FACING UP TO REALITY

Amid high interest rates and inflation, as well as weak consumer confidence and rising costs, many businesses are struggling. But there are steps that can be taken to improve cashflow, restore financial stability and effect positive change, as Nicola Smith finds out

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Figures from Begbie Traynor's latest Red Flag Alert, which monitors the financial health of UK companies, classed 39,618 South West companies as in 'significant' financial distress. This marks a quarterly increase of 15.4 per cent and an annual rise of 9.6 per cent. The Insolvency Service says that in Q3 of 2023 6,208 company insolvencies were registered in the South West, a 10 per cent increase on Q3 2022 figures.

Several warning signs can indicate that a business is in financial distress, lack of cashflow being one, particularly if a company is struggling to pay suppliers or salaries.

David Stone, chief executive at Devon-based Prompt business strategies, says identifying that profit is trending the wrong way is also critical: "Obviously, really good cashflow is important, but if the underlying profit isn't there it will show in the cashflow, so go back to real basics – are the core economics of the business working?"

Martin Askew, Bristol-based partner and national head of restructuring and insolvency at Clarke Willmott, says another alert is slower payments, echoed by Julie Palmer, regional managing partner at Begbies Traynor: "If your customers are paying late, or if you lose a key piece of business, this can have a significant impact on the overall financial health of your business."

If payments to key suppliers like HMRC and landlords can't be made or are later than normal, businesses need to take action. The lengthening of creditor terms is another warning. Antony Batty, managing director of Antony Batty & Company, says: "This is often a sign of cashflow issues and may indicate that the company will become increasingly less able to pay its debts as they fall due."

Increasing stock levels may also indicate that incoming orders are reducing. "This can be a clear sign that a company's financial position is deteriorating," says Batty.

Taking swift action

Stone says many companies have already applied self-help strategies such as extending payment terms with creditors by the time they ask for help. "That is quite a difference compared to what we were seeing five or six years ago. Most company directors know where to look for advice and they will have pushed their creditors to a certain point."

But while a turnaround expert might pull the same levers, Stone says they are likely to do things slightly differently. "For example, I think we would be braver with HMRC – where a business might agree a three-month time to pay, we would push for longer because we know nothing goes to plan."

A specialist third party also offers a clearer perspective. "Many owner-managed businesses continue to believe that elusive order will come in, whereas, based on experience, we would temper their optimism."

Claire Burden

TURNING AROUND YOUR TURNAROUND

Claire Burden, partner and head of advisory consulting at Evelyn Partners in Bristol and Institute For Turnaround (IFT) board member, outlines the key steps to build a plan and execute a turnaround.

- Bring your stakeholders on board and ensure they are all aligned – particularly the bank.
- Ensure your employee communications are consistent.
- Seek advice – it's vital to have a 'critical friend' like an IFT member on hand, whose support can be scaled up and scaled down according to your needs.
- Build in some prudence and a buffer into your forecasts, so there is nothing left which can undermine the whole process.
- Set some key milestones that you can attend to if they are not being hit for any reason.
- Have a contingency plan so that if new information comes to light, you can be adaptable and know at which point you need to speak to an insolvency practitioner.

"Most company directors know where to look for advice and they will have pushed their creditors to a certain point."

David Stone
Prompt

Chris Marsden, partner of restructuring and recovery services at Evelyn Partners in Bristol, agrees: "The biggest mistake among directors is failing to get experienced professionals involved early enough and thinking they can do it all themselves."

As Askew warns, the options "decrease at an alarming rate as it runs out of cash".

Plotting a way forward

Solutions are often routed in a strategic plan, showing where a business is, where it wants to get to, and how to build enough cashflow.

Dan James, partner at Albert Goodman, says the start point is obtaining an overview of the business and its finances. "We'll need to assess the short-term cashflow position and management information. In addition, we'll need to understand funding arrangements and whether they are suitable."

Palmer says look at several areas. "Where cash may be diverting unnecessarily or how to reduce non-essential costs, so resources can be redirected to those areas fundamental for survival, and ultimately growth."

A turnaround plan may consist of several parts ranging from working capital and cash management to refinancing or alternative funding. It could also include a managed exit away from loss-making parts or support programmes, such as bringing in interim management to provide additional expertise.

It is important to get stakeholders on board, including banks, HMRC and landlords, to help build resilience. As Askew says: "This is about having the relationships that ensure that you, as a management board, get told of problems sooner and have the relationships with others to seek to renegotiate terms, or reduce or delay payments."

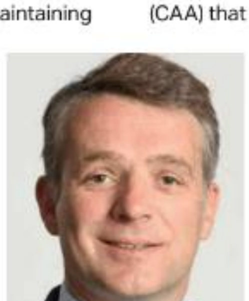
Askew stresses that knowing your business is critical. "This means knowing where an external factor is going to cause your business problems, so you can anticipate that and try to mitigate losses."

Above all, being honest and realistic is essential, from the first alarm bell to the final step of a turnaround strategy. Stone says: "Companies need to dig deep and not be frightened of talking honestly and saying, 'I am worried about this'. If you don't ask for help early, it gets harder and harder."■

RESCUING THE SOUTH OF ENGLAND'S AIR AMBULANCES

Osborne Clarke recently advised Specialist Aviation Services (SAS) and its joint administrators from FRP Advisory on a sale of the aviation provider's business, maintaining continuity for air ambulance services across the South of England. Here's how it went:

Headquartered at Gloucestershire Airport, SAS provided critical helicopter emergency medical services (HEMS) and maintenance to air ambulance charities across the South of England, supporting more than 5,000 air ambulance flights in 2023.



Nigel Boobier

Following a review of its options in light of financial difficulties, SAS instructed FRP Advisory and Osborne Clarke to act. Nigel Boobier, restructuring partner at Osborne Clarke, says it was recognised that the business needed to launch an accelerated M&A (mergers and acquisitions) process to find a sale that would maximise value and preserve continuity of operations. The turnaround also had to be done in a short time frame, as SAS had insufficient funding.

"The key factors in the process were necessitated by the regulatory framework in place with the Civil Aviation Authority (CAA) that meant any buyer needed to obtain approvals from the CAA on an expedited basis while changes of contract or outline agreements needed to be agreed with lots of counter-parties," says Boobier.

These included domestic customers – primarily five air ambulance charities – plus customers in the Middle East, including Kuwait and Bahrain. The business and assets were sold to global aviation provider Gama Aviation through a pre-packaged administration process.

"This meant that the sale documentation was agreed and negotiated before the administrators were appointed, with the transaction completing shortly after the appointment of the administrators," says Boobier.

The sale ensured continuity of service for air ambulance charities and security for 182 SAS employees.