Association of Business Recovery Professionals
R3
Rescue
Recovery
Renewal

Business Distress Index: Wave 15

A Record Year

December 2014

Methodology

Research undertaken by BDRC Continental, an award-winning insight agency. Questions were put to 500 UK businesses via BDRC Continental's monthly Business Opinion Omnibus using telephone-based interviews with a nationally representative sample of senior financial decision makers across the UK, weighted by size, region and sector. Fieldwork dates 3rd to 13th November 2014.

Introduction by Giles Frampton, R3 President

This survey marks a record year of both high signs of business growth and low signs of business distress. Indicators of growth are becoming much more balanced too, with increasing sales and reports of business expansion now being joined by a growing proportion of businesses reporting increasing profits. Concerns over the sustainability of the recovery are less marked and it is to be hoped that businesses will now be starting to really feel the benefits of sustained growth.

It is encouraging too that distress levels have stayed at rock bottom for a year although this should not be cause for complacency. Recovery still involves risk: expansion requires access to new finance, which might not always be easy to come by; cash flow can be tight for a growing business, as can ensuring a business meets increasing demand.

The survey's findings on businesses' next expected source of finance shows that three in four businesses are either not looking for funding or, where they are seeking new funds, are not expecting to use the banks. Although banks have been lenient with existing customers since the financial crisis, new business customers have not necessarily found them so generous with their lending.

With a general election around the corner, we will no doubt start to see new policies on business support and access to finance put forward by the political parties as they compete for the business community's support. Access to finance has been at the forefront of the coalition Government's business agenda this parliament, and as the UK economy continues to recover and grow, the next parliament is likely to be no different.

Giles Frampton, R3 President

1. Business Distress

- Signs of business distress remain near record lows: 35% of British businesses are showing at least one sign of distress, the same as in June 2014, and just 2 percentage points higher than the record low of 33% in February 2014.
- The share of businesses showing at least one sign of distress has fallen by twenty-nine percentage points, from 64%, since March 2012.
- The share of businesses showing at least one sign of distress has been 35% or lower in four of the last five surveys (from July 2013 onwards).
- The North has the highest proportion of companies (70%) showing no signs of business distress, followed by the Midlands (68%), and the South (60%).
- The proportion of larger companies (250+ employees) experiencing one or more signs of business distress (22%) is lower than the proportion of sole traders in the same position (50%).
- The proportion of businesses reporting a fall in their market share is at a record low (10%).

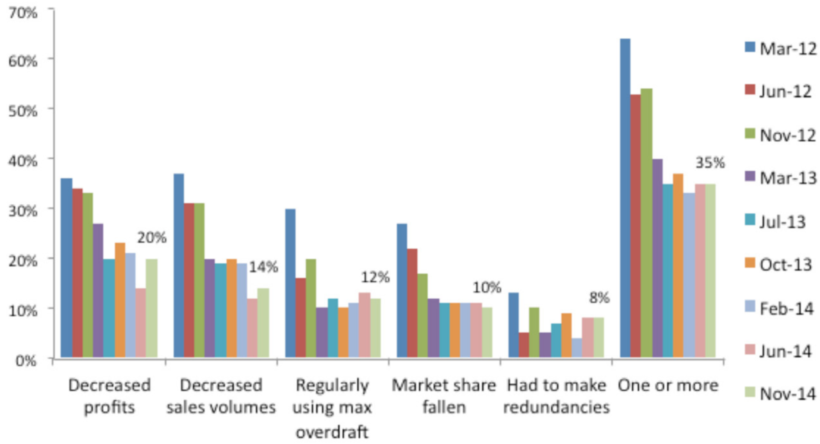

Table 1 - The proportion of businesses reporting signs of distress

2. Business Growth

- Almost two-thirds of businesses report seeing one or more indicators of growth (65%).
- 40% of businesses are experiencing increasing sales volumes, the most common sign of growth.
- The share of businesses reporting signs of growth has stayed over 65% in the last four surveys (since October 2013).
- Business growth is uneven around the country: the Midlands was the best performing region with 74% of businesses reporting one or more indicators of growth, compared to 71% in the North, and 54% in the South.
- The proportion of larger businesses experiencing one or more indicators of growth (88%) continues to be higher than that of sole traders (46%).

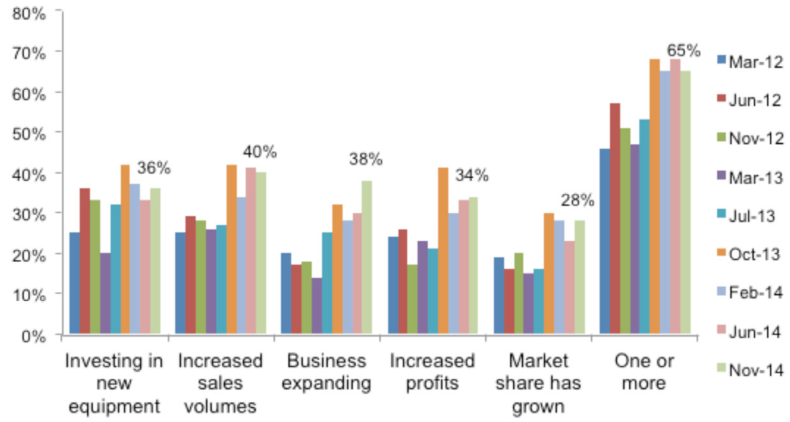

Table 2 - The proportion of business reporting signs of growth

3. Sources of funding

- 74% of businesses expect their next means of new capital to come from a source other than a bank.
- The most commonly expected source of non-bank funding is investment or loans from family and friends (10%).
- Government schemes, equity finance, and invoice discounting, factoring, asset back finance, each accounted for 3% of businesses' expected sources of funding.
- Crowd-funding is particularly popular in Wales* where it was expected to be the next source of new funding for 23% of businesses.

