

# Now is the time for true operational turnarounds

Comment by Alan Tilley, BM&T

Having spent the early part of his career managing businesses before entering the turnaround field, Alan Tilley has strong views about the need for true 'hands-on' operational turnarounds, as businesses face the Covid-19 crisis. CROs will be at the 'sharp end' of this drive, he writes, providing a vital alternative to insolvency.



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I have been surprised by recent commentary in Global Turnaround suggesting that the CRO market needs an overhaul.

Certainly there have been fewer mandates for CRO work in the UK post 2008, but in Continental Europe turnaround management and operational restructuring is alive and well.

Turnaround preserves more value and jobs than insolvency – something which will be uppermost in governments' minds right now.

Turnaround in Europe has evolved from the Debtor in Possession (DIP) 'change the operations and then restructure the balance sheet' model that had its origins in the 1978 US Bankruptcy Code, to the currently predominant 'restructure the balance sheet and then change the operations' model.

Both should have the same ultimate result, just getting there in a different way with different impact on stakeholders; a viable business model, a restructured balance sheet that the plan can support and a credible management team that can deliver the plan. Unfortunately that doesn't always happen. As Richard rightly points out the difference is usually management.

If the management team after restructuring is pursuing the same strategies that took it into distress the restructuring will only delay the inevitable demise.

Changing operating practice is the function of the CRO.

Understanding the evolution of turnaround can shed light on how we got to today's processes, and how appropriate these will be to resolving the business problems that will emerge when businesses are removed from Covid-19 Government life support.

Companies that have taken loans either with guarantees or low interest rates will have to repay them at some time or reschedule on different terms. The market in which they will operate in 2021 – 2023 will be different from the past on which their business models are based, and right now for many sectors the future will be unpredictable.

## UK and Germany 'still dominated by insolvency'

European governments moved to encourage turnaround by introducing pre insolvency moratoriums which allow suitably qualified turnaround professionals to act as supervisory CROs. The CRO never went away. They exist in jurisdictions such as France, Italy, Spain and the Netherlands, and USA.

But in Germany and the UK insolvency dominates. Turnaround professionals and boutiques have either crossed the divide into insolvency work to prosper or have redirected their skills to M&A support and performance improvement further away from distress.

There have been few mandates for distressed company CRO work in these two countries in recent years.

That is about to change as new legislation is introduced in UK and The Netherlands, and soon to be launched in Germany.

The introduction of a short moratorium in the UK requiring a plan of

reorganisation to be adjudged in Court as "fair and equitable", and WHOA legislation in Netherlands more akin to a UK Scheme of Arrangement achieved without recourse to insolvency, will require operational turnaround skills as well as balance sheet restructuring.

Even before the announcement of the UK legislation, we were already seeing interesting trends.

## The UK and 'light touch Administrations'

There is talk in the UK more 'light touch' Administrations such as Debenhams, and a realisation that only a few of the current generation of Insolvency Practitioners (IPs) have had experience of trading through an administration.

Will they seek assistance from turnaround practitioners to work with them on the operational management?

And will the debtor appoint a CRO or turnaround practitioner to help them to prepare the ground for the moratorium by drafting the plan of reorganisation before appointing an IP as monitor?

It would certainly make sense in increasing the pool of experienced talent that will be needed in the post Covid-19 market explosion.

There are about 150-250 turnaround professionals in UK accredited by the Institute for Turnaround (IFT) and European Association of Certified Turnaround Professionals (EACTP).

This year the EACTP will launch an exam based professional training programme for young professionals covering law, finance and operational management in association with Leiden University.

There is also a pipeline for training the next generation of CRO's. Whereas before it consisted largely of shadowing somebody else and then 'learning by doing', the role of CRO will in time become recognised as a profession with a broader range of restructuring skills.

## Conclusion

Necessity is the mother of invention. I believe that there is a need and a pool of available turnaround talent, and a pipeline for NextGen CRO's.

The question, however, is where will the pressure come from to give a CRO or turnaround practitioner a mandate to change the business model, now that the banks have abdicated that role by preferring to offload debt to distressed funds?

In the UK, under the new legislation, will the introduction of DIP processes incentivise management to engage a turnaround manager as a turnaround advisor or pre-moratorium advisor?

Presenting a credible reorganisation plan, both operational and balance sheet certainly seems the intent of the UK Insolvency Bill.

Turnarounds should benefit from the post Covid-19 situation and the new UK and Dutch legislation.

But if embedded UK practices do not change to embrace pre-insolvency turnaround, more people will lose their jobs at a time when unemployment is heading for a near record high. If that happens, the UK legislators may have scored a spectacular own goal.