



# SUCCESSFULLY RESTRUCTURING YOUR DEBT

Business variables can be hard to predict. Your company may lose a major client, be caught off guard by shifts in commodity pricing or consumer demand, or any of a myriad of other fluctuations in the business climate. To ensure you have the cash and terms needed to give your company its best shot at success, you may want, or be forced, to restructure your debt.

In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team for successfully restructuring your debt.



## NEXLEVEL CASE STUDY

### *Manufacturing company avoids bankruptcy by restructuring debt*

A manufacturing and distribution company had defaulted on all its debt covenants and borrowed the full \$375 million allowed under its credit agreement. Based on cash flow projections, it would need an additional \$50 million from the bank to continue operations. It also needed a forbearance of the credit agreement until it could establish a plan to restructure its debt.

The company CFO, now a NextLevel executive, led the debt restructuring by developing a plan to reduce the company's debt by \$100 million. In order for the bank to approve the company's request for an overadvance and credit forbearance, the CFO organized a multifunctional team to immediately carry out these actions: (1) provide the bank workout group a transparent financial reporting package that allowed them to closely monitor the operations and financial results of the company; (2) establish and provide a 13-week cash flow report, including a weekly variance analysis of actual cash flow compared with the budget, and a new 13-week forecast each month; and (3) develop a "bottom-up" operating plan that reflected the company's ability to repay the debt.

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## NEXLEVEL INSIGHTS

### Get buy-in from senior leadership

Senior leaders may have difficulty believing the company is in trouble; it's important to get them on board quickly. Work closely with senior managers to plan what you're going to do, and understand that this may alter some long-standing business relationships. Identify a dedicated team to execute the plan, and delineate clearly who is responsible for its success.

### Communicate with creditors early and often

Talk to your creditors as soon as you know you're in trouble. Minimize distrust by being completely honest about the situation and how it developed. Show that you have actions you can take to repay them, but don't let creditors pin you down to a specific plan too early. Balance your creditors' needs, your needs, and the strength of your negotiating position.

### Evaluate alternative ways to raise capital and reduce expenses

Be prepared for the bank to ask whether the owners can contribute or raise capital. How quickly could you obtain capital, at what terms, and with what impact on the company? Explore cash flow and expenditure options: see whether vendor payments can be delayed and customers can pay more quickly, limit spending to essentials, stop investments in nonessential new products or initiatives, and close money-losing operations.

### Focus on cash flow planning, and stress-test your model

You'll need to have a very detailed and reliable cash flow estimate on a weekly or even a daily basis. Stress-test your model with worst-case scenarios. You want to show the *(more)*



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The CFO and his team also simultaneously negotiated new covenants that over an 18-month period would revert to those in the original credit agreement while reducing the borrowing capacity by \$50 million.

The company was granted a monthly forbearance until it brought its debt to \$325 million and met its monthly step-down of covenant compliance requirements. Within 18 months, it had met all requirements and repaid debt to bring it below \$325 million. This enabled it to establish a new credit facility to meet longer-term needs.

## KEYS TO SUCCESSFULLY RESTRUCTURING YOUR DEBT

- **Your senior leaders:** Are they on board and understand the situation?
- **Your communication with creditors:** Is it honest and does it convey credible action steps?
- **Your creativity:** Are you looking at all options to raise capital, enhance cash flow, and reduce expenses?
- **Your cash flow planning:** Does it demonstrate you know in detail what your cash needs will be without depending on everything going perfectly?
- **Your negotiating position:** Do you understand your relative positional strength?
- **Your communication plan:** Is it tailored for each affected party and is your team clear on who communicates what and to whom?
- **Your advisors:** Are you using available expertise to your advantage?

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### Build your negotiating position

Consider your previous dealings with creditors and the character of relationships that have developed over time (have they been primarily transactional or deeper?). Honestly evaluate your positional strength versus theirs. Understand and be mindful of their ability to realize value by taking control of your company. Consider your tolerance for the additional stress that will accompany a “hard” negotiating stance.

### Have a well-defined communication plan

Make deliberate decisions about what and how often to communicate to creditors, employees, and customers. Your internal team should be clear on who is going to communicate what. This does not mean telling different groups different things but rather emphasizing different parts of the message. Having a communication plan is critical to stop rumors and control your message.

### Get experienced help

This situation calls for experienced advisers who can help you understand your negotiating position and, unlike your creditors, look out for your best interests. Consider experts in financial modeling and analysis, legal counsel, investment banking, and/or turnarounds and workouts.

**“UNDERSTAND THAT YOUR  
RELATIONSHIP WITH  
THE BANK WILL CHANGE,  
AND DON’T TAKE IT  
PERSONALLY.”**

**The goal of the workout group  
is not to sell to you or help you  
but to get the bank repaid—  
an abrupt shift that can take  
some executives by surprise.**

## More Information

To learn more about how NextLevel can help you successfully restructure your debt, call us at (800) 833-NEXT or email [info@nlbev.com](mailto:info@nlbev.com).

