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UK Insolvency Analysis

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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 Q3 2023

The third quarterly insolvency data for 2023 has just been released and as expected from the monthly updates and press reports of some high-profile casualties, the data is disquieting. Inflation and a rising interest rate, which has now been halted, means the insolvency figures for the rest of 2023 and beyond are anticipated to climb even further. 2023 has certainly been a more problematic year for many SMEs than many of the industry leaders would have expected. However, on a good note, company insolvencies decreased slightly during Q3 vs the previous quarter. The data confirmed there was a total of 6,208 company insolvencies in the quarter comprising of 4,965 Creditors' Voluntary Liquidations (CVLs), 735 Compulsory Liquidations, 466 Administrations and 41 Company Voluntary Arrangements (CVAs). The number reported for the third quarter was 2% lower than the previous quarter, but 10% higher than the corresponding period in 2022. The number of CVLs remained very close to the highest level on record (Q2 2022), since start of the record keeping back in 1960.

Key Findings for Q3 2023

- The 4,965 CVL's accounted for 80% of all company insolvencies in Q3 2023.
- The number of compulsory liquidations of 735 was 14% higher than Q2 2023 and 42% higher than Q3 2022.
- 466 administrations were recorded in Q3, and this is 11% higher than the previous quarter, and a staggering 58% higher than the same period in 2022.
- In the four quarters ending Q3 2023, the company liquidation rate increased to 52.4 per 10,000 companies corresponding to 1 in 191 ratio entering liquidation in the annual period to the end of September.
- Construction related insolvencies amounted to 18% of all insolvencies in the 12-month period ending Q3 2023 recorded at 4,276

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	5,635	382	4,929	321	32	1
Q3 2022	5,602	504	4,807	295	29	0
Q4 2022	5,979	732	4,878	344	25	0
Q1 2023	5,820	668	4,799	315	38	0
Q2 2023	6,319	645	5,197	421	56	0
Q3 2023	6,208	735	4,965	466	41	1

Company Insolvencies by Industry

Construction remains the most significant contributor to the insolvency statistics, representing 18% of all insolvencies in the period to Q3 2023, with 991 construction companies becoming insolvent in the third quarter compared to 1,142 in Q2 and 4,276 year-to-date. There are two other sectors that often add to the headline number of business failures, these are Wholesale & Retail, which reported 944 companies insolvent in Q3 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 - September 2023) by Sector/Industry					
	Sector	**2020**	**2021**	**2022**	**2023**
A	Agriculture Forestry and Fishing	40	38	85	67
B	Mining and Quarrying	20	38	39	25
C	Manufacturing	1,170	1,019	1,687	1,473
D	Electricity; Gas; Steam & Air Conditioning Supply	53	91	92	37
E	Water Supply; Sewerage; Waste Mgmt and Remediation	75	71	118	96
F	Construction	2,061	2,581	4,165	3,204
G	Wholesale and Retail	1,687	1,722	3,283	2,855
H	Transportation and Storage	436	532	786	639
I	Accommodation and Food Services	1,715	1,676	2,712	2,702
J	Information and Communication	690	908	1,289	959
K	Financial and Insurance Activities	327	304	414	295
L	Real Estate	352	401	707	530
M	Professional; Scientific and Technical Activities	1,007	1,371	1,807	1,487
N	Administrative and Support Service Activities	1,457	1,584	2,229	1,693
O	Public Administration; Defence Compulsory Soc	11	22	33	21
P	Education	153	181	272	229
Q	Human Health and Social Work Activities	274	279	464	381
R	Arts; Entertainment and Recreation	289	336	434	350
S	Other Services	605	733	1,263	990
T	Activities of Households as Employers	1	2	8	6
U	Activities of Extraterritorial Organisations and Bodies	1	1	3	3
-	Unknown	207	169	231	325
-	**Total**	**12,631**	**14,059**	**22,121**	**18,367**

Summary Table of Company Insolvencies

If 2022 was the period of great change (the cause) following years of challenge and chaos, then 2023 might be seen as (the effect). Whilst we are seeing several green shoots, macro-optic advancements, uncertainty still hovers in the air. This is driven by the severity and continuing pattern of high-profile insolvencies that the economy is ensuing. This is a big reminder that all businesses are vulnerable and not immune to insolvency no matter the size, age, and importance. Corporate insolvencies this year have continued from the 2022 springboard, which exemplifies 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 final quarter and a new year.

