SS&C Intralinks®

2021 Corporate Restructuring Report

Produced in association with Acuris

Editor's note

We are living in extraordinary times. As societies and governments around the world continue to battle COVID-19, the impact on the global economy is without precedent. Some businesses have been ordered to cease trading as part of national lockdowns, while others have seen dramatic declines in demand or faced incredibly challenging operational and logistical challenges. And in a few cases, trading in some sectors has been buoyed by the pandemic.

Against this remarkable backdrop, this report considers the outlook for corporate restructuring over the next 12 months and beyond. Based on research conducted with corporate finance executives and restructuring lawyers in every region of the globe, it considers how businesses will restructure in response to the dramatic economic crisis created by the global pandemic.

That being said, COVID-19 is hardly the only challenge they face. Several additional drivers for restructuring activity exist — both defensive and opportunistic in nature. The changing geopolitical landscape is one major theme, particularly in light of the U.S. presidential election and the post-Brexit settlement in Europe.

Ben Collins

Senior Director,
Strategy & Product
Marketing

The need for digital transformation in every industry provides further impetus for restructuring.

Inevitably, the worldwide headlines require more nuanced reading at regional and local levels. Throughout this report, we provide a regional breakdown of the research results, with respondents in North America, Europe, and the Middle East & Africa (EMEA) often taking a different view to their counterparts in Asia-Pacific (APAC) and Latin America.

Nevertheless, perhaps one of the most remarkable aspects of the COVID-19 crisis is its global nature. No major economy has escaped the virus and, while some countries have had more success in dealing with it, the pandemic remains a constant presence. This is the context in which businesses in every region of the world are having to make restructuring decisions, as they seek to plot a path to recovery and renewed growth.

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Executive summary

This report shows that companies worldwide will raise their restructuring activity in response to the COVID-19 pandemic and the broader economic backdrop. Our research reveals that companies will focus on defensive restructuring to reduce cost, support their core businesses and drive profitability.

Key findings include:

- Corporate restructuring is accelerating, with 73 percent of respondents in the process of a major restructuring or planning such activity.
- Such restructuring is significantly more likely to involve divestment processes than M&A activity — 94 percent of respondents predict an increase in divestments over the next 12 months; only 37 percent say the same of M&A.
- Respondents expect divestment (59 percent) to be the most common form of restructuring activity over the next 12 months, followed by a withdrawal from unprofitable areas (49 percent).
- The most significant drivers of restructuring activity will be the global macroeconomic slowdown (cited by 49 percent) and the need to respond to financial stress (49 percent).
- At a corporate level, the most significant drivers of restructuring are the need for technological advancements (66 percent), regulatory or political developments (64 percent) and stagnant demand (63 percent).
- Respondents are most likely to expect businesses in Western Europe (where 94 percent predict an increase) and North America (85 percent) to see higher levels of restructuring activity. Their forecasts for Latin America (57 percent) and APAC (47 percent) are significantly lower.
- Respondents predict that industrials & chemicals, energy, mining & utilities and construction will be the top three sectors to experience the greatest levels of restructuring activity over the next 12 months.
- Businesses are expected to be proactive about restructuring: 55 percent of respondents say organizations will begin these processes as soon as signs of stress emerge, rather than waiting for serious distress to arise.
- However, 60 percent expect restructurings to take longer than usual, and many warn that rushing the process may lead to suboptimal outcomes.

Introduction

Businesses around the world continue to operate under the cloud of COVID-19. Within just a couple of months of its initial outbreak in China, the virus went global, forcing governments everywhere to place unprecedented restrictions on society.

The economic impact of these rules has been dramatic. The International Monetary Fund (IMF) expects the global economy to contract by 4.4 percent over 2020, the worst recession since the Second World War. In many places, the decline is likely to be even more severe; the IMF's prediction[1] for the U.S. is a 5.8 percent GDP contraction; for the U.K. and Eurozone, it expects declines of 10.6 percent and 8.3 percent, respectively; in emerging Asia, it is forecasting a 1.7 percent contraction, and an 8.1 percent dip in Latin America. Among major economies, only China will grow during 2020.

These forecasts may even prove optimistic. Early in Q4, much of Europe was forced to reintroduce lockdown measures as infections surged. In the U.S., the virus remains out of control in many areas, and Latin America is the latest epicenter. Only in Asia have most countries made significant progress toward containing the virus.

Policymakers have deployed extraordinary fiscal and monetary stimulus packages. But here, too, there are concerns. What will happen as support tails off? How will policymakers handle the debt burden, and what might that mean for consumers and businesses?

Businesses, understandably, have moved into defensive positions. Over the first nine months of the year, the global M&A market logged just 11,214 deals worth USD 1.86 trillion, down 31.6 percent and 27.9 percent against the same period in 2019, according to Mergermarket. Business confidence remains depressed throughout much of the world.

This is the environment in which this report's findings are set. Our research suggests that corporate restructuring will become an increasing priority for large numbers of businesses, and that defensive activity will come to the fore. Businesses worried about uncertainty and volatility are focusing on reducing costs and protecting core operations. Only in a few cases are they seeking to exploit opportunities thrown up by this crisis.

[1] IMF

Methodology

In Q3 and early Q4 of 2020, Mergermarket surveyed 75 corporate finance executives and 75 restructuring lawyers based in North America, EMEA, APAC and Latin America about their expectations for the year ahead in corporate restructuring. The survey included a combination of qualitative and quantitative questions and interviews were conducted over the telephone by appointment. Results were analyzed and collated by Mergermarket. Responses are anonymized and presented in aggregate.

Part 1: Drivers and trends

Restructuring activity is expected to be markedly defensive over the next 12 months, as organizations adjust to the new economic reality engendered by the COVID-19 crisis.

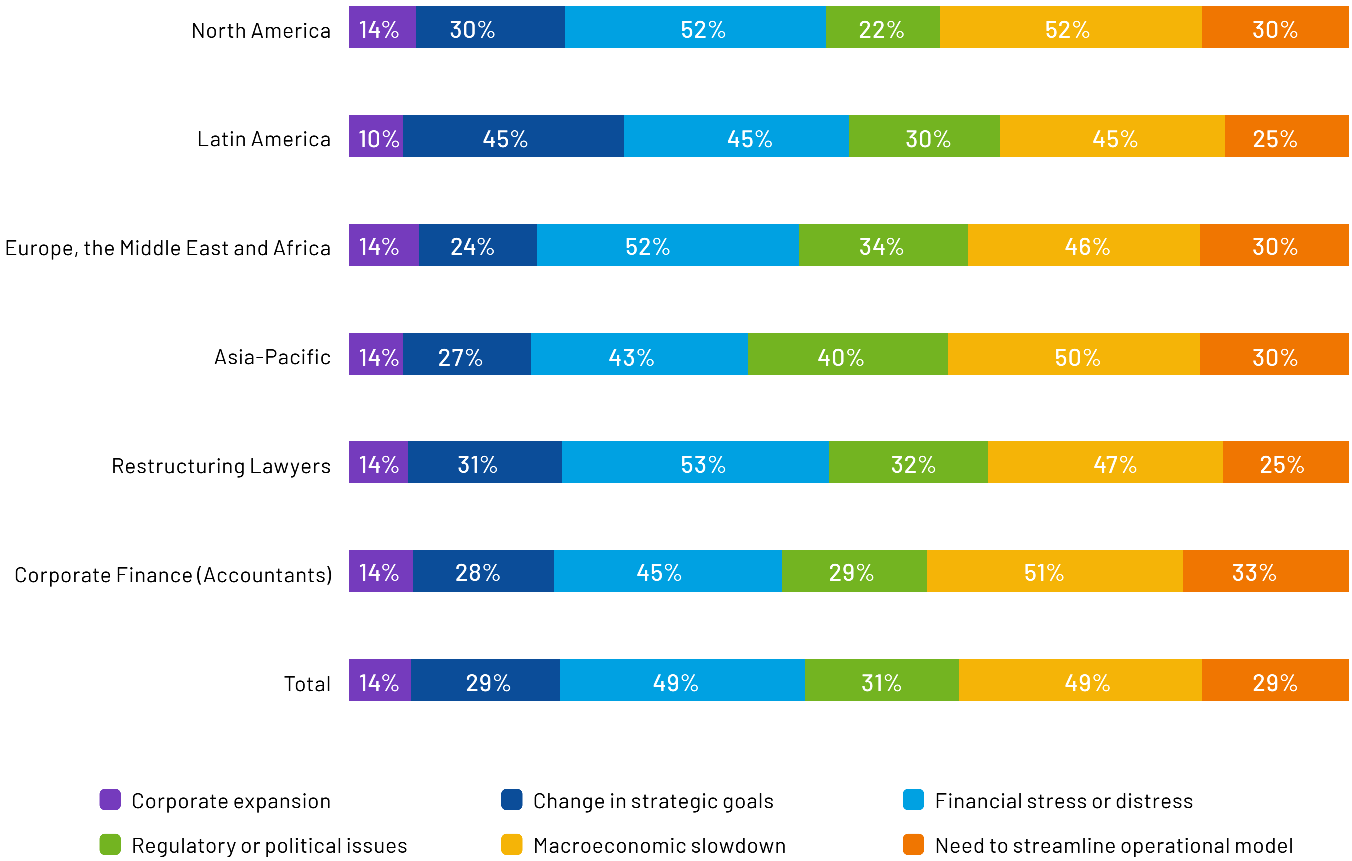
In a world in which the economic impact of COVID-19 is so grave, survey participants view macroeconomic slowdown and financial stress as the most likely drivers of corporate restructuring over the next 12 months. In each case, 49 percent of respondents globally pick these as one of the top-two factors at play (Figure 1).

"Undoubtedly, companies will have to alter their growth strategies in light of recent developments," says a U.K.-based corporate finance executive.

In Switzerland, a restructuring lawyer warns: "The next 12 months will be crucial, with companies having to react to economic change and technology developments ... The recession will affect some companies more seriously than others."

