

Viewpoint

One of a series of opinion columns by bankruptcy professionals

The Eye Of The Storm

By Scott Y. Stuart

After a tumultuous 2009, during which the turnaround community navigated more Chapter 11 bankruptcies than were fast sales or hard liquidations then ever before, all eyes now turn to 2010. With a challenging credit market, unemployment concerns and overall lack of confidence, is the current lull in filings the bottom everyone desperately seeks or simply the eye of the storm?

Experts from many sectors are hard pressed to reach a consensus on where things stand right now. While more than not believe that this recession has hit a bottom of sorts, many remain at odds over how the recovery will be defined. In fact, while a limited number of experts predict robust growth in 2010, many still doubt that the same is possible, being cautiously optimistic that stability without a further bubble is the best that could be hoped for.

Some of the confusion, and hence difficulty in how turnaround professionals prepare for 2010, comes from how data are being reported. For example, analysts seem to believe that retail sales, auto sales, durable-goods orders and home sales have found a bottom. While that certainly does not mean a rebound is afoot, it could mean a slowing pace of bankruptcy filings or at least some breathing room to restructure.

On the flip side of this somewhat good news are fears that the labor market will remain weak, equity and housing wealth will remain in decline and tight credit conditions will continue. Hence, the need for Chapter 11 without an end game may still be a reality, particularly for middle-market companies, which haven't seen the storm of filings experienced by larger firms.

In an attempt to assess how the environment in the middle market and how restructurings are likely to look there, two elements need be considered. The first is the real loss of jobs from the employment sector on a permanent basis, and the second is the likelihood that credit will be available to stimulate growth. Here, again, the data are at odds.

In November, the jobs report issued by the Bureau of Labor Statistics indicated that 11,000 jobs were permanently lost, perhaps signaling that recovery was on its way. But in its own report, payroll-services company ADP said it believes as many as 170,000 jobs were, and will remain, lost. What is not reflected in either of these statistics is the downgrade of full-time to part-time employment versus permanent loss of positions. This detail is critical to the analysis of whether companies are capable of stabilizing or are suffering contraction, both of which go to the heart of a restructuring analysis.

Even the heads of prominent companies cannot agree. For example, the chief executive of FedEx is predicting 3% growth, while the CEO of Verizon says no growth or job

creation is occurring at all. Add to this credit markets that, while admittedly better in certain sectors, by almost all accounts remains tight. This indicates that the middle market will remain challenged and will face a mine field of uncertainty in working through restructuring issues.

Perhaps some guidance can be offered from the retail sector, long a bellwether of consumer confidence. But even there the data are confusing, and turnaround professionals are perplexed about the sector's future.

Take, for example, a recent report that the 2009 store-closings list in the retail sector grew by 360 stores through the second week of September. Of those 360 stores, 102 were from the discount chain Payless ShoeSource. Analysts have been left to ponder how a discount chain could be so adversely affected by the general retail slowdown this year and if it is a pattern that needs to be evaluated more closely.

With the above in mind, the retail sector can also be very telling of what is going on in other sectors of the economy. Consider the Chapter 11 filing of Samsonite Stores in September. This filing can be closely tied to other troubled industries, such as the airline sector, which lost \$6 billion in the first half of 2009. The result was a ripple effect in other travel-related businesses, such as Samsonite. Assuming that recent reports regarding an uptick in travel and stability in the airline industry are accurate, retail chains like Samsonite may be able to regain their footing.

A great deal of uncertainty is the only certainty that seems to exist as the turnaround community prepares itself for 2010. Gone is the economy once fueled by the wealth, both real and artificial, of the housing sector. One of the great unknowns is where the prosperity necessary to fuel growth will come from next. With that uncertainty in place, how the turnaround community will face the challenges of 2010 is a big question mark tied to statistics and analysis that give little guidance at all. This is a brave new world, and perhaps the turnaround community itself will provide the fuel necessary to redefine industry sectors tied to a recovery and growth model all can agree upon.

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