



THE COMEBACK KIDS

Lessons from Successful Turnarounds

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THE KEYS TO A SUCCESSFUL TURNAROUND

IN ALL MARKETS AND all industries, disruption is pervasive. According to BCG research, one-third of US companies have experienced severe performance issues in the past two years. Even companies that are strong today can see disruption on the horizon, and performance just two years out is far from given. One in three companies will cease to exist in 5 years, up from one in twenty 50 years ago.

For leadership teams, turning around a company represents the truest test of their performance. Yet the unfortunate reality is that many leaders fall short. Seventy-five percent of major transformation efforts do not achieve their expectations for target value, timing, or both.

What makes for a successful turnaround? To answer that question, we screened the S&P Global 1200 index, which includes companies that collectively represent about 70% of global market capitalization.¹ Within that universe of companies, we identified those that had experienced a significant decline in revenue, profit margins, and/or market capitalization since 2010 (excluding declines due to currency fluctuations), followed by a clear rebound in those metrics.

The results of that analysis are the Comeback Kids, companies that range from technology players such as Olympus and Nokia to health care companies Boston Scientific and Bristol-Myers Squibb, paper manufacturer UPM, Qantas, HSBC, and more. These 11 companies represent some of the most successful comebacks in the world over the past decade.

On the basis of their stories—along with our research and experience with hundreds of turnarounds—we've identified five critical elements of a successful turnaround.



For leadership teams, turning around a company represents the truest test of their performance.

1. Develop a clear-eyed, objective understanding of the company's situation. Rather than stalling or waiting for external conditions to change, strong leaders get ahead of the problem with an ambitious program to change the company's trajectory. In fact, some anticipate problems even before they show up in the P&L, under the logic of "If it ain't broken, fix it anyway."

2. Redefine the company's strategic focus. Leaders need to determine where to play (and where to avoid) in terms of product and service offerings, customer segments, and geographic markets. And they need to take action to divest and to acquire and/or invest in new businesses or R&D in order to align the company with that strategic focus.

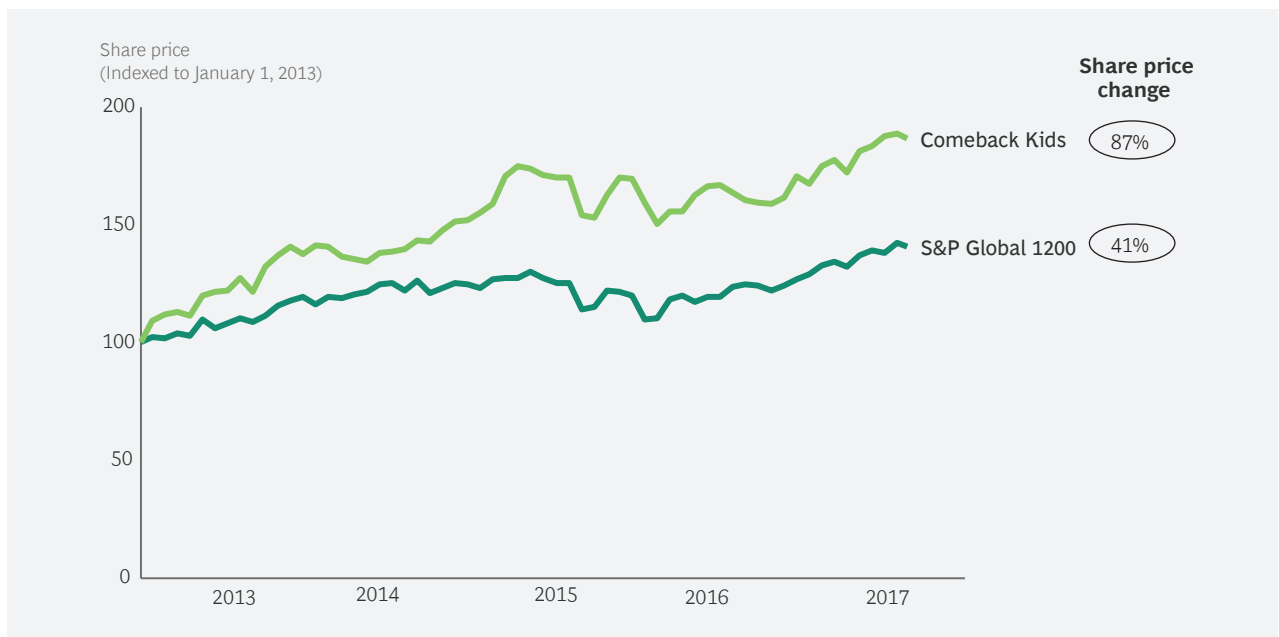
3. Restructure to reduce costs and complexity. Turnaround programs require rapid improvements in operations to reduce costs, and they almost always entail changes to the organization and/or operating model.

4. Build the right culture. In an era of constant disruption, turnarounds require speed, innovation, and a culture of openness to change.

5. Invest in digital. Finally, even if a company doesn't think digital is a part of the turnaround strategy, it needs to be. Leaders need to free up the funds to invest in digital technology to improve their customer experience, enhance their products and services, increase internal efficiency, and develop new business models.

As the profiles of the Comeback Kids show, these measures can lead to dramatic improvements in performance and create substantial value for shareholders. (See Exhibit 1.) Collectively, the margins of these com-

EXHIBIT 1 | Collectively, the Comeback Kids Have Dramatically Outperformed the S&P Global 1200



Source: S&P Capital IQ.

Note: Data for the Comeback Kids is an aggregate of share price, weighted by market capitalization as of August 31, 2017.

panies have increased by a weighted average of more than 50% since 2013. As a group, they have outperformed the S&P Global 1200 by 46 percentage points over the same period.

The stories of these companies (we've ordered them by market capitalization, starting with the largest) illustrate the value of strong and decisive leadership and a structured approach to turnaround initiatives—in situations where the stakes could not be higher.

NOTE:

1. The S&P Global 1200 includes the S&P 500 (US), the S&P Europe 350, the S&P TOPIX 150 (Japan), the S&P/TSX 60 (Canada), the S&P/ASX All Australian 50, the S&P Asia 50, and the S&P Latin America 40.

HSBC

Simplifying the Organization

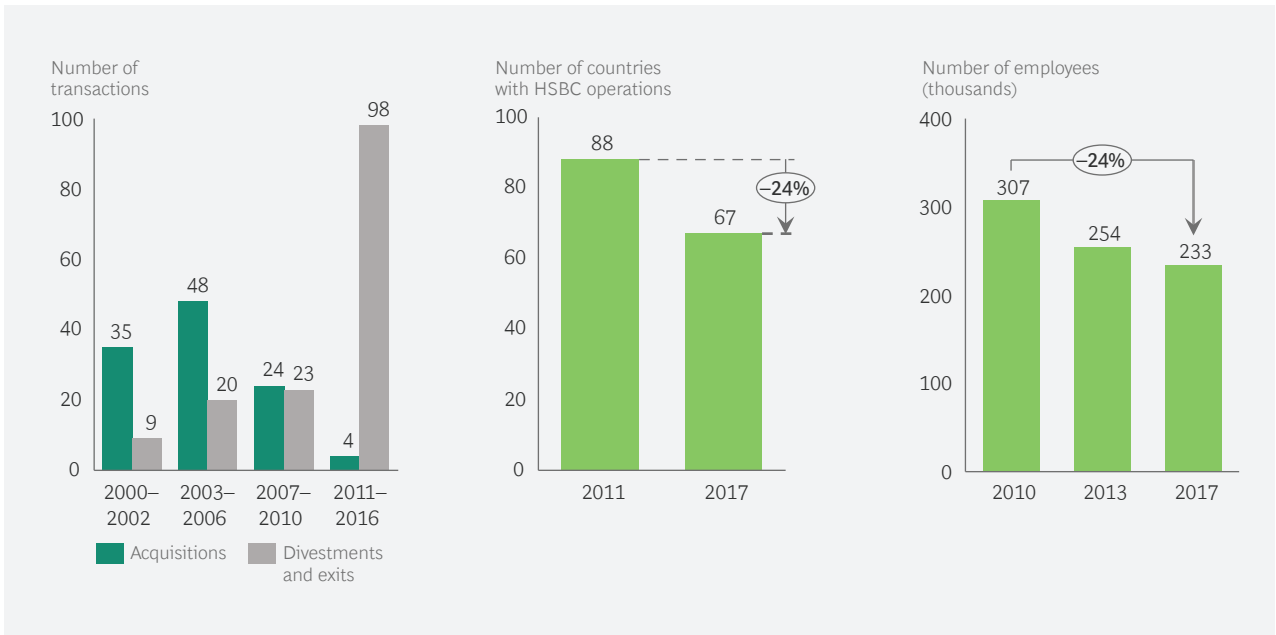
IN THE WAKE OF the financial crisis of 2008, HSBC faced rising costs and regulatory challenges. From the 1990s to 2006, the bank made a series of acquisitions and grew its balance sheet fivefold. It ended up with operations—many of them standalone entities with their own processes and IT systems—in 88 countries. The result was a complex operating environment and few economies of scale.

When Stuart Gulliver (who started at HSBC at age 21) took over as CEO in 2011, he immediately launched a turnaround, starting with rapid streamlining and simplification measures to fund the journey. The company reduced its head count by more than 20% and the number of countries where it operated from 88 to 67. (See Exhibit 2.) Despite this geographic contraction, HSBC still covers 90% of global trade and capital flows, more than just about any other bank in the world. In all, these measures saved \$4.7 billion by the end of 2016 and are expected to amount to \$6 billion in savings, mostly from middle- and back-office functions, by the end of the turnaround, in 2017. In terms of operations, HSBC improved its capital performance, reducing risk-weighted assets by nearly \$300 billion.

