COLUMBIA BUSINESS SCHOOL
B7511 -- Turnaround Management (Autumn 2021)
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This is a SURVEY course that takes the manager’s perspective on a wide range of turnaround topics. Some analysis is required to recommend path of action.

CASES: Cases and readings are linked through “Calendar” within CANVAS. There are folders within each CANVAS Session folder for everything else. Copies of readings are on reserve with Library

OPTIONAL TEXTS
Donald B. Bibeault (1998) Corporate Turnaround: How Managers Turn Losers into Winners

Library Reserves: https://www1.columbia.edu/secure/cgi-bin/cul/respac/respac?CRSE=20203MGMT7511B001

Join the Turnaround Management Association (In 2021, TMA offers 1-year free student rate for students of this course.) https://turnaround.org/join

COURSE DESCRIPTION
This Management juxtaposes three turnaround perspectives: (a) the owner/ shareholder, (b) the consultant/ turnaround manager/ CEO, and (c) the creditor/ vulture/ financial arbitrageur. (“No Money? No Mission!”) At its heart, the course is about the turnaround specialist and how distressed companies may be saved. Although we will seek to avoid bankruptcy, some of the restructuring cases consider how to use court protection to best advantage. Managers must understand the restructuring process.

A turnaround specialist assists a company either by consulting on a short-term-project basis or by acting as interim chief executive (if a CEO must be replaced). In their consulting capacity, restructuring and turnaround experts help management to stabilize finances and improve operations in order to reassure all parties-in-interest that proactive steps are being taken to enhance firm value. A turnaround specialist may be employed by the Board of Directors, an investment group, or creditors; the restructuring plan implemented may (or may not) involve a bankruptcy filing—whichever is the better solution to returning the firm to solvency.

Point allocations are at end of document.

1 Materials from Whitney, Bibeault, Gittlitz, D’Ascoli, Manning, Mestre, Resnikoff, Buckfire, and Harrigan are from professionals who were all educated at or employed by Columbia Business School and contributed to CaseWorks materials. The New York City Chapter of the Turnaround Management Association his course supports this course via its “Best Paper Competition” which awards prize money to enrollees.
COURSE OUTLINE AND MATERIALS LIST FOR AUTUMN 2020
B7511 Turnaround Management

Here is the “planned” session sequence. Always check with CANVAS for any updates. Answer the CANVAS survey questions by 7:30 AM on the day when a session meets.

Part I: Sink or Swim
Part I emphasizes basic tools and terminology. Since Turnaround Management integrates the functional disciplines of the core curriculum, an understanding of accounting and corporate finance is mandatory to do the Part I exercises that use tools such as ratio analysis and 13-week cash flow projections. These are expected to earn the Turnaround Management Association’s Certified Turnaround Analyst (CTA) and Certified Turnaround Professional (CTP) credentials if you take the tests.

Answer Case-Related Questions on CANVAS by 7:30 AM
B7511 Session 1: Distressed Companies – Cash Flow Is King!
Assignments Due for Session #1 (Remember to check CANVAS for updates):
Introductory Lecture and Case Discussion.
Cases:
“Nadir Publishing” Columbia CaseWorks #160421. [A copy of the case is at the end of this syllabus.] Write-up is due in CANVAS drop box before class session begins. Email Professor beforehand to volunteer to present your analysis of this case in class.

Readings:

Topics from Core Courses: Change management; product line selection; releasing cash from assets; ratio analysis; pro forma analyses

Nadir Publishing Write-up [Required—100 points]:
Make recommendations concerning how to handle Nadir Publishing’s note that is due. Suggest ways of improving cash flow and include a recommendation about the opportunity to distribute the proposed new line of titles (include persuasive evidence). You could offer annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of pro forma cash flows (at least one week hence) or other pro forma financial statements, or a candid assessment of Nadir’s liquidation value if it is useful to the issue at hand.
B7511 Session 2: Feed the Winners, Starve the Losers

Assignments due for Session #2 (Remember to check CANVAS for updates):

Cases:
“Teva’s Turnaround” [Columbia Caseworks #180410]
“Elan Corporation Turnaround,” [KEL 507]
“Kodak: The Rebirth of an Iconic Brand” [N9-519-051]

Comment: “Teva’s Turnaround” was created from an EMBA Final Report—like the one due on December 17, 2021 [Session 13]. Good example of alternative generation.

