YOUR GUIDE TO

Making the **Right Call**

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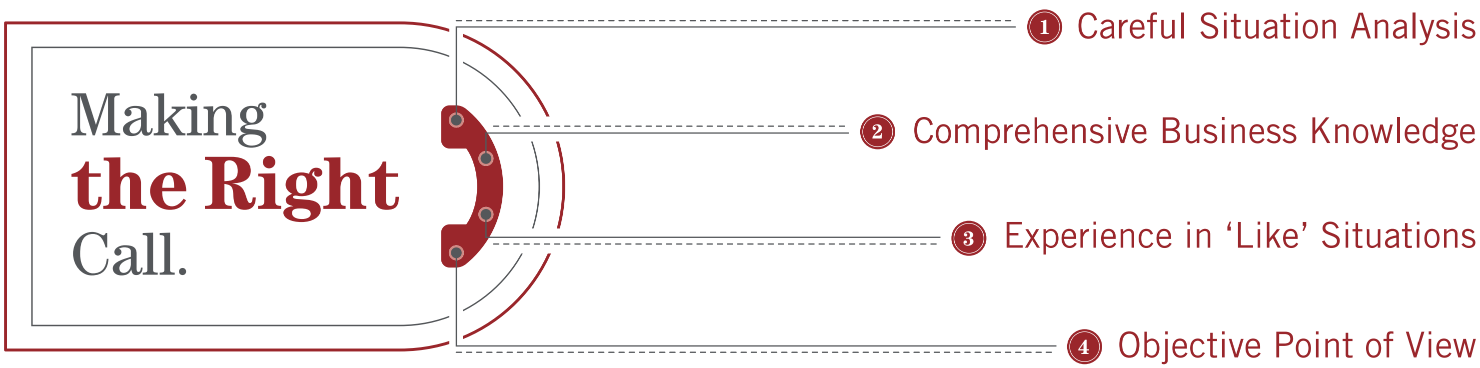
What's in This Guide?

Introduction

Tough calls are an inherent aspect of business. They occur throughout the entire lifecycle of the enterprise. Whether you're an investor, a lender, an executive or a business owner, you've likely experienced a situation in which the decision at hand carries significant weight. In situations like these, the right call isn't always clear.

We remember the tough calls long after they arise for their enormous pressure, their difficulty, and ultimately, their outcomes. Most executives can readily offer examples of times in their career when they've made the right call. Unfortunately, many can also recall times when the call they made could have been better.

Making the right call requires a careful analysis of the situation at hand and a deep-rooted understanding of the vital signs of any business. It also demands a perspective informed by diverse experiences, one that has dealt with similar situations before. Finally, it necessitates an objectivity that is hard to come by when you're in the throws of a complex and oftentimes challenging situation. Accessing this experience and objectivity often requires an outside partner.



Think to one of the most difficult situations of your career. Perhaps it is long past, or perhaps you are in the midst of it now. What if, in your most demanding of moments and need, you could tap into a resource that could give you the perspective to make the right call—every time? You can.

As the businessperson’s first call, Phoenix has mastered the art of making the right call in a multitude of business situations—ranging from crisis to growth to acquisition strategy. Led by a deep bench that has more than two centuries of operational, financial, and capital market business experience, we’ve pretty much seen and solved it all.

Explore this guide for unique insights into some of the many ‘tough calls’ you may be facing, brought to you by Phoenix.

SITUATION:

Executive Team Member Resigned

The Situation At Hand

An essential member of your executive team has resigned or been terminated unexpectedly, leaving you with a challenging gap in leadership and expertise. While the need for a new team member is urgent, you know that qualified managers with knowledge of your market space are scarce, and traditional recruiting processes are long and arduous. Furthermore, the opportunity cost of the wrong hire is high. Not only do you need a new team member quickly, you need the right team member for the job.

This challenge is one faced by organizations of all sizes and sectors, and its resolution has critical implications for cost, productivity and profitability. With a multitude of options available, this can be a confusing and challenging time for decision makers tasked with 'filling the gap'.

The Call to Be Made

When it comes down to it, your potential courses of action can be broken into four buckets.

1 PROMOTE FROM WITHIN

In this option, you fill the position internally. But before you call and give your controller the fast track to the C-Suite, you might want to consider:

- If this individual were not a current employee, would you hire him or her?
- Does this individual possess the right experience, skills and competencies for the job?
- By promoting this individual, are you filling one gap and creating another?

While promoting from within provides a speedy solution, it may require you to 'force the fit', losing out on critical competencies that the position requires.

2 RUSH THE SEARCH

Alternately, you may quickly consult your recruiter and hire the first, second or third candidate you interview. But before you jump the gun, you may want to consider:

- Are you overlooking any weaknesses or making tradeoffs for the sake of time?
- Do you envision this individual staying with your company three to five years from now?
- If you were to keep interviewing, would you find a better candidate?

While rushing the search and making a speedy hire may serve your needs in the near term, it may cost you more in the long run if the new hire doesn't work out.

3 ALLOCATE INTERNAL RESOURCES

A third option temporarily assigns your COO to the job of CFO, while you conduct a more thorough search. But before you give your COO two executive roles, you may want to consider:

- Does your COO have optimal time and resources to double his or her responsibilities?
- What is the potential negative impact of temporarily giving one function less focus?
- Is your COO qualified to manage the business's finances?

While temporarily allocating internal resources to the open position may sound like a good solution, it may overburden a key member of your team and do more harm than good.

4 BRING IN AN INTERIM PARTNER

Finally, you have the option to consult an interim management partner. Interim management may be the right call, provided that:

- The interim management partner has the right competencies for the job.
- The partner can get started quickly, with no learning curve.
- The partner can work flexibly to serve your organization's specific arrangement.
- The partner does not require long term commitments and can help stabilize and transition to the permanent candidate at the appropriate time.

The Value of Interim Management

Unlike other alternatives, interim management enables you to fill knowledge gaps immediately, affording you the time to conduct a thoughtful and thorough search for the best candidate. As professional problem solvers, interim managers are experts in delivering the competencies you need, in the manner you need them. They will take over the role for as long (or short) as required, stabilize and strengthen it, and then hand it back in a well-organized manner once you've made the right hire.

Benefits of interim management include:

OBJECTIVITY

Interim managers provide an objective point of view that can help bring new clarity to your business.

EXPERIENCE

Since interim managers are typically overqualified for the position they are filling, they have virtually zero learning curve, often having held this position in personal and interim basis in the past.

IMMEDIACY

An interim manager can dig in and get started immediately, quickly filling gaps in leadership and expertise.

RESULTS

Motivated to achieve outcomes, interim managers are only as good as the results of their last engagement.

COST EFFECTIVE

Interim managers afford you the time to find the right candidate, avoiding the costs associated with investing in the wrong hire.

COMPREHENSIVE CAPABILITIES

An interim manager is both strategic and functional, and can take a project from advisory all the way through implementation.

ADDED VALUE

Finally, an interim manager provides value beyond the scope of core responsibilities, including new relationships, skills and process efficiencies.

38% of companies cite making bad hires because they need to fill the position quickly.[1]

$250,000 is the average cost of a poor hiring decision for a new hire earning $100,000 per year.[2]

According to industry research, hiring key executive talent is among the most challenging tasks a company faces. Not only do organizations have an increasingly complex set of candidate requirements, they are also under significant time pressure while conducting the search. This time pressure leads to compromises and bad hires that end up costing the company in the long run. Interim management provides a ready alternative to rushing the search so that companies can make the right hire every time.

Interim Management from Phoenix

With extensive, hands-on operating expertise, Phoenix's team members have served as interim Chief Executive Officers, Chief Operating Officers, Chief Financial Officers, and Chief Restructuring Officers, as well as in a variety of other staff and line positions in a broad array of situations and industries. Phoenix often serves as a liaison with its clients' lenders, creditors, customers, suppliers, unions, employees, board members, and other professionals.

