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Deloitte Restructuring Survey 2023

A time for action: collective responsibility for the early identification of financial distress

April 2023

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Foreword

Every year, as we embark on the mammoth task of compiling the *Deloitte Restructuring Survey*, we hope to surpass the prior year's number of respondents. Well, this year's survey far exceeded our expectations, with a 35% increase, taking our total to 150 responses! Most notably, we received a significantly higher response rate from Kenya and the C-Suite than ever. A massive thank you to everyone who took the time to contribute to this year's results.

Writing the survey this year feels vastly different from when we collated the responses in 2022. We're now firmly in a rising interest rate cycle: inflation is biting, and exchange rates are tumbling. And South Africa is battling through the greatest threat to economic growth the country has experienced in its young democracy: loadshedding. As I write this foreword, South Africa's recent grey listing and the magnitude of the implications and consequences – while yet unknown – could not have come at a worse time. Everything does feel a little ... well, more turbulent, more volatile. Has the storm arrived?

Against this backdrop, then, it should be of little surprise that the level of pessimism has increased significantly amongst respondents when looking ahead at growth in the ensuing 12-month period. Naturally, this pessimism flows through to a heightened level of business rescue activity expected in 2023, an increase exceeding that which was anticipated in our 2022 survey.

Last year, we spoke of the crisis of trust between business rescue practitioners and their varied stakeholders. This year, we're asking whether business rescue is going through an identity crisis. Business rescue's purpose is clear among respondents, but this is not what is being achieved in practice. How do we align its purpose with its practical use?

A strong theme throughout the survey is the importance of robust financial information and forecasts that stand up to scrutiny. Poor quality financial information was cited as the number one reason why a financial institution implements recovery action, speaking not only to a potential management competence issue, but also providing little confidence with which to support a credit request.

There is a strong preference for a Restructuring Office, led by restructuring professionals instead of management teams, in resolving financial distress. This combination is cited as the most likely to succeed – allowing the restructuring professionals to focus on the task at hand and the management teams to continue with day-to-day business operations. However, this combination requires sufficient time to deploy, analyse, report, and resolve if it is to have a chance of success.

While management teams have consistently been blamed for identifying distress too late and thereby limiting the restructuring tools available, this year we're sounding a call to action for all stakeholders. Management teams and restructuring professionals are all responsible for identifying early signs of stress, and implementing a fit-for-purpose process. Struggling businesses can only be saved and much-needed jobs preserved if financial distress is identified early.

Jo Mitchell-Marais

Africa Turnaround & Restructuring leader

Survey highlights

35% increase in response rate

81% are pessimistic about growth in South Africa; 85% expect an increase in business rescue activity in South Africa

57% are pessimistic about growth in Nigeria

71% of lenders believe Part A is primary purpose of business rescue; lenders believe 3% of business rescues have been successful if Part A is the measuring yard

Arrival of the storm

Last year's survey was conducted at a time of rising optimism across the globe: we were finally free of draconian lockdowns, the commodity prices on which so many of our economies rely were booming, and the prospect of war in Ukraine seemed remote.

What a difference a year makes.

South Africa: out of power, out of hope?

It is said that South Africans are, by and large, hopeful people that can spot the silver lining in the darkest storm cloud. Last year was a real test of this maxim. In 2022, South Africa reached the ignominious milestone of more than 150 days of loadshedding – and in any given month since October 2022, there will have been as much loadshedding as the entire calendar year of 2019.

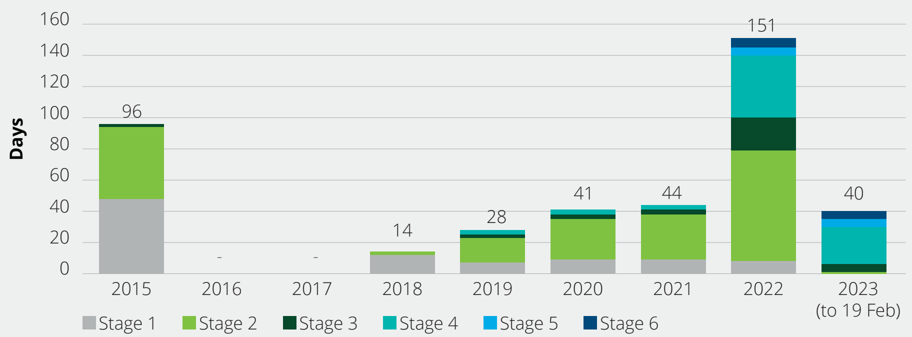
Speak to any South African, and they will eloquently explain the impact loadshedding has had on their lives. The lucky few (be they affluent individuals or large corporates) have opted for eye-wateringly expensive alternatives to the grid. For most, less electricity means less productivity.

Combined with the existing structural challenges in South Africa, it is no wonder that, for the first time, all the stakeholder groups we surveyed are pessimistic about economic growth prospects, even the usually optimistic C-Suite.

But there is a glimmer of hope. Global recession fears are cooling oil prices, and signs of global food prices normalising are emerging. This means that the worst of inflation may be behind us and, with it, the rising interest rate cycle.

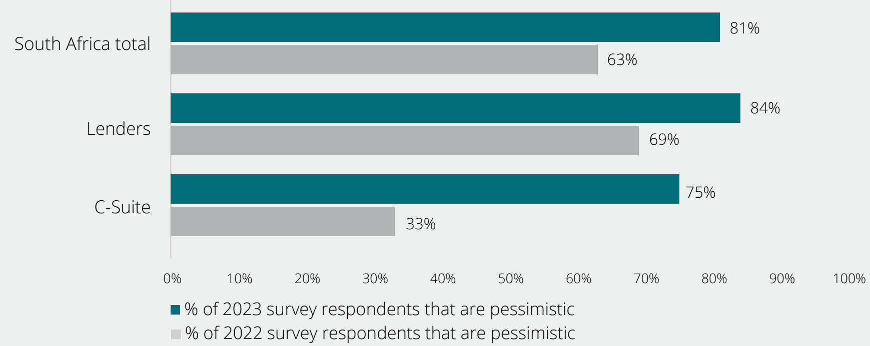
Much of this hope for slower inflation depends on the impact of loadshedding on food and manufacturing costs because, in today's South Africa, it always comes back to Eskom.

