Cratos Advisors *Leading Distressed to Success*

Industry:
Food Distribution, Catering and Vending

Situation:
- A leading private equity firm sought to create a large regional platform in the food service cafeteria and vending business by leveraging size and scale.
- Through numerous acquisitions of small local players the company expanded its delivery footprint to over 30 locations around the Southeast growing revenue to $140MM and becoming the fourth largest vending and catering company in the US.
- The expansion was financed through first and second lien debt and multiple equity infusions.
- The declining US manufacturing sector, an increasingly competitive food service market and increased emphasis on consumer health began to impact revenue and profitability.
- Annual EBITDA dropped to $6.0MM and the $17MM of senior secured and $7MM of mezzanine debt became unserviceable.
- Incompatible equity constituents led to differing opinions on exit strategy threatening any possibility of an attractive outcome.

Assessment:
- Though the investment thesis was still viable and the company had a reason to exist, the growth and integration strategy had not been well executed.
- Because of the geographic breadth of the operating structure, too many route and food cost inefficiencies prevented bottom line growth.
- A disparate management team was not in agreement on how to execute its agreed upon strategy creating further performance issues.

Actions:
- Negotiated a forbearance agreement with primary lender to ensure access to ongoing operating capital.
- Modeled and executed a detailed divestiture, acquisition and integration strategy to eliminate twenty locations and acquire seven around a condensed route footprint managing $4.5MM of transaction costs and improving route efficiencies by 130%.
- Negotiated a franchise agreement with the largest franchisor in the country allowing for the implementation of purchasing and administration synergies.
- Structured the buyback of mezzanine debt by an equity sponsor at a discount.
- Realigned management and salaries around a smaller core team, downsized the existing headquarters, and reduced total overhead by $3.3MM annually.
- Reduce first lien secured debt by $8.5MM resulting in the reclassification of the credit from the lender's special asset group to the main line bank.

Results:
- Maintained the same level of EBITDA on approximately 50% less annual revenue and 60% less debt.
- Allowed the majority equity sponsor to reclassify the company as a performing investment with an attractive exit return.

7047 E. Greenway Pkwy. / Suite 250 / Scottsdale, AZ 85254 / 480-659-2936
www.cratosadvisors.com