Planning for a brighter future

Societal Impact Report 2024

Adapt. Transform. Succeed.

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Adapt. Transform. Succeed.

Foreword

The Institute for Turnaround's fifth Societal Impact Report covering the period 2023-24 comes at a time when some economic indicators show positive changes, with inflation reduced and a (albeit moderate) return to growth across the economy as a whole. Nevertheless, when it comes to the UK's real economy, the reality is that the economic pressures and external shocks of recent years are still being felt by UK businesses, and these have not affected all sectors or companies equally.

In fact, the enduring consequences of the Covid-era, such as changes in consumer behaviour, inflation and high interest rates have harmed primarily domestic businesses with physical presences or products, while benefitting foreign technology companies with whom UK companies both compete and also increasingly rely on for the delivery of their own services.

In this year's report we highlight that most physical of industries - construction, where even well-performing companies are feeling the pressure of rising costs and labour constraint, and also those segments of the consumer sector that rely most on physical contact - namely hotels and restaurants.

In any free-market, there will be winners and losers, but in modern economies, the picture is more complex. For one thing, many companies are beholden to the structure and practices of their sector's ecosystem, and these may not be optimised for very difficult trading conditions.

For another, such is the rate of change in society that those with the least long-term exposure to it (Software as a Service companies for instance) can disrupt entire sectors in a way that nullifies the sector's long-term viability - a stroll down any UK high street will confirm this.

As a result, the ability to rapidly adapt to a changing environment has become essential to even modestly sized companies. In periods of wider economic stress, this need to adapt becomes more obvious; even then, far too many companies wait until it's too late before they seek support. But there are also many positive success stories, where companies have acted early, including to utilise tools like Restructuring Plans - and we highlight several examples of this.

The IFT's members are on the ground across the UK, rescuing jobs and helping companies fight fires, survive, pivot and ultimately thrive. The success rate of our members in doing just this is remarkable, as our survey results show. But even these fantastic numbers don't quite do justice to the value of saving a company, with all its history, culture, stored knowledge, shared experiences - not to mention the disruption to people's lives and emotional toll that company failure brings.

We are very proud of the work that The IFT's members continue to do across our country and will continue to champion their vital contribution to the economy and to society.

Claire Burden
Chair of the IFT

State of the Market: company turnarounds in 2024

The average company, like the average person, doesn't exist. The UK economy may grow by 1% in 2024 and avoid recession. But for companies out there in the real world, operating across sectors that are asymmetrically impacted by factors outside of their control – from extraordinarily high energy prices in the UK, through to disrupted supply-chains, wage inflation and funding constraint – the UK's business environment in 2024 going into 2025 continues to be challenging.

Our members, who operate in the real economy, rescuing, supporting and returning companies to growth, are seeing this play out. Insolvencies remain high and nearly half (46%) our members predict increasing company failures as a result of the current operating environment.

While macro-indicators provide a wider context of some improvement, the facts on the ground continue to provide strain for company owners and directors. Our members are seeing companies that are spending more on debt servicing, whilst renegotiating their tax liability payments, and dealing with a whole raft of sector-specific and macro-economic exogenous factors.

The most important step in fixing a problem is to work out what you can control - or, at least, influence. Even in the face of the cumulative external factors facing UK businesses, there are many things that can be addressed by leadership teams... with one rider: they must act early enough.

This is easier said than done of course. The last people to realise it's too late are often those in the eye of the storm.

That's why getting independent guidance is so important. There will undoubtedly be many great British success stories over the coming years, but there will also be entirely avoidable company failures that are the results of circumstance, and the failure to act early.

The construction sector which we cover in more depth in this report, is more exposed to changing economic circumstances than most, given the prevalence of fixed-price contracts, and looks particularly vulnerable. Even companies selling to the government are coming under pressure, since those contracts also tend to be rigid, making it difficult for contractors to pass on rising costs.

At the same time, access to funding is becoming scarcer and more expensive. Many of these companies are technically insolvent, limiting their access to affordable financing.

Meanwhile retailers are dealing with cashflow and margin pressures of their own. Again, there will be bar-bell of outcomes, but those that fold will be in difficult sectors and fail to act early enough. In this report we also take a close look at consumer sub-sectors, as examples of industries that are under huge pressure but where some are still managing to find opportunity and growth.

A change of mindset

In the face of so many exogenous and asymmetric threats, the pressures for many such companies can seem overwhelming. But with the application of some simple good practices, many corporate failures can be avoided – particularly when they are the result not of fundamental market proposition, but a fragility in the face of temporary pressures and a failure to respond flexibly to shifting habits.

This is where turnaround professionals come in. The value that such support can provide is huge, as demonstrated by the figures outlined in this report. However, too few companies reach out for support in time. One reason is simply a lack of knowledge of these services, but also a failure to recognise the importance of acting early. There is also an important psychological element, whereby business owners do not want to acknowledge their difficulties to third parties or themselves until it's too late. This is a cultural phenomenon in the UK business world, and one that must be addressed if we are to ensure companies have the resilience to withstand the significant volatility of macroeconomic and national conditions.

Milly Camley
CEO of the IFT

Milly Camley

Executive Summary 2024

There is no imminent end in sight for growing corporate distress in the UK, as business leaders navigate higher funding costs, political change and capital constraint. While levels of insolvencies in the UK have fallen from the peaks of 2023, they remain at high levels, and there is continued growth in the number of companies experiencing distress.

Falling levels of inflation and the beginnings of downward trends in interest rates are of course welcome news for UK businesses, as well as the UK economy returning to growth. But macro-economic indicators can miss the signs of stress that our members are attuned to. "We're definitely seeing more stress," says Jonathan Hughes, Regional Sales Director, Leumi ABL. "For instance, companies are increasingly taking advantage of HMRC's Time-To-Pay arrangements to pay tax liabilities in instalments. These can be quite reasonable deals, but we are starting to see companies then fail to meet these negotiated obligations."

A large number of businesses continue to struggle with servicing high levels of debt, depletion of working capital and accessing further funding.

Often these are viable and productive businesses which have shown great resilience over the last few years but may be reaching the limits of such resilience. These are the very businesses that could benefit from the UK's breadth and depth of turnaround support and expertise, but the reality continues to be that many do not take advantage of such support or may seek support simply too late.

56k

estimated jobs saved in 2023-24

Independent IFT members have rescued an estimated 56,000 jobs in the past year, marginally up on last year.

£3.1

billion of added shareholder value in 2024

There was a continued increase in shareholder value added, with independent IFT members helping UK companies increase shareholder value by an estimated £3.1 billion in 2024.

Over 80%

of IFT independent members were as busy or busier in 2024 as 2023

The past year has shown continued high demand for turnaround support, with over 80% of IFT members reporting that this period was either busier or about the same as the same period in 2023. Almost four-fifths (78%) also expect to see more turnaround activity in the next 12 months.

81%

cite ongoing reluctance to seek early advice and support

The top reason cited by IFT members as to why businesses in distress do not seek support at an early stage remains cultural/psychological resistance to external advice, with this cited by 81% of IFT members in this year's survey. This was closely followed by a lack of awareness of difficulties (referenced by 62%) and a lack of understanding regarding turnaround (cited by 58%).