Figure 1:
Eskom loadshedding days per year



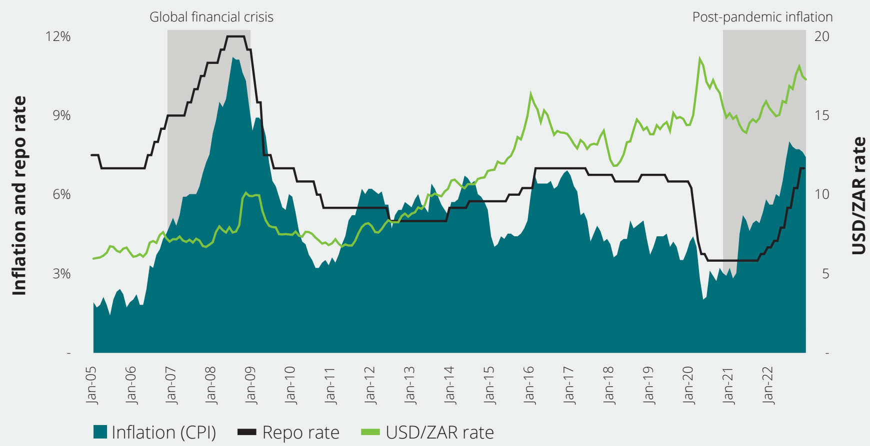
Source: EskomSePush

Figure 2:
Survey respondents that are pessimistic about growth prospects in their region in 2023



Source: Deloitte Restructuring Survey 2022 and 2023 results | Respondents: South Africa only, lenders and C-Suite only

Figure 3:
South African monetary policy indicators



Source: Economist Intelligence Unit, SARB

"South Africans' ability to pick themselves up is cause for optimism … but there has been a drop in standards, and acceptance of this drop is worrying"

– Restructuring Lender, Pan-African Bank

Nigeria: shaky foundations

This year's survey was conducted against the looming shadow of an election that, for the first time, appeared to be a three-horse race, and where the orthodoxy that the presidency alternates between the majority-Muslim north and majority-Christian south may be broken. Polls have closed since the survey concluded, but Nigerian survey respondents registered their concern in the largest shift towards pessimism across the three jurisdictions covered.

There are three key factors causing uncertainty in Nigeria:

Crude oil dynamics

Firstly, it is oil because, of course, it is always oil. Production of Nigeria's main commodity (making up 90% of its exports and 50% of government revenue) has continued to fall due to theft and underinvestment. Meanwhile, the prohibitively high cost of transporting imported refined oil has contributed to fuel shortages and highlighted the government's expensive policy of subsidising citizens' fuel.

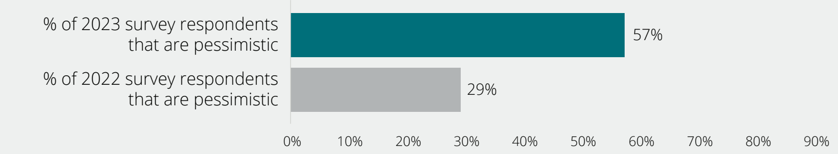
Inflation fears

Secondly, Nigeria may not ride the global wave of cooling inflation due to country-specific risks; falling oil prices reduce the Central Bank of Nigeria's dollar reserves and, therefore, its ability to stave off the kind of devastating currency devaluations last seen in 2016. Import controls increase the cost of foreign goods, while civil unrest is a risk to agriculture. These factors help to explain why price instability was ranked as one of the top three risks by respondents to our survey.

Frustrated citizens

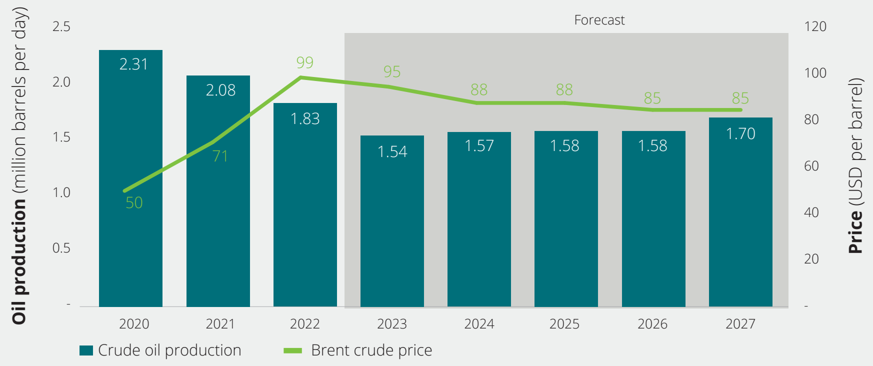
Thirdly, the instability caused by the above factors has led to an acute cost-of-living crisis. Many Nigerians, particularly Gen Z and Millennials, have lost patience with the ruling elite. As queues at petrol stations (fuel shortage) and banks (stuttering demonetisation efforts) continue to build, it is no wonder that our survey respondents ranked low consumer confidence as the top risk facing Nigerian companies.

Figure 4:
Nigeria respondents that are pessimistic about growth prospects in 2023



Source: Deloitte Restructuring Survey 2022 and 2023 results | Respondents: Nigeria only, all stakeholders

Figure 5:
Nigeria crude oil production vs price



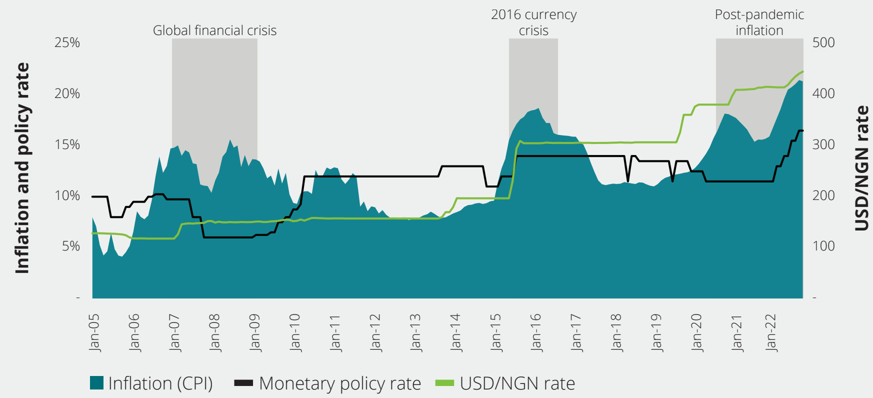
Source: Fitch

Figure 6:
Nigerian respondents' top three risks

1	Low consumer confidence
2	Commodity shock
3	Price instability

Source: Deloitte Restructuring Survey 2023 results | Respondents: Nigeria only, all stakeholders

