When will the wave break?

Corporate insolvencies & restructuring in Europe

A survey by the /amo network

September 2021

Our consultants across Europe asked those working in and around the financial restructuring and insolvency space about their expectations of activity for the remainder of 2021 and how the expected end of Government support is likely to affect various sectors.

The /amo survey was conducted across a panel of insolvency professionals, bankers, lawyers, accountants, investors in major European economies including UK, France, Germany, Spain, Italy, and Switzerland.

Key Findings

- Despite what Governments have said, most respondents believe they will still be propping up some businesses to the end of 2021.
- As a result, most respondents are not expecting the “Wave of Insolvency” until 2022.
- Unsurprisingly, Retail, Hospitality & Leisure, and Travel & Tourism are all expected to receive additional financial support, but despite this, there will still be casualties.
- Those casualties are expected to be smaller companies for most European countries.
- However, questions remain over what this means for the longer term, and how companies will continue under the burden of large debts.

Contents

1 State support is expected to continue until the end of 2021

2 No wave of insolvencies, at least not until 2022

3 Targeted support for vulnerable sectors

4 **The /amo view**

5 Moderating force while fighting the fire – government bailouts and stakeholder expectations – *Andrés Luther, Hirzel.Neef.Schmid.Konsulenten*

6 Creating Resilient Corporations through Restructuring - *Sebastian Marx and Stephanie Prager, Deekeling Arndt Advisors*

