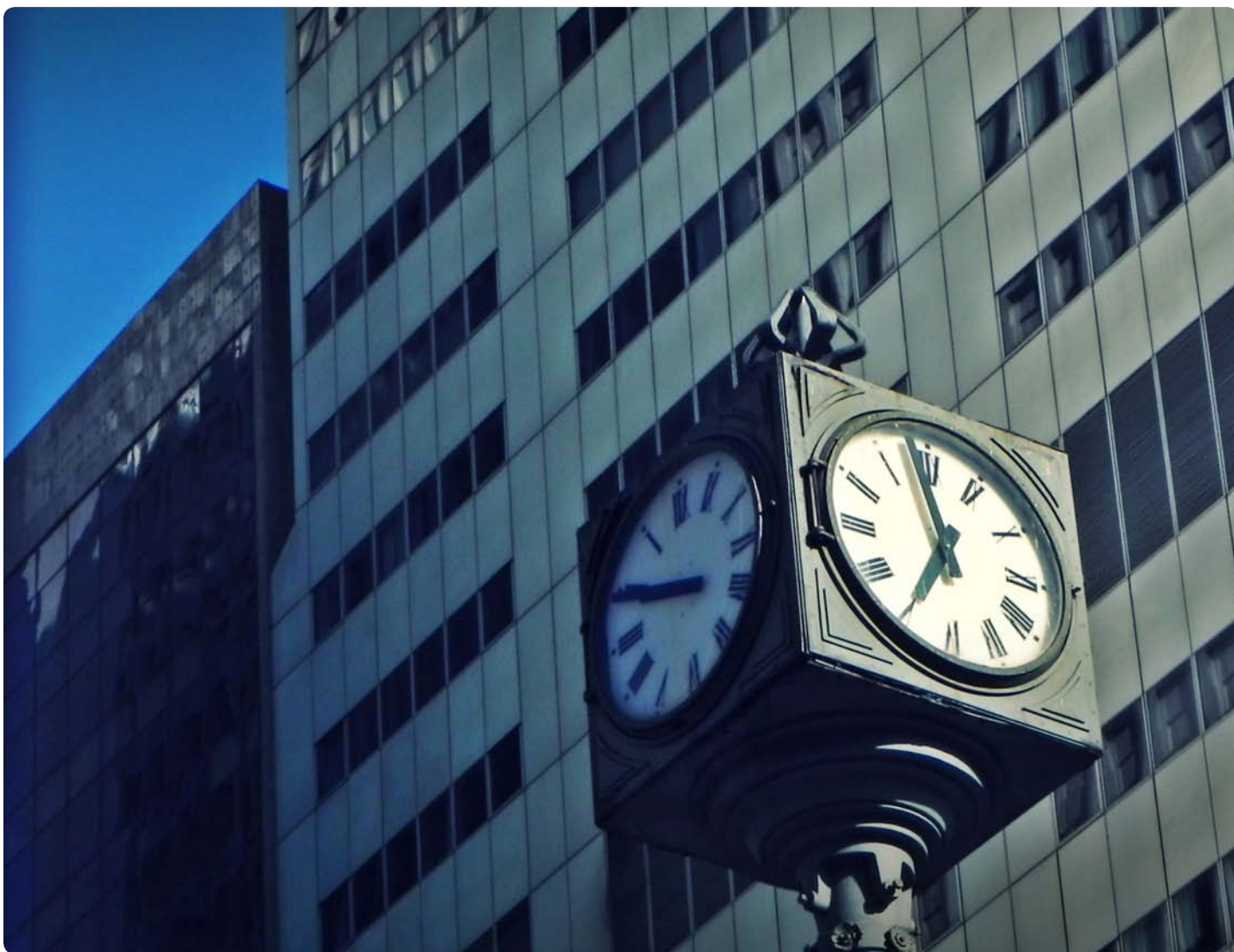



Surviving the Long Term Workout



Published in the Nov./Dec. 2011 issue of the *ABFJournal*

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Surviving the Long Term Workout

In today's lending climate, finding a replacement lender is a difficult process for under-performing companies, or those experiencing financial distress, to undertake and achieve. As much as a troubled borrower and their lender might like to part ways, finding a new lender to take out the existing lender at par may be a difficult objective to accomplish.

As a result, incumbent lenders are often finding themselves in long-term workout situations that test the patience of all parties. Finding a way to successfully navigate these long-term workout situations could represent the difference between a costly write-off for the lender and a successful loan restructure with a rehabilitated borrower.

Turnaround professionals are able to assist in these long-term workout situations by serving as a bridge between the two parties. Lender and borrower fatigue often creates an environment wherein the two parties fail to communicate effectively with each other. The turnaround consultant serves as an independent third party mediator of the conflict.

