

## Supply chain snags cited as bankruptcy filings pile up

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*Commodity Insights*

Supply chain issues continued to be blamed for pushing a number of US companies to file for bankruptcy in 2023 as the rush by corporations looking to courts to provide relief from mounting debts worsened.

While the stretch of clogged ports, long backorders and scant raw materials supply that marked 2021 and 2022 has largely passed, troubled debtors last year laid much of the blame for their financial woes on snags in their supply chains. Problems included the inability to acquire essential components and materials, oversupplied inventories and labor shortages. Appliance parts manufacturer [Robertshaw US Holding Corp.](#), automotive parts retailer [PARTS iD Inc.](#) and coffee trader [Mercon Coffee Corp.](#) all cited supply chain issues in recent bankruptcy petitions.

Companies are also being stressed by the higher interest rates and [inflation](#), which are causing consumers to [change their buying habits](#). Corporate bankruptcy filings tracked by S&P Global Market Intelligence reached a [13-year peak in 2023](#) and are continuing at a steady pace.

"Supply chain disruptions have a way of amplifying those issues, but they are seldom the only cause of it — unless something catastrophic happens, such as the loss of a critical supplier and the inability to find an alternative," Rudi Leuschner, associate professor of supply chain management at Rutgers University, said in an interview.

### Mentions of supply chain issues in select recent corporate bankruptcy announcements

Company	Bankruptcy announced	Liabilities at initial filing (\$M)	Industry	Excerpt from press release or court filing
Robertshaw US Holding Corp.	02/15/24	500-1,000	Electronic equipment and instruments	In addition to looming maturities and a challenging capital structure, the Debtors have faced, and continue to face, financial challenges resulting from the <b>impact of pandemic-era product shortages, logistics, and supply chain disruptions</b> . The enduring effects of these cumulative issues have negatively impacted operating efficiency.
PARTS iD Inc.	12/26/23	50-100	Automotive retail	Like others in the automotive parts industry, the Debtors were <b>negatively impacted by the global supply chain challenges</b> that arose during the COVID-19 pandemic, which have not fully subsided. Recent economic conditions have caused fluctuations in business and consumer confidence, which has impacted spending on automotive parts and accessories. These economic conditions include <b>supply chain challenges</b> , an inflationary environment, overall economic uncertainty and the potential for economic slowdown or recession, which have impacted consumer confidence and spending.
Mercon Coffee Corp.	12/06/23	100-500	Food distributor	Labor shortages and <b>supply chain disruptions</b> caused by the COVID-19 pandemic resulted in highly volatile coffee prices, <b>high transportation costs, logistical bottlenecks, and a detrimental delay or postponement of coffee orders</b> .
The Rockport Co. LLC	06/14/23	194.18	Footwear	In late Spring 2022, Rockport significantly increased its inventory purchases for Fall/Winter 2022 in anticipation of a "back-to-work" increase in sales. Unfortunately, that sales bump never materialized. Instead, in response to inflationary pressures and weakening economic conditions, the Debtors' wholesale customers and distributors cancelled or materially cut back on orders, leaving Rockport holding significant excess inventory. <b>This, combined with supply chain challenges and higher interest rates</b> , has made it increasingly difficult for the Debtors to service their funded debt obligations and satisfy trade payables in a sustainable manner.
Serta Simmons Bedding LLC	01/23/23 (emerged 06/29/23)	1,931.12	Home furnishings	SSB, which has been executing on its strategic initiatives over the past 18 months, is advancing its turnaround across the following pillars: Operating a <b>High-Performing Supply Chain</b> – The investments SSB continues to make in its supply chain are enabling the company to efficiently deliver quality products and excellent service levels to retail partners and sleepers. <b>Supply chain enhancements</b> include the implementation of new processes and technology as well as the optimization and upgrading of its manufacturing network.

Data as of March 18, 2024.

Selection of companies that cited supply chain issues in their bankruptcy announcements.

