

Taking Chances on Restructuring Firms

“Chance favors the prepared mind” – Louis Pasteur

It's late Friday afternoon and you still haven't received a call back from a key customer whose recent payment activity is cause for concern. Their orders keep coming in but their payments are few and far between, accompanied by a variety of excuses. Suddenly, the phone rings and it's the customer who explains they're having financial difficulties. Their secured lender has demanded they hire a financial advisor and they're interviewing firms to start on Monday. What effect will your customer's choice of an advisor have on your receivables? Are you taking your chances by supporting your customer? What chance do you have of getting paid now? What does a restructuring firm do, anyway?

The right restructuring firm can mean the difference between retaining a customer and writing off bad debt. You're taking a chance by giving your customer enough time to develop a restructuring plan, but how do you know if they've bet on the right firm? Start by asking the right questions about expertise and results.



and ignorance. Massive layoffs may be proposed without taking the time to understand which employees have the required expertise to keep the business running and turn the situation around.

The wrong firm's loyalty is to the secured lender who referred them, not your customer, and the discussions between the firm and the secured lender do not include your customer. Can you guess where this process is headed? Private equity firms and hedge funds are awash in cash and it's relatively easy to locate a buyer once expenses have been reduced to a breakeven level, even if there's no formal plan for business survival. This process rarely considers past trade creditor debt and assumes the suppliers will be willing to support the "new" customer. The survival of the business and continuation of your relationship becomes the responsibility of the new buyer and their professionals. They may offer you the potential for future sales but chances are good you'll need to dip into bad debt reserves first.

Evaluate

The right restructuring firm will ask and listen to management, production workers, administrative employees and key creditors. The interview process should include a thorough review of the firm's prior successes with all stakeholders and focus on how they have increased cash flow, minimized the risk to the company's assets and reduced the number of non-productive employees.

Cash flow and accounts receivable management are key differentiators when selecting restructuring firms. For example, if your customer's average receivables are 60-120 days (government, healthcare or construction receivables), they will need a firm who has experience in those areas. Many advisors just recommend collecting

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Research

Educate yourself about restructuring firms and their approach to troubled situations. Learn which firms focus on companies similar to your customer. The Turnaround Management Association ("TMA") is a professional community of turnaround practitioners, attorneys, accountants, investors, lenders, venture capitalists, appraisers, liquidators, executive recruiters and consultants. Members adhere to a Code of Ethics specifying high standards of professionalism, integrity and competence. Its Certified Turnaround Professional (CTP) program recognizes professional excellence and provides an objective measure of expertise and experience related to workouts, restructurings and corporate renewal.

Identify

Help your customer identify the right firm for the current situation. The wrong firm will leap to the conclusion that your customer needs to file Chapter 11, liquidate and/or make wholesale changes to management. The wrong firm leads through intimidation, arrogance

money faster, but sometimes it just isn't possible. Your customer can't take a chance on a firm who doesn't understand legitimate cash management constraints.

The right restructuring firm will define a successful outcome and discuss means for measuring success. They will provide an action plan based on experience and best practices. Selling the business or certain assets may be the most viable option but the focus should be on the survival of the remaining pieces. Sometimes selling the most valuable asset provides sufficient cash to restructure other business segments, sometimes it leaves very little and leads to a difficult bankruptcy filing.

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Mitigate

Prepare yourself for every alternative. Despite best efforts, a bankruptcy filing may be the logical solution to your customer's difficulties. This doesn't necessarily mean your customer took a chance on the wrong firm, but it does provide an opportunity to put

your newfound knowledge of restructuring firms to good use.

In the event of Chapter 11 filing, a committee may be formed to seek recovery on behalf of all unsecured creditors. Depending on the circumstances, the creditors' committee may require the assistance of restructuring professionals to evaluate the debtor's efforts and plan of reorganization. The committee formation process typically involves the selection of several firms for interviews with the creditors' committee and its counsel. Familiarity with restructuring firms who focus on creditor services will be invaluable to the decision-making process and ultimate recovery.

Chance or Choice

It's Tuesday morning when you receive a call from your customer's newly retained financial advisor. They'd like to set up a meeting to review plans for maintaining the account. It appears your customer chose a restructuring firm that understands the value of building a consensus among all stakeholders. Did your customer make the right choice? It's too early to tell, but you will need to decide if you're going to support your customer's turnaround efforts.

A restructuring firm can be an effective tool for working out difficult credits and retaining customers. Improve your chances by choosing wisely. ■

Visit TMA at www.turnaround.org.



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