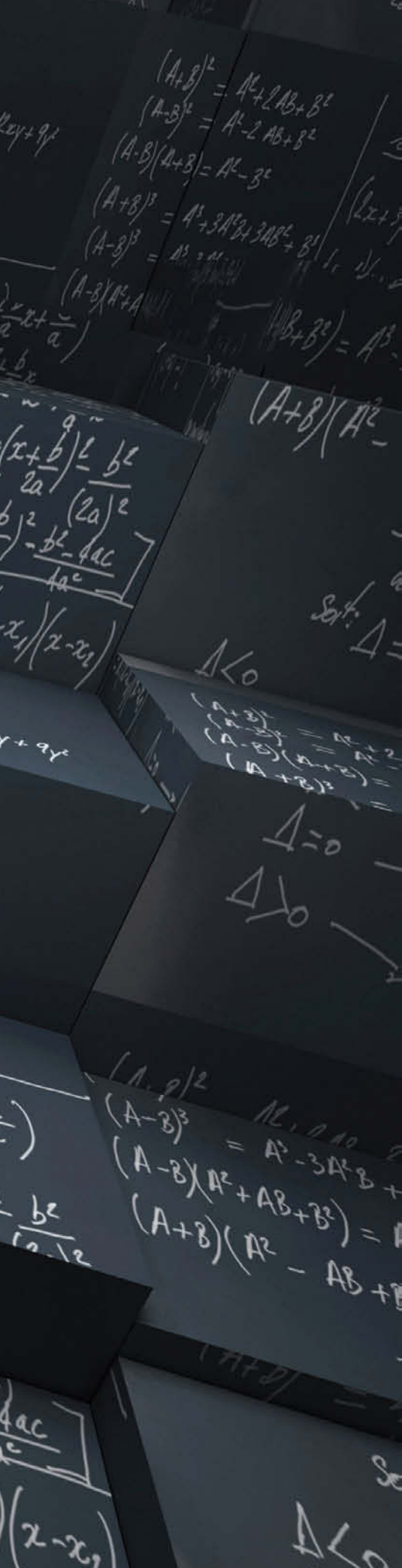
The background consists of numerous overlapping sticky notes with handwritten mathematical formulas in white ink on a dark grey background. The formulas include algebraic identities like  $(A+B)^2 = A^2 + 2AB + B^2$ ,  $(A-B)^2 = A^2 - 2AB + B^2$ , and  $(A+B)^3 = A^3 + 3A^2B + 3AB^2 + B^3$ . There are also quadratic equations  $ax^2 + bx + c = 0$  and their solutions using the quadratic formula  $x = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a}$ . Some notes mention 'on considère que' and 'cas:'.

# A SUCCESSFUL FORMULA FOR A LAB TURNAROUND: ANALYTICS, INC.

By Terry Bartz and Aaron Gillum

The authors share the steps they took to lead Analytics, Inc. – a group of four Midwestern analytical chemistry laboratory businesses – through a successful turnaround. Their process involved three steps, Triage, Restructuring and Investment Banking, and ultimately led to double-digit sales growth and the creation of 15 new jobs.



The onset of the Great Recession in 2008 activated Darwin's natural selection among businesses — culling the ailing, the weak and the marginally profitable operators from the business herd. According to Darwin, only the strongest and best genetic traits survive the winnowing process that is the daily fight for survival, producing a stronger and more viable species. Likewise, in today's economy, only those companies with the strongest business plans will prosper as the cycle slowly improves.

Such is the story of one of MorrisAnderson's clients, Analytics, Inc. By 2010, a group of four independent laboratories — all with the same owner but each with their own brand identity, service offerings and staff — was under pressure from its secured lender, which had extended a \$26 million line of credit to the company. A recent history of mounting losses, strained personal relations and broken promises by the owner forced the lender to take action to protect its financial position.

The dilemma was how best to preserve the value of the independent laboratories' pledged assets, because a straight foreclosure and liquidation of the separate businesses that composed Analytics, Inc. would have yielded a minuscule recovery, around 15% to 20%. Due to the diverse geography and the multiple corporate structures within the laboratories, the lender determined that an Article 9 foreclosure combined with a federal receivership was the best solution. The lender concluded that this solution would afford the appropriate mix of control and flexibility over the entire business, enabling the company and the lender to stop the losses at one unit while combining the assets of the remaining three units to maximize credit recovery.

