THE INSTITUTE FOR TURNAROUND

Navigating the Pandemic and Beyond: The Contribution of Turnaround to Business and People

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From the Chair

“The transformation and restructuring profession has rarely been more important to our economy than today.

During the pandemic, even businesses that were in rude good health found themselves unexpectedly vulnerable to disruptive external forces. For those that were struggling before, Covid-19 added an extra layer of risk. This has been a crisis like no other. Unlike most previous crises, it was not triggered by financial stresses or commodity prices, and it had no respect for geographic or sector boundaries.

Instead, it threatened to push viable companies to the wall, with potentially devastating impacts on the economy, jobs and livelihoods, and on shareholder value.

Due in a large part to the comprehensive support put in place by the government, that didn’t happen. Insolvencies fell in 2020, even though the number of distressed companies rose. The transformation and restructuring professionals we represent also played their part. Our members have worked incredibly hard to help businesses navigate the immediate financial and operational difficulties arising from the pandemic. Their work has helped protect tens of thousands of jobs and several billion pounds in shareholder value that might otherwise have been lost.

But many businesses are not out of the woods yet. They need to pay down debts, restore their activity levels, repair their finances and respond to a range of long-term structural changes – not least to their supply chain – if they are to maintain stakeholders’ confidence.

Transformation and restructuring professionals are well-placed to help boards manage this process, but our survey shows that boards are sometimes reluctant to seek experienced help until a full-blown crisis is upon them. They should not be. Our members choose to work in business transformation because they want to help companies find a route back to good financial and operational health. Their social impact on our economy and communities is strong and growing.”

Andy Leeser
Chief Transformation Officer and Chair of The IFT

“Our members have worked incredibly hard to help businesses navigate the immediate financial and operational difficulties arising from the pandemic.”

From the CEO

In a normal business cycle, the reasons why businesses need turnaround support are many and varied.

The tipping point might be any number of internal factors, most of which are within the business’s control, or external factors, which generally are not.

Internal factors include: too few or too many governance controls, and poor strategic choices, such as over-diversification, growing too fast, or misjudged acquisitions. Financial constraints also loom large, ranging from a lack of cash, inadequate capital, high debt and expensive financing.

External factors may include a disruptive competitor; new regulations that change the operating environment; macro-economic developments that affect customer buying habits or behaviour, or supply chain disruption. Or a global pandemic like Covid-19.

The last year has been very unusual because the pandemic has dominated turnaround activity. Short-term survival has been key.

Several sectors face structural challenges that were exacerbated by the pandemic. Casual dining, automotive and retail are likely to see a steep increase in distress over the months ahead. There are lots of moving parts in the economy which will give rise to challenges in different ways and at different times over the coming period.

Struggling businesses need to overcome their reluctance to admit the need for expert help. Successful turnaround creates direct positives for owners, shareholders, employees, suppliers and creditors. Whatever the cause of distress, our members have the experience, contacts, and empathy to work with management and transform struggling firms into thriving ones.

Milly Camley
CEO, The IFT

“Successful turnaround creates direct positives for owners, shareholders, employees, suppliers and creditors.”

Executive summary

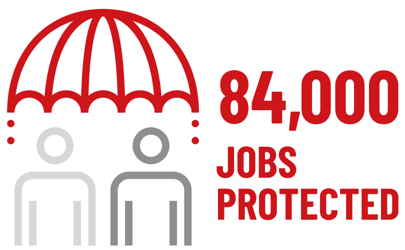
This pandemic period has been a profound shock to the economy and the jobs and businesses that contribute to it. Helping put viable but troubled businesses back on a sustainable commercial footing is an unequivocal good – never more so than now. It saves jobs and livelihoods, protects the local economy and protects the value of companies.

"Turnaround is something that society needs."

Says Rachel Richardson, Head of Banking and Finance Policy at Macfarlanes.

"This report identifies how many jobs have been saved by turnaround and restructuring. Preserving jobs in the real economy has obvious benefits to society and consequently turnaround can demonstrate that it fits within the S of ESG."

1. Independent members of The IFT protected 84,000 jobs in the last year

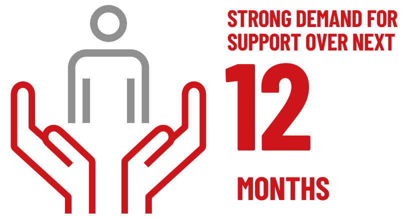


IFT independent turnaround directors and corporate partners helped companies save over 200,000 jobs in 2020. Independent turnaround directors almost doubled the number of jobs they saved, from 44,000 to 84,000. However, the proportion of distressed companies seeking turnaround management services remains very low. If just 4.5% more distressed firms sought its members' support, the IFT estimates that jobs saved could be 10 times higher[1].

2. Turnaround directors helped restore almost £3 billion in shareholder value

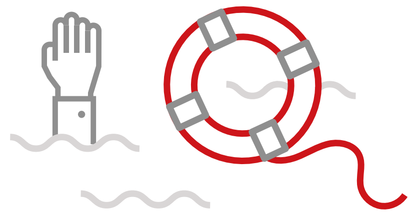
IFT members have continued to protect the value of firms in 2020 by helping firms secure funding and operational changes necessary for survival during the pandemic disruption. Total shareholder value of £2.9 billion was restored in 2020 in assignments undertaken by IFT members, an 11% rise over 2019. Nineteen assignments resulted in an increase in shareholder value of over £17 million apiece[2].

3. Demand for turnover management expected to be highest in manufacturing, retail and casual dining



IFT members are forecasting strong demand for support from manufacturing, retail, casual dining and automotive in the next 12 months. The casual dining sector was stressed before the pandemic, but lockdowns and the ability to claim government support have protected many pubs and restaurants from failure. Meanwhile the automotive sector needs to come to terms with the long-term challenge of the transition to electric vehicles, while also navigating intense short term supply chain issues, including the shortage of semiconductors.

4. Although the number of companies in distress rose, government support protected thousands of firms from insolvency



The number of distressed companies continued to rise during the pandemic but insolvencies fell by 27% during 2020 compared with 2019[3]. However, as government support has tapered, insolvency rates are returning to pre-pandemic levels and distress rates are rising, as firms struggle with post-pandemic debt, coupled with labour shortages and supply issues.