Readings:


Topics from Core Courses: Management of operations; profitability analysis; management of organizational change; demand analysis

B7511 Session 3: Managing the Turnaround Process

Assignment Due for Session #3 (Remember to check CANVAS for updates):

Case:
“Lyric Dinner Theater” [9-386-056] [Optional Write-up is due].

Guest Speakers Jeffrey Manning and Larry Halperin, Esq.

Readings:


Lyric Dinner Theater [Optional Write-up—100 points]
Make some pragmatic suggestions for profitability improvement that are backed by your analysis. Create financial statements to demonstrate impact of your recommendations.

Bonne Chance is not yet due, but be prepared:
“Bonne Chance 2015” Columbia CaseWorks #160420. [200 points] Read it early to familiarize yourself with Bonne Chance’s problems. The 13-week cash flow assignment is due for Session 6], but you can ask any clarifying questions beforehand as you work on solutions. Guest speakers for Sessions 4 and 5 are especially helpful in using cash flow analysis for operating problems.

Topics from Core Courses: Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation

Answer Case-Related Questions on CANVAS by 7:30 AM
B7511 Session 4: Turnarounds as Start-ups
Assignments Due for Session #4 (Remember to check CANVAS for updates):
Cases:
“International Steel Group” [9-803-162]
“Shear Cutters: Tale of a 40-Year-Old Start-up,” [CaseWorks #2204xx]
Guest Speaker: Felix Carver, CEO, Expressive Stylists, Inc.

Readings:
Freedman, R. 2020. “Sec. 363 bankruptcy sales may yield higher prices than Chapter 11.” CFO Dive, June 1, 2020.

Akin, Gump, LLC (2011) “Pathology of Section 363 Transactions"


Term Sheet (Redacted) from an EMBA Banker

Do you have any questions about the Bonne Chance 2015 solution?
Answer Case-Related Questions on CANVAS by 7:30 AM

B7511 Session 5: Legal and Economic Aspects of Capital Markets
Assignments due for Session #5 (Remember to check CANVAS for updates):
Cases:
“J. Crew (A): How Private Equity Ruins Retail,” Columbia CaseWorks #210401A
Guest Speaker Joe D’Ascoli, Ankura Consulting

Readings:


Do you have any questions about the Bonne Chance 2015 solution?

Topics from Core Courses: Balance sheet analysis, capital structure, ratings agencies and borrowing costs; subordinated debt; institutional/legal background of restructuring

Answer Case-Related Questions on CANVAS by 7:30 AM

B7511 Session 6: 13-Week Cash Flow Exercise—Making Trade-offs
Assignments due for Session #6 (Remember to check CANVAS for updates):
Cases:
“Bonne Chance 2015” Columbia CaseWorks #160420 [REQUIRED WRITE-UP]
“Al Dunlap at Sunbeam,” [9-899-218]
“Scott Paper,” [9-296-048]

Readings:

“Strategic Decline,” [9-708-437]


**Bonne Chance 2015 Write-up [Required 200 points]** For Session 6, choose which creditors to pay. Explain whether Bonne Chance should take Swatch deal (or not). Use NO sales deals, that is, do NOT use Swatch, Rolex trade-in sales promotions, Rolex inventory balancing, other merchandise off-price sales, or headcount reductions. Show 4th Quarter Bonne Chance **Base Case** 13-week Cash Projection With and Without AND Swatch. (Assume NO Rolex trade-in sales promotions, NO Rolex inventory balancing, NO other merchandise off-price sale, and NO headcount reductions in your solutions.) Include Year End Financials for each scenario.

