



ALVAREZ & MARSAL
SOUTHEAST ASIA & AUSTRALIA

ROAD TO RESILIENCE

INSIGHTS FROM THE 2024
ANNUAL TURNAROUND SURVEY

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.™



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INTRODUCTION

The Australian economy is at a critical juncture, with a range of economic indicators signaling a mixed picture of the future. Interest rates are at a 12-year peak as the central bank grapples with still-hot inflation, while insolvencies are at their highest level in two decades. Even as many are expecting a downturn, the benchmark ASX stock index remains at an all-time high.

To help translate these conflicting signals, the Turnaround Management Association (TMA) Australia and Alvarez & Marsal (A&M) have surveyed over 180 stakeholders in the Australian turnaround market, including lenders, advisors, business leaders and others, to gather their insights about the conditions they are observing in their businesses and sectors.

Additionally, A&M's industry experts provided their perspectives into the specific issues affecting industries such as construction, renewable energy, private healthcare, retail and mining.

A MURKY MARKET OUTLOOK

To provide context to the survey responses and A&M's experts views, here is a quick snapshot of the current macroeconomic backdrop:

Consumer Inflation Everything is pricier post-Covid. CPI at 3.8% in June has receded from the December 2022 peak of 7.8% but remains significantly higher than the average inflation of 1.7% for the six years before the pandemic	Wage Inflation Hiring costs remain close to a decade-high of 4.2% reached last December. In June, annual wage inflation stood at 4.1%, nearly double the six-year pre-Covid average	Interest Rates The cost of interest payments has risen sharply, consuming cash and impacting borrowers' ability to refinance or sell. It is also harder and more expensive to raise finance and sell a business. As of August 2024, the Reserve Bank of Australia (RBA)'s cash rate of 4.35% is the highest in 12 years, up from a low of 0.1% in April 2022	Unemployment Rates Filling vacant roles has become more challenging and costly. The unemployment rate in July was 4.2%, slightly above the all-time low of 3.5% reached in late 2022, yet still well below the pre-Covid average of over 5%
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The combined impact of these factors is a lot of upward pressure on the costs of a business but limited opportunities – or at least a lag in timing – to pass these costs onto customers. That means pressure on both corporate profits and cash flow generation.

A secondary impact is that companies are finding it harder to implement sales or refinancing/financing solutions. With reduced enterprise value multiples, shareholders can't achieve the valuations they expected just a few years ago. This has also affected the amount of debt organisations are able to raise as lenders become nervous about their ability to repay their debt. Loan issuance volumes in Australia have dropped significantly in the first half of 2024¹, and we expect this trend to continue for the coming months. In summary, the data says profits are being squeezed, valuations are shrinking, and it is harder to raise and repay debt financing. But what do our respondents think this will all mean? Read on for our main findings and their implications for businesses in the coming months.

Source: ¹ [LoanConnector](#)

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KEY INSIGHTS

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Input inflation, wage inflation and interest rates were the clear leaders in the greatest challenges facing businesses over the next 12 months, across all sectors. However, in a sign of uncertainty, there was no consensus on the direction these will take from here

02

37% of the respondents expect a recession within 12 months, with another 16% predicting it within 24 months. If a recession occurs, 77% anticipate growth in the market for operational turnarounds, 85% expect an increase in financial restructuring, and 87% foresee expansion in the insolvency market

03

Participants ranked construction, engineering and infrastructure as the industry most likely to be under extreme stress in the next 12 months (24%), followed by travel, hospitality and leisure (18%) and retail, consumer goods and services (17%)

04

Most participants believe that organisations should focus on cash management (63%) and cost reduction (57%) to address market challenges. Respondents also think businesses should enact debt *restructurings and change management*, but they see companies keeping these at a much lower priority at the moment

05

Whilst turnaround directors aren't routinely seen as being a solution for companies, 40% of survey participants expect them to be used much more in the next 12 months

06

Around 30% of respondents indicated that safe harbour is delivering better outcomes for stakeholders and they expect to see more situations where this protection is used

07

Providers of finance to distressed situations are most likely to be specialist credit funds and private credit funds given their ability to use their experience and risk tolerance to deliver value, whilst also generating appropriate returns for that risk



