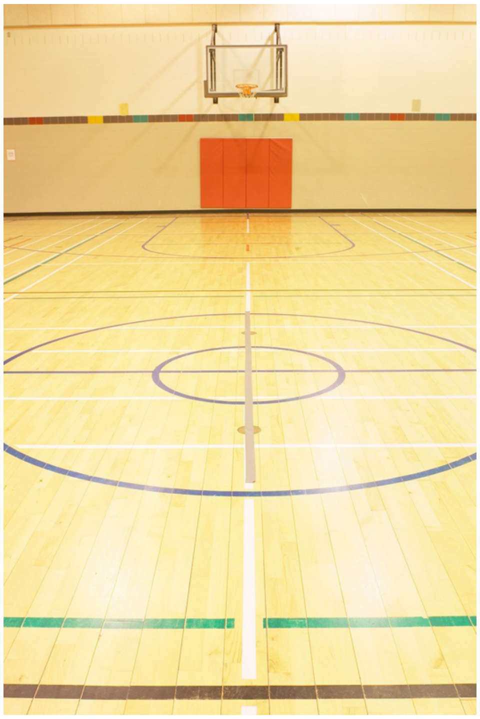
Cratos Advisors

Leading Distressed to Success

Industry:
Plastic Injection Molding and Wood Flooring

Situation:
- A global private equity group (PEG) with over $4.4 billion in assets under management sought to leverage economies of scale by combining a plastic injection molder of flooring tiles in the Western United States with a hardwood flooring manufacturer in the Midwest.
- Though the combined companies generated over $60MM in annual revenue they possessed very different product offerings, supplier bases, distribution channels, manufacturing capabilities, cultures, and information systems.
- Over four years, annual EBITDA had declined from $8.7MM to $3.6MM rendering the combined revolver, term and sub-debt unserviceable and creating significant shortfalls in operating cash.
- Lack of adequate investment due diligence had forced together two very different operating platforms without an appropriate integration strategy.
- An investment thesis focused on quick growth only further diminished an already inefficient manufacturing, warehousing and sales strategy.
- The PEG's own "toolkit" advisors had determined that the company had insufficient runway for survival without significant additional capital – an option the PEG was not willing to pursue.



Assessment:
- A shortage of process, procedure, accountability and accurate information created inefficiencies, wasted working capital and added expense.
- An absence of accurate cost accounting resulted in underpriced products and a false interpretation of true profitability.
- The senior leadership team could not agree on an appropriate strategy to stabilize the business.

Actions:
- Quickly determined that a valid reason for the company existed and created a short term cash preservation plan to allow time for a broader restructuring strategy to be developed.
- Replaced the Chief Financial Officer.
- Negotiated the reclassification of sub-debt to preferred stock.
- Updated standard costing and bills-of-material in order to realign pricing, rationalize product offerings and drive higher margins.
- Created an MRP model outside of the current system to better manage raw material and finished goods purchasing.
- Improved inventory turns by rationalizing slow moving and obsolete items, changing sales and order quantities to eliminate open boxes, and instituting shipping policies focused on accuracy and timeliness.
- Implemented a disciplined credit approval and collection policy.
- Drafted formal processes and procedures for purchasing, manufacturing, and warehousing to instill discipline and accountability.

Results:
- Created $5MM in working capital through improved inventory and receivables management.
- In less than 12 months, grew EBITDA to over $5MM on the same level of sales.
- Allowed the senior secured lender a clear exit strategy and created a top performing portfolio company for the PEG.

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