Carter Clark
Financial Recovery

Briefing Sheet

Restructuring a business

What is business restructuring?

A failing business is not necessarily an immediate candidate for closure: future viability may be possible through restructuring that retains management/staff skills, the intrinsic value of the product or service on offer, and the investment of those associated with the firm. In an operational restructuring, business processes are examined and assessed for their contribution to company performance: changes are then introduced to maximise profitability and viability. The process is often accompanied by financial restructuring.

How does business restructuring work?

There are a number of approaches to restructuring: suitability will depend on circumstances and a restructuring operation may draw on more than one.

- Simplification: where a group structure has become too complex, usually as a result of mergers/ acquisitions or transfers between group companies, there is often scope to reduce wasted time managing the relationships and accounting for intercompany transactions. Restructuring will aim to identify tax efficiencies and undesirable tax liabilities. The process may involve Members' Voluntary Liquidations (MVLs) and Creditors' Voluntary Liquidations (CVLs) to remove surplus group companies.
- Demergers: a specific form of simplification where groups have diverse activities and few synergies and where public profile may be confusing for potential investors.
- Scheme of arrangement: an agreement between a company and either the holders of its securities or its creditors. The arrangement has to be approved by a court. Although used in various circumstances including takeovers, a scheme of arrangement can help to reach a compromise with creditors to keep a company trading.
- Debt-for-equity swaps: a creditor or a number of creditors agree to cancel some or all debt in exchange for equity in the business. Such deals often occur when creditors prefer to take control of the business as a going concern rather than force the company into a formal insolvency procedure.
- Workouts: used where additional or new management inputs are needed to bring a specific project to completion and, in doing so, avoid forced closure of the firm: property developments are a typical example. Refinancing may also be involved.

Executive summary

Where a failing business is seen as ultimately having future viability, a process of restructuring might be preferable to an insolvency procedure that risks total loss of the skills of the staff, the intrinsic value of the product or service on offer, and the investments of those associated with the firm. In an operational restructuring, business processes are examined and assessed for their contribution to company performance: changes are then introduced to maximise profitability and viability. The process is often accompanied by financial restructuring.

While business restructuring initially places additional demand on the company's financial and managerial resources, the payback period is normally short and can provide good return on capital invested.

Have a question?

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