Figure 7:
Nigerian monetary policy indicators



Source: Economist Intelligence Unit, Central Bank of Nigeria

Kenya: glass half full

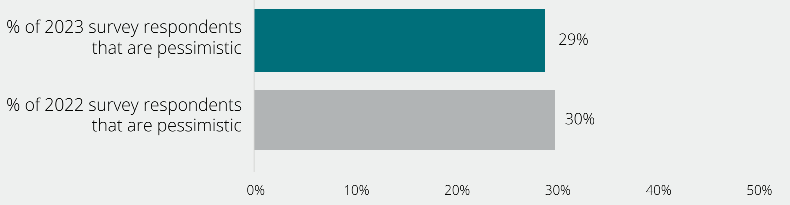
Kenya was the only stakeholder group that registered optimism in this year's restructuring survey. This comes as no surprise considering the economic backdrop, particularly compared to its ailing regional peers.

As Kenyans went to the polls last August, a nation held its breath. Memories of the violent scenes after the 2007 and 2017 elections loomed large. Economic activity, ranging from investment to insolvency action, had been on hold for months. To the relief of millions, the 2022 election was largely peaceful, marking an orderly transition of power from President Kenyatta to President Ruto. This relief has been felt across the Kenyan economy; for example, Stanbic Bank's *Purchasing Managers Index* rose to an 11-month high in February 2023.

Kenya is not completely out of the woods, however. Inflationary pressure, the old nemesis, continues to threaten as drought conditions and seed input costs push up food prices, and a depreciating shilling adds to price instability. Private consumption is, therefore, likely to remain lower for longer.

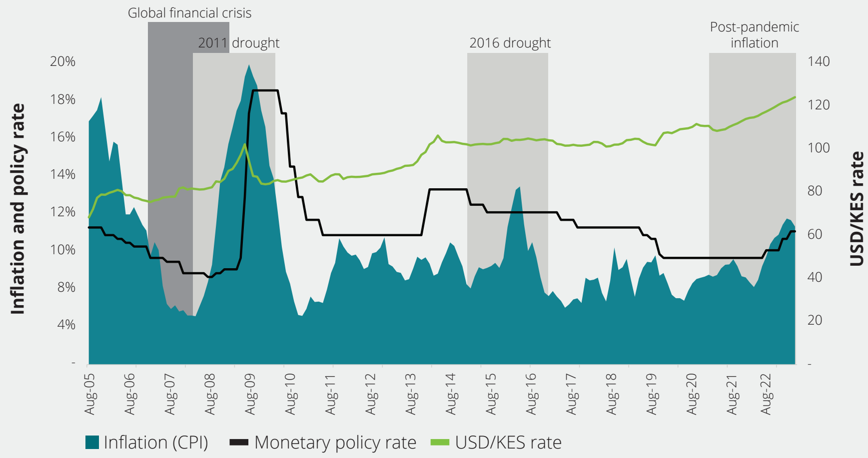
Beyond these immediate challenges, Kenya is poised for growth over the medium term. Factors such as the government's significant investment in infrastructure in recent years, commitment to fiscal discipline, the much-touted demographic dividend, and Kenya's diversified economy can all stimulate sustainable growth. The future looks bright, but tough and immediate action on inflation and high debt levels is needed.

Figure 8:
Kenyan respondents that are pessimistic about growth prospects in 2023



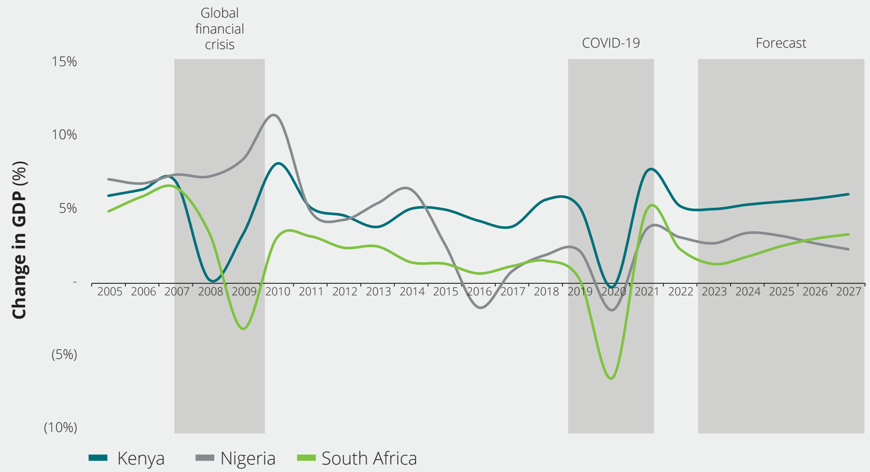
Source: Deloitte Restructuring Survey 2022 and 2023 results | Respondents: Kenya only, all stakeholders

Figure 9:
Kenyan monetary policy indicators



Source: Economist Intelligence Unit, Central Bank of Kenya

Figure 10:
Kenyan real GDP growth vs peers



Source: Economist Intelligence Unit

Sectors: consumer businesses on the brink

Much has been made of the cost-of-living crisis, and with some justification. The factors discussed earlier in this report – loadshedding in South Africa, instability in Nigeria, and inflation in Kenya – mean one thing: less money in the consumers' pockets. Unsurprisingly, our survey respondents identify the retail and consumer products sectors as at greatest risk in 2023.

