

Background & Problem

This UK headquartered group has 4 subsidiaries, including one in Germany and one in France, both of which were significantly insolvent and over-indebted. Had either of these failed, the whole group was very seriously financially endangered as the parent company had issued various sizeable guarantees on behalf of these subsidiaries. Furthermore, had this happened, the local French and German subsidiary managing directors and group directors would have been personally exposed to both civil and criminal legal actions for knowingly continuing to trade in this state.

Action Taken

The German subsidiary was downsized by 33%. The premises were sold and rented back. Creditors were asked to forgive 40% of the company's debt in return for immediate payment of the remaining indebtedness. Debtors were pushed hard for payment; staff salaries and benefits were heavily cut; overheads and stock were slashed. As the existing shareholders could not fund all the additional capital to financially restructure the German subsidiary out of private funds, confidential invoice discounting was introduced in the UK subsidiaries to provide cash for additional share capital. The German staff was asked for, and gave, a six figure loan sum to boost the funding of working capital of the company to see it out of insolvency and over-indebtedness.

In France, the main effort was focused on dropping loss making and low return customers, moving into new higher added value market sectors and improving productivity. A significant one-off balance sheet benefit was the conversion of the French subsidiary's lease purchase agreement on its work premises into a purchase of these premises by the UK parent.

The Result

The group is now healthy and stable.

The German business went from an average of 80K€ per month loss, prior to TGBA's involvement, to making profits every month thereafter. It is now very healthy and has fully recovered from its insolvent and over-indebted position, has repaid its loans, has had some of the parent company guarantees removed, and is now on good working terms with its staff, suppliers, customers and bankers.

Within 8 months of our involvement, the French subsidiary's net worth improved by 1.3M€ and the whole of the inter-company trading deficit was eliminated. The shedding of the company's loss making customers helped in the demise of two major competitors who picked up these clients. This removed the customer domination of the market and made it more profitable.

**If you want to find out more about any of the areas covered in this case study
and how we can support your business – contact us today.**