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South Africa Restructuring Industry Survey 2021

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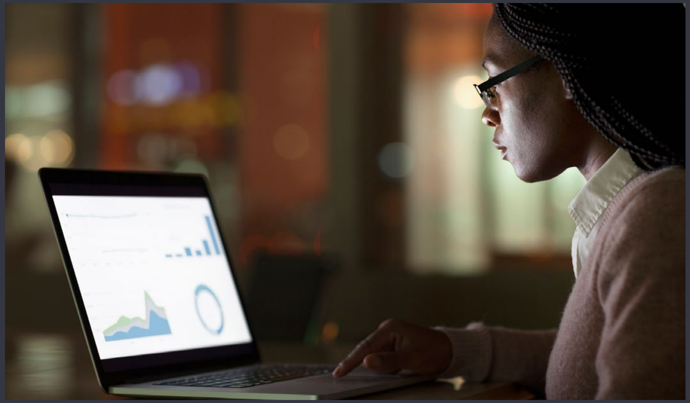


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Foreword

This year marks the 10th anniversary of business rescue legislation in South Africa. It is therefore fitting that this is the year that Deloitte has chosen to reintroduce the Restructuring Survey, as the economic fallout from COVID-19 has thrust our industry well and truly into the spotlight.

Little did we know when we started to rebuild the Restructuring Services team at Deloitte towards the end of 2019, how fortuitous the timing would be – none of us envisaged the impact and effect that a virus, only just surfacing in China, would have on the world economy. 2020 was a year of significant adaptation – not only to changing working and living environments, but also to our service and delivery to our clients.

It seemed fitting, therefore, that early 2021 was the right time for a temperature check on the industry – unpacking not only the evolution of business rescue, but also, importantly, how the impact of 2020 has been handled by all stakeholders in our industry, the direction that our industry is moving in as a result of COVID-19, and understanding some of the key themes and emerging trends.

We are extremely grateful to all the respondents who took the time to complete our survey. Without your insights and contributions, this report would not have been possible. We do hope that you find it thought-provoking, and we look forward to continued discussions and debates regarding the restructuring industry over the next 10 years.

Jo Mitchell-Marais
Deloitte Africa Restructuring Services Leader

Executive summary

What does the future of the restructuring industry hold post COVID-19?

The COVID-19 pandemic and its economic impact and effect on various businesses and industries has resulted in an increased number of distressed companies in South Africa.

The aim of this report is to give an overall view of the restructuring industry and to obtain a deeper understanding of how the informal restructuring and business rescue (BR) industries are expected to unfold post COVID-19.

A cross-section of restructuring professionals in South Africa was surveyed to obtain a better understanding of the current state of the industry, and what their expectations are for the next 12 months.

Some of the key themes that emerged from the survey are:

- **Protecting the business** and **preservation of employment** are still ranked as the top priorities of a restructuring process.
- On the back of increased activity experienced by respondents in the past 12 months, 88% of respondents are expecting **increased activity** levels in the **restructuring industry** over the next 12 months.
- **Availability of post-commencement finance (PCF)** is still considered an important requirement for a successful BR process.
- **Informal restructuring** solutions are preferred over formal solutions, largely due to greater success rates and cost-effectiveness.
- **The unfavourable stigma attached to companies in BR** is a challenge to the success of a formal restructuring process.
- **Early identification of financial distress** is still ranked as the most important element to be improved in local restructuring.
- The appointment of a chief restructuring officer (CRO) is not common in South Africa, with CROs deemed to be difficult to find. Nonetheless, 77% of respondents believe that the **CRO role will be more important in the future**.
- Respondents anticipate increased demand for **distressed funding** as one of the key financing trends over the next 12 months.
- **Customer relationship management (CRM) tools, big data, cloud** as well as **AI and machine learning** are some of the technologies expected to have transformational impact on the restructuring process in the coming years.

South Africa's economic outlook

Prior to the COVID-19 outbreak, South Africa had been grappling with lethargic growth rates, job losses, structural challenges, a sizable fiscal deficit, and an expanding debt-to-GDP ratio. The pandemic and the lockdown restrictions imposed to control the spread of the virus have exacerbated this already dire economic state.

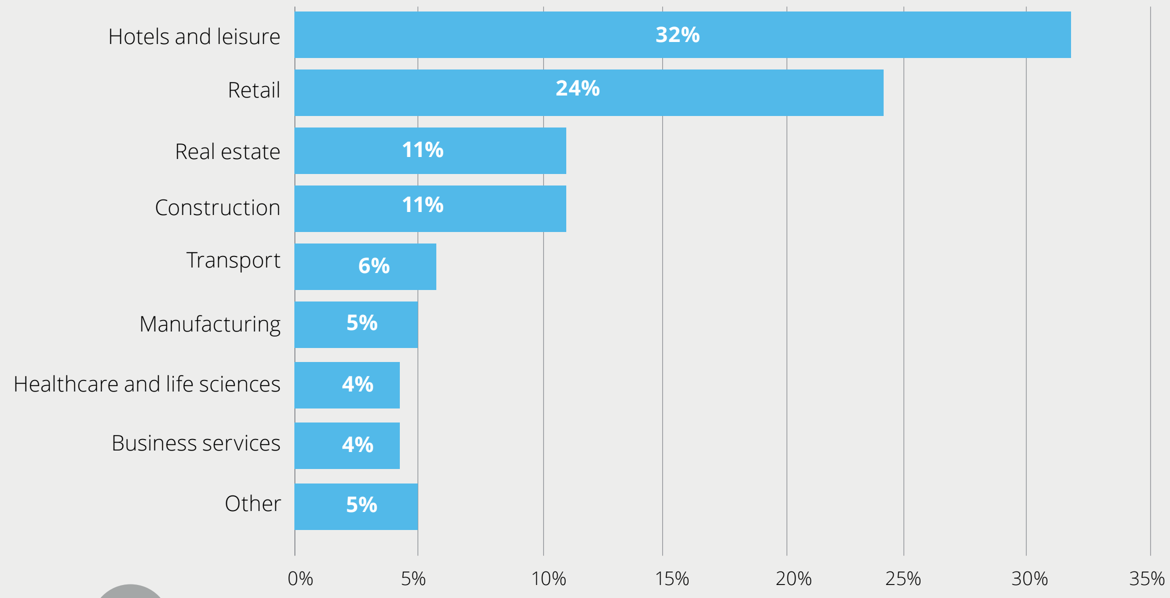
The South African economy's response to COVID-19

Economic growth is estimated to have contracted by -7.2% in 2020, given the shock to output in 2020 on account of lockdown restrictions. This severely impacted households and businesses in the first half of that year. Indeed, 2.2 million jobs were lost in Q2 2020 and although employment recovered by 900 000 workers in the last two quarters of 2020, many jobs lost in 2020 are unlikely to return.[1] South Africa's gross debt-to-GDP reached 63.3% in 2019/20 and is expected to surge to 80.3% in 2020/21, owing to the government's fiscal stimulus measures and declining tax revenues.[2]

The COVID-19 pandemic has disrupted businesses and industries across the country. According to respondents, sectors that have been most affected by the pandemic and lockdown restrictions are the **hotel and leisure, retail, real estate and construction** sectors.

While many sectors have been severely impacted by the pandemic, there are sectors which have benefited from the pandemic, such as online businesses. Respondents identified the **telco, media and technology (TMT), agriculture, financial services and resources** (**e.g. mining**) sectors as those least affected by the COVID-19 pandemic.

Figure 1. Sectors most impacted by the COVID-19 pandemic



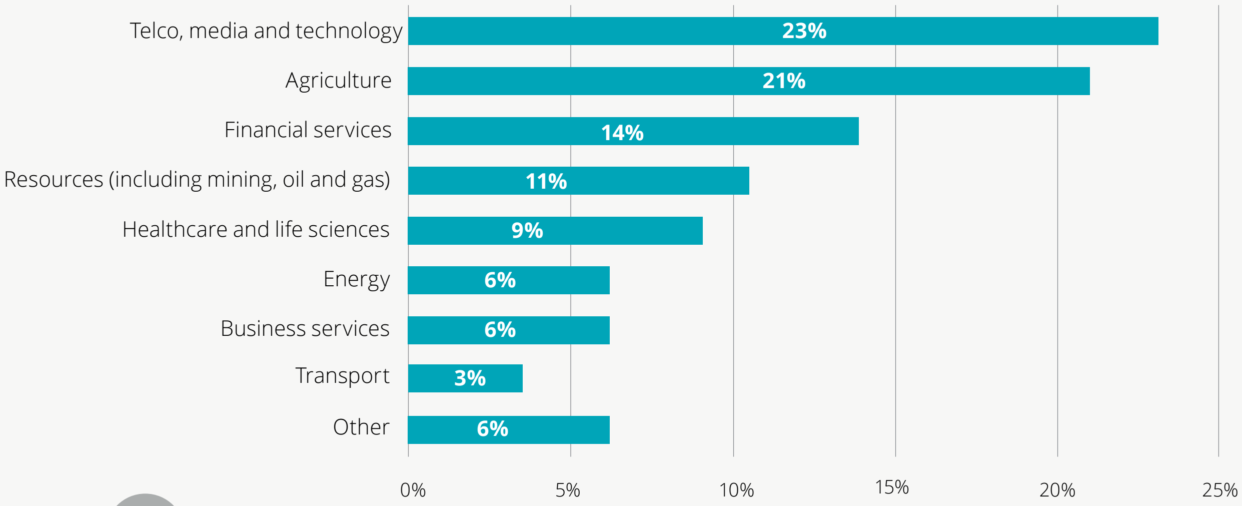
n = 76 *Which sectors do you think were the most impacted by the COVID-19 pandemic?*

Source: Deloitte Africa analysis

Given the severe economic contraction, and uncertainty regarding the path of the virus, the vaccine rollout programme and the timeframe of economic recovery, some economic sectors will certainly take longer to rebound, increasing the need for turnaround and restructuring services. Respondents believe that the **hotels and leisure, retail and commercial real estate** sectors will continue to suffer in 2021.

Apart from the travel and lockdown restrictions imposed, South Africa has prioritised its response to the health crisis by aiming to save as many lives as possible and supporting people and businesses that are most affected. The South African government has introduced fiscal and monetary measures in an effort to boost economic activity and curb the spread of the virus. A COVID-19 support package of R500 billion was budgeted to cater for, amongst others, tax and payments relief, protecting jobs through wage support, and funding small businesses in distress.[3]

