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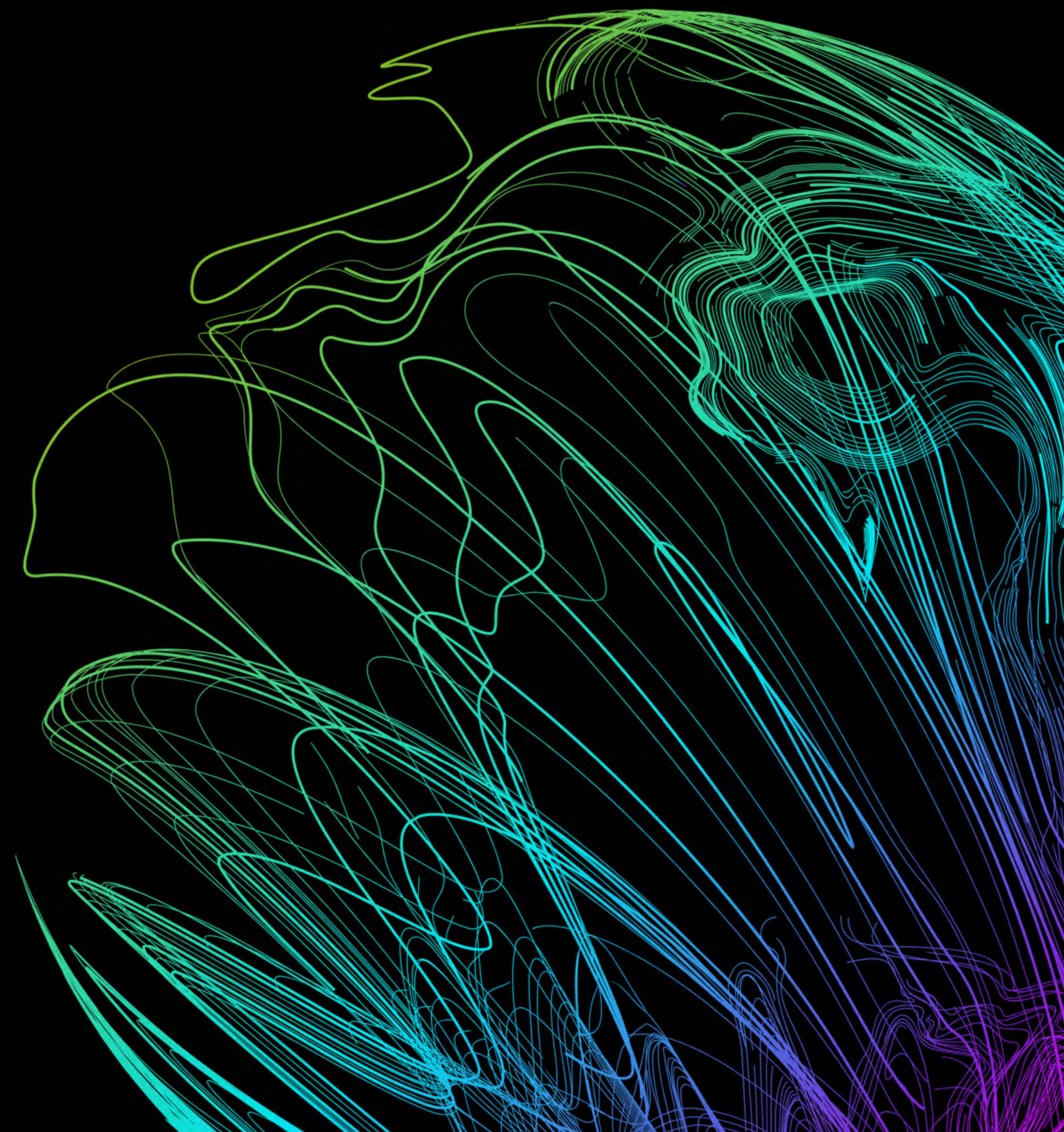
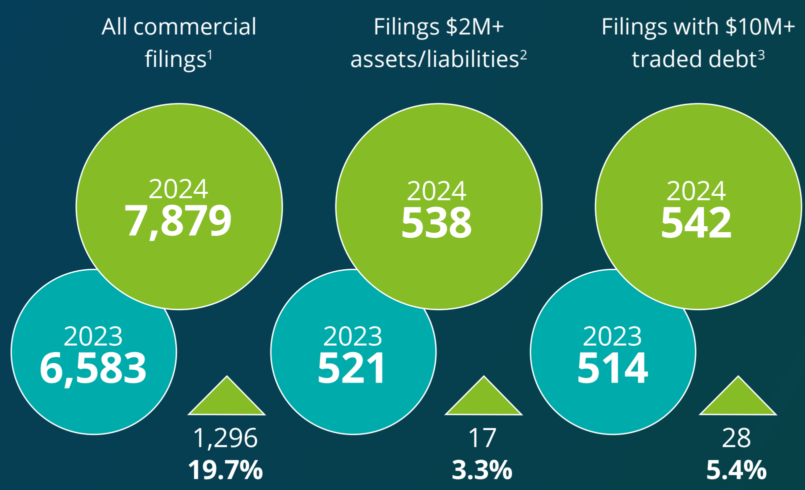
US restructuring outlook 2025



