

Turnaround Management SIG

**Harvard Business School
Association
of
Southern California**



Panel

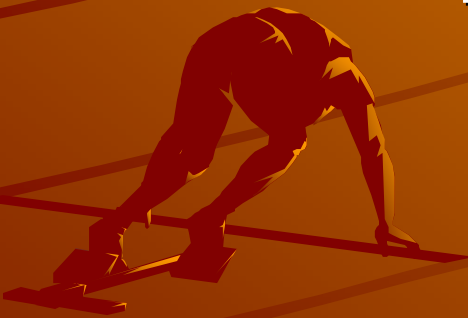
**Edward Story
William Kuehn
Robert Mosier
Kyle Huebner**



Introduction

Remarks on Program

Remarks on SIG



Intro to Bill Kuehn

Background



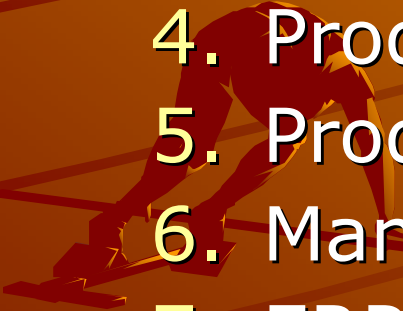
Engagement Background

- ◆ Five years of sales decline: \$900 to \$400 (MM)
- ◆ Unprofitable for 5 years; \$30 MM operating loss
- ◆ Public company with recent issue of \$50 MM subdebt
- ◆ \$50 MM cash on hand
- ◆ Asset based secured credit line firmly in place
- ◆ Common stock declined from \$35/share to \$3/share over five years

Engagement Background Cont'd

- ◆ Leading brand name with high fashion content; international distribution
- ◆ 14 month design cycle with current processes
- ◆ All product manufactured in Far East
- ◆ 5 month delivery cycle
- ◆ Over 50% of product developed by subcontractors
- ◆ Large sales contract with WalMart; also attempting to enter high end markets
- ◆ Significant senior management turnover

Reorganization Plan

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- A silhouette of a sprinter in a starting block, positioned to the left of the list items, symbolizing speed and forward motion.
1. Sales Program
 2. Merchandising Rollout
 3. Inventory Management
 4. Product Cycled Time
 5. Product Development Cycle
 6. Management Reorganization & Morale
 7. ERP System Plan
 8. Supply Chain Contracts

Engagement History

◆ June 1

- Mgmt defers sales department reorganization
- Mgmt defers warehouse staff RIF
- Mgmt initiates Reorganization Plan project

◆ July 1

- hired to “coach” 19 interdisciplinary teams

◆ Aug 15

- Meet with CMB to discuss leadership void

◆ Sept 15 Reorganization Plan –

- layoffs/business process reengineered/organ structure reorganized - \$5 MM charge
- Mgmt resists Consultant involvement with implementation

Engagement History (Ctnd)

- ◆ Sept 22
 - Board requires limited Consultant role
- ◆ Sept 30
 - Consult identifies extreme shortfall in order backlog for next year
 - Mgmt avoids use of Consultant on overall implementation and does not implement mgmt reorganization – focus on short term sales tactics
- ◆ Oct 30
 - Consultant presents 3 CEO candidates to CMB
- ◆ Nov 15
 - Consultant resigns

Aftermath

- ◆ November Fiscal Year End sales \$300 MM. Subsequent year, \$200 MM
- ◆ Subsequent year loss increased from \$59 MM to \$70 MM.
- ◆ Following year file for Chapter 11 and sale of all assets



Turnaround Lessons

Management Lessons

1. Plan reorganization with active participation of turnaround expert.
2. Implement obvious cost reduction and management actions before full planning and implementation.
3. Increase commitment of time required for turnaround planning and implementation.
4. Turnaround expert's value is greatest during implementation – avoid saving consultant fees during implementation.
5. Leadership is crucial during planning and implementation – communication and accountability for action.
6. Leadership must embrace dramatic change.

