Italy in focus:

How stakeholder synchronicity can signal restructuring success

December 2024

Discover more global insights from AlixPartners' 19th Annual Turnaround and Transformation Survey

Read more

When it really matters.sm

Time moves at different speeds in restructuring. Intervention in a distressed business sets two clocks running at once: that of creditors and investors seeking a speedy recovery, and that of the company seeking space for fundamental transformation.

In a volatile economic environment, successful turnaround depends on synchronizing these clocks: aligning creditors' and investors' recovery periods with companies' transformation timelines.

Achieving this is not easy. Our experience in Italy shows that there is often a lack of awareness that the execution of the turnaround will take place in the turbulent waters of global trends and shocks that are reshaping the business landscape. These shocks make it more challenging to proactively manage the legitimate recovery expectations of creditors, especially in a context where, particularly in Italy, the turnaround often requires significant cash outflows to support a profound transformation.

Worldwide economic trends make recovery times more uncertain

Italy's post-pandemic recovery has seen real GDP growth above the European Union average.[1] This is despite domestic companies, like their peers around the world, grappling with simultaneous macroeconomic challenges:

1. **Reverse globalization**
With increased localization of production and supply creating short-term uncertainty as supply chains reorientate.

2. **Transport Costs**
Partly driven by a dramatic fall in Suez Canal shipping, which in turn means higher inventories and working capital requirements.

3. **Geopolitical disruption**
From elections in major economies to increased diplomatic tensions and outright conflicts in Europe and the Middle East.

4. **Demographic challenges**
Decreasing birth rates in key markets will bear down on sales volumes in sectors such as consumer goods, with revenues preserved mainly through premiumization where possible.

5. **Environmental Considerations**
Encompassing the direct effects of climate change and the regulatory drive for emission reductions.

All this is playing out against a backdrop of elevated interest rates and higher refinancing costs, as demand volatility makes revenue ever less predictable.

1. European Commission

Global trends, local impacts

These familiar global currents have important local impacts in key sectors. The investments required for the transformation impact creditor recovery times, and in Italy this is especially true in manufacturing and heavy industry.

39%

of Italian respondents expect their country to be the most likely to face distress.

The country's export-oriented industries rely heavily on imports of critical raw materials. These are vulnerable to both supply chain disruption and price volatility. We work with our clients to reduce such risks through increased recycling and the adoption of circular economy practices, but this often requires product adaptation, process rethinking and (again) investment.

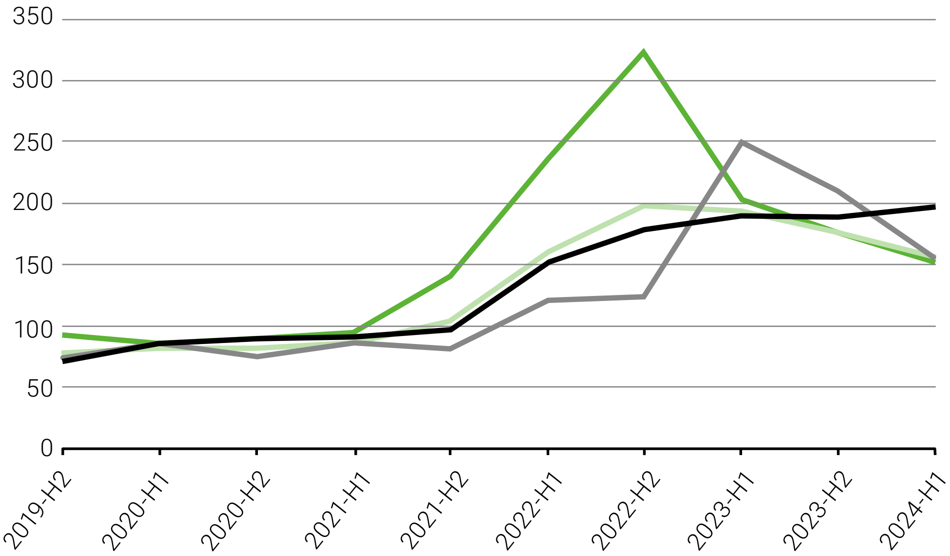
In addition, geopolitical instability has significantly impacted operating costs. Industrial electricity prices per kilowatt-hour had started to increase early in 2021, and further surged to the third highest in Europe in the first half of 2022, as imports of natural gas from Russia – historically the major supplier – fell because of the war in Ukraine.[2] While prices have fallen since, volatility concerns remain.

