The IFT Quarterly Snapshot: Company Turnaround in the UK

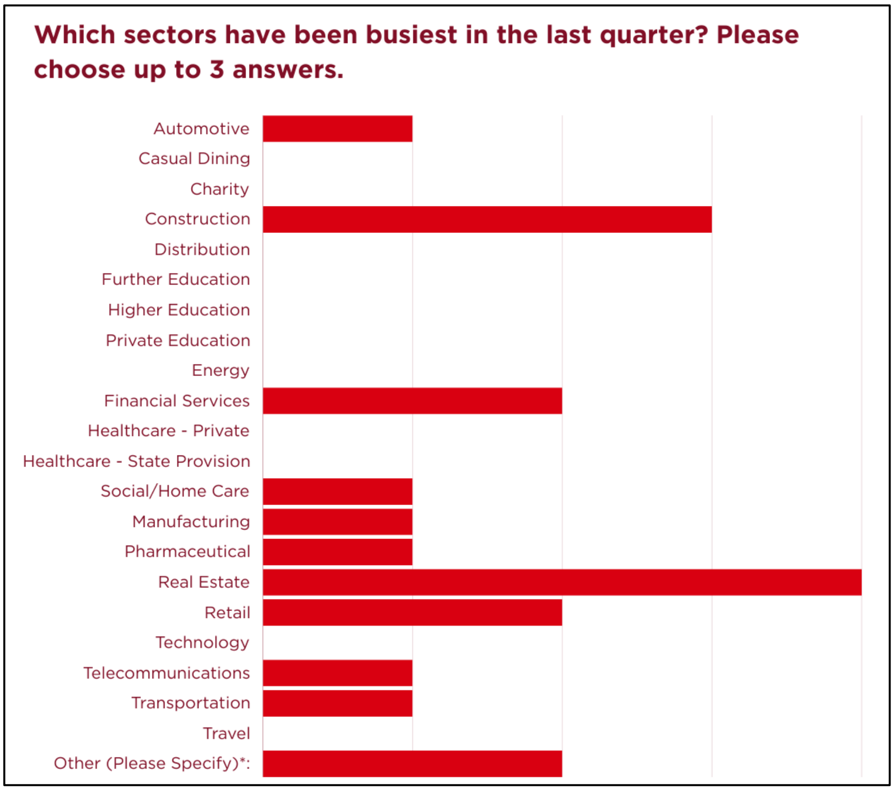
Published August 2024, covering Q2 2024

This quarterly update from The Institute for Turnaround covers 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[1] and information from a survey of IFT partners.

Headline summary

Q2 2024 saw a continuation of some of the trends from Q1 2024, with a picture of steadily increasing activity. Again, a roughly equal proportion of IFT partners surveyed saw either an increase in turnaround and restructuring activity, or about the same level of activity, and none saw a decrease in activity.

As in Q1, real estate and construction were the busiest sectors for turnaround and restructuring activity, according to IFT partners, followed by retail and financial services. The most common factor driving business distress - cited by all survey respondents - was the depletion of working capital.



[1] Quarterly figures are provisional and are likely to be subject to revision in later quarters.

Context

According to data from FRP Advisory, there were 5967 insolvencies across all UK regions in Q2 2024, compared to 6776 in Q1 2024, representing a decrease of 12%.

Nevertheless, FRP data showed 175,998 businesses in distress in Q2 2024, a slight increase (0.6%) from the Q1 2024 total of 174,977.

Insolvency Service statistics for June 2024 highlight that the number of company insolvencies for June 2024 was 17% higher than in June 2023, and 16% higher than May 2024.[2]

Where is distress focused?

For insolvencies, the sector seeing the highest number of insolvencies for Q2 2024 was construction, as it had been for Q1 2024. This was followed by the accommodation and food service activities and administrative and support service activities sectors.

The three sectors with the highest number of businesses experiencing financial distress were the professional, scientific and technical activities[3], construction and retail and repairs sectors.

