

The IFT Quarterly Snapshot: Company Turnaround in the UK

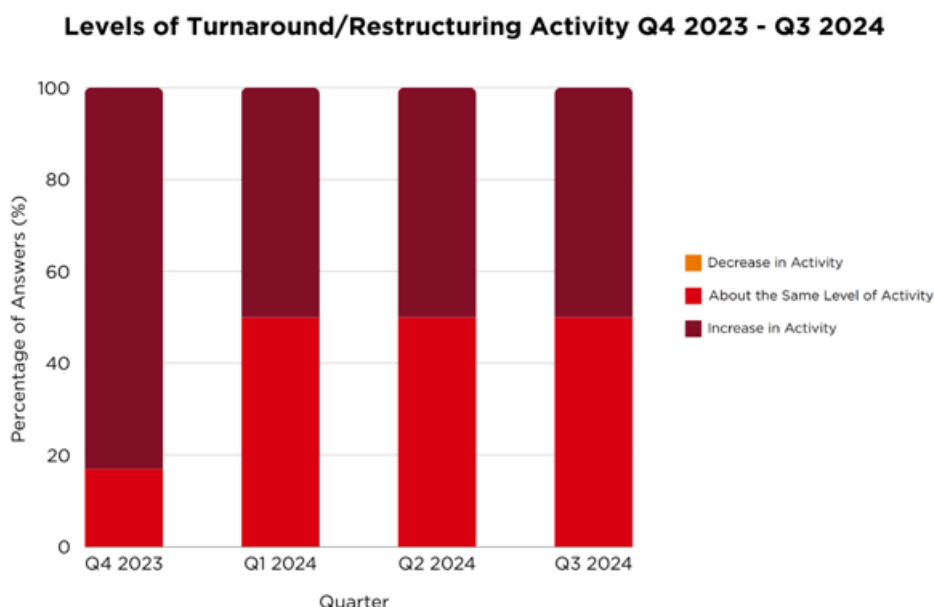
Published November 2024, covering Q3 2024

This regular 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 Advisory¹ and information from a survey of IFT partners.

This marks the fourth quarterly update from The IFT - covering a full year - and so this edition includes analysis of trends in turnaround, restructuring and company distress over the past year, according to the survey and wider data.

Headline summary

We can see a continued steady increase in demand for turnaround and restructuring activity so far in 2024, with again in Q3 half of IFT partners seeing an increase in turnaround and restructuring activity - with the other half about the same level of activity, and none seeing a decrease in activity. Looking at the trend over the last four quarters, we can see a less sharp increase in activity compared to a spike in Q4 2023 but, overall, a trend of increasing restructuring and turnaround support as businesses continue to face ongoing pressures and uncertainty.



Q3 2024 did see some alteration in terms of the busiest sectors for turnaround and restructuring activity, according to IFT partners. Whilst construction remained the busiest sector, the next busiest sector in Q3 was financial services. There were also high levels of demand in the automotive, real estate and technology sectors in this last quarter. The most

¹ Quarterly figures are provisional and are likely to be subject to revision in later quarters. Differences in classifications and methodological approaches mean figures may differ compared to other organisations.

