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# Restructuring Trends
## Europe 2022

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EIGHT ADVISORY FRP JP Weber NEW DEAL ADVISORS

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# Foreword

It has been three years since we went into the first Covid19-lockdown, which was one of the most brutal shocks to the world economic activity since the Second World War. Today, instead of recovery we are going through the next, global crisis caused by the war in Ukraine. The full extent of the economic damage might not be fully tangible today but is more than real. Many experts agree that companies will need to adapt to this new economic context. In a substantial number of businesses, restructuring or downsizing is becoming unavoidable.

To help investors understand the current local economic situation we have asked Eight International experts from different geographies the same set of questions: on the current challenges and opportunities in their local restructuring markets, the rate of their local economic recovery, and the M&A outlook this year.

For companies' owners and management teams, in turn, we provide a useful guide on how to emerge unscathed from the upcoming surge in bankruptcies and economic turmoil.

Enjoy the read!

**Eight International Restructuring Team**

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# United Kingdom

**Simon Longfield**
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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

Over the last couple of years, and indeed into the first quarter of 2022, the volume of corporate insolvencies has remained relatively low. Businesses across the UK have benefitted from government-backed loans and other support measures; this, combined with easy access to low-cost capital, strong consumer demand and record high valuations has led to an increase in M&A activity that has suppressed restructurings.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

The challenges that face businesses today are global, fast-moving and unpredictable, which makes it increasingly difficult for leadership teams to manage. From the coronavirus pandemic to the war in Ukraine, the crises facing business today feel like a series of black swan events. And whilst government measures were introduced to support businesses through the pandemic, as these start to wind down I suspect we'll start to see the real impact of such events on the restructuring market.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

With challenging headwinds across Europe - from interest rate and energy price rises to the impact of geopolitical tensions on supply chains (both Brexit and Ukraine related) and international competition for labour supply - uncertainties remain over how much longer strong liquidity levels can support businesses that are already in distress, particularly when you consider the rising cost of borrowing over the long-term.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

The cost-of-living crisis is the latest challenge. Consumer-facing businesses, such as those in the travel and leisure, retail, and casual dining sectors will most likely be the first to be impacted. Not only because discretionary consumer spending is likely to be curtailed, but also because of their exposure to the buy-now-pay-later phenomenon and the potential for increased regulation of these schemes.

It would also be remiss not to mention the importance of a robust ESG strategy when looking at the insolvency landscape. ESG is now business-critical and factored into many credit and risk appraisals. This means that businesses and management teams must continue to keep ESG front of mind and an intrinsic part of their operating model - both a challenge and an opportunity. →

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Directors and management teams will need to manage cash more closely than ever before. Liquidity has never been as critical, and I suspect businesses will take a more cautious approach to M&A activity.

Management teams should also pay close attention to their supply chains. We are likely to see a shift towards local supply chains and a move away from an over-reliance on one or two suppliers. Businesses worldwide have seen how automotive manufacturers have been impacted by the microchip shortage, whilst the zero-Covid policy in China continues to have far reaching consequences on supply chains in Western economies. All of this means the deglobalisation of supply chains is one trend that may well emerge from this crisis.

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

Last year we saw the introduction of the Corporate Insolvency and Governance Act, which was introduced with the aim of providing more flexible and efficient tools to enable companies to restructure their balance sheets and operations. It's fair to say that we've not yet seen the full impact of the Act given current support measures that are in place, but I'd expect to see tools such as the 20-day (initial) moratorium being used more frequently when there is a viable opportunity for the business to be rescued as a going concern.

**Considering all of the above, what is the M&A outlook in 2022 for your country and do you see the boom continuing, or abating, and your reasons why?**

I'd expect to see more debt forgiveness and forbearance from the banks to help businesses avoid insolvency, but it's important to remember that such leeway is only possible when the business in question is viable in the first instance.

There will also still be lots of opportunities for hedge, credit, and debt funds. If restructuring activity does increase, then there will be opportunities to secure cheaper assets and deal activity will just shift in that regard. The fund industry's attention will switch from business-as-usual M&A activity to stressed and distressed assets, where they will see an opportunity to buy business & assets and debt at discounted levels.

