AlixPartners

MARCH 2020

FEEL THE DISRUPTIVE FORCE

AlixPartners' 15th Annual Turnaround and Restructuring Experts Survey

As we enter the 15th year of our annual Turnaround and Restructuring Experts Survey, the surface level results continue to tell us the same story. According to more than 500 financial and legal experts we surveyed in the final months of 2019 and early 2020, the top three industries likely to face distress as we enter a new decade will remain the same as in 2019.

The retail, automotive, and oil and gas sectors look set to get little relief, as seismic changes in consumer behavior, technology and the global economy continue to transform their landscapes.

Furthermore, as we take a deeper dive into regional disparities and the impact of wider disruptive forces, the picture becomes even more complex.

The disruptive effects of technological advancements, an uncertain geopolitical climate, and wildly changing consumer behaviors are not only affecting the 'top three' industries, but are causing ripples across all sectors, in new and unpredictable ways.

At the time of publication of this survey report, the coronavirus was disrupting global manufacturing and air travel, and threatening to cause a major worldwide economic downturn, as markets and businesses addressed its global spread.

It's still unclear what path the coronavirus will take, but it has far-reaching disruptive consequences – not just for businesses, but politically and socially as well.

According to the World Economic Forum it "highlights cracks in global trust", and there may be implications for industries that we have not yet even thought about.

With our eyes on the road ahead, disruptive events in 2020 are set to continue. With the UK's departure from the EU, a US election, and the threat of recession prevailing globally, uncertainty will be a theme this year.

Specific challenges will come to light as policies are made and votes cast, but the one thing we can confidently predict is that everyone must prepare themselves for an unknown but disruptive future.

This survey was conducted before the recent global economic turmoil caused by COVID-19 and the oil price wars. The full effects of these two events are still to be determined and we, like many others, anticipate that they will drive a spike in restructuring activity across a range of sectors.

Despite the abrupt change in global economic conditions, many of the structural themes uncovered by our survey remain the same, and we expect these recent events to exacerbate – and at times accelerate – the disruptive forces identified in our survey as driving restructuring activity.

GLOBAL INDUSTRIES IN DISTRESS

When asked to predict which industries they believe will face financial distress in 2020, respondents placed the retail, automotive, and oil and gas industries in the firing line.

RETAIL

Perhaps reflecting the well-publicized closure of some big-name stores across the world, our experts' concern for retail's health has increased quite dramatically, up to 66% this year, from 49% in 2019.

Globally, 'change in consumer behavior' was cited as the dominant reason for this, reflecting the ongoing struggle of traditional retail businesses to pivot from storefronts to online commerce. 86% of global respondents credit consumer behavior as the biggest driving force, with the second and third most mentioned being economic conditions (57%) and technological disruption (55%).

Overall, this suggests that the changes that retailers have made over the past five years to address consumer behavior have not been enough to conquer these disruptors.

US: In line with global predictions, 65% of US respondents forecast the global retail industry to be the most likely to face distress in 2020 – and 69% saw distress ahead for retail in the US specifically.