The big picture

Chapter 11 filings year over year—the big picture



Methodology

Our analysis is based on bankruptcy filings data published during the calendar year 2024 and each prior year, as described within the analysis. This information has been gathered using a range of research tools and resources including S&P Capital IQ, Octus (formerly Reorg), Refinitiv, and Epiq. We have limited our analysis to corporate Chapter 11 filings and have stated where data sets have been filtered to include a minimum total assets and liabilities at the time of filing. We have used S&P Global Capital IQ as our primary reference point, which includes companies with assets or liabilities greater than $2 million at filing.

Foreword

We are pleased to present our US restructuring outlook for 2025, an analysis of the restructuring landscape in the United States. This report builds on the insights from 2024, providing an examination of the trends, challenges, and opportunities that lie ahead in 2025.

Our analysis draws on data from a variety of sources, including industry reports and proprietary research. This report is intended to provide insights for existing and prospective clients as they navigate the complexities of the restructuring landscape and look for opportunities in 2025 and beyond.

Key highlights from 2024

2024 marked a significant period of transformation for many sectors, driven by macroeconomic factors such as rising interest rates, inflation, and geopolitical uncertainties.

Bankruptcy trends: The past year saw a notable increase in Chapter 11 filings across businesses of all sizes with almost a 20% increase in total commercial Chapter 11 filings compared with 2023.[4] This trend suggests a broad financial strain across the market; however, the impact varies when comparing smaller companies with larger ones. Those with at least $2 million in assets or liabilities at filing still saw an increase in filings but faired slightly better than the overall picture with around a 3%[5] to 5%[6] increase from 2023 to 2024.

Sector-specific insights: Consumer discretionary sector filings led the way with 89 cases filed in 2024, up from 81 in 2023.[7] This comes at a time when total consumer debt is at an all-time high (US$17.7 trillion as of second quarter 2024).[8] Continuing the trend from 2023, industrials and health care were also near the top of the list with 77 and 63 filings in 2024, respectively.[9]

What is the outlook for 2025?

As we move into 2025, the existing macroeconomic pressures, alongside bankruptcy case law updates and changing lender dynamics, continue to shape the restructuring environment, presenting both challenges and opportunities for businesses and investors alike.

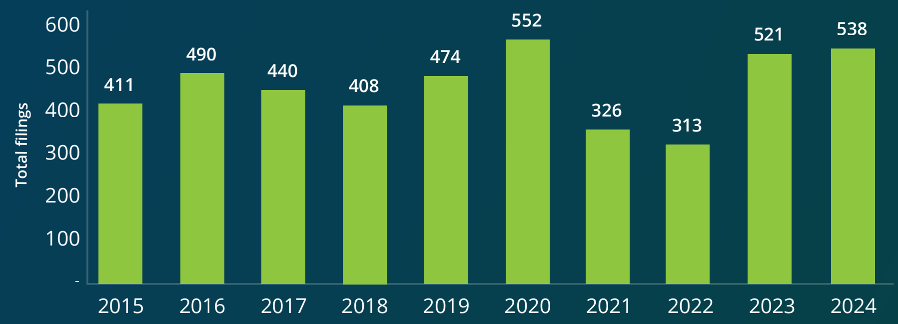
While inflationary pressures have subsided and interest rates are dropping, subpar economic growth, continuing geopolitical shocks, and regulatory uncertainty could be potential drivers for restructuring in the year ahead.

With Fed officials indicating a further half-point rate cut in 2025,[10] this may provide some relief to a chief financial officer weighing their financing options, but a return to a pre-pandemic low-interest-rate environment doesn't appear to be on the cards anytime soon.