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# France

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

The restructuring market in France should be considered on an industry-by-industry basis. For some sectors, the first half of 2022 has already been very challenging, with a downturn in consumption and caution in investments for companies, mainly due to inflation. For example, retail, consumer goods (including the food industry) and construction are facing strong headwinds. The coming months will show if heavy operational turnarounds will be sufficient, or, if they should be accompanied by financial restructurings. I'd expect to see this occur when state guaranteed loan repayments begin, and with added inflationary pressures, financial restructurings will likely be more prominent in the second half of the year.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

The impact was massive due to the adoption of a "zero insolvency strategy" in France, using large subsidies and temporary laws to assist companies in difficulty. In 2020, such a policy consisted of granting state guaranteed loans and enabling partial unemployment. In 2021, additional subsidies to compensate losses have partially added to the compensations. To date, 2021 grants still have to be confirmed and the repayment of loans is beginning. ↗

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

France is quite protected from this crisis compared to other European countries due to a few reasons. Firstly, our energy imports from Russia are limited as a result of our other channels, o/w nuclear energy. Secondly, the country has a large internal production of food, and French manufacturers have a limited footprint in the region. Nevertheless, the inflation of imported manufacturing goods (such as steel and glass) and the impact on Europe on access to Ukrainian and Russian wheat could be massive.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

Several challenges are arising on a sector-by-sector basis. For each company, careful analysis of market trends and keeping a strong focus on margins will be key. Those who are well managed and react quickly will benefit.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Management teams should address each challenge individually. Working closely with leaders is also key. In this context, each topic should be managed through a war room model; with a fast decision-making process and direct communication with teams. →

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

France is still supporting local companies, nevertheless, this will eventually come to an end.
As an example, there are more constraints in granting aid for the "Ukrainian crisis" than Covid-19. We are waiting for the pre-budget of 2023 to identify the state position, considering that the EU would accept a budget that may not respect the 3 percent rule.

**Considering all of the above, what is the M&A outlook in 2022 for your country, and do you see the boom continuing, or abating, and are your reasons why?**

Even if banks are starting to insert more constraints in the documentation eg. covenants, ratios, the M&A market is still very active. Many people are assuming that this will slow down in the second half of the year, but there is currently no evidence of this.

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# Germany

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

The restructuring market is currently on the move, corporates and investors are focusing on re-forecasting 2022 budgets, reflecting new assumptions on longer-term raw material, energy, and transport prices. M&A activity resumed significantly in April 2022 following a dip in Q1, but lenders are increasingly conscious of buy-out financing availability and costs.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

There hasn't been much direct impact from Covid-19, except travel, hospitality, and some stationary retail business models. We have seen a huge growth in investors' appetite for acquiring German mid-cap assets, which has led to an increases in M&A activities.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

The Ukraine war initiated another boost in Energy and raw material prices following Covid-19. German businesses are strongly reliant on natural gas from Russia – hence markets are anticipating even higher long-term prices (for LNG, green energy) than in other European countries. Also, companies face direct impact from sudden non-availability of Russian and Ukrainian products such as wheat, wood, cables and electronic components.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

Besides the Ukraine war, the zero-Covid-19 policy in China has disrupted supply chains. Freight rates are up 5 times compared to Q1 2021. Financing costs are also soaring given pressure on central banks to raise interest rates, and the transformation of the automotive industry is entering a critical phase – OEMs and Tier 1 suppliers are struggling to ensure the availability of battery cells and other key components, as well as struggling to develop suitable software platforms.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Firstly, manage liquidity closely. This includes extensive effort on working capital optimisation. Secondly, de-globalise supply chains, even if it is costly (some industrial mid-caps are repatriating critical supplier clusters to Europe, specifically to Poland, Hungary, and Romania). Finally, increase international labor sourcing (the German labor market is dry and some sectors such as building and services are overheating). →

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

The German government continues to assist corporates in terms of short-term work benefits, and energy cost relief – in the long term, this combined with huge investment needs in infrastructure and climate measures, as well as rising interest rates and imported inflation due to the weakening Euro, will lead to increased public deficits and, as such the potential for further interest rate increases.

**Considering all of the above, what is the M&A outlook in 2022 for your country, and do you see the boom continuing, or abating, and are your reasons why?**

Given the relative unattractiveness of alternative assets (stock and real estate valuations are quite high), and the fact there are still billions if not trillions in dry powder available in the markets, we believe private equity and M&A activity will continue to develop in 2022 – however, banks are moving away from ultra-cheap buy-out financing. Hence, leverages are likely to reduce further (they already did reduce to 40-50 percent pre-Covid-19, compared to 60-70 percent in the mid-2010s), resulting in lower impact from financial engineering, and therefore, active portfolio management and improving operating performance are key.

