

Automotive Due Diligence and Turnaround planning



Background

The introduction was via Deloitte to the VC as a potential turnaround investor. A first tier automotive manufacturer of large components was founded in 1800s, hemorrhaging losses was due to run out of cash in 2 weeks. Revenue had dropped by 50% over the last few years. Icebreaker were engaged by the VC to identify the solution. The challenge was to identify whether there was a viable business moving forwards and in what form, and what was the solution. The turnaround VC suggested that price increases and development of a new industrial product range (which we challenged), which would be a lot cheaper way of securing product supply for the customer base - than entering administration. The relationship between the VC and client had become difficult. The client felt the business just needed further funding for a while to see the period through, and did not realize the gravity of the scenario. The CEO did not see the need to fundamentally change. The legacy was rather than resolve the issues in the core automotive business the CEO has led a fatal strategy to diversify from an unsustainable financial platform – nearly always the cause of a turnaround in a mature business!

Ability to Integrate into Client Company

Icebreaker supported the VCs ability to engage with the client, and immediately got the client on board and information and ideas from the client flowing. There was 2 way engagement as far as it was possible to check and ratify the solution vs the challenges and to ascertain the key management issues, key players and their capability to take the business forwards. The CEO who had led and was still wedded to the current business strategy was unlikely to form part of the solution moving forwards, but the remaining management team were capable of taking elements of the business forwards.

Impact on Business

In 4 days Complexity analysis vs pricing recovery by customer, and overhead was established. Root cause of the business failure was established, management capability, and key players. The cause of failure organisational leading to ineffective and excessive overheads, alongside pricing causing under recovery / customer. The viable solution was to restructure the business, charge for engineering development, and resolve the under recovery on the existing business. It became clear the industrial diversification had no commercial substance, and there were risks around the ownership of the IP. The real risk though was the sales forecast supplied by the customer was overestimated thwarting the VCs target exit in 12m.

Achievement of Objectives

In 4 days Icebreaker alongside the VC, identified a plan to £2.0m profit with £2.6m less sales, with target c£1m cash improvement in first few months. The solution was established and ratified by the key customers and where possible the company. But it was concluded the softness of the top line, provided returns that were short of the VCs targets, so the deal did not go ahead. The pricing model was established by customer group and target organisation established.

Working Style

Icebreaker appointed 2 seasoned interims to the project - very hands on – engaged at all levels in the business, focussing on building trust through substantial sector and depth of knowledge in turnaround and operations excellence to support the VCs skills

Leadership/Management Skills

Leadership through achievement of results, engagement skills, taking a pragmatic view of the due diligence as we as CEO and COO were those in line to do the implementation!

Other comments

From the VC “in the space of 4 days we managed to gain credibility with the vehicle manufacturers armed with the root cause supported by sound analysis and a robust achievable plan to establish their view and establish their support of the business ongoing”

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