



# Operational Restructuring and Turnaround

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# About Tenzor Ltd.

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## Practice Overview

- In operation since 2009 — UK (2009–2016), Canada (2016–present)
- Specializes in receivables finance due diligence, operational due diligence for credit investors, distressed credit analysis, and corporate restructuring
- Project experience across UK, Europe, US, Ukraine, India, Russia, Turkey, Argentina, Hungary, Australasia, and more
- Prior institutional roles: Citigroup, Commerzbank, Dell Technologies

## What We Do

- End-to-end: from problem diagnosis to solution delivery
- Work alongside lenders, sponsors, and corporates in distress
- Managed COVID-19 working capital transitions for major global corporations

## Presenter Background

- CFA Charterholder; Sloan Fellow, London Business School
- Published in BCR, TRF News, Berne Union Yearbook, World Factoring Yearbook; quoted in WSJ & Bloomberg

# Why Turnaround?

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## Insolvency as an option

- Efficient when substantial assets exist at actual liquidation value and can be readily secured.

## Going concern recovery

- Keeping the company operational is typically the best recovery path — and not solely the lender's decision.

## Answering the existential question

- One must establish why the company exists and how it is linked to its broader economic environment.

## Supply chain is the real credit committee

- Banks make a one-off decision to lend. Supply chain partners grant credit every time they trade — their ongoing support is often the true lifeline.

# The Five "C's" of Turnaround

## Control

- Creditors seek to control assets and decision-making to protect value during the restructuring process.

## Capability

- The team — existing, new, or interim — must be capable of executing the plan under pressure.

## Credibility

- Both the plan and the team must command credibility with all stakeholders: lenders, suppliers, employees, customers.

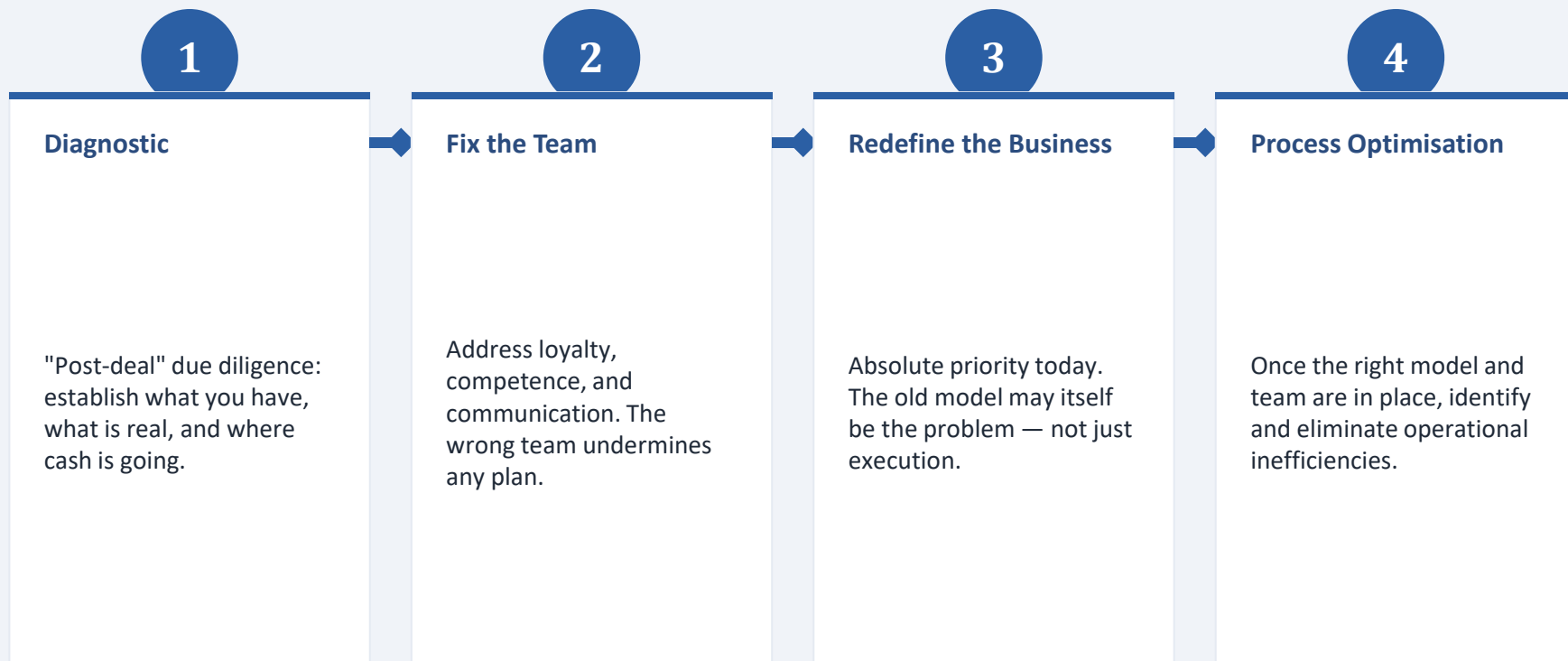
## Clarity

- Define the core business: how it fits within the industry structure, and whether the business model reflects that.