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# Belgium

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

Covid-19-19 government support ended, but new external shocks (such as the war in Ukraine, supply chain issues, inflation, and labour shortages) are putting additional pressure on companies as they will not receive any support. This is creating uncertainties and may impact business plans used for refinancing, resulting in some waivers/amendments and extended deals.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

We have had the lowest amount of insolvency cases ever thanks to various types of Government support. This includes temporary Unemployment, social tax postponement, and Government funding.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

We see increased pressure on companies due to increased raw material costs, limited supplies, and Inflation impacting wage costs. In Belgium, wages are automatically indexed adding further pressure to companies as they're not always able to pass through the additional costs. We expect that this uncertainty will mainly impact specific sectors particularly hit by these factors (for example, steel, aluminum, construction, and sectors exposed to supply chain issues). ↗

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

The main challenge is that we see increased competition from outside the Benelux, particularly from players with bigger cross-border exposure. The main opportunity is the increase in activity within the mid and larger corporate market.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Anticipate impacts with clear operational action plans to mitigate the exposure and proactively engage with stakeholders to maintain trust.

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

It is not. The government only supports individuals through lower VAT and excise on oil & gas.

**Considering all of the above, what is the M&A outlook in 2022 for your country and do you see the boom continuing, or abating, and your reasons why?**

We see an M&A boom continuing in IT, pharma, services industry, as there's still sufficient liquidity and debt markets are still open. We do see that ESG factors impact funding in those specific sectors. ●


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# Netherlands

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

In the Netherlands, there isn't a lot of restructuring going on. We have seen the lowest number of bankruptcies per month since 1981 this April. With the last Covid-19-19 support measures disappearing, the start of the repayment of postponed taxes, and the general challenges due to the Current situation (high Inflation; disruption in logistic chains and the labor markets) we expect that these numbers will go up, and as such the level of restructuring activity.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

The Dutch government has provided support in multiple rounds of subsidies and postponement of taxes. Due to the ample availability of liquidity we have seen hardly any large bankruptcies. Also, businesses that already faced difficulties before Covid-19 were able to tap into liquidity. This all resulted in employment in general being safeguarded. Some businesses and entrepreneurs have faced difficulties primarily in the non-essential retail, leisure and travel sectors. Despite these cases, restructuring activity has remained low.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

Around 60 percent of the energy production comes from gas-fired electricity plants. The Netherlands has one of the largest gas fields in Europe but the government decided to stop production due to the unstable situation of the Groningen soil and the detrimental effect on the houses over the last years. A more permanent solution for the people of Groningen has not been found. Although the situation in Europe changed the production of the Groningen gas field has still been significantly reduced to accommodate the people from Groningen. This is putting further pressure on the unstable energy market in Europe. The high gas prices result in electricity being very expensive in the Netherlands. Glasshouses (flowers; paprikas and other vegetables) and some other industries like concrete and fertilizers have stopped or reduced production. Households will also feel the Energy changes directly through their energy bills which have tripled compared to last year. This will have an effect on spending; as well as Corporate Labor Agreement negotiations.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

I believe the Dutch private equity market is very mature. The latest transactions in the market have been financed at high multiples and with more and more debt funds involved. →

I expect that the combination of banks retreating from the leveraged markets due to more stringent EBA regulation (lower final takes; higher Capital Allocation) and there will be an additional interesting challenge when performance is dropping and a local bank solution is less likely. Furthermore, the WHOA (addition to the Dutch insolvency law for allowing cram down) is expected to play a more important role and hopefully prevent companies from going bankrupt.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

My advice is always to come prepared and that takes time. So don't start to act only at the moment that you already breached your financial covenant or the moment you have missed the repayment on the postponed taxes and are already faced with liquidity issues.

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

The Dutch government has no real plans to support the economy after Covid-19. Some focus areas are building more houses and significantly investing in the energy transition. Although the ↗ The government has stated that more houses have to be built, but the level of nitrogen emissions is still considered too high. We have seen the interest on mortgage loans rise from 1.25 percent at the beginning of the year to 2.7 percent at the moment. Furthermore, the Dutch government has plans to penalise owning multiple houses from an investment perspective. There still is a huge scarcity of housing and the housing market is still booming despite this increase in interest rates and the measures against investors. This should have some negative impact on housing prices later this and next year. Consumer spending is highly correlated to rising house prices in the Netherlands and as such may affect GDP development.

