AlixPartners

Real-time Resilience

Insights from AlixPartners' 19th Annual Turnaround and Transformation Survey

July 2024

When it really matters.sm

Contents

We hope that you find our 2024 report to be insightful and thought-provoking. In addition to our survey findings, on the following pages members of our Turnaround and Restructuring Services team provide their personal market perspectives and their views on how business leaders can navigate the specific set of challenges evolving around them.

Introduction

Real-time resilience

Disruption, in its many forms, has overtaken the traditional economic cycles to dominate the global markets. As cyclical patterns fade, individual markets and industries grapple with persistent change and multi-layered bouts of business turbulence. Many companies are still grappling with financial challenges and the threat of insolvency, and levels of resilience characterize the leaders from the laggards.

In our annual Turnaround and Transformation Survey, more than 700 of the world's restructuring experts and executives tell us that the cost of capital is still the biggest factor driving company distress. However, that is just one part of the emerging story.

Companies in many regions remain mired in the challenges driven by the rapid rise in the cost of capital, but other emerging trends in financing, the intertwined nature of industries, the impact of global conflicts, shifts in consumer sentiment, and the rise of artificial intelligence are all contributing to the need for greater business resilience.

Some of today's C-Suite professionals address these challenges by drawing on their leadership experience from comparable economic conditions 15 years ago or more. However, many others, who forged careers within a more recent ecosystem of "free money", are tackling these obstacles for the first time.

Our 2024 data confirms that Commercial Real Estate remains the sector most likely to face distress this year, reflecting a period of significant industry dislocation. More broadly, despite the credit markets easing after last year's constrained conditions, there will still be a large price to pay for any company considering refinancing options. And even with new capital pouring in, many struggling organizations remain saddled with unresolved underlying operational issues, unaddressed or ignored even during more flexible financial times.

In this year's survey, respondents have also shifted their eyes to the DACH region, as the economy in Germany struggles to solve problems across the automotive and manufacturing sectors. Beyond the near-term business realities, geopolitical outcomes will raise new questions as elections unfold around the world; by the end of 2024, close to half of the global population will have had the opportunity to head to the polls. All the while, ongoing global conflicts and bi-lateral tensions heighten the risk of distress worldwide.

The disruptive factors are many, but the solution is clear: the pursuit of "real -time" resilience, guided by a deeply nuanced understanding of each individual company scenario.

Cultivating resilience

If the forces of disruption are finding focus, how can leadership teams caught in the eye of the storm activate a reality check and reconfigure a company for success?

1. Realism around refinancing

Lenders and borrowers who get on the front foot of negotiations will discover there are lifelines available for underperforming companies – perhaps more dry powder than ever before. However, there is the cost of these funding solutions to navigate. Leaders must strike the right balance in addressing their most pressing challenges against securing a viable, sustainable capital structure for the long term. This first step is often a candid conversation with advisors, well ahead of likely changes in their capital stack, to plan the appropriate actions. Working creatively and collaboratively will unlock alternative solutions, including the potential sale of assets to reduce debt levels, the pursuit of operational restructuring, identifying profit improvement opportunities and – in a worst-case scenario – the potential need to restructure the balance sheet.

2. Lean into liquidity and cash generation

Borrowers must put their new-found capital to work, in addressing the pressures of elevated input costs, consumer spending contraction, and debt servicing demands, which all eat away at profit. Organizations must fight to stem this rising tide – stretching beyond paying the bills to investing in growth strategies, competitive research, and exploring the potential impact of AI.

3. Focus on the business fundamentals

Numerous underlying issues will likely persist at the core of every distressed company. Now is the time to confront and resolve these challenges head-on, with a plan to drive efficiencies in the business and improve the fundamental operational systems. In many cases, management teams will need to shift their focus from the best possible new deal and optimistic stretch goals to more conservative, sustainable long-term outcomes.

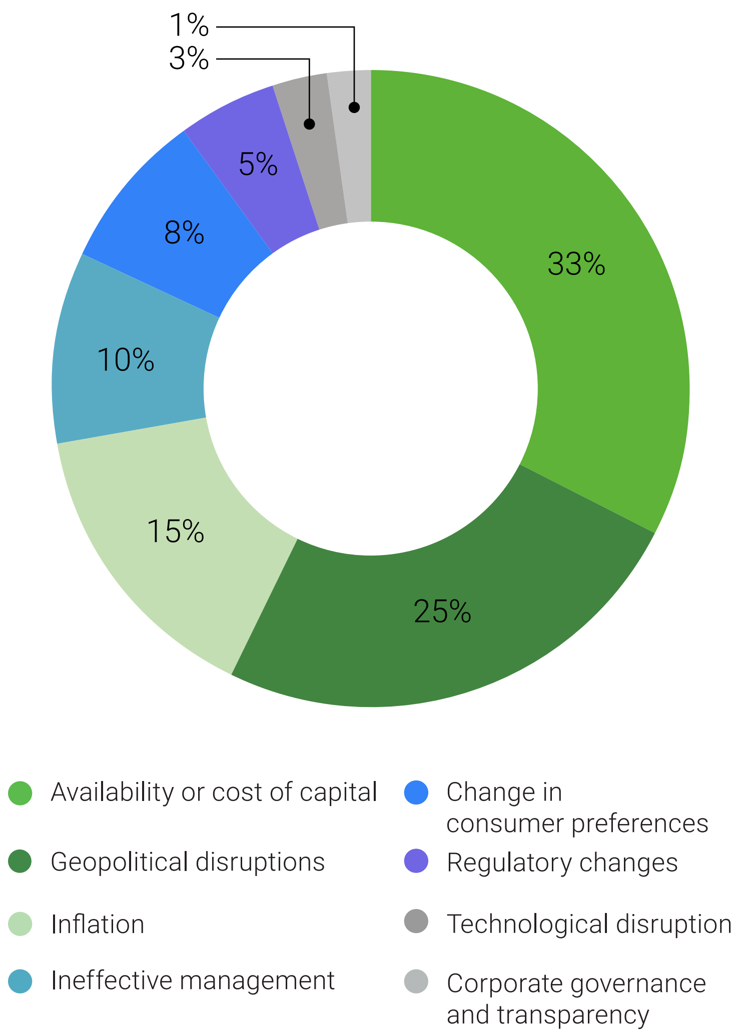
4. Enhance agility across the board

Flexibility remains vital in both capital structure and operational strategy, but will be reduced as loopholes rapidly close through refinancing transactions. Leadership teams must act decisively in the face of strong economic headwinds. The most adaptable executives will effectively mitigate these risks and be rewarded for building financial and operational optionality. Responsiveness and resilience guided by pragmatic realism must be the goals, to secure an improved business outlook. Competitors that may be content in simply buying extra time may find that there is little of it left on the clock.