Figure 1. Why businesses will restructure

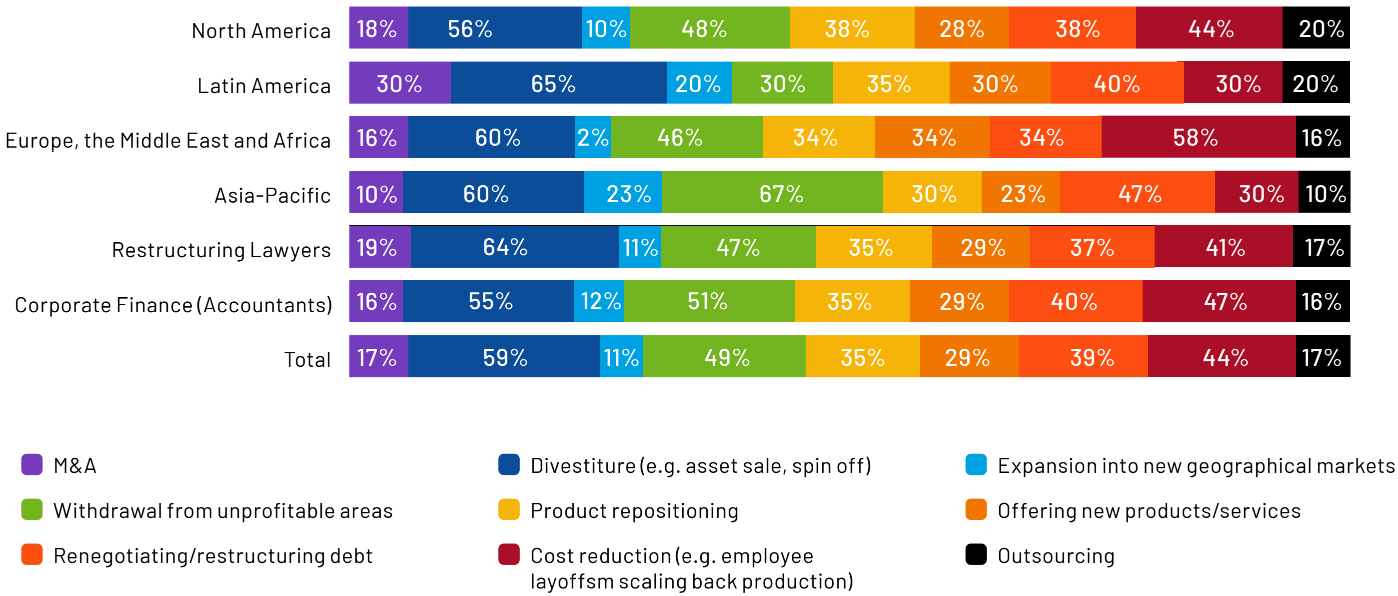
What will be the major drivers of corporate restructurings in the next 12 months? (Select top two)



The nature of the expected restructuring activity reflects these drivers, with respondents anticipating the adoption of more defensive strategies in the year ahead: 59 percent expect to see more divestments, and 49 percent expect businesses to withdraw from unprofitable areas (Figure 2). More upbeat types of activity, such as expansion into new markets (cited by 11 percent), are not widely forecast. “Companies want to create more cash flow for core operations. Less profitable units may be sold,” according to a British restructuring lawyer. “Lowering the debt will greatly reduce the financial burden, creating more feasibility.”

Figure 2. How businesses will restructure

Which types of restructuring strategies are companies likely to pursue most in the coming year? (Select top three)



Still, while this picture holds true globally, there are some notable regional differences. In EMEA, where countries have suffered some of the most significant and enduring economic setbacks from COVID-19, 58 percent of respondents see cost reduction as a key restructuring strategy, well ahead of other regions. In APAC, over two-thirds (67 percent) expect businesses to focus on strategies that enable them to withdraw from unprofitable markets. It is also notable that while only a handful of EMEA respondents (two percent) anticipate restructuring based on expansion into new geographical markets, one-fifth or more of respondents based in Latin America (20 percent) and APAC (23 percent) see this as a likely strategy.

In Indonesia, for example, a restructuring lawyer says, “Companies are focusing on practical methods to enhance revenue, including improving the range of products and services they offer, as well as entering new markets, to increase their competitive value.”

Repositioning in the post-pandemic world

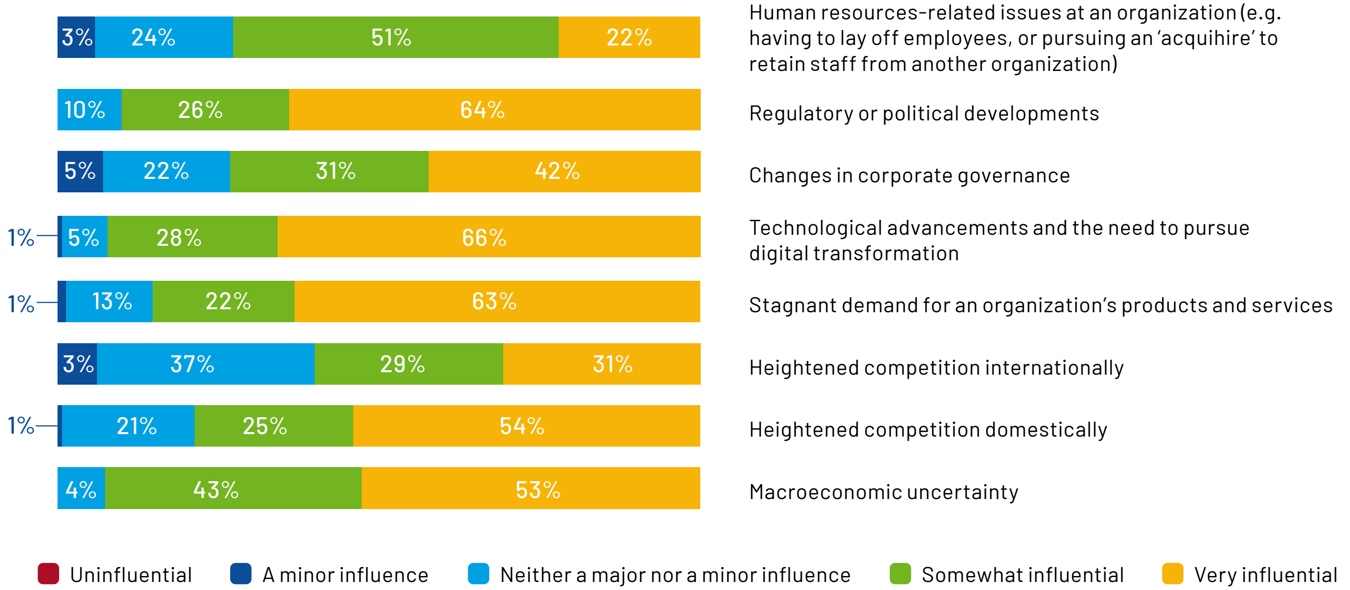
For many businesses, COVID-19 is proving to be more than just a temporary disturbance. In retail, the shift to e-commerce looks set to be sustained even after the pandemic runs its course.

In the industrial and manufacturing sectors, businesses are rethinking the range and resilience of their supply chains. Commercial real estate is adjusting to the work-from-home phenomenon. In turn, survey respondents expect organizations to restructure in line with the changed realities of the markets in which they operate (Figure 3).

Some 63 percent expect organizations to pursue restructuring policies because of stagnant demand for their existing products and services. Technological innovation provides one potential answer — 66 percent of respondents expect this to be very influential on businesses' restructuring initiatives.

Figure 3. Drivers for restructuring activity

In your opinion, how influential will the following possible reasons that organizations pursuecorporate restructurings be over the next 12 months?



"New products and services — backed by extensive research and analysis — could be introduced as a way to deal with stagnant demand," says a restructuring lawyer in one APAC firm. From Canada, a corporate finance partner adds: "Technological advancements have become a vital element of the growth process. They provide real impetus and are being applied in multiple functions across all sectors."

Significant non-COVID-19 factors are also at play. A change in administration in the U.S., strained relations between Washington and Beijing, and Brexit are all having profound effects on businesses. In this research, 64 percent of respondents cite regulatory or political developments as likely to be very influential on restructuring.

Nor is there any escape from the macroeconomic uncertainty, seen by 96 percent of respondents as likely to be either somewhat or very influential on restructuring strategies.

East-West divides

One stark contrast in the research is the gap in expectations for Western markets and their Eastern counterparts (Figure 4).

Some 94 percent of respondents expect a significant increase in restructuring activity in Western Europe over the next 12 months, with 85 percent saying the same of North America.

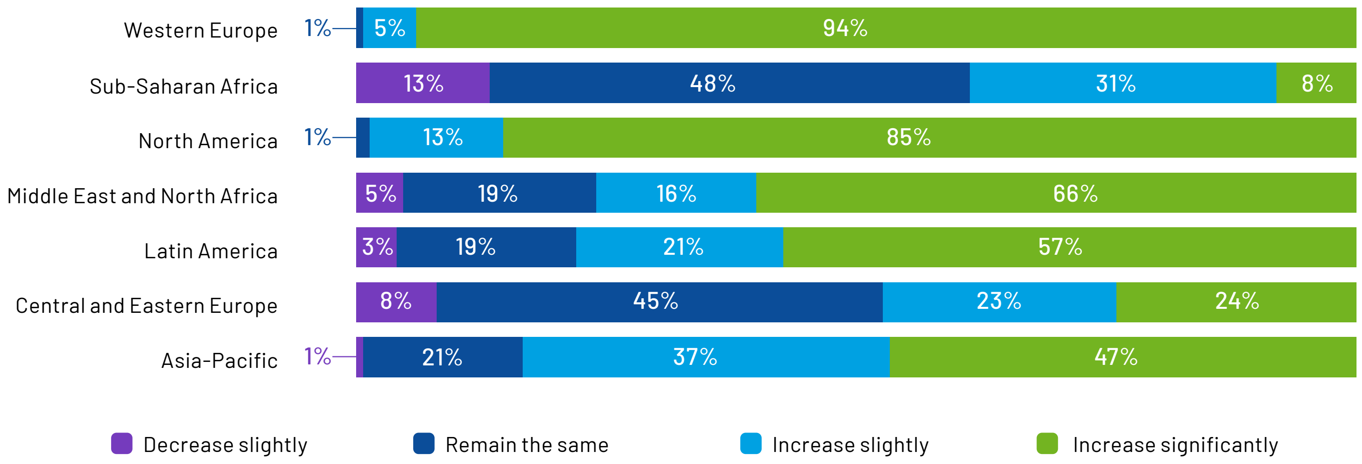
In juxtaposition, just 47 percent of respondents predict significantly increased activity in APAC. In part, this reflects the different rates of recovery from the COVID-19 crisis. With Western Europe and North America recording rising numbers of infections and ongoing disruption through the second half of 2020, businesses are still facing significant dislocation. But in APAC, many businesses are moving on from the pandemic.

"There are business continuity issues to consider," warns a New Zealand-based restructuring lawyer.

