

RESTRUCTURING AGAINST THE ODDS – HOW TO WIN IN A CRISIS

OLIVER WYMAN RESTRUCTURING REPORT 2019



STRUCTURE OF PARTICIPANTS

IN % OF TOTAL PARTICIPANTS



83%

OF STUDY PARTICIPANTS SEE A CRISIS AS AN OPPORTUNITY TO ACCELERATE TRANSFORMATIONAL ACTIVITIES

INTRODUCTION

Dear Reader,

The European economies have recovered from the last crisis, enjoying nearly a decade of continuous growth. Nonetheless, some experts predict that this positive climate may soon come to an end due to megatrends such as rising trade barriers, technology disruptions, and changes in consumer behavior. At the same time, the prevailing low interest-rate regime has removed an important instrument for the European Central Bank to fight a recession.

Will a potential economic crisis be more severe than the one that shook Europe 10 years ago? What factors could cause a crisis or intensify it? What measures are available for mastering and eventually emerging even stronger from a crisis? What are the elements for making the turnaround sustainable? And do they require a new way of collaboration between management, financiers, and advisers?

These are the questions we address in this year's *Restructuring Report*. It is based on an expert survey across Europe, complemented by Oliver Wyman analyses and Points-of-View.

We hope you find it an interesting read.

Sincerely yours,



Lutz Jaede



Dr. Lutz Jaede | Head of Corporate Restructuring



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EXECUTIVE SUMMARY

WHEN THE GOING GETS TOUGH, THE TOUGH GET GOING!



EXPERTS EXPECT MORE COMPANIES TO UNDERGO CRISIS

The European economies have done very well over the past years. However, there are early signs that this decade of almost continuous growth may be coming to an end. Two-thirds of the participants in our survey believe there will be more companies in crisis mode in the future. In addition, they assume that higher trade barriers and weaker growth in emerging markets may intensify a new economic downturn. On the other hand, crises are not necessarily caused by a general industry decline but instead by changes in technologies or customer needs, which also allow for opportunities if they are addressed with the right business design.

SUSTAINABLE SUCCESS REQUIRES THE RIGHT STRATEGY

The strategic elements of a restructuring concept, such as a strong understanding of the market context, a thorough analysis of the root causes for the crisis, and a compelling target picture for the turnaround, are rated as most important by lenders and financial sponsors.

Making such a concept successful, however, requires more than just the standard tools for a short-term improvement; instead, it calls for deep expertise and tailored concepts to bring the company back to health. This can only work if experts and managers within the company are involved, motivated, and mobilized to execute the turnaround.

ADVISORS NEED TO COMBINE THEIR SKILLS

Changing the course of a company is a difficult and complex undertaking, which cannot be achieved by senior management alone. On the one hand, all management levels need to engage in the transformation by following the path set by leadership. On the other hand, external support is needed in compulsory areas, such as financial planning or independent business reviews (IBR), and to get advice on strategy development, operational improvement, cultural change, and program management. To cover all these areas, a range of advisers need to be joined together in order to master the crisis. Specialization and teamwork are indispensable to meet the challenges of complex turnaround processes.



**DOWNTURN
OR DISRUPTION?**

A DECADE OF GROWTH

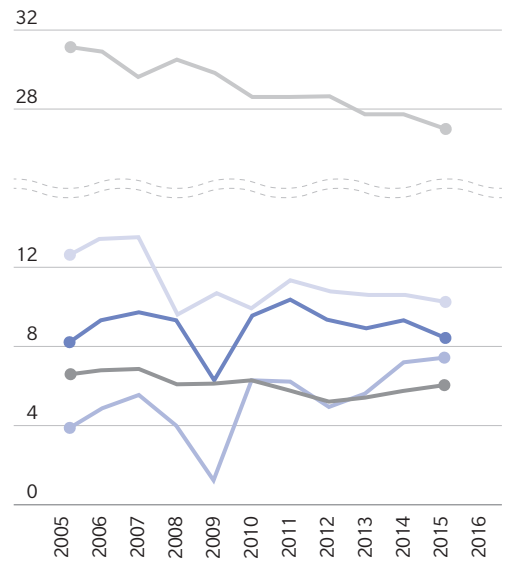
Corporates in most European industry sectors have done very well since the last crisis. (See Exhibit 1.) After the shock in 2009, most markets have bounced back – especially in sectors like automotive or manufacturing. However, only automotive players and to some extent companies from the retail space have returned to precrisis revenue levels. And EBITDA margins have been declining over the past years in most industry segments.