In grading Bonne Chance, many points are deducted for forgetting to include necessary details. It may be possible to redeem up to HALF of the deducted points by fixing Bonne Chance errors after they have been cited in the feedback. For Session 7, the Bonne Chance analysis IS ALLOWED TO USE Rolex trade-in sales promotions, Rolex inventory balancing, Other merchandise off-price sale, and headcount reductions.

**Topics from Core Courses:** Forecasting weekly cash flows from operations; timing of payables; profitability of product lines; situation assessment; strategy implementation; leading transformations; downsizing; clearance sales, discounting and pricing strategy

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**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 7: Turnaround Managers (Distressed Firms Everywhere)**

**Assignments Due for Session #7 (Remember to check CANVAS for updates):**

**Cases:**

- **“Bonne Chance 2016”** Columbia CaseWorks #160420 [REQUIRED WRITE-UP]
- **“Cleveland Twist Drill (A) and (B)”** [9-384-083 and 9-384-163] *Read both cases to understand the video that will be shown (about operating turnarounds)*
- **“Masters’ Novelty”** UVA-F-0956

**Readings:**


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**Bonne Chance 2016 Write-up [Required 100 points, Recover points from 2015]**

Project cash flows to December 31, 2016. Explain what to do about Rolex. Include effects of Swatch (*if taken*). For this iteration, you may use the sales deals, i.e., use Rolex trade-in sales promotions, Rolex inventory balancing, Other Merchandise Off-
Price Sale, and/or headcount reductions (if warranted). Include Year End Financials for both years.

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**Part II: Restructuring Basics**

**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 8: Repercussions of Restructuring**

*Assignment due for Session #8 (Remember to check CANVAS for updates):*

**Cases:**

- “Arch Wireless, Inc.” [9-205-024] [OPTIONAL write-up]
- “J. Crew (B): How Private Equity Ruins Retail,” Columbia CaseWorks #210401B
- “GT Advanced Technologies,” Columbia CaseWorks #160408

**Readings:**


**Arch Wireless [Optional Write-up—100 Points]**

Explain whether the prepackaged bankruptcy plan submitted by Arch Wireless seems reasonable (i.e., is Arch Wireless more valuable as a going concern than if liquidated and does the distribution of value to creditors seem fair?) Reasonableness is a relative matter, depending upon whose viewpoint you assume. Please render your assessment from the sometimes-conflicting, diverse points of view of the several creditors who will be involved in any restructuring agreement. Use appropriate tests and make recommendations if you modify or reject Arch Wireless’ proposal.

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**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 9: Corporate Restructuring**

*Assignment due for Session #9 (Remember to check CANVAS for updates):*

**Cases:**

- “Allegeny International” Columbia CaseWorks #170402 as a **CHOICE A** case write-up. *(You MUST write on one of the “debt-for-equity” swap cases—designated as **CHOICE A** or **CHOICE B** cases.) This one is a simple debt-for-equity swap proposal without the benefit of bankruptcy filing.
- “Solo Cup in 2007” [KEL505]
“Parmalat USA Turnaround” [KEL356]

Readings:

D. Shefter, “Note Regarding Preparation of Case: Allegheny International (AI),” [Use this note if writing up assignment. A TA prepared this note for B7511—Turnaround Management—to explain valuation and Absolute Priority Rule concepts when analyzing case.]

Allegheny International Optional CHOICE A exchange offer assignment: Rival factions want Allegheny International’s capital structure to be restructured in a way that favors their respective situations. You must make a recommendation among rival exchange offers with supporting analysis and a memo detailing your conclusions concerning how Allegheny International should be restructured. This is an out-of-court restructuring.