Introducing stability into fragile and tenuous situations, we shoulder the responsibility of making difficult decisions—unburdened by historical and emotional issues that often cloud decision-making. Our seasoned interim managers bring credibility to every situation and serve as stabilizing forces for all constituents, building consensus, directing or supporting the needs of each client, and enhancing the enterprise value of the business.

SITUATION:

Missed Monthly Projections

The Situation At Hand

It’s month end and your controller breaks the news: you’ve missed your numbers. Your likely first response is to rack your mind for reasons, finding fault in everything from the most recent holiday, to the sales director’s vacation, to a slow period at one of your largest clients. After you’ve attempted to pinpoint causality, your mind will likely drift to the implications—both for your business and for your lender.

Amidst the stress of a missed projection, it is important to remember that a single month’s miss is not necessarily an indication that there is long-term trouble in the water. It is, however, an indication that some type of action is needed.

The Call to Be Made

Ultimately, there are three potential ‘first responses’ to a missed monthly projection.

1 IDENTIFY A CULPRIT AND MOVE ON

In this alternative, you determine a culprit for the miss, typically an external factor that is beyond your control. But before you blame summer vacation, consider the following:

- Could your business have better anticipated this factor?
- If this were not a factor, would you have reached your projection?
- Are you on track to make your numbers next month?

> While it is true that an external factor or event may have contributed, it is important that this not become a scapegoat that causes you to overlook other considerations and contributing factors.

2 TAKE STRATEGIC ACTION

Alternately, you may look inward, immediately identifying elements of your sales process or go-to-market approach that you could have done better. But before you make lasting strategic changes, consider the following:

- How did you pinpoint the right areas for strategic change?
- Are you positive that these changes will rectify the situation?
- Can you quantify how much financial impact these strategic changes will have?

While it is likely that strategic changes will ultimately be needed, impulsively making such changes is no more than a guessing game unless you have an understanding of what really went wrong.

3 RE-EVALUATE YOUR FORECAST

Finally, you have the option to carefully examine your forecast. Re-evaluating your forecast will help you accomplish the following:

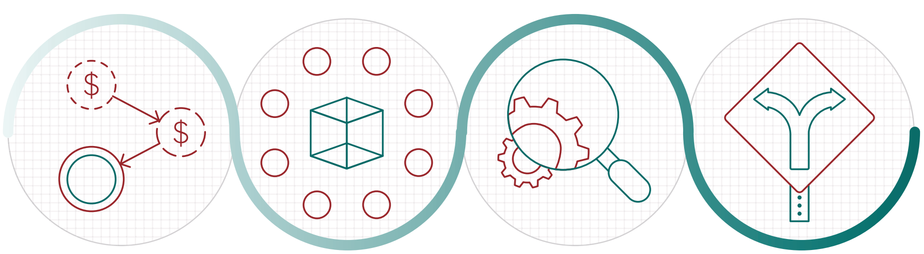
- Provide a realistic baseline for what is likely to happen.
- Better account for external factors that will impact revenue over time.
- Identify areas for strategic action that will have a measurable impact on results.

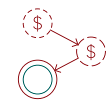
The Value of Accurate Forecasting

At its core, a forecast is a strong baseline for what is likely to happen without change. An accurate forecast helps your business better account for external factors, and lay the groundwork for improving internal functions. The forecast is the foundation on which successful businesses are run.

Too often, missed numbers are actually attributable to an unrealistic forecast, predicated upon flawed assumptions. It is important to remember that forecasts are designed for businesses, not for banks. A forecast that is idealistic or impossibly aggressive isn't doing its job.

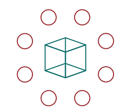
Luckily, this problem can be easily remedied through a disciplined forecasting process, which includes the following steps:





1. FORMULATE THE FORECAST

Carefully analyze the business's vital signs and the sales funnel to formulate a baseline forecast. This forecast is primarily comprised of factors that are in the business's control.

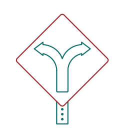


2. SENSITIZE THE FORECAST

A forecast cannot exist in a vacuum. After formulating a strong baseline, it is time to account for factors that are outside of the business's control, including volatility, seasonality and other economic variables.

3. UTILIZE THE FORECAST

Once a forecast has been formulated and sensitized to external factors, it's time for the forecast to go to work. Utilize the forecast to identify areas where strategic and often difficult decisions are needed.



4. ASSESS THE FORECAST OVER TIME

Forecasts must continue to be sharpened and aligned with evolving market realities and business variables over time. Is the forecast still an accurate projection of what is likely to happen? If not, re-visit steps one through three.

55% of businesses are not confident in the accuracy of their sales forecasts.[3]

2/3 of businesses are not satisfied with their current forecasting process.[3]

Research indicates that forecasting is the ‘Achilles’ heel’ of many businesses, which struggle to accurately and realistically project fundamentals like sales, revenue, inventory, receivables, payables and working capital. While daunting, forecasting is an unavoidable reality for organizations in all sectors.

Financial Forecasting from Phoenix

Phoenix takes a pragmatic and hands-on approach to complex operational, financial and managerial organizational challenges. We provide the objectivity and expertise required to deliver practical and achievable solutions that lead to positive business results. We work closely with our clients and their management teams to understand their core business drivers, challenges and opportunities in order to assist them with developing and implementing the necessary steps to maximize performance.

We bring new accuracy to financial forecasting by applying our disciplined methodology to account for both business fundamentals and market factors beyond your control. Ultimately, we will formulate a realistic forecast, poised to serve as a foundation for strategic decision-making. Once a forecast is in place, we will draw upon our extensive track record of solving complex business challenges to identify and shape strategic solutions that help you meet your numbers and drive your organization forward.

SITUATION:

Integrating a Complex Investment

The Situation At Hand

It's 130 days post-acquisition and you're beginning to worry. You haven't seen the cost reduction synergies that were projected, and you've missed a number of milestones that were detailed in your 100-day plan. You're holding out in hopes that one plus one will still equal three, but all signs indicate that the synergies you anticipated just don't seem to be happening.

While troubling, these signs do not necessarily mean that synergy is not possible. In fact, they are often a reflection of an ineffective integration effort or lack of experienced resources, rather than a poor transaction. For lenders and/or investors that find themselves in this complex and perturbing situation, achieving clarity around the right course of action can be a challenge.

The Call to Be Made

There are three likely responses to a rollup effort that isn't rolling as planned.

1 WAIT FOR SYNERGY TO HAPPEN

In this course of action, you decide to wait a bit longer before signaling the alarms. But before you sit back and wait for synergy to happen, consider the following:

- Are there plans in place to overcome the problems you are encountering?
- Are there likely events in the next 30 days that will turn the tides?
- In the meantime, are you at risk of losing key employees and customers—or weakening your competitive advantage?

Generally speaking, time is the enemy of synergy. If you're leaning towards this route, remember that synergy doesn't just happen—it is made to happen.

2 MAKE SOME TOUGH DECISIONS

Alternately, you may take matters into your own hands, making strategic decisions that you feel will solve the problems at hand. But before you take integration upon yourself, consider the following:

- Are you able to view the situation with complete objectivity? Do you or other decision makers have a horse in the race?
- Will you be able to dedicate extensive 'time in the trenches' amidst your daily demands?
- As the investor do you wish to blend the management and investor roles? How will this impact management team morale and overall performance?
- Are there competing agendas and cultures within the blended management team? How is this best evaluated?

> Despite your best efforts, it is nearly impossible to achieve objectivity when your transaction is not preforming as planned. Furthermore, your primary role is a demanding one that will not likely afford you the time or effort to champion an integration effort alone.

