

# KordaMentha Corporate – TMA Survey 2016



TMA Australia  
National Conference 2016

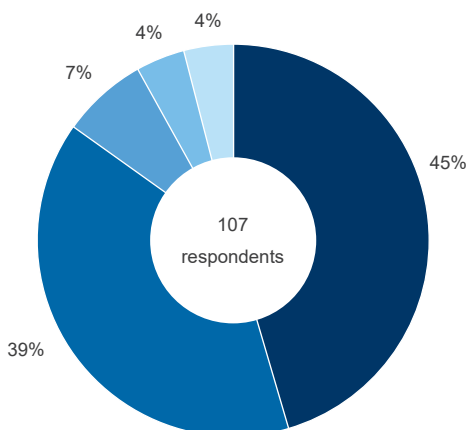
KordaMentha  
corporate

The annual KordaMentha Corporate – TMA Survey provides an insight into the causes, challenges and successes of Australian corporate turnarounds.

2016 is our seventh survey, which features both the current trends in business turnarounds, and an outlook towards 2017.

These summary results cover four broad topics – industry trends; turnaround funding; causes of distress and operational solutions; and turnaround leadership attributes.

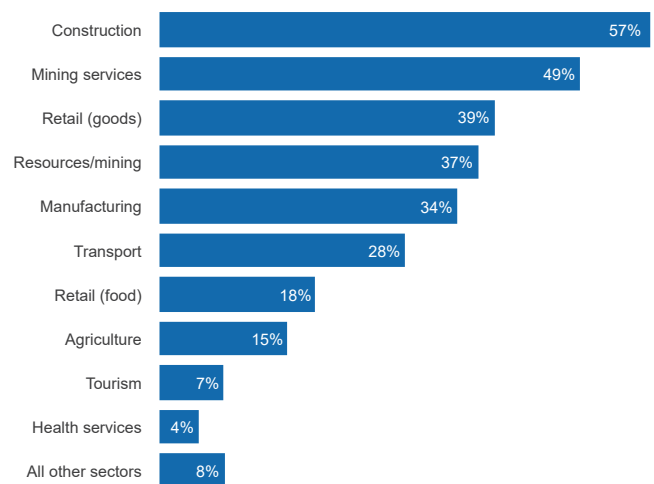
## Profile of respondents



Debt holder/financier ■ Lawyer ■ Turnaround service provider ■  
Insolvency professional ■ Equity holder, Board or Management ■

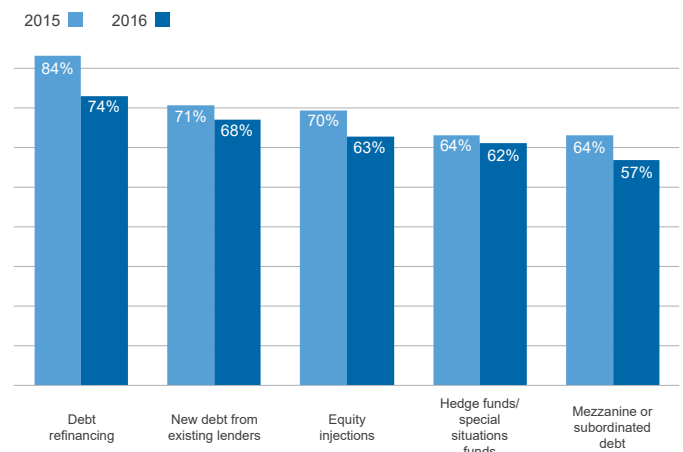
## Turnaround Environment

### Percentage of respondents expecting industries to decline



## Sources of turnaround funding

Respondents that view these sources as active:

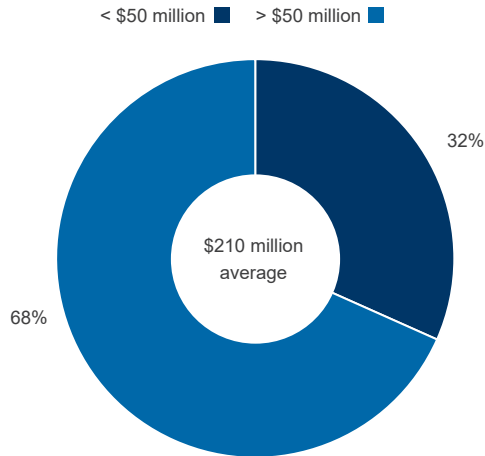


The relative availability of turnaround funding is in line with 2015 results.

