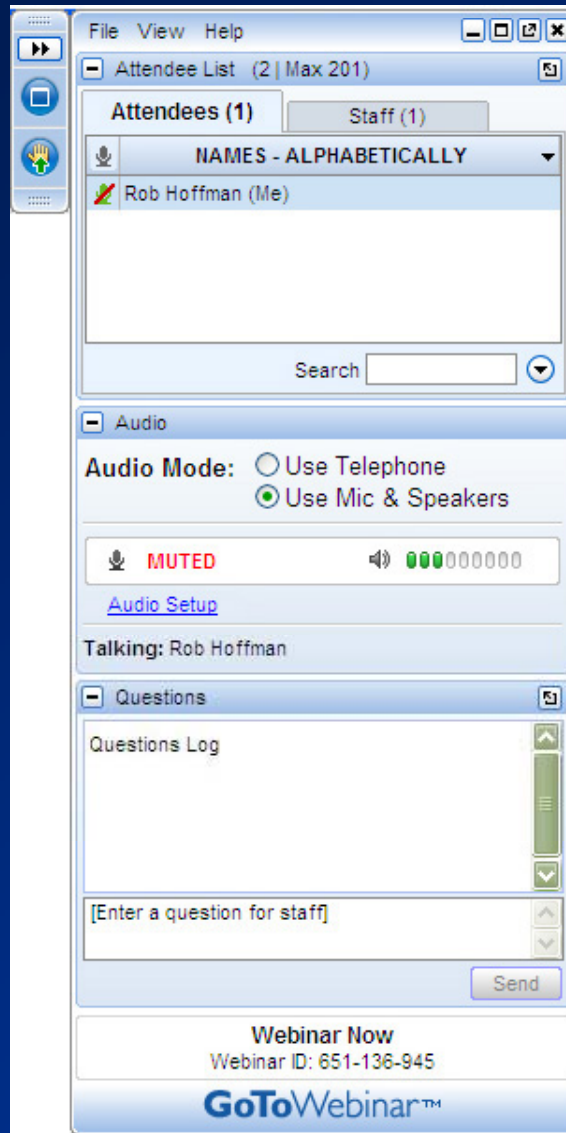


ANATOMY OF A TURNAROUND

Presented by: Richard Wirth



Tuesday, April 28, 3 p.m. EDT



Moderators

Denise Rondini, Editor



Derek Smith, Editor



Let's take a poll



Does your business plan include contingencies for worst-case scenarios?

Seminar Objectives

- Overview of the turnaround process
- Learn what owners / managers must do at the first sign of trouble
- Tips to turn around your business
- Individual confidential business assessment

Seminar Structure and Approach

- Framework to understand why turnaround initiatives are necessary in the normal course (not only in a crisis).
- Rational approach that will help you identify and address problems / take advantage of opportunities at the earliest possible time.
- Opportunity to confidentially assess your own business performance.

Background

- High visibility corporate failures in the United States have heightened awareness of the benefits of corporate restructuring.
- The reality is that business failures of all sizes occur every day, particularly in family / closely owned businesses.
- At the heart of these failures is the fact that owners and managers often fail to recognize and respond to internal and external factors that negatively impact a business in a timely manner.
- The solution is early recognition of what it takes to rehabilitate a distressed business.
- Waiting and indecision results in the only solution being failure with the potential for liquidation that will negatively impact all shareholders.

