



Turnaround – My Perspective

Kevin Parkin



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My Background

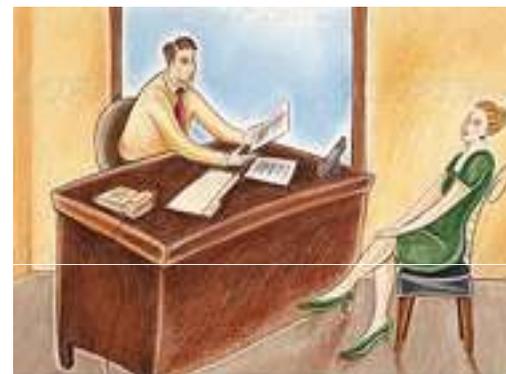
- Studied engineering and business (*business engineer*)
- Qualified accountant CIMA (*flat cap brigade*)
- Post-grad marketing diploma (*free with petrol*)
- General manager and MD in UK and Europe
- Worked in manufacturing environments
- Specifically in engineering and chemicals
- Small to medium sized companies
- Turnarounds / MBO's for the last 20 years
- Sold out from turnaround MBO - Sept 2004
- Turnaround activities and China sourcing 2005 - 2007
- MBO July 2007



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What Is Turnaround?

- What is it
- Who does it
- How is it measured
- Who says when it is finished
- Who says when it has failed
- Is it a complete turnaround
ashes to ashes?
- What external professionals are needed
- What are the personal risks - shadow Director
etc



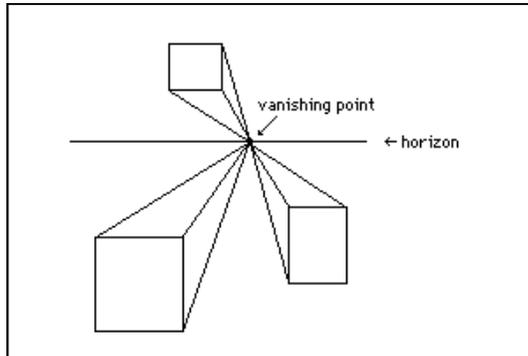
How Is It Measured?

- Quick fix
- Refinance
- Recovery of debt
- Exit for shareholders
- Security of jobs
- Security of chairman / board
- Increased sales
- Increased Ebitda / cash in bank
- There is no one ideal yardstick for success
- It depends where you are sitting!!



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Perspective - It's a View



Is it vanishing?



Is it in proportion?



Is it a clear view?

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Prospective - It's a View !



Would you have employed them?

The original Microsoft team! **PARKIN LIMITED**

I Got the Assignment Honey!

(I may be away for some time!)

- Well done but ...lets not get too light headed
- Is the business capable of recovery
- Do I really have the skills to succeed
- What will prevent its survival
- Do I have the authority to make changes
- Will I get paid!
- Will I get sued
- Sec 239, misapplication of Crown Monies
- “Influenced by a desire to prefer”
another assignment !!!



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Pre Assignment Check List I

- History / reputation of business / industry
- History / reputation of the management
- Network contacts and general “sniffing”
- Meeting with auditor / bankers
- Meeting with major shareholders
- Checks for judgements
- Checks for late filing of accounts



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Pre Assignment Check List II

- Health and safety improvement notices
- Environmental agency improvement notices
- General site security (keep what we have)
- Personnel contracts rules etc
- Currency exposure
- Claims / penalties
- Cost of aborting contracts
- Pension position
- Who is in charge
- Where are the directors – do they have a job?



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Assess the Risk and Consider

- **An assignment is flattering but**

Have you been told the truth.

Is the business beyond recovery.

Are you just delaying a painful death.

Has the market collapsed? –.



- *“There’s no business like no business”*



Will the suppliers continue to trade

- credit insurance
- commercial risk / ROT issues.



- Suppliers MD says “no F*%^*&* way.”

