OUTLOOK FOR 2019
THE ONLINE TURNAROUND TIMES

• New IFT CEO appointed • Corporate Partner News
• Zero-Based Borrowing • IFT Announcements

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Dear Members & Partners,

This first edition of Swift for 2019 looks at a number of significant topics and upcoming issues that affect the turnaround world. I am pleased that Corporate Partners and members have shared stories that they have identified as both important and illustrate their recent achievements. We always welcome news from all members, and if you would like to put anything in future editions of Swift, please get in touch with the executive team.

I would like to start by highlighting the arrival of Milly Camley as CEO of the IFT in March 2019. She has started to quickly make an impact. She has worked with the board and the executive team to reflect on what you have told us that you value and would like us to develop in order to agree IFT strategic priorities. This was brought together in our annual strategic away day. We are now implementing the plans that came from the away day as Milly set out in her CEO message earlier this month. The key message emphasized by you was that the IFT brand is strong, underpinned by the rigour of accreditation and thus the quality of membership. However, our brand and profile needed to be raised with a number of stakeholders. Milly’s professional background in strategic communications and PR is therefore particularly appropriate at this time of our development. So, I very am pleased that we will be focusing on building the reputation of the IFT, as we have an important value that needs to be shared and understood. Moreover, we will also be working to evidence and increase knowledge of the societal and economic benefit that our community of turnaround professionals brings to the UK.

I would also like to take this opportunity to thank Brendan McGeever, who has served on the Board since 2016, and to announce him as the new Fellows Committee Chair. We are pleased and grateful that Philip Smith has succeeded Brendan as London & South regional Chair. The quality and energy of members in stepping up to additional roles on committees, as accreditors, in advising projects, speaking at events and increasing our knowledge and connections more generally makes us a successful organisation. I do not underestimate the valuable time and contributions made by members and partners, and we remain extremely grateful to you.

Developing our offering for the membership as a whole, as well as strengthening our existing relationships with corporate partners, is also vital to the IFT. Following our Corporate Partner dinner, which took place at DLA Piper in London in February, we are happy that these relationships remain positive and continue to evolve. Discussions were lively, focusing on the topic of shareholder activism. More broadly, these events provide an opportunity to continue to develop synergies between corporate relationships and the offer for members, the most obvious upcoming manifestation of which is our National Conference, hosted by DLA Piper and taking place on Tuesday 11th June. Ticket sales are already well ahead of this time last year, and we hope you are able to join us as it looks to be a great day, with an agenda packed with interesting speakers and topics.

Steve Swayne
IFT Chairman
We are pleased to announce that Playfair Partnerships has joined the impressive roster of IFT Corporate Partners.

Playfair Partnerships has worked in business turnaround for over 25 years. They specialise in working with owner managed businesses and have delivered over 50 successful turnarounds during this time.

Whilst effecting these turnarounds, Playfair Partnerships have become particularly strong in financial management and offer this as an extension to their turnaround services, often assisting with ongoing financial management and strategic advice – not just helping businesses to recover, but to grow over time.

Senior partner John Playfair commented “whilst I have been a member of the IFT since 2010, my individual membership did not properly reflect how we worked – working seamlessly together as a team on the multi-facets of a turnaround. Becoming a corporate partner will allow the Playfair team to become more involved in supporting the Institute. We look forward to working with the IFT as true partners and particularly championing owner-managed business support.”

IFT NEXT GENERATION EVENT

Our Corporate Partners, KPMG, hosted the first IFT Next Generation event of the year at the KPMG Canary Wharf Offices in February. The evening kicked off with Philip Lawrence, Managing Director in the Special Situation’s Group, giving his insights from some of his toughest restructuring assignments. This was followed by a look at the emerging economic trends and outlook for 2019 with KPMG’s Economics Practice. Lastly, there was an introduction to the IFT Academy from Andrew Dixon – its unique content, various locations and engaging presenters.

FOR MORE INFORMATION ON IFT NEXT GENERATION

The IFT is looking to host a series of Next Gen Events over the coming months, if you would like to get involved in these, or wish to know more about the IFT Academy, please contact:

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BTG Advisory has appointed restructuring and corporate finance specialist Martin Barron as a partner in its advisory team in Leeds.

Joining from Grant Thornton, where he was a partner and led the firm’s restructuring team across Yorkshire and the North East, Martin is a qualified accountant with more than 20 years’ experience advising businesses and stakeholders. Previously, he spent 16 years with Deloitte LLP working within the firm’s restructuring services teams in Leeds and Newcastle.