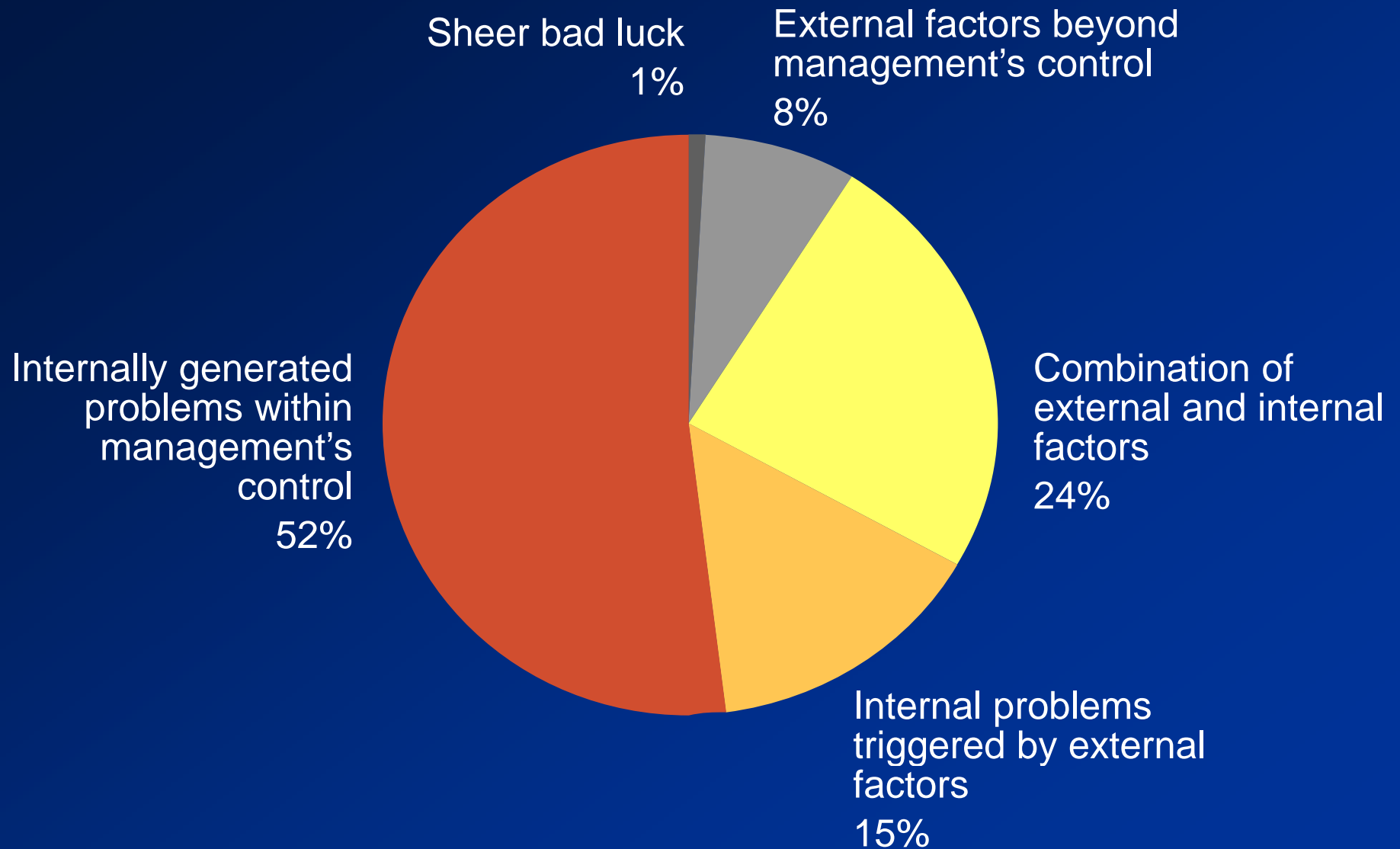
The Enemies

Time
&
Indecision

REALITY CHECK

- Every business, at any point in time, is moving toward a breakthrough opportunity or a crisis.
- The key to success is the ability to make timely, decisive decisions that take advantage of opportunities before they are lost and to address problems before they become a crisis.
- Maintaining the status quo is a recipe for disaster

Causes of Business Failure



Source: Association of Insolvency and Restructuring Advisors

REVIEW

- Every business, at any point in time, is moving toward a breakthrough or a crisis.
- A business is never in managerial, operational or financial equilibrium.
- Key to a successful turnaround is the ability of management to react in a timely manner to opportunities or problems.
- When management is proactive, there is minimal involvement by outside professionals, lenders are supportive, costs are at the lowest level and the chance of success is maximized.
- *Corporate renewal is a never-ending process.*

