Cratos Advisors *Leading Distressed to Success*

Industry:
Railroad Manufacturing and Construction

Situation:

- A third generation family run business engaged in the design, manufacturing, installation and maintenance of track components and systems for all classes of railroads and industrial facilities.
- The business had grown to $120MM in revenue and $8MM in EBITDA.
- Almost half of that revenue and $6MM of the EBITDA had been cultivated over the last 24 months via a joint venture developed to remove and resell scrap rail for Class 1 railroad operators.
- The company's asset based lender supported the expansion by increasing its line of credit from $20MM to $35MM to accommodate increased working capital, total outstandings grew to $33MM.
- When Cratos was engaged the business was in violation of several loan covenants and eight month EBITDA was ($2MM).
- The change in EBITDA was created by the failure of the joint venture, onerous contracts and a $5MM+ inventory write-down.

Assessment:

- Cratos determined that the company's core business (manufacturing and construction) was sound and well positioned.
- However, the joint venture was ill conceived, the contracts it was performing on were one-sided and management had not installed the necessary systems and tracking controls.
- The JV also involved commodity trading activities for which management lacked expertise.
- The circumstances associated with the failed JV exposed the company's lack of senior management expertise beyond its core business as well as their inability to address the crisis.
- An additional $2MM write-down of manufacturing inventory was required.
- The distraction of the JV also resulted in inadequate investment in the manufacturing unit resulting in increased maintenance expense, equipment failures and declining customer service levels.

Actions:

- Developed and helped implement a plan to shutter the scrap business and liquidate the inventory and associated equipment from numerous scrap yards around the country.
- Led negotiations with customers to transfer contracts to new service providers and minimize dilution of accounts receivable.
- Developed inventory control and standard cost processes and procedures for the manufacturing group and trained the staff.
- Formulated and executed a strategy which saw the assets of the construction business sold to another family entity in order to raise cash.
- Scaled headcount to reflect the new level of operations and installed a new president for manufacturing.

Results:

- Proceeds from the liquidation of inventory, transfer of contracts, asset sales and collection of accounts receivable reduced the loan balance to $8MM.
- The manufacturing business was refinanced with a new lender as a standalone concern.
- The remaining manufacturing operation saw margins increase by 6 bps by the time of the refinancing and service levels were measurably better.
- Though under a different structure, the businesses were retained by the family.

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