HSBC also restructured the organization to eliminate excess management layers and give leaders the right level of accountability. The structure, introduced in 2011, consists of four global businesses—each run by an executive who reports directly to Gulliver—supported by a set of globally run support functions. That has led to significant efficiencies. “It is only now, running businesses as single global verticals, that you can negotiate your procurement in ways that derive full economies of scale,” Gulliver recently told *Euromoney*, a trade publication. “We used to have countless separate contracts with IT companies, with the people managing our properties, with every supplier in fact.”

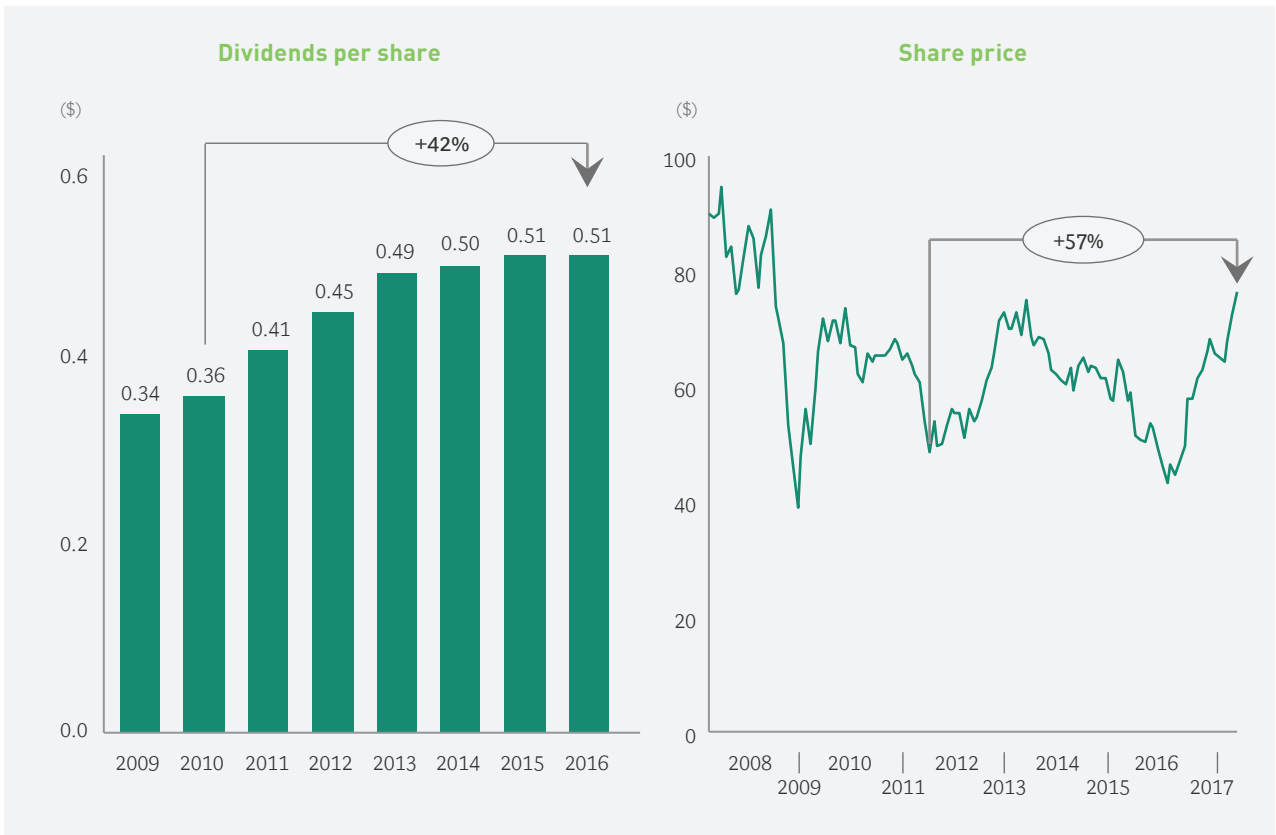
More important, the company is making a big bet on digital, investing \$2.1 billion from 2015 to 2020. Digital initiatives include automating back-office functions, improving the customer journey with mobile plat-

EXHIBIT 2 | HSBC's Turnaround Included Divestments, Country Withdrawals, and Employee Reductions



Sources: Company financial filings; Euromoney.

EXHIBIT 3 | HSBC's Dividends and Share Price Increased



Sources: S&P Capital IQ; Thomson Reuters.

forms, and creating an intelligence unit to spot financial irregularities among customers. HSBC also announced a partnership with Google Cloud for analytics and machine-learning capabilities. And the bank has a dedicated innovation unit to help it stay attuned to the movements of fintech players and digital-only competitors.

Overall, the turnaround has been extremely focused on creating shareholder value. HSBC is among the top financial services performers in terms of dividend payouts, with an increase of 42% since the turnaround began. (See Exhibit 3.) In the past year, the company has also announced a return to shareholders of \$5.5 billion in share buybacks. The turnaround, now nearly complete, has won praise from investors and analysts, and in 2017 Euromoney named HSBC the world's best bank.

BRISTOL-MYERS SQUIBB

Reshaping the Portfolio

WITH A MARKET CAPITALIZATION in the neighborhood of \$100 billion, Bristol-Myers Squibb (BMS) is one of the largest biopharma companies and one of the strongest value creators. A decade ago, however, the company's situation was far less promising. In the mid-2010s, many blockbuster drugs were about to go off-patent. In 2006, BMS lost patent exclusivity for Pravachol, a statin used to fight cholesterol, causing sales to drop by \$1.2 billion in one year. What's more, a patent dispute over BMS's top-selling anticholesterol drug, Plavix, triggered a 15% decline in sales for that drug, resulting in an additional loss of \$1.5 billion.

At the time, many biopharma companies were turning to megamergers and portfolio diversification. But BMS's executive team made the bold bet to transform BMS from a diversified health care company into a biopharma pure play by systematically reshaping the company's business and R&D portfolios.

In 2007, the company announced a major productivity improvement initiative that over the next five years took some \$2.5 billion out of the business—the majority from cuts in SG&A expenses. Management used that capital to fund the new strategy and win over investors. In parallel, the company began shedding businesses that were not part of the new focus on biopharma. BMS closed its diagnostic-imaging business in 2007, sold its wound care business to a private equity company in 2008, and spun off its nutritionals business in an IPO in 2009. These divestitures not only freed up additional funds to invest in the most promising new therapeutic areas but also allowed the senior executive team to focus its time and attention on assembling a new biopharma portfolio.

One area the company decided to target was immuno-oncology (I-O), an innovative approach that fights cancer by harnessing the body's immune system. Two drugs, Yervoy and Opdivo—both developed at a company that BMS partnered with and ultimately acquired—were



Changes have taken place across the company, but the most important have been in R&D.

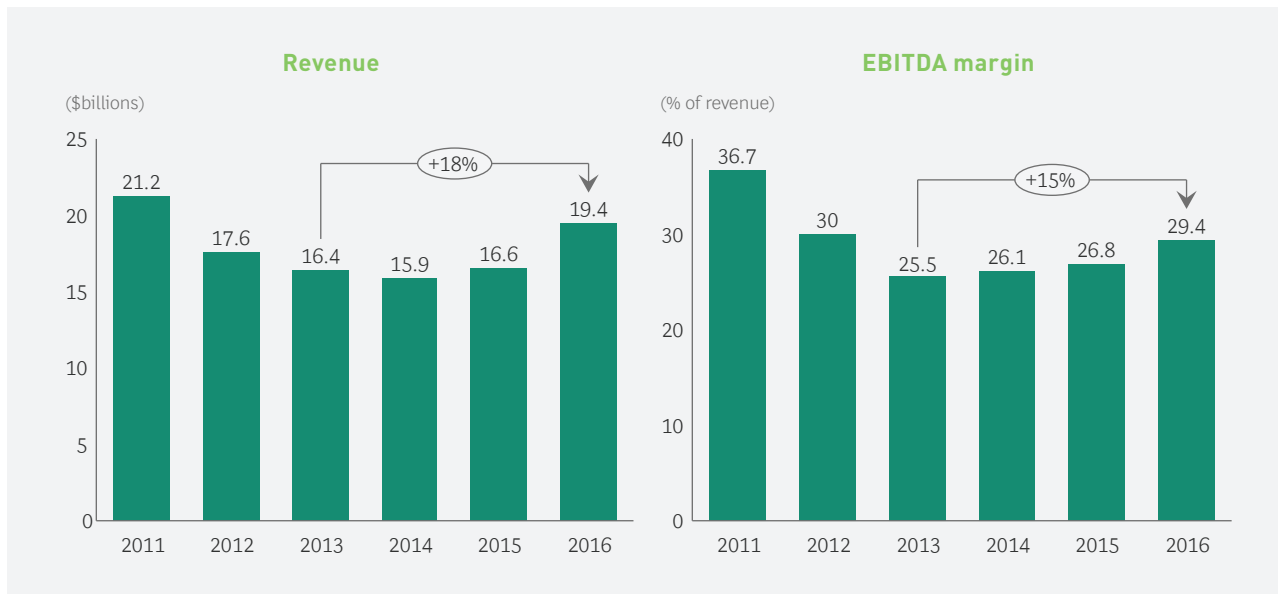
among the first I-O drugs approved by the FDA (in 2011 and 2014, respectively) for use in treating certain cancers. The acquisition was the start of a major bet on immuno-oncology. Since 2011, the company's I-O business has grown from 0% to 25% of total sales and is expected to grow to more than 50% by 2021. Opdivo alone generated nearly \$3.8 billion in sales in 2016, becoming a new-generation blockbuster that has helped the company outperform the industry in revenue growth for the first time since 2008. According

to consensus estimates, Opdivo is expected to generate \$8 billion to \$9 billion in sales by 2020.