STAGES OF BUSINESS FAILURE

Early Stage: Stagnation

- Operating margins and other key ratios fall behind industry averages
- Period-over-period revenues flat or declining
- Increased inventory write-downs
- Lack of (or misguided) capital investment
- Problems with integration of acquisitions
- Problems with existing products / services
- Competitive inroads

Mid Stage: Underperformance

- Significant declines in revenue and / or EBITDA as variable costs grow and fixed costs remain constant
- Assets are not sufficiently liquid
- Underutilization of fixed assets
- Needed capital is tied up in receivables and inventories
- Management attention is diverted from traditional functions due to cash shortage

This is the time to keep a grass fire from turning into a forest blaze. However, management may not be willing to accept that problems exist or appreciate the severity of these problems. Indecision and time are the enemies.

Late Stage: Significant Impairment

- Credit and materials shortages occur
- Cash and credit difficulties become apparent to both insiders and the general business community
 - Creditors unwilling to advance further credit
 - Suppliers may refuse to ship altogether
- Increased risk of loan covenant defaults
- Potential loss of key customers and / or suppliers
- Potential loss of key employees

Without proper cash forecasting this may be the first time management is forced to acknowledge a problem. With insolvency looming, action must be taken immediately.

Crisis

- Company enters “Zone of Insolvency”
 - Company cannot pay normal obligations as they come due
 - Inability to service long-term debt
 - Overall payables growth with delinquent payables becoming significant and unmanageable
 - Public / employee acknowledgement of potential business failure
- Without decisive action, “insolvency deepens”
- Bankruptcy may be the only solution

The United States bankruptcy laws may provide the means to restructure.

Bankruptcy isn't easy, it is very costly and the risk of failure is high.

General Warning Signs

- Loss of financial backing
- Loss of major supplier
- Loss of relationships, extended credit terms
- Excessive negotiations regarding credit issues
- Excessive staff turnover / loss of key employees
- Increased vendor concerns
- Excessive time spent preserving relationships
- Increased stock trading and/or declining stock price (public company)

Stakeholders Warning Signs

- Loss of members of the board
- Loss of officers
- Key managers leave without warning
- Difficulty in recruiting key managers
- Ineffective leadership, vision / rigidity
- Cash management is primary activity at the expense of traditional management functions
- Inability to capitalize on potential synergies / opportunities

Cash Flow Warning Signs

- Late or non-payment of obligations
- High percentage of payables over 90 days
- Inability of the company to make timely deposits of trust funds, taxes / pension plans
- Inability to service long-term debt
- Vendors cancel terms and require cash on delivery
- Difficulty meeting payroll
- Line of credit at or above ceiling
- Frequent or continued extensions of credit needed to keep the doors open

Operational Warning Signs

- Loss of major customer(s)
- Increasing operating costs
- Key operating ratios decline
- Decreasing or inadequate margins
- Loss in market share / increasing competition
- Cash-flow shortage
- Unusual or extraordinary litigation
- Significant discrepancies between actual and projected results

Financial Warning Signs

- Default on payment by major customers
- Creative accounting adjustments
- Poor record keeping / inadequate financial records
- Weak internal operating controls
- Lack of cash-flow budgets
- Change in accounting firm
- Excessive bad debt
- Excessive receivables unpaid over 90 days
- Weak collection policy / lack of controls
- Excess and obsolete inventory

Management's Role

- Recognize and accept when a turnaround is necessary – Prolonging this will likely only decrease chances for success
- Make a commitment to the task / time required
- Define roles and responsibilities of key employees
- Quantify the problem, evaluate options and resources, understand advantages, disadvantages, opportunities and consequences
- Establish control over financial data and performance requirements
- Require clearly written and defined plans, quantified and in time sequence with resources identified
- Communicate with all stakeholders
- Engage appropriate turnaround professionals

Creditors' Role

- Involve creditors early
- Ask creditors for a commitment to work with the company to maximize value
- Proactively provide creditors with timely, accurate, consistent feedback on performance

Owner Directed Turnaround is a Better Approach

- **Conservation of Resources**
 - Minimum involvement by professionals
 - Minimize extra costs
 - Faster
- **Continuation of Business**
 - Less disruptive to business
 - Management maintains control
 - Asset base maintained
- **Facilitated Negotiations**
 - More trust and less hostility in negotiations
 - Informal, quicker, less frustrating
 - Agreement is usually faster
 - Goodwill and public relations preserved
- **Time considerations**
 - Rebuild trust with lenders / trade
 - Easier to obtain new financing

