BUSINESS TURNROUNDS

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Happy days are put on hold

Restructurings are down and refinancings are taking centre stage, but there are concerns about the outlook, writes **Anousha Sakoui**

Balancing act: Endemol, the company behind Wipeout, has hit the headlines in recent months. Shown is the US version, produced by ABC Getty

The new year has potentially heralded a fresh start for the corporate world. Many companies are emerging from the "great recession" with stronger balance sheets, record cash piles, and – possibly – the worst of the crisis behind them.

"Companies have weathered the storm, reduced costs, shed non-core assets, and managed working capital better," says Peter Briggs, managing director of Alvarez & Marsal, the specialist restructuring firm.

"They have been given no fresh money, but they have survived by pushing the day of reckoning on their debt maturities further out. That has suited both banks and companies."

There are still some potential debt renegotiations that are catching the headlines. Punch Taverns, a UK pub company, Endemol, a Dutch broadcaster and Eircom, an Irish telecom company, are just a few situations where companies have hired bankers to assess their options.

But the number of restructurings is well below its peak in Europe in the fourth quarter of 2009, according to data from LCD, the debt specialist, part of Standard & Poor's. While there are still some restructurings to be worked through, many restructuring specialists say the market is quiet again.

"There is still a small number of large restructurings working through the market, but otherwise the level of restructuring mandates is down on the past year to 18 months," says Peter Marshall, co-head of European restructuring at Houlihan Lokey. "I expect we will continue to see a much lower level of activity. A big focus will be on companies' ability to refinance maturities in 2012 to 2014."

Philip Davidson, global head of restructuring at KPMG, says that in the US the restructuring market is the quietest it has been since before the summer of 2007, a result in part of abundant liquidity.

"Over the past six months insolvencies have fallen further," says Mr Davidson. "That should be taken as a good sign, but while you would now expect people to become bullish about the recovery, oddly that is not the case. I don't detect any optimism. People are just waiting and seeing. There aren't signs of growth emerging."

And investors in distressed debt paint a similar picture.

"With banks patient and economic growth better than expected, refinancings are dominating at the moment," says Theo Phanos, founder of Trafalgar, a credit fund. "Tough restructurings and true distressed situations are currently modest in number."

There are, however, concerns about the outlook. In particular, these relate to a possible oil price shock driven by recent instability in the Middle East and rising interest rates.

"People are desperately worried about the impact of government spending cuts, rising unemployment and interest rates," says Mr Davidson. "The fear of rising interest rates has significantly curtailed corporate enthusiasm to spend and the same applies to individuals. We are in real danger of knocking along the bottom in the doldrums for an extended period of time."

Mr Davidson believes this year could be a repeat of last, with many companies that have been hanging on for the recovery starting to come under pressure.

Alan Bloom, global head of restructuring at Ernst & Young, says rising rates will increase the number of companies that need to be restructured or may fall into insolvency.

"Until now, it has largely been the historically low interest rate environment that has kept many businesses afloat," says Mr Bloom. "Any business dependent upon the consumer is finding it tough in the UK.

"With increased commodity prices and the prospect of significant redundancy arising from the government cuts, the consumer is having to be far more discerning. A lot of our activity is in areas that are dependent upon discretionary spend – hotels, leisure, being particularly prevalent."

For many companies, there are still challenges ahead. While credit markets have reopened to many companies, Mr Bloom believes the availability of credit for all but the best companies is scarce.

> 'People are desperately worried about the impact of government spending cuts, rising unemployment and interest rates'

"The strong have definitely got stronger in the past two to three years, have taken some tough decisions and are now well positioned for growth. The weak, on the other hand, have suffered very considerably and in many economies we are experiencing a much greater disparity between the strong and the weak," he says.

Donald Featherstone, partner at AlixPartners, another turnround specialist, expects that eastern Europe and the Middle East will see a robust and sustained level of restructuring activity.

Many companies battened down the hatches to get through the recession, but the situation is now different.

"This financial crisis has had everyone's attention, but the world has not stopped changing," says Mr Briggs. "So just having an economic recovery alone doesn't help companies; they too have to change. For restructuring, there's a balance sheet aspect and increasingly a focus on whether you have a competitive business and have kept up with the developments in your industry, while you've been hunkering down financially."

One of the questions those businesses may face is whether to move capacity or distribution to low-cost regions to be competitive.

And it is not just cost pressures that companies face. Technology and patterns of consumer demand have changed, and advisers say companies need to react to these changes.

"The message is 'reinvent or die'," says Steve Frobisher, business turnround expert at PA Consulting Group. "Most companies are not the lowest-cost producer in their sector and these businesses face the risk that their customers have already changed their behaviour.

"The key to reinvention is to create a portfolio of winning businesses. Companies must refocus on potential winners, harvest capital from value-diluters, right-size their capacity and exit likely losers."

Mr Featherstone at AlixPartners says he sees market leaders consolidating, in particular in the oil and gas sector and shipping.

"Corporate restructurings are providing a number of opportunities for stronger players to acquire market share at relative attractive price," he says.

One pressure for companies will be any impact on consumer demand.

The recovery in credit markets has helped eat away at the wall of maturities that companies face. One big focus for restructuring bankers is a wave of debt maturities coming due in coming years.

"Despite an unsettled global economy, pent-up liquidity in the debt markets is making this a good time for many companies to refinance," says Christian Savvides, managing director at Rothschild. "However, the outlook is still uncertain for those that are overleveraged, underperforming or in difficult sectors and in some cases looming debt maturities will trigger restructuring."

Dan Schwarzmann, partner and business recovery services leader at PwC, says companies need to preempt what their banks and other stakeholders are looking for.

"Regular dialogue and relationship building with key stakeholders needs to happen to understand fully their pressures and how they might impact companies' objectives," says Mr Schwarzmann.

"Companies should also keep an eye on the basics, which are often overlooked. Many companies focused on cash management when the crisis hit.

"However, where increased scrutiny from stakeholders is expected, companies should ensure that forecasts and reporting are accurate and robust and allowances are made for pressures such as interest rate and commodity price rises."

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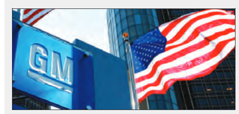

Economic upturn may bring more bad news

Insolvencies

that filed for bankruptcy last month, is the latest

at Neal, Gerber & Eisenberg in Chicago, explains that,