Answer Case-Related Questions on CANVAS by 7:30 AM

B7511 Session 10: Bankruptcy versus Operating Turnaround
Assignments due for Session #10 (Remember to check CANVAS for updates):

Cases:
“Foamex International Inc. Operating Performance” Columbia Caseworks #080313
“Foamex International Inc. Capital Structure” Columbia Caseworks #080312, together they constitute a CHOICE B case write-up. (You MUST write on one of the “debt-for-equity” swap cases—designated as CHOICE A or CHOICE B cases.) This one is a debt-for-equity swap proposal in bankruptcy.
“Thomas Cook on the Brink (A)” [9-215-008]
“History of Johns-Manville Corporation” Columbia CaseWorks #170401

Readings:


Foamex International Optional CHOICE B exchange offer assignment: There are rival factions that want Foamex to be restructured in a way that favors their situation. You must make a recommendation among rival reorganization plans and exchange offers with supporting analysis and a memo detailing your conclusions concerning how Foamex should emerge from bankruptcy.

Topics from Core Courses: Creditor priority; pre-emptive filing of bankruptcy; strategic inaction and competitive response; leading organizations through bankruptcy;
successor liability, credit bidding; preference actions; fulcrum security; debtor-in-possession financing; second-lien financing

**Part III: Saving Distressed Companies via Restructuring**

*Part III emphasizes special situations involving “operating turnarounds.”*

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**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 11: Restructuring Distressed Companies**

**Assignments due for Session #11 (Remember to check CANVAS for updates):**

**Cases:**

“Smithfield Foods, Inc.” Columbia CaseWorks #210405

“PRG-Schultz International (A)” [9-807-126] [OPTIONAL write-up]

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**Readings:**


**PRG-Schultz International Write-up [Optional—100 Points]**

Vultures are encircling PRG-Schultz International and the firm has just engaged Rothschild to evaluate financing alternatives for it (including bankruptcy). ? Is this company worth saving? How can PRG-Schultz International service its debt by paying the interest due to bondholders in November 2005? How can PRG-Schultz International pay off the bonds completely in November 2006? Should PRG-Schultz International seek the protection of Chapter 11 of the Bankruptcy Code?

**Topics from Core Courses:** Corporate governance, divestiture, financial restructuring; debt-for-debt swaps, debt-for-equity swaps; shareholder dilution; price-cost squeezes; role of investment bankers in turnarounds and restructurings; valuing an ongoing firm.

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**Answer Case-Related Questions on CANVAS by 7:30 AM**

**B7511 Session 12: Noteworthy Turnaround Managers I**

**Assignments Due for Session #12 (Remember to check CANVAS for updates):**

**Cases:**

“Turnaround at Mattel,” [9-219-102]

“Revitalizing Cumulus Media” [Columbia Caseworks #180403]
Readings:


Session 13
REMININDERS FOR FINAL PROJECT WHICH IS DUE DECEMBER 17th AT 8:30 AM:

1. Complete all parts of the TMA entry form that must accompany submission of your Final Project and sign the entry form
2. Final Project is due at 8:30 AM on Friday, December 17th of 2021 with TMA form
3. Everybody on your team must sign and provide an address (for money you win)
4. The typical all-inclusive page limit is 50 PDF pages (and that includes legible financials). Use 12 pt. typeface and 1-inch margins. TMA judges want to see the details. (May be less than 50 pages.)

The Final Project requires articulation of the general manager’s perspective to suggest operating changes that may affect product mix, lines of business, and capacity/ site reviews as well as financing. EMBA teams have won money in both the New York Chapter of the Turnaround Management Association’s annual competition as well as their National Best Paper Competition through their Final Projects. Make them good.

