CORPORATE RESTRUCTURING

Financial Restructuring in Distress

The principal aim of any corporate turnaround is to remove the company swiftly from any immediate danger of going into liquidation, and to focus on activities and tasks that restore corporate value.

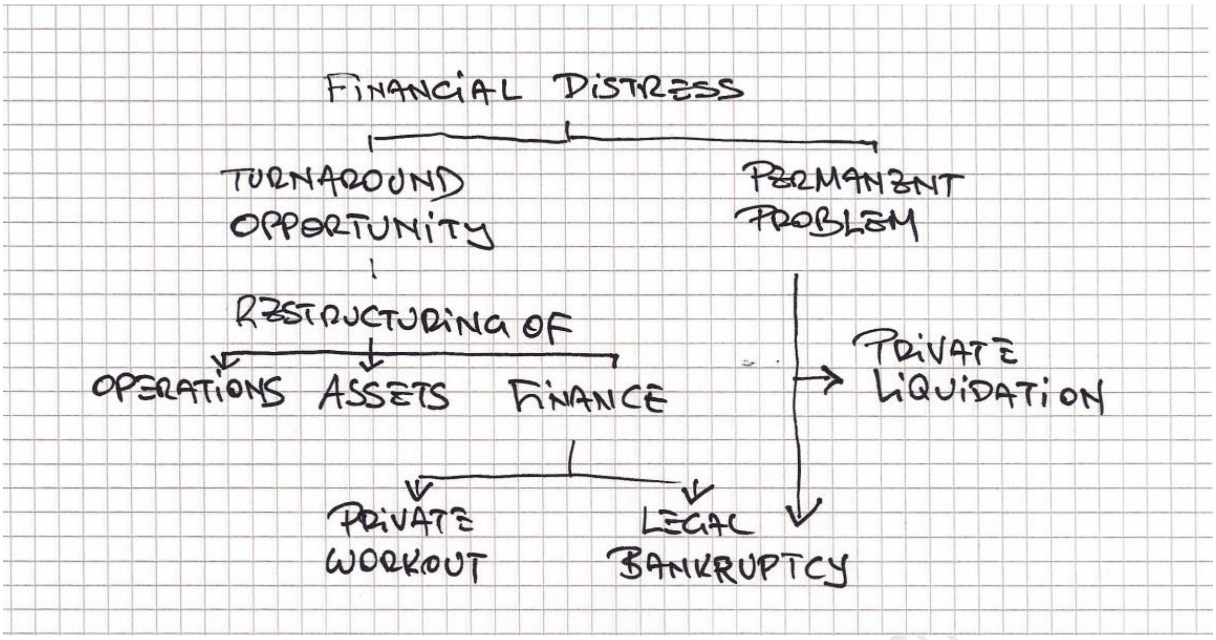
Corporate distress can have various shapes and formats and be identified by – among others - following indications: Worsening profitability and industry outlook; Deteriorating working capital position and liquidity; Declining financial indicators (including share and bond prices); or Upheavals in regards to employees and / or management.

Distress changes everything within a firm and – from a financial point of view – shifts the primary focus on cash and cash returns as well as bringing the business back from burning cash to generating it again. – That has important implications for the analytical point of view: For example, a focus on EBIT or return on investment excludes major uses of cash. Or, variations on EBIT usually exclude depreciation and amortization. None of these analytical approaches seem to be reasonable or useful tools in the course of a distress. – Also, despite reviewing the firm´s bank balance is a nice start, a firm´s possible exposures or commitments to – for example – investments and capital expenditures are at times much more relevant, but cannot be spotted in financial accounts. - Instead of focusing on returns, payback is a core measure to pay attention to. But above all, most essential is liquidity: Therefore parameters such as the cash conversion cycle have to be analyzed and worked with immediately.
Whilst there are no rules as such on how to implement a successful turn-around from a distress situation (as a substantial driver for implementing turnarounds may be shaped by legal frameworks and regulations) following phases can frequently be observed:

In the stabilization phase a core focus is provided to instill confidence in stakeholders – ranging from investors to employees – with a view to preserve and restore company value. Activities in this phase include developing liquidity forecasts and improving cash flow and vendor management to provide the time needed to assess the potential for a turnaround as well as next steps.

In the assessment phase restructuring alternatives are usually compared with a view to maximize the value of the intended turnaround plan which involves testing financial forecasts und undertaking sensitivity analyses. Together, these assessments should reveal a comprehensive financial and strategic picture, thereby also identifying the areas of greatest liability, which could point towards a bloated inventory, overextended debt or poor management.

Entering the implementation phase, a recommendation will be formulated to either restructuring the firm, sell it, or exit and herewith close the business for good. These steps can be taken with or without legal bankruptcy, though bankruptcy restructuring can at times offer unique advantages: For example, it be used as a tool within a sale process to reduce a firm’s overall debt load. – On the implementation path forward accompanying steps will need to be implemented, such capital raises, capital optimization, debt restructuring and an overall balance sheet de-leveraging.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