Martin has worked across a wide range of sectors and organisations from small owner managed businesses to large corporates and public sector bodies. His areas of expertise include cash and working performance improvement, capital optimisation, turnaround planning, distressed debt advisory, financial and operational restructuring.

In his new role, he will strengthen BTG Advisory’s offering in the North, supporting organisations, their owners and funders through periods of strategic, operational or organisational change.

Mark Fry, Head of BTG Advisory, said: “Having such an experienced advisory partner join the team will help us further grow our advisory offering, particularly within the North. Martin is a highly respected figure with a wide network of contacts and will be able to provide vital insight into funding and refinancing options for a whole range of organisations and stakeholders.”

Martin comments: “BTG Advisory has established an excellent reputation as a firm able to deliver a broad range of professional support, acting as a one-stop shop for business solutions. As well as offering high levels of client service, whatever the size of the business, I have also been impressed by the strength of its relationships within both the business and professional community.

“Given the uncertainties faced by businesses from both the current economic conditions and the wider political debate, having the ability to effectively manage change will be key to the success, survival and growth of organisations as they move forward. I believe BTG Advisory is well-positioned to provide the skills required by businesses and look forward to working with the team to develop the firm’s advisory services regionally and nationally.”
The risks associated with undertaking the role of an Interim Director, whether in a turnaround, restructuring or temporary resource situation, are not as clear cut as you may think. To whom do you owe a professional duty of care for advice, and what are your liabilities under various regulations and statutes including (but not limited to) the Companies Act, GDPR and regulatory regimes? What liabilities do you incur or owe to the entity appointing you, or to the stakeholder who may have been instrumental in your appointment?

The two main classes of professional liability insurance that provide indemnity in respect of these risks are Professional Indemnity (PI) and Directors & Officers liability (D&O) insurance. They are however two entirely separate classes of insurance designed to provide indemnity for two separate risks. To provide a basic outline of the indemnity provided by each type of policy of insurance, PI can be summarised as an indemnity for negligent advice or making a mistake when giving advice, whereas D&O provides an indemnity for claims made against directors and officers arising from a decision made, or act carried out, as a result of being engaged as a director or officer of a company. Both types of insurance policy give additional covers to the above, but for the purposes of this article provides a description of the basic cover provided.

We should also stress that policies from separate insurers will provide different cover and individual wordings, as well as exclusions and differing cover restrictions and conditions, hence this article is based on general principles and not on a specific insurer’s wording. Therefore, this article is not intended to give advice regarding any one specific insurance policy.

From our experience most IFT members will have PI insurance, but not all, and there are some members with D&O insurance – but this is a much lower percentage. Neither class of insurance is required to be held by statute, although certain regulators, such as the FCA, may require companies or individuals working in specific industries to have PI insurance. Certain stakeholders, such as lenders, may require an interim director to have PI insurance to be able to be placed on a panel.

If the stakeholder is requiring the employing entity to engage the interim there may be no contract directly between the stakeholder and the interim director. As such, what professional duty of care is owed by the interim director to the stakeholder? The principal duty of the interim would be to the employing entity, and dependent on how the engagement is made, these may well be duties under the Companies Act owed to other stakeholders (such as regulators) and crucially these may well be liabilities that are provided for by a D&O policy and not by a PI policy. For example, breach of duty falling under Section 175 of the Companies Act 2006 Duty to avoid conflicts of interest is likely to be a PI claim and not a D&O claim.

Be cautious of PI policies that provide for “management liabilities”, and D&O policies purchased by the interim director’s service companies. These may provide for liabilities of the directors of the service company in respect of the service company, but may not extend to include the liabilities incurred as a result of the engagement in respect of duties owed to the engaging entity.

Claims can be made against directors and officers not only for the acts they have done, but also for what they have not done. These types of claim may include responsibilities relating to, for example, the gender pay gap, GDPR and Health & Safety regulations. It is challenging to see how any such claim could be covered by a PI policy. Likewise if an IFT member is writing reports that only provide advice and they are engaged only to provide the report, then it’s highly unlikely a D&O policy would provide any indemnity, but the liability is more likely to be insured by a PI policy.

