

# turnarounds & workouts

News for People Tracking Distressed Businesses

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## Focus on the Future

### Firm Aims For Stabilization Beyond the Balance Sheet

By Stacy Notaras

A company is in trouble. The balance sheet is wet with red ink. Mismanagement is rampant. The creditors are grumbling. Bankruptcy's a given. A new buyer is a far-off dream. Liquidation fears loom large.

While this might be a nightmare scenario for most, it's an appealing set of details for Morris Anderson & Associates LTD. This management consulting firm focuses on distressed companies facing turnaround crises - and there've been no shortages in that category in recent months. The firm has a professed aim not to give into the liquidation mandate - but rather, to mount a careful review of a company's options and place the right people and resources in to bridge the company to an actual sale as a going concern.

"We're brought in to stabilize the company and, frankly, to minimize the amount of cash that's consumed over the two, three, four month timeframe while the investment banker is doing his magic trying to bring buyers to the altar," noted Principal Daniel Dooley. "The reason that happens is that the value of a company as a going concern, as compared to its liquidation value, usually is 30 percent to as much as 100 percent higher."

That's music to investment bankers' ears. Pat Goy, managing partner of Lincoln Partners LLC, has worked on several deals with Morris Anderson and emphasized the benefits of having a turnaround team on the scene to stabilize a distressed company. "Morris Anderson has brought in not only the financial accounting perspective, but also the product supply chain and marketing people. They're very much not just a crisis manager, but the total focus of all of the aspects of the business, so that guys like us will come in and be way down the road as far as being able to present the issues regarding products, competition, sourcing and logistics.

"It's a lot easier for us and quicker for the process when you have that holistic approach, versus a crisis manager's typical m.o. which is cash, cash, cash. They do that, but from my experience with Morris Anderson, it's a group that can look at other disciplines as well, so that when we're presenting a company we're going to be able to answer all of the key data points as far as enterprise value," Mr. Goy said.

Bridging a company to sale involves more than pushing numbers around a balance sheet. The crisis managers involved

must have a mastery of multiple disciplines in order to appropriately gauge the entity's prospects. Marketing, manufacturing and information technology each carry significant weight in terms of maintaining a company's performance while awaiting a new buyer, Mr. Dooley said.

He made the example of how Morris Anderson has worked to build up its information technology workout expertise. "In the wake of Y2K, lots of people put in new systems, typically with very expensive software that cost them a fortune. It took a long time to install and hasn't produced nearly the results that they had hoped for nor been promised. We unravel a lot of systems problems in our middle market clients and do it rather quickly and cheaply," he explained.

SSG Capital Advisors LP is another investment banking firm that has worked with Morris Anderson on several cases requiring such stabilization. Managing Director Matthew Karlson noted that having a skilled crisis manager in place at a distressed company allows investment bankers to do their own jobs better. "You have to look at what brought the company to the situation that it's in - it's usually a management issue as opposed to just an over-leveraged situation in an economic downturn. In a crisis manager, we're looking for someone who can really step in and act as the senior management team of the company, not only from a financial standpoint, but also an operating and marketing standpoint. You need someone with depth and breadth of knowledge," he said.

Stabilization circumstances demand quick action, Mr. Dooley explained, making the example of Boston's Goldman Industrial Group, Inc., a company for which he recently acted as chief restructuring officer. SSG Capital Advisors was the investment banking firm involved with the Goldman case.

"We filed in Delaware in February 2002. This was a company bleeding profusely. We were engaged on Thursday, had a DIP budget agreed to on Monday, I shut two plants on Tuesday and we filed on Wednesday - kind of a tough timeframe," he said. "There were three separate businesses and we had to get the use of cash that was going to be required over the bankruptcy period to a point that the lender would be willing to fund us to get the primary business, Bridgeport Machines, sold during the bankruptcy process. That took six months to get sold. In that situation, the lender had to invest about \$5 million