

Turnaround Management: A Guide To Corporate Restructuring - 2nd Edition

Description: Turnaround Management: A Guide to Corporate Restructuring covers all aspects of working with financially and operationally distressed companies and highlights how to proceed in this fascinating investment sector. This guide is written for professional investors, company managers or directors, bankers or capital sources, accountants, lawyers, and professional turnaround consultants. Our authors have been at the front lines and discuss how the battles are won. The articles offer practical advice, insights on execution, strategic concepts, and highly detailed information on how to manage your turnaround situation.

Contents: -Confessions of a Turnaround Guy 14

Gary Sutton

This article posits that there are eight central principles to the turnaround business: 1) It's a marketing business; 2) There are distinct types of practitioners; 3) The turnaround itself is often easy; 4) Start-ups and turnarounds are more different than they are alike, yet they resemble each other more than they do normal businesses; 5) The bigger the business, the easier the fix-usually; 6) Practitioners need large egos, hence the fragmented profession; 7) Success depends a lot on deal flow; 8) Timing is everything. A discussion of these issues follows with examples and implications for practitioners.

-Power, Ego, and Greed 23

Gary Brooks

How much of the current economic crisis is based on human nature? Has human nature changed over the last decade? Has the "love of wealth" which is said to drive Americans caused some of our tremendous economic set backs? What can we learn from history about the role of honesty, loyalty, and commitment in our modern-day business climate?

-Tips from the Trenches 26

Steven L. Victor

What are the consistent issues that confront turnaround engagements? What are the tools and attributes with which seasoned turnaround professionals must be thoroughly familiar? Although many turnarounds may be quite complex, and all are at least in some way unique, presented in this piece are a set of baseline issues that encompass the turnaround business: 1) The importance of early intervention; 2) Realizing that bankruptcy is not the only option; 3) The power of communications in the turnaround process; 4) The usefulness of an ever-evolving budget during the turnaround; and 5) Understanding the role of creativity in the process.

-The Crisis in Corporate Governance: Call for a Return to Professionalism 37

Peter L. Tourtellot

In recent months, tale after tale of unscrupulous behavior has rocked the business scene, involving top executives at some of the largest firms in the world. The erosion of public trust and tumbling stock prices have resulted in the loss of millions in retirement funds, pension plans, and shareholder value. However, indications are that the corporate world may be taking a fresh look at the business value of integrity and a return to professionalism. The author, a turnaround professional, points out the role that those who go into a company to restore financial stability can play in restoring the professional values that no company can turn around without.

-The Economic Environment for Successful Turnarounds for the Next Two Years 41

James F. Smith

In his article, Dr. James F. Smith reminds readers that despite all the gloom and doom, the U.S.

economy is the strongest in the world, with low inflation and low interest rates. He believes that the outlook is excellent for successful turnarounds in the next two years. He outlines why President Bush's tax proposals would be good for the economy and why economic efficiency would be improved by repealing the federal income tax and replacing it with a flat tax on spending.

-Effective Investors, Directors, Boards, and Audit Committees Monitor Fundamentals 50

William J. Hass and Shepherd G. Pryor IV

To avoid remaking the well-publicized corporate mistakes of the recent past, investors, directors, audit committees, and boards need to go beyond basic financial statements to monitor financial health and assess risks. Effective audit committees will begin to experiment with broader systematic disclosures of both financial and non-financial information to improve transparency. Investors need to demand more transparent systematic disclosures and learn how to use new metrics. However, only management can make the substantial changes that are required. Experts Hass and Pryor explain how institutional investors can encourage directors and boards to be more thorough and vigilant. These processes help improve decision making and reduce risk.

-Anatomy of a Turnaround: Positioning a Company for a Bright Future 61

Jill Fraser

This article offers an inside look at the complex and challenging process of turning around a large industrial contracting firm plagued by deteriorating financial results, excessively high leverage, and multiple problems tied to a family ownership structure. During the course of one intense year, a team of four experts from Glass & Associates restored profitability by redesigning this company's operating and financial structure, while providing everything from management guidance to emotional support for an aging pair of owner-managers and nearly 100 offspring, in-laws, and other relatives who were also tied to this business. Glass's efforts resulted in an extraordinarily effective recent refinancing, which repaired the company's troubled relations with the lending community, deleveraged its balance sheet, and drastically reduced costs.

-Food for Thought: A Turnaround Story 74

Robert E. Hoyt

Seattle-based Associated Grocers, Inc. (AG) faced a crisis when it reported 2000 fiscal year losses that wiped out 66 years of accumulated equity. Its lenders mandated that the company engage a turnaround manager, resulting in an assignment for Partners for Corporate Renewal (PCR). What happened in the next 15 months became the basis for the 2002 Large Company Turnaround of the Year Award, given by the Turnaround Management Association to PCR's managing partner, Robert Hoyt. This article details how, under PCR's leadership, AG not only avoided bankruptcy but quintupled its operating earnings before interest and taxes, reduced its debt by 75%, recovered shareholder equity to the tune of \$73 million, and saved thousands of jobs.