254%

increase in turnaround job creation

IFT independent members responding to the survey reported at least 4,912 jobs created at companies rescued over the past year, a 254% increase on 2023 (1,387 + jobs).

Consumer related woes drive 'most distressed' sectors

For the third consecutive year, the biggest sectors for corporate distress are retail, construction, and professional & technical businesses. The top three sectors for both distress and insolvencies remained wholesale, retail and repairs, construction, and professional, scientific and technical activities, with construction seeing the highest number of insolvencies. Manufacturing remains the dominant sector for IFT members, followed by construction. However, the automotive sector has leapt in importance, from 9th place to 3rd place, as regulatory changes put pressure on the sector. Over the next 12 months, IFT members expect retail to rival automotive for the third busiest sector for turnaround activity.

7-17% rise

in distressed companies across all regions of the UK

Company distress continues to grow, with an average nearly 10% increase in the number of distressed companies across UK regions in the last year, and a rise of about 60% since 2017. All areas of the UK saw an increase in the number of distressed companies (ranging from between 7% and 17%).

Companies in the Wales & Borders region have seen the biggest jump in corporate distress, rising 17% year-on-year, followed by the Isle of Man and the South-West of England. London over took the South-East to become the leading region for insolvencies, with 3,295 company insolvencies Q1-Q3 2024.

Understanding and managing cashflow is key

The top specific actions taken by IFT independent professionals in their most recent projects continue to include:

- **Improving governance and controls;**
- **Changing the organisational structure;**
- **Reducing costs.**

Meanwhile, the key actions of IFT turnaround professionals to support businesses in the past year were: cashflow forecasting (73%), and cost reductions (70%). This was however closely followed by supporting boards to create strategic change (69%), as well as transformational change in terms of changing delivery models (63%).

More than 60%

of IFT members have a key focus on business transformation

Similar to last year's report, given the often time-critical situations they will work in, over the past year, the main focus of turnaround professionals has been on short-term survival of companies (74% of respondents). This is however closely followed by business transformation, prompted by the operating environment/ operating conditions (61%).

Management morale and working capital depletion

Over the next six months, the biggest challenges for distressed-but-viable companies according to IFT members will be management/board bandwidth or fatigue (cited by 40%) and depletion of working capital (37%). The third most common challenge for these businesses according to IFT members will be changing their business model to match conditions, implying a high need for ongoing adaptation and transformation in the face of change.

A clear path to economic recovery: will it be delivered?

By **Marcus Wright**, Senior Economist, NatWest Group

The UK economy has largely outperformed expectations so far this year. When 2024 began economic forecasters had pencilled in another challenging year, expecting GDP growth of just 0.4%. In the first six months of the year the economy grew three times that amount.

Some sectors, including ICT, Professional Services and Transportation & Storage have been big drivers of growth, far outpacing the wider economy.

PMI surveys suggest growth has continued to tick along into September. And regionally spread, with almost all regions reporting increased business activity, according to NatWest's UK Regional Growth Tracker.

Households ready. And willing?

Consumers have been saving, incentivised by high interest rates. The household saving is almost twice the level that prevailed pre-Covid.

More broadly, households have weathered high interest rates well, helped by high savings accumulated during Covid and a resilient labour market keeping wage growth elevated. All in all, rainy-day funds have been rebuilt and, in the aggregate, household balance sheets are in good shape.

Wages have been far outpacing inflation for well over a year. That's beginning to give way to a more typical (i.e. lower) pace of real income growth but it's still supportive to household finances.

While the labour market has undoubtedly cooled, consumer demand has held up enough for firms not to have to resort to cutting headcount and redundancies remain low. Forecasters anticipate that will remain the case. And with the potential for the recovering economy to support a stronger pace of job growth in 2025.

All in all consumers are primed to support growth. A modest reduction in savings habits will keep the economy not too hot, but not too cold.

The recovery is already palpable in the housing sales market. Mortgage approvals are close to levels that prevailed pre-Covid, and prices are on the rise again. That shifting dynamic will catalyse support through other sectors, including retail and construction.

Businesses are optimistic over the outlook

Business surveys indicate firms remain relatively upbeat overall. Business investment has been steadily recovering and investment intentions remain solid.

Geopolitics and the potential for an energy price spike have loomed over the outlook of late. Abundant global oil supply is outweighing concerns over interruptions, capping price rises. But that will likely remain in a key source of uncertainty. And there are other geopolitical flashpoints that could quickly appear. Economies and businesses are having to adjust to that being a constant feature of the backdrop.

And we're off!

Risks aside, the worst of inflation is firmly in the rear-view mirror. But we're not out of the woods quite yet. There's work to do to bring services inflation down – it's too high to be consistent with a 2% inflation target. It was the last element to the inflation spike, and it will be the last to leave. Encouragingly, the leading indicators suggest it should continue to steadily retreat in coming months.

And the progress to date has been sufficient to enable central banks to begin cutting rates. The Bank of England reduced Bank Rate by 25bps to 5% in August and both financial markets and forecasters expect more to come. But the cadence will be slow and steady, in all likelihood. Right now, that's the right prescription given residual inflationary pressures. But importantly economies look set to be supported by gradually falling interest rates as we move into 2025.

Globally coordinated rate cutting

And that easing is globally coordinated. The Federal Reserve in the US and the European Central Bank are also in the early stages of what looks set to be a steady rate cutting cycle. That tends to be good for growth.

As so often, the US has been critical to the global economy in recent years. The country's consumers are largely in good shape, energy costs are low and government spending is providing considerable support to the economy. The much sought-after soft-landing looks achievable.

Where does it all leave us?

Having been buffeted by shocks for most the decade so far, some clear road is emerging. Forecasters expect the recovery to be sustained, consumers are well placed to play their part and gradually falling rates should provide an impetus to growth. As 2024 draws to a close, growing optimism is palpable, in stark contrast to 12 months ago.

> " Geopolitics and the potential for an energy price spike have loomed over the outlook of late...Economies and businesses are having to adjust to that being a constant feature of the backdrop.

