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TMA State of the Industry Survey

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ENERGY VOLATILITY DRIVING UNCERTAINTY SAY TURNAROUND AND RESTRUCTURING EXPERTS IN "STATE OF THE INDUSTRY" SURVEY

Banks growing more cautious, liquidity looms as future hurdle

ABOUT "THE TMA STATE OF THE INDUSTRY" SURVEY

This survey is distributed to more than 500 certified members of the Turnaround Management Association. Individuals holding a CTP or CTA certification have proven their dedication and professional success within the turnaround and restructuring field in a measurable way through earning this distinction. In order to receive the CTP or CTA designation, applicants must go through a rigorous approval process that includes coursework, an examination, as well as solicit numerous independent recommendations.

In the second survey of a benchmark study of Certified Turnaround Professionals (CTP) and Certified Turnaround Analysts (CTA) in the corporate turnaround and restructuring industry, several trends appeared:

- Survey respondents anticipate business to ramp up in 2015
 - Money hasn't completely dried up, but banks are being more cautious
 - Sectors like energy are poised for more work, but on a regional level
 - Sectors like healthcare are poised for more work across the country
 - Banks/lenders are engaging with restructuring professionals earlier in the business life cycle
-

ALL EYES ON ENERGY

While plummeting gas prices may have consumers jumping for joy at the pumps and airlines high fiving on the tarmac, the uncertainty created has raised a flag for turnaround and restructuring professionals; and the impact spans far wider than just the energy industry.

"The initial reaction is that there's going to be a lot of activity in the energy industry," said Robert W. Schleizer, CTP, managing partner, BlackBriar Advisors LLC and member of TMA Dallas/Ft. Worth. "That said, with the hedges in place, we probably really won't see a lot of activity until the middle to latter part of the second or third quarter of this year."

Why no activity until later in 2015? Jonathan Reimche, CTP, vice president, PricewaterhouseCoopers and member of TMA Vancouver notes, "It seems the volatility between equities and the uncertainty of where oil is going to go is causing people to wait and see what's going to happen next before they put their money down."

WHAT ABOUT THE BANKS?

Easy money isn't coming in quite as quickly and aggressively as it was even a year ago. "Banks and lenders are cutting back and holding onto their money at the moment so I think the money isn't being freely offered as much as it was previously," said Bernadette Barron, CTP, Barron Business Consulting and member of TMA Chicago.



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"I think anecdotally we're starting to see people say, 'I don't want to get caught like I did in 2008.' There is still a tremendous amount of money out there, but I've also started to sense a slowdown," said Matthew English, CTP, managing director, Arch + Beam and member of TMA Northern California.

"Part of it could be the oil prices," Barron continued. "It's very hard to predict profitability for 2015 right now if you're dependent upon fuel. What do you say your prices are going to be? Are they going to return as quickly as they dropped? The budget uncertainty also drives up liquidity concerns."

Jeffrey P. Connell, CTP, director, Triton Capital Partners Ltd. and member of TMA Chicago said, "I've already heard from workout lenders that they're starting to have more loans on their plate, even new loans, so that's a good sign for the turnaround industry."

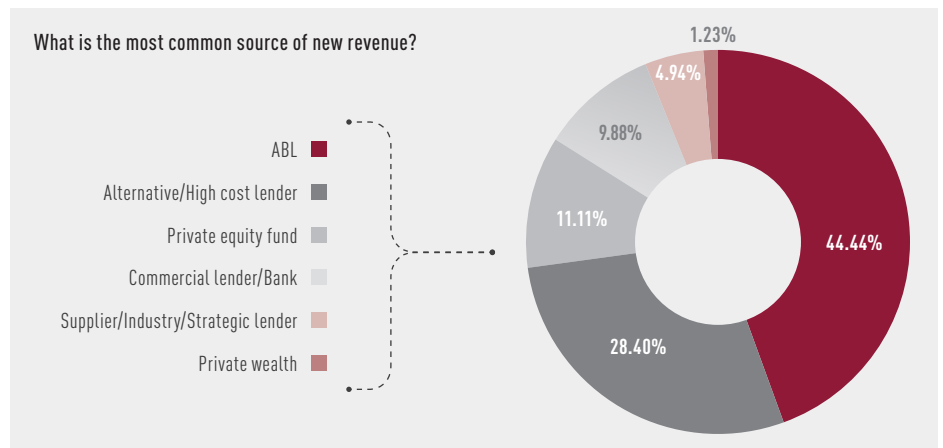
On the other hand, banks and other lenders are also engaging CTPs and CTAs earlier in the business' life cycle.

