Steering Clear of the Brink

Early Signs of Trouble
What To Do ...
What Not To ...

August 26, 2014
Executive Webinar

Esteemed Expert Panel

Moderator:
Christopher Stuttard, Webinar Development
Beard Group, Inc.
Washington, DC
Law and Business Publishing

Panelists:
John M. Collard, Chairman
Strategic Management Partners, Inc.
Annapolis, Maryland
Turnaround Specialists/Outside Directors

John F. Levy, CEO
Board Advisory
Westfield, New Jersey
Board and Governance Experts

On The Hot Seat
Beard Group Webinars

John M. Collard Bio
Strategic Management Partners, Inc.
www.StrategicMgtPartners.com

Operating Manager:
35+ Years P/L Management/Outside Director/Turnarounds
Public & Private — High & Low Tech — Fed’l, Com’l, Int’l

Asset & Investment Recovery over $85M
Trans Union, Lockheed Martin, CSC, CyberDyne, SIMP
Top 12 Outstanding Turnaround Firms (Inc.) — Inc.
3-Time M&A Lifetime Achievement, Most Admired CEO
Maryland Small Business of the Year, Governor’s Citizen, Certified II/IA Pro (CITP), Certified I/TA Manager (ITIM)
Past Chairman TMA, Chairman Assn Interim Executives
Global Atlas Award – TA Firm of the Year, Business Leader of the Year, Advisor—Bush, Clinton, Yeltsin, World Bank, EBRD, Banks

Money Manager
Revenue Generator
$80M Private Equity Restructuring Fund
$670M+ Systems Integration & $280M+ Com’l growth

M&A, Deal Flow
45+ Transactions, $780M+ transaction value, $1.2M+ volume

Outside Director
Public & Private Companies, Equity Investment Funds

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John F. Levy Bio
Board Advisory

Senior Financial Executive
30 years financial, accounting and business experience, including
serve as CFO of both public and private companies for 13+ years.

Board and Governance Expert
Currently serves on Board of Directors of three public companies.
Non-executive Chairman of the Board of Applied Minerals, Inc., a
member of the Board of Applied Energetics, Inc. and China
Commercial Credit, Inc. Former Board Member and Audit
Committee Member of Fortune 500 company, Brightpoint, Inc.,
and 30+ years experience serving public and private firms.

Special Investigations
Member of three special litigation committees
Investigated allegations over the disclosure actions where
the Company went to receivership and bankruptcy court.
Oversaw stock option investigation at a $1.0 B NASDAQ company
on behalf of the shareholders and the Company's outdoor
Corporate Counsel.

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Journal of Private Equity:
Steering Clear of the Brink

Steering Clear of the Brink
Early Warning Signs Pinpoint Business Troubles –
Changing Leadership Style to Accomplish a Turnaround

By John M. Collard

Basis of Today’s Discussion

Business Risk

- Stakeholders Face Risk When Company Heading For Trouble
- Stakeholder Perception and Needs Differ (Investment/Jobs)
- Mgt Knows, But Waits Too Long
- The Longer The Wait ...
- The Harder The Fix
- Trouble Changes the Rules – Mgt is “Out of It’s Element”
- Obvious Signs Rarely Root Cause
- True Dilemma: Who Can Handle Crisis Mgt Role?

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## All Leaders Are Not Created Equal

**Change Leadership Style**

<table>
<thead>
<tr>
<th>Skill</th>
<th>Stable or Growth Scenario</th>
<th>Turnaround or Trouble Situation</th>
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<tbody>
<tr>
<td>Focus</td>
<td>On Objectives</td>
<td>On Survival, Action, On Problem Solving</td>
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<tr>
<td>Decision Making</td>
<td>Deliberate</td>
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<td>Authority</td>
<td>Delegate</td>
<td>Direct Involvement</td>
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<tr>
<td>People</td>
<td>Develop</td>
<td>Recruit Talent, Communications</td>
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**Respected For:**
- Management Reputation
- Financial Credibility

**Known For:**
- Consistency
- Ability to Shift Gears

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## The Process ...

