



AlixPartners

PREPARING FOR THE STORM

Insights from the AlixPartners 17th Annual
Turnaround and Transformation Survey



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to match

After a red-hot, post-COVID bounce-back, the telltale signs of an impending recession are here: the yield curve has inverted, commodity prices are extremely volatile, the markets have had the worst six months since the financial crisis in 2008, and an emerging asset class – crypto – has imploded. We are in the midst of the pregnant pause: no longer “will it, won’t it?” but rather “when will it?”

While predicting the timing and depth of any economic downturn or even recession is subject to a multitude of variables, in our 17th Annual Turnaround and Transformation Survey, we asked more than 600 of the world’s leading restructuring experts – the professionals most experienced in responding to the downside of economic volatility – how they view the current climate.

While no prediction is ever 100% accurate, this is as close to a consensus forecast as it comes.



83%

Expect a recession to hit their region, with one in four anticipating it will hit before the end of the calendar year.



97%

Predict that inflation will be a major driver of economic stress. That’s the first time in 50 years that a downturn will be inflation-led.



87%

The cost of capital will be a core restraint. **87%** noted that the availability of capital is either flat or declining and **52%** cited increasingly restrictive financial terms.



76%

A recession will drive not just company restructurings, but will lead to a new round of industry consolidation and reinvention. **76%** believe that the M&A transactions related to distressed assets will increase, and **12%** think it will reach a new high.

MACROECONOMIC PREDICTIONS FOR 2022

**IN YOUR GEOGRAPHIC REGION OF
THE WORLD, DO YOU ANTICIPATE
A RECESSION?**



83%

of those we interviewed anticipate
a recession in their region



70%

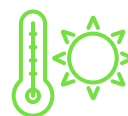
expect it to happen within
the next 12 months

**THE ONE BIGGEST
CHALLENGE CREATING
LONG-TERM ECONOMIC
CONSEQUENCES FOR
THE GLOBAL MARKET IS:**



24%

Market inflation



21%

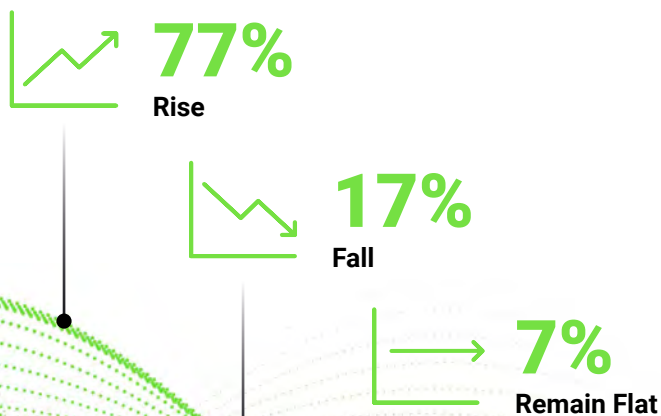
Climate change



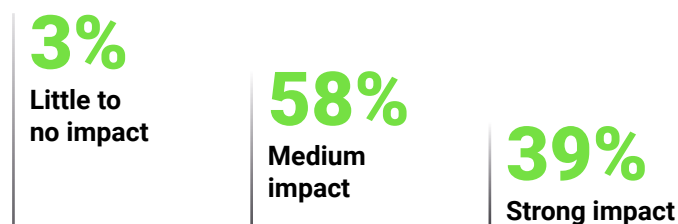
20%

Geopolitical
disruptions

WHAT DO YOU EXPECT THE INFLATION TREND TO BE?



WHAT IMPACT WILL THE INFLATION TREND HAVE ON YOUR CLIENTS' BUSINESSES?



Just like sailing, preparing for the storm and leaning into it is the best way to get through a downturn. In all cases, the preparations to prevent downside impacts will drive the kind of active management that will achieve positive outcomes no matter the size of the economic waves.

Some no-regret moves will help business leaders to be prepared:

MAKE CASH FLOW A LEADING INDICATOR

Actively monitor cash flows – these are a leading indicator of market shifts and business health. Build cash reserves as best as possible to ensure better resiliency in market volatility.

RENEGOTIATE SUPPLIER PRICING

Call suppliers and ensure that the pricing you are getting actively represents true market costs. Recover price increases that were pending on higher input costs. Don't be a price taker, lean in and be a price maker.

ASSESS SCENARIOS

Spend time identifying potential scenarios. What would a mild, moderate, and severe recession do to your business? What actions would you take in each? What are the early warning signs that will inspire action? Who in your team is best equipped for what might lie ahead?

CATEGORIZE BUSINESS LEVERS

Define key levers in the business to pull in a downturn. Split them into three categories: easy to reverse, hard to reverse, and mission critical. If a downturn happens, pull the levers in reverse order to mitigate the potential damage that each will do to the business.

PREPARE FOR OFFENSIVE MOVES

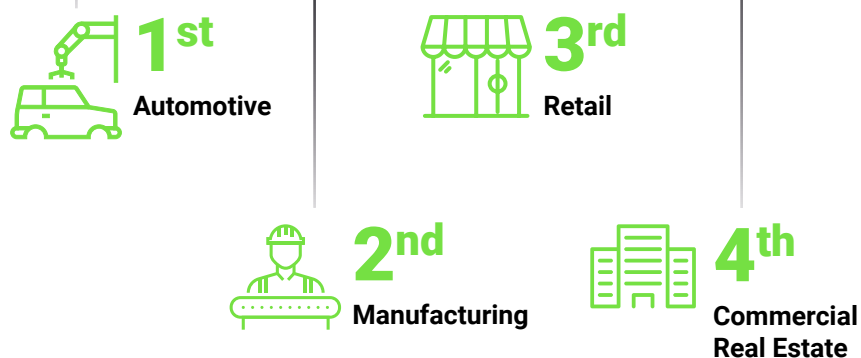
Downturns create a buyer's market. What are the actions you would take to reshape your market, if you could? If you have a plan ahead of time, you will be faster to act when opportunities come available.

INDUSTRY PREDICTIONS FOR 2022

**LAST YEAR'S INDUSTRIES
IDENTIFIED AS MOST LIKELY
TO FACE DISTRESS GLOBALLY
IN 2021 WERE:**



**FOR 2022, RESPONDENTS
TOLD US THE INDUSTRIES
WOULD BE:**



The current landscape may inspire anxiety, but now is the time to prepare. If a “turnaround mindset” proved to be a defining factor in establishing a competitive edge during the height of the pandemic, it must now be locked in to effectively tackle a new wave of market volatility. Leadership teams need agility, foresight, and an action-oriented point of view to navigate the choppy waters ahead.

THE TOP FACTORS CONSIDERED TO BE DRIVING DISTRESS ARE:



Supply chain



Market inflation

MACROECONOMIC PREDICTIONS FOR 2022

THE AVAILABILITY OF CAPITAL IN RELATION TO THE PREVIOUS YEAR HAS:

IN THE PAST 12 MONTHS, FINANCIAL TERMS HAVE:

44%

Decreased

43%

Remained flat

52%

Grown more restrictive



76%

believe that M&A transactions related to distressed assets will increase



12%

think that they will reach a new high



69%

Agree that a company's ability to have access to finance depends on complying with ESG guidelines



84%

Agree that a company's ability to comply with ESG guidelines will impact financial performance

We hope that you find our 17th Annual Turnaround and Transformation Survey insightful and thought-provoking. In addition to these headline findings, on the following pages you will find a series of personal perspectives from our Turnaround and Restructuring leadership team. You can also dive deeper into five of the dominant themes that you identified as having the most significant impact on your business and the cause of the most disruption for many of your clients: Corporate Financing, Supply Chains, Inflation, M&A, and ESG.

Study methodology: Research for the 17th Annual Turnaround and Transformation survey was conducted between May 10 and 25, 2022. Respondents comprised 600 lawyers, investment bankers, lenders, financial advisors, and other industry experts involved in corporate workouts representing more than 20 major industries in global locations, including in the US, Europe, Middle East and Africa, and Asia.

WHAT REALLY MATTERS:

CREDIT MARKETS



Joff Mitchell
Global Co-Head Turnaround
& Restructuring Services

The biggest drivers of restructuring activity are an increase in the cost of credit and a reduction in the availability of credit.

In other words, if companies are unable to refinance because new finance is either not available or too expensive, those factors are likely to lead to an increase in restructuring activity.



AVAILABILITY OF CAPITAL

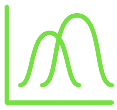
44% globally believe this has decreased in the last year – led by respondents from the Americas (52%); In addition, 52% globally believe financial terms have grown more restrictive – led by German respondents (63%).

We are seeing the cost of money increasing. Real interest rates have started to rise and – although relatively low by historic standards – they’ve increased quite dramatically in recent times. In addition, in the high-yield bond market and the leveraged loan market, we’ve seen significant outflows of liquidity – negative flow, in fact. If that is a trend that persists, it will likely lead to some companies being unable to or having difficulty in refinancing.

IF YOU OBSERVED LIMITED CAPITAL, WHICH ONE UNDERLYING OPERATIONAL ISSUE WILL NOT BE ADDRESSED IN THE COMING YEAR?



That said, right now, default rates and the number of bankruptcy filings we see remain at historic lows, suggesting that these factors have yet to fully run their course. While no one can pick the precise timing, I firmly believe we are heading for another period of restructuring.

