

Inside

Latest Reports:

- *Lackluster Year for Restructurings*
- *Pension Protection Act Contributing to Industry Insolvencies?*
- *BAPCPA Impeding Middle-Market Restructurings*

Research Report:

Who's Who in Dura Automotive Systems, Inc.

Worth Reading:

Working Together - 12 Principles for Achieving Excellence in Managing Projects, Teams, and Organizations

Special Report:

Sources of Debtor-in-Possession Financing

Special Report:

Outstanding Restructuring Lawyers - 2006

Gnome de Plume:

The Doldrums

turnarounds & workouts

News for People Tracking Distressed Businesses

December 15, 2006

Volume 20, Number

Lackluster Year for Restructurings 2007 Outlook Uncertain, Say Top Professionals

by David Buzzell

In the shared opinion of the turnaround industry's top professionals, 2006 was not one for the record books.

Van Conway, Senior Managing Director of Conway MacKenzie & Dunleavy offers that, "Our business was about the same as 2005. We had a great year in 2005, so we were satisfied with how 2006 turned out; but for the industry as a whole, 2006 was much like 2005: an off-year."

Howard Brownstein, Principal of NachmanHaysBrownstein, Inc., expresses a similar sentiment, saying that while his firm enjoyed a year that was much busier than anticipated, "a lot of companies in our profession are 'crying the blues.'"

Still another of the industry's leading professionals, David Pauker, Restructuring Advisor and Turnaround Manager at Goldin Associates, notes that, "The restructuring industry is going through a slow year. Some firms have been fortunate, but there are fewer opportunities all around."

Finally, Lisa Donahue, Managing Director and Co-Head of AlixPartner's Turnaround and Restructuring Practice and Jim Lukenda, Corporate Advisory Services Managing Director of Huron Consulting Group, say "lackluster" best describes the turnaround industry's fortunes during 2006.

Many of those interviewed for this article say their firms managed to swim against the tide and enjoyed a good year in 2006. "We're doing comparatively well," says Brownstein. "We're doing more creditors' committee and lender work, and less work for management and borrowers." Pauker characterizes Goldin's year - one that involved the Refco and Adelpia cases as well as winding up several failed hedge funds - as "superb." Donahue says that 2006 was a "really good year" for AlixPartners also, as it landed many of the largest Chapter II cases of the year, including Refco, Calpine, Dura, and Dana.

While the volume of restructuring business has been down, other areas of the profession have been doing well. Huron Consulting's investigation and forensics accounting services have been in demand, says Lukenda, in part because of the issue of backdating stock options. Forensics accounting has likewise been a growth area for AlixPartners, says Donahue. Donahue also notes that her firm's IT practice has done well. "There is an IT component in nearly every turnaround. It is rare that a company has its IT house in order."

Turnaround firms are also finding success abroad. "Our overseas practice is growing exponentially," says Donahue. Conway Mackenzie & Dunleavy has expanded into China, assisting "margin challenged" companies in the U.S. to create lower-cost manufacturing alternatives.

Everyone is in agreement as to the primary reason for a flat year, which can be summed up by one word: "liquidity."

Lackluster, *from page 1*

“Tremendous liquidity,” says Brownstein, “which has enabled many stressed credits to refinance early. Many deals are getting done that wouldn’t ordinarily get done. Companies are having no difficulty in raising capital.” “A lot of money on the sidelines and a lot of pressure to do deals,” adds Conway. “There seems to be a lot of money available,” opines Lukenda. “Companies that would normally have been in a workout phase have successfully refinanced.” Lukenda also notes that there appears to be no end to the ways to create even more liquidity, including so-called “toggle bonds” where payment can be made in cash or noncash instruments. Pauker credits the slow year to “the ready availability of capital from hedge funds, mezzanine funds, and other nontraditional lenders.”

A second factor affecting the restructuring industry has been a U.S. economy that has defied predictions of its imminent demise. Says Donahue: “The economy is chugging along very well. We thought 2006 might be the year [for restructurings] because of rising commodity prices. It appeared that any industry associated with oil and natural gas byproducts, such as plastics, could be stressed. That hasn’t really happened.”

Pauker observes that, “a weak dollar has made U.S. goods relatively cheap and this fosters demand abroad.” Brownstein cautions, though, “While the economy is good, it is only a matter of time before there are more troubled credits. The question is whether there will be a ripple or a wave.” If energy prices continue to climb and the war remains intractable, Brownstein sees a wave crashing ashore by the second half of 2007. Other factors, such

as rising interest rates or another terrorist attack, will also roil the waters.

Which leads to this final question: How is the upcoming year shaping up for the turnaround industry?

Again, there is a general consensus, and the answer appears to be: it is anyone’s guess.

“It is not really clear what is going to drive a change in the default rate,” says Pauker. “I’ve stopped predicting a slowdown. Those things that we’ve all said were going to cause a slowdown have happened and there has been no slowdown. It was thought that if inflation went up, the economy would be affected. Inflation went up, and a slowdown did not occur. Then it was predicted that an increase in oil prices would be the event that triggered an economic downturn. Energy prices rose, and the economy continued to perform well. Now it is being predicted that a slowdown in the housing market could be the defining event.”

Says Lukenda: “People are scratching their heads wondering what will cause liquidity to pull back. We thought that the Fed raising interest rates would do it, but it hasn’t happened. At the end of 2005, everyone was predicting that 2006 would tighten up. We’re sitting here a year later with the same picture.”

Conway sees 2007 as a “fairly flat year,” but, by 2008, “deals that don’t make sense will finally topple over.” He predicts that, “as soon as liquidity tightens, deals will falter. Some deals won’t work and investors will become more nervous, further drying up capital.”

Donahue says that, “it is impossible to predict when excess liquidity will let up.” Her industries to watch in 2007 include “Housing and building products - there is some stress there; and there are opportunities in packaging, plastics, and the automotive industries. Also, after the holiday season it will be interesting to see the retail impact - which retailers need help.”

Lukenda’s watch list includes the auto industry and the airline industry, which, he says, “hasn’t seen an end to its problems.” Lukenda also says that, “as consumer spending softens up, the media and entertainment companies and the retail sectors may be something to watch for.”

The automotive industry accounts for about 40 percent of Conway MacKenzie & Dunleavy’s business, and Conway anticipates more of the same in 2007. “We won’t see more Delphis,” he says, “but there is still a fair amount of chaos in the automotive industry. There will be several more years of this; it’s not over yet.”

Regardless of what will be written twelve months from now, these top turnaround professionals and their firms will remain resourceful and successful.

Concludes Brownstein, “At this point, it is really the excessive liquidity in the system that is affecting our industry. We are doing more non bankruptcy alternatives because people would rather not duke it out in bankruptcy court. Meanwhile, though, even in a good economy, we are finding a lot to do.”

“In the upcoming year, we have several significant matters coming to an end, and we will be working to replace them,” says Pauker. ■