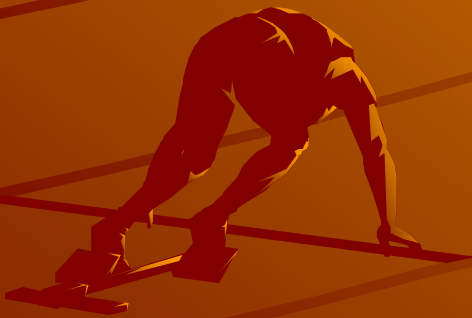
Turnaround Lessons

Consultant Lessons

1. Identify organizational and management issues even those outside of formal workplan.
2. Identify/analyze critical issues even if not part of workplan.
3. Actively communicate with the Board if Mgmt is not cooperating.
4. Be prepared to resign and follow through if client not acting on your recommendations.

Intro to Bob Mosier

Background



Premier Laser Systems, Inc.

**Some unusual benefits of a
Chapter 11 Bankruptcy**



Before the Downturn

- ◆ A spin-off from Pfizer – its laser division.
- ◆ PhD/MD & head of Pfizer R&D is President of new unit.
- ◆ \$40 Million raised in one week to fund the new R&D operation.
- ◆ Lasers for many applications – ophthalmic ; dental, general surgery, veterinary etc.
- ◆ Company goes public.

The Origin of the Problem

- ◆ FDA approval of Er:YAG dental (soft and hard tissue).
- ◆ Stock price soars; market cap \$200 million.
- ◆ Pressure for sales; confirm market demand?
- ◆ Need sales big time – not a novel problem.

What Went Wrong

- ◆ CFO & VP of Sales confirm “almost” sale.
- ◆ Year-end financials reflect progress.
- ◆ Inventory shipped to empty warehouse.
- ◆ Everything looks good, pending confirmation of the actual sale.
- ◆ Shock: the pending sale falls apart.



The Beginning of the End

- ◆ The CFO panics – issues indiscretion letter.
- ◆ E&Y resigns.
- ◆ Stock trading is halted.
- ◆ SEC launches an investigation.
- ◆ A new Board fires management.
- ◆ The bottom drops out: PLS files BK.

The Chapter 11

- ◆ New management hamstrung due to lack of product knowledge.
- ◆ Efforts to sell/further develop products fail.
- ◆ New board/management resign; frustration.
- ◆ Mosier appointed President & CEO; goal: oversee a consensual divestiture plan.

The Elements of the Plan

- ◆ Sell technology and inventory to maximize values and pay creditors.
- ◆ Plan success: (1) maximize values, (2) keep costs in check, and (3) object to claims.
- ◆ Work toward a 100% payoff of creditors to provide benefit for equity shareholders.

Shareholders List Value

- ◆ Most shell sales involve tax deals – NOLs.
- ◆ Very difficult and restrictive.
- ◆ 13,000 PLS shareholders; 18 million shares.
- ◆ Valuable shareholders – inclined to invest in medical startup with high risk.



11USC§1145

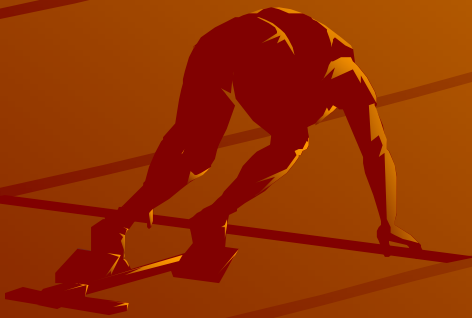
- ◆ Merger through a plan of reorganization.
- ◆ SurgiLight wants its stock in the hands of PLS shareholders.
- ◆ Amendment to the POR.
- ◆ Cost: \$25,000
- ◆ Time: One month
- ◆ Alternative: 6 months and \$250,000!

