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Focus

Turnaround DOWNTURN

The economy is improving, which means the salad days are slowing for workout firms



W. MARC BERNSAU / BUSINESS JOURNAL

Gayle Ehrlich an attorney with Sullivan & Worcester LLP in Boston and president of the New England chapter of the Turnaround Management Association, says that as companies get more financially stable, there's less call for workout firms.

BY EDWARD MASON
JOURNAL STAFF

Turnabout is not fair play for turnaround management firms. Those companies, which help distressed businesses work through debt and management crises usually arising in a bad economy, now are feeling a downturn themselves. The improving economy is giving a lift to their subjects while causing their businesses to sag.

"There definitely appears to be a slowdown in our business," said Gayle Ehrlich, president of the Turnaround Management Association's New England chapter.

Ehrlich, who also is an attorney specializing in corporate workouts for Boston's Sullivan & Worcester LLP, said, "Instead of doing large, global projects, I'm seeing more discrete projects. We're staffing one or two people a project, as opposed to all hands on deck."

Gerald Sherman, managing partner of CCR Corporate Revitalization LLC, a two-person workout shop in Newton, said he's noticed a difference, too.

"Now, it is quieter," he said. "I'm not saying we have no business. Our deal flow has been steady — but not great."

Turnaround: A downturn

The reason, most turnaround or workout experts say, is that the economy is improving, resulting in less business for them.

Turnaround management companies' business is driven by such corporate cripplers as loan defaults, catastrophic events or fraud. Sometimes, the problem involves money invested by a venture or private equity fund.

The turnaround management firms are brought in to do what their name implies: turn things around. They help companies pay off their debt and, in some cases, get involved in the day-to-day operations of a troubled business.

The turnaround firms get work referred to them by accountants, attorneys, banks and private equity firms. When the economy goes south, the referrals start coming in. But as the economy improves, there are companies needing workouts.

Although everyone agrees economic factors play into the industry's performance, not everyone buys into the economy as the sole culprit.

The past six months have been slower than usual for Oscar Lavalley, president of Norwood-based Lavalley & Associates.

Why? Lavalley, a 16-year veteran of the workout game, blames the lack of business on bankers doing a better job of identifying problem loans and an un replenished pool of companies needing help.

"Companies in trouble last year are the ones in trouble this year," Lavalley said. "And there's not a lot of new loans to work out. Bankers didn't do a lot of new loans two years ago" because the economy wasn't good.

Sherman agreed, saying that bad management — a factor not tied to the economy — often gets companies into trouble.

"It's not always the economy," Sherman said. "Companies get into trouble because of poor management. That, plus the economy, pushes companies over the edge."

For some firms, business has slowed, but not dramatically. Robert Wexler, president of the Tron Group in Boston, said, "We've been busy and not seen a slowdown from the economy. I've been doing this 12 years, and there are always companies that need help."

Nearly everyone in the turnaround business agrees that there is froth in the turnaround business.

"During a downturn, a lot of people think they can do workouts and put a shingle out," said Wexler, whose firm employs five people. "And they're the first ones to experience a slowdown."

From early 2000, as the U.S. economy tanked, business slacked and companies laid off workers, the turnaround management industry thrived. Many firms expanded, while many people left their

longtime employers to launch their own enterprises.

"People who got into the turnaround business when they were laid off (from a job in another field) are no longer around," Lavalley said. "Firms that have been around will stay around. They'll get the business."

The seeds of a turnaround for turnaround management are being planted, though, experts say. As the economy improves, banks will feel freer to make loans and investors will put money into companies they shouldn't.

"We made a very good living between 1997 and 2000, cleaning up loans that never should have been made," Sherman said.

Ehrlich, the association executive, believes that the mess could repeat itself, leading to more business in the future for turnaround firms. The reason, she said, is that when the economy is good banks are less inhibited and make more loans.

Robert Smythe, executive vice president of commercial banking at Citizens Financial Group, agreed that banks lend more in good times. But he defended the way the loans are made.

"Banks like to make more loans but to the right companies," said Smythe.

Still, Ehrlich believes enough of those loans will go bad to cause an uptick in turnaround business down the road.

"The next wave of workout activity will be in two years," Ehrlich said.