

Levels of financial distress

Underperforming Company

Early detection

Need to improve revenue and finances

Symptoms

- 1. Declining profitability
- 2. Decreasing market
- 3. Cash flow restrictions

Performance enhancement

Optimal results and profitability.

Early stage distress

Early stage financial distress: Need to reduce debt.

Symptoms

- 1. Declining revenue/turnover
- 2. Increasing costs/overheads
- 3. Loss of competitive edge

Informal turnaround

Effective out-of-court settlement.

Medium distress

Medium distress: Require a compromise between the company and its creditors.

Symptoms

- 1. Struggling to pay long term debt
- 2. Consolidation of debt
- 3. Debtors days extensions

Compromise

Good to restructure financial affairs with a proposal to the High Court.

High distress

High distress, but still viable: Enter business rescue to rehabilitate and restructure

Symptoms

- 1. Struggling to pay creditors/suppliers
- 2. Late submission or non-payment of SARS returns

Business rescue

Effective formal process. Return to a more stable and profitable entity.

Critical

Critical financial distress: Need to consider a structured wind-down

Symptoms

- 1. Behind on payments to the Landlord
- 2. Pending litigation by creditors

Structured wind-down (Liquidation)

Secondary objective of business rescue.

Good financial health

Higher return for creditors than liquidation

Informal procedure

Formal procedure