Top 10 Sectors for Companies in Distress – Q2 2024

Professional, scientific and technical activities	23,473
Construction	23,470
Retail and repairs	20,420
Administrative and Support Service Activities	19,133
Real Estate Activities	17,236
Information and Communication	15,954
Manufacturing	15,817
Accommodation and food service activities	15,395
Other Service Activities	9,430
Wholesale	9,357

Source: FRP Advisory analysis

Demand for turnaround expertise

As in Q1 2024, for Q2 50% of IFT partner firms surveyed saw an increase in turnaround/restructuring activity, with the remaining 50% about the same level of activity. Activity so far in 2024 therefore seems to have settled slightly compared to the end of 2023 (where 83% of firms surveyed had seen an increase in activity), but demand for turnaround

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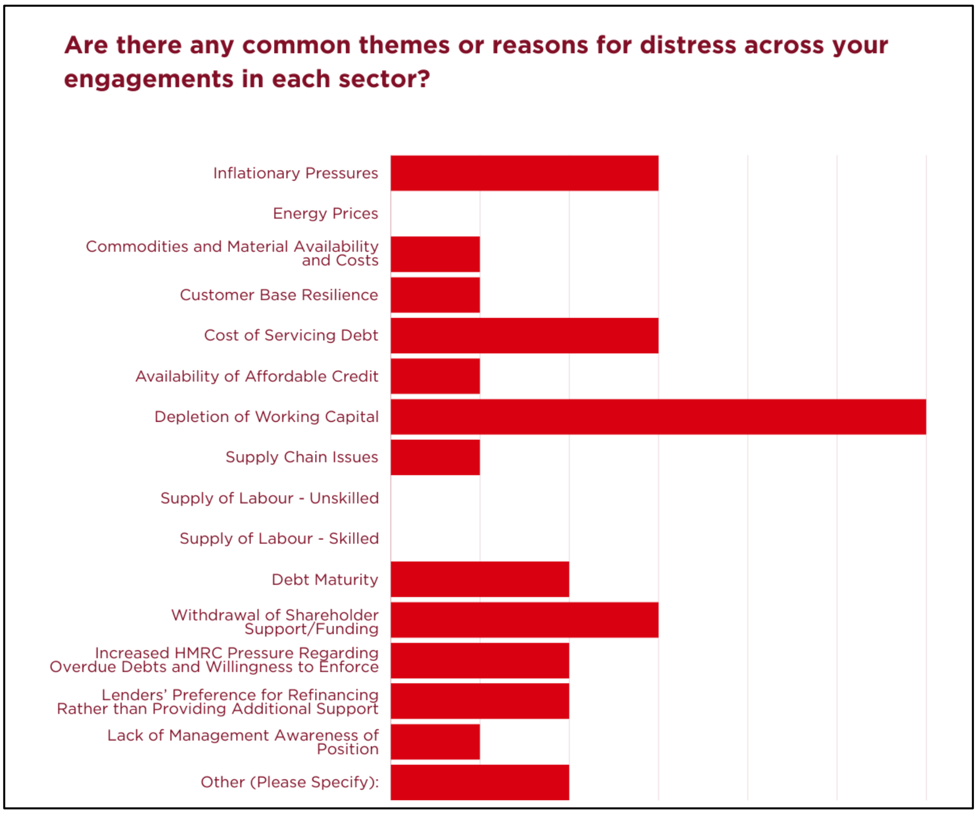
[2] Commentary – Company Insolvency Statistics June 2024 - GOV.UK (www.gov.uk)

[3] Including businesses involved in law, consultancy, architecture, engineering, research and veterinary activities.

support remains at a high level. Again, demand for turnaround support in Q2, as in Q1, was highest for the construction and real estate sectors.

The key factor underpinning business distress for Q2 according to IFT partner firms was the depletion of working capital, cited by all firms responding to the survey. The impact of inflationary pressures and the cost of servicing debt remained substantial (cited by 50% of survey respondents). Alongside these, the withdrawal of shareholder support/funding was also referenced by 50% as impacting businesses in the last quarter. This indicates that businesses in distress may be finding it increasingly difficult to access required capital and are perhaps reaching the limits of support from existing sources such as shareholders.



In conclusion, despite some more positive macroeconomic indicators, including provisional UK GDP growth of 0.6% for Q2 2024, and the first interest rate cut since the start of the Covid-19 pandemic in 2020, we can see continued substantial levels of both insolvency and distress. In addition, looking at data between quarters, we can clearly see the concentration of distress in particular sectors, some of which are expected to benefit from changes to government policy, for instance in terms of national planning policy, but which in the meantime continue to struggle in the face of high costs and access to capital.