**Considering all of the above, what is the M&A outlook in 2022 for your country, and do you see the boom continuing, or abating, and are your reasons why?**

Liquidity is generally still amply available, but we see for instance in the syndicated loan markets some tightening in respect of leverage, pricing and structure. The M&A market will continue to be good to at least the end of the year but in general it takes more time to close transactions. With interest rates expected to increase; as a consequence, multiples coming down this will have an impact on the M&A market. What we have also seen is that markets became more volatile since the last credit crunch. So, changes could have a swift impact. Furthermore, due to the high inflation that is expected to remain for the time being and the challenging situation with Ukraine and Russia, I would expect more restructuring activity as well.

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# Italy

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

Restructuring is slowly picking up from low activity in 2021 and Q1 2022, which was due to widespread public support to corporates through the financial guarantee scheme of Covid-19 liquidity loans. Corporates and shareholders are currently assessing the impact of further developments (for example, raw material inflation, central banks' expected tapering, Ukraine crisis, and possible contraction of demand); subsequently, we expect in H2 2022 a robust increase in restructurings and refinancings.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

There has been a more severe impact on specific industries (Horeca, cinemas) and smaller businesses. As said, the public guarantee scheme on liquidity loans has provided lifeline support to corporates and limited defaults of structurally nonperforming companies. On the other hand, public support has provided a strong boost to other corporates (particularly those in the real estate and construction, building materials, and pharma sectors) which now operate with sounder balance sheets.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

The Ukraine war will exacerbate cost inflation for Italian businesses as Italy is strongly dependent on the import of gas, oil, food, and raw materials. Energy-intensive industries which were already in bad shape (for example, pulp and paper, metals, retailers) will suffer even more and have a limited chance to translate on customers' price increases. Other sectors will join, like food producers, automotive suppliers, travel, and logistics, particularly if consumer confidence falters in the following months.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

Much depends on the length of the war. A short war may cause a temporary disruption to economic activity and consequently an increase of defaults in few sectors, probably the most fragile. A longer conflict may cause a serious halt to supply chains and productions, a drop in confidence and demand. Even without adding purely "financial" drivers (tapering, interest rates increase, creditors and investors' risk-off attitude), these are sufficient conditions for a major downturn which may fuel a restructuring scenario with the magnitude of those post-Lehman and post-European sovereign crises.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Accurate risk management: select clients, suppliers, and banks not only based on profit maximization or cost-effectiveness but also the impact of potential risks affecting their own business. Secondly, retain and motivate the quality workforce, as turnover may represent an issue in the short to medium term. Finally, deleverage - if possible - as excessive debt will hamper future growth and business sustainability.

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

A guarantee scheme to support liquidity loans will not last indefinitely and may cause some liquidity concerns in the short term when revoked. The same concern applies to ECB perspective tapering which may ramp up in the next quarters. On the other hand, public expenditure programs (for example, PNRR, plans to reduce energy dependence on natural gas, and support for home refurbishments) may counteract the former developments. But overall governments and central banks have now fewer arrows in their quivers than they had in the 2010s.

**Considering all of the above, what is the M&A outlook in 2022 for your country, and do you see the boom continuing, or abating, and are your reasons why?**

We see M&A continuing with some trends in sub-segments. Probably less transnational activity, more distressed M&A transactions fuelled by corporate defaults and break-ups. Private equity activity will depend on the availability of leveraged loans and financiers' risk attitude. The higher cost of financing will produce a long-awaited natural selection of the wisest deals only: no more free lunches built on financial leverage.

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# Poland

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**To set the scene, what is the current state of play in the restructuring market in your specific country?**

In 2021, the number of restructuring proceedings in Poland increased by more than 230 percent compared to 2020. The data for the first quarter of 2022 shows that although the special provisions related to the Covid-19-19 pandemic in force in the previous year have ceased to apply, interest in these proceedings has only minimally decreased. In the first quarter of 2022, there were 369 opened restructuring proceedings, which is 15 percent less than in Q1 2021.

**How has the Covid-19 pandemic impacted restructuring activity in your country, and why is this the case?**

The crisis caused by Covid-19-19 has popularised restructuring proceedings in Poland, as indicated by a 236 percent increase in proceedings in 2021 (January-December) compared to the same period in 2020. Such a large number of restructuring proceedings may be due to the laws introduced to counteract the economic crisis caused by Covid-19 called simplified restructuring (which ended on the 1st of December 2021), but it is also due to the statutory limitation of the consideration of bankruptcy applications until the end of the epidemiological emergency and also restriction of bankruptcy removed the obligation of boards of directors to file a bankruptcy petition under pain of liability to creditors within 30 days from the date of insolvency. ↗

It is also worth emphasizing that we need to know more about the number of bankruptcies that cannot be filed by management in the current legal form to determine what the actual growth of restructuring proceedings is.