"We've seen restructuring firms getting work earlier in the business life cycle. Lenders are pushing companies to seek assistance earlier," said Schleizer. "It's not purely a financial restructuring play, but to look at their strategic goals. My firm has seen that more with BDC (business development companies) than banks. During due diligence, we've been brought in [to] see the growth capability of companies if they've been stagnant for a year or two."

"I agree that lenders are being more proactive now, attempting to bring [in] a professional sooner rather than later," said Connell. "Even a light covenant trip is an early warning sign. By bringing a professional in early, it helps the processes chance for success immensely."

WHERE IS THE MONEY COMING FROM?

When asked what distressed companies turn to in refinancing, nearly half of respondents listed "new" sources of capital through ABLs (asset based lenders).



"This chart confirms that ABL groups are still pretty active, even when a "storied" credit is shopped," said Connell. "It also demonstrates that restructurings aren't as dire as some would anticipate. If they were, you would see a higher percentage shifting to alternative lenders."



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THE NEW NORMAL IN BANKRUPTCIES?

When asked to assess the current market, 62 percent of respondents said they had the “same” or “less” work in the last 12 months – the same exact percentage as the first round of the survey circulated six months ago. According to Barron, bankruptcies are “actually at a 20 year average. If a professional has only been in the industry for five or six years, they’ll be saying that bankruptcies are going to go up, whereas those of us that have been here for 20 years are going to think bankruptcies will remain down.”

“Over the last 6-8 years we’ve seen very few true reorganizations in the middle market and lower middle market space,” said Schleizer. “Rather, it’s been a vehicle to facilitate an auction process or facilitate a sale and consolidate claims into one venue. That’s the new normal.”

“TMA STATE OF THE INDUSTRY” SURVEY LOGISTICS

This survey solicited 107 responses (21% response rate) and consisted of 57 practitioners, 19 crisis managers, 12 financial advisors, and 19 who identified themselves as “other.” The majority of the respondents held multiple certifications including CTP, CTA, CIRA, CPA, CFA, etc. The survey includes a baseline set of questions that do not change, allowing the association to provide benchmark data from industry veterans. 



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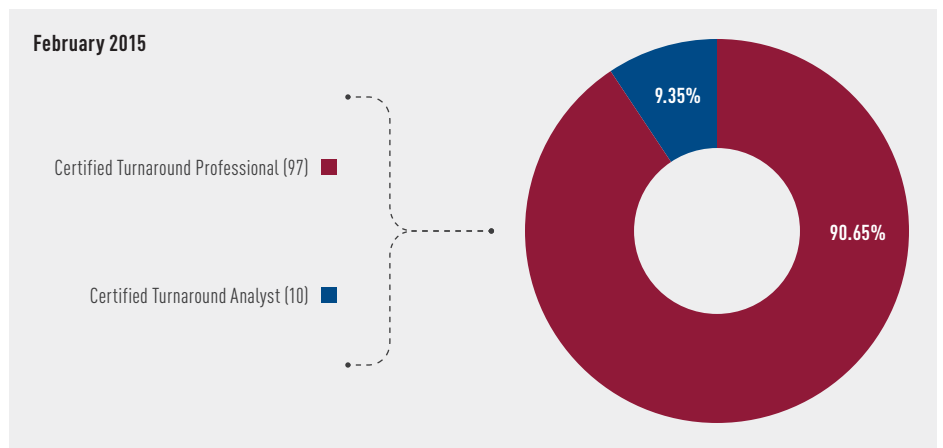
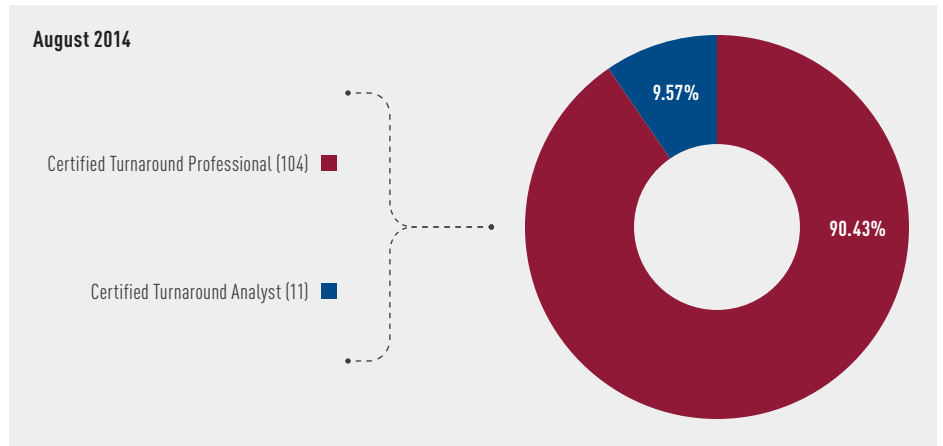


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The appendix includes responses to all survey questions. To request the use of the data or creative files, email Matt Switzer at mswiper@turnaround.org.