UK GDP & BUSINESS INVESTMENT

Q1 2015 = 100

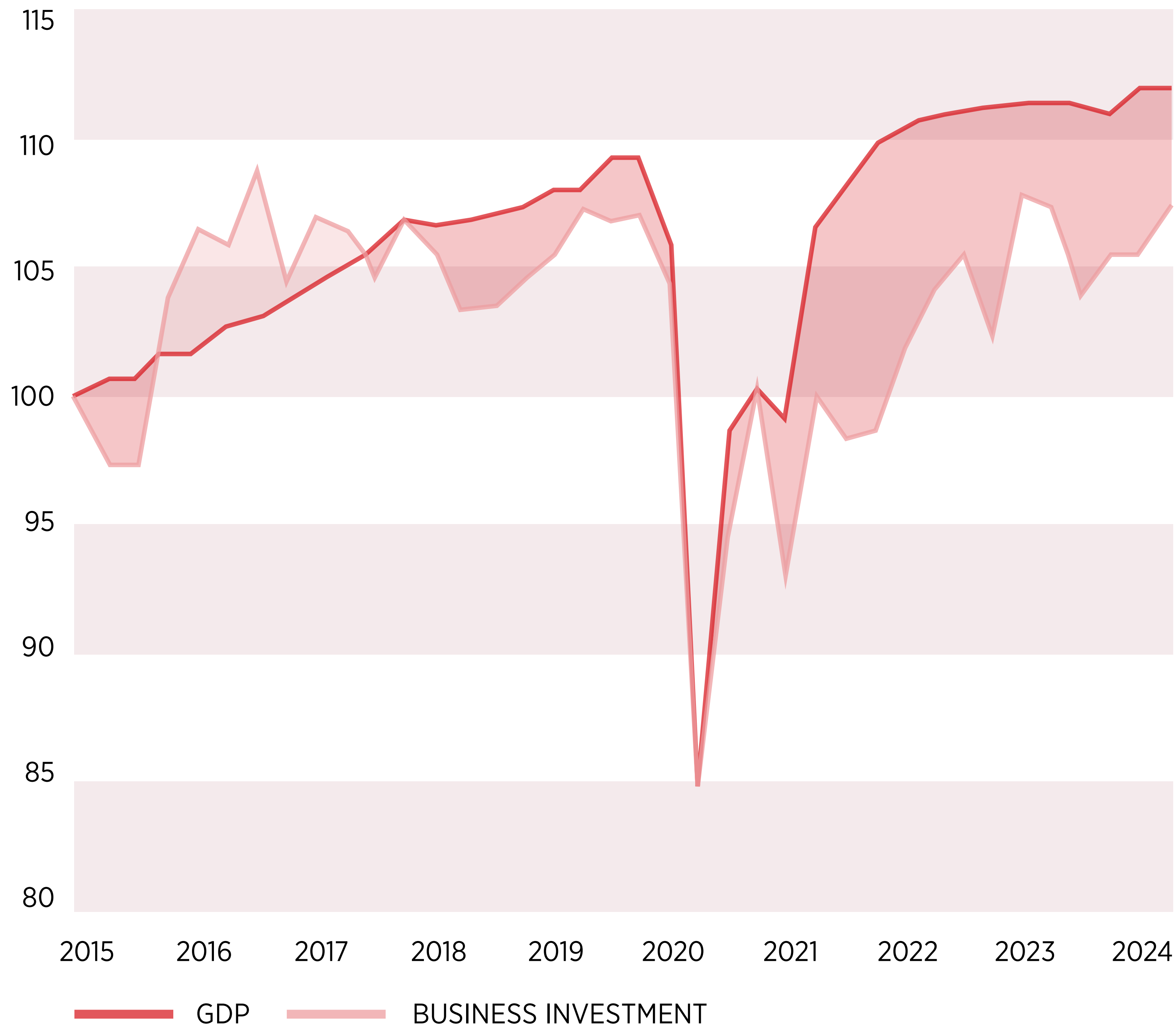
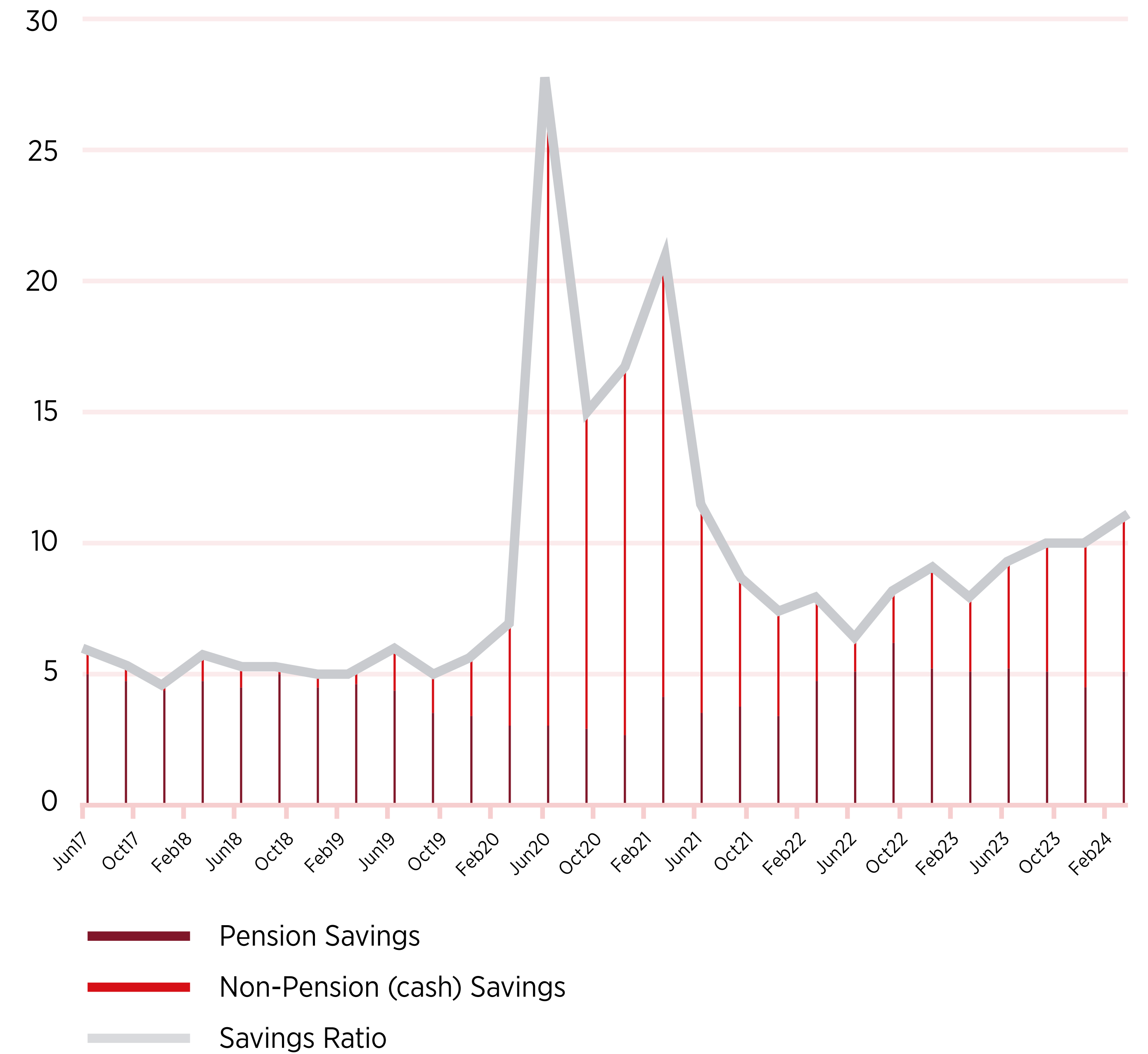


CHART SOURCE: ONS

UK Household Saving Ratio



Theme 1

Challenges and opportunities for unlocking investment

Just when companies need it, traditional funding sources are becoming scarce and expensive. As a result, stressed companies are struggling to raise capital to shore up their businesses and invest in growth.

Accessing finance for UK companies has become more difficult and costly for all companies in recent years, while existing commitments have become more burdensome. Following the Autumn Budget, with the perception that some of the announced measures are inflationary, commentators suggest fewer reductions in interest rates in the short/medium term, which will mean higher debt costs for longer for businesses and consumers.