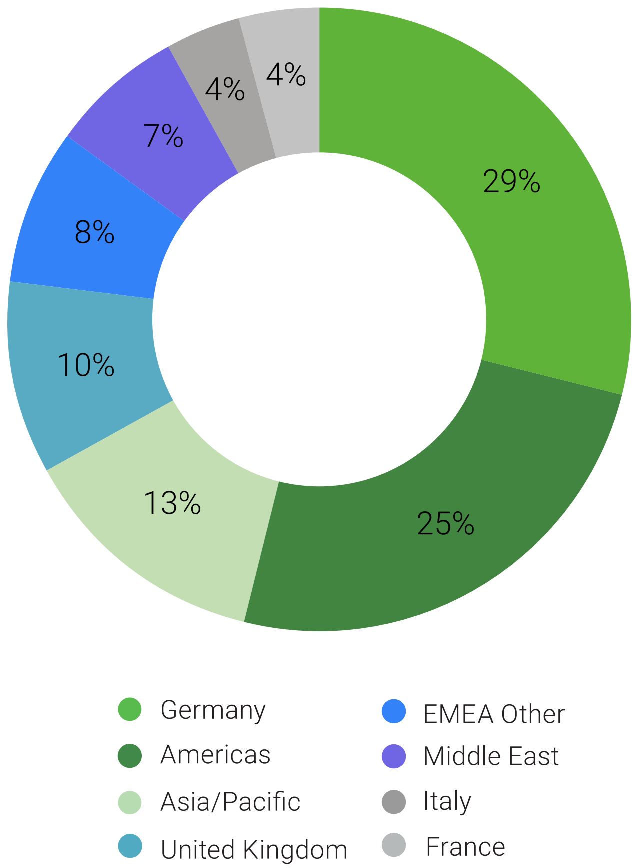
Data in detail

Headline insights

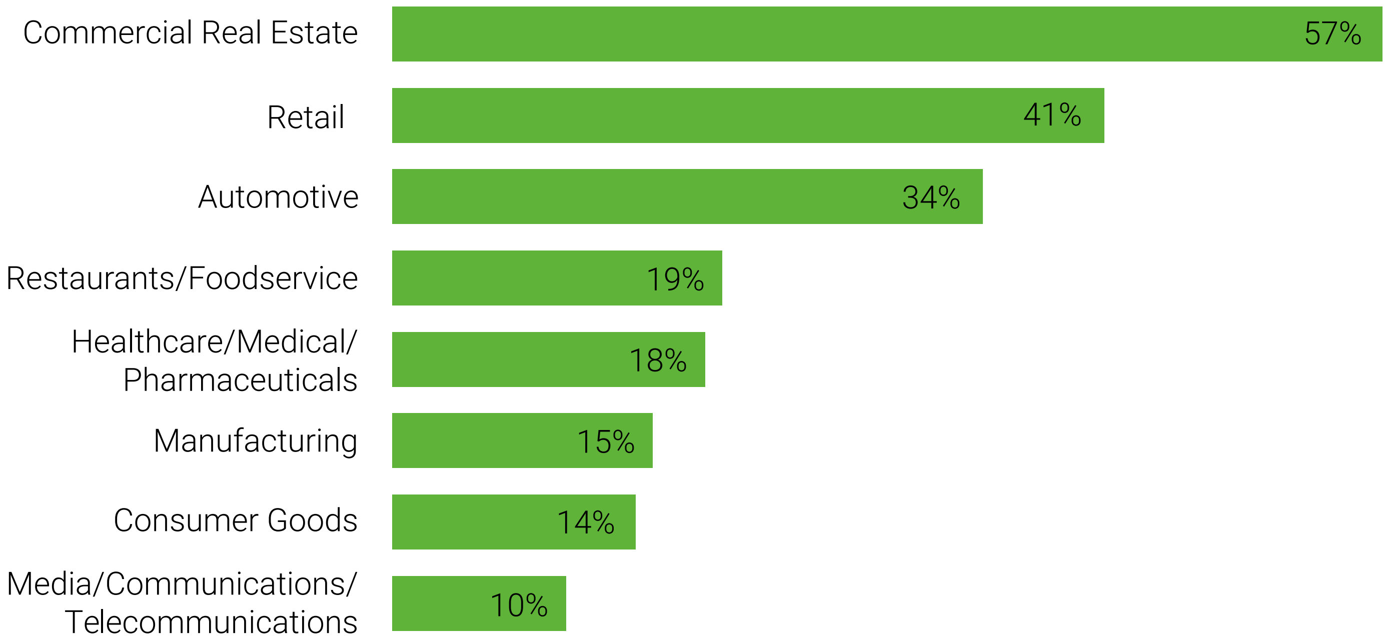
What is the top factor driving distress?



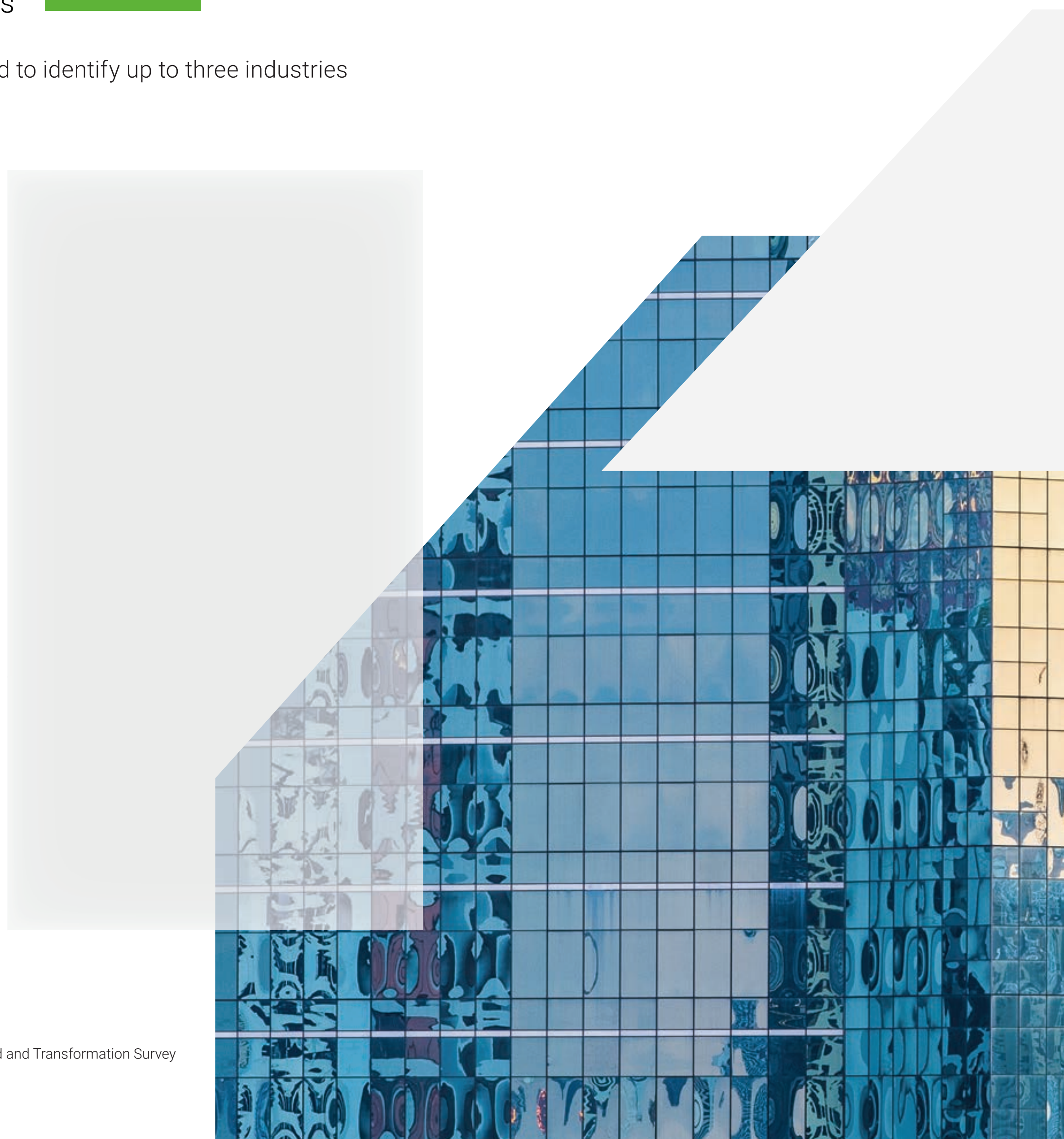
Which region is most likely to face distress in 2024?



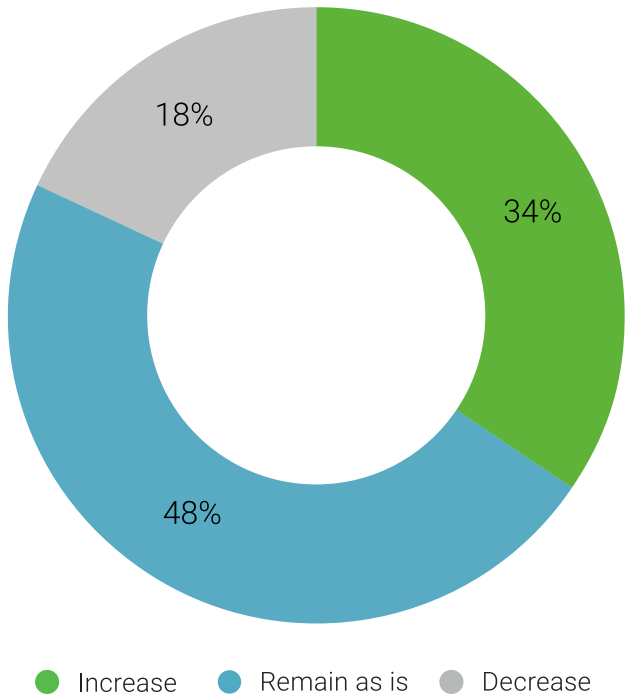
Which sector globally is the most likely to face distress in 2024?*



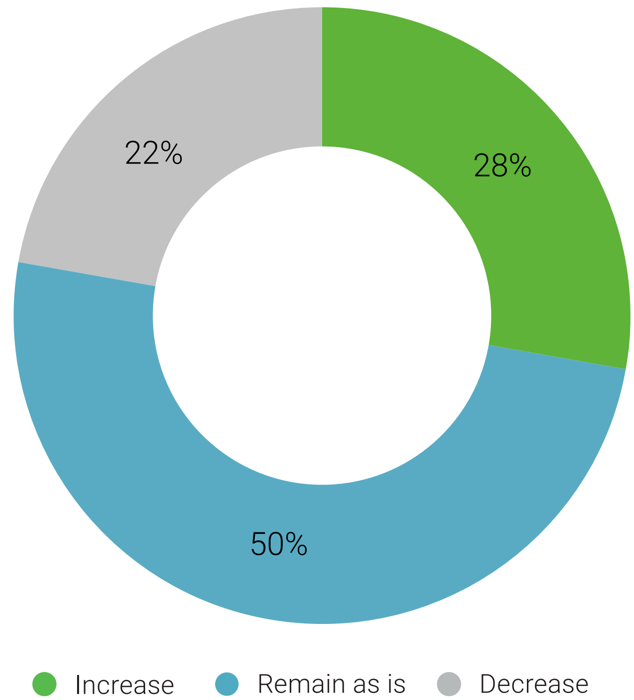
* Each respondent was asked to identify up to three industries