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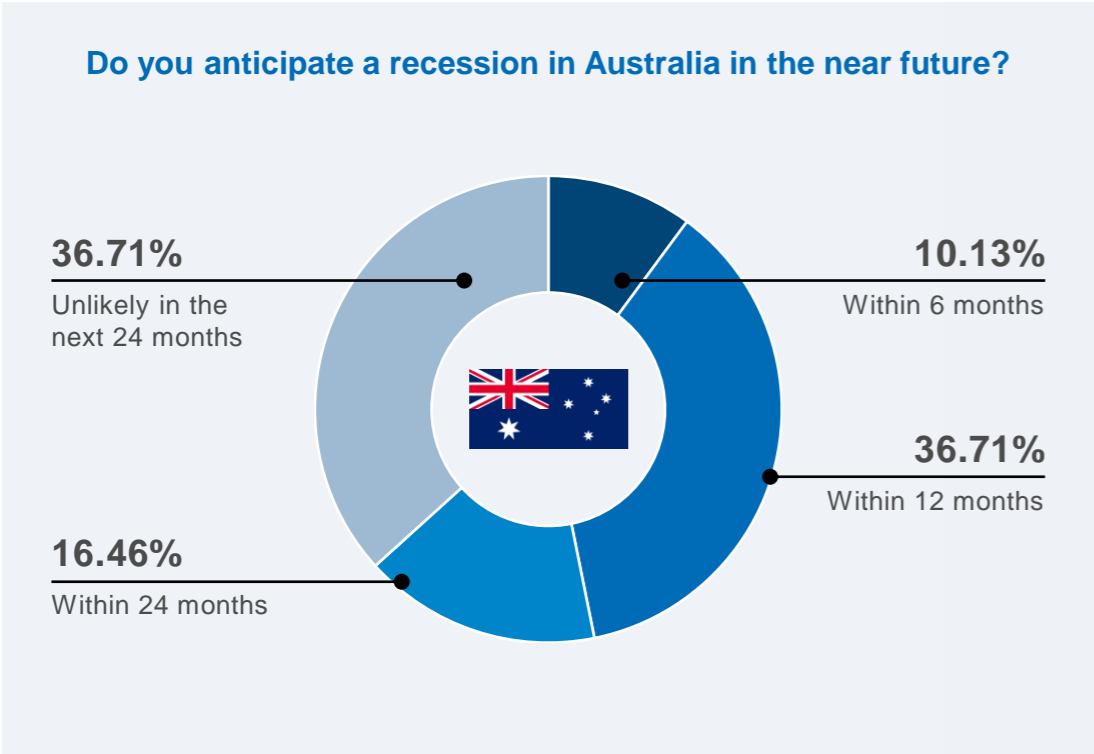
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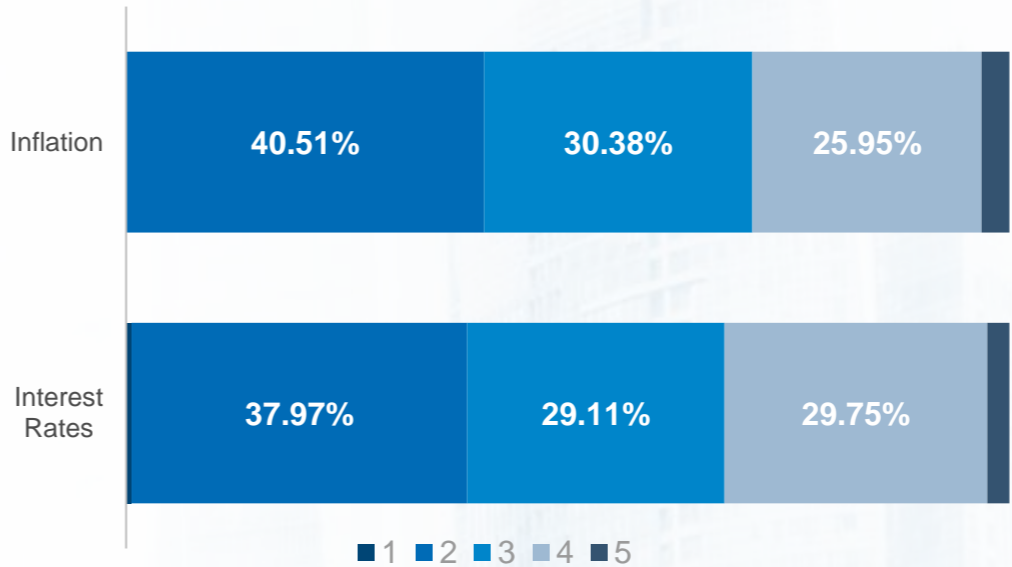
Around 37% of respondents in the survey anticipate a recession in the next 12 months, and 10% anticipate a recession in the next six months. Expectations from market participants have somewhat improved from the 2023 survey, when 70% of respondents said they were anticipating a recession in the following year.



The survey shows that the outlook for inflation and interest rates in Australia is cautious. While 40% of respondents point to a slight decline in inflation in the next 12 months, 30% expect it to remain constant, and 26% anticipate a slight increase. There seems to be more concern around wages inflation, with 54% of those surveyed expecting it to stay around current levels, and another 23% expecting it to rise slightly.

What do you anticipate over the next 12 months regarding the following?

(1: Significant decline, 2: Slight decline, 3: Remains constant, 4: Slight increase, 5: Significant increase)



Similarly, the outlook for benchmark rates is mixed, with 38% of respondents anticipating a slight decline in the next 12 months and the remaining expecting them to either remain constant (29%), increase slightly (30%) or increase significantly (3%).

These findings align with the low levels of business confidence currently evident in the market as the Australian economy struggles with sticky inflation and persistently high interest rates.

In its latest August decision, the RBA held borrowing costs at a 12-year high and lifted its forecasts for inflation in the period ahead. Minutes of its policy meeting showed the central bank might possibly keep rates steady for “an extended period,” in an apparent diversion from its global counterparts.



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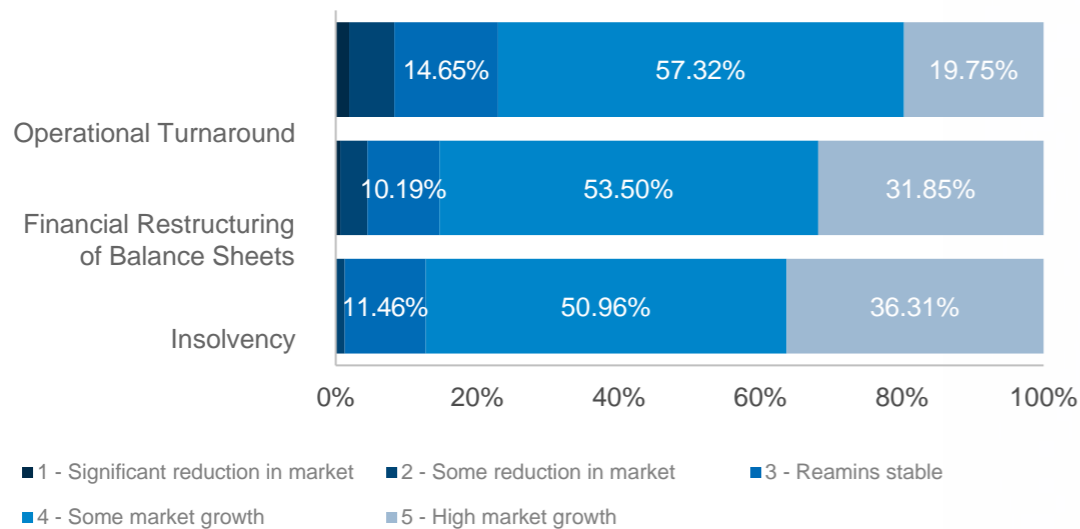
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TURNAROUND TRENDS

Amid strong expectations for an Australian recession in the next 24 months, a vast majority of respondents expect to see growth – either moderate or high – in the operational turnaround, financial restructuring and insolvency markets.