In addition to transforming its business portfolio, BMS has also transformed its organization in order to manage that portfolio for value. Although changes have taken place across the company, some of the most important have been in R&D. The goal was for R&D to see itself not primarily as the originator of new drugs but as a decision-making hub, responsible for making smart tradeoffs among drugs in the company's R&D pipeline. To achieve this, the company took the following steps:

- **Build a team of expert leaders.** At many biopharma companies, senior R&D managers are too far from actual drug development to function effectively as leaders. BMS developed a cadre of hands-on R&D managers who have a deep understanding of the science in new therapeutic areas and know how to create business value.
- **Revamp the governance model.** Next, BMS completely revamped its R&D governance model, particularly the all-important leadership committees that make decisions about the initiation, progression, and termination of products in the pipeline. The new process emphasizes constructive engagement among senior R&D leaders, the surfacing of tough issues, fast decision making, and serving the interests of the entire portfolio, not just individual drug candidates.
- **Follow the science.** The company has also made changes in the ways that drug development teams are managed and rewarded, creating mechanisms that encourage project teams to “follow the science,” even if it means their projects might be terminated.
- **Leverage external innovation.** By seeking external partners to reinforce its overall direction for R&D, the company has been able to leverage the most promising new approaches to drug development, which are often happening in university research labs and startups.
- **Encourage cross-functional cooperation.** Finally, BMS created organizational mechanisms to increase cooperation across R&D functions and drug development teams, giving more power to project leaders responsible for determining the future of a given drug candidate.

EXHIBIT 4 | Bristol-Myers Squibb's Turnaround Has Led to a Rebound in Revenue and Profit Margins



Source: S&P Capital IQ.

These moves have paid off. Over the past six years, the company's total shareholder return (TSR) has outpaced that of its peers by an average of five percentage points per year, and its R&D productivity has been among the highest in the industry. Since 2013, revenue has increased by 18%, and EBITDA margins have increased by 15%. (See Exhibit 4.) During the same period, the company's market cap has nearly doubled, and management has satisfied investors by steadily increasing its dividend. The newer, streamlined organization can better allocate resources to strategic goals, focus its R&D efforts on value, and react more quickly to changes in the health care industry.

BOSTON SCIENTIFIC

Creating a Bold Strategy

LIKE MOST MEDICAL TECHNOLOGY companies, Boston Scientific has faced a tougher market over the past decade. Yet the company—which offers a range of cardiovascular devices, along with advanced products in urology, endoscopy, and areas such as interventional cardiology (the use of catheters to treat heart conditions)—has also grappled with internal issues. In 2006, Boston Scientific acquired Guidant for \$27 billion. The company needed to absorb that cost; it also wanted to improve and better integrate quality production systems and establish a new culture.

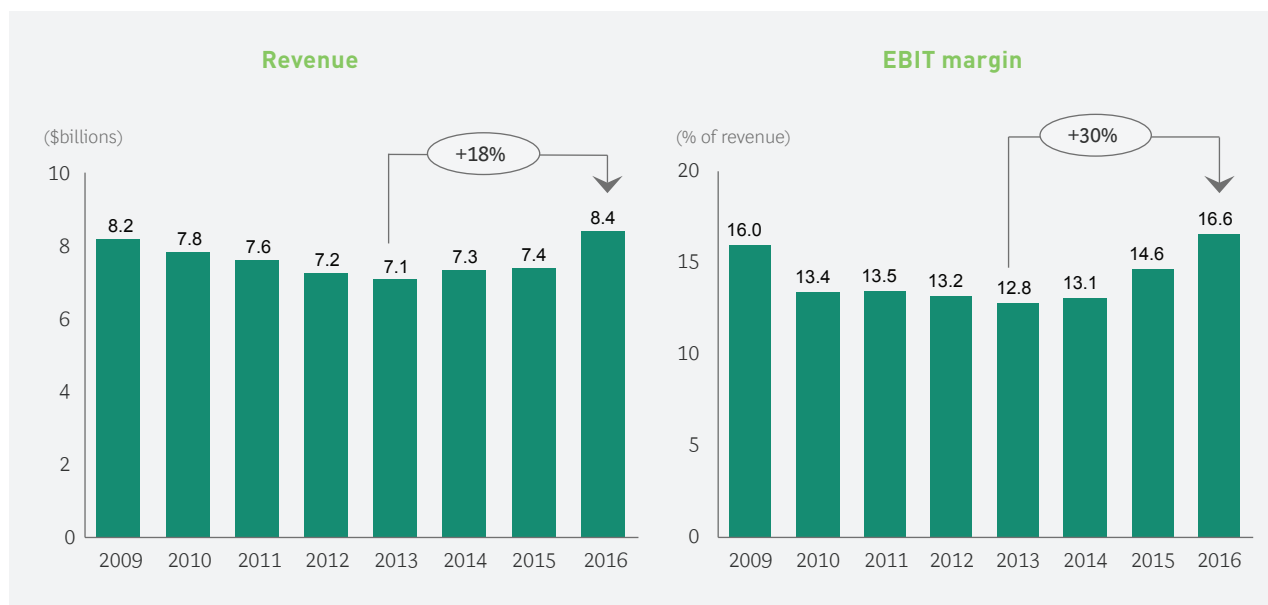
In 2011, the company implemented a focused strategy to turn itself around. It revamped its portfolio through a series of acquisitions, shifting the emphasis to stronger growth and category leadership. For example, an acquisition in the urology segment reinforced the company's position as a leader in that category. And a sales initiative helped target large health systems in developed markets more effectively.

Boston Scientific also expanded into emerging markets—specifically China and Brazil—and reoriented its R&D to a more global perspective. Through these measures, the share of sales from emerging markets has doubled since 2013.

Throughout the transformation, management took steps to reduce manufacturing costs, setting up several manufacturing centers of excellence to streamline and improve processes. Some measures relied on established tools and methodologies (like lean), while others capitalized on emerging technologies. Similarly, the company launched measures to improve R&D productivity, and those measures have paid off—R&D as a percentage of revenue declined by 10%, yet the company is continuing to roll out innovative products.

To organize for sustained performance, Boston Scientific made a concerted effort to develop a more innovative, creative culture. Senior lead-

EXHIBIT 5 | Boston Scientific's Revenue and Margins Increased



Source: S&P Capital IQ.

ers thinned out the bureaucracy at higher levels of the company to speed decision making. Boston Scientific also launched a program aimed at getting teams to develop unconventional solutions, empowering people to share ideas regardless of job titles. The most promising projects get funded, and the teams that came up with them get recognized. In a rapidly changing industry like health care, that kind of bottom-up innovation can lead to large gains.

Overall, profits are now strong and growing in all of Boston Scientific's business units. Revenue is up nearly 20% since 2013, and EBIT margins are up 30%. (See Exhibit 5.) Shareholders have benefited: the company's market cap has nearly quintupled in that period. "Our strategy of category leadership in key markets and diversification into high-growth adjacencies is working, and enabling continued investment in innovative medical technologies," said chairman and CEO Michael Mahoney.

By realigning itself around innovative products, improving manufacturing processes, and taking steps to revamp its culture, Boston Scientific has seen a rebound in profits and has established a strong position for the future.

NOKIA

Reprogramming for Growth

NOKIA HAS TRANSFORMED ITSELF many times in its 150-year history, starting as a paper mill in Finland in 1865 and then moving into other industries and other countries. It didn't settle on phones and networking equipment until the 1980s, when mobile technology took off. In 2007, the company was a dominant player in mobile phones, with a 40% global market share thanks to superior technology and enormous scale advantages. Just five years later, however, Nokia was in a severe crisis: its market capitalization had dropped 96%. (See Exhibit 6.) The company was burning cash, and operating losses were more than \$2 billion in the first six months of 2012 alone.

In response, Nokia launched a dramatic, bet-the-company turnaround. The first big strategic question was the fate of the mobile-phone business. In the war of the mobile ecosystems, Apple's iOS and Google's Android were rapidly capturing larger and larger chunks of the market, and it started to seem unlikely that Nokia's Windows Phone strategy would save the company. Instead, Nokia decided to sell its mobile-phone business to Microsoft, announcing the divestment as part of a \$7.2 billion deal in September 2013.