"Distress situations due to lack of demand could push organizations to consider restructurings. The global political scenario is also tough to predict — the authorities' more protectionist attitude will impact company decisions."

Figure 4. The regional picture

What do you expect will happen to the level of restructuring activity over the next 12 months in each of the following regions compared to the previous 12 months?



Reconfiguring industry

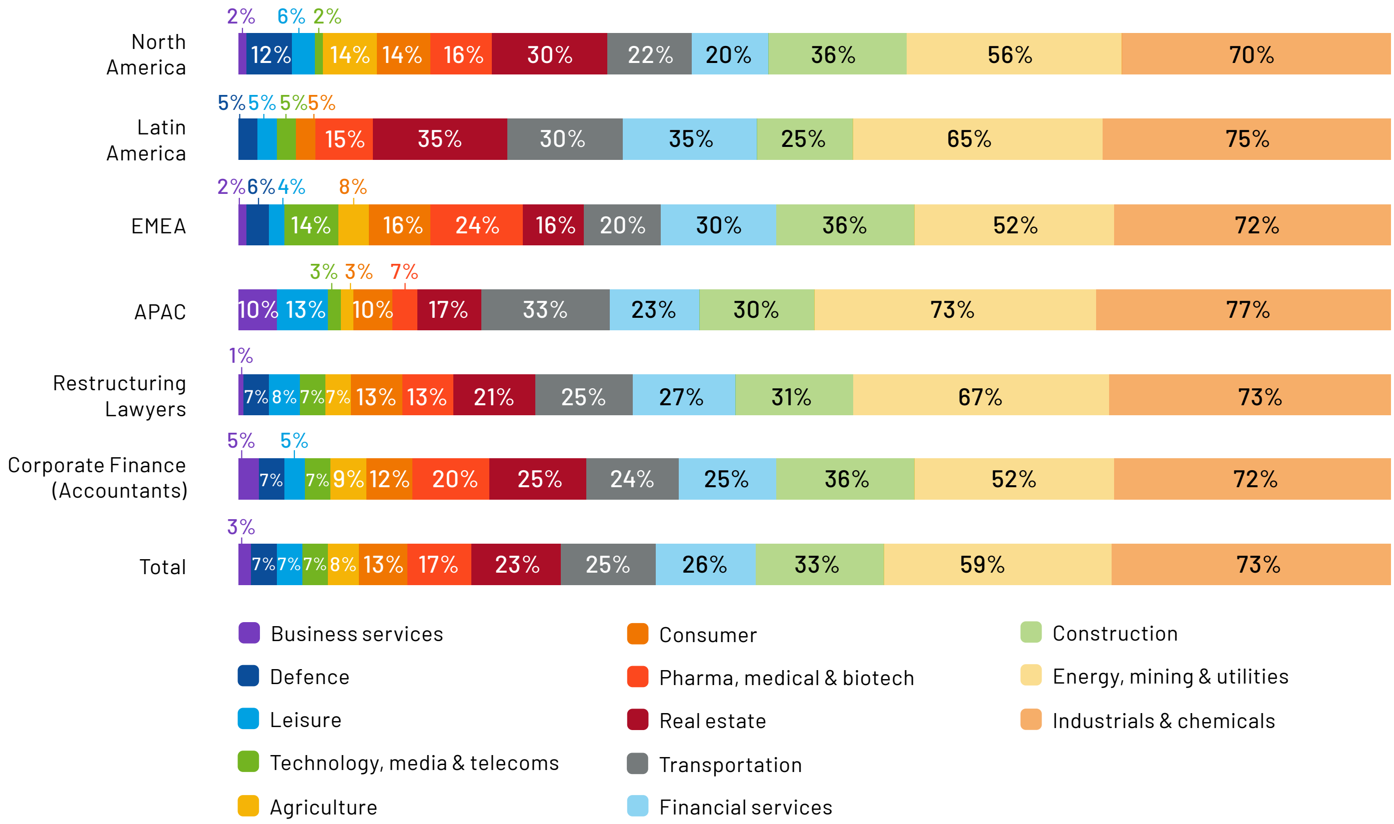
Some sectors have been affected more severely than others by COVID-19. Service-driven businesses have found it easier to adapt, for example by more seamlessly shifting to home-working models. Overall, sectors such as technology, pharmaceuticals and parts of retail have been net beneficiaries.

In contrast, there is much less scope for mitigation for industrials & chemicals, energy, mining & utilities and construction, with shutdowns, supply-chain disruption and reduced demand all taking their toll. Respondents expect these sectors to see the greatest levels of restructuring activity over the next 12 months (Figure 5).

For many businesses in these industries to escape the enduring effects of the pandemic and pursue recovery, restructuring has become imperative. "Although there are promising developments regarding COVID-19 treatments, the investment climate has not improved," warns the managing partner of a Latin American corporate finance practice. "Return on investment has been declining, which points to a slower recovery period."

Figure 5. The sectoral picture

Which sectors will see the most restructuring over the next 12 months? (Select top three)



Falling commodity prices drive restructuring

The energy, mining & utilities sector has faced unique difficulties during the crisis. Not only has demand fallen sharply, but businesses have also had to deal with significant operational challenges. The collapse of commodity prices over the past year — notably oil, but also other raw materials — raises further problems.

Survey respondents expect there to be little respite from this latter pressure, with 87 percent expecting oil prices to fall further over the next 12 months (Figure 7). In this context, a dramatic increase in restructuring in the sector is anticipated in every part of the world by a significant majority of respondents.

Figure 6. Oil prices to continue falling

As of the beginning of July 2020, brent crude prices were around USD 42 per barrel, down from USD 66 per barrel at the start of the year. Over the next 12 months, do you expect oil prices to...?

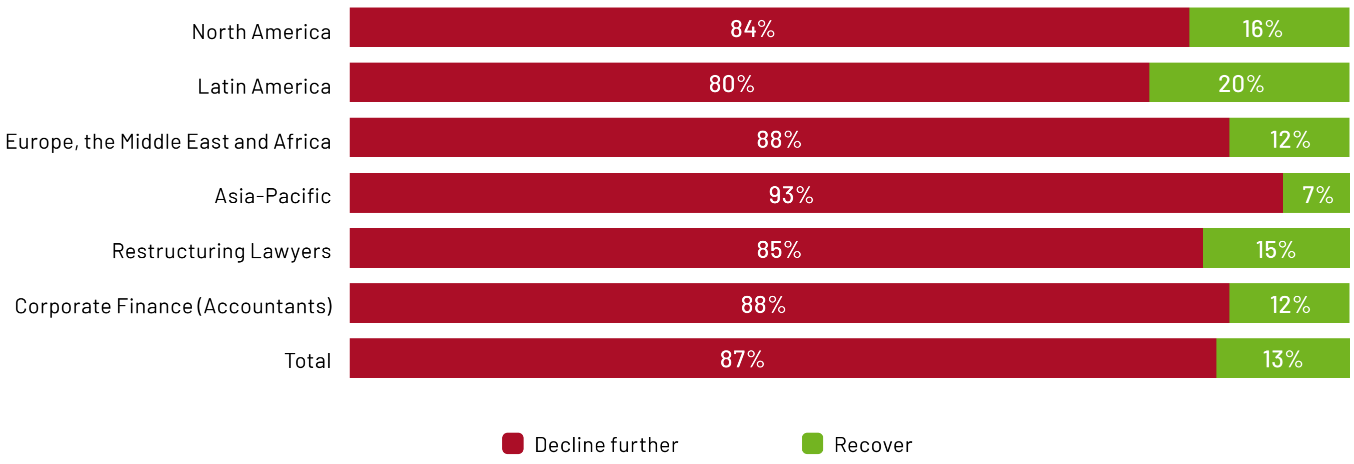
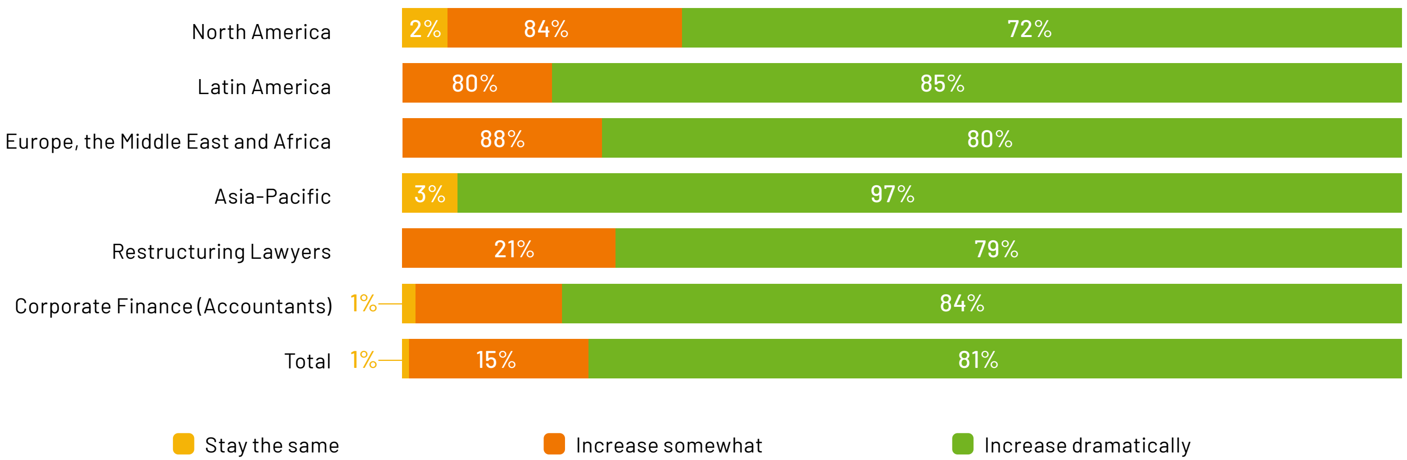


Figure 7. Global restructuring for EMU businesses

Over the next 12 months, do you expect the prevalence of restructurings in the energy, mining & utilities sector to...?