Figure 1. Please indicate the designation that you hold.





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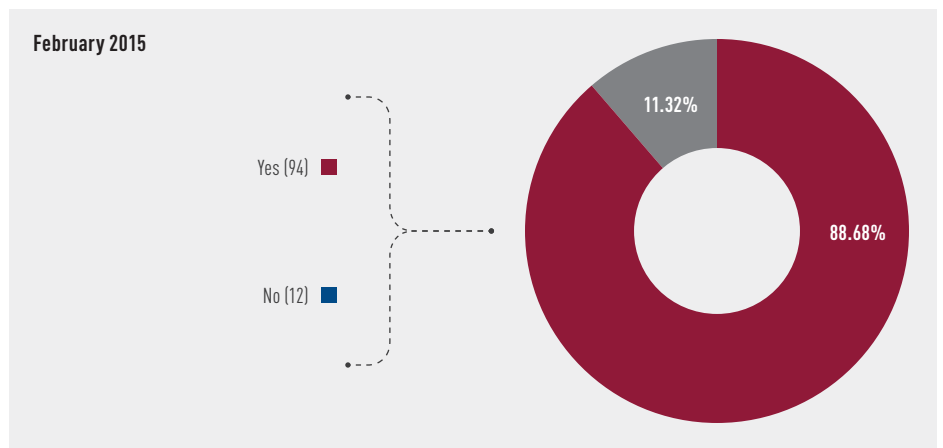
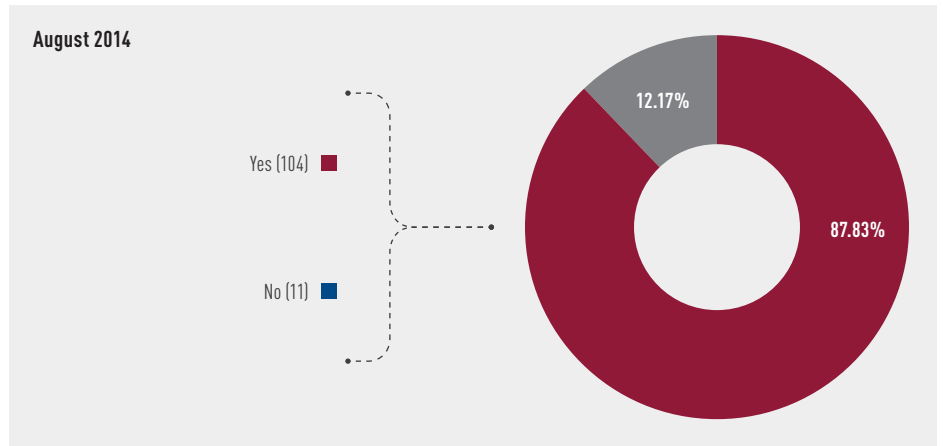


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Figure 2. Are you a TMA member?





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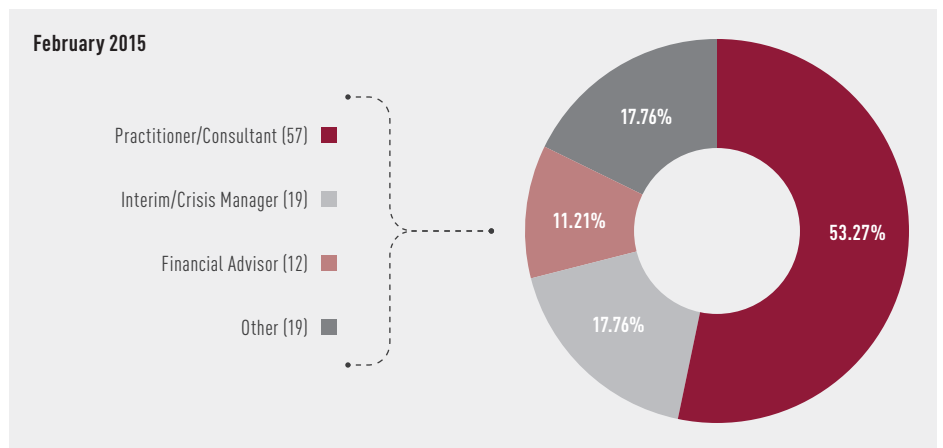
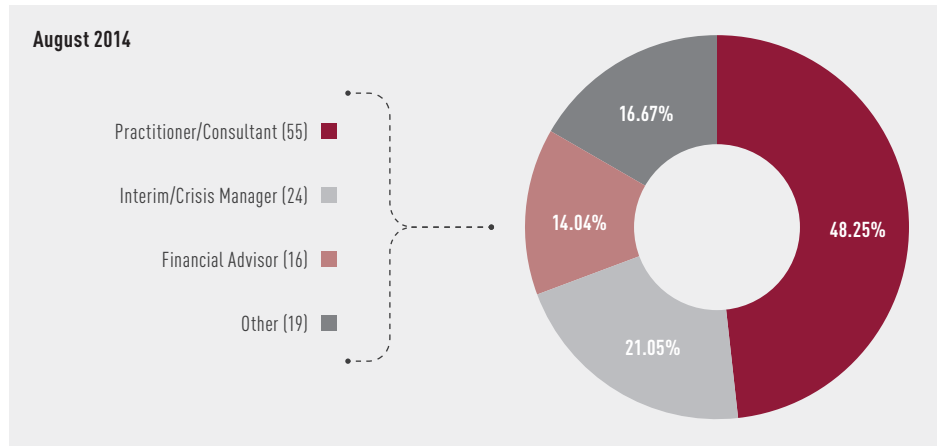


