



The State of Restructuring 2024

Key Themes Driving the
Restructuring Industry



Introduction

In Q1 2024, CSC commissioned independent research among senior executives in the financial services, legal, private credit, and private debt sectors around the world to gauge views on the state of the global restructuring industry.

Our Experts



Michelle Dreyer
Managing Director,
Global Restructuring, CSC

Given the macroeconomic stress of the past few years, the restructuring industry is already experiencing a period of heightened activity. Our research found that a significant majority of respondents (83%) expect to see the volume of restructuring mandates grow modestly or significantly over the next 12 to 24 months.



Jordina Walker
Head of Restructuring,
EMEA, CSC

In this report, we examine what's driving this increase, as well as challenges facing the industry, and key regional differences. With global activity set to grow, the role of corporate service providers will remain critical to achieving successful restructuring outcomes.



Giles Abbott
Director North Asia, CSC

CSC surveyed 150 respondents worldwide

Key findings included:

Competition for deals, credit availability, and economic headwinds are creating opportunities in the global restructuring industry.

83%

expect to see the volume of restructuring mandates grow modestly or significantly over the next 12 to 24 months.

67%

...while just more than two-thirds (67%) cite economic headwinds creating an increased need for restructuring expertise.

Regulation, geopolitics, and a lack of managerial experience in a downturn are seen as the biggest challenges.

65%

Overcoming regulatory hurdles was identified by nearly two-thirds (65%) of our respondents as a challenge; managerial inexperience was identified as the most significant challenge to restructuring (17% of respondents).

North America and Europe (excluding the U.K.) are seeing significant restructuring activity.

41%

North America and Europe were each selected by more than two-fifths (41%) of respondents as geographies currently seeing significant restructuring activity, ahead of the U.K. (30%) and APAC (29%).

Cost effectiveness, flexibility, and responsiveness are the most important factors in selecting independent service providers.

56%

Cost-effectiveness (56%) and flexibility and responsiveness (55%) were viewed as the two most crucial factors when selecting independent service providers for restructuring deals, followed by expertise in specific industries or sectors (38%).

Restructuring mandates will increase globally over the next 12 to 24 months

The global economy is currently in the first phase of a heightened restructuring period. While, overall, it's unlikely to be the kind of wave seen in the aftermath of the global financial crisis, it's expected to continue at a steady pace over the coming year or two.



Our research found a significant majority of restructuring professionals (83%) expect to see the volume of restructuring mandates grow modestly or significantly over the next 12 to 24 months, while less than 1% expect the volume to fall.

This activity builds on the rise in restructurings seen over the past 12 to 24 months. In the U.K., for example, there were more than 25,000 registered company insolvencies in 2023, the most in 30 years (HM Government, January 2024).

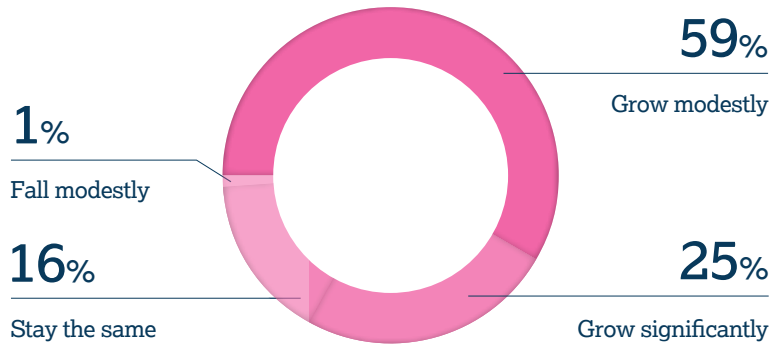
Notably, much of this activity is being driven by decisions taken during the pandemic.



We're seeing a number of companies which took on a considerable amount of debt during COVID-19 and are now seeing that debt come due...

says Michelle Dreyer, Managing Director, Global Restructuring, US.

What do you expect to happen to the volume of restructuring mandates over the next 12 to 24 months?



“But as rates are now so much higher, they can’t just go to their lender or a different lender and refinance. Some restructurings are actually companies that probably should have filed in 2020, but because they were so bolstered by the cheap money in the market they’ve been able to hold out until now. We’re seeing the aftermath of all that inexpensive money”.

