



Turnaround Times

TURNAROUND MANAGEMENT ASSOCIATION

OHIO

September / October
2020

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About TMA

The Turnaround Management Association (TMA) is the most professionally diverse organization in the corporate restructuring and renewal, and corporate health space.

Established in 1988, TMA has nearly 10,000 members in 52 chapters worldwide, including 32 North American chapters. Members include turnaround practitioners, attorneys, accountants, advisors, consultants, financial advisors, liquidators, lenders, investors, as well as academic, government employees, and members of the judiciary.

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President's Report

Dan DeMarco, Hahn Loeser & Parks LLP

First, we hope that this newsletter finds each of you safe and healthy, as we recognize the COVID-19 environment will be with all of us through year-end 2020 and into 2021.

Since our last issue, TMA Northern Ohio has continued to virtually offer both educational and networking opportunities. The full video of each of these educational webinars, as well as the PowerPoints and other materials from each panel, are available on our website (<https://turnaround.org/northern-ohio>) and are posted on the TMA Global Learning Link (<https://turnaround.org/member/learning-link>). We invite you to take a look!

Our chapter's first virtual networking event on July 28 applied the principle of physical distancing while maximizing social interaction. As we all learn together in the COVID-19 environment, we are finding ways to bring members together, renew contacts and create opportunities for new introductions and interactions. Our July 28th event was well attended by chapter members, and we were joined by several contacts beyond Northern Ohio. These other attendees included both those who have known us before 2020 and those who have come to know us through our webinars earlier this year. In either event, we encourage our members and friends to join us for our virtual networking events.

TMA Global energized the networking with its **TMA Great Lakes LIVE** Event on August 13th. Although mid-August has not been a time of year when either TMA Global or our chapter consistently host events, TMA Global is pushing the envelope, and seized on that available time to create a platform to bring TMA members together. TMA Global designated our own chapter executive, **Claire Stanton**, as the lead chapter executive for the event. Working with Claire on behalf of the Northern Ohio chapter, TMA Global reached out to the chapters in upstate New York, Pittsburgh and Detroit and to the new 2020 TMA chapters, in Indiana and Southern Ohio/Northern Kentucky.

We have enjoyed many joint events with the upstate New York, Pittsburgh and Detroit chapters in the past, and were glad to have them be a part of this event, as well as the chapters added to TMA in 2020. With participation from all of those chapters and beyond, TMA Global got the ball rolling in each breakout room and the result was an engaging and fun event. In a summer with too little socializing and fun, TMA Great Lakes LIVE was a welcome departure from the doldrums that hung over the summer of 2020.

Picking up where we left off, our chapter capped off August with a virtual networking event on August 25th. We were pleased to be able to build on the momentum created by the TMA Great Lakes LIVE Event. We attracted many members from our chapter and drew in members from outer chapters and guests from beyond Ohio. More participants means more networking! The August 25th event was a great networking success and a summer highlight. TMA Northern Ohio has great momentum, and we are keeping it moving forward.

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President's Report continued

In September we offered a unique webinar. You may recall that the TMA Northern Ohio Turnaround Transaction of the Year for 2019 involved a business based in Canton, Ohio, Union Metals. You might not recall that that turnaround also won the 2019 TMA Global U.S. Small Company Turnaround Transaction of the Year. One of the key players in that turnaround was **Jeff Sands, CTP** (Certified Turnaround Professional) and a principal of Dorset Partners LLC. Jeff recently authored *Corporate Turnaround Artistry, Fix Any Business in 100 Days*, which was published by J. Wiley & Sons in February 2020. Along with another key player on the Union Metal Team, **Larry Small**, Chief Operating Officer of Union Metal, Jeff graciously agreed to present a webinar for our chapter. At the webinar on September 15th, Jeff addressed several interesting and timely topics from *Corporate Turnaround Artistry* (including the disclaimer that in the COVID19 environment, 100 days is not enough time to implement a turnaround), and Jeff and Larry also teamed up to share some of the lessons from the Union Metal turnaround. The webinar was well attended and included some of the best engagement yet between panelists and participants.

We are excited to share the news that the opportunity that began with the June 9, 2020 webinar, “**Pivot 2020 . . . Transitioning from Commercial Lender to Effective Workout Banker**” is continuing. Presented by **Nancy Terrill, CTP** (partner at **Inglewood Associates LLC**), with commentary from **Mark Kozel, CTP** (principal of **Kozel & Associates, LLC**), the Risk Management Association is expanding this coursework. Nancy brought her experience from 25 years in commercial lending (the last half of that in special assets, with her final position leading the special assets group nationally for KeyBank), and coupled that with her last decade-plus in consulting roles, to develop this unique program for TMA Northern Ohio. On August 20th, the Risk Management Association began its educational series of webinars with Nancy and Mark providing further depth and workout-banker-required knowledge and skills. For additional information, see <https://www.rmahq.org/courses-and-training>.

We look forward to seeing you at our October events. We already have set our next 2 webinars:

- October 13 (*Private Equity Perspectives: Investing in Businesses During a Pandemic and Beyond*)
- October 21 (*Diversity & Inclusion*).

More details are available at our website. And look for more virtual networking events, both for our chapter and our NextGen group.

If you have been involved in a successful turnaround this year, please respond to our requests for nominations for the Turnaround Transaction of the Year. We are always pleased to recognize the achievements of our members, and it is especially important we be able to do so in 2020!

Stay connected. Keep reaching out to your TMA colleagues and friends. Stay safe and healthy.