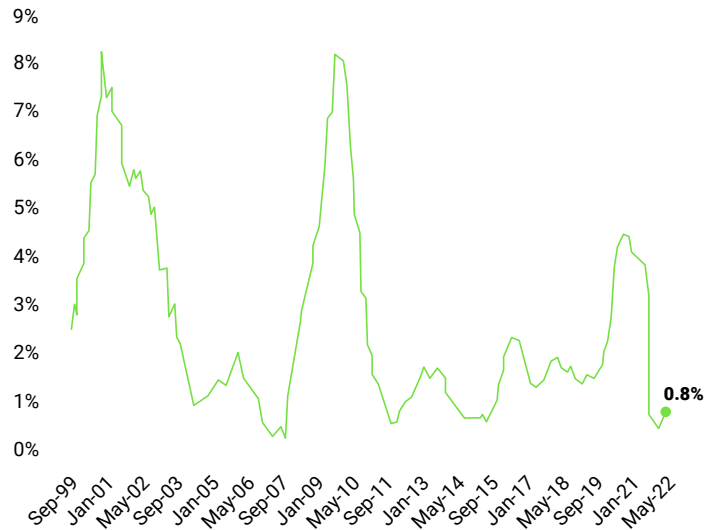


LOW DEFAULT RATES

Default rates in March 2022 (**0.6%**) were the lowest seen in the U.S. since 2007, when rates hit **0.4%**

There are, of course, other factors that will also impact corporate performance and can lead to restructuring activities – like recessions, spiking inflation, supply chain issues, and geopolitical conflicts – and all those factors are now in play. This multilayering of disruptive influences stacking on top of the underlying credit market landscape further reinforces the need for leaders to think proactively about how to deal with what lies ahead of them. That includes envisioning what a fully post-pandemic world will look like, amid the myriad of other economic challenges. Companies that get this wrong will likely have to face significant consequences.

LTM U.S. LEVERAGED LOAN DEFAULT RATE



Source: LCD News

WHAT REALLY MATTERS:

INDUSTRY OUTLOOKS



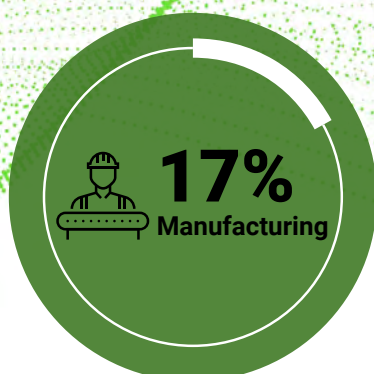
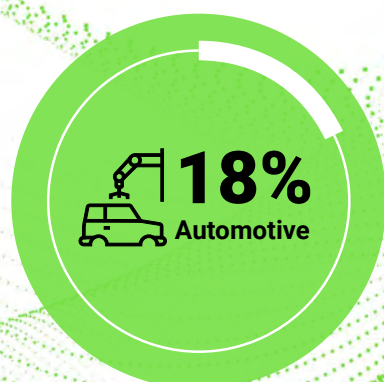
Jim Mesterharm
Global Co-Head Turnaround
& Restructuring Services

With global commerce we are a much more interconnected society than we were 20 or 30 years ago. This means that conflicts happening far away like the war in Ukraine or workforce disruption in China due to COVID-19 have a far greater impact than before, creating huge challenges for many industries globally.

I believe these factors help to explain why many restructuring experts highlight certain industries as more susceptible to distress than others. In automotive specifically, I see two critical issues. Firstly, the ongoing conflict and pandemic have had an extreme regional and global impact on this industry's supply chains, such as access to wiring harnesses and other vital raw materials. We also see the enduring impact of chip shortages, which is really impacting auto production globally.

Secondly, the longer-term challenges of electrification will continue to create huge disruption, driven by broader environmental concerns and a concerted shift towards hybrid and full electrification resulting from governments' push for higher fuel efficiency and lower emissions. The big question will be when will we reach that tipping point – the true moment of convergence – when more battery electric and fuel cell electric vehicles are sold than internal combustion or hybrid? Along the way there also will be challenges with new technology upstarts trying to enter the market and scale to production, and a shakeout down the road of legacy suppliers in the internal combustion engine space as demand decreases for their products.

WHICH SECTOR GLOBALLY IS THE MOST LIKELY TO FACE DISTRESS IN 2022?



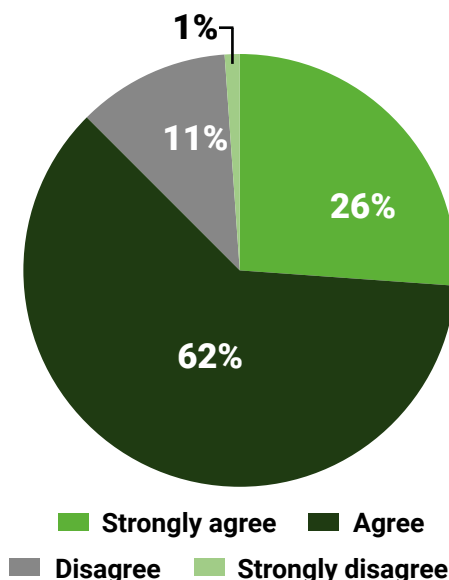
In retail, I think the biggest challenge for many retailers globally will be working their way out of a glut of inventory that has accumulated through previous supply chain imbalances, as well as delays in production and delivery of goods. As a result, some businesses will need to discount to move this inventory. This is important because many retailers largely finance themselves with asset-based loans; these loans are driven by formulas reflecting how much availability lenders are willing to give these companies based on the level of discounting they would need to apply to liquidate inventory if lenders needed to foreclose on their loan collateral.

As a result, we could see retailers without sufficient borrowing capacity to carry this level of inventory, as they may experience a situation where inventory is marked down in order to sell it and, as a result, these increased markdowns compress borrowing base ratios. The consumer base that sees this may then start to think that pricing dynamics have changed, driving them to only want to buy things that are on sale. Thus, the economic relationship retailers have with their customers erodes. Some retailers may hold stock for the following season and adjust future buying behavior accordingly, but not all will have the liquidity to do so.



It doesn't surprise me that commercial real estate features highly in the results either – in the past year it is probably one of the industries where we've seen a higher percentage of formal restructurings in what was otherwise a down restructuring market.

AN INCREASE IN WORKFORCE COSTS AND LABOR SHORTAGES WILL LEAD TO DISTRESSED SITUATIONS



The full impact of hybrid working post-pandemic is still taking shape though, and we must remember that this industry's evolution will cause significant ripple effects for the support industries that thrived on the movement of people to and from office spaces globally pre-COVID.

Perhaps the biggest issue is that we're still not done with the pandemic. While major blows have been softened by unprecedented government support around the world, supply chain disruption and demand imbalances will be here for some time to address. I also don't believe the full story has been written on inflation yet either, as we're still seeing how central banks are attempting to control it and the ramifications of those actions.

THE SECTORS MOST LIKELY TO FACE DISTRESS PER REGION:



WHAT REALLY MATTERS:

UKRAINE



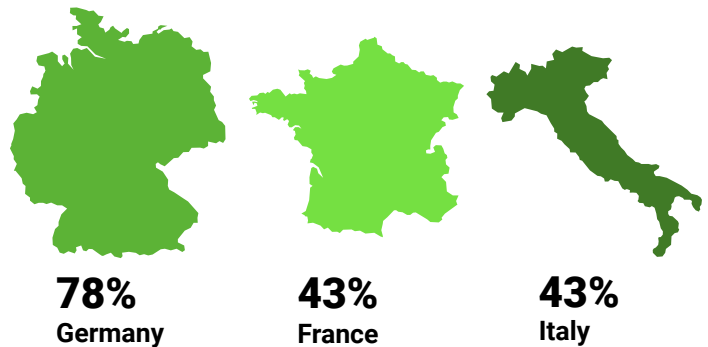
Axel Schulte

Co-Head Turnaround &
Restructuring Services - EMEA

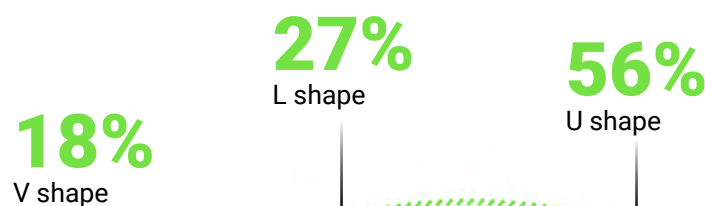
Beyond, first and foremost, the obvious human tragedy, the war in Ukraine represents another huge disruption on top of the many operational issues businesses had been wrestling with before and during the pandemic.

Now, we are not only facing cost increases across all industries, but also the necessity to restructure energy supply across Europe – most notably in Germany – while at the same time keeping production up to respond when demand fully returns. That historical dependency upon Russia is now perhaps the biggest problem, after the country was such a reasonably priced and reliable resource for so long.

