TURNING UNDERPERFORMING BUSINESSES AROUND

A PRACTICAL GUIDE TO EMERGING UNSCATHED FROM THE UPCOMING SURGE IN BANKRUPTCIES AND ECONOMIC TURMOIL

JUNE 2021

EIGHT INTERNATIONAL

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FOREWORD

It has been a bit over a year since we went into the first Covid19-lockdown. This was one of the most brutal shock to the world economic activity since the second World War. Today, with the rapid development and distribution of vaccines a return to normality seems to be within grasp. Although the full extent of the economic damage might not be fully tangible today, it is more than real.

In spite of the worst recession in generations, bankruptcies have not risen yet. Rather the contrary. This suggests that the true economic adjustment still needs to materialise. Once the economy goes off government life support, it will become rapidly clear which companies will no longer be able to survive. What's more, as the economies return to (new) normal, we will witness an extraordinary paradox -a situation of a rapid economic increase of the GDP which will be accompanied by a record level of restructuring processes.

To help companies cope with the impact of the covid pandemic we have prepared a useful guide to emerge unscathed from the upcoming surge in bankruptcies and economic turmoil.

Eight Advisory Turnaround & Restructuring Team

COMPANY TURNAROUNDS AT THE DAWN OF A NEW ERA

The current COVID-19 health crisis, coupled with the economic and social crisis we are going through, is unprecedented. As the crisis and its economic impact is lasting longer than expected, many experts agree that companies will need to adapt to this new economic context. In a substantial number of businesses, a restructuring or downsizing is becoming unavoidable, certainly with the wave of consecutive lockdowns we are and might still go through. However, with the vaccination process pending all over the world economies will probably fully open up soon and the recovery will be stronger month after month. Being able to finally unfreeze your business is obviously great news, but can also become a challenge. Companies may face some difficulties to face to customers requests in terms of volume, in comparison to the 2008/2009 crisis, when the recovery process took much longer.

Corporate restructuring is not a recent phenomenon. In order to preserve the going concern of the business, companies need to align their structure to this new environment which is likely to continue over a longer period than initially estimated and may also result in completed change in business models going forward.

Let's look, however, at the context of this year 2020, which is unquestionably out of the ordinary. The COVID-19 crisis has significantly shaken the global entrepreneurial landscape, especially for those companies being directly exposed to the consequences of lockdown periods.

Numerous governmental measures that were taken to support businesses have made it possible for some companies to compensate for the loss of revenues and to an extent maintain a level of acceptable liquidity. As such it has been possible to limit the number of immediate bankruptcies or judicial reorganizations. The crisis has been managed also thanks to partial unemployment which might turn out to be a huge problem as soon as the public aid measures end and social restructuring will be required.

There are still plenty of variables that impact the position of a lot of companies which might seal their faith and thus fall into bankruptcy or not. As such their actual level of liquidity headroom, the level of new measures by the various governments to support businesses at large, the evolution of the underlying business confidence as well as consumer spending will define the next waves of insolvencies in the coming months. Nevertheless, it is beyond dispute that the long-term effects of the pandemic, together with the lack of short-term or even medium-term perspective is weighing on many businesses.

„Businesses should reflect on tackling structural underperformance issues rather earlier than later, in order to mitigate the negative impact of the current situation. They should start acting today rather than tomorrow”

Trying to withstand turbulence or, conversely, trying to seize the opportunity of the new economic situation is common in the lifecycle of a company. Economic crisis or not, restructuring, i.e. reorienting your organisation to new market conditions, is often the way forward.

CATCHING THE EARLY SIGNS OF DISTRESS

A first step is always to be able to identify the first signs of distress or even anticipate them. The faster a problem is identified, generally the better chance for a successful turnaround. Time is generally not in your favor when facing distress and our experiences shows that management and boards may wait too long to act decisively. This minimizes your available options to negotiate and manouvre out of this position. Acting too late or not having a plan of action in place may results in a bankruptcy.