"Companies are starting to divert funds to cover their debt servicing, which is something we haven't seen for much of the past decade," says Rob Asplin of PwC. "It's a significant drain on cash resources and there's an opportunity-cost."

There has also been a marked reduction in debt capacity over the past year, with traditional lenders reducing the amount they are willing to lend relative to a business's earnings, while the cost of servicing that debt has significantly increased.

"Leverage lenders were lending at 3-4x EBITDA before Covid, but now it is closer to 2-3x, and sometimes as low as 1x from clearing banks," says Rob Insall, IFT Member and Partner, BTG Advisory.

The funding situation is particularly difficult for small businesses with sub-£1m of earnings. Increasingly, lenders are asking small business owners for personal guarantees to back-up loans, increasing their personal risk further.

Other forms of finance are also coming under pressure. Businesses that rely on trade finance and invoice discounting are finding it increasingly difficult to manage their cashflow due to supply chain disruptions. Shipping delays, longer lead times, and product mix issues are creating tight cash cycles, as companies are often required to pay for goods before they receive them. This creates significant strain, especially for firms that rely on smooth-running trade finance operations.

Sectors such as recruitment and resourcing, which were once seen as ideal for invoice discounting, have become more complicated due to regulatory changes like IR35. These changes, along with the rise of umbrella and payroll companies, are making it harder for lenders to assess risk in these sectors. Meanwhile, transport companies must carefully manage risks, such as maintaining operators' licenses, which are critical to their ability to continue trading.

Changes in Funding approaches

This reduction in debt capacity is forcing businesses to consider alternative financing strategies, including equity and equity-like funding. "We are seeing people consider more of a mezzanine finance approach... taking a longer view with some security and upside coupon at exit," says David Stone, independent IFT Member, Prompt Business Strategies.

Raising equity is the least burdensome funding source on a company's cash position, and may be attractive to companies with a clear growth plan out of stress - although with widespread falls in corporation valuations, it may prove expensively dilutive to existing shareholders.

Another beneficiary of hesitancy among traditional banks to extend cashflow loans is asset-based lending. By taking a more asset-collateralised view of a business, this can open up options for companies facing temporary trading difficulties – but it also requires businesses to have sufficient assets to secure against the loans.

While true finance innovations are relatively rare, there are also some novel options emerging. These include off-balance-sheet consignment or stock funding, which allow businesses to bring in products without recording debt on their balance sheets – although such funding is relatively expensive.

Accelerated M&A

Another option for distressed businesses seeking a cash runway and an injection of investment is accelerated mergers and acquisitions (AMAs). Analysis from Teneo shows that M&A deals in the UK in the past year enabled 96 companies to continue to trade in some form, representing a third of all M&A transactions during that period. These covered a wide range of sectors, with most activity in retail, food & drink, and transport. About 14% of these deals were private equity backed, while the balance were corporate acquisitions.

"We believe M&A will continue to rise, although at a moderate pace," says Rachel Bennett, Associate Director, Special Situations M&A at Teneo. "Recent inflation figures and the outlook on interest rates will be encouraging to deal-makers, but geopolitical and macro-economic factors may increase hesitancy."

To take advantage of M&A, Teneo suggests companies have as much runway as possible and engage advisers early, ensure they have action-led growth plans that investors can buy in to, and put in place long-term marketing strategies that deliver international appeal.

Early planning is essential

Businesses should always plan ahead when it comes to liquidity and financing. If a company anticipates cashflow issues in the near future, it is crucial to start exploring financing options as early as possible.

"If you see liquidity getting tight in six months, you need to look at this now," says Rob Insall, "not in five months when it will be much harder and more expensive."

This early-mover advantage is not designed to punish stressed companies, it is simply a function of a system that takes time for all parties to properly assess a situation and get into gear. "The key thing for borrowers is they need to allow enough time for the diligence process and credit process," says Jonathan Hughes of Leumi ABL. "You need to prepare properly."

> " Businesses should always plan ahead when it comes to liquidity and financing. If a company anticipates cashflow issues in the near future, it is crucial to start exploring financing options as early as possible.

Theme 2

Construction: rising to the challenge

The UK's embattled construction sector faces a perfect storm of headwinds, putting pressure on even well-performing companies.

Perennial construction sector challenges, such as low margins, volatility and payment delays, have all been amplified by macro-economic pressures, making it more difficult for businesses to absorb shocks. On top of this, UK construction companies face more secular challenges, including a chronic skills shortage. But opportunities are also emerging for the more agile and forward-looking.

Widespread capital constraint

Access to capital is always a challenge in the construction sector, given the hesitancy of mainstream banks to lend due to the high risks involved and the uncertainty of long payment cycles. But in the prevailing higher-rate environment (albeit with some recent rate reductions), this problem has worsened, with many companies struggling to secure finance on acceptable terms. Meanwhile, performance bonds, which are critical for securing contracts, have become increasingly scarce.

According to Christopher McLean of Grant Thornton, "even some of the better-performing companies have been struggling to get access to finance and bonding...a large number of firms at both ends of the market are being impacted."

A major factor contributing to the vulnerability of the sector are fixed-price contracts, many of which were negotiated in a more benign environment prior to Covid measures and the consequent rise in inflation. Companies unable to renegotiate these contracts are facing losses, as inflation and material costs have risen. Even those that have managed to renegotiate have often found the new terms insufficient to cover their losses.

As a result, many firms are losing control of project costs. Projects with multiple sites tend to blur costs, and firms struggle to manage weekly payments to subcontractors while operating on monthly invoicing cycles. This creates a vicious cash cycle that can quickly spiral into deeper financial trouble. While project-specific funding is available, it typically covers only a minority of total project costs.

