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Turnaround Management Association in the UK and current market conditions

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Agenda

- Turnaround Management Association UK objectives
- Turnaround Management Association UK membership profile
- current UK turnaround market conditions
- Grant Thornton 2012 restructuring survey results

TMA UK - objectives

- a broad "chapter" of relevant stakeholders, not a trade association
- TMA UK board has lenders, distressed investors, unions, insolvency practitioners, interim managers, credit insurers, lawyers and the British Venture Capital Association
- offers networking, marketing and professional education
- submissions to governments on preserving enterprise value
- developing an exam-based accreditation programme
- TMA UK supporting TMA Europe expansion

TMA UK - membership profile

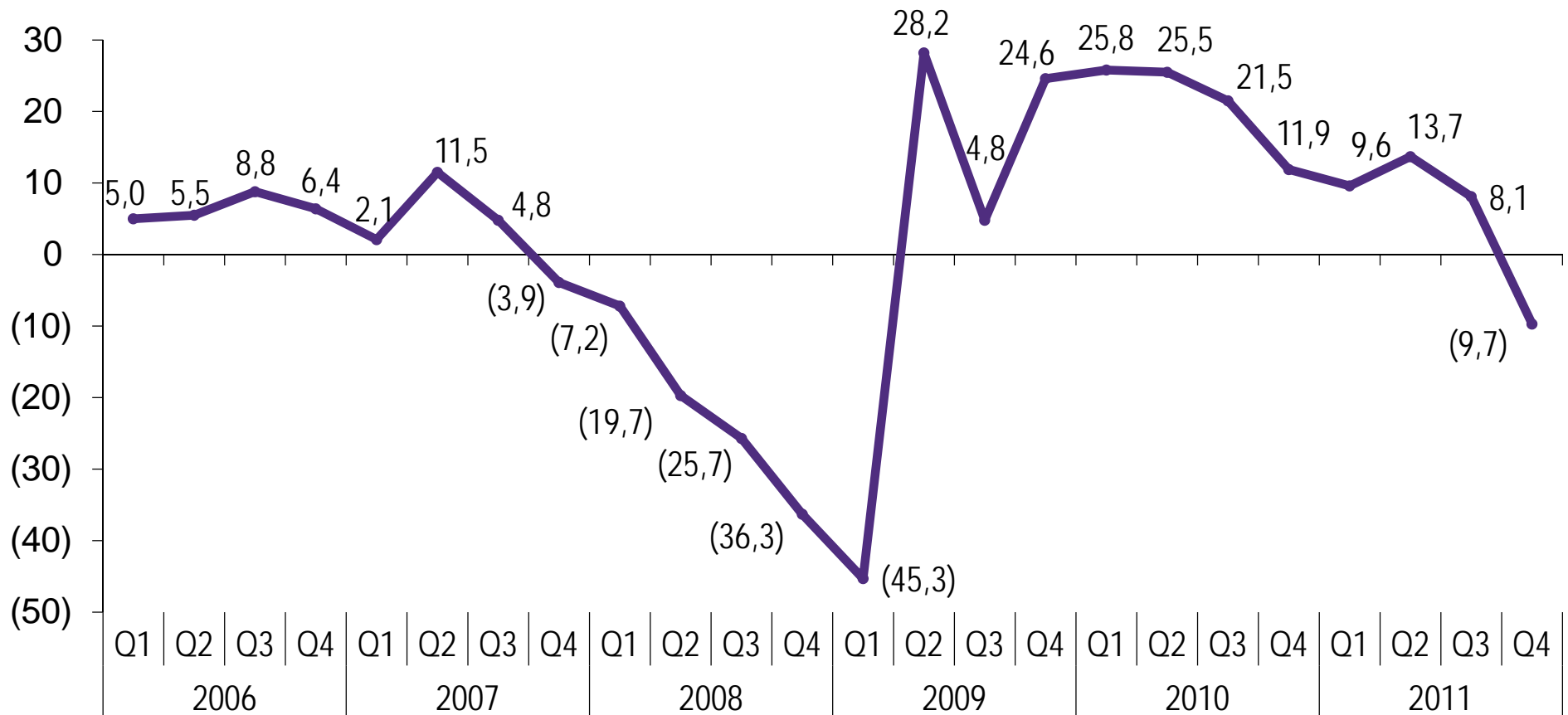
- 220 active UK members (10,000 worldwide)
- 8,000+ delegates on regional UK meeting database
- Active UK membership profile:
 - "turnaround practitioners" - 30%
 - "other/distressed investors" - 24%
 - "corporate/operations advisers" - 9%
 - "interim managers" - 7%
 - "lawyers" - 7%
 - "corporate recovery professionals" - 5%
 - "insolvency practitioners" - 5%
 - "asset based lenders/banker" - 5%
 - "surveyor/valuers" - 3%