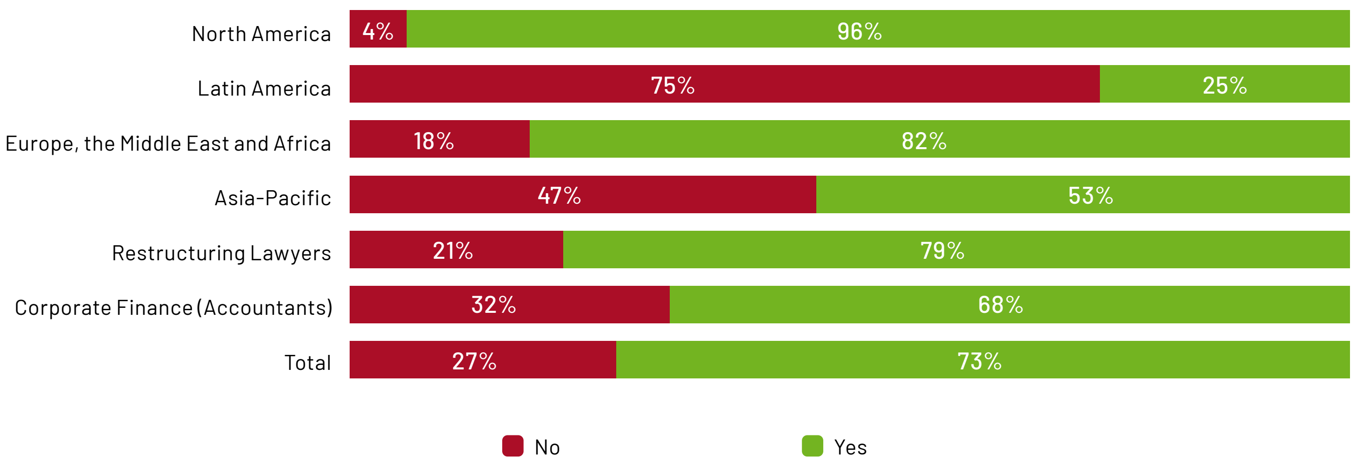


Part 2: Implementation

In these troubling and volatile times, respondents emphasize the need for proactivity and thorough restructuring planning. Rushing ahead without a meticulous strategy risks creating further complications. All of our survey respondents completed at least one major corporate restructuring over the past 12 months, and many are in the midst of such work or planning further activity. Overall, 73 percent of respondents are currently working on a restructuring or are in the planning stage, rising to 96 percent in North America and 82 percent in EMEA (Figure 8).

Figure 8. More restructuring ahead

Is your organization currently in the process of, or imminently planning any major corporate restructuring?



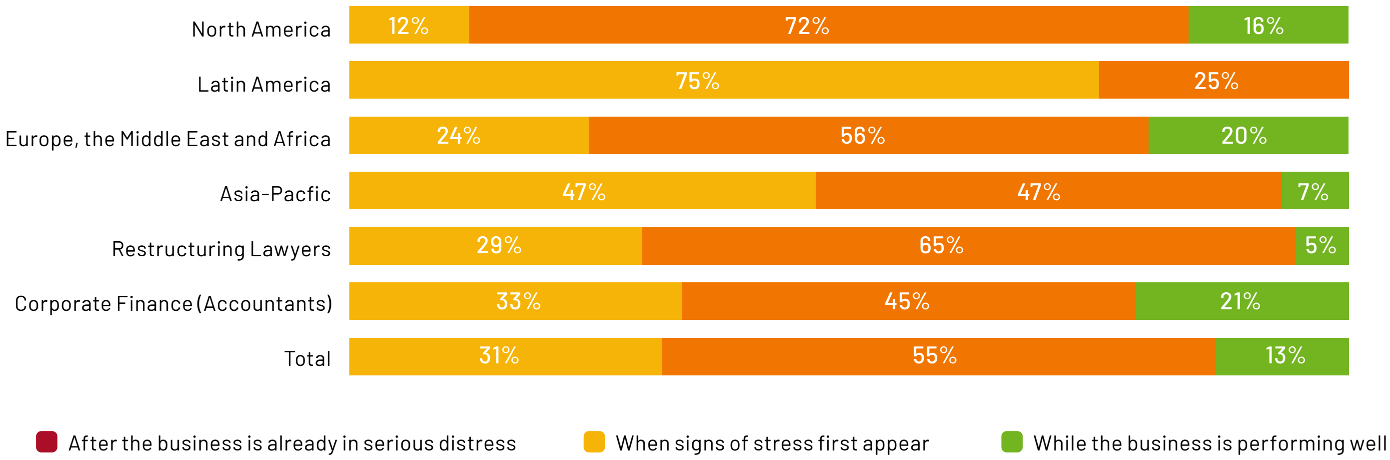
This regional pattern is in line with the data seen in Part 1. In North American and European markets, where the COVID-19 pandemic is threatening a second wave, restructuring activity is more pronounced. Still, businesses everywhere are considering their options.

"We can expect to see much more emphasis on businesses' core operations," predicts a U.S.-based restructuring lawyer. "Profitability from the core will be crucial for sustainability over the next 12 months."

Indeed, in a business environment in which the situation is so fluid and markets can move very quickly, companies are increasingly proactive. More than half of respondents globally (55 percent) expect that businesses will begin restructuring processes at the first signs of distress over the next 12 months, rather than waiting until serious problems manifest (Figure 9).

Figure 9. When to begin the restructuring process

Over the next 12 months, at which point in time are corporate restructurings most likely to start?



In APAC, a partner in a corporate finance practice says, "Businesses that perform well do so because they are proactive in multifarious ways — they consider opportunities as well as market threats early on, before it affects their financial capabilities." The outlier is Latin America, where 75 percent of respondents expect organizations to begin restructuring processes only after the business is already in serious distress. In Argentina, a restructuring lawyer suggests this will because other factors take precedence: "Creating capital flow will be the priority for companies. Decision-makers, who can be more conservative, in this regard, will not look to restructuring unless it is the last remaining avenue."

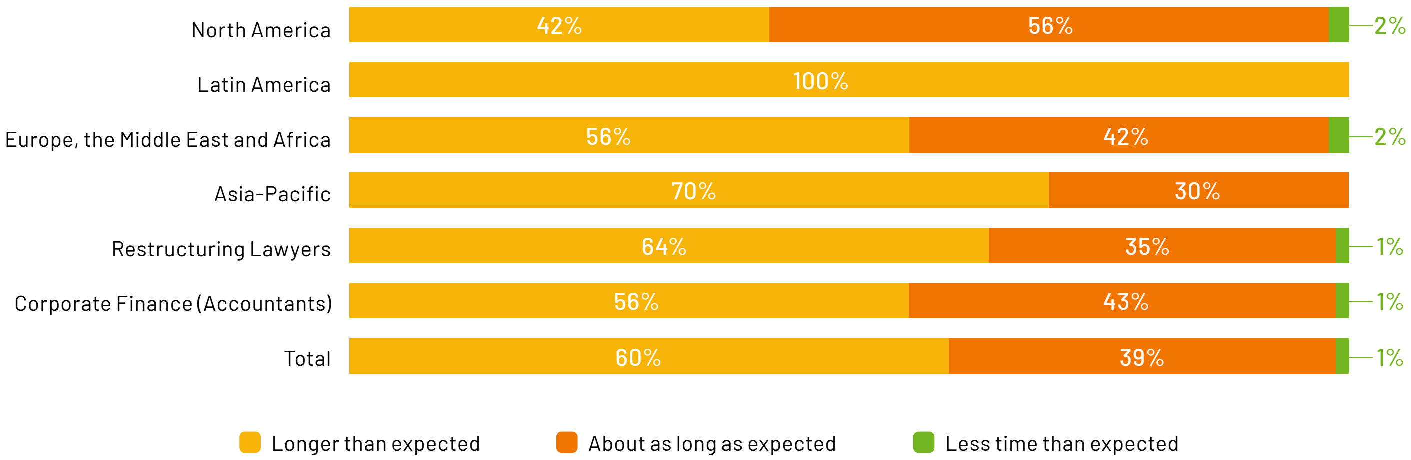
More broadly, it is notable that only 13 percent of respondents globally see restructuring beginning at a point when the business is performing well — further evidence that such activity is currently weighted towards dealing with negative impacts rather than exploiting opportunities.

Dealing with delays

While businesses are keen to seize the initiative before circumstances threaten to become too bleak, it is also clear that the uncertainties of the current environment are making it more difficult to complete restructuring processes in a timely fashion. Some 60 percent of survey respondents globally warn that restructurings initiated in the coming months are likely to take longer to wrap up — in Latin America, every single respondent shares this concern (Figure 10).

Figure 10. Uncertainty leads to slow progress ...

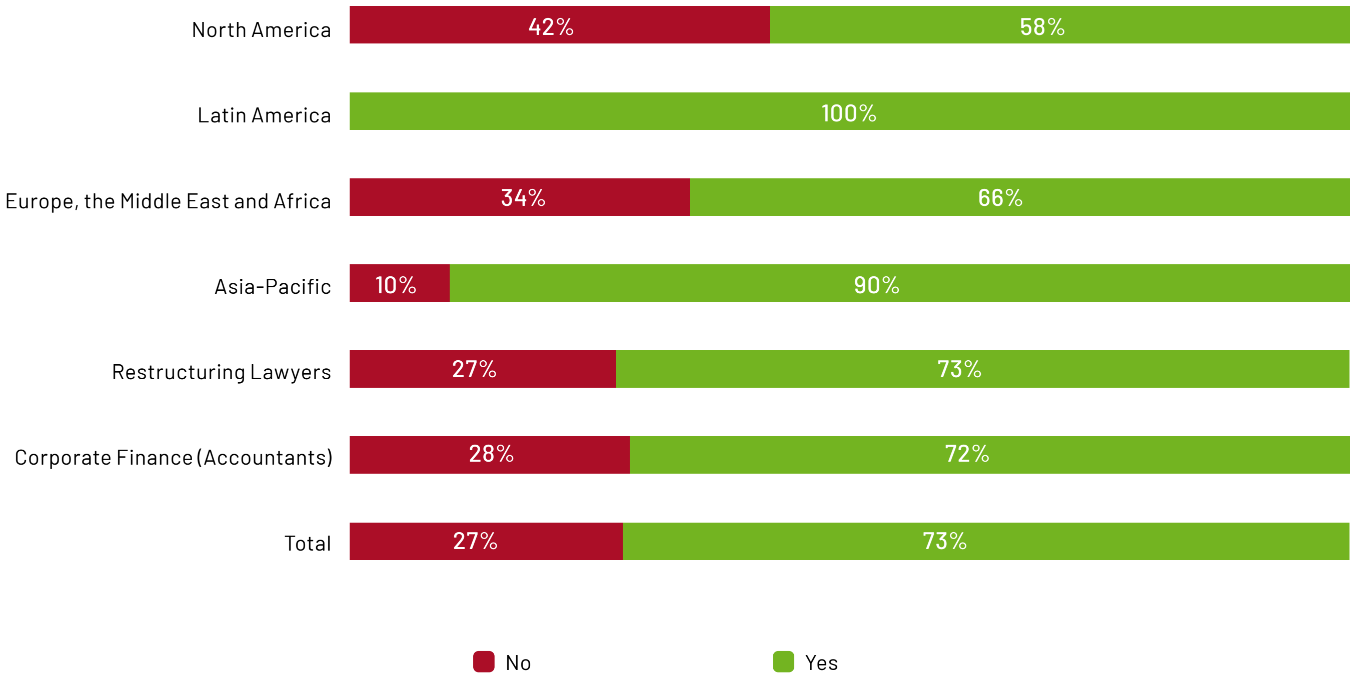
Do you expect corporate restructurings initiated in the coming months to take...?