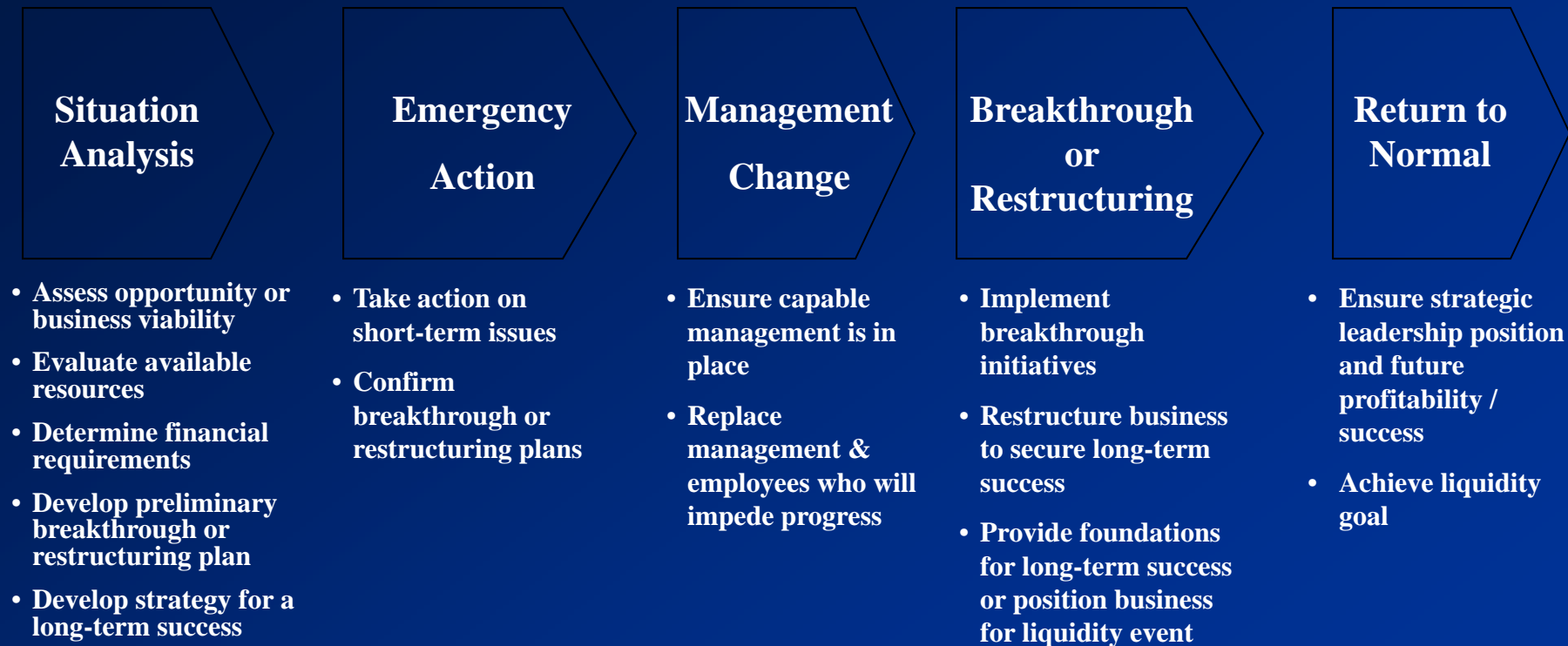
The Turnaround Process

The Turnaround Process - Overview



Stages can overlap and some tasks may impact more than one stage.
Overall, moving through all stages can take 12 to 36 months.

TURNAROUND PROCESS - Detail



Let's take a poll



Are you confident your management team has the skills to spot grass fires before they become forest fires?

