Forester
Business Consulting Ltd.




Case study: Project: Insolvency recovery (duration: 18 months)

1.1 Clients Brief

One of our Clients, a venture capitalist, had invested a considerable amount of money in an international glass fibre manufacturing business with subsidiaries in Germany, France and the UK through a UK Group holding. It was suspected that the company was not trading profitably and the money was ‘misused’ to cover other losses within the Group. The performance of their German enterprise (T.O 10m€, 120 employees) in particular seemed to have turned drastically worse since the beginning of the business year. FBC Ltd. was awarded the assignment to investigate and analyse the situation, and - within a period of 3 months - determine whether a rescue plan would be viable or whether the business should rather be closed down.

1.2 Experience and skill level required

- degree educated
- longstanding operational management experience in the plastics industry
- multi-cultural awareness and linguistic skills
- fluent communications in at least 2 other European languages (D/NL/F)
- familiar with international reporting and controlling structures
- excellent negotiation skills
- analytic and pragmatic in his approach
- determination to succeed.

1.3 Approach

While keeping the loss making company trading, an initial 4 weeks investigation was performed to define the exact financial status of the company, analyse the complications of contractual links between the parent company, the subsidiaries and the lenders, review P&L and BS figures, analyse debtors and creditors and define the main cost drivers. This was followed by the introduction of immediate cost reduction measures to ‘stop the bleeding’, a review of the management structure, an evaluation of the financial situation and a final presentation to the Executive Board showing the options going forward. A weekly report was introduced to closely follow and document the findings, corrective actions taken and further instructions received by the Client.

1.4 Project evaluation phase

It turned out that the Group and through their extensive losses also the German manufacturing company was already insolvent when Mr Crossman moved in, which was initially not apparent because of unusual accounting rules implemented that later turned out to be illegal. Losses were predicted at 100k€ per month. The MD responsible was immediately removed from his post by the Executive Management and Mr Crossman was appointed interim MD instead. As one of the first steps it was decided to put the UK operation into administration and to liquidate it, while a provisional insolvency application was filed with the German Courts, which could be removed after 4 weeks by a subordination agreement, instigated by Mr Crossman.

The employees were coached through a drastic change of culture (moving the team from figure manipulation to honest data recording and reporting). A radical management restructuring reduced the fixed overhead costs by >30%, followed by rigorous cost cutting, down to a level of the few vital services. Furthermore, the Group's head offices and another UK subsidiary were closed, which were the main reasons for the accumulated losses.

Within 3 months, a visible turnaround could be brought underway, losses were favourably reduced from 100k€ per month to 20k€. At that point a presentation to the Executive Management Board of the Client revealed the orchestrated mismanagement of the previous Directors and a rescue plan was presented with 3 options: a) continuation of financial support to the German business and restart with a clean BS, b) voluntary declaration of insolvency with the subsequent attempt to recover the company, leaving behind the debts and trying to sell the assets to a new investor c) immediate exit from the commitment and close-down of the German facility, subsequently releasing all employees into unemployment.

1.5 Project execution phase

The evaluation clearly showed the insolvent BS, which confirmed the Client's initial suspicion. By the end of the initial 3 months phase the weekly reports had slowly prepared the evidence to visualise the options available to the Client. The final presentation was used to arrive at a decision how to progress from here. The Client decided to go for option b), with the exit strategy (option 3) in mind, should option b) fail.

As our Client decided not to wait for the recovery and also not to provide any further operating cash, the business had to try to survive on its own. Progressive debt recovery provided enough cash over the following 6 months to finance the direct business needs, e.g. raw material and labour, utility bills, legal fees and taxes, while a strict cost cutting regime reduced overheads even further. However, the discovery of several complex contract commitments that had been set up -including a factoring agreement for the entire Group with spread liabilities for each of the subsidiaries- reduced the likelihood to find an investor who would have wanted to pick up the bill for the existing agreements within a share deal. With time progressed several attempts to strike a share deal naturally failed leaving the business with no other option than to file for insolvency.

As the only real problem this business had was caused by these artificially induced financial irregularities, the incoming insolvency practitioner decided to put the business under legal protection for a period of 6-9 months and run it as a 'going concern'. Mr Crossman was asked to start searching for a new investor who would want to acquire the assets and to prepare a potential asset deal. FBC Ltd. was instrumental in providing industry contacts, due diligence information and presentations to approach potential buyers.

1.6 Achieving the final recovery

A period of introduction of potential buyers followed supported by sale documentation, road shows and due diligence investigations. After 8 months of tough negotiations an asset deal was made possible and the business handed over to a regional private investor. This secured employment for 2/3 of the workforce and enabled a partial recovery of moneys for creditors and debtors. The business started trading under a new name while the former insolvent business remained under Court investigation until it eventually was wound up.