

Begbies Traynor- Scotland

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NUMBER OF 'DISTRESSED' UK COMPANIES IN 2008 MORE THAN TREBLES COMPARED TO 2007

Begbies Traynor's Red Flag Alert shows number of UK companies showing early signs of financial stress averaged 65,728 per month during the last quarter of 2008

- *Red Flag Alert statistics reveal 82 per cent increase in companies with critical problems and 55% increase with significant problems in Q4 2008 compared to Q4 2007*
- *Red Flag reveals 245 per cent increase in distressed companies in 2008 compared to 2007*
- *Further economic turmoil expected for UK businesses in 2009*
- *Manufacturing and construction sectors showing highest increases in Scotland*

The number of distressed UK businesses more than trebled in 2008 compared to the previous year, according to Begbies Traynor, the UK's leading business rescue, recovery and restructuring specialist. This is an increase of 245 per cent over 2008 compared to 2007.

Figures for Scotland show it to be one of the hardest hit parts of the UK with those companies facing 'critical problems' up a staggering 129 per cent compared to a year ago.

"This is a massive jump and there are no indications that we will see an easing of the current downturn," said Ken Pattullo, who leads the Begbies Traynor team in Scotland where there are offices in Edinburgh, Glasgow and Dundee.

"There are definitely no signs as yet of green shoots of recovery and in fact the contrary is true," he added. "Manufacturing is showing significant problems compared to 12 months ago and the number of companies facing critical problems is up by a massive 400 per cent while those in the construction sector have increased by nearly 70 per cent, although this is not so surprising. Retail has almost doubled from 4 per cent to 7 per cent."

Figures show that in 2008 the number of companies in Scotland facing critical problems which involves winding-up actions or decrees totalling £5,000 or more was 492 against 140 in the previous year.

Across the UK, there were 4,566 companies on the Red Flag Alert critical list in Q3 2008 compared to 5,651 in Q4 2008, an 82 per cent increase when comparing these quarters. With regards to companies with significant problems Red Flag shows that a total of 197,185 appeared during the last quarter compared to 127,354 in Q4 2007, an increase of almost 55 per cent.

“Current economic conditions are not being helped by the restricted lending market,” said Mr Pattullo. “Despite the injection of significant funding by central government, lenders are still facing funding problems themselves and, in many cases, the major banks are the only serious source of SME funding as many erstwhile providers are closed for new business.”

“The consequence of this prolonged lack of confidence in finance markets, still reeling from the extended effects of the fall of Lehman Brothers, is likely to be a longer and deeper recession than had been expected.”

Mr Pattullo said the Red Flag Alert Statistics reveal that the number of distressed companies in the UK trebled over the previous year, peaking in November which was the worst month yet for UK businesses over the past two years. As the credit crunch continues, seemingly unabated, so has the number of companies receiving adverse actions and we do not see much respite ahead in 2009.

“The rate of increase has however slowed somewhat and is particularly noticeable when comparing quarter on quarter figures. The seasonal influence tends to reduce the numbers of companies receiving judgements in the run-up to Christmas, but this is expected to be counteracted during the first quarter of 2009.”

“We are seeing the first signs of a positive investment trend of business angels and trade buyers becoming more active in taking the opportunity to acquire companies or assets at depressed prices. This may signal a growing belief that asset values are reaching a floor and are now worth buying in anticipation of the eventual recovery. We expect more business angels to enter the market as the year progresses, as many are still holding out for further drops in

market prices. While this may be a welcome intervention for many, it still does not mean that 2009 will be anything but tough for UK businesses.”

Ends

Red Flag Alert measures corporate distress signals within factual legal and financial data drawn from a wide range of relevant sources, for incorporated companies that have been trading for over a year, with assets in excess of £10,000.