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## A FLEXIBLE WORKOUT

HOW MICHAEL BLEYZER  
EVALUATES TURNAROUND  
OPPORTUNITIES AT  
SIGMABLEYZER

# A flexible workout

How **Michael Bleyzer** evaluates turnaround opportunities at **SigmaBleyzer**

BY BROOKE BATES

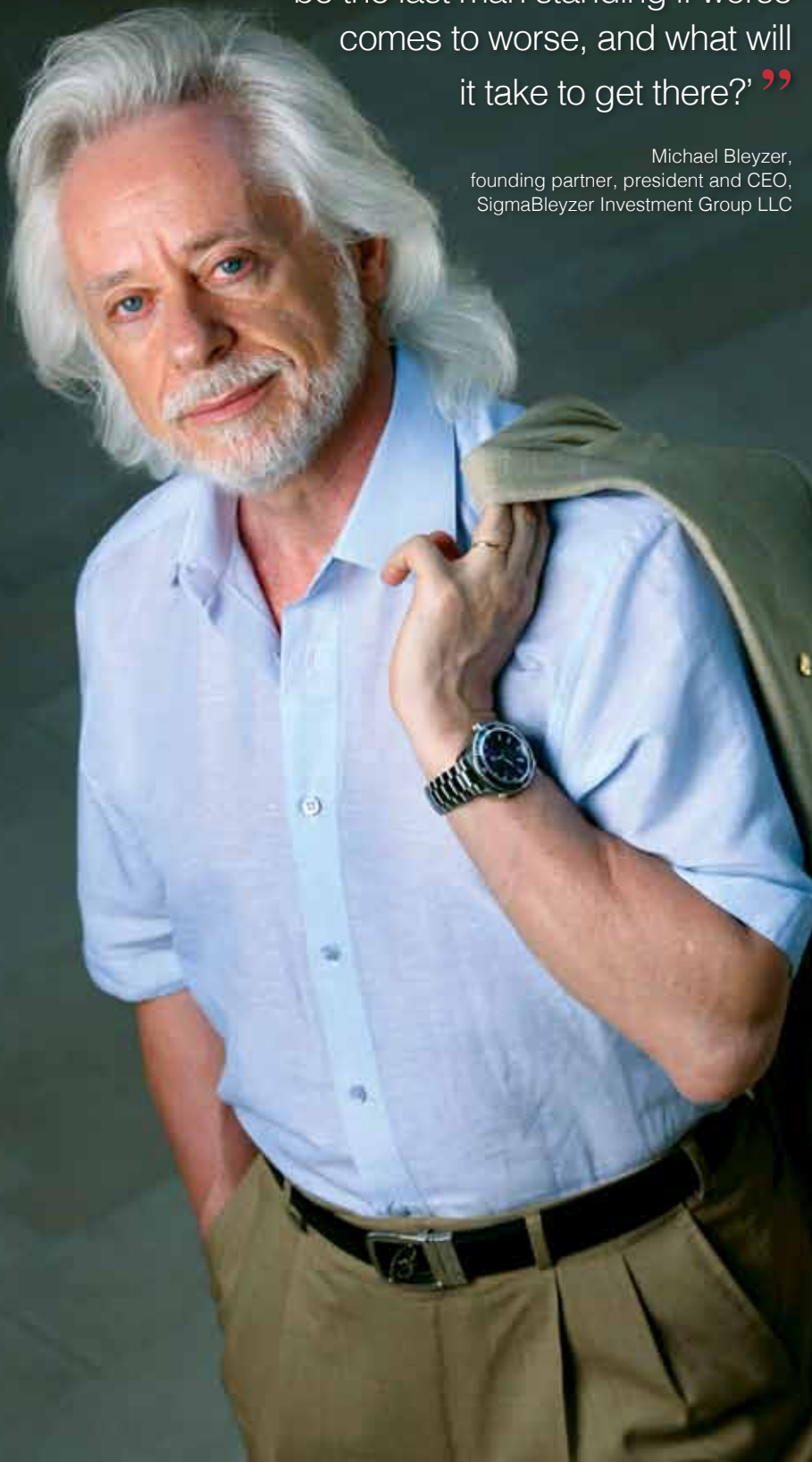
**You** could call Michael Bleyzer flexible — and we're not even talking about the gymnastics he started doing a couple years ago at age 57. ▲ Bleyzer has proven himself adaptable in business, too. After earning his master of science in digital electronics and quantum physics in what is now Ukraine, he cultivated desert land for agriculture. Then he left the former Soviet Union and relocated to Texas, where he worked at Exxon before founding a private equity firm — not quite a lateral career progression. ▲ Bleyzer learned that formal training would only take him so far, and he had to pull from his experience to find success beyond that. ▲ “Whatever you learned in school is not going to provide all the answers,” he says. “It’s not necessarily what you know; it’s how you approach it.” ▲ When he founded SigmaBleyzer Investment Group LLC in 1994, the buyout firm’s main focus was turning around distressed companies in emerging markets. Though the firm has always been based in Houston, it only recently began investing in mature markets outside of Eastern Europe.