Exhibit 1: Development of key industry sectors since 2005

REVENUE DEVELOPMENT BY SECTOR (EU-28)
INDEXED 2005 = 100



EBITDA-MARGIN BY SECTOR (EU-28)
IN % OF REVENUES



Manufacturing

Automotive

Energy

Retail

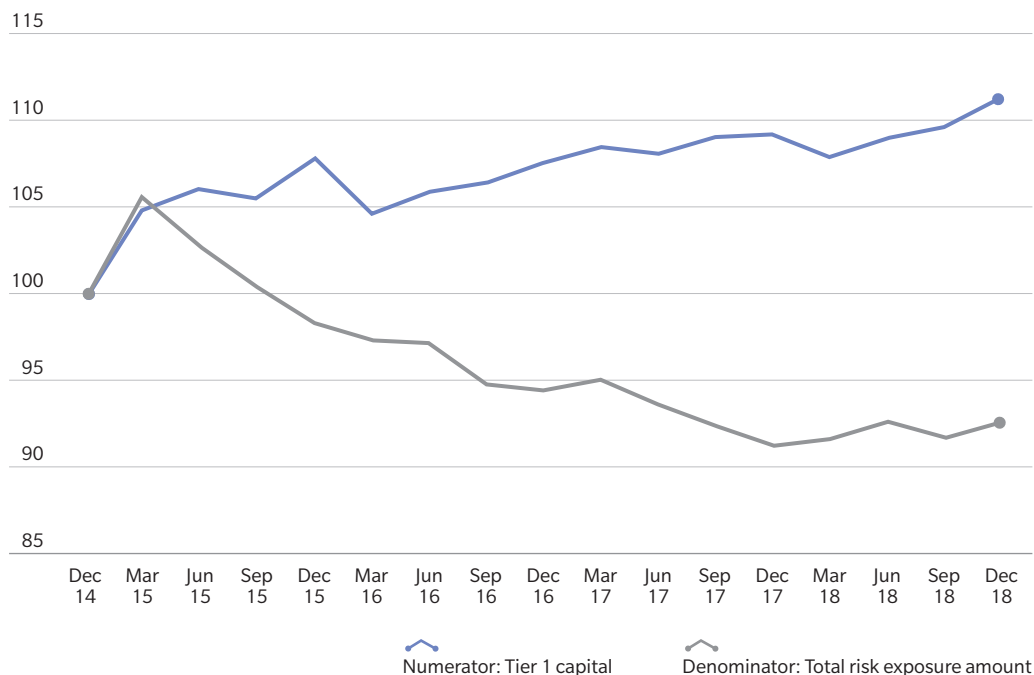
Telecommunications

Source: Eurostat, Oliver Wyman analysis

During the same time, banks have managed to reduce their risk exposures. (See Exhibit 2.) The main driver behind the reduction in risk exposure has been a more rigorous management of non-performing loans (NPL), which is required by new accounting standards (IFRS 9) and regulatory rules. Banks now want to quickly understand how a crisis at a borrower can be solved. If they are in doubt, they often sell the NPL or withdraw from the engagement. This increases the need for a company in distress to present a convincing turnaround plan to their lenders to secure their continued support.

Exhibit 2: Tier 1 capital vs. risk exposure of European banks

INDEXED DECEMBER 2014 = 100



Source: EBA, Oliver Wyman analysis

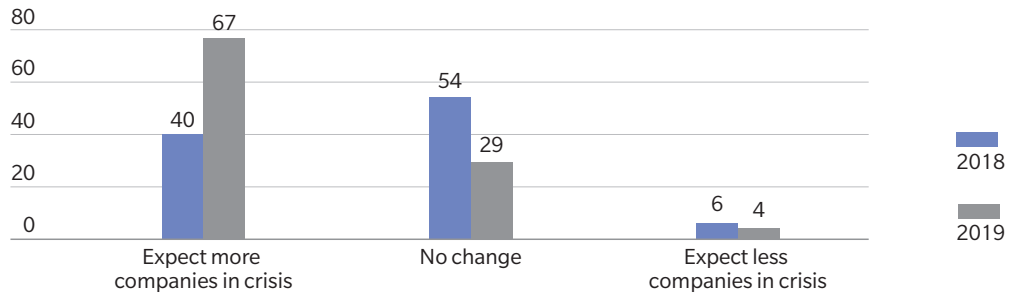
NEW CRISIS EXPECTED

Will the current positive economic development continue? The study participants give a clear answer to this question: 67 percent of them expect more companies to experience crisis in the future. (See Exhibit 3.) This is the highest value ever measured in our *Restructuring Report* and is far above the 40 percent recorded for the same question last year.