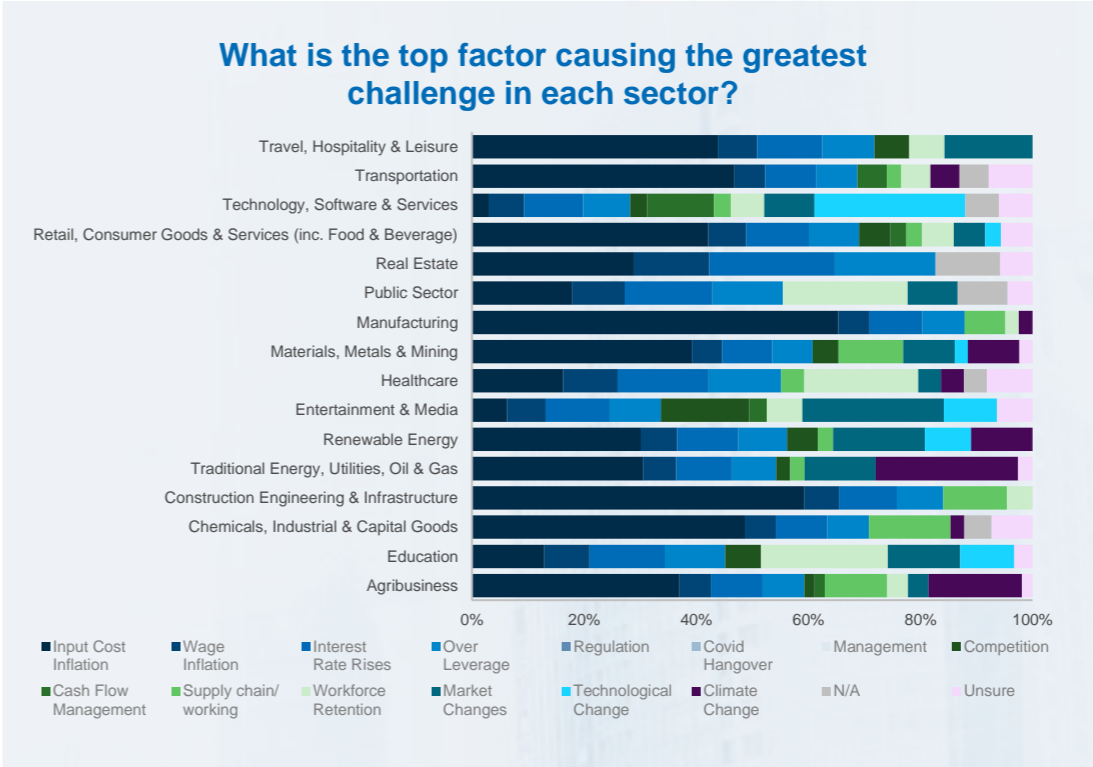
If there were a recession, what do you believe would be the impact on the turnaround/restructuring/insolvency market?



More than 36% of respondents anticipate high market growth in the insolvency market, compared to 32% who expect high growth in restructuring activity and 20% in turnaround.

Among sectors, expectations of extreme stress are higher for the construction, engineering and infrastructure sector (24%) followed by travel, hospitality and leisure (18%) and retail, consumer goods and services (17%).

Across most sectors, input cost inflation was overwhelmingly identified as the biggest problem for businesses. The few exceptions were healthcare, public sector and technology software & services, where wage inflation was seen as the primary concern.



“The outlook is murky, and the economic indicators aren’t giving us a clear direction. Interest rates and inflation remain high and it isn’t certain when they will reduce. What is clear is that it’s harder to generate profits now than any time in the last 10 years.”

Neil Hayward
Turnaround and Restructuring (A&M Australia)

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TURNAROUND TRENDS

TURNAROUND DIRECTORS AND NEDS

Turnaround directors such as interim CEO, CFO, COO or Chief Transformation/Restructuring officers are not widely used in turnaround situations in Australia, according to survey, but some of our respondents believe this might be changing in the near future.

Only...

15%

of participants said they regularly appoint such directors in their cases, with a majority responding they are never (32%) or rarely (46%) appointed

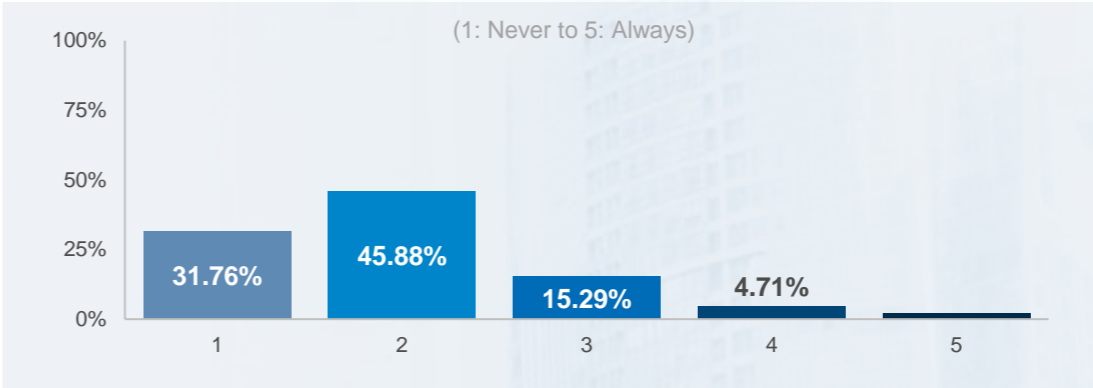
However...

