

TMA Bootcamp – Case Study – 2023

The following is a fictional case study based on a real scenario. This document has been developed for the TMA Australia Bootcamp to help attendees better understand how to approach and deliver turnaround engagements and the key components of a turnaround strategy.

1. Background

‘ABC Co.’ recently reported their results for FY23, which were worse than the market had anticipated.

‘ABC Co.’s shares are trading at \$0.48, having fallen from a 12-month high of \$3.57 following extensive media investigation into ‘ABC Co.’s alleged mistreatment of franchisees, triggering a parliamentary inquiry and ACCC proceedings. ‘ABC Co.’ has also faced persistent challenging trading conditions and domestic outlet closures resulting in a NPAT loss of \$307m driven by over \$300m in asset impairments in FY23.

‘ABC Co.’ has a market cap of \$91m and net debt of \$259m representing 3.6x EBITDA. The business has negotiated a set of revised banking covenants and is exploring debt reduction through a combination of operational turnaround strategies, asset sales and recapitalisations.

2. Situational Overview

Troubled by the results and their implications, the Chairman calls you to obtain guidance on the company’s options. He also informs you of his worries that the company is under siege.

The media is taking a particular interest and aggressively pursuing comment and insight from directors, management, staff, suppliers and customers. The franchise network are up in arms and have appeared on A Current Affair.

Shareholders are frustrated and class action lawyers are commencing proceedings to seek recovery from loss. Shareholder representative groups are demanding immediate answers, transparency, and accountability from the company’s management and board of directors.

Employees are anxious as a collapse would jeopardize their job security and financial stability. They are concerned about the possibility of layoffs or downsizing, which could lead to a loss of income and benefits. Employee advocacy groups had started calling for fair severance packages, reemployment assistance, or job placement services.

Most suppliers have moved to cash on delivery and all are chasing unpaid invoices to avoid potential losses. Many have threatened to pull supply if not paid in full and establish alternative business partnerships. Similarly, business partners such as distributors, retailers, and logistics providers are reassessing their strategies and seeking alternative sources to meet their customers’ needs.

The trading bank syndicate members are being approached by special situation funds to sell their debt and want to understand the business performance and outlook. The trading banks are requesting calls at 9am every day so that they can be kept updated with the latest information.

Government authorities and regulators are planning a senate inquiry into the treatment of franchise holders. They would be expected to investigate any potential misconduct or regulatory failures, and take appropriate action to prevent similar incidents in the future.

The General Counsel has been providing advice to the Board and has raised the prospect of entering Safe Harbour.

The Chairman also informed you that the Board was starting to fracture. One Director has resigned, another has appointed his own lawyer to advise him personally, one thought the company was insolvent and a voluntary administrator should be appointed while another thought it was all a storm in a teacup and would blow over.

3. Context – Business Composition

‘ABC Co.’ owns and operates numerous franchise brands in the hospitality retail sector. It has a combined total footprint of 1,500+ outlets globally. The group operates under the following business units/segments:

- Mexican;
- Pizza;
- Juice bars;
- Coffee roasting and coffee machines; and
- Commercial Food Services.

4. Client request

The Chairman finished the call by informing you that his next call was to a trusted lawyer. He wants you both in his office at 9am tomorrow to discuss the situation and agree the plan moving forward.

Appendix 1: Financial Information

Segment Revenue Performance*

A\$m	FY19 30-Jun	FY20 30-Jun	FY21 30-Jun	FY22 30-Jun	FY23 30-Jun
Mexican	88	77	74	75	62
Pizza	25	26	24	22	19
Juice bars	11	66	104	89	73
Coffee roasting and coffee machines	5	41	73	64	54
Commercial Food Services	-	-	-	101	167
Total Segment Revenue	129	210	275	350	374

*Does not include Inter-segment revenue

Enterprise value

A\$m unless stated	
Share Price (A\$ as at 30-June-23)	\$0.50
No. Shares Outstanding (m)	182.8
Market Capitalisation	91.4
(+) Net Debt (FY23)	258.9
Enterprise Value	350.3
LTM EBITDA (Underlying)	71.4
EV / LTM EBITDA (x)	4.9x

