Insighter

STORM™

Winter
2008

KEY MANAGEMENT NEWSLETTER & UPDATES

LEVERAGING STORM CAPABILITIES
AN OPPORTUNITY FOR PORTFOLIO MANAGERS: Part A

At STORM we have experience working with a variety of companies and private equity firms. Many of the businesses we help are "troubled" or under-performing as a result of difficult economic times, unexpected events, and in some cases the cumulative effect of many poor business decisions.

As an operationally focused consulting firm, we often find the financial dynamics of businesses are extensively modeled and defined, but that management and operational issues and risks are often less quantified and understood. This is where STORM's operational expertise is of utmost value to our clients. We believe successfully navigating through difficult times requires the ability to recognize and understand issues and opportunities, knowing what to do, and then taking rapid action. During our assignments we have identified reoccurring and common situations faced by senior management and investors.

The following is the first half summary of our experience and observations in addressing common business issues faced by management and owners in today's economic environment:

LOST OPPORTUNITIES IN BANKRUPTCY RESTRUCTURING; We have experienced many situations where management has not taken action in bankruptcy to address core structural problems. It has been said "*companies are in bankruptcy because they should be*".

Rarely do we find a company in bankruptcy only because of debt leverage. Typically, there are significant operating issues associated with their performance. Management in bankruptcy should not be the continuation of a failed business strategy by those who took the company into bankruptcy. Therefore, meaningful change is needed to make the company a success going forward. New owners who plan to take the company out of bankruptcy often depend on current management to make critical decisions.

However, when management is unaware or unwilling to aggressively address structural business issues and past mistakes within the bankruptcy process, they significantly compromise the future strategic and financial opportunities for the business and new owners. Examples include addressing contracts, leases, excess facilities, environmental issues, unprofitable business segments and legacy pension and benefit plan issues, etc.

PLACING TOO MUCH FAITH IN THE NUMBERS; financial performance follows operational execution and results. Thus, the current operational state of the business is not always reflected in the current month financial statements, nor do these tell you about the many operational and strategic issues facing the company. At STORM we found that "Pro forma" means "*watch out"!* Be wary of simply making decisions on financial information only!

TURNAROUND CONSULTANT; has become somewhat of a generic term for any firm that works with under-performing companies. However, much like medical doctors there is a big difference in expertise, experience and focus. For instance, STORM is an operations focused consulting group, while the majority of "turnaround managers or consultants" are financial oriented who know the ropes of the bankruptcy, financial restructuring, and cash management.

Financial restructuring is very different than operational restructuring which requires providing leadership, improving performance and rapidly resolving core operating issues on a daily basis. Therefore, it is important to deploy the correct mix of resources for the issues at hand. Companies that are in trouble because of management and operational issues will not improve operations with solely a financial restructuring approach. In fact, financial restructuring decisions that ignore operational implications can significantly accelerate negative operational performance.

ACTING TOO LATE; the old saying "*a stitch in time saves nine"* is never more true than in operating a business. Most senior managers act too slowly in making dramatic changes to offset down-turns in revenues and/or margins. They want to believe that they can "sell their way out of the problem" or "things will get better". Thus, they put off making unpleasant or unpopular decisions as long as possible. The result is things get worse in a hurry and the downward performance cycle accelerates, which in turn requires more drastic actions. At STORM we know the warning signs and take action quickly to get ahead of the "downward spiral".

CULTURE; when assessing management, most "due diligence" focuses on a company's "senior management". It is often assumed this handful of people represents the company and they alone determine the company's success. In fact, most companies are comprised of hundreds or thousands of employees which together make up the organization's "culture". Taking the time to understand the culture within the entire organization provides a much clearer view of what needs to be done to fix the business.

ACQUISITIONS; are a main growth strategy for many companies. Whether it is a comprehensive "roll up'' or a limited opportunistic acquisition strategy, the results often fall short of expectations. These sound good and look good on paper, but fail because of the real life difficulties in successfully integrating companies and cultures together into a single entity. Ownership needs to be prepared to invest the time, resources and infrastructure required to integrate and manage the combined business. This typically requires a significant investment in people and technology which is often overlooked.

GOOD TIMES VS. BAD; a high performing manager delivering growth under good economic conditions may perform marginally in poor economic times. For example, a leader who successfully grows a company in good times typically does not have the passion for downsizing in bad times. This is true even when it is obvious that action must take place.

.