In situations of distress, financial indicators remain the most widely consulted.
The key indicators are classic:

Turnover | **Financial results** | **Cash flow**

With regards to cash flow, the financial monitoring of customers and suppliers is a key approach to prevent situations of underperformance. Studies have shown that 60% of companies who have experienced cash alerts state that they do not regularly monitor customer and supplier payments. Is this due to a lack of time or tools? Is it due to complex reporting within the company? Or are some of these alerts not coming through to the appropriate management level?

Steering and forecasting operational indicators and monitoring your operation is essential in anticipating situations of underperformance and stress, as these indicators are able to detect an unusual situation prior to the financial indicators.

The main operational indicators include:

Human Resources & high staff turnover | **Problems in production or supply chain** | **Monitoring of disputes and accidents**

Your stakeholders may also look at managerment changes and stock price moving downwards.

As the current crisis is leading a large number of companies into a state of financial and operational underperformance, correctly identifying the indicators that show you your business is in distress is only the first step in finding an appropriate solution. Companies must now focus on maintaining or improving their liquidity profitability, ensure the agility of their organisation to adapt quickly and resolutely to the new situation as well ensuring swift execution of transformation and turnaround plans.

A STEP BY STEP APPROACH

Each turnaround requires different solutions and each process is different. Turnaround processes can go from workforce reductions to disposals, mergers and acquisitions and redesigning operating models. They can even be applied to healthy companies that are experiencing structural difficulties, but they are mostly aimed at companies in difficulties. The goal of every turnaround remains the same, that is to protect and optimize your business while minimizing the negative impacts.

In a turnaround process, we can distinguish the following five phases:

Stakeholder management

1. **Taking a step back**
   To prepare for a transition stage, in order to take measures adapted to the problem encountered.

2. **Defining and announcing achievable goals, action plan and new KPIs**
   This stage is crucial because it initiates the change. It is essential to define realistic goals to be achieved, prepare an action plan and communicate on both internally and externally insisting on the positive effects of a reorganization and – last but not least – align the existing KPIs to the new business strategy.

3. **Unwinding the current business model**
   These changes can sometimes take away employees' day to day structure and can be destabilizing.

4. **Rebuilding**
   The new structure will be put in place and employees will gradually take their positions. New missions, new objectives, but also departures and/or layoffs. Transparency is the order of the day, because both acceptance and rejection are possible.

5. **Integrating**
   It seals the new organization and the beginning of a new life cycle for the company.

Following the above-mentioned key phases you also need to have an experienced team to deliver the results. All your stakeholders will need to feel comfortable on the team that will execute and the turnaround plan. Same stakeholders may seek outside support from professionals that have prior experience in such processes. The important thing is to minimize your risk in every step of the process.

„A well-managed restructuring process allows a company to structurally move forward. To secure efficient and effective results, and manage stakeholders expectations."

THE SECRET TO EFFECTIVELY TURNING AROUND YOUR UNDERPERFORMING COMPANY

Each turnaround requires different solutions and each trajectory is different. Based on years of experience in turnarounds and a study on underperforming companies, which we performed last year, we were able to identify 4 success factors to restore the profitability of your business.

„Fresh cash is king!"

During the last couple of months, the majority of companies has been focusing on cash management. Some traditional initiatives include strict working capital management (both to suppliers and customers), leveraging government support, (economic unemployment, subventions, etc.) and postponing debt repayment in consultation with lenders. Our experience clearly indicates that these initiatives are often not sufficient to implement a fundamental reorientation of the company. 85% of turnarounds require an additional cash injection. A well-founded financial plan is essential to get a clear view on the company's financial needs and prospects going forward.

„It's all about value creating activities!"

When defining a strategy, it is fundamental to take a step back and focus on value creation. Ask yourself the question: 'which activities, channels, products, clients, regions, ..." are currently creating value for your company, both in terms of turnover, margin, EBITDA and cash flow. Be sure to consider the latest trends, as well any fundamental changes COVID-19 might have caused in the sector you are operating in. Saying goodbye to elements that no longer fit your strategy is tough, but they are an essential part of every turnaround.

