

When the Going Gets Tough, The Tough Start Restructuring

If cash flow and working capital are tight, speak to your lender before they speak to you. If you are struggling to meet cash requirements you are not alone: it is common for many companies that make it out of a recession to be so badly damaged that they struggle along until a creditor finally pulls the plug.

If the business owner acts swiftly there are things that can be done to ensure the business regains a sound footing and is able to move forward, with the potential to prosper. Unfortunately many owners fall into an all too common trap, the grief cycle or **DADA!** This starts with **Denial** that a problem exists, progresses to **Anger** that things aren't going according to plan, and **Depression**, where the owner feels helpless, and eventually **Acceptance**, where the problem is acknowledged and the owner is ready to accept help and guidance from the outside world. The sooner an owner reaches the acceptance stage, the more chance there is of business survival and the less risk that the business will end up in a court-ordered restructuring or in bankruptcy.

Often the key to regaining that solid footing is through a restructuring process, which might be;

Informal Restructuring. Allows the owner to retain control and undertake an active process to deal with the existing issues. The process can be Operational or Balance Sheet focused and might include;

- Controlled cost cutting
- Sale of underperforming or redundant assets
- Management and staff changes
- Deferral or conversion of debt
- Refinancing

In most cases a bank is a company's largest creditor and banks are usually supportive of owners' efforts to restructure debt voluntarily. This may take many different forms such as a sale and leaseback of assets, bringing in subordinated or mezzanine debt, capital injections; or simply deferring payments on existing loans. To gain the bank's support you will require a defined plan of action, you need to be up to date with all financial reporting and you will need to be prepared to work with the bank on an upfront basis. Many owners find that if they don't deal with their bank proactively, the bank's bite may well be worse than its bark.

Formal Restructuring This is completed under the Business Insolvency Act ("BIA") or the Companies Creditors Arrangements Act ("CCAA"). Under this process the courts or creditors appoint a Corporate Trustee to oversee the restructuring process.

It is important for business owners to seek professional advice and understand their options. By being proactive, owners can retain their equity in the company, employees retain their jobs and the business has the best possible chance to emerge as a viable entity.

M&A – What's Going On?

According to the Canadian Venture Capital Association, disclosed buyouts of Canadian companies, completed and pending, totaled only US\$680 million for the first half of the year, well below the nearly US\$4 billion invested in the same period in 2008. In Canada, investment totals (buyouts and minority investments) for the first half of 2009 were 22% of the previous year's first half. American investors in particular have reduced their investments in Canada in the first half of 2009. The average size of disclosed private equity buyouts was only US\$22.5 million in Q2, down from the US\$59 million average deal size in Q1 2009.

Private Company Transactions

The market for private company transactions is starting to see more activity with vendors having come to terms with their reasons for selling and buyers being able to fund acquisitions again. As a vendor, what can you expect to see in current transactions?

1. Pricing has generally declined, mainly due to lenders funding fewer transactions and lower dollars amounts, and recent declines in profitability. However attractive prices are still being paid for great companies.
2. More vendor financing – this is usually required for a purchaser to obtain third party financing.
3. Earn-outs. Where you can demonstrate the earnings would be higher but for the recession, a purchaser may be prepared to pay more in the form of an earn-out if the business is able to reach its forecast financial targets.
4. More creative deal structuring to close the price gap, such as greater value placed on post transaction management contracts.
5. Many financial buyers looking are looking for a bargain!

To get the most value out of a transaction, it is important that you have an experienced deal team, including financial advisors and an experienced M&A lawyer. If you are approached directly by a potential purchaser, ensure you seek the appropriate advice early, to ensure you are getting a fair deal.

Are We There Yet?

The media has been reflecting the Bank of Canada's optimism that the recession is over, but for many business owners there is still a long way to go. In this article we suggest 5 focus areas to help speed up the recovery of your business.

1. Staff – Use current market conditions to refresh staff, ensure you have the right people in the right position. Owners need to be leading a team that has enthusiasm for what it does, shows initiative and has ideas for making the business stronger. Implement an incentive scheme to ensure the retention of the best and brightest. Ensure that cross training is in place for every position (including your own). This could be crucial in ensuring your business does not grind to a halt in the event of a major flu outbreak (H1N1), defections of key staff or other unanticipated events.
2. Financial Management - Look at your accounting systems and staff. Ensure you have the right combination to not only provide you with up to date and reliable information about business performance, but also of potential opportunities. In times like these you need a finance team that speaks up and helps drive the company forward.
3. Supply Contracts - Look at all of your supply contracts from parts to cleaning, to see if there is a cheaper alternative or an opportunity to question rates.
4. Renegotiate Leases – Current market conditions make no request unreasonable. Prior to the downturn, lease rates rose dramatically with many owners also taking on additional space in anticipation of expansion. Review your space requirements and discuss leases with landlords. There may be potential for rate reductions or subleasing of excess space.
5. Business Planning – After a recession many owners muddle through and, if they are lucky, eventually make it back to the good times. Those business owners that plan in advance recover quicker and are better positioned to take advantage of new opportunities as they arise. Planning should include revenue forecasting, product and service reviews, sales team utilization, capital expenditures etc.

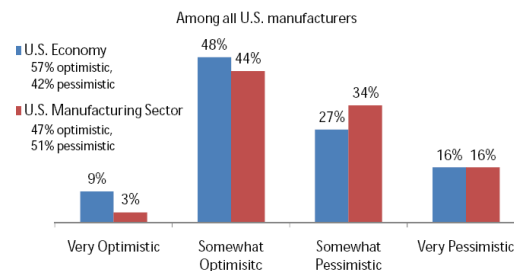
Remember...its just business. Do what you need to, to ensure your business is faster, better, stronger and one step ahead of your competitors.

Baker Tilly Manufacturers' Survey

- This economic downturn is toughest on small manufacturers, with a sizable minority struggling to make it through. Executives from larger companies are more likely to report they are using tools such as tax planning and negotiating vendor discounts. Larger businesses are also more likely to use foreign markets to diversify their revenue sources.
- Challenging economic times require a new approach to doing business. This report sheds light on the perspectives and insights of manufacturers who must deal with the reality of the economy and prepare for an unpredictable future.
- For a copy of the full report, please contact us directly.

U.S. Economic Outlook

How would you describe your outlook for the U.S. economy/manufacturing sector six months from now?
 Would you say you



Does Size Matter - When It Comes to Weathering the Economic Storm?

A recent report by Industry Canada revealed that small businesses (fewer than 100 employees) are less sensitive to changes in gross domestic product ("GDP") than medium-sized (100 to 499 employees) and large (500 + employees) businesses in terms of the total number of business establishments in operation and employment level by firm size. The Industry Canada research evaluated business performance during recessions and economic slowdowns over the past 20 years.

The study shows that the number of small businesses grew steadily during periods of both economic growth and decline, albeit at a lower rate over the last decade. In contrast, there were reductions in the number of medium and large businesses during the recession in the early 1990s, the slowdowns in 1996 and 2001, and the current economic downturn that started in 2008. The growth in small business numbers was in part a shift in the employment base, where redundancies in larger companies led to people starting a business of their own.

The Industry Canada study indicates that in the period covering the fourth quarter of 2008 through the second quarter of 2009, small businesses saw an employment rate decline of 0.6% compared to 15.6% and 7.7% for large and medium enterprises, respectively.