Current UK turnaround market conditions

- reduced economic activity has been managed in-house fairly well with costs cut and debt paid down
- low interest rates, deferred capex and rescheduled credit lines have helped cashflow
- banks keen to avoid losses so fewer insolvencies and operational turnarounds despite UK, Eurozone and global economic conditions - but zombie culture not sustainable?
- TMA skills valuable both in restructuring deals and growth projects to complement/replace existing managers
- target improvements in cash, profits and asset values to generate returns rather than M&A, private equity, IPO exits

Business confidence in the UK declining

UK Business Confidence Index

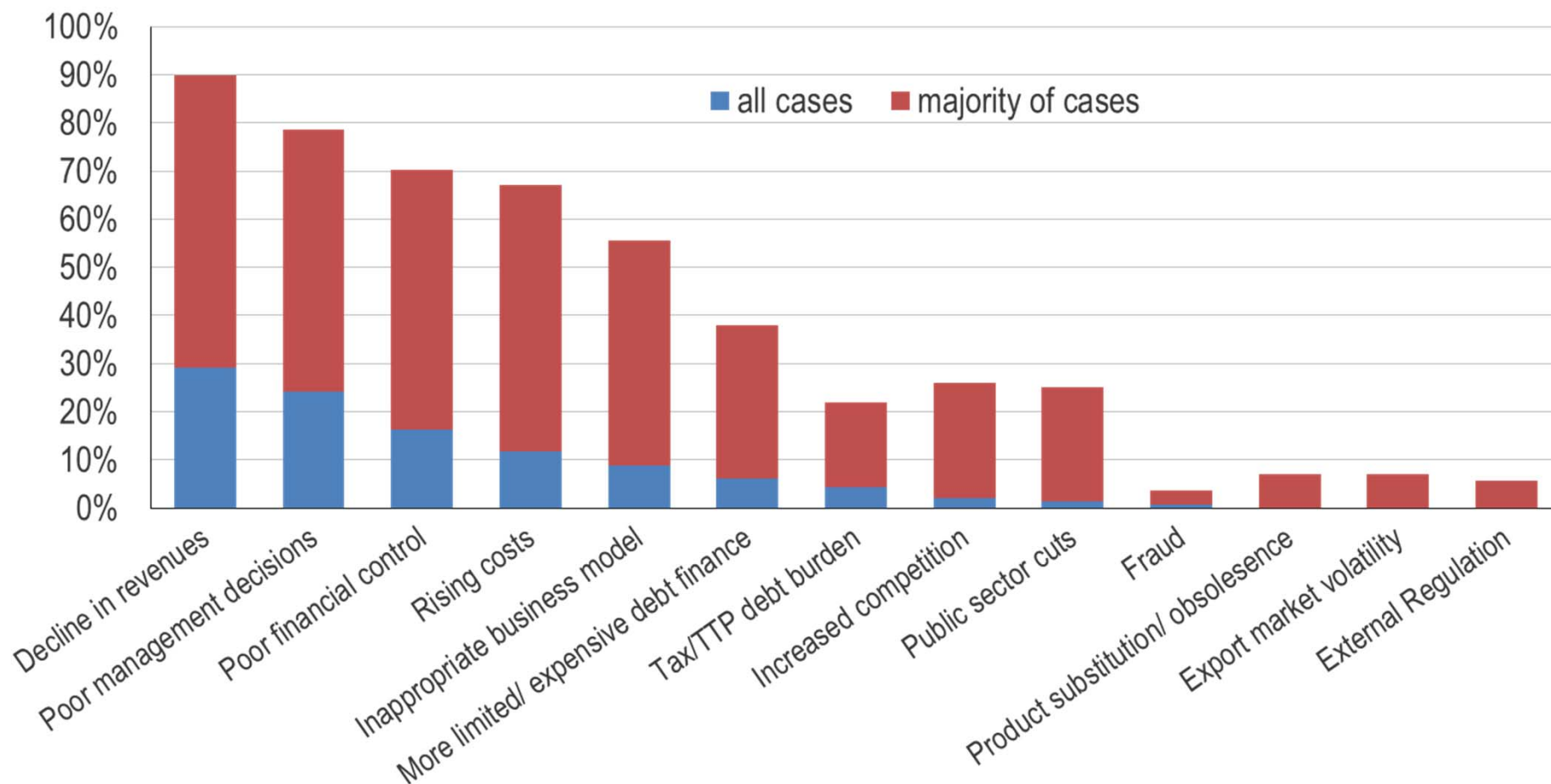


Source: ICAEW/Grant Thornton UK Business Confidence Monitor (BCM)

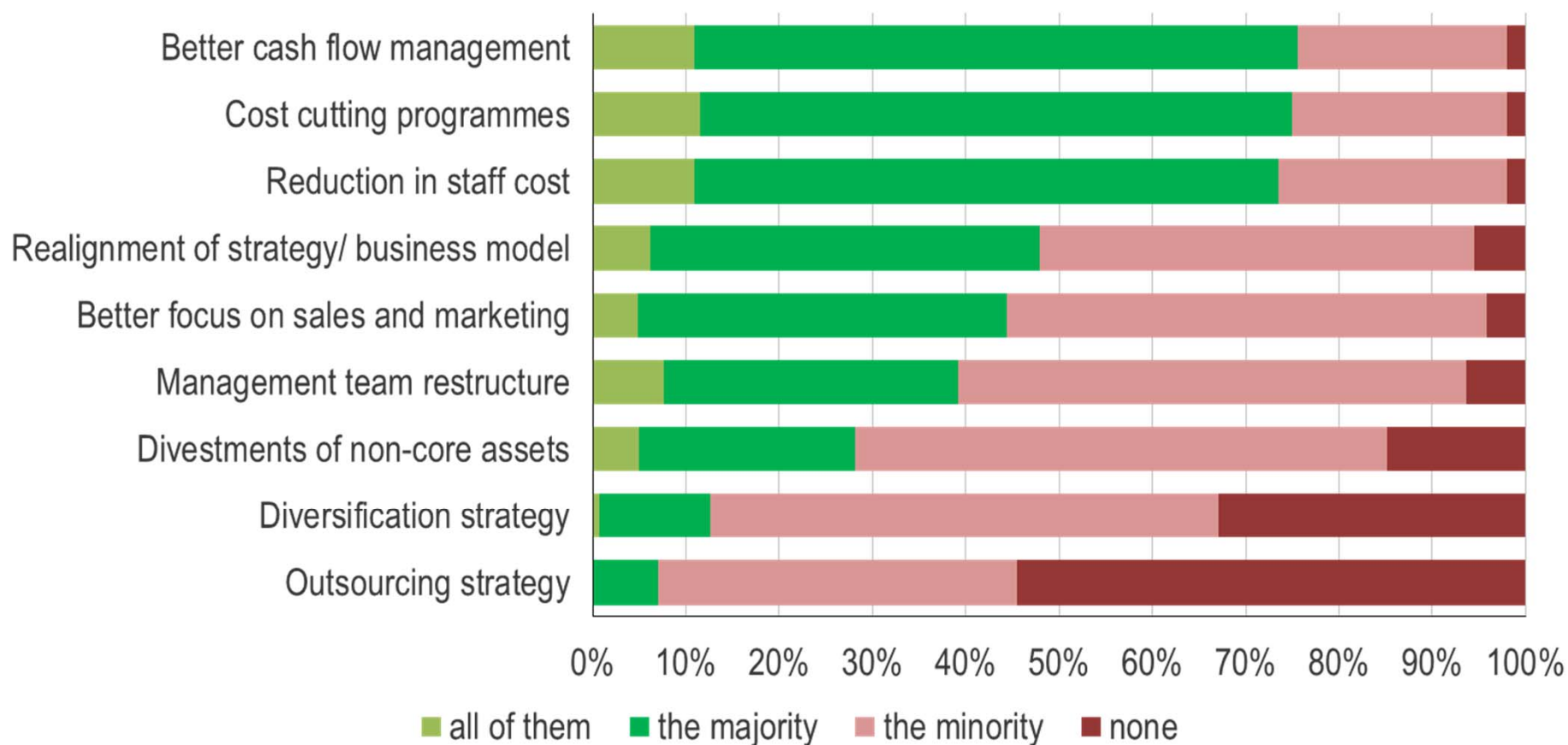
Grant Thornton UK Restructuring Survey 2012