In addition, to further developing those value creating activities, we want to underline the importance of ambition. If your initial objective is 'damage control', be sure that you will merely reach an underperforming EBITDA. Ambition is key to ensure the effectiveness of your turnaround plan. A plan without ambition will not bring about any fundamental change nor convince stakeholders contribute to the plan.

„Build a successful team!"

A new strategy calls for a new set of skills. In most successful turnaround plans we see a change in executive committee. In more than 80% of turnarounds, 25% of the executive committee is replaced or expanded by restructuring professionals. In 60% of turnarounds, we even see more than 75% of the executive committee being replaced. It is safe to say that most turnarounds require a brand-new skillset, a fresh perspective on business operations, and above all an energizing wind of change through the company.

„Create momentum!"

Creating a momentum and setting the pace are determining factors of a successful turnaround. This momentum can not only be created by a strong management involvement but also by the energy that arises from a new vision and strategy. Having a plan with well-defined deadlines, urgency, responsibilities and objectives is an absolute must.

LEARNING FROM THE PAST

Assuming that economic conditions will most likely be challenging in the foreseeable future, we are eager to share our expertise and provide you with key success factors to improve the profitability of your business and arise from the storm, stronger than ever before.

We traced the path of a sample of companies that decided to carry out a turnaround plan after underperformance last year. We found that a number of those fared significantly better than the rest and got intrigued. What made them different? Was it just sheer luck? Through a survey of 36 questions, followed by a group discussion with renowned experts, we were able to put together some remarkable characteristics in how you as a company can weather the storms.

Based on our results, we are keen on providing you with key success factors to restore or improves the profitability of your business, create value and enable you to arise stronger than ever.

„Take immediate action!"

Even the greatest business leaders can miss the first signs of distress. The very first step is to be able to recognize there is a problem. Today, the decision to start a recovery plan or turnaround plan often comes too late. Learn how to identify the key signs for distress and act, while you still can. Top 3 signs for distress:

82%	69%	56%
EBITDA decrease	**Liquidity squeeze**	**Volume decrease**

„Finance your turnaround plan!"

The most effective plans need a new financing source. The results of our survey clearly state that the most effective turnaround plans included a cash injection.

85%

Most effective plans need cash injection

64%

Cash injection comes from a financial contribution from the shareholders

63%

Outperformance of EBITDA needs new financial sources

„An approach limited to only a cost reduction can't succeed. The risk of investments needs to be evaluated, not solely the impact of short-term cash."

„Build a succesful team!"

Needless to say, management involvement is one of the key success factors of a successful turnaround plan. In addition to that, our study showed that your turnaround plan might be more successful when changes in the executive committee are made.

Not only because most managers struggle to make the shift in mindset needed to make radical changes, but also because a brand-new executive committee can bring the change in dynamic your company needs.

In addition, you may also need to seek a temporary reinforcement of your management team, a Chief Restructuring Officer can support the effectiveness of your turnaround plan.

89%

Successful plans have both a strong management involvement and a fast implementation

14%

I believe a turnaround plan can succeed with the sole involvement of the finance department

„Challenge your current business model!”

Your number one priority to avoid a distressed situation is to systematically review your business plan and start your turnaround with a thorough initial review in parallel with a financial, operational and strategic analysis of your business.

86%

A thorough initial review is a required starting point for a successful turnaround plan

82%

It is important to question the business model while conducting financial, operational and strategic analyses.

„Be both realistic and ambitious!”

To ensure the effectiveness of your turnaround plan, ambition is key, but you should remain realistic. Be ambitious in your operational actions to ensure their effectiveness.

59%

Having the ambition to exceed historic performance is a key factor to entail an over-performing EBITDA

100%

If your initial objective is ‘damage control’, you will merely reach an under-performing EBITDA

„Set the Pace!”

Speed is a determining factor of a successful turnaround. Most succesful turnaround plans are achieved in a timeframe of less than two years.

59%

A successful turnaround plan needs both strong management involvement and a fast implementation (less than 2 years)

67%

Surrounding yourself with experts will allow you to limit the risks, increase results and optimize planning.

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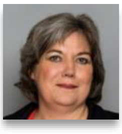

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