Figure 2. Sectors least affected by the COVID-19 pandemic



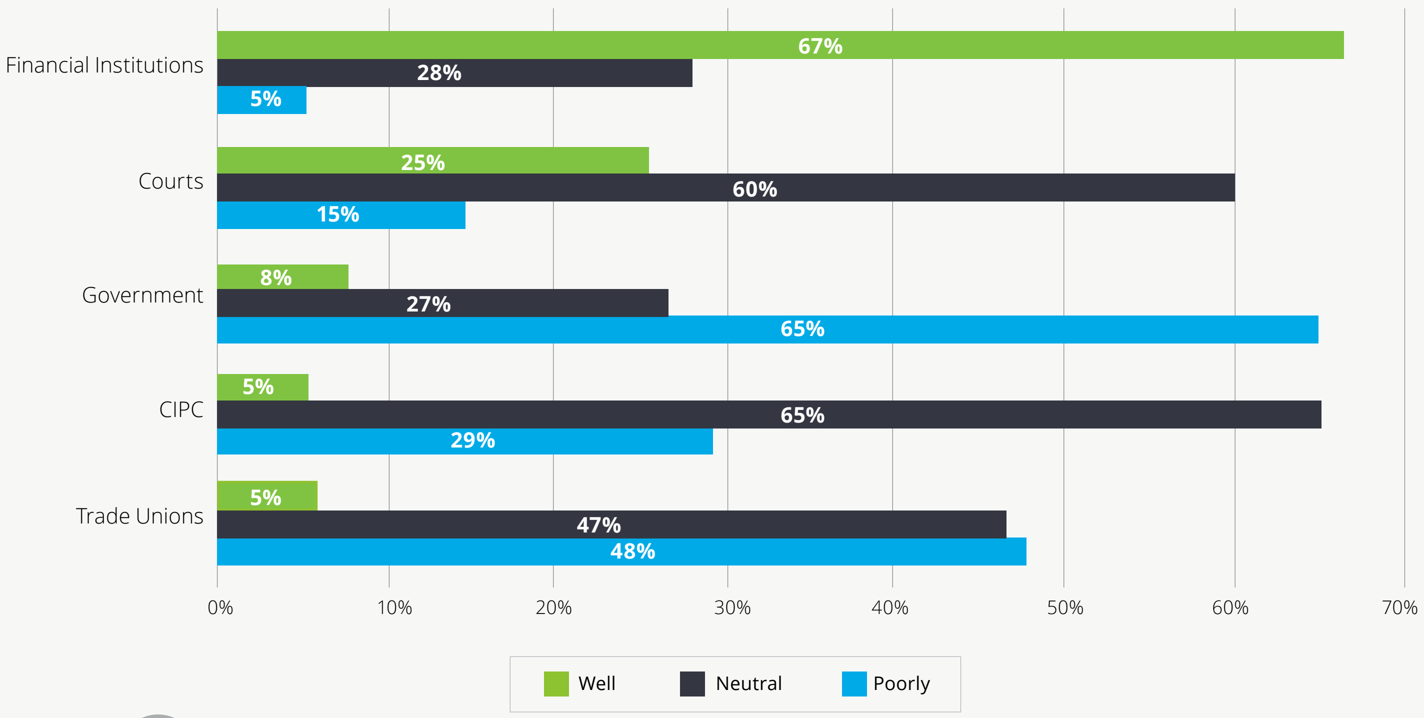
n = 76 *Which sectors do you think were the least affected by the COVID-19 pandemic?*

Source: Deloitte Africa analysis

While these government responses have been welcomed, **88% of respondents** do not believe that the government's fiscal and monetary measures have been successful in curtailing the impact of the COVID-19 pandemic, particularly on businesses. Some respondents believe that government has been more proactive in communication, planning and creating policies, while implementation has been less effective.

As a result, most respondents feel that government has not handled the fallout from the pandemic well. Instead, respondents believe that financial institutions have supported South Africa's economy through the pandemic and have handled the COVID-19 pandemic best.

Figure 3. How key institutional stakeholders in the restructuring industry have handled the fallout from the COVID-19 pandemic



n = 76

How do you feel that key institutional stakeholders in the restructuring industry handled the fallout from the COVID-19 pandemic?

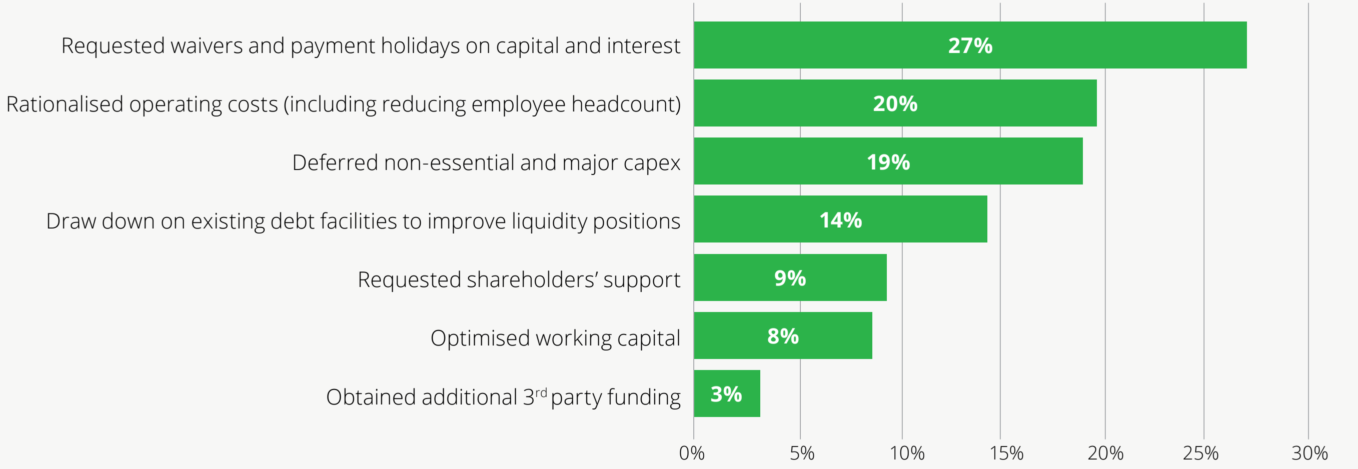
Source: Deloitte Africa analysis

Financial institutions were the first port of call for corporates struggling with the effects of the pandemic, and 27% of respondents indicated that a request to **waive covenant breaches and obtain capital and interest holidays** was the most common action taken by companies in an attempt to bolster their balance sheets and preserve liquidity.

Unfortunately, this is not a sustainable solution to generating liquidity as the obligation to make payment against debt facilities remains and future repayments are likely to be higher because of the deferrals. It is clear that financial institutions have taken a pragmatic view and waived events of default to avoid systemic failure and widespread insolvency.

Rationalising operating costs and deferring non-essential and major capex were also cited as common actions taken by companies. However, these measures are regarded as 'quick fixes' rather than sustainable measures to improve the balance sheet. Working capital optimisation is an example of a more sustainable measure to improve cash flow, although with longer timelines for implementation. The long-term strategic consequence of the delayed or cancelled capex programmes is unknown.

Figure 4. Actions taken by companies to bolster their balance sheet/preserve cash in response to the impact of the COVID-19 pandemic



n = 76

What was the most common action taken by companies to bolster their balance sheet/preserve cash in response to the impact of the COVID-19 pandemic?

Source: Deloitte Africa analysis

> One silver lining of the pandemic is to educate people on restructurings.
>
> **– Development Finance Institution**

Economic growth is forecast to recover to 3.3% in 2021 and then moderate to 2.2% in 2022.[4] However, there are many threats to these figures. The overall uncertainty around global conditions, the vaccine rollout, the path of the virus, electricity supply risks, ongoing weak business and consumer confidence, and other structural weaknesses challenge the country's chance of a sustainable economic recovery.[5]

In addition, government continues to battle balancing risks emerging from growing debt burdens attached to public spending and spending on infrastructure investments with those from prematurely withdrawing fiscal support.[6]

Short-term growth is highly dependent on the vaccine rollout to prevent future waves of infections and a resulting return to 'normal' economic activity, stabilising the fiscus, and implementing a complex set of reforms to alleviate constraints to growth.[7]

The key focus should be on addressing the country's structural weaknesses by building business confidence, lowering the cost of doing business, stabilising electricity supply and public finances, as well as stimulating private sector investment.

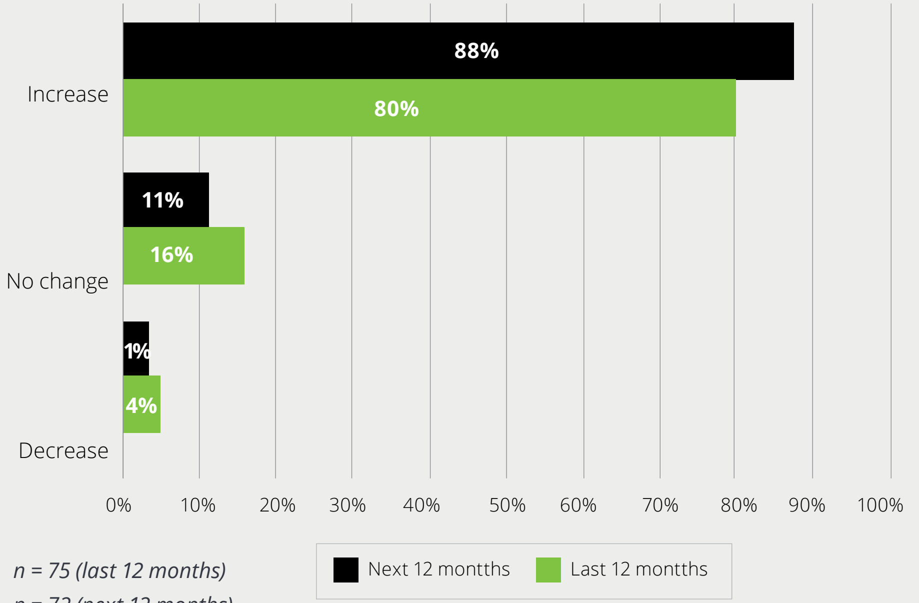
The restructuring industry

The rehabilitation of financially distressed businesses is imperative for economic growth in South Africa. A robust mechanism to aid this rehabilitation is also often a precursor to increased foreign direct investment (FDI). This section looks at both the informal and formal processes at the disposal of restructuring professionals, possible hindrances to the success of these processes, the current maturity of the industry, and what the next 12 months of restructuring activity could represent.

Informal restructuring to take centre stage

As the COVID-19 vaccination programme rolls out and debt relief measures are unwound, financial institutions will start to take stock of their exposures and restructuring activity will increase.

Figure 5. Restructuring activity and expectations over the next 12 months



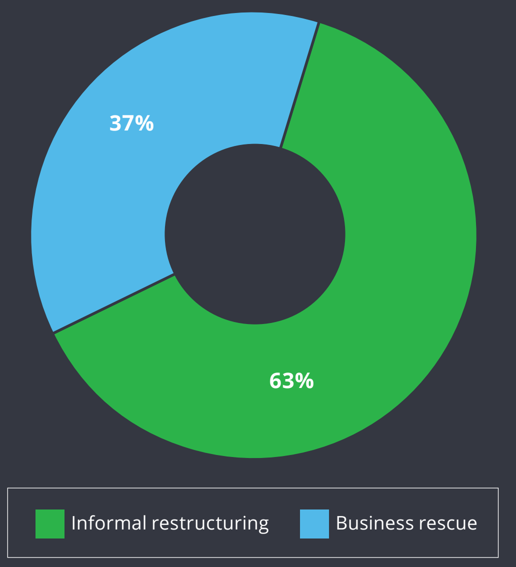
n = 75 (last 12 months)
n = 72 (next 12 months)

What has been the level of restructuring activity in your team in the last 12 months, and what are the expectations for the next 12 months?

Source: Deloitte Africa analysis

The expectation is that restructuring activity will become increasingly informal. In part, this is due to recent high-profile cases, particularly those involving state-owned enterprises (SOEs), that have proven that formal business rescue is not a 'silver bullet'.