In addition, the experts expect that new trade barriers will intensify and that foreign growth markets may not generate sufficient growth to compensate for a decline in domestic markets. (See Exhibit 4.)

Exhibit 3: Expectations concerning development of crisis events

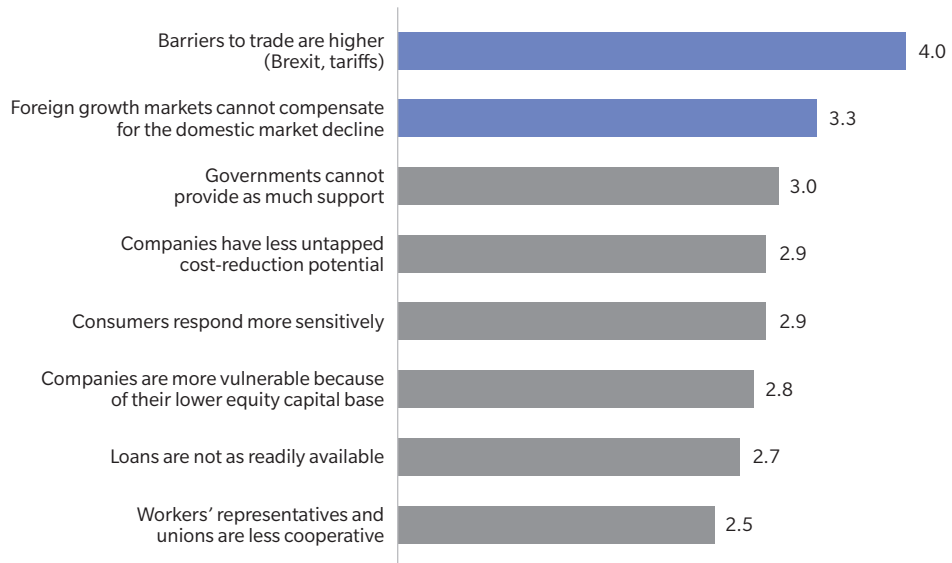
IN % OF ALL PARTICIPANTS



Source: Oliver Wyman Restructuring Survey 2019

Exhibit 4: Factors that might intensify a new crisis compared to past crises

IMPORTANCE RATED ON A SCALE OF 1-5



Source: Oliver Wyman Restructuring Survey 2019

CHANGE IS OPPORTUNITY

In many cases, the root causes behind a company crisis can be traced to changes in the market environment rather than a general market decline. Examples include electrification of the automotive powertrain, digitization of production systems in the Industrial Internet of Things (IIoT), and changing consumer behavior impacting traditional retail models. These changes, however, can provide opportunities if addressed with the right business model. History has repeatedly shown that market disruptions favor agile and innovative players who can adapt to the new requirements. Companies that are inflexible and slow tend to suffer or go under.