**Get Things Moving Again to Preserve Value**

- Bring New Set of Eyes, Objectivity
- Understand Troubled Situations
- Ask the Hard Questions:
  - Is the Business Viable?
  - What Is the Purpose of the Business?
  - Should It Be Saved? Why? Are Reasons Valid?
  - Are There Cash Resources to Fuel Recovery?
  - Is Existing Management Capable of Leading the Company?

Remember: They Are Not All Salvageable

*It's Not What You Say ... It's What They Hear*

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## Build Enterprises

**Future Buyers Want to Invest In!**

Investors/Buyers look for:
- Business that creates value = Consistency
- High probability future cash flows = History
- Fair Entry Value = Realistic Return Potential
- Management Team = Market Oriented Focus
- Ability to sell, compete, distribute, produce, develop products, thrive = Track Record
- Exit Options = Realize high ROI @ Their Resale

Directions and Management’s role must be to build going Concern Value!
Where Trouble Hides

Management Turnover Communications Planning Compensation Sales Growth Customers Market Analysis Reporting Expansion

Plan Ahead.
Avert Troubles Latter On.

Is The Owner or Top Management Over Extended?
Avoid Management Over-Extension & Denial

- Do work for which no one else is qualified.
- You can’t do everything yourself.
- Delegate & Monitor.
- Define owner’s/key manager’s roles.
- Retain competent people - Replace if not.
- Stay informed without being immersed in detail.
- Deal with the issues.

Metrics are Key . . . To Watch
Basis of Measurement

- Relationships: tell the story... Not just P/L, B/S, Source & Use
- Revenue: Volume In Existing versus New Business Revenue (or cost) per employee Average Revenue per job or unit
- Throughput: Volume Out Hours Paid versus Billed % Improvement vs Stability
- Look for Changes in Ratios and Trends
Is The Turnover Rate Excessive?

Control Employee Turnover

- Clearly define: Responsibilities, Expectations, Rewards, and Authority.
- Spend time with new employees.
- Employees see underlying problems . . .
- Replacement costs are high.
- Keep it interesting, challenging.

Are Communications Ineffective?

‘Bull Sessions’
Where little is accomplished . . .
Is the fault of the leader.
- Establish an agenda and stick to it.
- Limit scope of topics and participants.
- Set an example by managing meetings.
- Your team will manage the company.
- Listen . . . They have something to say.
- Sharing Information increases Motivation
- If you have a point, make it.

Are Goals Unclear?

Articulate Goals Clearly . . .
Then Get Agreement

Failure to achieve goals suggests lack of clarity about owner’s real objectives.
- Obtain ‘Buy In’ (Management & Employee).
- Set Goals & Timeframes - Hold managers accountable!
- Communicate Methodology: to Measure and Reward
- Goals must have substance - or they can’t be achieved.

LEAD, FOLLOW, or Get OUT of the WAY
Create Mission Statement

Aimed at Capturing New Business

How will we sell more products (new) to existing customers?

How will we sell existing products to new customers, new markets?

The Value Proposition

Framework for Determining Strategy

Value Proposition / Required Strategic Actions

- What unique value can we provide?
- What strategic and organizational changes are needed to deliver this value?
- What financial impact will these changes have on our performance?
- What actions must be taken to achieve this performance and strengthen core competencies?
- How should progress be measured?

Implement Phases & Actions Plan

Build a Key to the Future

Are Compensation and Incentive Programs Yielding Unsatisfactory Results?

Reward for successful job performance.
Don’t pay when NO performance.
Compensation structures often fall short.
Be careful what you pay for – you might just get it.
Pay incentives on gross margin, not gross sales.
Piece Rate for cost control.
If Goals are achieved then there will be $ to pay Incentives
1 to 1, Incentive-Based Management

Manager’s Bonus:
- 50% on what they directly control
- 30% on what they can influence
- 20% on how the whole company does

Worker-Bee’s Incentive:
Piece Rate does wonders to control cost
% improvement on hours billed versus worked

Use Contracts When Possible:
Establish Key Employee Commitment


If Not... You are out of touch with marketplace.
- Manage Price, Be Responsive
- Understand Specific Customer Needs
- Commit To Winning New Business
- Bid To Win; Then Manage For Profit
- Develop ‘Do What It Takes’ Attitude

Golden Rule of Selling: Sell unto others the way they want to be sold to.

