

The best connections for
interim assignments



PARKIN LIMITED



Interim Connect – 10th October 2012

- **Preparing the management teams for a turnaround and business transformation**
- **Making managers understand working capital drivers**
- **Effective communications of turnaround strategies to all business partners**
- **Convincing Private Equity providers to back a turnaround**
- **Preparing a business for sale after a turnaround**
- **The interim opportunities that Turnarounds and MBIs present**

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This evening's topics

- My background
- DavyMarkham brief history
- Assignment details
- Company background
- Pre-Preparation
- What I discovered
- Initial priorities and actions
- Major strategic decisions
- KPI's and business plans
- Communications, Communications, Communications
- Working capital drivers
- Meetings and e-mails
- Health and safety focus
- Preparation for an MBO
- Business networking and awards
- During the MBO
- Preparation for exit
- Key CV enhancers
- Interim opportunities of turnarounds and MBO's

My Background

- Studied engineering and business (*business engineer*)
- Qualified accountant CIMA (*flat cap brigade*)
- Post-grad marketing diploma (*free with petrol*)
- General manager and MD in UK and Europe
- Worked in manufacturing environments
- Specifically in engineering and chemicals
- Small to medium sized companies
- Turnarounds / MBO's for the last 20 years
- Sold out from turnaround MBO - Sept 2004
- Turnaround activities and China sourcing 2005 - 2007
- MBO July 2007
- Exited MBO in Feb 2010 with equity return of 10.5 times
- Raised £1m and started up plastic recycling business (R3 Products)
- Partner in a £10m investment fund to acquire manufacturing companies





DavyMarkham - Brief history

Key dates	Markham (Chesterfield)	Davy (Sheffield)
Originally founded	1838	1830
Acquired by John Brown	1938	
Acquired by Trafalgar House	1986	1991
Acquired by Kvaerner ASA	1996	1996
	(Energy)	(Metals)
Combined manufacturing business (based in Sheffield)	1997	
Metals Technology sold to VAI	1998	
Part of Kvaerner E & C (UK) Ltd	2000	
Re-named AK Heavy Engineering	2003	
Re-named DavyMarkham Limited	2006	
KP recruited on Interim Contract	Mar 2006	
Endless Backed MBO	Jul 2007	
Sale to IVRCL (\$1bn Indian Conglomerate)	Feb 2010	

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Assignment details

- 180 year old heavy engineering company
- Had employed over 4,000 people in the 1960's
- Been taken over by Kvaerner and lost money for 20 years
- Unloved subsidiary of a failing international conglomerate
- Highly skilled engineers and unique manufacturing kit
 - 350T lifting capabilities
 - Largest machining facility in Europe
 - Massive international portfolio of installations
- Well respected in the mining and tunnelling industries
- Turnover was £11m and the business was draining £300k cash per month
- My assignment details were to turn it round or close it!
- The initial assignment was for one month
- I was only told 10% of the problems as the shareholders has no idea!



Pre-Preparation

- This is a key part of the assignment and saves considerable time
 - Published information – court orders, HSE, banks contacts
 - Press releases and marketing information
 - Knowledge through your own networks
- Copies of major contract documents, CV's, employment conditions, board papers (they were appalling!) and organisation charts
- Relationship with the bankers
- Trying to understand how the company positions itself:
 - Public image
 - Priority of quality
 - Employee responsibility
 - Local community involvement
 - Trade associations
 - Awards
 - Sustainability
- Read up on technical issues prior to arriving



What I discovered

- A complete disorganised mess!
- Incompetence, arrogance, resistance to change, aggression, demotivation and confrontation
- There were many long serving employees some of who has worked for almost 50 years for the company
- The unions had been extremely powerful and still behaved like they did in the 70's
- Information was inaccurate, misleading and difficult to consolidate
- Attempts had been made to introduce modern working practices but had been successfully resisted
- The board were dysfunctional and had few relevant skills
- The cash was draining faster than I had ever seen
- Some employees just wanted the business to close
- There was an average age of 48 and no succession planning
- On time deliveries averaged 28%
- Is my job safe was the favourite question
- 850 major electrical health and safety issues week three!



Initial priorities and actions

- Meeting with shop floor and union officials
Received a standing ovation and everyone shook my hand
- Review of senior management team – ability to manage in a crisis situation
- Establishment of a rolling 13 week cash flow forecast – prepared by departmental heads
- Recruitment of a commercial and competent FD
- Promotion of an internal Production Director
- Focus on Health, Safety and Quality
- Cancelled contracts which were draining cash
- Talked to the banks and creditors
- Insisted on up front and progress payments from customers
- Settled all disputes by issuing credit notes and releasing cash
- Initiated toolbox and daily stand up board meetings





Major strategic decisions

- Implementation of a formal management structure
- Establishment of an apprentice training scheme (best single decision)
- Commenced a no blame root cause analysis scheme with corrective actions
- Made the Health and Safety and Quality Managers report into the MD
- Entered into new mining markets in South America
- Recruitment of a marketing team
- Joining and participating in trade associations and local networking groups
- Organising and open day
- Exploiting every possible PR opportunity
- Initiated a 100 day plan and rolled out to the workforce



Communications, Communications, Communications

- Never underestimate the importance
- Oversee the planning yourself
- Tell everyone as soon as possible
- Get all partners to expect good communications
- Do not allow the grapevine to prosper
- Establish who the real partners are:-
 - Press / publications
 - Suppliers
 - Customers
 - Employees
 - Banks / financiers
 - Neighbours
 - Schools / Universities
 - Apprentices' Parents