SURVIVAL IS NOT ENOUGH

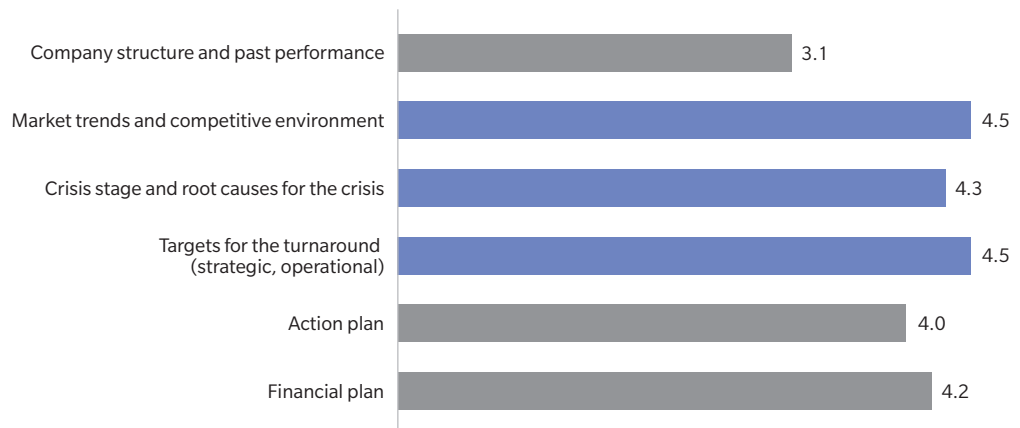


NO STRATEGY – NO TURNAROUND

Restructuring concepts typically follow a standardized structure. A common complaint, however, is that restructuring concepts are too lengthy and do not provide enough insights into how to overcome the crisis. In fact, our report confirms that the target groups of restructuring concepts (lenders and financial sponsors) deem the forward-looking elements of the restructuring concept to be most important. (See Exhibit 5.) They are primarily looking for an understanding of the market environment, an explanation of the root causes for the crisis, and compelling targets for the future strategic positioning and operational setup for the company. A detailed documentation of the company structure and current performance is much less relevant. These topics often constitute the bulk of the pages in long-winded restructuring concepts that no one ever really reads.

Exhibit 5: Importance of the elements of a restructuring concept

RATING¹ ON A SCALE OF 1-5



1. Answers of lenders and financial sponsors only
Source: Oliver Wyman Restructuring Survey 2019

DIFFERENT CAPABILITIES NEEDED

Mastering and controlling a crisis should be done in two steps. First, the short-term survival of the company must be ensured by reducing losses and safeguarding liquidity. On this basis, the company should take the right measures to achieve a sustainable turnaround. Our report shows that these two steps require very different capabilities. (See Exhibit 6.)

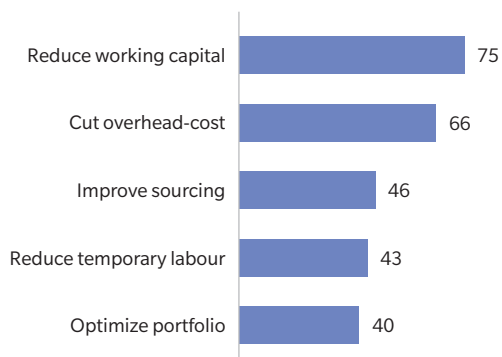
Short-term survival measures typically focus on rapidly reducing overhead and material costs, adjusting the level of working capital and personnel, and ending the sale of low-margin or loss-producing products. These measures require speed and a strict top-down management of actions, often using a standard “playbook” of actions.

Measures for a sustainable turnaround, on the other hand, address the strategy and the business design of the company and make sure that the organization and the processes are aligned with it. To come up with the right actions in these areas requires a deep understanding of the market context and competitive success factors, as well as “bespoke” concepts tailored to the company’s situation and its ability to transform itself.

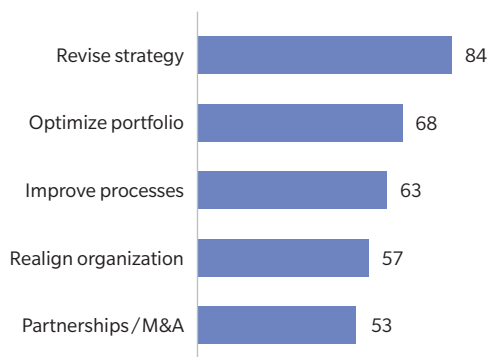
Exhibit 6: Top Five measures to master a crisis

