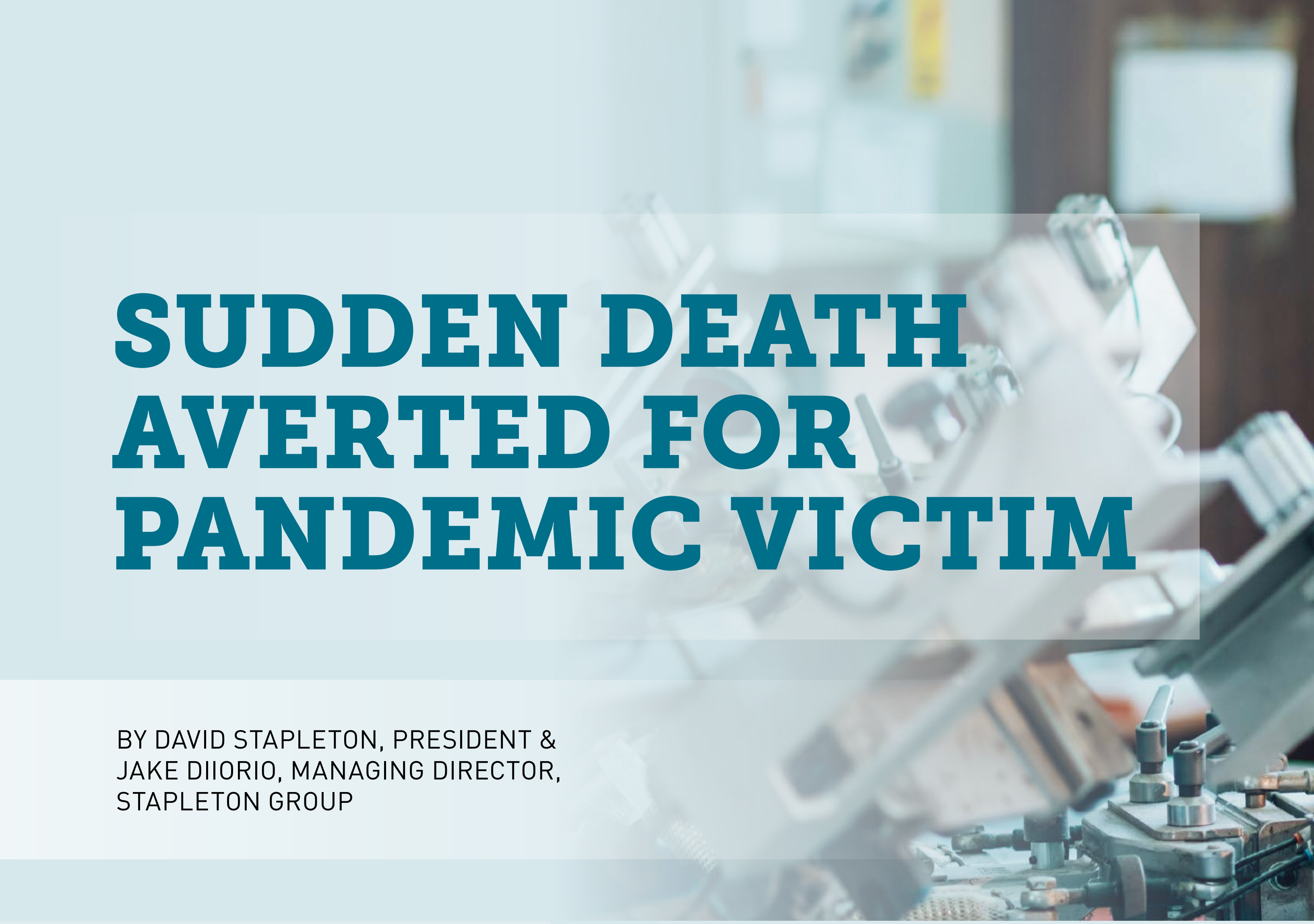


SUDDEN DEATH AVERTED FOR PANDEMIC VICTIM

BY DAVID STAPLETON, PRESIDENT &
JAKE DIIORIO, MANAGING DIRECTOR,
STAPLETON GROUP

Lenders, turnaround professionals, and their counsel faced unparalleled challenges with the sudden onset of the COVID-19 pandemic in 2020. As corporate management teams struggled to keep operations flowing under pandemic guidelines, lenders worked day and night from their homes to determine which credits were at the greatest risk of failure. They consulted with trusted turnaround professionals and counsel and then placed bets to support certain credits and cut off others.

