How has Turnaround changed over the last ten years?

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There will be many anniversaries this year most of which will probably go unnoticed. In the world of economics and finance, however, there is one that should be remembered and reflected upon. This year will be ten years since the collapse of Lehman Brothers and perhaps the start of one of the longest and deepest periods of recession the global economy has ever witnessed.

The measures taken to counter that recession have had long reaching implications. Quantative easing, together with keeping interest rates low has seen economies stagger out of recession like zombies, groggy from a long period of hibernation rather than the rapid rebirth of old or like a snake shedding its skin.

While it has been a slow and sometimes painful recovery (re austerity measures) the economies of the world have or were recovering and yet here we are once again stood with the markets seemingly 'correcting'. Perhaps it is time to reflect on the last ten years to see what has changed.

The world of turnaround over the last ten years has been at times a difficult and challenging market in which to operate. Much has changed in the last decade and yet the underlying issues have not. The task of the turnaround specialist has fundamentally remained unchanged; to identify a company's problem, formulate a strategy to fix that problem and then implement.

The problems in turnaround also remain largely unchanged, which include (amongst other things):

- Dysfunctional management or a lack of skilled leadership (management issues)
- An identified and sometimes urgent need for working capital (short term cash flow issues)
- Regulatory change (legal issues)
- The need for further investment to implement a new project or launch a new product or service (long term cash flow issues), and
- Inefficient processes (operational issues).

What has changed however over the last ten years are the tools and strategies available to the turnaround specialist and in particular the sources of finance now available. The make-up of the sector has also changed.

Over the last decade we have witnessed an explosion in EIS investment opportunities and the birth of peer to peer investment and lending platforms. This has made quasi private equity available to even the smallest of companies. Many such investors and platforms, being seemingly more flexible and with a different risk appetite have at times stolen a march on traditional banks. (Given interest rates are on the rise, it remains to be seen whether the peer to peer investment platform will be here to stay, or will everyone flock back to the banks once they can earn a steady interest rate in a 'safe haven'). We have seen these lenders enter the financial marketplace en masse, in some situations lending to companies that others might deem are 'high risk', 'stressed' or indeed 'distressed'.

In addition to this, the growth of specialist turnaround and distressed debt and investment funds has increased the availability of cash to troubled companies and competition is fierce with many of these funds feeling pressure in which to deploy cash. This competition leads to businesses/assets being overvalued and in turn making it harder for the distressed investor to make a return. I have lost count of the number of opportunities ReSolve has passed on due to a competitive auction taking place, leading to an exceptionally high and potentially overvalued price being paid. At least the competition gives those directors seeking critical funding more options leading to the cost of capital being squeezed down.

This increased opportunity for individual investors has often left regulators and lawmakers having to play catch up as they seek to balance a desire to promote investment and entrepreneurship while also ensuring at least some tax is taken. This has resulted in rapid and sometimes constant regulatory change over the last ten years as innovators find more and more ways to deploy cash in a tax efficient manner while the tax man plays catch up.

While governments and regulators of old embraced the “rescue culture,” offering tax incentives to promote entrepreneurship or having a liberal interpretation of the rules and regulations, recent cases such as BHS and others less well publicised have seen a move towards potentially clipping the wings of turnaround investors.

For example the regulators and courts are becoming increasingly less flexible in how insolvency laws should be interpreted, making it harder to implement turnaround strategies that require a “pre-packaged” insolvency as part of the process. Changes in regulation and tax laws can also be a disincentive to investment. BHS has caused ripples across the market with many directors telling me they don’t want to be the next person sitting in front of Frank Field!

Turnaround professionals are also finding that there is increasingly less to work with when they are engaged by clients. The norm now is to find that debtors have already been assigned multiple times to an increasing succession of invoice discounters, each one in an ever faster race to the bottom. In the meantime every fixed asset that can be financed has been financed. Everything from fit out and building improvements to computers, plant and machinery and furniture can now be financed in some way or another. Stock is increasingly subject to trade finance, while freehold properties were sold long ago to eager developers or canny investors.

This leaves nothing but the intellectual property and, if you are lucky, the cash in the bank to play with.

The turnaround advisory marketplace is also an increasingly crowded one. As markets slowed down over the last ten years, banks and large accounting institutions released swathes of their senior work out teams. This led many to stride out into the seemingly fertile lands of private practice, no longer shackled by internal risk boards dictating what could or couldn’t be done.

Nimble, fleet footed turnaround warriors armed with nothing more than a mobile phone, a laptop and a LinkedIn database of contacts, now offer clients big firm expertise at a fraction of the cost, or insider banking knowledge, a direct line to the head of credit. This has forced the more traditional accountants and larger institutional restructuring and turnaround teams to re-think their strategies or risk losing out completely.

A further change has seen an increasing willingness on the part of lenders to sell on their distressed debt. This has seen everything from large funds buying up billion pound books in order to sweat the underlying security for pence in the pound returns, down to smaller funds re-financing institutional debt at par simply to mitigate the recovery risk of the bank to take control of a situation.

The USP of these distressed debt funds (large and small) is quite often the speed with which they are prepared to deploy funds and their apparent willingness to offer extended terms when others are less prepared to do so. This can be the difference between success and failure in a turnaround - the rescue of a company and its business and the safeguarding of jobs for all that it might employ, or a collapse into the obscurity of being just another insolvency statistic (and a fee for the humble IP).

So the turnaround market has changed even if the fundamental issues we all face as turnaround practitioners have not. One thing that has definitely not changed is there will always be opportunities for the brave and for those flexible and fleet footed enough to move quickly.

As we now stare into this new abyss, the world of turnaround is perhaps about to get a little busier. Although the outcomes may not be what we all expected. There are many macro and micro issues to debate and consider;

- Brexit
- Protectionism v globalism
- USA/China/Russia v the World (delete as necessary)
- The increased reliance on technology and AI and its impact on the workforce
- The impact of the big beasts of technology Google, Amazon, Facebook etc.

Will we learn from the lessons of the past or do we have to completely rethink strategies to cope with technological advances. This fundamentally is the biggest change in turnaround over the last ten years and the pace of change is not going to slow down any time soon.

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