Conclusion

- ◆ The §1145 exemption can bring added value.
- ◆ Creditors must be paid off first, or approve the plan in the alternative.
- ◆ Think outside the box.
- ◆ Progress to date. 70% of general unsecured creditor payment in the bag. 100% plan possible.
- ◆ Turning attention to shareholders.

Intro to Kyle Huebner

Background



Situation (Oct-2000)

- ◆ Q3-00 EBITDA loss of (\$42M) on \$3M in revenue
- ◆ 10 Products in development but only 2 generating revenue
- ◆ Internet Postage business (90% of revenue) large negative ROI
- ◆ ~700 FTE's (570 Perms) with very complicated org structure
- ◆ Lot of internal management conflicts / different views of the future
- ◆ CEO, CFO, COO left company in the same week

Turnaround Process

- ◆ Assess Current Situation
- ◆ Determine New Goals
- ◆ Design the Plan
- ◆ Create Buy-In (Board and Management)
- ◆ Communicate Plan (Employees)
- ◆ Execute Plan
- ◆ Monitor Results

Turnaround Plan

❖ Strategy Revision

- Focus on the most attractive opportunities
- Focus on profitability and achieving positive cash flow

❖ Organizational Changes

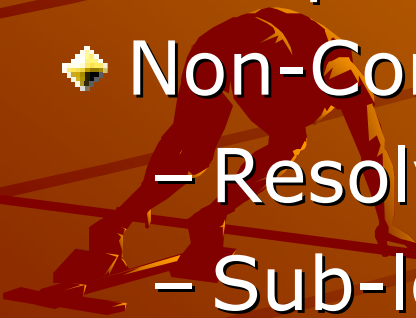
- Create lean, efficient organization (RIFs, re-organization)

❖ Expense Control

- Dramatically reduce all non-revenue related spending

Turnaround Plan (Ctnd)

- ◆ Core Business Economics
 - Achieve positive per customer NPV
 - Pricing, marketing, customer support improvements
- ◆ Non-Core Clean-up
 - Resolve contingent liabilities
 - Sub-lease excess facilities



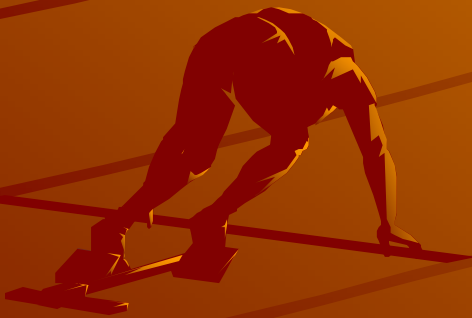
Turnaround Results

Key Metrics	Q3-00	Q3-01	Difference
Service Fee Revenue Per Customer	\$9.80	\$14.50	+80% Improvement
Postage Revenue	\$3.7M	\$4.6M	+24% Improvement
Gross Margins	-34%	66%	100 Point Improvement
Postage Marketing Spend	\$21.8M	\$1.3M	94% Reduction
Customer Acquisition Cost	\$226	\$57	75% Improvement
EBITDA	(\$41.8M)	(\$2.4M)	95% Reduction
Cash EPS	(\$0.80)	(\$0.04)	95% Reduction

Turnaround Lessons

- ◆ Turnaround is multi-faceted
 - Strategy, operations, cost-cutting, organizational, legal
- ◆ Credibility is very tough to re-gain
 - Board, investors, employees
- ◆ Objective analysis of data was key for internal management
 - Ability to admit what's working and what's not
- ◆ A unified management team is critical

Conclusions



SIGs, Readings & Links

♦SIG Possibilities

- Lunches – Informal
- Speakers
- Mutual Consulting (a la YPO, TEC)
- Subjects:

- ♦Distressed Lending
- ♦BK Process, Etc.

♦Readings & Links

- Gilson
- Ironwood Advisory
- Mosier & Co.