One bet paid off in spades for a secured lender to an insolvent manufacturer and wholesaler serving the tourism industry. With the global shutdown of leisure travel, this company's customers were out of business, leaving it with worthless inventory and uncollectible receivables. Additionally, the company's private equity owner declined to inject capital. The lender projected pennies on the dollar in recovery. Given the dire forecast, the lender pushed the company's private equity owner to retain chief restructuring officers to assess all viable options. The owner agreed, hiring a turnaround team in August 2020.

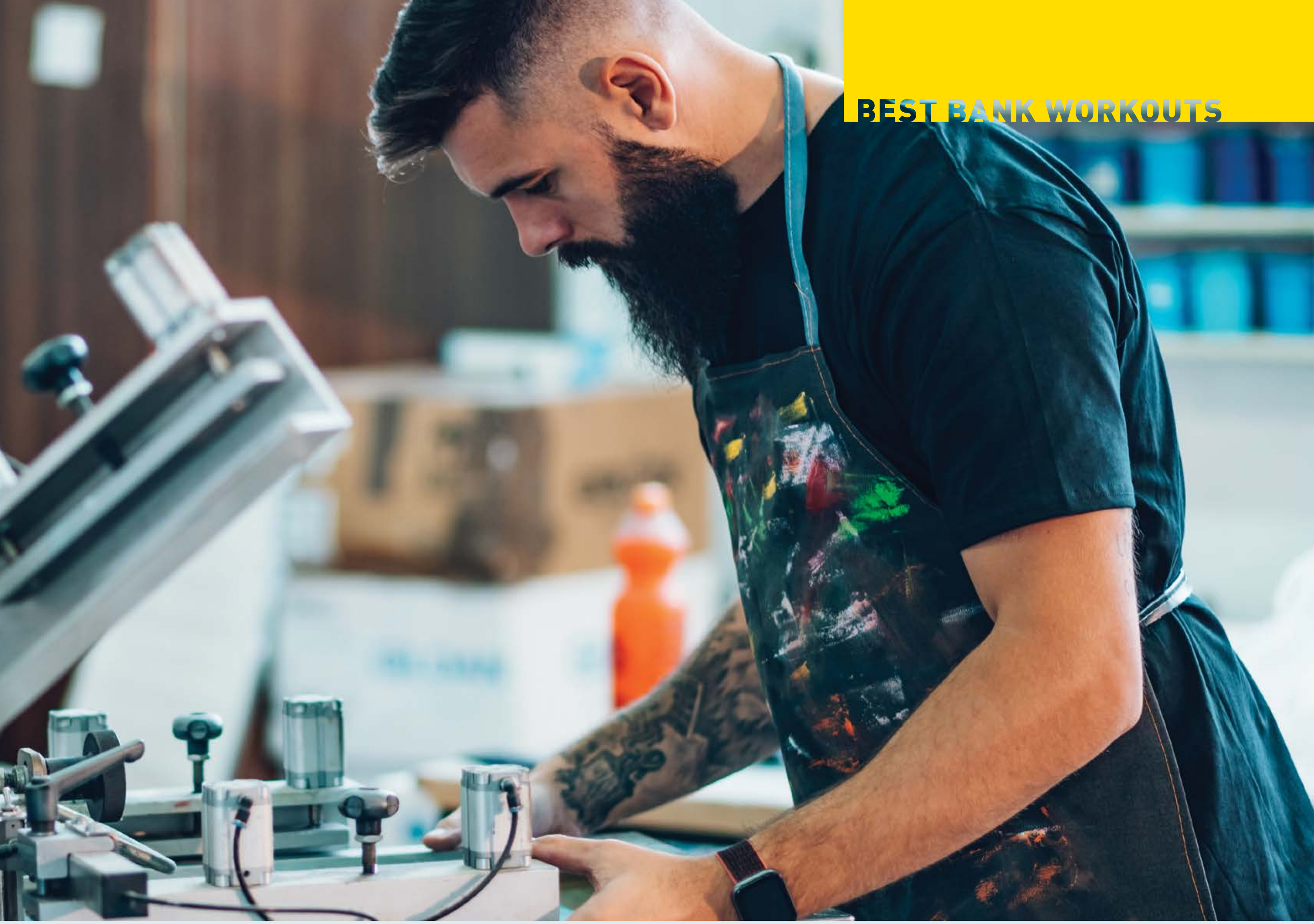
The CRO quickly took over operations and developed a strategic plan. Within 14 months, the lender had recovered 100% of its principal, vendor relationships were preserved for the benefit of the company's buyers, jobs had been saved, customers had merchandise to sell, and the company's private equity owner was on track to receive millions of dollars instead of taking a total write-off.

