

## TURNAROUNDS ARE LIKE CARDIAC SURGERY

by Larry Hennessy, Principal and CFO of MorrisAnderson



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Principal and CFO

Several years ago, troubled by heartburn, my wife went to see her doctor. She came home six days later, following triple bypass surgery.

At the time, my 40-something wife was seemingly healthy, but had some bad habits such as smoking, a high-cholesterol diet and little exercise.

Having participated in a very successful turnaround some months earlier, I was struck by the startling similarities between cardiac surgery and turnaround management.

### Here's why:

The heart delivers the lifeblood of the person through five major arteries to all parts of the human body. When arteries become blocked, surgery may be required to reroute the blood. Unfortunately, not all patients survive cardiac surgery.

The corporation delivers cash, the lifeblood of the company, throughout the organization. If a company's cash disbursements exceed receipts for any prolonged length of time, the company becomes financially distressed and can die. Turnaround managers treat negative cash flow similar to the way cardiac surgeons treat insufficient blood flow. As we know, however, not all troubled companies or heart patients survive.

Consider an insulation manufacturer with \$60 million in annual sales and five manufacturing locations. When MorrisAnderson was hired, the company was bleeding more than \$1 million per month, lenders were not receiving full P & I payments and vendors were screaming for cash.

To buy more time to assess the company's longer-term viability, MorrisAnderson immediately implemented strategies to put the company on a voluntary "COD equivalent" basis. Additionally, accounts receivable collection efforts were redoubled and daily invoicing begun to garner as much collateral potential as possible.

Similarly, when my wife's stress test and outpatient EKG suggested she had already suffered a minor heart attack, she was immediately admitted to the hospital, put on an EKG and scheduled for an angiogram to determine the extent of the blockage.

At the manufacturer, MorrisAnderson developed a comprehensive business projection and cash flow model. A MorrisAnderson engineer investigated each plant's processes and efficiency, and a marketing expert evaluated the industry, assessed the company's sales force and interviewed some customers.

My wife's angiogram showed that she needed immediate surgery. We located an experienced surgeon who would rearrange his schedule to do the procedure the next morning, and she was soon on the way to recovery.

The company's recovery took a little longer. Although we determined that several of its products could be sold at good margins to a substantial market, the company had ineffective senior managers, seriously bloated overhead, unproductive expenses and price issues with both vendors and customers.

MorrisAnderson stepped in as interim COO and interim CFO. Six months later, when the company was in much better health, a new president was in place, the controller had taken over most of the CFO duties, and the sales force had been reorganized. One plant couldn't be fixed, so it was closed.

In addition, corporate expenses were slashed, process improvements reduced payroll and scrap, overtime dropped dramatically and a reasonable supplier payment plan was put in place. At the same time, several customers were effectively fired through price increases, a new credit policy was implemented, and price reductions were negotiated from several major vendors.

Today, my wife is fine. She doesn't smoke, she exercises and we're all eating much healthier.

As for the manufacturer, EBITDA reached \$350,000 per month, vendors are paid in 45 days, and the company was again marketed for sale on a significant multiple of earnings basis.



**Phil Ostroski** has joined MorrisAnderson's Milwaukee office as a Managing Director. Ostroski, a financial services executive with a proven ability to transform under-performing and start-up companies into sustainable businesses, has extensive experience with middle-market lending, business risk valuations and business development. Before joining MorrisAnderson, Ostroski was president of Associated Commercial Finance in Milwaukee, the asset-based lending subsidiary of Associated Banc Corp. He is also a 20-year veteran of Bank One in Milwaukee, where he was a senior vice president when he left.



**Aaron Gillum** has joined MorrisAnderson's Chicago office as a Consultant. He is a finance and strategic management professional with experience in manufacturing, telecommunications, government, health care and financial services. Before joining MorrisAnderson, he was a senior associate and later a manager with Diamond Management & Technology Consultants.



**Alpesh Amin** has joined MorrisAnderson's Chicago office as a Consultant. He brings to MorrisAnderson more than nine years of experience in the areas of corporate finance, restructuring and banking in the financial services, private equity, real estate, automotive, distribution and food and beverage industries. Prior to joining MorrisAnderson, Amin held consulting positions in Chicago with Huron Consulting Group's Corporate Advisory Services office and Bridge Associates, LLC.