One widely-cited issue is that companies lack visibility about the pandemic, and therefore the economy itself. In Thailand, a restructuring lawyer says, "Businesses are not able to make long-term plans or financial decisions. Government support has so far held up small-scale businesses, and the economic situation could worsen when that support ends." This is concerning given the imperative for businesses to move quickly, with market conditions continuing to evolve at pace. But while organizations will be understandably keen to complete their restructurings as swiftly as possible, respondents warn that rushing the planning stage could be very detrimental. Some 73 percent of respondents warn that a compressed timeframe is likely to adversely impact the success of the process (Figure 11).

Figure 11. ... but rushing may lead to poor results

Does a compressed timeframe for the planning of restructuring tend to adversely impact success?



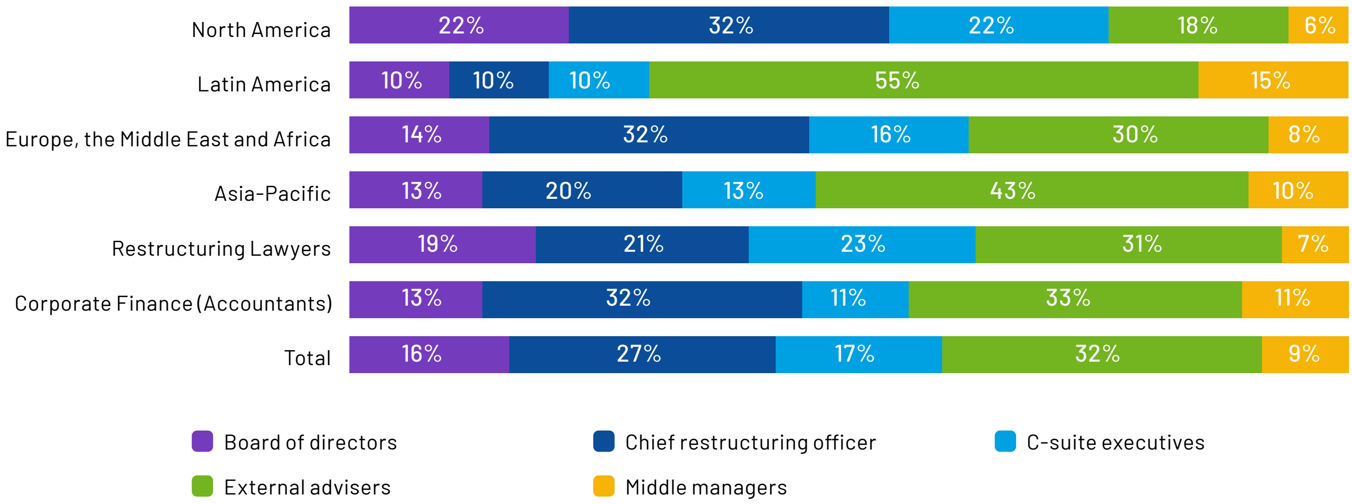
Organizations must find ways to work through market volatility proactively and systematically, achieving their restructuring goals as quickly as possible without compromising the outcomes. Clear leadership and high-quality, independent advice will prove crucial.

Survey respondents view a partnership between in-house specialists and third-party advisors as the best model for driving successful corporate restructuring programs. Almost one-third globally (32 percent) say external advisors have the greatest impact in moving these processes forward, while 27 percent point to the company's own chief restructuring officer (Figure 12).

However, the balance does shift in some parts of the world. In APAC and Latin America, respondents are more likely to see external advisors taking the lead. In North America and EMEA, respondents see business officials — including boards of directors, chief restructuring officers and C-suite executives — as playing a more significant role.

Figure 12. Who's in charge?

Who has the most impact in driving a program of corporate restructuring? (Select one)



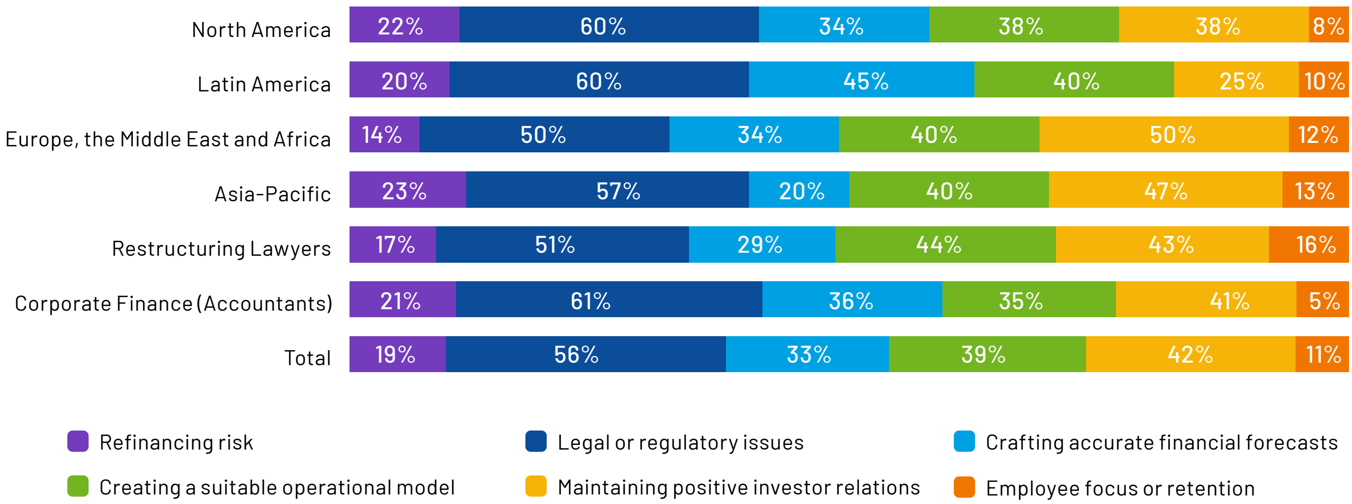
Facing down the challenges

Whoever oversees the restructuring process, it is clear that there are serious obstacles ahead as businesses work through their restructuring plans, with respondents citing a broad range of issues (Figure 13). In the U.S., a restructuring lawyer warns, "The global investment climate is unpredictable, and organizations are already having to monitor several different challenges and think of ways to mitigate them."

Some of the hurdles are familiar. For example, 56 percent of respondents globally cite legal or regulatory issues as one of the top two barriers to be overcome in any restructuring process. The sheer scale of work that must be undertaken is daunting, both in regard to longstanding challenges, such as antitrust legislation, as well as fledgling issues that have become increasingly pressing in recent times. Against a backdrop of rising political tension on the global stage — inciting more protectionist policies in many countries that frustrate cross-border dealmaking — this burden is becoming more demanding than ever.

Figure 13. Roadblocks to restructuring

What will be the greatest challenges to corporate restructuring over the next 12 months? (Select top two)



There are other hurdles too. Some 42 percent of respondents point to the difficulty of sustaining positive investor relations as they undertake restructuring work. With investors nervous about the economic impact of the COVID-19 crisis on businesses — including the dramatic effects on companies' ability to pay dividends — this is to be expected.

Similarly, 39 percent of respondents warn that identifying the right operating model for the business is tricky. In such uncertain times, it is difficult to know exactly what level of restructuring is required. Even making accurate assessments of business performance is tough — 33 percent say that drawing up accurate financial forecasts will be the greatest challenge to corporate restructuring over the next 12 months.

Some of these challenges are more pronounced in some regions than others. The legal and regulatory landscape in North America, for example, is seen as particularly challenging. In Latin America, respondents are more likely to find it difficult to prepare accurate forecasts.

Part 3: The impact of COVID-19

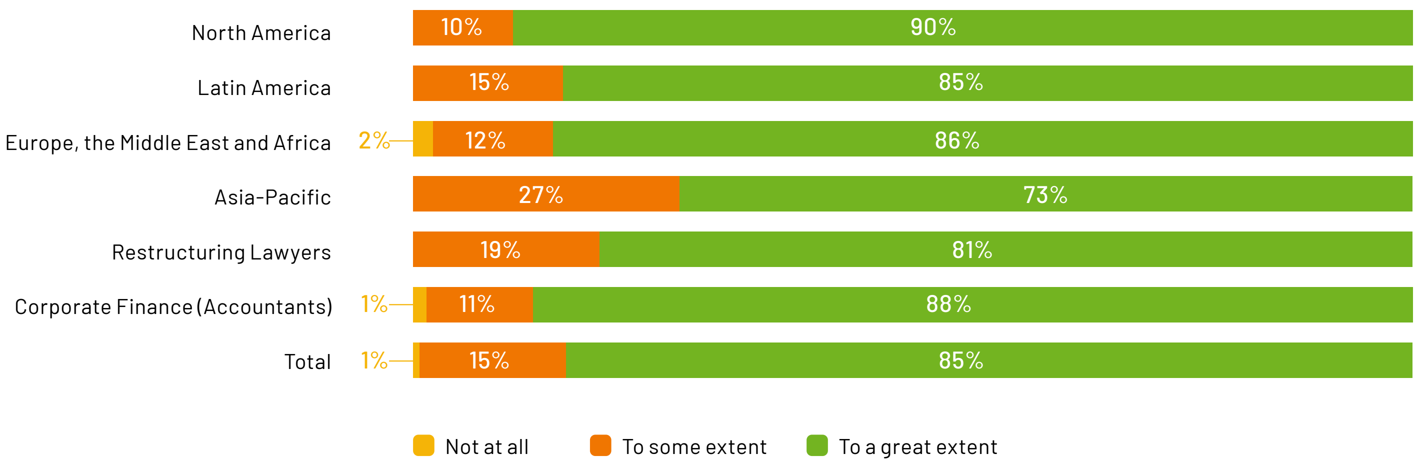
After months of despondency, markets have found cause for optimism. As of December 2020, three potential COVID-19 vaccines, one from Pfizer/BioNTech in Germany, another from Moderna in the U.S. and one from AstraZeneca in the U.K., have had 94.5, 90 percent and 70 percent efficacy in clinical trials, respectively.

