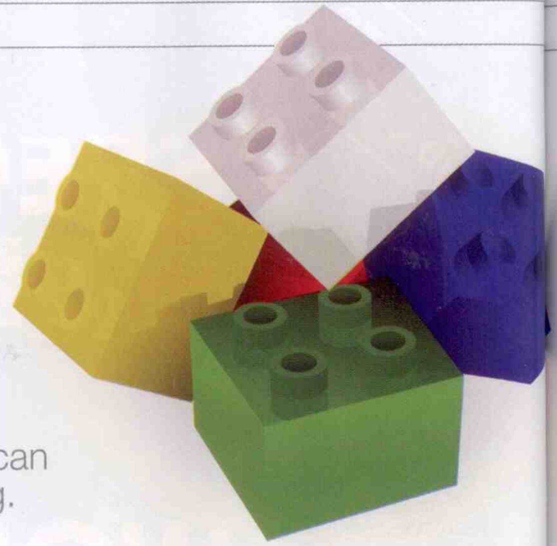
# Reshaping for survival



**Domini Stuart** provides some pointers on how directors can help steer their organisations through a major restructuring.

Before the global financial crisis, restructuring activity was largely focused on growth. Today, companies with a good cash flow or strong balance sheet are still restructuring to innovate, diversify, expand into new markets or acquire new businesses. But, overall, the balance has shifted.

"We're seeing an increase in the number of companies restructuring their affairs, particularly in the mining and mining services industries, but they're restructuring not for growth but for survival," says Alison Robertson, lead partner of Lavan Legal's recovery, insolvency and reconstruction team. "There simply isn't the capital available in the market that there was a year or two ago, plus the market sentiment is less optimistic."

Some businesses are overgeared because assets bought with borrowed money are now worth less or are generating a lower income.

"They're having to look at ways of restructuring their operations and balance sheets to the keep the business viable," says Stephen Longley, a partner at PPB Advisory.

One glimmer of good news is that, as credit growth is extremely tight for major banks, they are more committed to working collaboratively with their clients to help them navigate these challenges.

"The landscape has altered dramatically for the banks since the early 1990s when the level of insolvency appointments was much higher," says Said Jahani, head of financial advisory at Grant Thornton's Sydney office. "Now economic and credit conditions have changed, so a formal insolvency approach doesn't lead to good outcomes for anyone."

Meanwhile, companies the size of Billabong, Channel Nine and Alinta have been attracting alternative capital providers into the market.

"These are the hedge funds and vulture funds, typically based offshore with large amounts of pension or superannuation money that needs to be put to work," continues Jahani. "Their approach to restructuring is very different to the banks'. They want to take control of debt and use that to become the ultimate owners of the business, whereas banks are in the business of lending money, not owning businesses."

### STRENGTHS AND WEAKNESSES

Any restructure needs to begin with a long, hard look at the company's position, including its strengths and weaknesses.

"We often find people who have been running a profitable business for years still struggling to articulate their competitive advantage," says Longley. "Or, if theirs is a commodity product, they're not clear about their pricing position."

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An independent view may be needed to ensure all options are explored and workshopped.

"Strong managers can become attached to an inappropriate plan or try to push through something that's simply a variation of what they've always done," says Longley. "New thinking is important, as is having someone to sanity-test and stress-test management's view."

Perhaps the hardest question for the board is whether the management team is capable of implementing a turnaround.

"Restructuring requires a very specific skill set," says Jahani. "If managers haven't been through it before, they can find it hard to know where to start, and as they're already stressed and under pressure, they can easily find themselves floundering. Even if they do have the capability, restructuring is a full-time job, so who will be running the business?"

### TIME AND COST

One of the most common mistakes is underestimating the time and costs involved.

"Boards should obtain careful, pragmatic advice from the outset as to the best form and strategy for the restructuring, realistic time frames and the ranges of costs involved," says Robertson. "They need to understand the possible forks in the road and their potential impact. For instance, boards sometimes overlook the serious increases in time and costs that can result from having combative counterparties. It is vital that any differences in terms of vision,

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*'If you allow an information vacuum to develop, your stakeholders will start filling it with speculation and assumption, which is very dangerous'* SAID JAHANI

expectations or responsibilities are resolved as quickly as possible."

Robertson advises directors to document any promised funding arrangements and to maintain a realistic view of how likely these are to eventuate. "If funding fails to materialise, there will be loss of confidence and possibly loss of the entire proposed restructuring," she says.

She also recommends keeping a close eye on the possibility of trading while insolvent, not only in the lead up to a possible restructure, but also during the process itself, if the restructure should fail or if the company doesn't survive beyond the short term.

Any major change induces anxiety and creates a hunger for information.

"If you allow an information vacuum to develop, your stakeholders will start filling it with speculation and assumption, which is very dangerous," says Jahani. "The best way to prevent this is with regular communications. Even if you have nothing to report, let them know that and reassure them that you'll tell them as soon as there is. You must also manage their expectations appropriately; if you over-promise and under-deliver, you'll quickly lose credibility."

People who would be hard to replace should be handled with particular care.

*'With some lateral thinking, united stakeholders can even generate solutions and options that may not have seemed possible'* KEITH BAILEY

**IMPLEMENTATION**

If a restructure fails, poor implementation is more likely to be to blame than poor strategy.

"We recommend the board puts in place an appropriately skilled project monitoring committee to review management actions, progress and preparedness," says Keith Bailey FAICD, client director and chief restructuring officer at Vantage Performance. He lists communication, interaction and education as critical to any process of change. "The best way to engage key staff is to get them involved in the development and refinement of the plan so they understand and embrace the strategy and conclusions," he continues.

Key customers and suppliers, employees and financiers not only have a vested interest in keeping the company afloat, they can also be part of the solution. "They might allow more time to implement the plan or provide cash-flow relief," says Bailey. "With some lateral thinking, united stakeholders can even generate solutions and options that may not have seemed possible. But they can only collaborate if you have been communicating with them directly, and with honesty and transparency."

"Your competitors will be circling, but the last thing you need is for your superstars to jump ship in the middle of a turnaround," adds Jahani. "Talk to them regularly to ensure their goals are appropriately aligned and that you are offering the most effective incentives, which won't always be money."

The most resilient companies see restructuring less as a response to internal or external shocks than a continuous process of evaluation and adjustment.

"A regular review of how your business is structured and whether it could be more efficient, cost-effective and aligned with strategy will help you stay in the best shape for weathering challenges," says Longley. "You'll also be positioned to take advantage of opportunities as they arise." ⓓ

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## SIX THINGS YOU NEED TO KNOW.

Vantage Performance's Keith Bailey suggests asking these questions of management:

- What are the risks and our strategies to mitigate them?
- What options are available to us, which have been considered, and why?
- What project controls and monitoring will be in place to ensure key milestones are achieved? What will be the review and reporting cycle?
- Is the change within the organisation's capability and if not, what are our options?
- Has financial scenario modelling been done and what key sensitivity variables did it expose?
- What are the key issues or events that require a decision to proceed or abort?