



# TURNING AROUND A DISTRESSED COMPANY

What do you do when your company is in dire straits?

Your company is running out of cash, in danger of missing payroll, and besieged by banks and trade creditors. If you don't act quickly, there won't be a company left to serve owners, customers, employees and other stakeholders. How do you take control, set priorities and turn your company around?



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 how to turn around a distressed company.

## NEXLEVEL CASE STUDY *NextLevel Execs Drive Turnaround for Infrastructure Construction Company*

A private equity (PE) firm acquired a market leader in the infrastructure construction industry. To meet competitive pressures the acquired company entered a related but capital-intensive business via a joint venture with a large international corporation. The company then dramatically increased its labor cost by employing skilled people with highly specialized talents and invested deeply in heavy equipment. This soon exhausted both its cash reserves and bank operating line before the new service offerings began generating revenues. The company was struggling to make payroll and keep its most essential payables at 120 days, at which point the PE firm had lost confidence in top management.

The PE firm engaged two NextLevel executives as interim CEO and CFO. First, they instituted strict cash management and reduced labor costs and other operating expenses by over 15 percent. They took

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## NEXLEVEL INSIGHTS

### Take control over cash

Immediately assess your cash runway and your obligations with weekly reports of payables and receivables. Get into the weeds and identify every opportunity to cut spending, accelerate collections, and delay payables. This might include bringing services in-house, reducing headcount, scaling back on office or facility space, eliminating slow-moving product lines and selling old inventory at a discount. Your main goal is to get to a cash equilibrium to stop the downward spiral.

### Reestablish communication with your creditors

Too often a company in distress stops talking to its creditors out of conflict avoidance or embarrassment. But the worst situation is for them to not know what's going on. Go to your creditors and have an upfront conversation to repair the relationship that all too often has been allowed to lapse. Build their trust in the actions you are taking. If they are the wrong lender for your current situation, get to work on takeout financing.

### Put everything on the table

Be willing to examine parts of your company culture or practices that were previously considered sacred cows. Sometimes the very thing you think is an inextricable part of your identity is the thing that needs to change. For example, if high-end packaging is a symbol of your company, hold that up to the light. Can you really afford it? What opportunities might open up if you changed it?

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control of the financial reporting system to produce close to real-time, actionable job cost and margin information. In addition, the executives obtained short-term financing to ensure the ability to meet payroll and ease trade creditor pressures. Finally, they redefined the job/project management system to improve the change order process, renegotiated the joint venture terms, and restructured marketing efforts.

As a result of these actions, and with revenues from the new service offerings gaining traction, the company began growing again with profitability and positive cash flow. Better job/project cost control turned change orders into a profit-generating activity rather than a source of losses. The company's new service offerings have achieved market leadership, and management is looking forward to a near-term liquidity event.

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## Develop robust sales forecasting

If your company is in distress, something is likely wrong with revenue generation. Get very disciplined about sales forecasting so you know what to expect within the next 30-90 days. Often this requires tightening up processes and ensuring you are using meaningful, up-to-date data. Reliable, timely sales forecasts allow you to make informed plans to deploy cash and/or invest in revenue enhancement with both short-term and longer-term payback in mind.

## Be decisive

In a crisis, top executive leaders need to be able to act without knowing whether they are making the absolute right decisions. Measurable objective results that will cut costs or keep the company around in the short term may be all that you have to work with. Being decisive is better than leaving things alone or spending too much time on analysis and planning, and also creates confidence, optimism, and constructive alignment among your staff.

## Practice discipline across all functions

Once the immediate crisis has passed, continue to be disciplined in finance, operations, sales, and marketing to complete the turnaround. Root out inefficiencies and redirect savings back into new product development or other investment plans to build revenue. In marketing, ensure you keep new product announcements confidential so leaks don't siphon off current sales. Vigilance in all activities will eventually pay off as your company returns to stability.

**“TURNING AROUND A DISTRESSED  
COMPANY REQUIRES DISRUPTION.”**

**Leaders must be willing to  
make unpopular decisions.**

## KEYS TO TURNING AROUND A DISTRESSED COMPANY

- **Your cash flow:** Have you taken control of it down to the smallest meaningful level?
- **Your creditors:** Have you reestablished communication if it has lapsed?
- **Your company's sacred cows:** Have you put them on the table for examination?
- **Your sales:** Have you developed robust forecasting?
- **Your decisiveness:** Are you taking action despite uncertainty?
- **Your company discipline:** Are you practicing it across all functions?

## More Information

To learn more about how NextLevel can help you turn around a distressed company, call us at (800) 833-NEXT or email [info@nlbev.com](mailto:info@nlbev.com).

