DODGING A BULLET

Rebuilding a leading software company from the ground up

Four Bells Lead: Denis Quaintance   Assignment Duration: 7 years (so far)

Executive Overview:

The company was part of a group of family owned businesses that were all engaged in textile related industries. It had been operating for more than thirty years with a well-established global brand and was regarded as something of an industry pioneer. Historically the various businesses periodical additional working capital requirements had been sourced through the liquidation of various assets of the family owned property portfolio. Once this had been exhausted, it became crucial that the companies become self-supporting.

By working closely with the shareholders, Four Bells Advisory was able to rationalize and dispose of the non-performing peripheral business assets and focus on re-building the software company to take advantage of its deep brand value and market leading IP.

The company is now debt free, profitable, restored to its position as the global market leader and growing revenues strongly. Four Bells provides ongoing stewardship of the business with Four Bells Principals Denis Quaintance as Chief Executive and a Board Director, Bruce Lyman as a Non-executive Director and David Bell as Chairman of the company.

The Story:

On initial engagement it quickly became apparent that the group was in severe financial crisis with as little as two weeks remaining cash available. The immediate task was to raise adequate funding to gain enough time to review the various entities and construct a recovery plan. This was achieved by raising a small short-term loan in conjunction with an aggressive worldwide software sales campaign which enabled the group to raise sufficient cash to pass the solvency test and continue trading.

The detailed review un-earthed a multitude of issues that were extremely challenging for the Directors. Staff superannuation was in arrears by more than a year, PAYG tax deductions were months overdue and payroll tax was unpaid. There was a large debt to an international software partner and a significant unsecured loan from an unsuspecting staff member that the company had little prospect of being able to repay. As is sometimes the case with private companies, there was also a strong emotional attachment to the series of businesses forming the group which was not matched to their financial viability. The companies were each at a different stage of evolution, requiring different management and funding approaches in each instance.

The first company was a mature business with prominent brand value but had consistently lost money for each of the past five years and had no credible plan for improvement. Four Bells negotiated a management buyout to eliminate the cash drain.

The second entity was a start-up internet-based software business which required further risk funding. Four Bells negotiated a transaction which transferred resources into that entity in return for a minority shareholding and removed the funding obligation from the group.

The third business was a technology development with unique patents and while generating some revenue, was still in the early stages of proving itself. Four Bells separated this business from the more mature software company (see next) in order to mitigate business risk.

The fourth entity was a software company with a global reach and an established reputation as a leader in its field. Whilst recent management of the company had left it in a vulnerable financial state, the underlying footings and prospects for survival of this entity were evident.

In the background, the original ultimate holding company was in litigation relating to Directors tax indemnities that it had provided some years earlier. The holding company eventually lost the legal case, resulting in its entering receivership and its ultimate liquidation.

Through proper prior planning and a prudential approach to recovering the value of the commercial assets, the eventual demise of the holding company did not impact on implementation of the recovery plan of the surviving software business.

Among many unexpected events that occurred during the early years of Four Bells involvement, the most significant was the unprompted appearance of the NSW Office of State Revenue claiming a large debt for unpaid payroll tax which pre-dated our engagement by several years. Some years prior, a number of since defunct companies in the family's portfolio had failed to meet their payroll tax obligations and the OSR was able to attach the debt to our client on the basis that it had been under common ownership when the debt was incurred. There was no choice but to accept the liability, negotiate the best possible payment terms and trade our way out of this obligation.

While these structural issues were being addressed, the company and its team had to be managed through a storm of external crises facing the owners. One of the key management challenges was that as a result of the variety of business priorities within the businesses, the staff of the software company had become unsure of their mission and internal communication was poor.

Four Bells started by directly managing the executive team to establish a clear sense of purpose, implementing simple management practices. These included focused cash flow management, sales planning, staff incentives, budgeting, best practice software development and strong, honest communications with staff.

It has taken several years to restore the business to a robust and sustainable state without seeking external capital. Today the company generates a healthy profit, has no debt, no legacy obligations and a clean healthy balance sheet. It has implemented the right structures, disciplines, ethics and attitudes throughout the business. The software is now recognised as the "gold standard" worldwide and the go to market strategy adopted has enabled the company to grow both the sectors and geographies that it addresses.

Four Bells maintains an ongoing mandate from the owners to manage the business on their behalf.