Companies also need to remain at the forefront of advancing technology. Just as modern cars are increasingly software-defined, the factories that make them are optimizing performance through digitization. Additive manufacturing and predictive maintenance, for instance, can significantly improve operational efficiency and cut costs.

Electricity prices for non-household consumers (m)

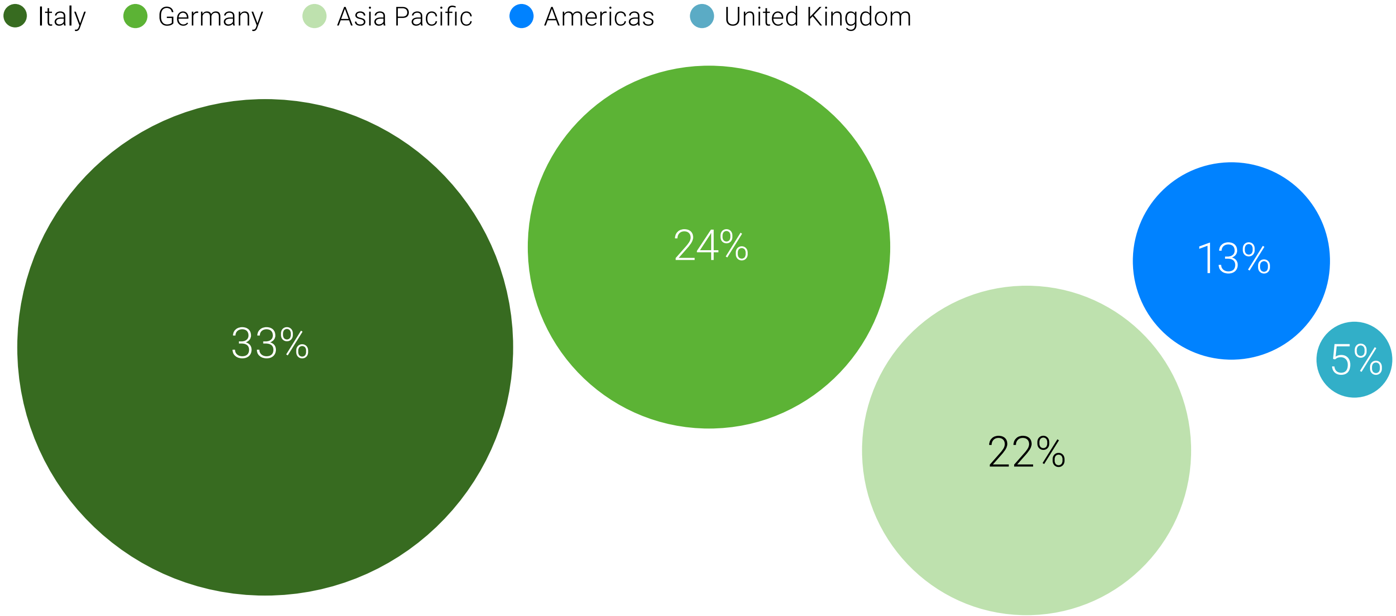
Italy EU 27 Germany France

Source: Eurostat



2. European Commission

Italians are the most likely to expect the manufacturing sector to experience distress



Italy is the second largest manufacturer in Europe, accounting for 14% of EU industrial production.[3] The combination of high energy prices with the investment required for decarbonization, sustainability, and digitization poses major challenges for companies at the heart of the industrial base.

Against this backdrop, it is easy to see why one third (33%) of Italian respondents to the AlixPartners 2024 Turnaround and Transformation Survey pointed to manufacturing as the global sector most likely to experience distress. This compares to just 5% of respondents in the Americas.

49%

of Italian respondents cited technological investment as a common challenge facing businesses.

But for those firms with the will and capacity to innovate, opportunity beckons. Investment in advanced manufacturing capabilities, including robotics and artificial intelligence, will help today's struggling companies regain their competitive edge. Digital technology manufacturing processes can streamline production, reduce waste and improve quality. By its nature, however, cutting-edge modernization often calls for spending on in-house research and development in addition to sourcing products already on the market.