- Responses were collected online from 9 Jan 2012 to 20 Jan 2012.
- In total 183 respondents participated:
 - 48 % restructuring and recovery bankers,
 - 27% live side bankers,
 - 7% asset based lenders and
 - 18% turnaround executives and other restructuring advisers.

Looking at the distressed cases you worked on in the last 12 months, what were the main contributory factors leading to distress?



Looking back at the last 12 months, did your borrowers successfully implement the following?



Key messages

“There is now a greater realisation by funders that ‘extend and pretend’ strategies which are reliant on low interest rates and low inflation come with a ‘sell-by-date’ and that fixes to the capital structure, and in many cases, far reaching operational changes are necessary to create sustainable value.”

Mark Byers, Partner, Global Head of Restructuring

“More operational restructuring required as follow up to earlier financial restructurings that haven’t worked. More pain to be taken as poor businesses face up to years of excess that they can no longer carry.”

Restructuring/recovery banker

What do we see as the two key challenges facing UK SME's in 2012?

- Fatigue
 - Lender
 - Management
- Uncertainty
 - Eurozone
 - Interest rates

Debt for equity - recap from 14 Feb 2011

Summary

Pro's



- Debt holder return more commensurate with risk
- Balance sheet gearing improved
- Suppliers and creditors perception of business improved
- Avoids distressed realisation of value
- Stable platform for the business
- **Management can be incentivised**
- Time to negotiate
- Avoids insolvency process (benefits vs loss of control?)
- Hard-ball of sophisticated equity holders/other lender groups

Con's



- Timeframe
- May be non-consensual as stakeholders have nothing to gain: disenfranchised = insolvency process
- Court and IP = complexity and cost
- Debt converted ranks behind unsecured creditors
- Equity arm of Banks become involved - different agendas ?
- **Management distraction**
- Valuation/marketing: SIP 16
- Impact on business/ execution risk
- Attitude of tax authorities to the transaction

References and links

- TMA UK/TMA Europe, Helsinki 8-9 June 2012
www.tma-uk.org
- Insol Europe Eastern Europe, Poznan, 24-26 May 2012
www.insol-europe.org/events
- Grant Thornton UK workout banker survey
www.grant-thornton.co.uk/thinking_blogs/publications-1/restructuring_outlook_for_2012.aspx
- Grant Thornton International Business Reviews
www.gti.org/Publications/index.asp
- 2011 Debt/Equity presentation
www.bnro.ro/Colocviile-juridice-ale-BNR-6454.aspx



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Thank you for your attention

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