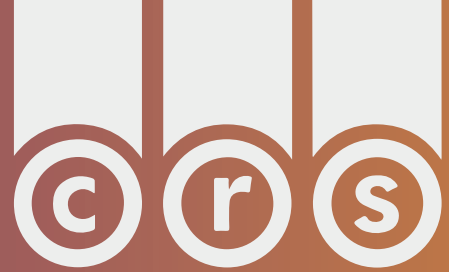


## Report Extract:

# QI Fabrication



Even prior to the former MD's illness, the arrival of the new Sales Director heralded the expansion of the company into larger contracts. The company, hitherto, had a relatively modest turnover (£2m) but was moving towards being a £5m turnover business.

What has not been taken into account, was the increased working capital required to manage such growth. Whilst we only superficially delved into the costing aspect of the business, we were told that the larger, newer, contracts are at a gross margin of between 10% - 15%, whereas previous work has a much better gross margin.

This means that the working capital provided by the lender, at 60% prepayment, falls woefully short of covering costs, resulting in an increased reliance on creditors and internal funds.

The serious illness of the former MD, who handles contract operations, has caused massive disruption and there had been no real communication between the company project managers who are purely contract focussed and accounts who were not totally up to date with sums owed.

The lack of management, cash and communication has caused project to miss deadlines, fail to deliver materials to site and the contracts that are current are all under pressure; some will incur serious LDs. Due to a lack of communication, poor management and over trading; resulting in poor performance on site... the company has regularly failed to achieve target on the delivery and erection of the projects and there are regular instances where the applications for payment have been considerably overstated due to forecasting the valuation and deductions for LAD's and delay and disruption.

There is also a great deal of older debt - being residual final account balances and retentions. that is not being chased as a lot of these are the former MD's relationships and no one is really taking the initiative for fear of upsetting the client. Consequently, whilst the company has a debtor ledger approaching £900k, only £350k could be considered anything like current. People are not paying and using any excuse not to do so.

There are creditor pressures and a substantial payment due to HMRC.

We understand that forecasts are being prepared to see if the company can trade through their problems but, in our opinion, they will need to turn old debt into cash quickly (not easy) or find new cash to support the cashflow. Even if they did it is questionable that they have the management structure to do this. The future does not look too bright!