

“restructuring in a building industry slowdown”

Many smaller and medium-sized builders have developed severe cash flow problems over the past twelve months, but could regain a solid footing if they act quickly, writes **Malachy Mitchell**, Managing Director of debt restructuring specialists Farrelly & Mitchell.

The eight elements of a restructuring plan include steps to deal with trade creditors; the Revenue Commissioners; hire-purchase and leasing firms; staff costs; unfinished projects; banks; house sales; and potential investors. Every element of such a plan will require the co-operation of your bank, so make sure that you have a professional plan and seasoned negotiator on your side before you approach them.

Trade creditors

Your business cannot function if you do not have a working relationship with your suppliers. Your first step should be to draw up and reconcile your entire debt schedule, ranking your payables in terms of age, size and importance. It's important to agree a repayment schedule with your suppliers in person and to bring a financial advisor to the meeting, to underline your commitment to pay. The key thing is to under-promise and over-deliver on your promises, because you will need to work with these suppliers in the future.

Revenue commissioners

When you're under pressure, it is tempting to use money owed to the exchequer to resolve short-term cash flow issues. We've seen cases where builders fell behind on their VAT payments for one or two periods and were quickly called to account. In such situations, it's important to meet the Revenue Commissioners to agree a payment plan.

Hire purchase and leasing firms

There is no sense in making lease payments on idle plant and machinery, when equipment can be rented by the day to satisfy requirements. Unfortunately, it's not simply the

case that you can return your excess machinery pushing the keys under the leasing company's door. The contract conditions need to be legally examined to see how it can be terminated. We've seen some cases where the bank is reluctant to assist in the terminating the cost of the leases, because they have links to the builder's bank.

Staff

Wages and salaries account for the largest proportion of a company's costs. When the level of building activity falls, it's important to cut staff costs immediately, despite natural feelings of loyalty to staff. However, it's important to take legal advice before making staff redundant, because of the employer's statutory obligations and the possibility that some of the layoffs may be seen as discriminatory.

Partially completed deals

Part of the reason why building has continued, despite the fall in demand for houses, is the need to get unfinished projects to a state of completion. However, there are some projects that should be halted immediately, even if that means incurring exit penalties. Any withdrawal should be negotiated, since a contentious withdrawal is not in the interest of any party.

The banks

No restructuring plan is viable without the co-operation of the banks. The bad news is that the banks are reluctant to lend additional funds and are intent on putting an end to interest and principal roll-up arrangements. The good news is that they understand the state of the industry and are anxious to accommodate well-prepared and

viable restructuring plans.

Selling stock

Price reductions are one of the unfortunate measures required to sell houses in these times, but these are only the first step. It is important to re-motivate estate agents, by providing additional incentives to sell in a difficult market. Their efforts should be co-ordinated with advertising and PR campaigns, locally and nationally.

Private equity

Another restructuring option is to raise private investment funding, either by selling a share in the business, raising a private loan, or a combination of both. These investors will expect a high return over a feasible and definable period. Although this is an attractive option, it is not an option for everybody and such a deal would need to be carefully and professionally negotiated.

At the end of the restructuring process, your business should be on a solid financial footing. Monthly cash out-goings should be aligned with income and you should have realistic sales, debtor and income targets. It should also provide you with peace of mind and put you in a position where you can sell houses under existing market conditions and seek new opportunities for your business.

Malachy Mitchell is the managing director of Farrelly & Mitchell, which specialises in debt and equity structuring for the construction and SME sector. ■



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