Many companies do now purchase D&O insurance and most will provide indemnity for an interim appointed in a statutory capacity. Some will provide cover where the interim incurr liability but is not appointed in a statutory role, but not all will. The indemnity, if provided, will almost certainly be provided on a “claims made” basis. To be indemnified by the policy, the interim will have to be an insured person when the claim is made. This may be challenging if the engaging entity has become insolvent and the policy not renewed, or if new insurance arrangements are made by the engaging entity and by choice no retrospective cover is provided. Once the engagement of the interim has ceased, then the cover provided may be affected by any subsequent decision made by the engaging entity over which the interim may have no control.

IFT members should also be mindful of the requirements of the Insurance Act 2015. This Act will apply to all new policies purchased, as well as the renewal of existing policies. It will apply to all PI and D&O policies placed by an interim, the interim’s service company, or the engaging entity. It requires the proposer to provide a “Fair Presentation” of the risk, and the undertaking of a reasonable search to be able to identify the material circumstances that need to be declared to insurers to form part of the “Fair Presentation”. The material circumstances are not only those that are known, but also material circumstances that ought to be known. Ignorance alone is not a defence to this requirement. Should a Fair Presentation not be made, insurers have the ability (subject to the remedies specified in the Insurance Act) to decline indemnity for a claim made, or proportionately reduce any indemnity provided. As such it may be good advice to an interim who arranges a D&O policy to ensure all roles are declared to an insurer at each renewal - not just those within a service company, and be mindful that any insured indemnity provided by the engaging entity will be subject to the requirements of the Insurance Act at each renewal prior to a claim being made.

The roles and legal liabilities of an interim director from an insurance perspective may fall within the indemnity of a PI policy, a D&O policy or potentially possibly both dependent upon how a claim is submitted. As such it would be good practice to ensure you are aware of what indemnities are provided by any insurance policy purchased.

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This year’s PwC’s annual survey of CEOs has shown a deterioration in business confidence. Tim Allen and Zena Alston speak to us about how companies can weather the storm and use Zero Based Budgeting (ZBB) to reduce costs and fund EBITDA growth.

The 2019 PwC CEO survey made for stark reading; 30% of CEOs projected a decline in global GDP growth, with confidence in their own organisational growth at the lowest level since the last recession. Whilst uncertainties may be temporary, the message is clear: organisations need to act now to drive EBITDA growth and understand what can come from within.

SUCCESSFUL ZBB PROGRAMMES CAN DRIVE OUT 15-30% OF COSTS

ZBB has become a popular tool for companies to identify and drive operational efficiency. It is especially powerful when organisations have suffering operating margins within declining or slow growth industries. Traditional approaches to these issues has been to run autocratic top-down savings programmes. We caution against this, as it can lead to cutting in the wrong areas, meaning costs creep back in. It can also fail to establish a sustainable cost culture. However, ZBB views the budgeting programmes. We caution against this, as it can lead to cutting in the wrong areas, meaning costs especially powerful when organisations have suffering operating margins within declining or slow growth industries.

The first step in ZBB is visibility of costs, at the most granular level possible. Spend drivers then need to be justified at this level, rather than projecting spend using a top-down approach, relying on prior period results. Organisations need to review every transaction and classify these into cost categories, enabling better visibility of spend.

Recently, a European Postal Operator faced declining volumes and increased competition. They wanted to implement ZBB across their third party spend. Each category reviewed in turn against cost drivers such as Specification, Demand and Price, to identify savings. More on this is in the case study below.

The organisation spent approximately €2m per annum on providing of uniforms for non client-facing workers. We removed the provision of uniforms for non client-facing workers. By reclassifying footwear for outerwear to a three-year cycle. We were then able to move some items such as outerwear to a three-year cycle.

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While uniform spend was not a significant line item for our client, its reduction was viewed as a “beacon measure”. This signalled to staff that the organisation was focused on reducing waste and becoming more cost conscious.

The organisation had an annual replenishment cycle. We adjusted this to take into account length of service and the robustness of items. We were then able to move some items such as overwear to a three-year cycle.

Challenging uniform specifications. Bespoke items were replaced with a simplified model (formal shirts replaced by cheaper polo shirts). By reclassifying footwear for outdoor staff to non-PPE, safety boots could be replaced with more cost effective waterproof trainers.

TOP TIPS FOR IMPLEMENTING ZBB

1. Define clear roles and ownership for budgets and design incentive structures that reward on the basis of budget performance. As KPIs do not often align, this also encourages healthy debate within the organisation. This can result in a thorough cost/benefit analysis and more effective decision making.