Balance Sheet

A\$m	FY19 30-Jun	FY20 30-Jun	FY21 30-Jun	FY22 30-Jun	FY23 30-Jun
Current Assets					
Cash	12	17	17	10	16
Receivables	24	45	51	91	66
Inventories	10	20	16	28	25
Other Current Assets	5	14	2	5	23
Total Current Assets	51	97	86	135	130
Non-Current Assets					
PPE	28	43	51	96	65
Intangibles	299	594	596	669	364
Deferred Tax Assets	2	7	7	14	32
Other Non-Current Assets	19	3	13	17	9
Total Non-Current Assets	347	647	667	795	470
Total Assets	398	744	753	930	601
Current Liabilities					
Payables	4	16	14	58	51
Accrued Expenses	6	17	11	19	20
Borrowings	-	50	0	0	264
Provisions	2	5	5	7	18
Other Current Liabilities	7	9	15	8	8
Total Current Liabilities	19	97	45	91	362
Non-Current Liabilities					
Borrowings	69	156	206	248	0
Deferred Tax Liabilities	-	116	116	119	64
Other Non-Current Liabilities	0	21	11	6	16
Total Non-Current Liabilities	69	293	332	373	81
Total Liabilities	88	390	377	464	442
Equity					
Common Stock	222	315	324	402	429
Retained Earnings	88	39	51	63	(271)
Reserves	0	0	1	0	0
Total Equity	310	354	376	465	158

Income Statement

A\$m	FY19 30-Jun	FY20 30-Jun	FY21 30-Jun	FY22 30-Jun	FY23 30-Jun
Revenue from Sales of Goods	56	121	165	246	298
(-) COGS	(29)	(75)	(98)	(168)	(219)
Gross Profit from Sale of Goods	27	45	67	78	79
<i>Margin %</i>	47.9%	37.6%	40.7%	31.8%	26.5%
Franchisor Income & Royalty Revenue	112	126	110	103	76
Total Revenue	168	247	275	349	374
Gross Income	139	172	177	182	155
Operating Expenses	(80)	(83)	(67)	(58)	(84)
Underlying EBITDA**	59	89	110	124	71
<i>Margin %</i>	35.1%	35.9%	40.1%	35.4%	19.1%
D&A	(2)	(4)	(6)	(8)	(12)
Underlying EBIT**	58	85	104	116	60
Restructuring and Impairment Costs	-	(30)	(18)	(18)	(427)
Finance Costs	(5)	(7)	(10)	(10)	(13)
Tax	(16)	(14)	(24)	(26)	74
NPAT	37	34	53	62	(307)
<i>Margin %</i>	21.9%	13.8%	19.3%	17.7%	(82.0%)

Cash Flow Statement

A\$m	FY19 30-Jun	FY20 30-Jun	FY21 30-Jun	FY22 30-Jun	FY23 30-Jun
Underlying EBITDA*	59	89	110	124	71
▲ in NWC	(9)	(1)	(6)	(10)	(42)
Finance Costs	(5)	(7)	(9)	(9)	(10)
Tax Expense	(15)	(23)	(19)	(21)	(10)
Other	0	(22)	(11)	(19)	1
Operating Cash Flow	30	35	65	64	11
Net Capex	(15)	(7)	(14)	(30)	(16)
Net Acquisitions	(4)	(195)	(8)	(68)	(8)
Advances	(8)	(10)	(8)	(5)	3
Investing Cash Flow	(27)	(211)	(30)	(103)	(22)
Proceeds from Borrowings	24	205	148	189	145
Repayment of Borrowings	(64)	(68)	(148)	(150)	(127)
Proceeds from Share Issuance	57	67	-	35	22
Dividends	(25)	(24)	(31)	(43)	(22)
Financing Cash Flow	(9)	180	(32)	32	17
Net Change in Cash	(5)	3	3	(7)	6

*Underlying EBITDA and EBIT results exclude the pre-tax impacts of acquisition transaction & integration costs, restructuring costs and asset impairments.

TMA Bootcamp – A few case study questions to think about before our session

Initial meeting with the Chairman

- What research would you conduct prior to the meeting?
- What are the most important topics/issues that you want to explore?
- What would you take with you to the meeting?
- What are your key messages to the Chairman?

Burning platform, diagnosis, and day-one legal considerations

- It is your first day on the engagement, where do you start and what do you do?
- From the information provided, what concerns you the most about the outlook?
- What can you learn from the financial statements provided?
- What are the key legal issues/ considerations that need to be explored on day one?

Planning

- Which stakeholders need to be spoken to as part of the planning process?
- What are the material legal issues that are relevant to each stakeholder group?
- What workstreams or components need to be developed as part of the turnaround plan?
- How would you think through the involvement of incumbent management in the delivery of the turnaround plan?

Implementation

- On commencing the implementation of the turnaround plan, what would be your key message to stakeholders?
- What are the key risks to the delivery of the turnaround plan and how would you mitigate them?
- What reporting structure and cadence would you put in place?
- What role do you think the legal team will play in the turnaround moving forward?