Photography by Paul S. Howell

“No matter what business you’re in, you need to ask yourself, ‘Are you going to be the last man standing if worse comes to worse, and what will it take to get there?’”

Michael Bleyzer,  
founding partner, president and CEO,  
SigmaBleyzer Investment Group LLC



By being flexible enough to apply the same due diligence to different companies in new markets, the president and CEO has made a flowchart type of process out of his business — which is fitting, considering it’s a business built around flexibility.

“Some people call it distress, some people call it turnarounds, but it’s also known as workout,” Bleyzer says. “You work things out. That concept is applicable, in my opinion, to everything you do in life. ... You are always ready to change your ways of getting to your goal.”

Bleyzer has become an expert at guiding distressed companies down new paths toward their goals. But what stays the same is his dedicated approach to due diligence when selecting portfolio companies. Because he’s focused on what he’s looking for and thorough about inspecting opportunities, he has led SigmaBleyzer smoothly from emerging to mature markets.

“Because we succeeded early on in becoming the emerging market specialist, we’ve been typecast as such,” he says. “In my mind, we are certainly successful at executing the strategy and turning around distressed businesses — whether they’re in emerging markets or mature markets, that’s irrelevant.”

Whether you’re considering an acquisition of your own or just trying to position your company to withstand challenges, Bleyzer’s step-by-step process for evaluating opportunities can serve as a model.

### Understand the state

Some look for flourishing companies to acquire, but SigmaBleyzer seeks the opposite —distressed situations where it can inject value.

Regardless of what you’re looking for, stick to that. Avoid the temptation to be so flexible you try to tackle it all.

“Don’t be the answer to all prayers and then try to do everything at once,” Bleyzer says. “It is more important to focus on what you are actually looking for instead of just opening the door to the flood. The secret to developing good proprietary deal flow is to be very, very focused and know what you’re looking for.”

By setting your sights ahead of time, you make it easier to run opportunities through predetermined filters as they come up. SigmaBleyzer focuses on consumer technology and telecommunications sectors and limits the scope according to the company’s size, condition and potential.

“Our main focus is really on one question: What happened?” Bleyzer says. “There are many reasons why businesses become distressed: People may drive it into the ground, technology, obsolescence, market conditions, lack of available corporate finances, poor structure, poor capitalization.”

Whatever you’re looking for, you have to

dig beyond the basics to see how an opportunity lines up to your focus. Financials and executive testimony alone won't give you the whole story.

"You talk to as many people as possible," Bleyzer says. "Those people include customers, suppliers, advisers, employees. It needs to be a very broad (approach) that you try to get as many different perspectives as possible, because the CEO or even the key members of the executive team will not be ready to share with you all of their difficulties and the problems that they might have caused."

In those conversations, start general, then drill down for details.

"You start with the simple question, 'What has been your experience working in this company or supplying this company or buying from this company?'" he says. "[If] they say, 'We're extremely happy,' you say, 'Why? What makes you happy? As compared to other businesses you've worked for or other businesses you buy from or supply to, how is it better?'"

"On the other hand, if they say, 'It's been tough,' then try to dig into that specifically: 'What has been tough — they did not deliver on time, they overcharged you, they didn't price it correctly, or once they delivered, you couldn't really get them on the phone to get any service?'"

That collection of input and opinions should point to the company's issues. Those will explain the state of the company and help you decide what you can do with it.

