Maintaining Asset Value

The Company

The company is a manufacturer and supplier of commercial and residential building materials. The company has engineers that work with building architects and contractors to design stone materials for building facades.

The Situation

Previously, the company held large market share with a project backlog comprised of 80% of a year's worth of revenue. However, attempting to keep fixed costs down the company switched to temporary labor not recognizing the skill required in product fabrication. The resulting quality issues along with increased complexity of newer projects forced additional time in fabrication and slowed manufacturing causing a build-up of project backlog and back charges from customers. This led to discounts and higher costs which significantly impacted EBITDA and cash flow.

The company was highly levered with a cash based loan and mezzanine debt, but faced negative EBITDA for the year. Neither the equity sponsors nor the lenders were willing to contribute additional capital.

Shortly before Keystone was engaged the company filed for Chapter 11 bankruptcy. The court approved a three-month timeline to complete a 363 bankruptcy sale of the company and its assets.

Faced with forced liquidation, the senior lender moved the loan into its workout group and engaged the Keystone Group to assess the current state of the company and maximize the recovery of the bank's investment during the sale process.

The Approach

Keystone initially reviewed the company's cash forecast to understand its cash position. Keystone analyzed the daily cash flow with management and production to understand the likelihood and timing of upcoming cash collections and determine critical cash disbursements.

Keystone reviewed the current backlog and focused on failed contracts which would be difficult to collect. Keystone gathered data related to percentage of completion, current inventory value, and remaining cost to complete to support on-going negotiations with these customers. To further understand the true value of inventory, Keystone valued inventory related to certain contracts that would be difficult to collect or had excess inventory.

The team performed a liquidation analysis that projected bank recovery of 45% or less, based on current market conditions, recommending the bank to allow the company to continue running through the court approved timeline.

As the company received offers from strategic and financial buyers, Keystone analyzed the profitability of each with respect to the debt position of the bank.

Following receipt of a formal stalking horse bid, Keystone analyzed the flow of funds of each bid during the 363 bankruptcy auction sale.

Prior to sale close, Keystone developed a work plan and assisted in the final collection of short term assets not included in the sale, such as cash, accounts receivable and inventory.

The Results

Keystone helped manage cash until a final 363 bankruptcy sale, **which generated 2.75x the projected liquidation value.**

The bank fully recovered its outstanding debt and the sale provided for additional funds to cover a portion of administrative claims and unsecured creditor balances.

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