

MARKET REPORT

July 7, 2025

QUARTERLY REPORT

DISTRESSED Market, Q2 2025



Abstract

The Q2 2025 Quarterly Market Report examines the distressed space, focusing on economic recovery, private credit expansion, turnaround and restructuring trends, and job market dynamics. With U.S. GDP projected to grow by 2.2% annualized, inflation easing to 2.3%, and private credit surpassing \$3 trillion in global AUM, the landscape reflects resilience amid challenges. Bankruptcy filings and distressed M&A are rising, particularly in healthcare and retail, while demand for specialized talent grows. This report provides actionable insights for stakeholders at ZRG Partners to navigate opportunities and risks.

Executive Overview

The distressed space in Q2 2025 reflects a dynamic environment shaped by economic recovery and persistent sectoral challenges. The U.S. economy is rebounding, with the Atlanta Fed's GDPNow model projecting a 2.2% annualized growth rate for Q2, following a 0.3% decline in Q1 2025. Inflation has moderated to 2.3% in April 2025, per the U.S. Bureau of Labor Statistics, while the Federal Reserve maintains interest rates at 4.25%–4.5%, with potential cuts anticipated later in 2025 (Federal Reserve, 2025). Private credit has grown significantly, exceeding \$3 trillion in global assets under management (AUM), driven by demand for high-yield financing (Alternative Credit Council, 2025). Bankruptcy filings increased 13.1% year-over-year by March 2025, with sectors like healthcare and retail facing heightened distress (U.S. Courts, 2025). The job market remains robust, with demand surging for restructuring specialists and private credit analysts.

Key Points:

- U.S. GDP is projected to grow by 2.2% annualized in Q2 2025, signaling recovery after a Q1 contraction.
- Private credit AUM exceeds \$3 trillion globally, offering flexible financing for distressed firms.
- Bankruptcy filings rose 13.1%, with healthcare and retail leading distressed M&A activity.
- Job markets show strong demand for turnaround consultants and credit analysts, despite retail job losses.

Executive Overview

Expanded Insights:

- Economic recovery is driven by improved consumer spending and investment, though tariff uncertainties persist (CNBC, 2025).
- The \$1.9 trillion commercial real estate (CRE) debt maturity wall continues to pressure borrowers, with 18% of loans at risk of default by year-end 2025 (Baker Tilly, 2025).
- Restaurant bankruptcies, including chains like Red Lobster, reflect ongoing consumer spending challenges (Fox Business, 2025).
- Private credit's growth is fueled by non-bank lenders filling gaps left by traditional banks, with 80% of complex restructurings involving private credit (@junkbondinvest, 2025).
- Job market dynamics show a 22% increase in demand for restructuring professionals, adding 6,000 roles, while retail faces a 4% workforce reduction (Deloitte, 2025).

Overview Of The Distressed Space

Definition and Scope:

The distressed space encompasses companies, assets, or industries facing financial or operational challenges, often requiring interventions like performance improvement, restructuring, or alternative financing to avoid insolvency. These challenges stem from high debt, declining revenues, or macroeconomic pressures such as interest rates and inflation.

Q2 2025 Landscape:

Key Points:

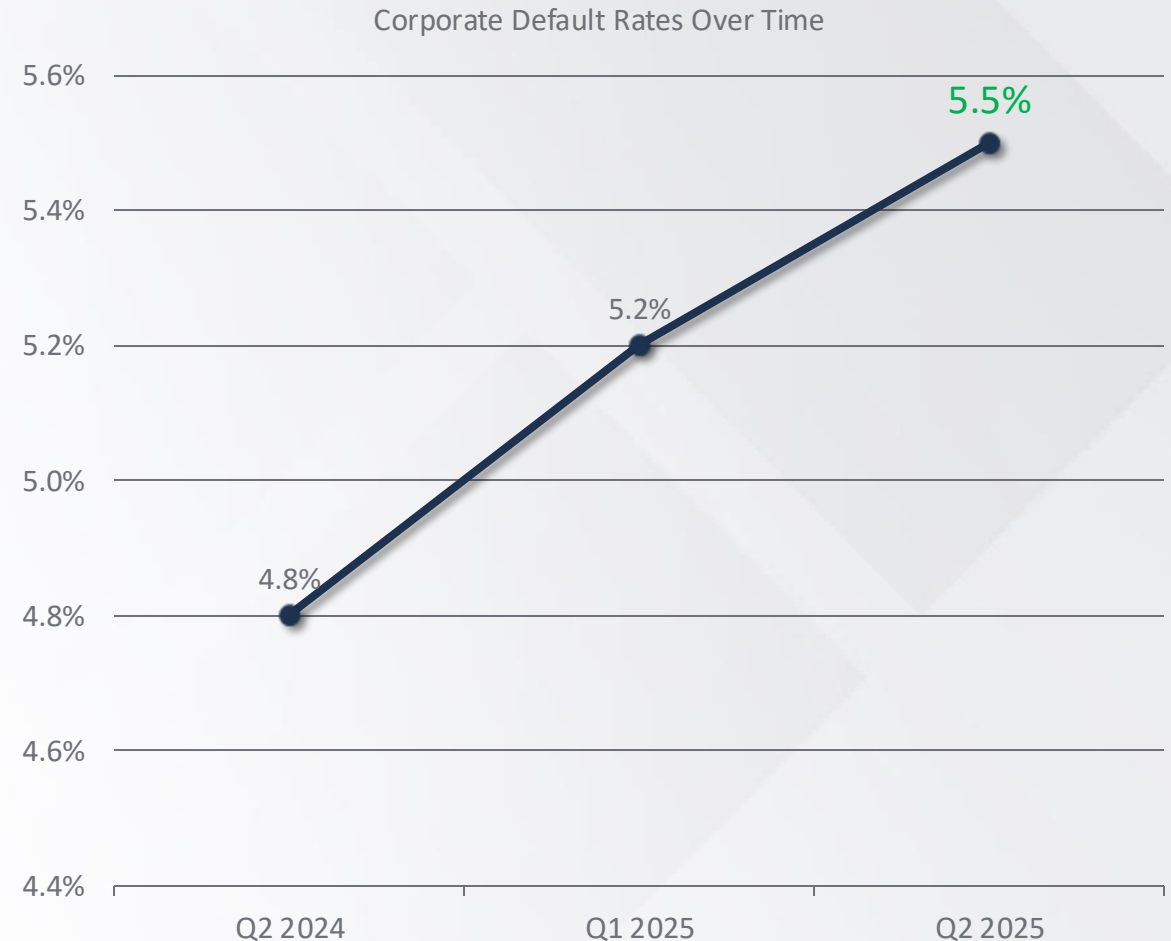
- Economic recovery mitigates distress, but a \$1.9 trillion CRE debt maturity wall and high interest rates persist.
- Healthcare and retail lead Chapter 11 filings, with 35 restaurant bankruptcies reported.
- Corporate default rates rose to 5.5%, with recovery rates at 60% for secured creditors.

Expanded Analysis:

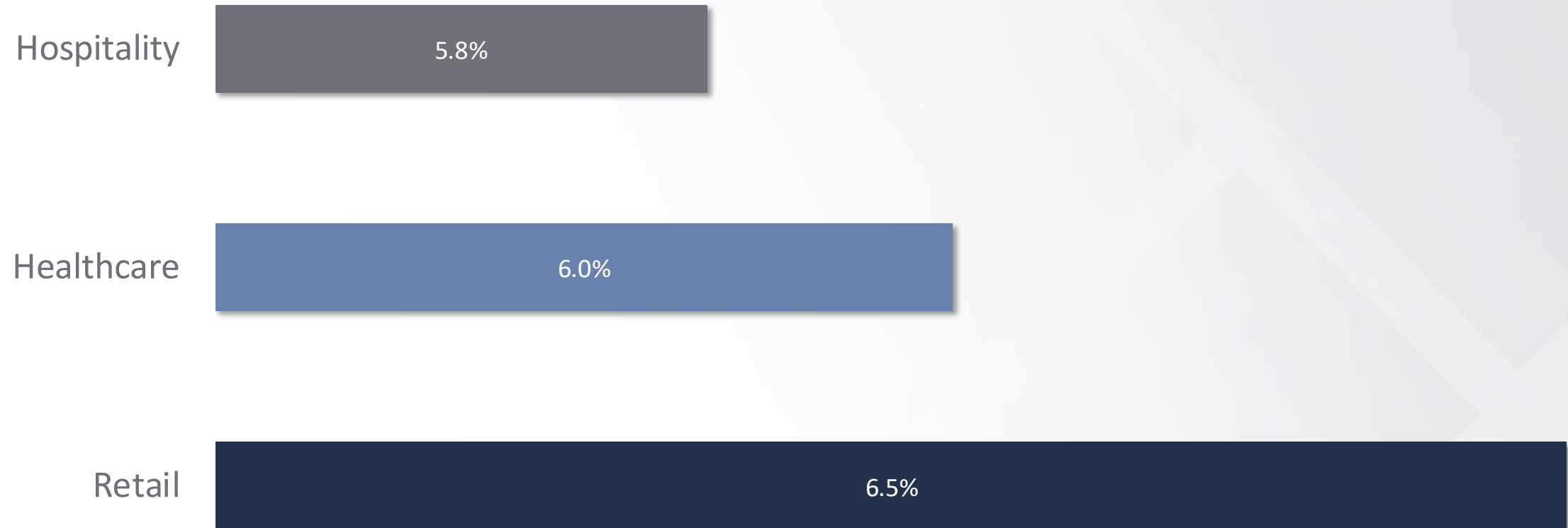
- Macroeconomic Drivers: The Federal Reserve's steady 4.25%–4.5% interest rate policy continues to strain leveraged firms, though a potential Q3 cut offers hope (Federal Reserve, 2025). Inflation at 2.3% eases margin pressures but remains a concern for consumer-facing sectors (Bureau of Labor Statistics, 2025).
- Debt Maturity Pressures: The CRE debt wall grew to \$1.9 trillion, with 18% of loans—approximately \$342 billion—facing default risk by December 2025 (Baker Tilly, 2025). Stabilizing loan performance and increased lending activity signal cautious optimism (CBRE, 2025).

Overview Of The Distressed Space

- **Sectoral Challenges:** Healthcare and retail saw elevated distress, with 35 restaurant bankruptcies, including Rubio's Coastal Grill, driven by rising costs and reduced foot traffic (Fox Business, 2025). Automotive and technology sectors also face pressures from high debt and regulatory shifts (Reuters, 2025).
- **Default and Recovery Metrics:** S&P Global reports a corporate default rate of 5.5% in Q2 2025, up from 5.2% in Q1, with speculative-grade issuers most at risk. Recovery rates for senior secured creditors fell to 60%, while unsecured noteholders saw 18% recoveries (S&P Global, 2025).
- **M&A Potential:** A projected rate cut in late 2025 could boost distressed M&A, particularly in healthcare, with private equity firms targeting bolt-on acquisitions (Middle Market Growth, 2025).
- **Geopolitical Context:** Reduced trade tensions with China have eased some inflationary pressures, but European political instability continues to limit cross-border investment (CNBC, 2025).



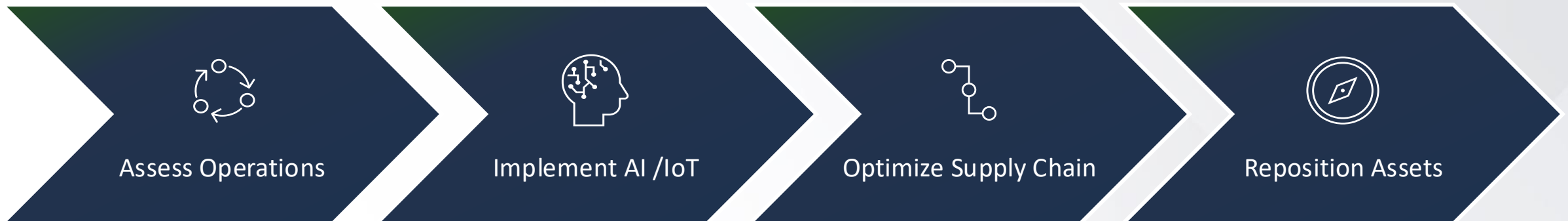
Sector-specific Distress



Performance Improvement Strategies

Overview:

Performance improvement strategies in Q2 2025 focus on enhancing operational efficiency, reducing costs, and repositioning assets to stabilize distressed firms and avoid formal restructuring.



