

Press Release

FOR IMMEDIATE RELEASE
8 A.M. CST, October 20, 2008
Chicago, IL

MEZZANINE BUILDING PRODUCTS LENDER FORCED TO THINK LIKE EQUITY

Global Turnarounds has just completed another successful opportunity assessment with our alliance partner Arthur D. Little for a Connecticut based mezzanine fund. The mezzanine fund's investment in a Dallas, Texas building products manufacturer was completely under water and they needed to know if it made economic sense to buy out the secured lender to gain control of the company. Our team arrived in Dallas on Monday morning and reported our findings to the fund by Friday noon.

At their current annual sales run rate of \$20m, down from a recent peak of \$60m, and an orderly liquidation value of \$4m the \$14.5m of loans to the building products company were severely at risk. Furthermore, the borrowing base consisting mostly of AR and inventory was at a significant shortfall while doubtful accounting practices and legacy items from the prior year's Article 9 sale of the company added to the uncertainty. The senior lender, a German bank, was estimated to only recover 80% of its investment in a liquidation.

Our assessment revealed that the company was weakest in the areas of people (Performance rating of 20%), inventory control (20%) and lean manufacturing (20%) as per the figure below. Four of the top 10 employees were an unsuitable fit for the job they held, while all ten lacked formal training or experience in their positions. The owner and present operator was a skilled business owner, but had never worked in a manufacturing environment before. This resulted in poor enforcement of the inventory control and lean manufacturing processes required to be competitive in this industry. Our assessment further revealed that the company could fit all its current operations in half the floor space, reducing rent by 50% and hourly labor by more than 30% while improving throughput and customer service levels. These actions would result in an inventory reduction of more than 50% and a gross profit improvement from 19% to 30% within 6 months.

While a 50% inventory reduction is considered a positive by an equity owner, it is considered as a negative by an asset based lender due to the reduction of the borrowing base, despite the cash released. The only way to reach a refinancing deal in such a situation is for the mezzanine lender to stop thinking in terms of borrowing base, and start thinking like an equity investor – in terms of return on assets.

The proposed 6 month turnaround plan would require \$750,000 in financing for converting production lines to a lean layout and adding IT modules to their inventory control system. An additional \$2m would be required to fund operations through the low winter season while the plan is executed. The owner was asked to put in an additional \$2m in exchange for \$4m of debt forgiveness and an extension of credit to fund the balance of the plan, while the mezzanine lender would receive 25% of equity.

Our proposed fees for leading this turnaround is based on a fixed percentage of monthly cash flow above an agreed baseline, with the option to convert our fees into warrants based on the starting valuation of the refinanced company. This is how we contribute to ensure perfect alignment between the turnaround firm, the lenders, and the equity owners.

About Global Turnarounds

Global Turnarounds does company turnarounds for owners or lenders of distressed and fast growing companies. President, Kobus van der Zel has 20 years of manufacturing management experience including business improvement and turnaround engagements where 100% of the monthly fees were tied to achieving bottom line results. He graduated from the University of Stellenbosch, South Africa in 1989 with a mechanical engineering degree and in 1995 with an MBA. He was certified by the Turnaround Management Association as a Certified Turnaround Professional (CTP) in 2005.

About Arthur D. Little

Arthur D. Little, founded in 1886, is a global leader in management consultancy; linking strategy, innovation and technology with deep industry knowledge. The firm has over 30 offices worldwide, and with its partners Altran Technologies, Cambridge Consultants and Global Turnarounds it has access to a network of 16,000 professionals. For more information visit www.adl.com.

Contact details:

Kobus van der Zel, CTP

Phone: (312) 235-2325

Email: Kobus@globalturnarounds.com

