



© 2007 Michael Pilla

## Spin Doctor: William T. Monahan Cures Spin-Off Syndrome

Bill Monahan led the charge to get Mosaic and Novelis off life support

By Christopher Hann

In 1995, William Monahan was offered a do-or-die assignment. 3M was spinning off seven disparate businesses employing 12,000 people. Management asked Monahan, a 24-year 3M veteran, to sign on as CEO. The move would involve plenty of risk — for starters, the new company would be saddled with \$450 million in debt. But Monahan concluded that he could not turn it down. After all,

he'd spent his entire corporate career as a change agent. "That's who I was," Monahan says. "If I didn't take it, I couldn't have looked at myself in the mirror."

The new data-storage company, whose divisions totaled \$2.4 billion in sales, adopted the name Imation. Monahan guided the Minnesota-based spin-off through its painful separation from 3M, its dicey early years

and its subsequent growth as a sovereign public company. He preached financial discipline, and he meant what he said. In time he reduced Imation's seven divisions to one, reduced the number of European countries in which Imation maintained sites from 28 to six, and reduced its European workforce from 4,500 to 300. After

**Spin Doctor** continued on page 12

**Spin Doctor** continued from page 11

nine years with Monahan at the helm, Imation had accumulated \$475 million in cash, eliminated the debt and bought back almost \$200 million of its stock.

Along the way, Monahan burnished a reputation as a hard-driven, cost-conscious CEO — in his own words, “a stubborn Irishman” — who routinely asked his workforce to “do it now.” He also became an authority on the spin-off, the often overlooked and underfunded stepchild of American industry. Together, this led to an invitation for Monahan upon his retirement to join the boards of directors of two new spin-offs: Mosaic Company, a spin-off of Cargill’s crop nutrient business; and Novelis, a spin-off from aluminum giant Alcan. Monahan’s boardroom drive to create change at both companies earns kudos from his fellow directors and underscores his selection as an Outstanding Director.

“We consciously sought Bill out because he had been through the spin-off of Imation out of 3M, and that had a lot of parallels to what we were doing with Mosaic,” says Mosaic Company chairman Robert Lumpkins. “We knew we were going to get some experience, but I think we got more than we expected.” Adds fellow Novelis director Ed Blechschmidt: “He’s got a pretty good mind-set that he’s not satisfied with the status quo.”

Mosaic, the world’s largest phosphate supplier, was spun off from Cargill in October 2004. At the time of the spin-off, it simultaneously merged with IMC Global. Novelis, the world’s largest producer of rolled aluminum, was spun from Alcan in January 2005. While Mosaic and Novelis encountered different obstacles as nascent spin-offs, Monahan has pushed to implement the lessons he learned at Imation and instill the same sense of financial discipline at both companies.

To Monahan the key to a spin-off’s success rides on management’s ability to understand that the parent will not bail them out and to operate under that assumption. And he believes the key to doing this lies with the CFO. “The biggest challenges you’re going to have on the front end are going to

lutely crucial in all three of them.”

For example, just about all spin-offs come into existence with some degree of debt. This, Monahan says, is a fact of business life that can make running a spin-off even more complicated than running a company started from scratch. At Imation, one of his first mis-

**DIRECTOR’S SNAPSHOT**

**Born:** May 8, 1947, Scranton, Pa

**Education:** BA/economics, St. Peter’s College; MA/finance, Rutgers University

**Career Highlights:** CEO, Imation; 24 years in positions of increasing authority, 3M Company

**Hometown:** Wayne, N.J.

**Family:** Wife, Linda; son, Bill Jr., 32; daughter, Kellie, 30; 3 grandchildren

**Most Memorable Summer Job:** Laborer in the furnace room and warehouse of a chemical factory in Wayne

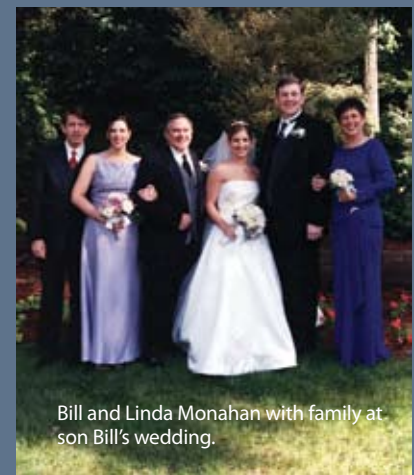
**Most Recent Book Read:** *Augustus: The Life of Rome’s First Emperor*, by Anthony Everitt

**Most Recent Movie Seen:** *The Departed*

**Favorite Composer:** Irving Berlin

**Favorite Poet:** Edgar Allen Poe

**Favorite Charities:** United Way, Multiple Sclerosis Society



Bill and Linda Monahan with family at son Bill’s wedding.

**Something Most People Would Be Surprised to Know About Me:** “I’m politically moderate, not a conservative. People expect businessmen to be conservative and Republican, by definition.

