

## The IFT Quarterly Snapshot: Company Turnaround in the UK

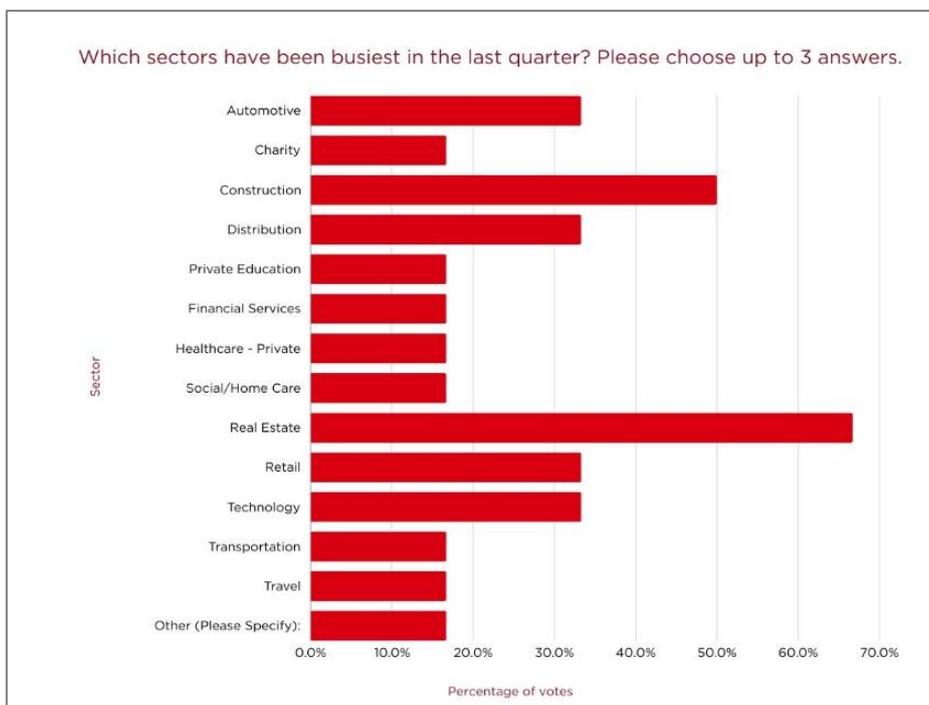
Published May 2024, covering Q1 2024

This is the second quarterly update from The Institute for Turnaround, which looks at activity in the turnaround and restructuring sector, as well as levels of business distress and key business pressures. The update includes an analysis of company data provided by FRP Advisory<sup>1</sup> and information from a survey of IFT partners.

### Headline summary

Q1 2024 saw continued demand for turnaround and restructuring expertise, with IFT partner firms surveyed reporting either an increase in turnaround and restructuring activity or about the same level of activity. None had seen a decrease in activity. This followed Q4 2023 in which 83% of firms surveyed had reported an increase in activity.

The sectors with the most turnaround and restructuring activity in Q1 2024 according to IFT partners were real estate and construction. The high level of support sought by [construction businesses](#) highlights that this sector in particular is illustrative of a number of the pressures facing the economy in terms of labour and materials cost increases, supply chain pressures and tight margins. It also represents one of the sectors where difficulties (and insolvencies) can have the widest knock-on effects on the wider economy – in terms of regional spread, jobs, effect on other sectors and ability to deliver for wider economic and social goals such as housing demand.



<sup>1</sup> Quarterly figures are provisional and are likely to be subject to revision in later quarters.

## Context

Data from FRP Advisory indicates a fall in the number of insolvencies in Q1 2024 but increasing numbers of businesses in financial distress.

There were 6014 insolvencies across all regions in Q1 2024, compared to 6791 in Q4 2023, a decrease of 11.4%. This also represents a decrease of 6.1% year-on-year from Q1 2023 (6408). In contrast however, FRP data shows 174,977 companies in distress in Q1 2024, compared to 171,368 in Q4 2023, representing a 2.1% increase compared to the previous quarter. These are the companies that should be seeking support to maximise improvement.

Data from the Insolvency Service for March 2024 also saw a reduction in the number of insolvencies compared to the previous month and March 2023, though remaining at higher levels than during Covid-19 and the period 2014-2019.<sup>2</sup>

**Top 10 Sectors for Companies in Distress - Q1 2024**

Industry	Companies in Distress
Professional, Scientific and Technical Activities	23,316
Construction	23,216
Retail and Repairs	20,203
Administrative and Support Service Activities	19,149
Real Estate Activities	16,561
Manufacturing	16,175
Information and Communication	15,785
Accommodation and Food Service Activities	15,085
Other Service Activities	9,436
Wholesale	9,422

Source: FRP Advisory analysis

## Where is distress focused?

The three sectors with the highest levels of insolvencies in Q1 2024 were construction, accommodation and food service activities, and administrative and support service activities (which includes business support, human resources, recruitment and cleaning services)<sup>3</sup>. The regions seeing the highest numbers of insolvencies for this quarter were Greater London, North West and South East England.

