TMA (UK): case studies

React Installations - *Venture Turnaround Ltd, Cooper Parry LLP & Venture Finance plc*

Stephen Moon, Partner Venture Turnaround Ltd

'Business is booming, we're on for a best ever year, we can see a dividend payment this year'. These were some of the phrases I was greeted with when I first met the team at React Installations. These phrases were justified; the business was healthy and growing at a steady rate.

React had just started its largest ever contract in a new market of the retail sector, but this contract was different. Instead of using React's standard products, which include protection rails, customer guidance and access control solutions, it was designed by an architect, and React played a small part in a much larger £40 million building project.

Of course, phrases like 'new markets', 'largest ever contract' and 'non-standard products' can often set alarm bells ringing. We immediately began to review how the contract was progressing, assessing the commercial and technical risks. It was at this point that we realised we might have a problem.

Over a matter of weeks, potential risks became reality, costs escalated, project deadlines slipped and we had a full turnaround battle on our hands. We considered pulling out of the contract, as it was now affecting our ability to operate the core business. However, preventing a major retailer from opening in time for Christmas was not really an option.

We reviewed our options, discussed the risks, created a cash flow forecast and decided that we would be able to get the store open on time, but it would wipe out the year's profits and we would have to manage the cash flow very tightly. The business was teetering on the edge of disaster and careful management of the core business was required.

Once the store was open and deadlines were met, things settled down and we waited for payment. However, payment never came and we could see that we would be forced to fight long and hard for what we were due. At this point we had to be ready with our Plan B. We already knew that cash flow would be tight, but without the money from this contract, we wouldn't be able to meet the payroll at the end of the month. At this point we contacted Tyrone Courtman of Cooper Parry and discussed the possibility of an insolvent reconstruction of the business.

Over the next three weeks, two separate strategies emerged: Plan A, which was to collect what we were due and carry on, or Plan B, which was the insolvent reconstruction. The directors ran Plan A and I headed up Plan B. At this point my role changed from crisis manager to chief restructuring officer.

It was essential the Plan B happened quickly, as the business services could not be interrupted. If the business entered administration at any time it would run the risk of losing key customers and employees. The directors realised that there was a potential for full closure and the loss of all jobs, including their own. At this point personal guarantees signed over nine years were pulled out, and the directors also faced financial ruin and the loss of their homes.

The clock was ticking. The incumbent bank was not supportive of our Plan B and administration looked a certainty. We were forced to ask Cooper Parry to step in as the Inland Revenue threatened to distrain the business' assets. Cooper Parry filed a notice to be appointed as administrator. This protected the assets and effectively gave us 14 days to find a new bank and reconstruct the company.

At this point Venture Finance plc entered the picture. They reviewed our plans, audited the books and moved quickly to offer us terms. The incumbent factoring bank would be paid off in full, along with the overdraft facility with HBOS.

Tyrone Courtman, Partner Cooper Parry LLP, TMA (UK) National Events Director

When I first met the directors and Stephen it was clear that the storm clouds were gathering and we had to move quickly. Wages were due to be paid, crown distraint was looming and suppliers were pressing for payment. The bank was not prepared to provide an extension to the company's overdraft facility and the directors had run out of personal funds to inject into the business. The delay in a contract receipt increased the cash flow pressure and the company was struggling to survive. The business was in its quietest seasonal trading period, so options were limited.

Having got to grips with the issues and financials, the notice of intention to appoint an Administrator gave protection from creditor pressure, but timescales were extremely tight if we were to save the business, funding would only last a matter of days not weeks, so marketing the business externally was not feasible.

The directors' offer to buy the business and assets via a 'Pre-Pack' was attractive for a number of reasons; financially it obviously made sense as the company received much more than it could have hoped for on a break up basis. The added benefits of seamless continuity of service to the customers enhanced the realisable value of the debtor book and the deal saved 22 jobs.

Completing the deal involved a team effort by all the parties. We needed to ensure that enough funding was available and Venture Finance plc, the new funder entered into negotiations. Venture remarkably managed to take out the existing funders within the tight timescales imposed, enabling the sale to be completed quickly. A proportion of deferred consideration enabled the company a few months to get on its feet before making the final payment.

It is always satisfying to achieve a good result for all the stakeholders and to preserve jobs and this case clearly demonstrates our approach to company rescue.

Rick Owens, Venture Finance plc

Keith Newton, managing director of React was aware of Venture Finance plc and invited Chris Woodward and I to pitch for the business.

We undertook a business audit. Finding React to be a strong proposition, we offered a financial package comprising a confidential invoice discounting facility with a £500,000 funding line. React was tied into a three-month notice period with its existing financier, so our proposal was put on hold until the notice period expired.

When we spoke with React again in January 2007 the situation was markedly different. The company had found itself at the wrong end of a contractual dispute, in which React was an innocent party, and was awaiting a significant payment that continually failed to appear.

Despite this unfortunate situation, we remained impressed with the business acumen of React's management team and the plans that had been formulated to rescue the business. This was to be achieved through the administration process, thereby creating a brand new company based upon the knowledge and expertise of the existing team.

In contrast to React's incumbent factor, which was unsympathetic to this strategy, Venture was able to match Cooper Parry's speed of response and innovative approach. The most expedient solution was to remove the existing financier prior to administration and provide working capital to Newco in a seemless transaction ensuring continuity to the business and customers alike. This had the benefit of increasing the monies realised by the Administrator, as NewCo had a better chance of collecting OldCo debts.

Speed was of the absolute essence and we had to act fast to safeguard the company's future.

When the Inland Revenue threatened to seize the business' assets, Cooper Parry stepped in and filed notice to be appointed as the administrator. This intensified the situation, leaving us with just 14 days to organise a suitable financial package and reconstruct the company.

Against the clock, we worked rapidly and reassessed the situation against continually moving goalposts. Daily financial modelling and close contact with the management team were vital in ensuring the success of this plan.

The final deal came together two days before payroll and on the final day allowed by the courts. We paid off the two incumbent banks in full by 12pm and React entered into administration at 4pm. Documents were signed, legal contracts checked and by 11am the following day NewCo was formed purchasing the assets from the administrator and drawing down prepayments for immediate working capital.

The final outcome proved to be the best possible for all stakeholders, from the management team to the creditors, customers and staff, and the new company is flourishing.