3 BRING IN OUTSIDE EXPERTISE

Finally, you could call on an outside integration expert. A capable and proven integration partner will deliver the following benefits:

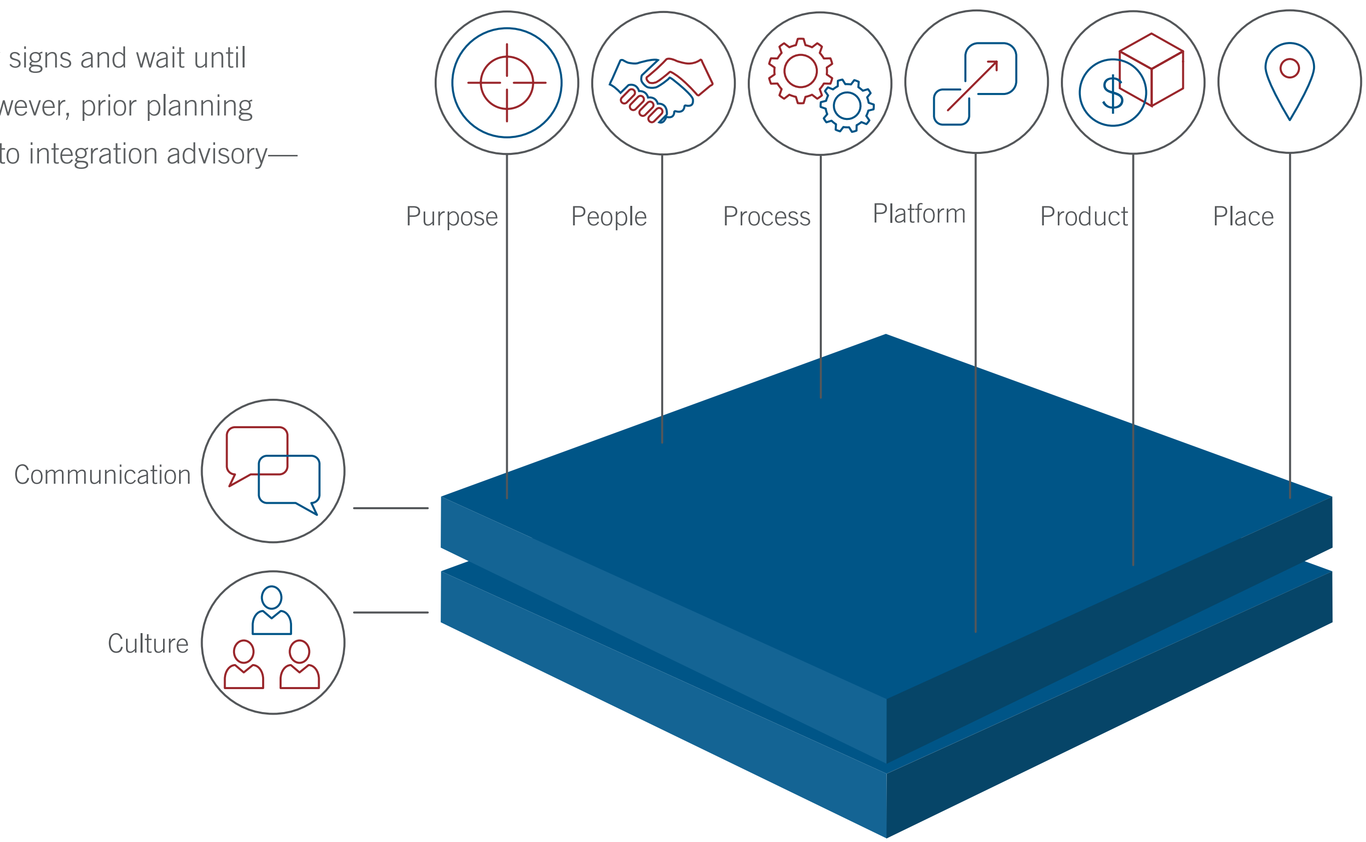
- An informed perspective and track record of successfully integrating rollups like yours.
- Complete objectivity to make tough calls that favor synergy rather than one company.
- Dedicated resources that can climb in the trenches and work to make changes happen.
- Ownership of the problem at hand, and a commitment to see the integration through on time and on budget.

The Value of Professional Integration Management

Third party integration advisory and management professionals are the only alternative that puts integration in the hands of a trusted, proven and objective expert who is capable of getting your effort back on track or coming out of the gate in the best possible manner. As experts in making integration happen from the front lines, integration partners will roll up their sleeves and work alongside all parties to drive stakeholder value.

Too frequently, key stakeholders ignore early signs and wait until crisis knocks before calling in an expert. However, prior planning prevents poor performance. When it comes to integration advisory—earlier is always better.

The Pillars of Successful Integration



A professional integration manager will address the following Pillars of Successful Integration to unlock synergy and maximize return.

1. PURPOSE

First, the integration partner will identify the purpose of the integration. Is it intended to cut costs, offer entry to a new customer or market, achieve process or system efficiencies, or tap into new expertise? This will help target areas where synergies can be realized.

2. PEOPLE

Many integration efforts fail to define something as simple as which management team is in charge. The outside integration partner will define clear lines of leadership, compensation and responsibility across functional and executive teams.

3. PROCESS

In addition, the integration partner will help effectively integrate and improve critical production and sales processes. While a complex feat, doing so will cut costs and generate revenue.

4. PLATFORM

An integration effort cannot be successful until disparate systems are effectively integrated. The outside integration partner will help optimize and integrate existing platforms for financials, human resources and other operating functions.

5. PRODUCT

After a transaction, one of the most challenging tasks can be making sense of the combined P&L line. The integration partner will assess the respective offerings of each company and define the most profitable product mix and pricing.

6. PLACE

While simple, an often contentious pillar of integration is location—where the company will headquarter, manufacture, assemble and distribute. The integration partner will eliminate the politics and help identify the best place for the business to operate and consolidate facilities as needed.

Of course, all of this is in vain without a strong foundation of communication and culture. These two elements are the lifeblood of a successful integration effort, and the true expertise of a seasoned integration professional.

COMMUNICATION

As a clear plan is defined and pursued, it must be clearly and transparently communicated to all parties in order to build shared vision and trust. Without communication, integration will not be possible.

CULTURE

While intangible, culture can make or break an integration. The integration partner possesses the objectivity to understand each respective culture and make tough decisions without alienating key stakeholders.

$1.46 Trillion is the value of M&A deals in the U.S. in 2017[4]

70-90% is the estimated rate of failure for M&As.[5]

Multiple industry studies point to the remarkably high rate of failure amongst mergers and acquisitions. As M&A activity continues to grow, companies across sectors must focus on making integration planning a central tenet of each transaction from the onset.

Integration Advisory from Phoenix

Phoenix has an unparalleled track record of implementing successful operationally-oriented solutions. We have brought this operational expertise to bear in hundreds of situations involving an acquisition, divestiture, consolidation, corporate carve out, or similar shift in operational footprint.

Phoenix doesn’t just recommend solutions, we implement them. We understand the time sensitivity associated with implementing operational changes associated with a transaction, and act with a sense of urgency in either spearheading the integration efforts of our clients or serving as a valuable member of any integration team. Our professionals are well versed at identifying and incorporating all of the elements necessary to realize the expected synergy value. Phoenix will get you to the finish line—successfully integrating the investment on time and on budget.