Are Any Key Client Relationships Deteriorating? Nurture Key Relationships Carefully

- Meet your customer’s needs.
- Stay informed.
- Change with the market.
- Provide quality service.

Determine why relationships may be deteriorating...
Poor market conditions? Poor service from you?

Worst of all, you may not know.
**Does Company Create Products In Search of Markets?**
Analyse Markets and Competitors

*Products in search of markets?*

- Create product awareness to meet existing demand.
- Developing a market can be costly.
- Identify key competencies to yield customer benefit.
- Understand your customer.

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**Market, Market, Marktus**

Promote your Company.

- It is less expensive to create awareness of a product that meets an existing demand, than it is to develop a new market for existing products.
- Identify key competencies to yield customer benefit.
- Market Yourself.

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**Identify Customer Needs**

The engineer wants to create a ‘Rembrandt’...

- Keep ‘Bells and Whistles’ to a minimum.
- Ask your customer...
  - Simple but effective.
Do Financial/Management Reports Cover the Wrong Info at the Wrong Level? Demand Accurate, Timely, Pertinent Reports

Are you managing to P/L performance, or cash flow?

**CASH FLOW** is the best indicator of a business’ health.

Determine performance at each ‘Center’ level of the business:
- Profit - Cost - Cash - Incentive.

Prepare forecasts:
- Manage to them. Update often.

*If They can’t See It... They Can’t Manage It!*

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Does the Operation Have A Track Record of Failed Expansion Plans?

Expand Carefully
- Setbacks drain cash, time, and morale.
- Why do plans fail?
- Inadequate Cash.
- Manage Change
- Analyze, Control.
- Model success to produce growth.

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Who Can Help ... Besieged Businesses?

**Consultant/Board**
- Advises the Board and/or Management
- Then Mgt Makes Decisions (or Not)
- Less Risk (Consultant)

**Practitioner**
- Decision-Maker
- Guides Through the Troubled Waters (CIO, COO, CRO, CFO, CSO, CMO, CPO, CAO)
- More Risk (CEO)
- More Effective

Turn Around Outside Bankruptcy – Keep Control
Bankruptcy is Complicated, Expensive, Lose Control
Liquidation/363 Sales: Some Can’t Be Saved
Tough Business: Not for Faint-of-Heart – Select Wisely
How To Select Specialist
Be Cautious, Deliberate, Progressive

- Interviews, Background Checks
  Beware of the Unemployed Masquerading as Turnaround Specialist Pros
- Time Commitment of the T/A Team
- Select an Individual (Not Firm)
- Credibility is Key (W/Lenders, etc.)
- Obtain Written Proposal
  Understanding of the Parties
- Regular Written Reports (Communicated)
- Involvement of Company’s Operations and Staff
- Confidentiality & Accessibility

Business Owners Often Resist Outside Advisors

A variety of misconceptions and myths abound.

The Specialist:
- has “no heart”
- doesn’t understand culture
- has private agenda
- has no loyalty from employees
- will steal ideas or techniques
- will not have to live with recommendations when gone

Status Quo Versus Change & Value Creation

Help is Available
Advisors Can Provide:

Contacts - Customers, Suppliers, Personnel, Lenders, Investors
Industry Knowledge - Strategic Repositioning, Plan Preparation
Financial Structuring - Customize Right Side of Balance Sheet
Capital Infusion - Acquisition, Divestiture, Debt, Equity
Attract Talent - Management, Sales, Marketing, R&D, Operational
Financial Modeling “What If” - New Markets, New Methods
Discipline - Credibility - Time - Perspective
What Have We Learned?

- Specialists Bring Order Out of Chaos
  - Get Control, Stabilize Situation, Jump-Start Turnaround
  - Develop & Implement Sound Plan
  - Hire Permanent Management
- If Misery Likes Company, Then Trouble Loves It:
  - Problems Multiply at Frightening Speed
- Seldom One Trouble ... Likely Two or Three
- Getting To The Real Issues Is Catalyst To Change
  - And That Is More Acceptable Risk
- Good Luck to You All

Emotions Should Not Drive Business Decisions

Caveat Emptor
It is never quite what it seems!

Change is Eminent! Expect Surprise!

A Final Word of Advice:
DON'T EXPECT MIRACLES OVERNIGHT

Fortunae
Opportunitas
Progenitor
Anadiplosis