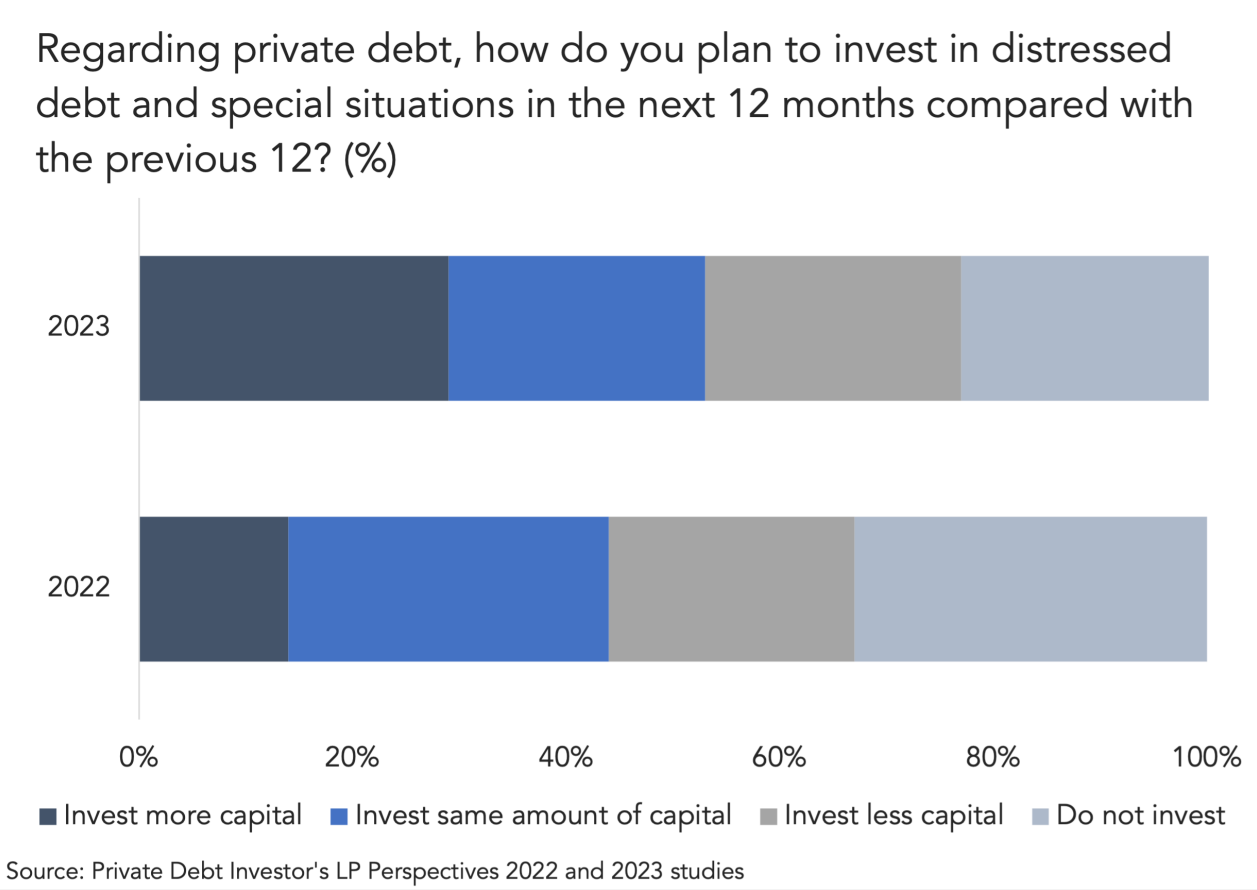
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When the going gets tough

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Those present at the PDI Europe Summit heard how Europe is catching up the US when it comes to distressed opportunities.

Despite the denominator effect, more investor capital is expected to pour into distressed and special situation-focused GPs' coffers this year (see chart). No wonder the room was packed as specialists in the field provided their insights. Here's a few:

*The distressed opportunity in the US has arisen faster than in Europe. "The US is always quicker to adjust to new cycles and Europe lags behind when it comes to repricing, restructuring etc," said John Brantl, co-head of the European investment team at SVPGlobal. "In January and February we were very active in the US but we've been seeing Europe pick up over the last eight weeks," he added. With Europe further behind in the rate cycle and with a fragile economic outlook, the region is perceived to represent a very interesting medium-term opportunity.

*The global financial crisis "taught us a lot about legal jurisdictions," said Alon Avner, head of Bain Capital Credit in Europe and a partner in distressed and special situations. Some of the more challenging ones sought to

improve their legal frameworks in the years that followed, but there is scepticism that things have changed that much. In Italy, for example, one panellist said decisions still took too long even though the process had technically been improved; while France is still perceived by some to be too friendly to equity and not friendly enough to debt. Even the UK, traditionally seen as Europe's strongest regime, has a restructuring process that is less friendly to creditors post-covid than before due to what are now perceived to be unfavourable cross-class cramdown rules.

*The focus of distressed investors is on company balance sheets and what they see is high leverage levels and a failure of many companies to have adequately hedged interest rate rises (a forgotten art, it was noted by more than one conference attendee). On the other hand, they are also seeing innovative procurement strategies to offset inflation and discipline around pricing. Few are expecting a tidal wave of activity just yet.

(Past performance is no guarantee of future results.)