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# Rebuilding a company's value to prepare it for sale, part 2: The process of recovery

By John M. Collard



There is a process for guiding an entity through corporate renewal. It involves using a transferable set of skills to revitalize the property and restore it to a sale-worthy state. Then, you sell the entity and realize returns.

## Bring the leadership

Your first priority is to focus on value creation and guide the company to a new plateau. In doing so, you have the advantage of an objective focus, untarnished by the situation at hand. You bring a perspective that does not reside within the company because the players lack experience with their new situation. You are the teacher, the stakeholders are the pupils, and together you rebuild in a new direction. You effectively manage “change control.”

Install a CEO and board with transition experience in value-building situations. This leadership will demonstrate expertise in:

- Managing crisis, transition and rebuilding processes
- Shaping business strategy and financial structure

- Developing management talent, building caliper teams, utilizing and growing existing resources
- Growing sales and market share
- Maximizing return on capital
- Linking management performance to ultimate goals
- Developing incentive-based compensation programs

This leadership must get directly involved in making decisions to achieve the ultimate goal — sale at increased valuation. They must be held accountable for performance and timely results. Most importantly, they must get things moving. On the revenue/sales side, look at where and how revenue is generated and keep it coming. On the throughput/production side, get the product or service out the door. How else can you bill for it?

The final step to complete the turn is to hire a marquee manager to lead a permanent team that will add to the eventual value equation.

## Set the strategy

Your investing goals are a shorter-term

high multiple return (for the turnaround risk), while allowing ongoing longer-term returns for the buyers providing you an exit. You should implement long-term strategies that will survive your exit.

While situations differ, one essential strategy is to drive revenues; growth cannot occur without more sales. The strategy must address the problems plaguing the company and provide a roadmap to revitalization. If all you can do is think of strategies tried before — don't invest time or energy.

An effective strategy is key to implementing change. You must establish a new vision, distill this direction into concrete goals and objectives, and create a guide for everyone to follow. Rebuilding momentum is critical to success.

## Build a quality management team

The value of a company increases sharply with a strong, permanent, credible team who can demonstrate their ability to produce consistent sales, profit and cash-flow results. Establish continuity in the organization to allow everyone to expect orderly change and opportunity.

Capitalize on available, under-used human capital — those remaining middle managers. Chances are they are dedicated to the company and its success. Guide them to their next level, and they will take the company through the next big step.

### Acquire new business

There are only two ways to increase sales:

- 1) sell new products to existing customers, and
- 2) sell existing products to new customers.

Most under-performers have forgotten, or never knew, the basics of marketing and promotion. Clearly promote what your products and services can do to satisfy customers' needs; differentiate why your product stands apart from the competition.

Become market driven, adapt to changing conditions and improve your competitive position. Deliver only what customers are willing to pay for.

### Establish a sound capital structure

Create reasons for investors to invest and for buyers to buy. A sound strategy with a viable marketplace, efficient delivery and production vehicles — coupled with a cohesive management team — will entice the investment community. Securing new capital becomes much easier when investors see high probability of return and a viable exit strategy.

You'll also need to make sure cash won't be diverted into past commitments. Establish relationships with creditors so they will work with the new management team — give them upside when the turnaround is complete. Consider a "creditor's

committee" approach to keep creditors plugged in and participating. Pre-packaged bankruptcies are also available to ensure cooperation. You can always purchase assets out of bankruptcy to ensure a clean structure — a strategy that's being used more often as buyout funds get more comfortable with the process. In many ways, this approach can be considered alternative and complementary financing.

### Implement processes

Use systems and processes to drive the business and control the day-to-day environment, which allows management to run the critical elements of the company. Many managers waste time on tasks where results would be essentially the same, whether managed or not. Focus on the important things — controlling cash and costs, increasing sales and enhancing value creation. Manage these.

### Nurture resources

Leverage all resources —people/facilities/advisors — to complete the turnaround. Often, the key resource is employees: Set up an incentive structure that pays only when they accomplish the goals set forth in your long-term strategy. That way, you're not subsidizing poor performance. Your incentive for investing is return when the sale occurs. The employees' incentive should be based on performance that will take the company beyond its sale. After all, they are a key asset your buyer is looking for.

### Exit

Know when to "cash out." The greatest ROI comes when the turnaround is complete and the company is ready for the next tranche investment to fund growth. At this point, there are many new investors who will want to participate. Remember:

**E**arnings and cash capacity +  
 achieved **X** multiple on investment +  
 demonstrated **I**mprovements +  
 functioning management **T**eam in place  
 = time to sell.

Buy, invest, manage and renew with one thing in mind — maximizing value for resale.



#### About the Author

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