"If the answer is that this business is no longer needed, there are some obsolescence issues or they're in a market that is no longer interested because they've been replaced by something else or the competitors are so far ahead of them and doing different things, we stop right there," Bleyzer says. "We are not interested in those businesses that basically have no future."

But if similar businesses are thriving, then this company has potential — pending a few changes. You can move to the next step of due diligence.

### Imagine the ideal

Adopting an investor's mindset when you're looking at any acquisition can be helpful.

"You're investing a dollar," Bleyzer says. "Over the next five years, can you turn this dollar into 5, 6, 7, 8, 10?"

That profit results from the risk/reward equation. At SigmaBleyzer, the reward side of that equation gets a shorter time investment.

"We spend some time, but much less time, on understanding the upside potential," Bleyzer says. "You first need to figure out [if] this is the right business — it's not obsolete, it's in the right area, there are companies of a similar footprint that are several

**Born:** Kharkiv, Ukraine. Of course, at the time, it was called Soviet Union.

**Education:** Kharkiv Institute of Radioelectronics, master of science in digital electronics and quantum physics.

### What was your first job, and what did you learn from it?

I was right out of college. The job was in a very remote part of Soviet Union in what is now an independent country called Turkmenistan in the Karakum Desert. The job was in land reclamation and trying to get more land to be arable to use in agriculture around the desert areas where the soil is extremely salty.

[It was] different from what I studied, actually, and (from) what I ever did in my life after that. What I learned from that experience is that your academic skill set is useful only to a certain extent. But it is the way you train your brain and your approach to looking at things which defines your success.

### What's your favorite stress relief?

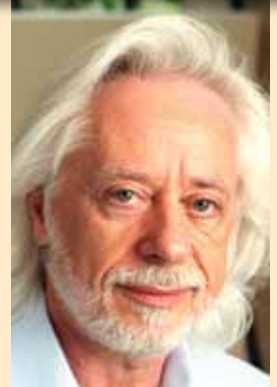
I'm an avid photographer. I've been doing it for 25 to 30 years, including a lot of underwater photography. I've been diving for almost 20 years, and I've made thousands of dives all over the world in most of the interesting places on Earth and have taken a lot of underwater pictures. I have a website ([www.michaelbleyzer.com](http://www.michaelbleyzer.com)) where I publish my underwater photography but all types of photography — travel photography, cityscapes, landscapes, sunsets. Photographing people and places is certainly one way in which I change the pace and provide some stress relief.

And the other one is very important for any CEO or any senior executive, and that is the state of health and fitness. I've always been working out like crazy, but over the last couple years, I've discovered something new, which is gymnastics and yoga and acrobatics. Most people start gymnastics when they're 7. I started doing gymnastics when I was 57. I'm about 50 years too late. My initial plan was to do at least a handstand, a flip and a back flip. Now I've accomplished that. It's pretty crazy for somebody my age, but I enjoy that. I do it essentially every day.

### What advice do you have for leaders in this economy?

Since I am a former refugee from Soviet Union, that particular system is something that I want to make sure we will avoid in this country or any other country. My advice would be: Give market economy a chance. Private business is the way to go. There's absolutely no question about it in my mind.

The government cannot run businesses as effectively as the private enterprise. All attempts to use government to run businesses or play larger role in general in people's lives have always, historically, failed. But most importantly, the dangers of moving toward larger and larger government, they far outweigh the short-term perceived advantages. Unfortunately, in a number of cases, when they fail, they cost us millions of physical lives. So these failures are not inexpensive failures.



“If you have the wrong assumptions, then they will lead you to the wrong conclusions.”

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times larger, that means that this company could probably grow several times.”

Assessing the potential reward means uncovering the best-case scenario.

“You go in with the assumption that you can create the best-in-class enterprise,” Bleyzer says. “Obviously, you have some assumptions and qualifiers on how you’re going to get there. But you don’t go in with a plan to create another mediocre enterprise.”

Now, that doesn’t mean making idealistic wishes to turn a small company into a Fortune 500 in three years. You’re aiming for achievable success within your geography or scale. To paint that picture, look at nearby success stories within your market.

