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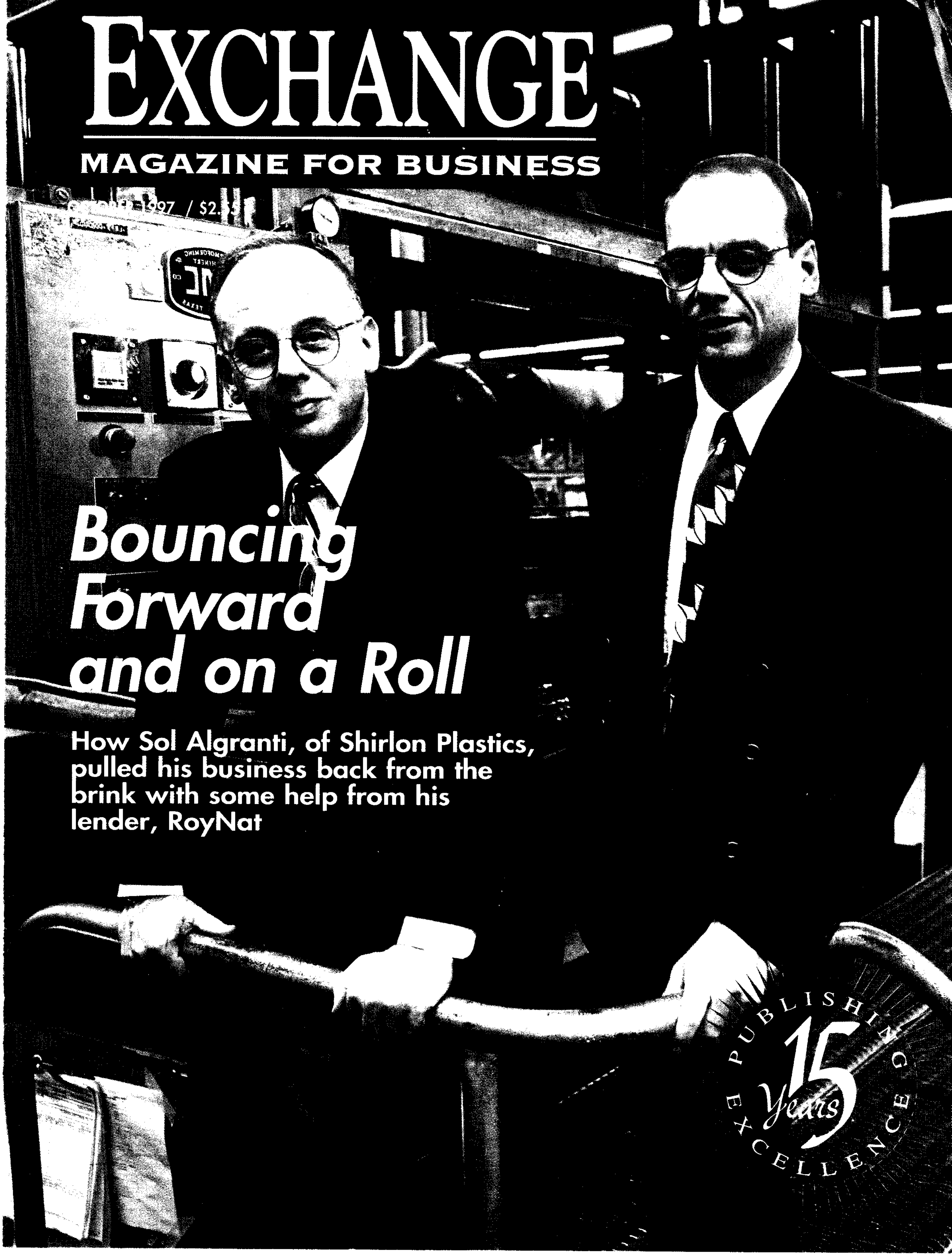

Bouncing Forward and on a Roll

How Sol Algranti, of Shirlon Plastics, pulled his business back from the brink with some help from his lender, RoyNat

PUBLISHING 15 Years EXCELLENCE

BOUNCING FORWARD

Shirlon Plastics owner-manager, Sol Algranti

Some business stories are gripping, real-life dramas which rival the best Hollywood scripts. An entrepreneur dreams of building a new enterprise and risks all. An intense period of struggle follows. The young business is nurtured by hard work and sustained by optimism. There is a glimpse of success as it moves tentatively towards maturity. Then bad luck and economic misfortune drive the fledgling to the brink. The entrepreneur struggles, with courage and determination. The enterprise is slowly and painfully pulled back from the edge. Looming failure turns into great success!

Too overblown? Too dramatic?

Sol Algranti wouldn't agree. For this extraordinary entrepreneur that scenario was all too real. In 1989, Algranti bought Shirlon Plastics, an established Cambridge company with annual sales of $2.5 million. Shirlon manufactured plastic products such as bathtubs, shower stalls and sinks. Its major niche was the Canadian recreational vehicle (RV) industry. To acquire Shirlon Plastics, Algranti put together a financing package entailing a secured term loan, subordinated debt and very little of his own money. In financial industry parlance this is known as a leveraged buyout.