While the recovery was achieved swiftly, it was extremely complex with many pivot points where it could have gone upside down. The successful turnaround is attributable to a patient lender, creative turnaround team, and knowledgeable counsel.

Here's the story.

When the COVID-19 pandemic brought tourism to a screeching halt, all roads pointed to liquidation for the company. The 65-year-old manufacturer/wholesaler of screen print, embroidery, and pad print goods for national parks, zoos, ski resorts, gift shops, and cruise lines quickly became insolvent. Its private equity owner refused to invest more capital and had fired the company's CEO. Its future looked dim—but, as experienced turnaround professionals will attest, appearances can be misleading.

The company consisted of two distinct divisions with unique value drivers, sales cycles, assets, intellectual property, and pandemic-related challenges. It originally was founded in Alaska as a manufacturer/wholesaler of merchandise for the cruise ship industry. It later opened a factory in Seattle, where it created custom screen-printed T-shirts



and other items for various tourist destinations across the U.S.

The single ownership of the two divisions complicated an exit strategy for the stakeholders, so the turnaround team decided the best outcome required separate processes.

Seattle: Fast & Furious

It was apparent to the turnaround team that the Seattle operation simply could not compete with Chinese outsourcing in good times—let alone during or after a pandemic. The turnkey, vertically integrated business was hemorrhaging cash. Still, the company had received an offer for its business assets because its customer list, relationships, tooling, and existing inventory made it attractive to strategic buyers.

The CRO determined a better return could be generated through a strategically designed process that considered the value of inventory to existing customers and the value of the business as a going concern to strategic buyers. To protect downside risk, the turnaround experts decided to run a parallel liquidation process, bringing in a firm to auction the division if a competitive sale failed to close.

The three-pronged plan for the Seattle division involved the following steps:

1 The turnaround team sold finished goods inventory to good credit customers at bulk discounts for a blended return of 95% of cost, compared to 20-30% of cost if the inventory were sold as part of a going-concern sale.

2 After soliciting competitors to drive up the price in a going-concern sale, the CRO received three bids, eventually selling to a strategic buyer serving the same client base and closing for three times the original offer. The buyer valued the corporate brand, custom artwork, intellectual property (proprietary artwork), installed employees, and equipment, which significantly expanded its SKUs.

3 Concurrently, the CRO set an auction date for five weeks out, creating a sense of urgency for prospective buyers. The general auction was cancelled since the going-concern sale closed, but some remaining machinery, furniture, fixtures, and equipment were auctioned off.

The plan was not without complications. Given the company's single-entity structure, the lender had a blanket lien on assets for both divisions. The turnaround team and the lender's bankruptcy counsel proposed structuring the transaction as an Article 9 sale to clearly define the assets purchased by the buyer. The CRO also negotiated for the company to retain its accounts receivable

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from the Seattle division to provide working capital for the Alaska division through its high season. The transaction closed on December 2, 2020, less than four months after the turnaround team came aboard.

The three-pronged exit plan for the Seattle division generated sufficient proceeds to reduce the lender's outstanding loan by 30%, exceeding the original projected recovery by 300%. It also eliminated significant recurring operating expenses, including an expensive lease in Seattle, creating more options for optimizing the recovery for the company's Alaska operations.

Alaska: Slow & Patient

The global shutdown of the tourism industry in the spring of 2020 and continued delays in recommencing sales obliterated the cash flow of the company's Alaskan operation. Without a CEO and the support of its private equity sponsor, the highly seasonal division was doomed. The turnaround team forecasted its liquidation value at $0.10 on the dollar of inventory. The company would also walk away from substantial accounts receivable in a liquidation.

Alternatively, many observers expected tourism could recover by the summer of 2021. The turnaround team completed a deep dive into the division's historical performance to develop financial projections and sensitivity analyses as the basis for an attractive recovery plan. The findings were promising, but they were contingent on the lender's support.

The turnaround team successfully negotiated a forbearance agreement with the lender by:

1. Reforecasting the company's financial projections for an extended closure of key cruise line ports due to COVID-19, demonstrating that operating the business through the summer season to sell on-hand inventory would create more value than liquidating at $0.10 on the dollar at minimal cost. Additionally, by remaining in operations, the CRO could collect outstanding accounts receivable.

