



MANAGING CAPITAL THROUGH A CASH CRISIS

How can you make it through a tight capital situation so your company can succeed as planned?

Successful companies sometimes run into short-term cash crunches serious enough to threaten their ability to meet obligations, including debt service. This may be due to new markets that are slow to develop, temporary



unit cost inefficiencies, or other challenges seen as temporary. Despite good long-term prospects, these companies need new capital and/or tactics to manage current capital to make it through.

In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team on managing capital through a cash crisis.

NEXLEVEL CASE STUDY

Public Tech Company Resolves Debt Crisis to Realize Major Growth in Revenue and Stock Price

A \$30 million publicly held company held a competitive advantage in its market through patented technology. However, startup-type volumes, initial low manufacturing yields, and increased product overhead related to a new line of business led to poor operating results and a massive cash burn. The company entered into a \$6 million debt agreement to raise cash. However, operations did not improve quickly enough, which caused the company to be unable to service the debt. The CFO subsequently left, and the Board terminated the CEO.

The Board brought in an experienced CFO, now a NextLevel team member, to rectify the financial issues confronting the company while they searched for a new CEO. He immediately re-engaged in negotiations with the debt holders and began cost-cutting initiatives.

When the new CEO came on board two months later, they worked together to formulate and implement a plan to resolve

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NEXLEVEL INSIGHTS

Take immediate steps to improve operating cash

Any changes that allow the company to improve cash flow quickly should be considered. Reduction in force, restructuring, and eliminating lines of business can cut costs, but they need to be done skillfully so as not to demoralize your workforce or cut off future potential. Look at profit center analytics, and hold general managers accountable for meeting targets. Create and frequently update a cash forecast model to track your results, and review it with managers.

Balance short-term with medium-term focus

Be very clear about short-term items focused on actions that will keep the company operational and medium-term items that can be addressed once the short-term situation is secure. Be disciplined about keeping them in their lanes to avoid becoming consumed by medium-term strategic issues when you need to be addressing immediate needs. Outside expertise can be valuable in clarifying and balancing the levels of focus.

Perform a lender/creditor assessment

Lenders that you have strong, even personal, relationships with may be open to extending terms or helping out your business in other ways. Professional lenders who do not know your business well are less likely to offer assistance and may pose a risk of pressuring for bankruptcy. Have a customized communication strategy for each of your creditors in order to provide the best chance of success.

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the debt issue and improve operations. This included eliminating a line of business, making a reduction in force, consolidating locations, initiating a strong finance/operations effort to achieve improved production yields, implementing timely financial and performance monitoring processes, and rolling out a shareholder/public relations effort, all of which would prove integral to the resolution of the debt issue.

Over the acting CFO's 13-month engagement, the company achieved its first positive operating cash flow and profitable quarter in its 10-year history. These improved results attracted an existing shareholder to backstop the takeout of the debt through a company equity raise. With the initial problems solved, the company experienced large revenue and profit increases over the next several years, and the stock price increased from under \$.50 per share to nearly \$10 per share.

**“IT’S BEST IF IT’S CLEAR THAT
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Symbolic actions such as executive pay cuts can send a message that the situation is serious.

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Identify potential sources of new capital

Start by looking at accounts receivable and other valid claims. Many companies don't pay adequate attention to this, particularly when business is good. Liquidating excess inventory or renting out excess office or warehouse space can be another source of capital. For outside capital, consider shareholders and the Board, suppliers, customers, friends and family, or specialty financial institutions in your region that might have a mission to help businesses like yours.

Manage creditors' expectations and demands

Your creditors may ask for detailed reports and analytics with a very short-term focus that ultimately are not helpful to your business in overcoming your current challenges. Communicate with them often, focusing on the facts about steps you're taking and the results. But be frank about requirements that will take valuable time away from operational changes necessary to build the company and pay down their loan.

Reassess your business plans after the short-term situation is in hand

Do a strategic and business review to determine what caused your current situation, then make necessary changes to your plans. It is hard to do this kind of assessment during a cash crunch because there may be conflict among leaders about which parts of the current plans are not working. Experienced leaders from outside can reduce these tensions by providing objectivity.

KEYS TO MANAGING CAPITAL THROUGH A CASH CRISIS

- **Your cash forecast:** Are you modeling and tracking results for improving operating cash?
- **Your focus:** Are you clear on what needs to be done immediately versus what can wait?
- **Your lenders and creditors:** Have you developed a unique strategy for approaching each of them?
- **Your potential new capital:** Have you identified all possible avenues?
- **Your creditors' expectations:** Are you balancing them with your need to focus on what's best for the business?
- **Your longer-term business plans:** Have you reassessed how to proceed after the immediate situation has been resolved?

More Information

To learn more about how NextLevel can help you manage capital through a cash crisis, call us at (800) 833-NEXT or email info@nlbev.com.