40%

expect there will be an increase in use of turnaround directors in the next twelve months

How often do you see turnaround directors appointed in your cases?

(Turn around Directors being individuals appointed to take a specific role during the turnaround, e.g., interim CEO, CFO, COO, Chief Transformation/Restructuring Officer)



Once appointed, turnaround directors are used in different ways, as highlighted by some of the open answers in the survey...

“ Turnaround directors are generally used as a driver of change through a CRO role, or to replace ineffective management teams

“ Interim CEO/CFO-type appointments are typically made to fill a void while a permanent replacement is found

“ Turnaround directors are agitators for change. They drive accountability in implementation and serve as a proxy CEO when the management is weak

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TURNAROUND TRENDS

Turnaround directors are instrumental in steering businesses through operational and financial crises and bringing them back to health. Their expertise include...



Operational Transformation

Preparing a turnaround plan with a set of initiatives aimed at stabilising the business, improving cash flow and returning it to profitability.



Accountability

Upholding accountability by ensuring management and staff are aligned with the turnaround objectives and that progress is monitored closely.



Financial Management

Getting a firm grip on the company's finances, finding ways to quickly generate cash, restructure debt and/or obtain capital.



Stakeholder Management

Keeping constant and transparent communication with key stakeholders including employees, creditors, shareholders, pension trustees, customers and suppliers.



Quick Decision Making

The ability to make tough, strategic decisions quickly for the purpose of driving change in often short timeframes of three to six months.



Highly experienced and a vital figure in corporate governance, non-executive directors (NEDs) can also be appointed to the board of a business in a turnaround/restructuring scenario.

Independent directors with specialised restructuring knowledge can effectively guide boards through the unfamiliar territory of stress or distress. They not only provide an external perspective but can also bring targeted expertise in the specific causes of distress (whether operational or financial) that complements the knowledge of existing board members. Their detached viewpoint also builds credibility with stakeholders, making them invaluable for driving change at both the board and management levels with the urgency required.



“ In stressed situations, NEDs’ role shifts from oversight to action. It’s no longer about holding others accountable but instead about driving the change needed to pull the business out of trouble.

Igor Sadimenko
Head of Performance Improvement (A&M Australia)

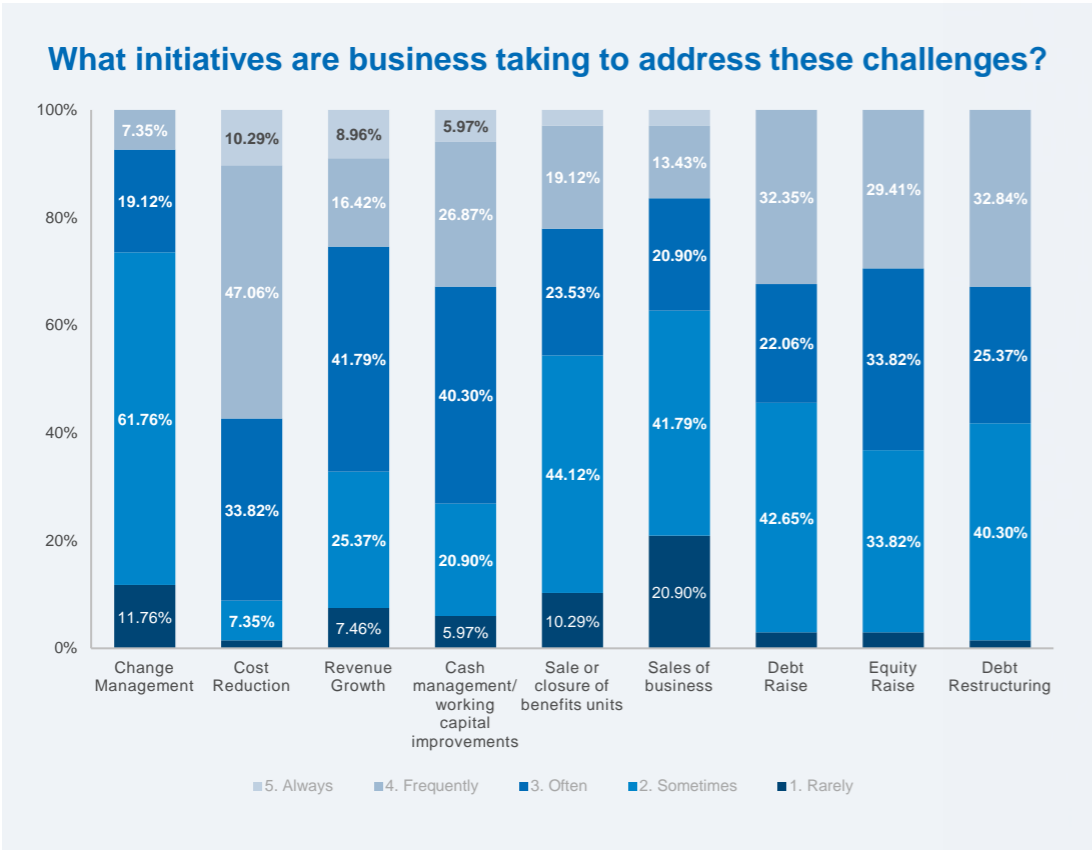


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BUSINESS RESPONSES

So what are businesses doing to combat the different challenges? According to our survey, cost reduction, cash management/working capital improvements and revenue growth were some of the most popular responses when asked about initiatives being undertaken to address the issues companies are facing.

The cost reduction initiative was seen as being deployed often, frequently or always by about 90% of the respondents, while the figures were approximately 73% and 67% for cash management and revenue growth, respectively.



Changing management, on the other hand, was seen by nearly 73% of the respondents as an initiative deployed only rarely or sometimes. About 63% said businesses were opting for a sale of the business only rarely or sometimes.