7 Public funds for businesses – what scrutiny can we expect? *Alexis Madelain, Havas Paris/amo*

8 Reassurance in face of high levels of balance sheet debt - *Vikki Kosmalska, Maitland/amo*

9 The public response to political discourse in Spain - *Bruno Calvo, Grupo Albion*

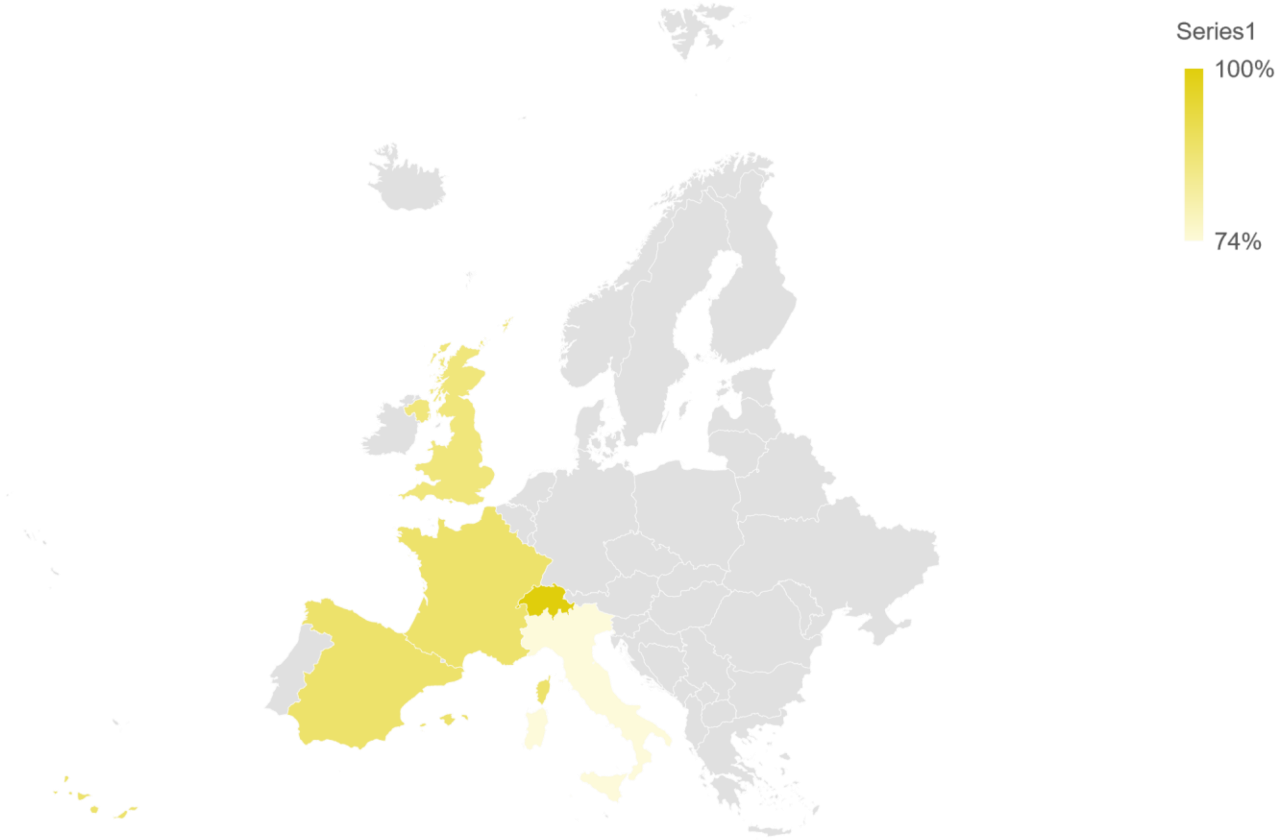
/amo

State support is expected to continue until the end of 2021

Respondents to the survey overwhelmingly believe that Governments will still be propping up some businesses to the end of 2021.

Across Europe our experts did not believe support would end at Government-set deadlines.

In the UK, support measures such as furlough are set to wind down in September 2021. However 86% of respondents believe additional support will continue to prop up UK businesses. That said, businesses should not expect the taps to keep flowing into 2022, one respondent commenting: *"Considering the market didn't expect such government support on such a significant scale initially (e.g., furlough), the outlook for further "unexpected" measures into Q1 2022 remains highly uncertain."*



The numbers are higher across most of the continent. Ahead of our survey, the German Government had already committed to additional stimulus for the remainder of 2021. In Spain and France, 88% of respondents believe measures will continue until the end of the year, despite deadlines announced in Spain for the end of September.

State support is expected to continue until the end of 2021

Our French experts were correct in predicting additional support, and the French State has since announced additional funding until the end of the year. Respondents identified political motivations behind the move, one claiming: *"In France, the prospect of presidential elections in 2022 means aid is likely to keep flowing to non-viable, distressed businesses, especially to prevent large scale bankruptcies in the industrial sector."*

Respondents in Switzerland were the most optimistic about Government support, with 100% of respondents expecting an extension to federal loans amounting to around 530 million Swiss Francs, despite this and most other schemes closing on 31 July 2021.

Italy was the most pessimistic about additional support. The Government there had announced that most financial measures would end on 30 June 2021. But the 74% who believed there would be an extension were right, as the end-date has since been moved to the end of the year.

One respondent took a pragmatic approach and told us: "*A lot depends on how quickly the virus is suppressed globally, which is very difficult to say with new variants. However, Government debt levels are rising at an unsustainable rate and the tap will have to be turned off soon."*

Country	State Support continuing until the end of 2021
UK	86%
France	88%
Italy	74%
Switzerland	100%
Spain	88%

Across the board, the same sectors are expected to need additional support

Unsurprisingly, while some sectors are universally expected to need additional help - namely Retail, Hospitality & Leisure and Travel & Tourism - there are country-specific differences.

In the UK, Education is seen as an area deeply affected by the pandemic. With in-person teaching unavailable for large parts of last year, the sector has faced challenging conditions with much lower uptake directly affecting revenues. Respondents were hesitant, one saying, "*It's hard to see how the Government can't continue support, but equally hard to see how they could provide targeted support without appearing to favour sectors or, more importantly, to have overlooked others that are worthy. So they are between a rock and a hard place, and I believe they will favour now allowing commercial Darwinism to take place."*

In France the key concern is the pandemic's knock-on effect on the Aerospace & Defence sector, not only as domestic issues become the priority, but because of potential systemic changes caused by decreased demand for Travel & Tourism.

In Italy, expectations of additional support for Engineering & Construction are bolstered by existing commitments to supporting homeownership schemes. In Spain, respondents widely expect increasing support for Healthcare as a consequence of the pandemic. In Switzerland, the Media & Entertainment sector is expected to receive further support, having sustained prolonged shutdowns and limitations to activity.

