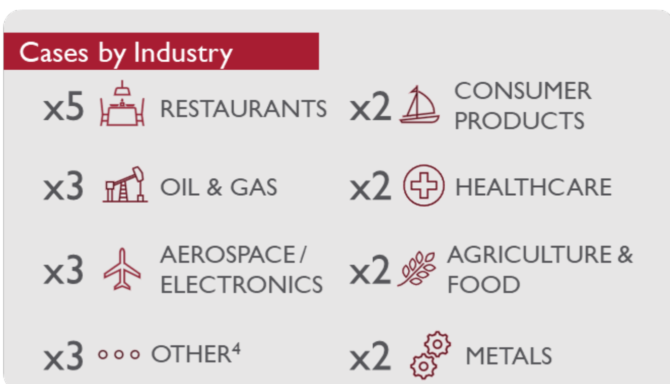
MORRISANDERSON

Trusted advisors delivering practical solutions

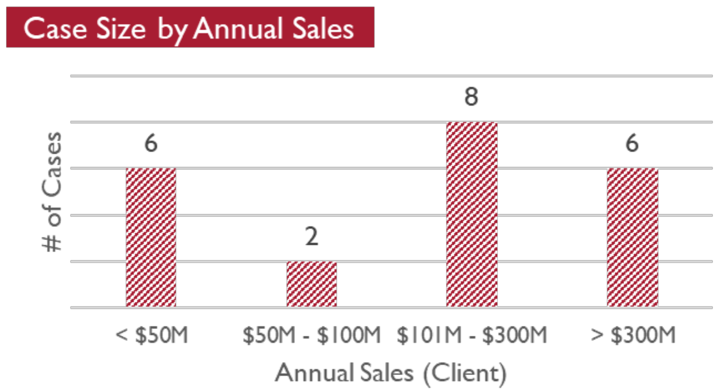
2020 in Review

2020 presented unique challenges for MorrisAnderson and Associates, Ltd. (“MorrisAnderson”) and our Clients alike. Forced shutdowns, reduced demand, changing consumer behavior, supply chain issues, and general uncertainty were major themes affecting our Clients which resulted in longer, more complex engagements throughout the year. Additionally, in the latter half of 2020 we saw an increase in the aggressiveness of the capital markets as companies’ liquidity issues were met by eager capital providers.

Turnaround and restructuring activity was strong through Q2, however, PPP loans, bank loan downgrade moratoriums and other government COVID-19 related programs proved very effective for companies in distress. As a result, we saw a reduction in engagements in Q3 and Q4.



Additionally, we onboarded new, experienced consultants to match the current and anticipated demand in restructuring and turnaround work. Internally we quickly adapted to the increased utilization of virtual meetings and reduction in on-site interaction to continue providing high quality advisory services to our Clients.



In times of uncertainty our clients turn to us to find the best possible solution for difficult situations – in a timely and efficient manner. 2020 was no different, with 22 successful engagements including interim management, operational improvements, turnarounds, debt restructurings, liquidations, sale of companies, refinancings, bank group advisory, and more.

Looking forward, we are expecting and preparing for a potential increase in turnaround activity as government programs expire and lenders reassess their portfolios. MorrisAnderson is, and continues to be a market leader in financial and operational consulting and draws on over 40 years of deep expertise across a number of industry sectors. Unlike consultants who simply give financial advice, we collaborate with management and other stakeholders to create a comprehensive action plan that addresses immediate operational and financial challenges and moves your business forward.

2020 Engagement Highlights

Watersports Product Manufacturer

- Located on the West Coast.
- $60 million revenue watersports manufacturer with two international operations.
- $24 million in bank debt.
- $16 million in owner's debt.

The Challenge

- Dissent between two Ownership groups and consecutive years of losses resulted in a lender loan exit decision.
- Weak financial reporting and accounting controls.
- High cost manufacturing operations.
- Governance dispute between two Ownership groups.
- Company had been previously marketed for sale in 2019 which resulted in a low ball offer from only one bidder.

