AlixPartners

UK TURNAROUND AND RESTRUCTURING

A DOWNTURN OF MULTIPLE DIMENSIONS

APRIL 2023

OUR OUTLOOK

Simon Appell,
Head of UK TRS Practice

Welcome to the latest edition of AlixPartners' UK Turnaround and Restructuring Update, at an exciting time for our growing practice.

Every new year can signal the start of new beginnings in personal and professional pursuits and, as we end the first quarter of 2023, I'm delighted to highlight a new beginning for our firm to celebrate, after we recently announced the acquisition of leading independent restructuring practice THM Partners LLP (THM).

THM's 40 Partners and staff located in the UK, Germany, and Singapore joined our world-leading Turnaround & Restructuring Services practice in March. Our newly combined practice will deliver the EMEA market's most comprehensive suite of restructuring services to support companies, management teams, their boards, and financial stakeholders to identify, grow, protect and maximise value against a backdrop of ever-increasing disruption and economic uncertainty. I warmly welcome all of the THM team to AlixPartners, and you can read more about this exciting news in this edition.

2023 VIEWPOINTS TO DATE

Many of the macroeconomic trends from 2022 have flowed into a refreshed calendar, presenting persistent disruption for leadership teams to contend with. The first quarter of 2023 demonstrated this – inflation, interest rate rises, and consumer sentiment ticking downwards, allied to the continued ripple effects of the conflict in Ukraine and growing geopolitical tension between the United States and China.

Many of these issues feature as critical challenges called out by the 3,000 business executives who responded to our fourth annual AlixPartners Disruption Index, and a summary of this year's study can be found on the following pages.

So how has this all manifested itself in the UK market since the turn of the year? We have seen a sharp rise in activity within retail, as these businesses – so reliant on consumer confidence – consider how to combat continued cost price inflation while discretionary spend in their markets contracts. It's a similar picture for Consumer Products companies, too.

As a result, our teams have already been engaged with clients this year across a number of our services offerings, including liquidity/working capital management, interim roles, business plan reviews, estate rationalisation, turnaround plans, and supplier management. We also continue to work closely with our colleagues across the EMEA region more broadly, and with our U.S. teams on a number of cross-border engagements.

> “Our newly combined practice will deliver the EMEA market's most comprehensive suite of restructuring services to support companies, management teams, their boards, and financial stakeholders.”

UK TEAM DEVELOPMENTS

Finally, as our team continues to grow globally, we also celebrated a number of promotions at the start of 2023 in the UK, in recognition of many of our team's continued dedication, progress, and outstanding client results within the firm's TRS practice.

In the UK, Peter Oppitzhauser has been promoted to Partner and Managing Director, while Richard Harrison, Debbie King, and Cat Williamson have all moved from Director to Partner Level. Perry Higgins, Emma O'Neal, and Christina Ward have also been promoted to Director. Congratulations to them all!

IN THIS EDITION:

- **THM ACQUISITION IN FOCUS**
- **ALIXPARTNERS DISRUPTION INDEX INSIGHTS SUMMARY**
- **THE ROAD AHEAD IN THE FTTX ROLLOUT**

If you'd like to discuss any of the issues raised in this edition, please reach out to your AlixPartners contact or one of the team on the back page.

IN FOCUS: THM ACQUISITION

Our recent acquisition has created the European restructuring market's most comprehensive offering, at a time of significant market disruption that will only increase the likelihood of stress and distress across the corporate environment. We spoke to Partners and Managing Directors Esben Christensen and Anthony Place about the deal in more detail…

Esben Christensen
Partner and Managing Director, AlixPartners

Anthony Place
Partner and Managing Director, AlixPartners
(formerly Managing Partner, THM)

Perhaps we could start by expanding on the complementary services that have been brought together by this acquisition. Could you both outline the specific areas that you think have made this deal such a strong fit?

