Big fall in UK corporate insolvencies - businesses are on the road to recovery

LONDON, UK: The latest PwC analysis into corporate insolvency numbers demonstrates that the effect of the downturn on UK business is showing more signs of easing. A total of 3467 companies became insolvent in the second quarter of 2010. This represents a big 21% decrease on the previous quarter and a promising 28% decrease in comparison to the same quarter of 2009. Even on a rolling 12-month basis, the numbers show an 11% decrease in insolvencies. The retail sector is still among the worst affected, however.

Mike Jervis, partner in the business recovery services practice at PricewaterhouseCoopers LLP, commented: "The reduction in insolvencies reflects the expectation and hope that more favourable conditions will return and a viewpoint that alternative options to insolvency need to be considered.

"At PwC we are seeing a fall in the number of administrations as businesses are starting to look at other options before insolvency is used as a last resort. Financial restructuring, company voluntary arrangements and schemes of arrangement are now being used as businesses are now starting to realise that the sooner problems are identified, the quicker a solution can be found."

Which sectors are struggling the most?

The worst affected sectors continue to include construction (555 companies), manufacturing (421), retail (342) and real estate (150). There has been a marked improvement across all these sectors, apart from real estate where there was a 3% increase in insolvencies since the last quarter. However, all these sectors show a marked improvement when compared to the same quarter of 2009. Construction has seen a decrease in insolvencies of 24%, 36% in Manufacturing, a big decrease of 37% in retail and a 34% decrease in real estate.

Commenting on the real estate figures, Barry Gilbertson, specialist real estate partner leading the business recovery property team at PricewaterhouseCoopers LLP, said: "Against the positive news of improving statistics, there remains the spectre of tenant failure which will continue to haunt landlord property companies (and their lending bankers) for many months to come yet.

"Every time a tenant fails, the landlord is hit with the triple whammy of having no rent, whilst at the same time having to pay the service charges and insurance on the vacant space, together with paying the commercial rates on the empty property. If tenants continue to fail, the amount of vacant property will increase, and inevitably rents will continue to fall, even though capital values for the very best investment properties are bouncing back.

"Private sector tenants who are in the public sector supply chain will also be affected by the national and local government spending cuts. In order to better protect themselves from tenant failure, landlords must understand more about their tenants' business and have a good grasp of what they do, who their clients are, who they supply to and, crucially, what their balance sheet and profit and loss account presently looks like.

"The often overlooked risk, at this point in the economic cycle, is companies enthusiastically over-trading as they try to emerge from the recession. Over-trading can result in a cash flow crisis as working capital gets soaked up with new orders. If the buyers of those new orders do not pay their bills on time, or even become a bad debt, then the squeeze on cash flow gets tighter and it becomes harder to pay the interest to their lender, to pay their tax bills, and to pay the rent. Suddenly, the landlord's cash flow is also under pressure, and the downward spiral can escalate, just when those elusive green shoots were beginning to take root, and everyone hoped that they would bear fruit in the summertime."

Across the UK...

Our analysis shows that London continues to have the highest number of insolvencies with 869 but compared to the same quarter in 2009, shows a marked improvement with a 21% decrease. All regions have seen drops in the number of insolvencies, with the most improvement being seen in the North East and Cumbria where the number of insolvencies have dropped by 30% since the last quarter.

Mike Jervis, partner, summarised: "The actual insolvency statistics show only part of the picture. There are many restructurings either not involving insolvency or using light touch insolvency techniques to salvage viable businesses. Those businesses most likely to survive the recession will turn to management teams and advisors experienced in turnarounds. They will plan for different scenarios and they will be obsessive over their cash flow management."

Notes:

1. The insolvency figures have been collated by PricewaterhouseCoopers LLP and are based on Administration, Administrative Receivership, Company Voluntary Arrangements and Creditors' Voluntary Liquidation appointments in England, Scotland and Wales during the second quarter (April, May and June) of 2010. For the purposes of this data collation, where a group of companies entered into insolvency that group has been counted as one appointment.

2. These figures do not include a one off exceptional situation in October 2006 where 850 businesses filed for insolvency in one day as part of a carousel fraud.