

Zombie Balance Sheet - Debt Laden after the Covid 19 Pandemic?

How will your business survive and thrive?

Over the past 18 months Covid-19 has strangled the world. The pandemic has touched every country, and, despite the vaccination programme, Europe is now bracing for its fourth wave.

Perhaps as worrying, behind the scenes, there breeds another contagion. That of zombie business Balance Sheets.

Back in March 2020 the UK Chancellor, Rishi Sunak, announced a package of financial support for business. This generous combination therapy of grants and loan guarantees was made widely and quickly available with relatively limited scrutiny.

The HM Treasury Bounce Back Loan Scheme (BBLs) designed to support small companies, with loans of between £2.5k and £50k had, at the end of October 2021, made 1.5 million loans totalling £47 bn.

Its bigger brother, the Covid Business Interruption Loan Scheme (CBILs) aimed toward FTSE 350 companies and offering access to up to £500k has made 110,000 loans totalling £26bn.

These loans were aimed at bridging costs whilst businesses were 'temporarily' impaired by Covid 19 restrictions and lockdowns.

The unfortunate truth, however, is the virus is far from beaten and its effects are still being felt by many business sectors.

Moreover, other global warning bells are adding to the uncertainty that hangs like a dense fog. These include supply chain woes, workforce skills, labour, and materials shortages, energy and transportation cost escalations and rapidly rising inflation. In addition, a series of international tensions are simmering between the US and China and Russia not to mention between the UK and EU because of Brexit.

What looked like a six-month fright seems to be mutating into quite the apocalypse.



For many companies, whether they were already fragile before the pandemic, the opportunity to grasp such accessible financial headroom, with a benign interest rate and an interest holiday and no repayment obligations for 12 months, felt like a no-brainer.

However, the period anticipated to cushion business has extended way beyond even the most pessimistic assumptions and for some continues. Repayments against the Covid loans are starting to bite. Back British Business suggests 35% of those that accessed the loans have not sufficiently recovered to meet the repayment obligations. That could be as many as 500,000 businesses!

Supply chain tensions are not easing. Businesses with full order books don't have enough staff to complete the orders. Inflation racing to 4.5% and beyond may well drive-up interest rates. These feel like factors in a perfect storm which threatens to engulf companies whose balance sheets are already flashing red and whose credit headroom is exhausted.

Can ValueStep help you? – Business Rescue



Context

In late 2019, ValueStep was invited to undertake a business review of a medium sized Midlands based metal pressing and stamping business that faced a catalogue of crises: An unexpected leadership void with no succession plan; a mismanaged major asset and equipment acquisition; increasing customer complaints about quality. These, coupled with overall loss of financial control had brought it close to failure even before Covid-19 hit.

ValueStep Intervention

Appointed by the business owner in January 2020, ValueStep achieved a remarkable turnaround. We introduced an interim senior leadership team (MD, FD, and HR Manager) which systematically tackled the areas of underperformance, restructured, and refinanced the business and transformed its operations performance, financial health, and prospects.

The business benefitted from ValueStep's quick and decisive actions to ensure safe and secure passage through the Covid-19 pandemic while the Chancellor was holding the umbrella of CBILS loans, furlough scheme and business rate and rent holidays. The new team introducing a detailed response for the business to operate in a Covid secure environment whilst securing furlough funding and a Coronavirus Business Interruption Loan.

The ValueStep team also gripped:

- Operations: with new operational systems and procedures, stock controls, quality assurance
- H&S: with a complete workforce review, resizing and a managed-redundancy programme
- Sales: with orderbook cleansing and a new customer relationship management process
- Finance: with an upgrade of all finance functions and controls

Outcome

With an overall debt reduction of £1.5 million, positive cash generation and a shareholder value improvement of £5 million, the business is now well ahead of its revised three-year business plan, and it has left the shadows of failure. This timely and effective recovery has strengthened the business to withstand its own supply chain pressures and has made the business fit for the future. Now consistently improving month-on-month in quality and production performance, the business enjoys the benefit of an engaged and motivated workforce and is delivering sustainable margins.

ValueStep continues its oversight and has been invited by the owner to review his next strategic options, including acquisition or exit.

What is ValueStep?

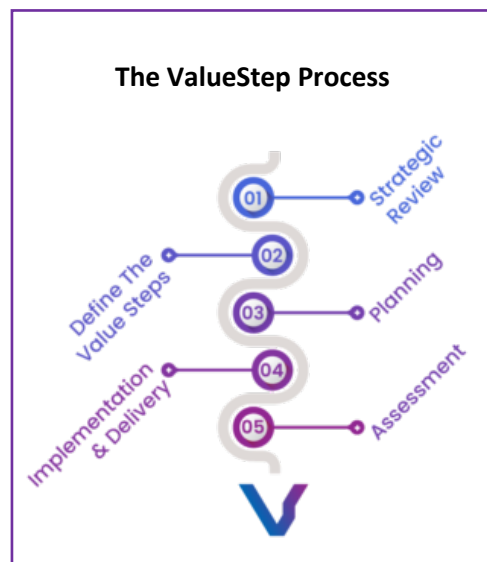
ValueStep is a specialist company that works with and inside SME businesses enabling them to achieve their next value step, that moment when a step change in shareholder value is created and realised. Our team comprises proven business leaders who have a strong pedigree and reputation for identifying the moment to see and secure a step change in performance.

Our successful track record of delivering improvements in shareholder value have ranged from simple profit turnarounds through to full rescue and recovery.

Our Service interventions include:

- Strategic positioning & visioning
- Business planning & budgeting
- Start-up, incubation & staged investment
- Restructuring, rescue & recovery
- Senior leadership support
- Transaction advice & facilitation
- People and culture development
- Succession planning

ValueStep applies a blend of skillsets and capability designed to suit the specific situation. This will typically include strategic leadership and operations oversight, finance and accounting, commercial management, HR and communications, governance, and administrative functions.



We are prepared to invest our time and capital to back our brains, courage, and leadership as we deliver the desired outcomes. We judge the degree of intervention to suit the situation... enough to make the difference and protect or enhance your value.

Can ValueStep help you?

Is your business only just managing, cash-strapped with your balance sheet stretched beyond conventional refinance? If so, write to us at j.p.leng@valuestep.co.uk and begin a conversation about how we can provide the support and insight to enable your next Value Step.