The Initial Work Authorization

Lenders dealing with underperforming or defaulting borrowers often make the borrower's retention of a turnaround professional a condition of entering into forbearance agreements. Lenders may be instrumental in developing the work scope expectations for the turnaround firm. The scope of work developed may be critical to the success of a long term workout strategy.

The Weekly Cash Flow & Budget: In all cases, a weekly cash flow must be created. The lender should require the development of a weekly cash flow for at least six months, and preferably one year. The weekly cash flow budget should be established and performance should be measured against that budget. A weekly budget to actual, a cumulative budget to actual, and a roll forward 13 week cash flow should become part of the weekly communication between the lender and

the borrower. In addition, exception reporting for expenses greater or less than a prescribed dollar amount or percentage should be reported weekly. A reset time period for budget updates should also be established.


The budget must be an anchor against which performance is measured.

Explore Sources of Additional Funds: In a long term workout the need for additional cash often occurs. The lender needs to know that all possible sources of cash inflows have been explored. The turnaround consultant should seek out all sources of cash that do not involve the lender increasing its outstanding loan balances.

Provide Support for the Operating Decision Making: The borrower will typically be required to make some difficult personnel and operating decisions. It may be necessary for the company to contract and right size its cost structure in order to eliminate cash burn. The turnaround professional is able to assist the borrower in identifying these actions, and then can work to implement the strategies.

Implementing the Plan

Long term workout situations often require an initial influx of resources to lead and support the workout strategy. The turnaround professional can provide resources through a variety of methods. For example, a Chief Restructuring Officer ("CRO") role can be added to the organizational chart, with the turnaround professional filling that role. The CRO implements the agreed upon recovery strategy and then turns the company back to the owners to manage, albeit with ongoing oversight and enhanced reporting to the lender. As an alternative, the owners may ask the turnaround firm to assume other key roles within its organization to augment perceived weaknesses in its management structure—whether that be as operating officer, financial officer, or executive officer. The turnaround professional assists the company in finding the



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replacement person to fill that position long term, but serves in that role during the initial phase of the long term workout.

Ongoing Reporting & Performance Monitoring

Critical to any long-term workout is the measurement of performance to plan. Both the lender and the borrower must believe each party is fulfilling its obligations to the other. The borrower needs to understand that financial reporting to the lender during this time will be enhanced—especially in situations where the lender is providing additional funding or extending repayment terms. In turn, the lender needs to be provided with evidence that the workout plan is being implemented and the performance of the company is stabilizing or improving.

In addition to weekly cash flow reporting, timely preparation of monthly financial statements will be critical. Additional reporting of key indicators for the business, demonstrating progress to plan, may be required. For example, if there have been issues with accounts receivable collections, a key indicator may be a summary of the accounts receivable aging prepared on a weekly basis. Or, if overtime has been an historic problem, a key indicator would likely include a summary of regular time hours and overtime hours weekly.

Successful Outcome

The measurement of success in a long term workout can take a year or more to reach. During this time it will be critical for both the borrower and the lender to attempt to work together for the betterment of both parties. The turnaround professional should develop the strategies to implement, and then the measurement tools by which to gauge progress. While turnaround firms have been used for decades, their role has generally been specific to a desired outcome of finding a new lender or equity structure. In this new economic reality, the turnaround firm becomes involved with the borrower and the lender for a more extended period.

The initial involvement should include cash flow planning, cash resource review, and operational change review. After that initial assessment and plan development, the next phase of the long term workout becomes specific to the turnaround situation, but in all cases requires enhanced reporting of financial and operating progress to the agreed upon plan.

The Goal

The successful turnaround plan implementation also provides a proven track record for the borrower to use as it transitions to a new lender. While the time frame required to achieve that transition may be longer than hoped, the enhanced reporting and tactical decision making should offer a higher probability of successfully rehabilitating the borrower, and finding a replacement lender, over the long term.

About the Author

Juanita Schwartzkopf has over 25 years of experience in commercial banking, financial management and operations and systems management. Throughout Juanita's career, she has handled diverse crisis management and asset recovery situations involving bankruptcy, dissolution and liquidation. Juanita has an extensive background in credit risk assessment and loan portfolio appraisal, and has reviewed asset-based lending and commercial lending loan portfolios of various financial institutions.

Juanita has worked with nearly all major financial institutions in the evaluation of credit risk surrounding various borrowers. Juanita has held key management positions that include CFO and Senior Vice President in a variety of industries, such as manufacturing, agriculture, lumber, flooring, consumer finance, sporting goods, apparel and electronics. Juanita was awarded an M.B.A. from the University of Wisconsin in 1987 and a Bachelor's degree in Accounting from Carthage College in 1981. She holds a CPA certification.

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