFICER IN THE INTERIM, WHO WORKED WITH THE BROTHERS TO DEVELOP A TURNAROUND PLAN THAT WOULD COMPLETELY RESTORE THE AMOUNTS OWED TO THE BANK. AS A MEANS TO TAKE FULL LEGAL CONTROL OF THE ENTITIES AND TO PROPERLY SAFEGUARD THE ASSETS, THE BANK FILED A LAWSUIT REQUESTING THE IMPOSITION OF A COURT APPOINTED RECEIVERSHIP. THE CONSULTANT ASSUMED THE APPOINTMENT OF THE RECEIVER ROLE, AND BEGAN THE LENGTHY PROCESS OF RECOVERING THE FINANCIAL CONDITION OF THE COMPANY. ATTEMPTS WERE MADE DURING THE RECEIVERSHIP TO SELL CERTAIN OPERATING SEGMENTS OF THE BUSINESS, BUT THE OFFERS WERE INSUFFICIENT TO GIVE CONSIDERATION TO AND THE DECISION WAS MADE TO CONTINUE TO OPERATE THE BUSINESS AS A GROUP AND OBTAIN MAXIMUM ENTERPRISE VALUE AS ONE CONTIGUOUS UNIT.

THE TREND WHICH HAD RESULTED IN LOSSES PRIOR TO THE APPOINTMENT OF THE RECEIVER EXCEEDING \$25 MILLION WAS REVERSED, AND ON JUST OVER \$20 MILLION IN ANNUAL REVENUES (AFTER INTERCOMPANY/INTERDIVISIONAL ELIMINATIONS), EBITDA OF OVER \$3.6 MILLION WAS ACHIEVED (AFTER ADDBACK OF RECEIVERSHIP LEGAL AND PROFESSIONAL FEES). AFTER APPROXIMATELY 18 MONTHS, THE ENTIRE COMPANY WAS SOLD TO A PRIVATE EQUITY GROUP AS A HEALTHY GOING CONCERN WITH ALL JOBS, PROCESSES, AND FACILITIES RETAINED.

NOTES:

THE PREVIOUS CASE STUDY WAS DERIVED FROM ACTUAL ENGAGEMENTS IN WHICH LEVEL TEN PROFESSIONALS WERE ACTIVELY INVOLVED OVER THE COURSE OF THEIR CONSULTING CAREERS. THE LEVEL TEN PROFESSIONAL IS REFERRED TO AS "THE CONSULTANT". THE NAMES AND OTHER CONFIDENTIAL INFORMATION ARE NOT DISCLOSED.