We expect that restructuring activity will likely increase, but this doesn't necessarily mean a surge in bankruptcy numbers. We see lenders and companies more frequently looking to out-of-court, amend-and-extend, and liability management transactions.

2024 bankruptcies

US corporate Chapter 11 filings



Source: S&P Global Capital IQ.[11] Companies with reported assets or liabilities of $2M+ at filing.

US corporate Chapter 11 filings by quarter

Source: S&P Global Capital IQ.[12] Companies with reported assets or liabilities of $2M+ at filing.

Dive into debtor-in-possession (DIP) financing

$19.0 billion
Total DIP financing across 162 loans

6.0% fees
Average across all fee types noted in filings

11.6% interest
Average across all rates noted in the filings

1 in 2 loans
Featured some form of pre-petition debt rollup

Source: Octus DIP financing database for calendar year 2024.
Note: 5.5% was used as the SOFR rate in SOFR+floating interest loans.

Key drivers and trends

We saw an increase in corporate Chapter 11 filings for the second year running, almost returning to the pre-pandemic levels seen in 2020.[13] Q2 2024 filings were the highest of any quarter in the last four years reaching a peak of 162 filings in the period.[14]

Macroeconomic conditions

Interest rates and corporate debt:
The average corporate borrowing rate increased to nearly 7% by the end of 2023 and remained elevated through the first three quarters of 2024,[15] presenting a barrier to firms that need to borrow to invest. We continue to see a shift in debt markets with significant growth in "nontraditional" private credit structures.[16] While this is not necessarily a new trend for 2024 it reflects the ongoing shift toward nonbank (and typically higher rate) borrowing and differing approaches to restructuring distressed credit than with traditional banks.

Consumer spending and household debt:
Real consumer spending remained strong, but households have largely depleted their pandemic-era excess savings and are increasingly relying on debt. US household debt continued to rise, reaching a record high of US$17.7 trillion as of second quarter 2024 and continuing to climb by a further $147 billion in the third quarter of 2024.[17] Rising household debt may lead to reduced consumer spending in the future, affecting businesses dependent on consumer demand. In the first nine months of 2024, lenders wrote off more than $46 billion in seriously delinquent credit card loans, the highest level since 2010.[18]

M&A activity

M&A can be both a driver of restructuring and an essential component to delivering a restructuring. In 2024, US M&A experienced a modest uptick in both value and volume terms with $1,285 billion in transaction value in 2024 (up 7% from $1,201 billion in 2023) and total volume of 14,897 transactions (up 5% from 14,229 in 2023).[19]

Debtor-in-possession (DIP) financing

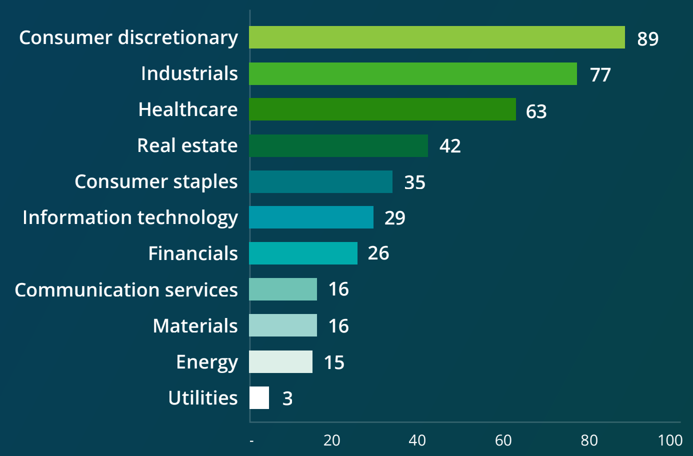
With more than $19 billion deployed in DIP financing transactions during 2024, it's clear that both the need for distressed financing and appetite to provide financing still exist.[20]

We observed 35 different categorizations of fees applied to loans, but the most common were upfront and exit fees, and interest structures varied between fixed and floating but averaged out at 11.6%.[21]

2024 sector review

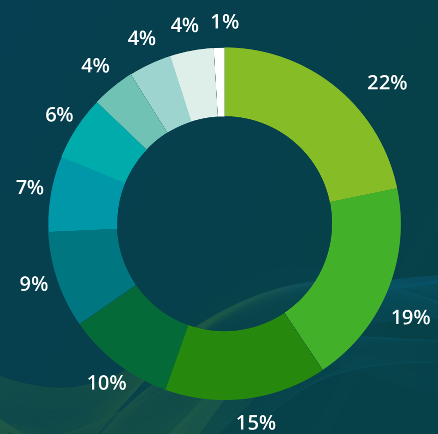
Consumer discretionary, industrials, and health care remain the top three sectors for bankruptcy filings in 2024. This top trio is unchanged from 2023; however, within the trio the order has changed, with consumer discretionary seeing the highest level of filings in 2024 with a total of 89 cases making up 22% of the overall picture.[22]

2024 corporate Chapter 11 filings by sector



Source: S&P Global Capital IQ.[23] Companies with reported assets or liabilities of $2M+ at filing.
Note: There were 127 companies in the data set with an undisclosed sector.

