AlixPartners

State of the Markets & Restructuring Market Update

Discussion Materials

February 2025

Table of Contents

Randall Eisenberg

reisenberg@alixpartners.com

Successfully guiding companies through complex transformations, turnarounds and restructurings has been the cornerstone of Randall’s 25+ year career serving both as a senior advisor and interim executive. Randall advises management teams, boards of directors, equity sponsors, and creditor constituents on the transformation of stagnant or underperforming companies, providing specialized leadership for rebuilding enterprise value, often when operating in a capital constrained environment. He has received numerous recognitions individually and as part of teams for successful outcomes. Randall also serves on the Firm’s management committee of the Turnaround and Restructuring Services practice in North America.

Randall has previously served as President and Chairman of the Turnaround Mgmt. Assoc. (“TMA”), President of the Association of Certified Turnaround Professionals, and is a Certified Turnaround Professional and a Certified Public Accountant. Randall has been inducted as an honorary member into the Turnaround, Restructuring and Distressed Investing Industry Hall of Fame, and is a past recipient of the Outstanding Contribution to the Turnaround Profession Award by the TMA. He also previously served as a trustee for Save the Children U.S. Randall holds a Masters in Management from Northwestern University.

Greg Donat

gdonat@alixpartners.com
+1 917 715 1996

Before joining AlixPartners, Greg spent five years as a partner at hedge fund Casablanca Capital, where he focused on investing in undervalued public companies, including activist investments. Before Casablanca, he spent 12 years as an investment banker at Lazard and Bank of America Securities, where his practice included mergers & acquisitions, financings, energy derivatives and restructuring transactions. Greg’s domain expertise includes Industrials, Basic Materials, Power & Utilities and Energy. He also has significant experience in the Healthcare, Technology, Consumer Retail and Financial sectors.

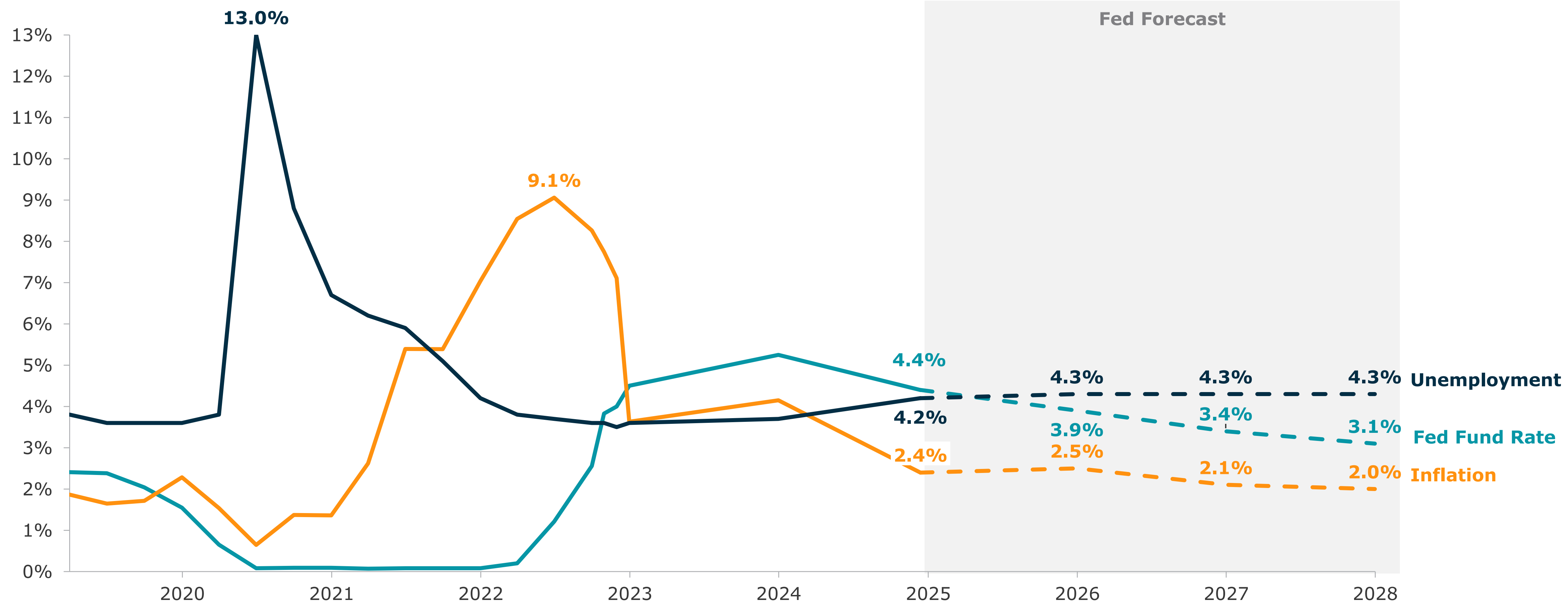
Prior to becoming an investment banker, he was a corporate attorney at Cravath, Swaine & Moore. Greg holds a JD from Columbia Law School and a BA from Amherst College.

Table of Contents

When will the Fed cut rates again?

Policy uncertainty and a **strong labor market** may prompt the Fed to continue **delaying rate cuts**, as it did recently