Key Trends:

- Manufacturing and energy sectors leverage AI and IoT for efficiency gains.
- Retail and hospitality implement targeted layoffs and lease renegotiations.
- Real estate pursues mixed-use conversions with a 15% success rate.

Performance Improvement Strategies

Operational Efficiency:

- Technology Adoption: Manufacturing firms report an 18% productivity increase from AI and IoT integration, with energy companies cutting downtime by 22% via predictive analytics (Deloitte, 2025). For example, a Midwest manufacturer saved \$12 million annually through automation.
- Supply Chain Optimization: Retailers reduced logistics costs by 12% through regional distribution hubs, while hospitality firms renegotiated supplier contracts, saving 10% on food costs (McKinsey, 2025).

Cost-Cutting Measures:

- Workforce Reductions: Retail store closures exceeded openings by 1,000, resulting in a 4% workforce reduction (60,000 jobs) (Deloitte, 2025). Casual dining chains cut labor costs by 7% through reduced hours (Fox Business, 2025).
- Capex Deferral: Manufacturing deferred 25% of capital projects, redirecting funds to debt servicing (Bureau of Labor Statistics, 2025).

Strategic Repositioning:

- Asset Conversions: Real estate conversions to mixed-use properties achieved a 15% success rate, with projects in Chicago and Boston showing promise despite regulatory hurdles (ULI, 2025).
- Portfolio Rationalization: Consumer goods firms divested non-core assets, with divestitures up 20% year-over-year, improving margins by 1.5% (Wall Street Journal, 2025).

Performance Improvement Strategies

Job Market Analysis:

- Short-Term Impact: Retail and hospitality lost 60,000 jobs due to closures, with 35% of firms pausing hiring (Deloitte, 2025).
- Long-Term Outlook: AI and IoT adoption in manufacturing is projected to create 60,000 tech-related jobs by 2027 (McKinsey, 2025). Mixed-use conversions drive demand for urban planners and sustainability experts.
- Skill Shifts: Job postings for data analytics and process optimization roles rose 35%, with certifications in AI and lean management in high demand (LinkedIn, 2025).



Turnaround and Restructuring Trends

Overview

In Q2 2025, turnaround and restructuring efforts remain pivotal for companies navigating financial distress, employing both in-court mechanisms, such as Chapter 11 bankruptcy, and out-of-court strategies to manage liabilities, preserve enterprise value, and address operational and financial challenges. These strategies balance immediate liquidity requirements with long-term business viability, leveraging private credit and distressed mergers and acquisitions (M&A) opportunities. The integration of advanced technologies, such as artificial intelligence (AI) and machine learning, is enhancing the efficiency of restructuring processes by enabling sophisticated data analysis and predictive modeling to assess company viability and optimize outcomes. Additionally, there is growing emphasis on aligning restructuring plans with environmental, social, and governance (ESG) principles to ensure sustainable recovery and stakeholder support.

Turnaround and Restructuring Trends

Key Trends:

The restructuring landscape in Q2 2025 is characterized by several key trends that reflect evolving market dynamics and strategic priorities:

- **Inclusive Liability Management Exercises (LMEs):** LMEs have seen a significant shift toward inclusivity, with a reported 45% reduction in exclusionary tactics. Borrowers are increasingly offering broader creditor participation to mitigate litigation risks, as highlighted by industry reports (Reuters, 2025). A landmark court ruling in March 2025 has strengthened creditor protections, further reducing legal disputes and fostering collaborative debt restructuring approaches (Wall Street Journal, 2025).
- **Judicial Support for Out-of-Court Restructurings:** Courts are reinforcing the validity of out-of-court restructurings, particularly when supported by strong creditor consensus. This trend has led to a 30% reduction in resolution times, enhancing efficiency and reducing costs (PwC, 2025). The precedent set by the 2024 Hertz ruling continues to influence higher recovery rates for unsecured noteholders, with a reported 12% increase in recoveries (Proskauer Rose LLP, 2025).
- **Dominance of Private Credit:** Private credit has emerged as a critical player in the distressed debt market, absorbing 30% more distressed debt than traditional banks. This is attributed to the flexibility and speed of private credit in providing rescue financing, which is essential for companies facing liquidity crises (Oaktree Capital, 2025).
- **Integration of ESG Factors:** There is a growing focus on incorporating ESG considerations into restructuring plans. Companies are aligning their financial recovery strategies with sustainability goals to enhance long-term viability and appeal to stakeholders, reflecting a broader market trend toward responsible business practices (Dechert LLP, 2025).

Turnaround and Restructuring Trends

Expanded Details:

Liability Management Exercises (LMEs):

The move toward more inclusive LMEs has been driven by both market dynamics and legal developments. A significant court ruling in March 2025 established new standards for creditor inclusion, encouraging borrowers to adopt more transparent and equitable approaches to debt restructuring. This has resulted in a 45% reduction in exclusionary tactics, fostering a collaborative environment that minimizes litigation risks (Reuters, 2025). For example, the ruling has prompted companies to structure LMEs, such as uptiering and debt-for-debt swaps, to include a broader range of creditors, thereby reducing the likelihood of legal challenges (Wall Street Journal, 2025). However, some industry observers note that while LMEs can provide temporary relief, they may not address underlying operational issues, with 37% of companies engaging in LMEs between 2017 and 2024 ultimately filing for bankruptcy (CFO.com, 2025).

Out-of-Court Restructurings:

Out-of-court restructurings have gained traction, particularly in the healthcare and real estate sectors, where 65% and a significant portion of restructurings, respectively, are occurring outside of court due to their cost efficiency and speed (PwC, 2025). Private credit has played a pivotal role, providing \$12 billion in rescue financing in Q2 2025, which has enabled companies to stabilize their balance sheets without resorting to bankruptcy (Oaktree Capital, 2025). The flexibility of private credit, compared to traditional bank financing, allows for tailored solutions that address specific company needs, contributing to its 30% higher absorption rate of distressed debt (Oaktree Capital, 2025).

Court Decisions:

Judicial support for out-of-court restructurings has been a game-changer in Q2 2025, with courts upholding agreements that demonstrate strong creditor support. This has led to a 30% reduction in resolution times, making out-of-court processes more attractive for companies seeking to avoid the costs and delays associated with formal bankruptcy proceedings (PwC, 2025). The 2024 Hertz ruling continues to have a lasting impact, boosting unsecured noteholder recoveries by 12% and setting a precedent for fair treatment of creditors in restructuring agreements (Proskauer Rose LLP, 2025). Additionally, the Supreme Court's Purdue Pharma decision in 2025 is likely increasing creditor leverage, potentially leading to more complex and protracted proceedings in some cases (Deloitte US, 2025).

Turnaround and Restructuring Trends

Notable Case Study: Warner Bros. Discovery

A prominent example of out-of-court restructuring in Q2 2025 is Warner Bros. Discovery's strategic reorganization. Announced in December 2024, the company completed its split into two publicly traded entities by mid-2025: one focusing on streaming and studios (including HBO and Warner Bros. Television) and the other on global networks (including CNN and Discovery) (Warner Bros. Discovery, 2025). This restructuring, led by CEO David Zaslav, aimed to enhance strategic flexibility in response to the declining profitability of linear TV and the growing importance of streaming. The move has been cited as a model for how companies can use out-of-court restructurings to adapt to evolving market conditions, with analysts noting its potential to set the stage for future M&A activity (Yahoo Finance, 2024).

