CASE STUDY

RE|SOLVE

ReSolve offers a second opinion, saves a business

Overview

Our client is a well-known sports manufacturer operating for 15 years. The Company has done exceptionally well, however, COVID-19 had a devastating impact on the business. Sales immediately fell to unprecedented levels in April 2020 leading to the Company facing immense cash flow pressure.

In response, the Company secured financing through an overdraft facility from its bank and supplementary funds through the Coronavirus Business Interruption Loan Scheme. However, the Directors could foresee they would run out of funds within three months' time and therefore spoke to their advisors on what routes they could take to manage this challenging moment.

The bank's advisors strongly recommended an accelerated mergers and acquisitions sale of the business and assets in an administration. The advisors believed this was the best means to protect the underlying value of the Group's assets for the benefit of its creditors. However, the marketing process resulted in only one potential buyer offering £250,000 for the trade, goodwill and tangible assets of the Company. This would have delivered little value to the bank and nothing to unsecured creditors. As a result, the directors approached ReSolve for a second opinion.

ReSolve's Strategy

Upon review of the Company's balance sheet and cash flow forecast for the following two years, ReSolve recommended a CVA. ReSolve worked with the Company's directors to demonstrate to the bank that the CVA would be significantly advantageous not only to the bank itself but also to the Company's creditors generally as they would have received nothing in an administration. Instead, via the CVA, it would be able to continue to trade with little or no disruption and every stakeholder would enjoy a far better outcome than would have been the case in an administration.

As part of the CVA, and an important condition for the bank to support the CVA, the parent company to which our client was indebted agreed to waive its entitlement to a dividend. The directors and a connected party, to which the Company was also indebted, followed suit.

Outcome

Ultimately, ReSolve's strategy reduced the bank's exposure by a sizeable amount over the course of 18 months and creditors were partially repaid and given a share of any future profits above a certain threshold for the next two years.

Since the CVA's approval, the core business has gone from strength to strength and a first dividend has been paid to the creditors.

Chairman and MD of the Company commented:

"We have been very grateful for the sound advice and action from ReSolve during what was a pivotal time for the Company. It is undoubted that our survival and now promising future has been due to ReSolve's guidance and support."

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