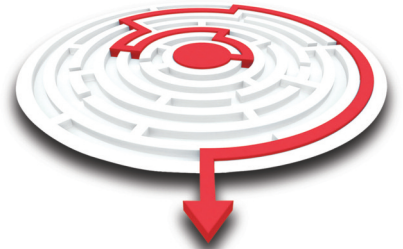


# SME Distress Monitor

## United Kingdom

Sept/Oct 2011



**Restructuring and Recovery**  
Real people, real solutions

Cash is king. We've heard this enough times during the recession. But now, the findings of the Baker Tilly/Company Watch *SME Distress Monitor* show just how critical cash reserves will be for Small & Medium Enterprises (SMEs) if they are to survive the economic recovery.

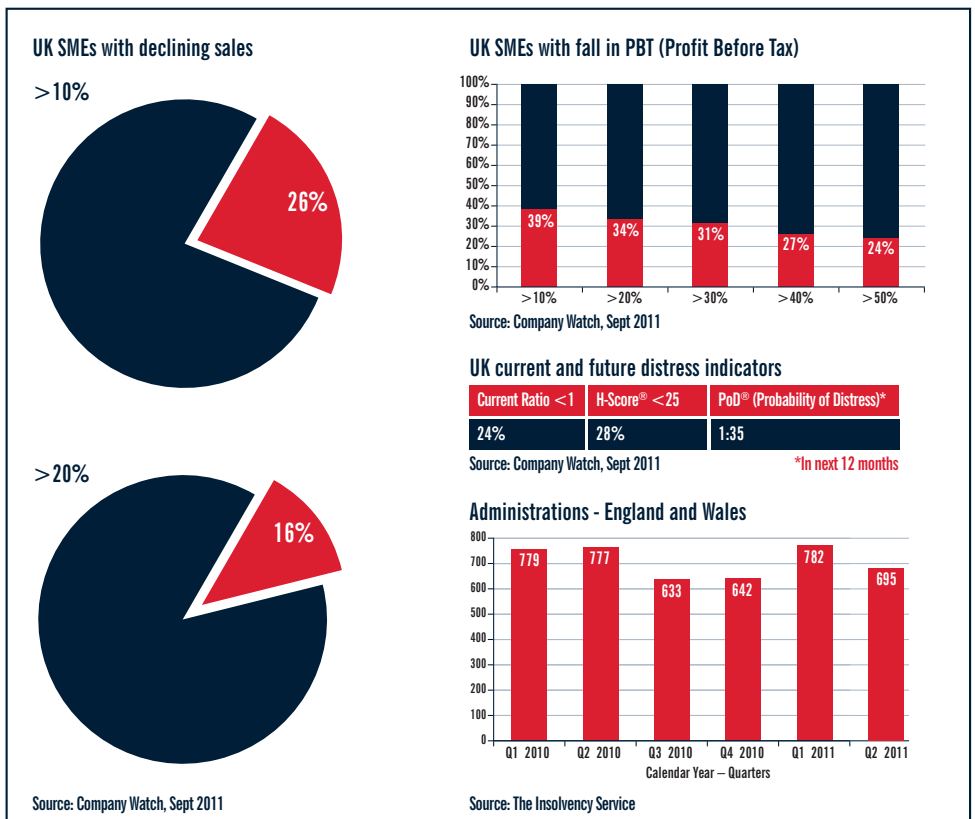
According to our research into businesses with sales of between £5 million and £25 million, making sure they have much needed working capital is challenging for many. Worryingly, almost a quarter of these SMEs across the UK saw a drop of over 50% in their profit before tax levels, according to their full 2010 filed accounts.

In addition, over a quarter saw a decline of 10% or more in their sales figures. It seems that, despite all efforts to preserve top line revenue, the impact of global inflation and consumer caution is severely impacting the bottom line of businesses, whatever their industry sector.

Interestingly, the trend has not been reflected in formal insolvency levels. We expect the market will remain tough over the coming months, particularly for companies already showing signs that they are struggling with cash flow issues. In recent years, many businesses have benefited from a generally supportive economic environment, bolstered by quantitative easing and HMRC's Time To Pay arrangements.

Servicing debt remains crucial to business survival. Of concern, our research shows almost one in every four UK SMEs has a current ratio below 1 which indicates insufficient resources to meet their immediate debt repayments. 28% are currently in the warning area of the Company Watch H-Score®, where a score of 25 or below signals potential distress in the financial health of a company. The vast majority of companies that fail are in this range prior to their failure.

The financial situation appears even more critical for one in every 35 SMEs in the UK, as the



Company Watch PoD® (Probability of Distress) indicates that this number are likely to go through a major restructuring exercise or enter into formal insolvency within the next 12 months.

With relatively high numbers of businesses currently financially distressed, taking action and seeking professional advice early will be critical. Addressing the issues as soon as possible can increase the options available to a business and consequently, their chances of survival.



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