NUMBER OF MENTIONS IN % OF ALL PARTICIPANTS

FOR SHORT TERM SURVIVAL



FOR A SUSTAINABLE TURNAROUND



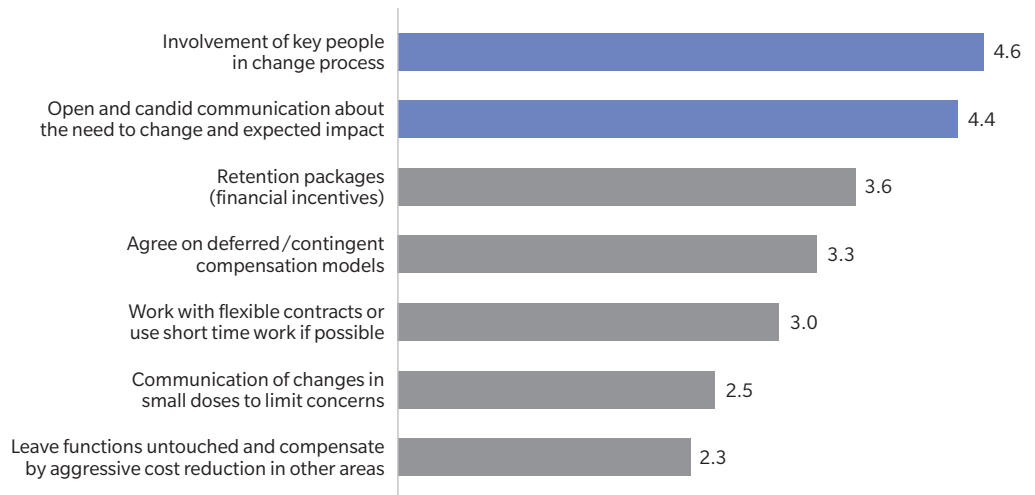
Source: Oliver Wyman Restructuring Survey 2019

INVOLVEMENT OF PEOPLE IS KEY

From this, it is not surprising that managers and board members rate the involvement of key people in the change process and an open and candid communication as the most important success factors to protect key capabilities in a crisis. (See Exhibit 7.) Failure to do so carries the risk of hurting the core business and limits the ability to achieve a sustainable turnaround.

Exhibit 7: How to protect key capabilities in a crisis?