THE UKRAINE / RUSSIA CONFLICT WILL HAVE THE GREATEST EFFECT ON GERMANY, ITALY AND FRANCE



ONCE RESOLVED, THE IMPACT FROM THE UKRAINE / RUSSIA CONFLICT ON THE GLOBAL ECONOMY WILL PROBABLY LEAD TO A RECOVERY BEST DESCRIBED AS:



The global issues with oil and gas are clear, globally, while the automotive industry and manufacturing more broadly require intensive energy use and access to many raw materials that are now in short supply due to events in Ukraine. In such an export-heavy region, the disruption to supply chains and scarcity of goods is driving up prices, and we must also remember the many thousands of Ukrainians who worked in production or logistics roles during normal times but are now fully focused on defending their country.

I believe a U-shaped recovery is what we'll see unfold. During this conflict, the infrastructure of a country that was an integral part of so many supply chains has been destroyed and will require huge investment and capex to rebuild. The companies affected have to find workarounds, but this isn't easy. Many workarounds themselves are blocked or hugely problematic due to other political issues and the continued effects of the

pandemic. We have talked previously of "perfect storms" – fuel crises and Brexit, among others – but it's nothing compared to what I see now.

Besides supporting the recovery of Ukraine as much as they can, companies must be fast on their feet, finding stability through flexibility. They need to act on reducing their fixed cost base now because that will build greater resilience. There must be an unbiased analysis of supply chains, assessing over-dependence on any single country or supplier to ensure enough diversification is in place to reduce future risks.

Resilience is a word that has a very different meaning today compared to five years ago. Now we truly see how vulnerable a company can be in the face of so many accumulated disruptive external forces.

FROM AN INDUSTRY PERSPECTIVE, THE UKRAINE / RUSSIA CONFLICT WILL HAVE THE BIGGEST IMPACT ON:



Oil & Gas



Consumer Goods



Manufacturing



Power & Utilities

WHAT REALLY MATTERS:

LEADERSHIP MINDSET



Simon Appell

Co-Head Turnaround & Restructuring Services – EMEA

Our annual survey always reflects strong international perspectives, however this year I have been most struck by the results we have seen from individual territories, which set a distinctly local tone.

Perhaps this tone reflects a stronger sense of introspection, with each region's respondents anticipating that their own market will be the one most likely to experience distress.

In times of tribulation, dominant psychology may stir a narrowing focus upon the areas of immediate impact, ensuring hatches are battened down to ride out the storm.

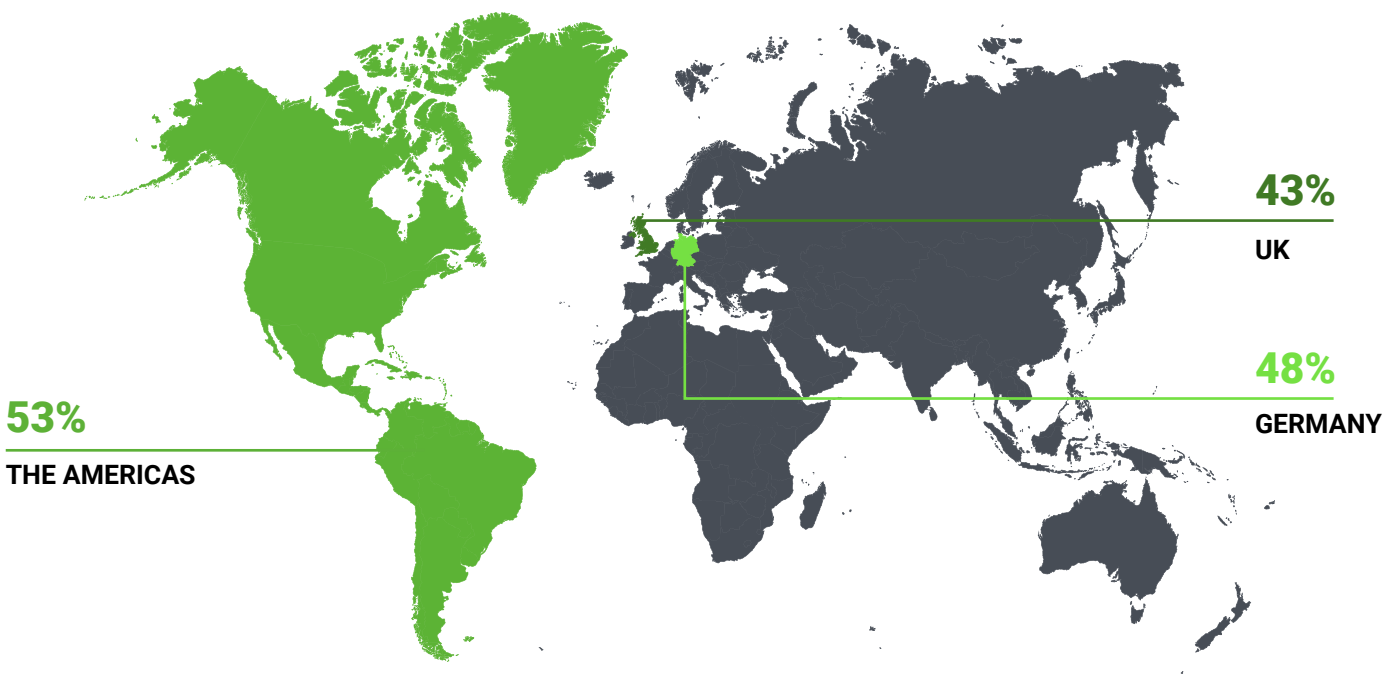
However, at this time, there is a crucial balance to be established between defensive and offensive strategies. With so many concurrent disruptive forces at play, as well as the quiet restructuring period we've seen in the past 18 months, distress may well be inevitable. Yes, houses must be in order to secure a firm footing for what's still to come, but an overly cautious approach will likely result in missing the opportunities that always present themselves in times of risk and rapid change.



87%

The Americas is the least optimistic region; 87% interviewed anticipate a recession within the next 12 months

RESPONDENTS BELIEVE THAT THEIR OWN REGION/ COUNTRY IS MOST LIKELY TO FACE DISTRESS IN 2022



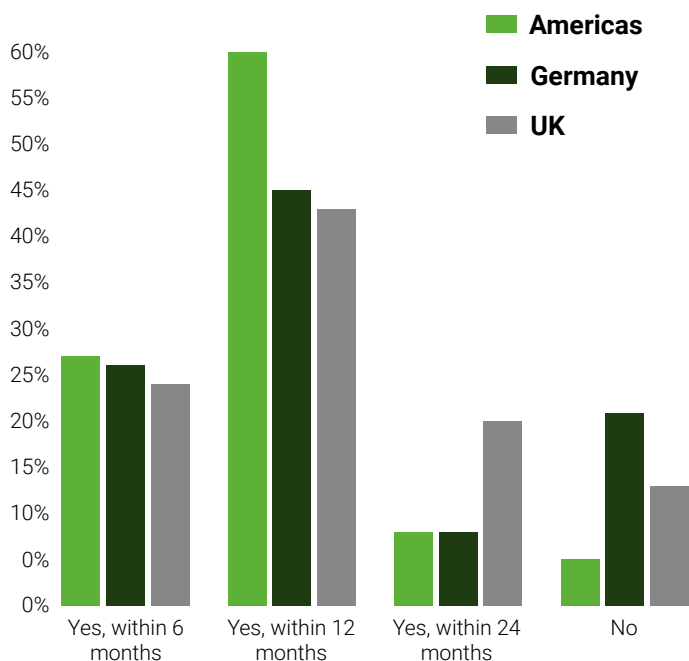
The extraordinary support packages seen in the most extraordinary of times during the pandemic allowed so many businesses – good and bad – to continue, despite the many constraints inflicted upon them. Perhaps this artificially narrowed the gap between the winners and the losers. As we now accelerate away from COVID-19 to face what could be considered the more frequently observed – albeit extreme – economic challenges of rising inflation, supply chain disruption and geopolitical tension, I expect to see that gap increase again.



Individually, businesses have handled these challenges before. Combined, overcoming them will rely more than ever before on the strongest of management teams. They act quickly and decisively, taking a view, backing it, and acting upon it without compromise.

Acting decisively must also account for the likelihood of changing direction as required. Few of us anticipated the events of the past two years. They highlight the need for strategies and priorities to remain flexible, with sufficient agility to chart a different course when the headwinds change direction once more.

IN YOUR GEOGRAPHIC REGION OF THE WORLD, DO YOU ANTICIPATE A RECESSION?



WHAT REALLY MATTERS: HARNESSING FUTURE OPPORTUNITIES



Eric Koza

Co-Head Turnaround &
Restructuring Services – Americas

The global economy is expected to change significantly in the coming months. Management teams must keep their eyes wide open to this and be proactive in planning strategically and operationally for what comes next.

If that isn't the collective mindset from the get-go, how can any future opportunities be harnessed?

It is vital that companies are appropriately set up from a financing standpoint. Is there sufficient liquidity and will capital structures be able to survive what is expected to be a bumpy ride? More liquidity is better than less when you believe uncertainty lies ahead, because it's harder to raise it when you need it, rather than while you don't need it. This reinforces the need for preparation, getting ahead rather than reacting at a time when you might not have the broadest range of options available.



84%

Of our respondents believe that at least a quarter of distressed clients that were able to get financing in 2021 will end up distressed again in the next three years

Those options could include, for example, opportunities for companies with the appropriate capital structure to look at how they could pick up weaker players via M&A and build greater competitiveness for the long term. Other options include cost-cutting measures like reassessing geographic areas of challenge, taking strategic action to either prune or grow depending on the market dynamics being faced.