[1]IFT Member Survey 2021, [2]IFT Member Survey, 2021
[3]https://www.thegazette.co.uk/insolvency/content/103888

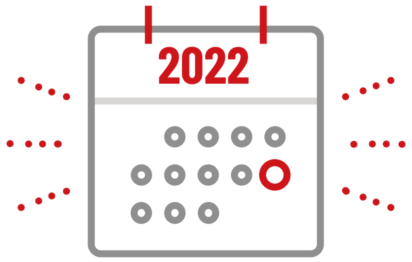
5. But there were winners and losers

In general, retail, leisure and hospitality businesses bore the brunt of lockdown, with the pandemic further exacerbating existing difficulties in the high street retail and casual dining sectors. Manufacturers, particularly in the automotive sector, have been constrained by a shortage of semiconductors since economies re-opened. The biggest winners were logistics firms, online companies, and those bricks and mortar businesses that were able quickly to shift their business online. However, the determining factors between winners or losers are often finely balanced, with a single characteristic such as which sub-sector niche or ability to attract investment heavily influencing outcomes for a business.

6. Wales & the West saw highest rate of distress in 2020

Firms in Wales and the West saw the highest rate of distress during 2020, with 4.16% of firms struggling. The Midlands recorded the lowest rate of distress at 3.86%. However, 45% of distressed firms were in London and the south east, reflecting the size of the regional economy.

7. As government support tapers, many firms face an accumulation of financial pressures



IFT members expect the depletion of working capital to be the number one financial stress post pandemic. However, companies also have significant additional debt that needs to be repaid, and repairing company finances will test the leadership capacity of many firms, and their ability to adapt quickly to a new working normal. Inflationary pressures, including rising energy costs, are a further cause for concern.

8. Companies needed help managing cashflow, costs and stakeholders during the pandemic

Turnaround directors were most commonly called upon to help with cashflow forecasting and reducing costs, as firms struggled to cope with the tsunami of financial impacts unleashed by the pandemic. Their skills in stakeholder management were also in heavy demand.

9. Labour pains: shortage of workers

Apart from insolvency risks, labour problems are the biggest challenge for firms according to turnaround directors. After suffering a double blow from Brexit and the pandemic, which has massively reduced migrant staff, the labour market woes were compounded by the 'pingdemic' and the extension of furlough to September 2021 which kept people in jobs that are no longer viable, while reducing the pool of those looking for employment.

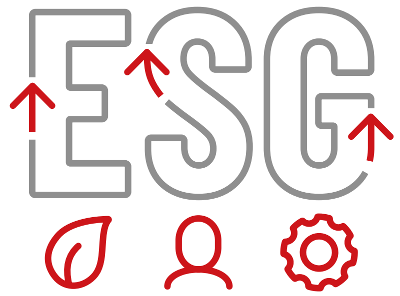
10. Directors need to overcome a cultural/psychological reluctance to seek turnaround support

Company directors are reluctant to call in turnaround advisers when they need to, according to The IFT's member survey. Almost three-quarters of respondents said cultural or psychological resistance to external advice was the key reason why businesses didn't seek turnaround advice when they found themselves in distress. Yet turnaround directors provide an independent and expert voice, and are positioned on the company's side, helping it solve problems during periods of distress, with particular expertise in managing relationships with the various stakeholders involved in such situations.

11. Turnaround experts want to be in the room rather than in the zoom

Turnaround is an informal process that relies on situational experience and personal interactions with stakeholders to build trust, renegotiate commitments, and transform operations. Building that trust and engagement over Zoom has been a real challenge during lockdowns.

12. ESG is on the turnaround agenda



Factoring in environmental, social and governance (ESG) outcomes is fast becoming an integral part of the turnaround agenda, reflecting the rising public and investor interest in the impacts companies have on the world around them. The Social impact of turnaround is also a prime motivating force for today's practitioners, and is inspiring the next generation to pursue a career in turnaround.

Covid impacts: Winners & Losers

Businesses' pandemic experiences have varied widely, with some sectors hit hard and others enjoying a pandemic bounce. However, it is not always clear which sectors will take the hardest hit in the long run as some have experienced what Garry Wilson, Managing Partner, Endless LLP, calls "false demand, for example, for retail commodities, because other sectors, like travel, have been restricted". There was consensus among turnaround professionals on the main winners and losers.

Pandemic winners: online and logistics firms, and those able to pivot quickly

Firms with an established online business were among the pandemic's main beneficiaries, as lockdowns saw online sales rise to a third of all retail spending in 2020, a record high . "A manufacturing firm whose business was in online platforms and communications saw its sales go from poor to strong during the pandemic," remembers Mark Bayley, Independent IFT Member and Managing Director of Real Estate Advisory Services Ltd. However, the speed of the transition created the challenge of scaling up to meet rapid growth in demand.

For other companies, the pandemic was a catalyst to build or scale an online platform to expand their business. Independent Consultant and Non Executive Director Dave Amber highlighted one clothes retailer that transitioned to 70% online sales during the pandemic. That required "having the infrastructure to build and develop online services" and the ability "to build partnerships with logistics companies".

Small firms were able to pivot online as well. The National Vice Chair, Policy & Advocacy of the Federation of Small Business (FSB), Martin McTague, cites the case of a greengrocer in Kent that prior to the pandemic operated only through its store. By working with a digital specialist to develop an online presence, the business was able to expand the reach of its store to supply groceries all over Kent, tripling its turnover.

Private credit providers also supported businesses as they adjusted their business models to mitigate the impact of pandemic-induced restrictions. "During Covid, private credit managers broadly adopted a pragmatic approach to businesses whose revenues and sales were affected by the pandemic", says Nicholas Smith, Director, Private Credit, Alternative Credit Council.

As online sales spiked, the logistics sector also saw strong demand, as it "changed how many sectors operate and created a greater need for and reliance on logistics" explains Steve Hanlon, Managing Director, Head of Business Support, Barclays. Online sales accounted for 26% of all retail sales in October 2021, compared with 19% in 2019 , although lower than the 37% peak recorded during lockdown. With supply chains already under strain, if this proves to be a structural shift, the logistics sector will continue to see strong demand for warehousing and delivery services.

Pandemic losers: bricks and mortar retail, hospitality and leisure

Bricks and mortar retail, hospitality and leisure were the sectors particularly badly hit by government orders that non-essential businesses should close, according to IFT members. But even within these sectors, there have been winners as well as losers.

[4]https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/impactofthecoronaviruscovid19pandemiconretailsalesin2020/2021-01-28
[5]https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi

Retail

Retail suffered its biggest ever fall in sales in 2020, down 1.9% on 2019[6]. In particular, retailers without an online presence have faced the greatest challenges. Many retailers lost big chunks of unrecoverable revenue. For example, many clothing retailers were saddled with unsold seasonal stock, which could only be offloaded at a substantial discount, if at all. However, government support protected the industry to the extent that the number of retailers recorded as being 'distressed' fell by 27%[7] between December 2019 and December 2020.

Not every retailer did badly, however. While clothes shopping and other types of in-person shopping suffered, outdoor retailers saw trade jump as people invested in golf, hiking, running and other outdoor equipment.