Leadership teams have become acutely aware of these imperatives. Asked to select the three most common challenges facing businesses in turnaround or transition, nearly half (49%) of Italian executives and restructuring experts cited technological investment.

3. European Commission

Investment requires careful expectation management

Managing creditor expectations is essential today. Economic volatility creates uncertainty and the need for investments slows recovery periods.

Effective stakeholder management is nearly impossible without credibility. Past failures to meet projections may have eroded trust, making creditors and investors hesitant to support the latest recovery plan. Regaining credibility requires a return to predictable results, which demands extremely rigorous scenario planning. Executives should carefully assess internal capacity and seek external support when necessary.

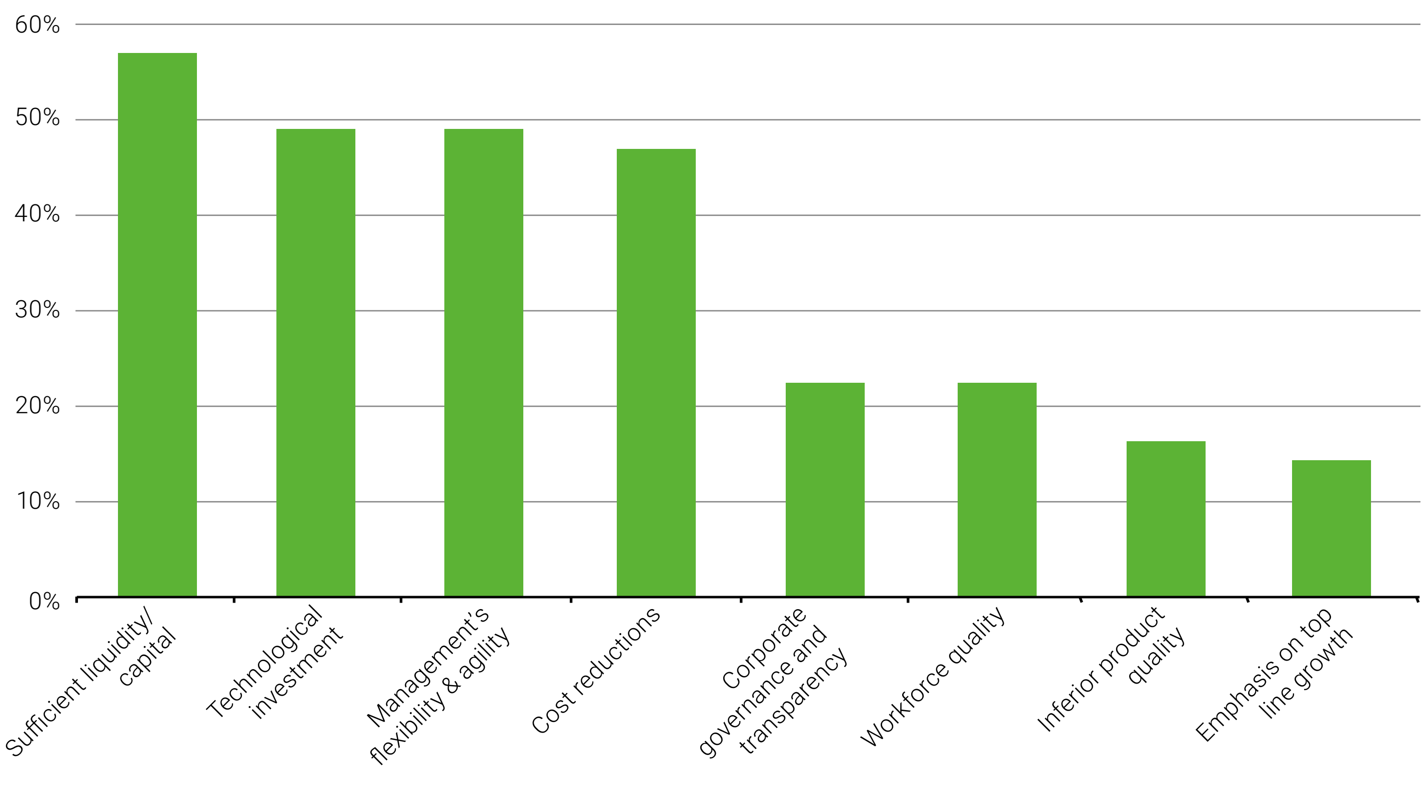
It is essential to establish open and honest communication with creditors from the outset, clearly articulating the company's current situation, the critical need for investments, and how these investments will pave the way for a successful turnaround. Transparency is key to building trust and helping creditors see the long-term benefits of supporting the company's strategic plan.