2024 corporate Chapter 11 filings by sector



Source: S&P Global Capital IQ.[24] Companies with reported assets or liabilities of $2M+ at filing.
Note: There were 130 companies in the data set with an undisclosed sector.

Sector insights

Consumer discretionary

With increasing consumer debt levels and credit card default rates,[25] it comes as no surprise that the consumer discretionary sector is seeing increased distress. As consumers continue to feel the pinch following two years of high inflation, discretionary spend is typically the first area that gets hit. Hospitality has been a prominent component of this in 2024 with several household names in the restaurant space filing for Chapter 11—Red Lobster, TGI Friday's, and BurgerFi, to name just a few. The auto industry, including parts suppliers, is another area that has seen distress, with several electric vehicle (EV) companies and EV parts suppliers filing for Chapter 11 in 2024.

Industrials

The industrials sector experienced ongoing strain in 2024, following the increasing number of bankruptcies seen in 2023. Supply chain disruptions leading to higher operational costs and delayed production schedules were one side of the equation while the November 2024 PMI report also identified a combination of falling orders and rising customer inventories.[26]

Health care

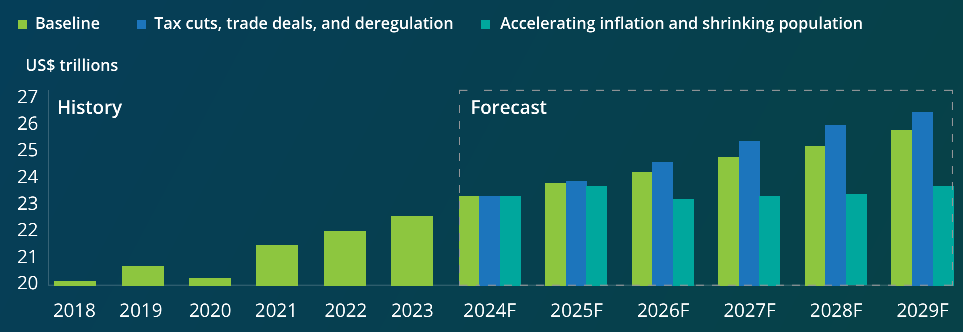
Health care bankruptcies slowed in 2024 after reaching a five-year high in 2023, but it's clear that the sector still faces significant challenges.[27] Rising labor costs driven by workforce shortages, strained hospital and provider margins, complex regulatory obligations, and declining reimbursement rates are all contributing to the financial strain on health care organizations.[28] These challenges are difficult to manage in the best of times, but when coupled with a high-interest and inflationary macroeconomic environment that pressure has led to a notable number of bankruptcies in the sector.

Commercial real estate

While the real estate sector managed to "technically" avoid a spot in the top three,[29] it's still seen its fair share of restructuring—looking at the number of real estate filings alone doesn't accurately reflect the level of restructuring taking place. For example, a significant number of consumer discretionary Chapter 11 filings likely involve some form of commercial real estate restructuring as companies look to use Chapter 11 to negotiate more favorable lease terms or close and exit loss-making brick-and-mortar locations, as well as businesses shuttering office space.

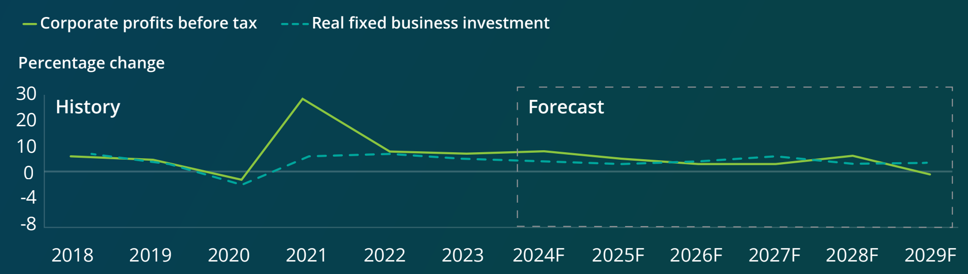
Looking ahead to 2025

Real GDP growth



Note: "F" denotes forecast.
Source: Deloitte analysis.

