

Client Value Study

Genezen Healthcare, Inc.

Brief Overview

Genezen Healthcare, Inc., a \$40 million, private-equity company founded in 2002 to support intravenous (IV) biologics, served patients at 50 sites in seven states. Its turnkey programs allowed physicians to offer the comfort and convenience of in-office infusion while outsourcing management, financial and administrative tasks. Under a physician's direction, Genezen staff pre-qualified patients, procured drugs, administered infusions, billed and collected for services, provided follow-up care and tracked outcomes.

Genezen completed B-Round financing for \$3 million, and ramped up for a unique opportunity: a new IV drug to treat Multiple Sclerosis patients had just received FDA approval, and the manufacturer estimated a billion-dollar market within three years.

Situation

At first, all went well. Within a few weeks, Genezen was delivering almost 40% of all infusions of the new drug. Then, after less than four months, the drug was voluntarily withdrawn by its manufacturer. No one knew when—or if—it would be re-released.

"In a critical situation, Tatum clarified our financial situation and bought us 12 to 18 months to improve operations and pursue the best business options."

Michael G. Wallace, President and Chief Executive Officer, Genezen Healthcare, Inc.

The company's financial situation was exacerbated by other market conditions and the complex and unpredictable nature of healthcare reimbursement. Because billing rates vary by procedure/service code, region and doctors' office, and reimbursement varies with insurance plans, it was difficult for Genezen to accurately project accounts receivable. Furthermore, Genezen had to collect twice: once on behalf of doctors' offices from insurers and then from physicians. This, combined with Medicare's reductions of drug reimbursements and rising pharmaceutical costs, squeezed margins from all sides.

Why Tatum

Genezen released its CFO, and contacted Tatum, at the recommendation of its private equity group. In weeks, a part-time CFO with deep restructuring, financial and healthcare management expertise was in place.

"We didn't have six months to launch a search," explained Mike Wallace, Genezen President and CEO. "We needed someone with experience and leadership skills to immediately determine what our options were. Tatum delivered."

SITUATION

Genezen ramped up sales and operations for a major market opportunity that was recalled shortly after introduction. Due to complex accounting adjustments and market changes, the company's financial health was unclear, cash was being rapidly depleted, and sales were plummeting.

TATUM SERVICE

Tatum developed a comprehensive recapitalization plan, including a rolling 13-week cash history and budget forecast. By negotiating with suppliers and creditors, outsourcing accounts receivable and upgrading the closing process, Tatum helped stabilize the company and secure \$3 million in C-Round financing.

SITUATION

When reintroduction of the key drug dragged, Genezen's situation worsened. Tatum helped develop alternative business plans, including acquisition of a related in-home infusion company, but the private equity group pulled out, forcing Genezen into the zone of insolvency.

TATUM SERVICE

Tatum Executive Services:
Tatum immediately notified the Board and key creditors. Operating on cash reserved against this type scenario, Tatum helped pay off secured lenders and small unsecured lenders at 100%. Unsecured creditors were paid more than bankruptcy scenario would have allowed. Employees were given severance and offered for hire to clients, who also were offered support to continue operating their own in-office infusion services.

"When major market changes made our business model unsustainable, Tatum guided us in paying off secured creditors at 100% and unsecured creditors much more than they would have received in a bankruptcy settlement. We were able to provide a smooth transition for our employees and clients, and Tatum helped us manage it all with professional dignity and integrity." Michael G. Wallace, President and Chief Executive Officer, Genezen Healthcare, Inc.

Results

Tatum quickly determined the severity of the situation. B-Round financing had been spent, balance sheet reserves were less than required, and Genezen was operating at a cash burn rate of \$500,000/month. With payments well past 90 days, Genezen's primary pharmaceutical provider was threatening to stop shipment. Days Sales Outstanding (DSO) was over 90 days and growing. And although there was a \$5 million revolver in place, Genezen was unable to draw due to covenant and borrowing base issues.

Tatum created a comprehensive recapitalization plan including interim budget and rolling 13-week history, cash reporting and forecasting. To ensure an uninterrupted drug supply, Tatum secured a payment plan with the distributor. Loan default waivers were secured, and loan covenants renegotiated so the company could draw down on the revolver. The close process was revamped and billing and accounts receivable were outsourced to reduce DSO.

With no word on when its key drug would be re-released, Genezen cut its sales force and focused on organic growth. Reassured by positive momentum, Genezen completed a \$3 million C-Round equity infusion. In spite of Genezen's turnaround tactics, sales growth was slower than projections and accounts payable were

climbing. Management identified a complementary in-home infusion business for acquisition that would reduce dependence on re-introduction of the MS drug. Initially, investors supported the acquisition, but withdrew support one week before closing. With compressed margins from reduced reimbursements and rising drug costs, the business model was no longer sustainable, and Genezen entered the zone of insolvency.

Tatum immediately notified the Board of Directors and key creditors. While Genezen continued to operate on hoarded cash, the Tatum CFO negotiated an orderly, out-of-court liquidation plan including a retention plan for key employees. After commissioning an outside audit, the pharmaceutical supplier endorsed the plan. Negotiations with the private equity group resulted in elimination of a \$100,000 fee escrow and lower fees demanded by the secured lender.

Because the Tatum CFO and Genezen management acted quickly to negotiate a settlement, rather than file bankruptcy, they avoided high legal fees and effected positive outcomes for most stakeholders:

- The secured lender recovered 100% of principal plus expenses.
- Small, unsecured creditors received close to 100%.

- Pharmaceutical supplier received more than low-end forecasted recovery.
- Private equity opted to invest separately in home-equity infusion business identified by Genezen and absorbed cost of due diligence incurred by Genezen.
- Terminated employees received at least two weeks notice and out-placement support.

Clients were offered clinical training for nurses, training and procedure manuals to continue to service their clients.

"Tatum helped us pay off secured creditors at 100% and pay unsecured creditors much more than a bankruptcy settlement would have provided," concluded Wallace. "Tatum helped us transition clients and employees smoothly- and manage it all with professional dignity and integrity."



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