

LS Associates – Financial, Operational and Management Consultant

Primary Industry: Textiles - Distribution, Importing and Manufacturing

Company Overview: \$65 million worldwide distributor, importer and manufacturer of textiles headquartered in Midwest.

Secured Creditors: In excess of \$ 18M in obligations owed to the secured lender on a Revolving Line of Credit Agreement and International Letters of Credit , primarily secured and collateralized by receivables and inventory .

Unsecured General Creditors: Substantial unsecured trade debt with over \$ 6M in unsecured trade accounts, some significantly past due. Company also had subordinate shareholder notes.

Situation: The Company was an international privately owned and managed textile operation. The Company had an Institutional Division divided into Textile Rental ,Health and Hospitality which imported, manufactured, and distributed textile products such as towels, bed sheets, table linens, aprons, blankets and bedding. The Company also had a Retail Division that imported and distributed products and sold into major retailers. During 2003-2005, the Company encountered several business challenges and lost some of its agility as it grew. Changes in the industry, specifically the lifting of all textile import quotas in January of 2005, significantly impacted the Company. Additionally, the Company faced internal operational challenges related to fractured management and significant, and possibly premature, growth in the retail portion of the business causing a costly “education” in dealing with the systems demanded by major retailers. The Company suffered with significant receivables issues, poor internal systems, inventory mix ,turnover issues and segments of unprofitable business lines. Compounding the issues, the Company struggled to install a new software package which caused the accuracy and reporting of financial information to be an issue. In summary, the Company was unable to manage and finance its growth within the existing credit facility. This resulted in an inability to properly maintain inventory levels, meet payable obligations, and avoid operating losses. This led to cash flow issues, a default with its senior lender, heightened customer issues and management tension.

LS Objectives: Help the Company get reorganized and refinanced. LS was to review and bring credibility to the financial statements through the preparation and review of weekly cash flow budgets , profitability and balance sheet analysis by segment, business plan outline and budget for the ongoing operations. Negotiate extensions with current lenders, create a prospectus for refinancing and assist in negotiations for refinancing and/or sale of part or all of the business.

Tasks Performed:

LS verified that Balance Sheet items were reconciled and prepared a working capital analysis to include weekly cash flow budgets, profitability analysis by segment and projections.

LS worked with management to analyze and model breakeven, current financial position, profitability and working capital by segment analysis including a review of customers, backlog, margins, personnel and critical monthly expenses.

LS worked with the management team to analyze the inventory in detail creating a mechanism to identify slow moving items and policies and procedures to liquidate the same and improve inventory mix and service levels.

LS worked with management to identify and implement additional options to improve financial performance and assisted management in the implementation of these plans. Detail of some of the changes included :

- Discontinuing and closing West Coast operations and Warehouse that had a significant working capital investment and was not profitable
- Discontinuing manufacturing partnership with a captive supplier
- Closing Mexico manufacturing operation
- Outsourcing seasonal warehousing needs
- Putting in systems and personnel necessary to quantify , monitor and hold vendors accountable for delivery and performance
- Review of customer and salesperson revenues and margins in effort to sell “ smarter “
- Review of credit policies and procedures and work with new credit manager to tighten controls

LS prepared a prospectus for refinancing which included a business plan, historical financial statement analysis, projections and quantitative analysis of changes implemented.

LS assisted management in interviewing prospective sources for refinancing and negotiating a successful refinancing.

LS was retained after the refinancing to participate in an advisory role to oversee ongoing management and operations in compliance with the business plan. This included participating in an ongoing strategic business plan, continuing to strengthen and build the management team, revamping the sales force, new product introductions, investments and improvements.

LS worked with shareholders and management to understand individual shareholder objectives and define reasonable objectives for all and to identify alternatives which would allow shareholders to obtain objectives, including repayment of shareholder loans to the Company.

Outcome: The Company was successfully restored to profitability ,refinanced with a new lender , and ultimately each shareholder reached their personal objectives.