
Reference:

CASE STUDY I

From:

Advanced Development

Date, Place:

23.06.2009, Bucharest

To:

WHOM IT MAY CONCERN

CASE STUDY I

The issue

A distribution company has declared payment incapacity on its credit line of 20 million euro at a major bank.

The company benefits from a significant fleet (over 50 lorries), as well as a strong network throughout Romania and neighboring countries.

The bank wants to avoid a fire sale via an enforcement officer. In the worse case scenario the bank in order to recover the debt will force the company into bankruptcy procedure. The Officer will organize a tender to sell the tangible assets.

The value of the asset will cover in the best case scenario 20-25 % from the value of the loan (considering the current economic situation), since there is no secondary market and often the investor buys its assets in the tender thus causing a serious loss for the bank. Also this is a lengthy procedure requiring extra costs from the bank

The solution - turnaround management destined to first stabilize the business, maximize return on exit and avoid a fire sale or a bankruptcy procedure.

The process was structured in two sections, analysis and implementing.

Analysis

A thorough analysis of the structure of the customers, as well as the financial position on the specific market that might have a direct impact on the success of the project (e.g. legal status, legislation, cost control, management, market forecast (demand) etc.) has been conducted.

The present case study relies on a full cooperative investor/consultant to the agreed solution with the bank.

Implementation and adding value

Advanced Development has taken over the company, as it was named by the board interim manager, in charge with financial and operational re-shaping of the company.

The keystones in acting regarding the restructuring and recovery of the company were:

- **Mediation** - the first step and the inevitable one was to gain confidence of the bank and sponsors to accept a standstill agreement for 6 months;
- **Liquidity** – Advanced Development has identified many non-core businesses and real estate assets of the company. After multiple negotiations with an investor, we took the hard decision to sell these assets under the acquisition price, but this decision brought liquidity for the company. Even if in the first place the shareholders of the company didn't agree with our ideas, in the end they saw the success of our measures and what means liquidity vs. profit;
- **Collection** – we have undertaken a legal and technical assessment of the debt collection process; The legal issue was subcontracted to a internationally renowned law firm specialized in collection, while our in-house specialists have assessed the recovery percent of the total debt at a satisfying level of 60% out of a total of €5 million; The process was successfully implemented, and results in debt collection were felt immediately in the balance sheet;
- **Cost policies** – based on the costs situation provided by the financial department of the company, we have been able to assess an efficient, and personnel friendly cut-costs policy, in order to decrease the negative accounting balance sheet;
- **Business Recovery** - after we have ensured a minimal cash-flow, we have undertaken the assessment of the business development, and have concluded that the first measures, is to temporarily suspend the cross-border operations, as the cost/benefits ratio was not explanatory. With the cross border operations suspended, half of was chartered to third parties, against a royalty fee out of the exploitation of the part of the fleet subject to rental;
- **Assessment of the HR capital** – we have subcontracted a HR company specialized in personnel evaluation. As a result of the evaluation we have hired a new CFO to oversee all financial aspects of the company. We have also identified nepotism in many structures of the company and took the decision to restructure these departments.

After all these measures, the bank has accepted the restructuring of the debt, and with part of the fleet rented, we have insured a minimal cash flow to the company, in order to avoid bankruptcy and severe personnel restructuration.

The next step was to re-negotiate the existing contracts, in order to establish fixed payment and financial terms with each client separately, resulting in a tailor-made contract for each client, based on the size, and payment method agreed with each client.

All the sets of measures adopted by Advanced Development ensured the carry-over of the activities, also keeping a positive forecast of the future financial position, and growth potential of the company thus ensuring the bank and sponsors the safety of the loan.