Fed Forecast

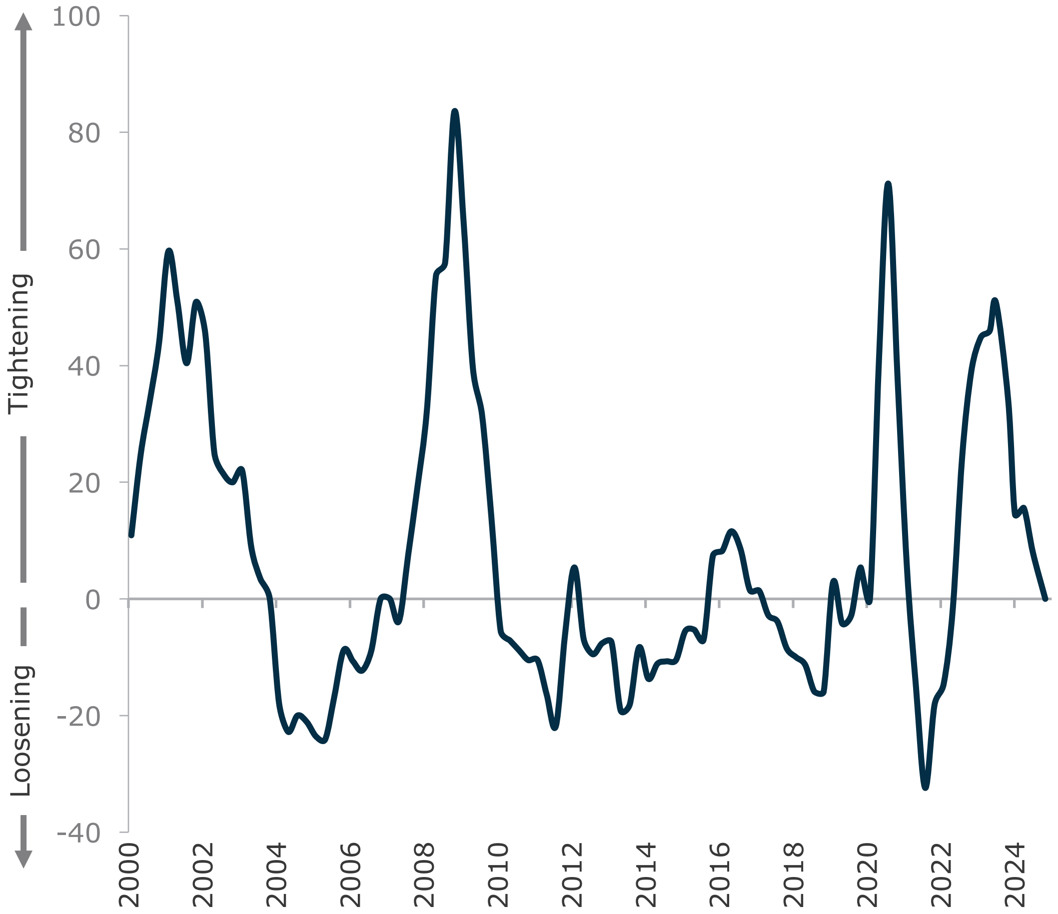


Source: FOMC (as of Dec. 2024), Bloomberg

Market liquidity and lending conditions improved as the Fed started to cut rates

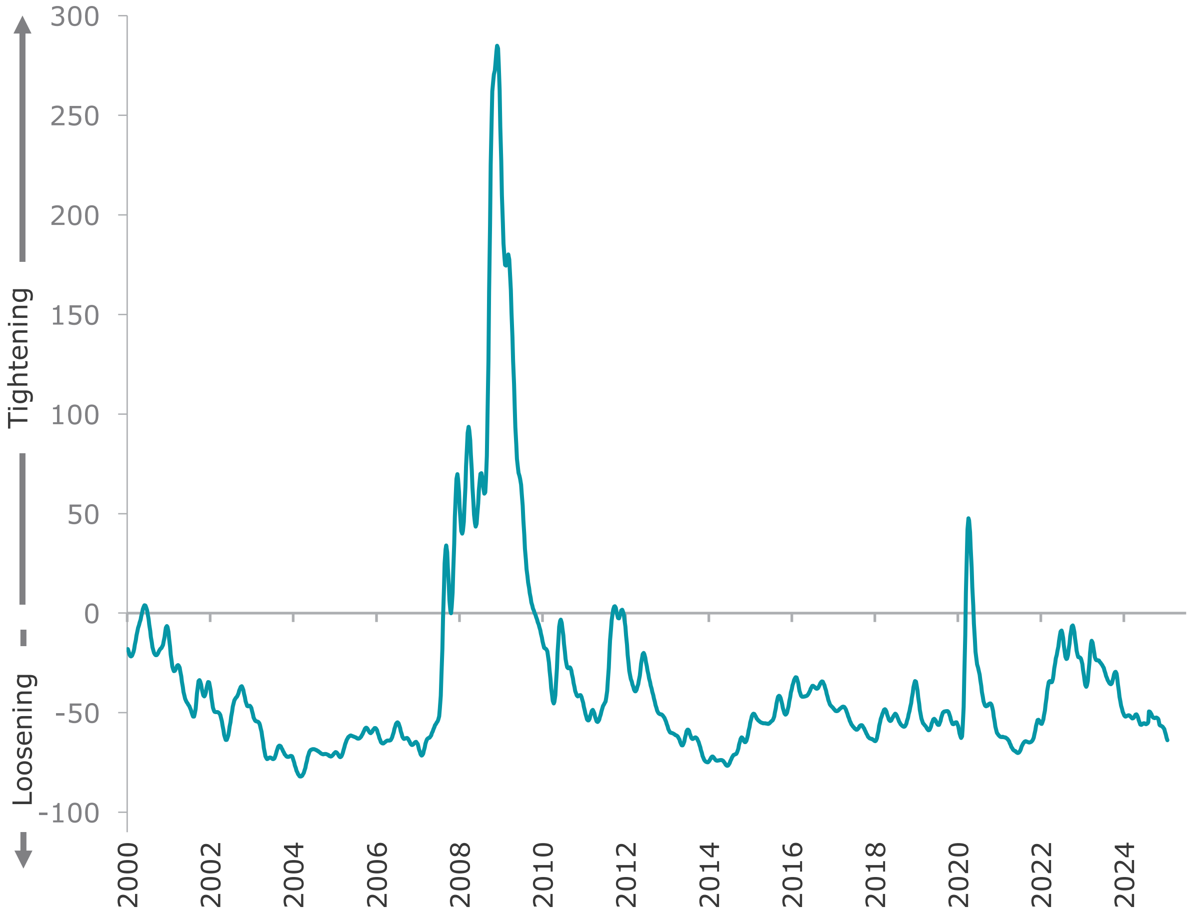
Senior Loan Officer Opinion Survey

Loans officers report a continued loosening of lending standards



Chicago Fed Financial Conditions Index

Liquidity in debt and equity markets is at its best level in two years



Source: Federal Reserve, Bloomberg

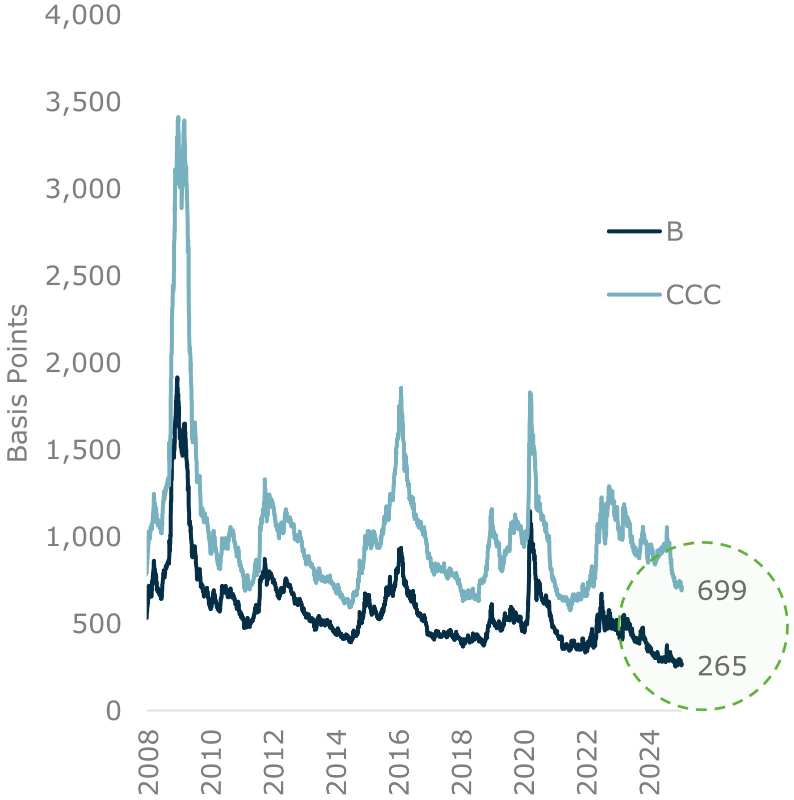
AlixPartners

Market narratives clash as government deficit takes the spotlight

Despite tight corporates spreads, “Bond Vigilantes” are driving Treasury yields higher due to fears that the government deficit will accelerate.

Spreads[1]

Optimism reins in low rated credits with B spreads reaching a 20-Y low and while CCC approach pre-pandemic lows

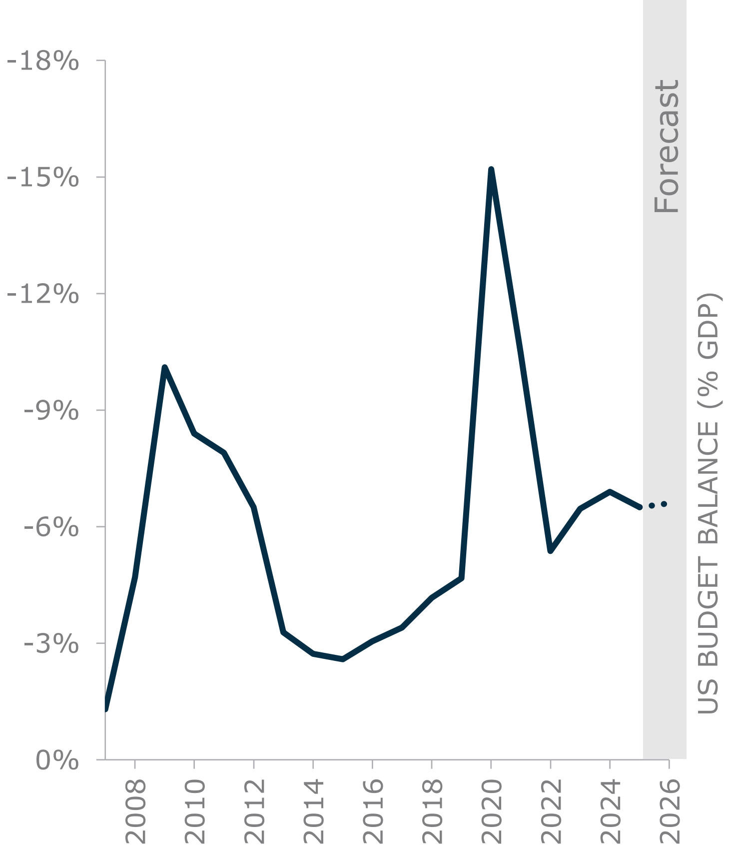


10-Year UST Rate

10-Y rallied post election, in anticipation of large deficits from an isolationist and tariff-focused new government

US Government Deficits

Unlike treasury investors, economists remain optimistic that the budget deficit will remain under control

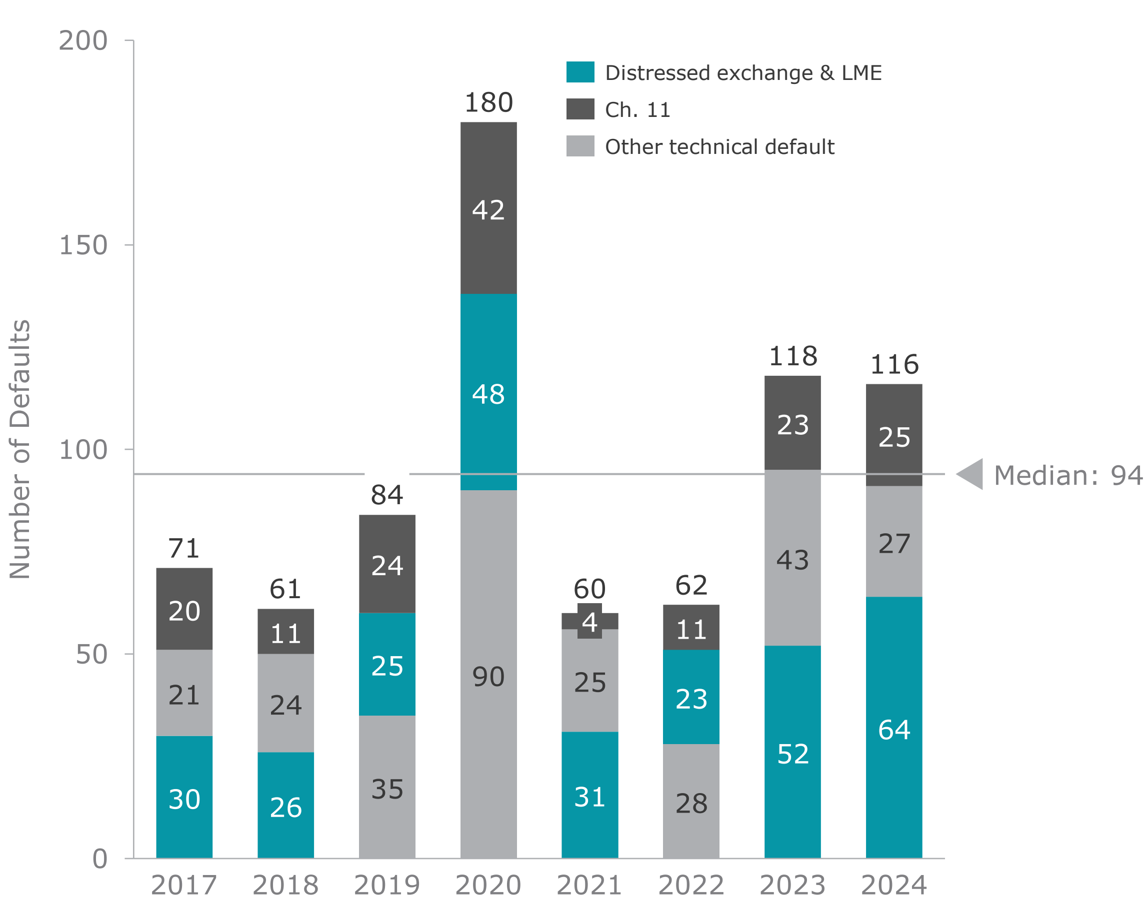


(1) Option-Adjusted Spread index measures yield above treasury spot rates considering liquidity and credit risk
Source: Bloomberg

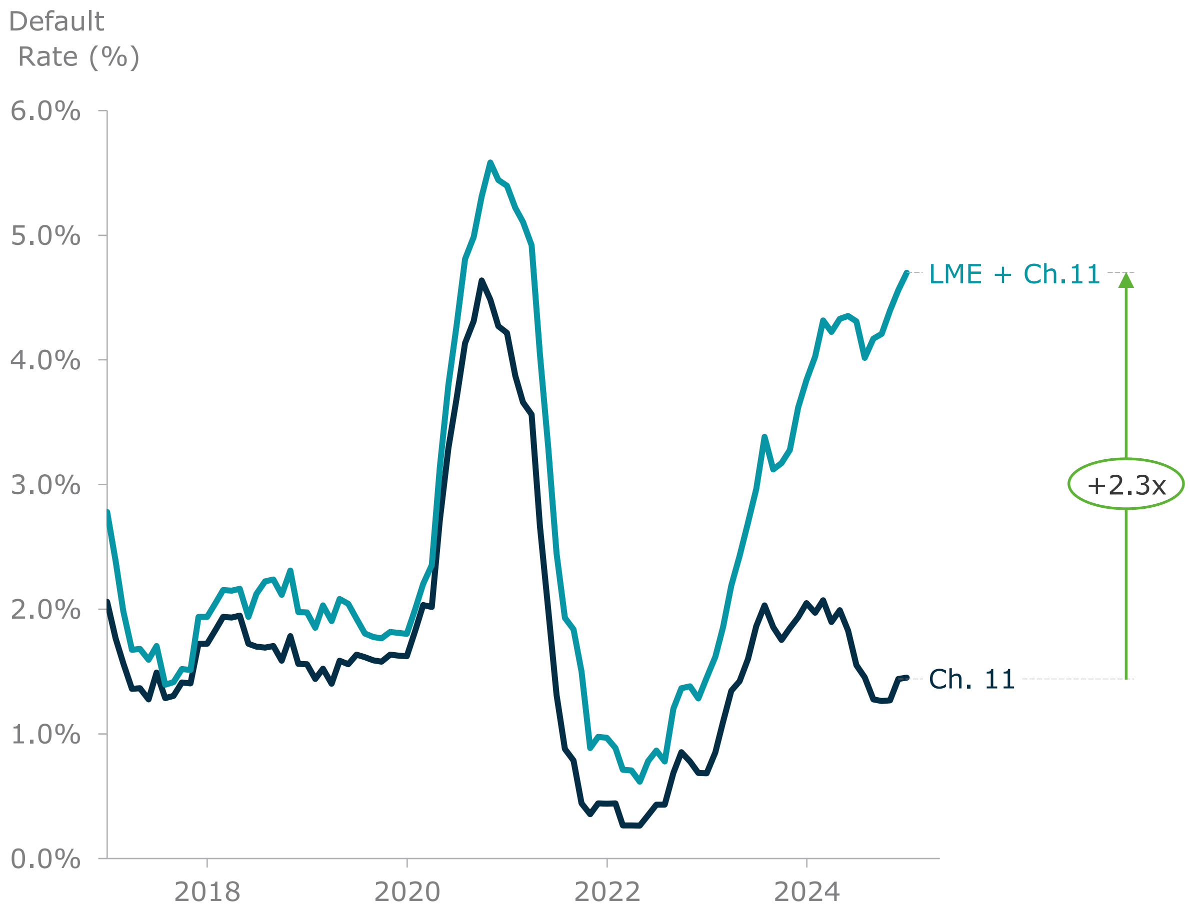
LMEs are on the rise

Post pandemic, US Ch. 11 cases have remained subdued as Companies first opt for LMEs to address unsustainable capital structures.