Business sector



Note: "F" denotes forecast.
Source: Deloitte analysis.

Potential drivers

Economic indicators

The US economy is projected to experience a slowdown, with real GDP growth predicted to decelerate from 2.8% in 2024[30] to 2.4% in 2025.[31] The moderation is attributed to the lagging effects of previous interest rate hikes and potential negative impacts from new tariffs. Inflation is expected to remain above the Federal Reserve's 2% target, influenced by trade policies and tariffs, potentially causing further pricing pressure for consumers.[32] This combination of factors may contribute to a continued need, or even slight increase, in restructurings for 2025.

Regulatory changes

The Supreme Court's recent decision in the Purdue Pharma case will likely have significant implications for bankruptcy proceedings. The Court ruled that the Bankruptcy Code does not authorize non-consensual third-party releases, except in asbestos-related cases.[33] This decision overturns existing precedent in many courts and is likely to alter the dynamics of future bankruptcy plan negotiations, particularly in mass tort cases. Creditors are likely to gain increased leverage in plan negotiations, potentially leading to more complex and protracted bankruptcy proceedings, including litigation regarding both the breadth and applicability of the Court's decision in Purdue. This, in turn, may lead companies and lenders to search harder for out-of-court options.

Capital markets

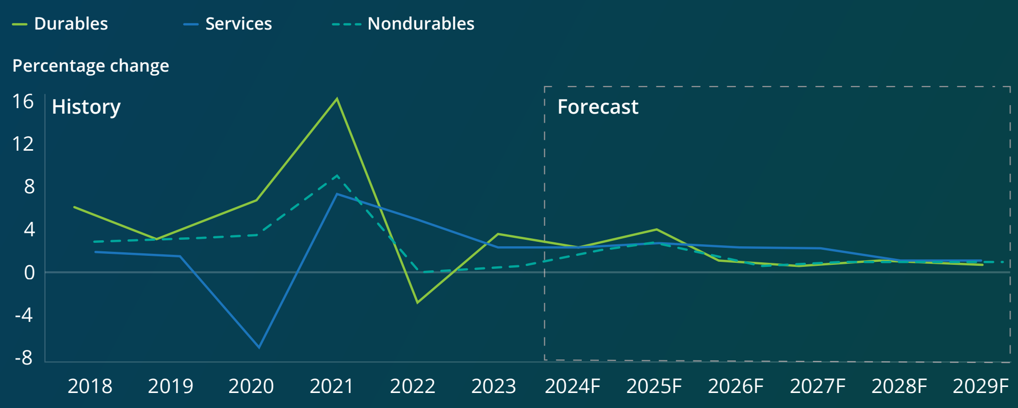
Capital markets are expected to remain cautious due to ongoing inflation concerns and elevated interest rates. Traditional financing may become more restrictive, leading companies to explore alternative capital sources such as private credit. The private credit market is expected to grow as businesses seek flexible financing solutions amid tightening credit conditions. However, the cost of capital is likely to remain high and there may be a tightening of credit agreement terms (and potentially lending policies) in light of the Serta Simmons bedding decision in the 5th Circuit Court of Appeals.

Liability management

Considering the legal changes noted above and increasing costs associated with Chapter 11 bankruptcy, debt holders and private credit providers are likely to employ liability management techniques such as amend-and-extend transactions and out-of-court restructurings. These strategies may provide borrowers with extended maturities and modified terms, offering flexibility to manage debt obligations without resorting to formal bankruptcy proceedings. However, these transactions are likely to be the subject of close scrutiny by non-participating creditors and generate litigation (and the attendant costs) even outside of the context of a bankruptcy proceeding.

2025 sector considerations

Consumer spending growth



Note: "F" denotes forecast.
Source: Deloitte analysis.

Seeking opportunity

Distressed debt and equity investors are poised to encounter increased opportunities in 2025, driven by economic deceleration and tighter financial conditions. Sectors heavily affected by tarrifs and supply chain disruptions may present attractive investment prospects. Investors are expected to adopt a selective approach, focusing on assets with strong recovery potential and restructuring opportunities.

Alongside the traditional watchlist triggers, it's worth keeping an eye on broader market drivers such as potential regulation changes, tariffs, and taxes that the new administration may bring.

Sector-specific drivers

Consumer: Auto

The US auto sector is facing several headwinds that we expect might drive a continued need for restructuring and potential bankruptcies in 2025, with electric vehicle companies and parts suppliers being a significant part of that.

