

Executing the 5 P's in a Turn-Around Situation David Dutton – CEO MDC

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A Turn Around Story

Recession & DRAM Attack
Two years of losses

Shifted to processors
8087 To Tags

Invested in new manufacturing
125% Solution
Microproces or Mission
iMBO's

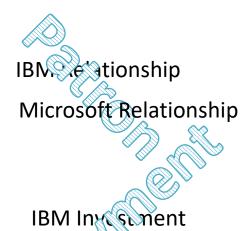


Team Brainstorms

Managementariven events

Reways

Con munication





"Righting the Ship"

- Strategic dissonance is between what your company thinks it is doing and what is actually happening – "Something is not right here."
- Turn-around situations usually have a level of strategic dissonance and require immediate action.
- I learned from two key events in my career:
 - Intel's change from DRAM to Microprocessors
 - Fixing a failed merger that nearly bankrupted a \$200M growing tech business.



Utilizing the 5P's to set new direction

Products

- What products and solutions do we have?
- Which ones are differentiated?
- Which ones are profitable or a path to profitability?

People

- Are the people of the company engaged, dedicated?
- Listen to the people, they know what is happening.
- Do we have leadership committed to "Right the Company."

Patron

- Talk to customers, understand their views, needs, gaps to the company's solutions
- Understand other stakeholders such as suppliers, lenders, community
- Get all stakeholders aligned to your cause

Payment

- First and foremost do you have the cash, where is the supply coming from
- Envision the company at profitability and positive cash flow

Plans

- Set a vision for the company that everyone can align to
- Get objectives in place that are steps to achieve the vision
- Celebrate wins on the path to the vision makes the vision real



Three Turn-Around Cases

Case 1: – December 2001 to June 2003

- \$200M company acquired a \$300M European company in late 2000
- Dot Com bubble along with "Highly Aspirational Post Merger" goals put the company in jeopardy.
- Situation: Losing \$100M per quarter, \$60M cash, \$40M debt, 2/3 of employees in Europe, engaged in a major IP lawsuit

Case 2: – September 2014 to December 2016

- 35-Year-old Founder led "lifestyle" company Founder passed away
- Litigious focus in the previous decade and founder illness put the company in jeopardy.
- Situation: \$18M revenue/\$26M overhead, embezzlement, <\$5M cash, under-achieving culture, no management or systems, downward spiral.

• Case 3: – August 2019 – Ongoing

- 45-Year-old, \$70M revenue company with "revolving" leadership
- Semi recession and 100% change in direction to attempt an MBO put the company in jeopardy
- Situation: Bet a \$70M company on a \$10M CBD business, Revenue decline ~10%, >\$3M debt on revolver, no cash, >\$19M inventory with \$6M more committed.



Three Turn-Around Cases - Outcomes

• Case 1:

- Product: Went from 11 products across 6 verticals to 3 products across 2 verticals
- People: Lteam cut by 1/3, Team Build focus, Town Halls, 2,300 to 600 in 4 quarters
- Patron: 4 in top 10 to 9 of Top 10
- Payment: Private Fund raise, Mined \$300M AR, BE in 2003, > \$170M cash by 2008
- Plans: Vision/Mission/Strategies with Rolling 3 Year Plan implemented across the company
- Turnaround: Revenue \$150M to \$300M, Cash >\$170M, Expanded into \$2B Etch market.

Case 2:

- Product: Kept Breadth to engage large customer, Acquisitive to augment antiquated product flow with current needs fillers
- People: Built Lteam, reviews and merits implemented, Modern Global communication one team
- Patron: Rebuilt damaged US market, Entered China market, Recovered a previously sued customer, 2 top 10 to 8 of top 10
- Payment: Mined Japan position cash flow, Managed to cash flow, Profitable by 2016, GAAP in 2017
- Plans: BHAG to double revenue in 3 years, Implemented AOP throughout organization
- Turnaround: Doubled Revenue, Full Lteam put in place, GAAP Profitable, 6 acquisitions in 4 years

• Case 3:

- Product: Shift to Market driven, Technology centers mapping innovation, Competitive matrix established
- People: Rebuild Lteam, Transparency established, Reviews and merits in 2020 for first time, goals and discipline established
- Patron: Building Global Sales, Entering Asia, Rebuild Europe, Aggressive selling allowed
- Payment: Inventory reduced to \$16M, Revolver paid off, positive cash in bank
- Plans: New vision to build from our core, Business verticals focused, Company involved AOP planning
- Turnaround: In Progress: Positive cash flow and position, Value creation focused, Market focused, employee engagement

Strategic Dissonance

If things do not add up – think Inflection Point –
Act Immediately

<u>URGENT</u> – Do not dwell on how we got here, focus on how to get out

The dissonance is likely driven by multiple market forces meaning it will not resolve itself nor quickly



Find your 5 P's or whatever you want to call and get your team involved to answer them

Make decisions, involve the company, execute

Your speed to solution must be faster than your cash approaching zero