Number of US Defaults of Companies Rated by S&P



US Leveraged Loan Defaults



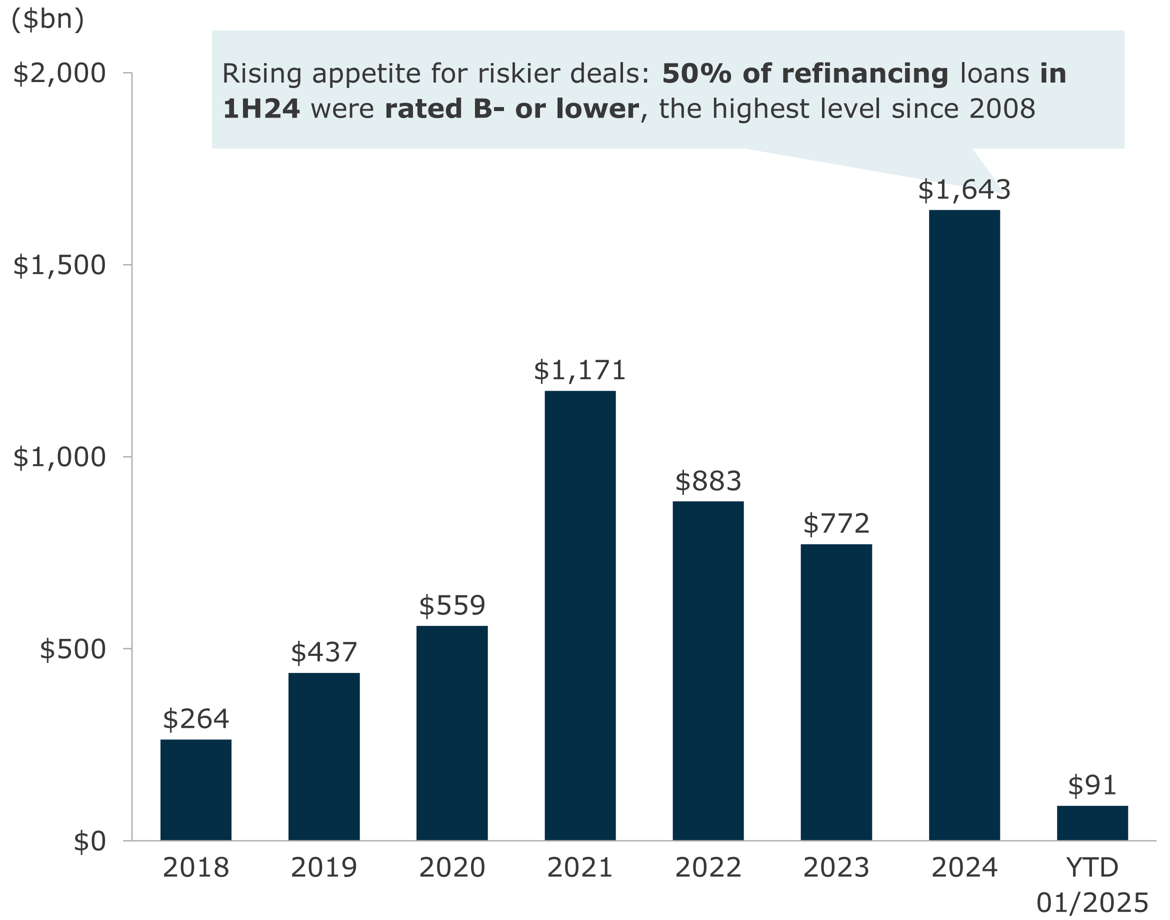
Source: S&P, LCD

AlixPartners

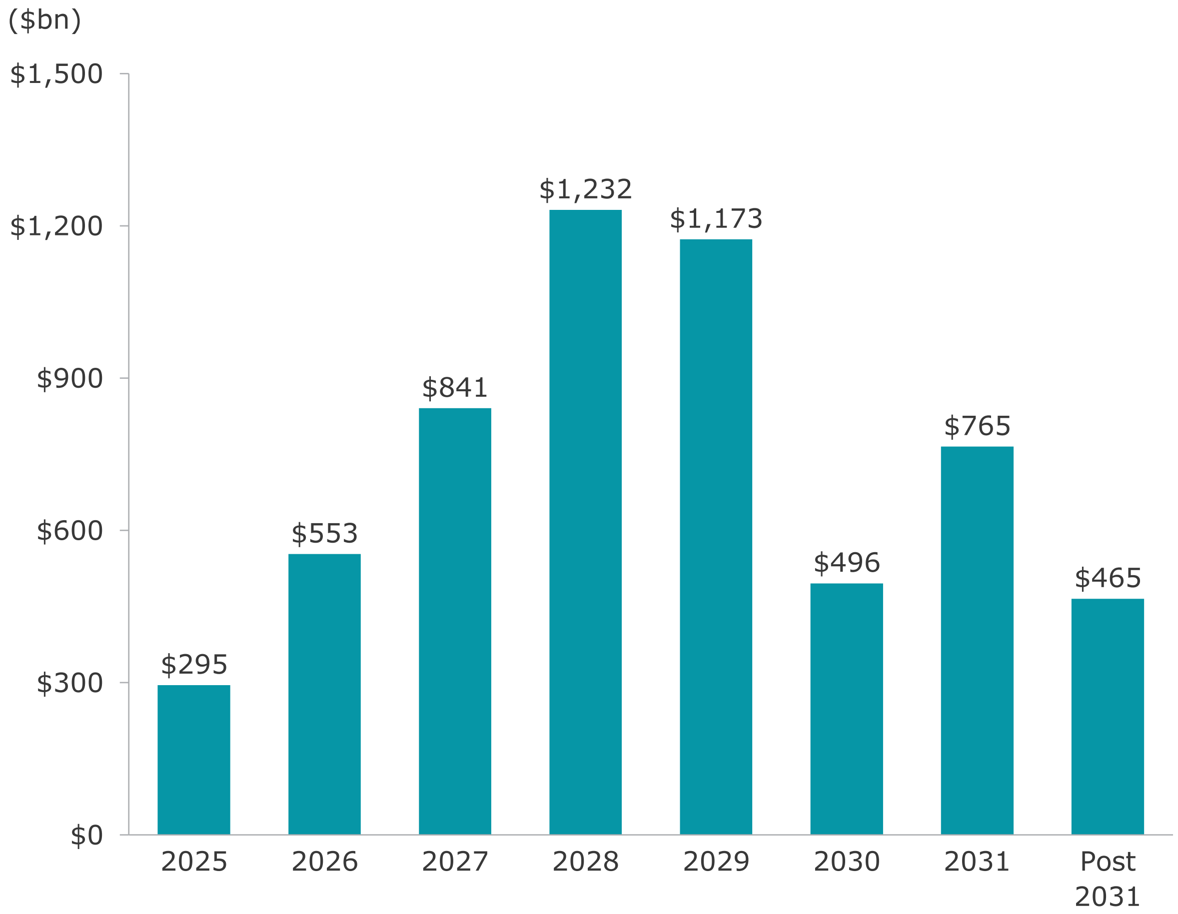
Maturity wall remains benign

The refinancing wave of 2020 and 2021 effectively pushed the maturity wall beyond 2027, providing high-yield companies with much-needed relief amid a rising interest rate environment.

New Issuance Volume: HY Bond and Leveraged Loans



Maturity Wall: HY Bonds & Leverage Loan



Source: Bloomberg

Post-LME companies could face dwindling options as additional catalysts approach

Legend: LME Transaction | Near-Term Catalyst | Long-Term Catalyst | Ch. 11

Risk of Default

Company	Segment	Total Debt /Leverage	Rating	LME Overview	1H23	2H23	1Q24	2Q24/3Q24	2H24	2025	2026	2027	2028
					Timeline								
					Historical					Forecast			
ALVARIA Arby Partners/ Vector Cap	TMT	$935mm / 10x	CCC+/ Caa1	Drop-Down/ Double-Dip				Double-Dip (K&E and PJT)	Cash burn	RCF current	Covenant holiday expires; PIK ends		**Maturity Wall:** $610mm
APEX Tool Group Bain Capital	Industrial	$2.1bn / 9x	CCC+ / Caa2	Non-pro Rata Uptier			Uptier (K&E and PJT)			Runs out of cash, RCF blocked	RCF current		**Maturity Wall:** $125mm
at home The Home & Holiday Superstore H&F	Retail	$2.4bn / 15.6x	CCC / Caa3	Double Dip / Uptier		Double Dip (K&E and PJT)			Cash burn supported by RCF draws	RCF current; runs out of liquidity			**Maturity Wall:** $803mm
Del Monte Quality NutriAsia & Bluebell	Consumer Products	$1.6bn / 36.1x	CCC / Caa2	Drop-down/ Non-pro rata				Drop-down (Kramer, PJT and A&M)	High ABL utilization		ABL current; cash burn		**Maturity Wall:** $876mm
GoTo Francisco & Evergreen	TMT	$3bn / 7.2x	Caa1	Non-pro Rata Uptier			Uptier (K&E, PJT and C Street)	New debt approaching distress level	Cash burn; earnings pressure	Intense Competition; cash burn accelerate	RCF access blocked; cash burn accelerates		**Maturity Wall:** $2.7bn
Lifescan Platinum	Healthcare	$1.2bn / 15.6x	CCC- / Caa3	Distress Exch. A&E	Distress Exchange (Davis Polk)		Delay launch of new product	Company Engaged Milbank	1st RCF current	2nd RCF & 1L TL current	**Maturity Wall** $864mm		

Post-LME companies could face dwindling options as additional catalysts approach

Legend: LME Transaction | Near-Term Catalyst | Long-Term Catalyst | Ch. 11

Risk of Default

Company	Segment	Total Debt /Leverage	Rating	LME Overview	Timeline								
					Historical					Forecast			
					1H23	2H23	1Q24	2Q24/3Q24	2H24	2025	2026	2027	2028
PRETIUM Clearlake	Industrials	$3bn / 14.4x	CCC / Caa2	Distress Exch. A&E		A&E (K&E and Evercore)			Cash burn	Cash burn from interest exp., wc and capex			**Maturity Wall:** $2.6bn
rackspace technology Public	TMT	$2.5bn / 11.4x	N.A.	Pro-rata Uptier			Uptier (Paul Weiss, PJT)		Cash burn	ABL current, Cash burn, RCF draws	Liquidity crunch, RCF blocked by covenants		**Maturity Wall:** $2.4bn
Skyhigh Security Trellix Symphony Technology Group	TMT	$4.7bn / 8x	CCC+/ Caa2	Drop-Down/ New Money				Drop-Down (K&E and Evercore)		RCF current; continued cash burn			**Maturity Wall:** $3.1bn
TRINSEO Public	Industrial	$3.3bn / 9.9x	CCC+ / B3	Double Dip / Pari-Plus		Double Dip (K&E and Centerview)	AP TRS hired		Cash burn, RCF blocked, cov. breach	$155mm Notes & RCF current			**Maturity Wall:** $1.8bn
WELLNESS Clearlake	Consumer Products	$1.1bn / 14.9x	CCC / Caa2	Asset Drop-Down Sale				Asset Drop-Down Sale	Hired K&E; lenders: Gibson and Lazard	ABL expires; continued cash burn		**Maturity Wall:** $750mm	

Key themes that we're watching

LMEs

- Sponsors favor LMEs over Ch. 11 as LMEs preserve equity and allow more time to execute
- Complex legal maneuvering often leads to prolonged legal disputes
- The "kick the can" approach results in lower creditor recoveries

Disrupted Industries

- B2B Software
- Healthcare
- Media

Non-bank Lenders

- "High for longer" may curb consumer spending
- Low-income clients may come under pressure
- Mortgage lenders to remain under pressure as refinancing cycle is postponed

Sins of the past: SPACs

- Widespread underperformance: <10% with positive stock returns
- Many on the verge of bankruptcy, issuing going concern warnings as liquidity dries up

Mass Torts

- Waning environmental regulations (e.g., PFAS)
- **Third-party releases** likely face an uphill battle at the SC (Purdue)

Angered LPs

- Lower returns as valuation multiples contract in a high-rate environment
- Controversial practice of **continuation funds** is clouding LP returns

