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R3

'Zombies' decrease but number of businesses with serious cash flow problems hits new high



According to the latest 'zombie business' tracker from R3, the insolvency trade body, there are now 6,000 'zombie' businesses in Yorkshire, the Humber and the North East – that is companies which are only able to pay the interest on their debt but not the debt itself. The figure represents 4% of all businesses in the region, a dramatic fall from 9% last November, in line with a decrease across the country.

However, although the number of 'zombie businesses' in the UK has fallen over the last year from 146,000 to 108,000, there has been a rise in businesses with acute cash flow problems indicating that the outlook for struggling businesses could be deteriorating.

Nationally, 134,000 UK businesses are struggling to pay their debts when they fall due, a technical definition of insolvency. This is the highest figure in the last 12 months and 4,000 of these businesses

are in Yorkshire, the Humber and the North East. In the region, in total, at least 6,000 businesses are either struggling to pay debts when due or are negotiating payment terms with creditors.

Robert Adamson, chair of R3 in Yorkshire and Northern restructuring partner for Mazars, says: “Businesses struggling to pay debts when they fall due are in a very perilous position. While they have yet to enter formal insolvency procedures, businesses with such serious cash flow problems may find that the day of reckoning is not too far off.

“There are fewer ‘zombie businesses’, but this is not necessarily because businesses that have been in this position are showing signs of improvement. Far bigger cash flow problems are occupying the thoughts of these businesses’ managers.”

The number of businesses in the UK negotiating payment terms with their creditors is also at a record high, up to 137,000 from 130,000 last year.

The time may be fast approaching for lenders, including suppliers and banks, to decide which businesses to continue to support and which to let go.

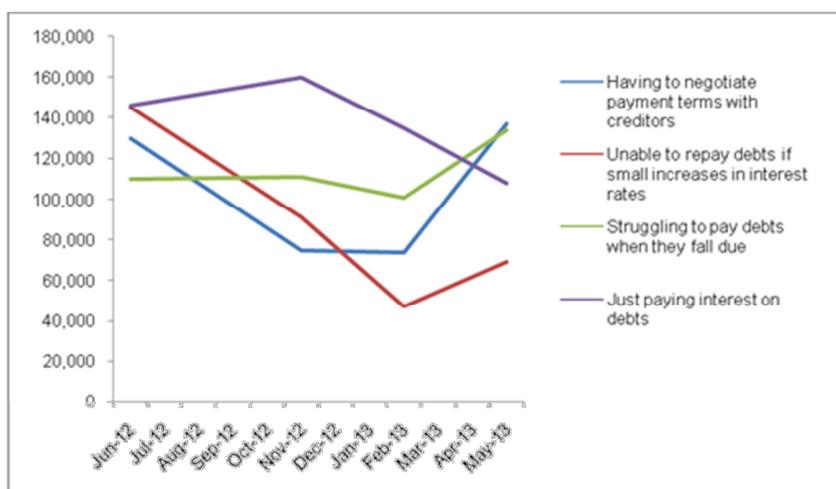
Mr Adamson explains: “With the economy recovering, it’s crunch time for struggling businesses as lenders start to make their minds up about which businesses to continue to support and which businesses to call time on.

“Not all struggling businesses are doomed to failure. The prolonged period of low interest rates and government support schemes has made it hard to distinguish between businesses that are struggling but viable and those businesses that do not have a future.”

R3 says that an orderly ‘wind-down’ of failing businesses is important. In 2009, R3 research found that over a quarter of corporate insolvencies were caused by another company’s insolvency – the insolvency ‘domino’ effect.

Mr Adamson says: “The ‘zombie business’ theory assumes that keeping capital and talent tied up in ultimately unviable businesses crowds out others. However, the long-delayed failure of struggling businesses may cause a short-term jump in unemployment, and could hurt other businesses too.”

UK businesses showing signs of distress





media relations and profile

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Photo shows: Robert Adamson, chair of R3 in Yorkshire and Northern restructuring partner for Mazars

Notes to editors:

- Methodology: Using market research agency BDRC Continental, R3 surveyed 500 business owners or FDs of businesses with a turnover of £50k+. According to the Department for Business Innovation and Skills there are currently 1.73 million such businesses in the UK. Results were then weighted according to the make-up of the business population to enable them to be extrapolated. Fieldwork dates, first survey 6th-13th June 2012 and most recent 7th-17th May 2013. The report can be read here: http://www.r3.org.uk/media/documents/policy/research_reports/special_reports/Zombie_business_tracker_June_2013.pdf
- 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