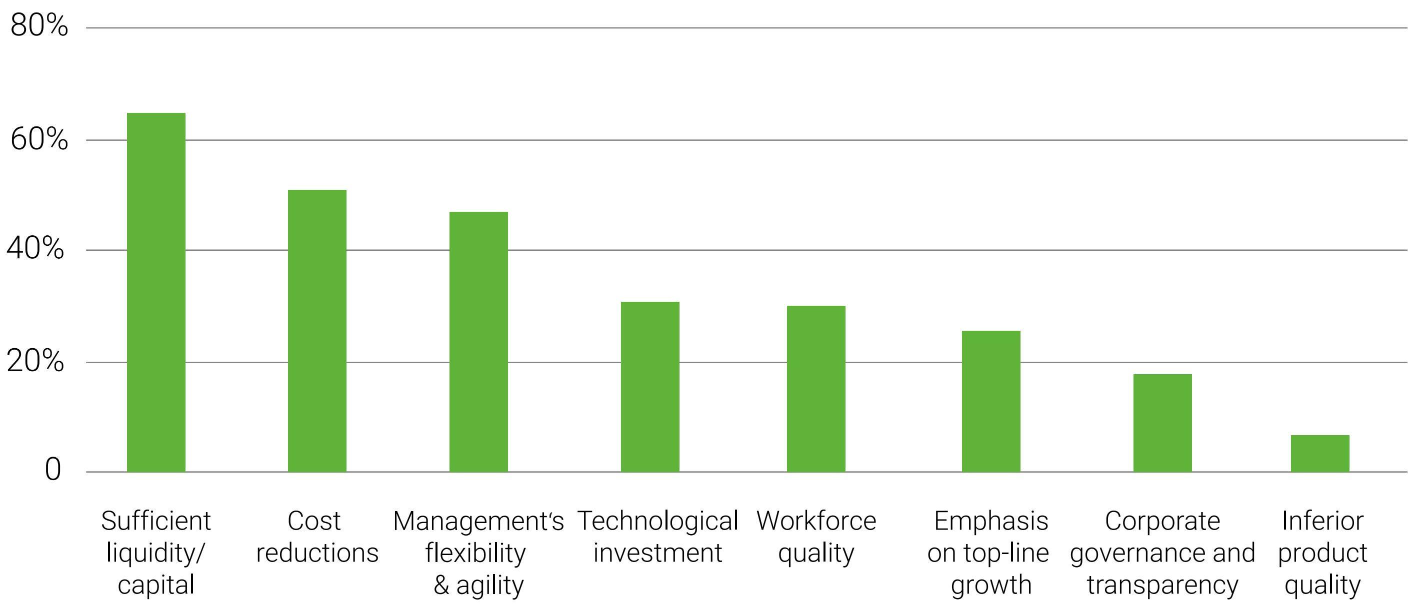
The cost of capital for buyers and borrowers in relation to the previous year will:



The availability of capital in relation to the previous year will:



What are the three most common challenges you see confronting companies facing turnaround or transition?



Get ahead of the cost of capital conundrum

Joff Mitchell, Global Co-Head, Turnaround & Restructuring Services

The big news story right now is undoubtedly the cost of capital, which I see as a much bigger driver of restructuring activity than economic conditions. It has increased dramatically over a relatively short period of time – the Secured Overnight Financing Rate (SOFR) has moved from essentially negative in early 2022 to more than five percent today.

Borrowers who did not have their SOFR hedged – or borrowers who have hedges rolling off – are facing a significantly increased cost burden. Refinancing at a rate that's five or six percentage points higher than it was a couple of years ago is significant – perhaps not historically, but certainly by comparison with the last decade. This may cause sticker shock for executives faced with their first major transaction at this higher price.

Inflation is also tracking above the Fed's target rate and, allied to a remarkably strong U.S. economy, my view is that we're unlikely to see interest rate reductions in 2024 and only a relatively modest fall in 2025.

82%

expect the cost of capital to remain at current levels or increase further. Just 18% expect it to decrease.

The most common challenges seen for companies facing a turnaround or transition are:

65%

Sufficient liquidity/capital

51%

Cost reductions

47%

Management's flexibility and agility

In the current environment, there is also unprecedented supply of capital for the borrowers that are generating enough EBITDA to cover debt servicing costs at these levels. However, with a wall of maturities approaching in 2025-27 in the leveraged loan and high yield debt markets, there will be a subset of those maturities who will be challenged in their ability to refinance their debt at that cost. While I don't see any peaks in restructuring activity like the global financial crisis or the more recent pandemic, I do expect the current trend of heightened activity to continue for the next two or three years.

Borrowers that are unable to afford or fund the current cost of refinancing their debt will be forced to restructure their balance sheet or take action to improve operations, such that they can generate enough EBITDA to cover it.

The most important thing for company management teams facing this challenging environment of expensive capital is to be realistic about their projected cost of borrowing and recognize the greater strain that this will place on their liquidity requirements.

With a number of levers at their disposal, I would recommend that they sit down with their advisors well ahead of likely changes in their cost of capital and plan for the appropriate actions to be taken. That could include selling assets to reduce debt levels, pursuing operational restructuring and profit improvement opportunities and, in a worst-case scenario, a potential need to restructure the balance sheet. But, critically, all of these potential approaches must be carefully thought through and planned for well ahead of the event.

78%

believe the availability of capital will remain as is or increase.

Liability management may be hot, but remember the business fundamentals

Jim Mesterharm, Global Co-Head, Turnaround & Restructuring Services

The elevated interest rate environment of the past couple of years has forced unhealthy companies to look beyond raising new capital alone and catalyzed more "acrobatic" high-wire acts in what can be achieved.

The ability to simply tack on more debt isn't really there anymore. And how do you handle impending maturities? How can you capture discount in the existing trading prices and secure additional funding?

As a result, liability management is popular in the market today, but it is really a repackaging of what we've seen for a long time, with some new strings to its bow. Jockeying around the capital structure, moving collateral, improving priority, pitting existing creditors against each other all seem to be the name of the game but, in many cases, this is just extending maturities and re-carving up the existing business.

Irrespective of the liability management strategies a business follows, the question must be: Will this make the company any better?

72%

say restructuring capital structure or moving assets is the most likely liability management technique to be activated in the next 12 months to mitigate risk.

If you are also raising new capital, this will come at a higher cost than previous years. Baskets, collateral, and structural flexibility may have to be given up, removing options for the future, and the rate of interest for this raise will likely be elevated.

Critically, somewhere in this activity there must be a plan to drive change in the business and fix the fundamentals. Is there a robust business plan that underpins the affordability and viability of any new deal? The focus must shift from simply getting a deal done to long-term outcomes – and whether it can be refinanced at maturity.

Liability management could be beneficial, but that transaction and process should not only be used to solve a maturity or liquidity issue under this new lease of life. It can't simply become another iteration of amend and extend or kicking the can down the road.

Management teams inherently have a bias towards optimism, inclined to shoot for the "stretch" goals. However, I would argue that this is precisely the time to be conservative and realistic. In golfing terms, they need to hit the middle of the fairway with high confidence of success for the shots that follow.

Assuming that interest rates will continue to stay high, they must consider what can be done to improve their business, lower costs, or drive more revenue. The current environment increases the emphasis on operations, working capital management, and justified investment in capex. A business story of growth, capital return, and wise investment has never been more important.

Now, within the current wave of legal gymnastics, loopholes are closing fast. If a company isn't fixed, the next restructuring will be that much harder because there is no more room to manoeuvre. Each creative solution to gain more time and liquidity will ultimately make everything harder to unwind if the day of reckoning comes, and we'll see more liquidations, quick sales, and forced auctions as a result, instead of thoughtful restructurings.

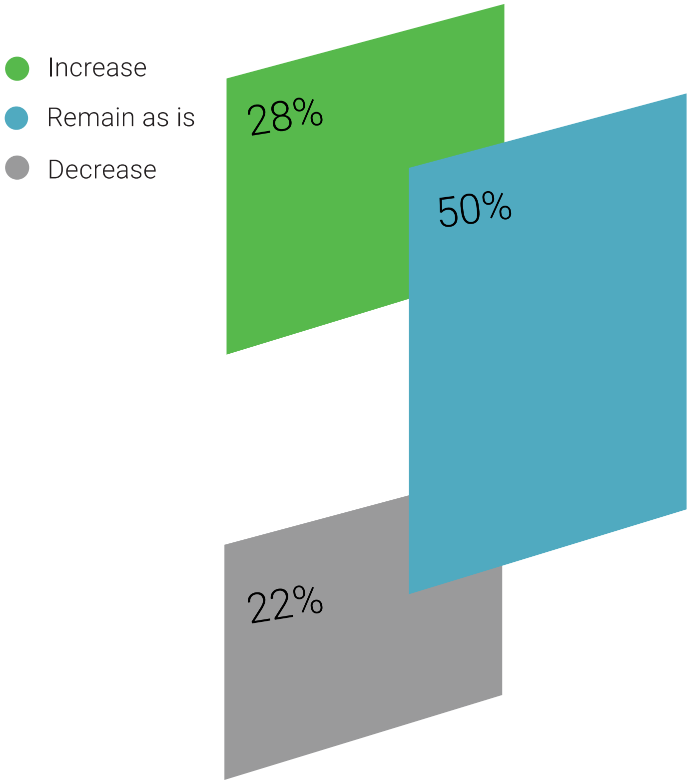
Any interest rate reductions are unlikely to create an immediate windfall in the economy, so I expect this restructuring cycle to continue. Governments globally have their own high-wire act to tread – they really can't put huge amounts of more money into the system without risking inflation increases again. They have to let this ride a little longer, which means we should see a longer, more natural market-driven restructuring environment, versus one that's driven by a black swan event followed by government bailouts.