Anthony Place (AP): THM was largely focused on two service lines – Chief Restructuring Officer (CRO) and Value Delivery. AlixPartners also provides CROs, so that's hugely complementary and bolsters our market presence significantly.

In the area of Value Delivery, we have built a strong reputation for offering executive management in special situations – post-restructuring, or where there are stakeholder disputes, for example – where we'd provide interim management support. Allied to the similar work AlixPartners is also undertaking here, we now have a very strong service offering covering the full C-suite, including CRO, CFO, CEO, and COO.

More broadly, too, given the legacy of strong relationships between THM and AlixPartners, culturally this is an excellent fit. AlixPartners was the only brand that we were comfortable in taking on. We could really see the benefits of a broader global network and deep industry experience, and AlixPartners brings those attributes and much more.

Esben Christensen (EC): At AlixPartners, we had identified the C-Suite company platform that Anthony mentions as an area for investment and growth in the UK and broader European markets, so this deal was really the natural solution for us. The alternative would have been organic growth within this space, which is extremely hard to do and takes time. Bringing THM into the fold provides that instant market recognition, especially in the UK market but also across Europe, as THM have built an established name in the market, particularly in the CRO and CFO field.

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IN FOCUS: THM ACQUISITION CONT.

> Another example is the specialism that THM bring in the area of Property and Real Estate, which is an offering that can be effectively deployed across our industry teams. This is a vitally important area of asset expertise that we see becoming a growing issue for businesses across retail and hospitality and leisure, for example, in the current climate."

In terms of the additional benefits that our clients will see in working with us moving forward, how does this all translate in that respect, given the market dynamics and challenges that many organisations might be facing into at this time?

AP: Put simply, we can now offer a full suite of services. From a THM perspective, we'd often oversee work beyond our core capabilities, but were referring this work externally. Now, as one integrated team, this is a much better set-up for our clients with a hugely compelling offering that includes Risk, Digital, Performance Improvement, M&A Support and the deep industry experience that AlixPartners has.

EC: From an AlixPartners perspective, our clients can benefit from significantly enhanced senior interim management capabilities, such as the CFO piece, for example, where we are seeing a lot of demand for our unique approach to this work – much like our CRO engagements – a sense of urgency, hands-on, and getting things done at pace.

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Sticking with your view of the market right now, how would you assess the climate to this point at the end of Q1 2023, and what do you anticipate over the coming 9-12 months?

AP: For THM, the pandemic was curiously the busiest and then quietest period for us. When COVID initially struck, we were deluged with work, but huge government support then kicked in across Europe, resulting in a quieter second year of that extraordinary time. I can see that the additional levels of debt taken on will probably take longer to work out over perhaps a sustained three-to-five-year period, versus the two to three years of increased activity that we saw after the financial crisis of 2008.

EC: I think we'll also see more PE-sponsored work arising as a result, where debt loads need to be addressed urgently due to the more difficult economic conditions. As traditional lenders may step back a bit from new money or distressed capital, alternative lenders and funds may continue to come to the fore, and our way of working is extremely aligned with the way that they operate, where value needs to be preserved and created, and fast.

Please get in touch if you'd like to discuss AlixPartners' acquisition of THM in more detail.

ALIXPARTNERS DISRUPTION INDEX

SUMMARY INSIGHTS FROM OUR 2023 REPORT

GLOBAL CHALLENGES FOR BUSINESS LEADERS…

Short-term

- **Recession:** **82%** expect an economic downturn or recession to last more than a year.
- **Revenue:** **53%** expect a severe or major impact on revenues from a recession
- **Inflation:** **48%** have been severely or very impacted by inflation and interest rates
- **Supply chain:** **44%** expect supply chain issues becoming less of a challenge in next 12 months

Long-term

- **Deglobalization:** **88%** of CEOs report shifting their approach to supply chain management in the past 12 months
- **Climate transition:** **67%** – The reported increase in impact of environmental and social issues on executives' businesses in the past three years
- **Tech acceleration:** **56%** say advancements in technology are happening at a rate their company cannot keep up with

…ARE PLACING TREMENDOUS STRAIN ON CEOS

75%
Worry that their organization is not adapting fast enough

72%
Say they worry that their executive team lacks necessary agility

70%
Are worried about their own jobs

85%
Find it increasingly difficult to know where to start

95%
Report having enough resources to invest in new technologies and digital solutions, but **83%** say their board of directors often impede the process.