Hospitality & leisure

The hospitality and leisure sectors have accounted for a quarter of all furloughed staff, as restaurants, pubs, bars, casinos, cinemas and theatres were forced to close. In April 2020, 1.6 million staff from the hospitality sector were on furlough; a year later, almost 600,000 were still furloughed.

As in other sectors, there were pockets of good news in sub-sectors, says Barclays' Steve Hanlon: "Restaurants in seaside Brighton, for example, had a stellar summer in 2020." However, despite continued easing of restrictions, behaviour has changed, which inevitably is impacting business demand for hotels. "In a normal year, leisure only contributes circa 20% of hotel income annually, although that will have been skewed by the forced staycation boom which may not continue in 2022," says Mathew Griffin, Managing Director, Assured Hotels. "Corporate users and events make up the remaining 80% of hotel income across the UK."

Despite so far encouraging growth trajectories, if domestic and international business travel does not recover to pre-pandemic levels, many hotels will be in peril. Unusually this will be felt more in business-centric locations, such as cities, towns, airports and close to the major roads where there is a greater density of hotels.

Traders who supply these industries have also suffered, says the FSB's Martin McTague. Electricians who serve the leisure trade, or wine merchants, wholesale butchers and specialist cheese suppliers who served the hospitality market, have all struggled to pivot from trade to retail customers. They have had to weather the storm as best they can. "Government support has been used, but it has its own issues," explains Martin. "Many small firms have loans to pay back, backdated rent, deferred VAT. These companies are on the brink of going under."

The hospitality sector on which many of these suppliers rely also faces a long road to recovery says Mathew Griffin. Key challenges over the next few years will be achieving "financial viability and getting to a 'cash positive' stage" after "ripping off the band-aid" of government support. Operational challenges, particularly the shortage of workers, are starting to loom large too. Companies will need to "nurture and reward" workers, as competition for employees intensifies. Commerciality has to return, and striking the right balance between rising operational costs whilst achieving service delivery, in line with servicing higher levels of debt and accrued liabilities from the pandemic, will be difficult over the next two to three years.

[6]ibid
[7]FRP data

Case study 1

Nursery retailer recovers from the baby blues

UK-headquartered nursery and baby supplies retailer, Mamas & Papas, was struggling to maintain the confidence of its investors and employees after racking up over £13m of EBITDA trading losses in 2018 and 2019 and required an urgent funding injection.

The firm called in turnaround advisers Deloitte Restructuring, now part of Teneo, to help management carry out an urgent strategic review and develop a robust turnaround plan that showed a route back to profitability.

The business operated through stores, concessions and online, with stores driving the majority of the losses. However, closing the stores risked putting online sales at risk, so the turnaround team focussed on loss making stores, cost savings and rent reductions.

The plan put forward to investors would retain the 27 stores that were profitable on a gross margin basis, and close five loss making ones. It identified savings of £5m (20% of the cost base), most of which could be implemented within weeks, following a review of business costs and the operating model. A review of stock and the supply chain allowed the business to reduce the value of stock carried by £4m (25%). The closure of five loss making stores and the renegotiation of rents on retained stores yielded a £2m per year benefit.

Within 8 weeks of starting the strategic review, the turnaround business plan developed was backed by stakeholders with the required funding being injected and a new CEO and CFO were brought in to drive implementation.

Within two years, and despite the pandemic disruption, Mamas & Papas is now trading profitably, with EBITDA of £5m in FY21, and on track for further significant increase in FY22. The turnaround plan was further supported by a return to sales growth, launching new products, opening new concessions in Next stores, signing distribution agreements across the world, and upgrading its website to deliver a better, nimbler online offer. Its market share in the UK grew from 6.5% in 2019 to 8.5% in 2021 and employee engagement and confidence in management increased hugely. In 2021, Mamas & Papas was named Large Company Turnaround of The Year in the IFT's Annual Awards.

"We are very proud to have been a part of the Mamas & Papas Turnaround journey starting back in 2019," said Clare Boardman, Senior Managing Director at Teneo. "The business has had to take some difficult decisions in a challenging market and we are delighted to see such an iconic brand and business performing well. The combination of a rapid strategic review, cost out programme and rent rationalisation, supported by a new senior management team, was essential for the business to recover and prosper."

"The initial accelerated strategic review that Teneo performed in 2019 helped get the business pointing in the right direction strategically and, essentially, was backed by the key stakeholders," adds Mark Saunders, CEO, Mamas & Papas. "This laid the foundation to allow the new and existing management team to develop the business and exceed everyone's performance expectations."

Spotlight on property & real estate

Covid will change the landscape of city centres, as a result of a pandemic-driven change in demand for office and retail space.

Although many have forecast the death of the commute, offices are likely to remain the investor's choice for the foreseeable future, according to Mark Bayley, Independent IFT Member and Managing Director of Real Estate Advisory Services Ltd. The shift towards hybrid working has been accelerated by the pandemic, but was already well underway pre-Covid. And while most office workers have adapted well to working from home, the office dynamic is still important, for younger employees in particular, who are still learning their jobs.

Rather than sounding the death knell of the office, the pandemic means they are likely to become more vibrant, collaborative spaces in future, albeit many employers are signalling they will reduce their office space overall.

High street retailers are also seeing accelerated change, as more shopping has moved online. This may lead to a repurposing of retail space for alternative uses, such as leisure activities or residential units. This could help bring lost activity back to city centres. "Changes to work patterns could lead to the potential revival of the suburban high street, as people may want more of their familiar comforts when they work from home" says Jat Bains, a Partner and Head of Restructuring & Insolvency at Macfarlanes.

There are concerns about the long-term impact on landlords resulting from the pandemic. The vast majority of businesses are tenants, not owners, with rent typically the second largest cost on the balance sheet. A lack of cash and funds, when there was no turnover during lockdowns, means that many tenants have struggled to pay rent, service charges, business rates and insurance costs. As a result, Jat Bains expects the property sector to soon face more distress. "Landlords haven't had much rent for well over a year, but they have their own creditor obligations to meet and it will create distress when those obligations aren't met."

On top of this, landlords will also be impacted if firms choose not to buy or renew leases to protect their cash reserves or the future of their business. That means landlords are managing their core property portfolios carefully, says Mark Bayley, looking into their profitability and their strategic locations.

Covid impacts: a different kind of crisis

The economic shock of Covid has been quite different from other crises. Typically, an economic crisis creates a debt crisis. However, the liquidity the government pumped into the market suppressed the economic implications that a reduction in demand and activity would typically have on businesses.

Many turnaround professionals point to distinct phases as the pandemic unfolded.

Fire-fighting in the early phase of the pandemic

The early phase of the pandemic was characterised by "fire-fighting", with short term survival the most common focus of IFT members' work. In particular, they helped businesses access additional short-term funding, made changes to the organisational structure, improved governance and controls and cut costs.

Some firms required "drastic restructuring", closing down part of the business for a better chance of survival. Others needed help accessing the various government support schemes.

