



Building Back Stronger – Part 2

Resurrection: The sustainable turnaround approach for latent zombies

This two-part series examines zombie companies, their impact on stakeholders and the overall economy, as well as suggestions on what actions stakeholders should take to achieve a sustainable turnaround for a latent zombie and a path to future growth.

Zombie companies left to their own devices will eventually feel an urgency to address immediate and visible pains, but will likely fail to look at the fundamental issues and bigger picture.

Kicking the can down the road

Amending and extending debts, furloughs, shareholder loans, and off-balance sheet arrangements are used as band-aids by zombie companies to remain afloat. Restructuring and turnaround practices across the GCC region have largely emphasized cash and working capital management, debt/lender restructuring and business plan revisions as common approaches to turning around a distressed or troubled company. But these band-aids don't address the company's strategic and operational weaknesses, which will continue to show up in different ways.

Financiers or shareholders should be asking: "are we just papering over the cracks and extending obligations that are unlikely to be met without fixing a fundamentally flawed business model?" And importantly, is this irrecoverable or a latent zombie whose fortunes can be turned around?

A sustainable restructuring and turnaround

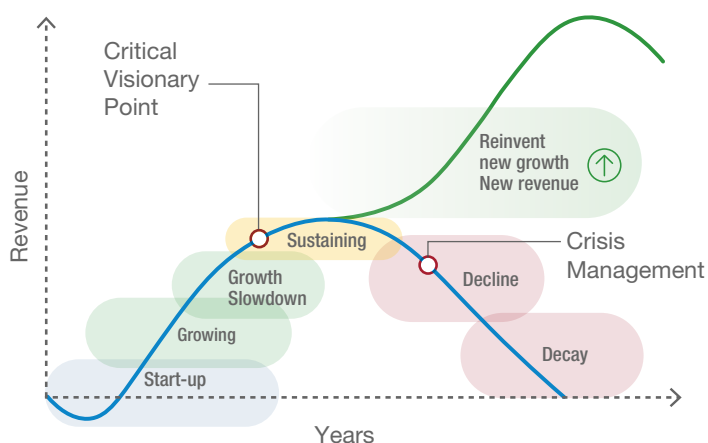
The first step in creating a sustainable restructuring and turnaround has two parallel workstreams. The first stabilizes the business by implementing short-term initiatives to resolve imminent liquidity and solvency issues or freeze with the intention of resolving over the medium-term. The second step is to conduct a comprehensive assessment of all critical areas of a business, identifying symptoms and root causes to be able to address them through a series of corrective actions.





Then, a set of medium-term to long-term financial, operational, and strategic initiatives should be developed and executed with the aim of adjusting or recreating a business model relevant to market dynamics, that is economically sound and resilient. This doesn't need repeating every cycle if there are mechanisms which allow for continuous assessment and realignment to ensure that it stays relevant and economical throughout the business revenue lifecycle.

Business Revenue Lifecycle



Often, steering a latent company out of its zombie state requires a very different set of skills than growing a company or keeping a business steady. While an urgent change in leadership may be needed, it is often complicated and time consuming to make the change. Stakeholders and boards need to have the strength and foresight to identify when new leadership is needed—they should ask for support to bring in the skill sets needed to implement the stabilization, root-cause assessment and set out the mid-term plan for the company. In parallel, or following such an exercise, new or strengthened leadership can be identified and onboarded to take the short to medium-term turnaround efforts forward to a longer transformation of the business model.

Sponsors of latent zombies must invest to create a sustainable turnaround

In addition to bolstering senior leadership, latent zombie companies need to consider other possibilities when attempting to restructure or turnaround. Following a restructuring/turnaround stabilization phase, implementation of a strong change-management framework ensures that not only the mechanics of a business model are transformed, but that the culture of the company is also adjusted in line with business model and market dynamics. Actions that can accelerate and improve the outcome of turnarounds include investing in the right advisors, funding battlefield promotions to lift employee morale, investing in digitization efforts, and investing in marketing.