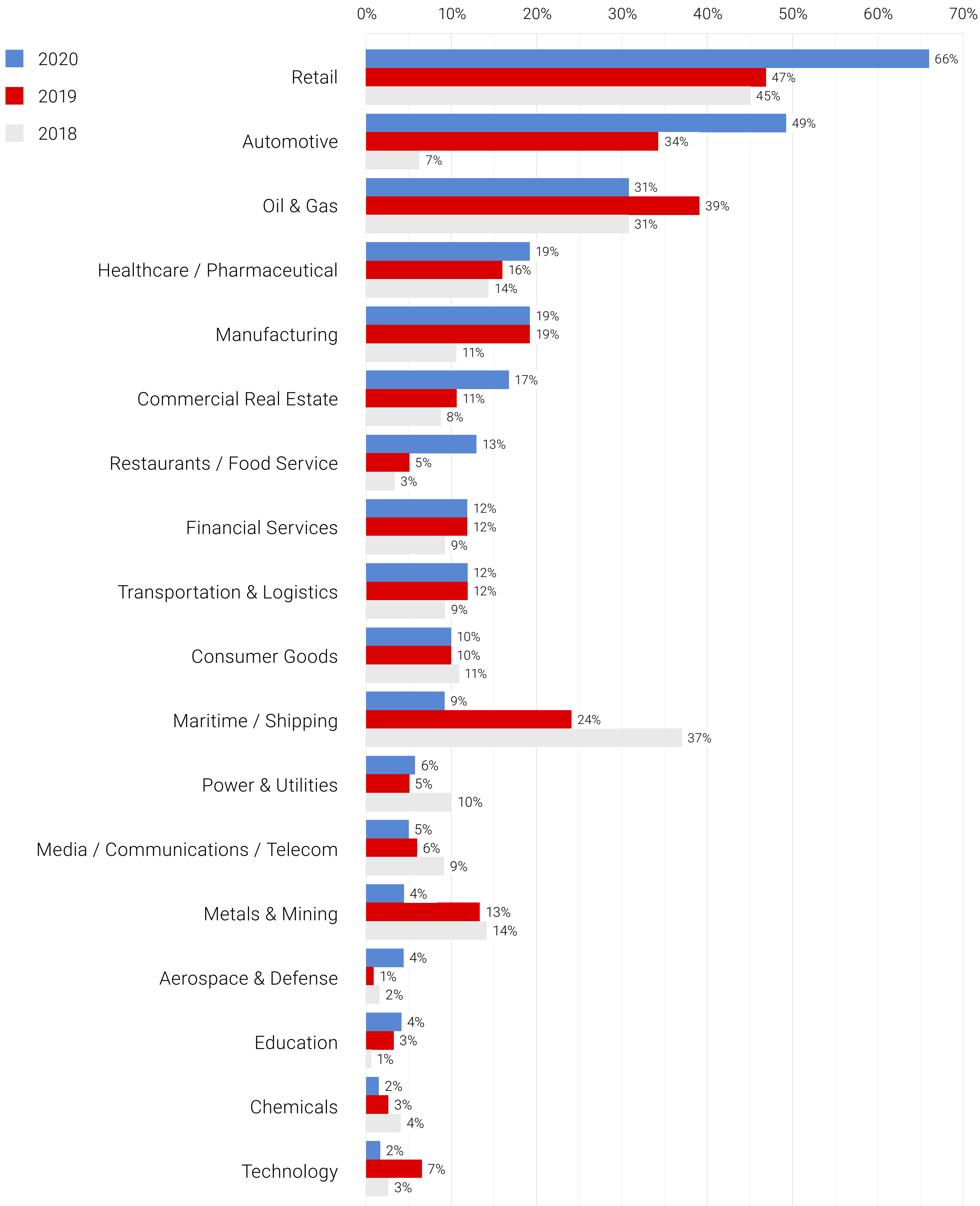
UK: Regionally, the narrative continues around the UK's declining high street, as respondents note the fall of historic giants such as Debenhams and Mothercare in 2019. 86% of UK respondents predict the UK retail industry will face distress in 2020.

Germany: Due perhaps to a slower creep of store closures in Europe, German respondents are apparently the least concerned about retail; just over half of respondents – 56% – predict hardship for the German retail industry in 2020.

INDUSTRIES IN DISTRESS: TOP FIVE GLOBAL PREDICTIONS

2019	2020
RETAIL	RETAIL
OIL & GAS	AUTOMOTIVE
AUTOMOTIVE	OIL & GAS
MARITIME	HEALTHCARE
MANUFACTURING	MANUFACTURING

INDUSTRIES MOST LIKELY TO FACE DISTRESS



AUTOMOTIVE
Global respondents see distress ahead for the automotive industry in 2020, increasing to 49% from last year's 34%. Respondents cited 'technological disruption' as the largest threat to the automotive industry (70%), as electric- and hybrid-vehicle technology continues to challenge supply chains. This was followed by 'economic conditions' (57%) and 'change in consumer behavior' (54%).

Automotive has been particularly swayed by German survey respondents, who – bucking the global trend – overwhelmingly classed it as the most likely global industry to face distress (93%) in 2020. This number rises to 96% when Germans were asked to consider the German auto industry alone.

German automotive OEMs face weakened demand in China, high capital expenditures driven by electrification, Brexit, and the threat of tariffs on German cars imported in the US. Suppliers – particularly those who are not in the electric power business – face financial issues, as banks and credit insurers become increasingly critical about their outlook.

