Turnaround Management – B7711 June 17 – 21, 2013 Professor Laura B. Resnikoff lbr6@columbia.edu

Overview

This course provides students with a perspective on identifying and remedying turnaround business situations, that is, established businesses experiencing operational, financial and managerial difficulties.

Students learn from the standpoint of a general manager how to distinguish between "troubled" and "crisis" companies and how to use qualitative and quantitative tools to effect solutions. The course integrates the functional disciplines of the core curriculum. Building upon a basic understanding of accounting, corporate finance, leadership development and strategy formulation, the course engages with these core restructuring concepts - managerial and governance perspectives, cash flow and going concern projections; debt restructuring and liquidation analysis; creditor relationships – within cash constrained situations engaging multiple constituencies. Assignments are team-oriented projects culminating in a final team analysis of a turnaround situation.

What You Will Learn

- To recognize symptoms and early warning signals associated with a subsidiary, division or company that is on the way to trouble.
- To appraise a competitor's, customer's, or supplier's proposed plans of change.
- Both may be used to better your career development as well as forge effective competitive commercial advantages for your present company, such as a divestiture or M & A situation, with capital markets opportunities.
- To build effective change programs within cash constrained situations engaging multiple constituencies.

Prerequisites

Although financial analytical skills are a pivotal ingredient for success in the preparation, assessment or execution of any corporate restructuring program, this course emphasizes that restructuring work entails a far broader, more multidisciplinary arsenal of skills and sensitivities. Thus, although you are expected to have an understanding of accounting practices and finance theories, this is not primarily a finance course. Some sessions will require financial modeling and valuation exercises, but the overall approach to the subject is more holistic, examining perspectives from a range of corporate stakeholders grappling with challenges and opportunities.

Classroom Policies and Procedures

Class room time will be divided among case discussion, engagement with invited guests, team presentations.

Active class participation, punctuality and attendance are critical to the success of the classroom community and to your success as a student in this class. Bring nameplates to every class.

I will assume that every student will complete all required reading prior to the first class.

Teams and Teamwork

You will be asked to form teams of five students each from a variety of work experiences and backgrounds and submit those proposed team compositions to me no later than May 29. I will be in contact with any team composition change suggestions no later than May 31. Your work as a member of a team will constitute a substantial amount of your course grade.

In addition, team members will be asked to evaluate one another in a cross evaluation and this cross evaluation will constitute fifteen per cent of the final grade.

Course Grading

a. Cross Evaluations (15%)

Fifteen per cent of the grade will be formulated based on cross-evaluations by team members and due with the final submission. Example grid included at the end of this course syllabus.

b. Class Participation (45%)

Your individual participation in class discussion will constitute the largest part of the grade for this class. There are many opportunities for in class participation noted in the syllabus.

c. Final presentation and final submission (40%)

Each team will choose one company from the list below to be the focus of the team's final presentation and final submission. There is no assumption that the team will interact with the company's management.

Company list: lots of publically available information for each, each one represents an established company now in a downward spiral trying to arrest that spiral to return to sustainable health.

- 1. Blackberry
- 2. Boeing
- 3. Dell

The components of the 40% are:

- i. In class presentation content no more than a dozen powerpoint slides
- ii. In class presentation delivery effectiveness
- iii. Final submission's incorporation of in class suggestions
- iv. Final submission's overall quality may not exceed twenty pages inclusive of all presentation formats, such as graphs, diagrams, words, financial information. Please do not submit any content in powerpoint slide format.

Book list:

American Icon, Alan Mulally and the Fight to Save Ford Motor Co.	Bryce G. Hoffman
Creating Value through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups — SECOND EDITION	Stuart C. Gilson
From Worst to First: Behind the Scenes of Continental's Remarkable Comeback	Gordon Bethune

Preparatory materials:

The case book provides you with a hard print copy of the assigned cases and a few readings. Most of the course's preparatory materials will be posted on the course web site.

Monday, June 17

Morning: 9:00 – 12:30 Organizing theme: Introduction to Restructuring

Classroom:

- 1. Be prepared to speak about a company in the global press that needs to be restructured. Please avoid any "front page" article companies, including Blackberry, Boeing and Dell.
- 2. Read and be ready to discuss "Nadir Publishing" case.

Preparatory work:

- 1. Prior to class start, please read <u>From Worst to First</u> as well as <u>American Icon</u>.
- 2. Prior to class start, please read Creating Value through Corporate Restructuring, Chapter 1.
- 3. Prepare Nadir Publishing case.

