Real-time Resilience

Insights from AlixPartners' 19th Annual Turnaround and Transformation Survey
Asia Report

September 2024

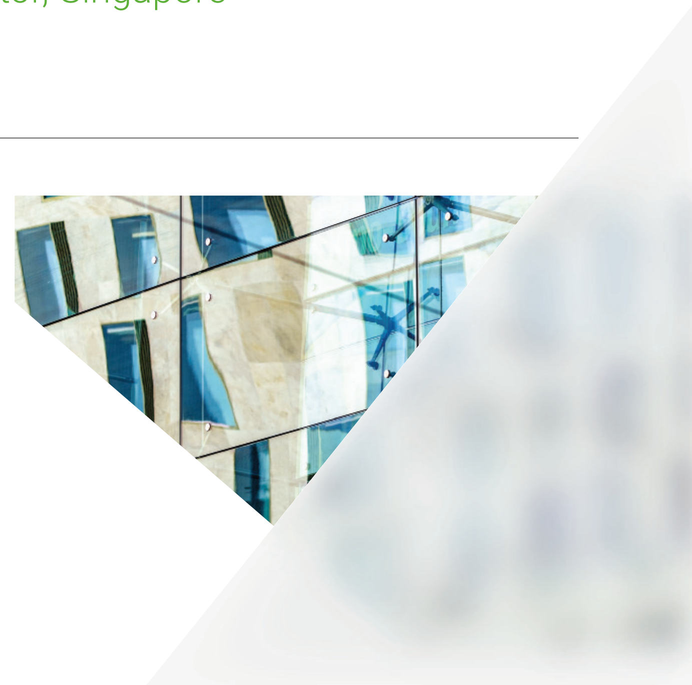
When it really matters.sm

Leadership perspective

Balancing optimism with uncertainty

Lian Hoon Lim,
Partner and Managing Director, Singapore

The economic picture in Asia is markedly different to that of the rest of the world, given the absence of the spike in inflation and related interest rate rises witnessed elsewhere. These differences have limited the need for restructuring as fewer companies have been driven into distress from such financial pressures.



This environment will go some way to explaining the points of optimism amongst respondents to our Asia Turnaround and Transformation Survey this year, noting their expectations of an upward trajectory for corporate profitability. The U.S. and E.U. regions have largely avoided any periods of recession and in Asia, Japan has demonstrated improved economic performance recently.

However, I do see a bifurcation in this part of the world mainly due to China. In the world's second largest economy, there is a major contradiction as steady economic growth co-exists with much lower consumer confidence. This contradiction is widely viewed as being due to the ongoing distress in the property sector, which has impacted the personal wealth of many consumers but shows no signs of being resolved quickly.

At a more macro level, geopolitics continues to create challenges for manufacturing organizations with export-oriented business strategies. Many global customers continue to de-risk by shifting volumes from China into other countries, which creates stress as companies struggle with under-utilized capacity.

I also note an air of increased caution amongst banks, too, as they dial back activity with many customers who may be considered a higher risk. This retreat could present significant funding gaps to be filled, and therefore a scenario where private credit takes this opportunity to play a more sizeable role than we have traditionally seen in part of the world.

Thanks to the upcoming U.S. elections, geopolitics is more likely than pure economics to be the driver of market developments in the coming year. A change in political direction in November could increase friction regarding global trade and tariffs, driving higher levels of distress as a result.

This risk is beyond the control of those in Asia, but creates a level of uncertainty that makes the careful management of cash an imperative for businesses at this time. As the saying goes, "cash is king", and in the current environment I couldn't agree more.

I hope you find the findings of our study informative, and we welcome further discussion with you on any of the themes raised on the pages that follow.

Overview

Real-time resilience

As seen in the data from our global Turnaround and Transformation study, respondents from Asia display more positive sentiment for the year ahead, with strong expectations for corporate profitability in the year ahead.

Business disruption in the previous year was characterized by a number of operational changes, notably cost-cutting to maintain profit levels, business diversification to tap into adjacent markets for enhanced revenues, and also a strategic decision to increase the focus on core business activities, potentially exiting non-core products or businesses as a result.

While almost all respondents anticipate the availability of debt financing and capital to remain flat or increase in the next 12 months, there is also general consensus that this availability will come at a cost. More than half expect the lending environment to become more restrictive in this period – in line with this year's global data and a marked increase from 2023's Asia survey (32%).

However, survey respondents expect macroeconomic disruption to counter some of the positive impact of capital availability. Again, a majority (86%) anticipate disruption to their business, while 9 in 10 anticipate that these pressures will affect company profitability, with more than a third expecting those pressures to be greater than last year.

Elevated materials costs, interest rates, and high labor costs are the biggest drivers of this pressure, while incomplete market recovery post-COVID also features highly. The impact of ongoing geopolitical friction also plays a role, further exacerbated in some instances by the high costs of relocating business operations to diversify away from this longstanding macro disruption.

With all of this disruption in mind, although our data suggests that lender risk appetites may be loosening a little compared to 2023 in relation to geopolitical conditions, they are leaning into the headwinds that are circling, expressing a higher propensity to proactively alert borrowers to take appropriate actions to mitigate these risks.