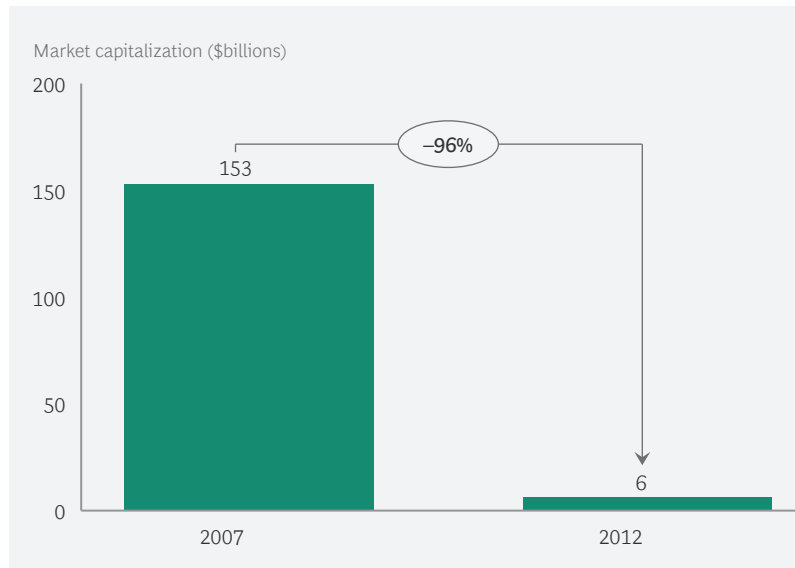
After the divestment, Nokia was a portfolio of three fairly different businesses: network infrastructure, mapping services, and technology and patent licensing. This brought the company to its next big strategic decision: Should Nokia develop itself as a portfolio company, or should it focus its activities?

The network infrastructure business was Nokia's largest. But from 2007 onward, Nokia had been operating it as a 50-50 joint venture with Siemens and had planned to *reduce* its involvement by preparing the unit for a full spinoff and IPO.



Should Nokia develop itself as a portfolio company, or should it focus its activities?

EXHIBIT 6 | Nokia's Market Capitalization Fell Dramatically as the Market for Mobile Phones Shifted



Source: S&P Capital IQ.

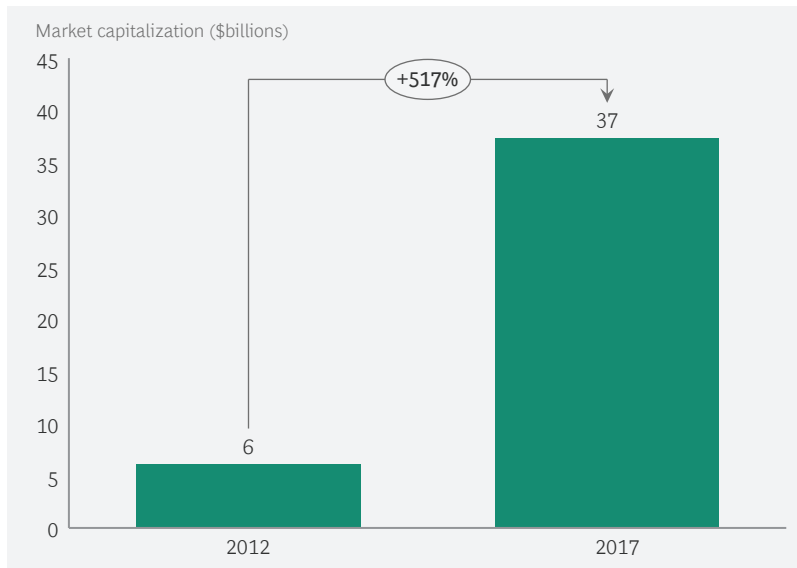
But in 2013, sensing opportunity, Nokia decided to take full control of this unit by buying out Siemens. Why? The joint venture agreement was coming to an end, and one of the parties would need to assume full ownership, with all the risks and rewards associated with it. Nokia's move proved to be a success—over the next two years, Nokia turned the networks unit into the new core of the company, creating several billions of dollars in shareholder value.

The full extent of Nokia's grand plan for the network infrastructure business was revealed in 2015, when Nokia announced its intent to acquire Alcatel-Lucent. With this industry-shaping \$16.6 billion acquisition, Nokia expanded from a mobile-network provider to a full-service network infrastructure provider (including such services as IP routing and optical networks), and it strengthened its presence in North America. During the same year, Nokia further sharpened its focus by selling its mapping business to a group of German car companies (including Audi, BMW, and Daimler) for \$3 billion.

Despite the repositioning to a full-fledged network infrastructure provider, Nokia decided to retain its patent and technology licensing business in order to continue its legacy of innovation and reinvention. In addition to housing the majority of Nokia's patents, the unit focuses on innovating in areas such as virtual reality and digital health. Although the unit accounted for less than 5% of Nokia's revenue in 2016, it generated 22% of the operating profits and, according to analysts, accounts for an even higher share of the company's valuation.

To illustrate how drastically Nokia has changed in this journey, one can look at Nokia's workforce: from the start of the turnaround through early 2017, the company turned over 99% of the employee base, 80% of the board, and all but one member of the executive team. Chair of the board Risto Siilasmaa, who took over in May 2012, at the height of

EXHIBIT 7 | Since the Turnaround, Nokia's Market Cap Has Grown More Than 500%



Source: S&P Capital IQ.

Nokia's troubles, described the journey as follows: "It has been a complete removal of engines, the cabin, and the wings of an airplane and reassembling the airplane to look very different."

Rajeev Suri, a long-time Nokia Networks employee who took over as president and CEO in mid-2014 to execute the strategic plan of the newly formed Nokia, described the effort to analysts: "We launched a new strategy, made all of the key product transition decisions and aligned those with customers, fostered the common culture, and more. All of which underlines the point that when you know which direction you should be heading, you can move faster and more effectively, and we have done that."

Nokia transformed itself from a nearly bankrupt mobile-device manufacturer to one of the world's leading network infrastructure and technology players. Its market capitalization in July 2017 had increased more than 500% since the low point in July 2012. (See Exhibit 7.) This transformation—from walking dead to thriving in a new core business—is unlikely to be Nokia's last. But this success shows that the company is able to navigate massive disruptions, reorient itself, and come back even stronger. Today, Nokia is again the pride of Finland and the most valuable company in the country. It is well positioned for the next chapter in its long history.

UPM-KYMMENE

Evolving Beyond Declining Product Categories

WHAT DO YOU DO when you dominate a declining market? If you're Finnish forest conglomerate UPM-Kymmene, you launch a transformation program to diversify your business and boost profits. About half of UPM's revenue used to come from graphic paper. Yet demand has been steadily falling, especially for the magazine paper and newsprint that once made up the largest share of UPM's sales.

Several forces have been behind the decline. Readers are increasingly consuming information digitally. And in the wake of the financial crisis, companies have scaled back their marketing budgets for print campaigns. Environmental concerns have been a factor as well, as consumers in many developed markets seek to limit their use of paper. From 2006 through 2012, demand in Europe and North America declined by an average of 5% each year. Worse, excess capacity across the entire paper industry pushed down prices. As a result, UPM's paper businesses were facing pressure.

To improve performance, the company focused on both shifting to growth segments and increasing efficiency through numerous cost programs. From 2006 through 2009, the company closed about 14% of its paper production capacity. It bought a competing paper company and further consolidated those assets, leading to about \$240 million in annual cost synergies. In 2013, it launched another round of cost reductions, closing several more paper facilities, reducing head count, and selling some forest property.

UPM then restructured its organization into six businesses: paper in Europe and North America, specialty paper (still a growth market), plywood, pressure-sensitive labels, biorefining (including pulp, timber, and biofuels), and energy. In addi-



The company focused on shifting to growth segments and increasing efficiency.

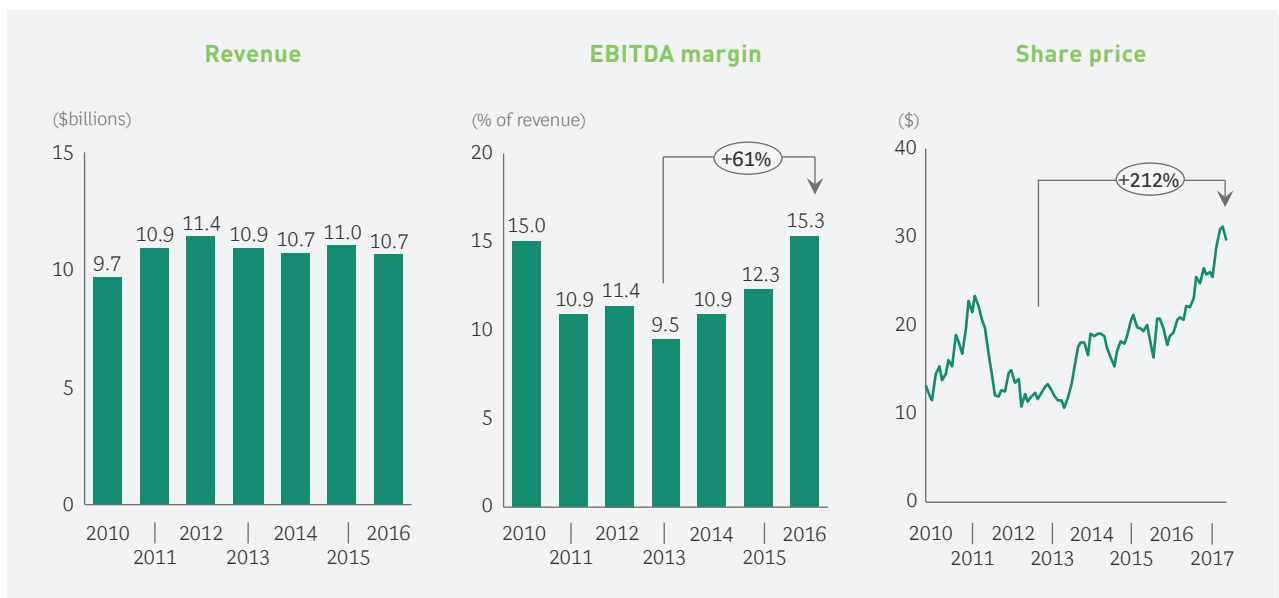
tion, it shifted resources away from mature businesses and markets toward faster-growth businesses. Specifically, UPM invested about \$730 million in a set of growth-oriented projects. These included a new specialty paper plant in China and a biofuels facility in Finland, the world's first refinery capable of producing a wood-based renewable diesel fuel.