Despite the unprecedented level of support, the Alternative Credit Council's Nicholas Smith notes that it was not suitable or available to every firm. Mid-sized businesses in particular found it harder to access Government liquidity schemes, with private credit providers stepping in to provide much needed finance.

TOP TURNAROUND STRATEGIES IN 2020[8]

1. **Short-term survival (66%)**
2. **Pandemic as a catalyst for much-needed operational change (55%)**
3. **Continuation of existing turnaround strategy (52%)**
4. **New opportunities for sustainable growth arising from the pandemic (37%)**

TOP TURNAROUND ACTIONS REQUIRED[9]

1. **Additional short-term funding**
2. **Change organisational structure**
3. **Improve governance and controls**
4. **Reduce costs**

[8]IFT Member Survey, 2021
[9]IFT Member Survey, 2021

Most business planning at the outset was based on the presumption that there would only be one lockdown. "The second lockdown in early 2021 caused another wave of issues with cash and liquidity," explains Macfarlanes' Jat Bains. "Many companies who had weathered the first lockdown had to go back to the drawing board."

Collaboration: in it together

In the same way that neighbours rallied round to help one another in the early days of the pandemic, relationships between troubled businesses, lenders and other stakeholders, was much more supportive than in previous crises. Steve Hanlon describes Barclays' approach of "proactive outreach to customers to understand and deploy the immediate liquidity stability support they needed." And this was true for lenders and other stakeholders across the spectrum. "During Covid, private credit managers broadly adopted a pragmatic approach to businesses whose revenues and sales were affected by the pandemic," agrees Nicholas Smith, Director, Private Credit, Alternative Credit Council.

This was perhaps because the pandemic has been a main street crisis, rather than a wall street crisis, and many businesses, including those which would never have considered themselves to be vulnerable, were struggling as a consequence of forces outside their control.

> "The low insolvency rates we have seen during the pandemic do not seem sustainable."
>
> Kelly Jones
>
> **Managing Director - Private Sector, Kingsgate**

Distress deferred not avoided

Unprecedented support for businesses prevented many business failures, with the insolvency rate tracking below historical averages during the pandemic.

Insolvency is, however, a normal feature of a healthy economy, and the pandemic protected so-called zombie companies as well as viable ones. “This crisis is the flip side of the 2008 crisis; then too many viable companies were forced into insolvency,” says Macfarlane’s Rachel Richardson.

“Insolvencies feel like they have been deferred rather than avoided,” says Andy Davis, Head of Large Corporate Business Support Unit at Lloyds Bank. “There is a lot more debt out there.”

“Some form of correction will occur,” agrees Dave Amber, Independent Consultant and Non Executive Director, “and that will lead to a certain amount of insolvencies and company closures.” In fact, insolvencies are already returning to more ‘normal’ levels, with 1,446 insolvencies in September 2021 – a 56% jump over the previous year, but similar to the 1,510 insolvencies reported in September 2019[10].

“The biggest unknown is what will happen after the unprecedented government support ends,” says Tim Allen, Partner, PwC. The pandemic has accelerated change in many industries, and that means there is likely to be a need for not only financial restructuring, but operational restructuring, or transformation. “Some businesses who aren’t financially distressed may still seek advice to keep up with the pace of change,” says Tim Allen.

[10]https://www.gov.uk/government/statistics/monthly-insolvency-statistics-september-2021/commentary-monthly-insolvency-statistics-september-2021

Case study 2

Used car retailer revs up

The business of a used car retailer in Ely, Cambridgeshire was nearly written-off after trading fell dramatically during the first national lockdown and the period of extended pandemic restrictions that followed.

The well-established business, which had a pre-pandemic annual turnover of over £1m, invited turnaround specialist Maria Pombo of BeRescued to help navigate the disruption caused by lockdown, deal with creditors and other business impacts.

“To mitigate disruption caused by Lockdown 1 and initial uncertainty over government assistance, after initial assessments I devised a survival budget for the company,” explains Maria.

Whilst government assistance subsequently alleviated some of the distress, the extended Covid19 restrictions after the first lockdown prevented the business from trading at pre-Covid19 levels. This meant that a more thorough review of the business model was needed.

Having reviewed the business model with the owner, “we concluded that a new distance-selling model would allow the business to carry on some form of trading,” says Maria. “I liaised with the company’s stakeholders to agree and accept forbearance on the liability and time to pay, based on projected turnover and new business model.”

The new model allowed the company to accelerate its trading whilst remaining compliant with new Covid-related health and safety regulations and social distancing restrictions. Finding alternative sources of stock helped counteract supply chain disruptions, allowing the business to continue limited trading during the subsequent two lockdowns.

Looking ahead, Maria continues to work with the business to upgrade its software capabilities and explore ways to diversify, attract new investment and build resilience for a post-Covid trading environment.

Covid implications: companies juggling working capital, cashflow and debt

Government interventions and a supportive approach by banks and other finance providers to the funding challenges created by the pandemic, provided a vital lifeline to many businesses during the pandemic. This allowed them to survive repeated lockdowns and business disruption.

For some, the pandemic bought time to think about the future and to adjust to a changed world. Others may yet be catapulted into distress as government support schemes are phased out and banks look to normalise debt and cash.

TOP FIVE KEY CHALLENGES FOR DISTRESSED FIRMS[11]

1. **Depletion of working capital**
2. **Capacity to adapt business model**
3. **Managing new debt in addition to existing commitments**
4. **Leadership capacity**
5. **Resilience of customer base**

Working capital and cashflow challenges as firms emerge from hibernation

As the economy re-opened, businesses had to grapple with a new set of financial challenges, including working capital and cashflow. Some businesses have needed to find a lot of money to re-open, such as hotels that need to restock.

"Some sectors are still struggling with cash gaps, and how to find financial stability," says Joanne Mountford, Area Director, Business Support Unit at Lloyds Bank.

Business will need help with short-to-medium-term financial forecasts. These will depend partly on forecasting future demand, a task that has become more challenging as Covid has changed established patterns of working, living, shopping and transport. "Forecasting future demand was already difficult," says Kelly Jones, Managing Director - Private Sector, Kingsgate, now it is "nearly impossible".

However, "turnaround professionals can bring more credibility and robustness to these forecasts through their experience," Clare Boardman, Senior Managing Director at Teneo Restructuring, believes, which will "be critical to negotiations for financial recovery".

[11] IFT Member Survey, 2021

Dealing with the debt hangover

During the last 18 months, businesses have accumulated many different liabilities, and the question is whether they can generate enough cash to meet repayments as they fall due.

"Each business has its own pile of debt of varying sizes," explains Macfarlanes' Jat Bains. "Instalments on loans need to start being repaid, deferrals of taxes will end, employees have been coming off furlough. Businesses are going to need to find enough cash, there may well be job losses and there will be many challenges to come."

