Date: 02 January 2013

R3

UK's economy continues to stagnate but Yorkshire businesses show some signs of recovery

Business distress levels have remained elevated throughout 2012 according to the latest wave of R3's Business Distress Index. However, although over a third (34%) of businesses in the in Yorkshire and the Humber are experiencing decreased profits, close to the national average of 33%, there are indications that they are faring better than those in other parts of the country.

Only 3% of businesses in Yorkshire and the Humber are regularly using their maximum overdraft facility compared with 20% nationally; and only 19% in the region have seen reduction in sales volume rather than the national average of 31%.

R3's latest research shows a sizeable number of businesses are relatively stable; with nearly half (46%) of businesses nationally reporting no distress signs at all (up from 36% in March); and this level is even higher in the region at 63%.

Robert Adamson, chair of R3 in Yorkshire and northern head of restructuring services at Mazars, comments: "It is encouraging that half of businesses in the UK are not in a distressed situation - a large improvement from the report's inception in 2010 when only a quarter of businesses could say that. However, what is of most concern is the businesses that have existed in a distressed situation for some time and are likely to have reported distress signs throughout the year. The fate of these businesses will have a major impact on the UK's economy. If creditors become more rigorous in their pursuit of debts owed to them there is likely to be a sharp rise in business failure. This may clear the ground for a quicker return to growth and free up capital for other more viable businesses. However if major creditors continue forbearance we could see a continuous period of low growth."

SMEs are experiencing significantly high levels of distress compared to larger businesses. 37% of small businesses are experiencing decreased profits, compared to 19% of medium-sized businesses and just 7% of large businesses. In fact, across all distress signs, higher numbers of small businesses are suffering, with the exception of making redundancies.

Mr Adamson adds: "Small businesses are likely to be struggling because they typically have less access to capital. They are also more vulnerable to any change in circumstances, such as a loss of a major customer or increased pressure from their creditors. SMEs are not able to diversify quickly enough to change their business in response to such events and typically do not benefit from adequate financial resources to restructure. Large businesses have the tools to relocate or cut head count for example. For this reason, it is not surprising that the one area large businesses are experiencing higher levels of distress is in making redundancies."

Throughout the three waves of the distress index in 2012 the number of businesses in the UK experiencing distress signs has fluctuated only a few percentage points. *Decreased Profits* is marginally down 1% from 34% in June, *Using the Maximum Overdraft Facility* has increased 4% from 16% in June, whilst the number of businesses seeing a *Reduction in Sales Volume* remains constant.

Mr Adamson continues: "During the two years R3's Business Distress Index has been running, distress signs have often fluctuated quarter on quarter. The fact that for the last three quarters distress signs have remained relatively stable suggests the economy remains stagnant.

"There are a significant number of businesses being kept alive by the forbearance of banks, other key creditors and favourable interest rates, which is enabling them to stay afloat but make no in-roads on their debt. However, they are in a precarious situation with little prospect of growth. Any change in circumstance, such as a loss of a major customer or increased creditor pressure could easily push them into insolvency."

- ENDS –

Photo shows: Robert Adamson, chair of R3 in Yorkshire and northern head of restructuring services at Mazars

For further information please contact:

Susan Reid on (01423) 56 99 99 or susan@appealpr.com

Methodology note: BDRC Continental conducted 501 telephone interviews with small, medium and large business owners and Financial Directors between 5th - 12th November 2012. Strict quotas are set by size, region and sector and the data weighted to be representative of the ONS profile of UK businesses, each with an annual turnover above £50,000. The respondent in each case is a senior financial decision maker. (Previous survey, 6th-13th June 2012)

Notes to editors:

- R3 is the trade body for Insolvency Professionals, and is made up of 97% of the UK's Insolvency Practitioners.
- R3 promotes best practice for professionals working with financially troubled individuals and businesses; all R3 members are regulated by one of nine recognised professional bodies.
- R3 stands for 'Rescue, Recovery, and Renewal' and is also known as the Association of Business Recovery Professionals. Website www.r3.org.uk