RELEVANCE RATED¹ ON A SCALE OF 1-5



1. Answers from corporates only (managers and board members)
Source: Oliver Wyman Restructuring Survey 2019

NOBODY CAN WIN ALONE

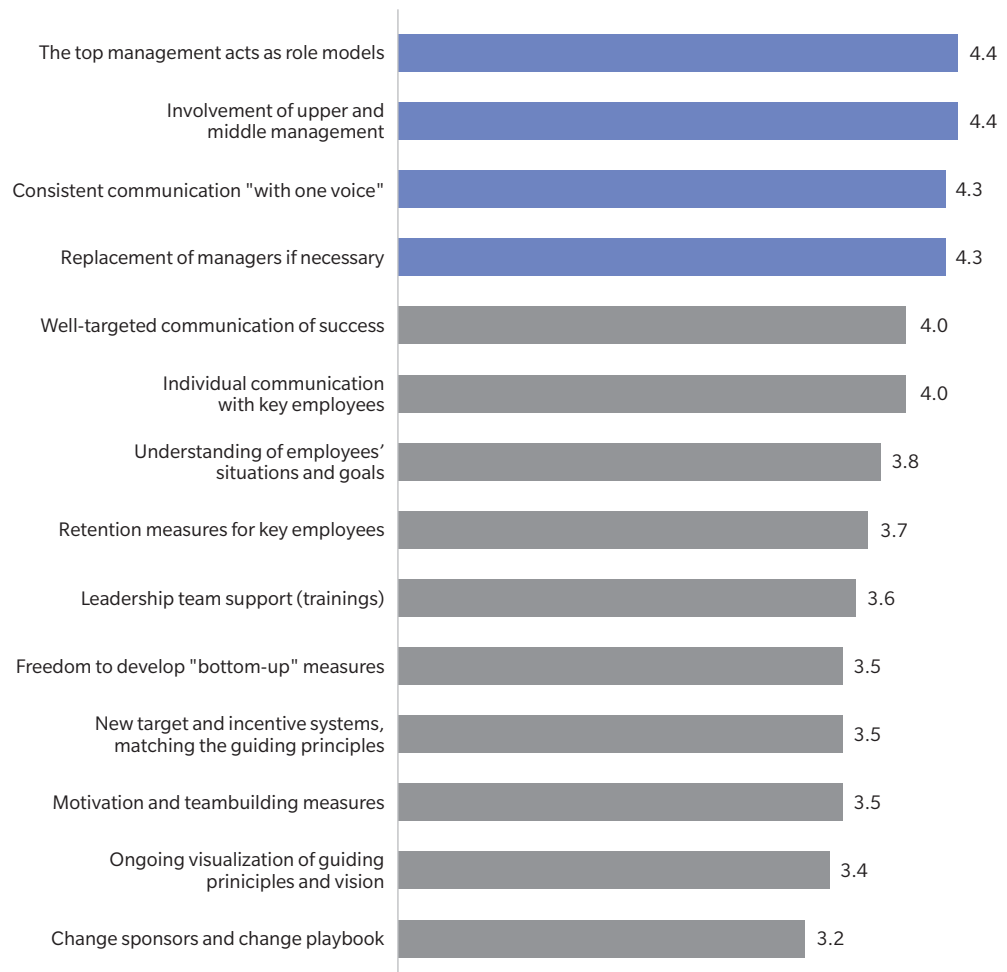


ENGAGE THROUGH LEADERSHIP

The top management team plays a special role in a crisis. It must select the right course of actions and needs to convince lenders and sponsors about the viability of the turnaround. But even more important, it has to apply leadership to make the change sustainable. (See Exhibit 8.) Acting as role models and communicating consistently is only one part of the job. Involvement of upper and middle management and ensuring appropriate and adequate staffing at all levels of the organization are all equally important. For example, placing a strong leader in charge, such as a Chief Restructuring Officer (CRO), is often necessary but will not be sufficient if the rest of the organization does not follow.

Exhibit 8: Success factors for a sustainable turnaround

IMPORTANCE RATED ON A SCALE OF 1-5



Source: Oliver Wyman Restructuring Survey 2019

OUTSIDE SUPPORT CAN ADD VALUE

A crisis is a special situation for any company; hence, the need for outside support is often paramount. Amongst the typical contributions of an adviser, a few areas are rated as particularly valuable by the study participants. (See Exhibit 9.)

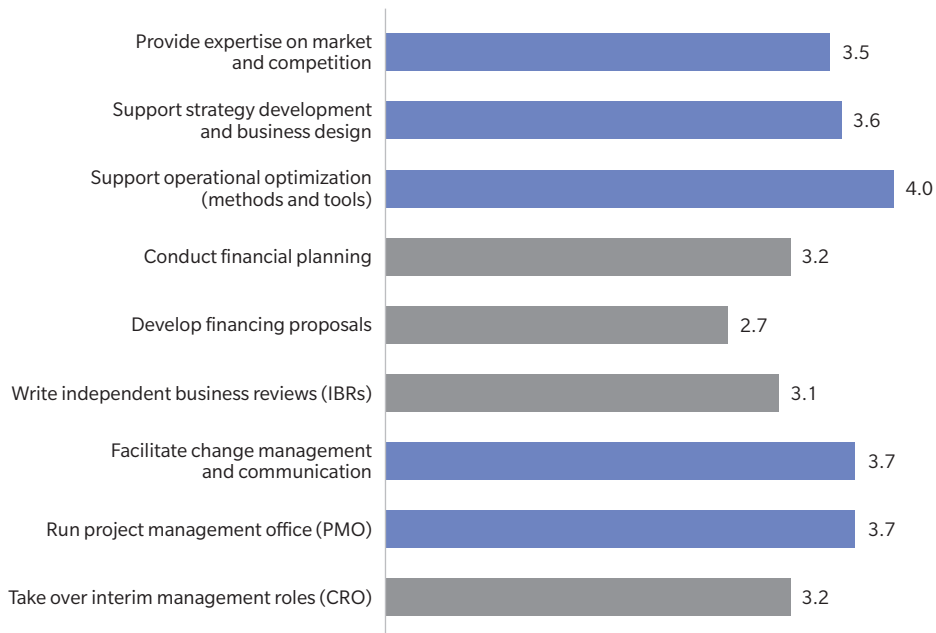
First, companies and their financiers look for external expertise and insights on the market environment and success factors to win against the competition. This should be combined with support in developing the right strategy and business design to cope with these challenges and with help to improve the operational performance.

Secondly, external consultants can help to facilitate change processes by assuming a neutral and objective role when it comes to addressing and overcoming barriers to change.

Thirdly, the help of outside experts is seen as valuable for managing large-scale projects, leveraging proven tools for target setting and implementation monitoring in so-called project management offices (PMO).