Although the government has given companies breathing space, they will need to swiftly come to commercial agreements with their creditors. "Companies will need to deal with their depleted reserves and debt on their balance sheets," agrees Andrew Burn, Managing Director, Interpath Advisory. "They need to work out how to generate sufficient funds to pay back the support they've received."

Trying to bring down debt while managing the daily operations of the business will stretch management teams. Businesses may need to negotiate with their lenders, their landlords and other stakeholders.

Dealing with the complexity of the financial landscape will be especially challenging for SMEs, many of whom needed help to access government schemes when they were made available, and will need support in finding the right approach to refinancing.

There will be no one-size-fits-all answer but financial discipline will be key, which is why turnaround directors' expertise in financial forecasting, cost reduction and stakeholder management has been in most demand during the pandemic.

EXPERTISE IN MOST DEMAND DURING THE PANDEMIC[12]

1. **Cashflow forecasting**
2. **Cost reductions**
3. **Stakeholder management**
4. **Supporting Boards in strategic change**
5. **Transformational change**
6. **Managing creditors**
7. **Accessing Government backed loans**

[12] IFT Member Survey, 2021

Trends in turnaround operational change joins financial turnaround

The financial challenges businesses face have been compounded by daily operational disruptions, including shortages of products, components, labour, as well as logistical challenges in the supply chain, says Sen Alagar, Restructuring Partner, Grant Thornton.

Pandemic change may act as a catalyst to operational restructuring

There is a widespread expectation that demand for operational restructuring will swiftly follow financial restructuring. As Chief Transformation Officer and IFT Chairman Andy Leeser explains: "Financial restructuring is sometimes an end in itself but is often a temporary mitigator that buys time to examine the root causes of the problems, which can be operational or market based in nature."

Companies that during the pandemic have been operating from one day to the next now need to address the long-term challenges that have been thrown up by Covid and Brexit, including the impact of technology on business models, labour shortages and new ways of working. "The need to make change among businesses has been stalled by the liquidity" offered by government backed schemes, notes Andy Davis of Lloyds Bank, but now "there is a broader need for strategic and operational turnaround alongside financial restructuring and advice."

Businesses need to learn from how they've had to adapt in the last 12-18 months to find a sustainable business model for the future.

TOP FIVE TURNAROUND CHALLENGES ACCELERATED BY THE PANDEMIC[13]

1. **Labour problems**
2. **Accelerated collapse of declining sectors**
3. **Increase M&A**
4. **Increased flexible working**
5. **Failure of zombie companies**

Labour pains: shortage of workers

The labour market has sustained a double blow over the last two years. Firstly, Brexit ended the free movement of EU workers to the UK. Secondly, many of those who had the right to remain in the UK returned to their home country during the pandemic and chose not to return.

"The government is concerned about unemployment," Ian Gray, Fellow of the IFT, notes, "but there are so many labour shortages and many people are not back in the labour force."

Garry Wilson, Managing Partner, Endless LLP, worries that "Britain no longer seems to be an attractive place for labourers" resulting in a lack of migrants and seasonal staff available particularly to smaller firms. In Dave Amber's experience as an Independent Consultant

[13]IFT Member Survey, 2021

and Non Executive Director, "those that are available are often already employed by larger enterprises."

As a consequence, haulage, hospitality, food and agriculture, and the care sectors are all facing labour shortages.

The shortage of EU workers was compounded by the 'pingdemic' which meant that even historically successful businesses have faced labour challenges, in Joanne Mountford of Lloyds' experience. It was also compounded by the extension of furlough to September 2021. While this protected jobs and livelihoods, it also kept people in jobs that are no longer viable, reducing the pool of people looking for employment. Empty shelves, reduced product ranges, and queues for fuel have been the most visible consequences, along with staff shortages in people-intensive sectors such as hospitality and leisure.

Adapting to new ways of working

Companies are also having to contend with new expectations of their employees post-pandemic. They will need to rebuild staff morale and interactions. They will need to adapt to new ways of working, including a much higher degree of flexible or remote working for office staff.

As companies come to grips with these challenges, the full impact of people working from home and the shift from the office is yet to be seen. Companies will need to put in place the platforms and tools that will facilitate a collaborative working environment remotely. They will also need to be mindful of colleague wellbeing, and what Lloyds Bank's Andy Davis describes as the "always online syndrome" where the "laptop is always at home, and stretches out the working day".

Kingsgate's Kelly Jones is worried about the impact on those just starting their career. "Young people may be struggling to navigate remote working dynamics, as they have yet to experience the traditional work environment."

ESG goes mainstream

The rapid rise of sustainable and socially conscious investing, and the market shift towards assessing businesses against environmental, social and governance (ESG) metrics, is making its presence felt in turnaround activity. "ESG related outcomes have become more prevalent in the world of turnaround," says PwC's Tim Allen. "There is a new focus on the environmental consequences of investments and changes, and on diversity and inclusion."

Investor and employee concerns are major drivers. Rachel Richardson of Macfarlanes notes that an increasing proportion of credit funds are looking at how investments fit in with their ESG standards. "More of them are less likely to invest in certain industries, such as fossil fuels or the heavy carbon economy." We may also see a "new type of fund emerge looking to buy up businesses with historic poor ESG performance and then turning those businesses around and adding value by improving the previously weak ESG aspects of the businesses."

"Investors are not prepared to invest in private equity firms unless they have firm ESG records [and] new recruits want to see that they are working for a responsible company," explains Garry Wilson, Managing Partner, Endless LLP. That means that "after the short-term crisis, management teams are aspiring for better ESG standards."

How firms treat their employees and other stakeholders and the impact they have on society are becoming more of a focal point than they were in the past – with turnaround making a strong contribution. "Saving a business will save employees, employers' and investors' money and will have a positive societal impact," says IFT Fellow, Ian Gray.

Viewpoint:
The growing importance of ESG and inclusion

By David Kelly, Head of Clients and Markets, Business Restructuring Services, PwC

As economies reawaken post-Covid, and UK plc shifts its focus from 'survive and stabilise' to 'recovery and growth', environmental, social and governance (ESG) and Diversity & Inclusion (D&I) issues have continued to rise up the boardroom agenda.

This is partly in response to mounting pressure from governments, regulators, investors and individuals – epitomised in the Net Zero movement. It is also partly in response to the pandemic: PwC's research among 400 business leaders, lenders and investors found that 7 out of 10 UK businesses reported that Covid-19 had increased their commitment to D&I and that a clearly articulated ESG strategy is key to improving their business outlook.