TIMING OF DELIVERABLES
REQUIRED WRITE-UPS: Sessions 1, 6, 7
OPTIONAL WRITE-UPS (Choose ONE. Do more for extra credit): Sessions 3, 8, 11
CHOICE OF EXCHANGE OFFER WRITE-UP: Session 9 OR Session 10
FINAL PROJECT: Requires TMA permission form to compete. Session 13

CALCULATION OF THE FINAL GRADES
In practice, course grades will be calculated using point accumulation. Points are awarded for:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
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</thead>
<tbody>
<tr>
<td>Final Project (Analysis, Recommendations)</td>
<td>300</td>
</tr>
<tr>
<td>Individual Contributions to Class</td>
<td></td>
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<tr>
<td>(Surveys, Polls, Participation etc.)</td>
<td>Up to 900</td>
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<tr>
<td>Required Write-ups (THREE Exercises)</td>
<td>Up to 400</td>
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<tr>
<td>Debt-for-Equity Swap (Choice A or Choice B)</td>
<td>100</td>
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<tr>
<td>Other Optional Write-up (Choose among three selections)</td>
<td>100</td>
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HERE IS THE CASE FOR SESSION 1 WRITE-UP: NADIR PUBLISHING

Make recommendations concerning how to handle Nadir Publishing’s note that is due. Suggest ways of improving cash flow and include a recommendation about the opportunity to distribute the proposed new line of titles (include persuasive evidence). You could offer annotated ratio analysis (if it provides insights), a calculation of Nadir’s “burn rate,” an estimate of break-even levels of activity, some comparison with industry norms, projections of pro forma cash flows (at least one week hence) or other pro forma financial statements, or a candid assessment of Nadir’s liquidation value IF it is useful to the issue at hand.

NADIR PUBLISHING

At 9:00 AM, you are appointed President of Nadir Publishing. Seven days from now you must present a plan of action that will convince your bank to extend the $4 million note that was due today.

For your information, Nadir has 3,000,000 shares authorized and 1,000,000 shares issued and outstanding. Current market price is 2–2.20. The stock is widely held. Trading volume is small and sporadic. Half the sales for the year just ended are from book titles it publishes. The other half is from book titles distributed for an overseas “packager.”

Bookstores as well as their on line competitors – together they comprise more than 80% of Nadir’s business – normally pay within 45 days of invoice. Invoices are usually sent within 15 days of shipment, and therefore, average A/R DSO is 60 days. Both brick and mortar bookstores as well as online companies that maintain inventories have the right to return unsold books for credit. Book sales vary widely from month to month, but for purposes of this analysis, assume that sales are evenly spread through the year.

At 4:00 pm, your marketing director came in with a proposed solution to last year’s revenue and income declines. He has found a packager with an exciting new line of book titles that should add $5 million to annual sales. With a 50% gross margin, the contribution of $2.5 million, less commissions of $500 thousands, will bring Nadir back to break even. Furthermore, he has negotiated favorable terms: 1/3 in each of 30, 60, and 90 days after date of delivery.

Some industry norms are:
- 3 – 5 times inventory turns
- 30 – 40 % COGS for published book titles
- 50 – 60 % COGS for distributed book titles
- 20% SG&A expense/sales
- 8% sales representatives’ commissions
NADIR PUBLISHING
CONDENSED INCOME STATEMENT
FOR 12 MONTH PERIOD ENDING TODAY ($000)

Gross sales $54,000
Less returns and allowances 4,000
Net Sales 50,000
Less cost of goods sold 27,500
Gross profit 22,500

Operating Expenses
Commissions 5,000
SG&A 14,500
R&D 3,000
Sub total 22,500
Operating Profit 0
Interest 2,000
Income (Loss) before taxes (2,000)

NADIR PUBLISHING
BALANCE SHEET – TODAY ($000)

Current Assets
Cash $250
Accounts Receivable, net of reserves 14,000
Inventories, net of reserves 20,000
Subtotal current assets 34,250

Plant, property & equipment 4,000
Total Assets 38,250

Liabilities and Shareholders’ Equity
Current
Notes payable* $4,000
Current maturities of long term debt 1,000
Accounts payable 15,000
Other current 2,000
Subtotal current liabilities 22,000
Long term debt 10,000
Shareholders’ equity 6,250
Total Liabilities and Shareholders’ Equity 38,250

*Outstanding $3,000 Letter of Credit is not shown on balance sheet. The Letter of Credit is used to purchase merchandise overseas where Nadir has not yet established creditworthiness.