

Distressed Business Acquisition

Part A: What is a distressed business?



TYPES OF DISTRESS

Businesses in distress

Whether it's due to the external environment, competitor aggression, business planning or internal management, businesses often find themselves in 'distress'.

Following the Coronavirus pandemic huge numbers of UK businesses have struggled to survive, let alone grow. Access to customers, cashflow problems, market slowdown, and owner/leader health have all played a significant part, and the number of businesses that find themselves in this predicament is higher than ever before.



Opportunity

For those wishing to acquire a business, intending to add to an existing portfolio, or as a first time interest, the opportunity to purchase has been widened.

Not only are businesses financially distressed, but small business owners are seeking security. This primary need can sometimes lead to owners being more open to offers for a business they may have a lack of confidence in, as their requirement for stability increases, or even as they plan to return to the full-time job market.

Investors are able to help this type of owner by acquiring and investing in their business, assuring them they have the right knowledge and resources to help the business turnaround or grow, and even maintaining them within the business in a management role.

500,000+

UK COMPANIES IN
DISTRESS

- AUG 2021

(CCJ £5K+ / CREDIT RISK FILED)

Administration is often the first step for a distressed business that has become insolvent, and/or unable to operate.

Administrators are called in to manage the business, in order to distribute assets to creditors, wind up the company, or ideally rescue the company.

Entering administration protects the company from creditors or legal action during this period.

It often results in a company being restructured, or sold from administration.



If a period of administration fails to turn the business around, then a company can be liquidated:

- A company Director can propose voluntary liquidation
- A compulsory court order can be made to liquidate the company
- The owner can cease trading without selling

If any of these occurs, then the business ceases trading and all its assets are sold off to repay its creditors.

Any remaining funds are distributed to the owner or shareholders, and the company is removed from the companies register.

In some cases businesses will attempt to avoid liquidation and it will fall to a creditor to peruse legal action to reclaim their funds.

If that is the case, the creditor will apply to the courts for the business to be 'wound up', and if successful the company will be liquidated and the creditors debts paid.

Coronavirus

The Coronavirus pandemic has seen the UK Government use various methods to support businesses, including pausing winding-up orders. This is, however, a temporary measure, and businesses with underlying problems will continue to fall into distress, with perhaps a wave of businesses succumbing to administration or liquidation once the Government's support measures are withdrawn.

Equally, businesses that have survived the pandemic via other means, may now start to feel the burden of debt they have taken on, and reducing revenues due to changes in consumer habits.

look out for "Part B: How to find a business in distress"
(email info@tnxconsulting.co.uk for a copy)