-The Community That Helped Save the Business 78

Timothy P. Czmiel

The story of the turnaround of Modern Plastics Corp. (MPC) in Benton Harbor, Michigan, demonstrates the power of the combined efforts of an experienced turnaround management team, dedicated company employees, and a local community determined to preserve as many jobs as possible. This article guides the reader through the award-winning turnaround of MPC, including the community support that resulted in the city guaranteeing a \$450,000 HUD-funded loan to MPC to purchase a new, state-of-the-art centerless grinder late last year which ensured the ongoing vitality of MPC's phenolic brake piston manufacturing business.

-Early Warning Signs of Disaster 84

David Folkman

How do you know when your retail investment is in trouble? When is it time to change course and chart a new direction? Should you wait or act with a sense of urgency? In today's economic climate, these are questions retail bankers, board members, and investors are constantly evaluating. David Folkman is a senior retail, wholesale, and consumer products executive with 35 years of general management experience. He has been a principal and a member of the board of directors of Regent Pacific Management Corporation since 1991. In this article, David outlines several indicators used to determine the relative health and well-being of a retail business.

-The Challenges of Insolvencies in a Multi-Jurisdictional Global Environment 86

Graham Moffitt and Simon Freakley

Offering their different perspectives as a banker and as an insolvency practitioner, authors Graham Moffitt and Simon Freakley discuss the differences between the U.S. Chapter 11 bankruptcy environment and the U.K. Administration process. They touch on what happens during pre- and post-bankruptcy, including the different hurdles and challenges that arise in the various, differing jurisdictions. The Federal Mogul case is used as an example.

-Keeping the Doors Open: Financing Options for Troubled Companies 91

Warren H. Feder

For investment bankers working in the restructuring and turnaround arena, innovation is a key tool. Each deal calls for creative ways to get the job done. This article looks at some of the alternatives to traditional financing when closing a deal is not an easy thing to do. It covers the state of the "traditional" financing market in late 2002 and early 2003, explores the role of mezzanine debt as an available alternative for troubled middle-market companies, and offers a few examples of financing that illustrate the creative solutions investment bankers have actually employed to obtain the needed financing to keep their clients alive.

-Maximizing Bondholder Participation in Financial Restructurings 96

John Baxter and Colin Robinson

It is commonly assumed that the process of soliciting and communicating with bondholders during a financial restructuring is a relatively simple matter, akin to conducting a proxy vote among shareholders. In reality, though, bonds issued electronically in book-entry form are linked to the decision-making, "beneficial owner" investor through an often confusing, custodial hierarchy that includes depositories, brokers, and banks. In order to reach enough of these investors to ensure a successful outcome to the contemplated transaction, a full-service investor communications firm with the requisite resources and experience must be employed.

-A Case for Supplier Risk Management 103

Nancy Colah

The enormous risk that can lie with insolvent suppliers may sometimes catch companies off guard and wreak as much havoc on their operations and bottom-line results as the loss of a good customer. This risk, coupled with today's industry dynamics, makes it imperative that a company take a proactive approach in monitoring its supply base, rather than waiting for trouble to strike. This article discusses how to recognize supplier risk, industry factors that lead to it, measures to combat it, as well as descriptive case studies that illustrate the positive impact a proactive approach can make.

-Bankruptcy Investing 107

Ben S. Branch and Hugh Ray

The authors of the book *Bankruptcy Investing: How to Profit from Distressed Companies* (Beard Books, 2002) take a fresh look at this topic. They offer 10 rules for bankruptcy investors, including why you should buy the bonds of a bankrupt company and avoid the stocks, how the absolute priority of claims principle applies, the political nature of Chapter 11 and who the players and their agendas are, conflicts in placing a value on the emerging firm, what financial documents to analyze, categories of claims, and the volatility inherent in distressed and defaulted securities.

-Surviving Heavy Turbulence in Post-9/11 Skies: A Progress Report on the Aviation Industry Turnaround Process 114

Christopher W. Besant and Joseph J. Bellissimo

Over the past year and a half, the aviation industry has faced one of its most challenging times. With the industry reeling after the shock of 9/11, layered on top of the tech meltdown and the accompanying cut in business travel budgets, over-leverage, overcapacity, and too many entrants into a crowded market, many thought that the domestic industry would be in tatters one year later. While the road has been rough and there has been some carnage along the way, the most dire predictions have not materialized. This article looks at the ongoing turnaround process in the

aviation industry and the process of navigating the industry through the most turbulent of times.

-Retailers, Reorganization, and Recidivism 122

Randall S. Eisenberg and John Yozzo

With each Chapter 11 filing comes the opportunity for a debtor to reorganize its business and emerge from the bankruptcy process as a viable, reconfigured entity. But a review of the recent historical record of public company bankruptcy filings and emergences and the post-emergence performance of reorganized retailers over most of the last decade doesn't provide much reassurance that the rehabilitation process is working as intended for the retail industry. This article compares the rate of bankruptcy recidivism of retailers versus non-retailers and grapples with defining subjective terms like "success" and "failure" within the context of bankruptcy and the reorganization process.

-Roundtable: The Operational Imperative to Maximize Value 130

The prolonged downturn in the U.S. economy has produced new challenges for turnaround firms. No longer has it been possible to "wait out the cycle" while speeding up cash flows to make it through to better times. We remain at the bottom of a cycle that may last several more years. This panel discussion covers the implications for turnaround firms of this long-lasting portion of the business cycle. Emphasis is placed on operational issues, the effects of deregulation, and, especially, the cash cycle.

-Corporate Resource Directory 135

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