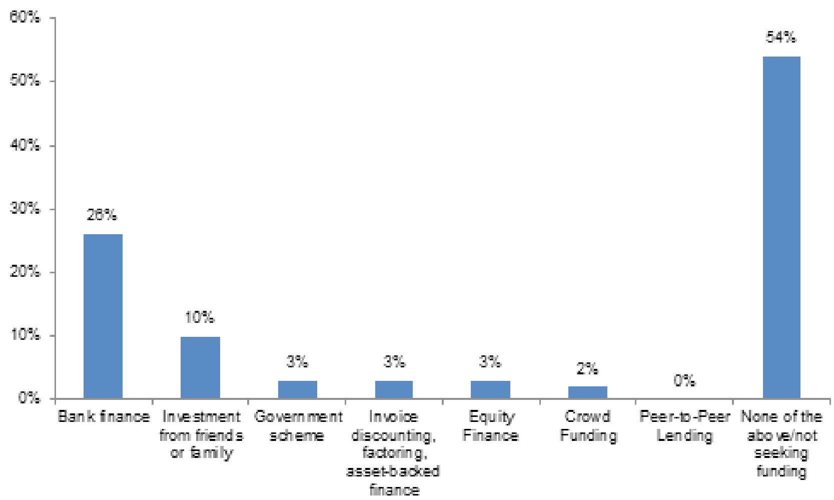

Table 3 - Expected source of new capital for businesses

*Small sample size so results are indicative only

4. Business Confidence and Economic Optimism

- The proportion of businesses who expect their business activity to increase in the next year has fallen by eight percentage points since the last survey (June 2014) to 46%.
- Larger businesses (73%) are more likely to expect increased business activity than sole traders (29%) by a margin of 44 percentage points.
- The proportion of businesses optimistic about the economy generally fell to 58%, having peaked at 67% in June; this is the biggest fall since March 2012. The fall marks a return to levels last seen in the surveys in February 2014 and October 2013.
- Larger businesses (74%) are more optimistic about the economy than sole traders (56%).
- Economic optimism is broadly even across the regions; ranging from 62% in the Midlands, to 58% in the North, and 56% in the South.

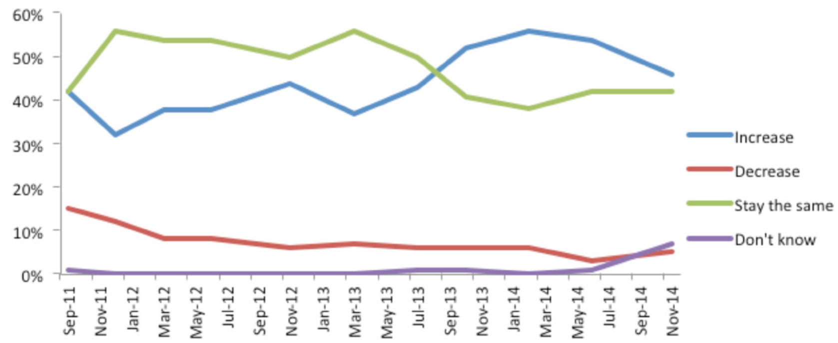

Table 4 - Expected prospects for business activity in the next year

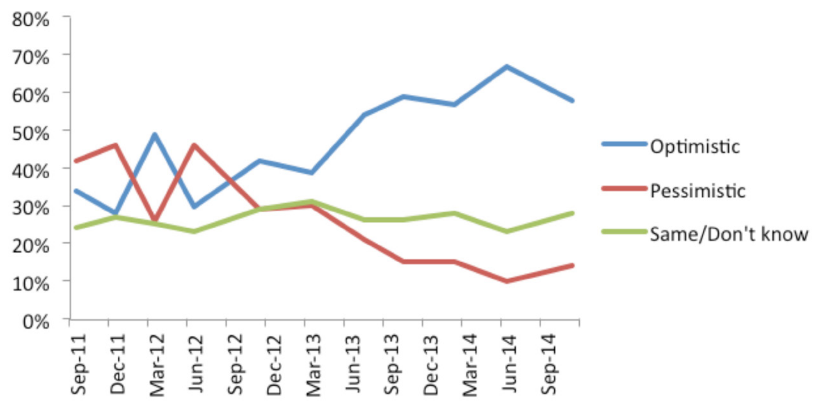

Table 5 - Outlook on the economy generally

Key indicators of business growth

- Increase in sales volume
- Business expansion (geographically, increasing staff numbers or new areas of business)
- Investing in new equipment
- Experiencing increased profits
- Growth in market share

Key indicators of business distress

- Decrease in sales volume
- Regularly using maximum overdraft facility
- Made redundancies
- Decreased profits
- Fall in market share

About R3:

R3, the insolvency trade body, represents 97% of insolvency practitioners. R3's members are regulated by their recognised professional bodies. They can be licensed insolvency practitioners, solicitors, chartered accountants or certified accountants. They have extensive experience of helping businesses and individuals in financial distress. For more information please contact R3's Public Affairs and Policy Officer, Alex Green-Wilkes on **020 7566 4220** or **alex.green-wilkes@r3.org.uk**