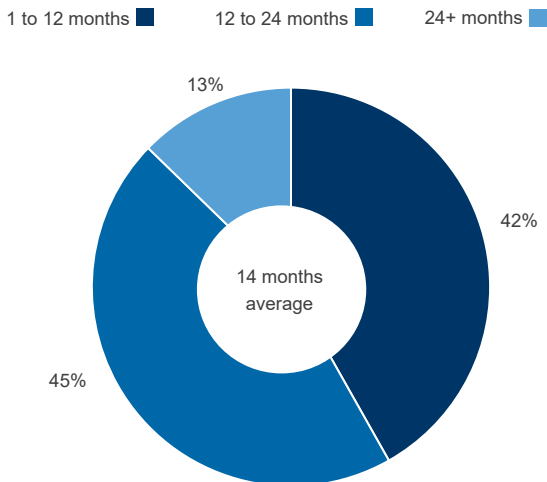
- Overall, there has been a decline in funding activity with all identified sources decreasing from their 2015 levels, both in terms of activity and intensity of activity.
- After four years of growth, debt refinancing has softened with 74% of respondents identifying this funding source as active.
- Hedge fund/special situation funds have been a key mover, with over 20% of respondents stating this funding source was 'highly active'. This compares with debt refinancing, for which only 6% of respondents found it to be 'highly active'.

## Profile of Turnaround Case Studies

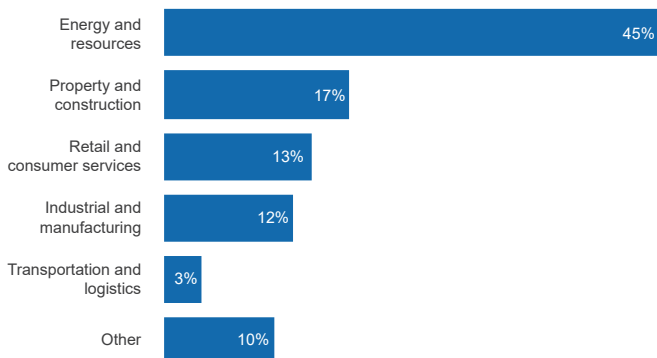
### Company size (revenue)



### Length of turnaround

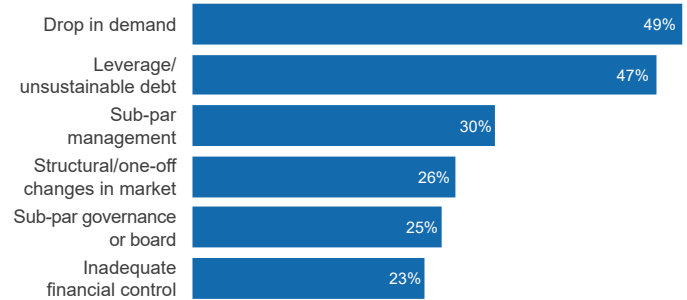


### Industry breakdown



## Major Causes of Corporate Distress

### Respondents who rank each cause as 'significant'



### Major shifts in 'significant' causes of distress since 2015



For the third year in a row the top six causes of distress were the same, confirming the critical importance of these factors. However, 2016 saw a number of interesting movements within the top six.

#### Dropping demand was a significant driver of distress

Drop in demand was ranked as a significant cause of corporate distress by nearly 50% of all respondents. This compares with only 31% in 2015.

This change is primarily caused by an increase in Energy and Resources case studies – 45% of the sample this year vs 19% last year.

