

THE M&A ADVISOR SYMPOSIUM REPORT

Featuring



Holly Etlin
Managing Director
AlixPartners



James B. Lockhart III
Vice Chairman
WL Ross & Co.



Robert "Steve" Miller
Chairman, AIG
Chairman, MidOcean Partners



Kristin Winford
Chief Operating Officer
Mesirow Financial Consulting

> KEYNOTE CONVERSATION LEADERSHIP LESSONS FROM THE CRUCIBLE

Executive Summary

While essential to survival and rejuvenation, excellent corporate leadership is rarely present at distressed companies. This session focused on the specific leadership skills and qualities necessary when companies are in trouble, featuring a panel of turnaround specialists who have held leadership positions at distressed companies.

The expert panelists discussed:

- The best first steps to take in a distressed situation
- Why organizations struggle with innovation?
- Making their toughest decisions
- What motivates corporate turnaround specialists?
- Good corporate governance: Can it be legislated or regulated into being?

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From The M&A Advisor

However much leadership is studied, analyzed and discussed, its essence often seems ineffable. Like great teaching, we know it when we see it — and we'd like to see more of it — but somehow demand always exceeds supply.

Because distressed companies have a particularly acute need for strong, high-quality leadership, The M&A Advisor devoted an entire session to the subject at our recent 2015 Distressed Investing Summit in Palm Beach, Florida. We were extremely fortunate that the participants in our Keynote Conversation aren't mere observers of corporate leadership under fire, but actually have served as leaders during periods of crisis.

Holly Etlin, a Managing Director at AlixPartners, has been central to restructurings at Radio Shack, Winn-Dixie, Borders, New Century Financial and Tanner & Haley. As Director and Chairman of the Oversight Board of the Federal Housing Finance Agency, James Lockhart III — now Vice Chairman of WL Ross & Co. — oversaw the operations of Fannie Mae and Freddie Mac during the depths of the financial crisis. Robert "Steve" Miller, Chairman of AIG and Chairman of MidOcean Partners, was responsible for the turnaround at Delphi and helped lead Chrysler through its darkest days.

Leading our Conversation was Kristin Winford, who combines real-world leadership experience as Chief Operating Officer at Mesirow Financial Consulting with her academic credentials including a Doctorate in Leadership.

If you ever wanted a post-graduate course in leadership from a faculty without peer, this is it. The M&A Advisor greatly appreciates the contributions of Kristin, Holly, Jim and Steve, and enthusiastically brings you their insights. We also thank Mesirow Financial Consulting for presenting this session.

David Fergusson
President and Co-Chief Executive Officer
The M&A Advisor

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First Things First

“As a leader being brought into a crisis situation, what’s the first thing you focus on and try to deal with?”

That was the question Kristin Winford posed to the session’s panelists to kick off the conversation.

“First, I try to study up as much as possible about what’s wrong, but then I’ve found you just have to go in and start making decisions,” said James Lockhart. “Oftentimes, you’re just not getting the full story when you’re on the outside, even from senior management. Sometimes you have to delve down and get to the middle level where the information is a little less filtered.”

One of the biggest mistakes Lockhart said he has made is not “cleaning out the top level” at the start. “Perhaps you’ve given them the benefit of the doubt, but often they are the reason the company is in distress,” he said.

Holly Etlin, who said she usually joins troubled companies as a senior member of management, first assesses that management team. “Are they actually working as a team? If not, you need to look directly at the CEO and ask whether he or she can develop a team, because no individual company lives or dies based on a single person’s effort — companies are too large, too complex and have too many moving pieces,” she said.

Steve Miller said he believes the first step is assessing the mindset of the people at the company. “You have to find out who the entrepreneurs are and who the bureaucrats are,” he explained. “Most companies, even if they’ve been in trouble for a long time, still have a lot of employees, managers and executives who are highly knowledgeable about their industry. Instead of wiping them out, you have to find out who’s who, so shortly after getting there I find out who are the ones who are energetic, creative and want to change the way things are — and nudge into retirement, if you will, those who are roadblocks and too set in their ways.”

In one of his first moves when called in to help Delphi, the auto parts manufacturer, Miller made a widely publicized decision to take a salary of \$1 per year, an action Winford asked about.

“It was the worst mistake I ever made in my life,” Miller said. “When I came to the company it had 35,000 workers in the U.S. organized by the United Auto Workers, each making about \$75 an hour. It was inevitable that we’d have to go through a restructuring. I didn’t want to be in the position of walking through the factory floor and trying to explain why we were going to have to impose sacrifices on workers while I was being paid \$1 million to deliver the message. So I decided to go for \$1 a year. It totally didn’t work. If somebody doesn’t like your message, it doesn’t matter what you’re being paid.”

“You have to find out who the entrepreneurs are and who the bureaucrats are.”

– Steve Miller

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Innovation and Tough Decisions

While distressed companies are practically compelled to try new ways of operating, innovation is nevertheless a challenging concept for corporate leaders to embrace, Winford noted. She asked Ms. Etlin why.