2. Engage your best asset. Staff and management need to be bought into why it’s being done and this engagement process can be time consuming upfront. Once bought in, across the organisation employees will develop a deeper thinking about the best use of every pound. Remember to recognise and reward creative solution finding.

3. Put robust governance and tracking in place - relentless tracking and reporting on costs is required to stop costs creeping back in.

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Alternatively, you may be interested in some of our other ZBB articles:
Don’t believe the hype - Zero Based Budgeting is about providing more choice
Zero Based Budgeting - as easy as 1, 2, 3
The pressures of Brexit, economic uncertainty and declining consumer confidence pile up challenges for restaurant chains.

After a turbulent year in the UK restaurant sector, 2019 seems unlikely to bring much hope for a turnaround in the industry’s fortunes, with multiple economic factors and an over-saturated market continuing to put pressure on revenues and consumer spending. However, Jimmy Saunders, Director at Duff & Phelps, suggests that restaurant businesses that maintain their focus on quality, expand through demand-driven and organic growth, and invest in their infrastructure to meet the growing popularity of online orders will likely stand a much better chance of having a successful 2019.

Jimmy commented: “We are seeing a number of fundamental issues disrupting the restaurant sector, but Brexit is the largest issue looming on the horizon. While the vote to leave the EU may have been cited by some business owners as a primary cause of failure, it is unlikely that it has led directly to the collapse of many restaurant businesses. Rather more likely is that economic concerns and general uncertainty, among both business owners and consumers, is leading to declining consumer spending - a trend that is almost certain to sharpen in the lead up to Britain’s departure from the EU.

“The more tangible impact of Brexit on the restaurant trade is the availability of staff. EU citizens make up a significant proportion of restaurant staff, and trade body UK Hospitality has already expressed concerns that a significant reduction in EU migrant workers will severely impact staffing.

While Brexit presents an immediate challenge to the restaurant sector, 2019 may see a re-balancing in the rapid expansion of mid-market chains. In recent years, private equity firms have been investing in smaller chains, significantly building up their footprint while cutting costs to exit within 3 – 5 years at a profit. This practice has seen many chains over-expanding, opening restaurants in areas that do not have the footfall to support a number of chain restaurants, while cost-cutting drives have reduced the quality of ingredients and overall experience for customers. A number of popular chains that expanded rapidly in recent years have already begun reducing their footprint, many through CVAs, and this may prove to be a common feature of the UK restaurant market in 2019.

Saunders continued: “One of the key developments in 2019 is likely to be the increasing impact that online delivery services will have on the restaurant market. While these platforms are expanding restaurants’ potential customer base, restaurants must adjust their business models to absorb the 20-25% commission that these online services charge, as well as the loss in alcohol sales. In 2019, we may see more and more ‘dark kitchens’ where restaurant owners operate facilities that are just kitchens, with no space for diners, as a means to meet the demand from online delivery services.

“It’s not just online delivery services that are changing the restaurant game. The growth of social media platforms like Instagram have encouraged many restaurants to spend significant sums on their interiors, branding and other elements to provide that ‘Insta-friendly’ look. However, these high costs can place additional strain on the debt servicing costs of a new restaurant. In addition to rising wage and food costs, a restaurant that targets the young, social media-savvy market may find it has to refresh its look regularly to keep pace with rapidly changing trends, further increasing costs.”

“Adjusting business models and investing in new premises to meet the demand of online orders can help operators to access new revenue streams. The key is market analysis; operators need to understand the local market and recognise that rolling out mediocre offerings is not going to drive footfall. With declining discretionary spending, consumers are more likely to spend money on a special experience and make it count. A restaurant business that sees organic growth, driven by demand, without losing its focus on quality, should have a real chance of succeeding through 2019 and the broader economic challenges that the UK faces,” Saunders concludes.

For more information on this topic contact:
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The automotive industry is in the early stages of disruption events that will change the shape of the sector forever. This is being driven by numerous factors, most notably including:

- Decline of diesel. The impact of “dieselgate” continues to be felt across the sector, with European diesel sales expected to fall to 5.6 million in 2024 from a peak of 6.9 million in 2016. As a proportion of total vehicles sales this represents a drop from 52% to 37%.

