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Client

A multi-location injection molding enterprise.

Company Profile

Publicly held

Annual revenues of $140 million

80% of its revenue concentration was a single customer

Non union workforce of over 1,000 employees

One manufacturing facility in Mexico plus 4 in the United States

Challenge

A history of significant operating losses resulted in a cash crisis. The causal factors were inadequately identified and addressed by management, and trade creditors were not receiving payment for product shipped to the company. Confidence in its ability to provide product was waning by its customer base, and suppliers curtailed credit terms due to the payment arrearage. Customers were preparing to retrieve their tooling and the senior secured lender was revoking the line of credit.

Findings

Significant history of operating losses and cash flow deficits resulted in repeated covenant violation on senior secured bank loans, and a proposed forbearance agreement with the bank included terms too restrictive to continue to operate. The company's infrastructure was too cumbersome, product was being produced at a cost higher than the selling price, and the launch of the Mexican production operation was consuming excessive cash. Additionally, quality problems and the theft of raw materials in Mexico further complicated its ability to continue to operate.

Results

The consultant was engaged and assumed the roles of CFO and a short time later Chief Restructuring Officer. Through exhaustive negotiations, the company was able to compel most of its suppliers to continue to ship raw product on COD terms, and through the implementation of a turnaround strategy, the significant customer loaned the company $10 million in interim financing while an alternative financial institution was sought. Two production facilities were closed and the equipment sold as a means to reduce operating costs and recover loan principal for its lender. Processes were established to eliminate theft of raw materials, the Mexican labor force was stabilized, manufacturing processes were streamlined, and errors in estimating costs used to develop pricing were identified and corrected. Ultimately, the company was successful in procuring a new lending source.

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.