"It's very hard to see when things outside your immediate world are changing. Although most CEOs do see it to some degree, the issue is having the internal fortitude to actually make the change," Etlin responded. "So many CEOs and senior management teams actually know or have known the steps needed to fix the business, but nobody can seem to make something happen."

The reluctance to innovate or change, of course, points to the organizational inertia that is so common at companies in crisis, Winford observed. "That inertia then compels you [as turnaround specialists] to make some pretty tough decisions. What has been the toughest decision you've had to make in restructuring?"

"Many times you have to downsize the workforce because you can't continue to pour money into an activity that's no longer profitable," Miller responded. "But it's always very tough to stand in front of people and tell them that. These are human beings, they have families and mortgages and everything else."

Lockhart said his toughest decision involved Trans World Airlines during the time he was director of the Pension Benefit Guaranty Corporation. "Carl Icahn owned over 80 percent, so he was on the hook for TWA," he said. "But the only way to get to him was to liquidate the company and lay off 25,000 people. That judgment was very tough. My staff wanted us to go after Carl, but you had to make the political judgment. Chapter 11 has a lot of politics in it, especially if there are pensions."

Etlin said her toughest decisions involve telling a company's board and its executive team that they have run out of time and money. "It's always a very, very difficult conversation. You're always in the unfortunate position of pouring a real big glass of ice water in their laps," she said.

Since crisis also can mean opportunity, Winford asked the panelists if they consider a crisis a positive, as well as a necessary condition in order to propel an organization forward.

"I love a crisis," Etlin said. "It's the point at which you get stuff done."

"The good news about a crisis is the obvious urgency," Miller said. "There's a willingness to accept leadership and change. You just say, 'You know we're dead unless we do the following,' and people are willing to get on with the program," adding that when companies are muddling along and don't have a financial or other crisis driving them, "the resistance to change is very hard to overcome."

"You're always in the unfortunate position of pouring a real big glass of ice water in their laps."

– Holly Etlin

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Offering a contrary opinion, Jim Lockhart said he prefers when there aren't crises, "especially in our portfolio companies."

Motivation

Given the challenges of leadership in turnaround situations, Ms. Winford asked the panelists why they love what they do.

"If you can save a company and at least some of the people, that's a greater good."

— James Lockhart III

"I... accidentally got into this when I took the job at the PBGC, not quite understanding what it was going to be about," Lockhart said. "But I like to help fix things, and if you can save a company and at least some of the people, I think that's a greater good."

"I love it because I know that when I come into a company I'm actually going to make a difference," said Etlin. "I came into this world through consulting, where I discovered that if management wasn't committed to change, not a lot would happen. Now I believe I always make a difference."

"My first 'turnaround' experience was at Chrysler in 1979," said Mr. Miller. "Under the guidance of Lee Iacocca, I learned a lot. Once you've had that shot of adrenaline and taking something that's broken and putting it back on its feet, everything else is boring. Now, every time I hear the siren, off I go."

Corporate Governance Issues

The next question Winford posed to the panelists was whether regulation was effective in encouraging good corporate governance. The panel was decidedly negative.

"You cannot stop business failures," said Miller. "And trying to invent regulations that somehow will stop it at the board level is just foolish."

While he agrees that splitting the job of CEO and chairman into two separate positions often makes sense, better governance is "more about the attitude of the people than the titles."

"I agree," said Lockhart. "I encourage splitting the chairman and CEO job, but this area is hard to regulate."

"It comes down to the quality of the people on the board, particularly of the independent board members," concluded Etlin. "Frankly, good governance can't be legislated."

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Video Interviews

To watch exclusive M&A Advisor interviews with these leadership experts, click on the following images:



Holly Etlin
Managing Director
AlixPartners



James B. Lockhart III
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WL Ross & Co.



Robert "Steve" Miller
Chairman, AIG
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Kristin Winford

Chief Operating Officer
Mesirow Financial Consulting

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Symposium Session Video

To watch the Keynote Conversation – “Leadership Lessons from the Crucible” – click on the following image:



**Leadership Lessons
from the Crucible**

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Symposium Participant Profiles



Holly Etlin
Managing Director
AlixPartners

Holly Etlin is Managing Director at AlixPartners' Turnaround and Restructuring practice in their New York office. A seasoned executive with 30 years of experience in providing restructuring and reorganization services, she's worked extensively with companies and their creditors in the media, retail, distribution, consumer products, financial services, and healthcare industries. Before joining AlixPartners in 2007, she was a principal with XRoads Solutions Group in New York. In 2007, the Turnaround Management Association recognized Etlin with its Turnaround of the Year Award for the successful restructuring of Winn-Dixie Stores, Inc. Prior engagements include serving as Senior Vice President, Restructuring at Borders; Interim Chief Financial Officer of Freedom Communications; CEO and Chief Restructuring Officer (CRO) of New Century Financial; and CRO and acting CEO of Tanner & Haley, one of the largest luxury destination clubs in the United States. Etlin has a bachelor's degree from the University of California, Los Angeles. She holds the CIRA (Certified Insolvency & Restructuring Advisor) and CTP (Certified Turnaround Professional) designations and is a past chairman of the Turnaround Management Association and a member of the American Bankruptcy Institute, the Association of Insolvency & Restructuring Advisors, and the International Women's Insolvency & Restructuring Confederation.