OIL AND GAS
While it has slipped from second to third place compared with last year, respondents remain almost equally concerned about the oil and gas industry in 2020.

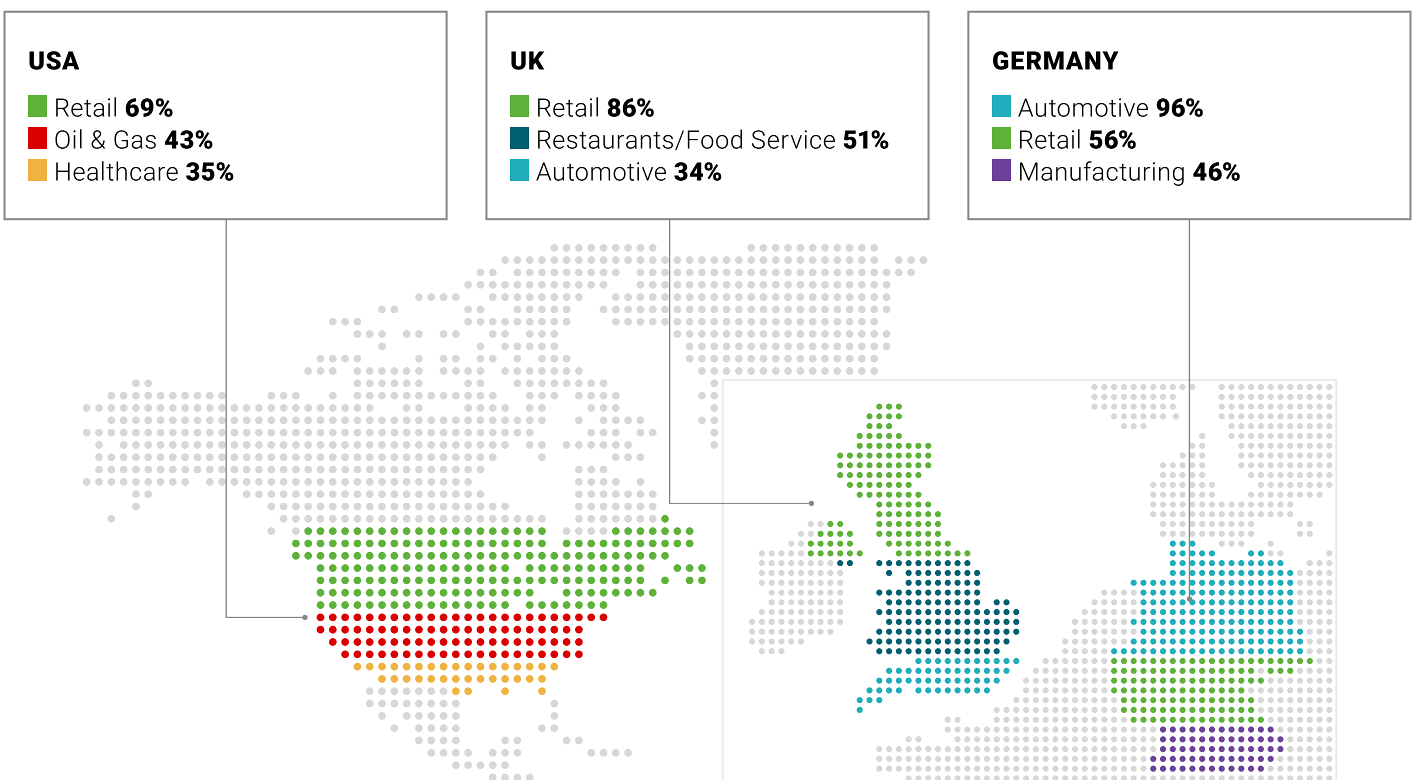
Respondents overwhelmingly credited 'economic conditions' as the main reason the sector is set to face distress (85%). Excess supply and shrinking demand have severely suppressed the price of natural gas. Recently, uncertainty in foreign markets has negatively impacted demand even further.

The current financial strain on producers is likely to increase, as many companies that took on debt after the 2016 oil slump face large debt maturities in the near-term. In addition, environmental regulations are starting to have a global impact on oil and gas companies.

HEALTHCARE / PHARMACEUTICAL
The healthcare and pharmaceutical industries continue to be top-of-mind. US respondents are particularly concerned about their own healthcare and pharmaceutical industries, with over one-third (35%) predicting distress in 2020.

