

Industry:

Receivership of a Potato Starch Producer

Situation:

- A privately owned food grade producer of potato starch selling to food processors and manufacturers had been unprofitable for several years.
- After multiple extensions and over-advances, the senior secured lender was interested in forcing a conclusion.
- Ownership consisted of five individuals who had borrowed significantly to purchase the company and were not financially able to make further capital infusions.
- Vendors were stretched significantly and were threatening to shut off supply.
- The manufacturing facility was outdated and suffered from deferred maintenance.

Assessment:

- Equity did not have the funds to file bankruptcy, nor was DIP financing available.
- After extended consultation with the bank, equity reluctantly agreed to place the company into receivership.
- Continuing negative cash flow forced the necessity of a quick asset sale.
- By continuing to operate the company, recovery could be enhanced.

Actions:

- A Cratos professional was appointed Receiver with the authority to operate and sell the company's assets.
- A 13-week rolling cash flow model was developed to track the company's performance and communicate with senior lenders.
- Major raw material supply contracts were renegotiated, ensuring continued deliveries.
- Management and other personnel changes were made.
- Regular staff meetings were instituted to bolster morale and ensure a continuity of staff for potential buyers.
- A sales memorandum was drafted for distribution to strategic buyers.
- The Receiver developed and received court approval for the sale memorandum and the bid/auction procedures.
- Approximately thirty parties were contacted most of whom expressed interest in all of the assets as a turnkey operation, the inventory or the equipment.
- Plant tours, management presentations and employee meetings with interested parties were conducted over a four-week period.

Results:

- An increased purchase price from a strategic buyer was negotiated by the Receiver for the plant and equipment while finished inventory was sold separately to a major food ingredient producer.
- The Receiver promptly obtained court approval of the two sales and closings occurred four months from the date the Receiver was appointed.
- All of the company's employees were offered positions and the state's Governor publicly praised the new investment and preservation of jobs.