Figure 6. Informal restructuring is more prevalent than business rescue



n = 76 *Given the severe GDP contraction and uncertain timeframe on economic recovery, which do you think the dominant form of restructuring process will be?*

Source: Deloitte Africa analysis

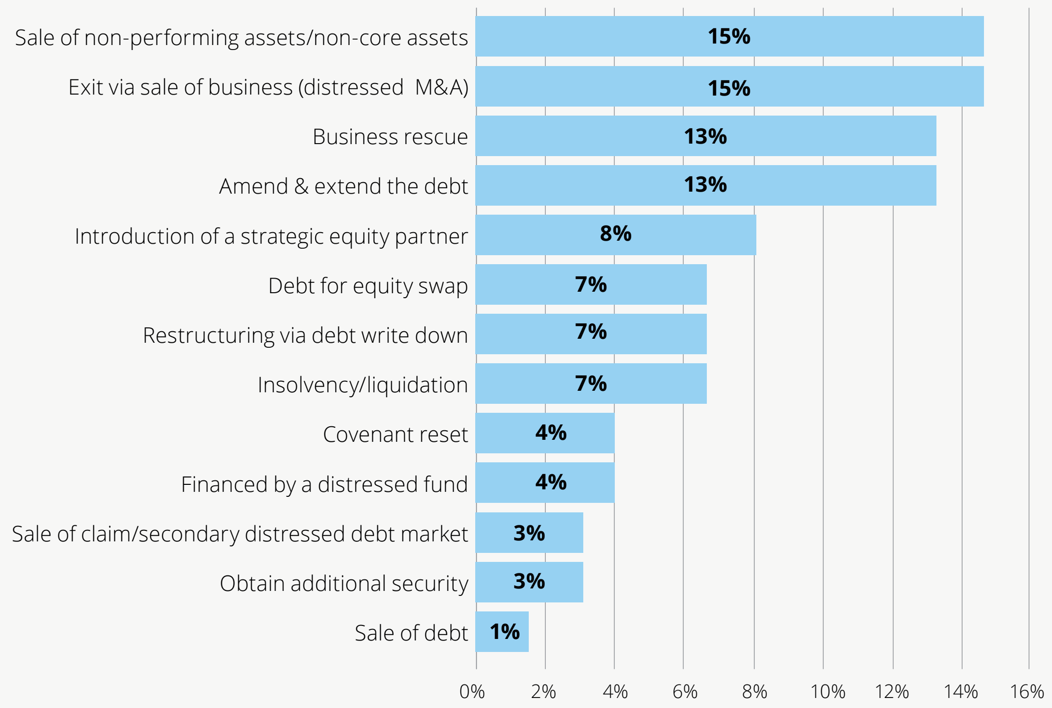
> The problem is not the BR process; the issue lies with the abuse of the process to achieve individual goals.
>
> **– Restructuring Lawyer**

As a result, it is anticipated that restructuring activity will increasingly take place consensually, outside a formal process, and in line with the trend observed in advanced economies.

Some of the restructuring options expected to be employed in the next 12 months include the **sale of non-performing or non-core assets, exits via sale of business, business rescue, and amending and extending debt**.

Respondents see corporate action – distressed or accelerated mergers and acquisitions (M&A), and managed exits of non-core or non-performing assets – as the most popular means for solving distress in the next 12 months. Restructuring options such as 'amend and extend' and 'covenant resets' have increased in popularity since the 2017 Deloitte Restructuring Survey.[8] While these are attractive in the short term as lenders avoid write-offs and corporates continue to trade as going concerns, the ability to further amend and extend debt facilities remains to be seen; especially given the more stringent capital requirements for distressed positions. Therefore, it is unsurprising that business rescue features as a mechanism to facilitate restructuring over the next 12 months.

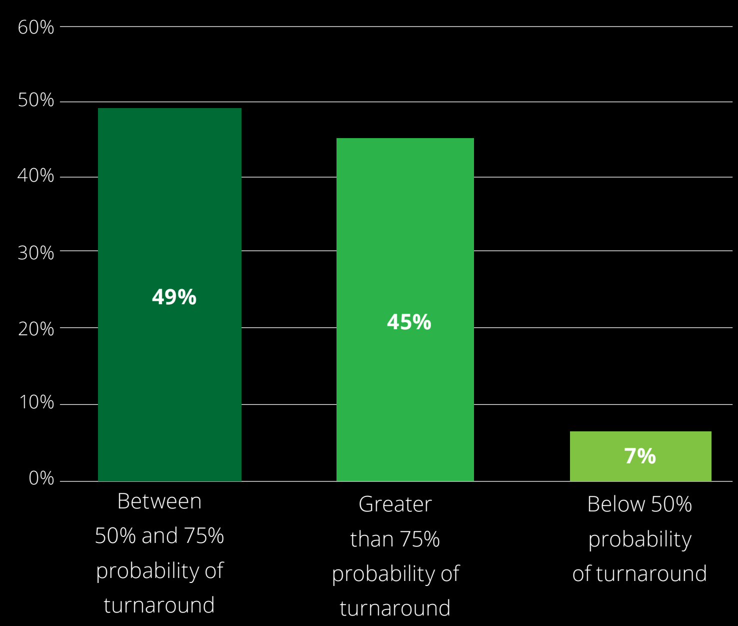
Figure 7. Restructuring options expected to be employed in the next 12 months



n = 76 *Which restructuring options do you expect to employ in the next 12 months?*

Source: Deloitte Africa analysis

Figure 8. Seeking restructuring advice early on is seen to have a higher probability of turnaround



n = 76 *Do you think a company that seeks restructuring advice the moment that red flags become evident has a high probability of being turned around?*

Source: Deloitte Africa analysis

To increase the chances of success of an informal restructuring process, the early identification of warning signs and engagement with stakeholders maximise options available to solve financial distress. In fact, **94% of respondents believe the probability of a company being turned around is 50% or greater if restructuring advice is sought when red flags first become evident.**

Figure 9. Warning signs to consider restructuring advice

> Poor management is always going to be an issue for companies across the world, particularly when companies are under pressure.
>
> – **Restructuring Lawyer**

In support of this, **91% of respondents ranked the early identification of financial distress** as the most important element to be improved in local restructuring.

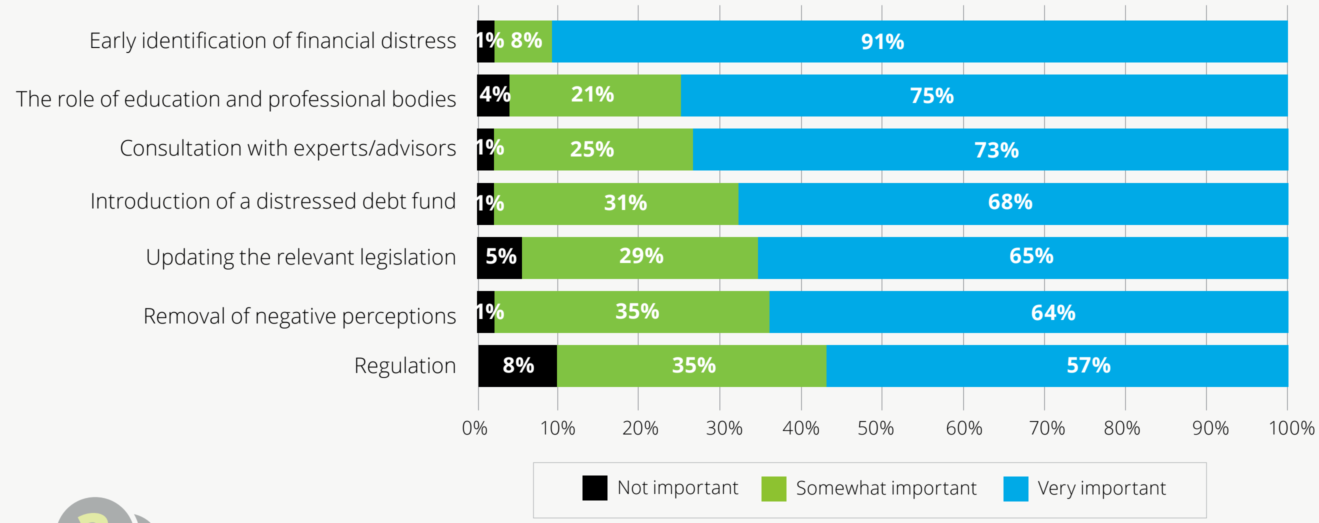
Notwithstanding the importance of early identification of financial distress, all options provided in figure 10 are regarded as very important for improvement. These include the **role of education and professional bodies, consultation with experts or advisors, and the introduction of distressed debt funds.**

If early identification of warning signs is such an important aspect of a successful restructuring process, what is hindering companies from flagging potential underperformance and distress and engaging in restructuring activity more readily?

Unfortunately 'restructuring' remains a relatively dirty word in the boardroom, and avoiding a restructuring process and the consequent negotiations is a point of pride for many. **More than half (55%) of survey respondents believe management avoid intervention and back themselves to trade out of the problem.**

Where distress indicators are ignored and stakeholder intervention is too late, a formal restructuring process or insolvency becomes inevitable.

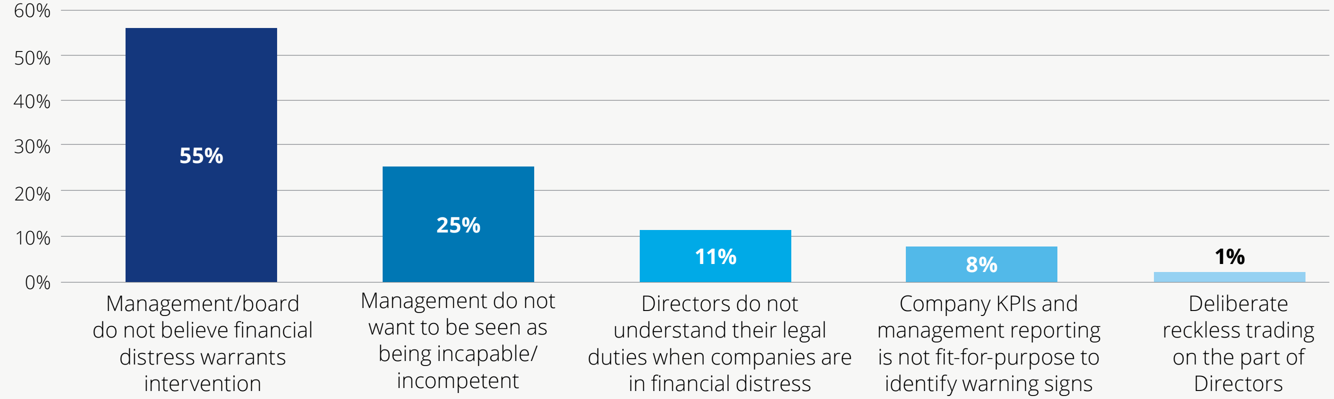
Figure 10. Improving local restructuring



n = 76 *Which of the following areas do you believe could be improved in terms of your local restructuring industry?*

Source: Deloitte Africa analysis

Figure 11. Reasons companies delay seeking restructuring advice



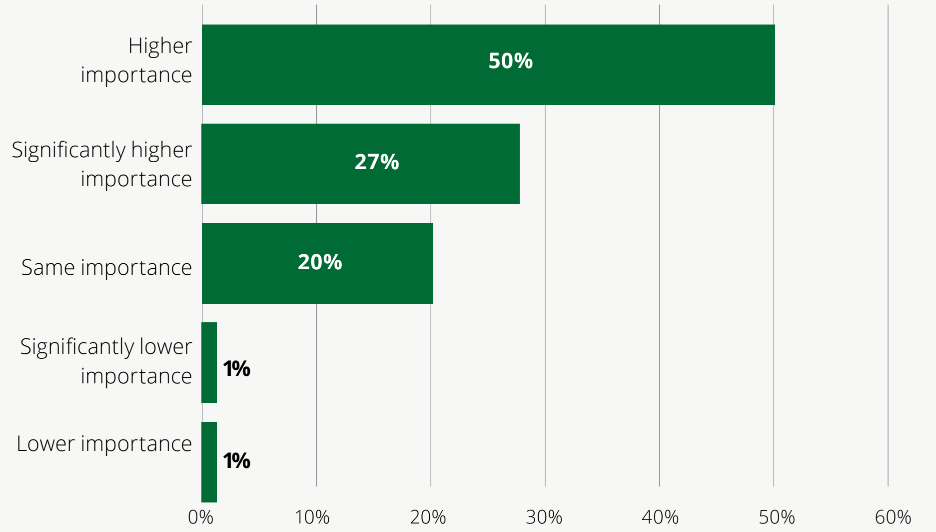
n = 76 *What do you think is the main reason companies delay seeking restructuring advice?*

Source: Deloitte Africa analysis

The rise of the chief restructuring officer (CRO)

Informal restructuring can be an all-consuming process that stretches existing management to beyond breaking point. A CRO takes the pressure off management and focuses solely on the achievement of the turnaround plan and success of the restructuring. It is therefore not surprising that 77% of survey respondents believe that the CRO role will be recognised as being of greater importance in the near future.