Additionally, actively involving key stakeholders, including creditors, in the turnaround planning process is crucial. Their insights can be invaluable, and their participation can cultivate a shared sense of purpose and commitment to the company's recovery. This collaborative approach ensures that everyone is aligned and working towards common goals.

Furthermore, defining clear performance milestones and integrating them into the restructuring plan is vital. By showcasing progress through measurable milestones, the company can reassure creditors that the turnaround strategy is on track. This not only aligns expectations but also provides a solid foundation for ongoing support and confidence in the recovery process.

Liquidity, agility and technology are key challenges

What are the three most common current challenges you see confronting companies in Italy who are facing a turnaround or transition?



Navigating investor demands in Italian turnarounds

Investor expectations are changing too. We see an appetite for companies in turnaround scenarios to undertake fundamental business model reforms, rather than tinker around the edges to get through the immediate crisis. Italian stakeholders are increasingly unlikely to buy into a turnaround plan that lacks a coherent transformation narrative. This is entirely rational given the need for major, transformative investments that we have identified.

At the same time, stakeholders want to see rapid execution and will reward business plans that deliver with urgency. The expectations for recovery can be at odds with the timeframe needed to implement turnarounds of the scale required in today's Italian industrial context.

The key is to align execution with expectations. Successful leadership in restructuring means acting as an honest broker to help companies and stakeholders coordinate their timetables, striking a balance between recovery periods and turnaround milestones. While speed over perfection remains vital, helping creditors and investors to see their way to plausible recovery timetables ultimately serves the interests of all parties.

34%

of respondents from Italy think geopolitical disruption is the top factor driving distress.

One pathway to alignment is taking a phased approach to the business plan. Phase one of a turnaround can focus on stabilization, looking to prudence over ambition in the short term and selecting cashflow above other priorities. Once the immediate bleed has been staunched, a second phase can focus on growth and new initiatives.

In practical terms, though, such alignments are easier to achieve if problems are tackled early. Starting transformation efforts before a developing crisis becomes acute allows companies to make the necessary changes over a reasonable period with stakeholder backing.

Successful leadership in restructuring means acting as an honest broker to help companies and stakeholders coordinate their timetables.

Striking the right balance can secure future success

A well-crafted turnaround plan will focus on swift transformation and comprehensive mitigation of risks from demand volatility and sudden market shocks. Investors and creditors who rightly value speed of execution should also ensure that they give management the space to fix the business, aligning their recovery periods with the timetable for turnaround.

Those companies whose stakeholders have reached this position are then well placed to attract the necessary human and financial capital. In Italy, as traditional lenders are being replaced by other operators in certain turnaround situations, stakeholders must also be prepared to inject capital to finance a turnaround – with the ultimate goal of sustainable long-term success.

Authors

Pietro Baretta

Senior Vice President

pbaretta@alixpartners.com

Mauro Trabatti

Partner & Managing Director

mtrabatti@alixpartners.com

About us

When the situation is urgent, businesses need immediate, trustworthy counsel on quantifiable actions they can take.

Over the past 40 years, AlixPartners has brought its expertise to stakeholders around the world on some of the largest and most high-profile bankruptcies and restructurings, assisting companies as they contend with financial, strategic, and operational challenges.

Today, we are a leading global provider of turnaround and restructuring services, helping companies across a wide spectrum of bankruptcy activities reach their financial and operational goals as we guide them through turbulence.

As a worldwide advisor to companies operating in every major industry sector, our clients benefit from hands-on experience in the industries we serve. From stabilizing finances, to helping refinance debt and improve operations, our approach works to salvage value and support stakeholders.

AlixPartners Turnaround and Transformation Survey 2024 |
Italy in focus