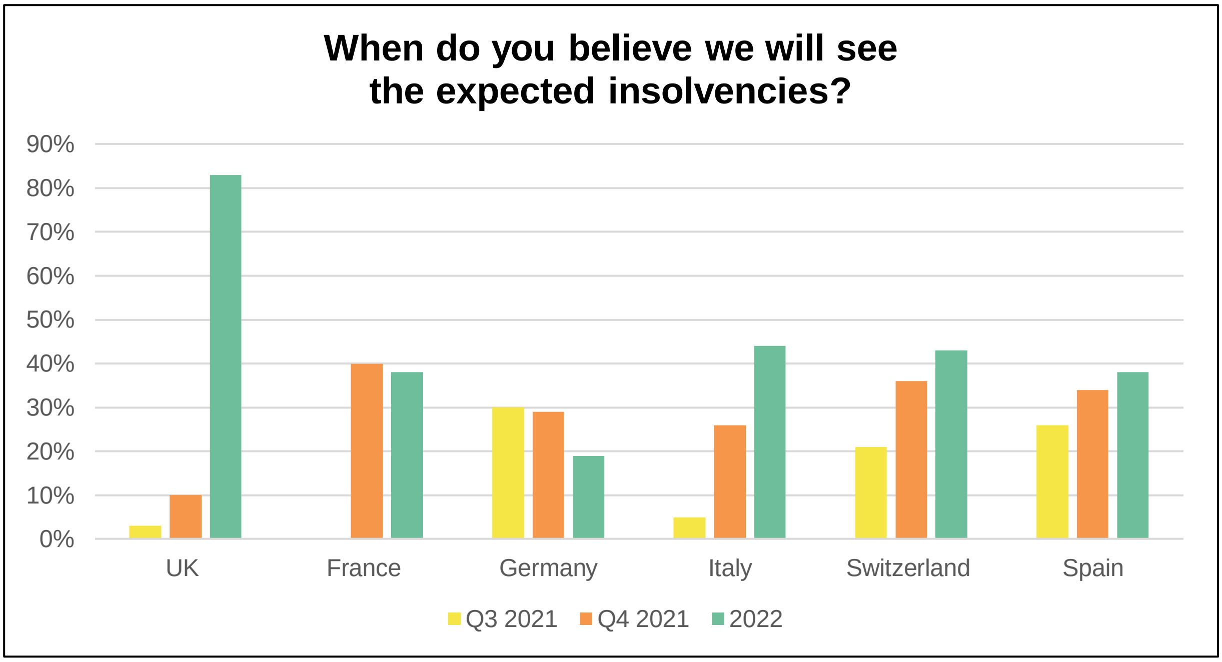
Country	Sector #1	Sector #2	Sector #3
UK	Retail, Hospitality & Leisure	Travel & Tourism	Education
France	Aerospace & Defence	Retail, Hospitality & Leisure	Travel & Tourism
Italy	Travel & Tourism	Retail, Hospitality & Leisure	Engineering & Construction
Switzerland	Travel & Tourism	Retail, Hospitality & Leisure	Media & Entertainment
Spain	Travel & Tourism	Retail, Hospitality & Leisure	Healthcare

No wave of insolvencies, at least not until 2022

The media has long debated when to expect a "wave of insolvencies" following the pandemic, and the message from our UK respondents is clear, we won't see the impact of the pandemic until 2022. The overwhelming majority of our respondents there (83%) told us that businesses are unlikely to fail this year while Government stimuli are still in place.

However, the picture is less clear in Europe. 59% of respondents in Germany believe that we will see insolvencies this year, despite the Government's commitment to fiscal stimulus until the end of the year. Across France, Spain and Switzerland, the results demonstrate companies are expected to fall into distress in Q4 2021 or 2022, with only Italy being marginally more definitive about 2022.

One respondent in France told us: *"Two significant obstacles may hamper recovery: i) the end of state aid (loans, deferment of taxes and social contributions, furlough etc) could significantly hurt the cashflow of weakened businesses; and ii) access to credit in the context of economic recovery for businesses already shouldering significant amounts of debt."*



Targeted support for vulnerable sectors

Our experts expect further Government support for sectors facing highest insolvency risk

The impact of the pandemic on Retail, Hospitality & Leisure, and Travel & Tourism has been severe. Our respondents across all European countries agree that not all businesses in those sectors will make it through, despite ongoing state support.

One respondent said, about the UK market: "*Wage inflation plus a 'safe' reopening will make it tough for the hospitality industry. Smaller businesses will struggle whilst those that are well funded and larger will take the lion's share in the long run.*"

