Robinson+Cole ICR

End of an Era: Is There a Debt Maturity Cliff Coming?

Five Key Takeaways

During our November 15 webinar, the panel addressed the possible challenges raised by a wall of maturing debt in 2024 and 2025 during this time of substantial geo-political uncertainty, rising inflation, trade tensions and labor shortages among other considerations.

FIVE KEY TAKEAWAYS

This time is different. Maybe.

The concept of a wall of maturing debt creating disturbances in the credit markets has been a concern since the financial crisis that began in 2008. While the problems anticipated in each debt wall scare over the past 15 years didn't necessarily materialize, the panel pointed out that a confluence of factors this time around could present a unique set of challenges for companies looking to address debt maturities in the next two years. Global conflict, rising interest rates, persistent inflationary pressures, trade tensions, labor shortages and political unrest have all converged to create a unique and compounding threat matrix that suggest the need for multi-contingency response plans in anticipation of sudden changes to capital market dynamics.

Post pandemic realities set in

In particular, commercial real estate and emerging technology companies have struggled to adapt to life in a post pandemic world. Occupancies for office properties are dropping across the board as remote work takes hold in American society and valuations are in the process of resetting. Likewise, startups and young companies that previously have relied on venture capital and venture debt funding to finance growth-oriented business plans are struggling to adapt to a rising rate environment where investors are demanding a renewed focus on profit. Each of the panelists expects these areas to remain under pressure into 2024.

The new speed of life

The panel also pointed out that information flow has changed dramatically in recent years both in quantity and availability in real time and that this development could have a significant impact on behavior. Management teams might want to consider extra precautions to allow for sudden market developments or other external events impacting operations.

Untested management teams

After almost 15 years of ultra-low interest rates, an entire generation of management, investors and lenders haven't had to deal with a down cycle or tight credit conditions. This lack of collective experience navigating a rising rate environment has potentially left many organizations unprepared to meet today's

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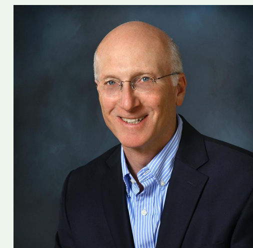
Speakers



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challenges. Admitting that 2023 presents an entirely different reality from the pre-pandemic world, some may want to surround themselves with teams of experienced advisors who understand the new realities presented by the change in cycle.

What companies can do now

Prepare, prepare, prepare. Companies can get ready for the pending debt wall by proactively addressing debt maturities as it affects their specific circumstance. Among other things, organizations should consider retaining the right mix of advisors with appropriate experience to help the board and management through transition periods and evaluating alternatives; starting the process of addressing debt maturities early enough to account for likely enhanced scrutiny by capital sources; and understanding the need to show a "buttoned up process," as deals with contingencies or issues are less likely to get done.

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