

LS Associates – Financial Consultant , M&A Services

Primary Industry: Contract janitorial services

Company Overview: \$40 million nationwide provider of contract janitorial services primarily to the large-scale department and “Big Box” retail stores.

Secured Creditors: In excess of \$ 7M in obligations owed to the secured lender on a \$4.5M Revolving Line of Credit Agreement primarily secured and collateralized by receivables and inventory .

Situation: During 2007 and 2008, the Company experienced a series of events that led to extraordinary expenditures, increased need for receivable financing, increased unplanned capital expenditures, increased borrowings from the bank and extended trade terms. These events included:

- The wind-down of the Company’s largest customer in February 2008, representing approximately 35% in annual revenue.
- The start-up of a new customer that caused a significant increase in capital expenditures while funding start-up losses.
- The installation of new management software.

The Company was challenged to fully understand and communicate these issues, there were significant issues with financial statements and the Company overextended its credit facility with a \$ 2.5M overadvance. The Company was not profitable, was in default with its lender, had negative cash flow and lacked credibility with its secured lender.

LS Objectives: Review and revamp the Client’s 13 week cash flow projections and performing analysis to validate these projections. Reconcile the weekly projections to the monthly projections that the lender had previously received. Assist in reviewing financial controls and identify potential overhead and infrastructure savings. Finally, LS was to prepare a situation analysis providing insight into the financial and business viability issues the Client faced and provide recommendations which would serve to determine alternatives available to the Client to include refinancing or a sale.

Tasks Performed:

LS verified that Balance Sheet items were reconciled and prepared a working capital analysis to include weekly cash flow budgets, profitability analysis by segment and projections. In doing so, within the first phase of the engagement LS identified a receivable issue that resulted in the collection of a before unknown receivable in the amount of \$ 500,000.

LS analyzed and modeled the Client’s breakeven and current financial position and profitability through a customer analysis to include a review of margins, business segments, personnel and critical monthly expenses.

LS worked with management to identify additional options to improve financial planning, performance and credibility and assisted management in the implementation of these plans.

LS worked with management to improve communication with the secured lender and to gain extensions of the current loan agreements.

LS prepared a memorandum for refinancing or sale which included a business plan, historical financial statement analysis, projections and quantitative analysis of changes implemented and LS identified and interviewed prospective sources for refinancing and /or a business sale.

LS worked with current ownership to develop a plan which would meet both the current lender's and ownership's needs.

Outcome: The Company was successfully restored to profitability and operated for over a year after LS involvement with significant lender debt pay downs as well as restoration of vendor payments with-in terms. Ultimately the Company was sold in a transaction that benefited all stakeholders.