Figure 12. Importance of a CRO in the near future



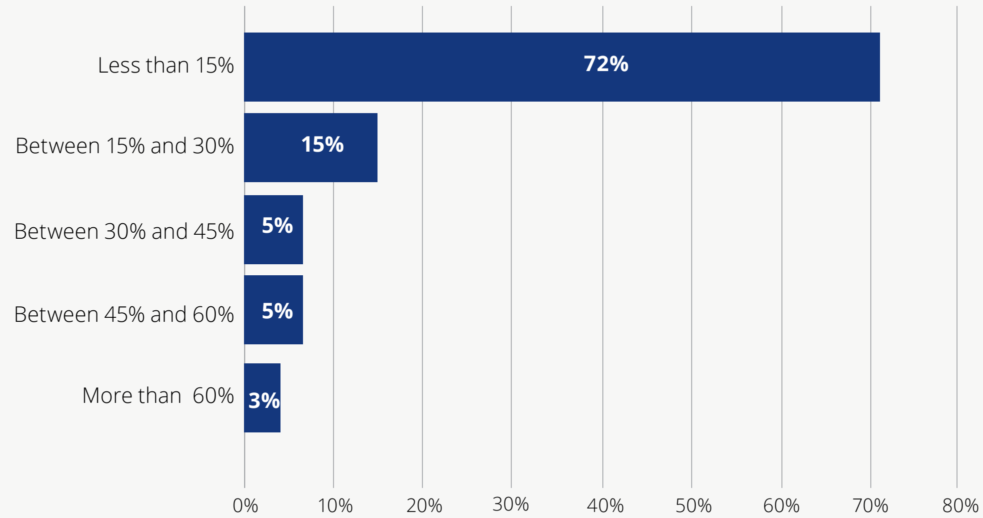
n = 76 *What importance will the role of CRO play in the near future?*

Source: Deloitte Africa analysis

The CRO is responsible for leading the development of the turnaround plan, negotiating the terms of the restructuring on behalf of the company, and delivering the plan. These are time-consuming tasks that require specialist expertise.

However, in the South African context, the appointment of CROs is infrequent and unconventional despite favourable feedback where they have been deployed. This could be due to a combination of factors, including resistance from management, the lack of suitable candidates, and the lack of awareness of the value a CRO could bring to the process.

Figure 13. CRO appointments are still uncommon



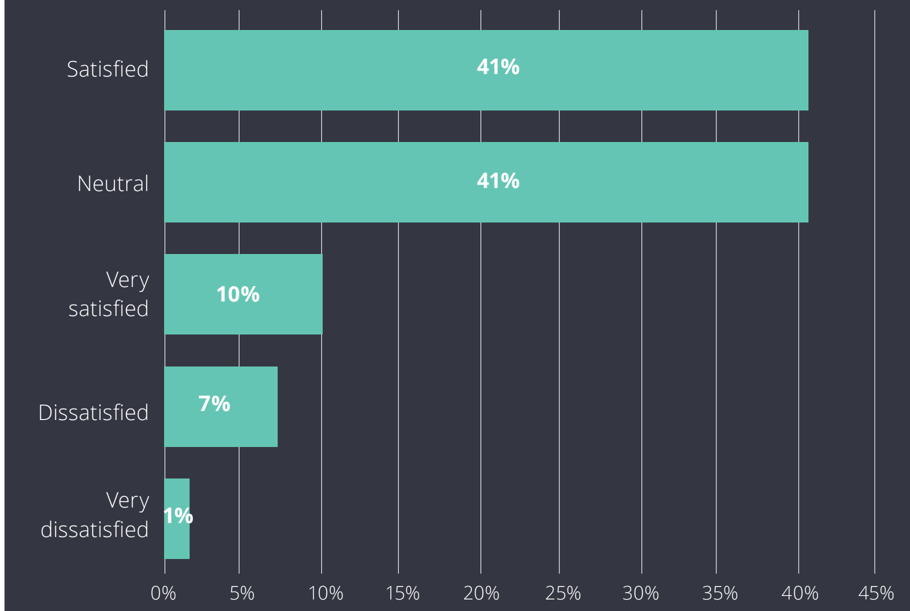
n = 76 *In how many cases have you been involved where a CRO was appointed?*

Source: Deloitte Africa analysis

It is unusual to appoint a CRO: 72% of respondents have dealt with only 15% or fewer cases where a CRO was appointed. Even though this is the case, 68% of respondents believe that appointing a CRO is more cost-effective than a BR process.

This further supports the notion that the significance of a CRO could soon be recognised. This needs to be seen in the context of the need for intervention at the first signs of operational and financial distress, as well as the preference for informal restructuring among stakeholders.

Figure 14. General satisfaction with the performance of CROs



n = 76

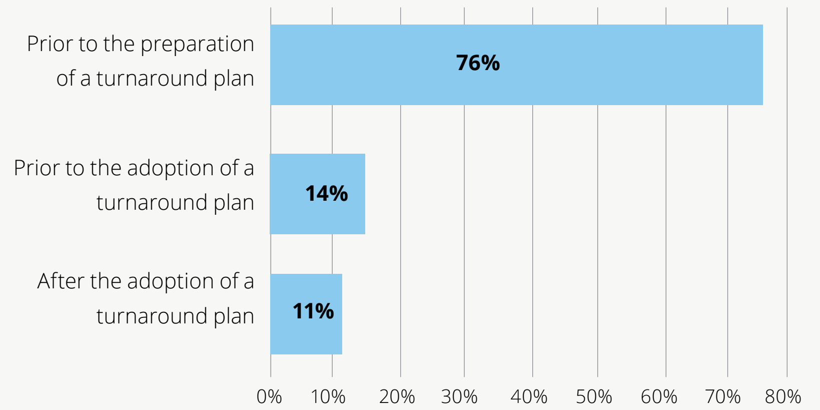
In general, were you satisfied with the performance of the CROs?

Source: Deloitte Africa analysis

Not only is the CRO appointment seen as more cost-effective, survey respondents also reported a 51% satisfaction with the performance of the CRO, which compares to 35% for business rescue practitioners (BRPs).

For CROs to be effective in a restructuring or turnaround process, they should be brought in to assist prior to the preparation of a turnaround plan.

Figure 15. CROs should be brought in early on in the process



n = 76

On average, at what point in a restructuring/turnaround process were CROs brought in to assist?

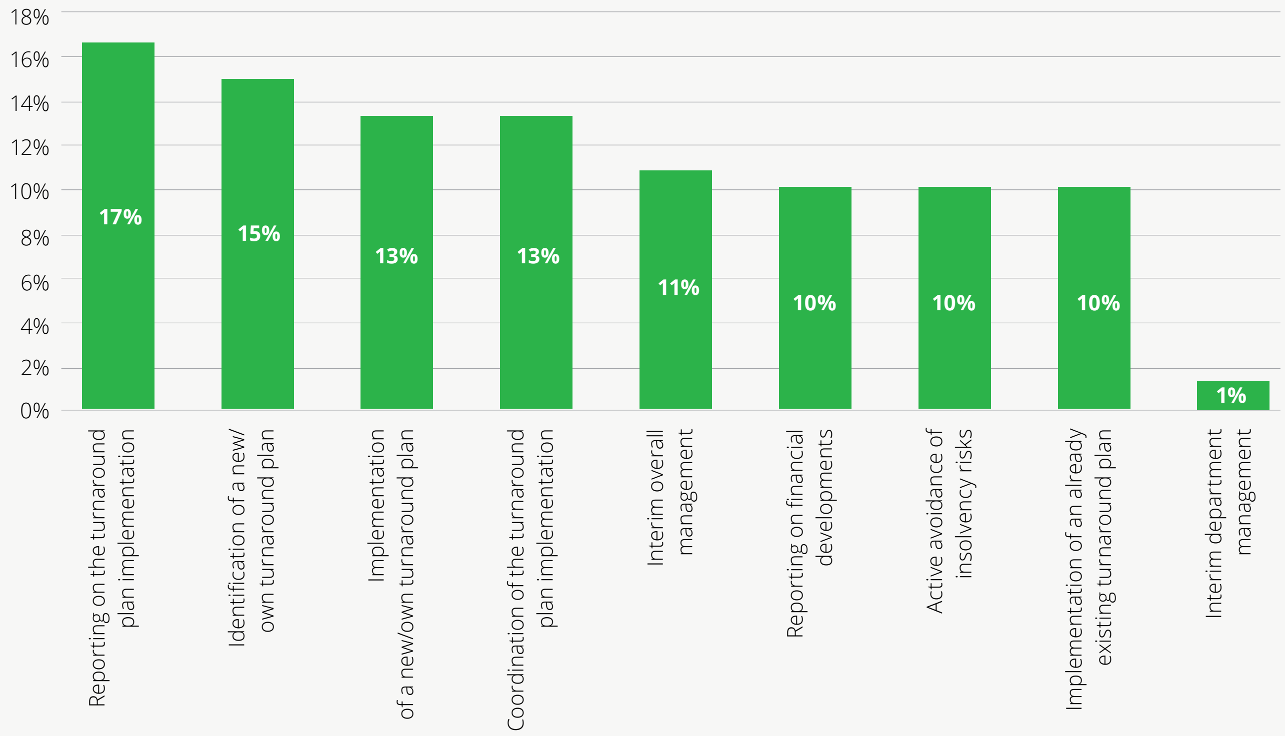
Source: Deloitte Africa analysis

> CROs will have a significantly higher importance, provided you have a talent pool at a reasonable remuneration.
>
> **– Restructuring Lawyer**

Tasks predominantly assigned to CROs include identification of a new/own turnaround plan, implementation of the new turnaround plan, and reporting on and coordination of the turnaround plan implementation. This suggests that value is not only seen in the execution of the plan, but also in the crafting and development of the turnaround plan.

> It is important to ensure the board can work with the CRO. A personality clash is a non-starter.
>
> **– Commercial Banker**

Figure 16. Tasks predominantly assigned to CROs



n = 76 *Which tasks were predominantly assigned to CROs?*

Source: Deloitte Africa analysis

According to responses received, the top three critical skills and characteristics of a CRO are **turnaround and crisis management, strategic thinking, and reliability**. Skills which most businesses can choose to hire externally, such as sector knowledge and legal knowledge, are rated least important.

> Good people will make for a better industry.
>
> **– Distressed Lender**

Figure 17. Skillsets and characteristics of a CRO deemed to be important

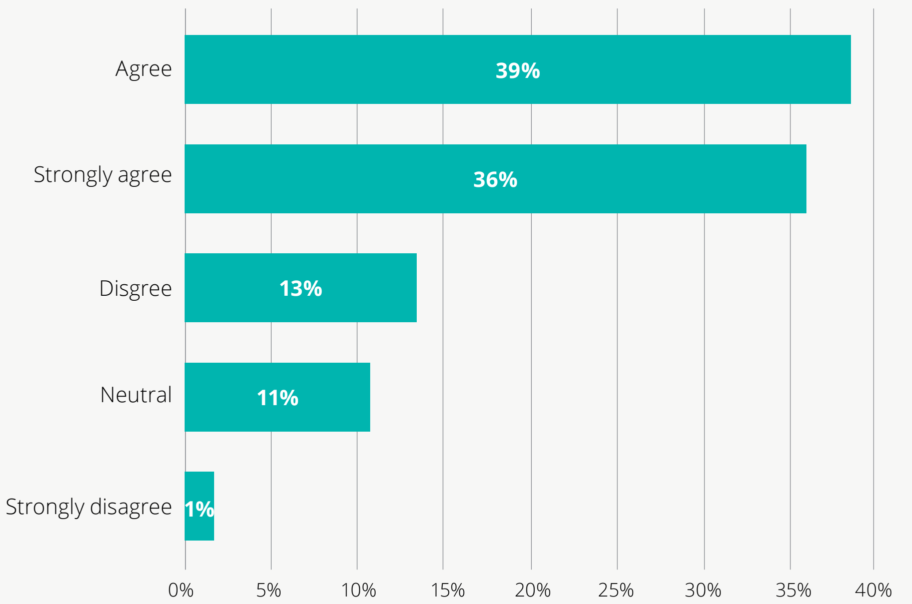
n = 76 *Which characteristics and skills should a CRO possess?*

Source: Deloitte Africa analysis

As the market for CROs is still in its infancy, survey respondents have indicated that it is difficult to find a suitably qualified CRO.