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Figure 3. What is your current occupation?





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Figure 4. Compared to 12 months ago, the number of engagements your company is currently working on has or has had:

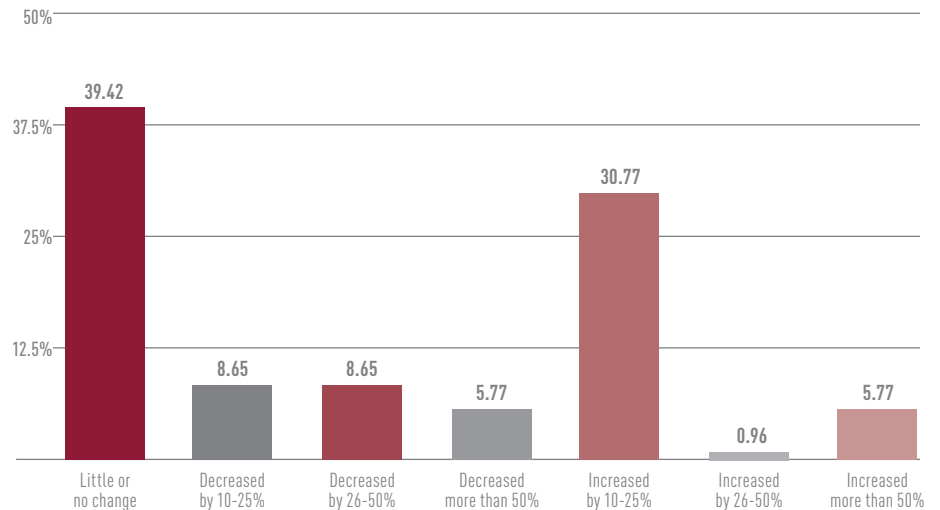


Figure 5. Compared to 12 months ago, the size of engagements your company is currently working on has or has had:

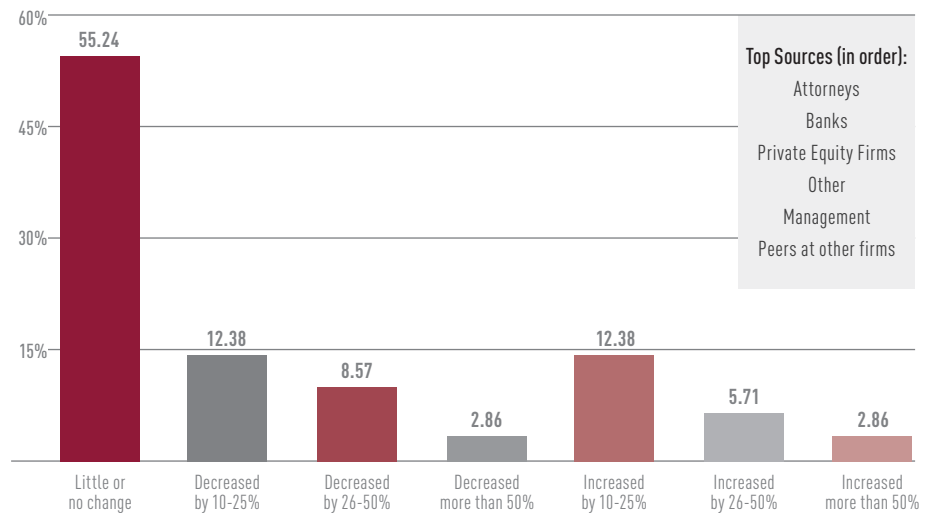
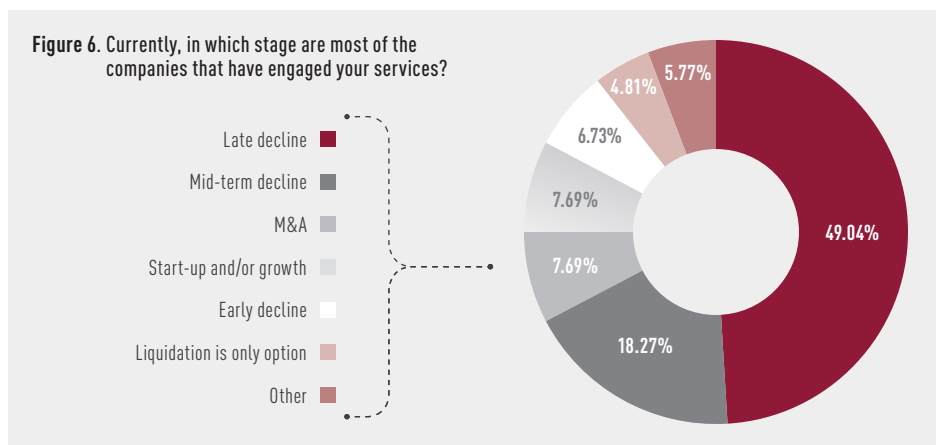


