

Case Study: How an On-Site Inventory Inspection Generated a 3,500%+ ROI for a Lender

Background

A commercial lender held a senior-secured position against the assets of a failed borrower in the consumer durables manufacturing sector. Following default, the lender faced a familiar challenge: assessing the recoverable value of a complex inventory base comprised of finished goods, raw materials, and work-in-process (WIP). The borrower had ceased operations, and no updated reporting had been provided for months. Internal estimates based off a bid from an industry expert pegged recovery from the inventory between \$100,000-\$125,000.

Rather than pursue immediate disposal, the lender engaged HSL Advisory for a targeted on-site inspection and evaluation, investing under \$10,000 in fees.

Challenges

- Inventory was in various stages of completion and scattered throughout a fabrication plant.
- Mix of goods included:
 - Finished Goods
 - Raw materials
 - Work-in-process
- Borrower staff had been terminated; however a former Ops Manager was available to assist with interpretation

Inspection Approach

Over the course of a full day on-site, our team executed a physical audit and triage of inventory by category, value potential, and disposition strategy. Key components of the inspection included:

- Visual and manual validation
- Segmentation of inventory into four categories:
 1. Saleable – At Once
 2. Saleable – Following minimal labor expense to assemble
 - This class of inventory was identified by our team during inspection and had not existed on any recent Borrowing Base Certificate (BBC). Total upside.
 3. Salvageable Parts
 4. Low-Value WIP inventory, minimal usage outside of core function
- Identification of hidden value in obsolete, but still demand-driven, SKUs and specialty components

Findings

- **Finished Goods:** A fraction of the inventory was finished and available to be sold immediately, yet that selection accounted for 99% of the total recoverable value on-hand.
- **Raw Materials:** Certain raw materials had significant secondary market value, with scrap buyers and refurbishers offering immediate quotes.
- **WIP:** Most WIP was extreme low value and likely better used for parts harvesting.

Execution

Following the inspection and detailed analysis, we offered the client an estimated valuation of \$500,000+ for the inventory. Due to their need for an immediate close, they chose to engage with the original bidder in hopes of improving his initial offer. Armed with their improved valuation expectations and greater understanding of the inventory, they ultimately negotiated a \$400,000 CIA sell price for the assets along with a 21 day closing.

Results

- **Total Cost of HSL Advisory Inspection and Evaluation:** \$7,500
- **Recovery Improvement (post Inspection):** \$275,000
- **ROI:** 3,566.67%

These proceeds helped the lender significantly reduce its charge-off. Importantly, this recovery was achieved without court intervention or extended asset holding.

Conclusion

This case highlights the strategic importance of professional, on-site inventory inspection in loan recovery scenarios. In distressed asset situations, especially where traditional accounting and reporting have broken down, physical validation and market-driven analysis can uncover significant hidden value.

Key Takeaway

A \$7,500 investment generated over \$275,000 in additional recovery, a reminder that effective liquidation begins not with assumptions, but with inspection.

Contact us today to learn how HSL Advisory can provide seamless transitions and maximize asset recovery for your business.