



# Sleepy Season is Upon Us

By Michael Eisenband

**The calendar says we've reached the halfway point in the year, but the recent history of large Chapter 11 filings says we're well more than halfway done. That's not encouraging news for those who thought the first half of 2018 was a dud for restructuring activity. (Early signs indicate that large Chapter 11 filings were down about 17% from 1H17 and 12% from the pace of 2H17—mostly due to a sharp falloff in June filings. We'll have more on that next month.) We don't necessarily think of bankruptcy filings as being seasonally influenced, but there is persuasive evidence of such influence in the filings.**

We looked at all large (>\$250 million in liabilities at filing) Chapter 11 filings from 2010 through 2017 — some 365 filings over eight years — and broke down these filings by month and, in some instances, by industry sector. These filings were evaluated and are shown on a monthly basis (**Exhibit 1**) and a cumulative basis (**Exhibit 2**). There were some noteworthy takeaways:

- The energy sector accounted for 90 Chapter 11 filings, or 25% of all filings, over this eight-year period, the most of any industry sector, followed distantly by retail (9.1%) and manufacturing (9.1%). Collectively, these three sectors accounted for 43% of total filings.
- Nearly 58% of large Chapter 11 filings across all industries occurred in the first half of the year, with a disproportionately large share coming in March (13.5%) and April (10.0%).
- Chapter 11 filings by energy companies have tended to run strong in March, April and December. These three months have accounted for 37% of energy-related filings.
- The perception that retailers tend to file for bankruptcy early in the year when they are flush with cash from the holiday season seems to be an accurate one. Our data indicates that on a cumulative basis, nearly 40% of Chapter 11 filings by retailers in a given year occur by the end of March and 73% occur by mid-year. (Note in Exhibit 2 that if filings occurred evenly throughout the year they would fall along the dotted diagonal line.) Retail filings are also slightly above average in September, which suggests that if vendors are tightening credit terms or holding back deliveries of holiday merchandise to a struggling retailer, it likely will waive the white flag at this point. Once holiday merchandise has arrived, Chapter 11 filings by retailers in the fourth quarter are rare.

- Curiously, Chapter 11 filings by manufacturing companies also show a strong first-half bias, with 70% of filings having occurred by the end of June. No obvious reason comes to mind.
- The third quarter of the year, which we have just entered, is consistently the most inactive period for bankruptcy filings. Only 19.5% of Chapter 11 filings occur in the summer quarter. October has been a below average month for filings as well.

Of course, there’s no reason these tendencies have to hold true in any particular quarter or year. To the extent that bankruptcy filings over some defined period of time are dominated by specific industries whose businesses are notably influenced by seasonal factors, then that will likely influence the timing of bankruptcy filings, so this analysis is hardly the definitive word on the topic. It does cover a long stretch of time and is not unduly represented by any industry sector other than, perhaps, energy, so it would seem to be fairly representative of any broad underlying seasonal patterns.

There’s often a tendency to think of bankruptcy filings as events that are timed around the exhaustion of a prospective debtor’s liquidity or a specific default event. Judging from the dearth of filings in July through September, the vacation plans of restructuring professionals might enter into the mix as well!

So if you were debating about taking off some spell of time for leisure this summer or finally writing that article that’s been in your head — go for it without the guilt. History says it’s most likely that nothing much will happen while you’re gone, and you’ll need to recharge your batteries for the months ahead.

EXHIBIT 1

Monthly Percentage of Chapter 11 Filings (2010 - 2017, Liabilities > \$250mm)

Source: The Deal Pipeline and FTI Consulting, Inc.

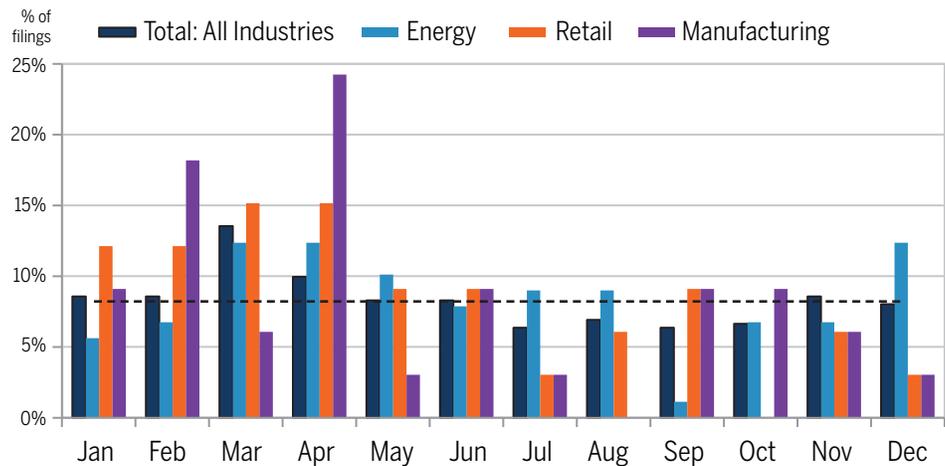
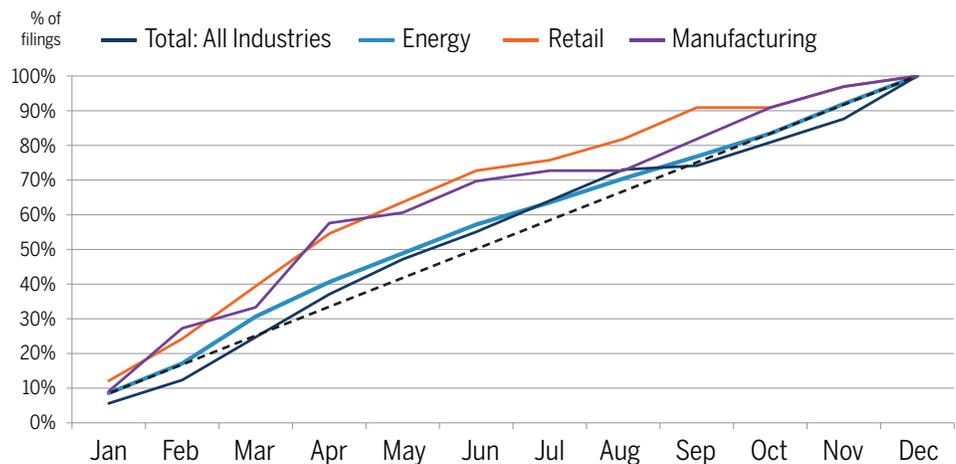


EXHIBIT 2

Cumulative Percentage of Chapter 11 Filings (2010 - 2017, Liabilities > \$250mm)

Source: The Deal Pipeline and FTI Consulting, Inc.





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