The pandemic also saw moratoriums on defaults and enforcements in several markets, leading to large numbers of amend and extend deferrals which now have or will come due.

The global commercial real estate market is being hit particularly hard, while retail sector restructurings are also on the rise. Values for sectors such as office have dropped significantly, dragged lower by the switch to working from home.

“In CSC’s London office we are working on quite a few different retail structures,” says Jordina Walker, Head of Restructuring, CSC.

“Many shopping centers went into financial difficulty during the pandemic and had an initial restructuring in 2020. Four years later, many are having to refinance their debt on very different kinds of terms to what they had originally. And of course, as consumers are feeling the pinch with discretionary spend decreasing, many retailers continue to have significant difficulties as seen by the number of high-profile administrations on the high street.”

...because they were so bolstered by the cheap money in the market they’ve been able to hold out until now. We’re seeing the aftermath of all that inexpensive money”.

What broader factors are impacting the restructuring market?

9%

Geopolitical unrest

59%

Changing consumer habits
(e.g., death of the high street etc.)

73%

Increased competition

21%

Reduced appetite for
commercial office space

20%

Inflation

40%

Rising interest rates

33%

Technological change

North America and Europe offer the most restructuring opportunities and there is optimism around jurisdictional regulatory changes.



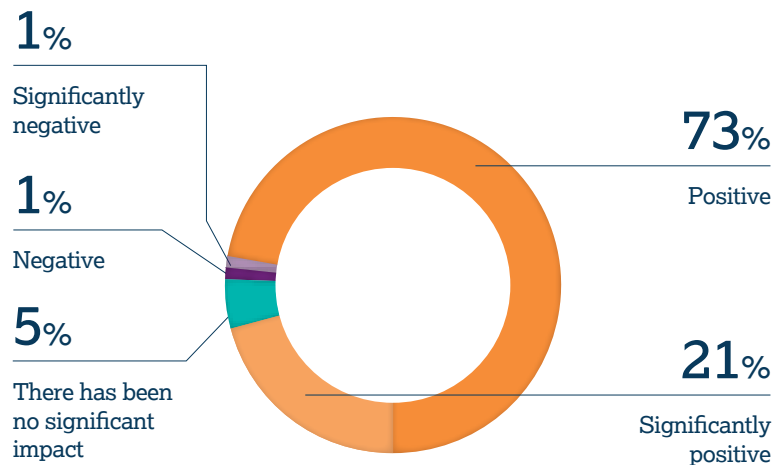
According to CSC's research, 94% of respondents were either 'significantly positive' or 'positive' on the impact that regulatory changes such as the EU Directive on Restructuring and Insolvency have had on the restructuring landscape.



Regulatory changes can have a positive impact on restructuring and make certain jurisdictions more attractive, resulting in the high use of COMI shifts.



What impact, if any, have recent regulatory changes in your jurisdiction (e.g., EU Directive on Restructuring and Insolvency) had on the restructuring landscape in your jurisdiction?



North America and Europe were identified as the geographic regions seeing significant restructuring activity, with their mature regulatory frameworks also making them attractive to companies beyond their own borders.

The framework in the U.K. is also appealing for restructuring, with foreign companies taking advantage of the Restructuring Plan (under the Corporate Insolvency and Governance Act 2020) which, as with Chapter 11, includes the concept of cross-class cram-down, a major development for the U.K. legal system.

“Regulatory changes can have a positive impact on restructuring and make certain jurisdictions more attractive, resulting in the high use of COMI shifts,” says Jordina. Our research backed this view, with more than half of respondents (53%) saying that the utilization of center of main interest (COMI) shift and restructuring techniques helps to navigate through cross-border restructuring deals.

But markets across APAC are also developing sharper teeth.

