VIEWPOINT

A Turnaround In The Turnaround Industry

By Jeffrey A. Wurst

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One of a series of opinion columns by bankruptcy industry participants

OK, let's face it... We continue to experience a downturn in the turnaround market. There just has not been enough business for crisis managers and turnaround consultants. This may be good news for economists, but it certainly does not bode well for turnaround consultants.

Last week a good friend of mine, who has made a wonderful living as a turnaround consultant and has done wonderful things for distressed businesses, decided that he is leaving the industry. It is time for him to pack his bags and move on to the next stage of his life. This may all sound fine and good, but is it really for the best? Will we no longer need those professionals who have chosen to leave the industry?

We continue to live in an economy that is, perhaps, falsely inflated. Businesses that go into distress continue to find replacement financing from hedge funds and other sources. This will likely continue so long as there is such an abundance of liquidity in the marketplace.

Projected Significant Increase in Debt Defaults

Source: TurnaroundManagementAssociation June 2006

Economic indicators continue to point toward a slowing economy. The third quarter results show that the US GDP increased 1.6% as compared with 2.6% in the second quarter. Imports continued to rise, while the housing market continued to show more weakness. The September 2006 median price for new homes was 9.7% below that of September 2005. We have not seen a drop like this since late 1970. Falling energy prices, however, encouraged consumer spending, which increased at a 3.1% annual rate in the third quarter, as compared to the second quarter's 2.6% rate. Business spending is up, with a third-quarter increase in fixed business investments at an 8.6% annual rate compared with 4.4% in the second quarter.

All of this, and there is still an abundance of liquidity in the marketplace. With that liquidity, businesses continued to borrow their full lines of credit, leaving them very little wiggle room, if any, for a downturn should one hit.

What does all this mean? It means that whenever it hits — and many of us believe it is coming — we may be set up for the perfect storm.

Turnaround professionals apparently agree that the stage is set for an increase in activity in the turnaround market. A recent Trend Watch Poll conducted by the Turnaround Management Association reported an increase in engagements by nearly 50% of the professionals polled, while only under one third saw a decline in business.

It is interesting that while under-worked turnaround professionals were exiting

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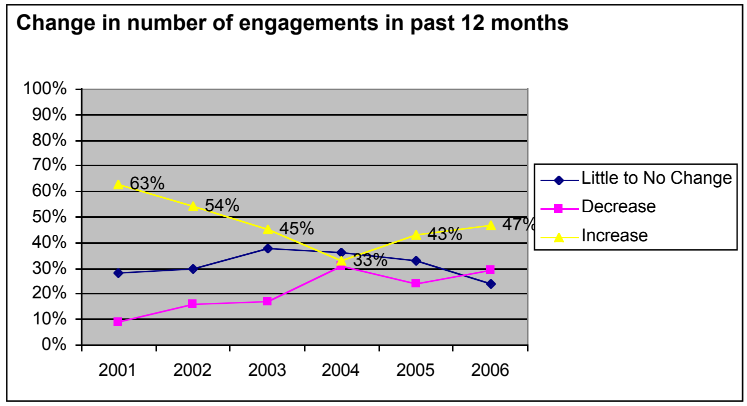
the field, 37% of those polled by the TMA had added employees in 2006. In addition 17% were either acquired during the prior year or were in negotiations to be acquired and 24% had either made an acquisition within the prior year or were looking to acquire another business.

Based upon these findings it should be clear that the turnaround business is picking up or is about to pick up. Some folks out there are betting real money that business is about to boom for the turnaround trade. In fact, in a TMA Trend Watch poll, about 9 out of 10 respondents believe we will see a substantial increase of debt defaults by the end of 2007.



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TMA Trend Watch poll of turnaround practitioners, consultants and financial advisors, September 2006

But does that mean that turnaround professionals only prosper as a result of someone else's misfortune? Not necessarily.

More often the professional is brought in to restructure a company before a crisis arrives. In fact, the best time to fix a business or to make a strategic readjustment is before there is a crisis. Based upon the liquidity in the lending market and the abundance of lenders (both traditional and non-traditional) anxious to do deals, there must be a significant amount of non-crisis intervention turnarounds to feed those professionals who claim that their businesses are thriving.

So, it appears that it is the crisis managers who are likely to be the ones standing down, like the proverbial Maytag Repairman. Certainly, their skills should not be lost from the profession when the emergency strikes.

To those professionals who comprise the attrition in the turnaround industry: if you could only hang on a little longer. But then again, you have probably been saying that for the past several years while we have been waiting for the ball to drop. I remember saying in the early 1990s "if this economy ever recovers, I'll be out of a job!"

Get ready. It is coming. Your skills will be needed — at least we turnaround professionals hope they will.

(Opinions expressed are those of the author or authors, not of Dow Jones Newsletters.)

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