STORM™

Summer
2007

KEY MANAGEMENT NEWSLETTER & UPDATES

Chairman's Review

The past year has been a busy time at Storm. We have been busy on numerous assignments. The most significant of which was in taking a half-billion dollar manufacturing company out of bankruptcy and turning it into a very successful operation.

This involved all aspects of operational improvements including: restructuring the organization, reducing more than a quarter of the workforce, closing five operations, restructuring union agreements, rationalizing product lines, recruiting key senior management, divestitures, acquisitions, building an infrastructure, productivity improvements, process changes and improvement, and building a sales and marketing team – basically every aspect of the company was changed.

The financial results were most impressive going from a bankrupt company losing money to a highly profitable company in the top tier of its peer group. The result was a significant investment return for the owners.

During this period Storm has also been engaged in numerous other assignments and due diligence projects. Our focus in operating assignments continues to be on improving operations, reducing risk, enhancing the long-term strategic position of the company and building the long-term value of the enterprise. This past year we surpassed our 100th engagement and are currently working on several operational improvement projects for portfolio owners.

As you may know, Storm limits the number of projects we accept based upon our ability to provide superior returns on our activities for our clients. We do not accept assignments unless we believe we can meet the owners' expectations and make a significant impact in the areas in which we are engaged. Typically, this is easier when members of our team take over senior leadership positions, but we also work effectively with existing management that is capable but likely overwhelmed with the given challenges they face.

The members of Storm are agents of change and are called upon to *make things happen* to create significant value and returns!

Investor's Tips

When acquiring a new company one should carefully consider structuring the legal entities and or obligations such that operational profit or cost centers (subsidiary, plant, SBU, etc.) stand alone. This way if a problem arises with an operational entity, it can be divested or closed with minimal impact on the remaining core business operations. An example would be with equipment and facility leases. These should be de-linked from the other operations and be the responsibility of the lowest level operating unit. This way you can walk away from these obligations in a worst-case situation.

Avoiding a Portfolio Company Crisis

Storm is often called into a situation *after the company is in crisis***.** The old saying "a stitch in time saves nine" is truly appropriate here! It is unfortunate, but we find that in far too many situations Storm is called in after a meltdown has already started. Sometimes the organization is already in a death spiral and if not acted upon immediately – not just quickly – the company will go out of control and no amount of "turnaround expertise" can save it.

We are often asked by portfolio mangers, ***"what should we have done differently?"*** Invariably, our response is that detection and gaining assistance early on helps to prevent these problems, or at least mitigate the impact by starting down the path of resolution.

When you "sense a pending problem" (typically, well into the meltdown, as company management does not want to admit a problem they cannot handle) or simply want a second opinion on a critical operational or strategic issue from those with real-world CEO/senior-level management experience, give us a call – you may avoid a painful lesson in taking action too slowly after the melt-down happens!

Beware of the Turnaround Consultant

We often come into troubled companies *after the turnaround and bankruptcy experts have done their damage*! Then it is our job to try to correct the problems they created or failed to correct during their tenure.

The fact is that most "*turnaround experts*" are really financial restructuring or legal consultants who can handle the paperwork side of the bankruptcy or banking relationships but in reality have little to no leadership and/or operations experience. Thus they assume the CRO (Chief Restructuring Officer) role and focus almost entirely on the paperwork, debt and balance sheet issues or at best, cash preservation (as opposed to cash management) for the lender's benefit, usually at the expense of the company.

These types of consultants typically do little if anything on the operations side of the business. Thus, for several years while the financial restructuring is going on the company stands still or continues to deteriorate. In some situations we have seen very poor decision making which further deteriorates the operational results and causes damage for many years into the future.

So "beware of the turnaround experts"! Look at their actual experience as senior-level managers and their track record of actually running an organization, not just financial babysitting during a bankruptcy or crisis representing the lenders. Understand what you are really getting when you contract a *turnaround expert.*

If you're interested in obtaining a second opinion on your business, contact a Storm partner at 678.291.9191 or email us at info@stormconsultingllc.com

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