THE NUMBER OF MERGER & ACQUISITION TRANSACTIONS RELATED TO DISTRESSED ASSETS WILL:

12%

Reach a
new high

63%

Slightly
increase

21%

Remain
steady

3%

Decrease

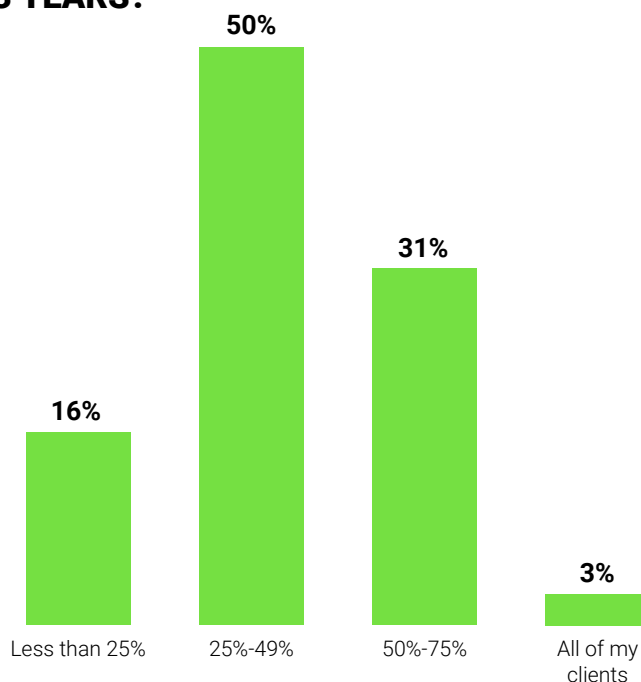
The result may be that there are cost savings and greater efficiency. But your method should also be more thoughtful about how you go to market, how you compete, how you innovate, and how you invest. Ultimately, you should ask yourself, how should you do things differently?



Businesses sometimes have the wrong mindset with respect to cost-cutting. It can be multi-dimensional if done in a smart and strategic way, more about transforming the way you do business.

People are creatures of habit in many ways, but management teams absolutely cannot rely on continuing to do what they've always done before. I often see two camps with management teams: those that have learned to grow a company and those that have learned to operate in a downturn. Growing a company when you've got the wind at your back is a very different skill set to surviving and seizing opportunities that arise when you're running uphill against the gale.

WHAT PERCENTAGE OF DISTRESSED COMPANIES IN 2021 THAT WERE ABLE TO GET FINANCING DUE TO THE AVAILABILITY OF LIQUIDITY WILL END UP DISTRESSED AGAIN IN THE NEXT 3 YEARS?



CORPORATE FINANCE

REALISM AND SPEED TO ACTION IS REQUIRED TO COUNTER THE RISING COST OF DEBT

There is a distinct touch of frost in the macroeconomic air.

We expect to see a rise in corporate distress and restructuring activity as heavily leveraged companies emerge from the years of cheap credit and government interventions into a less forgiving era.

With interest rates rising – gradually in the Eurozone, more quickly in the US and UK – debt burdens weigh more heavily, and “amend and extend” deals no longer seem attractive. Such can-kicking is increasingly giving way to action to resurface companies from under debt piles.

Not all will find it easy. We may witness distress among “zombie companies” previously able to muddle through on easy credit.

The extent will vary by jurisdiction: For example, in Germany, government loans, subsidies and employment support have continued into 2022. Not so the forbearance

of lenders, who across continental Europe are gradually repositioning from the pandemic consensus that the responsible approach was to stick by clients with non-performing loans.

Many businesses are in the eye of the storm. The COVID-specific economic crisis may be largely over, but inflation is still gathering pace. Sectors such as retail and travel, hospitality, and leisure are awaiting a consumer spending crunch that, at the time of writing, is widely expected but has yet to materialize in top lines. Meanwhile, geopolitical events continue to menace supply chains and energy security, particularly in Europe.



1/3

Globally, around one third expect the majority of distressed companies that secured financing in 2021 to lapse back into distress within three years

WHAT PERCENTAGE OF YOUR CLIENTS UTILIZED LIQUIDITY MARKETS TO EXTEND THEIR RUNWAY WITHOUT ALSO ADDRESSING UNDERLYING OPERATIONAL ISSUES IN THE COMING YEAR?

34%

Less than 25%

38%

25-49%

21%

50-75%

7%

Substantially all of my clients

Against this backdrop, a number of our survey results make for concerning reading. Almost 30% of respondents said that the majority of their clients had used liquidity markets to extend their runway without tackling underlying operational issues.

We find this troubling. While insolvency proceedings are part of “normal” economic life, there are undoubtedly companies that have used them to undertake running repairs on balance sheets without addressing the fundamental organizational issues that lie beneath. Restructure without reform often provides only temporary relief from distress – and survey respondents see as much in their practices. Globally, around one third expect the majority of distressed companies that secured financing in 2021 to lapse back into distress within three years. Respondents in the Americas and UK were particularly likely to foresee such a scenario.

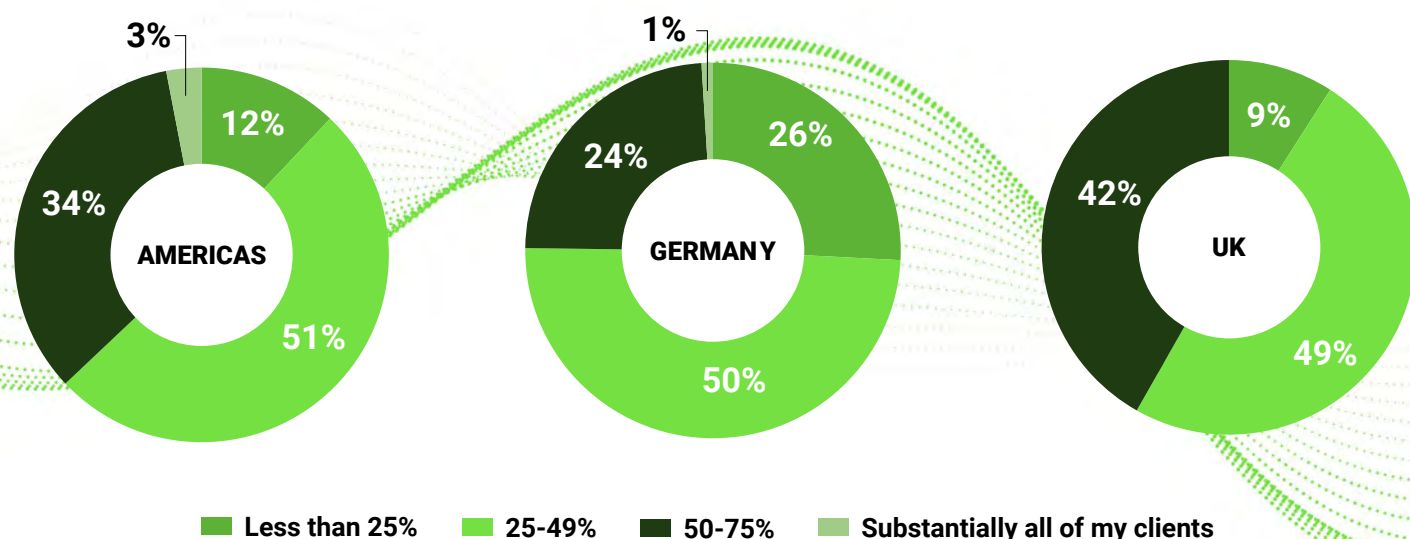
WE’RE STILL WAITING ON THE IMPACT OF INFLATION AND RISING INTEREST RATES ON THE CONSUMER TO HIT THE TOP LINE – BUSINESSES IN RETAIL AND CONSUMER GOODS ESPECIALLY ARE WAITING WITH BATED BREATH FOR THIS TO HAPPEN.



Jessica Clayton

Managing Director

WHAT PERCENTAGE OF DISTRESSED COMPANIES IN 2021 THAT WERE ABLE TO GET FINANCING DUE TO THE AVAILABILITY OF LIQUIDITY WILL END UP DISTRESSED AGAIN IN THE NEXT 3 YEARS?



However, provided it is executed right the first time, insolvency should not be a dirty word. At its best, insolvency should allow a company to rise like a phoenix from the flames – instead of seeing value burn to ashes. Of course, tackling distress is easier said than done. Executives as familiar as any of us with the warning signs – overexpansion, excessive cost bases, poor cash management, siloed business planning and more – can nevertheless hesitate when they must move fast, despite the dangers of a “wait and see” strategy greatly heightened in such a furiously disruptive marketplace.

“IN THE US, COMPANIES OFTEN GO INTO PRE-PACK DEALS TO FIX THEIR BALANCE SHEET AND GET OUT OF BANKRUPTCY, BUT WITHOUT MAKING THE APPROPRIATE CHANGES. WE’RE NOW SEEING A SPATE OF ‘CHAPTER 22S’, WHERE COMPANIES DIDN’T GET IT RIGHT THE FIRST TIME AND ARE TRYING AGAIN TO SUCCESSFULLY GET OUT OF BANKRUPTCY.”



