

RE^{imagine} MAINSTREET



Nashville 2023



ANNUAL CONFERENCE

Small Business Turnaround Strategies During Economic Volatility

September 2023



Overview

What is Turnaround Management

And why is it so different than strategy consulting?



Dealing with distress that can be driven by internal decisions or external factors

Characteristics include:

- Declining Profitability
- Tightening Liquidity
- Pressure from a Lender
- Expensive or Unavailable Access to Credit
- Debts that Exceed the Assets

Starting from the Worst-Case Scenario and Working Backwards

- Strategy Consulting is Current Scenario growing into something better
- Turnaround Management is understanding Worst-Case Scenario and Walking Back into the Current Scenario

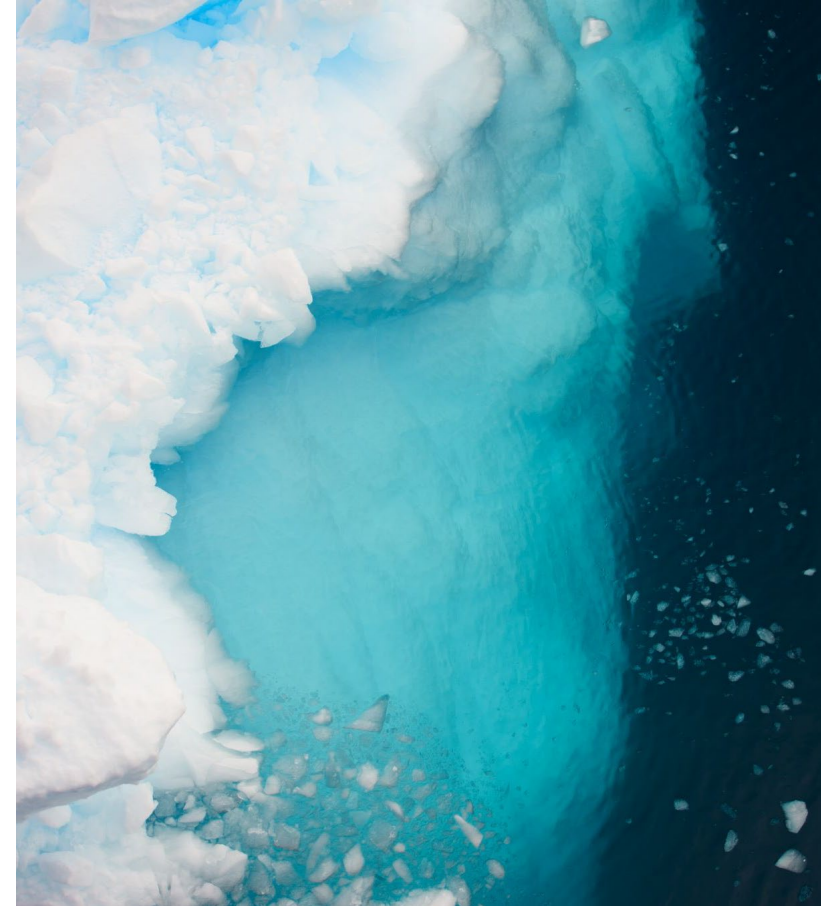


The New Economy

- The vibe is similar to post WWII
- The large generation of retirees and their businesses
- The demographic shifts
- Interest Rates and the balancing towards Economic Homeostasis
- Malinvestments due to access to cheap money
- A number of businesses are not equipped to pull-through the volatility and get to the other side, and perhaps nor should they

The Economics of Distress

- The Edge of the Cliff has gotten blurred
- The importance of the US Bankruptcy system and how it separates us
- Getting a cold is not so bad when you think of it as a means of cleansing



Not All Businesses are Meant to Last



Cheap credit has led to malinvestment



Rates are returning to normal which healthy businesses will balance out



Businesses with little market share, tight cash flow, and low margins may not have an easy shot in the new economy



Businesses follow a similar pattern as water reaching the freezing point - NOT in a singular direction.

The Three Things that Get a Small Business in Trouble

Recessions

Fraud

Bad Moves
that Were
Not Thought
Through

Business Operating Like a Runaway Stagecoach

- Need to Take Massive Action to Change Course
- Grab the Reins and Reestablish Control



Someone is Not Going to Get Paid

- Small Creditors
- Payroll Taxes
- Employee Retirement Plans
- Sales Taxes
- Vendors
- Seller Note holders
- Revolving Lines of Credit
- And on and on and on...

Distressed Business Analysis

What It Is and What It Is Not

- Let's Start with What it is Not...
- And then What it is...