The Solution

- MorrisAnderson appointed as independent director and Chairman of the Board, Financial Advisor, and Investment Banker.
- Developed profit improvement plan expected to achieve an estimated $7 million of annual EBITDA improvement including:
  - Price increases.
  - Strategic reductions in force.
  - Outsourcing certain production to third parties.
  - Re-sourcing product away underperforming vendors.
  - New product launches (inflatable kayaks).
  - Sales channel expansion including the launch of an E-commerce platform and big box retailers.
- Cleaned up years of sub-standard accounting, inventory valuation, and financial reporting.
- Initiated sale process marketing the Company to over 100 strategic and financial buyers achieving a strong sale multiple based on implemented profit improvement programs.

The Result

- Financial results improved from $200K monthly loss to $300K month profit. Borrowing availability increased by $3 million through reduced inventory and accounts receivable levels.
- Successful marketing resulted in 5 LOIs for purchase of the Company.
- Auction process successfully generated a final buyer which fully paid all debt and liabilities and a $15 million value increase from prior purchase offer.

Precision Metals Manufacturer

- 13 facilities in 7 States.
- $160MM revenue manufacturer of precision tooling and parts primarily for aerospace and packaging industries.
- $65MM credit facility.
- $13MM equipment leases.

The Challenge

- Company grew via acquisitions funded by bank debt - high leverage and tight liquidity.
- During 2H 2019, Company incurred issues with integrating two of the recent tuck-under acquisitions. Delays in transitioning accounts resulted in push-out of shipments/revenue causing a significant miss to financial projections and triggering financial covenant defaults.
- Lenders decided to forbear on defaults with tight timeline for refinancing and an exit. In Q1 2020 Company obtained terms from Non-bank lenders to refinance by end of April 2020.
- During 1H 2020 the dramatic decline in commercial aerospace caused by the corona virus halted refinancing prospects for Aerospace businesses; Lenders forced to hold until capital and banking markets returned.
- COVID ultimately impacted 2020's revenue by 20% and EBITDA by 50%. Company was on trajectory to exhaust cash, impairing Lenders' recovery.

The Solution

- Identified downstream impact caused by COVID-impacted decline in demand for commercial air travel.
- Developed plan to reduce fixed costs that included closing 2 facilities and rent concessions with landlords.
- Advised Company to ignore customers' requests to fulfill inventory orders, preserving cash. Subsequent workdown of Inventory, adjusting for new revenue run-rate, helped provide cash liquidity.
- Established diligent receivable monitoring and collections that mitigated an increase in charge-offs and days sale outstandings (DSO).
- Identified pricing issues, made recommendation to improve bidding process and costing methodologies.
- Obtained loan through the Payroll Protection Program.
- Periodically tested capital markets, restarted financing initiative when amounts/closing were attainable.

The Result

- Maintained weekly communications with Lenders on initiatives and liquidity.
- Company was slow to react but eventually managed its inventory to adjust for decline in revenue.
- Cost-savings and efficiency initiatives resulted in the stabilization of the Aerospace segments' EBITDA to breakeven by year end.

- In Q3 2020, attracted capital proposals sufficient to payoff the bank debt and provide adequate go-forward liquidity.
- In January 2021, the Company closed on its refinancing, repaying the bank debt and injecting the business with sufficient liquidity to endure and rebound.
- Equipment lessors, satisfied with liquidity forecasts, consented to continue with leases, and not repossess critical machine tools.
- Bank lenders convinced to provide twelve months of forbearance, progressing from a "below-par" to a full recovery.

Energy Distributor

- $700MM in Revenue.
- Midwest U.S.
- Provider of petroleum products and electricity to commercial, residential, and wholesale customers in several states.
- Volume:
    - 350MM gallons petroleum
    - 345MM kilowatt-hours of electricity
- $60MM credit facility.

The Challenge

- Well-established distributor lost a significant account, causing dramatic decline in financial performance.
- Fixed Charge Coverage fell below 1 - triggering a default to a loan covenant - and was continuing to decline.
- Lender's perception was Company was slow implementing its initiatives to replace lost revenue and cut costs. Despite having the account perform well for several years, lender fatigue was rapidly increasing towards exiting.