A Word About Our Events

TMA Northern Ohio remains committed to providing our members and the larger turnaround community with high-quality educational and networking opportunities. However, the coronavirus pandemic has forced us to cancel all in-person events until further notice. We are instead providing a continuing series of timely webinars on topics of interest. Here is the current lineup:

October 13 at 4:30 P.M. – Private Equity Perspectives Panel Webinar
Investing in businesses during a pandemic and beyond.

October 21 at 1 P.M. – Diversity and Inclusion Webinar
Bias reduction training via a Zoom event.

October 29 at 5 P.M. – NextGen Trivia Event
A fun networking event for those 40 and under only.

We will continue to keep you apprised of all future webinars and virtual events (more on that to come). Please continue to check your email for updates from TMA Northern Ohio!

Boomer Maturity—The Next Financial Wave!

Dennis Kebrdle and Steve Dassani, Chikol Equities

Those in the Baby Boomer generation (born between 1946–1964) are now 56 - 74 years old, and they currently represent the second-largest American generation (71.6 million) and presently hold the largest proportion of wealth. Much of this wealth was generated from privately owned businesses--41% of small business owners are in this generational cohort group.

This influx of entrepreneurs reaching retirement age creates an unprecedented shift in privately held equity. The volume of businesses seeking capital for retiring equity in the next decade makes it more important than ever for small business owners to be positioned to maximize the value of their largest asset. Chikol, a Boomer company itself, shifted our focus to turnaround management after owning multiple businesses during the 1980s and 90s, has brought its vast experience into situations with privately held businesses having “been there.”

So often we all enter situations where business owners have given little to no thought about how and when their business interests will be monetized. Unfortunately, this limits their options.

While we all see different versions of this situation, one client’s path is illustrative:

A \$10-million, second-generation-owned service firm, started in the 1970s, employs the family’s third generation. This business had just lost its largest customer and needed to right-size operations and find sustainable growth. While strategizing with ownership, retirement plans over the coming years were shared and our joint plan needed to account for this. Through his own research, the owner thought he knew the value of the business. Over the next few months, several options were evaluated and considered before landing on a plan that was much different than original expectations.

With valuations at all-time highs and private equity firms on every corner, the owner believed exiting the business that he had spent a lifetime building would be simple and lucrative. When it came time to sell his business, the owner was dismayed by the significant organizational and personnel changes that the buyers demanded in return for the multiples he had read about. Ownership quickly learned that selling a business is much more personal than just finding the highest bidder. Contradicting the profit-seeking motivation of the buyers, ownership had always heavily factored family and employee welfare into decision-making. With this knowledge, he quickly soured on the idea of selling to an outside buyer, realizing the extent of cuts that would be required in employees, wages and benefits.

The owner then considered an alternative plan, to pass the business to his children. The “plan” was highly undeveloped and raised more issues than solutions. To assist and counsel our client, we developed cash flow projections that illustrated that by funding the buyout with cash flow, ownership would have been forced to sell its largest asset at a steep discount and leave the business woefully undercapitalized.

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Featured Sponsor

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A Sentinel Company

Chikol specializes in working with small- to medium -sized companies that need assistance in developing strong leadership and the experience required to deal with issues created by the current economic conditions or internal issues preventing the company from performing to its highest level. It was founded in 1990 after the managing partners combined their more than 30 years of experience as owner-operators and with purchasing companies in financial distress. Chikol's top priority is value enhancement and operational improvement.

Feature Story continued

While the owner would have been satisfied just to pass on his legacy, a considerable amount of money would be left on the table. A timely, well-thought-out and well-executed plan would have allowed him to achieve his financial & personal goals.

Financing is often the largest obstacle in perpetuating ownership into the next generation, but we also see many times that the next generation lacks enthusiasm about continuing the family business. Building a culture that appeals to a younger generation, giving autonomy and empowering them to help grow the business with their fresh perspective can make business ownership more appealing and valuable to them. The third generation in our example worked in the business, but their chosen career paths and salaries provided little value in perpetuating the company. In limited roles, this third generation was not generating enough value to justify the inflated salaries it would have taken to accumulate funds to buy out their father/CEO. A larger problem was that the patriarch was also the only producer of new business. Both children were smart and educated but seemed to lack the impulse to assist in growing the business. After in-depth discussions with all involved, it became apparent they had the ability and desire to do so.

To achieve the one- to two-year retirement timeline, ownership would have to sacrifice attaining financial goals and leave the business in poor condition. To produce a better result, we worked closely with the family to understand their individual goals and came up with a five-year plan to transition ownership, retain current customers and grow the business without direct selling from the father! We leveraged the children's interests/skills, creating opportunity and growth. We built a long-term sales plan and right-sized operations to allow the cash flow to fund the buyout. These changes allowed for internal perpetuation while simultaneously making the company more attractive to buyers due to a well-defined sales function, not focused on the owner, and a technology platform integral to achieving the growth plan. This path gave the ownership group choices – pass on or sell – both at the right price!

This situation worked out, but far too often we see family businesses that are forced to go in one direction, and when your options are limited so is value. Everything should be done purposefully in the pursuit of individual goals and it is important to plan far ahead to leverage efforts and augment results. We have been contacted so many times when it is too late to develop multiple options and strongly suggest our fellow Boomer business owners proactively avoid those pitfalls and plan for a lucrative exit that achieves all personal and family goals. We Boomers built this small business economy – let's enjoy the fruits of our labor!!

With over 30 years in the Turnaround & Business Revitalization Industry, Chikol Equities has the experience, expertise and network to help businesses in all phases of the business lifecycle.