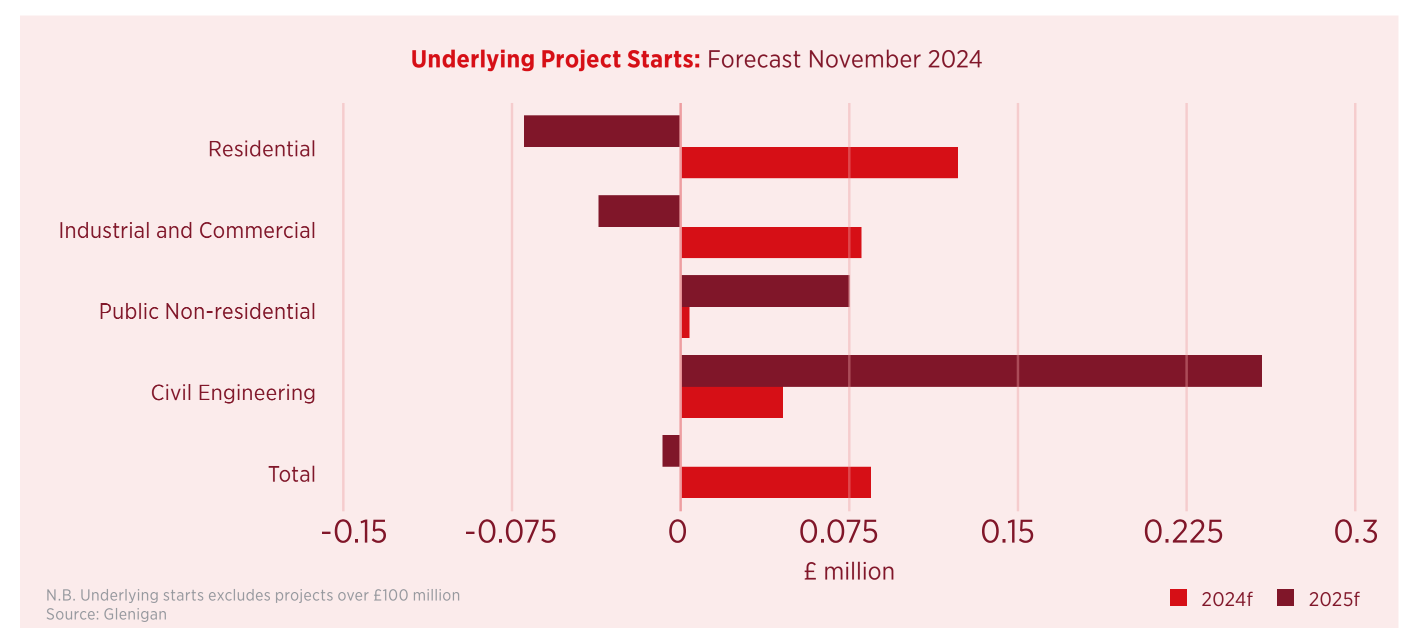
Housing market slowdown

Adding to these challenges is a significant slowdown in the housing sector. House-building projects now take much longer to materialise, if they happen at all. Companies are often asked to submit multiple re-quotes before a project moves forward. As a result, firms are bidding low just to keep their teams busy, even if the work is not profitable, further squeezing margins in an already challenging market.

Payment delays – ripple effect

Any delay or unexpected cost increase can result in significant financial strain, leading to business failures that ripple through the supply chain. Subcontractors, who are often hit hardest by these delays, are particularly vulnerable.

"It's not like this is a sector that makes large margins," says Lee Causer, Partner at BDO. "It can only take one thing to go against you, and then all of a sudden, you have a knock-on effect throughout the subcontractor chain." He adds that there have been several large failures in the past two years, and a significant volume of contracts that are loss-making in the order of millions of pounds.

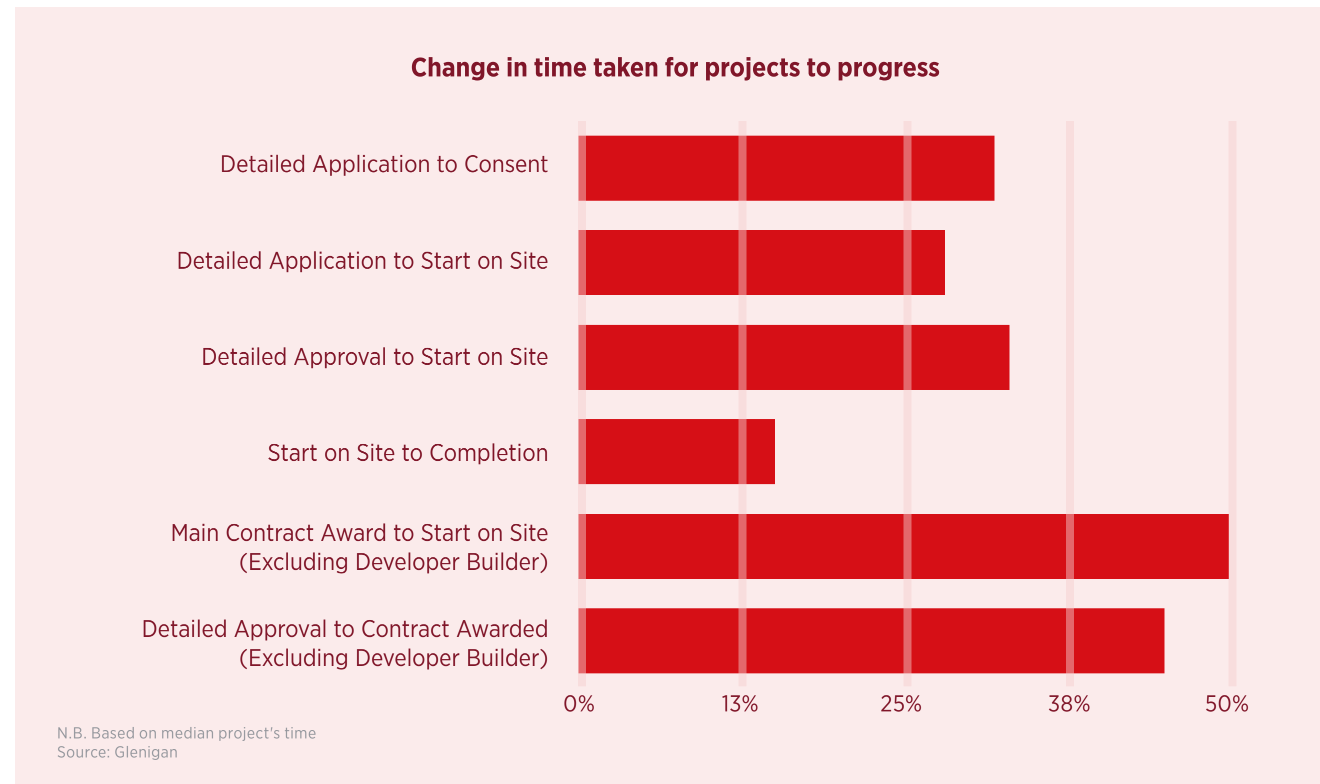


Rob Parker, Director and Christopher McLean, Partner, Grant Thornton, have seen several examples of this in the construction supply chain. "Working capital quickly becomes stretched when the main contractors take longer to make payments," says Rob. "Companies with cash can withstand that, but it's prompting a reassessment of working capital schedules and contract variations."

Such payment delays are yet another example of the exacerbation of a perennial issue in construction. These delays frequently stretch well beyond agreed terms, with subcontractors sometimes waiting 60 to 90 days for payment. Smaller firms, especially those employing sole traders who need to be paid weekly, are hit hardest. The pressure this creates on cash flow forces smaller companies to constantly juggle their finances, which can be detrimental to their long-term sustainability. Plant hire and construction support services are among the most affected.

Labour shortages and green-collar workers

Adding to these challenges, the construction sector is struggling with severe labour shortages, particularly for specialised workers needed to meet the growing demand



for environmentally compliant buildings. Since Brexit, the construction industry has lost many workers, and while demand for new homes and net-zero buildings is high, there aren't enough skilled workers to meet this demand.

"We need about another million people in the workforce to meet the growth trajectory," says BDO's Lee Causer, "but last year there were only 20,000 new apprentices joining the construction sector."

Wage inflation, especially for "green collar" workers, has surged to well over £100,000. This is putting financial strain on businesses, especially those already operating on slim margins.