As a result of the portfolio transformation and restructuring, the portion of revenue from declining paper markets has declined from about 70% in 2006 to below 50% in 2016, and the company is continuing to re-shape its portfolio. To ensure it can lead these markets, UPM has made a big push for innovation, increasing the number of annual patent applications by 280% since 2008. And management has pushed more decision-making authority down to the business units, allowing them to set and execute their own strategy. As a result, the units are more nimble and better able to capitalize on fast-moving opportunities.

Most impressive, UPM focused on developing its employees and organizing for sustained performance throughout the turnaround, through measures such as a new performance management system, a commitment to leadership by people in individual markets, and an improved safety culture. From 2008 through 2016, employee engagement increased by 20 percentage points, even as productivity soared (sales per employee are up 34% over the same period, and time lost because of accidents declined 83%).

Sustainability measures are in place as well: all wood is sustainably sourced (forest owners now use digital apps to better manage UPM's properties), wastewater is down significantly, and the company has been named on several prestigious lists and indices for sustainability.

EXHIBIT 8 | UPM-Kymmene Stabilized Revenue While Improving Margins and Share Price



Sources: S&P Capital IQ; Thomson Reuters.
 Note: Based on exchange rate as of December 31, 2016.

The transformation has dramatically improved UPM's financial performance. Despite scaling back from its former core business, the company has maintained consistent revenue, even as its profit margins and share price have soared. (See Exhibit 8.)

UPM's story shows what's possible when management accurately recognizes structural challenges in its industry and launches a bold transformation to address them. By remaking its portfolio, the company has pivoted away from a declining industry and invested in high-growth adjacencies, rewarding shareholders along the way.

GROUPE PSA

Revamping the Product Lineup

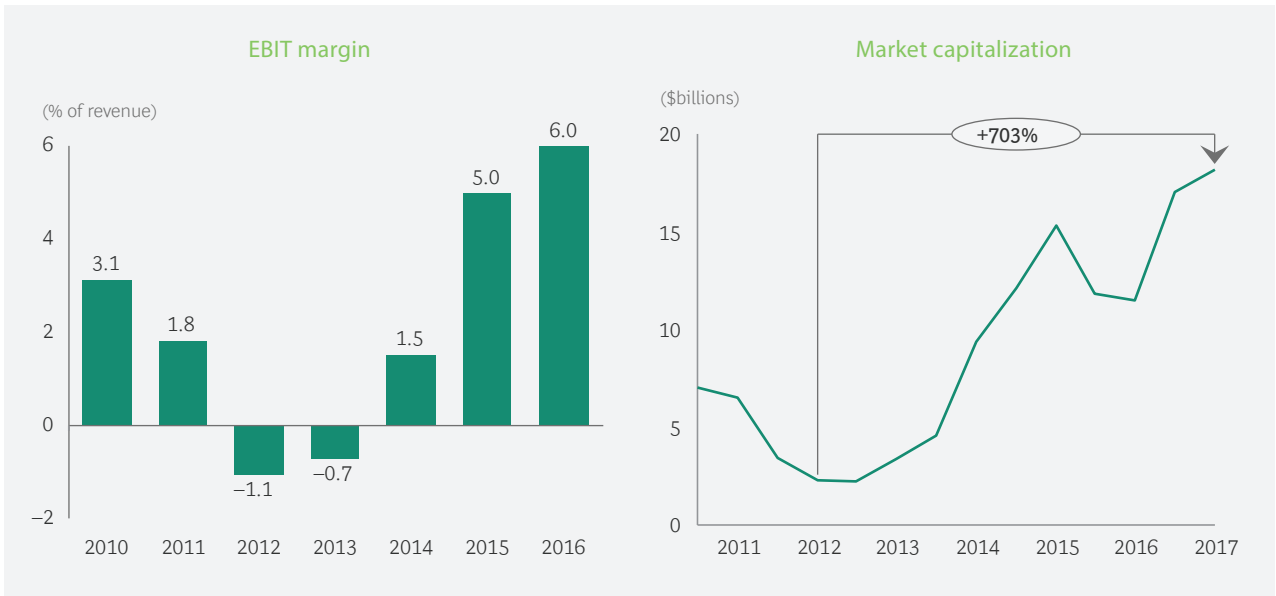
GROUPE PSA, THE PARENT company of Peugeot, Citroën, Opel, Vauxhall Motors, and DS Automobiles, was languishing after the financial crisis in a weak automotive market in Europe. Overall, car sales in the region plunged in 2012 and lagged into 2013 as well, yet Groupe PSA was heavily dependent on that market, which accounted for more than two-thirds of its sales. The company had internal challenges as well. It had too many models (23 in its Peugeot brand and 22 in Citroën), which weren't differentiated enough and cannibalized demand from one another. Pricing was lower on average than other manufacturers', yet labor costs were higher.

After losing \$5.4 billion in 2012 and \$2.5 billion in 2013, Groupe PSA struck a deal to sell 14% of the company to Chinese competitor Dongfeng and another 14% to the French government, for \$870 million each. With that capital, the company launched a turnaround program in 2014—called Back in the Race—with several main objectives.

First, the company sought to differentiate its brands in the eyes of car buyers in order to regain pricing power. Citroën was positioned as a value brand, Peugeot as more of a mid-market brand, and DS as the company's premium brand. With a clearer market position and stricter rules regarding discounts, the company was able to increase prices by 3 to 10 percentage points.

Next, the company thinned out its portfolio of models from 45 down to a projected 26 by 2022. That reduced manufacturing complexity, leading to significant cost savings. Selling some assets and modernizing some manufacturing facilities increased efficiency and yielded a further \$2.5 billion in savings. Capacity utilization at plants is up to 98%, capital efficiency has increased, and labor costs (as a percentage of revenue) are down. The overall breakeven point for Groupe PSA dropped from 2.6 million cars in 2013 to 1.6 million in 2015. As the company began to generate excess capital, it invested in higher-growth markets, such as Asia (through its partnership with Dongfeng) and Latin America.

EXHIBIT 9 | Groupe PSA's Turnaround Dramatically Improved Its Profit Margins and Market Capitalization



Source: S&P Capital IQ.
Note: Based on exchange rate as of December 31, 2016.

In 2016, the company launched a second, digitally oriented transformation, called Push to Pass. On the customer-facing side, each brand now has a mobile app that sends information to drivers such as maintenance alerts, fuel consumption, and other data. Groupe PSA also digitized the car-buying process—customers can now complete the entire transaction online, in about 30 minutes, without visiting a dealership.

The Push to Pass program also had an internal component, in which the company used technology to better connect employees, through a social network and e-learning models. More important, the company has linked global R&D functions through a cloud-based program that allows designers to share development data and applications. The program now has 5,100 users in four continents.

Overall, the combination of higher prices and lower costs has led to an increase in gross margins of 35% since 2013. Over that same period, Groupe PSA has rebounded from losing money to an EBIT margin of 6%, in line with competitors such as General Motors and ahead of Hyundai and Kia. Perhaps most impressive, the company’s market cap has increased more than 700%. (See Exhibit 9.)

By reshaping the portfolio in favor of fewer models and more differentiated brands, improving operations, reducing costs, and doubling down on digital, Groupe PSA has gotten back in the race, resuming its position as one of the top-performing automakers in the world.

OLYMPUS

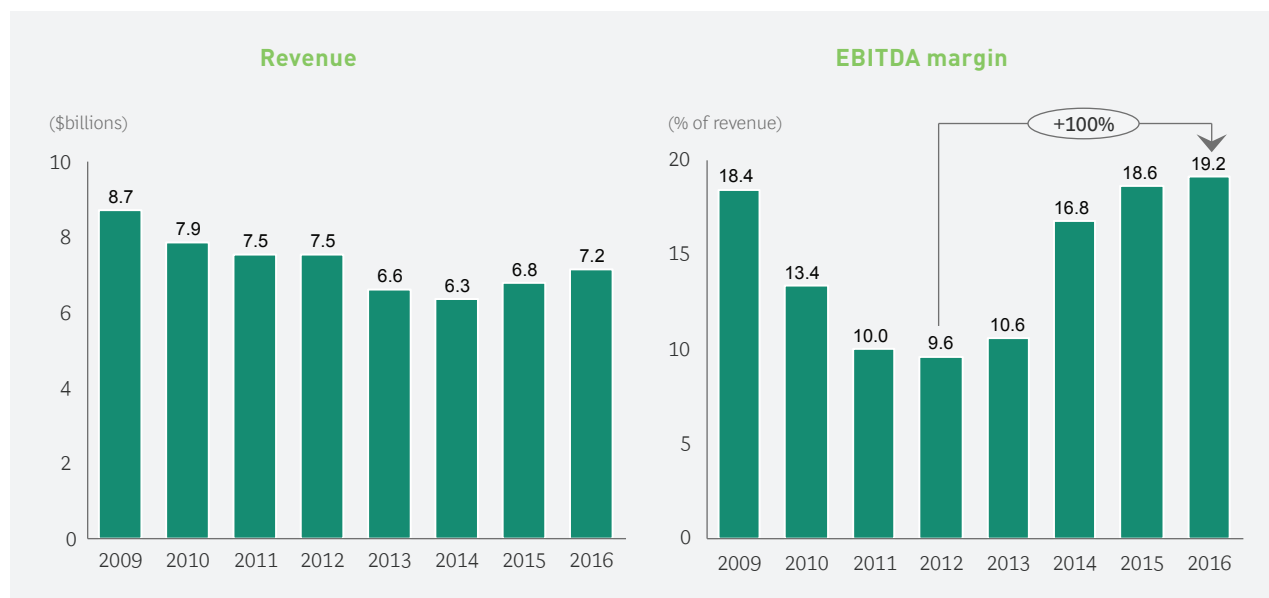
Refocusing on Core Strengths

IN 2012, OLYMPUS WAS at one of the lowest points in its history. The company's imaging unit in particular suffered from the introduction of smartphones, which dramatically cut camera sales. Olympus's medical unit also saw a drop in profits as a result of government constraints on health care spending. Revenue and profits for the company overall had been flat or falling since 2008.