Exhibit 9: Value of advisers' contributions

RATING ON A SCALE OF 1-5



Source: Oliver Wyman Restructuring Survey 2019

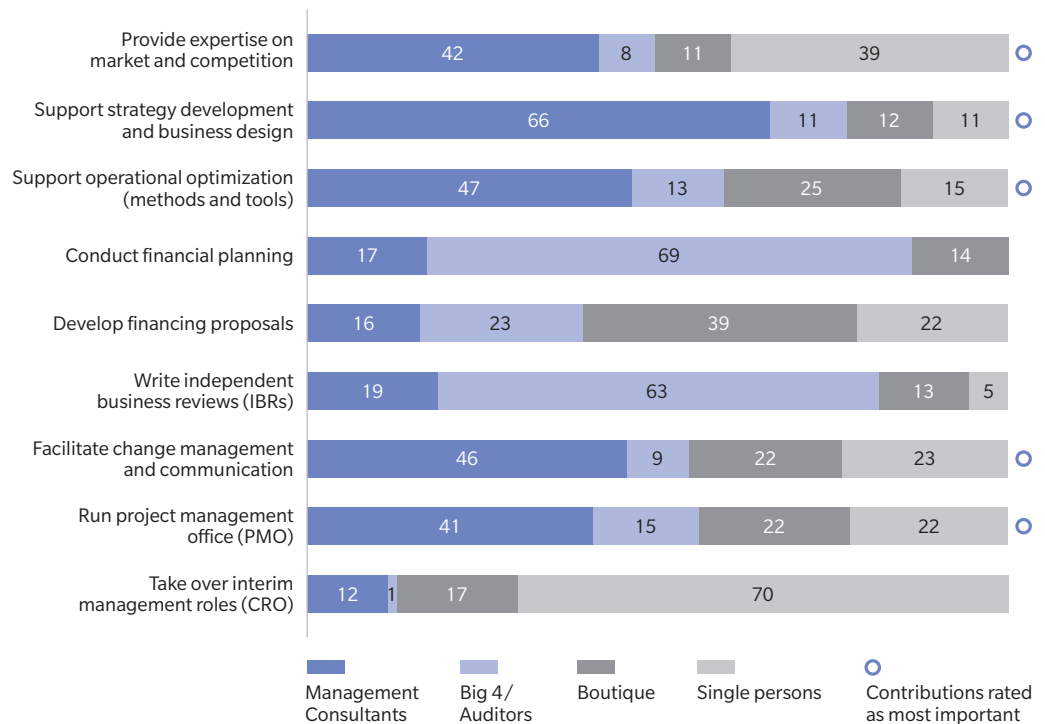
ASSEMBLE THE RIGHT TEAM

Looking at the preferred choice of adviser for the different disciplines reveals a dilemma. (See Exhibit 10.) While “Big Four” companies or auditors are preferred for the financial planning and the delivery of independent business reviews (IBR) that are often mandatory, they seem not to be the top choice to support in strategy development, business design, and transformation, which are rated as most important and which are indispensable in achieving a sustainable turnaround.

To resolve this problem, it has become common in many markets to split the tasks in a restructuring process between different types of advisers. Some markets, however, still tend to use a single advisor to cover all the different aspects of a turnaround process.