Additionally, the industry struggles to attract younger workers who prefer more flexible working hours and are less willing to commit to the long hours and weekend work typical in construction. The ageing workforce only exacerbates this problem, and there is insufficient training to prepare new workers to fill the gap.

Areas of promise
While the sector is facing numerous challenges, there are opportunities for companies willing to innovate. Specialisation, such as focusing on ESG practices, or contract design, offers growth potential. There could also be opportunities in 'greening' supply chains when bidding for government contracts.

In general, the construction sub-sectors is slow to adopt new technologies and sustainability initiatives. Innovations such as modular construction have so far underwhelmed, while AI, and the development of low-carbon materials like cement have not been fully exploited, perhaps due to the high upfront costs. But a failure to invest will only prolong the sector's travails.

In terms of sub-sectors, while housing remains subdued, the renewables sector is thriving. "Renewables seems to be the place to be at the moment," says Roz Johnson, Managing Director, Finance with Flow. "Clients in renewables won't even accept a tender because they're so busy." This presents significant growth opportunities for construction firms that can pivot to this sector.

Focus on governance and controls
According to Lee Causer, "Some of the largest failures in recent years have pointed to poor boardroom behaviour, where there wasn't appropriate governance or challenge."

Poor governance has been a common theme in many recent high-profile business failures. Effective risk management, particularly in pricing strategies and contract management, is vital to prevent financial losses. Strong boardroom oversight can help businesses avoid common pitfalls and maintain resilience in the face of market volatility.

Smaller construction firms are becoming increasingly

The more time advisers and management teams have, the more options there are to enact. "

proactive and professional in their operations. Many are improving their cash flow forecasting, systematising their processes, and ensuring they have proper documentation in place before undertaking variations or new contracts. The ability to be agile and pivot towards new opportunities, while still maintaining their existing client base, will be a major asset. This requires effective management of supply chains, the ability to quickly pivot towards new sectors (like energy), and maintaining the flexibility to deal with project delays and client demands. Firms that are slow to adapt may miss out on emerging opportunities in sectors such as energy and housing.

Early engagement
One of the recurring themes in our interviews with members is the need for companies to engage with advisers earlier. Many construction firms delay seeking advice until they are already in severe financial distress, which limits their options for recovery. Engaging early allows companies to address issues before they become critical, whether it's renegotiating contracts, adjusting working capital strategies, or seeking external financing.

"It's never early enough for us," says Rob Parker. "The more time advisers and management teams have, the more options there are to enact."

Consumer sector: the big squeeze

Mid-market consumer-facing companies are being squeezed by the cost-of-living crisis, additional costs and increased competition.

Companies in consumer-facing sectors are still dealing with long-term disruptions that began with Covid-era restrictions, as unwelcome changes in spending habits and patterns endure. These have been compounded by supply chain issues, inflation, global instability, and (previously) rising interest rates.

The ongoing cost of living crisis is impacting consumers' willingness to spend, which in turn is making consumers more sensitive to value for money. For instance, in the supermarket sector, there is also a bar-bell effect, where some budget retailers and higher-end chains are prospering, while those in the middle suffer. Mid-luxury continues to struggle as it seeks to bring quality, albeit at a reduced price, especially if quality is perceived to have deteriorated whilst their prices have remained high.

On the high street, various strategies are unfolding, including diversification of offering: retailers that have traditionally remained in a certain sector (fashion or home improvements) are moving into the home furnishing sector as they look to entice consumers into their stores when the weather remains unseasonal. Indeed "season agnostic" stock is also increasingly seen by fashion retailers as a way to smooth volatility.

The RP in retail

The Restructuring Plan continues to gain traction as the modern super-powered company law alternative to a CVA, with the RP increasingly used to help recalibrate larger store portfolios.

As consumer behaviours continue to readjust to life post-pandemic, it is becoming increasingly clear that many consumers still like to go into a store, but many retailers have store portfolios that are subject to legacy behaviours.

Those retailers who are able to have visibility over their customers' behaviours and are able to understand and utilise that data will be the longer-term winners. The winners are offering lower discounts to entice consumers to spend again, and utilising loyalty cards (either in store or online) to help to build a better picture of each customer, which can then be used to personalise each shopper's experience.

Sectors at-risk

Those at the discretionary and seasonal end of the market are particularly vulnerable.

Rachel Bennett of Teneo believes that although there may be general optimism around consumer spending, with unemployment low and some wage growth, there are still long-term risks facing retail and food & drink in particular, including the impact of tax increases in the latest Budget, and a longer-than-expected period of elevated interest rates. The increase in employers' National Insurance in particular will put further pressure on this sector.

Mike Rothwell, Director of Advisory, Bespoke Hotels notes that the rising cost of operations has put significant pressure on the hotel sector in general, with payroll costs rising by 10% each year for the past two years - a trend which shows little sign of abating.

"Payroll costs, utilities and food costs have all been just eye-watering over the last couple of years," says Mike.

Hotels have been unable to off-set these costs in higher room rates. Even hotels that rely on weddings have seen a decline in demand, while many conferences have gone virtual with the rise of video-conferencing apps. In addition, rising labour costs has eaten into the margin for dinner, resulting in many hotels shifting to bed-and-breakfast offerings.

Meanwhile, a very late onset of warmer weather over the summer of 2024 severely affected the hospitality sector in places such as Devon and Cornwall, leading to reduced revenue at a critical time of year, and prompting many hotels to offer unprecedented discounts. This lack of summer income may lead to financial trouble for many businesses during the winter months.

On the flip side, domestic tourism was propped up by a weak pound, and this did not deter foreign visitors. In addition, the high- to luxury-end of the hotel market has also held up well. But elsewhere, the cost-of-living crisis continues to challenge the sector.

The spa and wellness sectors are among the few areas of growth in the hospitality industry, with an increasing number of people seeking out these services.

According to research by Barclays, consumers are increasingly favouring personalised and memorable experiences, and this could also be an opportunity for businesses. A Barclays survey of 2,000 UK adults in 2024 found that 1 in 4 consumers planned to increase their spending on memorable experiences.

"This shift means companies must invest in training, people and technology to ensure they have the right value proposition and updates to tie it together. This is particularly true in casual dining, where consumers have a lot of choice, including buying a meal

> "Those retailers who are able to have visibility over their customers' behaviours and are able to understand and utilise that data will be the longer-term winners.

> We are seeing the trend of ‘fakeaways’ where brands are licensing their products to supermarkets…, which if managed correctly will not be brand dilutive and present a valuable new revenue stream. ”

deal and watching a boxset at home”, says Rich Robinson, Head of Hospitality and Leisure at Barclays Corporate Banking.

AI and IT advancements: Hotels need to embrace AI and dynamic pricing to stay competitive.
Mike Rothwell predicts that AI will play a key role in personalising the customer experience, from reservations to on-site services.

In light of these challenges, companies must rethink how they meet changing expectations, and this could include leveraging new technologies like AI to improve customer experiences. Mike also believes that an investment in marketing can really pay-off. When conditions are challenging it is natural and correct to seek cost efficiencies, but not investing sufficiently in marketing can become self-fulfilling.