In April 2009, the foreclosure began, and the most underperforming of the four laboratories — Azopharma — was liquidated. MorrisAnderson was retained to serve as receiver for the

estate and to maximize the value of the remaining three businesses — Chemir, Cyanta and CAS-MI — as going concerns until they could be sold and the proceeds distributed to the creditors in order of priority. Around this time, the lender received an offer from a distressed private equity buyer to purchase all of the assets of the remaining three laboratories for \$5 million — an offer the lender declined.

### The Players

Just prior to the time that MorrisAnderson assumed the receiver role, the three companies had 2009 combined sales of \$13.3 million and approximately 70 full-time staff, most with advanced degrees. Chemir was a 50-year-old non-routine, analytical chemistry laboratory in St. Louis, MO, specializing in solving unique problems that other labs could not crack, such as material and contaminant identification, failure analysis and product reformulation. Cyanta was a pharmaceutical chemistry laboratory next door to Chemir, specializing in analytical and bioanalytical services and medical devices. CAS-MI was an analytical chemistry laboratory specializing in paints, coatings, adhesives, sealants, polymers and product development located in Ypsilanti, MI.

### The Challenge

At the outset, the following issues required immediate attention and operational expertise:

- ▶ High instances of fear, uncertainty and doubt (referred to as the "FUD factor"), leading to low staff morale
- ▶ Flat or declining sales at two of the remaining business units
- ▶ Lack of a comprehensive strategy within each separate business unit and for the three businesses collectively
- ▶ An inexperienced management team
- ▶ Trade creditors reluctant or unwilling to extend credit
- ▶ Well-known customers rattled by the companies' receivership status.

The most pressing issues initially were the lack of a unified direction for the three companies and the distrust shown by employees, vendors and customers due to the company's receivership status. Employees did not understand what a receivership meant in terms of job security and continuation of benefits. The companies' vendors had been subjected to inconsistent payment terms and increasing accounts receivables balances for months. The customers, many of which had long-term investments and projects with the companies, were concerned that the businesses would either close or be unable to deliver the high level of science and service necessary to meet their needs.

### **The Solution**

MorrisAnderson approached the situation in three defined phases:

- ▶ **Phase One: Triage** — An intensive process undertaken to provide leadership, stabilize the immediate situation and assess the most critical challenges and opportunities.
- ▶ **Phase Two: Restructuring** — Development and implementation of a new business plan to consolidate the three surviving business units into one enterprise, including the implementation of a rigorous cash-management and collections process, improving operational alignment and emphasizing repeat business from existing customers.
- ▶ **Phase Three: Investment Banking** — Market and sell the restructured company as a valuable going concern to a qualified buyer.

### **Phase One: Triage**

To ensure business decisions were made quickly and effectively, Terry Bartz was approved to lead the three companies during the receivership. MorrisAnderson's priority was to hold company-wide employee meetings to share information about the receivership and make them aware of immediate plans. Because all but two members of Cyanta's former staff

had been let go and the company was barely operating, another immediate initiative was to recall former employees and resume operations.

After addressing these staffing concerns, MorrisAnderson, together with senior executives from Analytics, Inc., proactively reached out to customers and suppliers, most of which were already distancing themselves from the business due to fears about the company's legal and financial condition. Rather than hide or disguise the truth about the company's receivership status, MorrisAnderson, together with the companies' senior managers, opted for transparency by holding seminars and calls with customers and vendors. MorrisAnderson advised senior relationship managers at each company to visit their customers and invite them to tour the Analytics, Inc. laboratories. This demonstrated the company's operational stability and continual efficiency improvements resulting from the strategic operating plan.

This proactive communications strategy paid off. Within months of the receivership, Analytics, Inc. was back to normal terms with more than 75% of its vendors and, during the first three months of the receivership, the companies lost only one major customer. Many customers actually increased business during the first quarter of the receivership, with more than 50% of total sales coming from repeat clients, as opposed to the pre-receivership average of less than 25%. Through candid conversations with customers, MorrisAnderson determined that most of the repeat business was a direct result of the companies' open communication with customers and vendors.

While triaging, MorrisAnderson introduced a 16-week cash-flow analysis and monthly departmental budgets for sales and marketing staff, and it enforced a stringent collections process for accounts receivable, including hiring a full-time collections staff. These new financial and operational controls, most significantly instituting a formalized receivables-collection

process, allowed MorrisAnderson to collect over \$1 million that had been on the companies' books for more than 90 days.