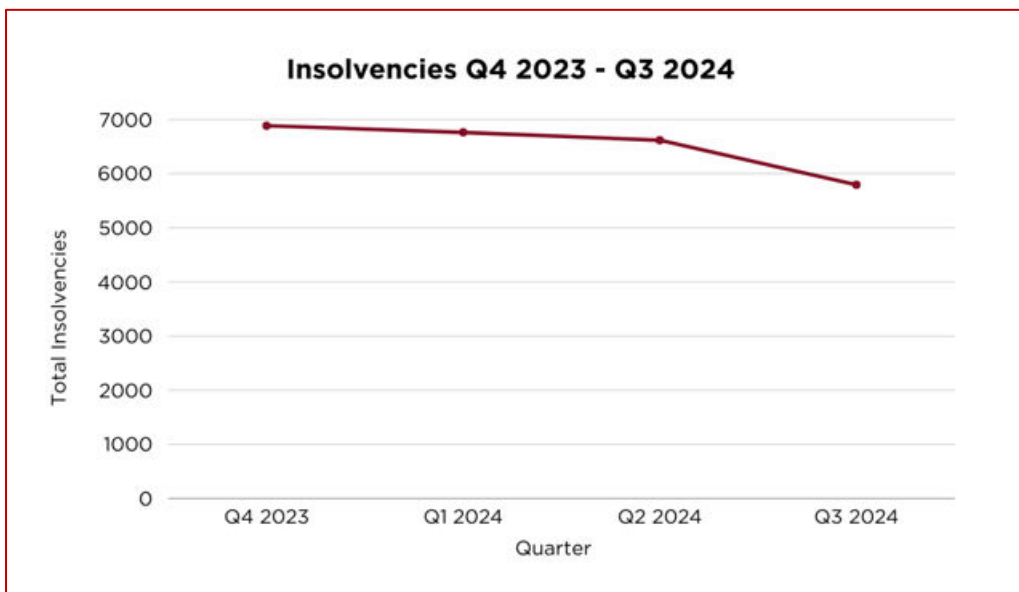
common factor driving business distress in Q3 remained the depletion of working capital, followed by the cost of servicing debt and inflationary pressures.

Busiest Sectors for Turnaround and Restructuring Activity (Survey Data)

Q4 2023	Joint: Construction/Real Estate/Financial Services
Q1 2024	Real Estate
Q2 2024	Real Estate
Q3 2024	Construction

Context

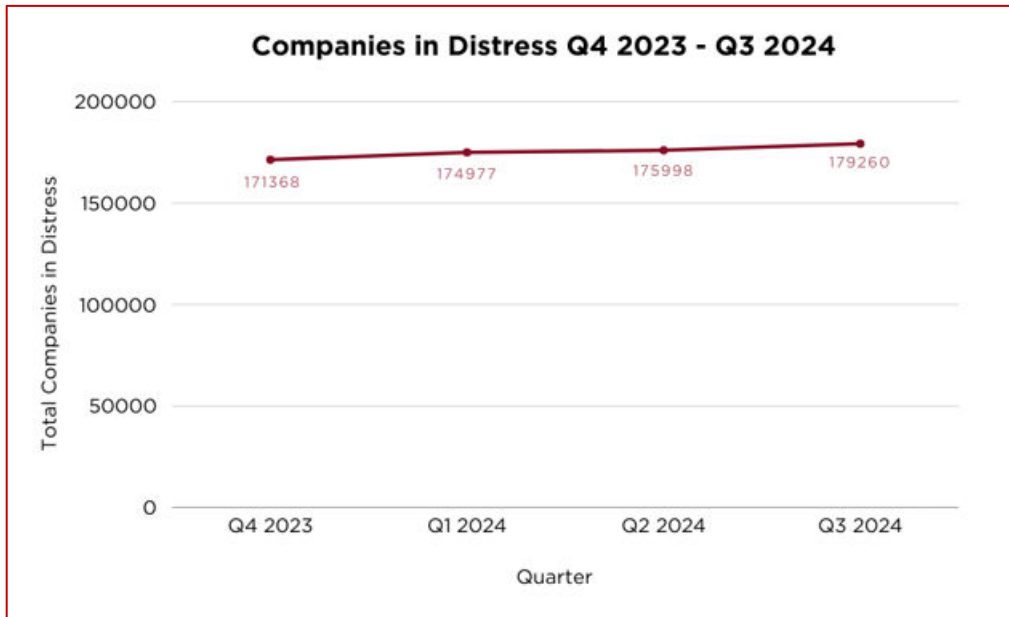
Figures on company distress and insolvency from FRP Advisory continue to show a declining trend in insolvency figures across the last year, with 5794 insolvencies across all UK regions in Q3 2024, continuing a declining trend of insolvencies over the past year according to FRP data.



The most recent seasonally adjusted Insolvency Service statistics showed 1,973 company insolvencies in September 2024² (in the October release updated to 1,950 insolvencies³), which was 2% higher than August 2024 but 7% lower than the same month in 2023. Therefore, we can overall see indications of a declining trend in insolvencies in 2024 compared to 2023, though these remain at historically high levels.

