Business
The New York Times
ON THE WEB

June 16, 2001

Turnaround Pros See Bad News As Good

By REUTERS

Filed at 12:56 p.m. ET

NEW YORK (Reuters) - Bad economic news is good news for a rare breed of Wall Street pros — turnaround specialists.

With bankruptcies rising, the economy slowing and companies awash in distressed debt, these ``corporate doctors'' say business has never been better. That's bringing in hordes of new practitioners, much to the chagrin of some seasoned pros.

Take Kaleil Tuzman, the 30-year-old founder of GovWorks.com, a once high flying Internet firm that raised $59 million from venture capitalists. Demand for its services, which included online payment of parking tickets, failed to materialize, forcing the company to sell out for around $9 million in January.

That didn't stop Tuzman from advising other Internet firms on how to avoid failure. The entrepreneur set up a New York-based turnaround firm called Recognition Group.

And there is plenty of potential work these days: 493 Internet companies have folded since January, 2000, including 54 last month alone, according to Webmergers.com, a market research firm.

``I have been through this minefield and gotten myself blown up,'' says Tuzman, the star of a new documentary film called ''Startup.com''. ``Had there been a Recognition Group around at the time, we may have approached (the business) in a different way.''

VETERAN SPECIALISTS RANKLED

The growth of the turnaround advisory field from a cottage industry a decade ago has led to calls to standardize entry requirements to weed out fraud and incompetence.

``In this kind of environment, anyone can hang out a shingle and proclaim themselves a turnaround manager,'' said **Hugh Larratt-Smith**, a Principal with **Trimingham Americas Inc.**, and a national director of the Turnaround Management Association, a trade group of 4,500 members that is developing accreditation standards.

The field is still dominated by firms like The Blackstone Group LP, now advising Xerox Corp. (XRX.N), Winstar and Globalstar, but the entry of new players like Recognition Group's Tuzman, rankles some veterans.

``We have to compete against these kinds of people who are willing to take on assignments they are not capable of, but convince someone — their brother-in-law or someone, that they can do it,'' said John Brincko, founder of Brincko Associates, a firm that's consulted on major turnarounds, most recently hard-hit milk producers in California.

But Tuzman says traditional turnaround pros don't understand New Economy firms, many of which have few assets except for projects in development. Standard remedies such as cost-cutting and asset sales often fail in these companies, says Tuzman.

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Instead, they usually need funds to complete projects so value can be realized even though venture capital injections may have stopped.

``We've seen troubles exacerbated by traditional turnaround guys without understanding the nuances of the businesses,'' said Tuzman.

Despite disagreements about approaches, one thing is clear: there is plenty of business to go around. Turnaround managers say they've seen a 36 percent increase in new clients and project a 38 percent rise in income over the last year, according to a Turnaround Management Association survey last month.

``I don't think business has ever been better,'' said Brincko. ''The biggest issue we face is finding qualified people to do the work.''

THE BANKRUPTCY BOOM

New Economy companies aren't the only ones hurting. Overall, corporate bankruptcies rose 19 percent to 10,005 in the first quarter of 2001 from the fourth quarter of last year, according to the American Bankruptcy Association.

The list of industries in distress ranges from steelmakers, manufacturers and retailers to telecommunications companies, many of which are struggling with a thicket of unprecedented competition, burdensome debt and slowing sales.

In telecoms alone, 27 companies filed for bankruptcy protection or missed debt payments in the first four months of 2001, including such giants as Winstar Communications Inc. (WCII.O), Viatel Inc. (VYTL.O) and Globalstar Telecommunications Inc. (GSTRF.O), according to Fitch, the corporate rating service.

To avoid disastrous business collapses and painful liquidations, banks and lenders often force a firm to call in a turnaround manager to assess business prospects or negotiate with creditors and vendors. It's rare that a business will call in a turnaround manager unless forced to, Larrat-Smith says.

``Executives who run into corporate troubles go through the same processes that dying people do: denial, anger, bargaining, depression then finally, acceptance,'' said Randall Patterson, turnaround professional at BBK, a Chicago firm that specializes in auto industry turnarounds. ``The last stage is when they will hire us, unless forced to do so by a lender or bankruptcy court.''

Still, Patterson says he's getting plenty of referrals, particularly from the ranks of mid-size auto industry suppliers suffering from a contraction in auto sales in the last year.

``We have a three- to five-year run of a lot of work coming our way,'' Patterson predicted.