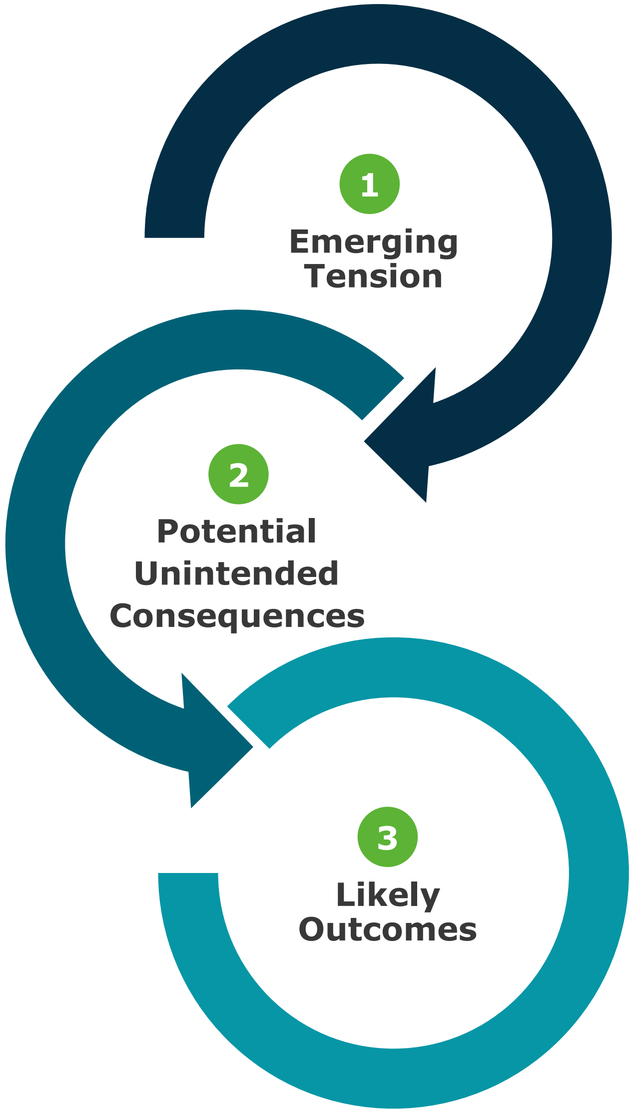
Table of Contents

Trump Policies: what we know so far

	Higher Tariffs	Less Immigration	Federal Government Cuts	Regulatory Easing & Corp Incentives
Policy Overview	**Tariffs implemented:** • **Steel and Aluminum:** 25% on imports • **China:** 10% tariff on imports **Delayed Tariffs:** • **Mexico / Canada:** 25% tariffs on all imports, except Canadian energy (10%) **Potential upcoming announcements:** • **Global Tariffs:** 2.5% universal tariff • **EU:** 22.5-point increase in the effective tariff rate on **autos**	• **Mass deportation:** Removal of unlawful migrants already underway • **No more refugees:** Indefinite pause on the US refugee admissions program (~22,000 previously **approved** refugees stranded as a result) • **Border fortification:** Deployment of 1,500 additional active-duty troops to southern border (2,500 currently present)	**Department of Government Efficiency (DOGE):** • **Goal:** Restructure federal agencies, cut wasteful spending, scale back regulations • **Federal workforce purge:** Significant federal job reductions expected—$1.5tn/year in savings • Potential renegotiation of A&D, Medicare & Medicaid contracts and payments • **Results to be seen.** Musk taking charge as Ramaswamy exits.	• **Energy:** Easier approval of projects, expansion of LNG exports and reversal of restrictions. Reduction of alternative energy subsidies • **M&A boom:** Relaxation of FTC enforcement • **Financial:** Reduction of regulatory burdens on consumer finance companies, medium-term relief of capital and liquidity needs • **Income tax cuts & exemptions:** Extension of tax cuts, exclude overtime and tips • **Business incentives:** lower corp. tax (15%)
Sectors Negatively Impacted	• Auto: dealerships & OEM and its suppliers • Construction • Import heavy sectors: retail, tech, consumer products, chemicals • Semiconductors	• Services / hospitality • Agriculture • Retail • Light manufacturing	• A&D • Healthcare	• **Alternative Energy:** Solar, wind, and batteries • **Auto:** EV markers and charging stations

AlixPartners

Announced policies may come into tension with objectives



1 Emerging Tension

Tariffs

- Inflationary
- **Provoke Retaliation**
  - **China** retaliating

Interest Rates

- Tight rates keep inflationary pressures in check
- Unwanted Fed actions
- "Bond Vigilantes"

2 Potential Unintended Consequences

- Restarting Inflation
- High Interest Rates
- Economic Headwinds
- Unwanted US dollar reactions (too strong or too weak)
- Public Discontent

3 Likely Outcomes

- Initial volatility
- Some policies walked back
- Tariffs deployed surgically/as negotiating tool
- Equilibrium that avoids extreme outcomes

Trump Policies: Steel and Aluminum Tariffs

New Tariff Overview

- In February 2025, Trump announced a 25% tariff on all steel and aluminum imports
- Tariffs effective in March 2025
- Will apply to all countries, including prior exempt partners such as Canada, Mexico, the EU, and South Korea
- **Objectives:** support domestic manufacturing, drive reshoring and prevent **transshipping from China**

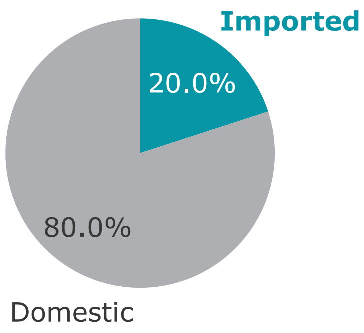
Potential Consequences

- **Inflation rising:**
  - **Price increases of aluminum and steel products:** Aluminum heavily imported, US steel producers cut output to sustain higher prices, aluminum smelters will need years to come online
- **Retaliation hurting other American manufacturing**
  - EU already imposing tariffs on Bourbon, motorcycles, and jeans
  - During prior Trump presidency, food, ships, vehicles, furniture, and chemicals were targeted

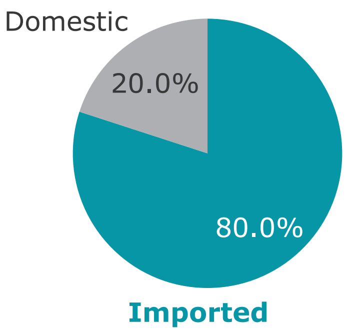
Industries Likely Impacted by Tariffs

- **Motor vehicle stamping and auto industry:** Depends on specialized alloys that are only available overseas
- **Construction:** Raises home building costs as price of rebar increases
- **Soft drink bottling:** Aluminum used in can production
- **Energy prices:** Steel used in drilling equipment and pipelines for oil and gas

US Steel by Origin

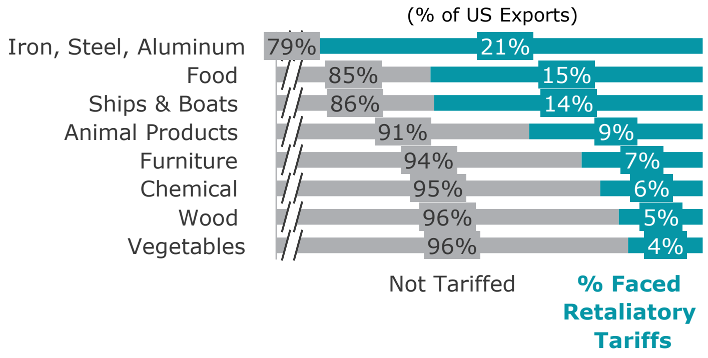


Aluminum by Origin



Retaliation to Steel and Aluminum Tariffs

During first Trump presidency, countries implemented retaliatory tariffs not only on steel and aluminum, but also on other politically-sensitive US products



Déjà Vu All Over Again?

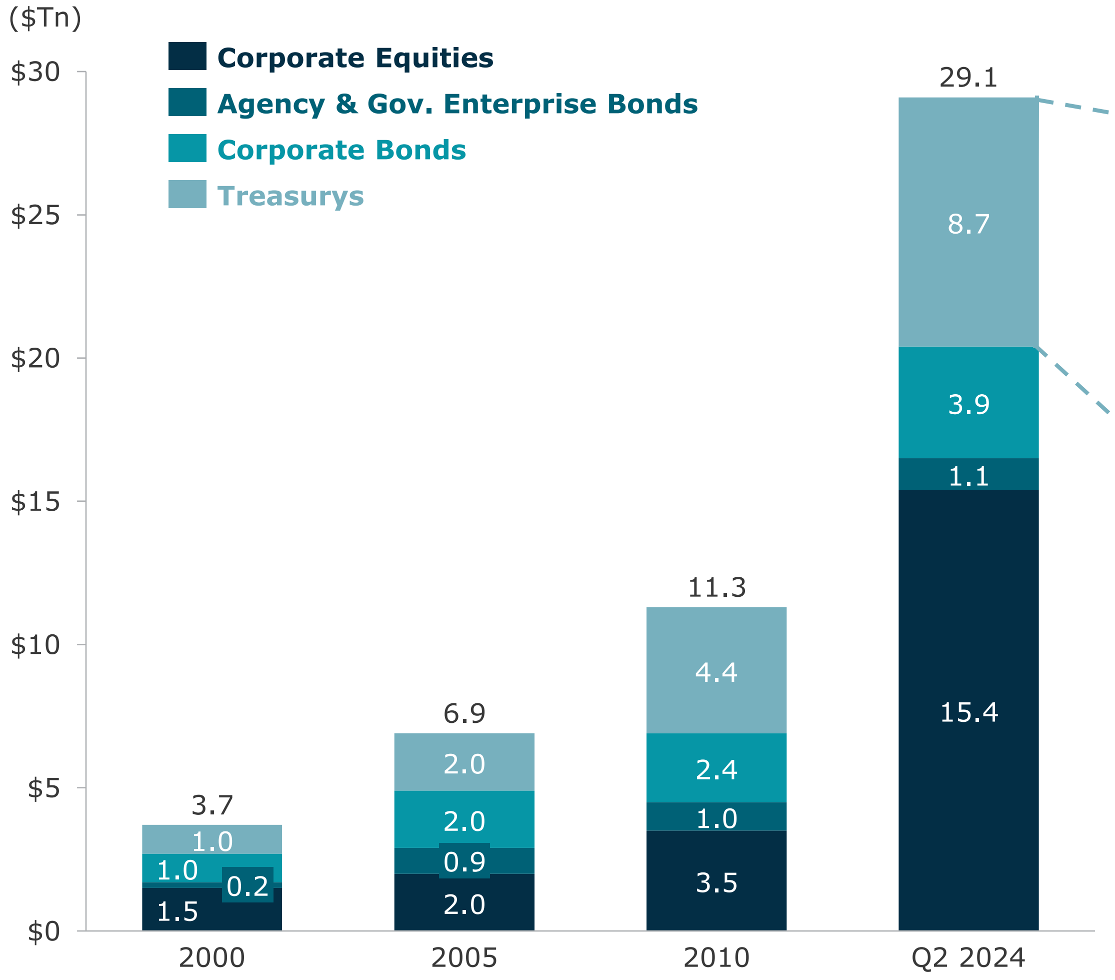
- In its first term, the Trump administration imposed 25% steel and 10% aluminum tariffs
- Later exempted South Korea, Australia, Brazil in exchange for imposing import quotas for US
- Measures helped domestic steel industry to increase capacity by ~20%
- Industries that consumed steel and aluminum shrank by $3.48bn (vs. $2.25bn additional production by domestic manufacturers)

Source: American Steel and Iron Institute, Bloomberg

Protectionist policies also risk driving away foreign investors, who hold a substantial share of US assets