David Orlofsky
Managing Director

What should you take away from all this? First, demand realism. Some management teams – and indeed creditors – with less experience of navigating downturns may be prone to outbreaks of unwarranted optimism surrounding financial performance. In the current environment, leaders must be prepared to challenge rosy forecasts.

Second, prepare for deleveraging. The higher cost of borrowing, combined with inflation hitting cash flow, is likely to require substantive debt reductions where companies might once have simply refinanced.

Third, act quickly. A combined supply and demand crunch is not something that a company under financial pressure can hope to ride out. In this, we echo the point made in this year’s AlixPartners Disruption Index: Taking a wait-and-see attitude is too often the beginning of the end.

IF YOU OBSERVED LIMITED CAPITAL, WHICH ONE UNDERLYING OPERATIONAL ISSUE WILL NOT BE ADDRESSED IN THE COMING YEAR?



“INSOLVENCY IS NEEDED TO RENEW OUR CORPORATE LANDSCAPE. THERE IS NO SUSTAINABLE TURNAROUND WITHOUT REAL OPERATIONAL RESTRUCTURING, AND NOW – ESPECIALLY IN EUROPE – WE’VE SEEN 10 YEARS OF GROWTH WITHOUT A CRISIS, SO AN ENTIRE GENERATION OF MANAGEMENT TEAMS HAS MATURED WITHOUT KNOWING HOW TO SHARE THE BURDEN OF A CRISIS WHEN ONE OCCURS.”



Rainer Bizenberger
Managing Director



DEMAND REALISM

In the current environment, leaders must be prepared to challenge rosy forecasts



PREPARE FOR DELEVERAGING

The higher cost of borrowing, combined with inflation hitting cash flow, is likely to require substantive debt reductions



ACT QUICKLY

Taking a wait-and-see attitude is too often the beginning of the end

SUPPLY CHAINS

PROACTIVITY AND PACE CAN SECURE THE MOST CRITICAL BUSINESS ASSET

Mitigating today's unprecedented pressures on global trade is as complex as it's ever been. The omnipresence of global issues means that yesterday's solutions are blunt instruments today. Business leaders must make more fundamental shifts in company operations to help reduce the impact of this flurry of megatrends.

In addition to sourcing timelines impacted by congestion at ports worldwide, firms are having to deal with whipsawing commodity prices, the fallout from Russia's war with Ukraine, tenuous labor markets, and rapid changes in consumer spending, as households tighten their belts in the face of rising inflation.

Given this, business leaders need to take a longer-term look at their supply chains and make bold strategic decisions to overcome pain points that are likely to persist for years to come.

Indeed, today's leaders are evaluating new ideas that go as far as to alter the way firms strike deals with customers, the size and location of production and manufacturing facilities, and the lines of business that companies pursue.

NO ESCAPE

Time and cost remain the key factors behind any supply chain. That said, skyward commodity prices and the perpetual battle of shipping and logistics firms to overcome built-up demand from global lockdowns mean that firms need to develop plans to help mitigate these macro issues.

WHAT IS THE TOP FACTOR DRIVING DISTRESS?



37%

Supply chain



30%

Market inflation

Every industry is affected, so there's no place to hide. Firms like shipbuilders, whose costs are intrinsically linked to the global price of commodities, are witnessing input cost rises of hundreds of millions of dollars. This amplifies the common industry-specific issue of thin margins and fixed-price contracts.

For sectors such as retail, the rise in transport costs caused by the spike in oil and gas prices is certainly an issue. But perhaps a more awkward hurdle to jump is the one of lengthening lead times.

Getting products from overseas is taking longer, meaning that sourcing teams who are used to ordering products six months in advance are now having to do so at least nine months ahead, if not 12.

Predicting what the next 'hot item' will be a year from now is a huge challenge for retailers, as it increases the risk of being stuck with unsellable stock and ties up working capital for longer. This in turn impacts net debt and potentially causes other financial strains. Furthermore, given the pernicious impact of inflation, consumers are rapidly changing their buying habits to accommodate the associated squeeze on disposable incomes.

SUPPLY CHAINS ARE BEING SIGNIFICANTLY ELONGATED, WHICH IS A HUGE HEADACHE FOR RETAILERS AND ANYONE INVOLVED IN CONSUMER PRODUCTS. STOCK BEING TIED UP IN SUPPLY CHAINS IS ALSO LEAVING BUSINESSES MORE VULNERABLE TO THE OTHER HEADWINDS THEY FACE.



Esben Christensen

Managing Director

SIGNIFICANT SHIFTS

Cost benefits of cheap production hubs have been eroded by spiraling transport costs, making it potentially compelling for firms to reconsider their geographic footprint and make more products closer to customers. This tactic strengthens the link between the cost base and revenue base, insulating firms against some volatility in transport costs and foreign exchange fluctuations. Larger inventory is applying further pressure to working capital and weakening balance sheets with an increased risk of mark-downs, particularly for mid-market or seasonally driven retailers.

Downsizing or closing a production facility doesn't happen quickly, but geopolitical risk, which is fueling energy price spikes and inflation more broadly, is likely to persist for the long term.

GLOBAL SUPPLY CHAIN DISRUPTION IS MOST INFLUENCED BY:



Supply chains are about serving demand, and businesses have a challenge on that side too. During the pandemic, when travel and leisure was largely or even entirely curtailed, household saving rates broadly rose, leading to a boom in online spending for home goods and services. But with restrictions now mostly eased, the high-selling business lines of lockdowns are now no longer as popular.

Further muddying the picture is inflation, whose severity and longevity is impossible to predict.

The prospect of rising interest rates, aimed at curbing inflation, could amplify monthly outgoings for households. Meanwhile, suggestions that globalization (widely regarded as a deflationary force) could be going into reverse hint at elevated prices for goods in the long term.

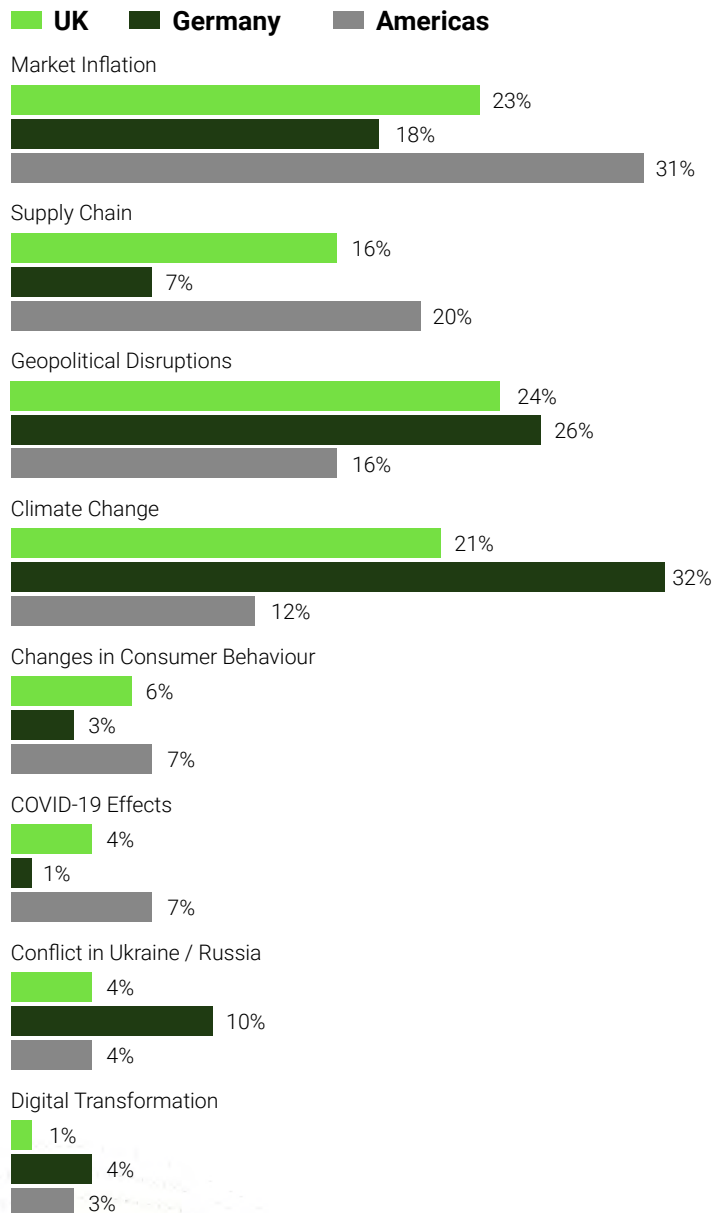
“ALL OF THE MAJOR WESTERN CENTRAL BANKS ARE STRUGGLING WITH INFLATION RATES AND INTEREST RATES, WHICH WILL LIKELY CULMINATE IN A RECESSION OVER THE NEXT COUPLE OF YEARS.”



John Castellano

Managing Director

THE ONE BIGGEST CHALLENGE CREATING LONG-TERM ECONOMIC CONSEQUENCES FOR THE GLOBAL MARKET IS:



PROACTIVE STRATEGIES

In some ways, nothing has changed in the way firms need to deal with supply chain issues, but in others, nothing is the same.

