



ENERGY SOLUTIONS

Making the Difference: Strong, Decisive Leadership

Featured Case Study

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The Situation In October 2010, three years after going public, *EnergySolutions* (ES) was experiencing shrinking revenues, cash flow problems, and a rapidly declining stock price. The initial public offering, November 2007, was \$23.01 a share; by October 2010 shares were valued at \$5.06, and dropping. Adding to the financial concerns were potential penalties for not meeting nuclear regulatory requirements. The investors had growing concerns that profits were not in line with expectations and were thus increasing their influence on the Board of Directors.

In the spring of 2011 Synergetics was introduced to the company's CEO and CFO through an existing relationship with a member of the Board representing Value Act Capital. At that time a decision was made to conduct a business assessment of the Government and Commercial Groups in the United States.

The Initial Engagement Working with ES management and operations teams, Synergetics developed a value stream map of the overall company processes. The initial analysis identified strong resistance to the change process, as well as a failed internal attempt to shift the organization from a collection of acquired businesses to a unified company.

In July 2011, the team began an extended analysis of the overall business. This process included deep dives into project management, revenue leakage, organizational design, logistics, asset management, and procurement. The analysis period spanned six months and was interjected with the implementation of a quick hit initiative focused on a reduction in force. The initial schedule for the work was to

EnergySolutions is an international nuclear services company headquartered in Salt Lake City, with operations across the United States, Canada, the United Kingdom, and other countries around the world. Employing more than 5,000 professionals world-wide, *EnergySolutions* is a global leader in the safe recycling, processing, and disposal of nuclear material. They provide integrated services and solutions to the nuclear industry and to the United States and United Kingdom Governments, as well as to various private medical and research facilities.

EnergySolutions offers a full range of services for the decommissioning and remediation of nuclear sites and facilities, management of spent nuclear fuel, the transportation of nuclear material, and the environmental clean-up of nuclear legacy sites. They are committed to reasserting America's leadership in the global nuclear industry and helping the US, the UK, and other countries achieve energy security in a way that reduces carbon emissions and protects the environment.



"Your team of professionals has made valuable contributions and process changes to our Logistics, Procurement, Process Management, Client Services, and HR operations. They worked extremely well with our people on all levels by bringing forth new ideas and delivering on all commitments. Their contributions to our budgeting efforts and operational reports have fostered a new level of discipline.

"It has been a pleasure working with your company, and I look forward to future opportunities to work together again. Please know that I would enthusiastically recommend your services to others."

David G. Angerbauer
EVP, Chief Administrative
Officer and General Counsel



be 4 weeks. However, it took 10 weeks to get the structure in place due to governance structure shortcomings and the reluctant pace of top management decision making. Although labor costs were reduced by almost \$12M, second quarter financial reports were poor, and stock prices continued to fall. Based on the analysis findings, Synergetics attempted to assist the executive team to mobilize the organization for the new fiscal year (2012) on fourteen specific initiatives.

In an effort to continue cost takeout initiatives while waiting for the leadership team to decide how to proceed, a discrete project in procurement was started, realizing an additional \$4M in savings. With the CEO unable to establish a clear path forward, Synergetics' involvement with ES temporarily ended in March 2012.

The Leadership Change ES investor and board member David Lockwood was named CEO, following the resignations of the CEO and CFO in June 2012. Greg Wood was also brought onboard as the new CFO. With the stock price falling to an all-time low of \$1.62, Lockwood had only a short time to turn the business around or risk not having sufficient operating cash, breaking bank covenants, and incurring regulatory fines. Their approach would be to reverse engineer the business. They would start by identifying the appropriate earnings before interest, taxes, depreciation, and amortization (EBITDA) margin that would drive the desired value. Concurrently, they would sell off or shut down non-performing components of the company to raise cash and value.

The Return Engagement Having seen what Synergetics had been able to accomplish, ES asked them to return, re-engage with the new executive team, and complete an assessment of the Commercial and Corporate Groups. Their directive: to find at least \$40M in excess operating expense. Synergetics completed a validation of the previous analysis, identifying primary opportunities within the Commercial Group, Logistics, Processing, and Disposal (LP&D). Restructuring to right-size the Corporate Group was also recommended. In addition to the sweeping organizational changes required, labor productivity of the LP&D groups had fallen 10% or more every year over the previous 5 years and was identified as an additional opportunity.

A P&L was then modeled to achieve the required EBITDA, followed by the development of a cost reduction plan, with outcomes assigned to each member of the management team. Members of senior leadership who were resistant to these changes were quickly moved out and replaced. This leadership shift allowed Synergetics to aggressively implement the plan over the next six months, and the objectives that had been set out were achieved.

The Results With decisive leadership supported by a strong implementation team, \$40M in annual run-rate savings was achieved by March of 2013. Half of the savings were in the LP&D operations, with overall labor productivity improved by 40%. In two facilities alone, Bear Creek, TN and Clive, UT as examples, staff reductions included 92 (from 309 to 217), and 103 (from 194 to 91), respectively. The remaining \$20M was realized through a 39% reduction in Corporate and SG&A expense.

The Impact By achieving rapid financial improvements to the P&L and balance sheets, **gross profits for fiscal year 2012 totaled \$170.7M, compared to \$79.7M for fiscal year 2011.** Net income attributable to EnergySolutions for 2012 was \$4.0M, or \$0.04 per share. This marked earnings growth compared to the previous year's net loss of \$196.2M, or \$2.21 per share. **And the EBITDA for 2012 was \$142.7M, compared to \$62.5M for 2011.**

As a result of this turnaround, EnergySolutions went forward with a structured deal to return the company to private ownership at \$4.15 per share on April 26, 2013. ES announced the closure of their merger with affiliates of Energy Capital Partners II, LLC ("Energy Capital Partners") effective May 24, 2013.

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With two office locations in the US and UK, Synergetics operates internationally and employs over 150 professionals as analysts, consultants, project managers, and subject matter experts. As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across 9 distinct industry verticals. It has built more than \$8B in bottom line profitability and improvements in overall operating efficiencies.

Synergetics has a diverse client portfolio comprised of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies. With customized service offerings and solutions, Synergetics performs detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

"We have to hit the number or we won't have a viable business... If we break some glass, we will fix it later... We can't go too deep."

David Lockwood, CEO
and
Greg Wood, CFO
EnergySolutions

For more information

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