Figure 6. Currently, in which stage are most of the companies that have engaged your services?





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Figure 7. Looking at the work performed by your company or division last year (2014), how did it compare to the previous year's (2013) billings?

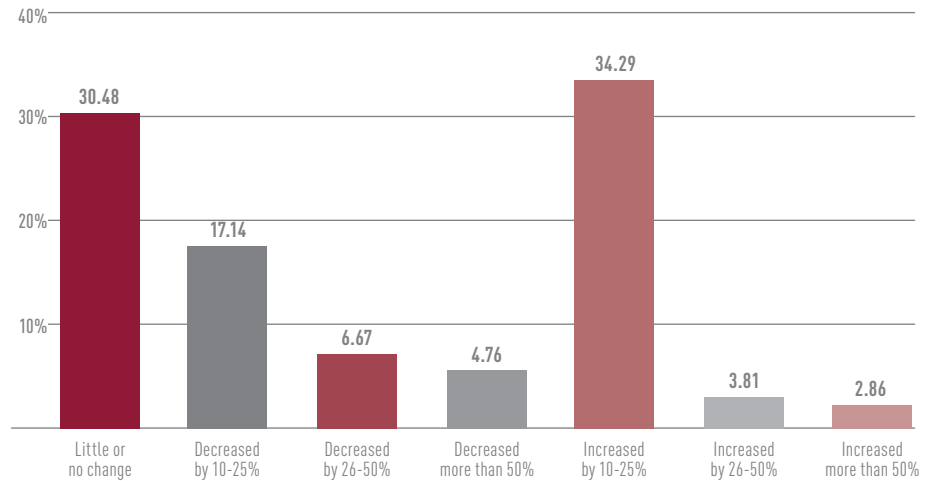


Figure 8. Looking ahead to 2015, how do you anticipate revenue for work performed by your company or division will compare to 2014?

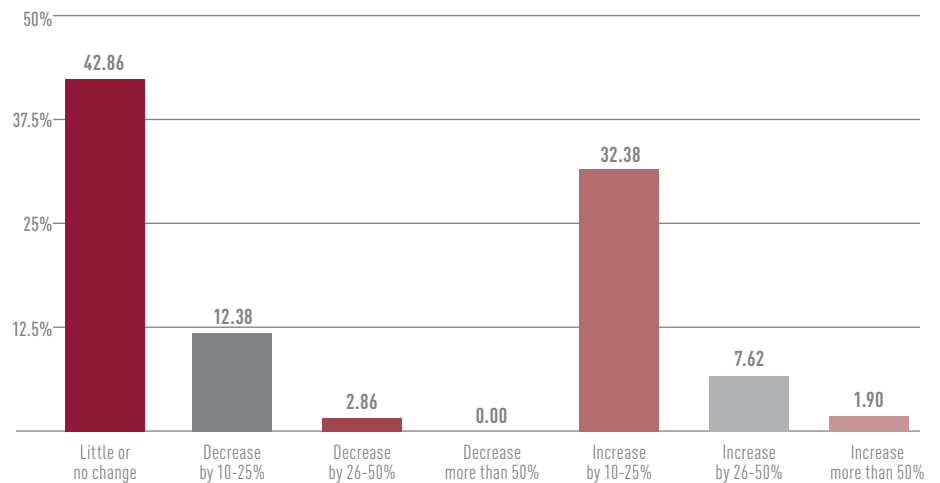
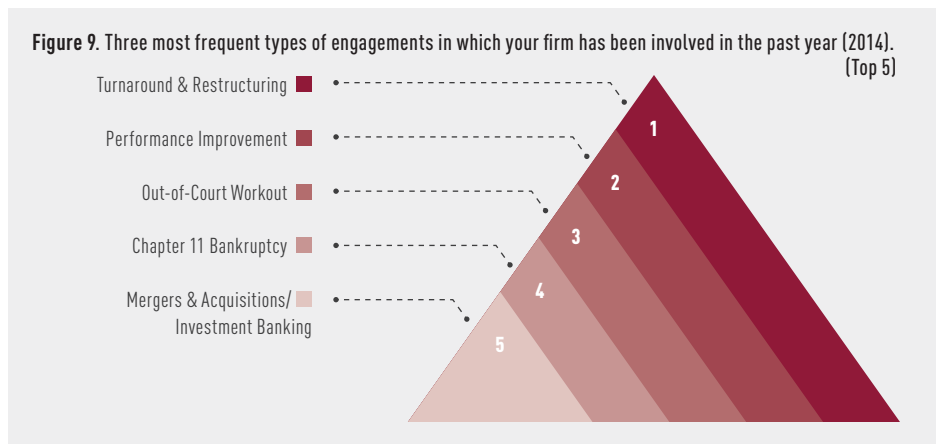