ALIXPARTNERS DISRUPTION INDEX

UK-FOCUSED INSIGHTS

55%
Expect their company to actively pursue mergers/acquisitions in the next 12 months

47%
Say difficulties in finding workers with critical skills is having a big impact on company growth

44%
Say finding talent is harder even than it was at the peak of the "great resignation" (vs 27% overall)...

AND **38%** say it will get more difficult over the coming year (vs 23% overall)

37%
Expect their companies to reduce staff in the next 12 months.

Only **49%** expect their companies to show positive growth next year (vs 63% overall)

TOP 3 DISRUPTORS
(Extremely/very impacted)

1. **DATA PRIVACY AND SECURITY – 52%**
2. **INTEREST RATES/INFLATIONARY ENVIRONMENT – 52%**
3. **REGULATION POLICY/GEOPOLITICS – 48%**

TOP 3 DIGITAL CONCERNS
To be addressed this year

1. **DATA PRIVACY AND SECURITY – 38%**
2. **ANALYTICS – 31%**
3. **ARTIFICIAL INTELLIGENCE (AI) – 28%**

WILL CURRENT MACROECONOMIC HEADWINDS DRIVE CHANGE TO ALTNETS' ROLLOUT OF FTTX?


Stuart Cockburn,
Director


Chris Duffy
Director


Jasdeep Batra
Senior Vice President

At the end of 2021, we examined the dynamics of the red-hot fibre market, analysing the aggressive expansion plans by both incumbents and altnets (independent operators), as the UK pushes toward a gigabit future, where households and businesses alike have access to highest-speed, ultra-reliable connectivity.

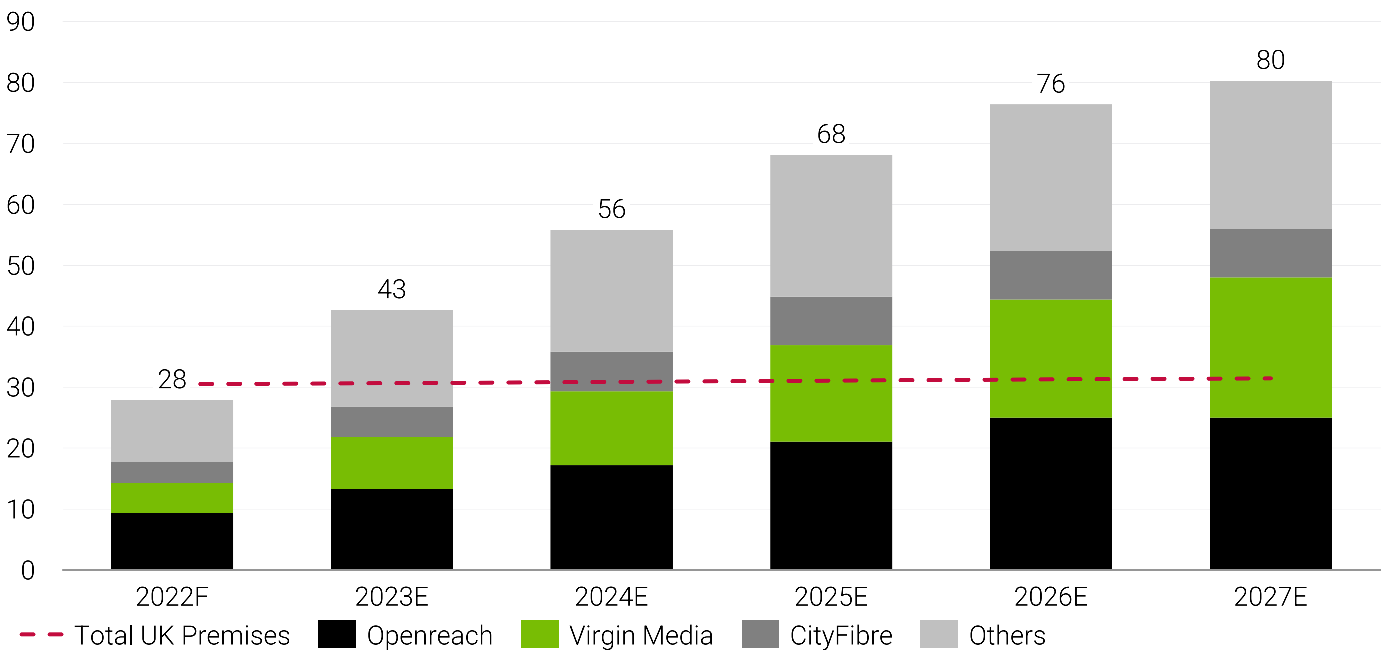
What a difference a year makes. The original challenge of a finite connectable market swarmed upon by both types of players has created a market where survival of the fittest – and fastest – would prevail. Investor appetite for this opportunity, spurred on by low debt rates, would supercharge the race to the front doors of homes and commercial premises up and down the country.