Exhibit 10: Preferred advisers per topic

IN % OF PARTICIPANTS



Source: Oliver Wyman Restructuring Survey 2019



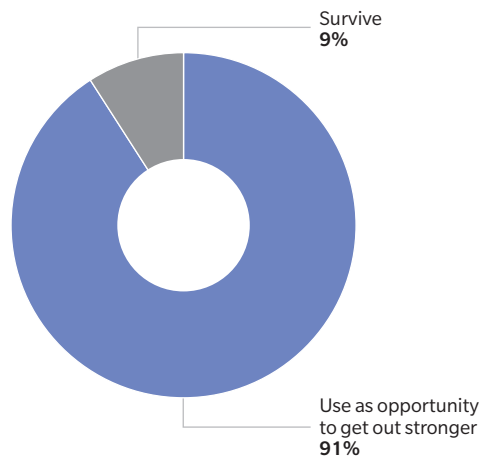
**COMPLEXITY CALLS
FOR COLLABORATION**

A CRISIS IS WHAT YOU MAKE OF IT

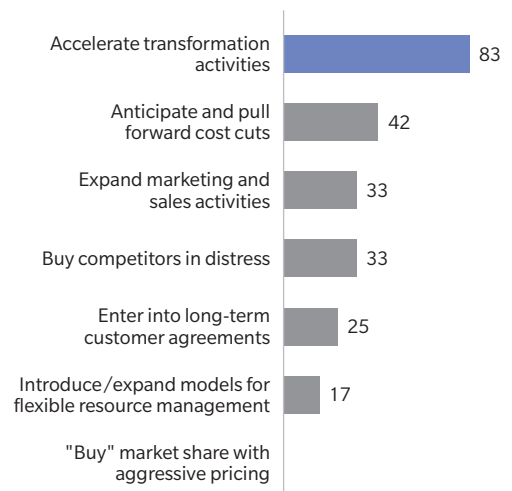
Many corporates have used the past years to build a solid equity position and liquidity. At the same time market disruptions, which are the potential root causes for a crisis, can also be used as opportunity for a strategic repositioning that can allow the company to get ahead of the competition. Consequently, the participants of our survey have made a very bold statement: Nearly all of them want to use a crisis as an opportunity to become stronger, and 83 percent plan to use a crisis as a catalyst to accelerate transformation activities. (See Exhibit 11.)

Exhibit 11: Strategies how to address a new crisis

WHAT IS YOUR AMBITION LEVEL IN A NEW CRISIS?
IN PERCENT (%) OF PARTICIPANTS FROM CORPORATES¹



HOW TO HARNESS A CRISIS AS AN OPPORTUNITY?
IN PERCENT (%) OF PARTICIPANTS FROM CORPORATES¹



1. Managers and board members
Source: Oliver Wyman Restructuring Survey 2019

THE BUSINESS DESIGN MAKES THE DIFFERENCE

Our study shows that the right business design is key to achieve a sustainable turnaround. In addition, it has become even more important for lenders and financial sponsors to find the right solution for a distressed investment. Tighter regulations and a potential weaker economic environment do not allow them to “kick the can down the road” by postponing a strategic and operational restructuring of the asset.

COMPLEXITY REQUIRES A PORTFOLIO OF CAPABILITIES

In an increasingly volatile, uncertain, complex, and ambiguous (VUCA) world, finding the concept for mastering a crisis becomes more difficult. It calls for a better collaboration between advisors of different kinds. The different players should focus and deepen their areas of expertise instead of claiming universal competence. Helping companies in trouble is simply too important to be done with less than high-class expertise.

RESTRUCTURING WITH OLIVER WYMAN

Backed by years of experience, Oliver Wyman acts as a trusted advisor to banks, investment funds, and distressed corporates as they take on the challenges of strategic, operational, and financial restructuring.

We support commercial banks by providing solutions for their book of NPLs, leveraging our deep understanding on the financial services industry and world-leading expertise in finance and risk. At the same time, we work with the world's biggest investment funds and advise them on investments in distressed debt and equity.

When working with distressed corporates, we place a priority on developing sustainable restructuring concepts that address the market and the competitive environment, as well as specific factors for achieving operational excellence. Oliver Wyman acts as a coordinator for restructuring processes, an objective expert, and a neutral third party who provides quantitatively supported advice to address the interests of management, shareholders, lenders, and other stakeholders.

OLIVER WYMAN CAPABILITIES		CONTRIBUTION TO RESTRUCTURING PROCESS	
INDUSTRY EXPERTISE	Deep knowledge on market trends and operational success factors through specialized sector teams	FOR BANKS	<ul style="list-style-type: none">• Independent business reviews• Solutions for NPL management
KNOW-HOW	Broad range of capabilities covering NPL transactions, distressed M&A, and corporate restructuring	FOR INVESTMENT FUNDS	<ul style="list-style-type: none">• Due diligence support• Value growth/recovery at portfolio companies
NETWORK	Excellent network to commercial banks, investment funds (equity and debt), and other restructuring advisers (lawyers, CRO, etc.)	FOR CORPORATES	<ul style="list-style-type: none">• Restructuring concepts• Implementation support
EXECUTION MINDSET	DNA of a "value growth" consultant, aiming at sustainable success		

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Oliver Wyman is a global leader in management consulting. With offices in 60 cities across 29 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 5,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

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