19 September 2014

RELEASE OF FIFTH ANNUAL SURVEY ANALYSING CORPORATE TURNAROUNDS IN AUSTRALIA

Highlights

- Debt has overtaken equity as the leading source of funding corporate turnarounds
- The biggest causes of business distress are largely controllable
- There is a disconnect between the leadership skills financiers and boards/management believe are needed to ensure a successful turnaround
- Survey was released at the Turnaround Management Association's Australia conference in Sydney, which includes speakers such as the Hon Malcolm Turnbull, South Africa-headquartered Woolworths Holdings CEO Ian Moir, and NBN Co Chairman Ziggy Switkowski

There has been a strong surge in companies looking to existing lenders to fund corporate turnaround initiatives, according to findings from a survey by 333 Management and the Turnaround Management Association Australia (333-TMAA).

333-TMAA's fifth annual survey analysed 164 businesses that completed turnaround initiatives over the past year, based on case studies by financiers, lawyers, restructuring specialists, and company executives. The average turnover of the companies examined was $149 million.

The survey found new debt from existing lenders jumped as a source of funding turnarounds, with 73% of respondents seeing it as an active source of funds in 2014 compared to 55% in 2013, when it was the lowest source of funds.

Debt refinancing also increased in popularity to be the most active source of funding turnarounds initiatives, growing from 70% in 2013 to 78% in 2014. Meanwhile, equity injections – the most active source in 2013 – slipped from 75% in 2013 to 74% in 2014.

The survey also analysed causes of business distress. It found that a 'drop in demand' – the biggest cause at 35% in 2013 – fell to last in 2014, with just 23% considering it a significant factor. 45% of participants now consider unsustainable debt to be the most significant cause of distress, followed by 35% for sub-par management.

TMA Australia President Michael Sloan said the findings demonstrated that boards and management needed to be more proactive in pursuing turnaround initiatives.

"The survey showed that the top four causes of business distress are debt, management performance, board governance and performance, and poor financial controls – all of which are factors within companies' control," Mr Sloan said.

"Meanwhile structural changes and falls in demand have slid to be the least important factors, which is unsurprising given some businesses are thriving while others are struggling despite facing the same external conditions.

"With banks increasingly being looked to for funding turnaround initiatives, there needs to be a clear restructuring strategy put in place to address these internal factors and get financiers on board."

333 Managing Director Mick Calder said there was also a disconnect between companies and financiers about the leadership attributes needed to successfully complete turnaround.

"It's important that when all parties engage in a turnaround process they understand and agree where they are, where they need to get to, and how to get there," Mr Calder said.

"While financiers and management both see financial acumen as the most important leadership quality, there is a clear disconnect after that. For example, financiers want to see the development of turnaround strategies, whereas management's instinct is to dive in and start working in the trenches– a trait financiers put last.

"A related point is that 43 per cent of those surveyed believe that financiers are the primary driver of a turnaround – compared to only 17% believing the board play this role.

"It is also worrying that almost 40 per cent of all respondents did not believe in staying flexible or accepting mistakes during a turnaround. In our experience, a culture of success is driven by an ability to make and learn from mistakes in what is a dynamic and uncertain business environment."

The 333-TMAA survey revealed cash and management capability remain the highest barriers to a successful turnaround, while 56% said turnarounds took longer and were more difficult than expected.

Looking ahead, 77% of respondents expect the mining services sector to decline, the same level as in the 2013 survey. 50% expect the resources and manufacturing (non-mining) sectors to decline.

The full survey has been released at the Turnaround Management Association's Australia conference in Sydney. The two-day conference (18-19 September) features past and present federal politicians, corporate CEOs and CFOs involved in completed turnarounds, and industry experts. Speakers include the Hon Malcolm Turnbull, South Africa-headquartered Woolworths Holdings CEO Ian Moir, and NBN Co Chairman Ziggy Switkowski.

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About TMAA

The Turnaround Management Association, Australia, Inc (TMAA) is the Australian chapter of a 9,300 worldwide member association formed in 1988, focusing on corporate renewal and turnaround management.

The TMAA's membership includes trading and investment bankers, investment funds and financial advisors, lawyers, accountants, company directors and managers, predominantly the individuals within those organisations with expertise in undertaking structural and organisational turnarounds of reference entities undergoing some form of financial distress. Our education program recognises professional excellence and provides an objective measure of expertise related to workouts, restructurings and corporate renewal.

TMA Australia is committed to promoting the benefits that the turnaround industry has to offer the Australian business community and to facilitating a deeper restructuring market in Australia and fostering a turnaround culture. The TMAA promotes the idea that an early engagement with financial, trade, labour and other stakeholders and development of a restructuring plan provides the best means of turning around the fortunes of ailing but viable businesses, maximising prospects of survival. Well known attendant benefits of business renewal include job preservation, protected tax revenue and maintaining the social compact between businesses and the local community.

About 333 Management

333 Management is a group of business leaders and managers with senior commercial experience. Each of our Executive and Managing Directors have held C-level roles in industry, and worked through a range of economic cycles, structural changes and organisational challenges.

Its engagements generally cover three key functions:

- Corporate turnaround, improvement and transformation
- Executive management and support
- Strategic advice and operational improvement