

NAVIGATING BUSINESS RECOVERY

Why now is the time to shift
from survival mode to a view
of long-term value creation



The New Year has ushered in a further wave of COVID-related restrictions, putting the brakes on businesses across Europe accelerating out of the pandemic in 2021. Vaccination rollouts bring confidence that the world will eventually move to a more positive phase of recovery, however the fog is unlikely to lift fully until 2022.

So how can companies find the confidence to shift gears from a heavy focus on immediate survival to prioritizing value creation?

In such uncertain times, it may feel too soon to refocus on long-term decision-making and associated operational activity—many companies are understandably delaying these actions until visibility improves. Visibility is improving with time as vaccines roll out. However, we predict that those companies who proactively engage in transformation planning followed by early implementation will accelerate out of the fog and recover earnings fastest once we can put the lockdown era behind us.

Whilst many uncertainties remain, we do know that corporates are carrying much more debt than a year ago. Earnings are forecast to recover slowly and many companies will need further financial support before they recover to their new normal levels.

Here, we set out how we believe management teams should respond to the current challenges. This includes how the issues differ where impacts are likely to be temporary versus cases where the sand has shifted more permanently, leaving companies with a more fundamental transformation challenge.

2021 – WE SEE A GAME OF TWO HALVES ON THE HORIZON

In 2020, business leaders were quick to respond to the immediate impact of COVID-19, focusing appropriately upon ensuring their businesses were able to weather the storm and survive.

The start of 2021 has yet to re-establish 20:20 vision for business leaders and poor visibility is likely to remain for at least the first half of 2021. By H2 2021 vaccination programs will have been in action for several months and 'new normal' demand levels will start to become clearer, along with rising consumer confidence, providing better conditions for some of our more forward-thinking clients to start reshaping their business in response.

None of us know exactly how the recovery will manifest itself, but we strongly believe that within industries negatively impacted by COVID-19 the winners will be brave enough to recognize the lasting impacts, and plan and execute their transformations before the competition. By contrast, those who wait for perfect visibility or simply expect business performance to self-correct to 2019 levels will likely be behind the curve when conditions do eventually improve.

ACTION PLANS SHOULD BE DRIVEN BY INDUSTRY SECTOR

The impact of the pandemic will vary by industry, as shown in Figure 1 below. Some will rebound strongly, whilst others face lasting and fundamental change.

Responses from individual companies should reflect the severity and permanence of the impact on their business. For example, travel and leisure businesses have suffered badly, but there is pent-up demand to enjoy these pursuits once again. Many will recover quickly, and those needing further financial support may do so in the expectation that the business will bounce back quickly and ultimately be able to repay lenders.

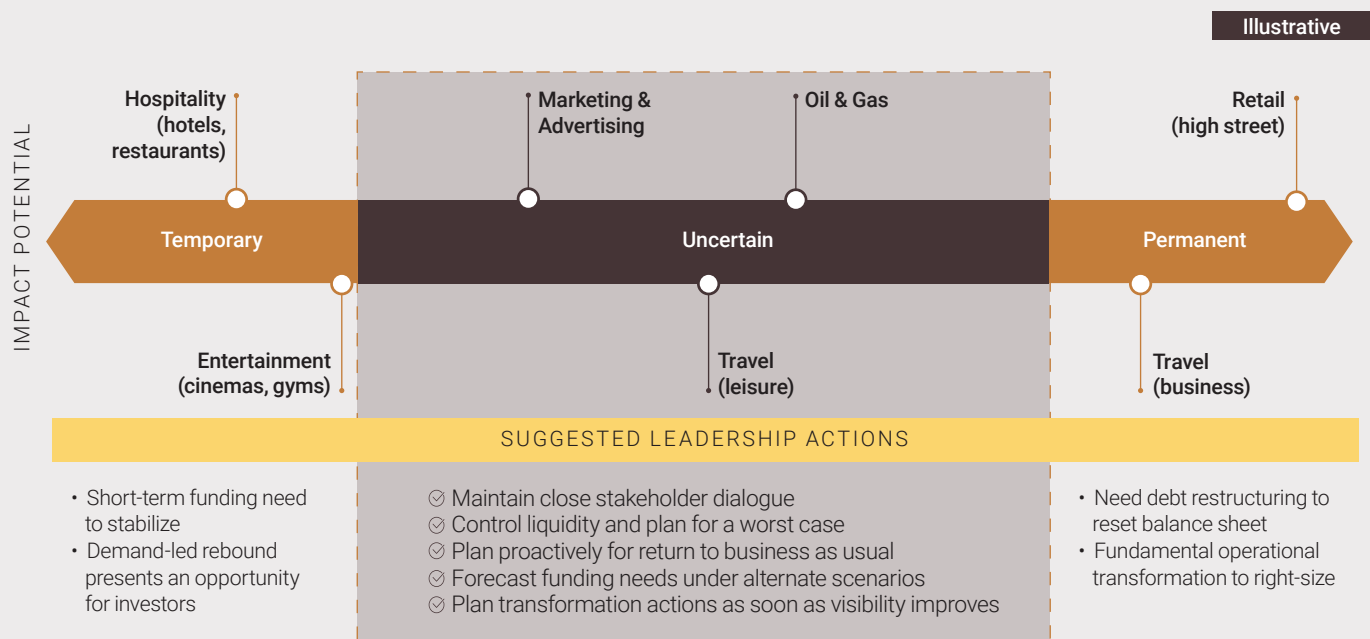
Meanwhile, in retail, COVID-19 has accelerated pre-existing trends (e.g. the shift from high street shopping to online) further punishing an already underperforming industry. Other industries, such as