86% cited 'regulatory changes/ legislation' as the driving force for distress in the industries. This is understandable, as the US is facing regulatory crackdowns, a push by policymakers to alter current payment models, litigation surrounding the opioid epidemic, and increased competition led by generic formulas driving prices down.

INDUSTRIES IN DISTRESS: REGIONAL PREDICTIONS 2020



DISRUPTIVE FORCES

A main focus of our survey was to understand the disruptive effects that wider economic forces, and political and social events, will have on restructuring and the world's businesses.

Technology may have the largest disruptive impact, forcing companies to be nimble and innovative.

DISRUPTIVE EVENTS AND TRENDS
After 10 years of a bull market, a credit cycle is looming, and coupled with disruptive forces, there is a growing sentiment that an active restructuring market could be on the horizon.

However, the credit cycle is no longer the only indicator of an active restructuring market. With disruptive forces – geopolitics, technology and regulation – there is a new disruption cycle curve, with shorter, and more sudden drops and rises. Last year, our survey noted that disruption is the new normal, and our survey responses support that again in 2020.

When we asked respondents more specifically to rank current news topics and how they will affect restructurings, there was disparity across regions:

TECHNOLOGY
Technology may have the largest disruptive impact, forcing companies to be nimble and innovative. Digitization, data analytics, and artificial intelligence are driving companies to be more forward-thinking, flexible, and strategic with their business planning, to ensure they can compete with ever-changing market dynamics and evolving consumer behavior.

GEOPOLITICAL FORCES
The current geopolitical climate is one of transition, with potential disruptive impacts on the restructuring market.

In the US, 2020 is an election year and three quarters of our respondents believe that the election of a new president in 2020 will be worse for the economy.

TOP FIVE EVENTS AND TRENDS LIKELY TO INCREASE RESTRUCTURINGS

GLOBAL	US	GERMANY	UK
1. Tariffs	**1.** Tariffs	**1.** Disruptive technology/Economic slowdown in China	**1.** Turmoil in emerging markets
2. Disruptive technology	**2.** Disruptive technology	**2.** Tariffs	**2.** Tariffs/ Disruptive technology
3. Economic slowdown in China	**3.** Economic slowdown in China	**3.** Brexit	**3.** Brexit
4. Brexit	**4.** Oil prices	**4.** Oil prices	**4.** Economic slowdown in China
5. Oil prices	**5.** Turmoil in emerging markets/Brexit	**5.** Turmoil in emerging markets	**5.** Oil prices

DISRUPTIVE FORCES DRIVING RESTRUCTURING ACTIVITY IN 2020

The UK continues to deal with Brexit uncertainty, even after exiting the EU on January 31. While 82% of our UK respondents think Brexit will increase restructurings, it remains to be seen which industries and businesses will be most affected.

While tariffs alone are unlikely to drive a company into financial distress, they can expose weaknesses and inefficiencies, and it's important for global businesses to take a proactive approach to adapt quickly. In 2020, it is likely that the US will turn its attention to the European Union, as well as look for additional deals with China. This may lead to new tariffs.

Escalation of hostilities between the US and Iran may have material impacts on the global economy. This is particularly true if such an event causes a spike in global oil prices.

Finally, the spread of the coronavirus is having an impact on global markets. It will be important to watch its effects, particularly as responses vary from country to country.

ECONOMIC THREATS

Moving into 2020, 62% of US respondents and 74% of European respondents expect interest rates to remain the same.

