

# *The Journal of* **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

VOLUME 10, NUMBER 2

SPRING 2007

<b>JAMES E. SCHRAGER</b>	Editor
<b>STEVEN M. BROCKMAN</b>	Assistant to the Editor
<b>HARRY KATZ</b>	Production and Technology Director
<b>GWENDOLYN TOMASULO</b>	Marketing Director
<b>IAN AU</b>	Senior Marketing Manager
<b>SHAUN BROUGH</b>	Head of Sales
<b>PETER JUNCAJ</b>	Head of Subscription Sales
<b>SEGAL BENGIGI</b>	Account Manager
<b>HASSAN BAKIRIDDIN</b>	Business Development Manager Electronic Publishing
<b>DEWEY PALMIERI</b>	Reprints Manager
<b>ROBERT TONCHUK</b>	Director/Central Operations and Fulfillment
<b>KELVIN LOUIE</b>	Senior Fulfillment Manager
<b>CHERLY-NINA BONNY</b>	Fulfillment Manager
<b>DAVID E. ANTIN</b>	Chief Operating Officer
<b>STEVE KURTZ</b>	Director, Finance & Operations
<b>DAVID BLIDE</b>	Associate Publisher
<b>SANDRA ANDERSON</b>	Business Development Manager
<b>KATHERINE ARIAS</b>	Advertising Coordinator
<b>ALLISON ADAMS</b>	Publisher
<b>CHRIS BROWN</b>	President
<b>GARY MUELLER</b>	Chairman & CEO

Welcome again to our special expanded issue that includes a large selection of articles highlighting the turnaround field. The past year has been a time of growing influence for turnaround professionals, in deals of all sizes. No longer are turnarounds relegated to small-town, no-name businesses, but private equity backed buy-outs of all sizes now no longer raise eyebrows. As we go to press, one of America's corporate icons, the Chrysler division of Daimler/Chrysler, is looking at options and as is usual today, private equity buyers are mentioned right alongside more traditional corporate—or so-called “strategic”—suitors. This issue of the Journal is one way to help turnaround professionals stay abreast of the significant new challenges that confront us each day.

Our turnaround pieces are split into three broad areas: Overview articles that discuss broad trends and changes in the field at large; Tactical pieces that take a particular subject and delve into detail; and Cases that report on special turnarounds. Each of these pieces grapple with conventional wisdom, compare it with reality, and illustrate through data and example how our approach to the business is shifting. We believe these ideas allow you to compare notes with the experts and see where and how you will be challenged in the coming year.

The lead-off piece in our overview section tackles the intriguing question of how good are the “Good to Great” companies? Shep Prior, Bill Hass and Dennis Aust investigate the eleven companies selected by Jim Collins in his best selling book, and find a rather startling result. If you set up the outcome as predicted via chance, then 5 would under perform the S&P 500, 5 would out perform, and one would perform right on the average. Do you want to guess the outcome? Prior, Hass and Aust also step up to answer the bigger question: How to explain the results? And how to prevent your portfolio or client companies from ending up on the scrap heap—caused partially by the powerful forces of regression to the mean.

## ***Publisher's Note:***

*In appreciation for being a Journal of Private Equity subscriber or a valued member of The Turnaround Management Association, please enjoy this special turnaround issue of The Journal of Private Equity. I am confident that you will find this issue to be a valuable reference tool within your library. The articles are timely and informative, written by authoritative specialists in turnaround management and corporate restructuring. Please also refer to The Corporate Resource Directory, providing you with an overview of industry experts and professionals who can assist you in achieving your corporate goals and objectives.*

*I would also like to thank The Turnaround Management Association and our Sponsors for their continued support of the educational products published by Institutional Investor. For more information please visit [www.ijpe.com](http://www.ijpe.com) or [www.turnaround.org](http://www.turnaround.org).*

**Allison Adams**  
**Publisher**  
**Institutional Investor Journals, [aadams@ijjournals.com](mailto:aadams@ijjournals.com)**

*The Journal of*  
**PRIVATE EQUITY**  
Strategies and Techniques for Venture Investing

Next up in the overview section is a piece by Robert Katz and Jim Miller that focuses on how to think about success for distressed investment funds. What does it take to make your firm a top-tier player when supplying advice and counsel to private equity funds, distressed investing and debt funds, second lien funds and hedge funds? What are they looking for as to services, price, and deliverables?

Nick Alvarez and Richard Jenkins take a different tack through the issues of the day and discuss the concepts of operational investing, that is, when and how to reach into troubled companies and address essential operating issues such as information technology, working capital, supply chain, sales and other sectors.

Our next two overview articles provide data on the issue of future firm performance. Ron Norelli tackles the troublesome issue of the adverse effects of changing basic economic conditions meeting too much money chasing too few deals. He provides both early warning systems and corrective advice. Kenneth Emery and Richard Cantor provide data on default risk for debt issued by private equity sponsors. Does it carry a greater risk of default? These two authors are from Moody's Investors Services so we may find their opinions on debt ratings put to immediate practical use.

Our tactics section begins where many companies end: bankruptcy. Stephen Brecher, Stephanie Breslow, Adam Harris, James Horgan and Deirdre Martini take us on a trip through the world of M&A bankruptcy, and the way that control of a company is changed through the courts. Jordan Siev and Stacey Goldfarb tackle the litigation effects of the bankruptcy concept of deepening insolvency. How is this emerging doctrine being used by courts as a potential theory of damages for a separate tort, as an independent cause of action, as both, or neither?

Staying in the legal area, Randall Bodner, Peter Welsh and Arthur Cutillo look at legal risks for private equity firms. In this detailed review, they present a series of risks, starting with Limited Partner litigation, employment lawsuits, Federal securities risks, sponsor-versus-sponsor disputes, and of course a host of transactional litigation pitfalls. They name names and suggest solu-

tions. How aware are you of your potential legal problems?

Our final tactical area is the all-important task of doing due diligence and structuring a bid. Bill Wexler and Jim Connor present an overview of the due diligence process and how to keep on the right track. Steven Weisz and Lindsay Bunt take us deep into the bidding process in both the USA and Canada when working through a judicially-supervised restructuring process. Abeer Hassan and David Leece present data on the all-important valuation exercise for companies being acquired, and especially how the due diligence was conducted, by whom, and using what methods.

Our final section presents four case studies, which are always fascinating stories and useful learning experiences. The first by Eric Simonsen and Brian Cassady describes the Jarvis PLC case, Britain's leading facilities-management company that had grown from revenues of 261 million pounds in 1997 to 1.1 billion pounds in 2003—and then the problems started. David Finkbiner takes us to the J&R Machine Company, a small firm located in Wisconsin that made parts for a wide variety of machines. A classic tale of a modest Midwestern manufacturing business of the type that are a vanishing breed, this one was saved. Margaret Good and Thomas Von Lehman report on the turnaround of the Dearfoams Slipper company, famous for its "at-home" comfort footwear selling through a group of big chains such as Federated department stores, Sear's, Penney's, Kohl's, Target, and yes, Wal-Mart. Wonder how they did it against those powerful customers? Our final case from Rebecca Baker takes us through the story of the German drugstore chain Ihr Platz, a business over 125 years old. Hard to imagine how it could fail after all those years of market presence, but harder yet to figure out how to save it.

In all, this issue offers both a survey of the fast-paced world of corporate turnarounds and a selection of how-to articles to keep you abreast of the latest techniques and concepts. We trust you will find it enjoyable and useful reading.

**James E. Schrager**  
Chicago, Illinois  
March 2007