

## **A turn around can be hard to pull off**

Today's story about JC Penney is a must-read for anyone who suffers from turn around hubris, the belief that smarter managers and a better road map can lead any company from the wilderness to glory. In the case of J.C. Penney, one of the smartest activist investors, Bill Ackmann, took a position in the company and actively recruited Ron Johnson from Apple to replace Penney's then CEO, Mike Ullman.

Johnson came in with a 3-year plan that did everything analysts said that Penney needed to do. However, this plan to rationalize prices, cut costs and turn Penney around has been grounded 17 months into the 3-year window and Ullman has returned. You can see JC Penney's financials over the last decade and its stock price over a much longer period.

More generally, though, JC Penney raises interesting questions about declining companies in markets that are inexorably turning against them. In fact, what is happening at Penney is playing at out many other retailers, squeezed by online retailers on one side (with Amazon as the giant) and discount retailers on the other.

### **General Questions**

1. When you see a company in trouble, how do you figure out whether the troubles are specific to the company and its management or caused by the macro environment and things out of its control?
2. Assuming that a significant portion of the problems are thrust upon a company, what is the best strategy for a company where there is effectively no light at the end of the tunnel?
3. Given your answer to the last question, what are the implications for the financing choices that the company should be making going forward, in terms of both the mix of debt and equity and the types of financing it should use?
4. Given your answers to the last two questions, what are the implications for cash flows to equity investors (dividends and buybacks) going forward?
5. In summary, how would you value a company that is facing a shrinking market, declining margins and pressure from investors to deliver results?

***Bottom line: If you are wondering why JC Penney had to go back to their old CEO, here is a question for you: If you were offered this job today, would you take it?***