



he turbulence of the past 12 months spurred by a severe recession has led many people to erroneously believe that the insolvency business should be booming, but those of us in the industry know that is not the case. As we look ahead to 2011, there are several factors that could signal a change for the coming year, both in the turnaround management/insolvency space and for the macroeconomic picture.

Changes in the credit market

The real driver of our business is changes in the credit markets. Simply put, lenders either aggressively:

- ▶ *Loan money* – resulting in a period of *credit expansion*;
- ▶ *Push out disfavored loans* – resulting in a period of *credit contraction*; or
- ▶ *Take a stable, no-change posture* – resulting in a period of *credit stability*.

Today, we are experiencing a prolonged period of credit stability. Often sarcastically referred to as “extend and pretend,” this state is the most sluggish period for the insolvency industry,



because there is minimal motivation for lenders to proactively address distressed loans.

Conversely, the insolvency industry is most active during periods of dramatic credit contraction and/or credit expansion. During the former, lenders try to quickly exit loans, resulting in decreased cash availability for companies and a greater number of distressed companies. When credit expands, some companies inevitably execute poorly upon large investments and expansions, resulting in liquidity issues that also accelerate insolvency work.

Decreases in business Chapter 11 filings

According to the Administrative Office of the United States Courts, business Chapter 11 filings have been down 17% during the first six months of 2010, and large company Chapter 11 filings have been virtually nonexistent. Of the Chapter 11 cases that were filed in 2010, the majority were pre-arranged, pre-packaged, a quick sale or a straight liquidation, meaning that insolvency work for that case was short-lived. Also, many potential Chapter 11 cases nowadays are instead, settled out-of-court, or companies are put into receivership or assignments for benefit of creditors. It seems that key stakeholders of companies in the middle market increasingly believe that Chapter 11 filings are too costly and too burdensome.

It remains to be seen exactly how this growing perception will change the outlook for the consultancy industry, but, to me, this is a clear indication that we, as industry professionals, need to be nimble enough to accommodate the shift.

Temporary ramp-up of the high-yield market

When the high-yield market opens, as it did for a short period starting in



April 2010, highly leveraged companies with near-term debt maturities often turn to refinancing as a Band-Aid® for the much larger bullet hole of weak operating performance. Simultaneously, investors with deep pockets chase high-yield, high-risk investments in the debt markets hoping for great returns. This activity could have been a depressant for our industry, but, due to the subsequent financial crisis in Greece, the high-yield refinancing frenzy cooled. A continued, longer-term suppression of access to the high-yield market would certainly be a boon to the insolvency industry in 2011.

It's clear that the United States economy has a long way to go before realizing any real recovery. I think it will be at least the second quarter of 2011 before we see a real rebound in the volume of insolvency work. However, as someone who saw the industry change during the savings-and-loan crisis of the early 1980s, the “dot-bomb” of the early 2000s and the recent burst of the housing bubble, I've experienced firsthand that tough times breed smarter, more creative business people. And that's good for our industry and the entire economy as a whole. **TSL**

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