Shortly after Algranti bought Shirlon, three factors combined to create a situation that would have disturbed the most optimistic of business owners. The 1990 recession hit, and RV sales went into a freefall. The free trade agreement came into effect and American RV manufacturers began to sell directly into the Canadian market. Finally, the price of resins used in making components dropped by 40 percent, forcing Shirlon to lower prices and decrease profit margins in order to remain competitive. All this against a framework of high company debt.

During this time, some Canadian RV manufacturers succumbed to the pressure and went out of business. Shirlon's sales of RV components dropped 50 percent during 1990-91 as a direct result of U.S. imports and declining consumer demand. Algranti would have been forgiven if he had decided to walk away and fight again another day. But that was not his way. He would fight for his company!

Algranti decided upon a three-part strategy:

- Negotiate with his lender, RoyNat Inc. to ease the debt burden.
- Turn the tables on his U.S. competitors by becoming a supplier to U.S. based RV manufacturers.
- Diversify the product line

"I started with the lender," Algranti says, "because if I couldn't manage the debt load, nothing else would work. If RoyNat took a hard line, I was finished." Through 1990, 1991 and into '92, meetings with the lender were frequent. The immediate solution involved deferring bonus and principal payments on the subordinate debt, which had an immediate impact on cash flow. In return, RoyNat was given preferred shares and the option of acquiring 20 percent of Shirlon.

Algranti says his initial decision to be up front about his problems while, at the same time, laying out a plan to turn his company around, was a key to his eventual success. "I have to add, though, that RoyNat, which specializes in small and medium size businesses, is a different kind of lender," Algranti recalled. "We had disagreements, but all through that difficult period I always

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had the feeling that they were honestly searching for solutions and would only pull the plug as a last resort."

As the recession deepened and others reefed in their sails to ride out the storm, Algranti invested heavily in research and development. Existing products were refined. New products were prepared for new markets and new customers. Shirlon, which had drawn 85 percent of its sales from the faltering RV industry, developed a diverse range of consumer goods that included garden and lawn products, picnic tables, recycling and waste containers (now 25 percent of the business), tub surrounds and storage boxes.

To bolster the anemic RV business, he focused his marketing efforts on American manufacturers and simultaneously prepared for a rebound in the Canadian market as the recession waned.

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In 1994, Shirlon made a major breakthrough. Algranti won a contract to supply components to an RV manufacturing facility in Lindsay, Ontario, which was owned by California-based, Fleetwood Ltd., the largest RV manufacturer in the world. The success of this relationship resulted in a second contract, in 1995, to supply Fleetwood facilities in the United States. Today, Shirlon's American RV component business is larger than the company's total RV business in 1989. Ample proof of a successful strategy.

Algranti got a second important break in 1994 when he won a contract from Bombardier to supply interior molded parts for transit trains being built at its Thunder Bay plant. It took six months to close the deal. Prior to and during the negotiations, he had invested heavily in Shirlon's plant operations and equipment in order to meet Bombardier's exacting quality standards for suppliers.

His commitment to Research and Development is evident. A gifted engineer, Algranti says: "I spend almost 70 percent of my time developing new products and refining old ones. I'm engaged in a constant search for an edge in quality, function and cost."

That edge is getting sharper all the time. In January of this year, Shirlon Plastics became one of the very few in its industry to achieve the ISO 9002 International Quality Standard. This achievement, the culmination of 14 months of intense work involving all employees, has "opened the door to a range of new sales opportunities in international markets, "says Algranti.

In 1996, Algranti believed he had repaired the damage of the recession, free trade and commodity prices and had turned the company around. He realized that the only remaining impediment to strong growth was his debt. "We were handcuffed by debt," he says, "and our lender had the key. A 5:1 debt/equity ratio was clearly a deterrent to investors, suppliers and customers alike." Algranti went back to the table for some tough negotiations with RoyNat. A restructuring was required to:

- Provide both Algranti and RoyNat with a reasonable opportunity for positive return on investment.
- Improve Shirlon's balance sheet ratios in order to obtain a higher operating line from the bank.
- Reduce debt servicing requirements.
- Enable the company to generate cash flow to fund future capital expenditures and improve working capital.

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Talks were protracted and difficult, but the end result met the criteria. RoyNat altered terms and conditions related to the subordinated loan and took a short-term, minority equity position in Shirlon Plastics. The total debt/equity ratio fell to 1.5:1. Shirlon's deleveraged balance sheet allowed Algranti to more than double his operating line, creating much needed capital for continuing investment in R&D and equipment upgrades.

Algranti says "RoyNat had absolutely no interest in control. They agreed to the restructuring to help the company, and it turned out to be a win-win situation." He has this advice for companies considering equity participation by a financial institution: "Flexibility, industry knowledge and confidence in management are all characteristics of good investors. And never take your eye off the question of control. The last thing a business owner wants is a financial institution meddling."

Today, Shirlon has 65 employees, is highly diversified and is poised for sustained growth. Company sales will hit $4.6 million in fiscal '97, and Algranti expects Shirlon to exceed the $5 million mark in 1998.