JUNE 2023

UK Insolvency Analysis

By Roberto Simone

xeniabroking.com

Contents

Xenia's UK Insolvency Analysis are designed to work alongside a credit insurance programme. The purpose of this report is to provide you with objective and practical information that will help to advance your understanding of the issues and how they might impact your business.

We welcome your thoughts and questions on the issues covered. Please email us on info@xeniabroking.com should you require any further advice or have questions about this report.

Company Insolvencies in England & Wales Q1 2023

The first quarterly insolvency data for 2023 has just been released and as expected from the monthly updates introduced during the pandemic, it shows no let up for hard pressed and struggling firms. The unwinding of Covid-19 relief support and the high inflation means the figures for the rest of 2023 are anticipated to climb even further. 2023 is certainly shaping up to be a more problematic year for many SMEs than many of the directors and owners would have expected. However, company insolvencies decreased slightly during Q1 vs the previous quarter. The data confirmed there was a total of 5,747 company insolvencies in the quarter comprising of 4,739 Creditors' Voluntary Liquidations (CVLs), 652 Compulsory Liquidations, 318 Administrations and 38 Company Voluntary Arrangements (CVAs). There were no receivership appointments. The number reported for the first quarter was 4% lower than the previous quarter but 18% higher than the corresponding period in 2022, which was driven by the increase in CVLs. The number of CVLs remained very close to the highest level on record (Q2 2022), since start of the series back in 1960.

Key Findings for Q1 2023

- The 4,739 Creditors Voluntary Liquidations accounted for 82% of all company insolvencies in Q1 2023.
- The 652 Compulsory Liquidations were 11% lower than Q4 2022 but 92% higher than Q1 2022.
- 318 administrations recorded in the first three months of 2023, which was 12% lower than the previous quarter, but 16% higher than the same period in 2022.
- The rate of a Q1 2022.
- In those 4 quarters ending Q1 2023, the company liquidation rate was 50.8 per 10,000 active companies corresponding to 1 in 197 ratio entering liquidation in the previous 12 months.
- The liquidation rate in the 12 months ending Q1 2023 was also higher than pre-pandemic levels, driven by higher rates of CVLs and compulsory liquidations.
- Construction related insolvencies amounted to 19% of all insolvencies in the 12-month period beginning Q2 2022 recorded at 4,165.

Summary Table of Company Insolvencies

Company insolvency statistics						
Year	Total Insolvencies	Compulsory liquidations	CVLs	Administrations	CVAs	Receiverships
Q1 2022	4,884	340	4,244	275	25	0
Q2 2022	5,665	382	4,929	321	32	1
Q3 2022	5,602	504	4,796	273	29	0
Q4 2022	5,969	730	4,852	362	25	0
Q1 2023	5,747	652	4,739	318	38	0

Company Insolvencies by Industry

As is always the case, Construction remains the most significant contributor to the insolvency statistics, representing 19% of all insolvencies in Q1 2023, with 1,049 Construction companies becoming insolvent in the first quarter and 4,165 year to date. There are 2 other sectors that often add to the headline number of business failures, these are Wholesale & Retail, which reported 944 companies' insolvent in Q1 2023 alongside Accommodation and Food Services, where 344 businesses failed. The combined total of these sectors represents 29% of all insolvencies respectively. With inflation still a challenge and interest rates rising amongst other challenges, it is expected to hit many more sectors in the coming **months.**