### **Phase Two: Restructuring**

The principal objective of the Analytics, Inc. receivership was to maximize recovery on the assets for the secured lender. Due to a shared competency and many shared customers among the separate businesses, MorrisAnderson determined that the three companies would be best served by operating as a single enterprise — known as Analytics, Inc. — to exploit economies of scale and efficiencies in shared services and centralized information.

To accomplish this unification, MorrisAnderson developed a strategic operating plan for 2010 and 2011, with input from senior staff members and middle managers, to ensure organizational buy-in of the finished product. The plan included specific and measurable objectives so that it would be clear it was an important company asset and not just a ploy to secure investors. One of the most valuable by-products of this strategic planning process was the creation of a strong and motivated leadership team that shared a common goal and a unified message.

Sales increased dramatically during phase two, with the company setting monthly sales records of \$1.3 million in June 2010 and \$1.5 million in November 2010. Business improved to a level where management decided to add staff to handle the increased workload.

During phase two, MorrisAnderson also overhauled the company's entire information technology (IT) infrastructure to handle efficiently the high volume of data and electronic records that Analytics, Inc. accessed daily. A comprehensive audit revealed that the IT infrastructure was worse than originally perceived and that frequent network failures were impairing the company's ability to access data and communicate electronically with customers.

Although the IT upgrade was expensive and not typical during a receiver-

ship, MorrisAnderson determined it was necessary to ensure Analytics, Inc. had the capacity to meet current customer obligations and forecasted sales growth. All prospective purchasers of the business, which had uniformly identified the aging IT infrastructure as a business liability, received this improvement well. The IT upgrade also greatly improved employee morale and productivity.

### **Phase Three: Investment Banking**

The final phase of MorrisAnderson's engagement with Analytics, Inc. involved selling the company's assets and distributing the proceeds to creditors. During the course of the receivership, parties interested in the eventual sale of Analytics, Inc. contacted MorrisAnderson. This list, together with selected private equity firms and strategic acquirers, soon topped more than 250 potential investors.

MorrisAnderson developed a document outlining the company's assets and distributed it, along with a nondisclosure agreement (NDA), to the potential investors. The response was overwhelming, with more than 50 investors showing interest in the sale and signing NDAs.

### **The Result**

During late summer and fall of 2010, MorrisAnderson worked with the Analytics, Inc. management team to develop an effective investor presentation and subsequently held 12 on-site presentations for potential investors, resulting in nine letters of intent to purchase the company. MorrisAnderson ultimately selected a stalking horse bidder, Evans Analytical Group, Inc., and negotiated a definitive asset purchase agreement (APA) to sell all assets of Analytics, Inc. for \$23 million, nearly five times the \$5 million offer the lender received at the start of the receivership.

The proceeds of the sale, when added to the proceeds from company operations and the Azopharma liquidation, repaid all of the secured

lender's principal debt. This recovery was especially notable, given that the lender had been prepared to write down the loan by almost 80% before MorrisAnderson took the assignment, and because the turnaround took place through a federal receivership. Despite the receivership, all jobs were saved across the three original companies and 15 jobs were added. During MorrisAnderson's tenure with the company, sales grew 23% and EBITDA improved 40% from \$3 million in 2009 to \$4.2 million in 2010. In 2011, Analytics, Inc., under the management of Evans Analytics, Inc., is targeting \$16 million to \$17 million in sales and at least \$5 million in EBITDA.

Tailored turnaround strategy + buy-in from senior leadership = a 100% success. Now that's a successful formula. **TSL**

Terry J. Bartz is a managing director at MorrisAnderson, a leading financial and operational advisory firm specializing in insolvency services. Bartz has extensive experience reengineering organizations for optimal performance and value. He assists companies with improving their business strategies, investor relations, securing private investments, business expansion, marketing communications and turnaround facilitation. Bartz holds a juris doctor, cum laude, from Hamline University School of Law and a bachelor's degree in business from Gustavus Adolphus College. He can be reached at [tbartz@morrisanderson.com](mailto:tbartz@morrisanderson.com).

Aaron G. Gillum is a director at MorrisAnderson. Gillum has more than seven years of experience in strategic and restructuring consulting to Fortune 500 and middle-market companies. He assists companies with turnarounds, organizational change, financial management, private equity investment and sales and marketing strategy. Gillum earned a master's degree in business administration from the University of Chicago's Booth School of Business and a bachelor's degree in economics and public policy from the University of Michigan, graduating with honors. He can be reached at [agillum@morrisanderson.com](mailto:agillum@morrisanderson.com).