

Our research...

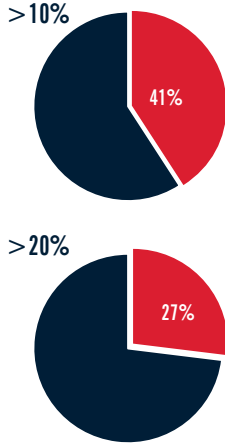
Latest research from Baker Tilly and Company Watch focused on construction SMEs with an annual turnover of £5 million to £25 million, shows that over a quarter of companies in the sector have been hit by a 20% or greater downturn in sales, according to their 2010 filed accounts.

The figures also show that almost one in three construction companies have seen a 50% plus fall in their Profit Before Tax (PBT).

“The fall in revenues and profitability in the construction sector highlights not just the liquidity issues for the struggling companies themselves, but also the deteriorating risk profile for their stakeholders, such as suppliers and clients who need to be proactive in controlling and managing down their exposure to potential failures in the sector.”
Denis Baker, CEO of Company Watch

Over one in six would not be able to pay off their immediate debts if required to do so by their creditors. This proportion have a current ratio of below one, suggesting potential difficulty in repayment of any short to medium-term debt liabilities if called upon

UK construction SMEs with fall in sales



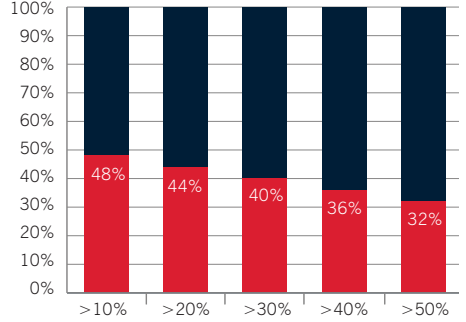
Source: Company Watch, July 2011

UK construction SMEs current and future distress indicators

| | |
|------------------|---------------------------------|
| Current Ratio <1 | PoD® (Probability of Distress)* |
| 16% | 1:40 |

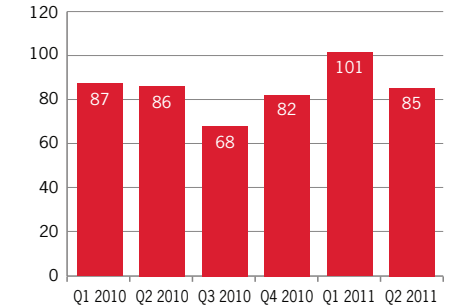
Source: Company Watch, July 2011 *In next 12 months

UK construction SMEs with fall in PBT



Source: Company Watch, July 2011

UK construction administrations



Source: The Insolvency Service

to do so. However, according to our research, liquidity is stronger in the construction sector than for the SME average across all industries.

Mark Wilson, partner at Baker Tilly Restructuring and Recovery LLP, who has experience of working on numerous construction assignments, comments:

“Although some in the sector may currently have the cash reserves to survive, we expect to see that for a number of players, cash will run out as sales – and more importantly, profits – continue to slide. The short-term slashing of prices in order to win work does little to help the bottom line and is not sustainable in the long term.

“Rising costs globally in the sector, largely raw materials caused by rising energy prices, are hitting the profits in construction much

harder than in other sectors. In addition, some players who will have historically been largely dependent on the public sector for contracts may have already seen dramatic reductions in their project pipelines. There is concern that we are yet to see what the full impact of the public sector cuts will be – but the early ripples have already been too much for some.

“Seeking early financial advice is critical to survival in many cases. Anecdotally, this is not something many construction managers will have been used to doing, as they have always traded in relatively good times.”

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