Understandably, these reports have created a groundswell of good feeling. Still, much more will need to be done before the worst of the coronavirus crisis is firmly behind us. Even if clinical trials continue to get strong results and a vaccine is soon developed, administrations must then contend with the logistical agony of distributing the jab quickly, efficiently and equitably. While speedy distribution of a vaccine would invariably brighten somber respondents' outlook on the restructuring space, for now, COVID-19 remains at the forefront of dealmakers' minds.

Almost every survey respondent expects the COVID-19 crisis to result in an increase in restructuring activity over the next 12 months — including 85 percent who expect the increase to be significant (Figure 14). In North America, 90 percent of respondents anticipate a significant increase.

Figure 14. COVID-19 to drive restructuring

To what extent do you think the COVID-19 pandemic and its economic impact will result in an increase in restructuring activity in the next 12 months?

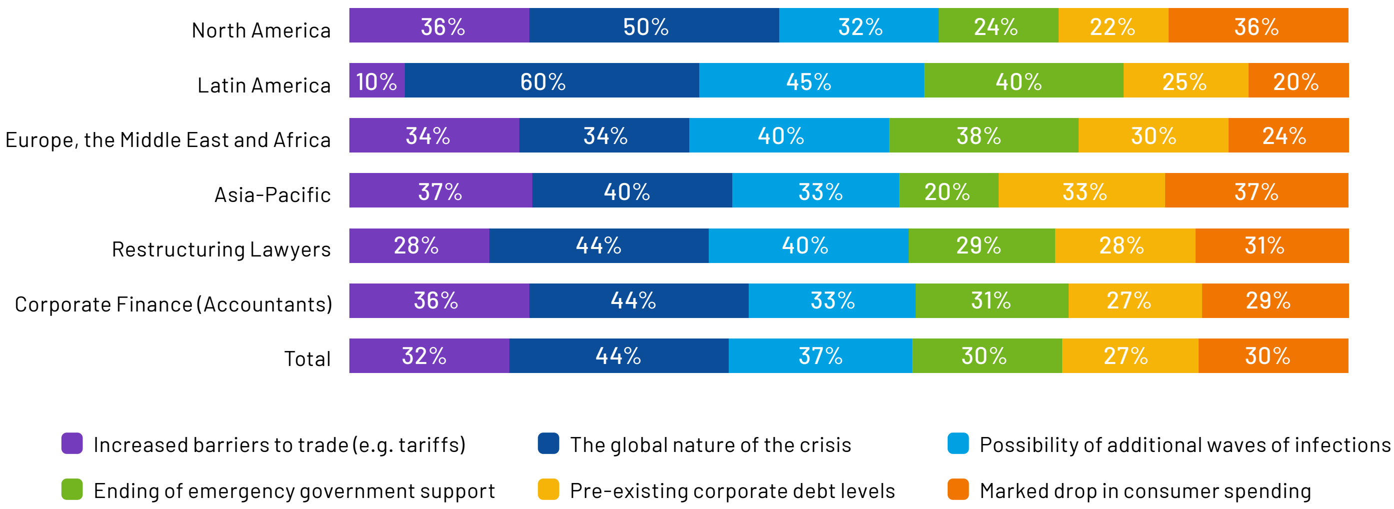


As we have noted, this restructuring is likely to be defensive in nature. “The possibility of another wave has restricted investors from thinking about new opportunities,” warns a partner in a Latin American corporate finance practice. “Fundraising has been lower because of the uncertainty and risk levels in the market.”

Such predictions invariably reflect the huge economic impact of the pandemic, and the lack of certainty about when the crisis might ease (Figure 15). “Seeing the rate at which coronavirus spread globally, the crisis is clearly far from over,” says a South Korean restructuring lawyer. “Unless there is a cure, consumers will not resume their earlier spending patterns.”

Figure 15. The cost of the crisis

Which of the following factors are the greatest inhibitors of economic recovery from this crisis compared to previous crises? (Select top two)



One significant difference between this crisis and previous economic calamities is its genuinely global nature. Every country in the world (barring a lucky handful of small island nations) has been touched by the pandemic, and 44 percent of respondents overall point to this as one of their top two greatest inhibitors of recovery.

The second surge of infections that began to sweep through Europe over the autumn underlines fears that there is no clear escape route until a vaccine is distributed — 37 percent of respondents point to the possibility of additional waves of COVID-19 causing further lockdowns and economic dislocation, as has already happened in several countries.

All the while, respondents also point to the direct impacts on businesses during the pandemic. Some 32 percent warn of increased barriers to trade, while 30 percent cite the slowdown in consumer spending. They are nervous, too, about what will happen as governments withdraw financial support packages: 30 percent see this as an impediment to economic recovery.

Completing deals in practice

While it is clear that COVID-19 and the broader economic fallout from the pandemic will be major contributors to elevated restructuring activity, one interesting factor worth investigating is how businesses intend to move forward, practically speaking, with their plans.

With travel restrictions and social distancing measures making face-to-face meetings difficult in much of the world, how will organizations advance divestments, M&A and other types of restructuring?

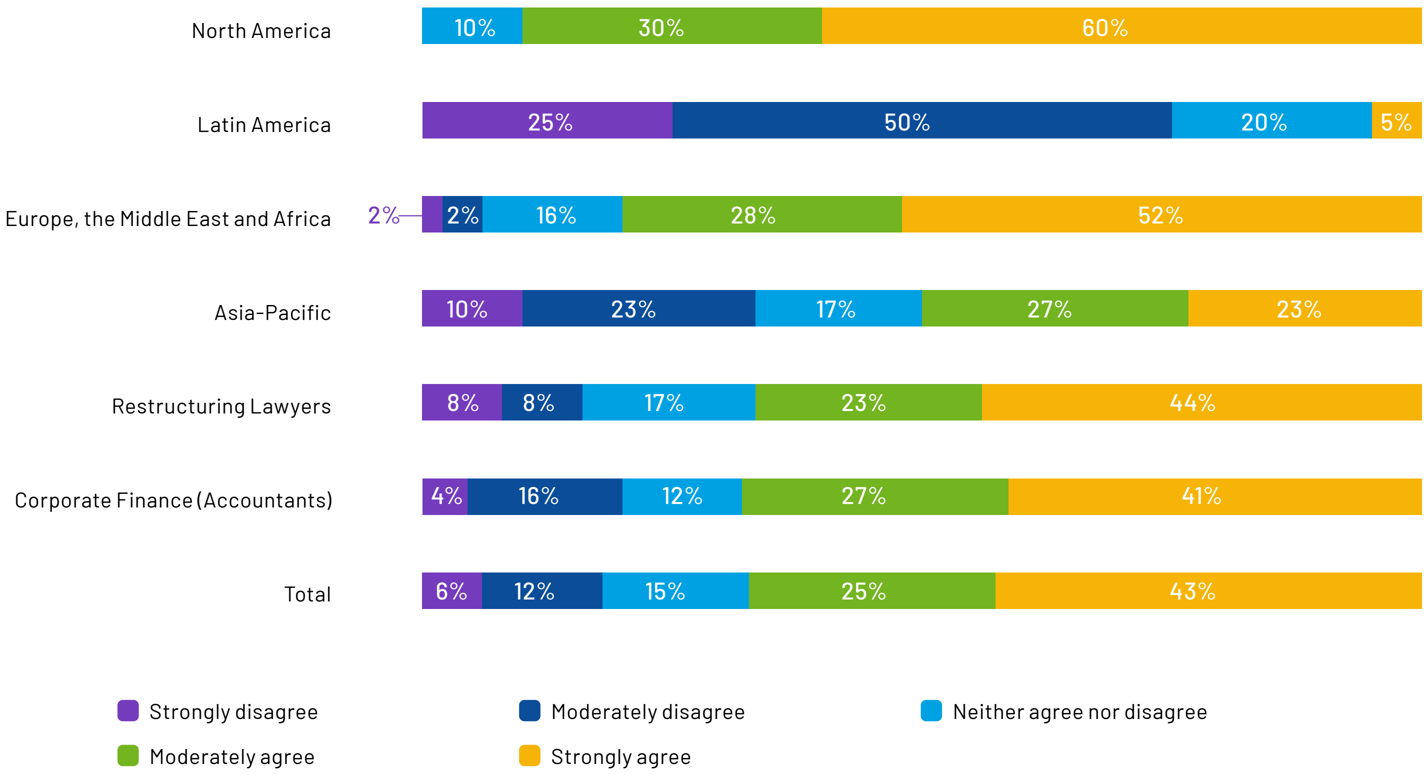
The answer is likely to lie in the increased use of digital tools, as has already been seen in the IPO and M&A markets, where many have turned to virtual roadshows and virtual data rooms (VDRs). One EMEA-based restructuring lawyer put it straightforwardly:

"Working conditions have been impacted as a result of the COVID-19 pandemic, necessitating the uptake of remote working tools." Working from home can, according to a partner in a New Zealand corporate finance practice, "be managed seamlessly by introducing more technology features."

In this research, 68 percent of respondents agree (43 percent of which strongly agree) that companies will now make more use of online secure document sharing platforms during restructuring processes (Figure 16).

Figure 16. Moving restructuring activity online

Do you agree with the following statement: Companies will increasingly use an online secure document sharing platform for restructuring deals in the wake of the COVID-19 pandemic?



However, this may be more straightforward in some parts of the world than others, with respondents in certain regions pointing to more resistance to the use of such tools. In particular, 75 percent of respondents disagree with the suggestion that the take-up of online document sharing will increase in Latin America.

Though the share is much smaller in APAC, with one-third of respondents rebutting such platforms, that figure is still considerably higher than those logged in EMEA (4 percent) and North America, where a massive 90 percent of respondents agree (60 percent strongly agree) that the use of online secure document sharing platforms will increase.

Part 4: M&A and divestments

Divestments will be the order of the day over the next 12 months at least, with organizations expected to streamline operations where necessary and focus on cutting debt.

Throughout this research, respondents have signaled that while they anticipate an increase in restructuring activity over the next 12 months, they largely expect this to be defensive in nature. The data in this section of the report reflects this view, with divestments seen as more likely to increase in volume than M&A transactions.