Insolvencies Year to Date (January - May 2023) by Sector/Industry					
	Sector	**2020**	**2021**	**2022**	**2023**
A	Agriculture Forestry and Fishing	38	23	30	50
B	Mining and Quarrying	22	22	27	27
C	Manufacturing	751	376	749	961
D	Electricity; Gas; Steam & Air Conditioning Supply	32	30	47	24
E	Water Supply; Sewerage; Waste Mgmt and Remediation	46	34	48	66
F	Construction	1453	945	1957	2125
G	Wholesale and Retail	1084	634	1351	1751
H	Transportation and Storage	283	166	348	402
I	Accommodation and Food services	1012	598	1141	1644
J	Information and Communication	734	864	756	667
K	Financial and Insurance Activities	245	194	202	227
L	Real Estate	328	272	395	481
M	Professional; Scientific and Technical Activities	895	1028	1082	1133
N	Administrative and Support Service Activities	987	709	1087	1101
O	Public Administration; Defence Compulsory Soc	9	8	14	9
P	Education	73	56	110	134
Q	Human Health and Social Work Activities	175	120	383	257
R	Arts; Entertainment and Recreation	133	124	188	227
S	Other Services	387	308	541	631
T	Activities of Households as Employers	11	2	18	30
U	Activities of Extraterritorial Organisations and Bodies	44	58	62	50
-	Unknown	177	124	143	155
-	**Total**	**8919**	**6695**	**10679**	**12152**

Major Insolvencies Q1 2023

Tolent Construction – (Turnover £198m) £4m loss and a series of financial difficulties such as a number of major loss-making contracts. Tolent was a vital component to the local supply chain and the collapse has had major impact on subcontractors in the area.

Metnor Construction – (Turnover £63m) Significant financial challenges amid contract losses and pressures on profit margins from rising input, labour, and raw material prices alongside supply issues against fixed price contracts.

Malin Industrial Concrete Floors – (Turnover £26m) Significant drop in income down from £38.4m in 2020, cash flow struggles caused by fixed price contracts and delays to several schemes in its pipeline.

Cath Kidston Group – (Turnover £130m) The well-known apparel retailer, was put into administration in late March 2023 by its private equity owners Hilco Capital. Hilco had only bought the loss-making business in 2022. Cath Kidston failed back 2020 with 60 UK stores (200 globally), most of which were closed. The IP, brand and domain names of Cath Kidston were acquired by Next via a pre-pack for £8.5m.

Kettle Interiors – (Turnover £25m) Furniture supplier and B2C retailer, went into administration in March 2023. Although the firm had a large elevation in sales during the pandemic, the post-covid world hit business profits through high shipping costs and uncertain deliveries creating additional financial problems. The firm was unable to raise additional capital or turnround the business.

Maker & Son Ops – (Turnover £30m) Manufacturer and retailer of luxury furniture, which went through a process of liquidation in March. Despite the strong performance and growth from its formation in 2018, a combination of Covid19, global supply chain disruption and a lack of shareholder funds pushed the business into financial distress and eventually leading to a share purchase by Inc & Co, which has been subject to much press commentary.

Connect Distribution Services – (Turnover £97m) The online distributor of spare parts, accessories, and consumables mainly for DIY appliances, went into administration in March 2023. Originally set up as a wholesaler approximately 50 years ago, they traded B2C and B2B through eSpares, BuySpares, 4OurHouse, and the Connect Trade Portal. The stock, IP, contracts, and fixed assets were acquired out of administration by Screwfix for a cash consideration of £3m.

Moore Large & Co Ltd – (Turnover £40m) Cycle distributor established back in 1947 went into administration in March. Moore Large was a major importer and wholesaler of bikes, accessories, cycle clothing and parts, selling to retailers including Go Outdoors Amazon and Costco. During the covid period, sales of big-ticket bikes and equipment were high, but in 2022 and early 2023 the Company suffered a steep fall in sales (around 20%-25%) and even the concerted efforts of an MBO early 2022 wasn't enough to ensure its viability. A combination of rising interest rates, sterling devaluation and massive oversupply leading to discounts was a recipe that couldn't be managed leading to increased debt burden and diminishing margins.