The benefits of these “solutions” may not be realized as quickly as they once were, and also may now apply to much larger-scale decision-making. For instance, just a few years ago, greater agility might have resembled small-scale changes to suppliers or product lines. Now it means making decisions fast about where to base entire production hubs.

Furthermore, paying more for transportation may simply mean a greater chance of items arriving sooner rather than guaranteeing it. By the same token, industrial firms reliant on raw materials but with fixed-price contracts may need to innovate by implementing escalator or de-escalator clauses if the prices of underlying commodities drastically change.

Essentially, firms that wait and hope for conditions to ease are likely to suffer more than those that take decisive action now, with security of supply fast becoming one of the most highly sought-after business assets.

BEING NIMBLE IS KEY. FIRMS MUST CONTINUE TO:

- 1 Experiment with a mixture of product lines
- 2 Use a range of different ports
- 3 Onboard a diversified range of suppliers and modes of transportation for goods and raw materials
- 4 Continuously dedicate themselves to cost and efficiency improvements
- 5 Closely manage inventory to safeguard against excess levels and appropriately manage working capital

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

AN ALPHA BET FOR BIG BUSINESS OUTCOMES

In such an acutely scrutinous and digitally enabled era, corporate introspection and subsequent transformation at pace in relation to Environmental, Social, and Governance issues is critical. The rewards – stewardship, intrinsic and external value – can be significant for the businesses that can bring their purpose and values to the fore.

Our expert respondents revealed the importance that they believe firms must place upon ESG, with the vast majority linking progress here to financial viability and performance.



8 IN 10

respondents either strongly agreed or agreed that a company's ability to comply with ESG guidelines would impact financial performance.

This demonstrates that the need for compliance should be a priority, given other vital interconnected business challenges such as supply chain logistics, client

willingness to expand relationships, employee retention, and other critical areas necessary to grow businesses.

The 'E' component was also cited as being of most concern to restructuring experts and their clients, potentially demonstrating that they see this as the biggest hurdle to overcome. Nearly six in 10 respondents (58%) were most worried about tackling environmental issues in their organization, with 61% also believing this was their clients' greatest fear.

While cutting emissions from production processes and supply chains will take time, there's rapidly expanding regulatory pressure to at least explain how this will be done.

For example, in the UK, financial institutions and listed firms must publish plans in 2023 explaining how they hope to meet their Net Zero goals for 2050, and it's likely that similar regulations will appear in more jurisdictions soon.

WHICH ASPECT OF ESG MOST CONCERNS YOU IN YOUR BUSINESS?



36%
Social



58%
Environmental

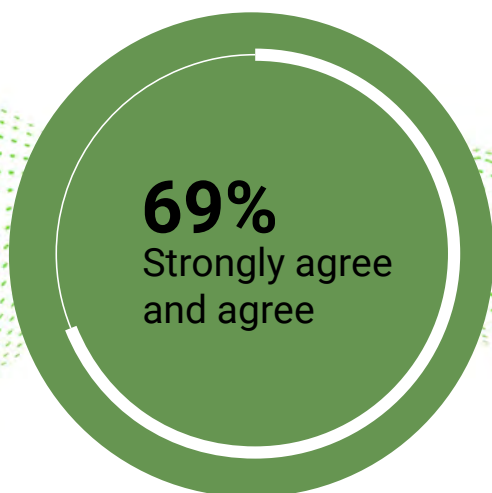


36%
Governance

Effective planning is vital, compelling firms to measure their existing emissions, identifying where carbon reductions will come from, and highlighting assets or divisions that may need to be restructured or sold if the firm is to meet its climate goals.

Many lenders and investors are now completely avoiding carbon-intensive assets. Whereas some may have quietly backed this kind of asset in recent years, a growing number now deem it impossible rather than merely unpalatable.

A COMPANY'S ABILITY TO HAVE ACCESS TO FINANCE DEPENDS ON COMPLYING WITH ESG GUIDELINES



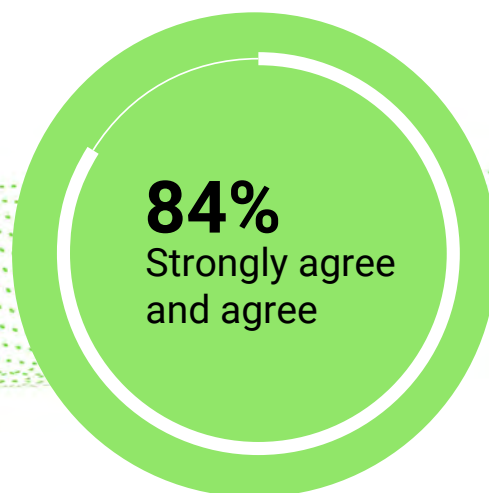
Dealing with the 'E' in ESG undoubtedly has its challenges – particularly in relation to Scope 3 reduction. However, senior executives must also develop the right strategies that strike a careful balance across the 'S' and 'G' too, especially as macroeconomic events conspire to generate friction between the three intertwined components, raising the level of complexity in achieving compliance and maintaining momentum in implementing sustainable initiatives.

A comprehensive and enduring ESG compliance plan may prove the secret weapon in the war for talent, too. Companies with a clear purpose will be better positioned to attract and retain the very best people, as employees continue to correlate job satisfaction in a post-pandemic world with strong ESG ambitions and results – allied to a compelling values set – in addition to flexibility and work-life balance.

But such firms can act. A clear plan for change is required, demonstrating how the company can either make its existing business less damaging to the environment, or outline how it will diversify its revenue streams.

Failure to do so could carry significant consequences. Our survey revealed that 69% of respondents either strongly agree or agree that a company's ability to access finance will depend on complying with ESG guidelines.

A COMPANY'S ABILITY TO COMPLY WITH ESG GUIDELINES WILL IMPACT FINANCIAL PERFORMANCE



“WE'RE NOW SEEING INVESTORS AND CAPITAL ALLOCATION TAKING ESG COMPLIANCE INTO ACCOUNT, SO ESG MIGHT WELL BECOME A CATALYST FOR RESTRUCTURING, AS ANOTHER DISRUPTIVE FACTOR FOR BUSINESSES TO CONTEND WITH.”

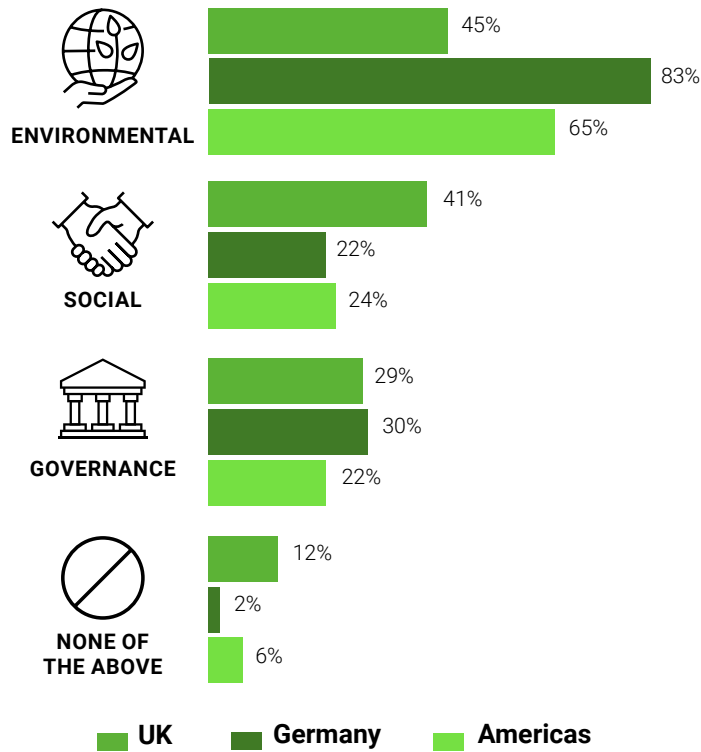


Stelios Fragkos

Managing Director

A comprehensive and enduring ESG compliance plan may prove the secret weapon in the war for talent, too. Companies with a clear purpose will be better positioned to attract and retain the very best people, as employees continue to correlate job satisfaction in a post-pandemic world with strong ESG ambitions and results – allied to a compelling values set – in addition to flexibility and work-life balance.

WHICH ASPECT OF ESG DO YOU BELIEVE IS OF GREATEST CONCERN TO YOUR CLIENTS?



“JOB SATISFACTION AND PURPOSE IS A BIG CONCERN FOR EMPLOYEES – INCREASINGLY, COMPENSATION IS LINKED TO BEING PART OF A GREATER CAUSE THAN THEMSELVES, AND THEY WANT TO KNOW THAT THEIR PURPOSE AND THEIR EMPLOYER’S PURPOSE ALIGNS.”



Faisel Hussein
Managing Director

Prioritizing investment in ESG-related initiatives that can be measured and quantifiably demonstrate genuine progress will provide an immediate signal of real action being taken. Robust systems to identify evolving and emerging ESG risks are also critical, and will present business opportunities to harness if they are spotted early enough. Integrated into a rubric for developing residual risk calculations and controls, the transparent articulation of progress and performance can subsequently offer a competitive edge in communication with all stakeholder groups.

As the business world prepares to weather an economic downturn, it is imperative that management attention regarding ESG does not fall down the boardroom agenda. It is a long-term journey, but one that requires persistent focus and action every step of the way.