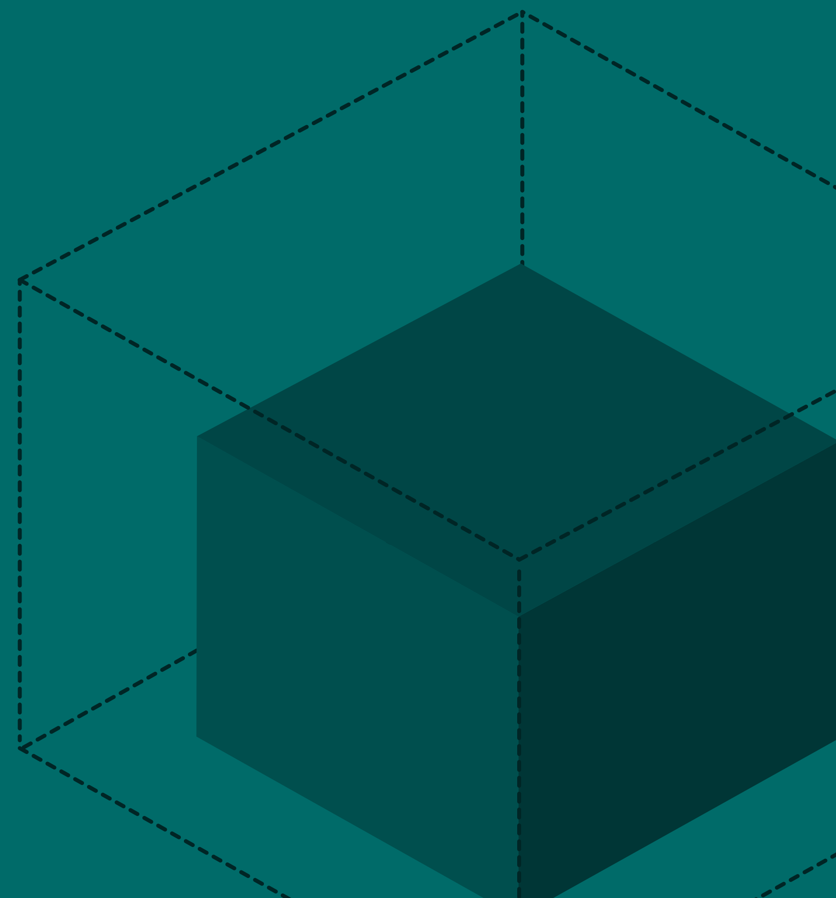
SITUATION:

Bank Threatening to Call a Loan Default

The Situation At Hand

The bank called to tell you what you already know. Your business is out of formula, and a default is on the horizon. While the business's finances have been declining for a while, the bank's call brings new gravity to the situation. As soon as you hang up the phone, the anxiety sets in. You know that tough decisions must be made in order to avoid a default, but with so much at stake, where are you to begin?

A threat of default is one of an executive's greatest nightmares. Amidst the anxiety and confusion, it can be nearly impossible to find a clear and decisive path forward. While challenging, it is of the utmost importance that executives in this situation respond to the bank's call in a thoughtful and strategic manner. In fact, the decisions executives make in this moment can be the difference between financial recovery and failure.



The Call to Be Made

After the bank threatens a default, there are four likely courses of action.

1 MAKE IMMEDIATE CUTS

Often the first impulsive response to a bank call is to come up with a number of immediate actions to cut costs and preserve cash. But before you decide to implement that universal pay cut or reduction in force, consider the following:

- Do these actions risk harm to the business, including the loss of key talent or costly legal action?
- Will these actions effectively address the problems that got you here?
- Despite these actions, are you likely to find yourself here again in the future?

While decisions like cutting team pay, holding payment on bills and freezing capital expenditures may improve your short-term cash situation, they do nothing to rectify the root problem. This is a classic example of short-term gain for long-term pain, and the company may very well find itself in the same situation again.

2 PUT MONEY IN THE BUSINESS

Ownership may decide to capitalize the business with either personal assets or added investment capital. But before money goes in, consider the following:

- Do you have a sustainable strategy that will put your money to good use?
- Will your contributions prevent the business from again finding itself in the same situation?

Putting your own money on the line is an honorable thing to do. However, it will do nothing to better your situation unless you have reasonable plans in place to create sustainable value. Think of capitalizing the business without fixing the root problem as trying to fill a porous bucket. Unless the hole is fixed, you will ultimately end up in the same situation.

3 CALL YOUR ACCOUNTANT OR LAWYER

A third option is to call a trusted accountant or lawyer for advice. But before you listen to your CPA or counsel, consider the following:

- Has this individual successfully turned around similar situations before?
- Do their recommendations have the long-term sustainability of your business in mind?
- Are they considering all dimensions of the problem and its potential solutions?

While your accountant or lawyer may shed light on one specific aspect of the situation, it is important to remember that this is so much more than a numerical or legal problem. Even the best financial or legal partner does not have the operational skills to solve the likely complex problem at hand.

4 CALL IN AN EXPERT

Finally, you could call in a true turnaround professional. An experienced turnaround manager will be able to do the following:

- Build a realistic, reasonable plan and see it through to execution.
- Augment short-term cost cutting with a focus on building long-term value.
- Get the bank's support while a detailed plan is developed.
- Collaboratively work with all parties to achieve alignment around a shared vision.

The Value of Turnaround Management

A true turnaround effort is the only alternative that is able to move beyond short-term cost cutting to develop a realistic and sustainable strategy for long-term value creation. Skilled turnaround managers are able to see through the distressed situation and fortify a vision for the future of the business. Generally a turnaround manager will also have the ability, with outside stakeholders, to get the time required to build a realistic plan.

Too often, businesses respond to their distressed situations by implementing processes that focus solely on increasing cash flow and ignore the underlying issues that created financial problems in the first place. As a result, the financial crisis resurfaces in the future—usually worse and more difficult to overcome than before and with fewer options. A true turnaround effort replaces blunt cost-cutting decisions with precise decisions that act in the best interest of all parties involved.

A turnaround effort will only drive a sustainable path to profitability if it accomplishes the following:

SECURES THE RIGHT TEAM

In order to successfully navigate a turnaround, everyone has to be rowing. Make sure that the right team is in place, and that everyone is bringing a valuable contribution to the table. Distressed businesses can't afford to have a team member that doesn't add value.

WORKS FOR A SHARED VISION

A true turnaround effort unifies all stakeholders around a shared vision—including management, board members, lenders and attorneys. Despite competing points of view, it is possible to find a collective common ground that is focused on driving value.

ELIMINATES LEGACY MINDSETS

Recognizing that today's problems will not be solved by yesterday's practices, a true turnaround effort focuses on building openness to new processes, possibilities and performance indicators.

IDENTIFIES CORE COMPETENCIES

The turnaround effort must carefully examine each business unit, identifying those core competencies that are most profitable and those areas that would be more effective and efficient if outsourced.

DEVELOPS THE RIGHT METRICS

Turnaround management is not possible unless turnaround progress can be measured. A true turnaround effort identifies key performance metrics and goals that focus on more than just cost, then adheres to and measures them over time and communicates these metrics to all constituents.

COMMUNICATES SUCCESSES

A true turnaround effort is a transparent one. As the effort continues and progress is made, successes must be shared with the entire team to promote a universal sense of ownership and contribution.

MEASURES PLAN PROGRESS

A successful turnaround effort must track progress frequently and regularly. In order to understand progress, it is important to measure performance throughout an entire business cycle—observing variances in seasonality, cyclicality, etc.

PREPARES FOR FUTURE CHALLENGES

The work of a true turnaround effort is not complete when the business is again heading in the right direction. The true turnaround works to anticipate and prepare for the challenges of the future, constantly adapting to new market realities.

When capital resources are few, the investment in a proven turnaround management partner is the most strategic use of resources that a distressed company can make.