Figure 9. Three most frequent types of engagements in which your firm has been involved in the past year (2014). (Top 5)





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Figure 10. In which industries are you currently engaged for work (top 5)?

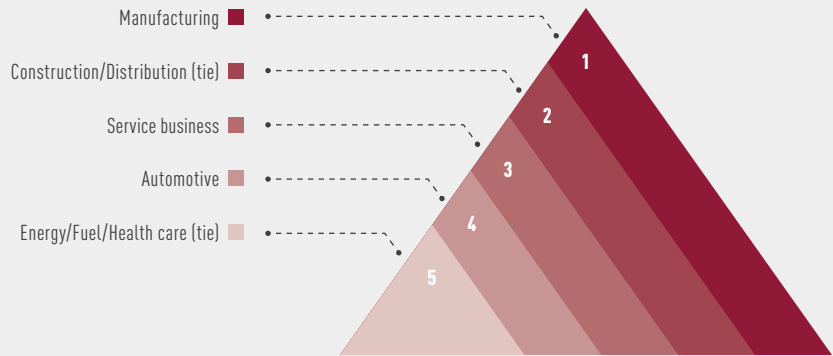


Figure 11. In 2015, which industries do you anticipate will be the majority of your work (top 5)?

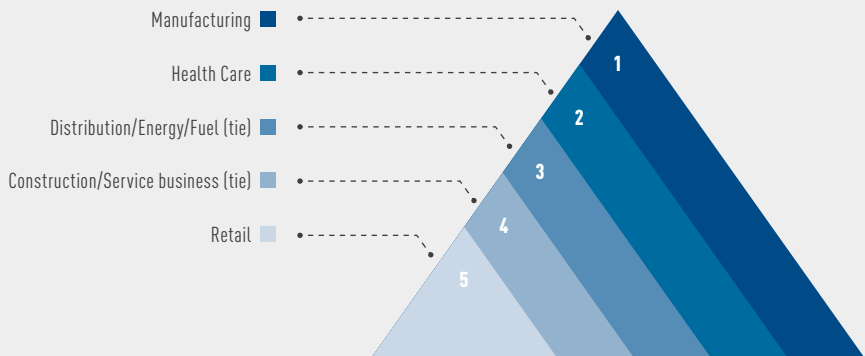
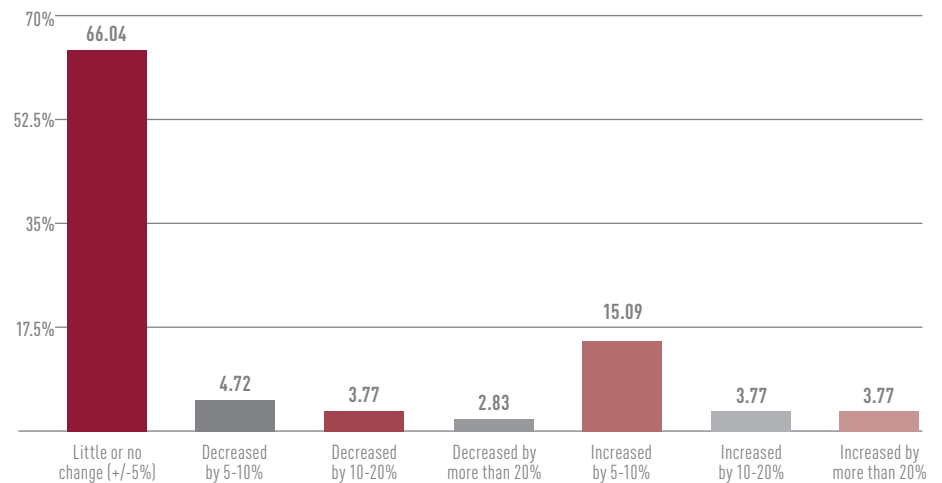


Figure 12. Please indicate the level of change in the number of staff members at your firm in the past 12 months.