**“Won’t Leave Home Without:** Cell phone

**Most Recent Vacation:** Visting with friends in Phoenix

**Current Public Company Boards:** Novelis (Chairman), Mosaic Company, Hutchinson Technology, Pentair

be establishing a financial backbone for the company, establishing a balance sheet that will allow you to survive and invest in the future, and creating an investor relations mentality and department that is going to allow you to attract and hold shareholders,” Monahan says, “and a CFO is abso-

sions was to drive a well-defined break from the parent company. He did not believe it could take the same financial risks without 3M’s safety net to fall back on, and he was determined to create a self-sustaining corporate entity. “If we made a huge bet and it was totally wrong, it could take us under,” he says.

“We didn’t have the luxury of, ‘Let’s bet on six and hope two of them make it.’”

At Mosaic, Lumpkins says, Monahan, as chairman of the compensation committee and a member of the audit committee, helped to instill the same sense of immediacy in the company’s financial decision-making. “Mosaic had to create a thought process, a culture, which had to work for them. Early on, I think it was too Cargill, and Bill noticed that,” Lumpkins says.

In fact, Cargill owned 65% of Mosaic’s stock when the new company spun off, and a majority of Mosaic’s new executive team had come from Cargill. Monahan, Lumpkins says, helped Mosaic’s management to understand that it needed to apply a greater sense of urgency to their financial decisions than had been required at Cargill. “You couldn’t do some things and therefore couldn’t wait as long to see if something was working or not,” Lumpkins says.

With the typical spin-off burdened with debt, the generation of cash becomes the company’s most important priority. At Mosaic, as at Imation, Monahan tied executive pay to the company’s performance. No longer was the annual bonus set in stone. “A significant part of the cash-bonus program is based on cash generation. It was Bill’s influence to say, you’ve got to manage for cash. Therefore, half of the bonus is going to be based on cash flow. That’s pretty hefty, but clearly I give him credit for driving that,” says Lumpkins.

That Mosaic executives haven’t always embraced Monahan’s entreaties has not stopped him from lobbying for what he believes is right. “It was not always welcome at the outset,” Lumpkins acknowledges. “Bill kept saying, ‘You’re spending too much on capital reinvestment.’ People didn’t salute immediately. Ultimately we did get to the recognition that there was less capital there, that we had to manage for cash with a greater sense of urgency. Today that’s pretty much accepted within the

organization.” Last year Mosaic also closed three plants in Florida, letting go 700 workers. All told, Mosaic has reduced its workforce by 1,100 — from 8,000 to 6,900. The company has not made significant headway toward reducing its \$2.6 billion debt, which it recently refinanced, but in two and a half years Mosaic’s stock price has nearly doubled, to nearly \$30 a share in late April.

If the road to spin-off solvency has been a bumpy one for Mosaic, it’s been something of a crash course at Novelis, which provides aluminum for a vari-

**“We knew we were going to get some experience, but I think we got more than we expected.”**

Robert Lumpkins, Chairman, Mosaic

ety of uses, among them Coca-Cola cans and Audi sports cars. The Atlanta-based company started its new life with roughly \$3 billion in debt. In its first 18 months, LHNovelis restated its financial statements for the first and second quarters of 2005 and delayed the release of its third-quarter results. It also replaced both its CFO, a former Alcan executive who had come out of retirement to lead the new spin-off’s finance department, and its CEO, who also had come from Alcan. After posting a net income of \$90 million in 2005, Novelis reported a net loss for 2006 of \$275 million on net sales of \$9.8 billion.

Monahan stepped in as acting CEO in August 2006, and, says fellow director Blechschmidt, challenged the company to find new, cost-effective ways of doing business. Blechschmidt, the former CEO of Gentiva Health Services, replaced Monahan as acting CEO in January 2007, while Monahan continues as chairman of the board.

In February it was announced that Novelis was being bought by Hindalco Industries, India’s largest non-ferrous

metals company, for \$6 billion, including \$2.4 billion in Novelis debt. Under terms of the proposed deal, which is expected to be completed by July 1, Novelis shareholders would receive \$44.93 for each outstanding common share. The sale was announced about five weeks after Monahan stepped down as acting CEO, and his successor says he was instrumental in making it happen. “His communication in the investment community was very carefully done and very well done,” Blechschmidt says. “He is one of the best communicators that I have seen — at all levels,

from the lowest-level person to coordinating multiple board members.”

To hear Monahan tell the story, he’s still preaching the same financial discipline he instilled at Imation and Mosaic. “What I pushed very hard with Novelis was cash generation, cash conservation, driving working capital,” Monahan says. “All the things you don’t have to worry about every day, we need to worry about every day.” It can be said, in fact, that Monahan wrote the book on the subject of spin-offs. *Billion Dollar Turnaround* (The Oaklea Press, 2005) is his own plainspoken account of his time at Imation.

Would other executives and directors be wise to read the book and thus glean the secrets of his Imation success? “Maybe not to learn from the spin-off,” Monahan says, “but to find out what kind of a pain in the ass I’m going to be.” ■

Bill Monahan will speak about “Spin-off Success: Lessons Learned, from Both Sides” at **ODX Chicago** on October 24, 2007. Please call Ajay Bhambri at (212) 542.1229 to attend.