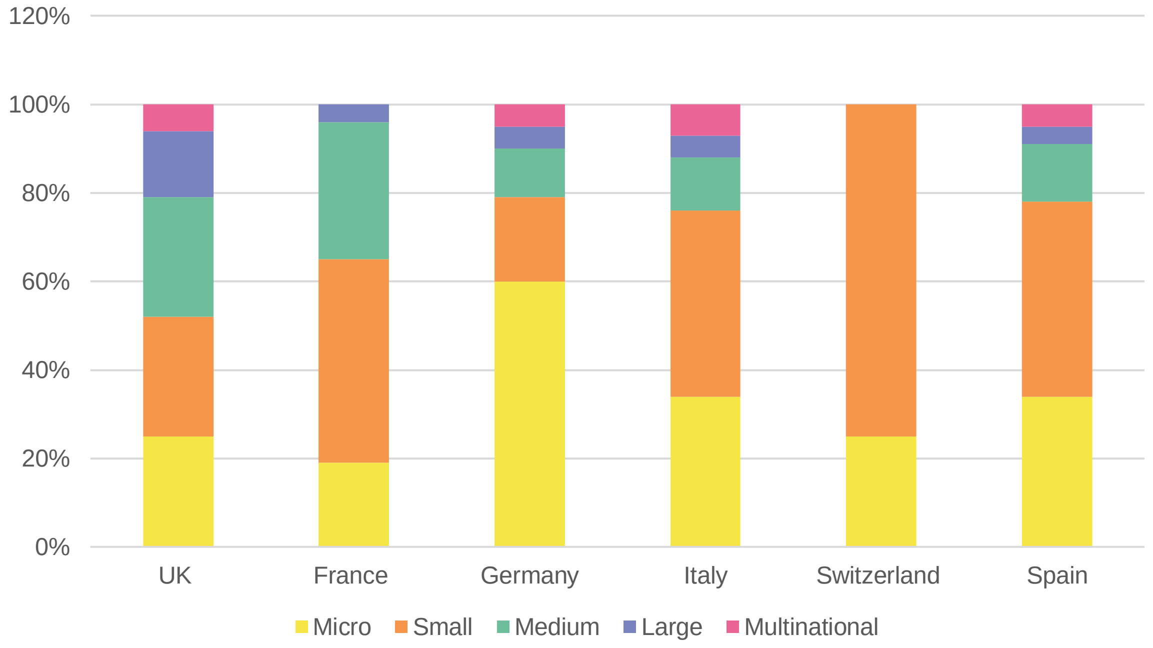
Another hard-hit sector which has been identified is Media & Entertainment which, following lengthy lockdowns, will now have to cope with increased operational costs.

Country	Sector #1	Sector #2	Sector #3
UK	Retail, Hospitality & Leisure	Travel & Tourism	Manufacturing
France	Retail, Hospitality & Leisure	Aerospace & Defence	Media & Entertainment
Germany	Travel & Tourism	Education	Retail, Hospitality & Leisure
Italy	Travel & Tourism	Retail, Hospitality & Leisure	Media & Entertainment
Switzerland	Travel & Tourism	Retail, Hospitality & Leisure	Media & Entertainment
Spain	Retail, Hospitality & Leisure	Travel & Tourism	Real Estate

In the UK, the impact of the pandemic is merging with that of Brexit, one of our respondents stating:

"There are some sectors that have been very resilient over the past 12-18 months, particularly the technology sector. There is currently a record amount of VC funds to be deployed so there is no reason to think that the outlook for high-growth sectors will change. On the flip side, Hospitality, Leisure, and Tourism has been hugely affected not just because of a lack of footfall/spend but also (especially city centres) because many international staff have left the UK. There remains a capacity issue, but the staffing shortfall may prove more problematic as restrictions continue to ease. From a London perspective, the return of international leisure and business tourism will be vital to its recovery but also to the wider economy as London is a gateway to other parts of the UK. In addition, continuing to back the capital as a global city will be hugely important in the context of Brexit and increased international competition across financial services, start-ups, tourism etc."

Smaller businesses are likely to have the hardest time



Across the board, there is recognition that small businesses will struggle the most, suffering because of reduced access to capital and tougher trading conditions. In Switzerland every respondent thought micro and small companies would be the most affected. The majority of German, Spanish and Italian respondents agree with this assessment. The UK and France have a more varied outlook, with a higher proportion of medium and large companies likely to be affected.

Country	Micro	Small	Medium	Large	Multinational
UK	25%	27%	27%	16%	6%
France	19%	46%	31%	4%	0
Germany	60%	19%	11%	5%	5%
Italy	34%	41%	12%	5%	7%
Switzerland	25%	75%	0	0	0
Spain	35%	45%	13%	4%	5%

A UK respondent said, *"The outlook is more positive than originally expected, with the UK expected to make a recovery stronger and faster than first thought, driven by the rapid roll out of the vaccination program. But this recovery may come too late perhaps for smaller companies unable to weather the storm."*

Smaller businesses are likely to have the hardest time

In France there are other factors at play, as one respondent explained: *"Mid-sized businesses have been largely forgotten by state aid efforts focused on smaller enterprises, while large corporations have benefitted from tailor-made schemes."*

Several of our respondents also saw longer-term issues for companies that had benefitted from Government loans. They questioned how repayment would be structured and what it meant for stakeholders. One asked: *"What will happen to all the government loans sat on the balance sheets of companies with decent business models? Will existing stakeholders accept to work for the next x+ years to pay off government money?"*

Another respondent questioned the conflicts of interest that will arise because of the hastily issued state-backed loans at the start of the pandemic: *"The main question in the market now is how do you restructure the balance sheet of companies that received state-backed loans provided by banks at no, or limited, risk. The management of conflict of interests will certainly be challenging."*

The /amo view

/amo

As we emerge from lockdowns, and hopefully the worst of the pandemic, appropriate communications and stakeholder engagement are essential to preserving value in companies. Looking at the themes raised in the survey, communications experts from across the /amo network in Europe share their views on some of the considerations.

