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The irony of why an "operator" often generates higher liquidation proceeds than a "professional liquidator"…

By Don Bibeault, Harry Gray and Dick Lindenmuth

In the restructuring world, decisions pivot where the fulcrum rests on the balance between going-concern value and liquidation value. At the end of a disappointing and fatiguing investment journey, the one-fell-swoop approach to wholesale liquidation is often the reluctantly accepted final decision. At first blush, this is all you can do when you must throw in the towel; but, mustering patience for a modicum of extra pain can often yield a higher result for stakeholders. We believe a "controlled strategy" optimizes liquidations.

Within the context of liquidation strategy, there are several approaches: (a) using highly-incentivized and competent personnel rather than professional liquidators; (b) extracting higher prices through pockets of customer dependence; and, (c) selling to an entirely different end-user that values the product as "higher, better" use. Through blending these approaches, time and again a skilled operator can out perform a wholesale liquidator.

For instance, by striking innovative and win-win compensation incentives for selected employees to broker and barter the markets, you can often exceed the appraiser's assessed inventory value by multiples. An operator does this best. In these situations, a skilled manager may implement a break-even threshold higher than the deemed recovery value, and then a split between the company and employee for realized sale proceeds. In fact, in one engagement led by a member of our team, a liquidation firm estimated $0.25 gross- and $0.15 net-recovery on a $200 million inventory, yet our teammate incentivized key employees to sell above $0.40 by splitting the excess 50/50 above $0.40. Not only did this approach exceed book value, but the company also experienced negative leakage—the estate realized a higher and better outcome than wholesale liquidation. Of course, in a bankruptcy, the judge needs to understand the thresholds and support the motion.

The traditional application of forced liquidation or orderly liquidation analysis is often performed in an investment banking vacuum, which derives estimates from mean and median data. In reality, spreadsheets and guesstimates do not recognize savvy operator capabilities. Even hands-on asset-valuations are often done without deep-diving site visits and proper tire kicking. We have found that the best asset appraisals include a comprehensive on-site inspection of the assets, whether they be inventory, machinery or equipment, including the age and condition of the assets and obsolescence. Furthermore, a proper appraisal of inventory, machinery, equipment or any other asset type will look at the company's particular industry as well as the macro- and micro-economic factors affecting it, drawing upon current information from an extensive array of data sources such as local, state and national governmental agencies, trade associations, vendors and trade publications. Notwithstanding the benefit of such thoroughness, we will admit that you can get "pretty close" by simply looking at recent liquidations and auctions of assets similar to those being appraised to provide a clearer vision of real marketable value.

In the end, with an asset-rich balance sheet, a savvy operator is likely to deliver higher value to the estate than a wholesale approach to liquidation.