To respond, the company's leadership team launched a turnaround with four main objectives:

- **Streamline the business portfolio.** Olympus restructured around three product segments: cameras and audio, medical, and industrial and life sciences solutions. (This entailed selling off noncore assets, such as the company's information and communication business.) Olympus also reoriented the cameras and audio business away from low-cost consumer cameras toward more expensive, higher-margin models. It invested in R&D to build up its medical business and improve its performance in markets where it was already strong, such as gastrointestinal endoscopy (where Olympus has a 70% share). To reinforce that position and expand into new markets, the company built four training facilities in China and other Asian countries, which help physicians improve their endoscopy skills.
- **Cut costs.** Olympus consolidated production facilities (closing nine plants in Asia and North America), restructured its procurement function, and reduced head count by about 4,500. By reducing the cost of goods sold, the company was able to steadily increase both gross and operating margins.
- **Restore financial health.** Management set ambitious financial targets: operating margins and return on invested capital of at least 10%, and free cash flow of about \$650 million. By 2017, the company had hit its goal for operating margins, and it would have exceeded the free cash flow target except for a one-time charge.

EXHIBIT 10 | Olympus's Turnaround Has Led to a Dramatic Increase in Profit Margins



Source: S&P Capital IQ.

Note: Based on exchange rate as of December 31, 2016.

- Build up the governance structure.** Last, Olympus strengthened its compliance system and sought to create a culture where people could discuss concerns more openly. “Devoted to once again realizing a strong Olympus,” said president and representative director Hiroyuki Sasa, “we proceeded to restructure corporate governance systems and achieve substantial improvements in our financial health.”

The operational focus has paid off in dramatic fashion. From 2012, when the turnaround started, to 2016, the share of revenue from the medical imaging business grew from 56% to 76%, and that division now represents nearly all of the company’s operating profit. It is the main growth engine for the company, and it has the resources and managerial attention to thrive. Overall, Olympus is roughly the same size in terms of revenue, but it is far more profitable, with a 100% increase in EBITDA margins. (See Exhibit 10.) Since 2012, the company’s market cap has increased 12-fold, to nearly \$13 billion.

By focusing on its strengths, aggressively reducing costs, setting clear financial objectives, and putting the right governance and culture in place, Olympus has emerged from its turnaround program stronger than ever.

AJINOMOTO

Diversifying into New Markets

IN THE EARLY 2010s, the Japanese food, chemical, and pharmaceutical manufacturer Ajinomoto was plagued by challenges in several of its major businesses. Bulk products (including sweeteners, seasonings such as MSG for processed food manufacturers, and amino acids used in animal nutrition) all suffered from intense price competition. Other players added production capacity, pushing prices down even further. Similarly, Ajinomoto's pharmaceutical business saw revenue decline by 62% from 2009 to 2013, owing to a dearth of new products in the pipeline, competing products, and pricing pressure from the government's national health system. All of these issues were exacerbated by a weak overall economy in Japan and rising raw material costs.

In 2014, management launched a turnaround aimed at shifting the portfolio away from commodity bulk goods in favor of specialty products in bioscience and chemicals—a move that would allow Ajinomoto to retain pricing power. The company also planned to expand into higher-growth markets across Asia, Africa, and the Americas, and into adjacent channels such as retail and restaurants.

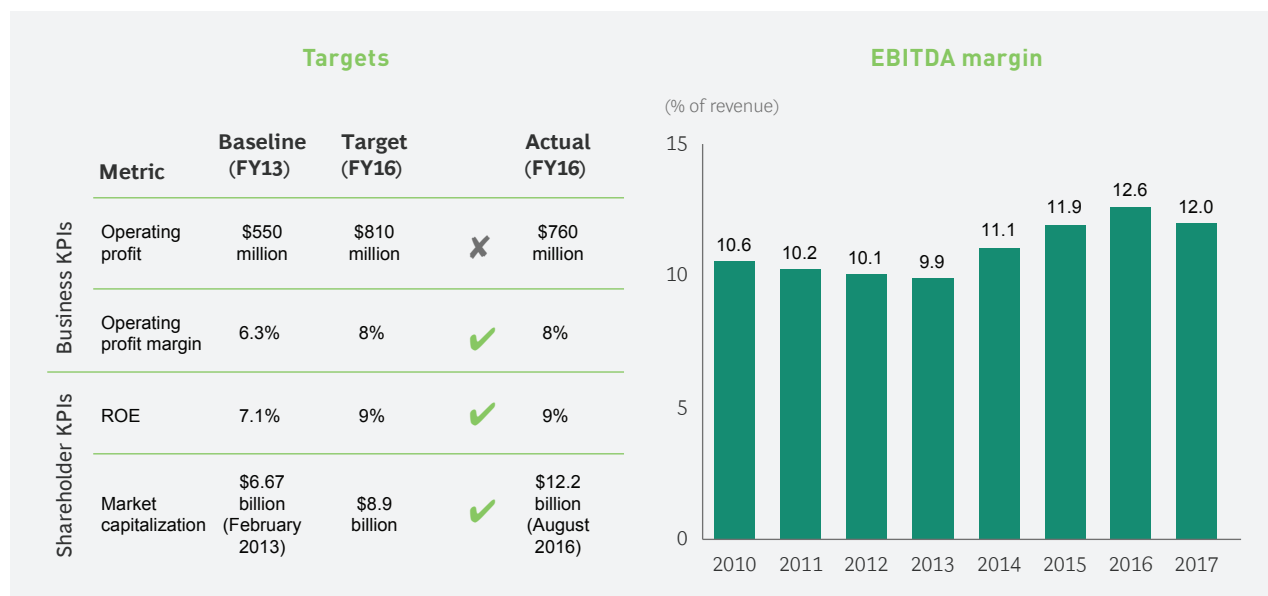
To develop more innovative solutions for customers, the company shifted resources to its R&D function. It also renewed its focus on the core B2B food ingredient business, which is expected to deliver significant revenue growth through 2020. As food service companies require more integrated solutions—rather than basic ingredients—Ajinomoto has positioned itself for success. In addition, Ajinomoto identified some opportunities in the nutrition business, and it expanded beyond food industries with several health care products, which are used in areas such as regenerative medicine.

The company sold some of its bulk business units and expanded into the markets it identified as its Five Stars: Thailand, Vietnam, the Philippines, Indonesia, and Brazil. Ajinomoto also invested in processed food companies in the US and Africa,



Ajinomoto has expanded beyond food ingredients.

EXHIBIT 11 | Ajinomoto's Turnaround Has Made the Company More Profitable and Valuable



Sources: Company financials; S&P Capital IQ.
Note: Based on exchange rate as of December 31, 2016.

giving it a base for expansion. The acquisitions will continue. “Over the next three years, we are going to pour over 150 billion yen [nearly \$1.4 billion] into M&A,” said president and CEO Takaaki Nishii in early 2017.

Since 2011, domestic food sales have contracted, and international food sales have risen sharply. In all, the company is on track to scale back the percentage of revenue from bulk products across multiple product lines through 2020. And for the bulk products that remain, Ajinomoto is using technology to cut production costs, reducing the raw materials and energy required for some of its processes.

To organize for sustained performance, Ajinomoto supported its global expansion by delegating more authority to local management teams, freeing them to make faster and better decisions based on the needs of their markets. Nearly half of all international operations are now run by executives hired in those markets.

The turnaround has led to a sharp improvement in financial performance. Management set a goal of increasing operating profit from \$550 million in 2013 to \$810 million in 2016 and fell just short (with profits of \$760 million). But the company hit all of its other goals: an operating profit margin of 8%, return on equity of 9%, and a market cap of \$8.9 billion (the actual figure was \$12.2 billion). Moreover, EBITDA margins have climbed steadily. (See Exhibit 11.)

The company aims to be a top-ten global food company by 2020 with profits of \$1.3 billion. The journey will not be easy, especially with increasing volatility in many markets. That said, Ajinomoto has armed itself through this turnaround with the discipline of greater emphasis on innovation, value-added products, and higher-growth markets and channels.

