Cratos Advisors

Leading Distressed to Success

Industry:
Automotive Aftermarket, Branded, Enthusiast Performance Products

Company:
MSD Performance Group

Situation:

- MSD Ignition, a private equity owned aftermarket automotive company, embarked on an aggressive growth strategy adding three additional businesses/brands to their platform between 2005 and 2006.
- By the end of 2007, revenues had grown to $111MM and EBITDA was $19MM.
- However, the company was highly leveraged with $126MM in secured debt held by an eleven-member syndicate.
- Due to the financial crisis of 2008, revenue and EBITDA fell to $96MM and $3MM respectively while secured debt was an unserviceable $119MM.
- Cratos professionals were immediately engaged as advisors in early 2009 and after an initial assessment period, transitioned to interim executive management roles.
- Neither the secured lenders nor the equity sponsor had the appetite to provide additional funding.

Assessment:

- Cratos determined that the company was viable and owned valuable brands.
- However, there were core challenges such as a changing customer demographics, outstanding federal regulatory litigation, and aging technology that had to be addressed.
- Additionally, MSD's prior management, through cost-cutting efforts, had sacrificed the most critical elements in a consumer products oriented business: marketing and product development.

Actions:

- Worked with the secured lenders and other stakeholders to reduce long-term debt to $102MM, with a new amortization schedule.
- Reduced working capital by $6MM over 12 months by implementing strict policies, processes and procedures.
- Reduced sales to $86M by aggressively rationalizing non-performing items and customers.
- Settled three years of litigation with the EPA.
- Reorganized engineering, product development and marketing groups and consolidated two divisions around new strategic efforts.
- Developed a focused acquisition strategy and identified potential targets.

Results:

- Launched a series of industry award winning, higher margin products based on innovative technologies.
- Improved gross margins by 12bps and increased EBITDA to $13MM, or 15.0% of net sales.
- Reduced secured debt by $14MM.
- Sold the company to a new private equity group buyer for over 6X EBITDA.
- Executed on the first of the pre-identified acquisition targets within 12 months of the sale.

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