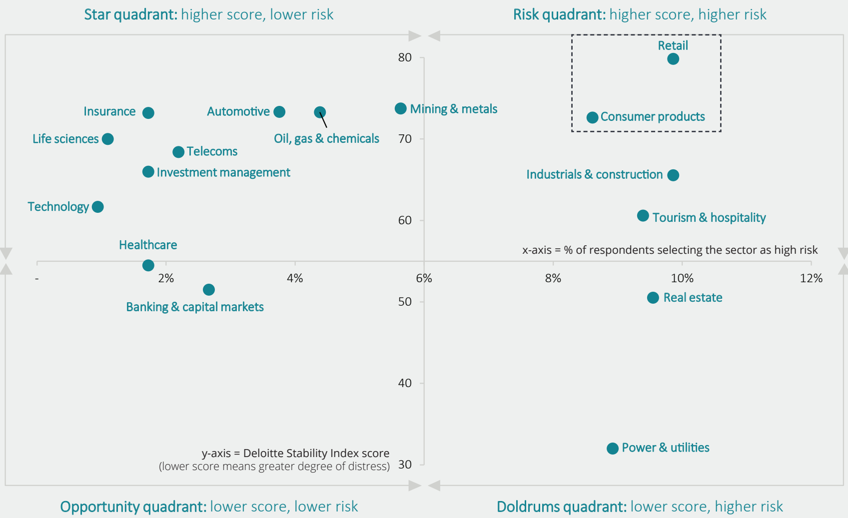
Tightening household budgets and rapidly changing consumer tastes are not the only headwinds facing retail and consumer product companies. While improved since the height of pandemic disruption supply chains remain at risk. Deloitte's *Consumer Products Industry Outlook* found that 62% of executives interviewed believe supply chain issues will be quite or extremely challenging in 2023.

Agile companies in these sectors are investing in adapting to the demands of the changing consumer. For example, they are considering granular data-driven price differentiation strategies and improving supply chains by investing in data and mitigating concentration risk.

For companies not acting quickly enough, choppy waters are ahead, and with it, we expect a wave of restructuring activity.

Figure 11:

Average Deloitte Stability Index score per sector ↑ vs % of Deloitte Restructuring Survey respondents selecting the sector as high risk →



Source: Deloitte Stability Index, Deloitte Restructuring Survey 2023 results | Respondents: All regions, all stakeholders

For more information on the Deloitte Stability Index, please visit https://www2.deloitte.com/za/en/pages/mergers-and-acquisitions/articles/introducing-the-deloitte-stability-index.html

Figure 12a:

South African respondents' top three sectors at risk (excl. public sector)

1	Retail
2	Construction
3	Consumer products

Source: Deloitte Restructuring Survey 2023 results | Respondents: South Africa only, all stakeholders

Figure 12b:

Kenyan respondents' top three sectors at risk (excl. public sector)

1	Hospitality
2	Real estate
3	Construction

Source: Deloitte Restructuring Survey 2023 results | Respondents: Kenya only, all stakeholders

Figure 12c:

Nigerian respondents' top three sectors at risk (excl. public sector)

1	Oil & gas
2	Construction
3	Power & utilities

Source: Deloitte Restructuring Survey 2023 results | Respondents: Nigeria only, all stakeholders

"The only important KPI these days is working capital"

– Head of Restructuring, South African Bank

"Companies need a buffer against the unknown"

– Head of Restructuring, South African Bank

Business rescue's identity crisis

Our *2022 Deloitte Restructuring Survey* was concluded just before Russia invaded Ukraine. Even without the knowledge of these events and their effects, 60% of our respondents expected increased business rescue activity in 2022.

One year later, statistics published by StatsSA highlight a marked increase in liquidation activity, particularly in December 2022 compared to December 2021. Unfortunately, the statistics on business rescue from the Companies and Intellectual Property Commission ("CIPC") for the same period are unavailable, which remains a continued frustration for restructuring professionals in South Africa.

Without overanalysing the reason for the increase in liquidations, the StatsSA report highlights small and medium enterprise ("SME") market data. These companies typically sink faster and deeper into distress after living month-to-month, leaving little to no room on the balance sheet to opt for any alternative other than liquidation. It is also safe to assume that many of these companies waited too long to act, making a reasonable prospect of rescue improbable and leaving them with liquidation as the only outcome.

Unsurprisingly, given the strong headwinds the South African economy continues to face – most notably the power crisis which the finance minister acknowledges is threatening the survival of businesses – 85% of respondents predict an increase or significant increase in business rescue activity. This correlates with our respondents' pessimistic view of the 2023 economic outlook.

But is business rescue working?

There is a strong alignment among survey participants that the primary purpose of business rescue remains the rescue of a company. Business rescue is clearly defined in Chapter 6 of the Companies Act No 71 of 2008 ("Companies Act") as the development and implementation of a plan to rescue the company through restructuring its affairs, business, property, debt, and other liabilities, and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis (referred to as a "Part A" outcome).

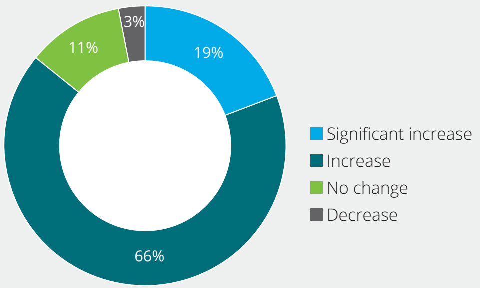
A total of 71% of our lender participants and 85% of our practitioner participants (insolvency practitioners, lawyers, and advisors) support this.

Notably, the Companies Act also views an outcome that results in a better return than liquidation to creditors as a successful business rescue (referred to as a "Part B" outcome).

However, the true test of success for business rescue is ultimately captured in Section 7(k) of the Companies Act. Business rescue should provide a restructuring mechanism for the efficient rescue and recovery of financially distressed companies, balancing the rights and interests of all relevant stakeholders.

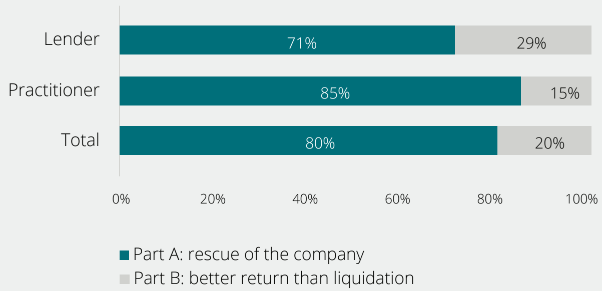
Therefore, success in business rescue should be measured through an additional lens and on a case-by-case basis. This is especially true when a Part B outcome results from an intentional distressed mergers and acquisitions ("M&A") process where, together with further corporate restructuring and the support of lenders and new equity providers, jobs are preserved, suppliers continue supplying, and SARS continues to collect. This clearly meets the success requirements Section 7(k) intended.

