Navigating Financial and Operational Challenges—

Chief Restructuring Officer
Roundtable Discussion

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Mark Chesen and colleagues explain how a Chief Restructuring Officer (CRO) can help oilfield service companies navigate through financial and operational challenges.

When a company is facing operational or financial challenges, incumbent management may see the need to restructure or reorganize the company, but instead find themselves mired with day-to-day operational issues. For companies that need an executive leader with turnaround experience and crisis management resources to manage the demands of a restructuring process, engaging an interim CRO makes sense. The participants in the following roundtable discussion are seasoned professionals with a long history of leading companies in the oil and gas sector through successful turnarounds. The participants include John Boylan of EJC Ventures LP, Cary Grossman of Shoreline Capital Advisors Inc. and Jay Krasoff of Chiron Financial Group Inc.

Please give readers a general understanding of the role of a CRO. When would a company consider a CRO? What duties does a CRO perform?

John: As CRO, I typically enter the scene when a company is in financial distress or when a company lacks specific financial expertise, knowledge or experience on how to restructure or reorganize their company. Most companies simply do not know where to begin. My job and sole objective is to help navigate through the difficult and cumbersome process of bankruptcy and reorganization. CROs routinely handle these challenges and offer not only our expertise, but also a third-party perspective and new approaches to decision-making.

Cary: I agree with what John said and sometimes when I am brought into a company as a CRO it is because the company’s board, investors or lenders have lost confidence in management. Sometimes my role is to be there side-by-side with the incumbent management team to make objective decisions. In some cases, my job is to override the decisions of the management team if I believe they are not in the best interest of the company and its stakeholders.

Jay: Often a CRO is engaged when the cash flow of a company has gotten to the point that the company cannot pay its debt. Or perhaps, management has not been through a down cycle, restructuring or workout situation. Bringing in a CRO who has experience dealing with lenders, lessors, landlords and other constituents who are owed money is beneficial. Ideally, the CRO should be brought in as early as possible in the process but it doesn’t always happen that way. Even at later stages, CROs are able to effectuate restructures.

Cary: Most of my experience has been in situations where we were able to fix things outside of court. In a lot of the situations,
the management team has lost credibility with its lenders and, as the CRO I help them to reestablish credibility. The CRO assumes the role of communicator and, more importantly, bringing a realistic view to the current situation for all involved. Sometimes the incumbent management team cannot bring themselves to make the difficult decisions that need to be made such as right sizing the business and making reductions in the workforce. Or, they are unwilling to make the decisions quickly enough and the problems worsen. By waiting too long, companies burn through liquidity.

**John:** I have seen many management teams fail simply because they do not make critical decisions in a timely fashion. These teams seem to believe that if they could find that one answer to their problem, then everything else will just fall into place. As a result, they refrain from taking essential positions; continue to search for answers, eventually boxing themselves into a corner.

**Cary:** Sometimes a CRO can be interviewed by the board of directors or investors. In some cases, the CRO needs the approval from the committee of bondholders so CEOs should look for a CRO who can appeal to a lot of different constituencies.

**Is it too late in the current downturn to hire a CRO?**

**Cary:** No. It may get worse for oilfield service companies before it gets better, because the E&P companies have been living off of hedged oil prices for much of this down cycle. As the hedges roll off, there will be further pressure from E&P companies on oilfield service companies. Businesses that have struggled may find themselves going through a period of months before it gets better.

**John:** No matter where in the cycle, if a company hasn’t right-sized its balance sheet or refinanced its debt payments to meet the new reality, then it is missing an opportunity to reorganize. No matter where in the cycle, if a company hasn’t right-sized its balance sheet or refinanced its debt payments to meet the new reality, then it is missing an opportunity to reorganize. While the sooner the better, it is rarely too late to right size the organization, its balance sheet or to restructure to match the new environment. Regardless of timing, at some point, everything needs to be pared down and adapted, and this is the opportunity to do it.

**Cary:** Sometimes a CRO can convince a lender to agree to an out-of-court debt restructuring that the lender would not otherwise have agreed to with incumbent management. Companies need to resize their businesses to the point that they are not losing money. That can be extremely hard for an incumbent management team which may have already made significant cuts. A management team can certainly do a turnaround on their own but it typically takes an outsider to come in and make it happen fast enough and deep enough to allow the company to survive.

**Jay:** Often a lender, board of directors or investors will require

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whether the company has multiple locations are important because CEOs should want a professional with past experience dealing with facility closures, if that is necessary. Of course, industry experience and working with oilfield service companies is important too.

**John:** I agree with Cary—experience is very valuable. But, there is much more for the CEO to consider. The CEO should gauge the potential CRO’s personal-relationship style and communication skills, plus he/she should learn if the CRO’s reputation is in the restructuring industry. It is a small niche industry and the players have a certain way of doing things and working with each other. The CRO has a necessary role within the industry and may need to draw on those relationships. Tenacity is also an important characteristic for this position. More often than not, the
that a company engage a CRO to guide companies in making SG&A cuts. It may be part of a forbearance agreement or rescue financing to bring in a CRO.

Which oilfield service companies are best positioned for survival and what will their future strategy be?

**John:** The ones who are best positioned are those that have right sized themselves. The market may never return to pre-downturn levels and smart business leaders understand that.

**Cary:** Surviving involves so much more than cost cutting. The strategy should include eliminating lower margin products or services, or closing unprofitable locations. CEOs need to understand that no one is going to continue funding them to continue losing money. Therefore, the management team needs to make difficult decisions. I know how hard that can be for management teams.

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**ABOUT THE AUTHOR:** Mark E. Chesen is a founding partner and managing director of SSG Capital Advisors. He has completed over 100 investment banking transactions involving the sale, private placement or financial restructuring of middle market companies in North America and Europe.

**ABOUT THE ROUNDTABLE PARTICIPANTS:** John P. Boylan is a financial and management executive with over 20 years of experience in the upstream and service sectors of the energy industry. In 2008, Mr. Boylan founded EJC Ventures to provide financial and management consulting to companies engaged in oil and gas exploration and production in the Gulf of Mexico and Continental U.S.

Cary Grossman has more than 40 years of experience as a CPA, investment banker and senior executive. He has been involved in numerous bankruptcy and out-of-court restructuring situations over the past 15 years in a variety of industries including oilfield services, industrial distribution and metals recycling.

Jay Krasoff is a managing director of Chiron Financial Group, Inc., a Houston-based investment bank and SSG Capital Advisors strategic partner for the energy sector. He has over 30 years of investment banking experience and has spent most of his career advising clients in the energy industry on mergers, acquisitions, divestitures, restructurings and capital raises.

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