Lavish Alice – (Turnover £50m) The trading style of Fast Fashions Collection International was placed into an administration process in February after being threatened by HMRC with a winding-up order few months prior which led to the Lavish Alice wholesale arm being put into administration with debts of up to £4m. Going forward the company will trade online B2C only. The wholesale arm used to deal with the likes of Harvey Nichols, Bloomingdales, Selfridges, and Saks Fifth Avenue. It was sold pre-pack to its directors. As an event brand, the company suffered significant losses during the pandemic and, despite a subsequent large increase in sales, the business was unable to pay its creditors on time and no likelihood of doing so in the future.

Thomson Hayes Retail Display – (Turnover £28m) The well-established retail display company, went into administration and ceased trading at the end of February 2023. Its focus was department stores and cosmetics and during the pandemic demand for retail displays of course fell. The company's attempts after Covid to fulfil its existing contracts were beset by supply issues and the onset of inflation in 2022.

Tile Giant – (Turnover £46m) The Leeds based wholesale and retail specialist in ceramic tiles, tools, accessories, and underfloor heating products was put into administration in January 2023. Originally owned by Travis Perkins until 2020, when it was sold to Leeds-based investment group, Coverings. They faced competitive pressures as well as pressure from suppliers and landlords regarding arrears and non-payment and decided that administration was the best means of protecting the company's future.

Paperchase – (Turnover £130m) The upmarket stationery and gifts retailer went into administration at the end of January 2023. Paperchase appointed the administrators to stand by, as a contingency, in case they were needed, which was good foresight. It successfully expanded across the UK and many other countries, but following accumulated increased losses accentuated by Coronavirus pandemic lockdowns and the subsequent reduction in shopper footfall in town centres compared to 2019 it could no longer withstand.

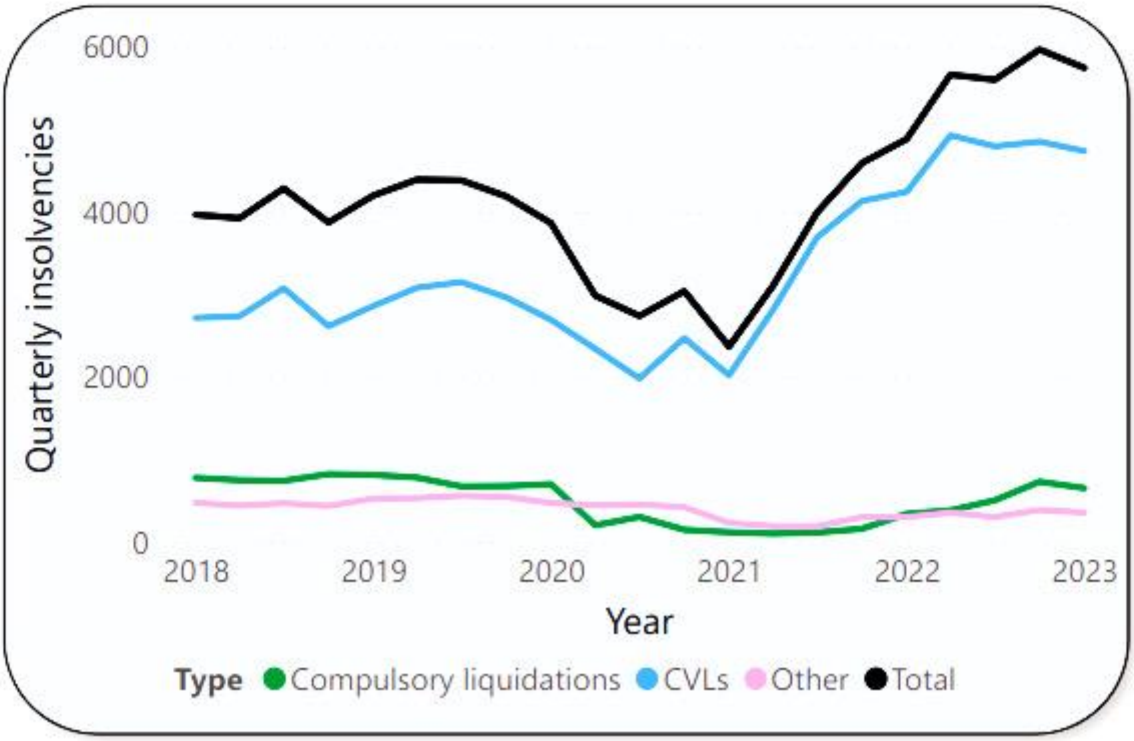
Shaws The Drapers – (Turnover £20m) The well-known firm selling soft furnishings, craft equipment and wool (28 branches in England and Wales) went into voluntary liquidation at the beginning of 2023. They had been selling off stock at heavily reduced prices before Christmas to empty the shelves. The owner, Mr Philip Shaw, said that the business was no longer viable and would close. The Company's first shop was opened in 1916 in Cardiff.