The top three sectors with companies experiencing financial distress in Q1 2024 were the professional, scientific and technical (which includes businesses involved in law, consultancy, architecture, engineering, research and veterinary activities), construction, and retail and repairs sectors.

<sup>2</sup> [Commentary - Company Insolvency Statistics March 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/commentary-company-insolvency-statistics-march-2024)

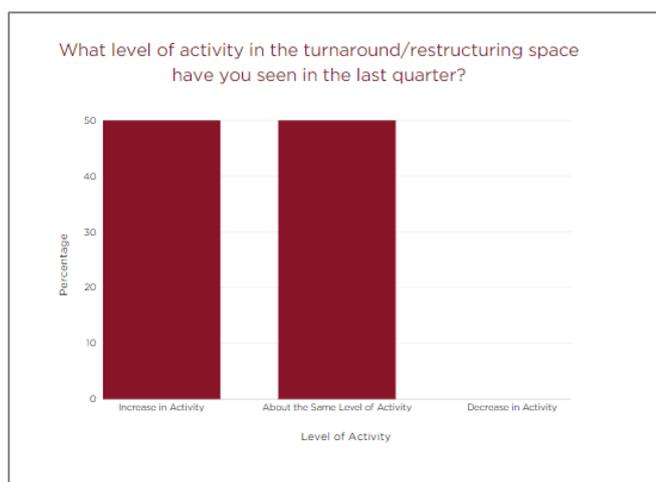
<sup>3</sup> [Nature of business: Standard Industrial Classification \(SIC\) codes \(companieshouse.gov.uk\)](https://companieshouse.gov.uk/nature-of-business-standard-industrial-classification-sic-codes)

The top three sectors showing distress were the same as in Q4 2023 but looking at the top ten sectors in comparison to Q4 2023, the real estate sector saw an increase in distress. Regionally, the highest numbers of distressed companies were in South East England, followed by Greater London and the North West.

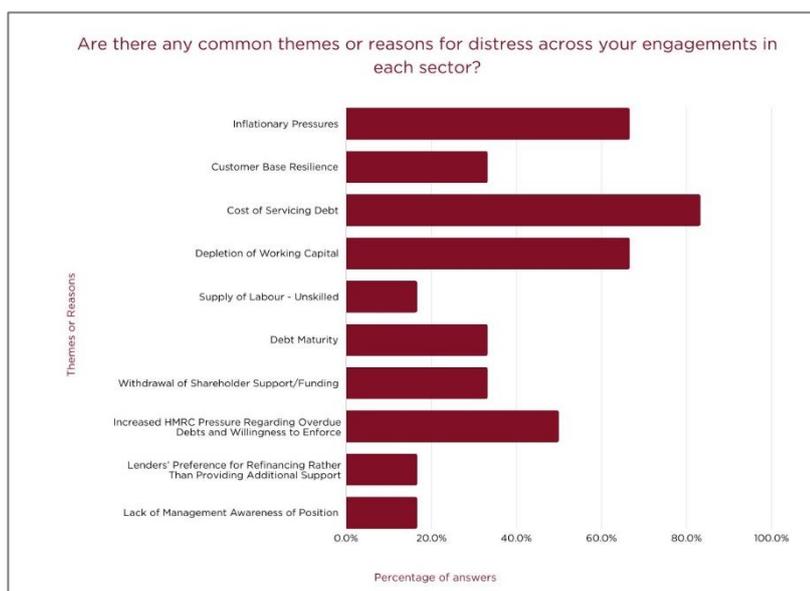
### Demand for turnaround expertise

50% of The IFT's partner firms surveyed had seen an increase in turnaround/restructuring activity in the previous quarter, with the other 50% seeing about the same level of activity. This follows the previous quarter in which 83% of firms surveyed had seen an increase in activity, suggesting continued intensity of turnaround demand. The top two sectors that were busiest in terms of turnaround activity for Q1 2024 were real estate and construction.

The main drivers of distress across the different sectors according to IFT partners surveyed saw the **cost of servicing debt** as the most common reason for distress, followed by **inflationary pressures** and **depletion of working capital**. Half of IFT partners responding to the survey also referenced businesses experiencing increased HMRC pressure and willingness to enforce in relation to overdue debts as a factor.



In the previous quarter, the top driver of distress was inflationary pressure, followed by the cost of servicing debt, thus indicating some relief as inflation has fallen, but in general demonstrating the continuation of long-standing pressures.



Overall, whilst the first quarter of 2024 saw a fall in insolvencies from the peaks of 2023, the increase in the number of companies in distress and which are struggling with the costs of servicing debt reflects the continued macroeconomic pressures facing the economy. This includes interest rates looking as if they will fall slower than anticipated this year, with some businesses reaching the limits of their resilience and having constrained capacity to absorb further economic shocks following a number of challenging years. Fluctuating economic conditions and uncertainty mean figures from an individual quarter can be volatile and will be placed in the context of longer-term trends as we move further into 2024.