business travel are facing a new and enduring disruption which will impact many, including airport and aviation-related businesses.

These companies have become worryingly overleveraged as a result and they will require fundamental debt restructuring solutions if they are to stabilize their financial position and turn their attention toward the deeper transformation required.

Where the lasting impact of COVID-19 is still uncertain, it remains difficult to size funding requirements and debt capacity. In these circumstances, we have used a scenario-based planning approach to estimate funding needs and balance sheet solutions under a range of scenarios (see Figure 2 on following page).

FIGURE 1: MANY COMPANIES STILL FIND IT HARD TO FORECAST THE LASTING IMPACT ON THEIR BUSINESS...



SCENARIO PLANNING

A flexible scenario-based planning approach can help company leaders to consider the impact of identified risks and identify the gaps to be closed.

FIGURE 2: A SCENARIO-BASED PLANNING APPROACH CAN PROVIDE GREATER CLARITY AND STABILITY



IMPLICATIONS FOR RESTRUCTURING

From a funding perspective, it is clear that many businesses will need to either raise new capital to buy additional recovery time and/or fundamentally restructure their debt obligations.

The challenge for management is to find a sustainable balance sheet solution, buying sufficient time and funding to fix their business ahead of improving market conditions.

Winners will find a sustainable solution, others may carry excess leverage for a long time.

<div>Recent lender support has left companies with more debt</div> <div> <ul style="list-style-type: none"> Lenders supported business to provide time and headroom <ul style="list-style-type: none"> covenant waivers subordinating to new money Companies now heavily levered but need more funding Flexibility of existing lenders reducing <ul style="list-style-type: none"> focus on recovery risks/reluctant to give up security Rising debts raise questions regarding equity vale </div>	<div>Some balance sheet solutions in 2021-22 may become more complicated</div> <div> <ul style="list-style-type: none"> Amend and extend deals where strong rebound expected Where rebound is less certain, lower flexibility from stakeholders will make restructurings complex <ul style="list-style-type: none"> Super senior new money providers will use leverage Senior lenders keen to retain security Pressure on sponsors to contribute to solution </div>	<div>Focus for management</div> <div> <ul style="list-style-type: none"> Communicate, share information, co-ordinate stakeholder discussions Test forecasts and funding need under alternative scenarios Focus on sustainable balan ce sheet solution vs. multiple rounds of waivers if business is unlikely to grow back into cap structure Buy sufficient time and funding to focus on fixing the business </div>
---	---	---

If a strong rebound is expected, a simple extension can buy time until a market recovery materializes. However, where a comprehensive restructuring is needed, we foresee more challenging debt restructuring discussions where pressure builds on sponsors to provide equity funding or risk is compromised by lenders taking greater control through a debt restructuring.

MOVE FAST TO STRIKE A POST-PANDEMIC POSITION

Leadership teams may feel that now is simply too early to take long-term decisions on operational matters. Yet those who quickly find confidence in times of continued ambiguity and implement decisive planning actions in 2021 will be best positioned to take full advantage when recovery truly begins in earnest in 2022.

CONTACT THE AUTHORS:

Jessica Liew

Senior Vice President
+44 7980 706 481
jliew@alixpartners.com

Jeff Drake

Managing Director
+44 7951 057 182
jdrake@alixpartners.com

Glen Fietta

Managing Director
+44 7971 694 182
gfietta@alixpartners.com

ABOUT US

For more than 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.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article Navigating business recovery ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.