6 Best Practices to Maximize Turnaround Outcomes
Be Direct with Troubled Companies
By: Mike Bergthold

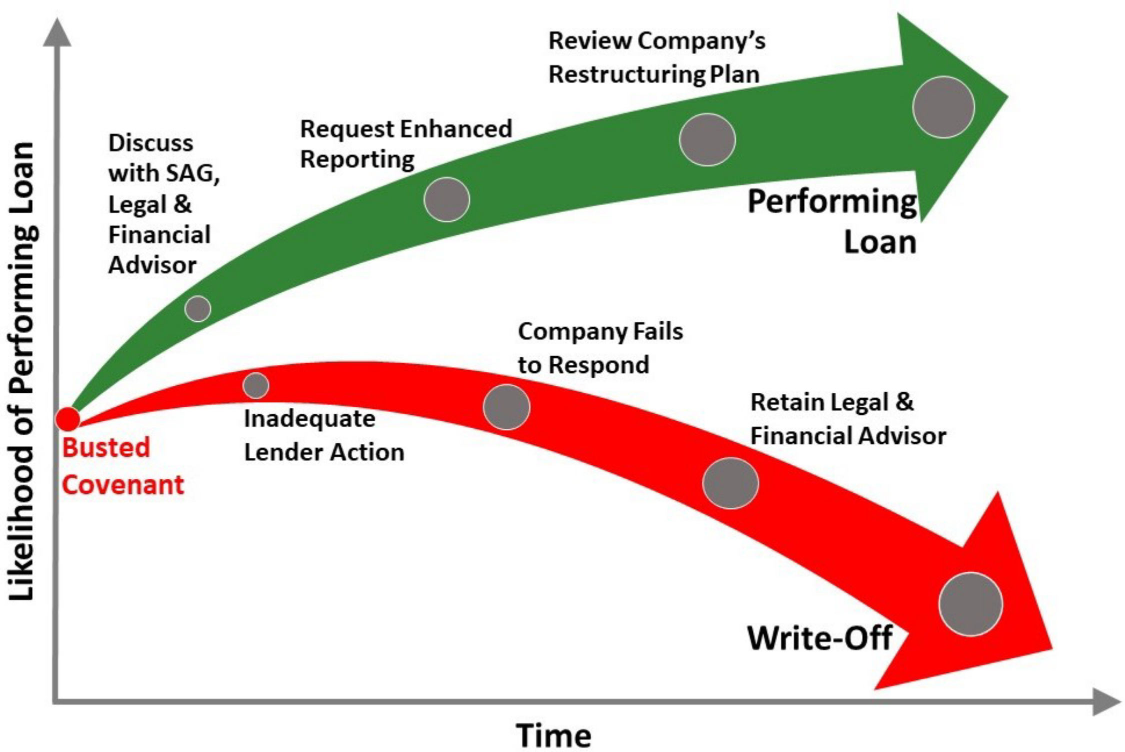
How can you guide a troubled company to maximize its restructuring options for the best outcome? The key is early action and direct communication. Here's why.

Rapidly Diminishing Options

During our decades of experience in the restructuring sphere, far too many clients have hesitated before calling to discuss distressed companies. The companies were beyond resuscitation, resulting in write offs for the lenders.

Taking action as soon as a borrower's performance takes a downturn often results in a cascade of positive actions – the lender preserves collateral; management implements reformative actions (or shows that it won't); and, company advisors are informed, allowing collaborative brainstorming to yield the best outcome. Alternatively, hoping a company's downward trends will improve without a solid plan in place typically costs lenders time and money in the long run:

Early Action Maximizes Turnaround Outcomes



6 Best Practices to Maximize Turnaround Outcomes

We recommend the following best practices to ride the upward sloping green curve to performing loans, instead of the death spiral red curve.

1. Deepen Relationships.

Make introductions during the on-boarding process before any issues arise.

- If key players at your organization, especially the chief credit officer, don't already know your borrower's management team, make it happen as soon as possible.
- Get to know your borrower's legal and financial strategic advisors to facilitate collaboration if the company's performance turns south.

2. Insist on Timely Information.

Not just current financial statements and forecasts!

Insist that the board or management team provide accurate, timely operations reporting that provides leading indicators to performance: rolling 13-week cash forecast updated weekly, purchase orders, employee turnover, significant changes with customers, tax issues, etc.

3. Communicate with Management.

Go above and beyond the quarterly call to check in.

- Hold regular, onsite meetings and maintain an open line of communication.
- When there is a hiccup, start an investigation immediately to determine the source. A trusting relationship with management likely will expedite the process.

4. Protect Your Time and Priorities.

Be realistic about time spent on troubled borrowers.

- The 80/20 rule rules, meaning 20% of your least profitable relationships consume 80% of your time.
- Objectively analyze the borrower's situation and realistically assess whether the credit should be transferred to the special assets group.

5. Blocking and Tackling.

Establish protocols to follow when a borrower hiccups.

- Watch Inventory: Inventory turns are a leading indicator of a company's performance. We currently are seeing significant working capital issues driven by supply chain and overall inventory management challenges. If reduced turns can't be explained easily, it's time for an expert investigation.

- Track A/R and A/P Turnover: Reduced A/R turnover may be due to external / macro-economic issues. However, anything affecting the company's cash flow is a red mark against its creditworthiness. Reduced A/P turnover is an enormous red flag.
- Review the Original Credit Package: When a debtor's performance falters, it's natural to start recreating the wheel. Do yourself a favor and review the last credit approval package. What risks and mitigants were discussed? Are they relevant to current performance issues? How has performance tracked relative to projections? What assumptions were off and why? Prepare a list of questions to discuss with management.

6. Strategic Actions.

Proceed deliberately.

- Give the board or management team a reasonable deadline to present a feasible restructuring plan, and demand it is provided to the bank.
- Review the bank's collateral position and discuss alternative strategies with legal and financial advisors.

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