Summary Table of Company Insolvencies

2022 was the period of great change, following two years of challenge and chaos, not only in business but the economy. However, uncertainty continues to remain like never before and that in turn has created a considerable volatility across markets, businesses, and the economy. There was a big reminder during this epoch that all businesses are vulnerable to insolvency no matter the size, age, and importance.

Corporate insolvencies for 2022 illustrates the effect of the lethal combination of high interest rates, high inflation, rising energy costs, pressures on supply chains and the aftermath of Covid and Brexit as the number of businesses failing continues to hit record levels as we move into the second half of 2023.

Looking beyond headline figures from the ONS, analysis of the data reveals a true picture of the business world by highlighting and analysing key statistics and trends throughout 2022 and the contrast to years prior.



More UK companies failed in this period compared to levels seen before the pandemic, with significant elevation in some sectors such as hospitality and retail. Soaring energy costs, skyrocketing inflation and revocation of government support are some of the key factors attributed to the rise, with construction and retail afflicted the most.

Insolvency levels were at a near 13 years high following the Covid Support withdrawal. A majority of these were CVLs (Creditor Voluntary Liquidations) as businesses were finding it difficult to meet their contractual and financial obligations. The period by and large recorded 5,629 company insolvencies registered in the UK. There are other factors to consider that played a role and may explain the underlying rise such as completion of delayed insolvency proceedings causing a backlog during times of inactivity.

Conclusion

Since the start of the first Covid-19 quarantine, many predicted a wave of insolvencies was inevitable. Throughout the pandemic there were spikes of insolvency activity in certain sectors such as hospitality and retail, but not to the degree expected. Many assumed that foreclosure and restrictions on the ability to spend would not only hamper businesses income streams, but lead to an increase in business insolvencies in the process.

Fortunately, this tsunami did not appear owing to the extensive support measures that were available, including the guaranteed loan schemes and furlough. These measures, which were introduced to prevent a wave of insolvencies, worked as designed but in some cases perhaps too well as many businesses that would have failed in the usual course were kept afloat, so the inevitable was forthcoming, just delayed.

There's a lot to unravel through the latest data but some major themes emerge immediately. Administrations are starting to rise above their pre-pandemic average, and this isn't particularly surprising. The elevation in energy prices, increase in interest rates, soaring inflation and the wrap-up of government business support is putting increased pressure on businesses. While some are using the administration process wisely to explore all options available to restructure or rescue, the amplified levels of CVLs are rather telling, that owners are choosing to close their business on their own terms.

Historically, changes in company liquidation rates have been related to economic conditions. In periods of economic growth, liquidation rates tend to decrease. The liquidation rate peaked in the 12 months ending March 1993 at 264.7, shortly after the end of the early 1990s recession. The other major increase in the rate coincided with the 2008-09 recession, with a peak of 94.7 ending December 2009.

