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Turnaround Pros In Demand

Hands-on specialists address today's many flawed business models

What does a company in dire circumstances do to get back on its feet? Investment bank advisers might be able to sell a division, convert debt to equity, or help secure a loan. But when things have so far gone that a company needs help running its daily business, it turns to the real group of restructuring mavens: turnaround operations specialists.

Operations specialists are the hands-on people, the ones who help stop the cash bleeding, who advise on which division to sell or which product to discontinue. In short, they reverse the mistakes that got the company into trouble.

"We take the emotions and fear out of the situation and deal with the issues," said Deborah Midanek, principal at Glass & Associates, a restructuring specialist that often provides operating expertise.

Companies like Midanek's are in demand these days as many companies have fundamental problems with their business model. Such companies often work alongside the financial adviser serving as a project manager. For example, when stumbling financial news service Bridge Information Systems Inc. began to restructure itself in early 2001, it sought the help of three different types of specialists: attorneys Cleary, Gottlieb, Steen & Hamilton, and Bryan Cave; accountants PricewaterhouseCoopers, and operations specialists Alvarez & Marsal. The operations specialists "help management push and pull the company through the bankruptcy process," according to a Bridge statement.

"Most broken companies have a problem that they are not able to service their debt structure and most got that way through poor operations," said Al Koch, managing partner at Jay Alix and Associates, another workout specialist.

That is especially true in the telecom sector, where many companies are beyond help, in which case their assets are liquidated. Jay Alix is advising telecom carrier Viatel Com-

munications Inc. in its bankruptcy proceedings, while Dresdner Kleinwort Wasserstein is the financial adviser. The assets are expected to be liquidated, in which case Dresdner will handle the sale.

There is more work these days than in previous downturns, note workout pros. One reason is the abundance of flawed business models. Also, in the past there were fewer lenders for any one company. These days there are more lenders, many of whom extended credit as the company's operations were deteriorating, making a turnaround more difficult, said Jay Alix's Koch. In addition, a larger group of lenders makes the decision-making process more cumbersome.

In companies that can be salvaged, pros like Midanek play a range of roles from support system for management to acting as management itself. For example, Glass's Midanek served as chief executive officers at Standard Brands Paint Co., reporting for work like an employee, while at troubled online medical service Rx Remedy Inc. she served as management adviser.

The pros may also work on behalf of shareholders. Midanek, who advised Drexel's equity shareholders when the company went under, these days is advising Finova Financial Inc.'s shareholders in its Warren Buffet-and Goldman Sachs-backed restructuring.

Turnaround operations firms get paid on top of the investment bank's fees. When they advise management, they typically get paid for their time only. When they get involved further, they usually get an incentive fee that is tied to the goal of the restructuring. For example, if the goal is to reduce debt, then they'll usually get payment of one-quarter to one-half of one percent of the amount by which debt is reduced. If the goal is to increase liquidity, payment is based on the amount by which liquidity is improved.

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