LANXESS

Forging Strategic Partnerships

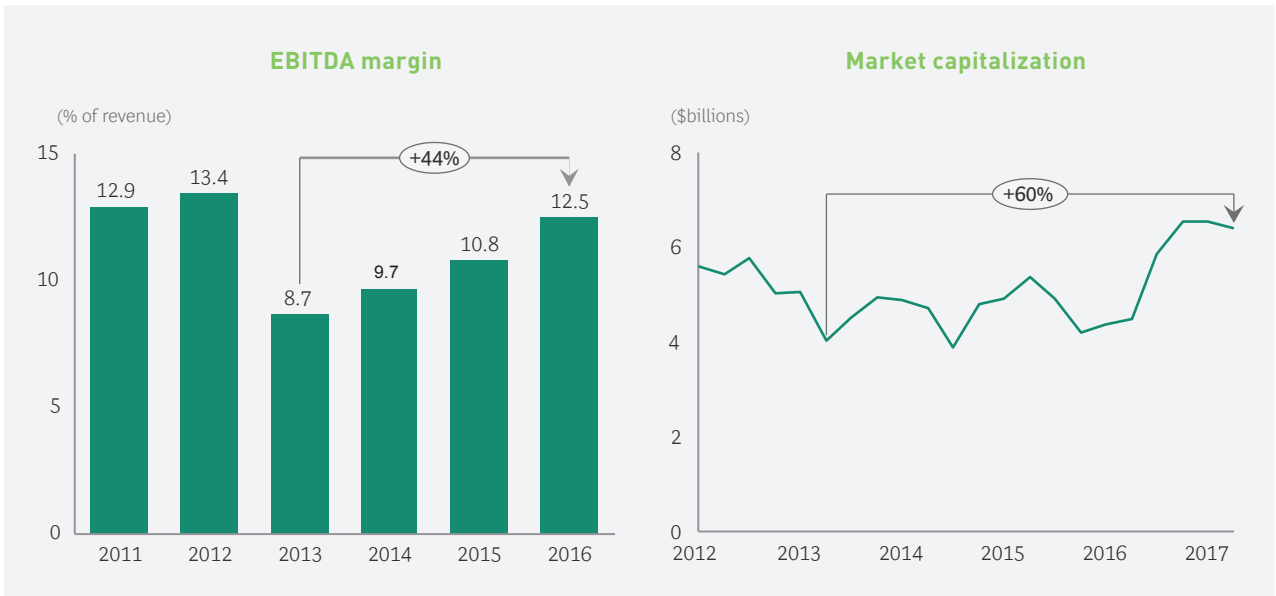
LANXESS, A SPECIALTY PETROCHEMICAL company based in Germany, produces polymers such as the synthetic rubbers used in car tires and industrial applications, and plastic additives, industrial chemicals, and related products. Lanxess has seen dramatic shifts in the market for oil—the feedstock of petrochemical products—over the past decade. Low oil prices have increased competition, especially for players close to oil sources. For example, cheap shale oil in the US has given chemical companies there an advantage. And some customers in markets like the Middle East and China have built their own chemical production facilities. Rather than buying from Lanxess, they are now competing against it, often with the benefit of government ownership, which eliminates the pressure from shareholders to turn a profit.

Relative to competitors in other markets, Lanxess has high logistics and transportation costs for its feedstock, along with high labor and energy costs. (Companies in Germany paid 22% more for electricity in 2013 than the average in the European Union.) Increased production capacity—including some investments in capacity from Lanxess itself—led to lower prices for specialty chemicals, particularly in segments like rubber. The combination of higher source costs and lower prices led to a 40% drop in EBITDA from 2012 to 2013.

In the spring of 2014, Lanxess launched a three-stage turnaround, called Let's Lanxess Again, to make the company more competitive. To fund the journey, the company simplified the organizational structure, reducing the number of business units from 14 to 10 and eliminating overlap in customers and regional markets. Management also consolidated administrative functions and reduced the size of the workforce by about 1,000 employees. Those measures led to annual savings of about \$160 million.

To win in the medium term, Lanxess adjusted its production capacity, particularly in the synthetic rubber category. It shuttered plants (temporarily in some cases, permanently in others), sold some facilities, and improved operational processes at the remaining sites. To align capaci-

EXHIBIT 12 | Lanxess's Turnaround Has Led to Strong Gains in Margins and Market Capitalization



Sources: S&P Capital IQ; Thomson Reuters.
 Note: Based on exchange rate as of December 31, 2016.

ty with demand, the company improved its sales, distribution, and supply chain functions through automated order processing. That gave management better visibility into demand and a more efficient value chain. Finally, the company restructured the organization for sustained performance through a series of acquisitions and partnerships. It bought Chemtura, a US-based company, for about \$2.1 billion, reinforcing Lanxess's North American footprint and helping it diversify away from synthetic rubber into more-promising product segments: flame retardants and lubricating additives. Lanxess also bought a division of Chemours, another US player, which should ultimately deliver more than \$30 million in annual profits by 2020, once synergies are fully realized.

Most important, Lanxess forged a 50-50 joint venture with Saudi Aramco, the world's largest oil and petrochemical group, on a synthetic rubber operation. Lanxess contributes manufacturing expertise, and Saudi Aramco ensures access to feedstock at competitive prices. (Along with energy, feedstock accounts for about 75% of the total production costs of synthetic rubber.) In addition, Lanxess received \$1.2 billion in cash, part of which it used to pay down debt and fuel new growth initiatives. As of 2016, the joint venture made up about 35% of Lanxess's revenue.

Since 2013, revenue has stabilized, and EBITDA margins have increased more than 40%. (See Exhibit 12.) Both metrics should continue to improve over the next several years, as the company continues to integrate its recent acquisitions.

Despite a turbulent oil market—and greater complexity for specialty chemicals players—the turnaround has left Lanxess with a market-leading position in many of its segments, setting it up for profitable growth regardless of what happens with energy prices.

QANTAS

Improving Operations and Investing in Digital

OVER THE PAST 15 years, Australian airline Qantas faced major structural challenges. Low-cost carriers had expanded into its home market, including Tiger Airways and Virgin Australia (for domestic routes) and AirAsia X and Scoot (for international routes). To fight back, Qantas launched its own low-cost carrier, Jetstar. Five years later, Virgin Australia changed its strategy to move upmarket and target higher-yielding business travelers, which was Qantas's core market. To defend its turf, Qantas launched scores of new routes and lowered fares. Around the same time, a rise in the Australian dollar attracted many international competitors, leading to double-digit capacity increases into and out of Australia. On top of the fierce domestic and international competition, increasing fuel prices culminated in the company's first billion-dollar loss, in 2013.

In response, the company launched a bold turnaround effort, aimed at reducing costs by \$2.1 billion and increasing revenue by 2017. Qantas shrank its workforce by about 15%. It also simplified its fleet by retiring some older aircraft ahead of schedule. In parallel, it simplified maintenance procedures, consolidated maintenance centers, and reduced operational costs in every department.

The company pivoted to winning in the medium term by shifting some routes away from slower-growth and low-margin markets such as Europe, where competition is fierce, to higher-growth markets in Asia. Qantas now has direct flights from Australia to 9 of the top 11 Asian corporate destinations. Qantas also signed a partnership agreement with Emirates, the UAE-based carrier, coordinating schedules for many flights and allowing passengers to access more than 40 destinations in Europe, North Africa, and the Middle East and share benefits such as rewards points and airport lounge access on either airline. This "gateway" strategy was also expanded to include direct flights to Dallas, American Airlines' main hub, as well as partnerships with China Eastern and a smaller partnership with China Southern. The new approach to network development increased Qantas's fleet utilization and allowed the company to

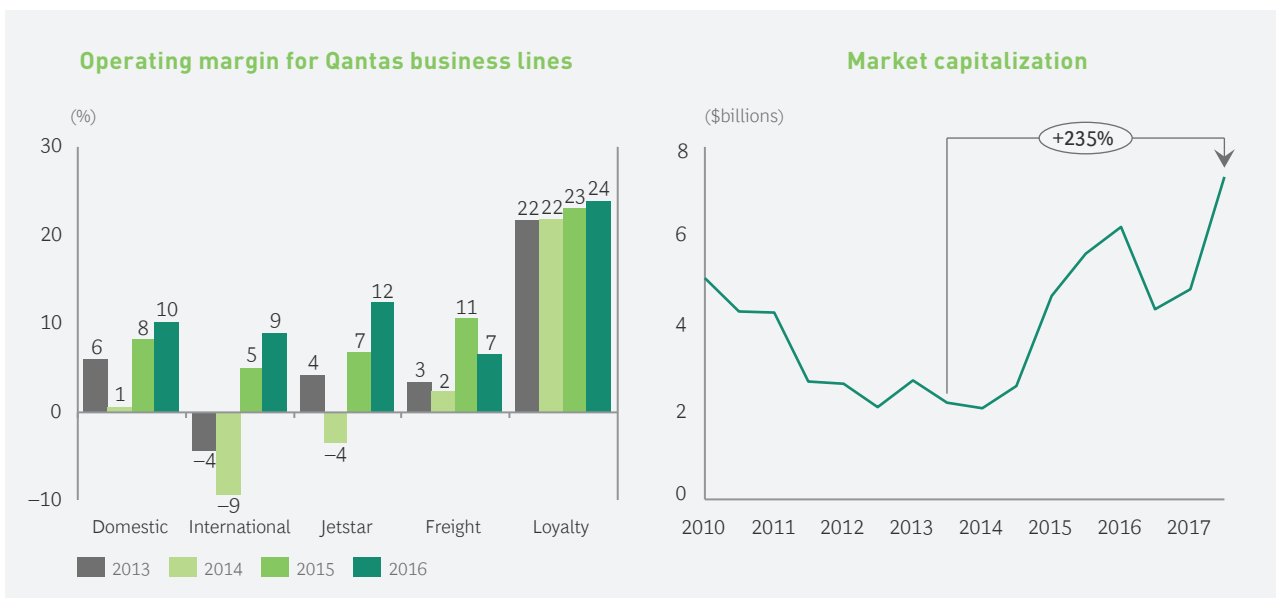
generate more revenue from the same asset base. More recently, Qantas ordered eight Boeing 787 Dreamliners, a lighter and more efficient aircraft that will help replace the carrier’s aging fleet of 747s.