Most respondents (84%) believe that the creation of a CRO panel would aid selection of the most appropriate candidate.

Figure 18. Difficulty in finding a suitable CRO



n = 76

State to what degree you agree/disagree with this statement: It is difficult to find a suitable CRO.

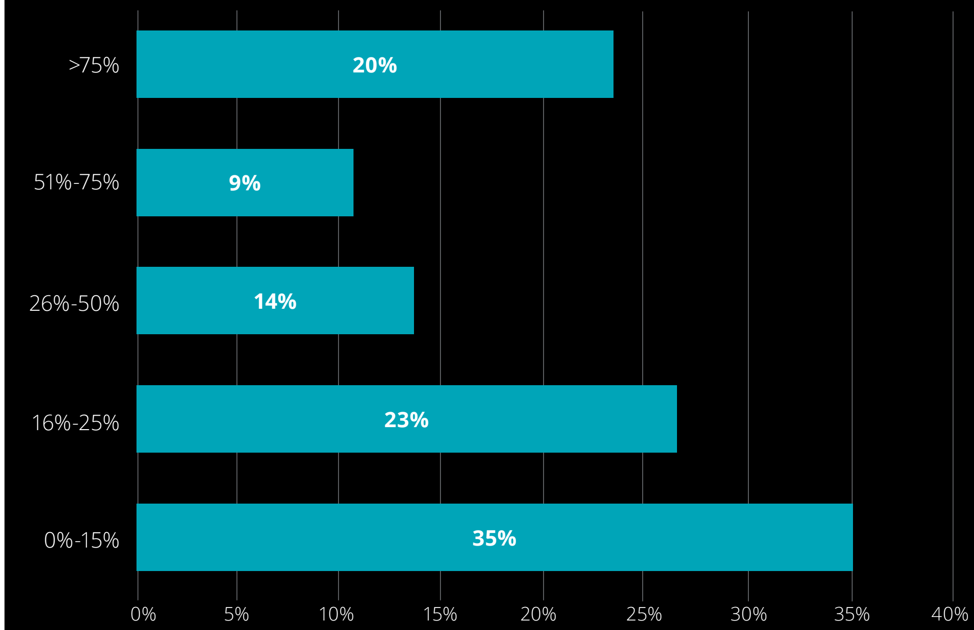
Source: Deloitte Africa analysis

Who will rescue business rescue?

The COVID-19 pandemic has led to a record number of BR cases, resulting in increased media attention and a spotlight on the industry. As a result, the suitability of BR as a turnaround tool is being called into question, following the varied fortunes of those in the BR process.

A number of high-profile BR cases at the start of the COVID-19 pandemic are household names; but BR is not confined to the big corporates or SOEs: 29% of survey respondents indicated that their portfolios comprise more than 51% BR matters.

Figure 19. Prevalence of business rescue in respondents' portfolios



n = 76

What percentage of cases in your portfolio are matters that have entered business rescue?

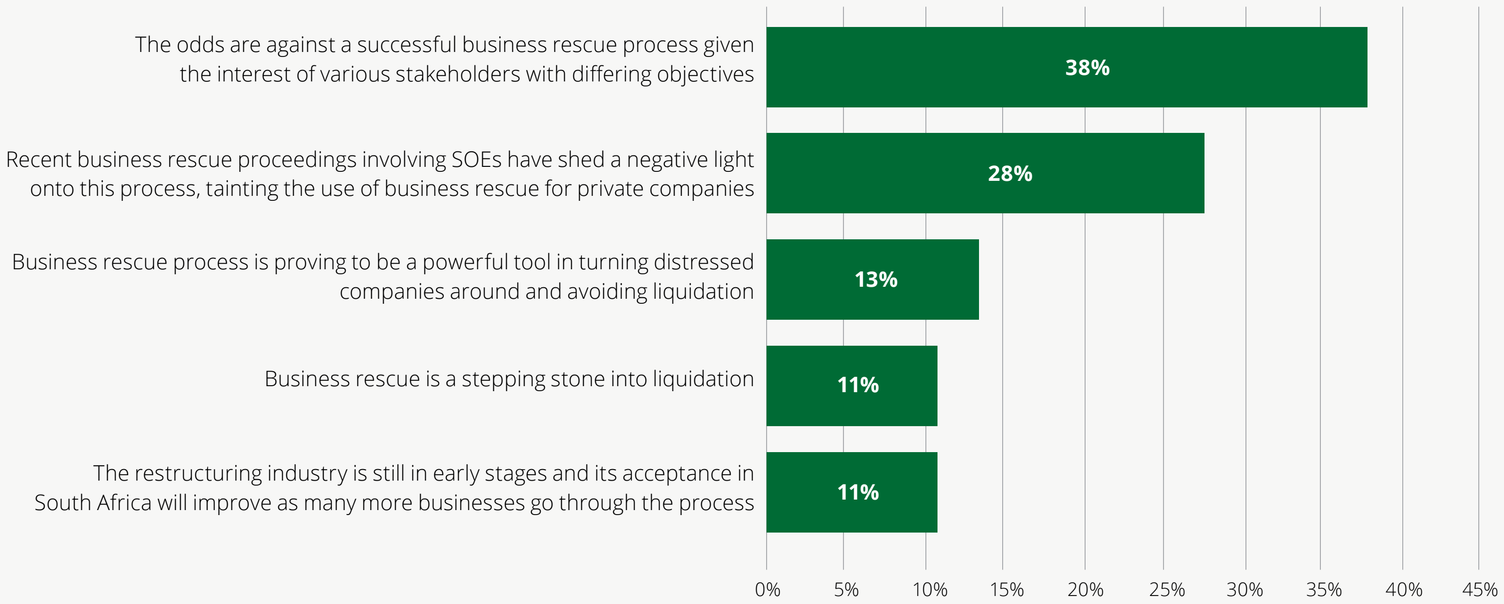
Source: Deloitte Africa analysis

Despite this, recent media coverage of more high-profile BRs has somewhat impacted public perception of BR as a negative process to the extent that the **unfavourable stigma attached to companies in BR** has become a challenge to the success of a formal restructuring process.

Some respondents believe that the recent BR proceedings involving SOEs have tainted the use of BR for private companies. Others indicate that the odds are against a successful BR process, given the interest of various stakeholders with differing objectives.

The Companies Act is deemed to be unsuitable for a formal restructuring process of SOEs, as indicted by 71% of survey respondents. The primary reason provided by survey respondents relates to the tension between the Public Finance Management Act (PFMA) and Chapter 6 of the Companies Act insofar as decision-making authority is concerned. If a BRP's ability to make independent decisions is hindered by the PFMA, this would support the views of the majority of respondents that a formal restructuring process, like business rescue, is not suited to SOEs.

Figure 20. Perception of the business rescue process



n = 76

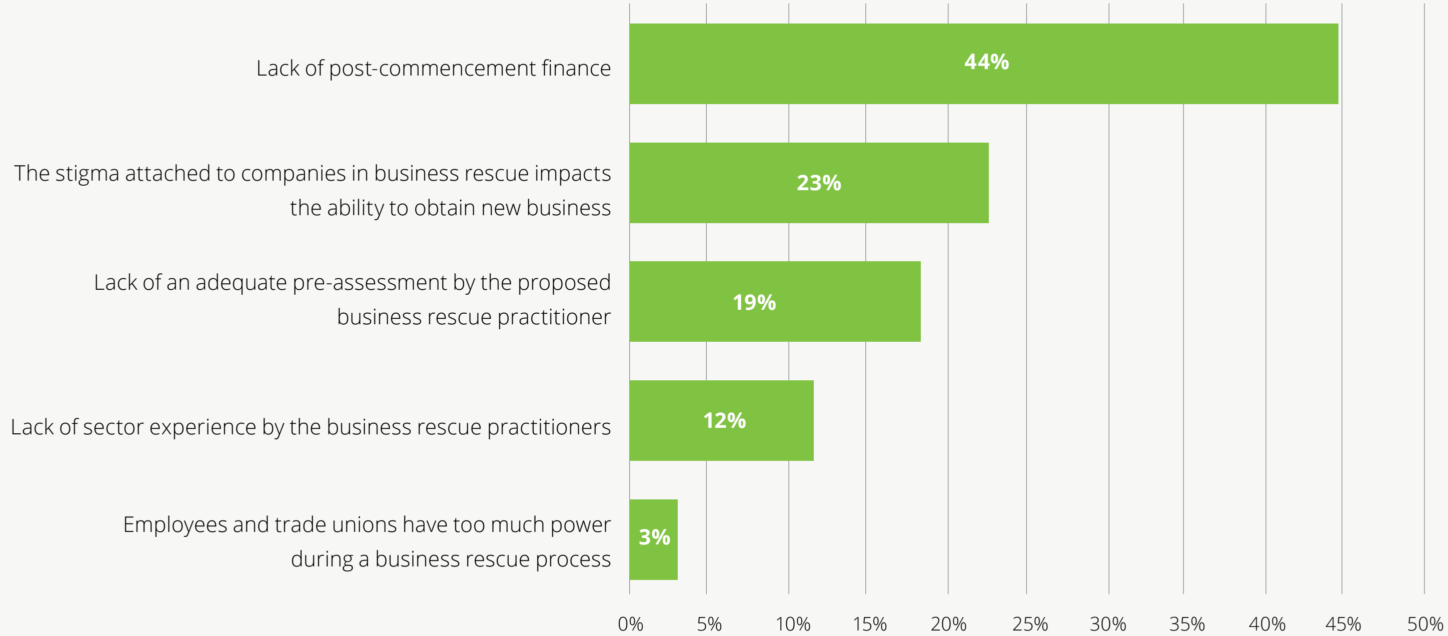
In light of the recent and ongoing private and SOE filings for business rescue, what is your perception towards a business rescue process?

Source: Deloitte Africa analysis

The biggest hindrance to a successful formal restructuring process continues to be the lack of post-commencement finance (PCF). This is interesting to note seeing as the availability of PCF is still considered to be crucial when seeking to increase success rates of BR, and the determination of available PCF is particularly important in the pre-assessment stage.

> The Golden Rule is: no PCF, no BR.
>
> **– Business Rescue Practitioner**

Figure 21. Biggest hindrances to a successful formal restructuring process



n = 76 *What do you think is the biggest hindrance to a successful formal restructuring process?*

