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DEALBOOK

Flagship turnaround deals applauded

PUBLISHED : 05 SEP 2011 08:04:00 | UPDATED: 10 HOURS 57 MINUTES AGO

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Alinta's Wind Farm is a joint venture operating south of Geraldton in Western Australia and can produce 90 megawatt of power.
Erin Jonasson

PAULIHA DURAH

If there was one message from the 8th Turnaround Management Association conference last week, it is that Australians and New Zealanders are tough and about to get tougher.

The last couple of years have been paved with faltering companies on the brink of bankruptcy. From infrastructure projects, to services, retail and manufacturing companies, property enterprises, and private equity-owned portfolio companies - executives, bankers and advisors have worked hard to try to restructure these companies and save them from liquidation.

But only those with a viable business model have successfully manoeuvred out of insolvency and returned to profitability, showing the way for those who will have to deal with similar problems in coming months.

Success has many fathers, and to celebrate those involved in the top turnarounds of 2011, the restructuring community gathered in the hundreds in Melbourne for the TMA Awards dinner of 2011 on Thursday night, flying in from the US, Europe, Hong Kong, Thailand, and New Zealand.

In an exquisite mix of bankers, advisers, accountants and lawyers, the TMA - chaired by Ian Johnson from Helmsman Funds Management, a local turnaround capital fund - awarded flagship deals in three categories: large company turnaround of the year, SME turnaround of the year, and the newly created award, restructuring deal of the year.

The landmark restructuring of Alinta Energy, the utility retailer, won the 2011 restructuring deal of the year award. The award specifically acknowledges the significant challenges involved in that standout restructuring transaction. Indeed, several deals have been completed following on the guiding precedents Alinta's restructure brought to the market, and a number of ongoing restructuring deals continue to follow its footsteps.

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Alinta chairman John Akehurst presided over the restructuring that helped the energy firm win the 2011 turnaround award.

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The Australasian large company turnaround of the year, which is awarded to companies with a turnover of over \$50 million, was for Force Corp, a provider of machinery finance for some of the largest commercial industrial and infrastructure projects.

'Turnarounds, whether large or small, are never easy.'

Founded in 1994, Force Corp went in default in 2008 for about \$100 million dollars in bank debt. At the time, that debt was supported by only \$14.6 million earnings. With the support of Helmsman, GE Capital, and the legal

advice of Norton Rose, the company overcame management, strategic and family shareholder issues to develop a solid turnaround strategy.

The company reduced debts by \$57 million over a two-year period, increasing earnings to the current \$46 million, while also achieving significant margin improvements and a larger fleet. Equity grew by about \$150 million in four years.

Turnarounds, whether large or small, are never easy. And in recognition that smaller deals can have very significant complexities, the Australasian SME turnaround company of the year, which is awarded to companies with a turnover of \$50 million or less, was for Discovery Holiday Parks, [the largest owner and operator of accommodation parks in Australia](#).

Discovery became heavily over-g geared and faced numerous operational issues as a result of the GFC. Allegro Funds, a private equity and turnaround investor, invested in the company and refinanced it's capital structure. Minter Ellison and Rothschild Australia were advisors on the transaction.

In 2008, earnings grew 39 per cent and leveraged was reduced from 12 times earnings to only 5 times earnings. The turnaround has generated over \$65 million of equity.

EYES ON NINE

Not considered for an award, but a noteworthy mention by some conference speakers nonetheless, was the happy ending of the turnaround story of luggage business Samsonite this year. This raised hopes with some delegates that the possible workout of the also CVC-controlled Nine Entertainment Co, brings similar returns.

After being acquired by CVC Capital Partners in July 2007, the company underwent a rollercoaster ride that saw its earnings plummet to only \$US40 million (\$37.6 million) from about \$US160 million. The company filed for Chapter 11 protection in September 2009.

Through the implementation of a debt-for-equity swap, about 30 banks (many of which are also lenders to Nine) wrote down millions in debts and took equity in the company. But helped by Goldman Sachs, UBS, Morgan Stanley, RBS and HSBC, Samsonite was successfully listed in the Hong Kong equity market for \$US1.25 billion earlier this year, achieving a staggering multiple of about 14 times, according to lenders to the company.

Observers of the difficult situation being faced by the debt-laden Nine, are no doubt interested to see how CVC and its investment banks deal with the new challenge at hand.

Comments? Call Paulina Duran on (02) 9282 3106 or email: pduran@afrr.com.au

The Australian Financial Review

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