Figure 13:
How do you expect the level of business rescue activity to change over the next 12 months?



Source: Deloitte Restructuring Survey 2023 results | Respondents: South Africa only, lenders and practitioners only

Figure 14:
What do you consider to be the primary purpose of business rescue?



Source: Deloitte Restructuring Survey 2023 results | Respondents: South Africa, lenders and practitioners only

"The challenge is that every rescue plan I've seen is a soft liquidation. Business rescue needs more turnaround consultants"

– Business Banker, Pan-African Bank

Business rescue's identity crisis

With 80% of respondents defining the primary purpose of business rescue as a Part A outcome, the success rate achieved for Part A compared to Part B outcomes are disappointing.

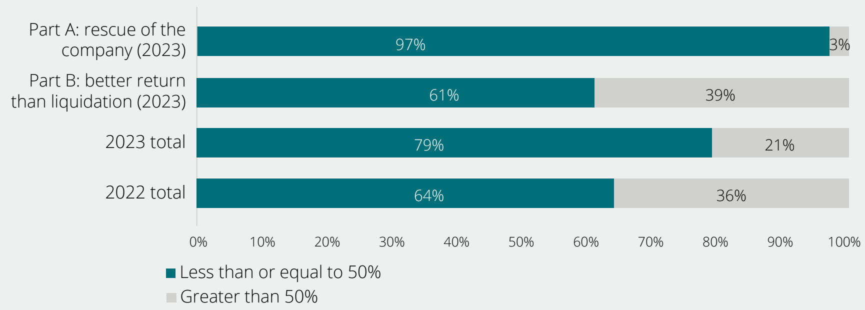
Survey participants still believe that the success rate of business rescue, whether through restructuring the companies' affairs or giving creditors a better outcome than in liquidation, is less than 50%. Analysed differently, only 3% of lender respondents experienced Part A success in more than 50% of their portfolios. Compare this with 39% of lender respondents experiencing success in more than 50% of their portfolios using a Part B outcome. Therefore, if the purpose of business rescue is defined as a Part A outcome, but more success is being achieved with Part B, is business rescue suffering an identity crisis?

CIPC data collected between 2011 and June 2022 indicates that nearly 19% of the 4 370 companies that entered business rescue proceedings filed substantial implementation notices. If termination notices were included (filed where a business rescue practitioner determines that the company is no longer distressed), the success rate would likely increase.

So where does this leave the role of business rescue?

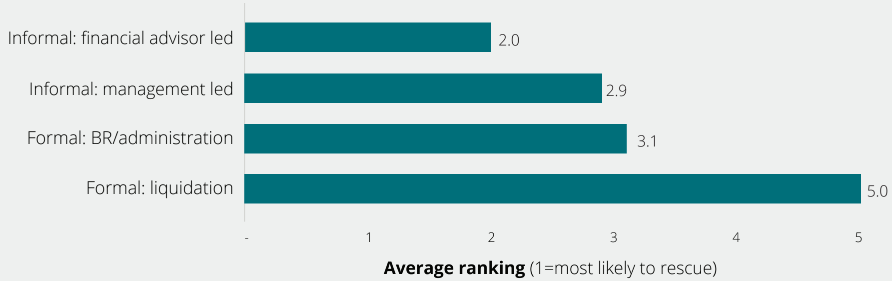
Our survey participants clearly support advisor-led and management-led restructuring. This does not mean business rescue is an ineffective restructuring mechanism. Instead, it merely supports Deloitte's view that business rescue has a matter-specific place, which can be accessed by management, a board, financial stakeholders, and advisors, to facilitate a rescue or restructuring, that balances the rights and interests of all stakeholders with success measured on a case-by-case basis.

Figure 15:
Lenders' views on the success rate of clients that have entered business rescue



Source: Deloitte Restructuring Survey 2022 and 2023 results | Respondents: South Africa, lenders only

Figure 16:
Rank the following restructuring mechanisms from the most likely to rescue the business to the least likely



Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, lenders and practitioners only

"As a banker, our primary goal in business rescue is to get our money back; but for the country, we need companies rescued and jobs saved"

– Head of Restructuring, South African Bank

"Part B is not necessarily better than liquidation, it's just quicker as there is no Master to deal with"

– Head of Restructuring, Pan-African Law Firm

Critical factors that contribute to a successful business rescue

Our survey continues to unpack and understand what is required to support a successful business rescue. Understanding and addressing these requirements are critical to support the long-term adoption of business rescue as an acceptable restructuring mechanism under the appropriate circumstances.

However, the timing of a business rescue remains one of the most important success factors. Business rescue is unlikely to be a successful restructuring and rescue mechanism if the distress is so deep that there is no chance of reasonable prospect of rescue, despite all stakeholders' best will and intentions.

It is the collective responsibility of management and the board, financial stakeholders, and legal and financial advisers to collaborate to ensure that business rescue is used as a restructuring mechanism at the appropriate time, and under the appropriate circumstances.

Our survey once again delved into the qualitative success factors. Like last year's survey, the importance of a competent business rescue practitioner ("BRP") remains a vital contributing factor to a successful business rescue.

The foundation of a competent business rescue practitioner, however, remains anchored in trust and integrity. Trust is earned through robust, transparent, and frequent stakeholder engagement. Founded on transparency and integrity, a collaborative business rescue plan can be developed and implemented, with the business rescue practitioner trusted to balance the rights and interests of all stakeholders.

Pre-assessment remains another critical success factor for business rescue. The engagement of a business rescue practitioner with sufficient time to conduct a pre-assessment is essential. The pre-assessment lets the prospective business rescue practitioner weigh up the reasonable prospect of rescue with the level of independence and professional scepticism required.

Industry and legislature also need to facilitate and encourage pre-assessment by allowing pre-assessment costs to be accommodated as costs of the business rescue process, as in a few overseas jurisdictions.