Source: Deloitte Africa analysis

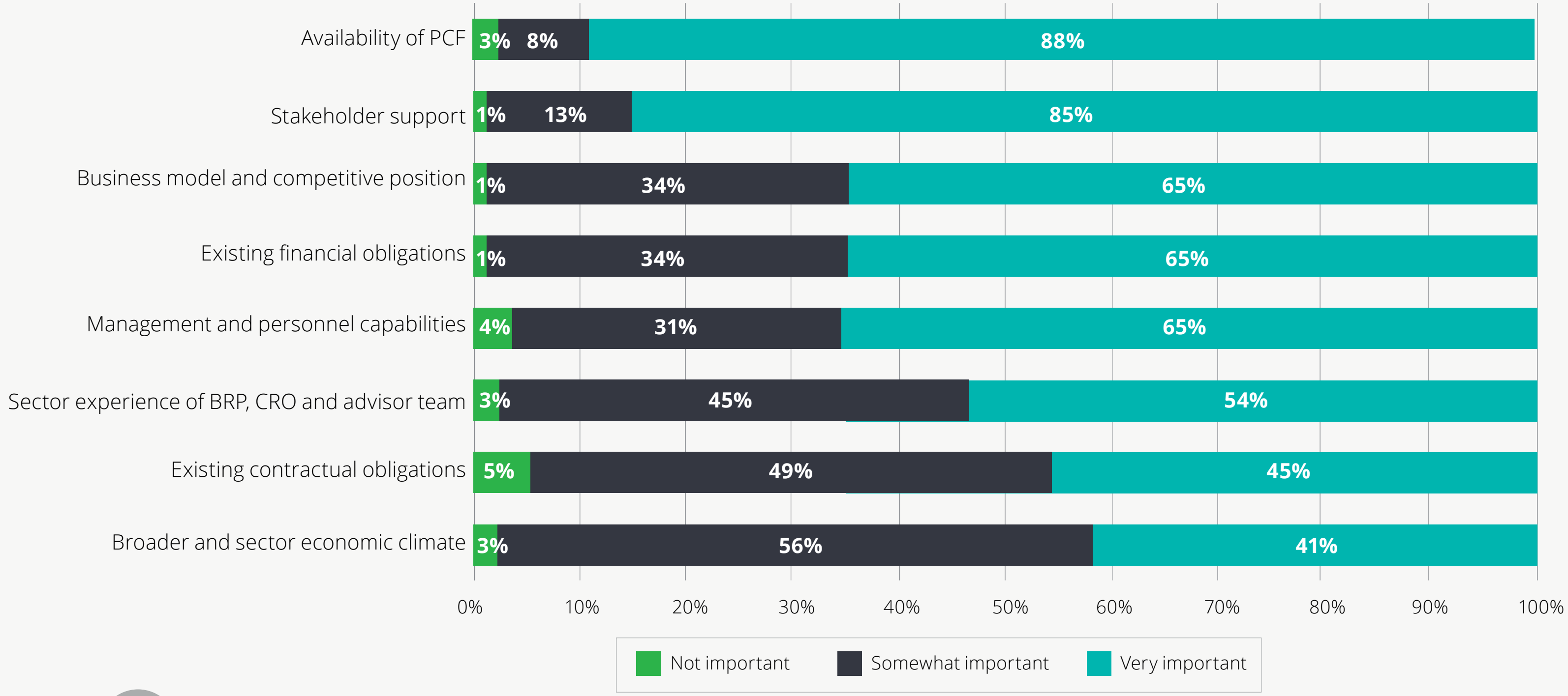
The experience with BR proceedings over the past 10 years has re-emphasised the critical importance of a robust pre-assessment in facilitating a successful BR. A pre-assessment is a contingency planning tool whereby a company and its advisors carefully consider the suitability of BR as a formal restructuring mechanism.

Greater clarity on the availability of PCF is required for a successful BR process, followed closely by the pre-existing level of support that is forthcoming from the stakeholder landscape.

The second tier of critical factors that require pre-assessment include company-specific factors, such as the existing level of financial obligations, the business model and competitive position, as well as the internal management and personnel capacities to support a successful BR process.

Having an experienced BRP at the helm is increasingly important and stakeholders are willing to reward skilled practitioners.

Figure 22. Importance of pre-assessments to increase success rates of business rescue



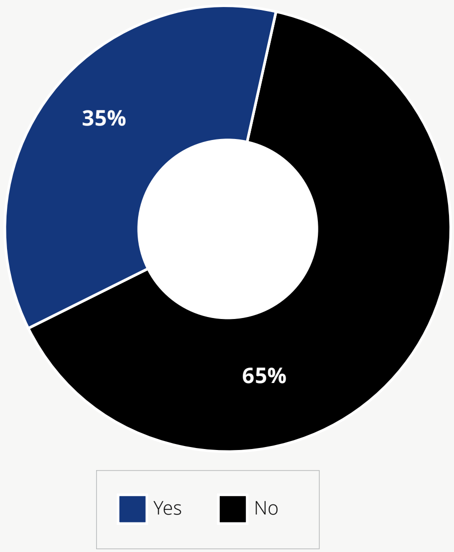
n = 74

Pre-assessments have been stated as being critical to increase the success rate in business rescue. What are the key factors to consider?

Source: Deloitte Africa analysis

Limited skills and expertise appear to be some of the challenges that hinder BRPs from adequately performing their duties – thus posing challenges to successful BRs going forward, especially given the anticipated volumes of distress over the forthcoming years. However, 65% of respondents believe that BRPs are neither adequately skilled nor qualified to perform their duties.

Figure 23. Skills limitation among BRPs to adequately perform duties

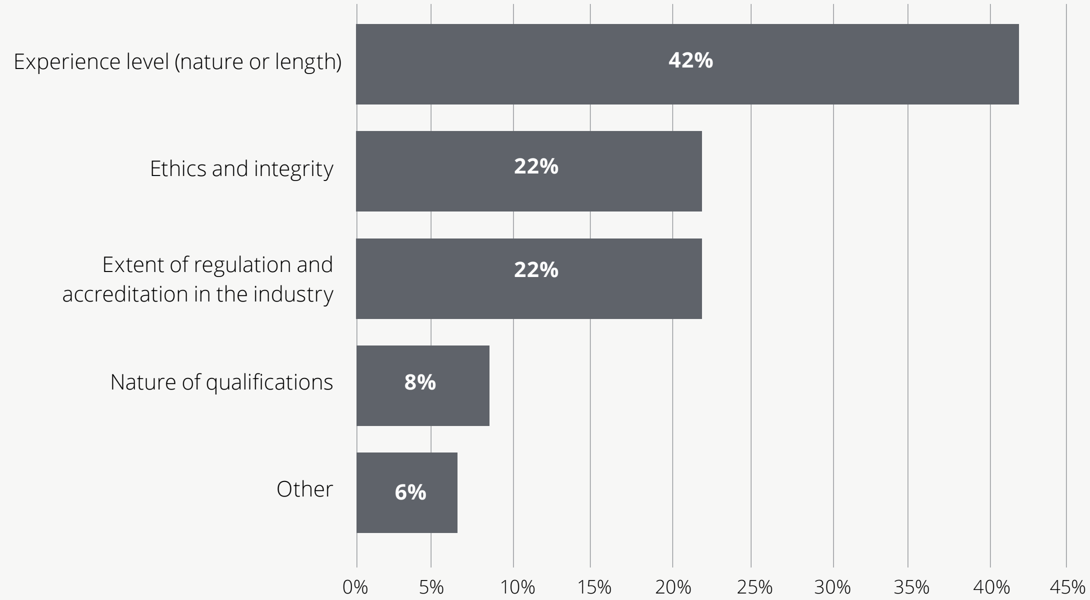


n = 76 *In general, do you believe that the current body of BRPs are adequately skilled and qualified to perform their duties?*

Source: Deloitte Africa analysis

Most respondents highlight **experience level** as the main reason BRPs are inadequately skilled and qualified to perform their duties. Other key contributing factors that impede BRPs from executing their duties adequately are issues of **ethics and integrity**, evidenced by key industry stakeholders preferring to work with a limited number of BRPs on complex matters, and the **extent of regulation and accreditation in the industry.**

Figure 24. Reasons why BRPs have limited skills to perform their duties



n = 49 *Which factor is the main reason for your selection that BRPs are not being adequately skilled and qualified to perform their duties?*

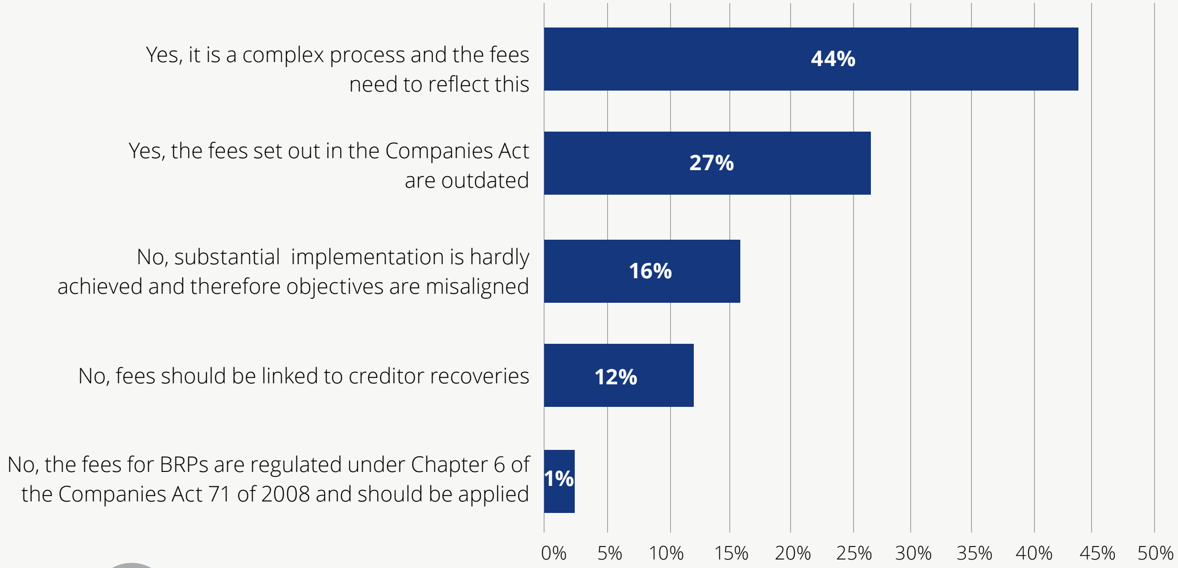
Source: Deloitte Africa analysis

> As a BRP you are only ever as good as your last job.
> **– Business Rescue Practitioner**

While 71% of respondents believe that the uplift in fees requested by BRPs is fair, 44% of these respondents indicated that this is because **BR is a complex process and the fees need to reflect this.** Furthermore, 27% of respondents feel that **the fees in the Companies Act are outdated**. It is important that the legislation provides overall support for an uplift in fees to account for both complexity and the outdated fee schedule.

> There is no question that fees in the Act are outdated, but a piecemeal increase does not help the process. Going forward, a clear remuneration model that is milestone and success fee based will benefit all stakeholders.
>
> **– Business Rescue Practitioner**

Figure 25. Upliftment in fees requested by BRPs and fair compensation



n = 76

Do you think the uplift in fees requested by BRPs results in fair compensation?

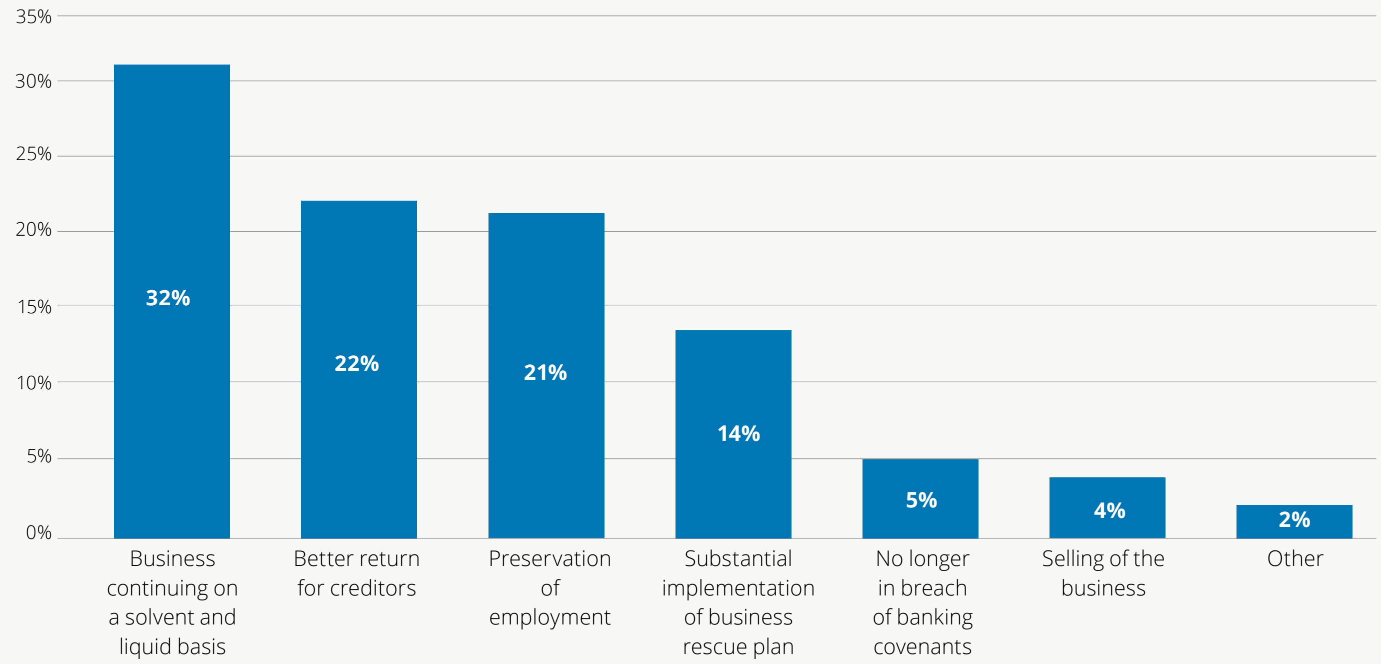
Source: Deloitte Africa analysis

What constitutes a successful business rescue?