When asked what initiatives businesses should be taking, respondents said that high priority should be given to cash management (63%), cost reduction (57%), revenue growth (38%), debt restructuring (31%) and changing management (26%). More than half the respondents also saw the sale or closure of business units, equity raises and debt restructuring as a medium priority for businesses in the current environment.



“Management teams generally implement the standard options of cost-cutting and cash management, but find it harder to implement tougher decisions around management change, sales or restructurings.”

Amy Shi
Corporate Performance Improvement (A&M Australia)



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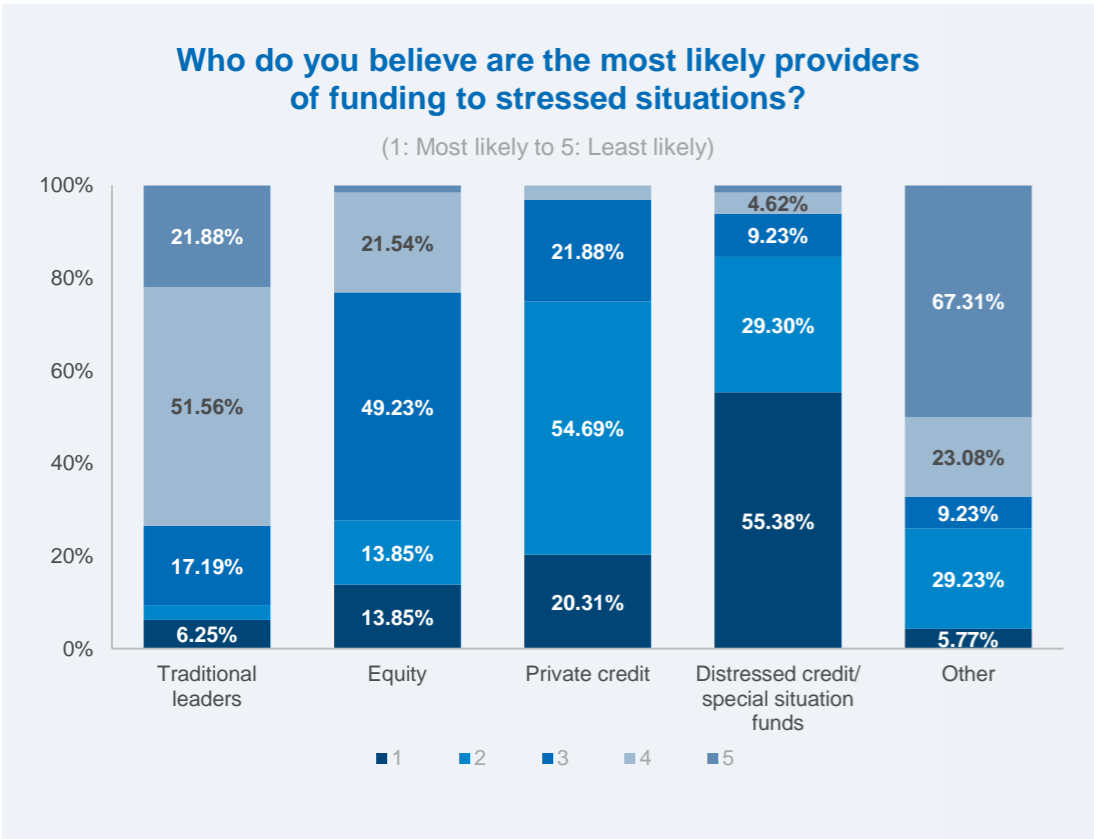
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DISTRESSED INVESTING

Around 53% of survey participants foresee an increase in stressed investment opportunities in Australia, including 9% who expect a significant rise. Meanwhile, 47% of respondents believe the landscape for such opportunities will remain unchanged.

Distressed credit and special situation funds are expected to be the most likely providers of funding to these situations, accounting for 55% of responses, followed by private credit providers (20%) and private equity firms (14%). Very few (6%) believe traditional lenders will be a major provider of capital to stressed situations.



Source: ² Estimates using the midpoint of Blackrock and Preqin's growth estimates of 13% per annum. ³ [Preqin.com](#) ⁴ [Bloomberg](#)

Debt restructuring is seen as the preferred strategy of investors seeking stressed opportunities, with 46% of responses. Respondents also highlighted distressed M&A (35%) and acquisition through insolvency (13%) as the most likely drivers for investment.

These findings highlight the impressive growth and maturation of the private debt market in Australia in recent years. Currently estimated at approximately \$200 billion, the market could reach nearly \$350 billion within the next five years², thus accounting for about 18% of total corporate lending.

As the sector goes through a full economic cycle, alternative lenders are expected to play a larger role in providing capital to highly leveraged companies or those requiring greater flexibility. This includes helping bridge the bid-ask spread in M&A transactions, enabling refinancings with increased covenant headroom and supporting the restructure of debt facilities for more stressed capital structures. Distressed debt funds have also started to surface³ as investors, including pension funds⁴, look for opportunities to purchase debt at discounted prices, given the prospect of increased restructuring activity in the country amid tougher economic conditions in the country.



“ We are seeing an increase in banks and private debt lenders complementing each other, and providing a broader range of M&A, growth, refinance, and debt restructuring funding options for borrowers to choose from.