That being said, data from late Q3 and early Q4 point to something of a revival for M&A in a few key markets, including China. The U.S., for its part, seems ready to enjoy a post-election boost. Some North American dealmakers are bullish and believe M&A will become a priority again as soon as Q1 2021.

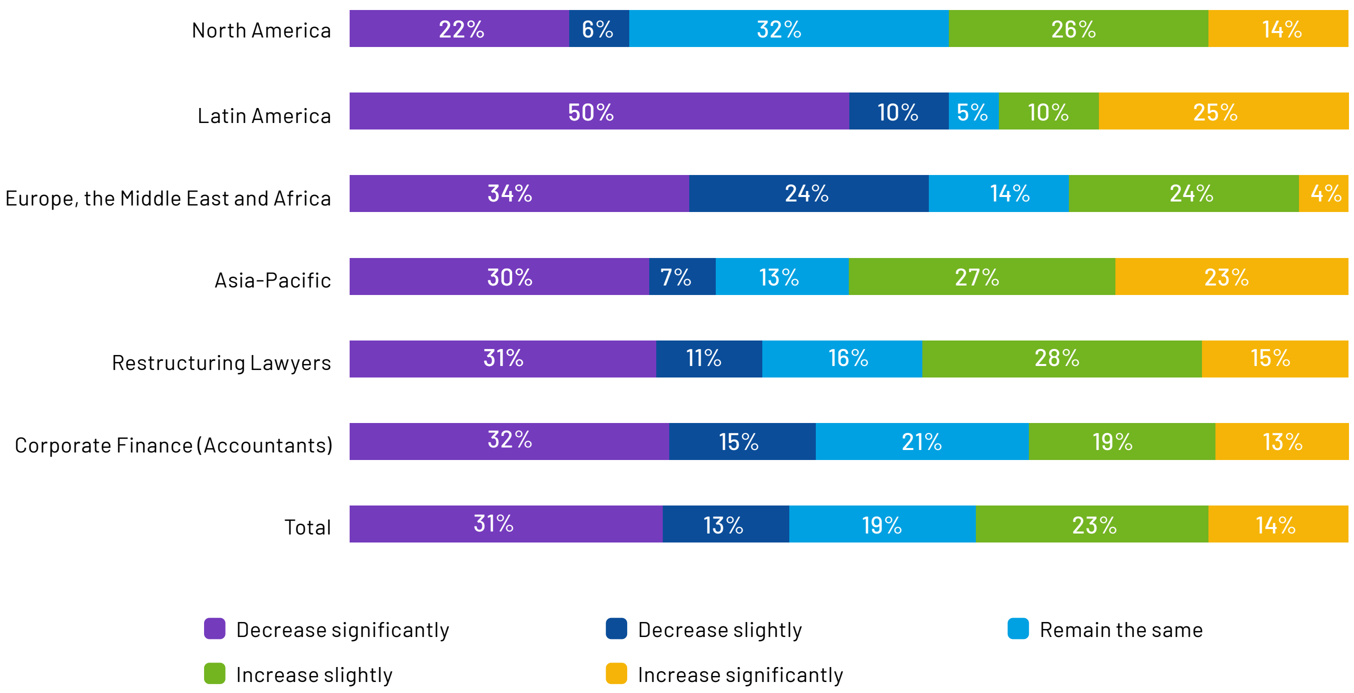
Speaking at a virtual conference at the end of September, Matthew Veneri, co-head of investment banking at Janney Montgomery Scott, said, "We anticipate 2021 being a record year. There's going to be a lot of pent-up demand."

Among our survey respondents, although 37 percent do predict increased M&A volumes over the next 12 months, 44 percent remain diffident and think activity is more likely to decrease, including 31 percent who believe it will fall significantly (Figure 17).

Still, this view is far from universal — 50 percent of respondents in APAC anticipate increased M&A, while 60 percent of Latin American respondents expect a decrease. This is in line with other findings suggesting that APAC-based corporates are likely to be focused on more offensive forms of restructuring.

Figure 17. Mixed outlook for M&A

What do you expect will happen to the frequency of M&A as part of restructuring over the next 12 months?



Other data on the strategic goals behind corporate's restructuring-guided M&A strategy bear out this theory (Figure 18). Globally, there is a roughly equal split between defensive and offensive objectives.

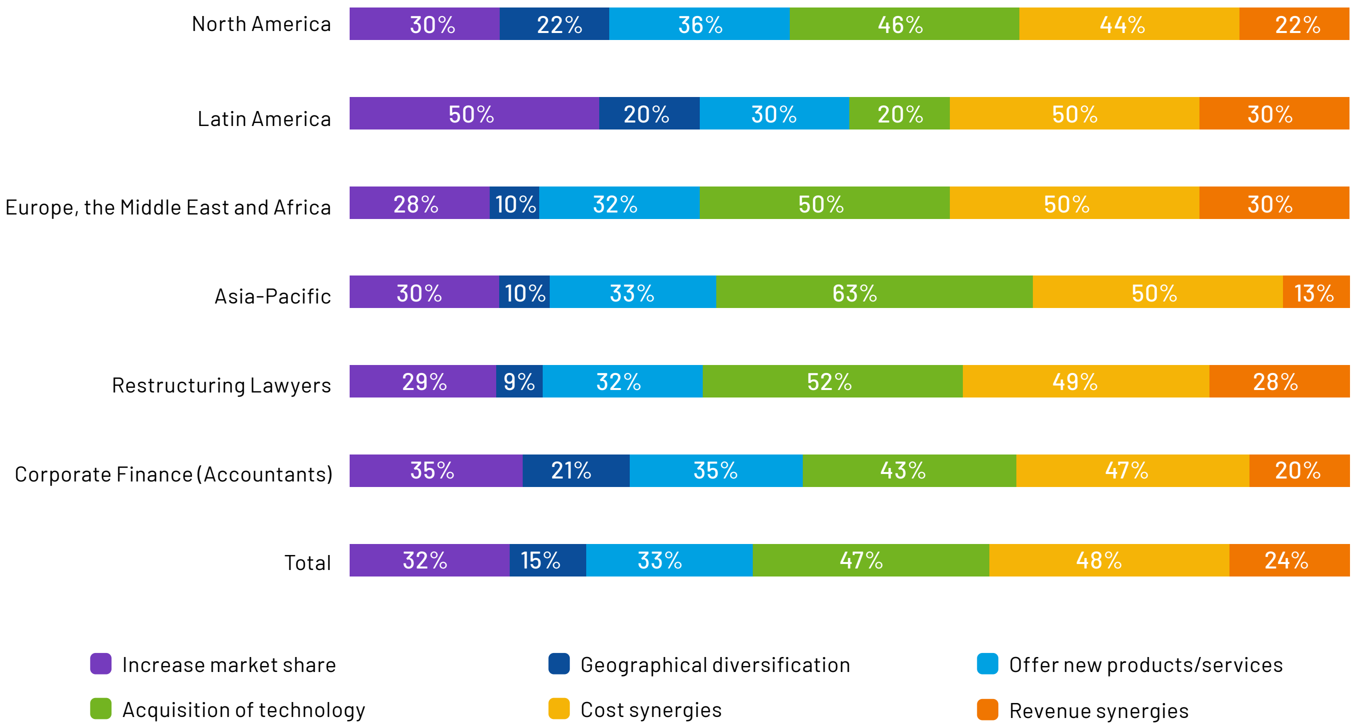
For example, 48 percent of respondents expect companies to pursue M&A to secure cost synergies, while 47 percent think technology acquisitions will be a key objective, these being the top-two strategic goals chosen by respondents overall.

Thereafter, 33 percent anticipate deals predicated on offering new products and services, while 24 percent of respondents point to the need for revenue synergies.

In APAC, however, 63 percent of respondents underscore technology acquisitions, 33 percent point to new products and services, and 30 percent say the desire to increase market share will drive transactions.

Figure 18. Why companies are contemplating M&A

What do you expect will be the most important strategic goals of M&A deployed as part of restructuring over the next 12 months? (Select top two)



The bottom line, according to one U.S. restructuring lawyer, is that the priority for many companies now is simply to survive. "Cost synergies will be the main goal of M&A, as this ensures business continuity," they say. "Given the current barriers to conducting domestic and international operations, there is a huge pressure to achieve synergies and ease the strain on business processes."

Even in APAC, some respondents point out that acquiring new technology can be as much about improving operational efficiency as pursuing new growth. "The adoption rate of technology determines the profitability of companies in many sectors. Those that lag behind in acquiring and implementing technology will fall behind on productivity," says the managing director of a corporate finance practice in South Korea.

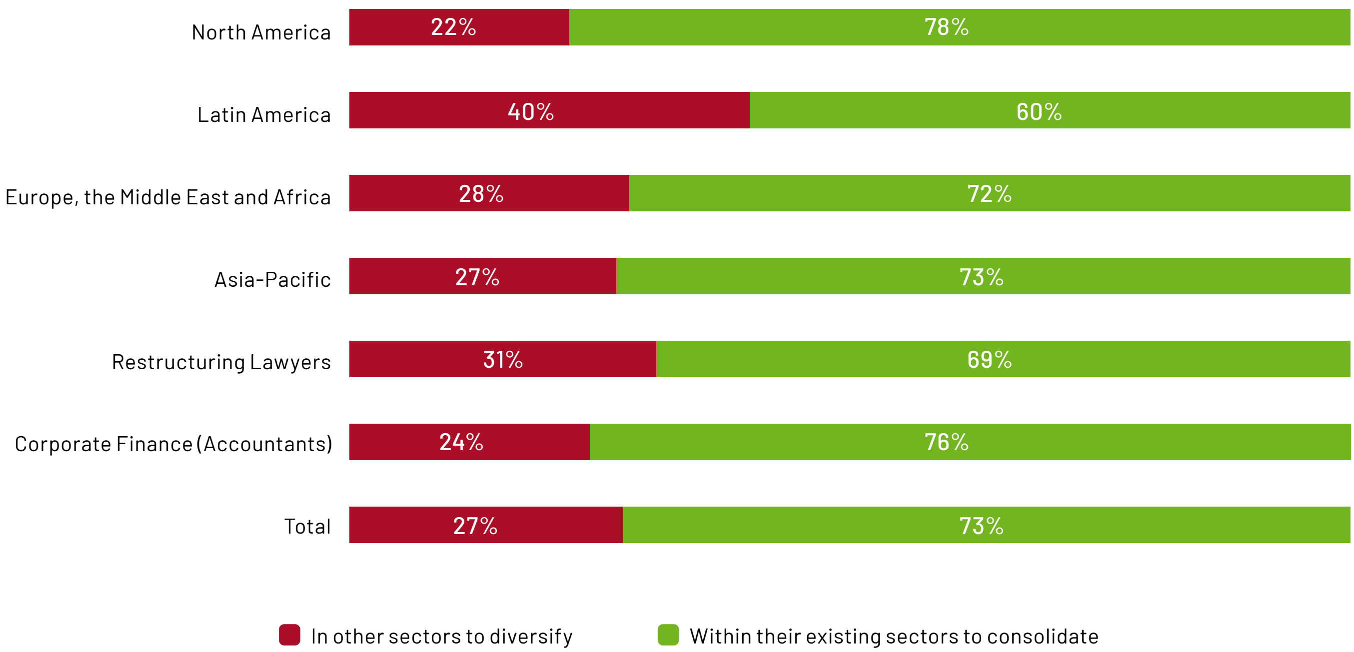
There is evidence of a diminished appetite for risk at a global level. Very few respondents (15 percent) expect companies to pursue M&A in order to achieve increased geographical diversification. Plainly, expansion into new markets remains off most organizations' radars during these uncertain times.