KPI's and business plans

- Commenced the writing of a business plan based on bullet points and headlines
- Involved all the management team in the document
- Distilled key actions for each manager
- Initiated 10 KPI's to measure the whole of the business
- Met with Unions and discussed actions
- Asked Unions to stand with me for workforce presentation
- Updated business plans quarterly
- Reviewed strategy and business plans at each board meeting

Working capital drivers

- This is key to the business turnaround
- Astonishing how many managers have no understanding
- Every decision made in a business impacts working capital
- One error could tip the business over the edge:-
 - Recruitment
 - Redundancy
 - Stocking
 - Extended credit
 - Rejections
 - Single sourced supplies (one credit line)
 - Overhead spends
 - Capex
- Make managers forecast their part of the 13 week cash forecast
- Reduce authorisation to the lowest control level by signing requisitions



Meetings and e-mails

- Stop them all!
- Lock the door 2 minutes after a meeting is due to start
- Make people talk to each other and ask questions face to face
- Stop round robin e-mails
- Abandon minutes apart from board meetings
- Introduce tool box meetings
- Only fixed agenda decision meetings
- One formal monthly board meeting
- 20 minute stand up decision meetings each day
 - Fixed agenda
 - Make decisions
 - Tell everyone at the same time





Health and Safety focus

- This is the biggest priority in any business
- HSE have statutory powers to close you down today
- Failure to comply with the law could lead to personal prosecution
- Lack of funds is no excuse for an unsafe working environment
- Failing companies usually have poor H&S management
- Workforce need to know that you care about H&S
- Working with an H&S committee is a good way of working with the Unions

HOWEVER

- We had a death on the shopfloor
 - Most difficult time of my business career
 - Employee crushed in a container by a forklift
 - Refused to take life cover
 - Coroners inquest
 - Prosecution
 - Psychological help needed for board and managers



Preparation for MBO

- Housekeeping is important – first impressions really count
- Commence the compilation of a data room as soon as possible
- Look at the managements KPI achievements and forecast using historic KPI trends
- Do not underestimate management's distraction during an MBO
- Examine the reaction of management finding one year's salary
- Judge how well the management will stand up to an investment committee
- Overestimate the cash requirements – the fewer surprises the better
- Keep the business plan, projections and presentations simple
- Look at how the business will exit from the MBO
- Develop catastrophe strategies if things go south (or North to quickly!)
- Line up advisors on a contingency basis (expect to pay 12% of the funds raised)



Business networking and awards



- Ensure the business maximises its accreditations
- Join relevant professional and trade associations
- Work closely with schools and universities
- Encourage associations to hold meetings at the premises
- Encourage employees to join local networking groups
- Take part in local charitable events
- There is nothing more infectious than good news
- Even being nominated for an award is good
- Ensure the workforce are included in the celebrations
- Maximise the publicity
- Develop a habit of winning awards

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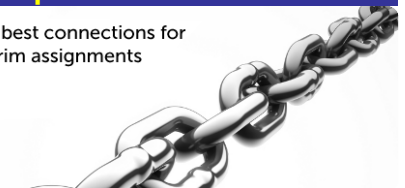


During the MBO



- Things will go badly wrong – accept it
- Cash will be the big problem
- Management will be the second
- Missing forecasts will be the third!
- Spare working capital is essential
- Closeness to financiers is vital
- Alternative strategies are a must
- DavyMarkham has some bad months at the beginning
- After 3 months of cash prioritisation, we ran through the MBO with £1m cash
- Start preparing for the exit immediately
 - Get close to CEO's of possible acquirers
 - Keep the data room files updates
 - Keep the business well invested – Capex, Overheads, People

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Preparation for exit

- Ensure the management team can take the business forward
- Have succession planning in place (including apprentices)
- Develop medium term R&D strategies
- Clear up all regulatory issues
- Clear up any pending legal or customer disputes
- Ensure all audit actions (financial and quality) are completed
- Continue to run the business normally including capex and maintenance
- Ensure the literature, web sites and company information is accurate
- Consider different personal scenarios after exit
- Develop a 100 day plan before the business sale
- Ensure that everyone is briefed effectively



Key CV enhancers

- Recognition of turnaround skills
- Able to undertake a successful transaction
- Backing of debt providers for future deals
- Non-Exec roles
- Interim roles
- Business advice and mentoring opportunities
- Keynote speaking
- Adjudicating panels for awards
- Recognition by lawyers and accountants
- Enhanced network

Interim opportunities of turnarounds and MBO's

- Many interim roles have an element of turnaround / crisis management work
- Few involve full turnaround and business recovery work
- For turnaround work an interim manager is an ideal candidate
 - Unbiased decision-making
 - Fresh view of the problems
 - No historic relationship issues
 - Ability to drill down to problems quickly
 - Fast "Settling in period" without an induction process
- In preparation for an MBO an interim is ideally placed
- Into the MBO, specific project work is always required for interims
- Funders in MBO's back teams not interims
- I used Interimconnect to recruit two managers including Paul Kincell who did some excellent work at DavyMarkham in the sales and marketing area
- However, interims must polish their cross functional skills to become involved in turnaround work



But



Learn the difference between :
“Turn and Buy”
And
“Turn and Bye”

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