Sebastian Paphitis
Corporate Finance (A&M Australia)

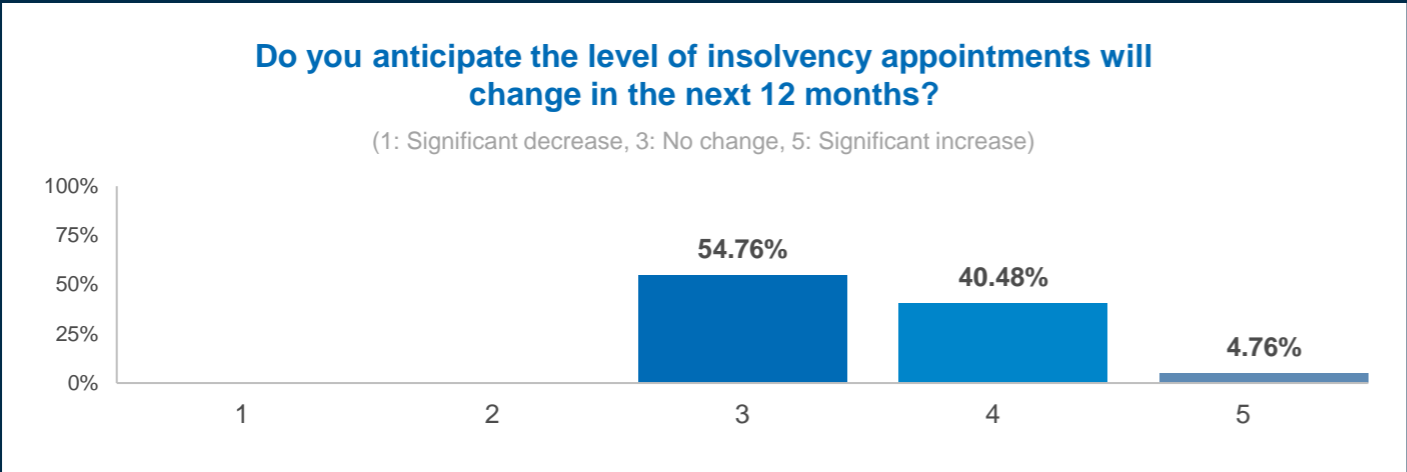
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INSOLVENCY TRENDS

Insolvency appointments⁵ in Australia reached 11,053 in the 2023-2024 fiscal year (1 July 2023 to 30 June 2024), a 40% increase from the 7,942 in the previous fiscal year, according to the Australian Securities and Investments Commission (ASIC). During the April-June period alone, 3,305 businesses entered external administration for the first time, the highest quarterly number since the pandemic.

Despite this surge, the number of liquidators is declining and currently hovers near its lowest levels in over two decades. This is a cause of concern for the industry, as the worsening economy will demand more professionals to handle the likely increase in insolvency work.

Consistent with their more pessimistic outlook on the economy, 40% of survey respondents anticipate a moderate increase in insolvency appointments from today's levels, while 5% predict a significant rise. Around 55% expect insolvency activity to remain at the current, elevated levels over the next 12 months.



The most influential catalyst for appointments is expected to be Australian Taxation Office (ATO) enforcements, with 36% of responses, followed by secured lender enforcements (27%) and company appointments (21%). Most participants (69%) in the survey indicated that the safe harbour regime – introduced in 2018 to protect company directors from insolvent trading personal liability – has yet to deliver better outcomes for stakeholders in a turnaround. Only 24% believe the scheme has led to improved outcomes, and 7% said it has delivered significantly better results.

Source: ⁵ The first time a company enters external administration or has a controller appointed.

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INDUSTRY SPOTLIGHTS

01 Retail and Consumer

Blurb: Retail and consumer businesses squeezed by slower spending and operating cost pressures

More than 80% of respondents expect businesses in the retail, consumer goods and services sector to go through stress over the next 12 months. Among them, 17% foresee extreme stress in the industry, the third-highest level of anticipated severe stress across all sectors.



This pessimistic outlook underscores the tough climate facing Australian retailers this year, including slowing sales growth due to rising costs of living and higher interest rates. Consumers, having depleted their Covid-19 savings, are now prioritising essential expenses and value, leading to weaker retail revenues. The sector’s struggles are evidenced by the 160% increase in the number of retail businesses entering administration between January and April. Among the over 500 collapses this year are high-profile names such as Tigerlily and Godfreys.

Despite fiscal support and tax cuts, consumer sentiment remains bleak, with shoppers cautious due to lower savings and rising fixed costs.

Meanwhile, retailers are grappling with rising operational costs, particularly wages and rent. For the rest of 2024 and into 2025, cost pressures and subdued sales are expected to persist. Notably, the switch of spending from retail to other non-essential categories such as travel is proving a lasting trend in consumer behaviour that is likely to continue to affect the sector.

Businesses should focus on the following actions to remain resilient in this market...

1

Create a 13-week cash flow forecast to help identify potential liquidity issues early, allowing for timely corrective actions such as securing short-time financing.

2

Use data analytics to optimise inventory levels, ensuring popular items are well-stocked while reducing excess inventory. This reduces holding costs and improves cash flow.

3

Prioritise capital expenditure by focusing on projects essential for growth, efficiency and sustainability of the business.



“Retailers are facing a perfect storm of reduced consumer spend, rising costs and shifting spending priorities. The key now is to act fast: those who can streamline operations and offer real value will not only survive but thrive in this tough climate.”

Joan Uy
Turnaround and Restructuring (A&M Australia)



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02

Healthcare

Blurb: Healthcare providers face significant challenges by lagging Medicare indexation, lower patient consultations and rising costs

Approximately three quarters of respondents in this year’s survey anticipate the sector to face moderate to extreme stress over the next 12 months. Nearly 26% said wage inflation was the biggest challenge in the healthcare sector this year, making it the top concern. This is followed by regulation, workforce retention and overleverage.



Australian healthcare providers are grappling with several challenges, from operational to revenue issues, ineffective cost management and squeezed cash flow.

Patient experiences, outcomes and lengths of stay are at risk due to operational constraints – due to tightening of revenue and therefore a lack of investment and adopting new technology has led to missed opportunities to drive efficiency and enhance products, while a continued squeeze on public hospital capacities have lengthened waiting times.

Insurance payments are trailing service cost growth, while the higher cost of living has led to a decline in non-critical patient volumes. At the same time, labour and consumable costs are rising, with businesses sometimes lacking the know-how to manage the issue effectively. Lastly, healthcare providers are also facing cash and budget balancing challenges, with profit declining and cash flow being squeezed by debtors.

