Project Barney Case Study

2008 to 2011

UK based aggregates group

This case study demonstrates how Icknield was able to deploy a team rapidly to enable a crisis situation in a listed UK company to be brought under control. Working in conjunction with advisers, we designed, agreed and implemented a successful restructuring within 5 months.

The Icknield Team and our role

Icknield was contacted by one of the lenders in November 2008 and Steve Smith was introduced to the CEO and Chairman. He was then appointed to the board as CRO. An Icknield team was engaged to provide cash management, negotiate with major creditors and provide further support to implement the restructuring.

Following the restructuring Steve Smith joined the Newco board in an active NED capacity until the successful exit from the UK business in September 2010. Steve had a continuing role until the 2011 sale of the Polish business.

<u>The team:</u>

Steve Smith led the project as CRO

Shahin Gulamali led negotiations with finance lease creditors and HMRC

Jaco van Niekerk managed cash and prepared detailed records to support the corporate restructuring

Throughout the project the Icknield team worked closely with the chairman (also a restructuring professional) and advisers to both the company and the lenders.

Key achievements – Up until the restructuring

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- Stabilising the business
- Creating a restructuring plan supported by the group’s UK lenders
- Negotiating revised terms with other financial creditors
- Creating a restructuring plan for the US business which facilitated the Chapter 11 process
- Supporting negotiations with the Pension Protection Fund to take on the Defined Benefit Pension Scheme
- Obtaining HMRC support
- Implementing a restructuring for the UK and Polish businesses through a pre-pack administration

Key achievements – Post restructuring

Icknield

- Reshaping the management team/board working jointly with the chairman
- Helping the operational team drive through cost reductions to improve operational contribution
- Supporting negotiations with a potential purchaser of the UK business
- Assisting in the successful sale of the shares in the company held by the lenders and the Pension Protection Fund to an aggregates group in 2010
- Sale of the Polish business for a consideration higher than lenders' expectations

Business background

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- A FTSE listed aggregates group with headquarters in the UK
- Operations in the UK, US and Poland with 1,350 employees
- The group owned and operated quarries, asphalt plants, concrete plants and contracting businesses. The group produced construction materials supplying sand, stone, cement and tarmac using its own fleet of vehicles
- The group had been built up through a number of acquisitions. In 2006 and 2007 the group spent £120m on acquisitions financed by share issues and increased borrowings
- The group had grown quickly with turnover doubling between 2004 and 2007
- The group had turnover of £236m in 2007, a net profit of £6m, breakeven cash flow and net debt of c.£160m

Key issues facing the business at the start of the project

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- During 2008 net debt increased substantially and by September the group was reporting weak trading conditions
- Cash flow negative with less than 2 months remaining liquidity
- Share price low and falling
- UK lenders very concerned about the state of the business and the looming cash crisis
- Breaches of terms of main borrowing facilities including covenant issues

Key issues facing the business at the start of the project - continued

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- No shareholder support for further equity funding
- Reduced demand for aggregates was adversely affecting operating performance
- High cost base
- Substantial finance lease repayments hitting cash flow
- Defined benefit pension scheme with a substantial deficit

Options explored

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The following options to resolve the group's problems were explored in parallel:

- Equity injection – no shareholder support for a rights issue/placing
- Disposal of all, or part, of the group - offers were received but none were at levels which would clear secured debt and so were not acceptable to the board or the secured lenders
- A restructuring of the entire group preferably with the plc listing retained – not possible as US lenders did not support this option
- A restructuring of the group retaining the plc but excluding the US – also not possible due to the US stance
- A restructuring of the European parts of the group – this was the option that was implemented

Restructuring Plan

The Solution – achieved in 5 months

- US standalone plan created to enable a successful Chapter 11 process
- UK and Poland moved from the plc via a pre-pack administration to a Newco owned by the UK lenders and the Pension Protection Fund
- Defined benefit pension scheme moved into the Pension Protection Fund
- HMRC liabilities payment plan agreed
- UK finance leases renegotiated with extended terms

Turnaround

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- The restructuring in March 2009 provided a stable financial platform for the UK and Polish businesses. To achieve this the cash flow was re-engineered by renegotiating the terms of finance leases and removing the burden of the US business which was loss making and cash negative.

- The intensity and complexity of the financial crisis was such that the operational turnaround could not progress until the restructuring was complete

- The key elements of the operational turnaround were:
  - Reshaping the management team and board
  - Substantial reduction in central costs
  - Reduction in contracting workforce to meet lower customer demand
  - Reduction in net working capital requirement, releasing cash to boost liquidity and support the turnaround

Team approach

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- The serious nature and extent of the group's problems together with the urgency to find solutions required a team approach to the crisis stabilisation and restructuring

- In addition to the management teams in the UK, US and Poland, Icknield worked closely with a number of parties to achieve the restructuring:
  - A restructuring professional became chairman
  - Financial advisers to the company who provided advice to the plc board and supported restructuring negotiations in the UK and US
  - Financial advisers to the lenders
  - Legal advisers to the plc and the lenders

Outcome

- The plc could not be saved due to the lack of agreement with US creditors

- The US business was steered into Chapter 11 in 2009 and successfully exited that process. The business was then sold in 2011

- The UK business was reversed into an AIM listed company with an experienced management team in September 2010. Banks received a large paydown of their term loans and the shareholders (banks plus PPF) received significant value. The business continued its operational turnaround under new management and has expanded through acquisitions.

- The Polish business was sold to a competitor in 2011 completing the exit of the UK lenders from the 2009 restructured group.

- All jobs were retained at the point of restructuring except for plc non-executive directors. There were a limited number of subsequent UK redundancies as part of the operational turnaround.