SPOTLIGHT ON... BUSINESS TURNAROUND IN THE UK

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Alan Tilley and David Bryan, BM&T LLP

Bryan Mansell & Tilley LLP (BM&T) is a turnaround and restructuring boutique of senior professionals based in London and Frankfurt specialising in UK and pan European operational and consensual financial restructuring outside of formal insolvency. BM&T and its Principals have completed over 50 assignments of businesses ranging from £10 million to over £1 billion in turnover. Here, Managing Principals Alan Tilley and David Bryan discuss the recent trend of UK business insolvencies and shed light on the how value in viable businesses can be preserved.

Q In the last few years a number of big name companies have fallen into administration, can you give us your perspective on this?

Although there have been some headline names such as HMV, Focus, Comet, Southern Cross and Woolworths, entering administration recently there is a concentration in industry sectors, particularly retail and healthcare. This is as much structural as a reflection on an overall trend in the economic climate. Retail administration reflects the change in customer buying patterns with increased internet shopping. Retailers are also asset light as their properties are usually leasehold and English law relating to leases is inflexible in responding to the commercial reality of the business cycle. This inflexibility has too often led companies to have to resort to administration to restructure.

Non food retailers that have failed to move with the industry trend, that have concentrated on the high street rather than out of town shopping centres and that are over leveraged have been especially vulnerable. The resulting vacancies on the high street have not as yet had a knock on effect on property companies overweight in retail who have generally weathered the economic downturn well. Their funders are waiting for an upturn in property values. There is however an accident waiting to happen here for those property companies over focused on small retail outlets, but as in all property values it will be a question of "location location".

Outside of specific sectors the overall rate of business failure resulting in formal insolvency process has declined since a short spike in 2008. 2012 corporate failure was 14% down on 2011 and is in line with the rate last seen prior to the Lehman Brothers collapse. A particular feature of the period 2009- 2012 has been the banks' reluctance to foreclose on covenant breach and to prefer loan extensions in order to give time for businesses to recover in a hoped for economic rebound. So called "extend and pretend" has given rise to another recent phenomenon, the so called "zombie" company; a company in suspended animation able to service its debts at low interest rates and keep its head above water but unable to invest in the new markets, products, equipment and services necessary to stay competitive in global markets.

Q Do you believe this trend is set to continue? Have you seen an increased demand for your firm's services recently?

Restructuring professionals who have had a leaner time over the past two years have been asking themselves whether or not the era of "extend and pretend" and "zombie" companies is the new normal. This would be defying economic logic as at some time competitive pressures affecting "zombies'" ability to survive, improving bank balance sheets allowing the banks the headroom to take write downs on non performing loans, and rising interest rates will change the equation. The issue is both when and what recovery processes will emerge.

Certainly there have been signs of an increase in demand for turnaround and restructuring services in Q4 2012 and it is continuing into 2013. However whereas the default position in the past few years has been simply balance sheet restructuring without addressing underlying business issues this could be set to change. Creditors accepting a haircut may want to see evidence of operational and management change as a precursor to settlement especially as this can increase enterprise value and move the value break in their favour.

What is apparent however is that for good companies with bad balance sheets there is a very active market for distressed asset players to operate in bringing new finance and strategic direction to support change.

For bad companies with bad balance sheets insolvency is the best process to address their problems. Attempts at rescue of an uncompetitive business in a changing market can be throwing good money after bad.

Yet for a large number of companies with average businesses and capable management unused to managing in a liquidity trap there is a need for turnaround services which can save businesses and preserve value without the stigma of insolvency which by its very nature is destructive of enterprise value particularly in people businesses.

Q Can you detail your turnaround and crisis management services and how BM&T approaches their practice?

BM&T is a turnaround practice and not an insolvency practice. It seeks to preserve value where a viable business exists and where there is some residual liquidity to allow time to identify the shape of the future business and to plan and execute the recovery. The plan will identify the level of balance sheet funding that can reasonably be supported by future cash flows. This will necessitate engagement with all creditors to renegotiate the terms of loans and balances. Different terms may be required for trade and financial creditors depending on the business dynamics. Wherever possible BM&T negotiates solutions outside of formal process leveraging concessions against the threat of insolvency but only where the recovery to the creditor can be demonstrated as better in a consensual settlement than in a formal process. BM&T does not act for a client where an initial review indicates that the business is not financially viable and that creditors' recovery would be better served by administration or liquidation.

Q Can you provide a brief case study to help illustrate your work?

BM&T served as Restructuring Officer of La Seda de Barcelona, a loss making £1 billion turnover Spanish public company with pan European operations including significant UK operations and £600 million of Senior and overdue trade debt. The company was downsized by a variety of means, restructured its trade and bank debt by innovative process and consensual agreement thus avoiding Spanish insolvency which would have resulted in a much less favourable outcome for all stakeholders. It emerged with a leaner and profitable business.

On a different level BM&T are acting for a small US service business with an underperforming UK subsidiary in financial difficulty due to UK management failure. Saving the UK subsidiary will enable the parent to recover its investment in due course and is strategically important to it. BM&T is assisting the UK company renegotiate its overdue trade creditors on deferred terms whilst it reorganises its internal staff and processes in what is at core a viable business. This is being done outside of formal process which would terminate core client relations and result in a total write off for all creditors including the parent. BM&T is also assisting the parent in its own refinancing plans.

Q What if a company feels a crisis is just around the corner, can you help them preemptively?

Most companies can be saved by early action to address adverse circumstances and the earlier the better. Whereas management will seek professional advice on tax, IT and legal matters they are loathe to seek assistance in business turnaround. It is a skill set like any other professional service. Managements know their company's products, skills and their customers. They are not hired for their crisis management skills so should not feel diminished by seeking advice. A crisis can hit any business and a crisis is no place for on the job training.

About Alan Tilley and David Bryan

Managing Principals Alan Tilley and David Bryan have a combined 30 year experience in turnaround and restructuring having previously established the European division of US industry pioneer Glass & Associates in 1997. BM&T is currently European associate partner of leading US Restructuring Company Conway Mackenzie and has links with turnaround practitioners across Europe, South America and Asia.

The two Principals are chartered accountants having worked in UK, USA, Germany and France followed by a combined 30 years experience in senior executive roles (CEO, Sales and Marketing VP, and CFO) in major international manufacturing companies (Grove Cranes, Lansing Bagnall, Simon Engineering and Mayflower). Alan Tilley completed his own MBI and turnaround of a mid size UK manufacturing business with 3i PLC before becoming a full time turnaround professional. David Bryan has considerable experience in raising finance in both public and private businesses. They and their team are equally comfortable in small owner manager businesses and larger corporate boardrooms.

The Principals are leaders in the industry's professional association, Turnaround Management Association (TMA) both globally and nationally. Alan Tilley is past President of TMA UK, a former VP of International Relations of TMA Global. Both principals are directors of TMA Europe and David Bryan is a Director of TMA UK.

BM&T's professional capability has been recognised by industry peers; Alan Tilley was Insolvency & Rescue UK Turnaround Manager of the year 2010 and the firm and its two Principals were awarded TMA Global International Turnaround of the Year 2011. BM&T authored the Guide to Turnaround, a comprehensive publication on current best practice in turnaround, on behalf of the ICAEW Corporate Finance faculty in 2011.