The Solution

- MorrisAnderson was engaged to immediately develop a short-term agreement with Lenders for liquidity and sufficient time to devise a feasible plan to regain compliance.
- Assessed forward contracts and developed analytics for recoupment of margin calls through continued performance of customer contracts.
- Identified and executed on opportunities to reduce fixed costs and defer cash-consuming asset purchases.
- Reviewed and recommended changes to hedging policies and procedures, assisted with implementing changes.
- Provided detailed financial projections in daily (10), weekly (13) and monthly (12/36) increments for cash flow and liquidity; rolling forward financial projections each week/month.
- On a daily basis, reviewed liquidity and borrowing base reporting; reported variance to weekly projections each week; reviewed and discussed results and projections with Lenders each week.

The Result

- The Plan develop by MorrisAnderson was accepted by the Lenders, providing the Company with liquidity and providing the Lenders with a feasible Plan to return to compliance.
- Actual results were consistent with the Plan, key assumptions were achieved. The Plan achieving its targets built confidence, convincing the Lenders to provide a longer duration agreement consistent with the Plan's timeline for regaining compliance – and ultimately a refinancing and exit at par.
- After four months of turnaround performance the Company was able to attract refinancing offers, with terms more favorable to its existing bank facility terms. Closing on the refinancing was achieved within 60 days of initiating due diligence. All parties were satisfied with the outcome.
- MorrisAnderson's efforts and robust financial forecasting tools contributed to the Company's improved and sustainable financial and operational performance. MA's efforts and advocacy regained Lenders' confidence in the Company which resulted in an orderly refinancing of the credit facility ahead of the Plan's timeline.

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TMA Turnaround Management Association®

Awards

TMA Turnaround Management Association®

2020 TMA Large Turnaround of the Year

Operational turnaround and subsequent sale of Midwest Paper Group

(Link to Video)

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About MorrisAnderson & Associates

MorrisAnderson is a market leader in financial and operational consulting. We work exclusively with companies who are either financially underperforming or are going through a dramatic change in business model, ownership, etc. Most often we work directly for companies, their Owners and their Boards but we also represent lenders and Bank Groups of financially distressed borrowers as well as Unsecured Creditor Committees in Chapter 11 cases.

Our service capabilities are very broad and designed to provide operationally and financially underperforming companies with assistance to improve financial performance, to turnaround money losing businesses, to restructure debt or to raise new capital, to sell companies as going concerns and to maximize value for those unfortunate companies that are no longer viable and must be liquidated.

Culturally we believe in a simple acronym which we refer to as COATS to describe our business philosophy and approach to project work. COATS stands for:

C – COMMUNICATIONS CONSISTENCY

We believe it is important to develop an objective view of a company and to share that view with both the company and its secured lender(s) so all parties are working from the same set of facts. We believe in developing financial projections that realistically but conservatively predict future financial results and layer in the effect of planned corrective actions on those predicted results. We believe in frequent and regular communications with both the company and the secured lender(s) to create a win-win approach.

O – OPERATIONAL EXCELLENCE

The MorrisAnderson senior team have all held C-level positions in industry as well as held interim management positions for numerous clients. We believe that operational excellence can only be achieved by managers who have significant “been there, done that” experience and our team has developed that operational excellence over many decades of work.

A – ACTION-ORIENTED

Although business analysis, planning and report writing are important consulting skills, the rubber really meets the road when you are taking action to implement either a business plan or a turnaround plan. We believe that what makes for a successful consultant is the ability to successfully implement action plans on time and as budgeted. This is an area where we focus and excel.

T – TRUSTED ADVISOR

Trust is a hard thing to earn especially in an emotional charged business situation where the stakes are huge for everyone. We work on developing one-on-one relationships with all key stakeholders when we work on a project. We believe that you need to invest time to understand what is most important to each key stakeholders and do the best you can to continually be mindful of that need. We have found that listening, absolute honesty and empathy are mandatory skills to make this happen.

S – SOLUTIONS FOCUSED

Finally we believe that all activity must be directed toward an overall goal. This is a solution the key stakeholders can all agree is the best outcome. We work hard to develop a common goal that all key stakeholders can agree on and then develop a plan to drive the company toward that mutually agreed solution.

COATS is what differentiates us. Drawing on over 35 years of deep expertise across a number of industry sectors, we help businesses find the best possible solution for difficult situations—quickly and honestly. Unlike consultants who simply give financial advice, we collaborate with management and other stakeholders to create a comprehensive action plan that addresses immediate challenges and moves your business forward.