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The Turnaround “Expert”

- The ultimate risk assessor
- Must be multi disciplined
- Formal training for turnaround impossible
- Needs to be aware of all business dynamics
- Does not need to be experienced in the sector
- Must be able to identify “doers” and “wasters”
- Must really understand working capital drivers
- Has to command respect on entering
- Must not establish relationships as they cloud judgement
- Must have at least 2 mentors who he can independently discuss the issues



Changes in Turnaround Skills

- Traditional hatchet man – cut, slash and burn
business foundations were damaged
- Business bastard!
Bully who frightens the staff and walks off
- Fry out the fat
little left in many companies
- Take out people
but at what cost
- Develop JV's and supplier partnerships
how many really work and have you time
- Out source in UK / Europe / China / India
needs handling well – how will market react?



Can a Turnaround Person be defined?

- In my opinion **NO!**
- A turnaround cannot be all things to all people all the time!
- They must be a natural leader BUT
- They must be an organiser and manager.
- They must be a motivator.
- They must have access to a superb network of professions and functional experts.



A Week in the Life

- Of a turnaround consultant!



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Day One



- Check the creditor position
writs, pro-forms, stretched creditors,
- Personally chase large debtors and delegate smaller to all the directors
- Instigate cash collection system – salesmen picking up cheques, all late payers on stop, pro forma for overdues
- Withdraw all purchase order pads and change ordering procedures (orders are cheques)
- Talk to the employees and ask for their help

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Day Two



- Daily management stand up meeting 8.30am
- Present to the workforce tell them everything
- Focus accountant on cash only issues followed by a fast bottom up balance sheet
- Review stock for discount sales, returning to suppliers, alternative use
- Offer discounts to debtors for early payments
- Maximise daily despatches (especially if factoring invoices)
- Issue credit notes to release blocked debtor payments
- Ensure all quotations are profitable and cash positive

Day Three



- Incentivise the buyer and credit controller
- Examine the headcount especially directors – review contracts of employment
- Calculate redundancy costs
- FD to understand and sign off production plans
- Remove trouble makers – pay them off. It can still be done via a compromise agreement ...
[FIFO Fit in or **** off]
- Review and agree a one week and thirteen week cash forecast
- Personally ring creditors and explain the problem

Day Four



- Question the “always done it this way” brigade
- Challenge unnecessary bureaucracy and relay on the QA system throughout the company
- Focus on completion of work and invoicing
- Examine the cost of cancelling contracts
- Review currency exposure and hedge
- Daily reporting of : orders, sales, cash, purchases
- Contact the banks and arrange meetings
- Plan organisational changes

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Day Five



- Obtain key actions and goals (with values, etc) for the next week from directors and managers
- Agree organisation changes with the board
- Present 1st weeks findings to the workforce and announce organisation changes
- Talk to PAYE / inland revenue
- Publish key actions of managers to all employees
- Review each manager's goals for the next week
- Take the managers out for a beer
- Chat to your mentor over the weekend

Checklist Week One



√

Action	Improvement	Corrective Action
Communication	Yes	Weekly presentation
Controls	No	Reduce signatories
Key Numbers	Some	Produce quicker
Cash Forecast	Yes	Compare with last weeks
Order Position	Yes	Challenge salesmen
Despatch Plan	No	Visit the warehouse
Purchasing	Little	Personally sign all orders
Credit Control	Yes	Report the manager directly
Creditor Control	Yes	Agree payment priorities

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Meetings!



- Stop them all !
- Call 20 minute “decision making” meetings
- Remove the “blame culture”
- Stop all internal “round robin” e.Mails
- Focus on the customer not the internal system
- Apart from board meetings remove all minutes
- Minutes and e.Mails encourage “blame culture”
- Make individuals write their own minutes
- Daily 8.30am stand up 15 minute meeting

Talk Shop!



- No reports, no visit reports, no internal e.Mails!
- Get people talking on the phone, in the car, at night
- Talk to suppliers, find new suppliers (dual credit lines)
- Use trade associations and networks to obtain better intelligence
- React instantly to quality issues
- Walk the factory and the offices four time a day
- If its bad – tell them!
- Talk about the KPI achievements
- Stand up and tell employees when work is short or new orders received

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Controls!



