

BIG MONEY: MISSION CRITICAL

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ALGONGROUP

Fix your capital structure NOW to survive **LONGTERM**

By Larry Comegys, The Algon Group

The good news is that 2008 is over and if you're still in business you're doing a lot of things right. Unfortunately we're in a recession and an improving new home market is still 18 to 36 months away. To survive the rough times ahead the only thing that matters now is your capital structure and the strategy to fix it.

During 2008 we talked to dozens of builders and developers. We're currently advising in the restructuring of over \$2 billion of assets and related debt for builders and developers. Our clients recognize that to survive they need a realistic business plan that includes a minimum 36 month cash flow, a plan to work if possible with their banks to re-price assets to current market values to be competitive, legal and financial advisors to assure their personal and business assets are protected, and a plan to find and use alternate non-bank financing.

You also need to include bankruptcy as an option and be prepared to use it. In fact bankruptcy may be the only option to get the attention of banks to allow your assets to be re-priced to competitive levels.

In September I wrote about the importance of preparing a bankruptcy plan. Many banks can't make decisions, many are being restructured, builder lines are being cut or pulled, special assets departments are managing loans, regulatory pressures on banks are growing, more community banks are going to fail, others will merge or restructure, and you are probably already in technical default on your loan covenants. Most important, you probably have a problem with your balance sheet because your assets are worth less than the loan.

What is the right strategy to fix your capital structure? First you need to answer honestly, can my company survive until the recovery?

If your answer is "no", then bankruptcy is the strategy that may achieve the best outcome possible.

If your answer is "yes" then you must already have the cash and resources to fund the next 36 months and your land and assets are competitively priced to today's market, making you part of a small and fortunate home-builder elite.

If your answer is "not sure" then you need a strategy that includes bankruptcy. If your debt is non-recourse and your assets are overvalued based on current market conditions you should be considering bankruptcy, an action that can position you to become a long-term industry success story. Even if your debt is recourse as long as your personal assets are protected Chapter 11 is a solid strategy.

In any case you need to implement a plan that has realistically evaluated every part of your business and included professional legal and financial advisors in the process to assure that you, your family and personal assets are protected.

The purpose of a strategy to fix your capital structure is to allow you to compete in the future by giving access to capital.

This is critical because we don't believe equity or debt financing will be readily available to builders except for new projects or old ones that have been re-priced.

The builders in business at the start of the recovery will be the ones with assets competitively priced to the market, have cash and access to cash to take advantage of the land, lot and other opportunities that will be available. Many of the builders that will be operating will have restructured or formed new companies out of bankruptcy. Debt and equity capital will be available to the proven builders and operators who have dealt with their banks and aren't burdened by old assets at old valuations.

Those that have assets at old valuations will find it hard to compete and attract capital. That is why implementing a strategy to fix your capital structure is the most important thing you can do now.



Larry Comegys is a managing director of the Algon Group. He has over 25 years in the industry. Over the past 15 years he has served as President of Pulte Homes, Florida Region; President and COO of Jim Walter Homebuilding Group; and President of Meritage Homes, Florida Region. He holds an MBA from the Wharton School of the University of Pennsylvania and a BA from Drew University. He is a Full Member of the Urban Land Institute, serving on the Residential Council. For more information, visit www.algongroup.com