MERGERS & ACQUISITIONS

PUT A PREMIUM ON PACE OVER PLAYBOOKS

Dealmaking is different now.

Expecting the unexpected has always been fundamental to M&A, as has the pressure to get strategic decisions right. However, with such profound technological, societal, and geopolitical shifts at play, the disruptive factors sitting outside of the traditional M&A playbook now present amplified challenges for transaction teams in any deal process.

The most agile teams will be nimble enough to shift their thinking to absorb new patterns and launch their next move knowing that another shock could be just around the corner. A more compartmentalized strategic approach is required, characterized by short bursts of planning and activity to help M&A teams ride the crest of each disruptive wave over a longer period.

Move at pace, but avoid the underestimation trap

Opportunities must be seized and executed with the greatest possible speed.

Rapidly rising energy prices could wipe out hoped-for cost efficiencies, social issues could raise ESG-related concerns, and financing for deals could be curtailed – or pulled entirely – if changing market dynamics dent the attractiveness of a transaction for investors.

Companies must partner with experts who prioritize pace over playbooks to get the simple things done quickly, before focusing their experience toward dealing with the 20% of issues that often consume 80% of integration time.

“WITH THE MARKETS ROILED, A NEW LEVEL OF AGILITY IS NEEDED AT THE HIGHEST STRATEGIC LEVEL TO REACT TO AND ABSORB THE SHOCKWAVES IN A WAY THAT IS OPPORTUNISTIC BUT DOESN'T PRESUME THE SHOCKS ARE PERMANENT.”



Pilar Tarry

Managing Director

“THE KEY QUESTION TO ANSWER IS WHETHER YOU ARE SET UP TO RESPOND TO DISRUPTION DURING THE CRITICAL PHASES OF THE DEAL, SUCH AS UNFORESEEN SUPPLY CHAIN ISSUES POST-CLOSE, THAT WILL CHALLENGE A DEAL'S VALUE HYPOTHESIS. IF YOU CAN'T RESPOND AND REALIGN STRATEGY QUICKLY, YOU RISK DELAYING OR MISSING CRITICAL MILESTONES.”



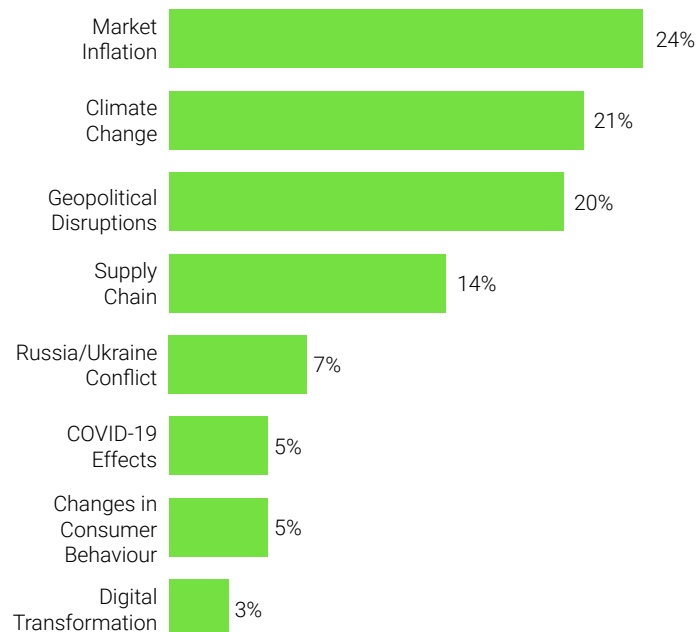
Sean O'Flynn

Managing Director

A handful of scenarios tend to consume a disproportionate amount of time and effort – it's not about processes, systems, or capacity constraints, but about achieving alignment on strategic topics born out of a very fluid macroeconomic environment.

The more conventional issues may relate to factors such as antitrust rules – buyers may know competition clearance is likely required, but regularly underestimate how long that process will take. More complex problems can arise when deals are scrutinized through an increasingly dominant ESG lens. In previous years, the decision about where two merging firms might consolidate their production facilities would be almost exclusively driven by cost. However, now we're more frequently witnessing other issues influence these decisions, including the cost of transportation, the emission intensity of individual facilities, political uncertainty, and concerns about exploitation within supply chains. These factors and where they fit in the calculus is a growing challenge for management teams.

THE ONE BIGGEST CHALLENGE CREATING LONG-TERM ECONOMIC CONSEQUENCES FOR THE GLOBAL MARKET IS:

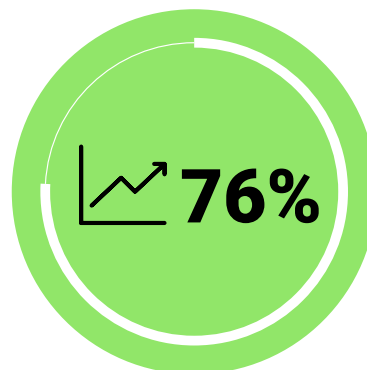


Deal hypotheses must stretch beyond the bottom line

It is therefore likely that business leaders will be forced to sell assets or reconsider investment in others to protect shareholder returns and generate greater liquidity. Not only will this lead to the use of operating model transformation to drive improved multiples internally, but it will also create opportunities for others to buy assets at potentially lower multiples. Due to the distressed nature of these assets, familiarity with alternative methods of buying and integrating corporate entities – such as Article 9 transfers in the US – will play an important role in navigating cost implications and complex capital structures.

All told, the bottom line of dealmaking is no longer simply about the bottom line. Today's companies have a huge

opportunity to create innovative, enduring business models through M&A that can be scaled globally, but it will be challenging.



BELIEVE THAT M&A TRANSACTIONS RELATED TO DISTRESSED ASSETS WILL INCREASE

Flexibility, agility, and speed of decision making will be hugely significant drivers of how transactions progress and the value that can be achieved. The importance of senior stakeholder alignment on critical strategic topics cannot be underestimated – issues such as operating models, go-to-market strategies, and investment priorities can quickly derail deals. Playbooks will not account for securing C-suite consensus on these topics. It is strategic experience that will come to the fore and allow teams to navigate these waters effectively as world events continue to evolve the landscape for future dealmaking.

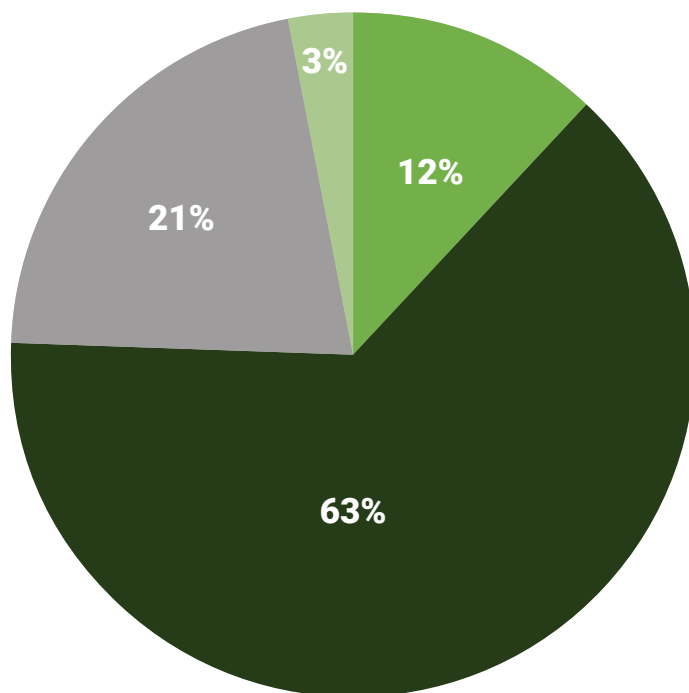
“THERE’S A HUGE OPPORTUNITY TO CHANGE THE WAY THE WORLD WORKS IN THE FUTURE. IT’S IMPORTANT THAT BUSINESSES DON’T WALK AWAY FROM DEALS BECAUSE OF THE COMPLEX LANDSCAPE WE’RE GRAPPLING WITH, OR DO SOMETHING ANOTHER WAY JUST BECAUSE IT’S EASIER.”



Bernd Brunke
Managing Director

THE NUMBER OF MERGER & ACQUISITION TRANSACTIONS RELATED TO DISTRESSED ASSETS WILL:

■ Reach a new high ■ Slightly increase
■ Remain steady ■ Decrease



INFLATION

A PERFECT STORM REQUIRES PLANNING AND PRICING TO MATCH

Asked to name the greatest challenge for political leaders, British Prime Minister Harold Macmillan famously replied, “Events, dear boy, events.”

Business leaders may sympathize: After all, in 2021’s Turnaround and Transformation Survey, most respondents predicted that inflation would likely rise but interest rates remain low. The consensus that price rises would be benign and temporary might even have been borne out – despite trends in commodity prices in the latter half of 2021 – if not for events in Eastern Europe.

With the war in the Ukraine creating even greater pressure on already high energy prices, it is hardly a surprise that this year’s survey cites market inflation as second only to

supply chain disruption as a short-term driver of corporate distress. In the UK and the Americas, it was top of the list. And in all geographies, respondents put forward inflation as the No. 1 challenge facing the global economy in the long term.