Businesses recognise clear positive benefits to making ESG and D&I part of how they operate, helping to access finance, retain talent, future-proof the business and maximise new market opportunities. The majority (68%) of UK firms said that stronger ESG credentials gave them access to better financing options, with strong market growth in green bonds and ESG-linked facilities, according to Richard Siddall, PwC's Head of Regional Debt Advisory. Given that 77% of firms are looking to refinance debt in the next 12 months, a credible ESG strategy has become essential.

Beyond financing, over 70% felt that greater diversity and inclusion drove more innovation and growth, and half of UK businesses see ESG strategy as a vital tool for attracting future talent. Forty per cent felt an ESG strategy would help to future-proof the business.

There is also a growing recognition of the role D&I can play in delivering successful restructurings. A credible ESG strategy, that puts purpose at the heart of large-scale change, can also increase the employee engagement that is vital to delivering a turnaround. Two-thirds of corporates agreed that change programmes that include D&I are more successful because, according to my fellow partner, Joanna Walton "all employees' views and perspectives are considered when developing an operational restructuring plan".

Conversely, management teams who don't embrace ESG and D&I may be exposed to a range of negative impacts. These include: finding it harder to finance their business as debt and equity investors make ESG and D&I considerations a prerequisite in their investment decisions, and the potential to be deselected from supply chains if they cannot explain their ESG/Net Zero position and evolution, which makes a potential turnaround even more challenging to deliver.

Although it is clear that ESG has quickly become a vital tool for sustainable long-term growth, our survey found that almost half of firms remain preoccupied with short-term operational challenges. Embedding a clearly-articulated ESG strategy is increasingly essential as they look to transition from recovery to growth.

BUSINESSES LOOK BEYOND 'QUICK FIX' IN ESG STRATEGY

What are the objectives of your ESG strategy?

Reduce reputational risk **90 respondents**	23%
Increase shareholder value **90 respondents**	20%
Future proof the business **90 respondents**	40%
Comply with regulation **90 respondents**	22%
Address shareholder pressure **90 respondents**	16%
Make the business more attractive to future talent **90 respondents**	49%
Reflect our business values **90 respondents**	20%
Address climate change **90 respondents**	17%
Set measurable goals **90 respondents**	12%
Link ESG progress to executive pay **90 respondents**	9%
Remain able to access required capital and investment **90 respondents**	14%
We do not currently have an ESG strategy **90 respondents**	2%

Source: PwC

D&I ATTRACTS TOP TALENT

What, in your opinion, do you foresee as the major benefits of prioritising diversity and inclusion as an effective tool in your current change management or restructuring? Summary rank 1 – 3

Reduce reputational risk **51 respondents**	20%
To reflect our business values **51 respondents**	26%
Matching the right people with the right skills **84 respondents**	43%
Attracting top talent to our organisation **95 respondents**	49%
Reducing staff attrition **48 respondents**	25%
Drive innovation and growth **143 respondents**	73%
Deliver a more successful restructuring as people feel more engaged **127 respondents**	65%

Source: PwC

Case study 3

Floristry supplier blooms again

In early 2020, trading at floristry supplier CB Imports was already wilting. When the pandemic struck, the Leeds-headquartered company was forced to close its eight Country Basket cash-and-carry outlets as the country went into national lockdown. By the time they re-opened, with reduced hours and a hesitant customer base, the company finances were in a perilous state.

Unable to raise sufficient cash either through conventional channels or government-backed funding, the company was facing its vital Christmas trading period with depleted stock. Nevertheless, the directors knew there was a viable business at the heart of the company, which is one of the UK's leading importers of floristry supplies, artificial flowers, greenery and seasonal items.

The Directors engaged Grant Thornton to see whether the business and assets could be sold via an accelerated M&A (AMA) process. This had to be completed in time for the buyer to stock up in time for Christmas trading in order to maximise the company's value and preserve as many jobs as possible.

Grant Thornton quickly mobilised a team that engaged with over 30 potential purchasers. With several interested parties, they were quickly able to conclude the sale of [the bulk of the] business and assets via a pre-packaged administration to APAC. This family-run business, supplying the florist, party, garden centre and horticultural industries, was a natural fit for CB Imports.

The sale saved 200 jobs in Leeds, Astley, Stourbridge, High Wycombe and Glasgow. It also preserved a vital global supply chain for its customers and suppliers, many of which are small, owner-managed businesses facing their own pandemic-related challenges.

"The APAC family businesses are using the skills and experience of our successful Group to start the turnaround process of Country Baskets," the Directors of APAC said. "This continues to be challenging as a result of the pandemic and the shipping and road haulage crisis the country is facing. However, we are confident that our dedicated team and capacity to invest to improve customers' shopping experience, will rebuild Country Baskets as a profitable and successful business."

"We were very pleased to complete the going concern sale of large parts of the business, which secured the continued employment for a loyal workforce in these challenging economic times," said Chris Petts, Partner at Grant Thornton. "APAC appears to be a very good home for the business, overseeing what is hopefully a successful trading turnaround."

Turnaround activity to intensify

Covid has not only temporarily stifled people's normal activities, "it has stifled the level of turnaround activities as well," says Kelly Jones, Managing Director - Private Sector, Kingsgate. Gradually, though, more companies are moving from getting through the initial crisis to addressing more structural problems. This is creating more demand for turnaround services, overcoming companies' cultural reluctance to call in support.

Almost half of IFT members felt the turnaround market was quieter during the pandemic than in the prior period, but expect demand for turnaround to increase significantly as Covid moves from a pandemic to an endemic status.

The manufacturing, construction and retail sectors have been busiest over the last year. In the next year, casual dining and automotive are expected to require significant support. The casual dining sector was stressed before the pandemic, but lockdowns and the ability to claim government support have protected many pubs and restaurants from failure. Meanwhile the automotive sector needs to come to terms with the long-term challenge of the transition to electric vehicles, while also navigating short-term supply chain issues. See Automotive box out on p25.

SECTORS MOST IN NEED OF TURNAROUND SUPPORT[14]

LAST 12 MONTHS

1. **Manufacturing**
2. **Construction**
3. **Retail**
4. **Distribution**

NEXT 12 MONTHS

1. **Manufacturing**
2. **Retail**
3. **Casual dining**
4. **Automotive**

[14] IFT Member Survey, 2021

Overcoming cultural resistance to turnaround

One of the biggest barriers to successful turnaround is that business leaders do not want to admit their businesses have gone through difficult times. Almost three-quarters of IFT members reported cultural or psychological resistance to external advice as the key reason why businesses didn't seek turnaround advice when they found themselves in distress.

IFT Fellow John Lowry fears that businesses still see turnaround professionals as 'nasty guys' foisted on them by lenders. "We need people to perceive us in a positive light," he says, "as professionals who can help them recover their business back to health and strengthen the business for the future."

Whether they are referred by lenders, advisers, or professional networks, turnaround directors are unequivocally on the company's side, and bring their experience and expertise to bear to turn a company's fortunes around.