97%

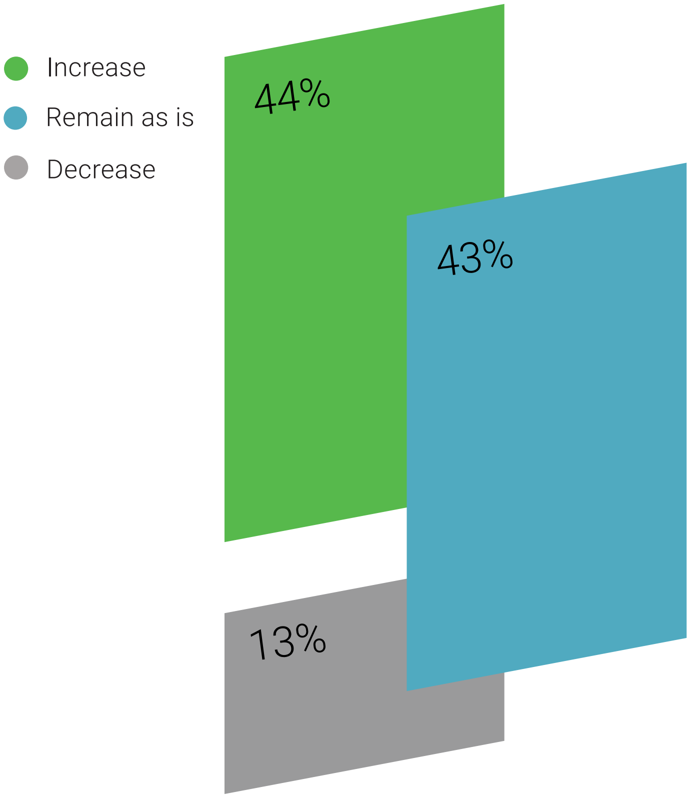
see A&Es as a temporary solution – more than half (54%) see this as a solution that won't resolve fundamental issues.

Finance matters

The availability of capital in relation to the previous year will:



Specifically with respect to private credit, the availability of capital in relation to the previous year will:

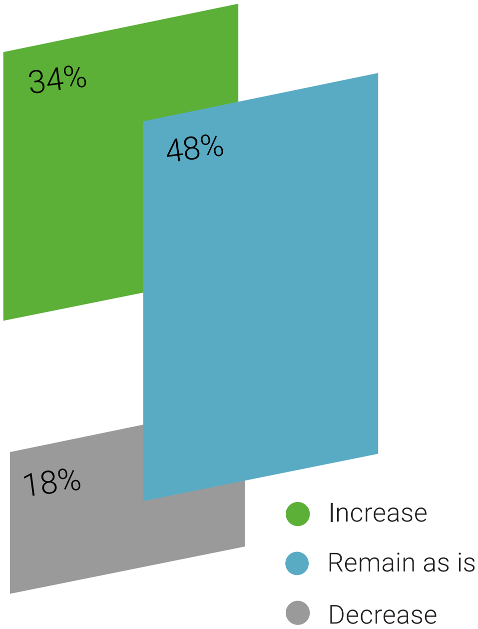


"The reality is that successfully leading a business is hard, even with the very best plans and most favorable forecasts. As wider disruptive forces further impact operating models, quickly finding the right solution and actioning it will make the difference for today's leaders who are navigating a period of unprecedented disruption."

Esben Christensen

Partner & Managing Director, London

The cost of capital for buyers and borrowers in relation to the previous year will:



"Given today's business leaders do not see any let-up in the challenges around the availability, cost, and terms of capital, planning for refinancing risk needs to remain a top priority. The potential alternatives for dealing with future debt maturities needs to be worked through well in advance."

Jessica Clayton

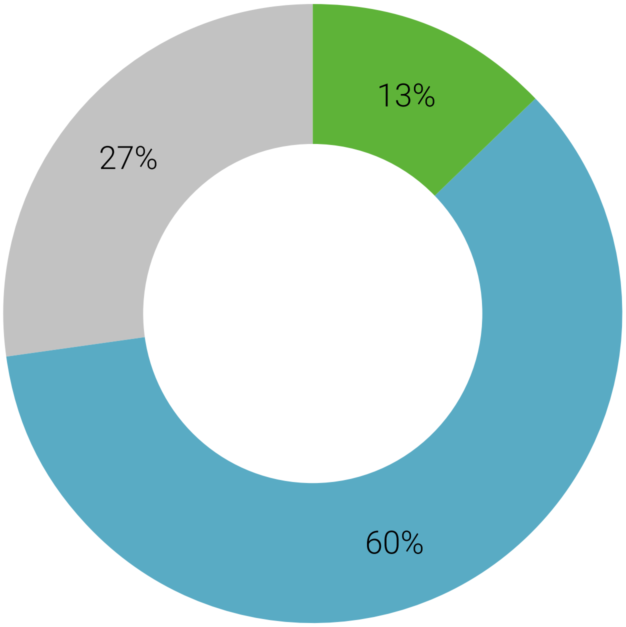
Partner & Managing Director, London

"Over the last year I have witnessed first-hand the increasingly volatile capital markets. Unfortunately, these global events left many of my clients with limited access to capital and a greater need to respond to market dynamics, supply chain disruptions, and evolving customer needs. I've also seen leaders pivot their strategies and quickly implement solutions that enable them to look around corners, anticipating these market shifts. Today's successful management teams will be defined not only by their skills, but by their agility and speed of execution."

Larry Young

Partner & Managing Director, Houston

What do you expect the inflation trend to be in 2024?



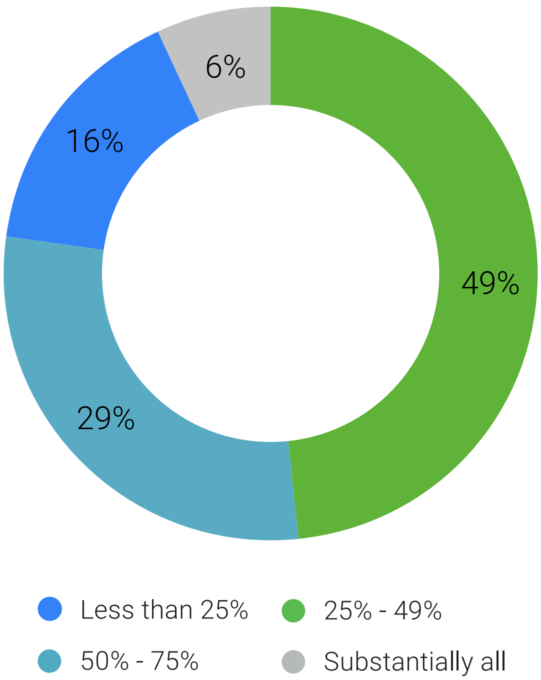
90%

expect financial/credit terms to remain at current levels or become even more restrictive.

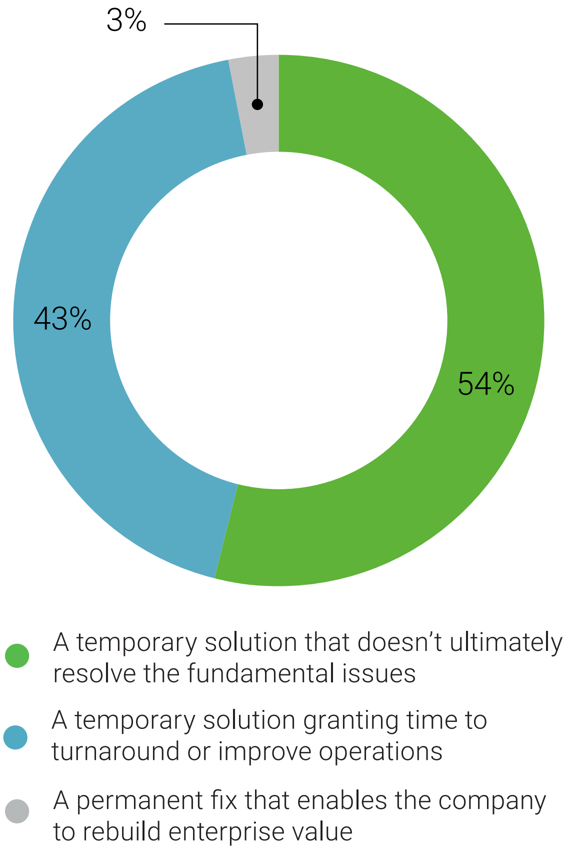
"While interest rates may remain near current levels for the foreseeable future, there is a vast amount of private credit available to be deployed. The private credit markets are available for most sponsor-backed deals and other healthy or moderately healthy businesses. The excess supply is also leading to a loosening of normal credit standards and lender protections, which works out fine until it doesn't. The private credit restructurings tend to be underreported given the lack of visibility to those not directly involved, but we are likely to see more of these going forward as weakening credit protections often lead to problems down the road. Inevitably during these restructurings people will look back on their underwriting of these credits and ask, *"Why did we ever make this loan?"*"

David Orlofsky
Partner & Managing Director, New York

What percentage of distressed companies that extended their liquidity runway through “amend & extend” approaches, or by raising additional capital in 2023 and into 2024, will end up distressed again in the next three years?



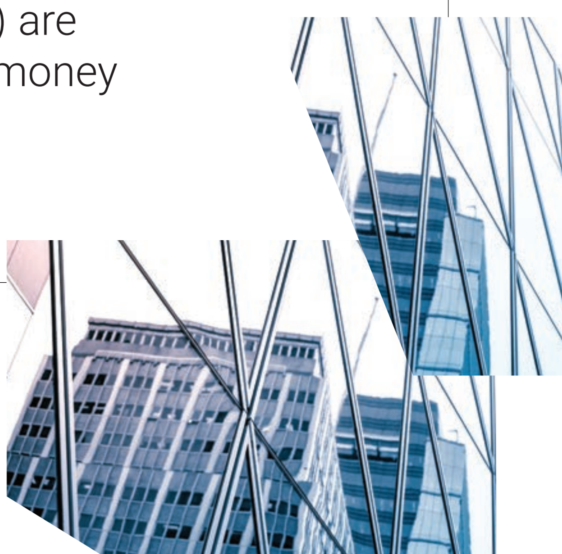
In your experience, how successful have “amend & extend” or liability management efforts been in the past 12 months?



