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RESTRUCTURING FOR GROWTH

A Better Solution for Distressed Companies

Restructuring has become an essential in the arsenal of financial strategies for corporate America. There's been a shift in attitude in American business toward salvaging a company that is heading for extinction. Increasingly, bankruptcy is viewed as an acceptable and necessary alternative to preserve value for all stakeholders. Implemented properly with professional experienced advice, a restructuring can actually minimize business disruption, employee turnover and replace financial uncertainty with long-term continuity. The stigma of bankruptcy is no longer an indelible spot that forever tarnishes a company's image.

Aggressive credit issuance between 1992 and 1999 from banks and high-yield investors has come back to haunt many companies. They are highly leveraged and finding it increasingly difficult to re-finance their balance sheets. That situation is complicated by the current economy. "When the economy slows there is less capital investment, creditors are less patient and the downturn in the stock market impacts consumer confidence, and thus consumer spending," points out Jim McCabe, a senior associate with Seneca Financial Group Inc., a Greenwich, Conn. merchant banking firm that specializes in restructuring public and private companies.

It's not surprising that there's been an uptick in bankruptcies. The number of filings rose from 8,415 in the fourth quarter of last year to 10,005 during the first three months of this year, a jump of nearly 20%.

"It's not just the dot-coms, but in other areas of the economy; for example, the over-leveraged telecommunications and health-care sectors. Some of those companies that just skated by when the economy was on fire aren't able to get another round of financing, especially without solid

business plans. There is no more patience for the lack of positive cash flow," McCabe says.

Early action essential for survival

Taking aggressive action early, management teams must do a "reality check" sooner rather than later. Getting a company back on track takes time, planning and discipline. Thorough analysis and complex decisions need to be made and executed with precision and coordination. The required skills are not necessarily the same as those for building a company.

Management must still handle daily operations. When vested interests in an organization are threatened, objectivity may not always prevail. Troubled companies need a trusted, outside adviser with skills, experience and objectivity—all factors that can reduce the time required to make smart, informed decisions and begin rebuilding. When it comes to restructuring, time is indeed money.

"The hardest thing for a management team to do is look at historic results in an objective way, relate that performance to the current financial condition and then take the appropriate action," says James W. Harris, founder of Seneca Financial Group Inc. According to Harris, "Too

often these management teams will deny that real problems exist, allowing precious time to pass." Even worse is the acknowledgment that a problem exists, but belief that the next big deal will solve all the problems.

Seneca expertise steers companies through tough times

James W. Harris founded Seneca Financial Group Inc. in 1993 after directing many facets of restructuring troubled companies for more than 30 years. He served as a managing director for Lehman Brothers Inc. for a decade and managed the firm's financial restructuring group. He also was senior lending officer for Citibank, where he worked in financial restructuring and line assignments in the international and domestic lending areas. He has tackled major restructuring assignments such as Federated Department Stores, Texaco, Columbia Gas Systems and Dome Petroleum, among others, representing both borrowers and creditors.

Seneca helps senior management find ways to improve their financial performance through financial and operational restructuring, refinancing, asset redeployments, divestitures and acqui-

sitions. The firm's advisory services include in-depth financial performance reviews, liquidity stress tests, financial and business planning, industry peer analyses, business valuations and capital investment planning.

A thorough due diligence effort is undertaken at the beginning of each assignment. By examining every business and every major asset, Seneca is better able to assist clients in determining the best course of action. "In a crisis we will need to move quickly and decisively," Harris says. "Even doing nothing is a strategy choice that may be better than doing something simply for the sake of appearing to be busy."

"We combine the results of our due diligence with industry and market research and our extensive restructuring experience to arrive at a creative and effective solution to a company's problem," says Robert Damstra, a senior associate at Seneca.

Sometimes bankruptcy isn't the answer. If there is one large creditor, the company may be able to negotiate terms outside of court and both parties walk away happy, without having to file for bankruptcy. If a company won't be emerging from bankruptcy, the company's physical

assets can be sold in parts or as a whole with the proceeds going to creditors.

"Again, objectivity is the key. It's not easy being the messenger," Harris says. "Often managers feel threatened when advisers arrive. But the truth is, much good can come out of a process where managers re-examine their business in a healthy, objective manner."

Successful restructuring enables client to emerge from bankruptcy

When it comes to choosing an adviser, experience is the trump card. It's one that Seneca has firmly in its deck. Jack O'Connell, a senior vice president of Seabulk International Inc., formerly Hvide Marine Inc., one of the world's leading providers of marine support and transportation services that primarily serves the energy and chemical industries, was impressed with the way Seneca handled the company's Chapter 11

bankruptcy. Seneca successfully restructured about \$690 million of consolidated debt and preferred securities.

Seneca assisted Hvide in selling assets, preparing a financial forecast, creating financial models, assembling cash flow forecasts, analyzing restructuring alternatives, negotiating with secured and unsecured creditors and obtaining exit financing.

"Jim Harris brings to the table his judgment. He knows how to weigh competing offers and how to assess the most viable alternative. We didn't always agree, but in the end Jim was right most of the time," O'Connell says.

"The single most important thing for Hvide was to attract the financing to emerge from bankruptcy. Jim and his financial team not only helped us with issues like valuation, ratios, how to value the company—future value and earnings potential, but they knew how to state the case persuasively

to get financing and they showed us how to state our case," O'Connell says.

Seneca came on board before the September 1999 bankruptcy filing. The company re-emerged in three months. Because Seneca had helped negotiate with creditors before filing, Hvide was able to hand the bankruptcy judge a plan that had been agreed upon by the parties involved, greatly speeding up the restructuring process. Seneca remained involved for a short while during the post-Chapter 11 period, which was rocky, with turnover throughout the company.

"Our financial health is improving, especially with the price of oil. Our business is good right now," O'Connell says.

What impressed him most about Seneca was the firm's professionalism. "Jim Harris exudes power. He is a listener. But he can also be gruff and abrupt. We discovered those are important

weapons in his arsenal. Jim is known for wearing his suspenders with the skull-and-crossbones pattern. You want someone like that on your team," O'Connell says.

Lord Byron wrote, "The best prophet of the future is the past." Seneca is unique among financial firms in understanding the past and how it can lead to a future of growth and financial stability.

"Every set of problems offers a greater number of opportunities. Creating solutions forces people to stretch their imagination and loosen up their creative muscles," James Harris says. "If managements of highly leveraged companies want to preserve more value to stakeholders, they would be much more pro-active in anticipating problems and work with firms like Seneca to prepare ahead of time." ■

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