Now, as we enter 2023, we see a series of significant concurrent headwinds facing the altnets. As they drive aggressive fibre-to-home/building/premise (FTTx) rollouts, the digital infrastructure market is being reshaped by soaring inflation, equipment supply chain issues, labour shortages, and the increased cost of living.

For instance, we have observed material prices increasing by as much as 70%, exacerbating the financial strain in keeping pace with already ambitious business plans. Coupled with this, revenue growth is equally challenged, with rollouts not translating into revenues as fast as desired. Newer entrants to the market will also be encumbered by a higher cost base than more established operators, putting them at a cost disadvantage from the outset. In addition, further Equinox pricing changes by Openreach may provide further challenge in converting homes passed into homes connected.

Despite these headwinds, operators continue to seek aggressive rollout plans, with current estimates suggesting that by 2025 the number of FTTx premises passed will be twice the actual number of UK premises available – posing the risk of a significant overbuild, illustrated below.

FTTX premises passed vs. Total # UK Premises (In millions) 2022-2027



Source: Companies plans, AlixPartners analysis

There is an increasing reliance upon external funding to stay afloat in an investor climate that is markedly different to 12-18 months ago. While private investment and government subsidies remain available for altnets, the scrutiny on these dispensations has ramped up, and the pool of those able to forge ahead with funding is shrinking. The cost of capital has also spiked in line with the step-change in debt markets and recent interest rate rises, piling on further financial pressure.

More than 70 players are fighting it out for their slice of the fibre footprint in the UK, led by the incumbent market players of Openreach and Virgin Media-O2.

With such intense competition, many smaller altnets are subsequently underachieving against their business plans, meaning the valuations desired by investors are increasingly strained. Instead, we anticipate increasing financial stress, as the debt holders of a number of altnets become compromised. This could spur market consolidation through changes in ownership to prevent business failure.

It is imperative that altnets take urgent steps to avoid falling by the wayside in the way that dozens of smaller companies in the energy industry did in the second half of 2021 and early 2022:

1. ANALYSE AND PURSUE NEW FINANCING OPTIONS TO FUND FURTHER DEVELOPMENT

Business plans are likely to have been originally developed in a more positive business environment, and now require reappraisal in terms of overall strategy and performance – particularly for potential new investors and lenders. Cash and liquidity management should be a vital part of any conversations here, and heavily linked to any changes made to deployment plans (see below).