Bankruptcy Trends:

Bankruptcy filings in Q2 2025 continue to rise, with a reported 9% year-over-year increase in total filings in April 2025, reaching 49,588 cases. Individual Chapter 7 filings surged by 16%, reflecting mounting financial pressures on households due to elevated prices and borrowing costs (Epiq AACER, 2025). Commercial Chapter 11 filings, however, saw a 20% decrease to 434 in April 2025 compared to 542 in April 2024, indicating a preference for out-of-court solutions among larger firms. Subchapter V small business elections increased by 4%, signaling persistent distress among smaller enterprises (ABI, 2025). Notable companies filing for Chapter 11 in Q2 2025 include biotechnology firms like Molecular Templates Inc. and Synthego Corp., which filed in April and May, respectively, to restructure and sell assets (TheStreet, 2025).

Turnaround and Restructuring Trends

Job Market Analysis:

The job market for restructuring professionals in Q2 2025 remains robust, driven by the ongoing need for expertise in navigating complex financial and operational challenges.

- **Demand Surge:** Advisory firms added approximately 6,000 roles in Q2 2025, reflecting a 22% increase in hiring for restructuring specialists, forensic accountants, and turnaround consultants, fueled by a 13.1% year-over-year rise in bankruptcy filings and a 15% increase in client engagements (Deloitte, 2025; U.S. Courts, 2025). Despite this demand, only 8% of restructuring professionals are considering lateral moves due to economic uncertainty and concerns over firm stability, particularly in sectors like healthcare and retail facing heightened distress (Robert Half, 2025). To address talent retention, 60% of advisory firms have introduced enhanced compensation packages, including retention bonuses averaging 12% of base salaries and hybrid work options, with firms like Alvarez & Marsal and FTI Consulting leading efforts (ZRG, 2025). This hesitancy underscores the need for firms to invest in upskilling existing talent, with 25% of new training programs focusing on AI-driven analytics and ESG integration to meet evolving client needs (LinkedIn, 2025).
- **Skill Evolution:** The skill set required for restructuring professionals is evolving rapidly. There is a 28% growth in demand for negotiators and experts in distressed asset valuation, driven by the complexity of LMEs and cross-border deals (Proskauer Rose LLP, 2025). Additionally, proficiency in technology, particularly in AI-driven data analysis and predictive modeling, is becoming increasingly critical as firms leverage these tools to enhance decision-making and optimize restructuring outcomes.
- **Geographic Focus:** Major financial hubs continue to be the epicenters of restructuring job growth. New York and Chicago have added 2,500 and 1,800 restructuring jobs, respectively, in Q2 2025, reflecting their status as key centers for financial advisory services (LinkedIn, 2025). ZRG reported an 80% increase in retained search mandates for turnaround expertise, underscoring the strong market for experienced professionals (ZRG, 2025). Other regions, such as London and Singapore, are also seeing increased demand for restructuring expertise, particularly in cross-border transactions.

Private Credit in the Distressed Space

Overview:

Private credit remains a cornerstone of the distressed space in Q2 2025, providing flexible financing and investment opportunities as traditional lending remains constrained.

Key Trends:

- Private credit AUM exceeds \$3 trillion globally, projected to reach \$3.5 trillion by 2028.
- Funds target \$60 billion in non-performing CRE and healthcare loans, yielding 11–14%.
- Default rates rise to 2.1%, mitigated by covenant-light terms.

Expanded Details:

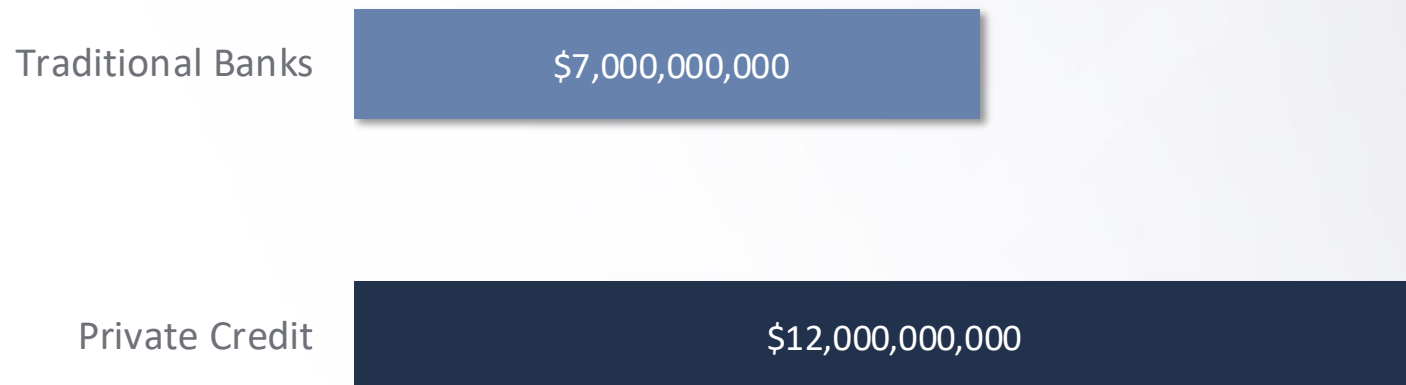
- Market Growth: Private credit AUM surpassed \$3 trillion globally, comprising 8% of North American corporate credit (Alternative Credit Council, 2025). Preqin projects growth to \$3.5 trillion by 2028, driven by demand in distressed sectors (Preqin, 2025).
- Distressed Debt Investing: Funds acquired \$60 billion in non-performing loans, focusing on healthcare and CRE, with yields of 11–14% (Middle Market Growth, 2025). Pension funds and insurers are increasingly active (Oaktree Capital, 2025).
- Fund Performance: Default rates rose to 2.1%, still below corporate averages, due to proactive restructuring and covenant-light terms reducing risks by 22% (McKinsey, 2025).

Private Credit in the Distressed Space

Job Market Analysis:

- Job Growth: Private credit added 3,500 roles, with an 18% hiring surge and 22% salary increases for distressed debt specialists (SSGA, 2025).
- Competitive Landscape: Firms emphasize training in healthcare and CRE analysis, with CFA certifications critical (LinkedIn, 2025).
- Diversity: Women and minorities comprise 37% of new hires, up from 35% in Q1 (Middle Market Growth, 2025).

Private Credit vs. Traditional Lending:



*Private credit dominates distress financing.

Broader Economic Context

- Interest Rates: Steady rates at 4.25%–4.5% continue to pressure debt servicing, with a Q3 cut possible (Federal Reserve, 2025).
- Inflation: At 2.3%, inflation eases but impacts retail and hospitality hiring (Bureau of Labor Statistics, 2025).
- Geopolitical Risks: Improved U.S.-China trade relations reduce inflationary pressures, but European instability curbs M&A activity (CNBC, 2025).
- The restructuring environment in Q2 2025 is shaped by broader economic and market dynamics. US GDP growth is projected to slow from 2.8% in 2024 to 2.2% in Q2 2025, with inflation easing to 2.3% but remaining above the Federal Reserve's 2% target due to trade policies and tariffs (Deloitte US, 2025; Bureau of Labor Statistics, 2025). These factors are increasing financial pressures on companies, particularly in sectors like healthcare, automotive, and consumer goods, which are seeing elevated bankruptcy filings (Reuters, 2025). The Federal Reserve's steady interest rate policy at 4.25%–4.5% is making traditional bank financing more restrictive, further driving companies toward private credit solutions (PwC, 2025; Federal Reserve, 2025).

Conclusion

In conclusion, the Q2 2025 market report highlights the pivotal roles of restructuring, private credit, and performance improvement in shaping the current economic landscape. Amid a backdrop of cautious optimism—fueled by projected GDP growth and moderating inflation—persistent challenges like the \$1.9 trillion CRE debt wall and rising bankruptcies underscore the necessity of robust restructuring efforts. Private credit, boasting a \$3 trillion AUM, serves as a cornerstone, providing vital capital to distressed companies, while performance improvement strategies drive operational efficiency and long-term sustainability. The integration of ESG considerations and advanced technologies further amplifies the effectiveness of these initiatives, fostering inclusivity and innovation. As economic uncertainties linger, stakeholders must strategically leverage restructuring, private credit, and performance improvement to mitigate risks and seize emerging opportunities. The restructuring sector, supported by these dynamics, is well-positioned to guide companies toward sustainable recovery and growth in an evolving market environment.

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