**Similarly, what impact is the economic fallout of the Ukraine war having on the restructuring markets in which you operate?**

It is worth noting that the Polish economy is not dependent on Russia and Ukraine, therefore the impact of the war is similar to other economies. The Russian war on Ukrainian territory caused increases in production costs through rising energy and raw materials prices. This process will be more severe in the Russian decision to halt gas export to Poland announced at the end of April. The impact of the war can be visible in the labor market. According to the latest data from the Central Statistical Office, the outflow of workers from Ukraine is felt in mainly the construction and transport sectors. However, companies from these sectors had problems with their workforces before the war. We musn't also forget about galloping inflation in Poland, which has just reached almost 16% (against a forecast of 3%) and ever-increasing interest rates. This is already causing problems with debt repayment and current liabilities.

**Consequently, what challenges and opportunities do you foresee in the restructuring market?**

It is difficult to predict the future of restructuring proceedings in Poland. →

The number of restructuring proceedings probably will increase in 2022.

Inflation, supply chain crisis, and new tax law since the beginning of 2022 can hit the business climate. The geopolitical situation only reinforces the trends and challenges faced by entrepreneurs.

The "Polish New Deal", as is called the new tax law, hit many people with higher taxes and among them entrepreneurs whose taxes were increased by 4.9 percent. Another point is still increasing minimal remuneration and social security. Many entrepreneurs will be forced to close their businesses, some of them will be forced to use restructuration and some will experience bankruptcy. Those entrepreneurs who gained financial support from the government will be facing difficulties to pay their loans to the state treasury, having in mind changes starting from 2022. This might be a reason for restructuration which might give them time to breathe, the open question is how many such entrepreneurs will have rethink their way of conducting business.

**What is your advice to directors and management teams presently for combatting the economic headwinds they are facing?**

Entrepreneurs must keep a close eye on their company's financial flows and contracts, which are affected by the current economic and geopolitical situation. At the same time, the current situation may create business opportunities that were not previously possible for Polish entrepreneurs. ↗

Shortening supply chains and low labor costs compared to other European countries are examples of trends that may open up new opportunities for Polish companies.

**To what extent are government support measures (including central bank fiscal policy) continuing to impact the rate of economic recovery in your country and what forms will this take?**

The activities of the Polish government and institutions responsible for the state of the Polish economy have in recent years been directed towards supporting businesses and companies. Assessing the effectiveness of these actions remains a different issue. What we can now say with great certainty is that one of the priorities will be to fight inflation using all available methods. This – as mentioned - means a significant increase in interest rates, which may significantly increase the cost of servicing the debt of Polish companies.

**Considering all of the above, what is the M&A outlook in 2022 for your country, and do you see the boom continuing, or abating, and are your reasons why?**

The rising costs of doing business, as well as uncertainty about the resolution of the war in Ukraine and its long-term impact on business, are likely to cause some slowdown in the M&A market and the postponement of selected projects, as was the case at the beginning of the coronavirus pandemic. →

However, Poland is still considered a safe country, which is likely to result in the war across the eastern border not affecting projects already underway.

It is also worth emphasizing that the weakening of the zloty exchange rate may be beneficial both for companies and foreign investors, for whom it may be an opportunity to purchase assets at a more favorable price. Also, the prolonged war in Ukraine may cause Ukrainian businesses to plan on moving their operations to the West, primarily to Poland. This may also create investment opportunities in the Polish market.

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# Early signs of distress

A first step is always to be able to identify the first signs of distress or even anticipate them. The faster a problem is identified, generally the better chance for a successful turnaround. Time is generally not in your favor when facing distress and our experiences show that management and boards may wait too long to act decisively. This minimizes your available options to negotiate and maneuver out of this position. Acting too late or not having a plan of action in place may result in bankruptcy.

In situations of distress, financial indicators remain the most widely consulted. The key indicators are classic: **turnover, financial results, and cash flow**.