- Changes in demand. More consumers are choosing alternative engines/power units, with petrol returning to the fore and, increasingly, hybrid electric and full electric powertrains. Whilst demand seems to be switching from diesel to petrol in the short term, the medium/long term outlook is that petrol vehicle volumes are likely to also decline. With forecasts of consumer demand remaining uncertain, anticipating future sales mix will prove challenging for both manufacturers and suppliers. In parallel, new emissions standards in 2021 are emphasising the move towards power units other than petrol and diesel. This has the potential to cause significant under and over-supply. Unsurprisingly, capacity issues are already appearing, as petrol engine component suppliers are reluctant to lay down new production lines knowing that volumes are in decline.

- Lifestyle changes. Younger generations are placing less importance in owning cars and indeed even having a driving licence. The transition towards Mobility-as-a-Service (Maas) has already commenced in major global cities, where policies such as congestion charging and car-free developments deter car ownership. The 2019 KPMG Global Automotive Executive Survey highlighted that 43% of automotive executives believe that half of today’s car owners will not want to own a car by 2025. The impact on the volumes and types of vehicles sold will be both significant and unpredictable.

Against the backdrop of these global industry challenges, consideration also needs to be given to where vehicles will be made in the future. Recent press announcements have demonstrated the risk that a significant proportion of vehicle production in the UK could move to mainland Europe, save for some specialist manufacturers with a strong British heritage.

Suppliers are facing an uncertain future

So what does this mean for suppliers? In short, this will lead to significant challenges, specifically around areas such as:

- Demand forecasting - can suppliers accurately forecast likely demand for components in the short/medium term?
- The need for a diversification strategy to change the product portfolios to those more appropriate to future requirements, such as, electric vehicles.

Manufacturers are facing difficult decisions

There may also be significant issues for manufacturers as they manage their supply chains:

- How and when do they communicate intentions regarding plant closures or volume reductions?
- Which suppliers are likely to struggle as a result of the systemic market changes and the OEM specific changes in their portfolio?

For turnaround professionals these challenges create opportunities to support clients – from cash forecasting and control to stakeholder management and strategic change implementation. In addition, for those suppliers who experience medium/long term decline in volumes, such as diesel engine component suppliers, there is likely to be a need for more substantive solutions from key customers and/or M&A transactions to ensure distressed suppliers are able to reach the end of their supplier contract without further material risks.

What is clear is that conventional remedies such as bailments and changing payment terms are unlikely to be sufficient for some of these challenged supplier situations and we will see more radical and innovative solutions being effected. These could include OEMs bringing suppliers in-house, the creation of run off platforms and turnaround professionals stepping in to support component manufacturers for prolonged periods.

Only time will tell what the extent of the impact will be of these disruption events, but all the indications are that when it comes it will be significant.
The Department for Education has created a programme for Executive Leaders. One of its purposes is to develop the skills, knowledge and behaviours that a high-performing executive leader needs.

De Novo’s founder, Jo Wright, was approached to lead a session which formed part of the Managing Resources and Risks module of the programme. The workshop took place towards the end of last year and was well attended by aspiring and serving executive head teachers and multi-academy trust (MAT) chief executive officers (CEOs).

The main take away points for the attendees were:

- Heightened awareness of why organisations fail and the warning signs
- Importance of a more ‘business-like’ culture and thought process to identify and deal with issues promptly
- The need for greater commerciality to achieve a better business model, operationally and financially
- The significant impact a strong Finance Director with appropriate skill set can make
- The tangible benefits of identifying and investing in talent, upsckilling management and recruiting quality leaders
- Importance of a diverse skills mix in Governors to support, challenge and hold leadership to account
- The challenge of identifying and dealing with the vast amount of uncertainty – debated key risks, ways of mitigating them and the need to contingency plan
- A focus shift is required from reporting on issues to actually resolving them – clearer roles / responsibilities and accountability are critical to speed up the process
- The need to constantly embrace change to secure sustainability long term
- How key the right cultural attitude is to evolving an organisation, and the amount of time and effort required before it embeds
- War stories and case studies of both colleges and Corporates, demonstrated where the timing of issues being addressed was the difference between success and failure

The lively session concluded with a discussion about ways of trying to future proof and secure long-term sustainability. Positive feedback from leading education services provider, Cognition Education, who organised the course included:

“Just want to say an enormous thank you for your time and input, I understand it was a really informative session, and very well received.”

“Just a word of thanks for your input today. It was really great, and the attendees really enjoyed the session. We kept drawing on it all day as we worked through the materials so thank you again.”

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