THE IFT Quarterly Snapshot: Company Turnaround in the UK

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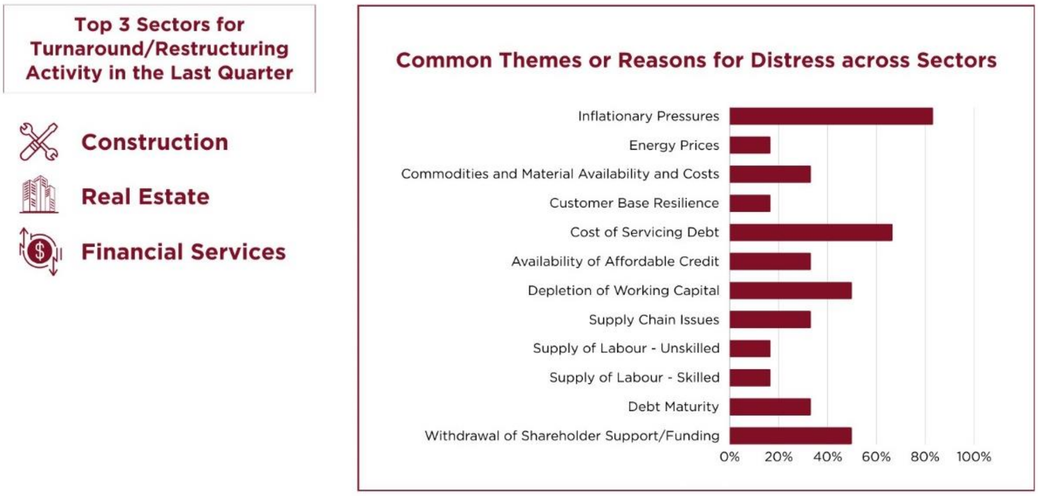
This new quarterly update from The Institute for Turnaround provides a regular snapshot of activity in the turnaround and restructuring sector, including which sectors are experiencing higher levels of stress and key drivers of financial distress. The update draws on analysis of company data provided by FRP Advisory, publicly available data and insights from a survey of key IFT partners.

This first update covers Quarter 4 of 2023 and the updates will be released on a quarterly basis to give a sense of trends and developments seen in the sector.

Headline summary

The overall picture shows increasing insolvencies amongst UK businesses, but also that companies are proactively seeking support from turnaround professionals to avoid unnecessary insolvencies. The majority of turnaround advisory firms surveyed reported seeing an increase in activity, with inflationary and credit pressures in particular driving corporate stress. The sectors with the highest numbers of companies seeking turnaround support were construction, real estate, and financial services companies.



Source: IFT survey of advisory firms, more than one reason could be selected for distress.

Context

IFT turnaround experts are active in assisting stressed and distressed business to avoid unnecessary insolvency. Insolvency data demonstrates the extent and location of the most severe business distress in the UK.

The quarterly statistics from the Insolvency Service show 6,788 (seasonally adjusted) registered company insolvencies in Q4 2023, 9% higher than the previous quarter and 14% higher than Q4 2022. There were the highest quarterly total insolvencies since Q4 2008.

Annually, the insolvency rate increased from 49.6 failures per 10,000 in 2022 to 53.7 in 2023, though this remains approximately half the rate seen following the financial crisis in 2008-2009 and concentrated amongst smaller companies.[1]

Where is distress focused?

[1] Deloitte Monday Briefing, 5 February 2024 and Insolvency Service statistics

Looking at company data in more detail, there were 6516 insolvencies across all regions in Q4 2023, an increase of 0.3% compared to Q4 2022 (6495) insolvencies, but a decline of 2.3% from 6668 in Q3 2023. The region with the highest number of insolvencies for Q4 2023 was Greater London, accounting for 18% of insolvencies, followed by North West England (16%) and South East England (15%). The top three sectors for insolvencies in Q4 2023 were construction, accommodation and food service activities, and retail, as they were for 2023 as a whole.

Against this backdrop, Q4 2023 saw a total of 171, 368 companies in distress. The top three sectors for distressed companies were those in the professional, scientific and technical sector, construction, and retail and repairs sectors.

Top 10 sectors for companies in distress - Q4 2023

Industry	Companies in distress
Professional, scientific and technical activities	23972
Construction	23883
Retail and repairs	20455
Administrative and support service activities	19277
Information and communication	17353
Manufacturing	17029
Real estate activities	15953
Accommodation and food service activities	14611
Wholesale	9805
Financial and insurance activities	9359

Source: FRP Advisory analysis

Demand for turnaround expertise

83% of The IFT's partner firms surveyed had seen an increase in turnaround/restructuring activity in the previous quarter, with the remaining 17% seeing about the same level of activity. The three sectors in which turnaround activity was highest were construction, financial services and real estate, closely followed by the automotive and charity sectors.

The main driver of distress across the different sectors according to IFT partners surveyed was inflationary pressures, with 83% of firms citing this as a reason for corporate distress. This was followed closely by the cost of servicing debt (in itself linked to inflation and subsequent higher interest rates), cited by 67% of those surveyed as a common reason for distress. Other substantial factors cited by partner firms included the depletion of working capital, withdrawal of shareholder support/funding, followed by associated issues of commodities and material availability and costs, supply chain issues, availability of affordable credit, and debt maturity.

Based on a sample of the firms active in turnaround in the UK, The IFT's survey highlights some of the key issues facing UK businesses, with a number of factors based around businesses' access to funding and the ability to service debt. Looking forward into 2024, the position of interest rates and funding options will be crucial to enable some businesses to build a sustainable position.