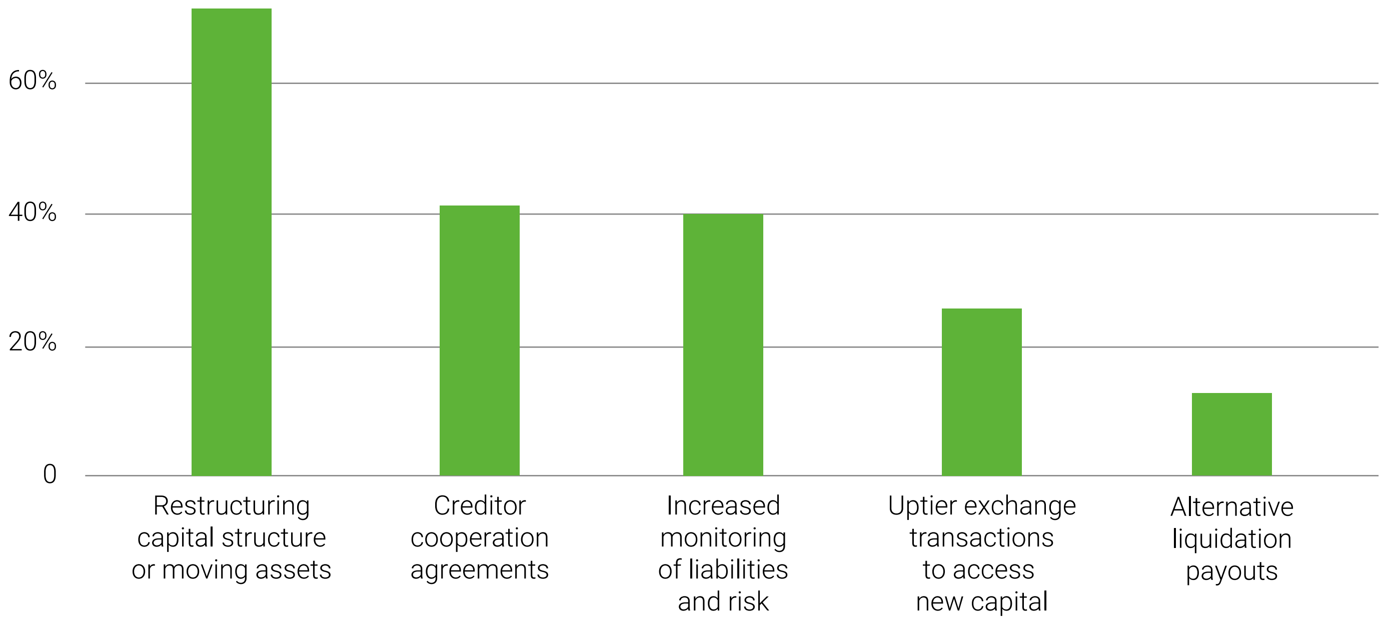
“In advising lenders with strategic alternatives, I’m often focused on current value, reasonable business outlook and potential disruptions associated with various paths. Today’s solutions show lenders (and sponsors) are being more creative with how to address new money and capital structure requirements.”

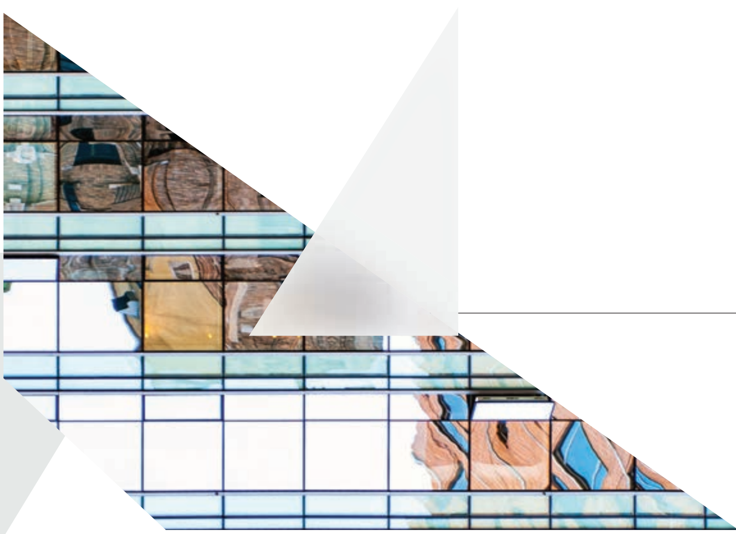
Rodi Blokh

Partner & Managing Director, New York



Which liability management techniques do you expect to see activated in the next 12 months to mitigate risk?

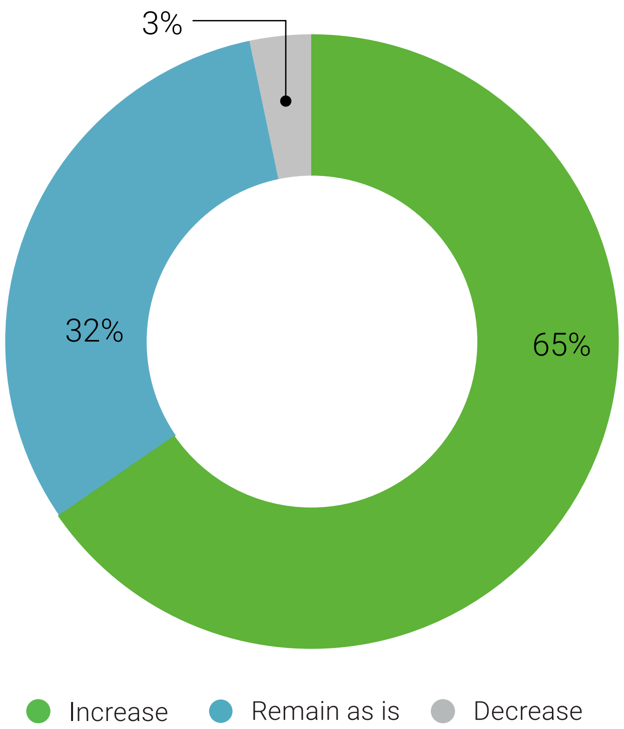




"Successful liability management transactions must be grounded in a set of reasonable projections, tied to a credible business plan that incorporates a believable turnaround strategy, and based on initiatives that can be reasonably and effectively executed."

Randall Eisenberg
Partner & Managing Director, New York

In the next 12 months, the number of Merger and Acquisition transactions related to distressed assets will:



"There are likely to be one or two disruptions in the coming year, although the environment feels very similar to a year ago. Companies in some sectors are still struggling and continue to be vulnerable to sudden shocks. With looming election uncertainty, continued geopolitical turmoil and no rate cuts yet, an uptick in distressed M&A seems unavoidable, despite some modest signs of stability in the economy."

Pilar Tarry

Partner & Managing Director, Global Co-Leader of M&A and Transaction Advisory, Chicago

The rise of private credit and capital availability should not distract companies from performance improvement

Eric Koza, Co-Head, Turnaround & Restructuring Services, Americas

The private credit market has experienced significant growth in recent years, fueled by two key trends. First, a strategic response emerged to address the gap in corporate financing created by traditional banks tightening credit standards and reducing loan availability. Second, the long period of low interest rates spurred a surge in interest towards alternative investment strategies, positioning private credit as an attractive option for investors seeking higher yields. This confluence of factors has led to the emergence of new participants in the private credit space, providing much-needed alternative financing solutions.

However, the full picture of credit health within the rapidly growing private credit sector is nuanced. Unlike the syndicated loan market, the private credit space lacks the same level of transparency, which can often provide leading indicators of trouble or distress. In addition, the significant rise in liability management transactions (LMTs) has provided companies with additional breathing room to navigate challenging financial periods. While this flexibility is positive, it's important to acknowledge that LMTs can potentially mask underlying credit issues by extending debt maturities or restructuring terms.

While LMTs can buy companies and their equity holders time to grow into their capital structure, these transactions often fail to address core operational and strategic issues causing financial distress in the first place. This shortcoming makes these companies prime candidates for future restructuring activity, potentially leading to a rise in defaults within the private credit, syndicated loan, and high yield markets.

More broadly, the middle market has quickly become a world of "haves" and "have nots", where capital availability is more challenging. On one hand there are businesses that have a purpose, growth, and opportunity ahead of them, and these will typically be able to find financing and solve underlying operational problems to ensure they stay on the right path.

On the flip side, though, there are businesses that struggle to exist, and have been extremely challenged over a multi-year time period. Finding financing for those is going to become ever more challenging, particularly where those looking to deploy new capital will be looking at the entire landscape, avoiding any questionable investment opportunities. The focus will be on those companies that are more likely to have a chance of long-term survival and create a better risk/reward profile.

78%

believe the overall availability of capital will remain as is or increase.

It is critical that leadership teams get ahead of these challenges and avoid waiting until the last minute. If an opportunity exists to secure incremental liquidity that may be needed over the next couple of years – via private credit or other sources – companies should take it now. With the potential for a tightening credit environment, the window may close on opportunities to secure favourable financing in subsequent funding requests.

Allied to this, management teams must remain relentlessly focused on optimizing their organization for the future. Beyond cost cutting and operational improvements, companies must have a clear vision for strategic investments over the next two, three, or four years. The world is changing at a more rapid rate than ever before and demands a specific skill set that balances crisis management with a proactive strategy around growth, market share, and long-term success.