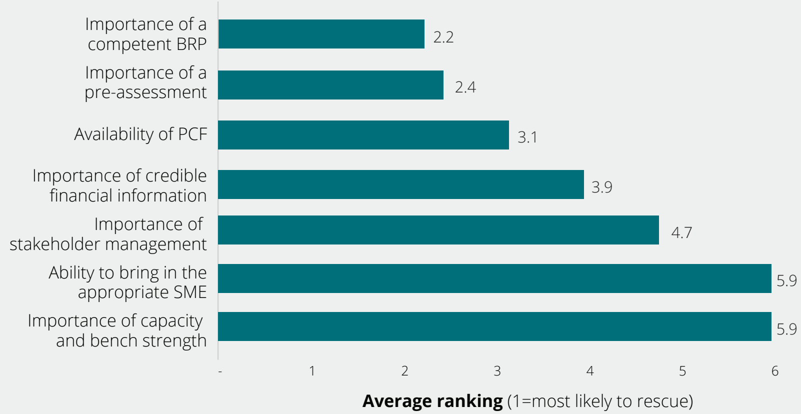
The availability of post-commencement finance ("PCF") remains a challenge in a developing market. Financial stakeholders, already exposed to a company that intends to enter business rescue proceedings, usually have limited risk appetite to increase their exposure. They also have security rights prohibiting new funders from coming to the table.

Fortunately, global special situation funds are showing interest in the South African market. However, we cannot rely on these finance providers alone. A deliberate effort from our industry is required to urgently fill this gap, in collaboration with development finance institutions, as well as lenders.

The most trusted and competent business rescue practitioner, having performed a thorough preassessment, which supports a reasonable prospect of success, is unlikely to achieve this outcome without PCF.

Figure 17:

What have been the key lessons learnt since business rescues began?



Source: Deloitte Restructuring Survey 2023 results | Respondents: South Africa only, Practitioners only

"0% of companies have exited from business rescue in my view – selling a business out of BR is not rescue"

– Restructuring Lender, Pan-African Bank

"Business rescue is step one towards liquidation"

– Restructuring Lender, Development Finance Institution

"The market needs BRPs with a turnaround mindset"

– Head of Restructuring, Advisory Firm

Kenyan administration: too little, too late

While Kenya's economic outlook is rosier than its large African peers, particularly in the medium term, respondents to this year's survey overwhelmingly believe that there will be an uptick in insolvency activity in 2023. This is partly due to the short-term hurdles the country may face, most notably inflation and a depreciating shilling, but it will also partly be driven by lender behaviour.

In the jittery months leading up to last year's elections, corporate activity ground to a halt, whether growth activity (such as investment decisions) or difficult decisions (such as whether to act on a non-performing loan). Without visibility on where the country was headed, lenders took the path of prudence and delayed action.

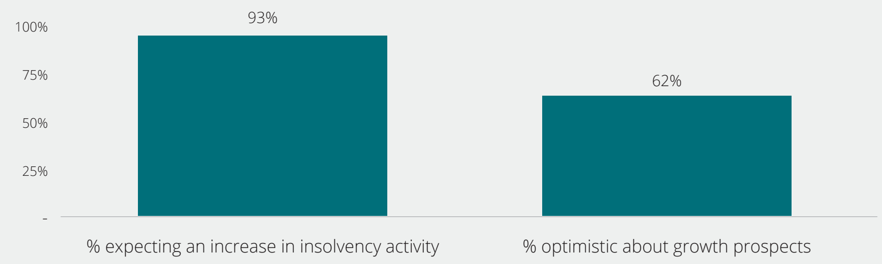
Now that the elections are over and the doomsday scenario is avoided, insolvency activity is likely to rebound. Just as in South Africa (and indeed jurisdictions across the continent), the question is whether insolvency activity will result in the outcomes creditors and employees yearn for.

Before 2015, Kenya's insolvency regime was widely considered the "kiss of death" for limping businesses. The Insolvency Act 2015 ("Act") was designed to promote a rescue culture similar to legislation in the United States and United Kingdom.

However, when we asked our survey respondents about the success rate of the administrative mechanism brought in as part of the new Act, a staggering 93% said fewer than half of cases were successful. Even more sobering was that 60% saw no change in success compared to the "kiss of death" regime that preceded the Act.

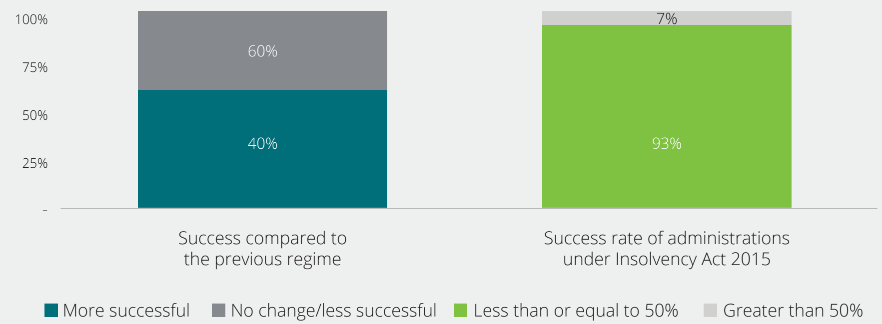
As part of our survey process, we interviewed senior stakeholders in the Kenyan insolvency industry. Again and again, we heard the same reason cited for the low success rates: time. Companies file for insolvency protection at one minute to midnight, by which point stakeholders are unwilling to provide the funding needed to deliver a turnaround. Is it any wonder, then, that success rates are so low?

Figure 18:
Kenyan respondents expecting an increase in insolvency activity vs optimistic about growth prospects



Source: Deloitte Restructuring Survey 2023 results | Respondents: Kenya, lenders and practitioners only

Figure 19:
Kenyan respondents' view on the success of the Insolvency Act 2015



Source: Deloitte Restructuring Survey 2023 results | Respondents: Kenya, lenders and practitioners only

Informal restructuring: collaborate for success

Since formal restructuring mechanisms are either being underused (Nigeria), used too late (Kenya) or used in contexts for which they were not designed (South Africa), the crucial issue is how to combat the storm to preserve jobs and value.

The respondents to our survey are clear on the answer: informal restructuring mechanisms are seen as most likely to rescue a company. However, two ingredients are needed for an informal restructuring to work: time and stakeholder buy-in.

Time

It is two minutes to midnight. The company's directors believe, but cannot quite prove, that the business is days away from running out of cash. Angry suppliers have begun litigation proceedings. Frustrated lenders are mulling over enforcement action as yet another repayment milestone has been missed.

For restructuring professionals, this is an all-too-familiar story. It is also the worst possible backdrop for informal restructuring negotiations. For a successful outcome, we need to turn back the clock and ensure intervention occurs months (if not years) earlier by tracking the right indicators of financial distress.

