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**Begbies Traynor**

## **Judgement Day Approaching for Zombie Companies**



As the UK economy shows real signs of improving health, new research from Begbies Traynor shows the number of zombie businesses in the UK is at a four-year high, with real dangers ahead particularly for the vulnerable SME business sector.

This research, based on an analysis of the Red Flag Alert dataset, reveals that one in seven of UK businesses are 'zombie' companies; Yorkshire matches the national level. In real terms this means 432,082\* businesses nationally, and 24,608 businesses, in the region are only just generating enough cash to pay the interest on their debts and keep creditors at bay.

This is a 16% rise since 2010 (371,185) across the UK; the figures in Yorkshire are above the national trend with an 18% rise since 2010 when there were 20,818 companies. Real estate and property services, support services and professional services sectors show the highest proportion of 'undead' with 78,415; 25,178 and 15,985 respectively in 2013. The South East, London and Midlands are the worst affected areas across the four years analysed with Yorkshire faring close to the national average.

Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire and the North East, commented: "The sectors highlighted in our research are people and/or service based businesses, which have far less in the way of tangible assets to fall back on if there is a reduction in trading. Their net



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assets or liabilities therefore tend to be driven by activity and turnover levels and chargeable time. Conversely, they are also the businesses that might find it easier to adjust to an increased demand for their services as the existing workforce can work longer hours to cope with increased demand, then the company can make the decision to increase headcount if demand is sustained.

“The analysis shows that these corporate zombies have clung onto life over the last six years due to a low interest rate environment and increased creditor forbearance, but this benign climate will not continue forever. As unemployment rates fall fast, under Bank of England rules interest rates could rise as early as 2014. Even if they go up by only 0.5% insolvencies could increase sharply. Ultimately not all zombies are necessarily the same – some will go on to recover through access to funds and improving market conditions, whilst others seem destined to fail.”

There is clear evidence that these zombie companies are prohibiting the growth of healthy businesses and having a negative impact on the UK economy, the challenge now is how we restore some of these operationally sound but balance sheet hampered businesses back to good health. The sting in the tail being that many of these businesses will be desperate for new orders and will be particularly vulnerable to overtrading. Our experience shows that even the most experienced directors can simply run out of working capital.

Mr Pitts added: “Increasing working capital is key to servicing heightened demand on the back of a recovery. Access to trade credit is also vital in helping many companies manage cash-flow, allowing them to continue trading. But faced with negative balance sheets, a decision to extend trade credit becomes even more difficult.

“Lenders are becoming more prescriptive in risk assessment and suppliers are savvier with information which is more readily available. Credit scoring systems, such as Red Flag Alert, can be used to predict the continuing stability of the business, giving an indication of their health over the next twelve months. Similarly, Payment Performance Data details their recent payment history, which can give a clear indication of their repayment capabilities. A well informed supplier or financier can then decide if additional credit could be given without too much risk of default.”

- Ends -

**Photo shows:** Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire and the North East

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**Notes to editors:**

\* This number is the equivalent of Companies House ‘on register’ company population number as quoted in their statistics. It is the total population of Limited companies registered with Companies House and excludes all former limited companies that have been struck off or dissolved.

**About Begbies Traynor Group**

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Begbies Traynor Group plc is a specialist professional services consultancy providing independent professional advice and solutions to businesses, financial institutions, the accountancy and legal professions and individuals in the areas of recovery, corporate finance, investigations and risk management. It is listed on AIM (Ticker: BEG). Further information can be found at: [www.begbies-traynorgroup.com](http://www.begbies-traynorgroup.com).

### **About Red Flag Alert**

Red Flag Alert measures corporate distress signals through a comprehensive and complex methodology, drawing on factual legal and financial data from a wide range of relevant sources for companies that have been trading for over a year.

The release refers to the numbers of companies experiencing 'Critical' problems which are those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary Arrangements.

The release also refers to the numbers of companies experiencing 'Significant' problems, which are those with minor CCJs (of less than £5k) filed against them or which have been identified by Red Flag's proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help prepare them for the future. Further information about Red Flag Alert can be found at: [www.redflagalert.com](http://www.redflagalert.com)