53%

expect the lower middle market companies to be most challenged in relation to the cost and availability of capital, vs 40% for mid-market and 7% for large companies.

The clock is ticking to shape the reality of business resilience

Axel Schulte, EMEA Co-Leader,
Turnaround & Restructuring Services

It is easy to say that businesses need to be resilient. But what does that actually mean?

The impact of the pandemic, stuttering consumer confidence, the war in Ukraine, and conflict in the Middle East have been felt by every business in a different way. If there is a pattern across the turnaround and restructuring market in EMEA, it is that there is no clear pattern emerging. What we can see, however, is that the volatility in markets is strengthening.

Geopolitical influences become more relevant with every month that passes, particularly in this part of the world, which has been beset by conflicts and their ongoing human and business consequences for more than two years. The sad fact is that these events – and the rising tension between China and other countries around the world – now seem to be woven into the fabric of the everyday challenges that a business must contend with, rather than preparing for an anticipated event on the horizon or a shorter, sharper, unexpected shock to the system.

If resilience is the capacity to withstand or recover from difficulties, then strengthening this attribute requires any business to be crystal clear about what is at stake for them, their customers, and their market. What are the most important factors that directly impact these areas, and therefore what are the associated risks to mitigate?

There is cash available in the market, but it is about so much more than simply the money. It is about getting your business right, into a position where it can cope with this volatility and the next waves on the horizon – AI being the latest case in point. The pressure points will not stop materializing – and, in many ways, these are beyond any business' control – but how they absorb the shocks and continue to progress is within their gift.

I am helping companies reconfigure themselves in a way that focuses on their core strengths and capabilities, displaying a turnaround mindset that gives their organization a rapid route away from potential failure driven by improved performance, operations, and financial health. It is only when you focus on this that you are best prepared to confidently handle the challenges ahead – crystal clear visibility on cash, cost, customer needs, optimized margins, and deep supply chain knowledge, for example.

In Germany specifically, "sunsetting" businesses is on the rise, through carve-out activity that can generate liquidity via a sale, or through wind-downs driven by a hard look at production costs or perhaps the uncertainty of political systems. Exiting businesses from the market may have been shied away from in the past, but the combination of economic and broader disruptive forces at play dictate that action must be taken.

Of course, these are not the only answers for management teams, but activity like this speaks to the sense of urgency I see growing across EMEA, because leaders are realizing that you cannot simply let the clock continue to run down in the current financing climate. The realities of resilience will differ for every single business, but it is a common characteristic that no one can do without.

93%

believe global supply chain disruption will remain at current levels or worsen in the next 12 months.

The biggest challenge creating long-term economic consequences for the global market is:

39%

Geopolitical disruptions

15%

Interest rate/cost of capital

10%

Climate change

In disruptive times, business agility, preparedness, and bravery must come to the fore

Simon Appell, EMEA Co-Leader,
Turnaround & Restructuring Services

The once-predictable patterns that economic cycles followed – influenced by consumer confidence, interest rates, and investment levels, then countered by fiscal policy adjustments from governments and central banks – are long gone.

Now, these cycles – and businesses' responses – must be considered in concert with the integral, significant impact of unprecedented levels of disruption.

This is perhaps best demonstrated in the technology space. Rapid technological advancements, led not only by AI but also in automation and digital transformation, continue to disrupt traditional industries and labour markets, leading to structural changes in the economy.

Businesses continue to be impacted by geopolitical tensions, trade wars, and the long tail implications of the pandemic, with shocks to global supply chains an obvious tangible example.

We should not forget environmental and climate change issues, too; not just the wider impact that the increasing frequency and severity of climate-related events pose, but also the speed and appetite for sustainability transition. The shift towards sustainable energy and practices requires significant investment and will disrupt traditional industries.

This interplay between traditional economic cycles and wider disruptive forces has necessitated a more holistic and adaptive approach to general economic policy and planning – and, critically, the running and building of businesses.

Our survey respondents clearly see the challenges immediately in front of them. For example, the retail sector is so prominent in the U.K. and remains front of mind for those there, given the high-profile recent failures, while the same holds true for the automotive sector in Germany.

In practice, though, sector distress will likely cross borders, evidenced by the common secular issues and failures we see in our different jurisdictions. The ultimate impact of these will differ according to how large and influential the sectors are in each region.

That said, it does seem that some of our key economies have developed a resilience and adaptability to manage in these conditions, and it may be this that gives people confidence that we will avoid a recession.

72%

believe their own region will avoid a recession in the next 12 months, vs. just 25% in 2023.

The dictionary definition of resilience I like most is an ability to recover from, or adjust easily to, misfortune or change. It has never been easy to run a business, and even those with the very best plans will know that things rarely follow suit in reality. It is often not the cause of the problem that becomes the issue, more finding the right solution and acting on it quickly that makes the difference.

More change and, in many cases, misfortune will be driven by the compound effects of the economic and business environment and the relentless waves of disruption that strike at a greater magnitude and frequency than management teams can remember. At this time, agility, preparedness, and bravery have never been more important.

93%

expect labour costs to continue to increase in the coming 12 months vs. 81% in 2023.

Data in detail

Industries

Which sector globally is the most likely to face distress?

2024

1. **Commercial Real Estate**
2. **Retail**
3. **Automotive**
4. **Restaurants/Foodservice**
5. **Healthcare/Medical/Pharmaceuticals**

2023

1. **Commercial Real Estate**
2. **Retail**
3. **Financial Services**
4. **Automotive**
5. **Consumer Goods**

57%

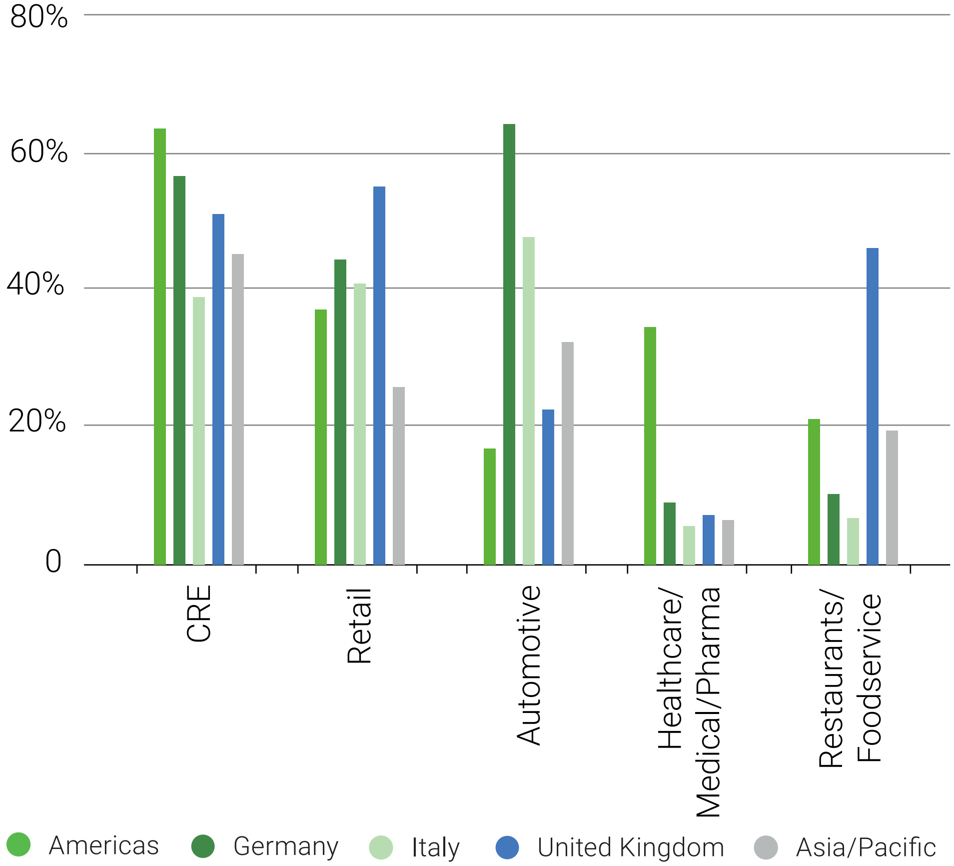
of global respondents identified Commercial Real Estate as one of the industries most likely to face distress in 2024 globally (rising to 64% in the Americas specifically).

"Active asset management is fundamental to capture the opportunities emerging in today's real estate markets, which are significantly more volatile and nuanced due to the profound structural forces that are impacting both investor and occupier demand."

Andrea Trozzi

Partner & Managing Director, London

Which sector globally is the most likely to face distress in 2024?



65%

of respondents from Germany cited the Automotive industry as likely to face distress, in addition to 48% of Italian respondents, highlighting the secular disruption being acutely felt in EMEA, versus 17% in the Americas.

> "In all regions of the world, automotive companies are experiencing increasing risks and economic distress. Automotive suppliers as well as OEMs have to deal with sharply increasing financing costs, high price pressure from their customers, overcapacity of almost 30%, and continued efforts for and uncertainty about the industry transformation. Four consecutive years of low profit margins for automotive suppliers will lead to a significant increase in bankruptcies and financial distress."

Jan Dannenberg
Partner & Managing Director, Berylls by AlixPartners, Munich

55% | 46%

Retail and Restaurants/Foodservice registered highly amongst U.K. respondents, the latter not featuring as strongly in other regional data sets.