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Figure 13. Looking ahead to 2015, how do you anticipate the number of professionals in your company or division will compare to 2014?

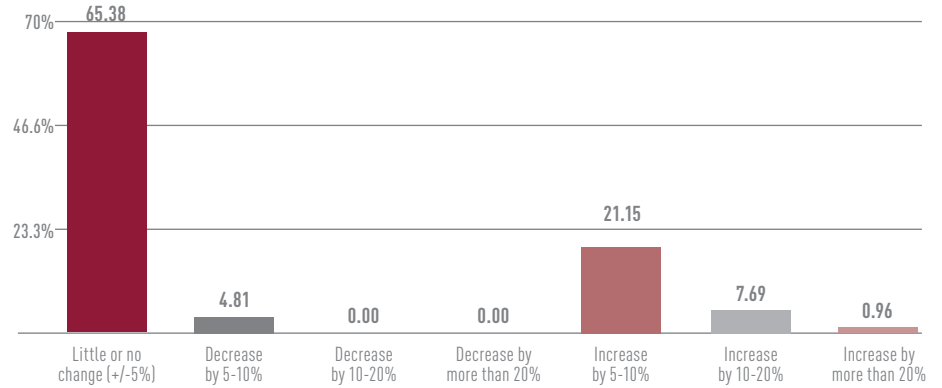


Figure 14. Where will interest rates be in a year from now?

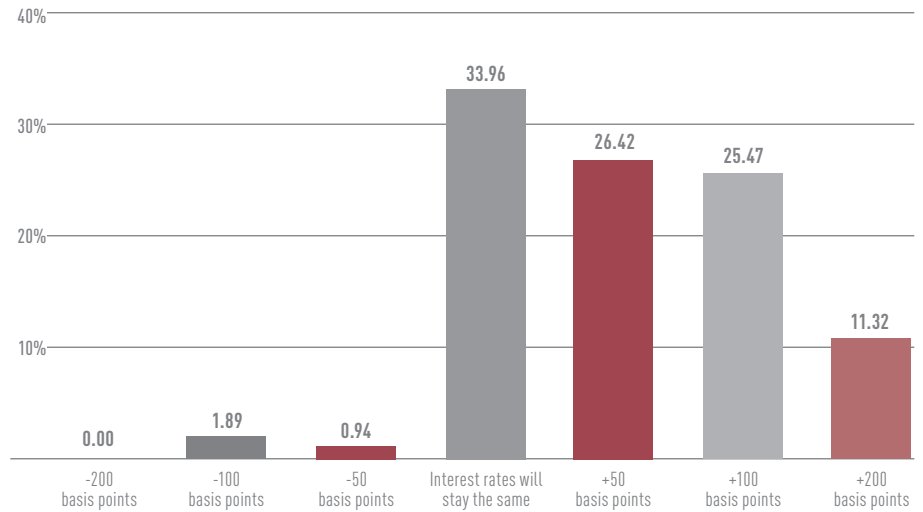
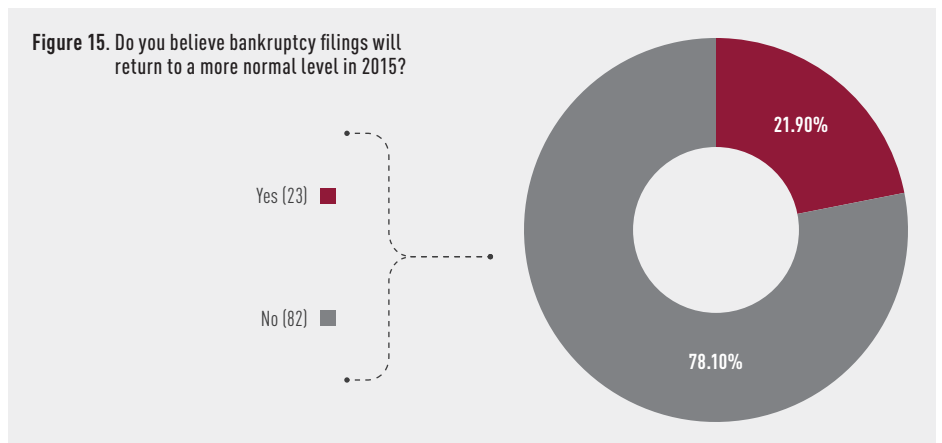


Figure 15. Do you believe bankruptcy filings will return to a more normal level in 2015?





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Figure 16. Rank the following based upon your expectation for their performance within the industry for 2015 (with 1 being the highest performance and 3 being the lowest performance).

