Interim Management Role Leads to Business Turnaround

The Company

The Company is a metal building fabricator comprised of three locations in Oklahoma, Georgia, and Mississippi. The company is Private Equity owned with an asset-based and mezzanine finance structure.

The Situation

The company had to record a significant inventory adjustment due to improperly recording gross margins on projects throughout the year. This caused the company to violate bank covenants, causing an overload of informational requests from the lenders and equity sponsors in order to better understand the issue and the corresponding outlook for the company. This exposed the need for EBITDA improvements, quality of information used to support key decisions such as job quoting, and new cash forecasting processes.

Given these complexities, the Private Equity Sponsor, with the support of the President, engaged Keystone to rectify each of these deficiencies and take on interim CEO and CFO roles.

The Approach

Keystone's initial goals were to understand the current financial state of the business and provide an independent perspective of the EBITDA and cash flow forecast for the remainder of the year. The concerning business outlook led Keystone to take the following actions:

- Initiated a top-down reforecast of the annual business forecast
- Recommended revised covenants based on the reforecast
- Constructed a 13-week cash flow model to monitor availability and conduct scenario analysis
- Co-led the negotiation and implementation of a forbearance agreement with the lenders

Following the forbearance agreement, Keystone turned its focus to maximizing cash flow and driving operational improvements that would help to deliver on the revised forecast. This included:

- Developing the business case to shut down the underperforming Georgia location and service customers from the Mississippi facility
- Improving working capital management by working closely with key personnel at each location
- Initiating a management dashboard at the Oklahoma location that was discussed each week to increase attention on key operating metrics
- Implementing a more formal Sales & Operational Planning Process (S&OP) to improve communication between functions, resulting in a 12% reduction in direct labor

Following the hire and transition to a full-time CFO, Keystone turned its attention to filling the management vacancy of the retiring president, a key piece of the turnaround story at the Oklahoma facility. Keystone was named interim Chief Operating Officer (COO). During the tenure of COO, Keystone focused on the following:

- Revising the sales estimating tool to provide a forecast of material margin based on selling price, product mix, and product costs
- Establishing a foundation for the job costing methodology
- Guiding throughput improvement discussions based on data analysis of bottlenecks as a result of increased backlog

Finally, Keystone transitioned its knowledge of the business and business tools to the new full-time President.

"Keystone worked well with management as interim-CFO, and subsequently interim-COO, to help the team identify and improve visibility to the financial and operating opportunities within the company. Keystone's assistance with operations contributed to drive cost-saving opportunities through the day-to-day detailed implementation of these initiatives. The combination of financial and operational analysis, along with a hands-on approach to implementing the improvements with the management team, has put the company in a much improved position." – Equity Sponsor & Chairman of the Board

The Results

In the interim CEO, CFO, and COO roles, Keystone was able to help the company achieve the following:

- Negotiated a consensual forbearance agreement and greatly improved interaction with lenders
- Refinanced senior loan facility
- Improved EBITDA by >8x
- Increased availability by 8x
- Reduced net debt
- Decreased leverage ratio from 15x to 8x
- Increased net sales by >15%
- Increased material margin by >14%
- Improved direct labor efficiency by 12%
- Reduced DIOH by 17%
- Scrap rate reduced by >10%
- Remained in compliance with all financial covenants
- Stabilized the management team

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