The combination of steadily increasing US labor costs (especially when considered against overseas manufacturing facilities) coupled with potential tariffs and new approaches on tax credits for EVs, presents a set of challenges for US-based auto companies and parts manufacturers.[34] Consolidation in EV startups, battery manufacturing, and the broader EV technology space is expected—presenting opportunity for an original equipment manufacturer and a tier one supplier.

Health care

Balancing growth with cost management and navigating an uncertain macroenvironment could be challenging for health plans and health systems. Health care executives cautiously express a more favorable outlook for 2025 with nearly 60% of industry leaders holding a favorable industry view versus just 52% a year earlier,[35] but that still leaves a significant portion of executives indicating concern about the year ahead. Organizations face challenges in matching care affordability for consumers against rising costs and an increasing need to invest in technologies and digital platforms to enhance user experience.[36]

Consumer: General

With expected rate cuts in the coming quarters, cheaper borrowing will likely allow households to take on more debt and continue spending in 2025.[37] With the added dynamic of new tariffs potentially on the horizon, there may also be an acceleration on consumer spend in 2025 ahead of tariffs coming into full effect in 2026.[38] On the contrary, consumer spending might be negatively affected by the broader economic slowdown caused by the tariffs, government spending cuts, and continued inflation, with discretionary spend being the first area to potentially take a hit.

Retailers, hospitality, and casual dining operators, particularly those with large debt burdens, may encounter liquidity challenges. Nonetheless, the underlying strength of the consumer means we do not see any outright declines in spending, but potentially more consideration of when and where that spend is deployed.

Endnotes

1. Epiq Global Commercial Chapter 11 filings report as of January 3, 2025, for the period January 1–December 31, 2024.
2. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
3. Octus Research Chapter 11 filings for the period January 1–December 31, 2024, with $10 million tradable debt and above.
4. Epiq Global Commercial Chapter 11 filings report as of January 3, 2025, for the period January 1–December 31, 2024.
5. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
6. Octus Research Chapter 11 filings for the period January 1–December 31, 2024, with $10 million tradable debt and above.
7. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
8. Deloitte, *2025 banking and capital markets outlook*, October 13, 2024.
9. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
10. Sarah Hansen, "Will the Fed raise interest rates in 2025?," Morningstar, January 3, 2025.
11. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
12. Ibid.
13. S&P Global Capital IQ. Companies with reported assets or liabilities of at least $2 million at filing.
14. Ibid.
15. Ira Kalish and Robyn Gibbard, "United States economic forecast," Deloitte, December 13, 2024.
16. Richard Rosenthal et al., "How can banks adapt to the growth of private credit?," Deloitte, August 13, 2024.
17. Epiq Global Commercial Chapter 11 filings report as of January 3, 2025, for the period January 1–December 31, 2024.
18. Stephen Gandel, "US credit card defaults jump to highest level since 2010," *Financial Times*, December 29, 2024.
19. Octus DIP Financing Database for calendar year 2024.
20. Ibid.
21. Ibid.
22. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
23. Ibid.
24. Ibid.
25. Stephen Gandel, "US credit card defaults jump to highest level since 2010," *Financial Times*, December 29, 2024.
26. John Coykendall, Kate Hardin, and John Morehouse, *2025 manufacturing industry outlook*, Deloitte, November 20, 2024.
27. S&P Capital IQ data includes all filings reported by Capital IQ for the period January 1–December 31, 2024, with reported assets or liabilities exceeding US$2 million at the time of filing.
28. Alan Condon, "Healthcare bankruptcies declined in 2024 but large filings remain elevated," *Becker's Hospital Review*, January 23, 2025.
29. Ibid.
30. Josh Schafer, "GDP: US economy grows at slower-than-expected pace in fourth quarter," Yahoo Finance, January 30, 2025.
31. Ira Kalish and Robyn Gibbard, "United States economic forecast," Deloitte, December 13, 2024.
32. Ibid.
33. Supreme Court of the United States, *Harrington v. Purdue Pharma L.P.*, June 27, 2024.
34. Deloitte, 2025 Global Automotive Consumer Study, January 2025.
35. Alicia Janisch, Wendy Gerhardt, and Maulesh Shukla, *2025 US healthcare outlook*, Deloitte, December 12, 2024.
36. Ibid.
37. Ira Kalish and Robyn Gibbard, "United States economic forecast," Deloitte, December 13, 2024.
38. Ibid.

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