- Moderating force while fighting the fire – Government bailouts and stakeholder expectations
- Creating resilient corporates through restructuring
- Public funds for businesses – what scrutiny can we expect?
- Reassurance in face of high levels of balance sheet debt
- The public response to political discourse in Spain

Moderating force while fighting the fire – government bailouts and stakeholder expectations

Andrés Luther, Hirzel.Neef.Schmid.Konsulenten

Companies today are more dependent than ever on a complex web of resources to create value, such as capital and talent, as well as customer and supplier relationships. We call them stakeholders. What does it mean when a government enters this equation as a lender of last resort or a shareholder providing an equity lifeline?

In communications terms, stakeholders are not significantly different from shareholders. Since they have “skin in the game” through their commitment and investments, they expect value for their services or funds, as well as an open and two-way channel of communications. The expectations of stakeholders can be in competition with each other. Yet when it comes to the long-term development of companies, stakeholder expectations tend to coincide.

The so-called ‘Stakeholder View’ is hardly a novelty, nor is government participation. What is new is the environment shaped by technology. Today, technology offers the reach and speed that provides stakeholders with transparency and new tools to shape the debate, and it enables companies to have a dialogue with all these parties. In the digital age, financial communication has become a complex multi-stakeholder dialogue.

Governments which have stepped into situations such as we have seen in the last year have a decisive role to play. They not only inject capital and do the firefighting. Governments are also confronted with the expectations of citizens, investors, and consumers, all of whom expect fair treatment. Their expectations are partly in competition with each other, and this competition is visible to everyone, with governments needing to moderate it through prudent communication strategies.

Stakeholder dialogue does not exclude controversy. The changed expectations of consumers, investors and the public are also a product of the age of digital disintermediation and massively increased transparency. They are used to having broader access to goods and services, much more information and a wider choice. As a result, a more substantial influence is exerted by stakeholders through their values and decisions.

Government investors need to understand for whom the companies they support are creating value, and to actively and effectively communicate this to their various target groups.

Why is this important? The value of most business has become intangible, they are built upon the expertise of their employees and partners in an increasingly complex eco-system. If neglected, these assets diminish or disappear quickly. They need to make sure to protect value, that the force of the fire hose does not flush out key assets, talent, relationships.

Moderating force while fighting the fire – government bailouts and stakeholder expectations

Government interventions are considered a generous gesture and companies which receive them are viewed as safe under the protective umbrella of the state. Yet in the current environment, companies which receive this form of protection are facing new challenges. Stakeholders provide their own perspective on different and varied channels — on social media but also within mainstream publications — and influence their peers. The Government umbrella intensifies this, rather than providing protection. In this environment, communication is key to safeguarding value.

Instead of fighting stakeholders, companies, and Government, investors need to take advantage of this development. Taking account of the active input from multiple stakeholders, which, by its very existence, demonstrates the importance of the company, is an opportunity to obtain ideas and suggestions.

The ideal next step is a genuine constructive dialogue and partnership with stakeholders, equal to equal. The ideal final step is for all interests to be aligned: stakeholders, shareholders, and the business as a whole.

Key communications and positioning actions for management to consider when a government steps in:

- Governments that are involved in corporate restructuring face certain responsibilities they cannot delegate. Together with the management teams, they need to seize the opportunity to build a dialogue that will strengthen the relationship of the company and its stakeholders, as this will ultimately strengthen the brand.
- Be present; explain the business model and value creation of a business for its stakeholders and use proactive, comprehensive communications to align the interests of key stakeholders.
- Protect the brand and stakeholder eco-system, avoid stigma through government support by creating certainty and by communicating in a clear and transparent way - leverage government support as a source of strength.
- Long-term government aid cannot be a viable option. There needs to be an exit strategy from the start and exit communication needs to be taken into account and planned from the start.

Creating resilient corporations through restructuring

Sebastian Marx and Stephanie Prager, DAA/amo

Almost half of the participants in Germany told us: "*After the pandemic, the success of a business will be measured more by resilience than by pure growth*". This is remarkable because it does away with the traditional view that management's agenda must focus solely on numbers and efficiency, particularly in a restructuring scenario.