Major Insolvencies Q2 & Q3 2023

Construction

During Q2/Q3 there have been a surge in Construction failures including some high-profile casualties causing further supply chain challenges. The main reasons that have contributed to this rise are: high inflation, Covid loan repayments, high energy costs, rising costs, shortage of equipment and materials, longer lead times, and cost overruns. Not to mention the ever-present issues of labour shortages and slow digital adoption. Some of the major failures seen these last two quarters are:

Buckingham Group – The specialist major contractor filed for administration in early August after a period of the significant trial where the board had worked with specialist advisors seeking substantial new investment, enabling the business to continue as a going concern without interruption. Effectively, whilst there was a very strong delivery and commercial performance on the broader scale it was cited this was outweighed by deep losses and interim cash deficits and contract overruns on the three major Stadium and Arena contracts. The £665m-turnover firm, which had Liverpool FC's new Anfield Road Stand among its ongoing projects, filed a notice of intention to appoint administrators on Wednesday 16th August.

Henry Construction – The West London based firm went into administration in June becoming the largest firm to collapse in the construction sector since October 2021. The business had been through a period of rapid expansion in recent years, leading to a turnover in the June 21 accounts of £402m, up from £375m the year before. Henry Construction was subject to several adjudications during the past year ranging from small sub-contractors to larger suppliers of materials.

Some other notable insolvencies in this sector and latest turnover:

- Michael J. Lonsdale Ltd - £191m
- UK Windows & Doors Group Ltd - £122m
- Westridge Construction Ltd - £64m
- AC Data Ltd – £43m
- James Killelea & Company Ltd – £11m

Retail and Food & Drink

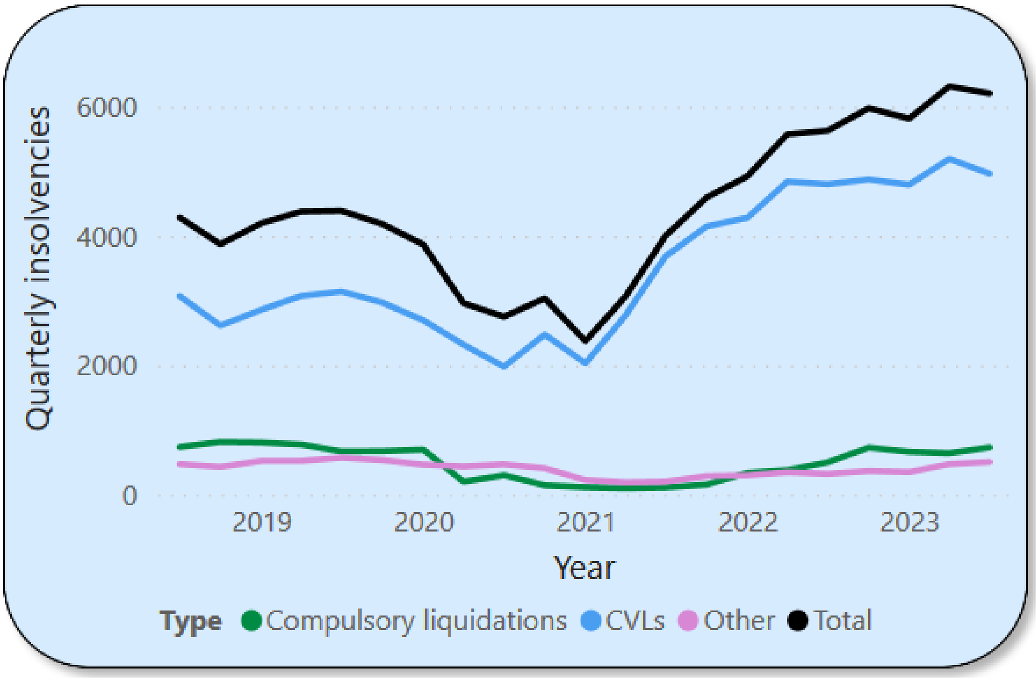
This struggling and stressed sector of retail together with the decline in high street footfall is of course impacting several indirect sectors and compounding matters for the important flagship segment. Stores are disappearing from high streets at a rapid pace as consumers' changing behaviour is increasingly shifting from shopping in store to online. Many retailers find themselves in an uncomfortable position as margins are being squeezed between weakening demand and rising costs too. The last nine months have seen lots of problems in the retail sector, but particularly in areas which looked to have high demand and plenty of well-heeled customers such as prestige fashion and sports cycling. Some of the major failures seen in these last two quarters are:

Wilko Ltd – The well-established and renowned large hardware-&-general merchandise retailer, went into administration on 10 August 2023, having filed a notice of 'Intention to Appoint Administrators' on 3rd August. Although they made numerus attempts to preserve the business and its going concern status they had to unfortunately concede into administration. On the back, of £1.3 billion turnover, they made a profit of only £3.2m in 2021 and traded at a loss of £36m in 2022. They owe about £70m to suppliers and required this level of working capital to continue trading. Wilko had been badly impeded by Covid and, as a major high-street player, the fact that shoppers have not returned to high streets in the numbers they once did. As well as the changes in consumer behaviour has come renewed competition from other low-cost sellers such as B&M, Poundland and Home Bargains has made things even more difficult.

Wiggle Ltd – The cycling and multi-sports online retailer, went into administration towards the end of October and is currently up for sale. Its sister brand, Chain Reaction, is also included in the in administration. The Portsmouth-based European online retailer, selling cycle, run, swim and outdoor equipment and apparel suffered a fall in trade as well as liquidity problems for several months. The company is ultimately owned by SIGNA Sports United based in Germany that also had liquidity problems, which compounded matters. Revelations of the financial difficulty were apparent in the summer when it was reported a £97 million loss. However, it came to a head in early October when the parent company announced plans for an accelerated strategic realignment and restructuring program, in which it threatened the winding down of non-performing assets on the back of liquidity and profitability challenges. It was cited the bike industry as an underperformer, stating that it "continued to lag management expectations.

Some other notable insolvencies in this sector:

- Victoria Plumb - £113m (sold prepack administration)
- People Tree UK - £10m
- UK Flooring Direct - £55m
- Meatless Farm - £12m
- My Fresh Prepared Produce Ltd - £20m



Look Out Factors

- Profit variance in relation to the balance sheet strength.
- Excessive borrowing versus a decline in income.
- A decline in discretionary spend.
- Unbalanced cash inflow vs cash outflow relationship.
- Ideal stock turnover ratio of between 5 and 10.
- Current asset coverage is a good measure and a sign of a business in deterioration.
- Is the capital base of a 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. This could lead to cash flow exertions especially when unforeseen internal/external events occur.
- Debt dependency – Is there too much dependence on debt?
- Look for retail CVA levels as 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 during this volatile time. 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, important for any business.

Staying Ahead of The Curve

"It's fine to celebrate success but it is more important to heed the lessons of failure." Bill Gates

Strengthening credit management must be a priority. This can be achieved by taking necessary action with a prime focus around the following:

1. Pre-vetting of prospective clients by obtaining and maintaining information about their financial health.
2. Establishing expected payment behaviour and a well-structured collections process.
3. Ensuring delayed payments are addressed by issuing automatic, escalating reminders or chasing frequently.
4. Having the right tools at hand to mitigate loss such as credit insurance, collections or recoveries.

These are just an array of practices that can be employed to minimise the risk of bad debts to the business, but there are other factors that could influence decision making. For instance, some smaller businesses are reliant on a small number of larger customers to sustain their top line, with these customers sometimes making up the vast majority of a company's turnover. However, being heavily reliant on one customer has significant drawbacks and so diversification in this area is instructed.

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 ongoing uncertainties. 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 economy continues to tread on the cliff edge of recession as the government is trying to battle inflation.

In times of economic uncertainty and a demanding business environment, Xenia, and our specialist credit insurance team with the aid of a credit insurance policy can act as an extension to your credit management function. Our aim is to work in partnership providing a bespoke service helping protect and grow your business. 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.

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