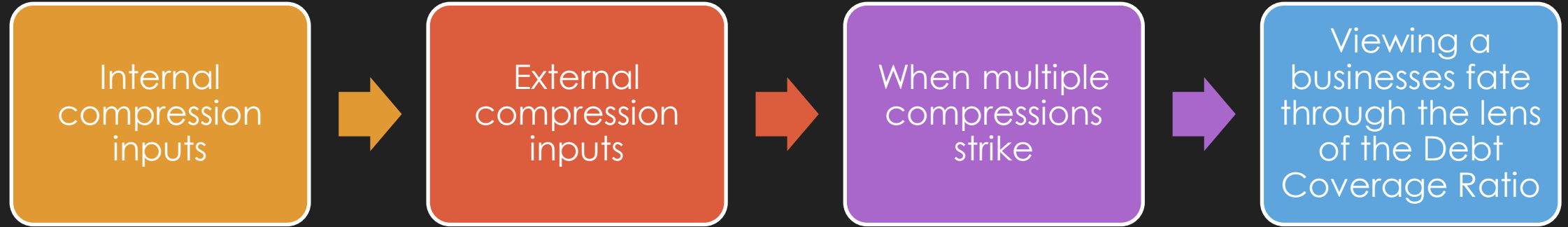


Sales Don't Solve All Problems

They tend to mask
problems

And can actually
create problems
that did not exist
before

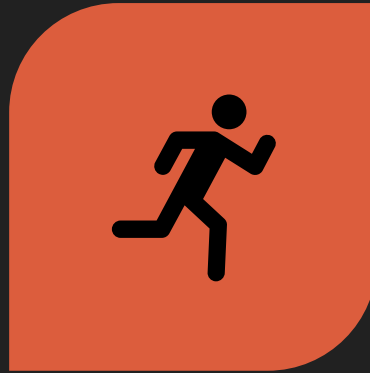
Margin Compressions



Break Even and Cost Containment



WHAT BREAK EVEN IS AND
HOW IT IS MISUNDERSTOOD



USING BREAK EVEN TO RUN
A BUSINESS



THE EFFECTS OF COST
CONTAINMENT ON BREAK EVEN

Ratios and Key Performance Indicators



GROWTH



LIQUIDITY



LEVERAGE



COVERAGE



EFFICIENCY



RETURN ON
ASSETS



RETURN ON
EQUITY



OPERATING
CASH FLOW

Distressed Liquidity Management

- What is the Cash Conversion Cycle
- Watching Cash Cycle trends to identify distress
- Working Capital Requirements
- Dealing with cash deficiencies
- Optimizing the Cash Cycle



The 13-week Cash Flow Statement

13-WEEK CASH FLOW PROJECTIONS - SUMMARY

	Week 1 1/11/2023	Week 2 1/18/23	Week 3 1/15/23	Week 4 1/22/23	Week 5 1/29/23	Week 6 2/5/23	Week 7 2/12/23	Week 8 2/19/23	Week 9 2/26/23	Week 10 3/5/23	Week 11 3/12/23	Week 12 3/19/23	Week 13 3/26/23	
Cash on hand (beginning of week)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
SALES PROJECTIONS														Total
Sales/Revenues - 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales/Revenues - 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales/Revenues - 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Returns & Allowances (-)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Discounts (-)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Sales	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
CASH RECEIPTS														Total
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Regular Collections	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Credit Cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Line of Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL INFLOWS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total cash available	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
REGULAR DISBURSEMENTS														Total
COST OF GOODS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PAYROLL - FIXED	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PAYROLL - VARIABLE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BENEFITS & OTHER	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
INSURANCE (non-employee)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MARKETING & ADVERTISING	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
UTILITIES & RENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PROFESSIONAL FEES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OFFICE & RELATED	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER - SELLING EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER - FIXED EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
OTHER DISBURSEMENTS														Total
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other - Disbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other - Disbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PRINCIPAL PAYMENTS														Total
Credit Cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Line of Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Disbursements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL DISBURSEMENTS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash on hand (end of week)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Banks and Other Sources of Capital

But You Said We Were Friends



Lenders want their capital back.



No hard feelings, but it needs to be redeployed more productively



They will help when they can, but sometimes their hands are tied so don't expect anything special



A special kind of lender will traffic in distress investing

Alternative Lenders

- Asset Based Lending, Small Business Style
- Factoring
- Equipment Lending
- Inventory Lending
- Others

How They Work

- Assets can be easily converted to cash
- Access can be expensive if not planned properly
- Getting out can be a challenge
- They can be a lifeline



The Baddest of the Bad Actors

- Merchant Cash Advance
- What MCA is and the impact on a small business
- Possession is 9/10 of the Law
- Might as well hang your hat and call it quits

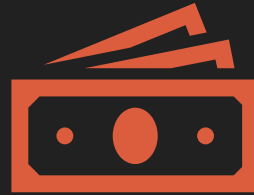


The Borrowing Base Certificate

What is a Borrowing Base?



