

Achieving Success in Distress - April 7, 2015

Through the review of three recent transactions, Ravinia Capital details its unique strategy that has led to its success as sell-side advisor to middle market companies faced with special situations.

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Ravinia Capital is a Chicago based special situations investment bank which serves growth and distressed companies in strategic, debt, and M&A advisory roles. To provide insight into its recent success, Ravinia has broken down three recent sell-side engagements, describing the severity of the situations faced by its clients, and the strategies employed by Ravinia to mitigate risks, stabilize operations, and complete the transactions.

Prior to the engagement of Ravinia Capital, each company was operating at a loss, and was faced with menacing personal guarantees, unpaid debts, and destructive financing agreements, likely resulting in liquidations and the losses of hundreds of jobs. Through each successful sale, not only were the companies recapitalized and revitalized for future success, but hundreds of jobs were retained, personal guarantees relinquished, and senior lenders paid back in full. Ravinia has accomplished this through the employment of its award winning sale process, its steadfast dedication to its clients, and its ongoing pursuit of excellence in its transactions.

The Ravinia Capital Sale Process is based on comprehensive analysis of the company, an aggressive search for the right buyer, and resilient control over the transaction. The Sale Process yields the highest sale price by unlocking essential value drivers and mitigating weakness. This process was recently described in an article written by Tom Goldblatt, published in the ABF Journal. Within the article, Mr. Goldblatt provides detailed insight into the strategies and procedures employed by Ravinia Capital to achieve successful sales for each of its clients.

The following abbreviated case-studies detail three varying distressed M&A processes conducted by Ravinia Capital, recounting the problems faced by each client, the action taken by Ravinia Capital to alleviate the problems, and the M&A strategy employed by Ravinia Capital to identify the right buyer and negotiate the successful sale.

Toy and Craft Distributor

"The Company has strong brands with quality products, but the Company alone was unable to recover from its lack of capital. The work done by the Ravinia Capital team helped bring the Company back to profitability and to a successful sale to a new operational partner."

- Interim CEO of Client Company

Company Description:

The Company, which was founded in 1953 and is based in Illinois, has been a leader in the toy and craft industry for decades, selling to the largest mass retailers and e-commerce sites in the world. The Company started as one of the first manufacturers and distributors of craft goods, helping to create - and catalyze the growth of - crafting as a hobby in America. Today, the Company has large presence in the toy and craft market with brands and products in the following markets:

- Dolls, Clothes and Accessories
- Children's Crafts
- Activity Kits

Problems:

In 2008, as the Company undertook a multi-million dollar build-out of its office and warehouse facility, the recession hit and sales fell significantly. Lack of liquidity became a serious concern as the company tried to continue to fill large orders for big-box retailers, while also coping with losses as a result of new testing protocols instituted by the Consumer Product Safety Improvement Act. As the Company's lack of capital began to impede timely payment to its overseas vendors, shipments were more frequently delayed, resulting in the loss of its largest customer, and decreased volume from other customers. To recapitalize the Company and remain solvent, the Company refinanced with a new bank, but was forced to accept high financing costs. As the Company entered 2014, it had lost millions in the prior year, and was dangerously close to insolvency due to poor leadership, high financing costs, costly overhead, diminished sales and margin, and overaged payables.

Solution:

Ravinia Capital was hired as corporate and M&A Advisor to the Company in April, 2014. Ravinia initiated a turnaround, bringing a toy industry veteran into the role of CEO, and a Certified Turnaround Professional and seasoned executive into the role of CFO. Throughout 2014, Ravinia and interim management worked to stabilize the Company and prepare it for sale through:

- Execution of thorough sell-side due diligence with a reputable consultancy, which provided a comprehensive Quality of Earnings Report to quickly identify key risk factors to the M&A process.
- Decrease of excessive labor overhead.
- Negotiation with facility lessor to retain occupancy at a diminished cost.
- Meeting with Chinese vendors at overseas locations to negotiate terms and source new vendor options.
- Negotiation of bridge financing with the lender to reach the acquisition.

Ravinia brought the Company to market aggressively in late 2014, reaching hundreds of researched and qualified private equity and strategic buyers. Ravinia provided the Confidential Information Memorandum and Virtual Data Room access to over 100 companies that expressed interest in the acquisition. As negotiations progressed and the most attractive buyers became evident, Ravinia made a strategic pivot to sell the company through an Assignment to the Benefit of the Creditor auction. This decision alleviated concerns for buyers to have successor liabilities with the New Company. Ravinia was able to quickly solidify a stalking-horse bidder and buyer interest remained competitive through the auction.

"Ravinia took a tough situation in North Mill Capital's portfolio and came up with creative solutions to add value to the Company and deliver a surprisingly positive result. They went beyond what we've seen from typical investment banks."

- Tom Siska, Senior Vice President, **North Mill Capital** - Senior Lender to the Company

In February, 2015 the Company was sold at auction to a family office private equity firm. Through the sale the lender was repaid with its full principal loan plus interest. Furthermore, while the owner of the Company was burdened in 2014 with personal guarantees, the owner was relieved of these guarantees through the sale. As well, the Company's employees, many of whom have been employed by the Company for more than a decade, will continue to be employed by the Company under new ownership.