Source: S&P Global Market Intelligence

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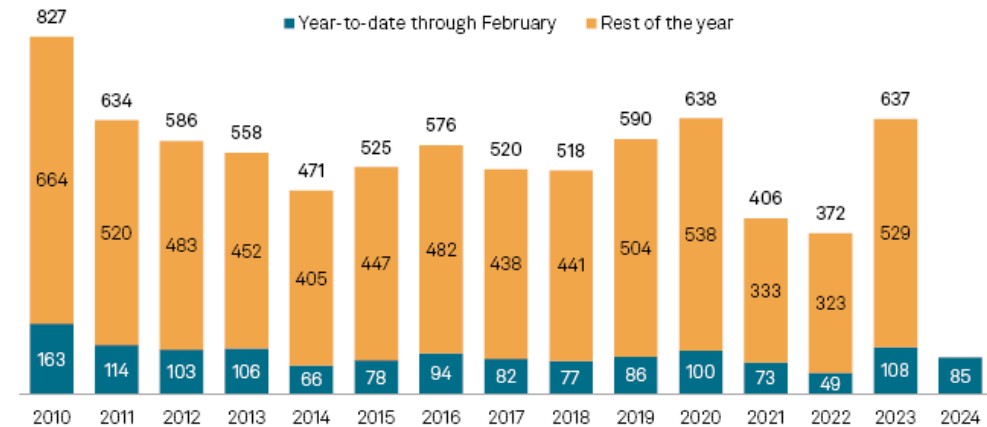
### Ripple effects

Supply chain effects take time to show up on balance sheets and many companies have tried to use the legal system to resolve debt issues years after the pandemic-era supply shocks. The bullwhip effect, which describes small fluctuations in demand at the consumer level causing larger demand swings upstream in the supply chain, is one of the reasons for the trend, said Leuschner. Some businesses were also caught out while expanding and ended up with excess capacity

after demand normalized as the pandemic receded.

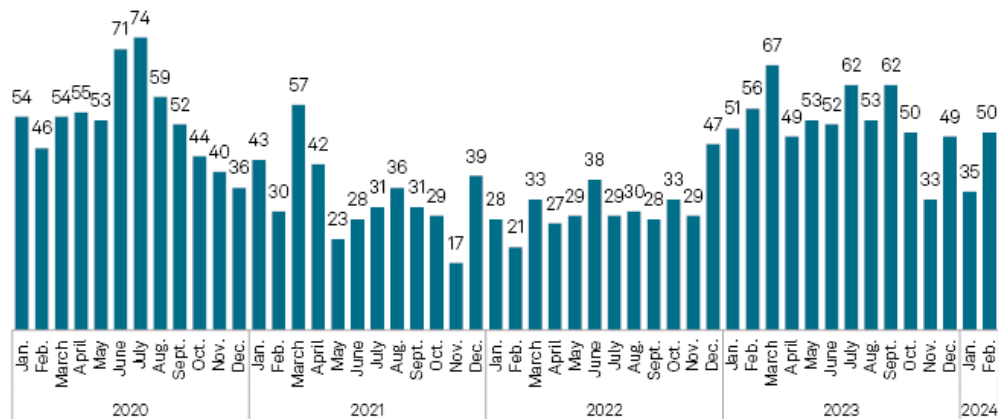
"There's a ripple effect that occurs, which takes a while to reverberate throughout the economy," said Joseph Acosta, a partner at Dorsey & Whitney LLP, who focuses on bankruptcies and corporate restructuring.

### US bankruptcy filings by year



Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2010, and Feb. 29, 2024.

### US bankruptcy filings by month



Data compiled March 1, 2024.

Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2020, and Feb. 29, 2024.

S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$2 million, or private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$10 million. Involuntary bankruptcy filings are also included.

Source: S&P Global Market Intelligence.

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Longer payment terms are also contributing to a difficult operating environment for many businesses. With suppliers receiving payments later and later, cash flow disruptions can quickly surface and become existential problems, especially for smaller suppliers of larger companies.

Combined with elevated borrowing costs, maturing debt issues and a tight labor market, companies hit by supply chain disruptions may see restructuring as their only good option.

"A disruption that lasts a couple of weeks is unlikely to be a huge source of bankruptcies by itself," said Leuschner. "But all of these factors taken together could push it over the edge."