Details the formula to identify eligible Accounts Receivable and eligible Inventory that capital can be advanced on



Strips out assets that have compromised value in the event the capital needs to be recovered



An excellent tool to analyze Quality of Earnings



BORROWING BASE CERTIFICATE

For Month Ended: 1/1/2023

ACCOUNTS RECEIVABLE

Total Accounts Receivable		\$ -	
LESS: Ineligible Accounts Receivable			
Beyond 90 days of Invoice Date	\$ -		
Concentration	\$ -		
Cross Age	\$ -		
Pre-Billing, Credit Memo, Bill & Hold, Finance/Service Charge, Contra	\$ -		
Government	\$ -		
Foreign	\$ -		
Affiliate, Employee, Partner, Member, Parent or Subsidiary	\$ -		
Progress Billings	\$ -		
Retention	\$ -		
Other:	\$ -		
Total Ineligible Accounts Receivable		\$ -	0.0%
Net Eligible Accounts Receivable		\$ -	0.0%
Advance Rate	75%		

Maximum Advance on Accounts Receivable \$ -

INVENTORY

Total Inventory on Hand		\$ -	
LESS: Ineligible Inventory			
Work in Process	\$ -		
Obsolete/Slow Moving/Damaged	\$ -		
Custom/Perishable	\$ -		
Goods not on Borrower's Premises	\$ -		
Goods Consigned to Others	\$ -		
Goods in Transit	\$ -		
Packaging Materials/Supplies	\$ -		
Other:	\$ -		
Total Ineligible Inventory		\$ -	0.0%
Net Eligible Inventory		\$ -	0.0%
Advance Rate	40%		
or Inventory Limit of:	\$ -		
Total Eligible Inventory		\$ -	

Maximum Advance on A/R & Inventory \$ -

Credit Line Limit		\$ -	
Maximum Borrowing Base (or Credit Line Limit, whichever is lower)		\$ -	
Less Outstanding Loan Balance as of: 8/31/2022		\$ -	
Less Outstanding LOC Balance as of:		\$ -	

Availability (Overadvance) \$ -

Accounts Receivable

- A lot can get taken out
 - Beyond 90 days of Invoice Date
 - Concentration
 - Cross Age
 - And More
- Advance Rates



Inventory

- A lot can get taken out
 - Work in Process
 - Obsolete/Slow Moving/Damaged
 - Custom/Perishable
 - And More
- Advance Rates



Bringing It All Together

An effective way to open a line of credit and increase access to capital

But plan it - it must revolve annually

THEY WILL LIQUIDATE

Alternatively, the Borrowing Base can also help optimize a business in preparation for a sale.

From Distress to Default to Liquidation

The Stomach Drop

- One could argue you haven't experienced the full weight of being a business owner until you experience the drop
- Panic sets in!

Triage

- Organize what must be paid to stay in business
- Identify what can put you out of business
- Deal with the Sharks that smell blood in the water
- Get ahead of it, and don't start ghosting people, especially stakeholders



The End Game... or Not

- Forbearance and Foreclosure
- When Bankruptcy is an option
 - Chapter 7, Chapter 11, Subchapter V
 - Assignment for the Benefit of Creditors (ABC)
- Managing expectations



The Liquidation Call

01

There is a point of no return

02

Once it is reached, the next moves can make the situation worse

03

What an orderly liquidation looks like

04

Other monetization strategies

05

Realistic expectations on return rates

Case Study: Consumer Products Business

Everyone Has to Buy In to the Strategy



UNDERSTANDING
THE BANK'S
NEEDS



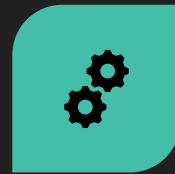
THE ANALYSIS



CASH FLOW
PROJECTIONS



STABILIZING THE
BUSINESS



OPTIMIZING THE
BUSINESS AND ITS
ASSETS



MAXIMIZATION
STRATEGIES



THE RESULTS

Who We Are and How We Help SBDCs



Business Restructuring and
Turnaround Management



Retail Solutions and Asset
Liquidations



"Pop-Up" Liquidations

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Q&A

Please complete the Workshop Survey!

- *Step-by-step Instructions:*
- Open Conference App or open the web version of the Conference App.
- Log in, if not already logged in.
- Click Agenda/Schedule
- Ensure you are registered for this workshop
- Click on the Workshop you are currently in
- Scroll to the Surveys
 - Click on the Workshop Survey
 - Complete Survey – Add Comments
 - Once Completed – Submit Survey



Thank you!

