Cratos Advisors

Leading Distressed to Success

Industry:
Plastics Recycler & Compounder

Situation:
- A $70M privately held company was engaged in the purchasing, recycling and compounding of used polypropylene and nylon waste and remanufacturing it into plastic pellets for use in injection molding applications.
- Mismanagement created a significant overstatement of collateral, declining sales, a disgruntled leadership team and a secured lender no longer willing to fund the operation.
- A fractured shareholder group, which included majority owners of a competing company, could not agree on the fate of the business.
- Majority shareholders seized control of the company from their partner and CEO and made a presentation to the secured lender suggesting inventory was significantly overstated and the bank was in a large over-advance with their only option being a buyout at a discount.
- Declining sales and poor gross margins had tightened liquidity making opportunistic spot purchases of raw material, the strategic key to this business model, nearly impossible.
- Over one hundred leased trailers full of unidentified inventory were parked in the company's parking lot and recorded in the company's borrowing base creating a potential over-advance of $5MM.

Assessment:
- Lack of leadership and historically questionable business practices had created a disloyal workforce and a distrustful customer and vendor base.
- Initial thoughts were that the inventory was $5 – 9MM overvalued. Until a comprehensive revaluation of the inventory was complete, the depth of the secured lender's problem could not be determined.
- A quick triage plan had to be implemented to conserve cash while satisfying customer orders until a long-term solution could be determined.

Actions:
- Immediate recognition of mismanagement forced the resignation of the CEO leaving the remaining majority shareholders to install Cratos as Chief Restructuring Officer.
- Created a quick work plan to cut operating costs and liquidate excess inventory to create cash, buy time, and regain the trust of the secured lender while a longer term strategy could be developed.
- Received in and categorized all inventory and eliminated the monthly trailer leases. A full physical inventory count and revaluation was conducted to determine true collateral value.
- Liquidated the raw material inventory that could not be converted to a finished goods product and converted good raw material inventory into finished goods.
- Created a consensus among the remaining shareholders to initiate a sale of the business in an attempt to limit liability with secured and unsecured creditors.
- Conducted a sale process breaking the business into two divisions and marketing the company to both strategic and private equity buyers.

Results:
- Sold each division to a strategic buyer.
- Repaid the secured lender's $13MM remaining balance in full without ever requesting additional capital.
- Repaid unsecured creditors 61% of their outstanding balances.

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