However, perceptions of turnaround are still too often negative. "We need to improve the awareness of turnaround," says Andy Leeser. "We need to define the process better and deliver the message that turnaround seeks to save good companies and protect good jobs."

"We need to move away from the simple but wholly negative association with insolvency," says Teneo Restructuring's Clare Boardman. "We should make sure we promote early engagement between turnaround professionals and businesses."

However, Endless LLP's Managing Partner, Garry Wilson, notes there has already been a big leap forward in the last two decades. "We're moving from an insolvency culture to a turnaround or recovery culture," he points out. "We've worked towards establishing solvent restructuring, so viable companies are no longer simply going under."

The fact that the UK turnaround market and structures are already broader and more adaptable than in Europe and elsewhere means there is an opportunity for the UK's turnaround industry to market its skills worldwide. "The UK is the leading country in terms of the maturity of the industry. Now that the pandemic has made the world small, so that projects can be completed remotely, we should market our profession globally," says Tim Allen.

Stakeholder management remains key to successful turnaround

Managing the internal and external stakeholders has always been a core skill of a turnaround director, and six out of 10 turnaround projects have specifically required stakeholder management support during the pandemic[15].

The stakeholders have become more diverse over time. "Trusted turnaround professionals come in to deal with the needs of lots of different stakeholders," Garry Wilson explains. "Credit insurers have come to the fore. Suppliers and companies are working collaboratively. Trade unions are becoming active again. Landlords are a key stakeholder in restructuring. The new turnaround guy has to have wider appeal."

While banks used to be the principal source of lending, since the global financial crisis sources of lending to businesses have become more diverse. Non-traditional lenders – such as direct lenders, equity funds, venture capital – now account for a much larger share of the market, bringing a wider range of stakeholders into the business of restructuring.

[15]IFT Member Survey, 2021

Some of these lenders may have only limited experience of turnaround services and different financial drivers. "Private equity needs to develop a better connection with turnaround culture," explains Dave Amber, Independent Consultant and Non Executive Director. "Beyond the PE houses that specialise in turnaround situations, the broader PE community's engagement with the turnaround community is fragmented."

On top of a wider range of creditor stakeholders, Macfarlanes' Jat Bains cautions that businesses need to prepare for their dealings with HMRC, and to ensure any restructuring complies with the most recent legislation to protect company pensions schemes. "Having to deal with pension trustees and regulators isn't new, but the government has recently pushed through new rules that have made things more difficult for businesses which are looking to restructure."

Turnaround practitioners need to be in the room not in the Zoom

Professionally speaking, the shift to remote working has made effecting turnaround more difficult. "Restructuring is a personal business," says Andrew Burn, Managing Director, Interpath Advisory, "and it is much harder to execute remotely".

The ability to travel, which was restricted during Covid, is often a prerequisite for the smooth execution of restructuring cases. "CROs need to go into an organisation, get face-to-face time with people," says IFT Fellow, Ian Gray. Not everything can be conveyed over online platforms such as Teams or Zoom.

Core soft skills such as building trust one-on-one, sitting down with people and having interpersonal relationships are more challenging virtually. "Establishing a relationship that gives people the confidence to tell you the truth about the business is difficult over Zoom," says John Lowry, Independent Restructuring Practitioner and IFT Fellow. "People don't get fatigued discussing their businesses, but they do get virtual meeting fatigue and distraction."

> "Communicating only through video calls made it harder for turnaround operators to build that vital trust with management teams and get a true holistic feeling for what is happening on the ground in a business."
>
> Sen Alagar
>
> **Restructuring Partner, Grant Thornton**

Spotlight on automotive

The car industry was undergoing a major transformation before Covid. The 2030 ban on the sale of new, pure combustion engines in the UK had accelerated manufacturers' transition to electric vehicles, as had a growing consumer appetite for them. Manufacturers are having to transform themselves as they shift to electric vehicles. They need more people with skills in software, AI and other technical disciplines – and find themselves competing with many other businesses seeking the same skills.

On top of this structural transformation, pandemic-related pressures have driven further change right across the automotive industry – all the way from suppliers, through manufacturers, to second hand car dealers.

Demand for cars and car production fell dramatically in the pandemic, with 29% fewer cars produced in 2020 than 2019[16]. Then when demand picked up, in an industry that runs on a just-in-time supply chain, problems ranging from the blockage of major shipping routes, a backlog in key ports and a global shortage of semiconductors have all limited production, putting revenues and profits under further pressure.

Manufacturers are also having to reassess their current and future production and supply chains. Building more resilience is one factor, and the fear of Brexit-related tariffs is another, which is proving a boon for some subsectors. Automotive specialist and Senior Managing Director of Teneo Restructuring, Sandy Duncan, notes that "investment in battery technology has increased in areas such as Sunderland".

On the retail side, the shortage of new cars means some new car dealerships are facing supply and sales challenges. By contrast, second hand car dealers are seeing a massive rise in demand for used cars, and second-hand car prices have risen 15% in a year[17].

What it adds up to, says automotive specialist, Andrew Burn, Managing Director of Interpath Advisory, is companies having "to rethink their business models, products and having to restructure."

While the pandemic has "accelerated changes that were already underway", it has also given some businesses a breathing space to "establish and create a better foundation for themselves".

For those businesses who find themselves in distress, the Society of Motor Manufacturers & Traders' Safe Harbour scheme provides valuable support. Sandy Duncan explains that this restructuring framework "creates an open platform that helps bring about a consensus between stakeholders on an action plan without breaking competition rules".

[16]https://www.theguardian.com/business/2021/jan/28/uk-car-production-in-2020-slumped-to-lowest-level-since-1984

[17]https://www.ft.com/content/f32ea2ee-bc7b-44ff-b276-0a68275d01ae

Viewpoint:
In trust: the challenges of pension funding in a pandemic

By Paul Brice, Head of Pensions Advisory at Grant Thornton

The intense financial pressures created by the pandemic have created additional challenges for companies sponsoring Defined Benefit pension schemes.

Schemes are likely to be one of a number of material creditors seeking to protect their positions. At a time of severe financial constraint and an uncertain outlook, sponsors and scheme trustees must strike the right balance between funding the scheme and protecting the viability of the sponsor business.

While it is unlikely to be in the interests of a scheme member to drive an employer into insolvency, modifying a scheme's funding or contractual obligations should not be seen as a "soft option" where other creditors do not make accommodations to support a business. Indeed, the Pensions Regulator has issued clear guidance that:

- schemes should not be the only stakeholder being asked to restructure its obligations; and
- while amending a scheme's funding requirements may help address liquidity issues, any underlying operating issues must also be addressed before trustees are asked to compromise the scheme's position.