In this environment, healthcare business leaders and stakeholders should take the following actions...

1


Providers need to identify what levers can be pulled to sustain core business operations i.e., disposal of assets, restructuring business, identification of new revenue streams.

2

They must optimise cash flow and tap into alternative sources of finance.

3

Focus on optimising patient flow, capturing activity and optimising length of stay.



“

Australian healthcare providers are struggling with issues ranging from wage inflation to ineffective cost management. Opportunities to enhance efficiencies and product deployment still exist, but providers need to identify the right levers to utilise them effectively.

”

Andrew Graner
Public Sector and Health Performance Improvement (A&M Australia)

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Renewable Energy

Blurb: Renewable energy thrives on favourable policy and green demand, but revenue issues and shifting costs are straining the sector

Only about 9% of participants expect the renewable energy sector to see no stress, with all others anticipating some level of stress in the industry (although only 8% foresee severe stress). According to the survey, the top three factors causing the greatest challenges in this sector are input cost inflation (25%), regulation (15%) and market changes (14%).



Globally, renewable energy has benefited in recent years from government policy incentives, cheap financing and growing demand for green investment opportunities. However, projects have regularly underperformed, and Australia is likely to see a similar impact soon.

Renewable energy projects have grown exponentially, helped along by Australian government policies such as Renewable Energy Zones and energy generation targets that necessitate additional capacity by 2035. Access to cheap financing and general demand for ESG assets has also boosted the sector, creating a “build first, business second” attitude. Several projects, both domestic and global, are underperforming against their business case, which may be assuming up to 20% returns.

Instead, recent profitability has been closer to 5%, leaving many projects struggling to fill the gap as high inflation and interest rates bite. Project delays and rising input costs are also causing overruns before operations commence. While many projects sign up to long-term operating contracts, these are priced based on a greater ability to generate revenue. With debt financing a key vehicle for investment, highly leveraged assets may face unsustainable repayments at higher interest rates.

Recommendations for the sector include...

1

Investors must reassess the original investment case to set a target for a sustainable business model – otherwise an exit may be the best option.

2

Renewable energy firms must focus on key factors including cost control, cash management and construction project management.

3

Companies can purchase other assets to ensure economies of scale and sign up to sustainable contracts without pressure to secure financing.



“ Renewable project investments are not meeting expectations due to several reasons – costs are too high and cost recovery is down due to a low-price environment. Still, investment in the sector remains strong, creating opportunities for companies managing costs and operations the right way.

Ellie Atkinson
Energy and Utilities (A&M Australia)

INDUSTRY SPOTLIGHTS

04 Infrastructure and Construction

Blurb: Policy reforms and low productivity are among the many challenges the sector faces

Companies in the construction, engineering and infrastructure industry are navigating a turbulent landscape, a fact highlighted by our survey respondents, who ranked it the highest among sectors in Australia for extreme stress expected in the next 12 months.



Low productivity remains a critical issue, exacerbated by the regulatory environment, planning delays and insufficient contractor capacity. Rising material costs and supply chain disruptions have further strained the industry's capacity to meet the growing demand for infrastructure projects.

In Queensland, the “Big Build” initiative has committed over \$100 billion towards infrastructure projects across health, education, transport and housing, in addition to major private sector investments in mining, energy and water infrastructure. The industry's ability to deliver on these ambitious plans remains in question.

Historical trends reveal a significant gap between the scale of announced projects and the industry's capacity to execute them effectively. One recent example is the Iluka Resources' rare earths refinery in Eneabba, Western Australia. The future of the project, which has already received \$1.25 billion in public funding, is hanging in the balance after cost estimates have blown out significantly amid inflationary pressures. The company has recently warned successful execution of the project is reliant upon further government support.

To thrive in this challenging environment, owners should...

- 1

Plan and package major projects to align with the risk profile of the project, the capability of the market, and project economics.
- 2

Make well-informed commercial decisions related to the project delivery model, contract type and selection of contractor(s).
- 3

During delivery, ensure the oversight team is highly skilled in managing risk for the specific contract form.
- 4

Consider strategic partnerships to mitigate capacity constraints and ensure timely project delivery.



“The construction sector must brace for a significant period of disruption as we adapt to regulation, capacity constraints and economic realities. Those who can innovate and collaborate will be best placed to deliver on their capex plan and emerge stronger.”

Amber Stevens
Infrastructure and Capital Projects (A&M Australia)

INDUSTRY SPOTLIGHTS

05

Materials, Metals and Mining

Blurb: Mining companies strained by productivity challenges and regulatory hurdles

Around 57% of respondents anticipate materials, metals and mining companies to experience moderate to high stress over the next 12 months, with another 6% expecting severe stress across the sector. Input cost inflation is the biggest industry challenge for 40% of participants, followed by supply chain and working capital issues.



Resource companies are under growing pressure from productivity challenges in the construction and operation of their assets. Increasing regulatory hurdles, cycle times and input costs (labour, energy and materials), declining delivery partner capability and ineffective commercial models have only exacerbated the industry’s cyclical nature.

While high market prices are mitigating cost issues in some commodities (iron ore, gold), market volatility and low prices have compounded problems in others (nickel, lithium). In our survey, input cost inflation was a top challenging factor according to 40% of respondents. Given the reliance on contracted labour, the consolidation of key suppliers is troubling for ore-body owners.

For example, the pools of available tier-1 suppliers for engineering, procurement and construction management (EPCM), civil construction and structural mechanical piping (SMP) work in the mining industry have shrunk in the past decade, according to A&M’s analysis. Increased market power and challenges to profitability as operations become more complex has led to many adversarial relationships, where contractors build claims to recover their margin. This dilutes resource owners’ profitability.

Recommendations for the sector...

1

Ensure owner’s teams are actively engaged in driving contractor performance in major maintenance and construction, supported by commercial models that enable a greater say in how work will be done.

