ExpertInsight

Transforming business fortunes

INDUSTRY VIEW

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Transforming a business is not about restructuring the balance sheet to make it look solvent, it is about fundamentally changing its prospects. The best way for management teams to transform the fortunes of a business is to use independent advisers who can tell them how it is and what they need to do in order to grow.

Tony Groom, chief executive at K2 Business Partners, says: "As advisers our focus is on saving the company by transforming its fortunes and achieving growth, not an insolvency appointment which tends to be preferred by the insolvency profession.

"We have a pivotal role to play transforming the prospects of a business future that finds itself short of cash. There are a lot of overinvested companies that, if properly advised, could grow."

Guidance from independent advisers is crucial to avoid conflicts of interest. Tyrone Courtman, partner and head of restructuring at PKF Cooper Parry says: "Whoever the stakeholders are imposing on the business, it is critical for the directors to recognise the need to take their own independent advice. Whoever is introduced by key stakeholders, typically the bank, may find themselves conflicted. This is likely if the imposed advisors are a bank-approved firm. In such circumstances, to whom do you think the advisors' loyalties are likely to lie?"

One possible way to secure a proposed advisors' independence is to get them to confirm that they won't accept an appointment as Administrator.

Justin Stephenson, director at Jeffrey Green Russell, says: "We don't adopt a one-size-fits-all approach – we look at every option. Pre-packs are one of many tools that should be considered by an adviser. It should not be considered at the exclusion of all others. I am very happy to use pre-packs in the right circumstances. What I am not happy with is when they are used in every circumstance."

Advisers also have access to funding. David Hole, partner at Galen Partners, says: "We have loads of money looking for a home and funders asking for an introduction to clients. The challenge for business owners is to make their proposition more compelling than everyone else when they might not be looking too pretty.

"The lender market has both debt and equity liquidity, but being lender and investment-ready is the key."

A Company Voluntary Arrangement (CVA) can also be used. Neil Chesterton, director at The MacDonald Partnership, says: "The CVA remains a flexible and effective rescue tool, and is best used in conjunction with fresh funding. CVA also allows a breathing space to stabilise and properly structure the business in its transformation."

Successful transformations have the support of all its employees. A consensual turnaround, says David Bryan, principal at Bryan, Mansell & Tilley, "creates the opportunity to negotiate win-win deals with all stakeholders to preserve value in the business, and also confidentiality. It is a way of saving the company without everyone else knowing and without creating adverse publicity."

Protective measures to take today

Ward off market uncertainties even in times of growth

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Despite improving economic growth, a number of corporates are facing tough trading conditions. Risks arising from future interest rate rises and a strong pound, in addition to fallout from world events such as the impact from recent EU trade sanctions on Russia, indicate that there are number of reasons for corporates to remain cautious in their outlook and ensure appropriate contingency plans are in place.

Favourable borrowing terms have helped corporates lower borrowing costs and made incremental leverage more manageable. However, many corporates are at risk of overreaching themselves, and whether refinancing or transacting, business plans must be subjected to rigorous stress testing.

We are witnessing increasing levels of bond issuances across Europe and for corporates; bond financing has two principal advantages – a bullet repayment profile and therefore lower levels of debt service and a higher degree of covenant flexibility. The combination of these factors can give rise to significantly higher refinancing risks (when perhaps debt markets will be less favourable) and increased liquidity risk. Finance directors need to appropriately manage refinancing risk from the outset by optimising cash generation opportunities and earnings potential.

The importance of streamlining excess working capital should not be overlooked, particularly when the corporate agenda is focused towards growth, whereby inefficiencies in a company's cash conversion cycle can often be overlooked – attributed instead to a necessary by-product of funding growth. In turn, more cautious behaviour stemming from inherent uncertainties in the broader economy leads to lower orders being made, delays to investment and a consequent impact on cash cycles.

Now feels like a good time for finance directors to take stock and make sure internal processes such as working capital management, business planning techniques and funding structures are not only enabling companies to be best positioned to take advantage of recovery in the economy, but also protect against downside risk.

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Stay calm and take advice from the professionals

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It has never been more important for directors to understand the personal claims that can be pursued against them if their company goes into liquidation or administration. Liabilities such as claims on personal guarantees are obvious, although other claims may arise as a result of company management. A common example is where a liquidator pursues directors for losses incurred when the company continued to trade after it ought to have been clear that liquidation was inevitable. Directors are also running into difficulties with HMRC pursuing claims for unpaid NI, on the basis that HMRC has suffered a loss resulting from the director's neglect.

However, disqualification proceedings continue to present the highest threat. For many years they were reserved for directors involved in multiple insolvencies or in serious cases of dishonesty or mismanagement. Cases are now being pursued against directors with first-time business failures, often on the sole grounds that trade creditors have been paid while tax liabilities have been not. Disqualification orders prevent individuals from acting as directors or being directly or indirectly involved in the management of limited companies. This can have serious consequences for a company director, as the minimum period of disqualification is two years.

Take and follow professional advice as soon as you identify an issue, as these problems can be avoided. Beware, though – the insolvency practitioner who you might consult with will not be providing you with personal advice on your position as a director.

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