Pathway Advisors LLC

Getting It Done

Management & Financial Insights for Business Professionals

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Dear Friend,

One of the advantages of becoming a “seasoned” troubled company professional is having the perspective that can only be gained through decades of experience. Using that lens, my view is clear on one very significant paradigm shift. Simply put, we just don’t see true “Organic Turnarounds” very often anymore. In its place, we do see the sale of a distressed company’s assets, as all or a significant component of a going concern, with increasing frequency.

The key driver of this shift is the industry consolidation and industry disruption we’ve all witnessed. As a result, “Survival of the Fittest” is a stronger force than ever.

In this issue of **GETTING IT DONE**, I’ll be examining these dynamics and what they mean for both the work-out world generally, and the job of workout advisors in particular.

As always, your comments and questions are invited.

Best Regards,
Gerry

The Paradigm Shift in Workouts

What's Changed?

For decades, and understandably, workout professionals had a pretty standard approach to a workout. As a rule, they first addressed the following pressing needs:

- Improving liquidity
- Addressing bank and creditor issues
- Getting expenses under control
- Improving collections
- Reducing inventories
- Increasing sales
- Upgrading operating efficiencies
- Sourcing replacement or altogether new financing

What's missing here?

It's simple. The selling of all or a subset of a workout client's assets, as all or a component of a going concern, historically has been viewed more as a "what to do when all else fails." Today, the sale effort needs to be front and center.

Why has a sale become a primary workout solution?

It's easy to say that a company gets in trouble because of a cyclical downturn in the economy, changing industry dynamics, or plain bad luck. While these problems may, in fact, be central challenges for many troubled companies, it's far from the case for all. What is true, virtually as a rule, are two facts:

- A company gets in trouble because management is ill-equipped.
- A company gets in trouble because it's undercapitalized.

The heart of the problem is that in today's world where industry consolidation and industry disruption are facts-of-life, business is just much more competitive. Accordingly, strong management and solid capitalization are more important than ever. Given this overarching reality, the sale of a troubled company is often not just the best solution – it's the only solution.

The Good News

Industry consolidation and industry disruption breed winners and losers. And the winners are often financially strong and readily identifiable. This means that for a troubled company with valuable assets, ready and willing buyers are generally out there. As a rule, the appetite for intangibles is particularly strong with product lines, technologies or other intellectual property, the opportunities to move into new territories, and skilled human capital being of particular interest. Furthermore, tangible assets such as newer or specialized equipment and well-located, efficient facilities can be of strong interest as well.

An instructive story

A few years ago, I was working with a client that was one of the five major northeastern distributors of a specialized and highly seasonal line of automotive accessories. The segment was struggling as a whole and my client was quite likely the worst off of the group. What the company did have was the local dealership of a sought-after product line. Before my client's high season began, as the company's workout advisor, I encouraged him to let me have merger discussions with several key competitors. He rejected the idea because he felt that if the "word" got out, his crucial summer volume would collapse. So, what happened? The company's owner tried desperately to survive – and even went to a fintech lender charging 50% annual interest. When the season was over, though, my client's four key competitors had merged into two and his company ended up in Chapter 7. Had my client acted earlier, he may have ended up, at a minimum, with a good job and without an unpaid, personally guaranteed bank loan that was underwater.

This is a story many business owners just don't want to hear - but it's often one that I have to tell.

Final Comment

My father and his brother founded and operated a distribution company, Sherman Shoe Supply Company. It provided shoe manufacturers with everything they needed to make shoes except leather. After my father and uncle both passed away, the company's COO purchased the business. Then, as US shoe manufacturing continued its offshore migration, the company shrank to a point where its only customers were US based boot manufacturers that supplied the US army. When the company became a workout and eventually was sold, the selling price was just 80% of sale-able inventory on hand. Nothing more.

Would the successor owner of Sherman Shoe Supply Company generated a better price if he had prioritized selling when he first got in trouble? I'd bet on it.

ABOUT PATHWAY

Pathway Advisors LLC is a "boutique" business advisory firm which is focused on assisting underperforming and financially distressed companies. Our services include:

"Special Situation" investment banking

Sell-Side Services: Structuring and packaging sales offerings, bringing qualified prospective buyers to the table and negotiating transactions.

Buy-Side Services: Identifying and contacting target sellers, structuring and negotiating transactions and arranging acquisition financing

Debt Placements: Pathway has structured and negotiated over 100 hundred loan transactions with finance companies, government sponsored financing resources, and private lenders. Loan purposes have included acquisition financing, working capital enhancement, real estate purchases and equipment purchases

Financial and operational restructuring

Pathway has acted as a workout and restructuring advisor to over 200 companies and over 50 lenders or investors.

Asset Disposition

Pathway's liquidation experiences include the representation of operating companies, acting as an assignee and acting as a receiver. We have deep experience in liquidation planning, collections, equipment and inventory sales, creditor management and dividend distribution.

Our practice is focused on owner-led and family-owned businesses with annual sales up to $100 million and we work with both "New" economy and "Old" economy companies. Pathway's partners have a combined 70 years of business experience.

Gerry Sherman, Pathway's founder, began his career as a commercial lending officer for a major New England based regional bank and has now been a workout and financial advisor for over 30 years. During that time, his clients have included operating companies; banks: non-bank lenders; and government sponsored lending organizations. He's also acted as a Chapter 11 Trustee, Court Appointed Receiver, and Court Appointed Special Master.

Richard Katzman rose to the level of CEO at his family's tannery and then sold the company to a competitor. During his tenure at the company, in addition to his day-to-day operating responsibilities, he successfully refinanced the company out of the workout group of the bank he had worked with for decades. Before joining his family business, he worked for the United Nations Industrial Development Organization. He's now worked as a business advisor for over 10 years.