With regards to cash flow, the financial monitoring of customers and suppliers is a key approach to prevent situations of underperformance. Studies have shown that 60% of companies who have experienced cash alerts state that they do not regularly monitor customer and supplier payments. Is this due to a lack of time or tools? Is it due to complex reporting within the company? Or are some of these alerts not coming through to the appropriate management level? Steering and forecasting operational indicators and monitoring your operation are essential in anticipating situations of underperformance and stress, as these indicators can detect an unusual situation before the financial indicators. The main operational indicators include **Human Resources & high staff turnover**, **problems in production or supply chain** and **monitoring of disputes and accidents**. ↗

Your stakeholders may also look at management changes and stock prices moving downwards.

As the current crisis is leading a large number of companies into a state of financial and operational underperformance, correctly identifying the indicators that show you your business is in distress is only the first step in finding an appropriate solution. Companies must now focus on maintaining or improving their liquidity profitability, ensure the agility of their organisation to adapt quickly and resolutely to the new situation as well ensuring swift execution of transformation and turnaround plans. •

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# A step-by-step approach

Each turnaround requires different solutions and each process is different. Turnaround processes can go from workforce reductions to disposals, mergers and acquisitions, and redesigning operating models. They can even be applied to healthy companies that are experiencing structural difficulties, but they are mostly aimed at companies in difficulties. The goal of every turnaround remains the same, that is to protect and optimize your business while minimizing the negative impacts.

In a turnaround process, we can distinguish the following five phases:

**Taking a step back**
To prepare for a transition stage, to take measures adapted to the problem encountered.

**Defining and announcing achievable goals, action plan, and new KPIs**
This stage is crucial because it initiates the change. It is essential to define realistic goals to be achieved, prepare an action plan and communicate both internally and externally insist on the Positive effects of a reorganization, and – last but not least – align the existing KPIs to the new business strategy.

**Unwinding the current business model**
These changes can sometimes take away employees' day-to-day structure and can be destabilizing.

**Rebuilding**
The new structure will be put in place and employees will gradually take their positions. New missions, new objectives, but also departures and/or layoffs. Transparency is the order of the day, because both acceptance and rejection are possible.

**Integrating**
It seals the new organization and the beginning of a new life cycle for the company.

Following the above-mentioned key phases, you also need to have an experienced team to deliver the results. All your stakeholders will need to feel comfortable on the team that will execute the turnaround plan. Some stakeholders may seek outside support from professionals that have prior experience in such processes. The important thing is to minimize your risk in every step of the process.

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# The secret of effective restructuring

Each turnaround requires different solutions and each trajectory is different. Based on years of experience in turnarounds and a study on underperforming companies, which we performed last year, we were able to identify 4 success factors to restore the profitability of your business.

**Fresh cash is king!**

During the last couple of months, the majority of companies have been focusing on cash management. Some traditional initiatives include strict working capital management (both to suppliers and customers), leveraging government support, (economic unemployment, subventions, etc.), and postponing debt repayment in consultation with lenders. Our experience indicates that these initiatives are often not sufficient to implement a fundamental reorientation of the company. 85% of turnarounds require an additional cash injection. A well-founded financial plan is essential to get a clear view of the company's financial needs and prospects going forward.

**It's all about value creation!**

When defining a strategy, it is fundamental to take a step back and focus on value creation. Ask yourself the question: 'which activities, channels, products, clients, regions, ..." are currently creating value for your company, both in terms of turnover, margin, EBITDA, and cash flow. Be sure to consider the latest trends, as well as any fundamental changes Covid-19-19 might have caused in the sector you are operating in. ↗

Saying goodbye to elements that no longer fit your strategy is tough, but they are an essential part of every turnaround. In addition, to further develop those value-creating activities, we want to underline the importance of ambition. If your initial objective is 'damage control', be sure that you will merely reach an underperforming EBITDA. Ambition is key to ensuring the effectiveness of your turnaround plan. A plan without ambition will not bring about any fundamental change nor convince stakeholders to contribute to the plan.

**Build a successful team!**

A new strategy calls for a new set of skills. In most successful turnaround plans we see a change in the executive committee. In more than 80% of turnarounds, 25% of the executive committee is replaced or expanded by restructuring professionals. In 60% of turnarounds, we even see more than 75% of the executive committee being replaced. It is safe to say that most turnarounds require a brand-new skillset, a fresh perspective on business operations, and above all an energizing wind of change throughout the company.

**Create momentum!**

Creating momentum and setting the pace are determining factors of a successful turnaround. This can not only be created by a strong management involvement but also by the energy that arises from a new vision and strategy. Having a plan with well-defined deadlines, responsibilities, and objectives is an absolute must. •

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