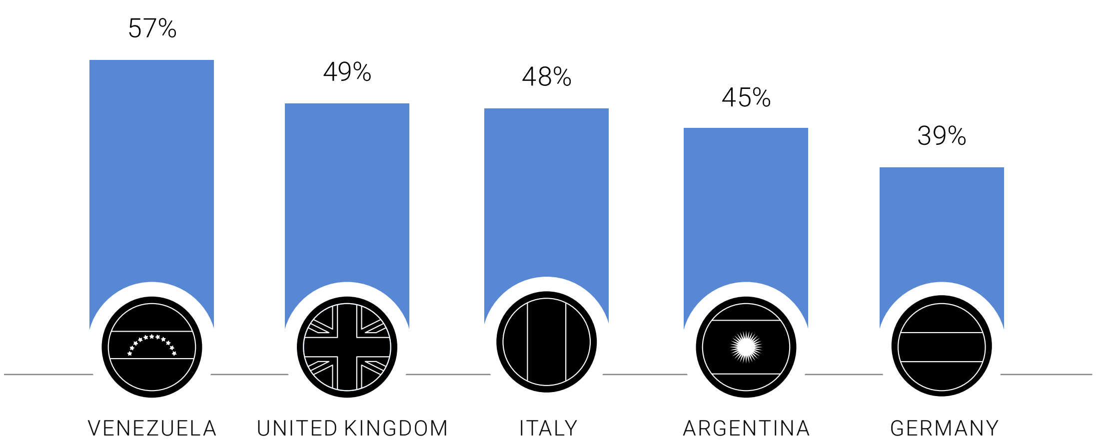
With interest rates already low, the ability of institutions to cut rates in response to a downturn will be limited. It remains to be seen whether 2020 will be the year of a credit cycle turn, but this coupled with a potential cut-off to liquidity, would increase the likelihood of distress.

Startups losing steam, supply chain uncertainty, unemployment, and geopolitics may also impact the global economy.

Additionally, it is unclear how devastating the coronavirus will be to the global economy. The outbreak has already slowed manufacturing in China, raising the possibility of significant supply chain disruptions around the world. In fact, 38% of earnings calls between January 1 and February 13 referenced 'coronavirus' at least once, according to FactSet.

The overall economic impact will depend on how much further the outbreak spreads, how much longer it lasts and whether it begins to have an impact on demand beyond supply.

WHERE DO GLOBAL RESPONDENTS EXPECT A RECESSION IN 2020?



TOP THREE PREDICTED INDUSTRIES IN DISTRESS IN LAST 10 YEARS

2011	Retail	Restaurants	Commercial Real Estate
2012	Retail	Restaurants	Commercial Real Estate
2013	Healthcare	Retail	Energy & Resources
2014	Retail	Energy	Healthcare
2015	Energy	Maritime	Retail
2016	Oil and Gas	Sovereign Debt	Maritime/Shipping
2017	Oil and Gas	Maritime	Retail
2018	Retail	Maritime/Shipping	Oil and Gas
2019	Retail	Oil and Gas	Automotive
2020	Retail	Automotive	Oil and Gas

15 YEARS OF INSIGHTS

As we consider the 15 surveys we have now conducted, we can reflect on wider trends and key insights we've gleaned over the years. Here are our top insights – including what our surveys got right and wrong:

2005-2020
Retail distress

Since our first survey, the retail industry has consistently been one of the top three industries most likely to face distress. In the year it didn't appear (2016), retail bankruptcies only made up 3% of the total bankruptcies, according to BankruptcyData.

2009
Economic recovery

In 2009, two-thirds of respondents said the economy wouldn't recover until 2011 at the earliest. Lo and behold, restructuring experts were right and restructuring activity decreased in 2011, only to increase again in 2016.

2009-2020
Municipal bankruptcies

Our survey was not an all-knowing predictor of how the US would handle municipal bankruptcies.

In 2009, respondents thought we would see a 'surprising' (i.e. increased) amount of restructuring in municipalities, and in 2010, 90% thought there would be a major municipal default in the next year.

However, come 2011, with the exception of Jefferson County, Alabama, no notable defaults had happened and municipalities as an area of focus faded away.

In 2014, in the wake of Detroit's filing, respondents again expected an increase, but to no avail. These issues identified back in 2009 have not gone away. With an aging population and significant legacy pension liabilities, will 2020 be the year these areas of distress are addressed?

2011
Need for speed

Two thirds of respondents in 2011 through that 51%-89% of the bankruptcies in the coming year would be accelerated.

Only 43% in 2012 were actually prepackaged or prearranged.

Fast-forward to 2019, when the two fastest-ever bankruptcies in the US took place, both through the court in less than 24 hours – Full Beauty, followed a few weeks later by Sungard.

2012
Election year in America

Although a Democrat won the White House in 2012, 61% of our respondents said a Republican candidate would be best for the US economy – an opinion that US voters clearly shared in 2016.

This year (2020), 78% of our respondents think that the re-election of the current US Republican president will be best for the economy.

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ABOUT US

For nearly forty 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.