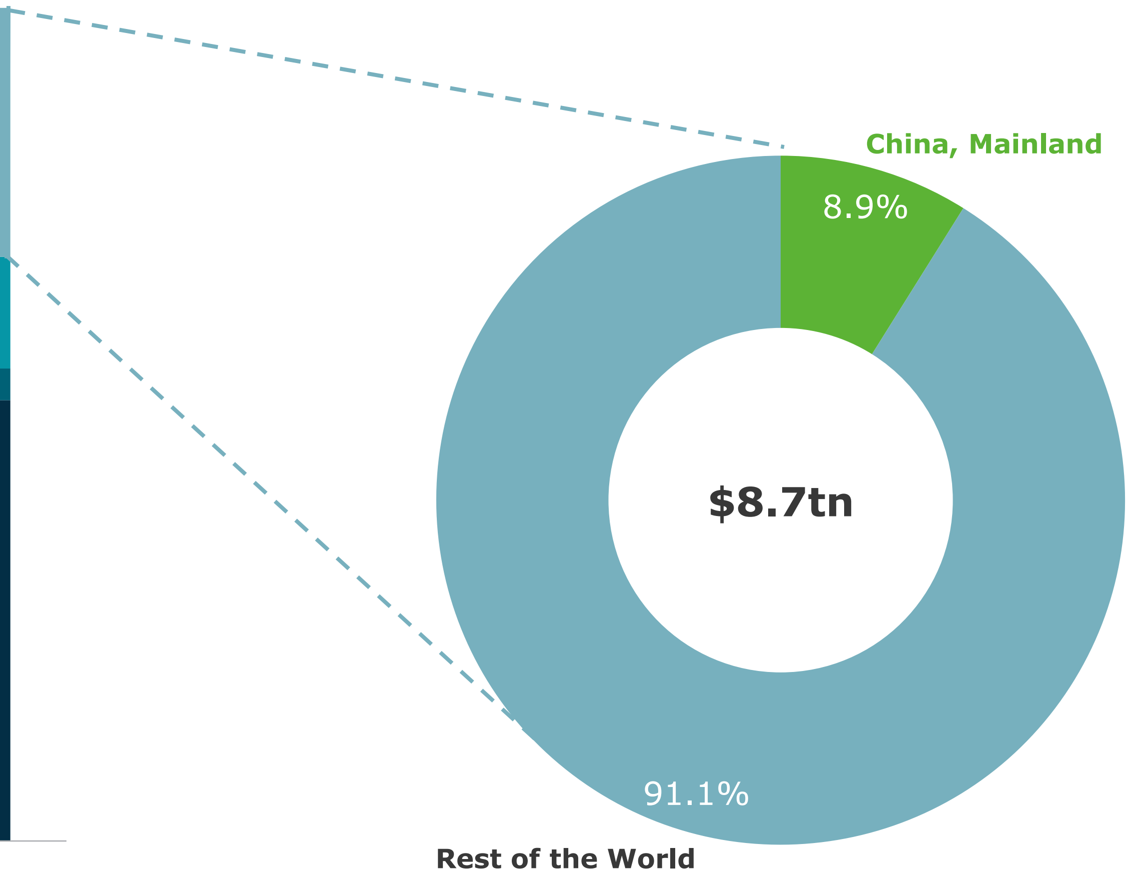
Foreign Ownership of US Securities (USD Trillions)

Foreigners control 30% of Treasuries, 35% of corporate bonds, and 21% of equities



US Treasuries Ownership Breakdown

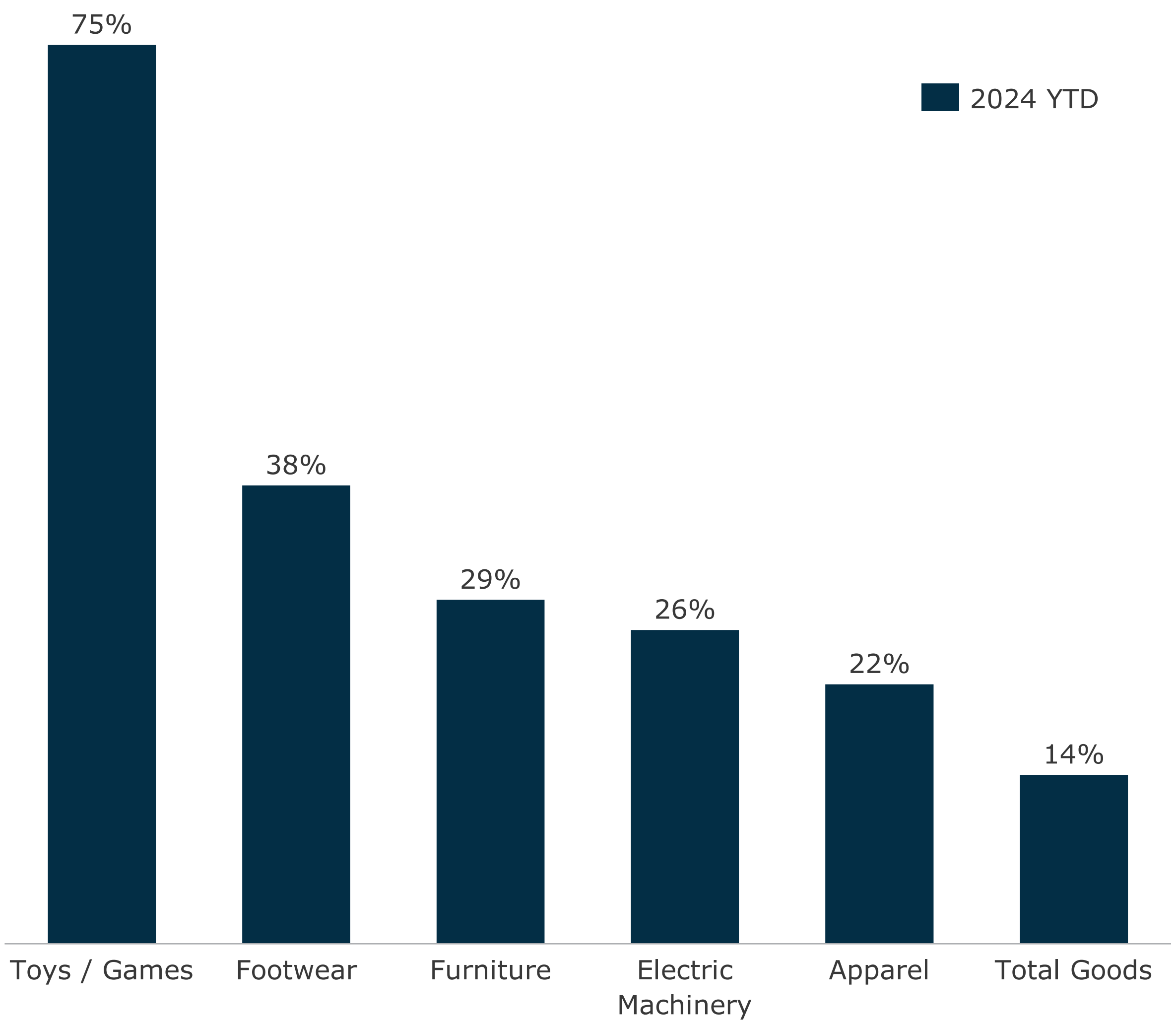
China is the second largest holder of US treasuries



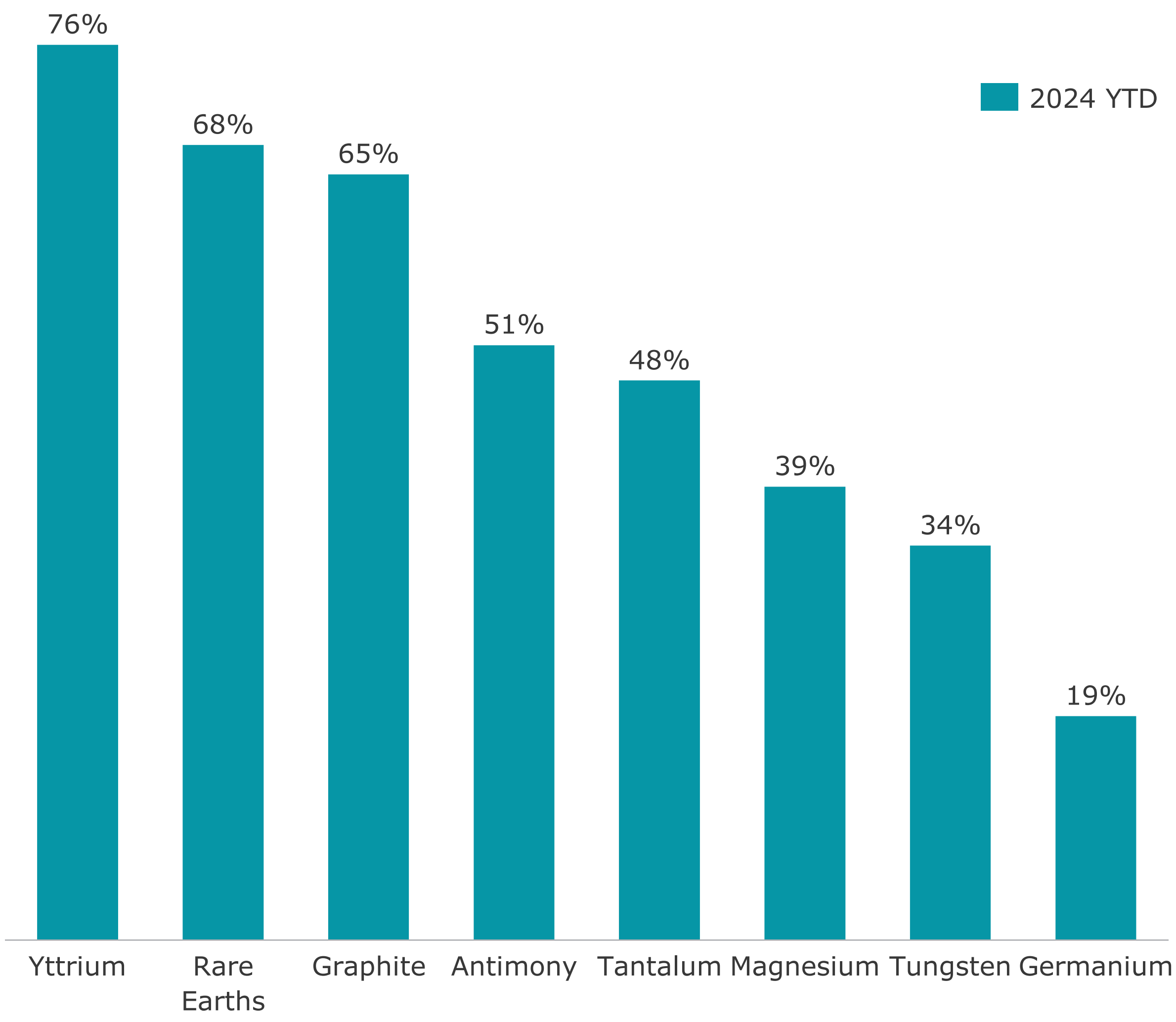
AlixPartners

The US remains dependent on Chinese imports for numerous consumer goods and critical minerals

