

Manufacturing company saved and restored to profitability

A business which was experiencing financial difficulties has been reorganised and restructured into a New Company free of debt, thanks to the advice and support of Clarke Bell and Blue Gate Finance.

"A" was the holding company, with two subsidiaries "B" and "C". Both subsidiaries had been trading profitably for many years until, unfortunately, C suffered a large bad debt when one of its major customers went into liquidation. The timing of this could not have been worse, as it happened at the same time as the company suffered a dramatic downturn in new orders as the sector in which it operated slowed down.

The directors took steps to try and rescue the business. Where possible, costs were cut and urgent efforts were made to secure replacement business. In the meantime B supported the group. However, matters became critical and the business struggled to pay its way.

Although the order book for C was partially restored, it was impossible for the group to survive and trade out of the difficulties. By the time Clarke Bell was approached the group had exhausted all credit lines and was heavily indebted to H M Revenue & Customs and trade creditors. The Bank refused to advance any further funds to allow wages and essential utility suppliers to be paid.

Working closely with Clarke Bell, the business was analysed and the assets professionally valued. We agreed with the directors' view that the underlying business was sound, but that it was impossible for the group to survive burdened as it was with such large debts.

Arrangements were quickly made for a new company to be formed and for finance to be provided into the 'Newco' by an invoice finance lender willing to advance cash as soon as the new company commenced trading.

Each of the three companies was placed into Administration. Arrangements were then made for the Newco (Z) to acquire the assets of the business and the work in progress which Z was able to complete.

A package of refinancing was arranged to purchase these assets and the goodwill of the business, with completion taking place within two days of Clarke Bell being appointed as the Administrator. Invoice discounters agreed to provide a facility of £3.2m.

Pending cash being drawn down against invoices, Blue Gate Finance provided a bridging facility from its own funds to enable Z to pay for the assets it was acquiring and to fund immediate working capital requirements.

A new viable business was created and, without the shackles and worries of the old debts, the directors were able to rebuild the entire business successfully.

John Bell, Senior Partner of Clarke Bell, said:

"This is a great illustration of how we can help a business that is basically sound, but finds itself with debt problems. In situations like these, if action is not taken promptly then the problems of one side of a business can bring down a whole company.

Thankfully this was not the case in this instance because of the quick actions of all the parties concerned."

CLARKE BELL

Chartered Accountants and Licensed Insolvency Practitioners

Parsonage Chambers, 3 The Parsonage
Manchester M3 2HW

Tel: 0161 907 4044 Fax: 0161 907 4086

E-mail: info@clarkebell.com

www.clarkebell.com

Offices also in Cirencester, Derby, Newcastle & Stoke

Clarke Bell

are licensed insolvency

practitioners with

particular expertise in:

- Reorganising and restructuring businesses
- Organising finance for companies
- Administrations
- Liquidations
- Individual Voluntary Arrangements & Bankruptcies



CLARKE BELL

Struggling engineering company gets turnaround help

An engineering company, with a £20m annual turnover, was experiencing difficulties as a result of the shrinking market for its core products.

Although the company was working hard to diversify and supply alternative products, the skills and equipment needed for these new activities required new capital to replace unusable machinery and to re-train the employees to give them the new skills they required.

After much advice and consideration, it was eventually concluded that the only way to deal with the changing circumstances was to use the Insolvency process to restructure the finances of the business. Without this it would not have been possible for the company to make the workforce redundancies that were needed due to the considerable costs involved.

The company was placed into Administration and the workforce was made redundant. Arrangements were then made for the Newco to acquire those particular assets which were relevant for the company's new activities and to fulfil their existing orders.

A package of refinancing was arranged to purchase these assets and the goodwill of the company, with completion taking place within two weeks of the Administrator being appointed. Asset based lenders provided £1.4m and the management team provided £240,000.

A new viable business was created with a turnover of £10m, forecast to rise to £20m within three years, and 100 jobs were saved.



Retailer reorganises and resurges back to profitability

A long-established retailer of furniture with a recognised brand name was in serious financial difficulties due to a number of its under-performing stores.

The company had previously been part of a much larger organisation that had been broken up and sold. It had a number of stores in geographically diverse areas that required two distribution centres for its stock. Coincidentally, the under-performing stores were in an area where they and the distribution centre that served them could all be isolated and sold. The stores and the distribution centre occupied leased premises.

Due to the poor performance of these stores the company had incurred substantial arrears of payments to the Inland Revenue and Customs & Excise. Cashflow was a serious problem. With the assistance of an Insolvency Practitioner arrangements were made for the company to be placed into Administration.

It was recognised that a prolonged Administration would be disastrous for the business. So the Insolvency Practitioner agreed to market the business of the company for a short period of time - two days - and thereafter to consider a sale to the existing management team, unless a

sale on more advantageous terms could be arranged with another buyer.

The management team was able to raise £500,000 from its own resources and funding of £1m from a private equity provider.

(The private equity funds were structured as deep discounted bonds and unsecured shareholder loans, both yielding 15% in equal amounts.)

This was sufficient to enable the team to purchase all the profitable sites and one distribution centre from the Administrator. Stock was acquired at a discounted value, including the stock from the under-performing stores. Sales then took place to generate cash and this enabled the 'Newco' to purchase new stock and left it with sufficient funds to make good headway into the repayment of the private equity funding.

With the support provided from the use of the Insolvency Administration process, coupled with the organisation of the funding arrangements for the 'Newco', the business was rescued and able to return quickly to generating positive cashflow and profits.

How to deal successfully with significant bad debts

A £6m turnover, well-established computer supplies business had experienced a number of exceptional costs, including two significant bad debts, which had a major impact on the business - taking approximately £300,000 out of its cashflow.

The company struggled to continue trading and, as with many companies in such situations, only managed to survive by non-payment of VAT/PAYE, extending creditor repayments, constant overpayments from the invoice discounter and unauthorised overdraft usage.

The company's Invoice Discounter appointed reporting Accountants to urgently review the cash situation and the viability of the business. At the time, however, cashflow was forecast to get worse as December, a traditionally quiet time for sales for the company, was approaching.

The Accountants reported that the business was not going to be able to continue without a large injection of funds. As a consequence of the Accountants' report, the Discounter decided to protect its own position. So instead of releasing funds urgently required by the business, the Discounter resorted to collecting its outstanding balance in order to protect its own position.

The directors were confident that, given breathing space, the business would soon be restored to profitability. However, they urgently required the business to be refinanced away from its current Discounter.

Arrangements were made for the November and December payroll to be paid via a payroll finance facility, thereby avoiding having to ask the Discounter for the funds at the end of the month. An informal moratorium was arranged with HM Revenue Customs and Excise in respect of their debt and a repayment schedule was agreed, taking into account the cashflow of the business including seasonality factors.

A new Invoice Discounting provider was arranged which resulted in further cash being released for the business, since this new provider was not concerned simply in collecting its own outstanding balance.

The overall effect was the release more than £400,000 into the cashflow of the business and this gave the business a really good prospect of getting out of its difficulties.