55% cite continuation of an ineffective strategy as a cause for crisis.[6]

18% identify liquidity problems as a cause for crisis.[6]

Industry research indicates that the reason for company failure is much more closely tied to strategy than liquidity issues. For companies staring down the possibility of lender default, this underscores the importance of developing a solution that focuses on strategy rather than cost containment alone. Experienced turnaround managers know liquidity problems are usually the result of an underlying strategic or operational problem. Fixing the liquidity problem without addressing the underlying problem just kicks the can down the road.

Turnaround Management from Phoenix

Phoenix's strategy for improving the performance of a company in transition is to address the underlying operational challenges confronting the business. Phoenix looks past the balance sheet to find practical solutions to improve profitability and enhance liquidity while developing and executing a turnaround plan capable of delivering long-term, sustainable results. The luxury of time is rarely on the side of our turnaround management clients. Our experience and credibility enable us to rapidly derive financial flexibility and additional planning time from our clients' constituents.

Our professionals at Phoenix operate as an extension of our client's management team, providing hands-on turnaround experience and constant guidance that allows our clients to more effectively manage their resources and drive sustainable value.

SITUATION:

Enterprise Growing Pains

The Situation At Hand

Your Chief Financial Officer called to deliver some unexpected news: your newest enterprise is in trouble. Despite a long initial period of explosive growth, you've outpaced your ability to fund working capital, causing a stagnation of growth and a potential cash crisis. To further complicate the situation, reports show that competitors have begun to introduce me-too products, all while the market has shifted away from your core offerings. With such rapid growth occurring when your operation first opened, you were focused on revenue, and you never established a method to determine which products and services generated contribution margins and which drained capital. Now, as you're trying to preserve capital and determine where to focus your efforts, you're not sure what to do next.

While declining revenue is always concerning and may come as a surprise to entrepreneurs, it's common for new enterprises to face growing pains when the initial wave of success wanes. As you enter this new phase of your business, now is the time to take action by introducing sustainable operational practices.

The Call to Be Made

1 MANAGE IT YOURSELF

In this option, you decide to handle the issue internally. But before you choose to single-handedly tackle the problem yourself, consider the following:

- Do you have the transition experience necessary to identify underlying problems?
- Do you have the requisite time available to both oversee this initiative and complete all of your other daily tasks?
- Do you have a team of qualified professionals to support your efforts?

While you have extensive experience managing your business during times of prosperity, you may not have the necessary practice to guide your business through a transitional situation.

2 MAKE IMMEDIATE CUTS

Alternately, you may opt to fund working capital by cutting costs. But before you indiscriminately eliminate product offerings or make inventory changes, consider the following:

- Do you have the information necessary to determine which offerings are making money and which are losing money? Do you know where to get this information?
- Will your actions address the underlying problem?
- Are these cuts a temporary solution or a long-term fix?
- Will these cuts jeopardize future growth?

While narrowing your product line may cut inventory costs in the short term, without a gauge on the gross margin of each product, you risk cutting a star earner in favor of a costly alternate.

3 BRING IN A TRANSITION EXPERT

Finally, you could call in a true transition partner. A seasoned expert will offer the following benefits:

- Extensive experience handling similar situations.
- Ability to target underlying issues caused by both quantitative and qualitative problems.
- Capability to establish sustainable growth strategies.
- Skill to search through alternate courses of action and select the option that provides the biggest bang for your buck.

The Value of a Transition Plan

A true transition effort is the only option capable of tackling problems at their root and establishing sustainable strategies. Too often, businesses seek to increase cash flows by rapidly cutting costs, but do so without taking the time to identify the underlying problems that led to the cash shortage in the first place. Skilled transition managers recognize that the only way to prevent problem situations from resurfacing is to identify these hidden issues and use informed decision-making to create a plan to permanently overcome them.

A transition plan will only succeed if it accomplishes the following:

ESTABLISHES A COST-IDENTIFICATION SYSTEM

A solution cannot be devised until you identify where the problems lie. A transition expert will establish a metric for evaluating your organization, which allows you to target only the offerings with minimal or negative gross margins.

FORMULATES ACTIONABLE STRATEGIES

A true transition plan not only provides insight into your organizational status, but also offers courses of action that lead to sustainable revenue growth. A transition expert will allow you to return to a state of prosperity by devising strategies that counteract underlying problems.

LEVERAGES PAST EXPERIENCE

While you may not have encountered your problem before, third party transition experts have. Their experience working during time-sensitive situations allows them to rapidly analyze options and select the ones that will provide you with the greatest relief.

CREATES A SUSTAINABLE INFRASTRUCTURE

A major aspect of avoiding crises during times of transition is understanding that the entrepreneur can only be responsible for so much. A transition partner will provide entrepreneurs with greater support by training management teams and establishing a system of delegation for the organization.

PREPARES A SUCCESSOR

Cash crises often occur when an unexpected change in senior management takes place. The transition expert will help navigate this period of change by preparing the successor to face the realities of their operation.

15% of CEOS experienced five or more crises in the past three years.[7]

82% of businesses fail due to cash flow problems.[8]

Studies show that crises occur with some frequency in businesses. If these situations are left unchecked, a lack of cash can lead to the failure of a company. In a time of crisis, it is crucial to protect critical assets while eliminating products and services that have a net negative contribution to the company's bottom line.

Transition & Crisis Management Services from Phoenix

Phoenix's strategy to address the needs of companies in crisis situations is to identify the underlying factors impacting the business' bottom line. Phoenix accomplishes this by taking a deep-dive into the infrastructure of a company—analyzing both the quantitative and qualitative factors impacting success. Our team rapidly targets problems revealed in this analysis by creating a system to identify where to cut costs and where to continue to invest.

Our skilled professionals are seasoned crisis managers that leverage the firsthand knowledge acquired from past experiences to guide our clients to more effectively manage resources and establish sustainable practices to keep their businesses growing for years to come.

SITUATION:

Quality of Earnings Missed the Mark

The Situation At Hand

That exciting new acquisition target is a strong fit with the investor mandate. Initial conclusions from the quality of earnings analysis are positive, the balance sheet appears strong, earnings are consistent and the potential cost-savings are clear. You're confident in your team's ability to maximize the opportunity, and so you decide to sign the deal.

Fast forward two or three quarters. It's several months past the acquisition, and none of your projections have come to fruition. You conducted exhaustive accounting diligence prior to closing, a quality of earnings analysis supported the historical earnings reported, and the strategies and investment models showed strong synergies arising through the Transaction. You're hoping that the forecasted profitability is just around the corner, but all signs point to a lack of traction in earnings growth and a possible missed investment thesis.

Just as you're going through the investment performance, another opportunity arrives at your doorstep. Given how competitive the investment market is, you want to react immediately, beginning by conducting a quality of earnings review. Determined for this opportunity to be more successful than the last, you start to think about how you can do a better job unearthing potential problems and pitfalls before the ink hits the paper.

While it's tempting for investment organizations to assume mistakes occurred when evaluating quality of earnings, odds are that the problem isn't in the report reviewed by decision-makers; it's in the data not reflected in the report. For investor groups that have been burned by disappointing investments in the past, it's important that next time a deal is on the table, the full picture is clear.

The Call to Be Made

When it comes time to evaluate a potential investment, there are a number of approaches you can take.

1 CONDUCT DUE DILIGENCE INTERNALLY

In this option, you're confident in your investment committee's ability to assess enterprise value, and so you decide to use internal resources to conduct a quality of earnings review. But before you begin the evaluation, consider the following:

- Can the situation be viewed with complete objectivity?
- Is there a pre-determined vested stake in the investment that may cloud your perception?
- Will a numeric report identify the full scope of challenges and opportunities your target investment will face?
- Are there qualitative factors that should be considered along with quantitative data?

> It's clear as the investment process enters the final stages of negotiations that you're excited by the opportunity. While your analysis will illustrate both favorable and unfavorable numeric factors, your eagerness to close may lead you to underestimate the qualitative factors that may negatively affect post-acquisition performance.

