Corporate health group uses Deed of Company Arrangement to get its own fitness back on track

Pinnacle Corporate Health Group Pty Ltd launched its 'wellness' business more than 15 years ago. It had a turnover of around $5 million and employed 22 professional health and administration staff.

Having successfully opened its first 'flagship' wellness centre in the Melbourne CBD, the company's directors decided to expand into Sydney by opening three more sites. The company also ran corporate wellness centres for exclusive use by employees of two of Australia's major banks.

Though the Melbourne site had performed well from the start, the company found itself in financial hot water on a few fronts:

- The Sydney wellness centres were operating at a loss of approximately $20,000 per month, with no sign of improvement.
- The State Revenue Office had undertaken a payroll tax audit. This resulted in a significant payroll tax liability being raised against the company.
- The company was highly geared, including high-interest loans (40% p.a.) from non-bank lenders.
- The directors had exhausted all avenues of funding the company's losses from external sources.
- The company had insufficient working capital to continue to trade. This led to significant debts accumulating with the ATO.

Key issues

1. Tensions among the board and senior management prevented them from addressing the immediate and significant trading issues.
2. Financial information was not kept up-to-date and was inaccurate.
3. The board was not implementing the advice of the company's external accountant.
4. Head office staff administration costs were too high for the business to sustain.
5. The Sydney sites were poorly managed, with staff costs too high.
6. Any disruption in trading could risk the termination of contracts with the major banks.

The strategy

- The board appointed BRI Ferrier to act as the Voluntary Administrator and to explore restructure options.
- We immediately took control of the trading operations, established control procedures and undertook an assessment of the cash flow requirements of each site.
- We also assessed the effectiveness of the current management of the Sydney sites and the staffing costs relative to revenue.
- We contacted the two banks about all four sites, reassuring them that these sites would continue to operate under our control with no disruption.
- With the assistance of senior management and the external accountant, we replaced the Sydney manager and reduced staffing costs across the group.
- The new manager was offered an incentive to grow the revenue of the three Sydney sites.
- During the period of Voluntary Administration, we continued to trade at all four sites while formulating a proposal for a Deed of Company Arrangement with the board and management.

The outcome

- During the Voluntary Administration period, the company's trading performance significantly improved, resulting in a cash surplus.
- The board and management submitted a proposal for a Deed of Company Arrangement (DOCA). This was accepted by the company's creditors. The DOCA provided for a distribution to unsecured creditors and met of all employee entitlements, including a significant superannuation liability.
- Creditors received a better return than what was expected under Liquidation.
- During the period of the DOCA, the company was able to payout all high-interest loans from its trading profits. This significantly improved its cash flow.
- Following a management buy-out, the former directors are no longer managing the company.
- All employees maintained their employment.
- The company is now trading successfully and is in the process of expanding its operations.

Key contact

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Early intervention is often the key for a successful restructure of your business. We can assess your current situation and advise on a path forward to minimise further risk. We will develop and implement a restructuring strategy that is in the best interest of all stakeholders.

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