



Welcome...

While the troubled economy is keeping turnaround professionals busy, the big turnaround the nation is hoping for hasn't arrived yet. Turnaround pros believe that businesses aren't getting the money they need to survive. And while many say now that they saw it coming all along, it's still hard to believe that, in a matter of weeks, two of the U.S.'s "Big Three" automakers would file for bankruptcy.



This issue's feature article describes one of our important services: working with banks to monitor troubled auto dealerships. Meanwhile, we can take comfort in the words I saw on a billboard the other day:

One thing to know about recessions... they always end.

Sincerely,
Tom Beane, *President CMC CIRA*

Lid on Credit Still Tight

Despite the federal government's priming of the lending pump, most turnaround professionals see scant evidence that troubled businesses are getting the financing needed to survive the recession.

Only 2 percent of respondents to the Turnaround Management Association's Annual Trend Watch Credit Poll think business credit is more available this year than in 2008. Almost half the respondents (46 percent) expect high-yield default rates to reach 12 to 15 percent this year, underscoring how much harder it is for companies to pay debt.

"The credit crunch is being exacerbated not only by the lack of availability of credit, but also by the lack of borrowing capacity of companies needing credit," said TMA Chairman Arthur Perkins.

At least seven in 10 said lenders are imposing more restrictive loan covenants and requiring greater conditions to be met before closing. Nearly 60 percent said lower ratios of loan to EBITDA or collateral are sought.

With the exception of asset-based lenders, at least 70 percent note less activity this year by a broad range of lenders. Just over half (54 percent) said asset-based lenders are less active, but that's nearly double last year's 28 percent. About 90 percent said the same of traditional senior lenders.

"Until [banks] know the extent of their write-offs and their capital base, they don't know how much they can lend," said James Shein, TMA Trend Watch Committee chairman.

SOURCE: Turnaround Management Association

Monitoring the Distressed Auto Dealer By Christopher Beane CMC

These are troubling times for auto dealers, no matter whether the make they sell is domestic or imported. Chrysler has announced that it is dropping 789 dealerships, cutting its network by 25 percent. By October of next year, General Motors will sever relationships with 1,100 of its dealerships, and it is requiring the dealers that remain in its network to sign new "participation agreements" that will set more stringent sales and inventory requirements.

Overall, new vehicles sales and leases are down sharply, from 17.1 million in 2007 to an estimate of between 9 million and 10 million this year. Sales and lease totals haven't been so low since 1991, when 12.3 million new vehicles were sold or leased. In this economy, only the most exceptional dealers are doing as well as they were two or three years ago.

Out of trust

Given the severe market pressures some dealers are facing, cash flow becomes a serious issue. Desperation may lead some dealers to use floor plan loan proceeds as a source of cash to fund operating losses – the classic out of trust scenario. Given the severe pressures dealers are facing, it's easy to understand why sales and inventory totals might not be reported accurately.

Lenders must have accurate financial information about the dealerships they service to protect their investment in the dealer's inventory. In this environment our firm has taken a leadership position by quickly finding the source of the problem and accurately reporting the current situation.

Typically, we are asked to get involved when lenders suspect the dealer is

- out of trust with respect to the floor plan;
- not providing accurate reporting;
- violating financial covenants;
- delaying its financial reports.

Our work inside the dealership provides lenders with critical information that helps in their decision-making.

When we take on an assignment, we place a consultant on site at the dealership for anywhere from one to five days a week or for as long as is needed for the lender to regain confidence in the reports provided by the dealership and to ensure that the issues have been resolved.

By being on site we build a rapport with the staff and gain valuable insights into the organization's overall operations. Because of our broad experience with troubled businesses in numerous industries, we have the background to assess management style and



experience, how relationships within the ownership group affect overall operation, procedural and operational deficiencies within the accounting department, and the quality of interaction among the finance, sales and accounting departments.

By entrenching ourselves within the dealership, Beane Associates becomes a valuable source of reliable information.

Developing daily flash reports detailing sales and projected payments to the vehicle floor plan and other critical information in a concise and easy to understand format builds trust and accountability.

Additionally while on-site we also take responsibility for:

- Retention and distribution of vehicle titles to ensure that the title is not released until the vehicle is paid for;
- Ensuring payroll and sales taxes are current;
- Monitoring loan covenants and forbearance stipulations;
- Coordinating and analyzing the work product generated by third-party car counting firms.

It's a matter of trust

Floor plan lending can be a very profitable and rewarding business for lenders. However, in times of distress the relatively large amounts of cash transactions involved in this type of lending can present unique challenges. At the end of the day, our experience has shown that quick and visible response to any potential out of trust situation is the best approach to ensuring that every car that is supposed to be sold, on the lot or in the showroom is accounted for.

For more information or comments please contact me at cjbeane@beaneassociates.com

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