Stage 1: Situation Analysis

- The purpose of the Situation Analysis (Assessment)
 - Identify the real problem(s)
 - Determine the severity of the situation
 - Determine viability of business: can it be saved, should it be saved?
 - Create a 13-week rolling cash-flow forecast
 - Identify an effective turnaround strategy
 - New or revised business strategy
 - Specific goals and measurable objectives
 - Develop specific tactical plans
 - Stakeholder communications
 - Revenue increases
 - Margin improvement
 - Cost reduction
 - Asset reduction and redeployment
 - Operating efficiency - throughput
 - Competitive repositioning

Stage 1: Situation Analysis

- Key issues during the assessment
 - Is management capable?
 - What are strengths and weaknesses of the company?
 - What products / business segments are most profitable?
 - What areas should be expanded / liquidated?
 - In what areas do the real potential for this business lie?
 - What direction should this business take?
 - How to communicate with stakeholders, employees, lenders, major creditors, vendors and the community

Stage 2: Management Change

- Select a CEO (CRO) who can successfully lead a turnaround
 - Proven track record
 - Ability to assemble a management team that can implement effective turnaround strategy
 - Acceptable to creditors
- Weed out obstructionists
 - May require replacement of some or all of top / key management

Stage 3: *Emergency Action*

- Critical Issues
 - Cash management
 - Gain control over cash using a 13-week rolling cash-flow model
 - Centralize the cash management function to ensure control
 - Stop cash bleed and enable the organization to survive
 - Layoff employees quickly and fairly (WARN)
 - Stretching out layoffs is poor for employee morale
 - Better to cut too deeply all at once than make small cuts repeatedly; remaining employees tend to lose focus on necessary functions when there is job uncertainty
 - Raise cash internally and externally
 - Review balance sheet for sources of cash
 - Sell unprofitable business entities or assets
 - Secure asset-based loans (if needed)

Stage 4: Restructuring Stage

- **Primary objectives during the Restructuring stage:**
 - Enhance profitability through remaining operations
 - Take action to increase profitability and return on assets
- **Tweak turnaround activities**
 - Revise turnaround strategy if necessary
 - Change focus from cash to profits
 - Conduct product profitability / customer profitability analysis
 - Evaluate employee compensation and reward dedicated employees
- **Fix the capital structure**
 - Renegotiate debt (short and long term)
- **Ensure meaningful (useful) financial / information systems are in place**
 - Use 13-week cash model to manage day-to-day operations
 - Ensure accurate cost data (direct / indirect) is available
- **Ensure that all employees are fully involved in turnaround process**
 - Create team power to root out inefficiencies and promote profitability
 - Maximize workforce efficiency and cut out unnecessary work
 - Continue to weed out and develop personnel

Stage 5: Return-to-Normal

- Institutionalize emphasis on profitability, ROI and value-added philosophy
- Continue to upgrade the management team
- Seek opportunities for profitable growth
- Build competitive strengths
- Shift from cash-flow concerns to maintaining a strong balance sheet, long-term financing and control systems
- Improve customer service and relationships
- Look for realistic expansion and growth opportunities
- Develop succession plan
- Decide on the “end game”

Summary

- Always keep your eye on the following:
 - Market conditions and events that are or could affect your business
 - The efficiency of your internal work processes and systems
 - The efficiency of your manufacturing / service delivery
 - The effectiveness of your administrative processes
 - Financial performance, particularly activities that impact cash flow
 - Management capability: are your managers and key staff ready and willing to do what must be done to ensure performance?
- **Be decisive and timely with respect to decisions that must be made and actions that must be initiated.**

Remember

“Time and indecision are the enemy!”

Summary

- Eight step change process
- Changing the culture

Eight Step Change Process

- Create a sense of urgency
- Pull together a committed change management team
- Develop a vision and strategy
- Communicate for understanding and acceptance
- Empower others to act
- Produce, communicate and celebrate short-term success
- Do not let up
- Create a new culture