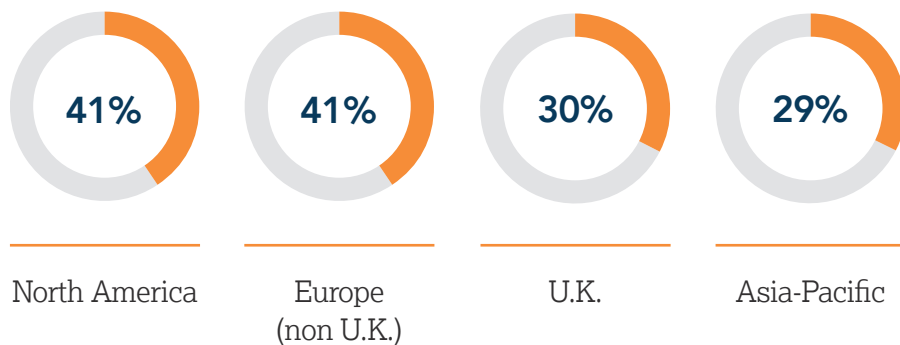


The restructuring sector in APAC is showing signs that it may be maturing. Currently, if a company in the APAC region has a link to either the U.S. or Europe, a restructuring may well take place in one of those regions. But as the level of confidence in regulatory frameworks across APAC gradually increases—albeit from a low base—this has the potential to change.

“In APAC, legislation and applications are becoming more widely recognized and providing creditors with better protections,” says Giles Abbott, Director at CSC.

“For example, Singapore remains the most robust jurisdiction in which to enforce and also has Section 211E for DIP financings, while both the PKPU (Penundaan Kewajiban Pembayaran Utang) in Indonesia and the NCLT (National Company Law Tribunal) in India are becoming more viable. This is forcing borrowers to the table to negotiate rather than ignoring the claim or continuing to amend and extend.”

In which geographic regions do you see significant restructuring activity currently?



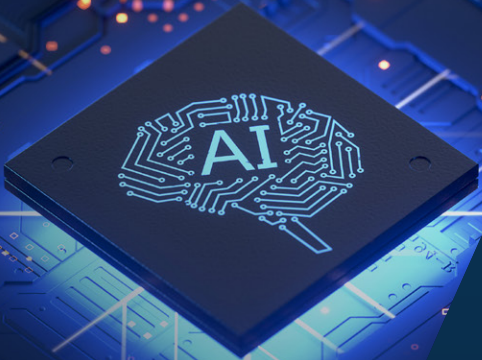
A lack of managerial experience in a downturn is a significant challenge in a restructuring

One challenge with the current period of restructuring is that many individuals in management have little or no experience in dealing with the challenges of a systemic downturn.

More of our respondents (17%) identified this as being a significant challenge than any other factor, narrowly ahead of geopolitical issues (16%).

What do you consider to be the most significant challenges and opportunities in the global restructuring industry?

	A significant challenge	A slight challenge	Neither a challenger nor an opportunity	A slight opportunity	A significant opportunity	Don't know
Regulatory hurdles	3%	62%	21%	12%	1%	1%
Competition for deals	4%	15%	9%	55%	17%	0%
Economic stabilization	5%	11%	17%	44%	22%	1%
Credit boom leaving high levels of NPLs	3%	28%	31%	23%	15%	0%
Lack of managerial experience in a downturn	17%	38%	20%	18%	7%	0%
Geopolitical issues	16%	39%	20%	15%	11%	0%
Large amount of dry power	2%	18%	28%	34%	16%	2%
Availability of credit in the market	2%	15%	12%	44%	25%	2%
Refinancing maturity wall	5%	24%	33%	20%	17%	1%
Economic headwinds creating increased need for restructuring expertise	1%	19%	13%	50%	17%	3%
Private equity-driven portfolio company exits – value creation	1%	24%	13%	35%	27%	0%
Supply chain rationalization	3%	28%	19%	35%	13%	1%
Restructuring and insolvency law changes aimed at facilitating restructuring <small>(e.g., EU Directive on Restructuring and Insolvency)</small>	5%	25%	31%	25%	13%	1%
Impact of higher interest rates	6%	29%	23%	31%	11%	0%



Management teams often have a difficult time transitioning from “normal company operations” to what is needed in a bankruptcy proceeding, meaning that the support of experienced providers who can move quickly to assist them becomes hugely valuable.

As Michelle points out, “Management who are not accustomed to working in a distressed business and knowing what is required to get through a bankruptcy process tend to go into a mindset of ‘well, that’s just not how we’ve always done it.’ But they’re in a different place now, a place where they must do things differently and have a good strategy to survive.”

