R3 Business Distress Index: Over 10% of UK businesses struggling to pay debts (December 2018)

Research by R3, the UK's insolvency and restructuring trade body, suggests firms in the UK businesses are struggling to pay their debts as they fall due, and are only able to pay the interest on their debts, rather than the debt itself.

Key findings

The figures, which are based on research by BVA BDRC, show one in ten (11%) of companies in the UK are only paying the interest on their debts. Only being able to pay the interest on debts, not the debt itself is one of the signs of being a "zombie business"; such firms are vulnerable to external shocks such as rising interest rates, and may struggle to grow or increase productivity.

Struggling to pay debts

- R3's research shows that 18% of companies in the UK are struggling to pay their debts when they fall due.
- Over one in five (21%) UK firms have had to negotiate payment terms with their creditors.
- 5% of local firms reported that they would be unable to repay their debts if interest rates were to increase by small amount.

Signs of business distress

- 60% of all businesses in the UK reported experiencing at least of sign of business distress.
- The most commonly cited sign of business distress was being owed payment on invoices over 30 days past due (20%), followed by a reduction in sales volumes (16%) and decreased profits 16%).
- 13% of companies reported regularly use their maximum overdraft facility, and 22% have had to make redundancies, both signs of business distress.

R3 Commentary

Stuart Frith, President of R3, said: "Tougher trading conditions and much uncertainty over the future of the economy have contributed to a significant chunk of UK businesses finding themselves stuck in 'zombie business' mode.

These businesses are capable of ticking along, but growth and increased productivity improvements are out of their reach for the time being. On the one hand, this means thousands of businesses are stuck in a position where they'll struggle to deal with external shocks. This presents a problem if they all were to become insolvent at the same time. On the other hand, you have a significant proportion of businesses which are tying up investment and staff which could be used by more productive companies elsewhere in the economy.

R3 members have reported that economic uncertainty is contributing to businesses treading water, with some building up stock to safeguard against future risks – such as the UK leaving the EU without a deal next March. Investing in the stockpile puts pressure on cashflow and investment in other areas, while large stockpiles will take time to turn back into cash and are at risk of obsolescence.

Rising interest rates will have also contributed to businesses stumbling into 'zombie business' status.

The future for these 'zombie businesses' is mixed. Some might eventually be able to restructure or find new investment, and grow. Others will run out of road and become insolvent. While this would mean capital could be 'recycled', it may also be a bit of an economic shock in itself.

While they still need a lot of work, the Government's insolvency reform proposals could give insolvency practitioners more tools to help turn around struggling companies, and boost productivity.

It's worrying that business distress signs are ticking up, while growth signs are trending downwards. With uncertainty coming at them from several vectors, businesses need to stay on their toes and ensure they're in shape to meet the future demands of the market, and customers' ever-higher expectations.

Any business can be blind-sided by a sudden change in its operating environment; longer-term and more gradual changes must also be monitored carefully, to avoid the risk of stagnation. In a distress scenario, the perspective of a third-party advisor can be invaluable for helping directors determine the best way forward."

About BDRC: Research undertaken by BDRC, an award-winning insight agency. Questions were put to 500 UK businesses via BDRC's monthly Business Opinion Omnibus. Telephone-based interviews with a nationally representative sample of senior financial decision makers across the UK, weighted by size, region and sector. Fieldwork dates 1st to 16th November 2018.

About R3: R3 is the trade association for the UK's insolvency, restructuring, advisory, and turnaround professionals. From senior partners at global accountancy and legal firms to practitioners who run their own small and microbusinesses, our members have extensive experience of helping businesses and individuals in financial distress. If you have any queries, or would like a meeting to discuss insolvency trends in the UK, please contact R3's Policy Executive, Mira Lodhia, on 020 7566 4202 or mira.lodhia@r3.org.uk