Our survey shows increasing alignment between stakeholders on which indicators to track. During the pandemic, management teams learnt hard lessons on the importance of building resilience in their organisations. Resilience starts from truly understanding operations and encouraging agility in response to the shifting sands of the market. In this context, it is predictable that operational key performance indicators ("KPIs") are gaining traction.

Management teams have also learnt the lesson of putting liquidity first: we were surprised to find the extent of alignment between the areas lenders felt companies should prioritise in the next 12 months and the areas C-Suite said they will prioritise over the same period. This indicates that management teams are trying to do the right thing, namely preserve cash and protect market share. This, in turn, can create the runway needed for informal restructuring activity.

The operational KPIs flagged by survey respondents also happen to be earlier-stage indicators of distress; appropriate action in response to these signs heading the wrong way can create the runway needed for a less painful, informal restructuring.

Figure 20:

Are the following KPIs more or less important as monitoring tools for distress?

	Top five KPIs in 2022:		Top five KPIs in 2023:	
1	Operating/free cash flow	1	Operating/free cash flow	→
2	Revenue	2	Working capital	↑
3	Debt ratios	3	EBITDA/operating margin	↑
4	Working capital	4	Revenue	↘
5	EBITDA/operating margin	5	Gross profit margin	↑

Key: ↘ = slightly less important → = no change in importance ↑ = more important

Source: Deloitte Restructuring Survey 2022 and 2023 results | Respondents: All regions, all stakeholders

Figure 21:

Short-term priorities for companies (next 12 months): lender vs C-Suite responses

	Lender views on areas that should be prioritised:		**C-Suite** views on areas that will be prioritised:
1	Cash preservation for the business	1	Cash preservation for the business
2	Protect market share	2	Protect market share
3	Repay debt	3	Grow market share
4	Protect jobs	4	Protect jobs
5	Grow market share	5	Repay debt
6	Pursue acquisitions	6	Pursue acquisitions
7	Return cash to shareholders	7	Return cash to shareholders

Key: ■ = priorities in same order ■ = difference in priorities

Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, C-Suite and lenders only

Stakeholder buy-in

When lenders are first alerted to signs of distress, survey respondents report that the last thing on their minds is the pursuit of enforcement action. Instead, they wish to engage in dialogue with management and better understand the business and its outlook. In other words, lenders' instinct is for collaboration.

Interestingly, when we unpack the "other" response in Figure 23, the emerging theme is lenders are turning to a tool that had, until recently, been in decline: the independent business review. When we consider the volatility of the economic environment and the operational challenges facing many businesses, a "back to basics" approach by lenders makes sense.

So how can management teams and restructuring professionals build on lenders' preference for collaboration to deliver win-win restructuring outcomes?

Our survey respondents highlight two critical success factors: competence and high-quality, reliable financial information. These two points reinforce each other. When lenders are presented with numbers and a narrative that can stand up to scrutiny, their estimation of the management team's competence rises. This is a particular differentiator in distressed environments.

The relatively low ranking of management proactivity is intriguing and initially appears counterintuitive. However, in the context of competence, it makes sense. A hasty, poorly prepared approach to lenders by providing poor-quality information reveals the quality of the management team itself.

To achieve stakeholder buy-in, it is crucial that management first 'gets their ducks in a row': nobody wants to defend incompetence in a credit committee.

Interestingly, seeking professional advice was ranked last. For most management teams approaching distress, it is likely their first time sitting across the table from highly experienced lender workout teams. The information these stakeholders require is often vastly different from ordinary course board reporting.

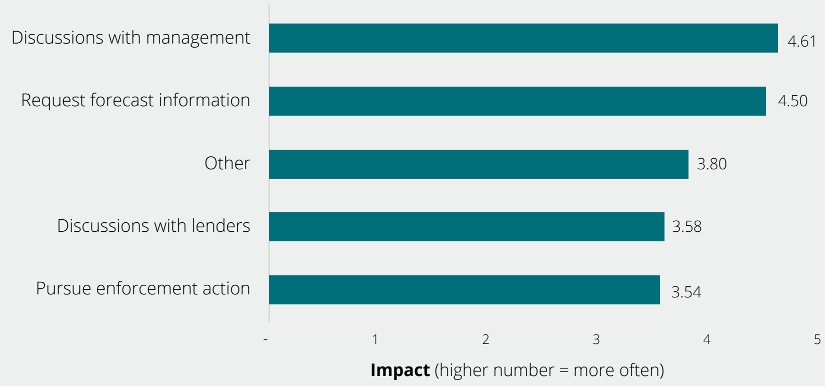
If, as Figure 24 suggests, management must appear competent and provide quality information for lender buy-in, hiring a restructuring professional sooner rather than later is crucial. This allows management to focus on the complex task of running the business while the advisor runs the restructuring process. And lenders responding to our survey appear to agree: when asked what actions companies should take in response to distress, they ranked "seeking professional advice" as second.

Overall, we see an alignment of the stars – stakeholders finally agree on immediate priority areas and which KPIs to track. This alignment presents an opportunity for the kind of collaboration needed to deliver less painful, informal restructurings.

But the time to act is now.

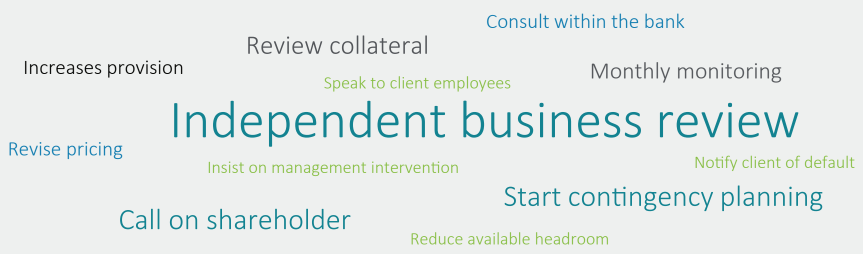
Our C-Suite respondents are clear that once this storm has passed, their focus will return to growing their business. Repaying debt will then be their last priority

Figure 22:
How often do lenders take the following actions when they first become aware of distress?



Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, lenders and practitioners only

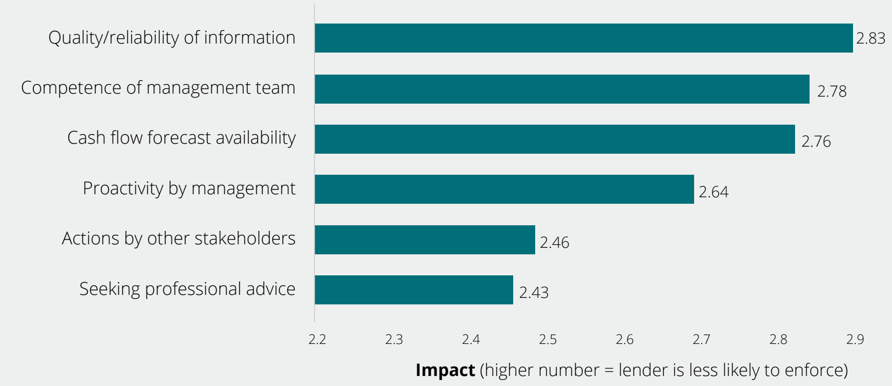
Figure 23:
Other actions lenders take when they become aware of distress



Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, lenders and practitioners only

Figure 24:

What impact would the following factors have on lenders' decision to enforce?



Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, lenders and practitioners only

Figure 25:

Actions companies should take (according to lenders and practitioners) vs will take (according to C-Suite) in response to financial distress

	Lenders and practitioners:		C-Suite:
1	Act immediately as management	1	Act immediately as management
2	Seek professional advice	2	Monitor trading ('wait and see')
3	Consult with the board	3	Consult with the board
4	Monitor trading ('wait and see')	4	Seek professional advice
5	Seek support from stakeholders	5	Seek support from stakeholders

Key: ■ = priorities in same order ■ = difference in actions

Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, all stakeholders

Figure 26:

Areas C-Suite will prioritise: short-term vs medium-term

	C-Suite response (next 12 months):		**C-Suite** response (next 3-5 years):
1	Cash preservation for the business	1	Grow market share
2	Protect market share	2	Protect market share
3	Grow market share	3	Cash preservation for the business
4	Protect jobs	4	Pursue acquisitions
5	Repay debt	5	Return cash to shareholders
6	Pursue acquisitions	6	Protect jobs
7	Return cash to shareholders	7	Repay debt

Key: ■ = priorities in same order ■ = difference in priorities

Source: Deloitte Restructuring Survey 2023 results | Respondents: All regions, C-Suite only

"Restructuring is about trust and confidence – only go to lenders when you can say 'this is the problem, and here is the plan' "

– Restructuring Lawyer, Pan-African Law Firm

A time for action

Acknowledging that improved restructuring outcomes are achieved when distress is identified early begs the question of why interventions are left too late. Who is responsible for taking action when forecasts slip, headroom squeezes, challenging industry conditions prevail, and deadlines pass? Is it truly management's job to put their hands up and plead "*mea culpa*"? Is this a realistic expectation when management teams back themselves to resolve challenges?

We believe that there is a collective responsibility among all stakeholders to play their part in the early identification of distress and, more importantly, institute actions to address and hopefully reverse financial distress through a successful informal restructuring process.

The best possible chance of success thus calls for both early identification of financial distress and early collaborative action.

Survey methodology

The *Deloitte Restructuring Survey* is an annual survey of restructuring professionals and C-Suite executives, which was conducted across South Africa, Kenya and Nigeria. Survey responses were collected between 11 January 2023 and 10 February 2023. We are delighted to report a 35% increase in the overall survey sample size to 150 compared to 2022.

The survey questions were tailored to stakeholder groups and regions. For example, all respondents answered questions in relation to macroeconomic risks, while only the C-Suite were asked about their medium-term priorities. As a result, the sample size varies by question, but we ensured that the response rate per question was sufficient before including it in our analysis.

We are delighted to report a

35%

increase in the overall survey sample size

Our Africa Turnaround & Restructuring team

Jo Mitchell-Marais
Africa Leader
+27 (0) 71 677 4038
jmitchellmarais@deloitte.co.za

Gladys Makumi
East Africa Leader
+254 (0) 72 276 2982
gmakumi@deloitte.co.ke

Akinola Akinboboye
West Africa Leader
+234 (0) 815 839 2582
akakinboboye@deloitte.com.ng

Wessel de Jager
Senior Associate Director, SA
+27 (0) 83 384 9003
wedejager@deloitte.co.za

Ken Afrah
Associate Director, SA
+27 (0) 78 941 1692
kenafrah@deloitte.co.za

Gregor Böttcher
Associate Director, SA
+27 (0) 72 894 9535
gbottcher@deloitte.co.za

Kevin Kimotho
Associate Director, Kenya
+254 (0) 72 236 7083
kkimotho@deloitte.com

Inayet Kader
Senior Manager, SA
+27 (0) 79 883 8139
ikader@deloitte.co.za

Nandipha Madikizela
Senior Manager, SA
+27 (0) 84 993 1203
nmadikizela@deloitte.co.za

Dakalo Maliga
Senior Manager, SA
+27 (0) 71 614 3495
dmaliga@deloitte.co.za

Robert Habwe
Manager, Kenya
+254 (0) 364825
rhabwe@deloitte.co.ke

Oluwatosin Ilori
Manager, Nigeria
+234 (0) 816 5522 496
olilori@deloitte.com.ng

Roland Issari
Manager, SA
+27 (0) 71 896 9459
rissari@deloitte.co.za

Sinalo Mhlauli
Manager, SA
+27 (0) 67 351 4451
smhlauli@deloitte.co.za

Kulani Rivombo
Manager, SA
+27 (0) 78 700 8190
krivombo@deloitte.co.za

Mmasetshaba Marutle
Consultant, SA
+27 (0) 65 713 2640
mmarutle@deloitte.co.za

Tomiwa Ojo
Senior Associate, Nigeria
+234 (0) 816 734 0604
tomiojo@deloitte.com.ng

Nomsa Sibanyoni
Junior Consultant, SA
+27 (0) 76 347 3453
nosibanyoni@deloitte.co.za

Radhiyyah Lorgat
Junior Consultant, SA
+27 (0) 81 383 1678
rlorgat@deloitte.co.za

Andile Mzobe
Junior Consultant, SA
+27 (0) 65 837 9914
amzobe@deloitte.co.za