But how do you define Corporate Resilience? The term appears in many different discourses - from psychology to economics, and from social sciences to materials management. Resilience is not used in the meaning of strength (i.e. one needs to "endure" something), but to describe the agility and speed required to appropriately react to setbacks. A company is resilient if it can quickly adapt to new conditions and demonstrate “stability through flexibility”.

This is a bold step beyond the context of numbers-driven management agendas which are the basis for most restructuring operations. Restructuring programmes often follow the logic that a joint, time-limited "effort" would bring the company back on track. The language used often reflects this, by naming restructuring projects "fitness programmes" and rallying employees to achieve a common goal with maximum performance.

Immediate crisis management and securing liquidity still have top priority in such an acute crisis. There is also greater recognition of the importance of making a company fit to deal with the unforeseeable. Economic conditions, as the pandemic has impressively shown, are more volatile than ever. Upheavals of various dimensions are shaking the market at ever shorter intervals. Companies are permanently under pressure to adapt. Hence, it is increasingly difficult to proclaim a return to stable conditions as the goal of a restructuring process.

Consequently, stakeholders' communication needs are becoming more complex and require more attention. Three aspects should be considered to increase resilience through thoughtful communications:

Creating resilient corporations through restructuring

- Involve communicators at an early stage: communications in companies is still often reduced to informing people about decisions that have already been made. During a restructuring, this is often too late. Communicators need to be at the table in the decision-making process and assess the best options alongside management.
- Communicate uncertainties: Under no circumstances should one give the impression in uncertain times that one already has answers to all questions. Instead, one should always explain the reasons behind a particular course of action and the underlying assumptions and show readiness to deal with open questions.
- Don`t hide: In uncertain times it would be disastrous to avoid communicating. Lack of communication can lead to employees feeling like they are no longer in touch or aware of what is happening internally, especially in a context of working from home Therefore don't hide! Communicating that you are not able to say anything (yet) is always better than remaining silent.
- Continuous updates promote trust in the actors and in the restructuring plan, thus increasing resilience.

Communication that takes these points into account create trust - and helps in building resilience in the best sense.

Public funds for businesses – what scrutiny can we expect?

Alexis Madelain, Havas Paris

Since the start of the pandemic in 2020, public funds have been abundantly allocated to help businesses sail through the crisis. State support across Europe has taken many shapes, including state-backed loans, tax deferments, exemptions from EU state aid rules, furlough schemes etc.

Across target countries, we found a consensus on continuing state support at least until the end of 2021. In the French survey, commentators noted that upcoming presidential and legislative elections in 2022 meant state support for businesses would continue in the form of the current scheme. This is because it would be unthinkable for a running incumbent to let a failing business damage his reputation in the runup to the presidential election.

The weight of unions in French politics suggests that any major industrial restructuring involving redundancies would be politically damaging. We can therefore expect continuing state support, especially in the industrial sector, until the presidential elections in May 2022.

There has been little controversy over how these different schemes have been used by businesses. Dominant opinion during the early days of Covid was clearly in favour of public spending in a bid to stave off a major economic calamity.

As we reach a possible end of the pandemic and the lifting of restrictions, can we expect some retrospective scrutiny regarding the way public funds have been used?

In the UK, HMRC stated in last June that it was expecting to recover GBP 1 billion of fraudulent or mistakenly claimed furlough cash. In France, after a period of relative tolerance, various checks have been implemented, and we are seeing the first instances of furlough fraud going to trial. On 31 December 2020, the French Finance ministry's intelligence unit stated that 105 furlough fraud cases were facing prosecution, expecting to recover around EUR 27 million.

In a context of economic recovery, we can expect a shifting public discourse on state aid, and questions can be expected from the media and key stakeholders:

- Have you returned the money you were given? If not, how have you used it?
- Did you invest these funds and if so, has your business profited from this investment?
- Regarding furlough, to what extent has such support preserved your company from redundancies? If employees were made redundant, how was this justified?

Public funds for businesses – what scrutiny can we expect?

This shift in discourse means that businesses must anticipate these questions and engage with stakeholders regarding their use of public funds, including:

- Promoting clear and transparent communications about the allocation of funds, when they were received, how they were spent, how they will be repaid and along what timeline.
- Providing evidence public funds were used as part of a transition to the post-Covid economy: i.e., aid has helped the business make the necessary structural changes ahead of a post-pandemic restart.
- Developing a narrative behind employee furlough: a means to stabilise expenses and cashflow and a responsible reallocation of resources.

