

**"When a deal changes the numbers
but not the behavior, it has not solved
the problem."**

Daniel Vnuk, MEcon, MBA

Restructuring Is Incentive Alignment Exposed Through Finance

Finance reveals who is prepared to act, who is preserving optionality,
and who is already protecting downside.

Behavior | Controls | Consequences

Amendment Is Not Restructuring

An amendment changes terms.

A restructuring changes conduct.

If the behavioral architecture stays intact, the next stress point has only been deferred.

A Capital Structure Is a Map of Behavior

Before stress

- Priority appears clear
- Covenants look adequate
- Equity carries residual risk
- Management speaks about growth

Under stress

- Equity protects optionality
- Sponsors become selective
- Lenders focus on cash
- Suppliers shift risk

Stress Reveals Incentives Before Default

The warning signs usually appear before any formal default.

- Aggressive add-backs preserve covenant headroom
- Receivables stretch and collections slow
- Forecast misses become “timing differences”
- Capex deferral reappears in another form
- Management explanations lengthen as cash conversion weakens

The pattern matters more than any single data point.

The Business Is Being Managed for Time

A borrower addressing stress accepts tighter oversight, sharper cash controls and harder decisions.

A borrower managing for time resists those steps while asking for flexibility.

Why Cash Reporting Matters

Weekly cash reporting exposes behavior quickly.

- Weak cash bridge
- Recurring forecast misses
- Unexplained variances
- Delayed reporting
- Repeated requests for tolerance

For special assets teams, the cash bridge is often more revealing than the annual budget.

The budget shows what management wants to believe.

The cash bridge shows what the business is doing.

Finance stops being descriptive. It becomes prescriptive.

When cash is under pressure, stakeholder positions become easier to read.

Controls That Change Conduct

A credible restructuring creates enforceable discipline.

- Cash dominion – prevents unrestricted leakage
- 13-week cash flow – forces operational reality
- Weekly reporting – exposes underperformance early
- Governance rights – limits wishful thinking
- Disposal milestones – turns review into execution

Serious Restructuring Creates Consequences

If the answer is "another discussion," the structure is probably too loose.

- If underperformance continues, what happens?
- If reporting slips, what happens?
- If cash leakage continues, what happens?
- If asset sales stall, what happens?
- If sponsors refuse support, what happens?
- If covenant relief becomes recurring, what changes?

The Model Can Balance and Still Tell You Very Little

Forecasts can be adjusted. Assumptions can be smoothed. Pro forma leverage can be made to look manageable.

The harder question is whether the model is supported by conduct that is realistic under pressure.

Behavior Is the Real Sensitivity Case

A model that does not test conduct is incomplete.

- What if management misses reporting deadlines?
- What if sponsors refuse new money?
- What if asset sales are delayed?
- What if working capital does not normalize?
- What if the borrower uses each waiver as a bridge to the next waiver?

The Real Test Comes After Signing

The quality of a restructuring is judged in the quarters that follow.

- Reporting remains disciplined
- Liquidity is monitored with realism
- Management has less room to defer hard decisions
- Equity knows where upside begins and creditor protection prevails
- Lenders are not relying on optimism

Weak Solution vs. Strong Restructuring

Weak solution

- Maturity extension only
- Limited control enhancement
- Recurring covenant relief
- Delayed disposals
- Working capital explanations

Strong restructuring

- Guardrails remain after signing
- Controls leakage
- Clear consent rights
- Cash monitoring
- Milestone-based execution

Incentive Alignment Applies to Creditors Too

A borrower-side restructuring cannot be durable if the creditor group itself is misaligned.

- Some seek quick exit
- Some prefer enforcement
- Some protect relationship exposure
- Some are driven by provisioning treatment
- Some need time for internal approvals

Where creditor incentives fragment, value leaks.

Where incentives are aligned through governance, information and consequences, recovery becomes more controllable.

Credit & Special Assets Lens

Evaluate restructuring by conduct, not only by balance sheet shape.

- Does it reduce liquidity leakage?
- Does it improve reporting quality?
- Does it create consequences for delay?
- Does it align sponsor behavior with creditor protection?
- Does it give lenders sufficient control before the next crisis?
- Does it preserve value better than the previous structure?

Discipline matters more than design.

The numbers reveal the stress. The controls shape the conduct.
The incentives determine whether the structure will hold.




**In stressed credit,
I trust conduct more than narrative
and discipline more than design.**


Happy to exchange perspectives with peers navigating similar situations.

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