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## Turnaround of the Year: Long and tortuous road back to profit

By Courtney Weaver

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It has been a tough slog for the contenders for this year's Turnaround of the Year award. Only now – after two years of restructuring, painstaking cost cuts and disposals – are the four companies starting to see their efforts reflected in the bottom line.

It is a sweet reward for the groups' management teams and also for their shareholders, who managed to maintain faith in the businesses' future, even when they appeared on the edge of a precipice.

Runners-Up: Kofax, Inc. | Avon Rubber plc | Wolfson Microelectronics plc

### Winner: Volex Group plc

When Ray Walsh took the stage at a Volex investor day last month, looking back at him in the audience were a group of 60 analysts and fund managers from institutions including Schroders, JPMorgan, Investec and Jupiter.

"Two years ago," Volex's 45-year-old chief executive jokes, "nobody in that room would have returned my phone calls."

Turning round Volex, an electric and telecom cables producer, has not been an easy job. Yet thanks to prudent cost-cutting, a refocusing on the customers' needs and support from its new long-term shareholders, the company is coming out of the recession in reasonable shape.

The group's share price more than doubled in 2010, making it the best performing share in the PLC awards as well as the turnaround of the year. The company reported basic earnings per share of 9.3p last year, versus a loss of 34.1p a share in 2009.

Mr Walsh attributes the jump to the new shareholder base, which recognises "the long-term value" of Volex in spite of its poor record in the past. (Previously, its investor base was made up primarily of hedge funds and private equity firms.)

"The company had such a damaged reputation in the City and so many times had over-promised and under-delivered. Everyone had lost faith in it," Mr Walsh says.

The company's story is a familiar one in the UK technology sector. Volex grew rapidly during the dotcom boom, thanks to a quick series of acquisitions, but then reported flat sales for most of the next decade.

Mr Walsh joined in 2009, shortly after the arrival of Mike McTighe as chairman. Every other member of the chief executive's team has been brought in during the past 18 months.

The new management did not have any "grand new restructuring plan", Mr Walsh says. Instead, it simply went back to basics and began investing in the products its customers actually needed.

The company, which also provides cables for laptops and TVs, had a historic focus on the consumer sector, but is now giving more attention to corporate customers in the telecoms, industrial and healthcare sectors.

“The company is aligning itself with its global customers,” says Richard Hickinbotham, an analyst at Charles Stanley, Volex’s house broker. “Increasingly its regional customers are not able to come up with everything they need” so they are turning to Volex for the cables they cannot produce in-house, he says.

Among the company’s customers are big names such as Apple, Dell, Ericsson and Samsung.

From a cost-cutting perspective, Volex’s biggest change was selling its wiring harness business, which made electrical systems used in commercial vehicles and the aerospace industry. The unit always ran on thin margins and made a £21m loss on discontinued operations at the time of its disposal.

Other restructuring changes were less pronounced. The company has gradually cut the number of its manufacturing sites from about 30 a decade ago to nine today, and has simultaneously reduced its supplier base and driven down net debt levels from £21m at the end of 2008 to less than £8m at the end of last year.

The management created a pay structure based on performance review and moved its head office from Warrington to London. And a decision to work with just one global freight partner – instead of the 70 freight forwarding companies it was using previously – has saved it £1m a year.

As Mr Hickinbotham says: “All these things just sort of add up.”

This coming year, Mr Walsh says, Volex may consider making a few small acquisitions but emphasises the deals will be more like capital expenditure projects and will not constitute a transformation of the company.

The chief executive will also be keeping an eye on the price of copper, which rose above \$10,000 a tonne last month.

While higher copper prices have slowed the company’s earnings momentum, Mr Walsh emphasises that the group’s underlying business has remained stable.

“Despite some very significant headwinds on commodity prices, which affect our inflow costs, we have managed to hold the line on our margins,” he says.