Businesses must also expect increased scrutiny over the actions of management and the quality of leadership and prepare for legal action from key stakeholders (authorities, shareholders, unions etc.).

Reassurance in face of high levels of balance sheet debt

Vikki Kosmalska, Maitland/amo

Some level of debt is a natural component of any company's balance sheet. But the levels of debt taken on by businesses over the last 18 months due to the pandemic have reached new levels. Euro-area companies added more than €400 billion ($475 billion) in debt over the first half of 2020 alone, compared with €289 billion in the whole of 2019, according to European Union data. And it has not eased off this year, despite a dip in the latter half of 2020, PWC calculates that €474 billion of debt was raised by European companies to 1st July 2021.

For some stakeholders these levels of debt might be concerning, and questions may arise to how sustainable that is for the business to continue and succeed. The entrance of new stakeholders may also unnerve existing stakeholders.

For companies having to report financial data, there are some important elements to remember when discussing debt:

- Overall levels of debt can seem overwhelming. Breaking it down and demonstrating how each instalment can be covered will make it seem more manageable. Laying out a quarter-on-quarter update of how debt is being managed will mean stakeholders will be reassured by management's plan and ability to deliver against it.
- Different stakeholders are like to respond differently, so be mindful of your audience. Unsurprisingly, unsecured creditors such as suppliers and landlords might be most anxious about high levels of debt and the company's ability to meet its obligations. They will not only want to see the company's approach to overall debt, but how they will be treated in particular. Communicating clearly on what is realistic is important, trust is easily broken if one thing is said, and another done. It's better to take a cautious approach and communicate that clearly, than to over-promise and under- deliver.
- Secured creditors hold a lot of leverage over a company, so it is vitally important to ensure good relations. Frequent communication is important, but it needs to be substantive and meaningful. Consider doing an investor relations roadshow to meet with them all and hear them out individually.

Speaking to the media on debt can also tricky. Do not assume an understanding from the journalist, but also do not feel you need to disclose more than is in the public domain. The media should be used to reinforce messaging to creditors so, even if simplified, ensure consistency in the messaging. The media is also an important conduit to get messages out beyond that stakeholder base and to others that might have a vested interest, such as the Government and employees. Remember these audiences when thinking about language, steering away from jargon in statements.

The public response to political discourse in Spain

Bruno Calvo, Grupo Albion

Since the breakout of the pandemic, the crisis in Spain has had a very political approach. Both the sanitary and the economic measures taken by the Government (led by the Socialist party along with far-left Podemos) have been constantly questioned by the opposition, and public response has been very vocal.

Moreover, the administrative and territorial organisation of the country, a sort of hybrid scheme between a centralised and a federal system, has helped increase political and regional tensions. The regions led by different parties than those in the central government have carried out their opposition by imposing opposing measures regarding the health crisis.

Furthermore, because of a politically turbulent year, in 2021 both Madrid and Catalonia decided to hold early elections: Catalonia's took place on 14 February (with a nationalist win) and Madrid's on 4 May (with a sweeping victory by the conservative party PP). Having so many changes can cause confusion among foreign investors, who have to keep up to date about who the relevant stakeholders are.

All in all, the way recovery measures are seen in Spain is very linked to ideology. From a communication point of view, the central government suffered several hits during the first few months of the pandemic, being accused of responding late to the crisis. This led to political demonstrations which the opposition parties managed to capitalize.

More recently, instead, the national government has benefited from the announcement of economic aid coming from the EU as well as a good increase in vaccinations, which Prime Minister Pedro Sánchez has been careful to announce publicly as a personal success. They have also managed to reach deals with business associations in terms of furlough schemes, extended until 30 September, which most of the public opinion received positively.

These past 18 months have changed the interconnections between politics, economy and health. But the latest forecasts indicate that Spain is still a growing market. Investors should observe the allocation of funds coming from the EU and take the following into consideration:

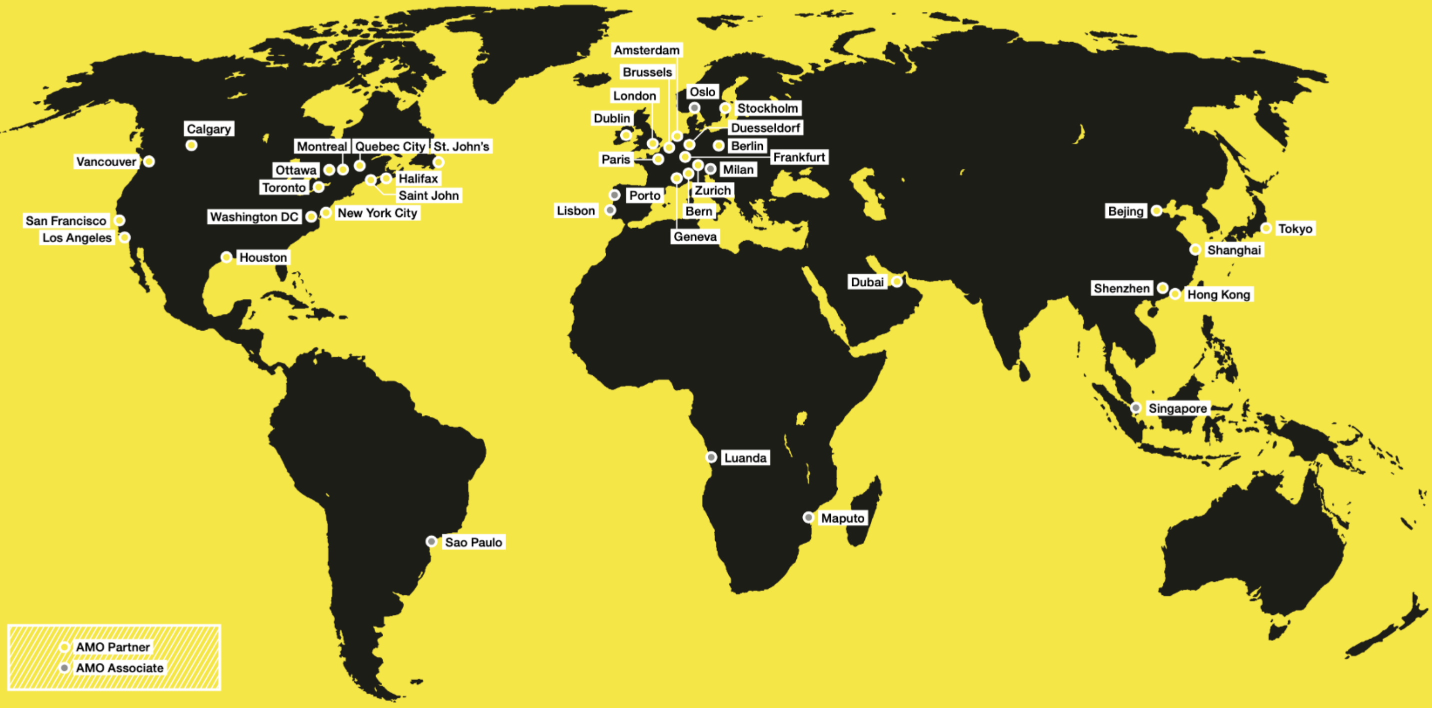
- Economic aid will be especially directed to the sectors of mobility, health, construction & infrastructure, tourism and retail, which will presumably keep being the main drivers of Spain's economy.
- Companies wishing to apply for aid must present projects that bring about a transformation in their sector and can adapt to withstand a future crisis such as the current one.
- Business must be aware that their stakeholders are prone to change any given day, considering the country's volatile political situation, so a frequent political mapping in the regions of interest is always necessary.

About /amo

The /amo network is a global organization of strategic communications advisors dedicated to building, enhancing, and protecting our clients' reputations while helping achieve their business objectives.

Founded in 2001 by three agencies within the Havas Group in New York, London, and Paris, /amo today is a world-leader in its field, with a unique structure, pairing deep local market expertise with broad global perspective and integrated project management.

The best-in-class approach of the /amo network brings together local-market leaders with unrivalled knowledge of stakeholder perceptions, financial markets and cross-border transactions in the key financial centres of Europe, Asia and the Americas.



/amo corporate restructuring
September 2021

For further information, please go to:
www.amo-global.com

Or contact:

Havas Paris - France
Alexis Madelain
+33 15 777 7183
alexis.madelain@havas.com

Maitland/amo - UK
Vikki Kosmalska
+44 77 5494 3601
Vkosmalska@maitland.co.uk

Deekeling Arndt Advisors - Germany
Stephanie Prager
+49 69 9709 8533
stephanie.prager@deekeling-arndt.com

Hirzel.Neef.Schmid.Konsulenten - Switzerland
Andrés Luther
+41 43 344 42 42
andres.luther@konsulenten.ch

Grupo Albion - Spain
Bruno Calvo
+34 678 00 25 15
bcalvo@grupoalbion.net

Havas PR - Italy
Rafaella Casula
+39 028 545 7056
rafaella.casula@havaspr.com