2

Establish owner’s teams’ productivity frameworks to govern how productivity will be tracked, managed and improved in operations, maintenance and construction.

3

Ensure sufficient liquidity and cash buffers to ride out commodity cycles and unexpectedly low prices.

4

Manage operations with cashflow in mind, not if capital deployment is too high.



“ Many of these challenges are likely to continue in the next 12 months. To combat them, resource companies must start taking charge and strike a better balance to ensure that risk is managed even when delivery capability is outsourced.

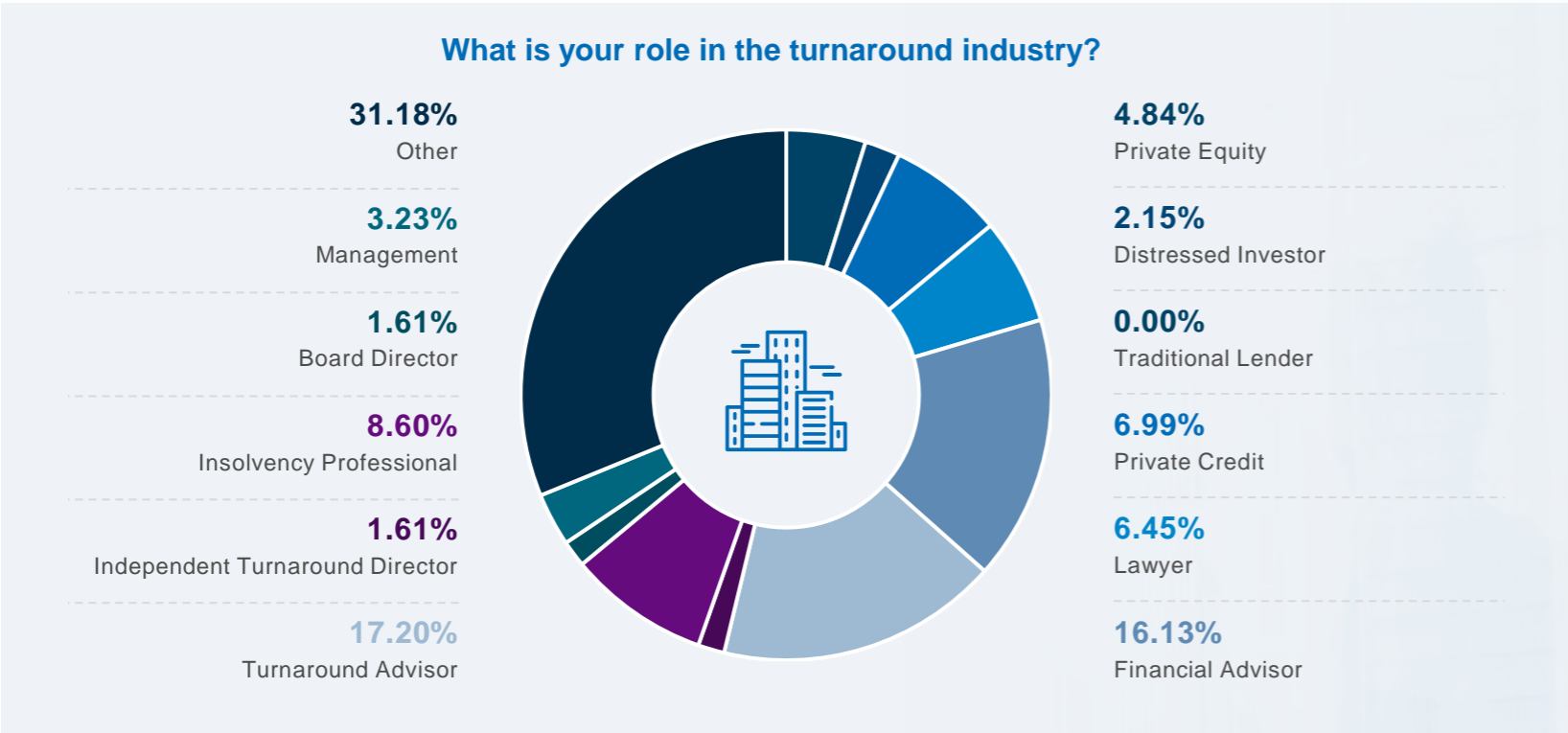
Nicholas Reid
Mining (A&M Australia)

THE SURVEY

A&M, in conjunction with the Turnaround Management Association, surveyed more than **180 professionals** in the turnaround, restructuring and insolvency space in Australia to gather their views on the industry's outlook.

The survey was conducted in July and August 2024 and comprised a 22-question questionnaire covering topics such as the country's economy outlook, the potential for turnaround, restructuring and insolvency activity, stressors across various industries, the use of turnaround directors and business responses to stress, among others.

The survey participants included turnaround and financial advisors, board directors, lawyers, private credit, private equity and distressed investors, and more.



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Leading companies, investors and public organisations turn to Alvarez & Marsal (A&M) to drive significant results with practical approaches that work versus theoretical approaches that don't.


A&M partners with clients to address their operational, financial and regulatory challenges, transactional needs and to make an impact.

In an interconnected and unpredictable world where Australasian companies face disruption, financial challenges, shifting regulation, and evolving workforce and customer demands, **A&M is uniquely positioned to support its clients in navigating these challenges.** We act as an agent of change and as a trusted partner to enable our clients to deliver during transitional and transformational times.



We provide business performance improvement, turnaround management and business advisory services to companies, private equity firms, and public organisations.

We help develop and execute solutions that enable them to succeed given the challenges they face today.



Our world-class professionals in Australia have deep operational experience and serve as trusted partners, helping clients solve for continuity and growth-related business issues.

We'll sharpen your competitive advantage, driving critical change that will optimise performance, maximise value, and position your business for the future.



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ABOUT ALVAREZ & MARSAL

Companies, investors, and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turn-around management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 10,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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