Consumer Goods from China as a % of Total US Imports



Critical Minerals from China as a % of Total US Imports



AlixPartners

Implications for the restructuring market

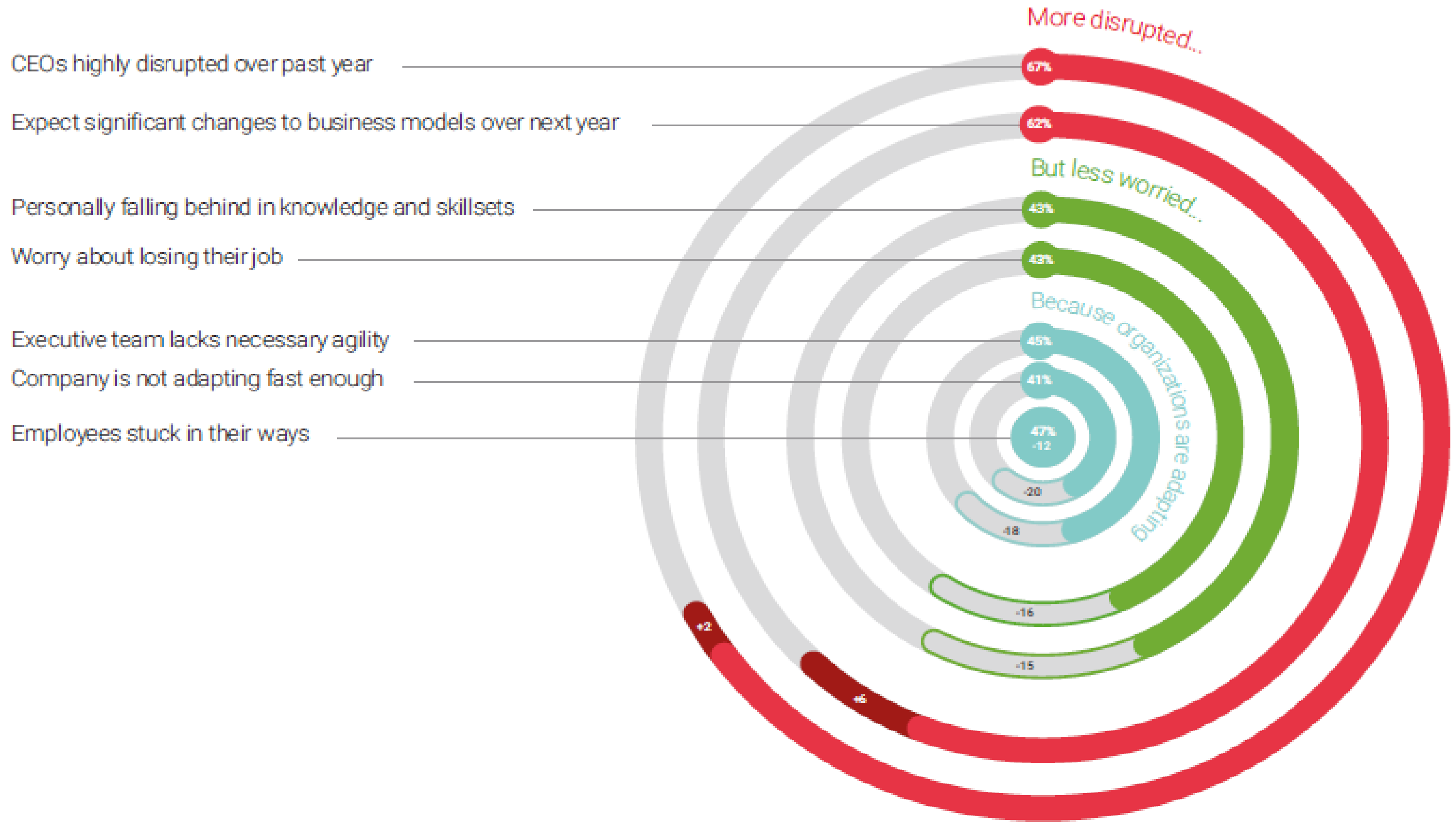
Focus Point	Impact on Restructuring Market
Working Capital	• Tariff-driven supply chain constraints could increase costs and working capital needs • Rates ceasing to decline or even inching up would exacerbate liquidity shortages
Inventory	• Stronger dollar could hurt exports for US manufacturers and lead to overstocking • Reduced liquidity as inventory-tied borrowing bases are reassessed
Emerging Markets	• Limited access to US markets (e.g., agricultural products from LatAm) and already uneasy economic conditions (e.g., Brazil) may heighten restructuring activity in these regions
Interest Rates & Lending Standards	• Market volatility could lead to tighter lending standards and wider spreads • Restrained capital access until greater visibility achieved

Table of Contents

Most executives believe their organizations are unprepared for disruption

OUR SURVEY OF OVER 3,000 EXECUTIVES ACROSS MULTIPLE INDUSTRIES SHOWED THE FOLLOWING:

A majority of corporate leaders expect their businesses to change over the next year…



…with a significant number of CEOs believing their organizations are unprepared

41%

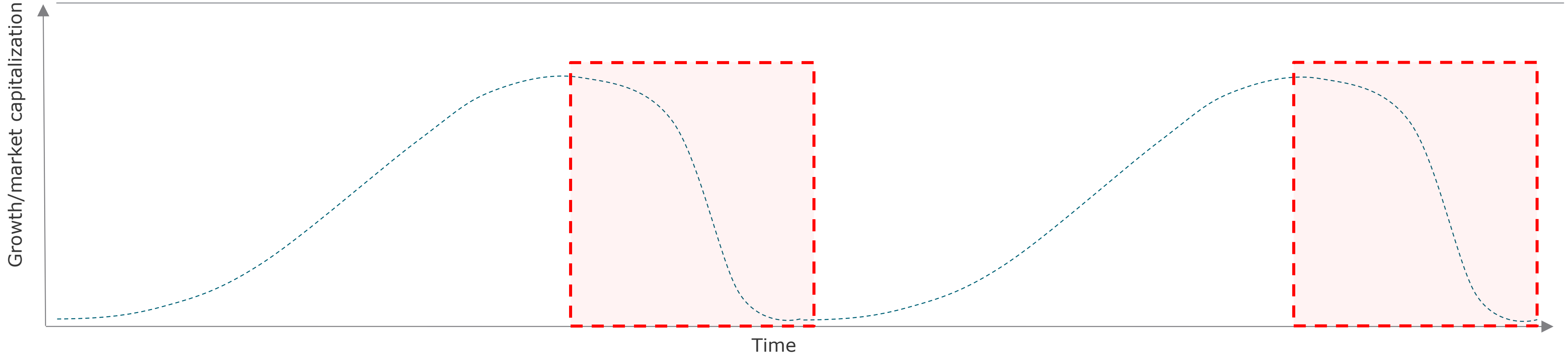
say their companies are too slow to adapt

58%

say employees' skills are rapidly becoming obsolete

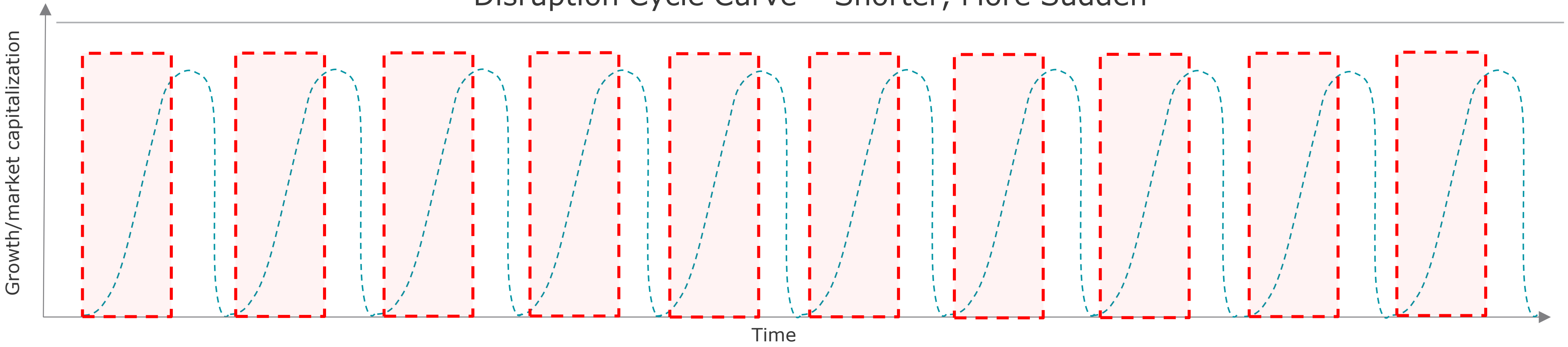
Not one, but two cycles are relevant for us

Traditional Credit Cycle Curve – Elongated and Gradual



- **Old world** = periods of opportunity often track with the credit cycle, creating large windows of activity for all

Disruption Cycle Curve – Shorter, More Sudden



- **New world** = more frequent (but more narrow) windows of opportunity, favoring those who follow these trends and position themselves accordingly

Table of Contents

Numerous disruptive forces are acting on the utility industry—making predictions as likely to be wrong as right

Given the purpose-built nature and regulatory structure of Utilities, keeping up with disruptive forces becomes a challenge.

Regulators may be slow to react, leaving Utilities to respond on their own.

ILLUSTRATIVE POTENTIAL DISRUPTIVE FORCES

NEW REGULATORY MODELS

DISTRIBUTED GENERATION

Distributed generation and **microgrids** become a viable source of electricity for a majority of the service territory.

ACCELERATED ELECTRIFICATION

Customers go **all electric** on their own creating patchwork, fragmented gas load and stranded assets

HYDROGEN

Costs drop significantly and new hydrogen networks supplant existing gas system

LABOR UNREST

Unions and regulators turn against the utility gridlock development and innovation.

TECHNOLOGY

Transactional energy upends customer pricing models, traditional ratemaking falls behind, and utilities are not adequately compensated.

LOAD INCREASES

Artificial Intelligence and EV load accelerates exponentially, transmission and distribution investments cannot keep up

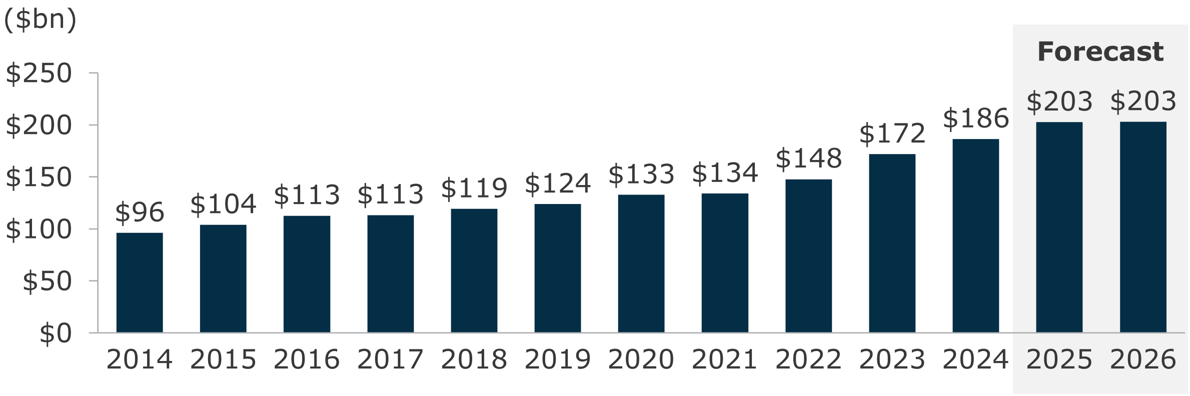
CARBON TAX

RETAIL CHOICE

Alternative Electricity Providers are allowed to expand unchecked negating utility long-term procurement contracts

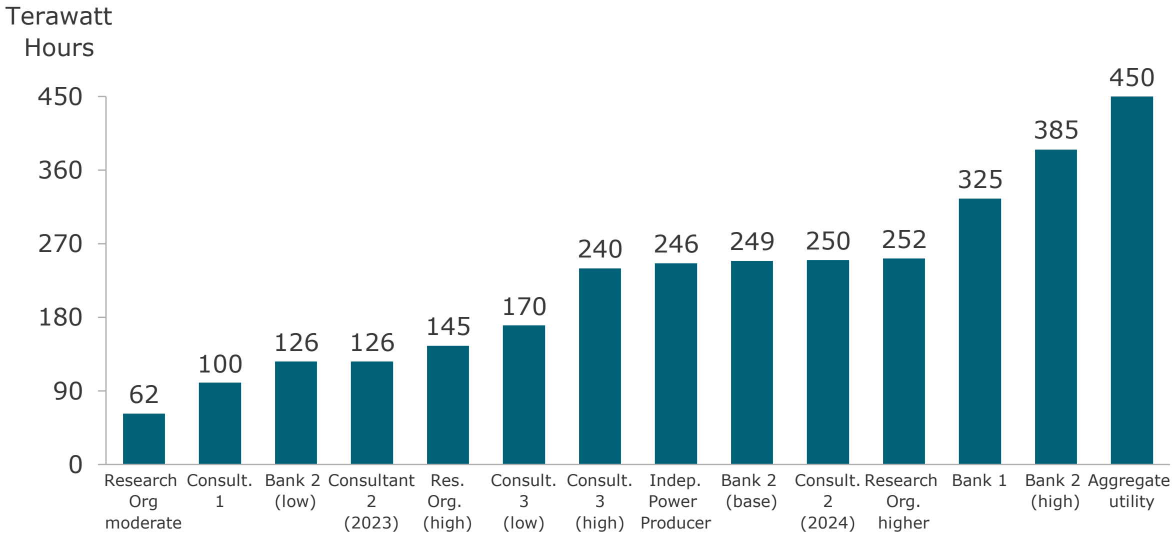
AI-driven data center demand driving outsized capital needs and system expansions

