A Better Solution for Managing Underperforming Portfolio Companies

- Outsourcing Delivers Effective, Low-Cost Results in Record Time -

Private debt and equity fund raising continued growing at a record pace last year and is expected to stay on trend in 2019. In stark contrast to this dynamic growth however, *fund performance* is declining and that too is expected to continue into 2019 and beyond. If you're responsible for *fund performance*, as opposed to *fund raising*, this much less talked about phenomenon is coming into focus and causing heightened concern in private equity executive suites over how to respond proactively and more effectively.

In fact, today's market conditions and current business cycle are putting *unprecedented pressure on marginal operating companies*. Both reported and anecdotal evidence show performance of the bottom percentile *declining at an accelerating rate*:

- Average performers are becoming marginal performers
- Marginal performers are becoming under-performers
- Under-performers are becoming distressed
- Distressed companies are liquidating, imposing significant financial as well as reputational losses on their investors

Moreover, this domino effect is not just about the growing *number* of distressed and underperforming companies. It's also impacting overall fund performance, delaying exit timelines and lowering exit multiples.

Traditionally, private equity funds tended to keep under-performing portfolio companies off their radar screen, feeding working capital to kick the can down the road while hoping for a reversal of fortune. Management's excuses for missing plan and perennially optimistic forecasts were tolerated. It was industry practice that, as long as top performers delivered out-sized returns, bottom performers were allowed to muddle along.

That dynamic is rapidly changing.

In a recent conversation with a $5b New York-based private equity fund, I was told that the number of poor performers in their portfolio was at an all-time high, and that "*it came out of nowhere.*" Five of these underperforming companies were generating revenues in excess of $250 million.

"Given the skill and intensity needed to turn a company around, our internal team just wasn't up to the task," I was told. They could no longer ignore the worst offenders. "*We've never had to deal with this on this scale."*

They were facing the prospect of incurring extraordinary fees to hire an outside team of turnaround experts, an expense that in many cases compounds the problem. They also worried that, especially in their highly-leveraged holdings, declining performance might trigger a death spiral, spinning at an accelerating rate as the recovery runway gets shorter and shorter and viable options start disappearing. From retail to manufacturing, distribution and services, declining cash flows trigger delayed payments to suppliers, leading to leaky supply chains and a potentially devastating contraction of working capital.

The traditional approach of attacking expenses and managing a turnaround in-house is no longer effective, and now we can clearly see why:

1. *Management is not qualified*. The skills needed to manage a turnaround are entirely different from the skills needed to run a business. Executive management also tend to be optimists and go to great lengths to defend their strategy while pointing to upside opportunities just around the corner. They see solutions within the confines of biases and preconceptions. *Only an independent, third-party turnaround expert can effectively deal with the realities on the ground*.
2. *Managing Directors are not qualified*. Even private equity managing directors with exposure to turnarounds in their resumes rarely have the on-the-ground depth of operating experience needed to be effective in a complex turnaround that needs to touch every aspect of a business from operations to sales and marketing, product development and procurement as well as deep SG&A reductions that don’t cut too close to the bone. Many funds that have tried to manage turnarounds in-house are now scaling back.
3. Focusing leadership and management on a turnaround is a major distraction from running the day-to-day business, often with longer-term consequences.

The good news is that those who choose a better approach to managing the turnaround process will see companies return to profitability faster, restore exit timelines and maximize exit multiples. In the next 60 seconds, let’s explore whether my experience as a turnaround specialist might offer a better solution.

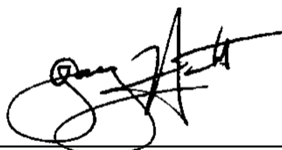
Synergy is a Better Solution. It may be time to take action and put your turnaround(s) in the hands of a veteran of restoring companies to financial health. Here are just some of the reasons why Synergy can produce better results at a cost far below in-house or traditional turnaround firms:

1. Depth of operating experience
2. Hyper-focused on the critical turnaround activities that will deliver the biggest improvement to cash flow in the shortest time while also being practical and affordable.
3. Well-defined, time-tested process: no trial-and-error and no preconceptions or biases.

4. Sense of Urgency – A plan of attack is formulated and tested in weeks and in many cases the turnaround can be completed in just months.
5. 24/7 personal commitment to bring the turnaround to completion. No delegation to junior staff.
6. Unlike most turnaround professionals, my approach is collaborative and non-confrontational, working in close concert with both ownership and management.
7. Outstanding Track Record *(see below)*

If you have one or more distressed or underperforming companies in your portfolio and are interested in learning more, it would be my pleasure to speak with you confidentially, under NDA, to see whether a relationship might make sense. I can be reached at the numbers below or by email.

Thank you. I will look forward to hearing from you.



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Record of Accomplishment

Here are some examples from my transaction history. Virtually all of these companies were on the verge of bankruptcy at the time I became involved:

Toronto-based $200 million privately-owned Designer and Distributor of Insulated Consumer Products. 90-Day advisory project to restructure the company and help return to profitability.

AmerTac, Inc: $60 million NJ-based Designer and Distributor of Home Lighting Products and Accessories. Acquired from Heritage Partners in 2009; turned around and sold to a Dallas-based competitor.

DPI, Inc: $180 million St. Louis Manufacturer and Distributor of Consumer A/V Products. Acquired in 2004; turned around and sold to a Dutch company.

Northern Group Retail: $100 million Toronto-based Retail Women's Apparel Chain. Acquired at the doorstep of a shutdown from FootLocker in 2001, still operating profitably 18 years later.

Gemini Industries, Inc: $180 million NJ-based manufacturer/distributor of Philip's and Zenith-branded Consumer Products. Acquired from Merrill Lynch Capital Partners in 2000; turned around and sold to Philips Electronics.

Kmart Canada, Ltd: $1.2 billion Toronto-based Big-box Discount Retail Store Chain. Acquired in 1997; turned around and sold to Hudson's Bay Company.

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