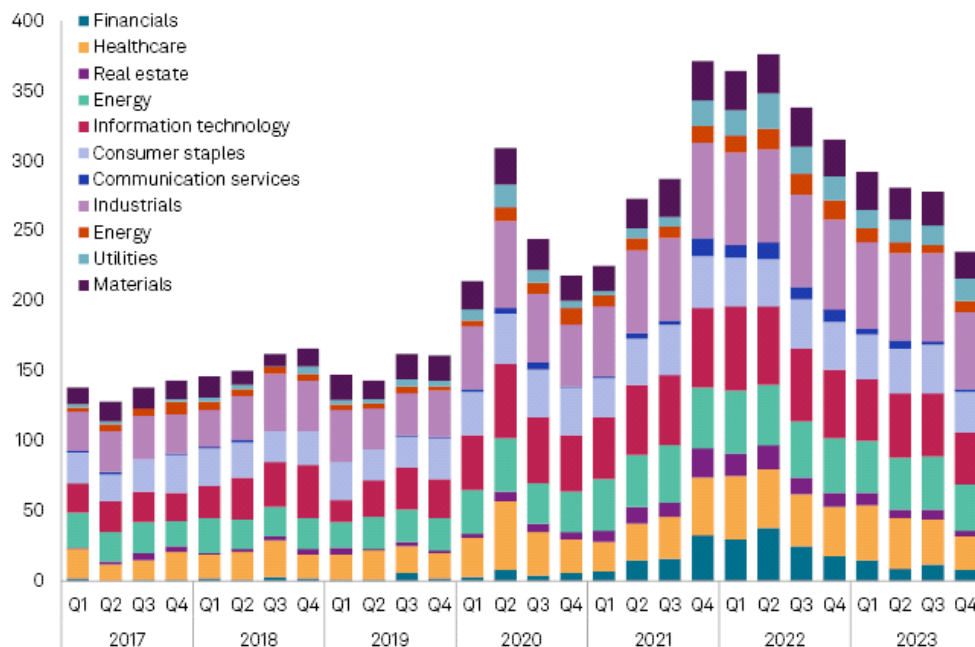
### Changing trends

One tool increasingly used in restructuring proceedings is the debt-for-equity swap, which allows lenders to relieve a company's debt burden in exchange for equity.

Recent examples of such arrangements include healthcare company [Cano Health Inc.](#), which sought bankruptcy protection Feb. 4 with an agreement to convert close to \$1 billion in secured debt into a combination of new debt and complete equity ownership, and entertainment company [Audacy Inc.](#), which announced plans to equitize 80% of its debt through a deleveraging transaction with its debtholders.

"The lenders are willing to accept ownership in the company, which is a huge benefit to the company itself because they come out of bankruptcy with less debt," Acosta said. "It's also an investment for the lenders. They can turn around and sell it in the future, which many do, and realize a profit on their original loan."

### Among S&P 500, industrials companies most concerned about supply chains



Data as of March 18, 2024.  
 Distinct companies mentioning "supply chain" in earnings calls, by quarter and industry.  
 Source: S&P Global Market Intelligence.  
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In the aftermath of the supply chain crisis, many companies are increasingly rethinking and investing in their supply chains to safeguard against potential future risk events. [Target Corp.](#), for instance, has been transforming its supply chain through automation and artificial intelligence and machine learning to improve demand forecasting and inventory positioning.

"Without huge investments in stores, supply chain and tech, there is no drive-up or order pickup, which were monumental growth drivers during COVID and today," CFO Michael Fiddelke said during a Mar. 5 earnings call.

#### Pace of filings to persist

Absent significant changes to wage growth and inflation that could accelerate the [Fed's rate cut timeline](#), the pace of US corporate bankruptcies is unlikely to slow significantly before the end of the year, with disrupted supply chains remaining a key risk factor.

Mentions of supply chains in the Fed's Beige Book, a summary of commentary on economic conditions throughout the US, have gradually retreated amid normalizing conditions. Supply bottlenecks were mentioned just once in its March 6 edition, compared to 11 mentions a year earlier.

Still, higher interest rates will continue to magnify the effects of existing supply chain issues for some companies as they navigate new geopolitical, financial and operational hurdles.

"Some companies have been able to refinance or stretch their finances out for a while, but that's getting harder and harder to do," said Jay Westbrook, a professor specializing in bankruptcies at the University of Texas School of Law. "If the rates don't come down pretty soon, I think we're going to see many more bankruptcies."

*Umer Khan contributed to this article.*

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