Most respondents define success in BR as a business continuing on a solvent and liquid basis. Respondents believe that success in BR also includes a better return for creditors, with the third largest category of success being the preservation of employment. The first two reasons correlate with the statutory definitions of success. However, preservation of employment aligns far more closely with a business continuing on a solvent and liquid basis, whereas typically a 'better return to creditors' is akin to a winding down scenario or quasi-liquidation.

> The market may become more self-regulating; creditors will start to flex their muscle in terms of ensuring that restructuring is managed properly and professionally.
>
> **– Business Rescue Practitioner**

Figure 26. Measure of success of business rescue



n = 76 *How would you define "success" in terms of a business rescue?*

Source: Deloitte Africa analysis

Potential improvements to the business rescue process

In anticipation of the proposed legislation reform, most respondents believe that there is a need to update and amend Chapter 6 of the Companies Act 71 of 2008. Some of the sections that respondents feel need to be updated include Section 135, in relation to PCF rankings, and Section 143, which refers to the remuneration of BRPs. Some respondents emphasised that in order to motivate good outcomes, BR rates and fee structure need to be reconsidered, while others believe that PCF rankings need to be clarified to entice foreign distressed funds to South Africa.

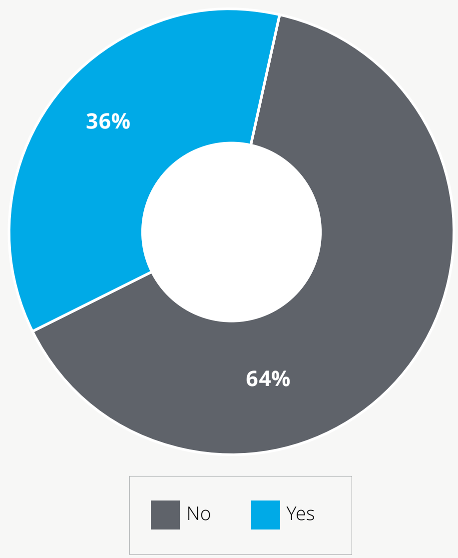
> Aligning Section 155 of Chapter 6 to international best practices will add a powerful tool to the legislative framework.
>
> **– Restructuring Lawyer**

The majority of respondents (61%), most of them being lawyers, BRPs, CROs and commercial bankers, feel that BR matters should not need to prove urgency as part of an application to court, to enable greater efficiency and acknowledge the already urgent nature of the proceedings.

Ultimately, South Africa is not deemed to have a rescue culture – a similar sentiment expressed in the 2017 survey results.[9]

> BR has been around for 10 years, however there's still no rescue culture.
>
> **– Business Rescue Practitioner**

Figure 27. SA does not have a rescue culture



n = 76 *Do you believe that we have a rescue culture in SA?*

Source: Deloitte Africa analysis

The high risk, low reward trap

Distressed funds play an increasingly important role in financial restructuring in advanced economies.[10] However, the market for distressed funding is still in its infancy in South Africa.

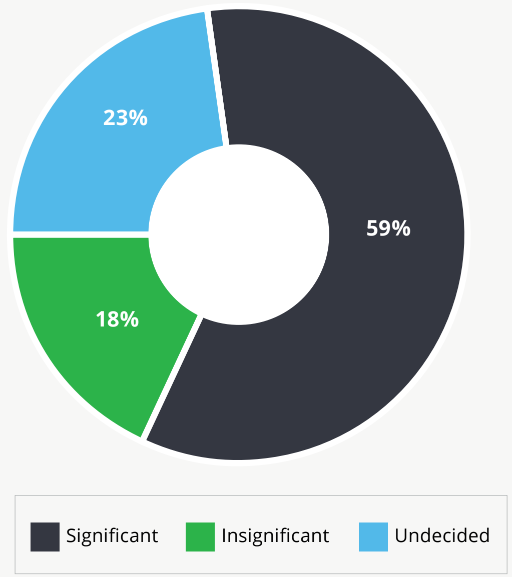
The strength of the secondary distressed debt market is an important component of successful restructurings as distressed funding provides advantages, such as:

- High risk appetite provides distressed companies with alternative sources of liquidity.
- Distressed funding can provide a clear exit route for existing financial institutions.
- Distressed funds often play an active role in the operational turnaround providing restructuring expertise.

Just more than half of survey respondents (52%) have seen an increase in the number of distressed funds created over the past three years.

Despite the roughly equal split, responses show that increased demand for distressed funding is one of the key financing trends that can be expected over the next 12 months, most likely due to the economic hardship resulting from the COVID-19 pandemic.

Figure 28. Demand of distressed funding over the next 12 months



n = 76

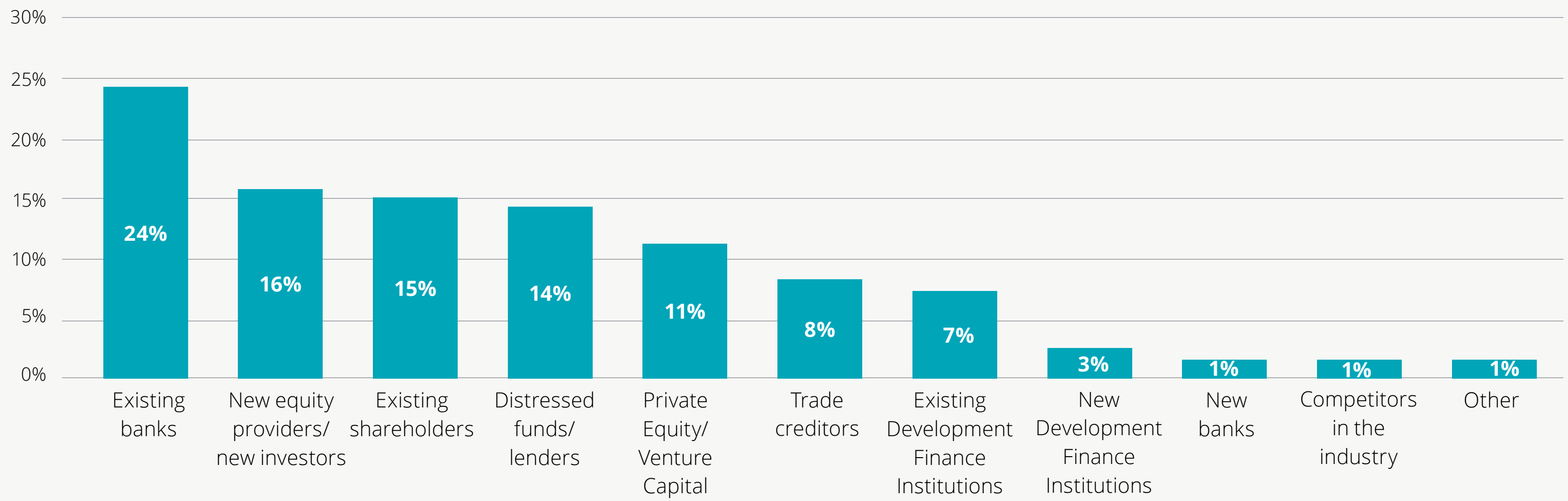
What do you expect the demand of distressed funding (including PCF) to be provided over the next 12 months is likely to be?

Source: Deloitte Africa analysis

Similar to findings in the 2017 survey,[11] the top source of distressed debt funding is still expected to be **existing banks**. This is followed by **new equity providers, existing shareholders and distressed funds or lenders,** with a typical structure of distressed funding being **the extension of facilities**, **new or increased loans,** and **asset-based lending**.

Despite more than half of respondents observing an increase in distressed funds over the past three years, the role that distressed funds play in the provision of distressed funding has remained the same since the last survey in 2017.[12]

Figure 29. Sources of distressed funding



n = 76 *In your opinion, what are the best sources of distressed debt funding (including PCF) in the distressed market?*

Source: Deloitte Africa analysis

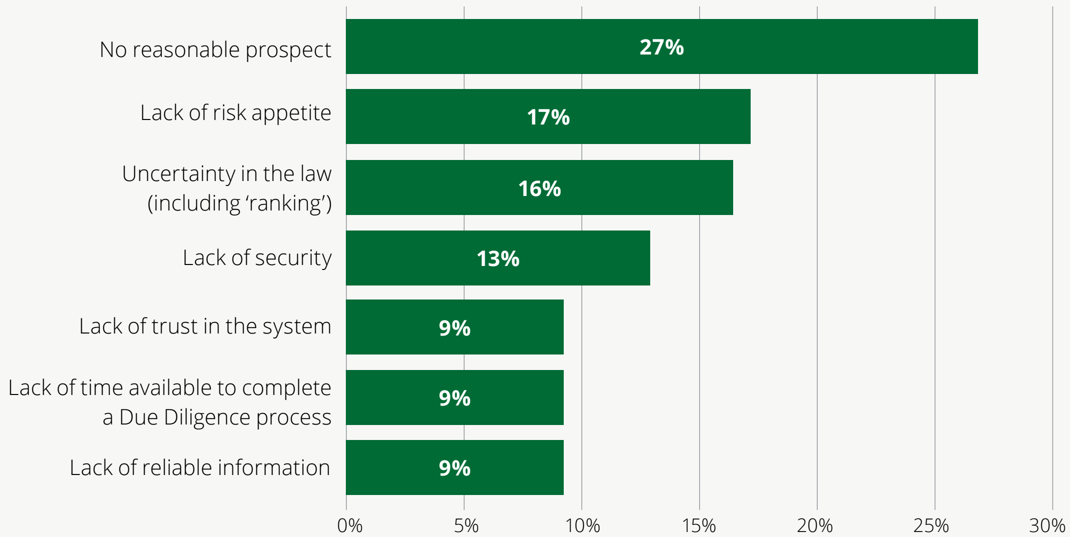
> One cannot go to market with a fund smaller than R1bn.
> **– Business Rescue Practitioner**

While existing banks are noted as being the main source of distressed funding, commercial banks are often reluctant to provide this type of funding for reasons including:

- Basel III capital requirements for high-risk lending
- the requirement for cash cover (vs liquidity constrained company)
- the capacity required to actively monitor the distressed investment.

Nonetheless, respondents identified some of the major challenges currently faced by distressed lenders. These obstacles include **businesses with no reasonable prospects, a lack of risk appetite** and uncertainty in the law (specifically in relation to PCF). 'No reasonable prospect' supports the notion that many businesses wait too long before seeking assistance. Given that distressed funds typically have a higher risk appetite than traditional lines of funding, a lack of risk appetite also supports that it is 'too late' by the time distressed funding is considered.