We agree that elevated inflation is unlikely to recede in the short term. While we may well be past the point of crisis by the end of the year, it is reasonable to expect 2023 will witness price rises significantly above what we had come to regard as normal in recent decades. C-suites will need to plan for a range of inflationary scenarios in the years to come. But for many, surviving the immediate consumer spending crunch will understandably be front of mind.

WHAT IS THE TOP FACTOR DRIVING DISTRESS?



PERCENTAGE INCREASE IN THE COST OF ALL GOODS AND SERVICES (UK)



The challenge should not be underestimated, as our work on the impact of inflation in the UK shows. At the time of writing, the Consumer Prices Index was rising 9% year-on-year and is forecast to peak at 11%. But we calculate that “essential spend” inflation – the likes of food, housing, and heating – is more like 12% to 13%. Essential spend accounts for more than half of household budgets. Since people have little choice but to meet these costs, and wages are not keeping pace, the result is a discretionary spending reduction of perhaps 17%. This in turn is a worrying statistic to see for businesses in travel, hospitality, and consumer goods.

The No. 1 tactic in the inflation defense playbook is to pass cost increases through to customers. Not all businesses can resort to the obvious though. We encounter suppliers contractually limited to, for example, only annual price increases. This can mean long, worrying months of margin erosion as companies find themselves trapped between the rock of rising input costs and the hard place of static pricing.

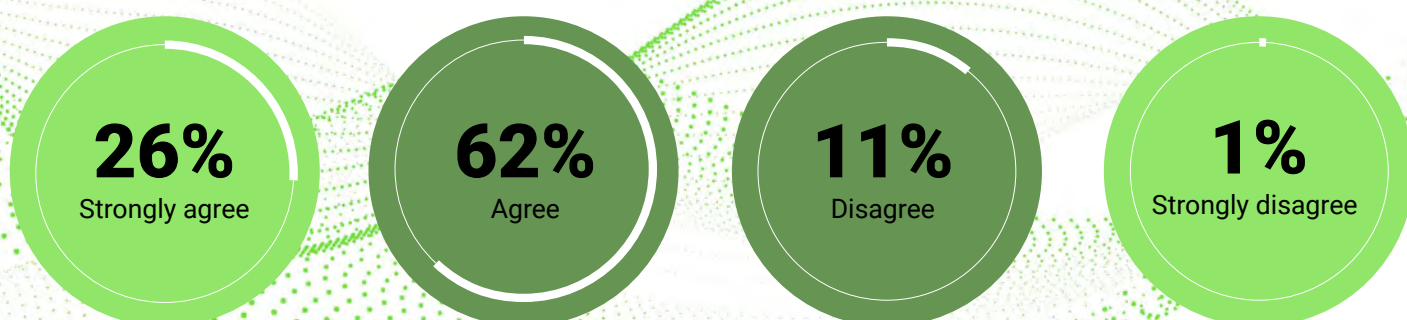
Others can pass costs through but are poorly placed to do so efficiently. In consumer products, for example, a granular understanding of internal data is essential. Companies that struggle with information on profitability at SKU level will not respond quickly enough to maintain margin on individual lines.

“CONSUMERS, PARTICULARLY IN THE UK, ARE ALREADY FACING DIFFICULT CHOICES ABOUT WHERE THEY SPEND THEIR MONEY. WE MAY NOT BE IN A RECESSION YET, BUT WE’RE ALREADY SEEING SIGNS THAT CONSUMERS ARE BEHAVING AS IF WE ARE AND CUTTING BACK ON DISCRETIONARY SPENDING, WHICH WE’RE ALREADY SEEING IMPACT RETAIL, CONSUMER GOODS AND BIG TICKET HOUSEHOLD PURCHASES.”



Lee Watson
Managing Director

A INCREASE IN WORKFORCE COSTS AND LABOR SHORTAGES WILL LEAD TO DISTRESSED SITUATIONS



Retail presents different challenges. Success here depends, in part, on strategic decision-making on the price point for high-visibility products. Retailers that can hold down prices the longest can expect to gain market share: Whoever moves last wins. We therefore expect those with the deepest pockets to thrive.

What of cost control? This is particularly relevant in growth stage tech, where capital allocation is fast drying up and founders are adjusting to the realization that the cavalry is not coming over the hill with low-cost, easy funding. Reducing costs to buy time for market conditions to ease can be the difference between survival and otherwise, in this and other sectors. The challenge here is a certain

myopia about labor costs: Executives are heavily focused on recruitment and retention, which is understandable given the extraordinarily tight labor market. But this can distract from the pressing need to ensure that organizations are the right size for leaner days.

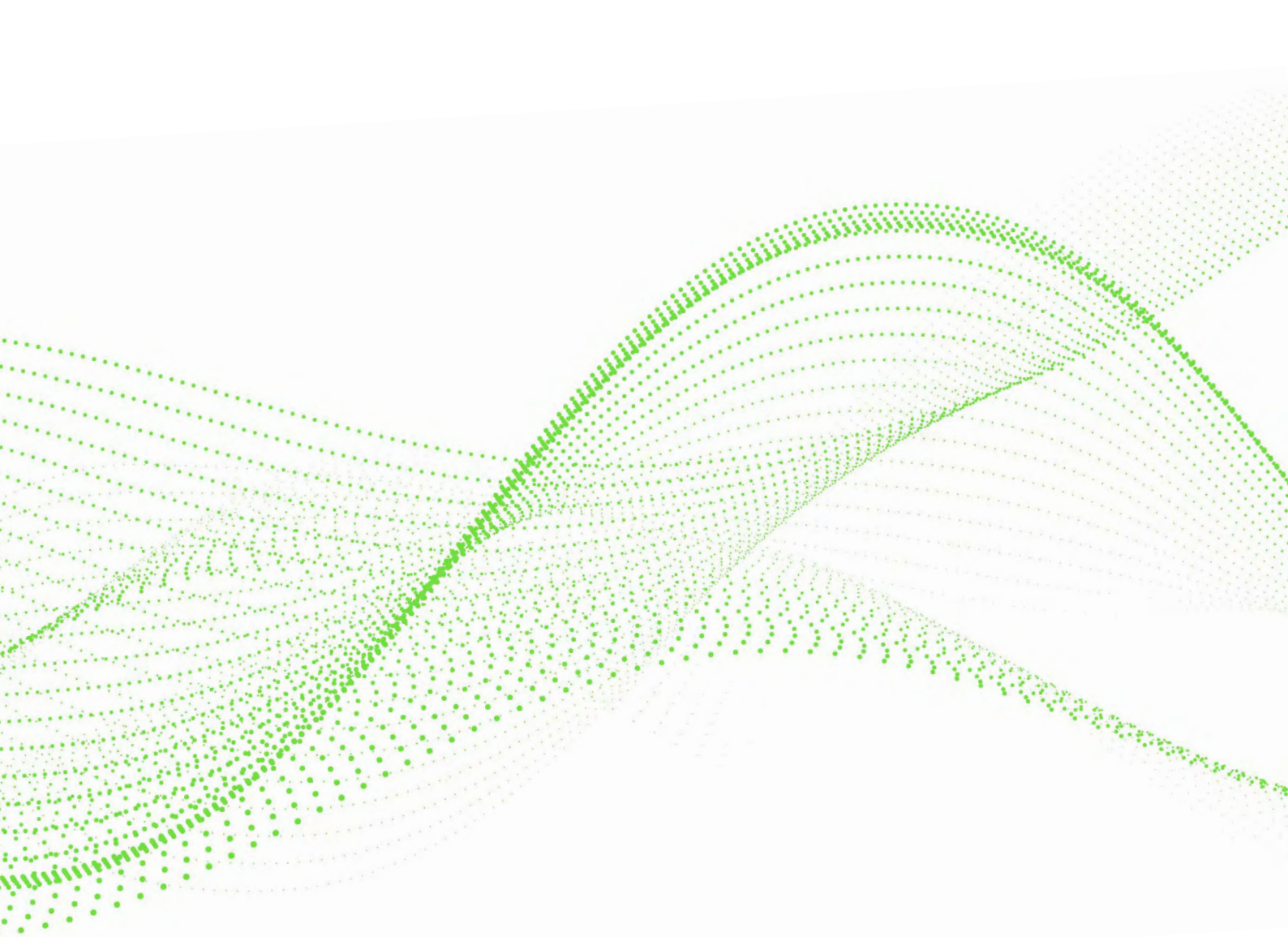
The time to act is now. Highly leveraged companies have been cushioned up to this point by cash piles raised, then not burned, during the early pandemic days. Credit markets have been accordingly forgiving. As risk appetites shrink, however, many lenders are now going back to basics. Corporates must prepare for much more rigorous engagement with credit markets – and soon.

SOME COMPANIES CAN PASS ALONG INPUT PRICE INCREASES QUICKLY, BUT OTHERS CAN'T. FOR THOSE THAT CAN'T, IT'S OFTEN CAUSED BY EITHER A LACK OF UNDERSTANDING TO INCREASE PRICES, OR SIMPLY A MATTER OF CUSTOMERS NOT ACCEPTING THEM. BUSINESSES MUST HOPE THAT THEY HAVE ENOUGH CAPITAL OR CAN PULL THE RIGHT LEVERS TO GET BY IN THE MEANTIME.



Eric Koza

Managing Director



For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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