Technology Based Manufacturer

"I was very impressed with the work of Ravinia Capital. They brought a unique approach and through the use of creativity and relentless work delivered an unexpectedly positive outcome. I look forward to working with a Ravinia Capital again."

-Robert Shanahan, President, Wintrust Business Credit

Company Description:

The Wisconsin based Company was private equity owned, and is a global electronics-based manufacturer focused on radio frequency products including frequency control devices and systems engineering products and services.

Problems:

The Company had been losing money for several years, and with a multi-million dollar negative EBITDA in the twelve months prior to Ravinia's engagement. This trouble can be largely attributed to the struggling industry, characterized by decreased demand for the Company's products and services. A turnaround firm had been hired prior to engagement, but the Company continued to struggle with cash-flow. The Company's loans were in default and near liquidation. Furthermore, the Company was projecting several months of operating losses going forward, and ownership wished to exit.

Solution:

In order to provide ownership with a swift exit, Ravinia used an aggressive, yet controlled, process to sell the company in less than four months. The main focus of the process was to find a strategic partner that could merge the companies' overhead while deriving synergistic benefit from the products and services of the Company.

4 Month Sale Process:

- Employed Sell Side Due Diligence Team to provide insight into the growth potential of the Company, and to support income statement and balance sheet adjustments
- Conducted an exhaustive search for the most suitable buyers, researching and contacting 350+ strategic and private equity companies
- Sourced financing for buyer to catalyze acquisition

In October, 2014 an Asset Purchase Agreement was reached to sell the Company was sold to a public company in the industry at a premium to the asset value. All employees retained their positions at the Company, and the senior lender was paid in full.

Industrial Staffing Company

"You'd be hard-pressed to find a deal with as many issues that required resolution in advance of a close. In comparable situations the buyers would have typically walked away from the deal. The Ravinia team were able to manage the process, dealing with both the owner and buyer group, through to a successful conclusion."

- Elliot Findlay, Director, Transaction Advisory Services, Grant Thornton LLP

Company Description:

The Indiana based Staffing Company was the fastest growing large industrial staffing company with revenues over \$100 Million in the U.S. in 2013. The Company provided contingent labor for construction, warehouses, distribution centers, and other industrial facilities. The Company's recent growth was attributed to its tremendous sales process, which solved many of the problems inherent in the industrial staffing industry, such as bad attendance and low quality work, through mentorship and incentive programs. The Company employed nearly 300 corporate employees, and over 60,000 temporary workers throughout the U.S. In 2013, the Company reached over \$340 million revenue and had an industry leading customer retention rate of over 95% for accounts over \$100,000.

Problems:

The Company encountered distress as a result of its rapid growth showing near 40% revenue CAGR over 8 years. This created cash management issues resulting in debt forbearance and past due taxes. As the company tried to address this debt, it was unable to create adequate cash flow to pay off its primary lender. With looming creditors and missed forecasts, the lender was under collateralized and was threatening to stop funding.

Solution:

Prior to the sale of the Company, the primary goal of Ravinia Capital was to stabilize the Company. Ravinia brought in and oversaw the Chief Restructuring Officer and the Financing Director, who helped stabilize the company through restructuring and strict management of cash and all other financial accounts. Ravinia led income tax negotiations with state officials, and worked extensively with the factor lender to ensure continued funding.

While some smaller debts were paid off prior to the sale, the sale of the Company was necessary to pay off its tens of millions of dollars in total debt. Ravinia took the company to market demonstrating to buyers the high growth opportunity with an industry leading industrial staffing system. Demonstrating that the solvency issues would be solved through a sale was critical to a successful outcome. This required a deep, critical analysis of the Company's instability and debt. The sale was marketed to a selective group of private equity and strategic companies. As the pool of potential acquirers shrank, in-depth management meetings were held with various groups to ensure that buyers held a full understanding of both the risks and benefits of the Company. Throughout the sale process, Ravinia successfully

negotiated with - and protected the Company from - hostile buyers that tried to purchase the primary loan for pennies on the dollar.

The Company was sold to a private equity firm which bundled the Company with another large industrial staffing company. The lender and all income taxes were paid off, and the CEO and previous owner of the Company continued working for the new company.

"Tom and Eric and Josh and the rest of the team lived and breathed this deal for many months in a unique way that I have never seen before from an investment banking group."

- Eric Prezant, Corporate Attorney and Legal Counsel for the Company

At Ravinia Capital, we are extremely proud of our achievements over the past year. As our experience continues to complement our reputation, we are eager to meet the growing demand of business owners facing difficult and uncertain times. As we foster this growth, our primary objective has been - and will continue to be - to exemplify excellence through the values, conduct, and work quality of everyone who works at our firm.

This review was related to our work as Distressed M&A Sell-Side Advisors, but we are also called upon frequently to provide strategic guidance to companies of any distress level and any stage of the business cycle. Ravinia is able to advise these clients on the advantages and disadvantages of various courses of actions including operational strategy, legal restructuring, refinancing, and M&A.