

Ventor LLC White Paper
Wholesale Distributor-Sportswear

I. Introduction.

A Sportswear company (code name Star Corp.) with revenue of about \$100 million, found that its profitability, liquidity and covenant ratios had declined dramatically in the face of changing competition brought about by manufacturers' incentives. Many industry participants were selling product at below cost in the expectation that they could win one of the lucrative incentives awarded annually by these manufacturers.

Star Corp. had in fact won multi-million dollar incentives in previous years. However, it had missed one year, which required that the company live with the actual costs of distribution and customer profitability, rather than an external payment.

II. Chronology.

Ventor LLC was referred by a close advisor to the CEO, and was charged with providing a 30-day assessment that included the findings from Ventor's signature methodology, "Core Products/ Core Customers." These findings, along with other due diligence deliverables include operating and financial analyses that lead to profitability; cash flow recommendations; and a detailed set of financial projections that embody those recommendations. However, the company's bank (LaSalle Business Credit) requested a meeting in week Two. Ventor therefore provided the bulk of the engagement deliverables to meet that date.

III. Slide Set.

The following are excerpts from slides presented at that initial bank meeting. The projections themselves had been forwarded separately.

a. The meeting was governed by this agenda:

Suggested Agenda for LaSalle Meeting

- Simson engagement/Scope
- What We Found
- Warehouse-Level Analysis/Conclusions
- Inventory
- Customer Analysis/Conclusions
- What has been Done
- Discussion of Projections
- Conclusions and Next Steps



b. ...Followed by a simple Executive Summary in three parts:

What Do We Have?

Pluses

- +Demand
- +Warehouse ops.
- +Profitable Customers
- +Vendor Backing
- +Strategic Locations
- +Sales, Systems managers

Minuses

- Accounting
- Capital
- Efficiency Opportunities



What We Found has Accounting at Root Level...

- Few Written Procedures
- No Transaction History ✓
- "Pool" of accounting tasks causes errors
- Need for Collection effort ✓

Requires Professional Accounting



...Resulting in Sudden Reversal

- Some Vendor Cutoff/Confusion
- Out of stock jumps to 15% from more-normal 3%
- Slow Cash Flow



c. Distribution Center Profitability.

The meeting turned to the crux of the matter: not only why they company had failed to determine the problems, as outlined in the above, but also the core profitability issues. In this case, the contribution analysis showed that two distribution centers were not viable:

Two Warehouses Are Not Viable

	Nearest 13 Weeks	Ship-From 13 Weeks	Lease	Adj Site Personnel	Labor Overhead	Lost Profit In Returns	Rebate Payat	Profit/(Loss)	
								Nearest	Ship-From
Verona	612,562	553,196	67,059	263,960	39,594	16,596	49,245	176,097	116,742
KS	520,302	379,372	59,976	146,490	21,974	11,381	13,787	(265,714)	(25,795)
La	165,961	105,792	58,500	135,170	20,276	3,174	836	(51,996)	(112,165)
OH	133,900	161,240	52,398	132,320	19,848	4,837	3,167	(78,670)	(51,330)
								342,146	79,092
								256,461	256,461
								38,489.20	38,489.20
								17,215	(215,899)
								LS	163,432
								ED	15,493
								CC	13,788
								AA	40,401
								Profit/Loss	17,215

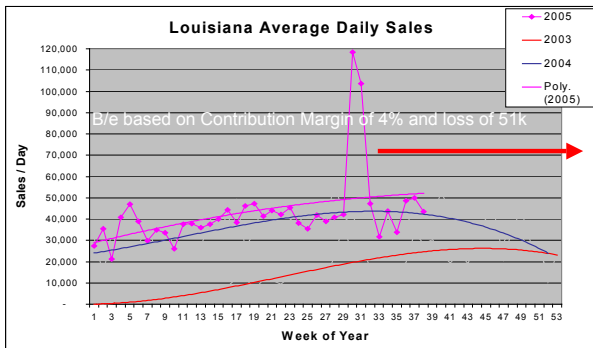
Louisiana Was Closed 10/10, Ohio to Follow



d. Statistical Analysis of Sales and Break Even.

Ventor anticipated a key question: how sure are we that these centers should be closed? In response, we presented an analysis of each center, superimposing a least-squares forecast of sales against breakevens. As the following showed, some centers had no chance of ever returning to profitability:

Louisiana Decision based on Profits



e. Improving Stock-Outs.

We showed the effects on inventory:

Closing Warehouses Will Improve In-Stock Position

Out of Stock (9/22):

Verona	12.3%	with \$1.3 million (A)
Kansas	22.7%	2.2
Ohio	16.8%	3.3
Louisiana	12.3%	1.4

Cash need to get to 95%: \$1.98 million

But Closing LA and OH gets Stardust to 95% today!

(A) Non-Gildan only



f. Customer Profitability Analysis

We then performed our customer profitability analysis, showing that the company could migrate to profitable customers:

Customer Profitability is Widely Variable

Shipped	(All)		
Warehouse	(All)		
Warehouse2	(All)		
State	(All)		

Sum of Profit	Total
PRO AD SPEC	(7,892)
STARBUST CORPORATION	(6,279)
ALL AMERICAN TEES	(4,459)
GRADUATE SALES	(1,676)
LEE WAYNE COMPANY	(1,484)
S & P SPECIALTIES	(1,384)
MADISON TOP	(891)
ADD SALES	(703)
JJ JINKLEHEIMER	(666)
AMERICAN IDENTITY	(611)
RELAY GEAR	(609)
MUSCIE CITY MERCHANDISE	(575)
FALX PAS PRINTS	(570)
CI APPAREL	(562)
RIFLE JUNCTION	(544)
LIVING EPISTLES	(508)
BUSINESS BASICS	(440)
EAGLE PRODUCTS INC.	(389)
PRO K GRAPHICS	(332)
GENERAL ADVERTISING PRDCT	(316)
BAYOU APPAREL	(315)
BUFFALO SPECIALTIES	(314)
FORT WORTH SCREEN PRINT	(285)
FRANCIS COMMUNICATIONS	(263)

SIRES SCREENPRINTING, INC	1,073
IMPRINTED SPORTSWEAR	1,120
DENNIS CATES ADVERTISING	1,140
RAMBOW, INC.	1,172
TAYLOR IMPRINTED SPORTSWEAR	1,179
CORPORATE SHOP, THE	1,199
HAND DONE T-SHIRTS	1,232
HIDDEN BAY GRAPHICS	1,328
WILD IMPACT MARKETING	1,429
SILK SCREENING BY WILL	1,665
COWGIRL TUFF CO	1,824
WEBKO INC	2,022
TOP PROMOTIONS	2,120
ET GRAPHICS	2,363
CORPORATE EXPRESS	2,364
COLLEGIATE MARKETING SERV	2,678
DIRECT IMPULSE DESIGNS	3,140
IT'S GREEK TO ME	3,306
ROYAL T PROMOTIONS, INC.	3,636
PRAIRIE MOUNTAIN SCREEN	3,901
EMPLOYEEES-VERONA	4,242
OARSMAN SPORTSWEAR	5,236
SPORTS CONNECTION INC	5,521
LAKESHIRTS	5,807
BAUDIER PRINTWEAR	14,068
CROWN PRINCE	23,603



g. Recap.

We concluded with a request to the bank for covenant relaxation, confirmatory data, projection assumptions and conclusions and updates on prospects for other transactions that would bring in additional liquidity (these slides not shown). We also included a recap.