2 THIRD-PARTY ANALYSIS

Alternately, an accounting firm or a specialized financial due diligence agency can be hired to perform a historical quality of earnings review. But before you retain an accounting firm, consider the following:

- Does the historical EBITDA data offer all the information required?
- Is qualitative data what past quality of earnings reports and diligence processes have been missing?
- Is a CPA the right person to act as your guide for this acquisition?

A report conducted by an accounting firm will pose the same problems as an internal report. Because of a CPA's historical numeric-leaning perspective, this third-party view will likely overlook non-numeric data and omit forecasts in regards to future earnings performance.

3 PERFORM A QUALITY OF ENTERPRISE℠

Finally, you can call in an outside expert experienced in Quality of Enterprise℠ reporting, which analyzes both qualitative and quantitative factors that are likely to affect investment success. A Quality of Enterprise℠ analysis will uncover the following:

- What non-numeric elements are critical success factors in this industry?
- What does the combination of qualitative and quantitative features indicate about the future of this prospect?
- What hidden risks may go unnoticed until after capital has been invested?
- What is the synergy plan or integration plan likely to entail in terms of time and cost?
- How can risks be mitigated prior to investment?
- Where are the gaps in the organization/management team?

The Value of a Quality of Enterprise℠ Report

A Quality of Enterprise℠ report is the only option that provides a truly holistic view of the complexities affiliated with investment transactions. By basing investment decisions on comprehensive information that incorporates both the historical analysis and the forecasted earnings insight, all while considering quantitative and qualitative factors, integration plans can be proactively developed prior to transaction close. This more effectively prepares firms to overcome obstacles, meet investment milestones and accomplish objectives.

Too often, investors allow seemingly promising historical data to act as the singular guide for decision making. While accurate historical analysis is critical, understanding future forecasts is just as important. Given the current market conditions that have driven increased valuations seemingly to no end and, resulting in equally high leverage ratios, investments have a smaller margin for error than ever before. Analyzing data in a consultative manner provides an additional layer of security, so decision makers are confident all risk areas have been considered.

A Quality of Enterprise℠ report will lead to more accurate evaluations if it meets the following criteria:

FOCUS ON THE FUTURE

Typical earnings reports analyze historic data alone, and therefore, primarily rely on the past to make statements regarding the present and future health of the business. To best identify a business' continued viability, a Quality of Enterprise℠ report should view data from a future-focused perspective, using the interaction of numeric and non-numeric elements to anticipate potential obstacles and opportunities.

OFFER CONSULTATIVE SERVICES

A traditional quality of earnings is limited to what's on paper. Conversely, a Quality of Enterprise℠ should prioritize in-depth conversation, allowing the experts to dig deeper into the data to uncover hidden insights. It is important to note that there is more to a business than meets the eye. Quality of Enterprise℠ experts are skilled at uncovering the latent realities of the business and have the experience needed to give each factor its proper consideration and weight.

CONFIRM SYNERGIES

While outputs from a traditional report may suggest that two businesses will complement one another, a Quality of Enterprise℠ analysis more thoroughly vets synergies and identifies potential obstacles to actualizing objectives. For instance, redundant personnel and services, drastically different company cultures and extreme variations in values or vision can pose a threat to future synergies.

IDENTIFY RISKS

It's common sense when making major capital investments that accessing more information is always better—conducting a Quality of Enterprise℠ analysis does just that. It provides a holistic view of the target acquisition that allows you to make decisions based on the most complete and accurate information possible. Surfacing risks at this stage enables critical planning that can help navigate around potential pitfalls.

10%-30% of mergers and acquisitions are successful.[5]

49.41% of companies misrepresent earnings because senior management is overconfident.[9]

Industry research reveals that acquisitions often go awry. With M&A lending requiring such high investments, it is essential that companies access the comprehensive evaluations they need to identify and pursue the most *selective* and *effective* acquisition targets.

Quality of Enterprise℠ Reports from Phoenix

With extensive and proven experience navigating the complexities of acquisitions, Phoenix's team conducts Quality of Enterprise℠ reports to offer the necessary mission-critical insights to maximize acquisition success. By drawing on the firsthand knowledge acquired through hundreds of unique engagements with private equity investors, lenders, hedge funds managers and more, we have the operational expertise necessary to provide clarity and insight to firms as they evaluate complex M&A opportunities.

At Phoenix, a Quality of Enterprise℠ looks beyond the numbers to evaluate a variety of qualitative factors, including seasonality, operations, synergies, facilities, management, culture, vision and more—all of which can detrimentally impact post-acquisition profitability. Our consultative approach to due diligence not only identifies potential problem areas, but also suggests mitigating actions that can effectively minimize or eliminate risk.

SITUATION:

Resources Are Limited

The Situation At Hand

A new investment opportunity has presented itself. As you sign the dotted line, your mind is focused on the many strategic initiatives you intend to pursue following deal close. Of course, you'll have to be selective as resources are constrained.

As you look forward, you recall the money-making strategies you sidelined during your last purchase because of your lack of available resources. Much like this opportunity, you inked that deal confident in the success of your investment. Knowing that you wouldn't be able to accomplish every strategy on your list, you ranked them in order of impact and promptly got to work. Given the success of the strategies you pursued, you're sure that, had sufficient resources been available, you could have achieved even greater results.

This time, you're determined not to let a shortage of resources cause you to leave innovative, and potentially lucrative, strategic opportunities untapped.

For too many equity firms, constrained resources also constrain profitability-potential. To maximize the profitability of new investments, it is important for these firms to gain access to the profit-building resources they need.

The Call to Be Made

When inadequate resources hold back the potential of a major investment, there are several courses of action an equity firm can take.

1 STOCK-UP FOR ALL CONTINGENCIES

In this course of action, you accumulate a surplus of resources over time so you are immediately prepared whenever a new strategy is devised. But before saving up resources for a rainy day, consider the following:

- What else could you do with the money and resources you've accumulated?
- Will the benefits of accomplishing strategies in the future outweigh the cost of sidelining additional resources now?
- Can you accurately determine today the resources you will need tomorrow?

Maintaining unused resources can drain your firm more than you realize. Any resource that isn't actively deployed does not leverage its full money-earning capabilities.

2 ONBOARD RESOURCES AS-NEEDED

Alternately, you can wait until a need arises to invest in capital, allowing you to acquire resources only when you need them. But before you add headcount for that strategic task force, consider the following:

- Will the time it takes to hire, train and onboard personnel on new teams hold projects back?
- What will you do with resources during the undefined time period between projects?
- Will the cost to perpetually maintain a greater number of resources become too high an expense?

While adding internal resources on an as-needed basis mitigates up-front costs, these expenses remain when the project is complete and will add up over time, slowly but steadily draining your profits.

3 OUTSOURCE THE RIGHT RESOURCES, AT THE RIGHT TIME

Finally, an outside company can provide the resources—trained personnel, time, additional capacity, etc.—that you need, precisely when you need it. This will empower your business to pursue key strategic opportunities and quickly meet new demands without taking on a permanent increase to your overhead, which will ultimately become unused capacity. To make sure you hire the right company, make certain they do the following:

- Exclusively employ experts who can seamlessly adapt to the situation at hand.
- Bring breadth and depth of relevant experiences to add value every step of the way.
- Allow you to fulfill goals without assuming recurring costs.
- Stock their own resources, so you don't need to worry.
- Provide flexible and adaptable offerings to meet your ever-evolving needs.

The Value of Outsourcing Resources

When making complex, high-investment decisions, you don't need concerns over inadequate capital to further complicate situations. And yet, employing the right resources at the right time can have a major impact on the feasibility and success of your strategies.

