R3 Business Distress Index (October 2016): Impact of the Brexit vote

R3's latest research shows that three-in-four UK businesses (74%) say they have yet to feel any financial impact – positive or negative – from the vote to leave the EU. However, 16% of all businesses, equivalent to 283,000 businesses, say the vote has already had a negative financial impact on them, compared to just 5% of businesses (85,000) who say the outcome of the referendum has had a positive financial impact.

The research also shows that 62% of UK businesses reported at least one sign of business growth, only slightly down from 69% in June. Of the individual indicators, there was a noticeable rise in the numbers experiencing increasing sales volume and profits since June.

Levels of business distress remain relatively low with only 21% of businesses experiencing indicators of distress, compared to 30% in June.

Key findings

Brexit

- Three-in-four UK businesses (74%) say they have yet to feel any financial impact – positive or negative – from the vote to leave the EU.
- However, 16% of all businesses, equivalent to 283,000 businesses, say the vote has already had a negative financial impact on them, compared to just 5% of businesses (85,000) who say the outcome of the referendum has had a positive financial impact.
- The businesses most likely to say they have seen a negative financial impact from the referendum result are large companies employing 251 or more people.
- 23% of large companies (2,000) say they have seen a negative financial impact from the referendum result, while just 2% say they have experienced a positive impact.
- In comparison, 16% of businesses employing between 2 and 5 people say they have seen a negative impact from the referendum, while 6% say they have experienced a positive impact.

Business growth

- 62% of UK businesses reported at least one sign of business growth, only slightly down from 69% in June. Of the individual indicators, there was a noticeable rise in the numbers experiencing increasing sales volume since June (38% v. 31%) and profits (32% v 22%).
- The proportion of businesses that expect their business activity to increase in the next year fell from 51% in June to 36% in September. The majority (56%) expect it to stay the same, while only 4% expect it to decrease.

Business distress

- Signs of business distress are down, with only 21% of businesses experiencing indicators of distress, compared to 30% in June.
- Each indicator of distress showed a decrease since the previous survey, with those experiencing decreasing market share (5%), regularly using maximum overdraft (4%) and making redundancies (2%) all at record lows.
- 47% of UK businesses are more optimistic about the economy generally than three months ago, 20% are more pessimistic and 32% are neither.

Zombie businesses

- 139,000 businesses in the UK are only paying the interest on their debt and not repaying the debt itself, often a sign of a 'zombie business' – a business only surviving because of low interest rates.

- The number of businesses in this position – equivalent to 8% of all UK businesses – has returned to levels more in line with previous years after falling to 69,000 last year (4%).
- *R3 commentary*: "Apart from the initial shock of the EU referendum result, the business environment has so far been relatively benign over the course of 2016. It's more likely that otherwise healthy businesses are taking advantage of record low interest rates to keep cash in their business."

  "Other indicators of acute distress are all down such as having to negotiate payment terms with creditors and being unable to repay debts if there was small increase in interest rates. This suggests that businesses just paying the interest off aren't as lifeless as they may have been in previous years."

Commentary from R3 President, Andrew Tate

"In the lead-up to the referendum businesses were displaying record-high signs of growth and while the rate has slowed, the immediate impact of the vote on businesses appears to be limited."

"The immediate shock of the referendum result was much briefer than expected, and many businesses – and importantly, consumers – have adopted a business as usual approach since then. In fact, more businesses are seeing their sales and profit grow. This could be attributed to the strong rate of consumer spending which having initially dipped after the vote, rebounded quickly."

"It's still early days but the vote hasn't translated into tangible problems for most companies. It's particularly positive to see the lowest level of businesses regularly relying on their overdrafts. While we're currently in an environment where borrowing is cheap and interest rates are at record lows, constantly depending on credit can easily lead a business into trouble in the long-term."

"The UK is, of course, still a member of the EU, so the impact of the vote itself will be limited for the time being. When we find out what Brexit actually means, things might begin to change. In the short-term at least, there are likely to be one or two instances of 'Brexit' being used as a bit of a convenient excuse by companies when they run into trouble."

"That said, Brexit will be causing genuine problems for a significant minority of companies, and it will be benefitting others. The main reason for this is the sharp fall in the value of the pound, importers will have been hurt, while exporters may have seen an increase in demand for their products. Uncertainty over the future of the UK-EU relationship may put some important deals on hold, at least temporarily."

"Anecdotally, while our members say they are yet to see any increase in Brexit-related appointments, some have reported an increase in calls from worried business owners looking for advice. While a number of recent surveys have reported business confidence falling since the vote, that doesn't appear to have yet translated into a financial impact for most businesses."

Method: BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors in September 2016. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business, Energy and Industrial Strategy (BEIS). The respondent in each case is a senior financial decision maker.

About R3: R3 is the trade body for the UK's insolvency and restructuring profession. From senior partners at global accountancy and law firms to practitioners who run their own small and micro-businesses, our members have extensive experience of the personal and corporate debt landscape. *For more information please contact James Jeffreys (Public Affairs and Policy Officer) on 020 7566 4220 or james.jeffreys@r3.org.uk www.r3.org.uk. Follow us @R3PressOffice*