Similarly, most respondents do not expect companies to look beyond their own sectors for M&A opportunities (Figure 19). While making acquisitions in new industry segments may give businesses the chance to mitigate COVID-19 difficulties, the risk of a move into unchartered waters is currently difficult to countenance.

Even in the more bullish Latin America, where 40 percent of respondents see deals in new sectors as likely — against 27 percent overall — the majority see companies sticking with what they know.

Figure 19. M&A Other sectors less popular

As part of restructuring strategies, are companies most likely to target other companies for M&A?

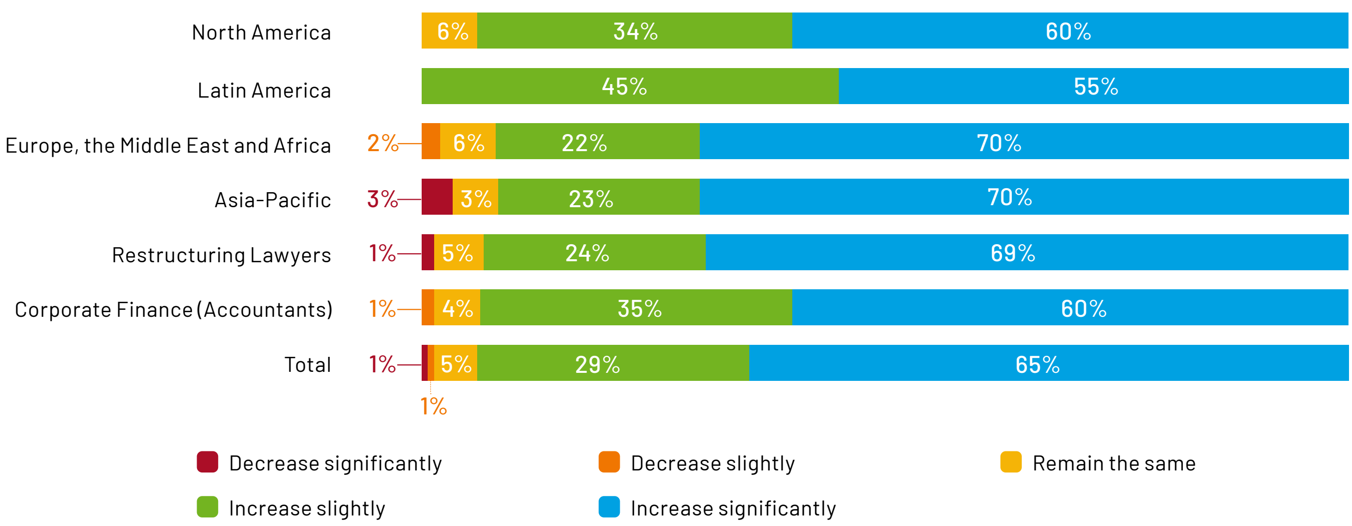


Delivering on divestments

In contrast to M&A, there is agreement among respondents on the likelihood of divestment activity rising. Globally, 94 percent of respondents expect divestments to increase over the next 12 months, including 65 percent who predict a significant jump in activity (Figure 20). A substantial majority of respondents predict many more divestments for every region of the world.

Figure 20. Divestments set to soar

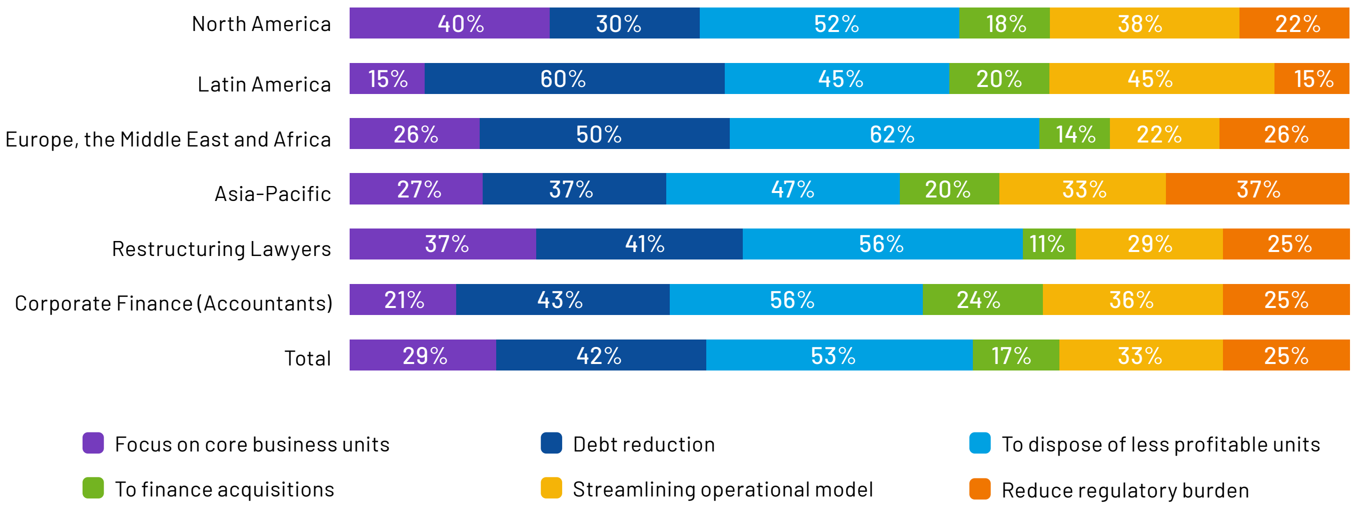
What do you expect will happen to the frequency of divestments as part of restructuring over the next 12 months?



Clearly, respondents expect organizations to divest to protect themselves from the crisis (Figure 21). Globally, 53 percent say one of their top two drivers of divestments will be companies' desire to dispose of less profitable business units, and 42 percent identify the need to reduce debt. Protecting the base is the order of the day: 33 percent of respondents point to the need to streamline operational models, while 29 percent say that corporates will want to focus on their core businesses.

Figure 21. Managing the retreat

What do you expect will be the key strategic goals for companies making divestments over the next year as part of restructuring strategies? (Select top two)



"Larger corporates, especially in the sectors affected most seriously during the COVID-19 crisis, are going to divest from smaller, unprofitable units," predicts a U.S.-based restructuring lawyer. An EMEA-based restructuring lawyer adds, "To revive business operations, debt levels will have to fall — and units that are not profitable cannot be held on for long. Faster divestments should be undertaken to prevent further loss."

Just 17 percent of respondents expect businesses to pursue disposals to finance acquisitions. While M&A opportunities may arise in these turbulent times — and some appetite for dealmaking does exist in certain regions, especially APAC (see Figure 17 above) — most survey respondents don't think corporates will be preoccupied with building a war chest.

According to a managing partner of a U.S. corporate finance practice: "Companies are trying to focus on their core competencies and act accordingly. Whatever capacity for change they possess will depend on their employees' efficiency and the decisions taken by management."

Conclusion

This report paints a comprehensive picture of the likely direction for corporate restructuring over the next 12 months. Much uncertainty remains — not the least over how long the COVID-19 crisis and its economic impact will persist — but survey respondents expect businesses to take decisive steps to improve their resilience and ready themselves for recovery.

Defensive restructuring will come to the fore. While some businesses see opportunities to target growth through restructuring, the lion's share of activity will reflect concerted efforts to reduce costs and focus on core assets. Divestments and withdrawals from peripheral business areas will account for a greater share of restructuring activity than M&A. And even where businesses do focus on M&A, many deals will be defensive in nature.

Regional variations on this theme will arise. In particular, survey respondents see APAC companies as further ahead on the recovery trajectory. Though there is still work to be done on restructuring, businesses in this region are more likely to be on the front foot.

More broadly, however, it is important to recognize that corporate restructuring may only rarely prove straightforward. Given the volatile market environment, restructuring activity could take longer than expected to complete. And while many businesses are feeling significant pressure to right-size themselves, rushing to completion may be a dangerous mistake.

In this regard, businesses that take action early are likely to find themselves in a better position in the long run. Working with expert third-party advisers to identify restructuring priorities and to execute business change will pay dividends. By contrast, leaving restructuring until action must be taken from a position of weakness will only add to businesses' vulnerabilities.

How, in this light, should businesses and their advisers approach restructuring over the next 12 months? The lessons of this report are clear:

- **Focus on developing a restructuring strategy at the earliest opportunity.** Businesses with a well-defined idea of what they need to achieve will find it easier to advocate a clear roadmap for their activity.

- **Do not wait until a distress situation unfolds.** With the outlook so uncertain, many businesses may be tempted to bide their time, ignoring early signs of stress in the hope that a COVID-19 vaccine will soon be distributed and market conditions improve. However, beginning restructuring activity early provides more room for maneuver and reduces risk.

- **Investigate new ways of working through restructuring processes.** The operating environment may make it difficult to follow conventional models, including face-to-face meetings. New digital tools will need to be integrated permanently into companies' strategies. Virtual meetings and online document sharing will prove vital.

- **Work with expert third-party advisors.** In such a fluid environment, restructuring advisers' expertise and experience of working with businesses in similar positions is likely to prove invaluable.

- **Do not overlook opportunities entirely.** While most business restructuring will be defensive in nature, the current market environment may also open avenues to pursue the growth agenda by enhancing one's technology offering, bolstering core business units and even acquiring distressed companies.

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