#### Resources sector turnarounds

The drop in demand has significantly impacted the companies identified in the resources and mining services sector turnarounds, with 68% of respondents identifying this as a significant contributor to distress.

Respondents ranked sub-par management and sub-par governance/board much lower for this sector, with only 16% of respondents considering these factors as being significant issues.

#### Property and construction turnarounds

In contrast to the resources and mining services sector, turnarounds in property and construction considered (unsurprisingly) leverage/unsustainable debt the most likely significant issue at 56%.

Other significant issues included:

- sub-par management (40%),
- inadequate financial control (40%), and
- big projects or acquisitions (33%).

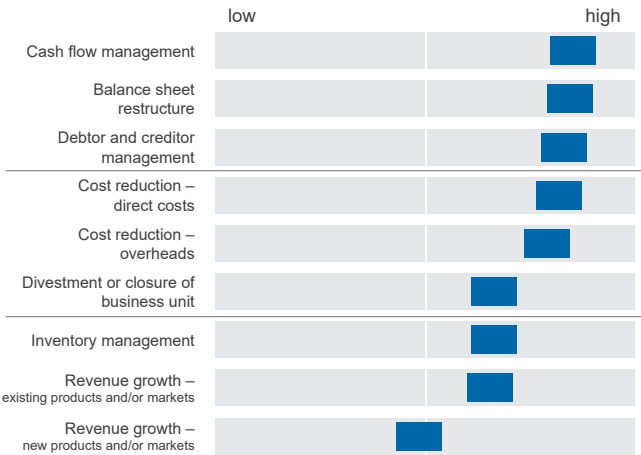
#### Retail and consumer services turnarounds

Retail turnaround case studies also pointed to a drop in demand as being a significant issue causing the company's distress, with 50% of respondents reflecting this.

In addition, high fixed cost structures were a key factor in the difficulties faced by retailers.

## Solutions

### Importance of turnaround initiatives



Cash flow management was ranked highest for the fifth consecutive year.

At an industry level:

#### Energy and Resources

- Balance sheet restructures continue to be critical, with over 80% of respondents ranking them as a high importance initiative.
- Overhead cost reductions dropped from second highest ranked initiative in 2015 to fifth in 2016, reflecting shifts in the turnaround cycle (i.e. costs have been removed already).

#### Property and Construction

- Cash flow management and balance sheet restructures ranked highest, followed by working capital management and overhead cost reductions.

#### Industrial and Manufacturing; and Retail and Consumer

- Greater than 50% of respondents ranked 'divestment and closure of business unit' as a significant initiative.

#### Barriers to success.

Short term cash constraints replaced reluctance to take action to rank as the highest barrier in 2016, aligning with the declining turnaround funding environment:

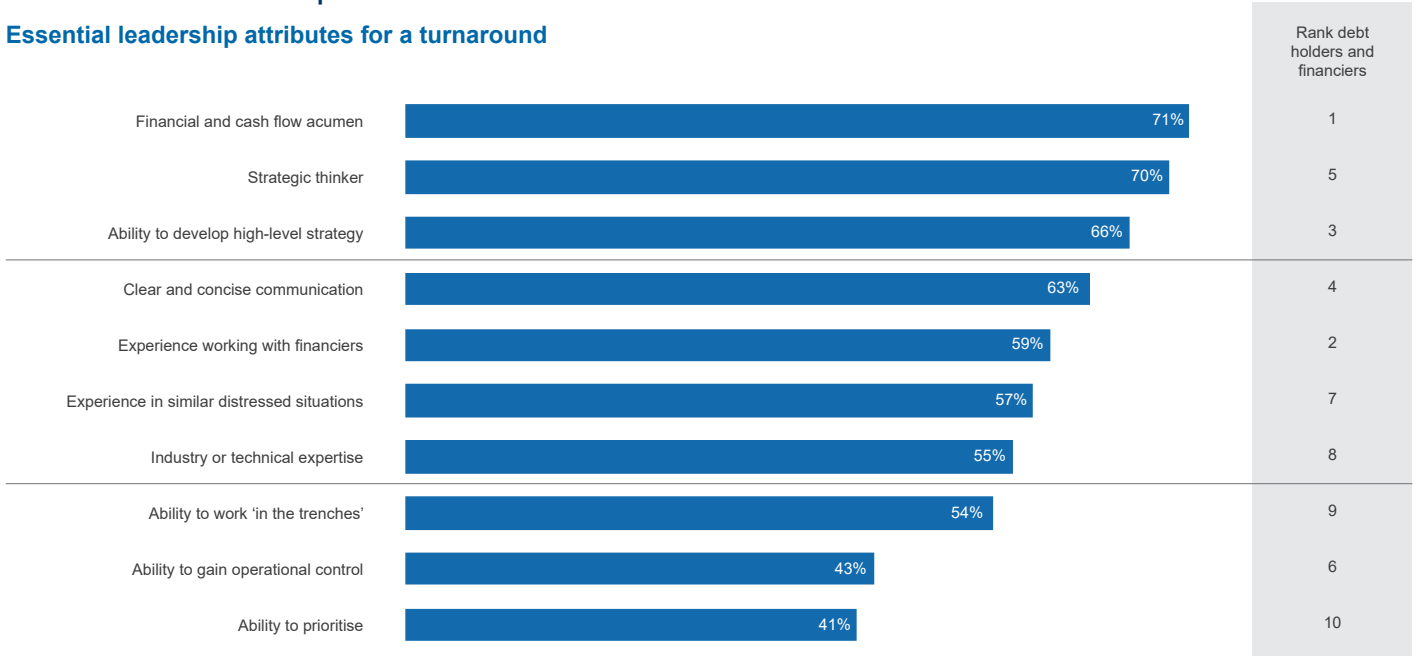
Factors ranked as a high barrier (top 5)	2016	2015
Short term cash position	1	3
Access to capital	2	2
Reluctance to take action	3	1
Management capability	4	4
Cultural challenges in the business	5	—

## Insights from the front line

- 42% of turnarounds took less than 12 months, while 13% took longer than two years. Only 5% took less than six months.
- 80% of all respondents cited cultural challenges as a barrier to be overcome during the turnaround.
- 67% of financiers noted that the real action was on the front-line, not in the boardroom. This is a significant uplift since 2015.
- 86% of lawyers believed that other advisors played a significant role in the turnaround.
- 16% of respondents did not consider that gaining operational control of an organisation was required. 67% of equity/Board/management respondents considered this essential.
- 41% of lawyers cited new financiers as having a high influence on the outcome. This reduced to 21% for all respondents.
- 34% of respondents used 'survival' as a measure of success. The second highest ranking response was 'creating time to fix larger problems'.

## Turnaround leadership

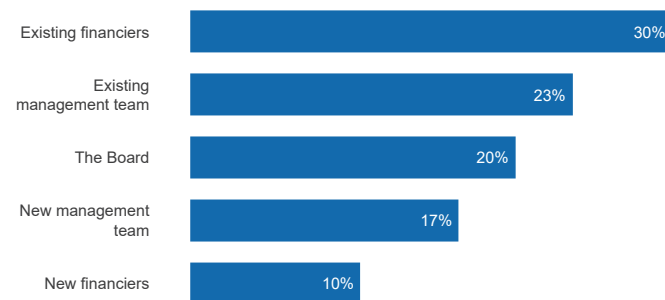
### Essential leadership attributes for a turnaround



As with prior years, financiers have differing views to other respondents with regards to 'essential leadership attributes for a turnaround':

Attribute	Financiers' rank	Overall rank
Experience working with financiers	2	5
Strategic thinker	5	2
Ability to gain operational control	6	9

### Who had the greatest influence on the turnaround?



Financiers, lawyers and insolvency practitioners ranked Existing Financiers as the primary driver of the turnaround.

Management/Board/equity and 'turnaround service providers' favoured New Management as primary influencers.

## Further information