

# CASE STUDY



## **Alfred Ellis & Sons Limited** **Alloy Foundry and Precision Engineering**

Alfred Ellis & Sons started life in 1850 and is part of Wakefield's Industrial Heritage. In the 1930/40's, it manufactured Davy Lamps for the Yorkshire mining industry. By the time of the millennium, it was converting scrap alloys into high precision marine valves for the Astute class nuclear submarines.

### **Executive Summary**

Shareholder control had recently changed and a new MD appointed. The business had experienced a trading dip and embarked on a high value engineering supply contract. The new business win was considered a "recovery play" and consumed a significant proportion of the company's manufacturing capacity on products not previously produced.

### **Challenges**

- MD on long-term sick leave
- Cash position very stressed
- A recent history of losses
- Unreported bad debts
- Lack of financial management
- No contract funding in place
- Weak balance sheet
- FX exposure
- Raw material constraints
- Restricted invoice discounting

## **Managing a high-value overseas contract in a financially stressed business**

### **Result and Outcomes**

- ✓ The contract could not be funded properly due to restrictions on invoice assignment to third parties
- ✓ 50% of the contract re-negotiated across to a German competitor (who had originally tendered). Should have been split originally
- ✓ High scrap and rework eliminating thin margins (no profit contribution)
- ✓ FX and raw material price volatility
- ✓ Cash managed through the contract period
- ✓ Contract recosted with new financial cost information indicating nil net return
- ✓ Attempts made to refinance and a fire trade sale as options limited
- ✓ Big 4 accountancy firm introduced to assess banks position (significant debt level)
- ✓ Contract delivered, losses exacerbated and insolvency process implemented

### **Summary**

- ✚ The MD (previously Technical Director) remained on LTSL throughout
- ✚ The business embarked on a damaging loss-making contract that detracted from core customer base and service offering
- ✚ A CVA and fire sale pursued unsuccessfully
- ✚ The business was forced into Administration
- ✚ Had the business appointed strong financial management skills sooner the negative outcome would have been avoided
- ✚ The right management skill mix was missing at board level risk-commercials-financing-balanced decision making outcomes