The right third-party partner can mitigate this challenge by providing the capital you need for each individual project, all without requiring you to incur the recurring cost of acquiring these resources yourself. An outsourced resource firm will act as a partner in your quest to execute all of your strategies to their fullest, and maximize the profit-building potential of each and every investment.

Hiring the right outsourced resource provider should result in the following benefits:

NO WASTED RESOURCES

An acquired but unused resource is a source of wasted cost. Having an outside firm utilize their own resources to focus on specific initiatives ensures you pay only for the resources you need, eliminating the need to maintain excess resources and freeing up this money to be used elsewhere.

FIXED COSTS

The right outsourced resource provider will fill gaps in capacity and capabilities while minimizing long-term costs by charging only an initial fee, paid at the onset of the relationship. Since no recurring expenses are involved, all profits stemming from the initiative will fall directly to your bottom line and your future valuation will not be negatively impacted with excess ongoing costs.

EXPERT EXPERIENCE

Each strategic initiative or project tends to require a different specialized focus. It is nearly impossible to cover all of these specialties through in-house experience. Outsourcing to the right expert allows you to onboard precisely the specialized expertise and competencies you need.

STREAMLINED EXECUTION

Internally managing complex execution processes across a number of strategic initiatives, while also meeting your primary functional demands, can prove all but impossible. The right outside resource partner can provide a dedicated focus on each individual strategic initiative, thereby streamlining execution processes, alleviating internal pressure, and maximizing efficiency throughout the project—from planning to completion.

SYNERGY

With high upfront expenditures causing a demand to realize return in a timely fashion, there is a small margin for error in the private equity business. An outside partner who knows the ins and outs of optimizing integration can achieve business-critical synergy among internal and external teams when working on your most critical strategic projects.

30% of costs can be saved by hiring an independent contractor rather than a full team of employees.[10]

90% of organizations use external experts on a project or temporary basis.[11]

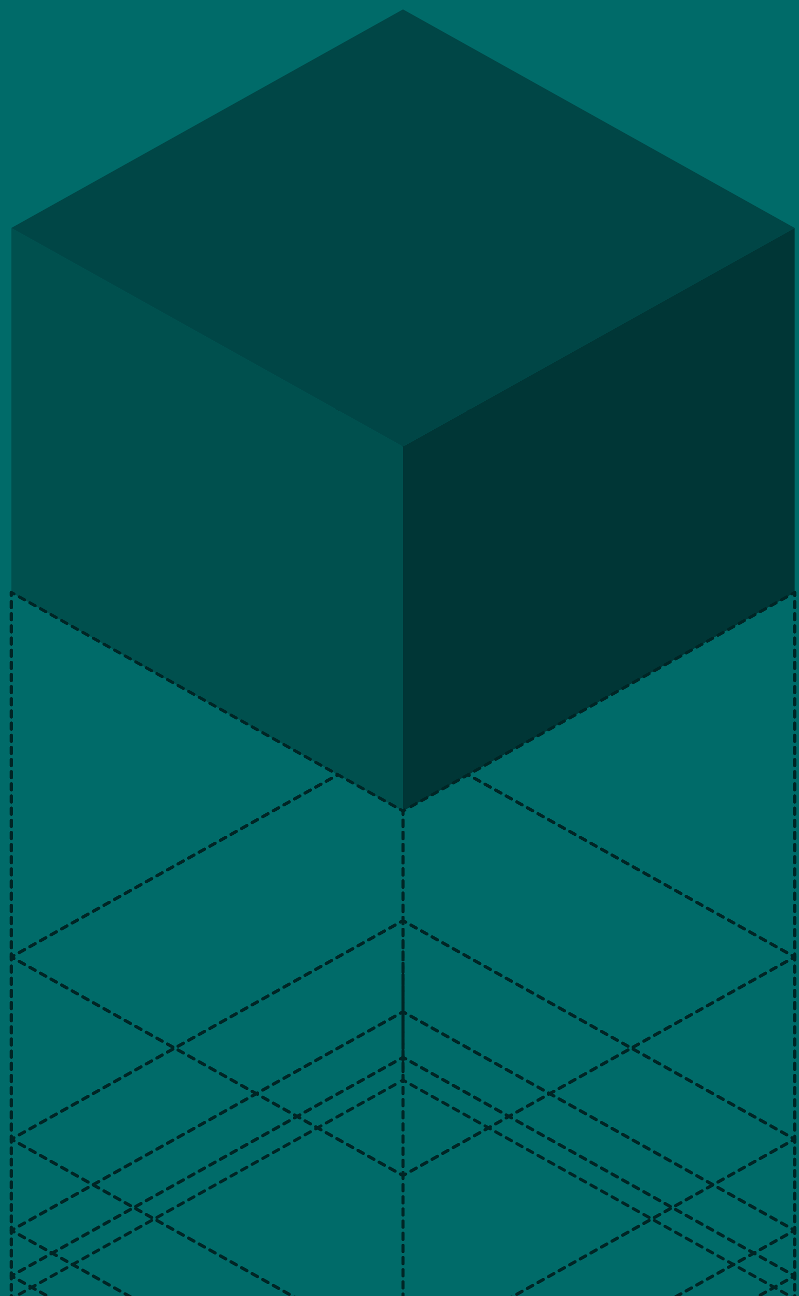
Industry research supports the cost-saving potential of leveraging outsourced resources on a project-by-project basis. For companies looking to maximize the profitability of their investments, capitalizing on outside resources can reduce internal stress and lead to greater future earnings.

Outsourced Resource Offerings from Phoenix

Phoenix provides 30+ years of experience implementing operationally focused business solutions that can be leveraged to plan and execute a diverse range of strategic undertakings. When a company lacks the internal resources to accomplish a strategic initiative, Phoenix's team of leaders comfortably join the organization, seamlessly handling projects the firm is too understaffed or under-resourced to handle. Instead of taking on the permanent costs of hiring a team to accomplish temporary tasks, Phoenix provides firms the ability to onboard expertise for the exact duration of each initiative. With a fixed, up-front investment in Phoenix's outsourced resource offerings, firms can mitigate long-term project costs, thereby leading to larger profit margins.

SITUATION:

Leadership Strife



The Situation At Hand

A combination of evolving markets, delays in implementing change, and potential financial mismanagement have rapidly forced your company into a distressed operating environment. Your senior management team quickly takes action and initiates a turnaround plan that appears to work; however, within two months, cash is once again running out and the company faces another financial crisis.

With negative pressure points building up quickly, your executive team is at odds with each other because they've never worked in an environment where turnaround skills are necessary. As they deal with issues ranging from liquidity management to cash flow forecasts, vendor/supplier pressures and expense controls, and critical lender negotiations, they are unaware of the right course of action to take. Once again, the executive team, now under the watchful eye of investors, attempts to turn around the situation, but this time, you can't help wondering: is this a long-term solution, or just another temporary fix?

As you consider the future, you worry that when the next big decision needs to be made, your management team will be no better prepared to make the right call. For companies suffering from leadership strife, establishing strong decision-making practices is a first step in the right direction.

The Call to Be Made

Once you identify a lack of experience with handling your business' complex situations, you can take a number of actions:

1 FORGE THROUGH THE CRISIS

In this approach, you determine that this crisis, like the last, is a temporary bump in the road that you can push through. But before you decide to bunker down to outlast the storm, consider the following:

- How many times can you push through recurring crises before you need to make a major change?
- Will your leadership team be better prepared next time if a similar crisis arises?
- Is there someone you can consult who has the experience necessary to turn around this situation?

While assuming your problem is a temporary shift that will resolve itself by the next quarter could work if your assumptions are correct, what will you do if this situation lasts longer than anticipated? Or, what if it is a permanent shift that requires a more complete and concrete solution? Company leadership still won't have the necessary skills to work through the problem, and you'll have wasted precious time and resources waiting for financial relief that's not in the forecast.