- Find the dripping taps.
- Question all spend (before it is committed).
- Reset the formal authorisation levels:-
 - overtime before it is worked
 - travelling (still 1st class for the CEO)?
 - Credit notes – (this is cash)
 - requisition / purchase orders !!!!!
 - duplicate the cheque signatory limits on purchase orders – **this is the source of the spend.**
- Let everyone tighten their belts.

Be a Rescuer Not a Hero!



- Listen, listen and listen – *its quicker to be told than to discover yourself*
- Do not dismiss the comments from the shop floor (*the rumours are often accurate*)
- Offer guidance for decisions – *don't make them*
- Explain your actions and coach the team
- Be seen to be making changes regardless of size
- Be there for the start of shifts and
- Visit the canteen during breaks
- Don't forget to say **“thank you” ... {its free} !!!**

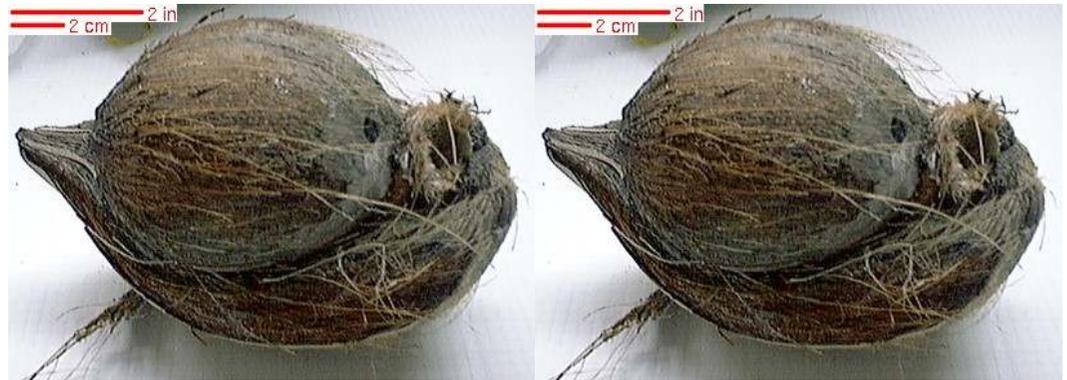
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Listening !!

Tits

Like

Coconuts



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Listening ...

Yes, TITS LIKE
COCONUTS

and

Blackbirds

Like worms!



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Keep It Clean!



- During the turnaround there will be many visitors
- People who decide if you survive or not
- Few know anything about industry
- All have considerable say in the businesses future
- Cosmetic appearance is absolutely essential
- The cost and effort is minimal
- The HSE probably require a clean environment
- Customers need all the confidence you can give

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Keeping It Clean



- Basic housekeeping – reception, offices, factory
- Lick of paint – smoke and mirror
- Protective equipment for visitors
- Dedicated working areas
- Toilets
- Simple things:
 - yellow lines, reception carpet and chairs,*
 - scrap bins, good signs, smiling face on reception*
- A potential purchaser or investor will walk away from a filthy hovel



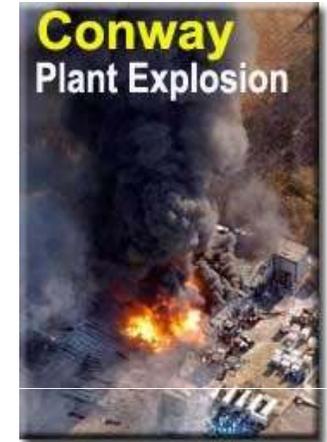
For Sale One Careful Owner



Plant 4 weeks after takeover and 50 skips!

Favourite Employee Question

- **EmployeeIs my job safe.**
- **My response**
- Health and safety must be given maximum priority during turnaround.
- It is usually forgotten and never prioritised.
- Money is rarely allocated.
- A small accident could finish the business.
- You could be personally sued or imprisoned.



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Maintaining the Momentum

- Short term funding needs repaying
- The old problems are still there
- Now is the time for some strategic planning
- It is often best to decide at this stage:
 - *sell to a trade buyer*
 - *encourage an MBO*
 - *refinance with new equity players*
 - *acquire a competitor*
 - *sell off non-core activities*



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Oh Its Rescued but Is It?