Anecdotally, the proportion of schemes agreeing accommodations to scheduled payments has been modest. That is because scheme trustees, their advisers and sponsors responded thoughtfully and constructively to the realities facing them, working to agree mutually beneficial approaches to scheme funding. These have aimed to protect the respective schemes' member benefits, the future prospects of the sponsors, and the jobs of the considerable number of people who work for them.

A number of trustees have worked with sponsors to put in place future funding and support packages linked to a sponsor's "ability to pay" without weakening the creditor priority position of the scheme. They have also limited the payment of material dividends unless and until the scheme's funding position is secure. They have designed contractual frameworks for "baseline" contributions, plus additional contributions that depend on future trading performance, business or asset disposals, or dividends.

These arrangements prevent the sponsor's business being "choked" by cash demands while ensuring the scheme will receive extra funding as and when it becomes available. They can be collateralised with contingent covenant support such as guarantees or asset security, and may also sit aside a protective mechanisms to ensure the schemes aren't disadvantaged.

These arrangements are complex to define, negotiate and document, but this creative and collaborative approach has benefited both parties. Sponsors have been able to secure their own future, and that of their employees and supply chains and, as their business recovers, their ability to support their DB schemes is improving.

Funding positions can be revisited at future triennial valuations. Meanwhile, catastrophic outcomes may have been avoided.

NEW PROVISIONS TO PROTECT PENSIONS SCHEMES & MEMBERS

"Under the provisions of the new Pension Schemes Act which came into law in 2021, there are new tests and provisions in place to protect schemes and members interests, particularly in restructuring scenarios.

In addition, failure to adhere to the new rules could result in significant fines or potentially even criminal prosecution which can be aimed at all stakeholders and advisors, including the directors, shareholders, turnaround professionals and lawyers.

The key in these situations is to have early and transparent conversations with the scheme trustees and other key pension stakeholders, like The Pensions Regulator, and ensure they have a voice at the negotiating table.

It's of course, also imperative for the company to have advisors with the requisite pensions knowledge and experience in this developing and demanding environment."

Dan Mindel

Managing Director, Cardano Advisory

SME Outlook 2022: the dust is settling

By Simon Girling, Partner, BDO, IFT member and IFT Chair for West and Wales

At this stage in the pandemic, it is evident the business landscape is increasingly polarised. While some companies have managed without state support and even accumulated cash, others have taken on government guaranteed debt, as well as accruing liabilities to HMRC and landlords in a struggle to survive.

As repayments begin and further challenges mount – including supply chain delays, energy price rises, continued COVID-19 restrictions and Brexit costs – some companies are now facing pressures on multiple fronts. All 500 SMEs surveyed in November for BDO's Rethinking the Economy series said they were examining ways to ease the impact of inflation on their business and that they were anticipating challenging conditions ahead.

Who is most at risk?

Smaller corporations with weaker balance sheets are likely to be most at risk, particularly where cash from government loans and tax deferments were used to alleviate pre-existing problems, rather than to navigate the pandemic. Coronavirus Business Interruption Loan Scheme (CBILS) lending amounts to a total of £26bn, with support offered to approximately 110,000[18] businesses . Some of this borrowing was speculative in nature and has or will be promptly repaid. However, borrowers with weaker balance sheets may have taken several tranches of CBILS from accredited lenders, and so have accumulated unmanageable additional debts, now compounded by the present challenges.

Liquidity pressures

Government support measures were aimed at protecting business ownership in these extraordinary times. However, pressure will mount on the serviceability of these debts. Liquidity may continue to be absorbed by higher input costs, as well as labour and materials shortages. If these issues intensify and recovery is not linear, the impact on companies' liquidity will become increasingly pronounced. Businesses struggling due to high leverage will also be competing with those who still have borrowing headroom and have invested in growth.

Consequences

If SMEs are running at less than full capacity in a higher-cost environment for some time to come, investment is likely to be held back, further damaging innovation, output and employee retention. In some cases, jobs may need to be cut or more fundamental restructuring options considered.

Where next?

IFT members can help find solutions for overleveraged SMEs, including realigning business models to post pandemic conditions. Strategies might include supporting Boards with working capital management and implementing performance improvement measures to drive EBITDA cash generation.

Regeneration: a new hope

Debtor-centric solutions such as moratoria and restructuring plans are central to the latest legislative reforms, essentially formalising a breathing space to rescue the company as a going concern. However, if it is not possible to reach a consensual outcome and future cashflow won't support these solutions or the viability of a CVA – particularly when management teams are too fatigued to implement a longer-term plan – there are fallback options, including the sale of part or all of a company to one that is better resourced. Businesses may be saved in this way and even come back stronger.

[18] https://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics

IFT Next:

The pandemic has inevitably shaped the experiences of the next generation of turnaround professionals, providing both new learning experiences and additional challenges.

Steep learning curve

On the credit side of the balance sheet, turnaround professionals who have newly entered the industry have had a steep learning curve. They have faced the challenge of helping businesses make quick decisions against the backdrop of a fast moving and highly Uncertain environment.

Government interventions kept businesses afloat and the insolvency rate artificially low, so liquidity has not been the main challenge. Instead, there has been a stronger need for transformation rather than turnaround, particularly cost-based transformation. New and changing regulations have kept everyone on their toes, requiring close attention to detail, combined with the agility and creativity to adapt business models on the fly.

The ability to harness data and technology has been key to helping businesses reshape their operations and weather the pandemic storms. The acceleration of the digital transition means that digital capabilities are fast becoming a must-have for turnaround professionals.

It's nothing personal

On the debit side of the balance sheet, the shift to remote working reduced opportunities to build networks and for informal learning. "For up-and-coming professionals, the shift to working from home could have impacted their ability to learn from senior colleagues in the way that they are used to," says Ali White, Associate Director at Kingsgate. The incidental learning that happens in an office – where senior practitioners share their knowledge and experience with younger colleagues – has been hard to replicate virtually.

Social impact of turnaround aligns with ESG agenda

The pandemic has underlined the social impact of turnaround work, feeding into the fast-growing interest in environmental, social and governance (ESG) issues, particularly among younger generations.

"Moral purpose and social impact are of growing importance to millennials and young professionals, as measures of value," notes Paris Clark-Roden, Senior Manager, PwC (Business Restructuring Services). "Saving jobs and preserving long-term employment is very much front and centre of a turnaround practitioner's objectives."

However, Ali White cautions that "tough decisions will need to be made and businesses should be looking at how things can be done differently, including people, process and technology". This can mean that distressed firms might need to invest in automation and other operational efficiencies that may result in some job losses.

IFT Next

IFT Next is the IFT's established development programme for the next generation of turnaround professionals. It equips them with the knowledge and networks to help them build a long-term career in turnaround and business support and to become an accredited turnaround practitioner.

THE INSTITUTE FOR TURNAROUND