



Pathway Advisors LLC

Management & Financial Counsel

Financial & Management Insights for Business Professionals

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Dear Gerry,

When many people think about the sale of a troubled company, or its assets, their first instinct is to think it's a tall order – often too tall. Over time though, we've learned that when these types of situations are handled with the finesse experience can bring, the chance for some form of success is much higher than one may think.

Today I'll be talking about Pathway's approach for putting the pieces of a successful distressed company sale transaction together.

As always, I invite your comments and questions.

*Best Regards,
Gerry*

Fitting Together a Distressed Company Sale



Understanding "The Good, the Bad and The Ugly"

"The Good, The Bad and The Ugly" is a commonplace phrase and certainly true with regards to the sale of a distressed company - or more often than not, just its valuable assets. The fact is that most companies which have enjoyed meaningful longevity, or occasionally even those with no longevity at all, have some assets of value – either tangible, intangible or both. Generally, these assets are readily identifiable: product lines, locations, technologies, good people, manufacturing capabilities, etc. Sometimes, however, a deep dive is needed to fully appreciate a distressed company's "value drivers."

For example, Pathway recently worked with an old-line manufacturer with a proprietary but dying product line. Most buyers would just not have any interest, BUT – the sellers installed machinery base would support a high-margin spare parts business *for several decades*. I can't say it would be a no-brainer, but I can say that for the right price I'd buy that piece of the business in a heartbeat.

On the flip side, financial difficulties are always central – and sometimes they are **FINANCIAL DIFFICULTIES**. Commonly, a company can struggle along for a while – but sometimes they have only weeks to find a solution. To get a quick handle on the situation I look at the basics: How bad is the cash situation? Is there a bank involved? Is it underwater? What's the personal guarantees situation? Are there unpaid taxes? Is the trade out of control? Do some of the company's assets have real value? What does ownership want to get out of a deal?

All of these considerations – and many more - have to be understood in order to both examine potential solutions and know how quickly they have to put in place.

Getting Real

For virtually all business owners, the sale of their company is a tough pill to swallow. It's natural to feel badly about losing "your baby." Worse, it's always hard to accept a deal that's less than an owner was hoping for. Regardless, the harsh realities have to be acknowledged. And sooner is always better than later.

Beyond helping our clients identify their best routes for a solution, one of Pathway's most valuable services is to help a client accept reality - and move on. To that point, I often cite an experience I had, early in my career, with an undercapitalized distributor of parts and accessories for recreational vehicles. The company had four regional competitors that had the potential to be a solid, synergistic buyer. My client, however, insisted on waiting until after his business's high season to pull the trigger to start the sales process.

So, what happened? By the end of the season, the four other competitors had consolidated into two. And my client? He ended up in a Chapter 7. This was a lesson I'll never forget.

Getting the Deal Across the Finish Line

Often, our client has already been involved in some level of discussions with a potential buyer. In those cases, we typically step in to provide the expertise needed to create a deal that can work for all parties. What exactly do we do? We help shape the right deal structure for both of the companies and all of the other outside parties involved; negotiate with the bank; sell unsecured creditors on a deal that likely means they'll take a hit; find sources of financing when needed; coordinate the efforts of the other professionals involved; and drive the entire effort.

And what if no discussions have been begun?

With the lower small to lower middle market companies, we typically work with, there's usually a definable and relatively small number of good potential acquirers. Sometimes we reach out to these companies for a client. And sometimes we coach our client on how to do it themselves. It depends on the circumstances. Regardless, when the time is right, Pathway steps in and quarterbacks a deal across the finish line.



ABOUT PATHWAY'S BUY/SELL ADVISORY PRACTICE

When Gerry Sherman founded his distressed company advisory practice (close to four decades ago for better or worse – mostly better), “organic turnarounds” were relatively common. Today far more distressed situations are resolved through a sale transaction of some sort. As time has gone on, we’ve done more and more buy/sell deals. Eventually, it just made sense to formalize this work as a core service offering.

To lead this effort, Richard Katzman has joined Pathway and his skill set is a great fit! After running his family’s tannery for many years, he realized that it just made good sense to

sell. Richard found the right buyer, helped engineer an asset sale and then stayed on for three years. And since the buyer did not acquire the real estate or production equipment, Richard sold them to several other parties. He learned the buy/sell process with his own boots on the ground. What better way to learn could there be!

We look forward to talking about any buy/sell situation you may be involved with and usually can “build our services to suit.”

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Pathway Advisors LLC is a specialized business advisory firm focused on helping our clients effectively resolve the most significant of profitability, cash flow, banking, operational, and organizational challenges. We pride ourselves on the ability to analyze issues quickly, develop plans to solve them efficiently, and leverage our deep relationships in the financial and business communities to do so. Pathways has helped over 400 companies throughout the eastern half of the US.

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