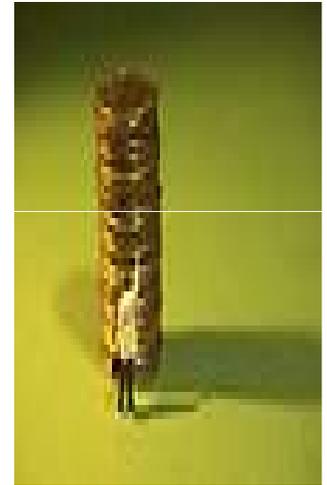


- So you cut the costs – *well done*
- You sacked the apprentices – *easy pickings*
- The building is filthy – *who will buy it*
- You employed “*your pal as auditor*” - ?????
- That wall is still going to fall down - *HSE*
- The toxic waste is still there - *EA*
- Now is the hard part of the turnaround!

Wow, Look at the Ebitda Now!

Cash Prioritisation

- Creditors are still on pro forma
- We still need to advertise and exhibit
- Planned maintenance is so important
- The quality system needs a manager
- The workforce have not had a pay review
- The contract needs a performance bond
- We need to cover the currency for 12 months
- Steel prices have just gone up by 50% !!!!!



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Do You Now Become a General Manager?

- Is this the time to say goodbye
- Can the management team work without you
- Is there enough cash to cover the future
- Does your recovery document cover this situation
- Who is now in charge of strategy
- Is everyone happy?
- What if I am offered a full time role
- Have I fallen in love with the business!
- **This is your biggest dilemma in turnaround work**



The Experts We Need



- **Financial** (with commercial experience)
tax planning, treatments, prep for sale, audit, controls (Sox???)
- **Legal** (with commercial experience)
employment, contracts, company law, due diligence, health and safety
- **Banking / Funders** (with commercial experience)
working capital, FOREX, Capex, funding
- **Specialists** (with commercial experience)
health and safety, environment, insurance, exporting, training, recruitment, counselling, risk assessment, mentors!

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My Recent Experience

- **MTM agrochemicals**
Crop and speciality chemicals
turnover £50m 200 employees
5 year project – sold to trade buyer
- **Evans universal**
Combustion engineers (cremators & incinerators)
Turnover £13m 90 employees
1 year project – sold to trade buyer
- **Eurofiltec sa**
Liquid filtration and separation
Turnover £11m 75 employees
5 year project - MBO - sold to trade buyer
- **DavyMarkham Ltd**
Heavy Engineering Design, Machining and Fabrication
Turnover £17m 175 employees
18 month turnaround led an MBO



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MTM Agrochemicals Overview

- Manufacturing dangerous chemicals on three sites
- Old plant starved of investment
- De-motivated workforce
- **Issues in the business**
 - Corrupt PLC board (chairman jailed)
 - Accounts not produced for two years
 - Accounting records destroyed / falsified
 - 750 drums of unknown toxic waste
 - Improvement notices issued by HSE and EA
 - No cash!

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MTM Agrochemicals - Review

- Quick understanding of top 10 problems
- Safety was top priority as was the disposal of the 750 drums (at £500 each)
- Most suppliers were requesting pro forma payments
- Campaigns were needed to meet spring demands (especially USA insecticide)
- One site needed closing quickly
- No sources of finance (group was unlikely to survive)
- Still no cash!

MTM Agrochemicals 6 Month action

- Arranged a pro forma payment from USA customer – purchased raw materials
- Asked other customers for pro forma payments
- Closed down a site in Humberside transferred production
- Planned and agreed with EA disposal programme for the waste
- Dumped surplus product in the market for cash
- Agreed improvement programme with the HSE
- Started to make cash profits

MTM Agrochemicals 12 Month Action

- Took out all non essential administration jobs (50)
- Reduced prices by 25% to dump stock for cash
- Rationalised the product lines
- Invested in better handling equipment
- Closed down dangerous processes
- Disposed of all toxic waste
- Recruited / promoted a new management team
- Improved housekeeping and prepared business for sale