Utility Capital Budgets

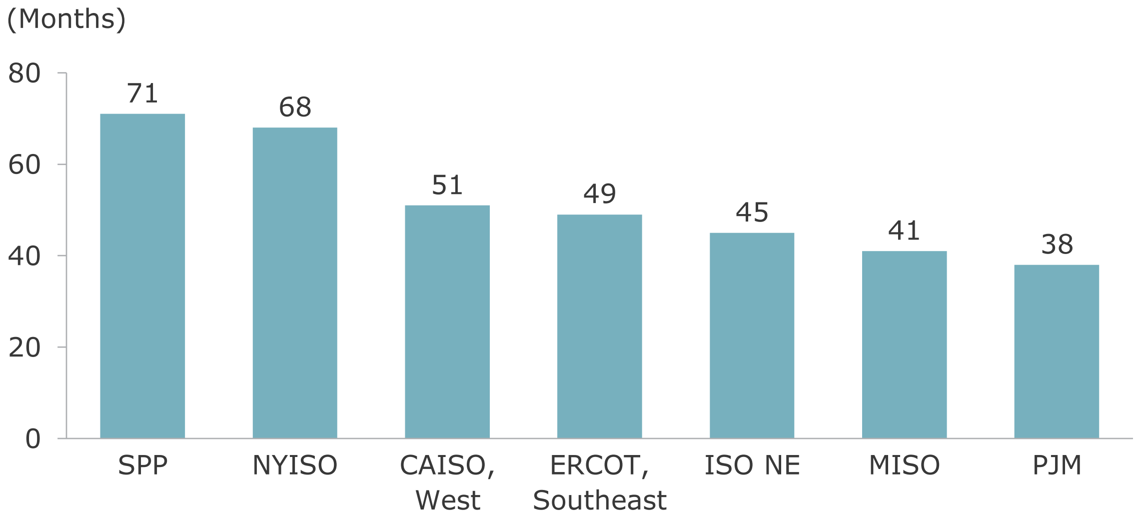


- Utility capex budgets continue to climb—creating opportunity, but new stresses on capital allocation, resources, supply chains and system
- Wait time to connect large projects to the grid over 5 years in some regions
- **But are demand forecasts inflated**? DeepSeek AI's lower resource use has now called data center power demand into question

Estimates for Data Center Demand Growth



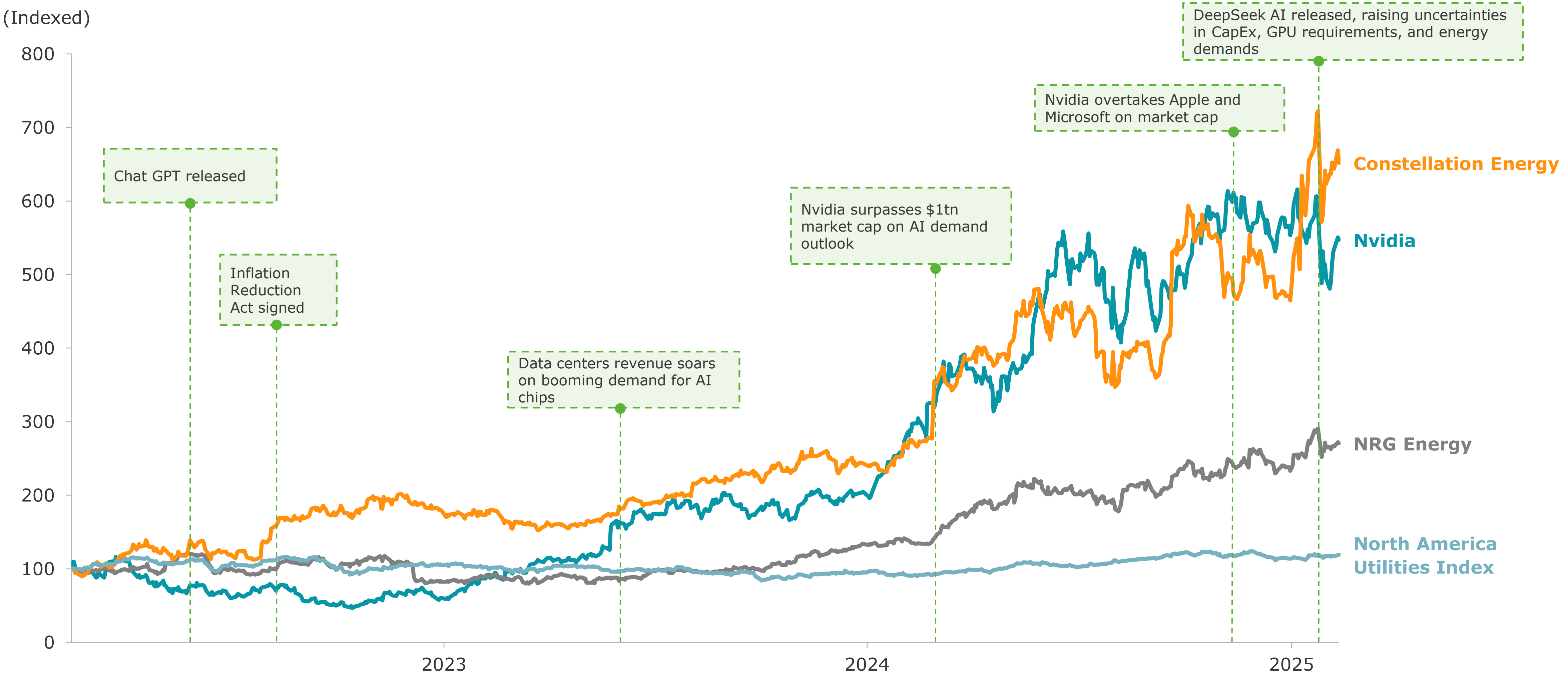
Interconnection Wait Time by Region



Source: S&P, EEI

Investors bet big on assets powering the AI boom—many of which then tumbled with the recent emergence of DeepSeek

For example, Constellation Energy outperformed peers as it secured long-term contracts to power AI data centers (including with nuclear energy), but has seen recent volatility in the wake of DeepSeek