Afternoon: 1:30 - 5:00 Organizing theme: Cash is King

Classroom:

- 13 week cash flow discussion and group work
 The accepted industry standard for use in restructuring companies, 13 week cash flow, focuses
 on the most important near-term objectives to ensure a troubled company's survival and its use
 as a tool to provide direction as the company moves toward longer term stability. The 13 week
 cash flow is the indispensable means to gain credibility with lenders and other important
 constituencies.
- 2. Lecture about unit economics

Preparatory work:

- 1. Using files and study guide questions posted on the course web site, be prepared to discuss Interstate Bakeries and its 13 week cash flow projections.
- 2. Read "Feed the Winners, Starve the Losers"

Tuesday, June 18

Morning: 9:00 – 12:30 Organizing theme: Capital Markets and Capital Structures for Distressed

Companies

Classroom: Lecture and class discussion

Preparatory work:

1. Spend time with the files loaded in Angel, prepared by LBR

- 2. Read" Restructuring Distressed Companies Cross National Comparisons"
- 3. Read "The Process and Powers of Chapter 11"
- 4. Read LBR's working paper "Cost of Capital for Troubled Companies" posted as a file.
- 5. For more insight about many of these matters, I highly recommend these books:
 - a. <u>Distressed Debt Analysis, Strategies for Speculative Investors</u>, by Stephen G. Moyer. Multiple copies are part of the Watson Library course reserve area
 - b. Navigating Today's Environment the Directors' and Officers' Guide to Restructuring, by John Wm. Butler, Jr, consulting editor

Afternoon: 1:30 – 5:00 Organizing theme: Managing a Turnaround – People and Processes

Classroom: ad hoc groups will be asked to speak about topics outlined in the study guide questions posted on the course web site.

Preparatory Work:

- 1. Read "Leadership and the Psychology of Turnarounds"
- 2. Read "Finding the Right Place to Start Change"
- 3. Read "Making Time Management the Organization's Priority"
- 4. Read "Profitably Parting Ways: Getting More Value from Divestitures"
- 5. Please draw upon the two books you read in preparation for the course and the above four readings to prepare Delphi case.

Wednesday, June 19

Morning: 9:00 – 12:30 Organizing theme: Restructuring the Capital Structure

Classroom: Discussion about Master's Novelty case. Is this company in crisis or troubled? If you deem it in crisis, determine what actions you need to take to allow the company to stay alive. If you deem it troubled, compose recommendations for improvement.

Preparatory work:

Each student should come to class prepared to lead each of the salient subject areas - industry characteristics; this company's historic and projected strategies and action plans; this company's capital structure and as noted above, plans for change.

Afternoon: 1:30 – 5:00 Organizing theme: Restructuring Practices

Classroom: We will welcome CBS alumni who participate in the restructuring industry in many roles - investors, investment bankers, lawyers, turnaround and restructuring services practitioners – who will lead the class in a case discussion.

Investment banker: http://www.blackstone.com/our-businesses/financial-advisory/restructuring-reorganization

Michael O'Hara is a Managing Director in Blackstone's Restructuring & Reorganization Group. Since joining Blackstone in 2006, Mr. O'Hara has assisted in advising on a variety of restructuring transactions including AbitibiBowater, AIG, American Axle & Manufacturing, Delphi, Dana, Enron (re: Azurix), Grupo Bimbo (re: Interstate Bakeries Corporation), Intrawest, MoneyGram International, Mrs. Fields, PBGC, Taro Pharmaceutical, and Washington Mutual.

Before joining Blackstone, Mr. O'Hara worked in the M&A group at Wasserstein Perella & Co. and Stephens Inc.

Mr. O'Hara holds a BS in Finance from Georgetown University and an MBA from Columbia Business School.

Investor: http://www.elliottmgmt.com/

Didric Cederholm is a Senior Portfolio Manager at Elliott Associates, L.P. Founded in 1977, Elliott is a multi-strategy fund with over \$20 billion under management. Since joining Elliott in 2005, Didric has focused on fixed income and distressed investments, notably in the following industries: autos and captive finance, media and telecommunications, financials, and general industrials.

Didric serves and has served on official creditors' committees as well as ad hoc creditor groups in a multitude of recent large restructurings, among others: OSG, Lehman Brothers Holdings Inc, General Motors, GMAC, Chrysler Automotive, Chrysler Financial, Delphi Corp, Secured Lenders in Capmark Financial Group Inc., Kaiser Aluminum, Ormet Corporation, and Parmalat.

Didric graduated with honors from Columbia Business School in 2003, and has a LLM, summa cum laude from Stockholm University, where he graduated in 2001. Didric Cederholm is a frequent panelist at bankruptcy and distressed investing conferences and is also a guest lecturer at Columbia Business School.