## Co-operation

- Lenders are one voice. Suppliers, customers, and distributors must also support the recovery — their co-operation is critical.

# Steps for a Distressed Turnaround



# Fixing the Team

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## Building loyalties

- Motivation goes beyond compensation — align incentives to what actually drives each key person.

## Informal networks

- Identify real decision-makers inside the organisation; formal org charts rarely tell the full story.

## Fraud & leakage

- Proactively identify kickbacks, information leaks, and outright fraud — common in distressed situations.

## Bringing in new talent

- Onboarding external specialists or interim managers without disrupting critical relationships.

## Culture shift

- Moving from a culture of survival-mode denial to honest assessment and proactive action.

## Remote leadership challenge

- Building cohesion and loyalty without regular face-to-face contact — now a permanent constraint.

# Industry Structure and the Supply Chain

## The Platform Economy Shift

- Global industry structures have changed massively: dominant firms today produce nowhere but sell everywhere.
- Platform companies know where clients are and what they want, and where producers are — they organise ordering and delivery without touching the product.
- Contract manufacturing, outsourcing, and multi-tier distribution are now the norm.
- Re-shoring pressures, geopolitical fragmentation, and trade policy volatility are reshaping supply chain strategies.

## Integrated & collaborative chains

- Turnarounds must account for dependencies across the entire chain, not just the distressed entity.

## Protectionism & disruption risk

- Supply chain redesign is now a core part of most restructurings — the old configuration may be untenable.

## Leverage points

- Identify which chain participants lose most if the company disappears — their fear of loss can become rescue capital.

# Supply Chain — Distribution of Risk and Reward



← Upstream (components & manufacturing)

Downstream (distribution & demand) →

## Who holds risk?

- Map where credit risk concentrates — at the OEM, the distributor, or the end customer?

## Who finances?

- Is the company acting as a bank, providing working capital through extended terms it cannot sustain?

## Shortcut risk

- Who could bypass the company in the chain, and what would be the consequences for recovery value?

## Rescue incentives

- Who loses the most if the company disappears? Turn their fear of loss into a rescue contribution.

# Working Capital — A Good Starting Point

## Accounts Receivable

- Most distressed company problems first manifest in working capital (A/R, Inventory, A/P).
- Aged debtor analysis vs. sales: Are receivables real? Is aging accurate? Are delays credit- or dispute-driven?
- A sale converts inventory to A/R and records a profit — but did it push the problem downstream, cause channel overstocking, or produce uncollectable receivables?
- Is there genuine end-user demand underpinning those sales?

## Key Diagnostic Red Flags

- Receivables growing faster than revenues
- Heavy concentration in a few large debtors
- Short-dated invoices being rolled or extended
- Sales team bypassing credit approval
- Revenue recorded before goods shipped or accepted
- Discrepancy between A/R ledger and confirmations

# Working Capital — Accounts Payable

## Short payment terms

- Loss of terms signals supplier doubt about creditworthiness. Restoring terms is a key early milestone.

## Extended terms

- Long payment terms can look like strength — but are they sustainable? Is the company dependent on a few tolerant suppliers?

## Overdues & enforcement risk

- Are suppliers continuing to supply despite overdues? Supplier stop-supply is often the immediate trigger of insolvency.

## Post-deal cash outflow

- A major underestimated risk: suppliers who have been extending credit will demand payment post-acquisition.

*Credit management is one of the best information sources about real problems — late payments reveal quality, logistics, and systems issues that management tends to downplay.*

# Working Capital — Inventory

## Inventory Composition

- Clearly distinguish: finished goods / components / work-in-progress.
- Obsolescence: components for discontinued models may be perfectly functional but utterly worthless.
- Is there an active process for managing slow-moving and excess inventory?