The potential impact of technology is perhaps not fully recognized.

Only a third (33%) of the professionals we canvassed saw technological change as a factor impacting the restructuring market. This is despite the recent precedent of tech-enabled challenger brands significantly disrupting the market, the profound impact of Uber, for example, on more traditional transport providers.

Interestingly, this could be a precursor of the even greater impact of artificial intelligence (AI) on multiple sectors and businesses, with disruptors taking market share from more established businesses that can no longer compete and may therefore need to restructure.

“Rapidly developing technology and the growing power of AI across all sectors is likely to have a significant impact in the next few years, potentially pushing more and more companies into restructuring,” Jordina says.

AI could also play a beneficial role in the restructuring process, particularly for tech-focused service providers.

“There are certain areas where AI could be very helpful, for example, in discovery and when trying to identify which assets people hold,” Jordina adds. “Whereas you previously had somebody manually scrolling through data, with AI it can be done in a fraction of the time. So, there is the potential to make things more efficient and reduce costs, which is always important because one of the significant things about restructuring is how expensive it can be.”

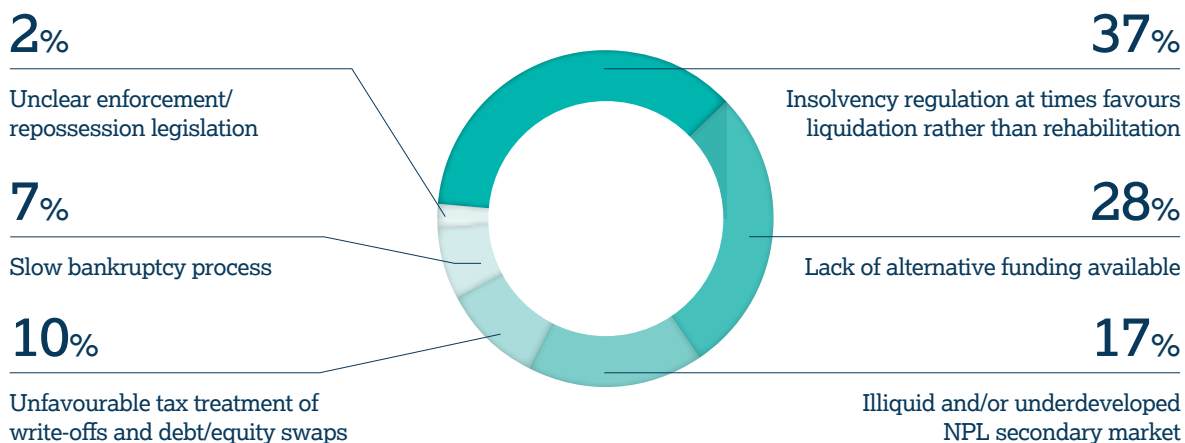
Barriers to facilitating restructurings through negotiated agreements



Insolvency regulation, which at times favors liquidation rather than rehabilitation, was seen as the biggest barrier to facilitating restructurings through negotiated agreements (37%), followed by a lack of alternative funding availability (28%).

We are also seeing what is termed "creditor-on-creditor violence" become a growing issue. Michelle noted that, "in certain instances, there can be a limited pool of investors willing to provide additional liquidity to companies in distress. In these types of situations companies will need to look to their current investor pool for the liquidity they need. If the company has issued unsecured bonds, the company may offer unsecured bondholders a secured position if they agree to do an exchange for better terms for the company. Usually not all unsecured bondholders opt into the exchange. Now you have the one creditor class split into two. Those left behind as unsecured may look at those who have become secured as a place to find some additional recoveries. And then it's a fight between those two levels of the capital structure. The investors are ready to pounce on one another and litigate to get a better recovery."

What are the biggest barriers to facilitating restructurings through negotiated agreements that enable the company to receive new funding to reset its balance sheet and ultimately recover and grow?



What do companies look for when selecting external vendors?