The company also invested in digital technology to improve the customer experience. Unlike many carriers—which now charge even for basic services—Qantas began offering fast, free Wi-Fi service on its flights. An innovative permanent baggage tag speeds the baggage check process at domestic airports. (The tags are linked to customers’ profiles and booked tickets, so people can simply drop their bag at a central hub.)

Another key measure was Qantas’s loyalty business, which has developed into the country’s leading affinity program. Corporate partners such as banks, retailers, and telecom companies purchase airline points to reward their own customers. The program lets Qantas book revenue years in advance of when people actually redeem their points, and it generates anonymized customer data that both the airline and corporate partners can use to improve marketing. Thanks to additional investments in a set of breakout ventures—including a travel money card and health insurance—the loyalty program has continued its strong profit growth trajectory while maintaining healthy margins (24% in 2016); profits are forecast to continue growing by 7% to 10% through 2022.

These measures to improve the customer experience dramatically boosted customer advocacy among Qantas passengers. The airline was recently voted the best business airline for domestic travel by TripAdvisor and several other travel sites, far ahead of Virgin Australia. Another survey found that it was the most trusted large company in Australia, and one that 96% of Australians cited as iconic for the country.

EXHIBIT 13 | Qantas Has Significantly Improved Its Operating Margin and Market Capitalization Since 2014



Source: S&P Capital IQ.
 Note: Based on exchange rate as of December 31, 2016.



All five major business lines have improved their profitability. Investors have noticed.

Since the transformation program launched in 2013, profits are up fivefold and margins have increased by 50%. All five of the company's major business lines—domestic, international, Jetstar, freight, and the loyalty business—have shown improved profitability. Investors have noticed, leading to an increase in market cap of 235%. (See Exhibit 13.) Qantas CEO Alan Joyce described the company's financial performance in 2015 as "the best results in the national carrier's 95-year history... And without trans-

formation, the profit result would not have been possible."

In all, the company's turnaround successfully reduced costs, streamlined the operational fleet, improved asset utilization, capitalized on data, improved the customer experience, and—most important—put one of Australia's iconic brands back on a sustainably profitable flight path.

ACCIONA

Resetting After a Disruption

ACCIONA, A SPANISH COMPANY that develops and services infrastructure projects, specializes in renewable energy (primarily wind and solar power). Like most countries, Spain has incentives that encourage the adoption of sustainable energy, but in 2013, the government announced some major changes to the regulations, including substantial cuts to renewable energy subsidies. Those changes led to a massive financial hit for Acciona: almost \$300 million in EBITDA in 2012. Shares fell nearly 9% in response. Moreover, many of Acciona's projects—such as water and energy infrastructure—require public-sector funding. European government spending on large infrastructure projects had contracted over the same period because of a slow recovery from the financial crisis, further complicating the company's situation.

To overcome such challenging conditions, the company—led by president José Manuel Entrecanales—launched a turnaround in 2013 with three main objectives: mitigate the effect of regulatory changes regarding renewable energy projects in Spain; reduce the amount of bank debt on the books; and transform the business model to position Acciona as a developer of projects, rather than a long-term owner.

To fund the journey, the company took several steps. In 2014, it canceled the interim dividend to shareholders (something that had never happened in Acciona's history). Management also scaled back capex spending to only those projects where it was committed to move forward. From 2012 to 2015, capex declined by 73%. The company launched several cost reduction initiatives, including steps to reduce energy costs by nearly \$90 million in 2013 and 2014. Those measures alone were enough for the windpower unit to return to profitability in 2014.

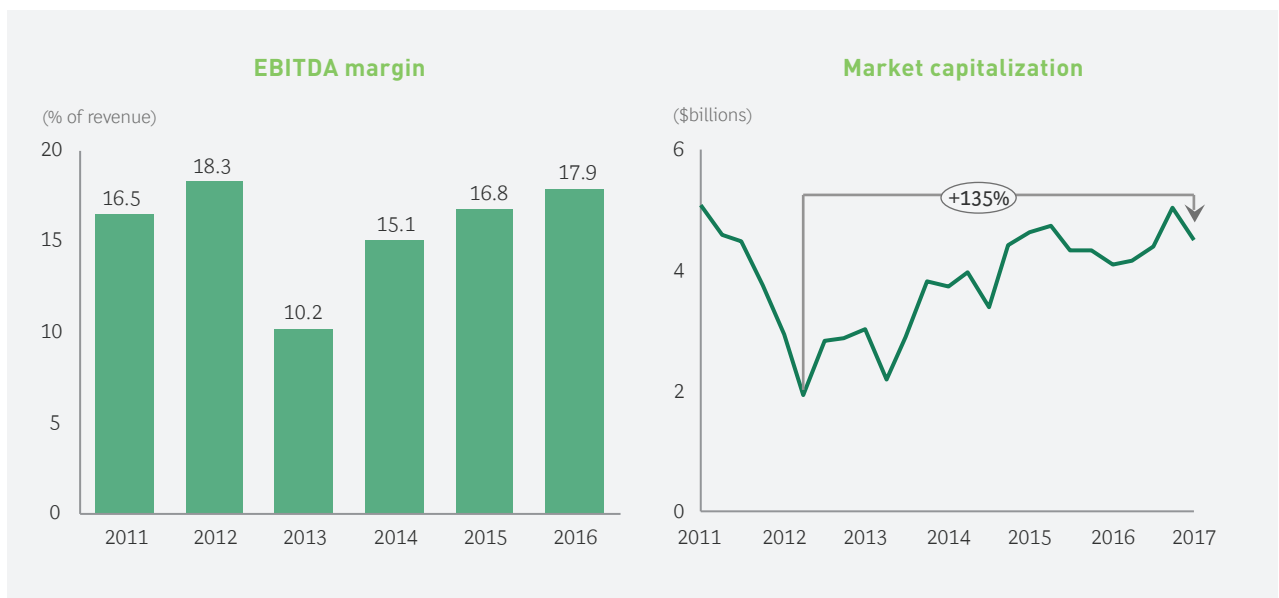
Apart from focusing the company's spending, Acciona looked to raise additional capital, forming a strategic alliance with private equity firm KKR in 2014. KKR paid roughly \$431 million for a third of Acciona's renewable energy business, primarily operations outside Spain. That gave the company the capital it needed in order to grow.

Acciona then restructured into three business lines: energy (including wind and solar), infrastructure (including construction, water, industrial, and services), and other activities. Consolidating the infrastructure unit gave the company a coherent set of offerings for clients and a more efficient internal structure, generating scale advantages. For example, it could bundle all procurement for the unit, leading to cost synergies.

As part of the restructuring, the company diversified away from its reliance on the domestic market, instead identifying five strategic countries where it could grow: Mexico, India, the US, Australia, and Chile. Once it had reduced its debt, the company scaled up capex spending, from \$141 million in 2015 to \$531 million in 2016, primarily in energy investments in India, Chile, and the US. The company also sold off more than \$1 billion in assets that were not relevant to the three business lines, reducing its debt load. In 2013, it sold holdings in Germany and Korea—two markets where the company did not have a big enough presence to dominate.

Last, because the renewables segment depends so heavily on innovation, Acciona invested some of the freed-up capital in R&D (3% of revenue in 2016). That has led to groundbreaking research in areas such as a battery storage plant for wind energy, capable of holding 1.7 megawatts of energy, which can be released back to the power grid when needed. The company is also continuing to improve production processes in order to reduce costs and increase their lifespan. And it tailors some innovation to the needs of clients. For example, it developed a lighthouse for the port of Valencia that was made entirely from composite materials, which reduce construction time and emissions from manufacturing, and resist corrosion, reducing subsequent maintenance. (The beacon is powered by solar and wind energy.)

EXHIBIT 14 | Acciona’s Turnaround Has Boosted Profit Margins and Market Capitalization



Source: S&P Capital IQ.

Note: Annual figures for fiscal years ending in March. Based on exchange rate as of December 31, 2016.

Overall, the turnaround led to a sharp improvement in financial performance. Debt as a percentage of EBITDA fell by about one-fourth from 2013 to 2016. EBITDA margins have rebounded to their levels before the regulatory changes in Spain. And the company's market cap has more than doubled since 2012. (See Exhibit 14.)

Acciona was hit with the kind of market disruption that can put a company out of business. However, by aggressively reducing its debt, cutting costs, tapping into new sources of financing, realigning its portfolio to higher-growth markets, and investing in innovation, Acciona's management team has created a bright and sustainable future for the company.

FOR FURTHER READING

The Boston Consulting Group has published other articles and reports on the topic of transformation and turnarounds. Examples include the following.

Desperate Times Call for Effective Turnarounds

An article by The Boston Consulting Group, November 2016

Transformation: Delivering and Sustaining Breakthrough Performance

An e-book by The Boston Consulting Group, November 2016

A Leader's Guide to "Always-On" Transformation

A Focus by The Boston Consulting Group, November 2015

The New CEO's Guide to Transformation

A Focus by The Boston Consulting Group, May 2015

Transformation: The Imperative to Change

A report by The Boston Consulting Group, November 2014

NOTE TO THE READER

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