2. Designing realistic covenants, milestone paydowns to the lender, timely reporting, and a timeline to pay back the remainder of the lender's debt.

3. Planning a going-concern sale of the Alaska division immediately after the high season.

With the forbearance agreement in hand, the turnaround team had time to pursue a well-planned strategy for the benefit of the lender, customers, employees, buyers, vendors, and the private equity sponsor.

Given the delicate and contentious nature of turnarounds, the CRO prioritized keeping the lender and private equity sponsor informed, staying one step ahead of their requests by:

1. Aggressively managing the business and its operations and accounting teams.

2. Driving a sales plan.

3. Serving as liaison/communicator between the private equity sponsor and lender, and providing timely sales accounting, cash flow reporting, and forecasting.

4. Providing liquidation analyses to compare auction versus going-concern sale options and pacing to forecasts.

5. Convincing the lender to finance buying more inventory to enhance 2021 performance.

6. Preserving relationships with the company's Chinese suppliers to ensure timely delivery of essential inventory and to enhance the company's value to a strategic buyer.

The division performed well during the summer of 2021 and was sold in a competitive process in October of that year to a strategic buyer expanding its business from Hawaii to the Alaska market. The turnaround team managed all aspects of marketing the division for sale through closing, including sell-side due diligence and buyer negotiations.

100% Is the Ultimate Recovery

The successful process paid back the lender in full, generated a return for its shareholder, and saved jobs. The CRO cited the following key attributes of the successful outcome:

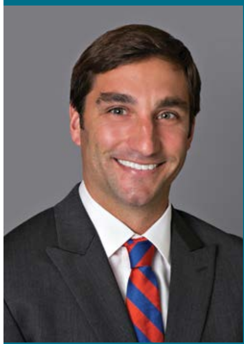
- Demonstrating the feasibility and benefits of separate going-concern sales for the two divisions.
- Quickly selling the Seattle division to a strategic buyer in a competitive process for more than three times the original projections and applying the proceeds to pay down the lender's outstanding debt by 30%.
- Negotiating a forbearance agreement for the company's Alaska division, allowing time to:
  - Stabilize operations and generate liquidity to sustain working capital needs.
  - Sell inventory profitably during the company's normal business cycle.
  - Design realistic cash flow projections and covenants.
  - Develop a timeline for milestone paydowns to the lender.
- Selling the Alaska division to a strategic buyer in a competitive process for 10-times the liquidation value.
- Generating substantial cash through accounts receivable collections and inventory sales.
- Obtaining two Paycheck Protection Program loans and Employee Retention Credit, using the money for operations during the turnaround.

Experience Begets Results

With companies and lenders nationwide continuing to recover from the pandemic's effects on the economy, many middle market businesses have, in fact, survived the turmoil with the patient support of their secured lenders. While turnaround consultants live and breathe corporate recovery, lenders clearly don't commit capital thinking they may lose any or all of it. Lenders who access turnaround consultants and counsel early typically get the best results because they have more options if the borrower still has a pulse.

Turnaround consultants appreciate experienced lenders, creditors, and equity sources that look beyond the nearsighted optics of a specific company. A dose of patience to conduct a thorough assessment of options, leaving no stone unturned, often yields much better results than a fire sale. Making a turnaround plan into reality, though, requires teamwork among parties with differing agendas, including company management, shareholders, creditors' committees, turnaround consultants, boards of directors, and their separate legal counsel.

David Stapleton is president of Stapleton Group. He is a nationally recognized restructuring expert and fiduciary, both in and out of court. He resolves complex problems caused by non-performing commercial loans and shareholder disputes. In representing creditors, business owners and legal counsel, Stapleton quickly identifies the obstacles between the parties involved and implements actions to overcome impasses. His expertise spans receiverships, ABCs, bankruptcy plan administration and liquidations, federal equity receiverships, and financial advisory.



Jake DiIorio is managing director of Stapleton Group. He manages projects ranging from solvency analyses to comprehensive receiverships and Chapter 11 restructurings. He is instrumental in resolving complex turnarounds and loan workouts for business, real estate and other fiduciary engagements. DiIorio applies deep experience in forensic accounting, business valuation, operations, asset disposition claims management and creditor communication, providing clients with key reports throughout the process to facilitate informed decisions.