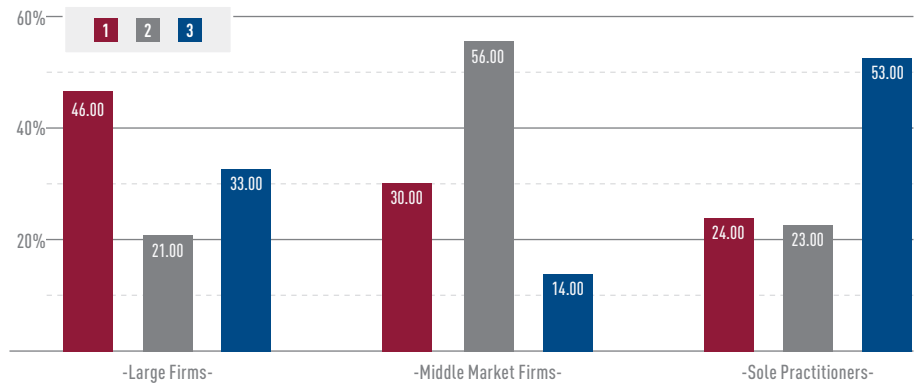


Figure 17. What are the three most common methods you see distressed companies turning to (Top 5)?

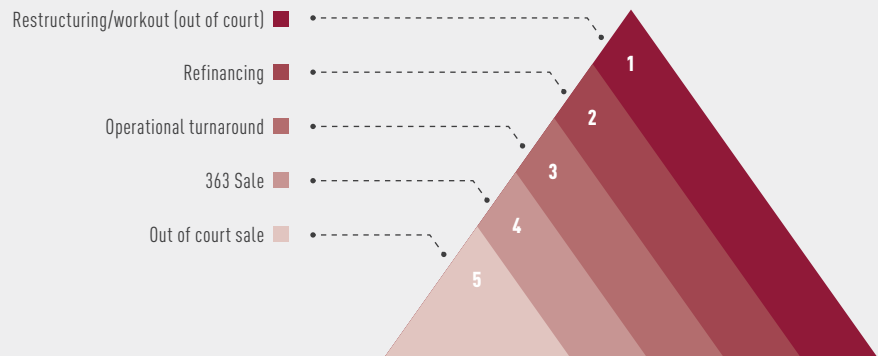
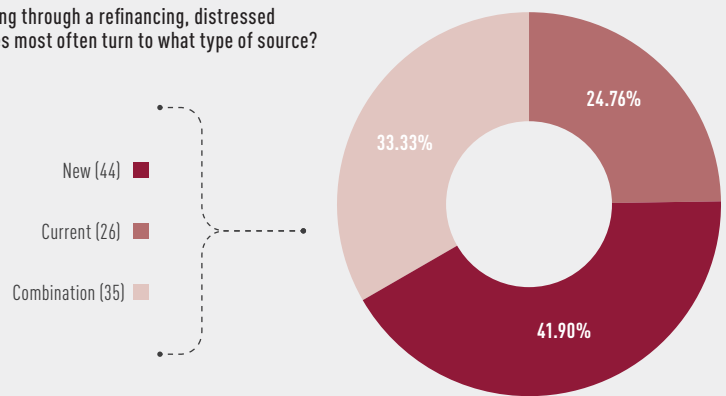


Figure 18. When going through a refinancing, distressed companies most often turn to what type of source?





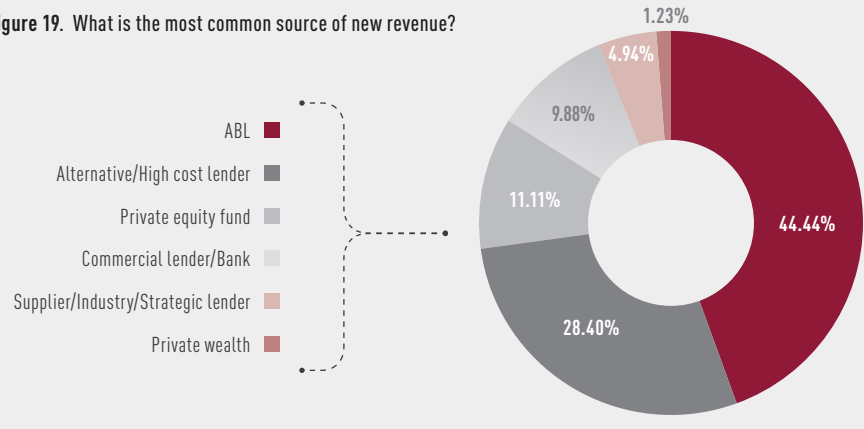
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Figure 19. What is the most common source of new revenue?





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