Nevertheless, FRP data showed 179,260 businesses in distress in Q3 2024, an increase of 1.9% from the 175,998 businesses in distress in Q2 2024, which itself had been an increase on the Q1 total.

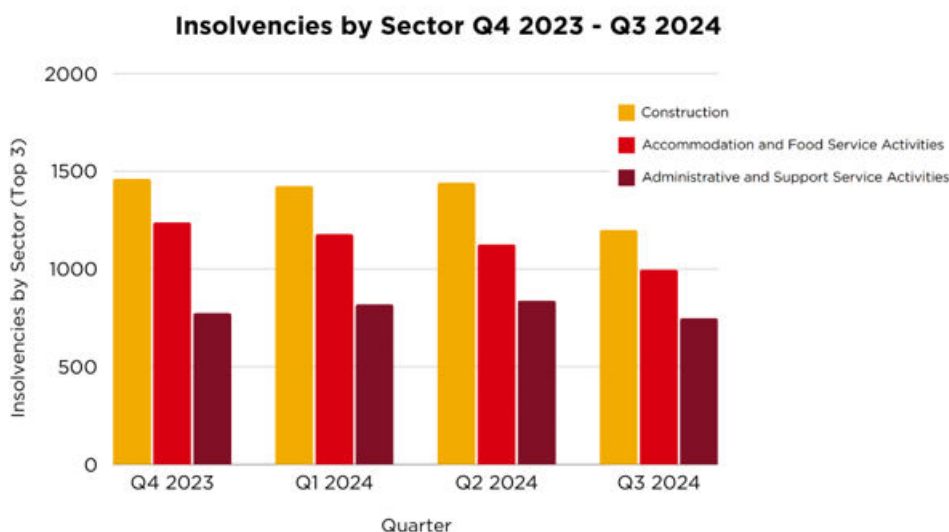
² <https://www.gov.uk/government/statistics/company-insolvency-statistics-september-2024/commentary-company-insolvency-statistics-september-2024>



This data indicates that increasing numbers of businesses which are viable and previously may have had few issues may be experiencing difficulties, even whilst in the past year there are fewer reaching the point of insolvency as some of the pressures of inflation have started to ease and interest rates have started to come down. This suggests that there is an opportunity for these companies to act early and take advantage of turnaround support to avoid reaching insolvency.

Where is distress focused?

Business distress remains clearly concentrated in a number of sectors. The three sectors seeing the highest number of insolvencies across the last four quarters have consistently been construction, accommodation and food service activities, and administrative and support service activities.



The three sectors with the highest number of businesses experiencing financial distress in Q3 2024 were the construction, professional, scientific and technical activities,⁴ and retail and repairs sectors. These have also consistently represented the three most distressed sectors across the last four quarters.

Regionally, Greater London, North West England and South East England have consistently had the highest numbers of insolvencies across the four quarters. This tends to reflect the higher number of businesses concentrated in London and the South East, though the North West overtook Greater London to see the highest number of insolvencies (1041) in Q3 (compared to 943 for Greater London). In terms of distress, South East England has consistently had the highest number of distressed businesses, followed by Greater London and North West.

Demand for turnaround expertise

There remains considerable and steadily increasing demand for turnaround support, with similar levels of IFT partner firms continuing to see either an increase in turnaround/restructuring activity, or about the same level of activity.

For Q3, again the depletion of working capital was the factor highlighted by the most IFT partners as a common theme for businesses in difficulties, followed by the cost of servicing debt and then inflationary pressures. The recent jump in UK inflation indicates that this will continue as a pressure, perhaps to a greater degree than envisaged in recent months. Across the previous four quarters these have consistently been among the top pressures on businesses, as well as withdrawal of shareholder funding/support.

Overall, the past year has shown UK businesses to some degree in a holding pattern given UK political and geopolitical uncertainty: improvements in inflation figures and interest rate cuts across the past year may have meant many have been able to continue during this period despite challenges. Looking towards the end of the year and into 2025, an increasing number of businesses may require turnaround or restructuring support, both to managing ongoing pressures and navigate the number and variety of recent policy and regulatory changes announced.

⁴ Including businesses involved in law, consultancy, architecture, engineering, research and veterinary activities.