2 RESTRUCTURE THE LEADERSHIP TEAM

Alternately, you could determine that the problem is due to elements of your senior management team, and you could opt to make changes to company leadership. But before you begin reorganizing senior management or replacing top positions, consider the following:

- Can you afford to wait while new personnel get acclimated to their positions?
- Will these new leaders encounter the same problems as their predecessors?
- Is the termination and replacement of components of your management team the most efficient way to get your company back-on-track?

> While the source of your company's problem may be that certain individuals are unfit for their roles, an inability to make decisions in a time of crisis often stems from wider-reaching organizational issues. Without determining the root of the problem, these issues will likely manifest again in the future.

3 BRING IN A TURNAROUND CONSULTANT

Finally, you can call in an expert well-versed in navigating through complex business challenges. An experienced consultant will provide turnkey assistance to you and your management team while drawing upon years of experience and the comprehensive knowledge gathered while solving past cases. You can expect an experienced turnaround professional to accomplish the following:

- Determine the root of the issue(s).
- Guide and lead senior management to obtain the skills needed to make smart and rapid decisions.
- Ask the hard questions and guide management toward the appropriate action(s) when necessary.
- Establish a sustainable plan, which company leadership can confidently follow down the road.

The Value of Crisis Management Experts

Unlike other options, an outside turnaround consultant skilled in crisis management seeks to train and restructure senior personnel to be strong decision makers, rather than establish decision-making workarounds. As experts in making tough calls, they know how to ask the hard questions in order to create a team prepared to make quick, data-driven decisions.

Too often, complex business problems cripple senior management, who are not accustomed to working through major financial upheaval. While leadership teams may be well-prepared during times of prosperity, they are often novices when it comes to turnaround skills.

Crisis management and turnaround experts apply their practical experience to resolve complex business challenges. They will:

ASK THE HARD QUESTIONS

Solving complex problems requires making hard decisions. However, a turnaround manager will know how to make these calls by asking the tough questions, such as: is everyone who is in a leadership position bringing the necessary talent and expertise to bear on your current situation?, has anyone petered out and arrived at a level for which they are no longer equipped?, are they exhausted from engaging in and encountering recent challenges?, and, are legacy leaders qualified to be in the positions they are in?

ENCOURAGE DECISION-MAKING

Everyone will make the wrong call at some point. Instead of allowing a "fear of being wrong"—especially in the face of a financial crisis—to cripple executives, turnaround managers will work closely with your senior management team to help them better develop critical skills, allowing them to become stronger decision makers who synthesize data, understand the ramifications, and remain consistent.

ESTABLISH SHORT TERM AND LONG TERM GOALS

Complex problems aren't solved overnight. Experienced crisis managers set realistic goals, beginning with a few easy victories to increase morale, while contemporaneously tackling the more challenging problems that your company is encountering.

REDUCE COSTS THROUGHOUT THE ORGANIZATION

Whether company strife stems from high costs in sales, manufacturing and general and administration, unfavorable contractual agreements, or something more, an experienced crisis manager knows how to target areas where costs can be reduced or agreements can be renegotiated.

ACHIEVE COALESCENCE

Once a decision is made, a consistent message must be spread throughout the organization. Experienced crisis managers can prepare organizations to have one message, but many messengers.

18% of firms—only a small percentage of organizations surveyed—report that their leaders can successfully achieve their goals.[12]

50% of leaders and managers are considered ineffective, incompetent or a mis-hire.[13]

Studies consistently show that most leaders have quite a ways to go before they are able to effectively run a company. To prevent poor decision making from detrimentally impacting organizations, companies must take care in times of crisis to call on the right, experienced individuals to steer the company back to stability and prosperity.

Crisis Management Guidance from Phoenix

Phoenix's team provides companies in distress the expertise to identify and address the underlying operational challenges impacting their business. With over 150 years of combined experience amongst our partners, Phoenix offers the professional guidance necessary to tackle the complex situations most leadership teams are unaccustomed to handling, and the ability to turn the situation around.

Our team not only offers the turnaround management companies in crisis require, but also brings decades of experience working in a wide range of industries to the table, allowing Phoenix consultants to create comprehensive strategies rooted in practical experience operating in the same industry.

Phoenix: Your Direct Line to Answering the Complex Calls

The enterprise lifecycle is full of tough calls, some of which leave executives hard-pressed to find an answer. At Phoenix, we respond to these challenges with strategic solutions—no matter how complex the situation may be.

Whether the call to be made is a critical growth decision or a crisis call, we have the vision, experience and objectivity needed to identify the right solutions, and see them through to completion.

Since our founding in 1985, the Phoenix team has been effectively solving challenges for clients across the entire financial spectrum. Phoenix provides business owners and their stakeholders with complete solutions that address challenges at every stage of the enterprise lifecycle.

PHOENIX MANAGEMENT SERVICES®

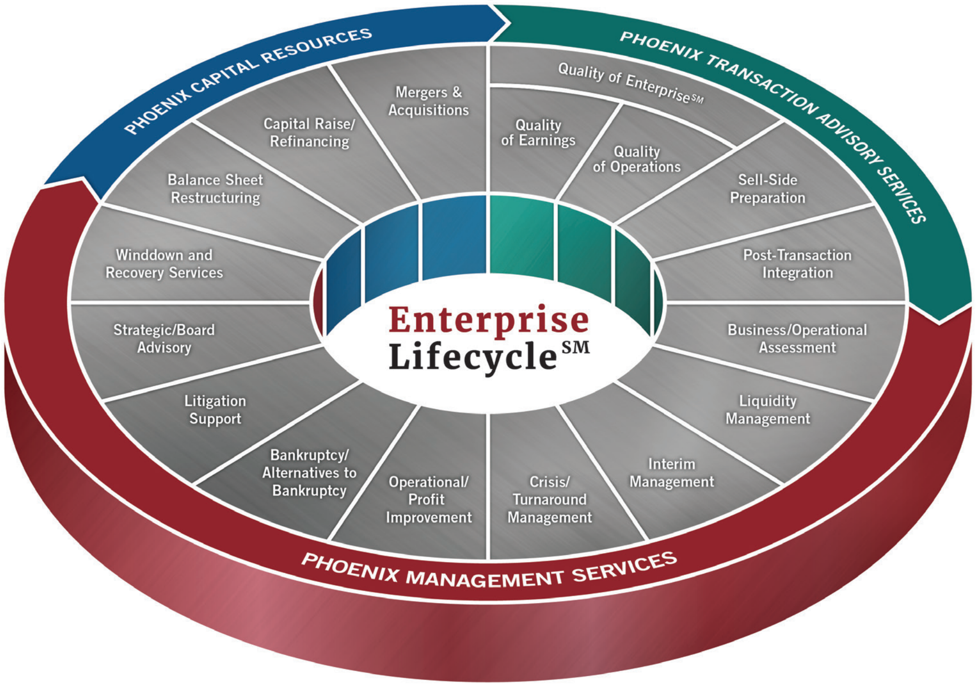
Provides operationally oriented, hands-on turnaround management assistance, complex restructurings, crisis and interim management, liquidity management and forecasting and operational solutions.

PHOENIX TRANSACTION ADVISORY SERVICES®

Provides due diligence, Quality of Enterprise℠, quality of earning reviews, quality of operations, sell-side business preparation, post-transaction integration, and other transaction related support services.

PHOENIX CAPITAL RESOURCES®

Provides special investment banking solutions including M&A advisory, private placements of debt and equity and complex balance sheet restructurings.



1,400+	200+	150+	30+
Engagements	Industries	Years of Partner Experience	Years In Business

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