*Adapted from "Our Iceberg is Melting" – John Kotter / Holger Rathgeber

Changing the Culture

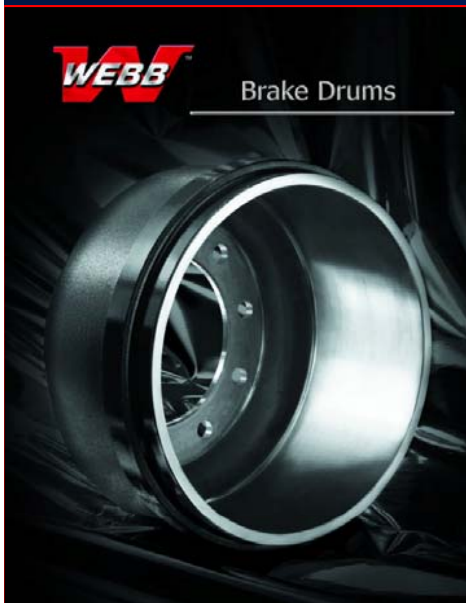
- Review current policies, procedures and work processes
- Conduct regular assessments in critical areas
- Establish or revise standards, guidelines, policies & procedures
- Document, document, document
- Train / instruct management / employees to help ensure understanding and acceptance of goals and objectives
- Ensure everyone understands they have a role in the process
- Foster culture of open, candid communications
- Ensure tone at the top is in sync with tone from the top

Confidential Self Assessment

Richard Wirth
Corporate Renewal Services Florida
352-875-0074
rwwirth@embarqmail.com



Leading Supplier Brake Drums, Hubs, Rotors, Spoke Wheels





Introduces the
WEBB VORTEX
brake drum

Light Weight Plus Performance!



Webb Wheel Products



Webb Vortex® blows away steel shell drums



WEBB VORTEX™

Two things the steel shell guys are afraid to talk about: 1) Excessive **HEAT** 2) Excessive **COST**

If you look into steel shell drums you'll find a bit of a shell game going on. Sure, they're quick to show you the meager pounds that they've shaved, but they're hiding two of their most important product features: excessive **HEAT** and excessive **COST**.

Everybody in this business knows that brakes work better and last longer at cooler temperatures. That's why Webb engineers focused on the two-fold mission of cutting weight **and** improving heat transfer efficiency. Objective

tests prove our success, and you can see the results at www.webbwheel.com/vortex/

Webb Vortex® drums **weigh much less** than standard drums, **dissipate heat much better** than standard and steel shell drums and cost about **\$200 LESS** per tandem axle compared to steel shell. Plus, as a Marmon Highway Technologies/Berkshire Hathaway company, you know

we have the resources to deliver world-class support that will never leave you twisting in the wind.

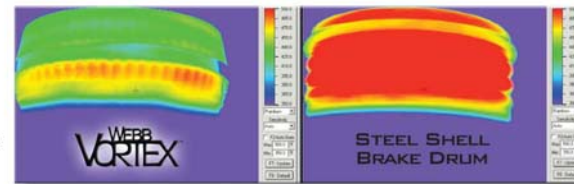


www.webbwheel.com/vortex



Get the ultimate high performance drum without braking the bank

- Lower cost than steel shell drum
- Superior heat transfer
- Light-weight cast design
- Cooler running
- Longer brake and lining life
- Lower cost to maintain
- Patent pending design



These photos taken from the infra-red camera mounted on the Webb Link dyno show a Vortex™ drum next to a steel shell drum at precisely the same moment during braking. Compare the heat (red color) of the steel shell drum with Vortex™, and you can actually see that Vortex™ runs significantly cooler.



Webb's Link dyno simulates vehicle brake performance in an accelerated yet controlled laboratory environment. Data collected here empowers Webb engineers to develop products with improved performance and durability.

Simply better by design

The innovative Webb Vortex™ brake drum came into being through the talented Webb engineering team equipped with the latest CAD systems, solid modeling, finite element analysis, in-house prototyping and the latest dynamometer technology. Their results are astounding.

The patent pending Vortex™ brake drum employs external cooling ribs that conduct heat away from the

brake surface to provide superior heat dissipation. In fact, Vortex™ operates at significantly lower temperatures than steel shell drums.

This means improved braking performance, enhanced safety, lower maintenance cost and longer product life for our customers. Plus, the design is lighter without sacrificing an ounce of strength to give you the ultimate cool running, high performance drum.



www.webbwheel.com/vortex

Questions?





Thank You!