

A New Era for Corporate Restructuring

Unlike the 1980s and 1990s, where small to medium sized businesses in difficulties did face a high chance of failure, today, recovery is an option for many.

This is demonstrated by the statistics, where the number of receiverships and administrations stood at 3389 in 1995, in 2003 the figure had dropped to 2005.

We not only have a relatively stable economy to thank for this but also the provisions of the Enterprise Act which have, to some extent, streamlined the processes for restructuring a business, so that decisions can be taken quickly and assistance given when it is crucially required.

We also have to thank the financial services market generally for adopting the rescue culture approach to businesses that find themselves in difficulties, as this has allowed different rescue options to thrive, specifically the increase of asset-based lending and a more structured approach by banks to recovering funds. This cultural shift, however, is not new; and has been underway for some years now.

A shift in emphasis

All of these changes have certainly altered the landscape that we are used to working in. Just a couple of years ago, it was common for a whole team of Menzies staff to be called on at short notice, normally a Friday afternoon, to go onto the site of a business in a formal capacity, in order to get to the bottom of what had happened and assess the most practicable way to recover a lender's debt in a distressed scenario.

The current style of rescue is often less dramatic and traumatic. This doesn't mean that this no longer happens it's just that there's more of a tendency for businesses to a) benefit from current economic stability and survive in the longer term and more pertinently to get help sooner than perhaps they might have several years ago. It's good to know that the message 'act early', that the industry has been drumming home for so long is finally being heard!

There's also room for a more measured approach because lenders are more willing to consider alternative strategies now, than at any time before. Therefore, once all

parties involved sit around the table to discuss the issues at stake, there's often more open-mindedness and more preparedness to consider new approaches to saving the business. After all, lenders realise that there's more chances of maintaining a revenue stream from this route than instantaneously winding up the business.

It's interesting to note too that it's businesses operating at the smaller end of the market that are increasingly benefiting from the new rescue finance options and, in our experience, this is probably the least experienced sector in overall business management terms. So, where you have say, a fantastic chef opening a new restaurant, growth might be dramatic but, this doesn't always mean that he or she will be equipped to cope with a sudden drop in turnover when circumstances beyond the business control change, say, the foot and mouth crisis or a fall in tourist numbers due to a terrorist attack.

Also small business owners need to be a jack of all trades as they are often so focused on running the business they don't often see the warning signs and they will not know who to turn to for help. If there's pressure on sales or profit margins, it will not be common practice for them to seek help from a turnaround specialist. This is sad because it could jeopardise the business prospects in the longer term and especially as often, a solution can be found.

New funding options

A lot of our recent assignments have seen us assist companies with financial problems and for many of these businesses it has involved us raising between £0.25 million to £1 million of fresh funding, either in debt or equity, in order to enable the company to fight another day. When help is sought in time, these businesses fare well because there's a good, flexible array of finance options available, be it angel funding or asset based lending.

Where the early venture capital market served this sector well, venture capitalists have now moved onto bigger deals, and so, different types of lenders are moving in to fill this gap.

This is where the knowledge-base of firms like Sovereign Credit Management is particularly important. Whilst we will handle the collection of debts in an insolvency situation up to a certain level, the particular skills and expertise of these firms comes into play when we are unable to pursue the accounts further with internal resources. Sovereign offer us a number of trained institute of credit management (ICM) collectors who are available as work levels dictate. Sovereign typically achieve collections success rates of eighty five to ninety percent on the ledgers we have passed to them.

Where funding comes from business angels, this often involves people who have sold their own businesses and are looking for the right deal to reinvest in. Again in such instances you are dealing with a competent and sophisticated lender who will have knowledge of corporate restructuring techniques.

All of these factors certainly make the chances of rescue more likely and the process of turnaround run more smoothly.

Getting their act together

It s true to say that banks and other lenders are much better equipped nowadays to help people than they were a few years ago. There s a combination of factors at play here including new business support functions that are now in place to help lenders work alongside businesses and help business owners through difficult times. Where businesses get into financial difficulties admitting this to the bank isn t the automatic signal to wind up the business as it once was.

In the new approach to business banking it is now seen very much as the last resort to appoint administrative receivers or administrators to a company.

Also, alternative finance options have increased dramatically. Asset-based lending is particularly suited to restructuring because a company is able to release equity into the company through, say, the strength of its sales ledger, and therefore customer base. They are also able to raise additional capital through other assets on the balance sheet, for example, plant and machinery or stock.

The asset-based lending industry has done well to do away with its former lender of last resort image to be the lender of first resort for a number of MBO and MBI deals.

Very often these deals happen smoothly, swiftly and without much fuss because these firms are geared up to act speedily and flexibly.

Saving the Day

In fact, it is fair to say that the growth of invoice finance and other types of asset-based lending have been fundamental to the increase in restructurings that we have seen over the past eighteen months.

There's a host of other benefits that these lenders can bring over traditional funding, particularly the fact that they can offer a flexible approach to transactions and they can make decisions very quickly, features that are highly desirable in today's recovery market.

Asset-based lenders can and nearly always do offer better competitive rates than the traditional banks and as they step in and act as part of the business this means they are closer to the business and therefore, understand the needs and requirements of the business especially during periods of rapid growth.

The whole emphasis upon gearing is very important here too as companies can be increase their gearing and leverage off their debt rather than their equity, putting them in a better and more stable position as they move forward.

It's also good for smaller businesses that if they do not have the resources to appoint an accounts payable department they can have access to an extremely efficient back office and they are paying for someone who is an experienced sales ledger manager, for just a fraction of the going market rate for this resource.

In all, the corporate recovery and restructuring market has become a more sophisticated and more dynamic environment in which to operate. Whilst it's good to remind ourselves how far we have come, we are also aware that there's plenty more room for growth and let's hope that the next couple of years, which will be very important from an economic perspective, continue to provide more scope for the rescue and turnaround of faltering businesses in the UK.