Cratos Advisors

Leading Distressed to Success

Industry:
Casual Dining Restaurant

Situation:
- A franchisee of a nationally-known chain with over 20 restaurants in two Southern states had filed for Chapter 11 protection from two major lenders and the franchisor for overdue franchise fees.
- Initial offers to purchase the business returned approximately 20 cents on the dollar to creditors.
- The company had lost almost all credibility with vendors, employees and financial creditors.
- Owners were paralyzed due to personal guarantees.
- The court was slow to respond due to creditor issues and litigation.
- No financial advisors had been employed to assist with strategic, operational or cash flow management.

Assessment:
- There were no clear lines of management or leadership and ownership was rarely accessible.
- Restaurants were separated by long distances further increasing management inefficiencies.
- Restaurant operations were also involved in the administration of the bankruptcy case.
- All compensation levels were arbitrary and dissimilar from location to location.
- Despite having filed, there was no determination as to whether the company should reorganize, sell or liquidate.

Actions:
- Quickly negotiated additional time from creditors to get operations stabilized.
- Worked with existing ownership to appoint General Managers in three underperforming regions.
- Conducted interviews with the franchisor to understand their objectives.
- Established and monitored weekly store level projections focusing on historical low performers.
- Re-established credibility with food vendors to ensure continual flow of food and supplies.
- Developed comparable valuations to set a benchmark for the business on an ongoing basis.
- Investigated strategic and financial buyers.
- Worked with secured creditors to manage tolerance for continuance and/or reduction in debt.
- Conducted daily management meetings to ensure consistent and ongoing communication.
- Visited and trained each new manager hired.
- Continually updated the court of objectives and progress.
- Negotiated the ultimate sale of the company ensuring the best and highest value.

Results:
- The franchise was sold to a strategic buyer operating a competing brand in a neighboring state.
- The provisioning creditors were paid in full and the financial creditors received almost 90% of claims.
- The franchisor accepted the new owners and matched charges and fees to cash flows for a smooth transition.
- The previous owners were released from all guarantees.
- The structure of the sale and transition were completed in a manner so as to minimize any COD income to the owners.
- Nearly all employees in all restaurants were retained by the new owners.
- The bankruptcy case was terminated successfully and all administrative claims were paid.

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