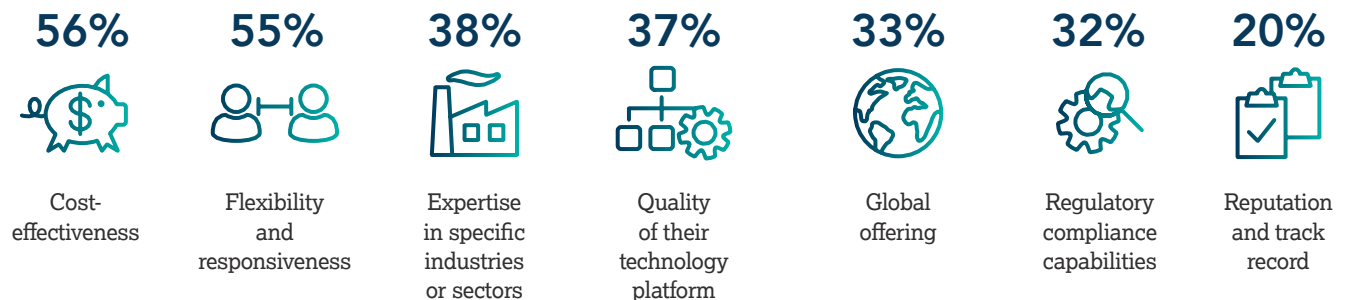
According to CSC’s research, the two most important factors for respondents when selecting independent service providers are cost effectiveness (56%) and flexibility and responsiveness (55%).

Around a third of respondents said attributes they also valued in a provider included expertise in specific industries or sectors, regulatory compliance capabilities, a global offering, and the quality of their technology platform.

“Parties recognize the value that a good vendor can bring to the process. Their experience means they can bring efficiency to the restructuring process as well as the ongoing management of the company,” according to Jordina.



What factors do you consider most important when selecting independent service providers for your restructuring deals?



Interestingly, only a very small minority of respondents said they use just one independent external vendor to provide restructuring services, highlighting the difficulty of finding an integrated service offering such as CSC.

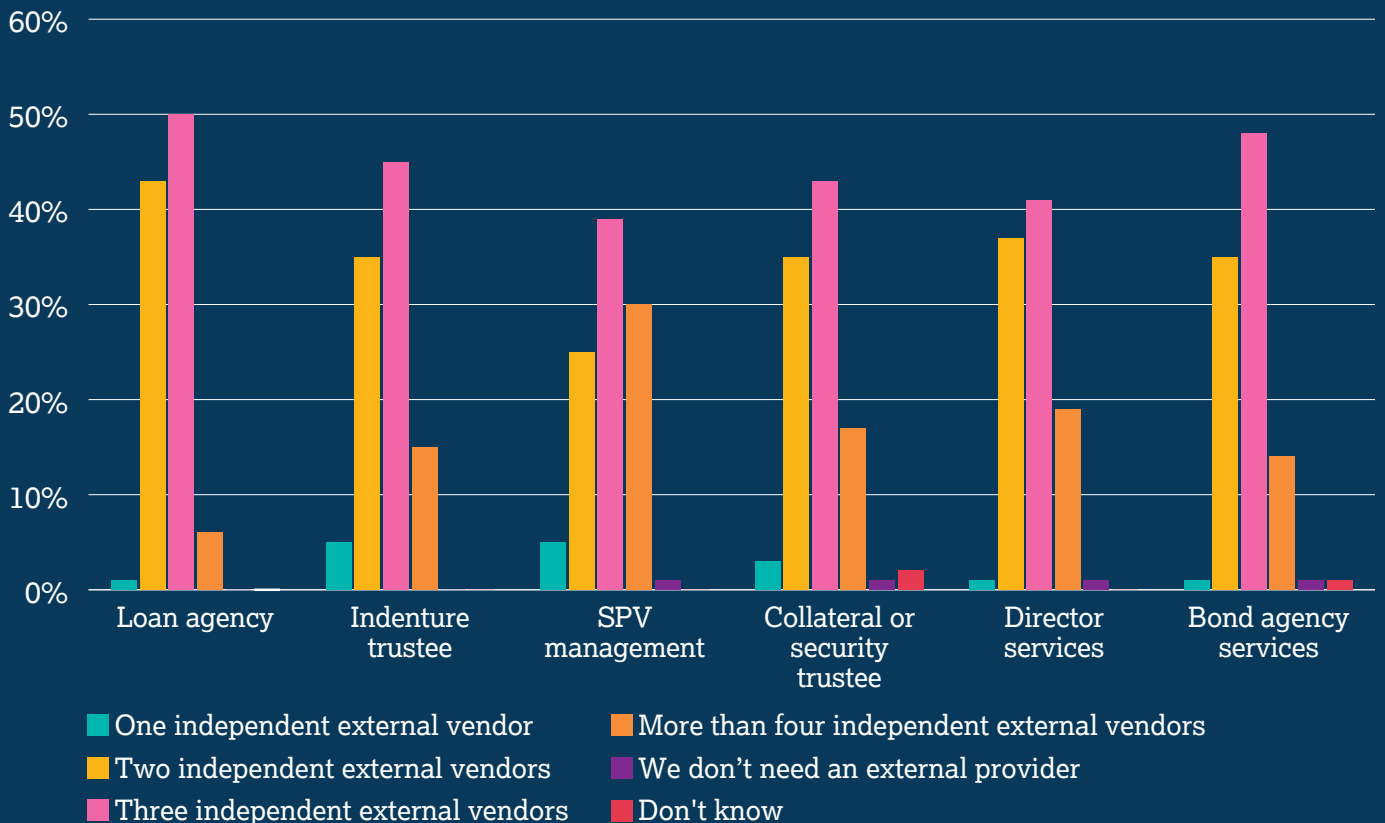
Indeed, between 40% and 50% of respondents said they use three providers for the following: loan agency services; indenture trustee services; SPV management services; collateral or security trustee services; director services; and bond agency services.

