Dorset Partners LLC

Case Study - Out of Court Turnaround - Failed $300M Pharmaceutical Roll-Up

Ebitda -$2M to +$30M in 1 year
79% Debt Reduction in 2 years
Equity -$138M to +$106M in 2 years

Background:
Company is a contract manufacturer of OSD, packaging and sterile fill-finish pharmaceuticals, which grew rapidly from one factory to eight in three years. Revenues were $300 million but the company was only weeks away from running out of cash. The Holdco Chairman hit the brakes, fired the entire executive suite and brought us in to get things in order. The eight factories were spread across North America and Europe. They were each independent divestitures which came with their own special version of lavish facilities, weak employee culture, no sales pipeline and unreasonably short supply agreements.

Most of the sites were unprofitable and the company had severely underperformed. The bank's debt service coverage ratio covenant required $23M in ebitda. Company delivered negative $1.7M. They were in violation of 3 out of the 5 borrowing covenants and the bank relationship was strained.

Our turnaround took a site-specific approach to restructuring each business model and finding profitability. At the exact same time, we had a mold issue at the Italian Factory which caused an immediate FDA shutdown and costs us $11M in losses and remediation over six months. The bank was fatigued, and they were bringing new pressures to the situation. While vendors started holding shipments, the company was locked into rigid supply agreements, labor contracts and other constraints which made it difficult to operate and nearly impossible to generate profits. Ebitda was negative despite nearly $300 million in revenues.

Our turnaround successfully transformed the company improving its relationship with its lender and vendors, maintaining critical mass with employees, retaining and improving all supply contracts with its legacy customers, and regaining the confidence of current, new and prospective customers. By strategically downsizing to four sites from eight, we shed loss making entities and improved EBITDA in one year from negative $1.7 million to positive $30 million.

Problems:
There were numerous issues plaguing the acquisitions which included:

- Rigid asset purchase agreements which restricted commercial opportunities, prohibited headcount reductions and other changes
- Sites which were grossly underutilized, with large excess capacity
- Price and Volume cliffs lay ahead as patents were nearing their end of life cycle.
- An unrealistic forecast for new sales opportunities.
- Poorly executed contracts for new business requiring the company to produce below a sustainable profitability
- Sizeable capex obligations due to deferred maintenance,
- Large deferred obligations such as balloon payments, substantial seller note obligations, and other acquisition financing arrangements which severely impaired near-term and long-term cash flow.
- Excessive spending on IT (opex and capex)
- Excessive spending on HQ staff
- Ineffective sales and marketing

30 Day Review of Action Steps:

#	Action Steps	Status
1	Fire CEO, CFO, COO	Complete
2	Replace with global restructuring team	Complete
3	Cease all non-critical spending	Complete
4	Contact customers / seller note holders	Complete
5	Cease payments and begin negotiation of seller notes	Complete
6	Freeze all past due payables	Complete
7	Model proforma forecast 2019	Complete
8	Chairman, CEO or CRO to every facility	Complete
9	Cease IT projects and reduce IT spend	Complete
10	Replace overpriced attorneys	Complete
11	Replace overpriced IT consultants	Complete
12	Move HQ , sublease corporate clubhouse	Complete
13	Establish supply chain credit programs with vendors	In Process
14	Stop losses in factory #8 within 30 days	In Process
15	Stop losses in factory #7 within 30 days	In Process
16	Gain customer financial support for factory #6	in Process
17	Accelerate A/R collections to 10 days	In Process
18	Headcount reductions	In Process
19	Wage and benefit reductions	In Process
20	Eliminate 4/6 of senior management positions	In Process
21	Double size of the sales force	In Process

Value of Actions:

- HQ headcount reductions produced an annual ebitda improvement of $3.2 MM (Salary, Bonus and Perquisites)
- Lease termination of HQ offices contributed to $175k in annual ebitda
- Cancellation of certain corporate events and trade shows produced a $500k annual ebitda improvement.
- Divestiture / administration of four factories worth $15MM of annual ebitda improvement
- Reduction of more than $1MM in marketing expense
- Renegotiation of supply agreements at Factory-4, and Factory-2 improved ebitda by nearly $7MM annually
- Renegotiation of the maturities of seller notes and certain accounts payable.
- Restructuring and insourcing of the expensive IT program.
- Negotiated stretch-out of the $10M AP related to prior IT expense with legacy vendor. Then reduced it to $3M and stretched it even further.

Additional Turnaround Action Steps:

In addition to the Turnaround Action Steps listed above, the following actions were also important in restoring covenant compliance:

- In-depth, on-site review of each operation to explore opportunities to reduce costs and drive production and revenue.
- Freeze on all new hires
- Review of all insurances and health care policies with a new broker of record to eliminate excess costs and improve coverages and increase employee participation in premiums.
- Consolidation of executive roles and elimination of duplicate roles
- Elimination of Plant-8 Transitional Services Agreement
- Reduction of more than $4.7 MM in IT capex spend
- Reduction in IT contractor fees
- Reduction in compliance and legal fees
- Reduction in audit and tax fees
- Streamlining and consolidation of common vendor contracts
- Drawdown sale and shipment of excess inventory to customers to reduce on hand materials and improve cash flow and cash on hand

Results:

	($0,000)	($0,000)	($0,000)
($0,000) USD	**PY - Old Mgnt**	**Y1 - New Mgnt**	**Y2 - New Mgnt**
Bank	25,000	25,000	27,124
Taxes	47,385	12,015	6,298
Seller Notes & Def'd Rev.	185,009	34,763	8,907
AP	85,488	40,204	25,699
Accruals	8,346	22,793	19,840
Debts	**295,497**	**99,968**	**61,730**
	Debt Reduction	**-66%**	**-79%**
			Debt reduction = $233,767
Assets	279,186	212,020	204,497
Liabilities	417,751	164,621	98,604
Equity	**(138,565)**	**47,399**	**105,893**
			Change in equity = $244,458
Net Sales	294,332	204,964	
GPM %	4%	21%	
Opex	49,469	27,163	
Core EBITDA	**(1,768)**	**29,964**	
		Change in EBITDA = $31,734	

For More Information:

Jeff Sands, Founding Member

Dorset Partners LLC

212-984-1098

Jeff@DorsetPartners.com