NATIVE KNOWLEDGE; we have experienced many situations where "new management" takes over and rapidly replaces "existing management". Unfortunately, many "new managers", while intelligent, well educated, and articulate, simply lack the "native knowledge' it takes to successfully operate the company. This is especially true in the short run until the "new managers' have the time to get up to speed on successfully operating the business. Native knowledge is most critical at the operating, production, and sales levels. Too often new management views existing management as an impediment to progress or change. While these types of changes may be necessary, failure to appreciate the benefit of "native knowledge" is a contributing factor to many "turnaround" situations.

3081 Holcomb Bridge Rd.

Suite H-1

Crossings Center VI

Norcross, GA 30071

678.291.9191

www.stormconsultingllc.com

Insighter

STORM™

Spring
2008

KEY MANAGEMENT NEWSLETTER & UPDATES

LEVERAGING STORM CAPABILITIES
AN OPPORTUNITY FOR PORTFOLIO MANAGERS: Part B

At STORM we have experience working with a variety of companies and private equity firms. Many of the businesses we help are “troubled” or under-performing as a result of difficult economic times, unexpected events, and in some cases- the cumulative effect of many poor business decisions.

As an operationally focused consulting firm, we often find the financial dynamics of businesses are extensively modeled and defined, but that management and operational issues and risks are often less quantified and understood. This is where Storm’s operational expertise is of utmost value to our clients. We believe successfully navigating through difficult times requires the ability to recognize and understand issues and opportunities, knowing what to do, and then taking rapid action. During our assignments we have identified reoccurring and common situations faced by senior management and investors.

The following is the second half summary of our experience and observations in addressing common business issues faced by management and owners in today’s economic environment:

RISKS AND DOWNSIDE; when making a major investment people look for reasons to reinforce their decision. With the pressures of putting capital to work and the competition for deals, there is a push for deals to get done. Too often the downside risks are not understood or highlighted and yet become a reality. While potential risks and downside may not change the “deal”, it is important that individual risk and the potential cumulative effect of identified risks be assessed before the deal gets done.

MAJOR OPERATIONAL CHANGES; closing facilities, merging operations, off - shore sourcing, new computer systems, introducing new products, developing new markets, and many other strategic plans appear easy on paper. Executing these while the company is managing its current business is another matter. Major changes can take years, not months. It is important to understand the capabilities of an organization to manage and execute change without negatively impacting its current operations.

Too often the disruption to current business, the time-frame, personnel and monetary resources required to execute change strategies are severely underestimated. Managing the priorities and pace of changes within an organization’s capabilities and current business environment is critical to maximizing both current and future financial and operational performance.

INFRASTRUCTURE; we find that even in well managed companies not enough emphasis is placed on investing in infrastructure and systems. Often we find this significantly limits the company’s ability to grow and expand and to handle difficult situations. While it is uncommon to find companies with state-of-the-art computer systems operating flawlessly, it is not unusual to find companies operating with unsupported software versions and experiencing difficulty in IT staffing and supporting their user base.

Business contraction is as much a part of economic cycles as expansion… Yet few managers prepare for this eventuality!

There is never a quick fix, and making quantum leaps in systems capabilities is often a multi-year and multi-million dollar proposition. A realistic assessment and understanding of a company's infrastructure is critical to planning and executing change and improvement strategies.

CONTINGENCY PLANNING; at STORM we have trained our senior team to always evaluate the *downside in any decision*. Once the downside is known, then making the decision is much easier. One area we often find lacking is contingency planning for operations. Most managers want to focus on the "good things" that can happen and the current state. Thus, they plan for expansion but not contraction or rapid change scenarios. However, contraction is as much a part of economic cycles as is expansion and in all instances change seems to be the only constant in business today.

EXIT STRATEGY; buying a company at the right price and knowing when to sell are critical to maximize the return on an investment. When things are going well and management forecast better times ahead there is little impetus to sell. We believe that the best approach is to begin planning the sale process after you achieve approximately 80% of the identified upside opportunities. This requires an honest assessment by the owners and management of what has been achieved and what remains to be done. Our experience is it takes as long to achieve the remaining 20% of upside progress as it does to achieve the first 80%! Leaving the other 20% for the new owners along with the associated risk is a viable consideration in an exit strategy.

At STORM we have a demonstrated track record of success in dealing with many of the issues that portfolio managers face with underperforming investments. We welcome the opportunity to review our approach and work with you in enhancing the value of your investments.

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

---

3081 Holcomb Bridge Rd.

Suite H-1

Crossings Center VI

Norcross, GA 30071

678.291.9191

www.stormconsultingllc.com