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Context for Private Capital Investment

Whipping Distressed Assets Into Shape

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Whereas typical private equity investments have a five-to-seven-year time frame from acquisition to exit, distressed assets, already on life support, have to work faster to get healthy before investors pull the plug. At SOLIC Capital, a portfolio company has three years, at the most, to get back on its feet. That includes a full operational turnaround within 24 months and then position for exit in 12 months or less.

"We are not kicking the can to someone else," explains Robert Annas, a senior managing director at SOLIC. "[We have the] ability to make things happen."

For SOLIC, whose management considers the firm a one-stop shop offering advisory, principal investing, and distressed management, initiating change begins with its 3P3M strategy, comprised of people, plan, process and measurement, monitoring, motivation.

SOLIC was formed in January 2014, but its leadership has been working together for more than 15 years. The team started out as Caremark International in the early 1990s, went on to build Casas Benjamin White, and was acquired by Navigant after seven years. Ten years later, they created SOLIC with the blessing of Navigant in a friendly transition.

Annas says the key to rehabilitating distressed assets' operations is immediately identifying a handful of levers that need to be reworked in order to "drive the ability to grow enterprise value." The next step for SOLIC is to install measure tools. A main aspect of doing this is keeping it simple and not overcomplicating the issues, Annas says.

SOLIC exited a private home-healthcare company where one of the biggest operational levers in need of adjustment was its people. The firm reconstituted the company's senior management, decentralized sales efforts to allow local teams to react to individual markets in a customized fashion, and reviewed metrics on a daily basis. All of this worked to create a culture of accountability, Annas says.


Robert Annas, SOLIC Capital

After a short time, SOLIC exited the investment to a strategic buyer. Interestingly, the acquiring company had its sights on the portfolio company when SOLIC bought it, but waited until the turnaround was complete. Annas says this is typical of a SOLIC investment, because strategic buyers are not interested in doing the heavy lifting of turning around distressed companies; they prefer to have "clean" assets at the onset of acquisition.

Getting those distressed assets to a position of growth that acquirers find attractive is a fast-paced business not for the faint of heart. In addition to daily measurements, SOLIC takes 30-, 60-, and 90-day evaluations of operations. If, by the three-month mark, conditions are not moving in the right direction, decisive action is taken.

"You can't get enamored with your own b.s.," Annas says. "We get [investments] into positions of growth to sell."

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