Using two providers ranked comfortably second for all these services, other than SPV management for which 30% of respondents use four or more providers.



Parties recognize the value that a good vendor can bring to the process. Their experience means they can bring efficiency to the restructuring process as well as the ongoing management of the company.

How many independent external vendors do you use to provide the following services in your restructuring deals?



The CSC difference as a world-class global team

CSC provides restructuring expertise from highly experienced professionals across a variety of products and a truly joined-up, global cross-border service.

"One of the things that raises us above many of our competitors is the way we can be a one-stop shop. We provide many different types of services. And we're global. Some of our competitors can be very U.S.-centric and some don't provide all the services that CSC does. Just looking at the U.S., we're able to work with clients to give them a broader scope of services." according to Michelle.

"CSC has flat structures and decision-making processes," Giles adds. "It means that when we speak with clients, we can be confident that we can make decisions and move quickly. Our teams all understand their local markets and local regulatory regimes and jurisdictions and can act decisively. Which is important as restructuring situations tend to move pretty quickly."

Regional split of respondents' company HQs

15%



United Kingdom

17%



Europe (excluding U.K.)

35%



North America

1%



South America

1%



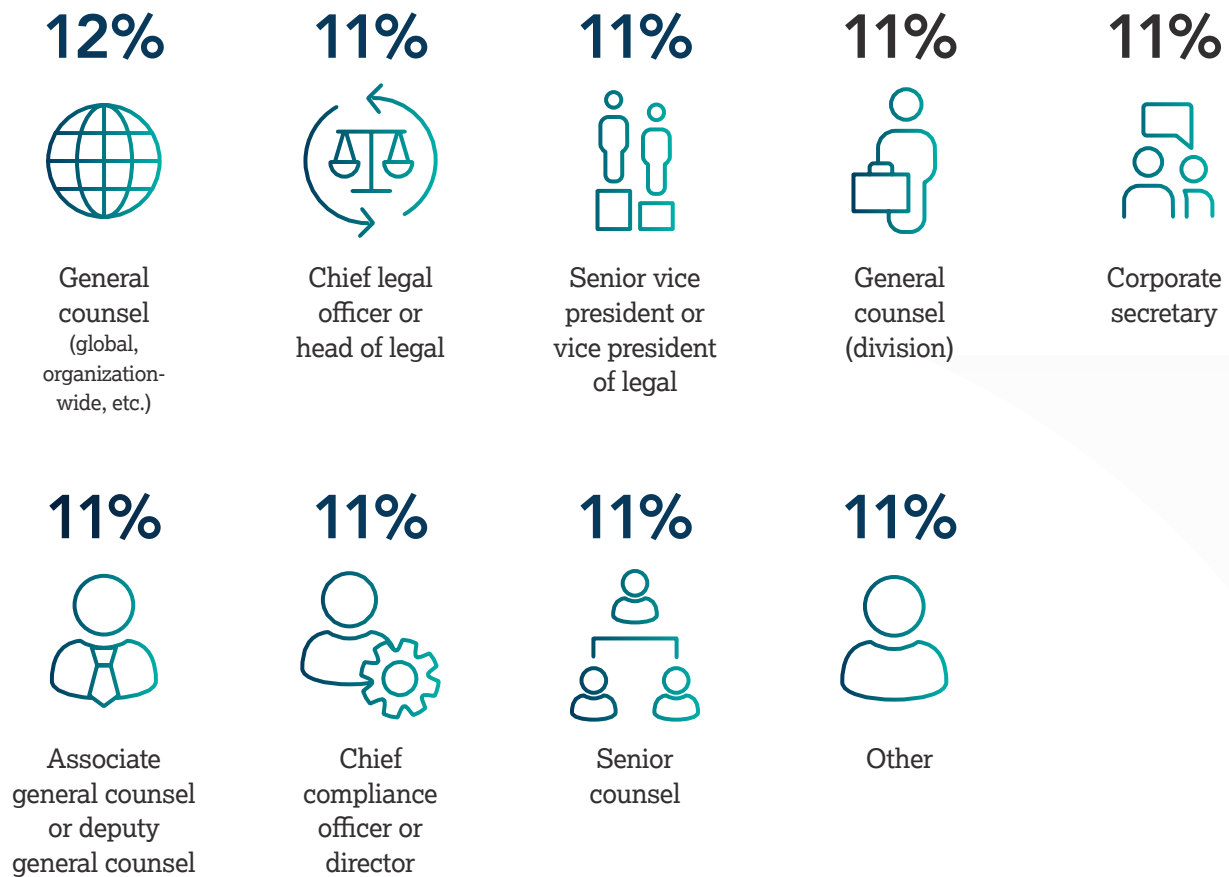
Central America

31%

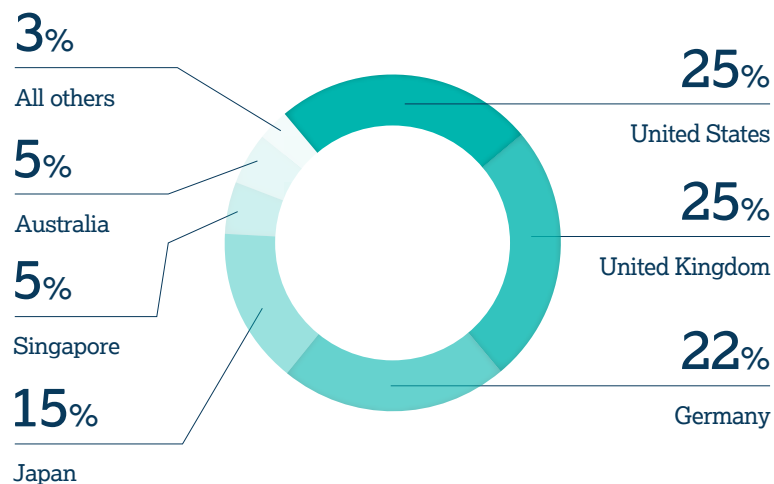


Asia-Pacific

Job titles of respondents



Location of respondents





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We're the trusted partner of choice for 90% of the Fortune 500®, more than 90% of the 100 Best Global Brands®, and more than 70% of the PEI 300. Founded in 1899 and headquartered in Wilmington, Delaware, USA, CSC prides itself on being privately held and professionally managed for more than 125 years. Our broad geographic coverage means we possess local knowledge and infrastructure to support capital market participants worldwide.

We are the business behind business®.

An independent research company surveyed 150 senior executives in the U.K., continental Europe, North America, and Asia-Pacific via an online methodology. Survey respondents were drawn from the banking, financial services, law and legal services, private credit, and private debt sectors.

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