## The Ratio Trap

- Averages conceal problems. Scrutinise the composition behind the metric:
- "Good" DSO can mask a mix of prepayments and massive overdues
- "Good" DIO can be a pile of useless stock alongside critical shortages
- "Good" DPO can combine pre-paid suppliers with ones already pursuing legal action
- Ratios are a starting point — never a conclusion

# CAPEX and Development Costs — The EBITDA Trap

## EBITDA incentivises underinvestment

- Management and lenders focused on EBITDA multiples create a structural bias toward deferring maintenance and CAPEX.

## Deferred CAPEX is future cost

- A company can run near-zero CAPEX for a period — but this accumulates a growing deferred cost that will eventually crystallise.

## R&D cuts damage future cash flows

- Eliminating R&D improves near-term P&L but destroys the product pipeline and competitive position.

## People are often the asset

- In knowledge-intensive businesses, headcount reductions improve the income statement but destroy the value-creating asset.

## Industry buyer overconfidence

- Strategic acquirers frequently overestimate their ability to develop and support products without the original team.

## Death by cuts vs. exit strategy

- At some point, continued cuts destroy more value than an orderly exit. Recognising that inflection point is a core judgment call.

# Redesigning the Model — Traditional Distribution



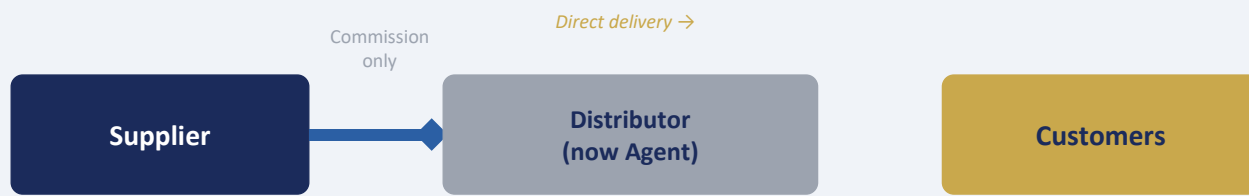
## Distributor provides:

- Marketing / Sales
- Logistics & Service
- Working Capital Finance?

## Key Financing Questions

- Credit insurance on distributor exposure?
- Factoring or securitisation of A/R?
- Appropriate credit limit per distributor?
- Concentration risk at distributor level
- Customer credit risk (where distributor has thin capital)
- How to finance receivables in emerging markets?

# Redesigning the Model — Direct-to-Customer



## Agent provides:

- Marketing / Sales
- Logistics & Service
- Collections support
- Performance risk mitigation

## Advantages

- Dramatically lower working capital needs
- Diversified credit risk — direct to end customers
- Lower concentration exposure
- Easier to obtain credit insurance
- Invoice discounting / factoring now feasible
- Single vs. multi-tier: which fits the market?

# The Rise of Asset-Based Lending (ABL)

## Cash-flow lending limitations

EBITDA is far more volatile for many businesses today, reducing multiples and making cash-flow lending unavailable in sectors that previously relied on it.

## ABL is filling the gap

Lending against assets is growing, especially where collateral value can be determined and monitored using modern data tools.

## Shorter-term assets are more lendable

Illiquid long-term assets are difficult to lend against — receivables and inventory are more tractable but require proper operational analysis.

## "New Financial Engineering"

Structuring receivables, supply chain finance, and credit insurance to reduce transaction risk — increasingly relevant in distressed contexts.

## ABL requires operational understanding

Unlike cash-flow lending, ABL lenders must understand the operations behind the asset: receivable quality, inventory mix, collections processes.

# Supply Chain and Turnaround Financing

## The supplier is a de-facto lender

- Suppliers extending payment terms to a distressed company are, in effect, providing credit — often the only or primary source of operational funding.

## Buyer-led early payment as rescue capital

- Buyers can inject cash into a distressed supplier through accelerated payment without incurring credit risk, provided the supplier has performed.

## Alternative to DIP financing

- This mechanism can provide working capital to a distressed company without the legal complications of debtor-in-possession financing.

## Reverse factoring / SCF programme

- Formalising this into a programme creates a structured, auditable mechanism that can be scaled quickly if anchor buyers are willing to participate.

# Key Takeaways for Turnaround Practitioners

1

**Supply chains are existential**

Map the full chain before forming a view on viability. The distressed entity may be less important than the ecosystem around it.

2

**Business models must change**

Restructuring is rarely just about cutting costs. The underlying model must be scrutinised — often the model itself is the problem.

3

**Finance providers lag reality**

Regulatory constraints and outdated risk models leave lenders ill-equipped. Creativity and education are necessary.

4

**Liquidity buys time — not solutions**

Emergency funding stabilises the situation, but the end game must be defined early. Liquidity without a viable plan merely delays the inevitable.



# Thank You

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