Casual dining
Restaurant and casual dining sectors are also experiencing challenge, again tied to the cost-of-living, as well as an enduring reduction in footfall in city centres due to a reduced work-week following Covid. While inflation is starting to stabilise, the costs of running a restaurant are still high, particularly for staples like fish and chips, where the price for a family meal has skyrocketed.

Restaurants face the dilemma of whether to reduce portion sizes – so-called “shrink-flation”, to raise prices, or find other ways to cut costs. The rising cost of living means fewer consumers can afford frequent dining out, which directly impacts revenue and profitability.

Some businesses are relying heavily on promotions and discounts to attract customers. However, this reliance on promotional activity risks conditioning consumers to expect lower prices in the mid-market restaurant segment, which can damage margins in both the short and long term.

At the same time, new entrants such as US fast-food chains are expanding into the UK, putting increasing pressure on the lower end of the market.

Some retail chains are partnering with supermarket chains to try and offer a restaurant experience, one-step removed. “We are seeing the trend of ‘fakeaways’ where brands are licensing their products to supermarkets…, which if managed correctly will not be brand dilutive and present a valuable new revenue stream” says Phil Reynolds, Partner, FRP Advisory. “People still want to treat themselves, and this presents an opportunity to deliver that branded experience whilst reducing costs.”

While this may be an additional revenue source for a few restaurant brands, these are often the same brands that have concessions in a food court, so from another perspective, the supermarkets are now eating even more of the dining sector’s lunch.

A similar double-edged pact is with delivery apps such as Just Eat, Uber Eats, and Deliveroo. While they have become essential for many restaurants, they also mean restaurants lose control of their customer relationship and data, while high commission rates cut into already slim profit margins.

Despite this, there are categories of consumer business that continue to thrive, and well-managed businesses that are adapting or acting quickly when signs of financial stress begin to emerge. But with the prospect of significant tax rises on business, at the time of writing, it is not a good idea to assume things will just ‘pick up’. Decisive action, investment and innovation will be prerequisites of success for UK retailers and consumer-sector companies over the coming years.

Special measures to special occasion: How an RP rescued high-street brand Clintons

Covid lockdowns and consumer-sector headwinds left high-street greeting cards retailer Clintons facing insolvency. Instead, a Restructuring Plan saved jobs and rescued a household brand from collapse.

Between 2019 and 2023, Clintons, the greeting-card and gifts retailer, had been forced to close 159 stores in response to changing consumer behaviour, increased online competition, Covid lockdowns, inflationary pressures and increasing rents and business rates.

By 2023, the company was making a small annual loss on a £99m turnover, with a net balance sheet liability of £8m, including secured shareholder loans. The business also had an additional £3m clawback exposure from a Covid rates relief overclaim.

Without a restructuring, the business was facing insolvency.

The shareholders provided working capital facilities to support the seasonal nature of trading but were unwilling to keep funding the company without a restructure being implemented.

Of the company's remaining 179 remaining stores, 38 stores were loss-making. Forecasts showed the remaining sites could generate EBITDA of £2m from reduced turnover of £72m.

A proposed restructuring plan involved the closure of the loss-making sites and compromise of the related debts (primarily landlord claims), along with the current and legacy rating authority liabilities. This was forecast to leave a downsized, profitable business capable of servicing the remaining debt.

The 'Relevant Alternative'
The Relevant Alternative to a restructuring plan was considered to be a managed wind-down via a 10-week trading period in administration, including the sale of all stock and floating charge assets. This included a licence fee payment to the company, which owned the brand, in order to allow the sale of Clinton branded goods.

In this alternative scenario, the only "in the money" creditors would be the secured creditor and HMRC based on a independently performed Net Orderly Liquidation Valuation of the business (stock and fixed assets) on a managed closure at £5m, before costs.

Case study: Clintons

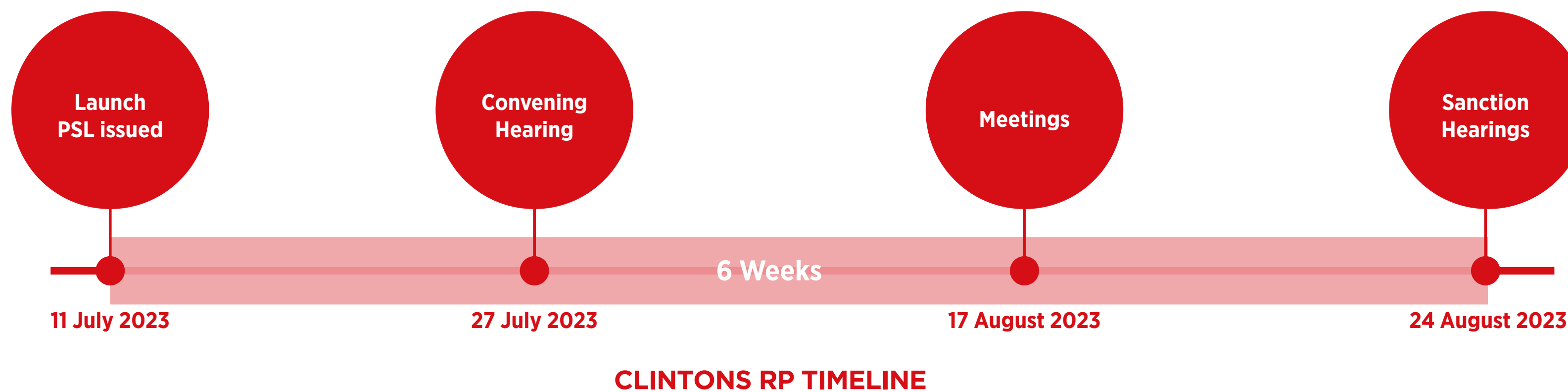
The Restructuring Plan
As part of the proposed Restructuring Plan, creditors faced various compromises:

- Secured creditor: reduction from £7.7m to £5.3m via a debt for equity swap.
- Landlords (£5.4m) and rating authorities (£1.5m) for closed sites: fully compromised in return for 8.6p/£1 vs 1.2p/£1 in the Relevant Alternative.
- Rating authorities for continuing sites (£4.5m): fully compromised in return for 8.6p/£1 vs 1.2p/£1 in the Relevant Alternative.

Meanwhile HMRC, the landlords of continuing sites and trade creditors (considered critical) all remained unaffected.

The increased recovery for unsecured creditors was to be made through the "Creditors Fund" totalling £1m comprising the Prescribed Part of £0.6m plus an additional £0.4m uplift.

In the voting, the secured creditor and rating authorities voted for the RP, while the closing-site landlords voted against the RP. There was no opposition in Court and the RP was sanctioned with the closing-site landlords crammed down via the cross-class cram-down mechanism.



CLINTONS RP TIMELINE

Outcomes

Following the launch of the RP, the business was able to continue trading and was relatively unaffected. Trade suppliers continued to allow standard levels of credit and brand sentiment remained relatively unaffected.

Shareholders as well as creditors benefitted from the restructuring, and the plan enabled a profitable future, taking it from being a loss making business to a potential acquisition target.

In March 2024, six months following the restructuring, Clintons was sold to Cardzone Group.

FRP Advisory acted as adviser to Clintons.

> "The plan enabled a profitable future, taking it from being a loss making business to a potential acquisition target.