James B. Lockhart III
Vice Chairman
WL Ross & Co.

James B. Lockhart, III is Vice Chairman and Member of the Office of the Chairman of WL Ross & Co. LLC. He joined WL Ross & Co. in 2009, where he oversees financial services portfolio companies and sources new opportunities in the financial services industry. Lockhart served as Deputy Commissioner and Chief Operating Officer at the Social Security Administration from 2002 to 2006; Director (CEO) and Chairman of the Oversight Board of the Federal Housing Finance Agency; as a member of the Financial Stability Oversight Board, overseeing the TARP program; and as an Executive Director of the Pension Benefit Guaranty Corporation. He also served as an officer aboard a nuclear submarine. His private sector financial services experience includes senior positions at an investment bank, reinsurer, insurance broker, risk management firm and major oil company. Lockhart has been a Non-Executive Director of Virgin Money Holdings (UK) plc since 2010, and a Director of Bank of the Cascades and Cascade Bancorp since 2011. Lockhart holds an M.B.A. from Harvard University and an B.A from Yale University.



Robert “Steve” Miller
Chairman, AIG
Chairman, MidOcean Partners

Robert S. Miller is Chairman of the Board of American International Group (AIG), and Chairman of MidOcean Partners, a private equity firm specializing in leveraged buyouts, recapitalizations and growth capital investments in middle-market companies. Miller served as Chief Executive Officer of Hawker Beechcraft, an aircraft manufacturing company, from February 2012 to February 2013. He’s also served at Delphi Corporation as Executive Chairman (January 2007 to November 2009), and as Chairman and Chief Executive Officer (July 2005 to January 2007). Prior to that, he served as non-executive Chairman of Federal Mogul Corporation (January 2004 to June 2005), and Chairman and Chief Executive Officer of Bethlehem Steel Corporation (September 2001 to December 2003). Before joining Bethlehem Steel, Miller served as Chairman and Chief Executive Officer on an interim basis upon the departure of Federal Mogul’s top executive in September 2000. Miller began his career in 1968 at Ford Motor Company, and after more than a decade there joined Chrysler Corporation, where he worked for 13 years, eventually serving as Vice Chairman, and where corporate staffs, financial services, international automotive operations, and non-automotive operations all reported to him. He led Chrysler’s financial negotiations with 400 bank lenders and the federal government, which resulted in the Loan Guarantee Act bailout package in 1980 that saved the company.



Kristin Winford
Chief Operating Officer
Mesirow Financial Consulting

Kristin Winford is Chief Operating Officer of Mesirow Financial Consulting, LLC, one of the nation’s leading financial advisory service firms. She has extensive experience providing strategic operations and performance improvement services to internal and external clients. With a strong background in global technology and professional services firms, Winford has a proven track record of partnering with executives to realize strategic business objectives, ensure profitable growth and build destination employers. Currently, she leads all aspects of Mesirow Financial Consulting’s business unit operations, and has extensive experience in change management, post-merger acquisition integration, corporate governance and internal controls. She has conducted sensitive investigations in the areas of professional ethics, corporate malfeasance, breach of fiduciary duty and fraud. Winford was national operations director for the national Corporate Recovery and Transaction Services practices at KPMG LLP prior to joining Mesirow Financial Consulting. She holds a B.A. from Southern Methodist University, an M.B.A. from Arizona State University and an Ed.D. from Creighton University. She is a member of the American Bankruptcy Institute, the Turnaround Management Association, the International Leadership Association, INSOL, the Professional Risk Managers’ International Association, the Society for Business Ethics and the Society for Industrial and Organizational Psychology. Winford also sits on the Board of Trustees for the College of Mount Saint Vincent, is on the Investment Committee for the Alpha Delta Pi Foundation and is a member of the Executives’ Club of Chicago.

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Mesirow Financial Consulting, LLC

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About the Publisher



The M&A Advisor

The M&A Advisor was founded in 1998 to offer insights and intelligence on M&A activities. Over the past seventeen years we have established a premier network of M&A, Turnaround and Finance professionals. Today we have the privilege of presenting, recognizing the achievements of and facilitating connections among between the industry's top performers throughout the world with a comprehensive range of services. These include:

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Emerging Leaders Summit - London, UK - September 29, 2015

M&A Advisor Summit - New York, NY - November 17, 2015

International Financial Forum - London, UK - December, 2015

Distressed Investing Summit - Palm Beach, FL - February, 2016

For additional information about The M&A Advisor's leadership services, please contact Liuda Pisareva at lpisareva@maadvisor.com.