Lawyer: http://www.davispolk.com/practices/corporate/insolvency-and-restructuring/
Brian Resnick is a partner in Davis Polk's Insolvency and Restructuring Group. He has substantial experience in a broad range of corporate restructurings and bankruptcies, representing debtors, creditors, banks, hedge funds, asset acquirers and other strategic parties in connection with prepackaged and traditional bankruptcies, out-of-court workouts, DIP and exit financings, bankruptcy litigation, Section 363 sales and restructurings of monoline insurance companies. Mr. Resnick also

advises financial institutions and other clients in structuring complex derivatives and securities transactions, and evaluating credit risks inherent in such transactions.

Mr. Resnick holds a B.M. degree, Percussion Performance, The Juilliard School, 1997 and M.M. degree, Percussion Performance, The Juilliard School, 1999 and a law degree, J.D., Columbia Law School, 2003 where he was a Harlan Fiske Stone Scholar and Member, Columbia Business Law Review.

Preparatory work: Delphi Automotive - http://delphi.com/about/

Using the files and study guide questions posted on the course web site, come to class prepared to engage with our class room leaders.

Early evening: 5:00-6:30 Reception in Warren Hall with CBS alumni active in the restructuring industry.

Thursday, June 20

Morning: 9:00 –12:30 Large Company Failure: the Hows, Whys, and Implications

Classroom: Classroom: ad hoc groups will be asked to speak about topics outlined in the study guide questions posted on the course web site.

Preparatory work:

- 1. Read series of articles about the Chicago Tribune posted on the course web site.
- 2. Look over Chicago Tribune examiner's report, posted on course web site.

Afternoon: 1:30 – 5:00 Organizing theme: How Distressed Investing Fits with Corporate Restructuring

Classroom: We will welcome James Malley – Portfolio Manager, Credit, P. Schoenfeld Asset Management LP; http://www.psamllc.com/

James Malley – Portfolio Manager, Credit

Mr. Malley joined PSAM in 2009 as a Portfolio Manager in Credit Opportunities. Prior to joining PSAM, Mr. Malley worked for Chilton Investment Company, where he was the Portfolio Manager of their Distressed Credit Opportunity strategy. From 1997 to 2006, he was responsible for distressed and credit investing at Angelo, Gordon & Co. Prior to that, Mr. Malley worked at Westdeutsche Landesbank and Sanwa Bank and he started his career at Arthur Andersen & Co. Mr. Malley received a B.A. from University of California, Davis and an M.B.A. from Columbia Business School.

Preparatory work:

- 1. Read: "Distressed Investment in Europe in a Time of Statutory Change"
- 2. Read: "Discount Shopping: Making the Most of Distressed Asset Sales"
- 3. Read in <u>Creating Value through Corporate Restructuring</u>, Chapter 2.

For those interested to learn more about current trends:

http://www.distressed-debt-investing.com/

Friday, June 21

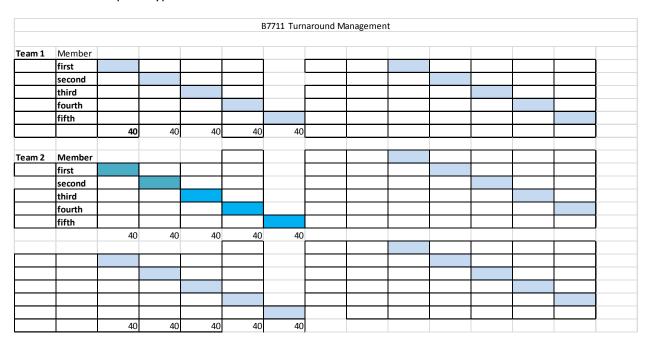
Morning: 9:00 – 12:30 Team presentations

Afternoon: 1:30 – 5:00 Team presentations

Tuesday, June 25, noon. RECOMMENDATION: PLEASE BE SURE TO CHECK YOUR PERSONAL CALENDAR SO YOU MAY BE CONFIDENT ABOUT YOUR TIME COMMITMENT TO COMPLETING THIS COURSE WORK.

Final project submission and team evaluations due.

Team evaluation prototype:



Weil, Gotshal's Bankruptcy Blog: http://business-finance-restructuring.weil.com/

U.S. bankruptcy court cases dockets:

http://www.epigsystems.com/Chapter11.aspx?id=210

http://www.kccllc.net/disclaimer.asp

http://www.lexisnexis.com/hottopics/Inacademic/