"Distress and disruption aren't new, as some retailers suffered deeply during the pandemic. Executives who recognize that you can't manage those issues forever and adapt to change are separating their organizations from the pack. To turn the business around and ensure the brand survives, more serious measures around business issues are needed before you have no room to maneuver."

Holly Etlin
Partner & Managing Director, New York

"Retail remains a market where cash is king, and retailers must make accurate forecasting a priority. This should be aligned to greater agility in reacting to supply chain shifts, as inflationary pressures continue to squeeze the bottom line. Finally, as consumers become more demanding and clearer on what they want from retailers, being in tune with these shifting expectations and behaviors is critical."

Clare Kennedy
Partner & Managing Director, London

35%

More than a third of respondents from the Americas believe Healthcare/Medical/Pharmaceutical sectors to be at risk of distress, a trend restricted to the region and not mirrored in EMEA or Asia.

"Distress in the healthcare sector is the culmination of several disruptive factors – higher interest rates, lower reimbursement rates, inflationary pressure on caregiver staffing and vendor management expenses, and shifts from inpatient care to outpatient care. Management teams will need to continue to be agile in immediately addressing these issues and opportunities."

John Castellano
Partner & Managing Director, Chicago

Macroeconomic predictions

The biggest challenge creating long-term economic consequences for the global market is:

39%
Geopolitical disruptions

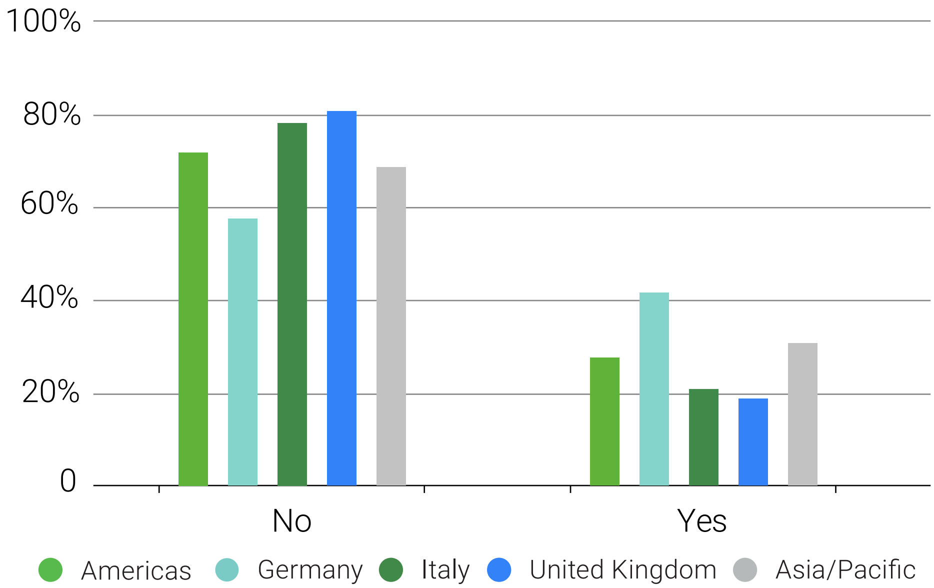
15%
Interest rate/cost of capital

10%
Climate change

> "What stands out to me are the geopolitical tensions, combined with higher U.S. interest rates, that have exacerbated a slower post-COVID recovery in Asia to put pressure on highly leveraged companies in the region."

Lian Hoon Lim
Partner & Managing Director, Singapore

In your geographic region of the world, do you anticipate a recession within the next 12 months?



Recessionary fears are rescinding – the majority expectation in every region is that recession will be avoided, with U.K. respondents most confident (81%). When asked about the U.S. economy specifically, 82% of all respondents do not anticipate a recession in that region in the next 12 months.

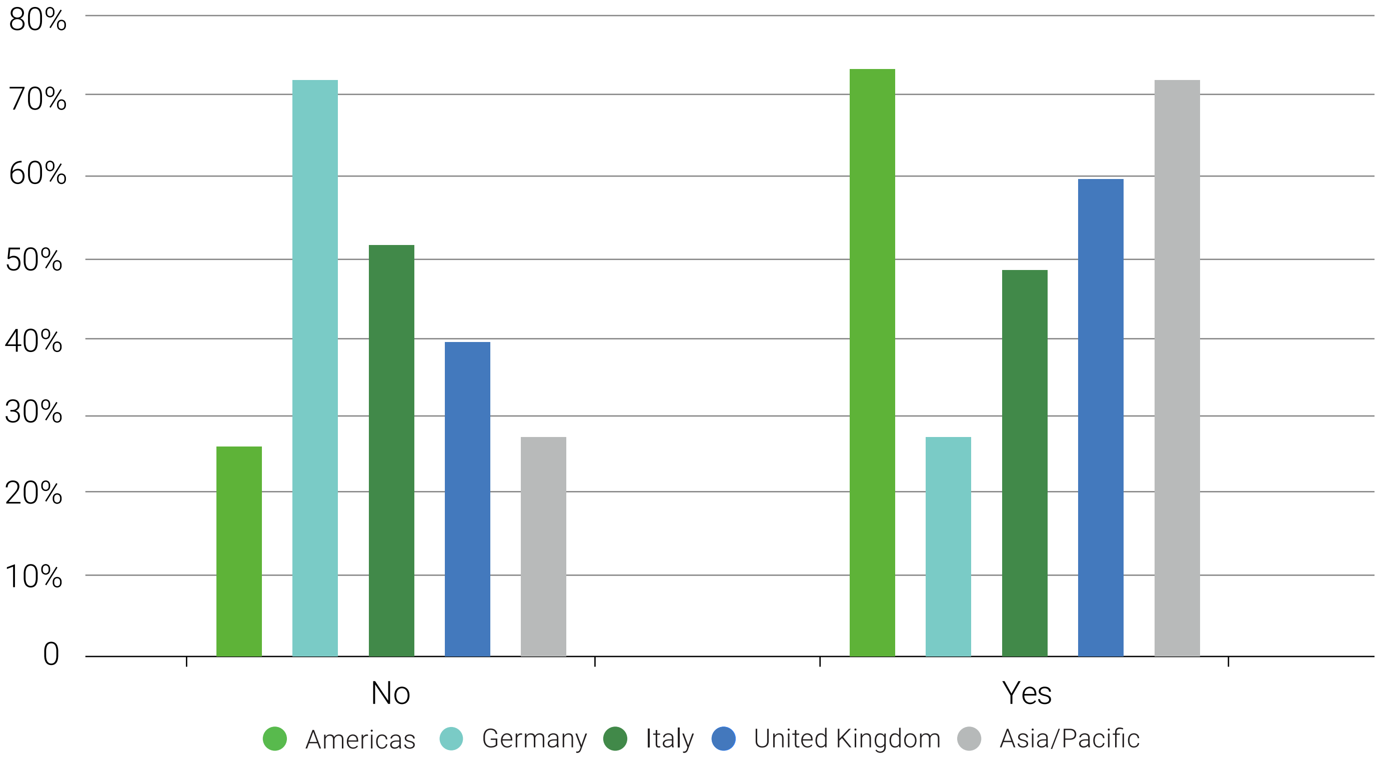
74%

think the tension between U.S. and China will directly lead to an increase in distressed situations.

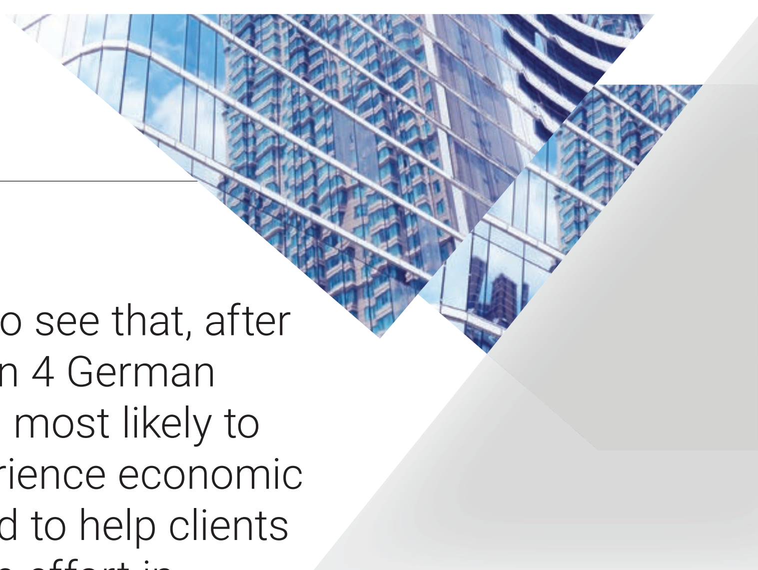
> "While 2024 economic growth forecasts for Asia remain robust, geopolitical tensions are impacting the flows of international capital. I am starting to see the effects of this, which will create many winners and losers among international and domestic companies operating in Asia."

Patrick Bance
Partner & Managing Director, Singapore

In your geographic region of the world, do you expect overall economic growth within the next 12 months?



Growth expectations show signs of optimism – 58% expect overall economic growth in their region in the next 12 months. However, regional responses show heightened concern in Germany.



> “It is eye-opening and disheartening to see that, after nearly a decade of stable growth, 3 in 4 German respondents believe that Germany is most likely to face distress and least likely to experience economic growth in 2024. However, I’m inspired to help clients in managing the huge transformation effort in different industries and navigating the risk involved with the geopolitical challenges in our region.”