Viewpoint: On Restructuring Plans

Lindsay Hallam, Senior Managing Director, FTI Consulting and **Lisa Rickelton**, Senior Managing Director, FTI Consulting on the evolution of Restructuring Plans (RPs) for companies of all sizes.

How have companies in the UK been making use of RPs?
Lisa: Typically, the companies I have been involved with have used RPs to restructure financial debt. This has often included the extension of maturities, amendments to terms, changes to guarantee and security structures, and to facilitate new money. There is often also a restructuring of the balance sheet to right-size or ensure it is appropriate and sustainable for the ongoing business.

Lindsay: There has been an increasing trend in the mid-tier space of companies using RPs to not only restructure financial obligations in an attempt to strengthen balance sheets but also address the lease liabilities associated with underperforming sites. We have seen this in several recent RPs including Revolution Bars, Superdry and Tasty Plc.

What have been the impacts/outcomes for the companies of using an RP?
Lisa: In situations with new money injections, this has been required to address a range of issues, such as funding to facilitate trading and operations generally; to allow completion of material capex projects that are the principal purpose of the businesses (such as real estate development or wind-farm development); and to repay imminent debt maturities. In other cases, RPs have been used to facilitate the orderly wind-down of operations.

Lindsay: RPs allow businesses facing financial difficulties to solvently restructure their balance sheets, offering tailored proposals to secured creditors, unsecured creditors and shareholders, to deliver a stable and well-capitalised go forward business. The flexibility of an RP means that unaffected creditors can be excluded, allowing businesses to protect employees and business critical suppliers required to deliver future value. There have also been a number of recent cases where RPs have led to businesses securing new money or equity investment that wouldn't otherwise have been available.

How does the use of RPs differ between larger companies and SMEs?
Lindsay: There has been an increase in middle market and SME RPs over the past 12 months, despite the comparatively high costs of the process and dual-hearing structure. Many in the middle market and SME space have looked to reduce costs by streamlining the process – using a single financial advisor to support the design and development of the plan as well as opine on the Relevant Alternative, seeking independent third-party input where required.

The development of case-law and precedent from previous RPs, has allowed middle market corporates to pursue restructurings on similar terms with greater confidence. This is a material consideration as the costs of the process can rise significantly if the plan is successfully challenged by a plan creditor in court which could make it unobtainable for those size businesses.

Lisa: For larger companies and those with significant cross-border elements, the Relevant Alternative analysis may involve assessment of international insolvency or restructuring processes. Similarly, international contributions are often a key part of the evidence for these RPs.

Often it is solely financial creditor liabilities that are being restructured in larger cases. There doesn't appear to be a correlation between the size of the business and the challenge risk as we have seen challenges brought across the whole spectrum.

Lindsay: In the middle market and SME space there can be a more diverse group of creditors involved and affected by the process and therefore it is critical to ensure creditor engagement at the outset so that the variety of stakeholders understand the process, the rationale for the RP and the Relevant Alternative if the RP isn't sanctioned.

The landmark judgement in the Adler case at the Court of Appeal set a precedent for RPs. How have RP processes and market practice developed over the past year?
Lisa: Overall, I think the Adler Court of Appeal judgment has been helpful in providing guidance and clarity to the market (see box). We played a material role in that case and had first hand experience of the points raised.

Lindsay: HMRC's position in relation to RPs has become clearer over the last year, in November 2023 they published guidance

> “The flexibility of an RP means that unaffected creditors can be excluded, allowing businesses to protect employees and business critical suppliers required to deliver future value.

clarifying the conditions in which they would look to support a proposed RP. This guidance provided more information and certainty to companies. HMRC emphasise the importance of early engagement (as soon as the decision is made to pursue the RP), a clear rationale for the RP, an overview of the expected results and a reasonable payment record for the plan company.

HMRC form their own creditor class given the secondary preferential nature of their claims in insolvency and therefore gaining the support of a critical creditor class which may have a genuine economic interest in the company, can support the court's decision to sanction the plan. We've seen this play out in recent cases with HMRC approving the Fitness First and Revolution Bars Limited RPs. Equally we have seen where HMRC have actively challenged restructuring plans.

How do you see RPs developing in future?
Lindsay: Based on recent court judgments, we expect greater scrutiny to be placed on the Relevant Alternative scenario. Relevant Alternative reports will need to clearly set out the range of scenarios considered, why those scenarios were rejected and the rationale for the Relevant Alternative. The thought process that advisory firms go through will need to be clearly documented for the court and creditors to see.

Lisa: The recent Tameside (Consort Healthcare) case which is currently stayed has brought up some interesting topics. Potentially we may see more applications for cost orders following the cost order being granted in that case. Albeit there were some relatively case specific factors at play. The plan proposed the cram-down of an NHS Trust, which would be a new precedent. However, as we have seen, HMRC can be crammed down therefore we may see other public sector bodies as plan creditors.

What are the key lessons for companies seeking to use an RP and advisers/CROs/ turnaround professionals?
Lisa: Exploring the option of an RP as early as possible and potentially running in parallel with other consensual options will provide a longer runway which will allow time for good quality evidence and avoid the potential criticism of putting a metaphorical gun to the head of the Court.

Lindsay: Proactive stakeholder engagement is critical for companies seeking to maximise the chances of a successful sanction judgment. Engaging creditors and key stakeholders early allows them to better understand the process, the rationale for the process and may help to secure their support at the plan meetings.

Stakeholder engagement continues to receive greater scrutiny from a court perspective; being able to robustly demonstrate the level of interactions with creditors and pursuit of consensual solutions may make it easier for a court to exercise its discretionary powers.

Professionals should be mindful of the need for a broader turnaround in addition to the RP, for example cost reduction initiatives and growth strategies, alongside balance sheet restructuring and new investment, and encourage corporates to engage the right expertise to assist in that process.

Proactive stakeholder engagement is critical for companies seeking to maximise the chances of a successful sanction judgment. ”

Case-in-point

The Adler Court of Appeal Judgment of January 2024 holds several important implications for the use of RPs, including:

- **Rationality Test:** Where cross-class cram down is being sought, there will be more focus on the allocation of restructuring surplus, as well as the no worse off test.
- **Pari Passu:** A key point in the Adler case which will be relevant to consider on other matters with series of notes with different maturity dates which otherwise have identical pari passu claims. It will continue to be important to justify legitimate variations to the pari passu principle e.g. critical suppliers or employees.
- **Timing:** There was a very clear message on late applications, which has also been raised in other cases such as Nasmyth where the company was warned against trying to "hold a gun to the head of the Court". I would expect that we see timelines further in advance of maturities and liquidity crunches. However, there will no doubt be situations where there are commercial or practical challenges to this aim, and challenges will generally add to the timeline given the need to find available court dates for a multi-day Sanction Hearing.
- **Narrowing the Issues:** We may see more cases of meetings between experts (which happened on McDermott) to seek to narrow the issues in cases with challenge. This, alongside Part 35 expert witness reports, continues the trend towards challenged Restructuring Plans being managed as litigation cases. Albeit in some cases, the parties may continue to negotiate potential consensual restructurings alongside the Restructuring Plan process.

Adapt. Transform. Succeed.

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