



# You Just Lost Your Biggest Client: Now What?

**Discover how three different businesses survived after losing a major account. There were some creative financing solutions involved—such as leveraging current assets like real estate and accounts receivables—all thanks to some quick thinking and fast action.**

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Do you have a client that accounts for 40-60 percent of your monthly revenue? If so, you could be playing a dangerous game. What happens when and if that client goes elsewhere? Is your company prepared to survive in the short and long-term? As a business owner, these are questions you should always be asking yourself.

Having only one or a few large clients is a common peril among smaller firms and the pitfalls can be hard to avoid. Many firms begin with one significant client and their reliance only grows as that client prospers. GlassRatner has recently helped three such firms that each encountered financial distress with the loss of their primary key account and crafted unique financing solutions for each.

## Case 1: AdCo

AdCo, an advertising and marketing company, lost 60 percent of its revenues when its largest customer cancelled a contract without notice. Their infrastructure was built for higher volumes and they could not downsize fast enough to avoid losses. Their bank placed them in Special Loans with \$3 million owing. To shore up its lending position, the bank increased its first mortgage on AdCo's commercial real estate to \$3 million (from \$750,000). The other primary other asset for lending purposes was accounts receivable, for which the bank already had a general security agreement (GSA) on all assets. The bank froze the operating line such that availability could only come from the collection of outstanding accounts, with no advances for new accounts. This led to an immediate cash shortfall.

## Case 2: ManuCo

ManuCo was a 30-year-old family-owned manufacturing company with 40 percent of its revenues tied to one contract. When the contract wasn't renewed, ManuCo could not adjust fast enough. Ultimately a Division 1 Proposal to unsecured creditors was accepted and the company was given six months to pay out CRA withholding obligations of \$300,000. Dividend payments under the Proposal were to commence six months from acceptance of the Proposal and if the CRA obligations were not repaid within the six-months, the company would be placed into bankruptcy. ManuCo's primary assets for lending purposes were accounts receivable from small independent retailers, making it difficult for a lender to obtain credit information to adjudicate lending risk. And even though the accounts receivable were significantly more than the bank loan, the bank was not prepared to increase the line of credit to accommodate repayment of CRA obligations.

## Case 3: ConsumerCo

ConsumerCo was a second-generation family business that manufactured and distributed consumer electronics and lifestyle products in North America. Unfortunately, the company lost its distribution rights to a key product when the brand decided to go direct into the North American market. Their bank responded by placing ConsumerCo on a watch list with a request to source financing elsewhere. The bank had a \$3 million line of credit supported by accounts receivable and inventory, which they agreed to continue as long as the company met their margin requirements. The CFO of ConsumerCo was able to source a \$500,000 sub-debt facility from an alternative lender who took a second position on the assets behind the bank. While this should have given the company adequate time to implement its turnaround plan, the sub-debt lender itself went into receivership six months later and that the \$500,000 loan was called.

In the three cases above, the loss of a key customer brought an immediate shortfall in terms of revenue and working capital. Further, all three companies were also reliant on traditional bank financing, which generally requires positive cash flow, adequate debt service coverage and overall profitability. If these requirements are not met, less conventional financing may be needed.

## Tailored solutions in a very timely matter

In each scenario, GlassRatner had to act quickly to find operating capital from other sources. In the case of AdCo, the principal of the company owned a vacant residential lot, held as an investment, which we were able to mortgage for \$400,000 within 48 hours of the application. And because it was an alternative mortgage lender, we were able to secure the mortgage based on an appraised value only—with no debt service requirement. The proceeds provided the immediate cash flow requirements of the business until there were adequate account receivable collections. With the cash flow pressure lifted, the company was able to move forward with an orderly down-sizing. The land and building were sold within a six-month period, with the company moving to a smaller, leased premises. Ultimately, the bank was paid in full, from the sale proceeds of the building.

For ManuCo, GlassRatner was able to arrange a factor/asset-based lending solution. In addition to the company's accounts receivable that it could factor, it had purchase orders that could be used as collateral in the borrowing base. Though the combination of these assets was not quite sufficient to pay out both CRA and the bank, the same lender supplemented with a second mortgage on the principal's residence, providing adequate working capital.

To assist ConsumerCo, GlassRatner was engaged to source financing to take out the bank and the receiver for the sub-debt lender. We were able to source a \$3 million asset-based loan through an alternative lender using the accounts receivable and inventory as collateral to pay out the bank. We also sourced a second alternative lender who provided funds to repay the sub-debt on the basis of second and third mortgages on the principal's real estate. The real estate was subsequently sold, facilitating full repayment. Unique to this situation, the goal posts kept moving during the restructuring process, given all the moving parts. Ultimately, with our assistance, the company was able to survive numerous setbacks and return to viability.

## Similar crises – different financing sources

In each of the cases profiled, dependence on one revenue source turned out to be too high a risk to bear. And in times of crisis, unconventional and alternative lenders may provide the only solutions. They come in many shapes and sizes, but few are household names. Finding and tapping the right sources for the situation—and doing it on a short timeline—calls for swift and definite action.

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