Dr. Rainer Bizenberger
Partner & Managing Director, Munich

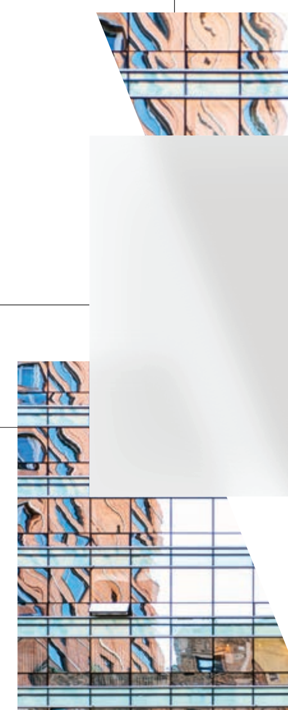
93% expect labour costs to continue to increase in the coming 12 months.

93% believe global supply chain disruption will remain at current levels or worsen in the next 12 months.

53% expect the lower middle market companies to be most challenged in relation to the cost and availability of capital.

The top four industries expected to be most impacted by Ukraine/Russia and Israel/Hamas conflicts are:

1. **Aerospace and Defense**
2. **Oil and Gas**
3. **Maritime and Shipping**
4. **Transportation and Logistics**



"I know from past experience how disruptions typically cause a tightening of credit markets, adversely impacting refinancing options. That is why I recommend clients be realistic when building resilient forecasts and downside scenario planning, whilst proactively getting ahead of maturity deadlines when more favourable financing conditions exist."

Julian Gething

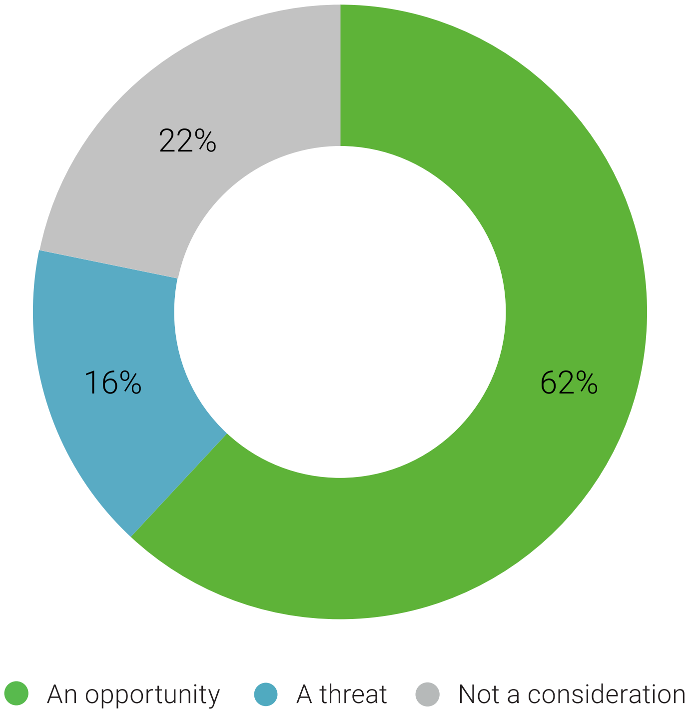
Partner & Managing Director, London

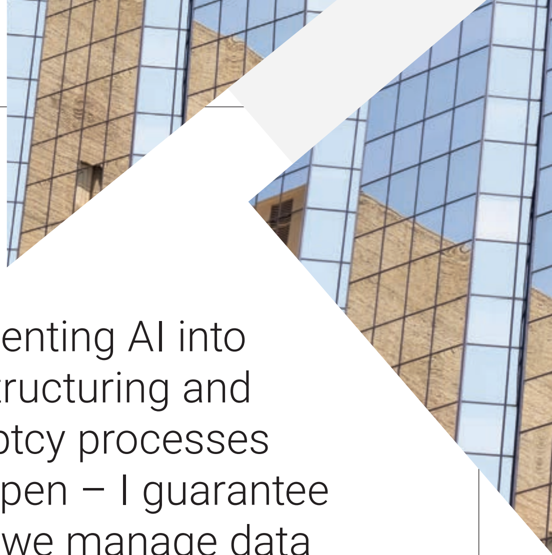
"Organizations hoping for a boost should know "amend & extend" often delays the inevitable, failing to address the need for financial improvement and operational enhancements. I continue to advise executives that, even if the deal buys time, a successful turnaround typically requires additional funding, balance sheet restructuring, and changes in how they work."

Stelios Fragkos

Partner & Managing Director, London

The rapid advances in AI technology should be viewed by a distressed business as:





"Implementing AI into our restructuring and bankruptcy processes will happen – I guarantee it. How we manage data and upskill our next generation of restructuring professionals in real time will be the keys to successfully using AI to generate results."

Robb McWilliams
Partner & Managing Director, Dallas

"Technological adoption is the only way forward in an economy in demographic contraction and with stagnant productivity. The risk that a higher cost of capital will impact the adoption of technology through investments is a major issue. It will be crucial for equity investors to demonstrate a long-term attitude towards financing technological transformation to create value and support companies in their efforts to scale."

Mauro Trabatti
Partner & Managing Director, Milan

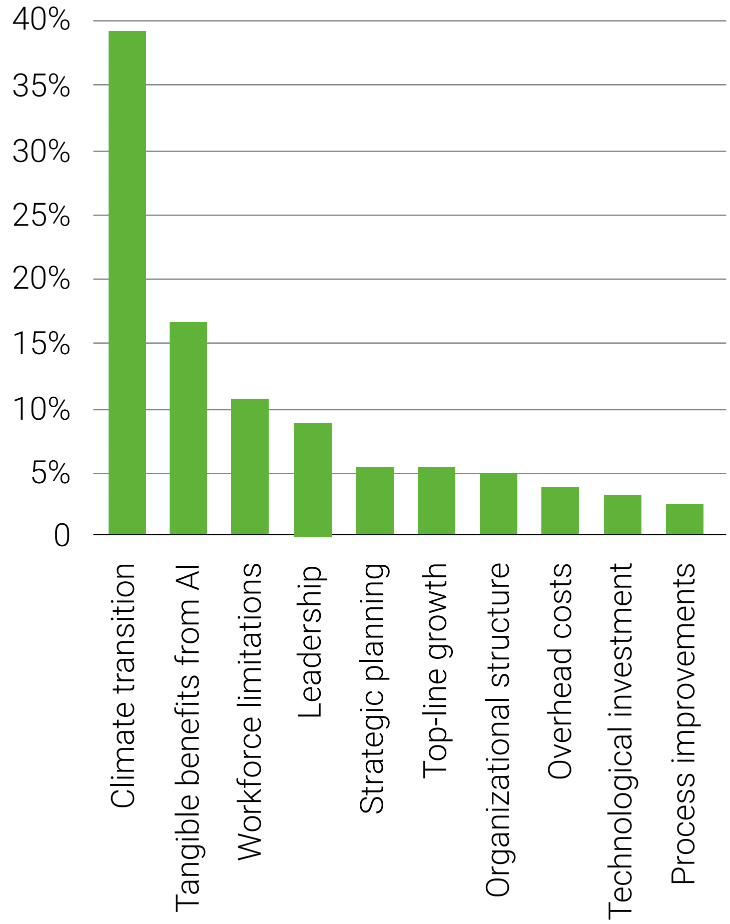
78%

of German respondents believe the rapid advances in AI technology to be an opportunity for a distressed business.

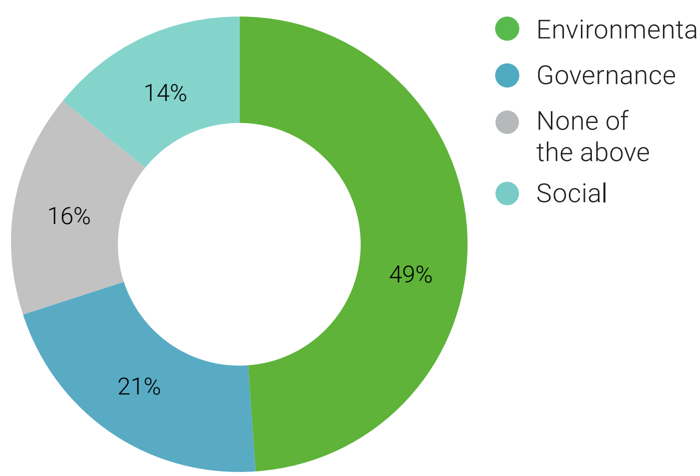
“I see companies investing in technology regardless of their financial situations. Executives, even of companies in distress, don’t want to miss out on the opportunities. I’m helping my clients understand the targeted goals, strategy, and implementation of these AI investments so that they can realize a valuable return before it’s too late.”

Dr. Karsten Lafrenz
Partner & Managing Director, Zurich

Which one underlying operational issue will not be addressed in the coming 12 months?



What aspect of ESG most concerns you or your clients?



"I see winners and losers across companies and investors participating in the energy transition sector in the race for net-zero emissions. While leaders must ensure that they stay ahead of the competition in technological innovation, they are also concerned in three focused areas: monitoring the effect geopolitical issues are having on energy security and supply chain reliability; applying new energy policies and regulations to their business; and striking the balance between investment in clean energy sources, economic returns, environmental sustainability, and social equity."

Becky Roof

Partner & Managing Director, Houston

Methodology

Research for the 19th Annual Turnaround and Transformation survey was conducted between 8 and 27 May 2024.

Respondents comprised 716 lawyers, investment bankers, lenders, sponsors, financial advisors, and other industry executives involved in corporate workouts, representing more than 20 major industries globally, including in the Americas, EMEA, and Asia.

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.

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