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Evans Universal Overview

- Business run by autocratic scientist
- Beautiful premises
- Superb engineering
- Good reputation
- Massive overhead costs
- No orders
- No motivation

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Evans Universal Actions

- Took out 20 administration staff
- Took out the whole board
- Promoted internally
- Recruited “commercial” financial controller
- Reduced manufacturing costs
- Refocused the whole business
- Launched new products
- Sold to a trade buyer after one year

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Eurofiltec Overview

- French filtration equipment company
- Historically highly profitable
- Lost a major nuclear contract in 1995
- Never recovered
- Weak ineffective management team
- Aggressive communist works committee
- Major motivation problem

Eurofiltec Immediate Actions

- Took out the whole board
- Promoted from within
- Visited all key customers
- Reduced staff numbers to below 50
- Found the buyer was accepting gifts
- Recruited new finance director
- Improved spares and service margins and sales
- Wrote a turnaround document

Eurofiltec Medium Term

- Penetrated new markets
- Offered the board and salesmen a bonus
- Harnessed and disbanded the works council
- Visited Mongolia to win contracts
- Wrote full business plan
- Undertook an MBO (gave 5% to the board)
- Acquired manufacturer in the UK
- Sold to trade buyer after 5 years

DavyMarkham Overview

- Company lost money for last 15 years
- Been neglected as a small part of a large group (Kvaerner)
- Everyone thought the company had closed
- De-motivated workforce, few orders no cash
- Poor H&S, quality poor, no quality direction
- Working capital out of control
- Required a shake up and professional refocus
- No Nonsense approach to everything
- Fast decision making needed
- Employees were confused, in denial and ready for the close

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DavyMarkham Actions

- Presented to workforce day one
(received a standing ovation and everyone shook my hand)
- Removed Production Director
- Focused on H&S issues
- Replaced the FD with commercial and tough FD
(FD became by partner in the MBO)
- Bottom up review of profitability
- Pulled out of unprofitable markets
- Focussed on quality assurance

DavyMarkham Actions

- Met with all customers and told them the truth
- Prices substantially increased
- Old working practices not tolerated
- Allowed natural wastage of surplus staff
- Recruited indirect shop floor employees
- Accurately forecasted cash
- Focused on profitable market sectors
- Delegated decision making
- Recommenced the apprentice training scheme

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Some “Experience”?

- **MTM agrochemicals**
 - 50 tonnes of waste Tb Mercapton tankered to YWA in Leeds
 - blew a gas cloud over Leeds & closed M62
 - Gas Board received 2,000 calls
 - £1m YWA plant never ran again
- **Eurofiltec sa**
 - after selling the company
 - sued under a civil action for bullying
 - had to appear in crown court in Paris
 - cost €10k to defend
 - case dismissed – not guilty Jan 2005!

Some More “Experience”?

- **MTM Agrochemicals**

- anthrax discovered on a site
- treated it correctly
- friends of the earth found out
- local radio rang me for a live interview!

- **Lifting Gear Products**

- director passing off wire ropes as UK made
- Anton pillar served
- falsified test certificates
- successfully defended wrongful issue of AP
- could not save the company

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Even More “Experience”?

- **MTM**

- sold the company to an Indian chemical manufacturer. Young son was my boss. Made me get off a plane and return to the office as I did not have his permission to fly! I resigned the next day!

- **Eurofiltec**

- found the buyer accepting “back handers”, warned him, he continued then sacked him. Company came out on strike!

Is It Worth the Effort?

- It is the most exciting, stimulating and satisfying job in the world.
- The biggest thrill is when shop floor employees thank you for your efforts.
- The biggest risk is falling in love with the company and not being able to buy it!
- But



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But

Learn the difference between :
“Turn and Buy”



And
“Turn and Bye”



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The Moral

- Don't turnaround too fast or in an uncontrolled way or
- You could get stabbed in the front!



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Good buy?

Now its my turn to
TURN AND RUN

I hope you have as much fun!
TURNING AND RUNNING

.....Thank you



Good bye!

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