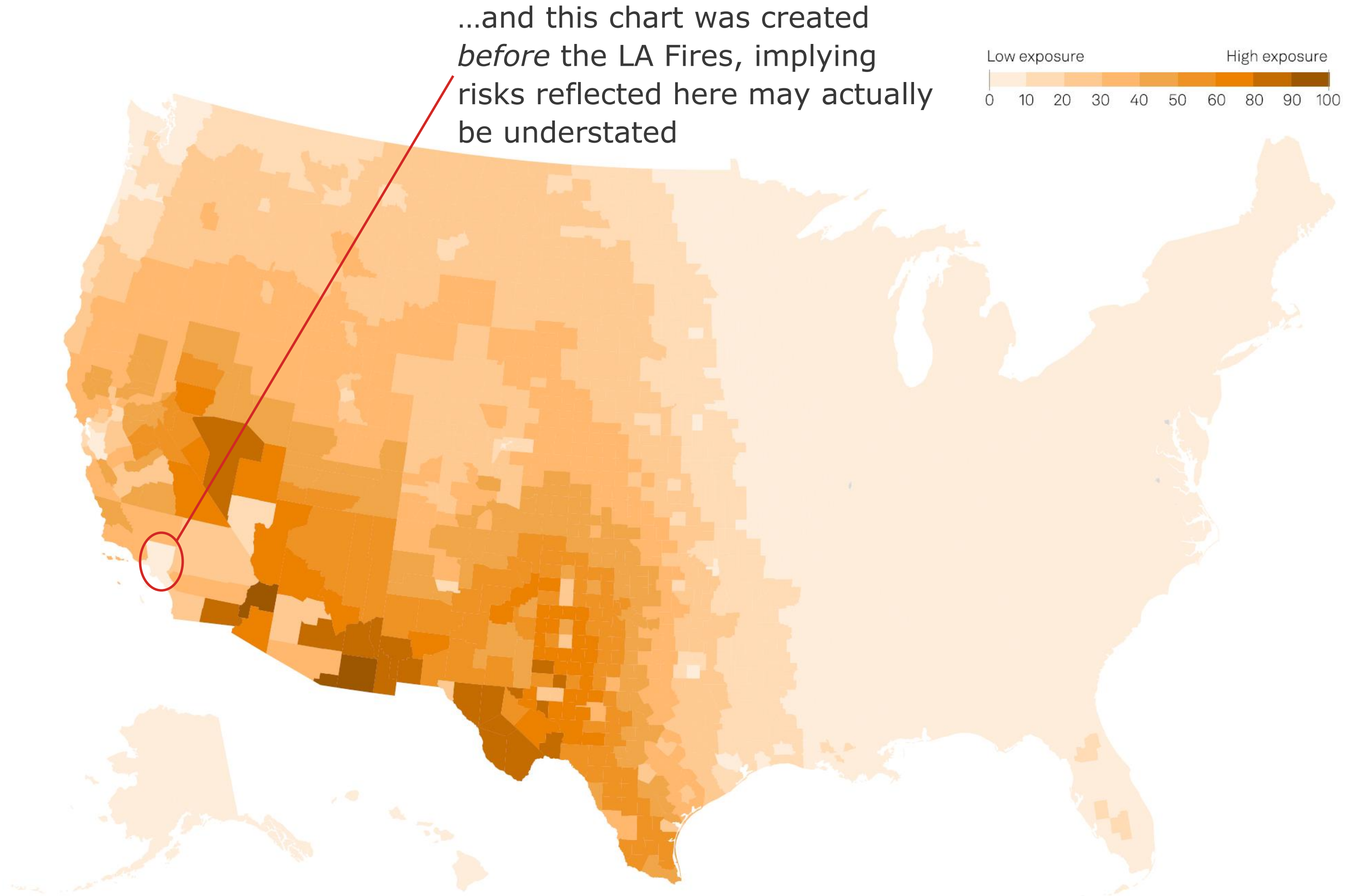


Source: Bloomberg, investor presentation

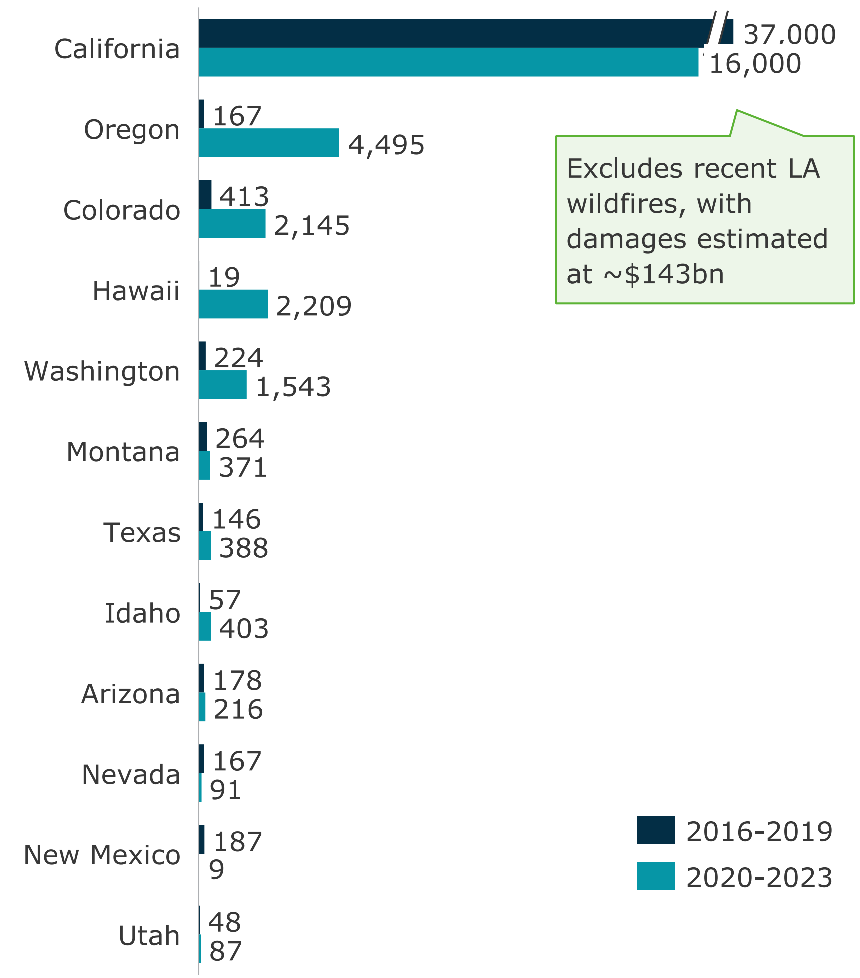
AlixPartners

Wildlife risks projected to remain high across much of Western US…

Exposure to Wildlife Conditions in the 2050s



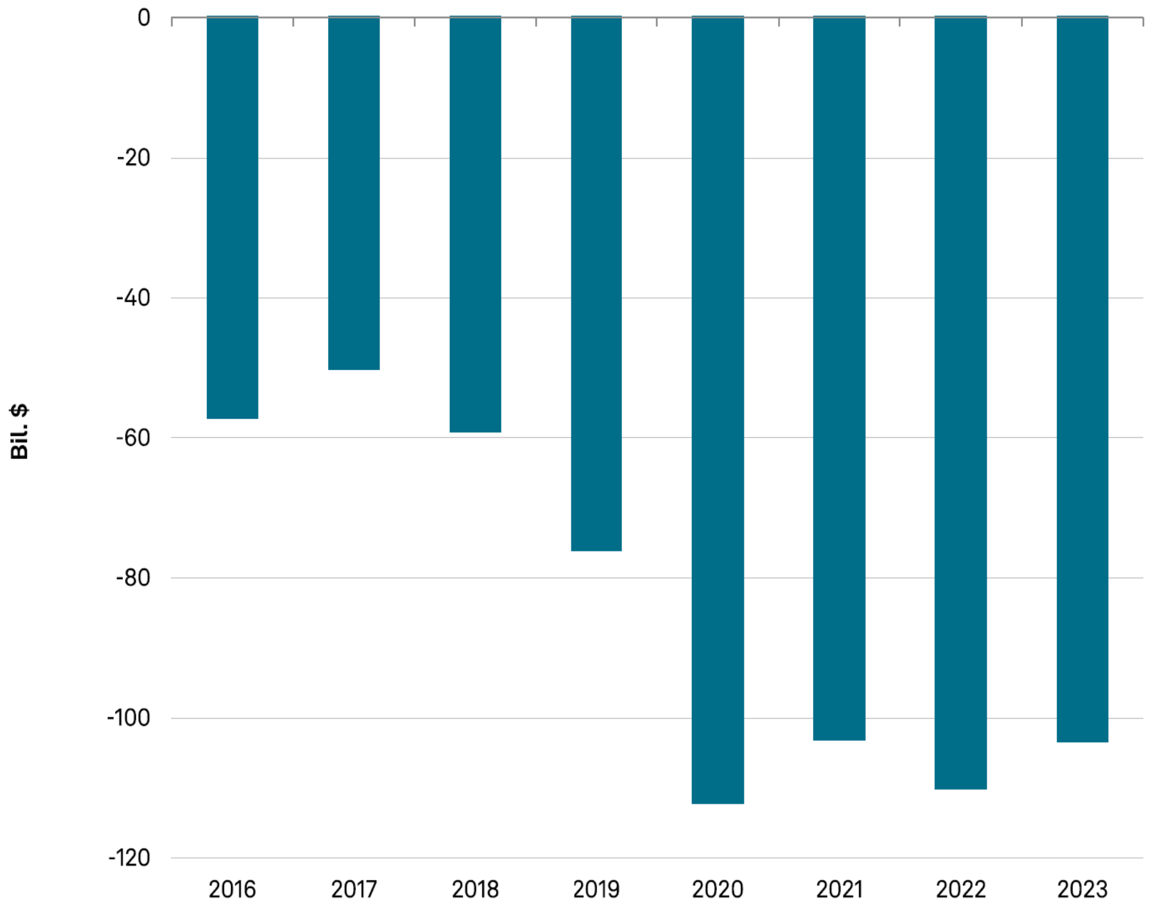
Structures Damaged or Destroyed
(Western States)



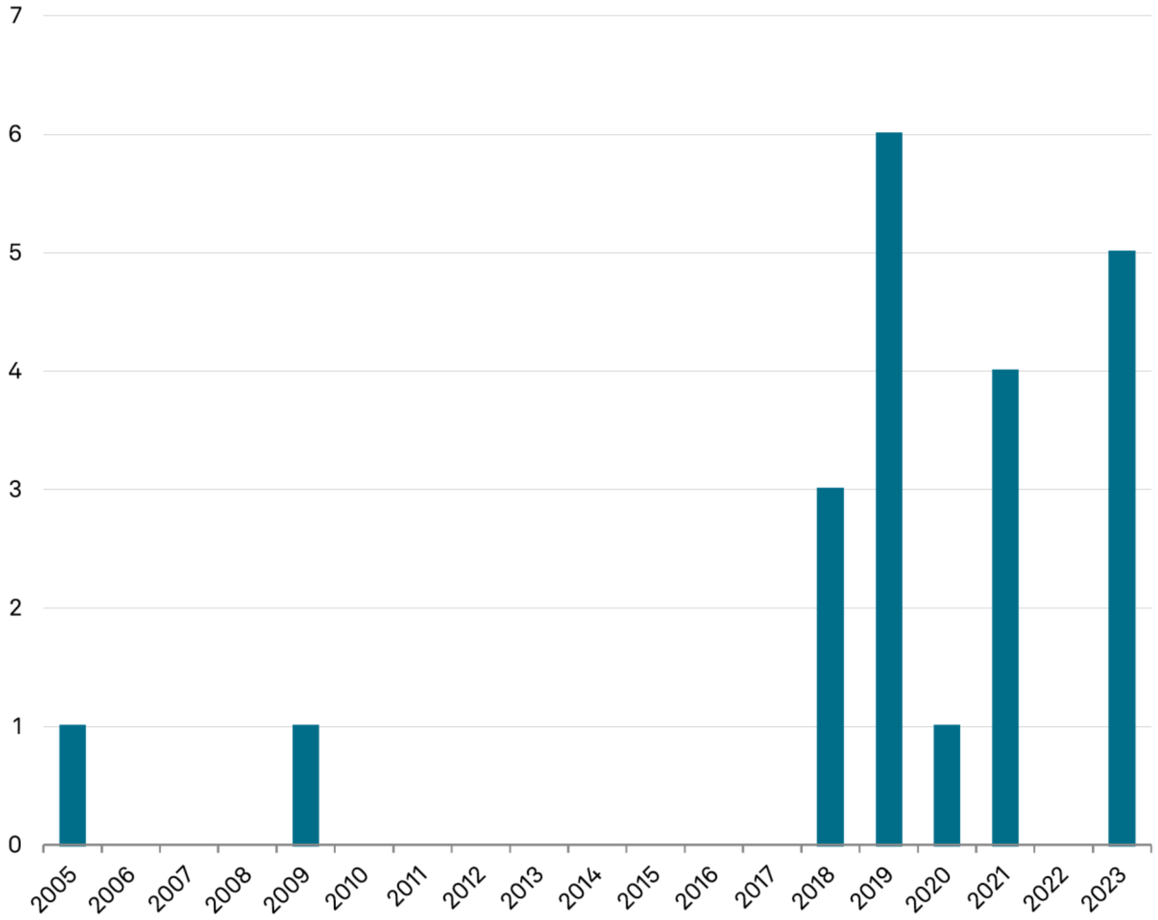
Source: S&P, Statista

…Driving increased stress on utility balance sheets and cash flow

Distributable Cash Flow of Rated Investor-Owned Utilities



Regulated Utility Downgrades Attributed to Physical Risk



Source: S&P

Implications

Disruptive forces can be so powerful and immediate that they overwhelm the impact of any policy initiatives

- Sunsetting of coal-fired power plants was driven by advent of fracking, making gas-fired assets more economic—not emissions policies
- Recent pivot away from renewables to back to gas-fired generation driven by AI-driven data center growth, not anti-woke policies favoring fossil fuels
- Advent of new technologies (small modular reactors, effective battery storage) could again upend all current planning initiatives
- Build-out of distributed generation / microgrids / local batteries could call the Utility model into question—driving "electric cord cutting".
  - Potential for severe stranded costs as utility infrastructure costs are spread over a shrinking customer base, causing prices to rise and driving more customers to flee the system

Similar forces are at play in multiple industries—and are almost completely independent of policy initiatives

Many more industries face potential disruption

Disruptive Forces	Industrials					Tech			Healthcare		Financials		
	Automotive	Manufacturing	Basic Materials	Trans. & Logistics	Power & Utilities	Semiconductors	Telecom	Software	Healthcare Services	Pharmaceuticals	Financial Services	Insurance	Retail & Consumer
Molecular & Genetic Engineering			✓		✓				✓	✓			
Battery Technology	✓		✓	✓	✓								
Fracking	✓	✓	✓	✓	✓								
Artificial Intelligence	✓	✓			✓	✓	✓	✓	✓		✓	✓	✓
Blockchain		✓		✓	✓						✓		
Cloud Migration						✓	✓	✓					
Internet of Things		✓	✓	✓		✓	✓		✓				
5G	✓	✓		✓		✓	✓						
Connected Cars	✓	✓		✓		✓						✓	
"The Amazon Effect"		✓		✓					✓	✓			✓
Consumer Tastes	✓						✓						✓
Regulation	✓			✓	✓				✓	✓	✓	✓	

Table of Contents

Key sectors we are watching

Healthcare

1 General trends

- Labor cost inflation remains acute—shortages of skilled providers coupled with regulatory requirements increasing staffing coverage
- Reimbursement rates—continued political pressure to tamp down cost of care
- No Surprises Act—implications continue to impact balance sheets and business models

2 Pharma

- Acceleration of 'genericide', drug cost pressures, rising R&D costs
- Inflation Reduction Act caps pharmaceutical cost increases

3 Services

Labor costs, reimbursements and ongoing high interest expense, in particular at:

- **Facilities-based providers**. Hospitals and specialized outpatient care centers continue to suffer from low utilization and high interest costs
- **Physicians Practices.** Many Sponsor-owned practices remain unable to delever. Utilization remains strained and tensions between providers and financial owners are growing

TMT

1 Telecom

Appears poised for the largest wave of LMEs/restructurings as large balance sheets approach maturities and business models fail to pivot fast enough

- Large capex programs likely to exceed budgets, risk losing funding and fail to deliver expected returns in time
- Cord cutting to continue, putting businesses under pressure
- Suppliers to see pipeline slowing as end users complete buildouts or cut back growth programs

2 Tech

Haves and have-nots persist, with many older technologies failing to refresh. **B2B Software** appears poised for growing weakness:

- Large companies are cutting IT budgets
- Over-hiring is prompting downsizing
- Cyberattacks demand security investments

High leverage and lingering integration costs from previous large-scale M&A

3 Media

- 'Also-rans' in the streaming wars begin to lose steam—some exit or need to restructure
- Ongoing struggles for 'Old Media' companies to rationalize spending in the mobile/streaming/social media era

Key sectors we are watching

Retail & Consumer

1 Retail

Expect ongoing wave of restructurings

- Cost inflation moderates but consumer remains price sensitive—a shift from discretionary to discount is likely to persist
- Elevated inventories pose gross margin risk
- E-commerce expansion easing with total sales declining

2 Consumer

Has largest share of speculative-grade debt of all major sectors

- Inventory builds likely rationalize, but total revenue not expected to rebound
- Pandemic-era winners appear to have merely pulled forward revenue—continued weakness is expected in home improvement and consumer durables
- Consumer remains price sensitive and is likely to lag any market recovery
- Services continue to build back from pandemic-era lows

Real Estate

1 Office REITs

Stabilizing occupancy likely to support dividends even in a high-rate environment

2 Real Estate Brokers

Recent antitrust litigation could fundamentally undercut business models and balance sheets

Automotive

- Dislocation of consumer preferences between EVs and ICEs has led to lower OEM profits and mounting dealer inventories
- Car rental companies struggling due to declining used car prices and competition from ride share

Trucking & Logistics

- Demand for freight remains weak
- Ongoing issues with high seaborne shipping rates and excess truckload capacity

AlixPartners

WHEN IT REALLY MATTERS.