Act quickly and get the right support

The best way to navigate out of a latent zombie situation is to engage the right help at the right time. Latent zombies require support which is beyond just business plans, concepts and lists of initiatives for stakeholders to mull over. The support team needs to be “hands on”, objective, efficient and fast (comprising senior and experienced professionals that are both strategic and operational), experienced in both sector and functions (a mix of industry and consulting experts), and committed for the medium-term (engagement terms tailored to ensure commitment to seeing the turnaround through).

Furthermore, the right help needs to be empowered to make changes within a clearly defined and transparent framework. For instance, the Chief Restructuring Officer (CRO), first introduced in Europe by Alvarez & Marsal, steps in to work alongside senior management of the company, driving and providing management and the board with advice and guidance across restructuring workstreams, risk management and corporate governance, allowing existing management to focus on what is working well. With the right approach and support latent zombies can be turned around and returned to being a valuable contributor to the economy.

A&M's CRO Value Proposition

- ✓ Leadership ability and expertise necessary to achieve the optimal outcome and objectivity
- ✓ Has a clear task for a defined period
- ✓ Can take on board appointments driving greater accountability where appropriate

CRO Responsibilities

➔ Stakeholder Management	➔ Coordination of Restructuring Activity	➔ Evaluation of Strategic Alternatives
<ul style="list-style-type: none"> ▪ Participate in stakeholder meetings and negotiations and provide support to the Board ▪ Determine information required to support buyer/lender due diligence ▪ Manage creditor communications and stakeholder diligence processes ▪ Manage communications processes with other key consultants (employees, vendors, etc.) 	<ul style="list-style-type: none"> ▪ Work hand in glove with legal and financial advisors to coordinate overall workstreams ▪ Board representative/advisor responsible for restructuring matters ▪ Transaction planning and execution ▪ Lead-contingency planning workstreams, if required ▪ with other key consultants (employees, vendors, etc.) 	<ul style="list-style-type: none"> ▪ Determine the range of possible alternatives available to the company (in collaboration with financial and legal advisors) ▪ Gather data and develop scenarios to analyze possible outcomes ▪ Work with the Board and management to select the appropriate path forward ▪ Implement the plan ▪ Formulate recommendations to stakeholders ▪ with other key consultants (employees, vendors, etc.)
➔ Risk Management	➔ Corporate Governance	➔ Liquidity Management
<ul style="list-style-type: none"> ▪ Provide the Board with Independent insight, advise and guidance to evaluate risk. Compliance and liquidity issues to develop effective and practical solutions in a timely manner 	<ul style="list-style-type: none"> ▪ Support Board in ensuring appropriate corporate governance is in place to manage risk and satisfy fiduciary duties 	<ul style="list-style-type: none"> ▪ Develop and/or analyze weekly cash flow forecasts ▪ Address liquidity concerns ▪ Implement cash conservation guidelines and controls



The key is addressing the bigger picture

As we slowly climb out of the pandemic, with c.47 percent of measurable companies with a perceived high probability of distress leading to insolvency, it's time for sponsors, principles, management and lenders to take a close look at their portfolios and assess the support they need. Once a company becomes a zombie, it's difficult to undo, but not impossible. We call them Stalled and not Zombie companies at A&M as based on experience we know that there is always room for potential turnaround—the key is addressing the bigger picture, long-term outcomes, and acquiring the right advisors.

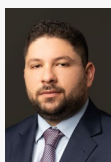
CONTACT US



Paul Gilbert
Managing Director
pgilbert@alvarezandmarsal.com



Cam Coles
Senior Director
ccoles@alvarezandmarsal.com



Said Al Sayyed
Director
salsayyed@alvarezandmarsal.com



James Murphy
Associate Director
jmurphy@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,400 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

Follow A&M on:



© 2021 Alvarez & Marsal Holdings, LLC.
All Rights Reserved.
395877 / September 21

To learn more, visit: [AlvarezandMarsal.com](https://www.alvarezandmarsal.com)