With scrutiny that much higher, the overall assessment in our data set from Asia is that a greater number of restructuring proceedings could lie on the horizon. Whether these are instigated by geopolitical developments and then triggered by lenders, or alternatively action is taken by them to assume control of adversely affected companies, this likelihood of distress will remain for businesses who are unable to implement the enhanced levels of agility and resilience that will define the success stories of the coming year.

86%

anticipate disruption to their business, with 9 in 10 suspecting these pressures will affect profitability.

Data in detail

Headline findings

74%

Up from last year's 39%

expect overall corporate profitability to go upward in Asia, a significant increase from last year's 39%

47%

expect the availability of debt financing to increase in the next 12 months

49%

expect the availability of capital in Asia to increase versus the previous 12 months, compared to 28% from this year's global survey data

86%

anticipate that their industry will face the same or greater levels of distress in the coming year versus the previous 12 months

52%

expect the lending environment in Asia to be more restrictive in the year ahead than the previous year

90%

believe their company will face the same or greater pressures this year that will affect profitability, versus 12 months ago

52%

Up from last year's 31%

expect lenders to be more likely to alert borrowers to take actions against risks, significantly up from 31% in 2023

"Globally, while I don't see any peaks in restructuring activity like the GFC, AFC, or the more recent pandemic, I do expect the current trend of heightened activity to continue for the next two or three years. The most important thing for company management teams facing into this challenging environment of expensive capital is to be realistic about their projected cost of borrowing and recognize the greater strain this will place on their liquidity requirements."

Joff Mitchell

Global Co-Head, Turnaround & Restructuring Services

"Although both the private debt and equity markets continue to have dry powder, we are seeing more cases of stress and distress across Asia. Smart investors are looking for opportunities to combine fresh capital with meaningful profit improvement and / or growth."

Matt Hinds

Partner & Managing Director, Singapore

"While full-year 2024 economic growth forecasts for most Asian countries remain robust, geopolitical tensions are impacting the flows of international capital and are intensifying as we approach the U.S. elections in November. 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

"As refinancings continue to get harder and more expensive, now is the time for corporates to get serious about making meaningful operational improvements to drive cash flow. Companies that are not proactive in optimizing their businesses will likely experience increased pressure from their lending partners."

Mike Haftl
Partner, Singapore

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. Lean into liquidity and cash generation

Borrowers must put their capital to work and keep a keen eye on cash generation, in addressing the pressures of elevated input costs, potential consumer spending contraction, and geopolitical uncertainty.

2. Realism around refinancing

Now is the time to confront and resolve any underlying business challenges head-on, with a plan to drive organizational efficiencies and improve the fundamental operational systems.

3. Focus on the business fundamentals

Leaders must strike the right balance in addressing their most pressing challenges against securing a viable, sustainable capital structure for the long term.

4. Enhance agility across the board

Flexibility remains vital in both capital structure and operational strategy. Responsiveness and resilience guided by pragmatic realism must be the goals, to secure an improved business outlook.

Contact

For more information

Joff Mitchell,
Global Co-Head, Turnaround & Restructuring Servies
jmitchell@alixpartners.com
+1 (973) 886-2929

Jim Mesterham,
Global Co-Head, Turnaround & Restructuring Servies
jmesterham@alixpartners.com
+1 (773) 251-0352

Lian Hoon Lim,
Partner & Managing Director, Singapore
llim@alixpartners.com
+65 9892 5187

Matt Hinds,
Partner & Managing Director, Singapore
mhinds@alixpartners.com
+65 9296 5942

Patrick Bance,
Partner & Managing Director, Singapore
pbance@alixpartners.com
+65 9151 0537

Mike Haftl,
Partner, Singapore
mhaftl@alixpartners.com
+65 9892 9858

Carol Chan,
Director, Singapore
cachan@alixpartners.com
+65 8869 0981

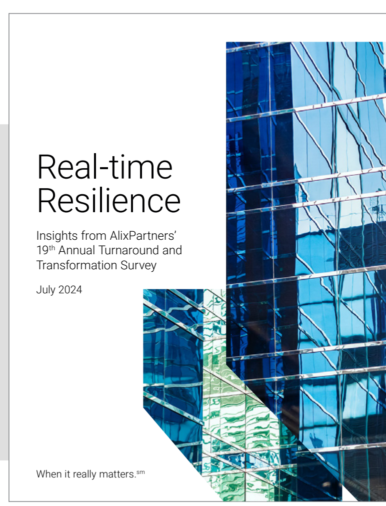
Ian Ireland,
Director, Singapore
iireland@alixpartners.com
+65 9154 0750

Jaimin Allen,
Director, Singapore
jpallen@alixpartners.com
+65 9656 1053

Uday Rao,
Director, Singapore
ubhamidipati@alixpartners.com
+65 899 6625

Discover more global insights from AlixPartners' 19th Annual Turnaround and Transformation Survey

[Read more]



Methodology

Research for the 19th Annual Turnaround and Transformation Survey: Asia Report was conducted between 30 July and 5 August 2024.

Respondents comprised 200 lawyers, investment bankers, lenders, sponsors, financial advisors, and other industry executives involved in corporate workouts, representing more than 20 major industries in the Asian market.

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.

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.

AlixPartners