2. REASSESS DEPLOYMENT STRATEGY WITH OPERATIONAL EFFICIENCY FRONT OF MIND

Deployment costs may be able to be reduced by adopting an alternative operating model approach (e.g. make vs. buy), using an optimised mix of contractors and in-house staff for network deployment, as well as seeking help in planning, executing and managing the build. Increased automation and enhanced fibre laying techniques also reduce deployment costs and time – such as micro- and nano-trenching. Best practices also need to be considered with respect to financial planning, analysis, monitoring, and reporting for growing businesses to ensure the right level of accurate data is available both internally and for investors.

3. REVIEW GO-TO-MARKET APPROACH

Ensure that homes passed are being converted into homes connected, and that revenue is being realised from the investment. Altnets have a number of choices here, particularly on the question of whether to go retail, wholesale, or both. Whatever their chosen strategy, altnets must ensure there are clear executable initiatives to ensure success and, moreover, having won a customer, that there is the capability in place to quickly and seamlessly connect them to the network. This requires the operating model to be set up for growth, with the right capabilities in place, not only organisationally but also from process, systems, and skills perspectives.

4. CAREFULLY MANAGE M&A

Where M&A opportunities arise, deal structuring and strategy must be designed to maximise value, alongside the execution of detailed due diligence regarding the quality of assets being acquired and the deployed capacity. Deal synergies must be captured through effective pre-merger planning and post-merger integration (PMI), intrinsically linked to an appropriate operating model.

History would confirm that consolidation in a market with dozens of smaller players represents a natural part of the business cycle. The next two years, therefore, look set to be a critical period of industry transformation, with only the most agile – and resilient – altnets likely to succeed.

OUR THINKING...

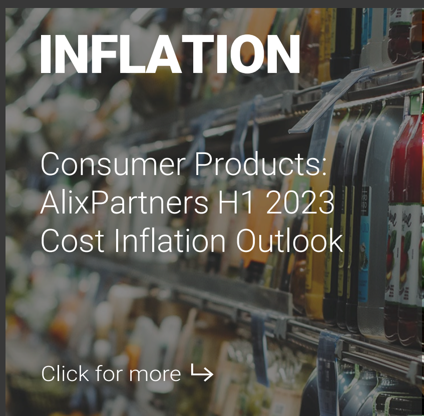
THE FOURTH ANNUAL ALIXPARTNERS DISRUPTION INDEX

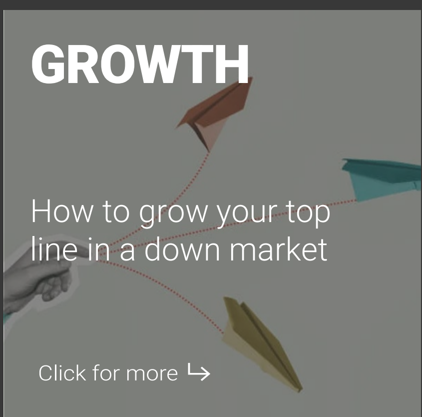
IN AN AGE OF DISRUPTION... NORMAL IS OVER

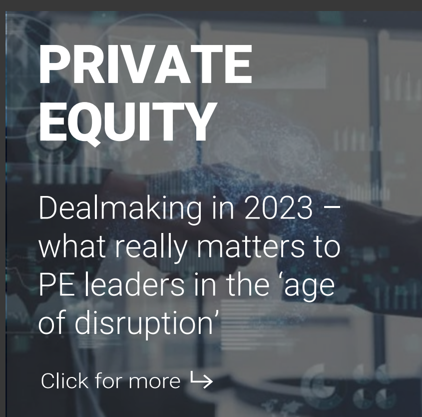
The world keeps getting more complex. The leadership challenge is unprecedented: Amid so many formidable issues, daunting long-term disruptions, and difficult short-term demands – where should the all-too-finite resources of capital and time be focused?

READ THE FULL REPORT

MORE ALIXPARTNERS INSIGHTS







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