Figure 30. Major obstacles currently faced by distressed lenders, including post commencement financiers

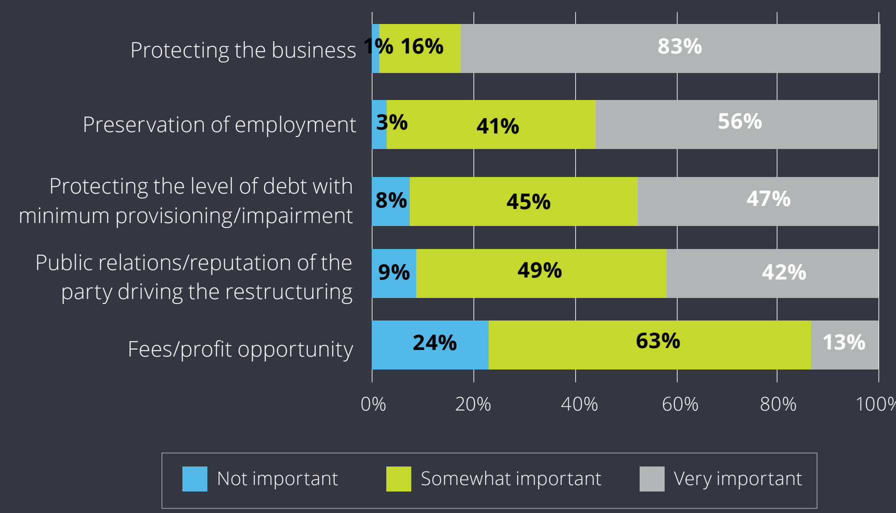


n = 76 *What are the major obstacles currently faced by distressed lenders, including post-commencement financiers?*

Source: Deloitte Africa analysis

At the outset of the restructuring process, certain objectives are key priorities for businesses. Identifying these objectives could assist both the client and the lender(s) to appoint the appropriate advisor and ensure that the process runs smoothly. As reported in the 2017 Deloitte Restructuring Survey,[13] **protecting the business** and **preservation of employment** continue to be ranked as the top priorities at the outset of the restructuring process.

Figure 31. Key priorities and objectives of businesses during a restructuring process



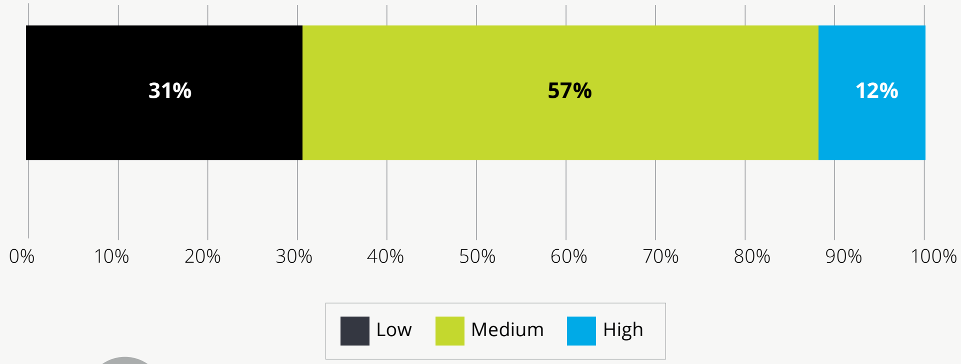
n = 76 *At the outset of a restructuring project, how important are the following objectives?*

Source: Deloitte Africa analysis

Technology and restructuring

The restructuring industry can improve its use of digital technology to increase efficiency throughout the process. Scope for improvement is vast and therefore there is an expectation that technology will have an impact on the restructuring process over the next five years.

Figure 32. Digital maturity and technological sophistication in the restructuring process



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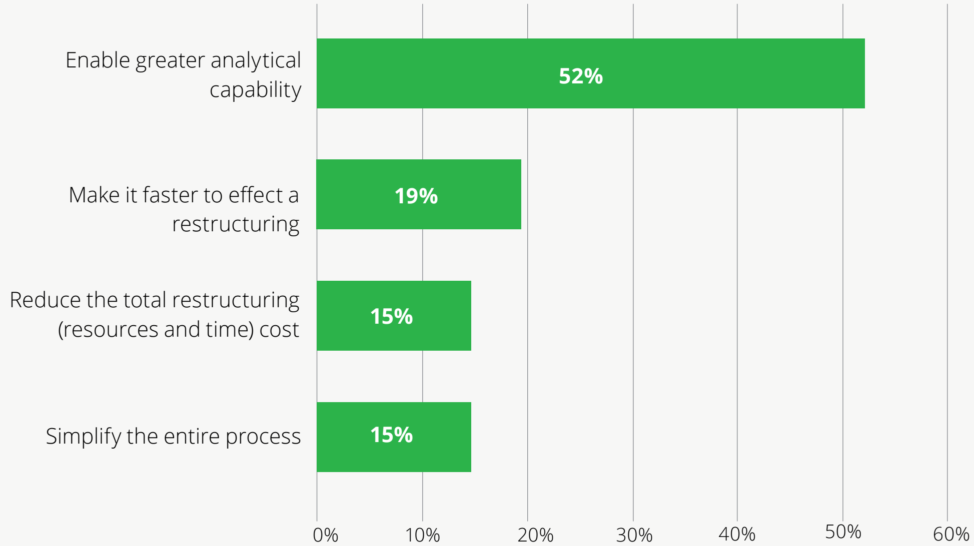
Please rate the digital maturity and technological sophistication you would assign to the restructuring process.

Source: Deloitte Africa analysis

For example, 52% of respondents believe that technology will enable **a greater analytical capability** over the next five years, while 19% believe using technology will speed up **effecting a restructuring**.

Figure 33. How technology will change restructuring over the next five years



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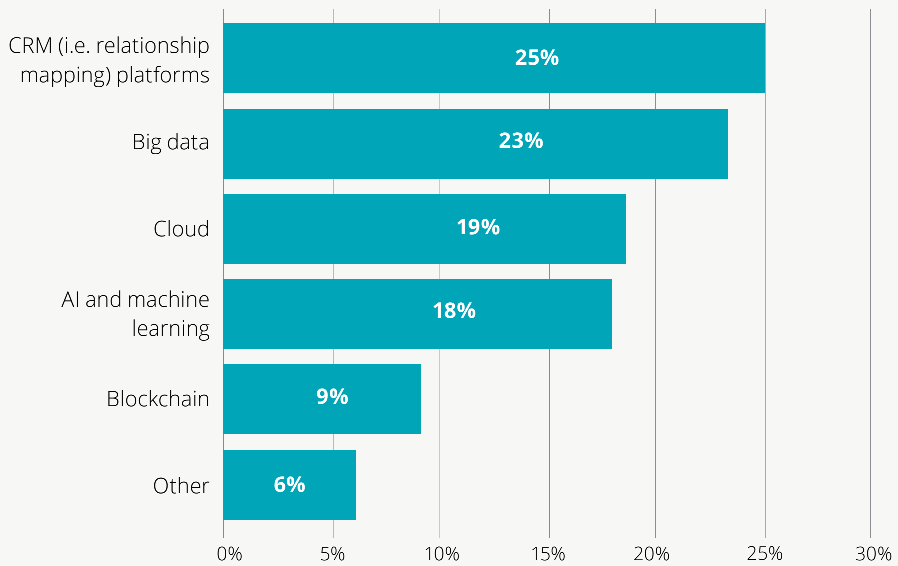
In the context of a restructuring transaction, how do you expect technology to change the process over the next five years?

Source: Deloitte Africa analysis

Technologies expected to have a transformational impact on the restructuring process in the next five years include **CRM tools, data analytics, visualisation, cloud** as well as **AI and machine learning**. While there are various types of digital technologies used in several industries, respondents believe that the **ability to load large volumes of data quickly** will be useful in restructuring over the next five years. Furthermore, digital tools are expected to be used for **staging a data room** and sending **email outreach to creditors** in the same period.

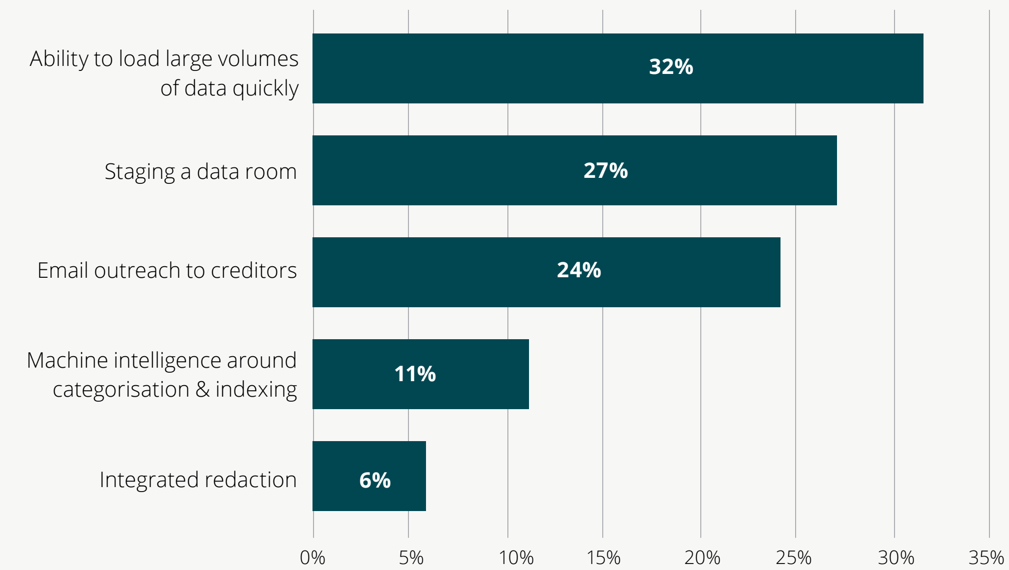
Figure 34. Technologies expected to have a transformational impact on the restructuring process in the next five years



n = 76 *Which of the following technologies do you think will have a transformational impact on the restructuring process in the next five years?*

Source: Deloitte Africa analysis

Figure 35. Digital tools deemed useful for restructuring



n = 76 *What digital tools are useful for restructuring?*

Source: Deloitte Africa analysis

Methodology

The Deloitte Restructuring Survey solely focuses on South Africa and provides restructuring professionals with insights into expectations for the restructuring landscape.

The survey was conducted between 12 January 2021 and 8 February 2021 and consisted of 60 questions. In this year's survey a total of 76 responses were captured, both through an online survey and one-on-one interviews.

Survey respondents represented a selected mix of commercial banks (21%), lawyers (20%), BRPs (14%), distressed lenders (11%), advisors (11%), Development Finance Institutions (7%), CROs (7%), liquidators (3%), regulators (3%) and other professionals (5%).

Respondents form part of various restructuring professional bodies, including the South African Restructuring and Insolvency Practitioners Association (33%), the Turnaround Management Association (23%), the South African Institute of Chartered Accountants (16%), Law Society (16%) and Other professional bodies (8%), while 4% of respondents are not members of any professional body.

Some of the questions in this survey were aligned with those posed in previous Deloitte Restructuring Survey editions. Additional questions in this 2021 edition have been included addressing the impact of COVID-19 on the restructuring industry, the rise of the CRO and potential opportunities expected going forward.

Due to rounding, responses will not always total 100%. Where respondents could select multiple answers, responses do not total 100%.

Acknowledgements

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Endnotes

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[2] National Treasury, Budget 2021: Budget review. February 24, 2021.

[3] Tralac. South Africa's policy response to the COVID-19 pandemic, July 2020.

[4] National Treasury, Budget 2021: Budget review, February 24, 2021.

[5] Deloitte Africa. Economic outlook: South Africa's difficult road to recovery, February 2021.

[6] National Treasury, Budget 2021: Budget review, February 24, 2021.

[7] Ibid.

[8] Deloitte Africa. South Africa restructuring outlook survey results 2017: Seeing through the fog. 2017.

[9] Ibid.

[10] Based on Deloitte Restructuring team insights in the EMEA region.

[11] Ibid.

[12] Ibid.

[13] Ibid.

Contacts and contributors

Jo Mitchell-Marais
Africa Restructuring Services Leader
Financial Advisory
jmitchellmarais@deloitte.co.za
+27 11 209 6871

Gregor Böttcher
Associate Director: Restructuring Services
Financial Advisory
gbottcher@deloitte.co.za
+27 21 427 5467

Dakalo Maliga
Senior Manager: Restructuring Services
Financial Advisory
dmaliga@deloitte.co.za
+27 11 209 8377

Authors:
Hannah Marais
Insights Leader
hmarais@deloitte.co.za

Masego Ntsoane
Junior Consultant: Insights
mntsoane@deloitte.co.za