“Competitor analysis is the key,” Bleyzer says. “Who else is in this space and what have they achieved? Who are the pacesetters benchmarking the best in class? All of this helps you determine: Can you do

something different? Are they in a different geography? Are they in a slightly different product mix? What will allow you to compete effectively with the best in class?”

Bleyzer even goes to industry experts and other advisers to ask how reasonable his assumptions are. But he doesn’t spend too much time on this step before moving on.

“If the potential is relatively unexciting, then you don’t really need anything else. That’s just not a good opportunity,” he says. “Now, on the other hand, if you feel, under the right circumstances, it could be (five times the value), then that’s sufficient for this stage of your analysis.”

### Weigh the opportunity

Unfortunately, the best-case scenarios don’t always come true. You also need to assess potential risks. Bleyzer spends 70 to 80 percent of his time on this stage, considering it not just an evaluation but risk protection.

Start with a macro assessment of the economy. The benefit of the recent recession is that now you can envision the effects of a downturn and what it takes to be prepared. Bleyzer thinks people are “slowly, painfully” starting to recover, but that doesn’t stop him from asking, “What if?”

“What if it is worse than that?” he asks. “What if, in fact, there is a double dip? Can you still survive in that environment?”

Each step of the due diligence process builds on itself. As you evaluate risks, you’re weighing them against rewards. If the market flops or strategies don’t go as planned and you have to pour in additional funds as a fix, consider what happens to the overall profitability equation. If, instead of five times the initial value, you only end up with twice as much, the opportunity might lose its appeal.

“If the overall balance looks like the upside is clearly there and it’s exciting and it’s big, No.1; No. 2, if you also see that risks are there — they’re always there — but they’re manageable, it may take slightly longer, but we can get there,” he says.

Then it comes down to forecasting how well the company can handle risks. Bleyzer looks at three measurements to determine sustainability.

“We ask ourselves three questions: Can this business become quickly cash-flow positive if it isn’t already?” he says. “Can this business survive without getting additional debt, really, having no debt? And can this business build some kind of cash reserve?”

SigmaBleyzer specializes in unleveraged buyouts, because it traditionally worked in emerging markets where credit was either

unavailable or outrageously expensive. But the norm in this country, at least before the financial crisis, was using leverage to pump funds into companies that you purchased.

But now, with the post-crisis mature market acting more like emerging markets, credit isn’t readily available. And it’s a good thing, if you ask Bleyzer, because now you have to look beyond leverage.

“In this environment, how do we create value?” he asks. “Well, the old-fashioned way: fundamentals. You need to have a business that is cash-flow positive, that is not relying on debt or using no debt and has some cash reserves. If those are the three elements that a business has, then you can survive the worst possible scenario.

“No matter what business you’re in, you need to ask yourself, ‘Are you going to be the last man standing if worse comes to worse, and what will it take to get there?’ In my book, it’s pretty simple: cash-flow positive, cash reserves, no reliance on leverage.”

Those three factors play into the overall financial modeling. Bleyzer goes back further than that, though, looking at the company’s infrastructure.

“The business needs to be properly capitalized to start with, which means you need to have the right capital structure,” he says. “You need to have made the right investments, so you need to be in the position, from the infrastructural point of view, to deliver products to customers that will produce good margin. That requires certain initial investments in people, technology, systems, facilities and so on. You need to assess all of that.”

Then you move into the present, plugging the company’s current numbers into your financial model to play out different scenarios.

“There are financial models that show that, by executing those strategies, you can get to certain results,” he says. “Then you either confirm or you don’t confirm your going-in assumption that it can be a ‘5x’ or ‘10x’ idea.

“In the end, it all boils down to financial modeling. Financial modeling is a pretty technical and, therefore, mechanical thing, but the assumptions are the key.”

That’s why the entire process — from setting focused parameters up front through the due diligence of analyzing risk and reward to the final financial steps — is so crucial. That’s also why Bleyzer has been so successful managing assets valued at approximately \$1 billion.

“If you have the wrong assumptions, then they will lead you to the wrong conclusions,” he says. “But if you’ve got your assumptions right, then the rest is basically mechanics.” <<

**HOW TO REACH:** SigmaBleyzer Investment Group LLC, (713) 621-3111 or [www.sigmaybleyzer.com](http://www.sigmaybleyzer.com)



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