Look Out Factors

- Excessive borrowing versus a decline in income.
- A decline in discretionary spend.
- Profit Variance in relation to the Balance Sheet strength
- Cash Inflow vs cash outflow relationship
- Stock Turnover Ratio
- Current Asset Coverage
  - Can be used as a measure and a sign of a business in deterioration.
- Equity Base
  - Is the capital base of this company proportionate for the level of trading or is it too low? If it's too low, then this is another red flag for the business.
- Current Funding
  - An important measure, as a weak rate implies that the company has placed too much dependence on its creditors, receipts in advance or short-term borrowing for funding the tangible assets of the business. Which could lead to cash flow exertions especially when unforeseen internal/external events occur.
- Debt Dependency – Is there too much dependence on debt?
- Increase in Retail CVAs - This can impact both suppliers and landlords.

These look out factors denote key aspects to consider. They invariably lend support to what is a rather uncertain environment, to ensure you are remaining prudent in this volatile times. These wide-ranging signals are particularly complimentary with each other as they examine a series of prevalent metrics conveying the direction on critical areas to observe and the potential challenges.

Whilst these are often utilised in the analysis blueprint for risk management these steps could provide you with data or trends to help recognise opportunities for growth too. Once augmented, this data and information will begin to present a range of optics to highlight the trends, identify the risks and forecast the future, perfect for any business. Furthermore, by increasing your knowledge of your customer can also present other opportunities too.

Staying Ahead of The Curve

“Only when the tide goes out do you discover who's been swimming naked.” Warren Buffett

Whilst the latest macro-economic data suggests the general economy and outlook appears to have improved, there is still unease and disquiet impeding many decisions and sentiment. The business outlook remains cautious in view of the going uncertainties that hover, and a corresponding drop in client spending and cost challenges prevalent across the economy.

We’re nearly halfway through 2023 and the short term looks increasingly bumpy for many businesses. Energy bills remain high, disproportionately affecting restaurants and pubs. Add in inflation, still around 8%, high interest rates that are expected to rise further, and a more aggressive, less forgiving HMRC actively chasing outstanding tax arrears, insolvency is looking far more attractive. Businesses are continuing to operate in a challenging environment and as a result, cash will become tight for many more businesses due to increased finance costs and increased costs of supplies.

Looking ahead, uncertainty in a broader sense may leave a negative impression on consumer and corporate confidence. The weak exchange rate may take its toll on certain sectors, interest rates have finally seen their first rise in over a decade and inflation is at its highest level in years. It will therefore be interesting to see whether the year continues to witness further increases in corporate failures. The economy continues to tread on the cliff edge of recession as governments are trying to battle inflation. Insolvencies continue to skyrocket coupled with a few blockbuster collapses such as FTX, Credit Suisse, SVB group and several bail outs too.

In times of economic uncertainty and a demanding business environment, Xenia, and its specialist credit broking division with the aid of a credit insurance policy can act as an extension to the credit management function. Our aim is to work in partnership providing a bespoke service helping protect and grow your business today. More companies are looking at trade credit insurance as a strategic investment as direct and indirect returns can be substantial. Credit Insurance can be beneficial in more than one way in this current environment.

Source References

Office for National Statistics Insolvency Data
Companies House
Construction News
Office for Budget Responsibility

For more information, please contact us:

T: +44 (0)3330 155005

E: info@xeniabroking.com

xeniabroking.com

Birmingham
Eleven Brindley Place
2 Brunswick Square
BIRMINGHAM
B1 2LP

Glasgow
Office 3F6
126 West Regent St
GLASGOW
G2 2RQ

Halifax
Dean Clough
HALIFAX
HX3 5AX

Manchester
10th Floor
Chancery Place
50 Brown Street
MANCHESTER
M2 2JG

Northampton
11 Mobbs Miller House
Ardington Road
NORTHAMPTON
NN1 5LP

Sawbridgeworth
Weston House
The Maltings
Station Road
SAWBRIDGEWORTH
CM21 9FP

London
52-56 Leadenhall St
LONDON
EC3A 2EB

1010-0623