

18 July 2016

Research shows British businesses are in a strong position to face Brexit challenges, but expect at least six months of turmoil ahead

***Levels of financial distress fell 4% ahead of the Brexit vote, but more than 240,000 SMEs still in a dire state
UK Property and Construction sectors expected to bear the brunt of Brexit, with nearly 50,000 firms at risk***

UK businesses across every sector of the economy were showing positive signs of stability in the run up to the EU Referendum, new research from Begbies Traynor, the UK's leading independent insolvency firm, reveals. However after the severe market turmoil that immediately followed the Brexit decision, experts warn that it could be at least another six months before we see a 'new normal' in the UK economy.

According to Begbies Traynor's Red Flag Alert research for Q2 2016, which monitors the financial health of UK companies, in the three months preceding the EU Referendum, levels of 'Significant' financial distress among UK businesses fell for the first time since Q3 2015, as the UK economy showed tentative signs of stability ahead of the Brexit vote.

The research reveals that levels of 'Significant' distress fell by 4% during Q2 2016, from 274,595 struggling businesses in Q1 2016 down to 263,517 companies in the past three months, of which 93% (244,402) were small to medium sized businesses (SMEs). The sector most exposed to economic volatility remains to be UK construction and real estate, in which 49,186 firms were classified as experiencing 'Significant' financial distress in the period.

Overall, levels of financial distress decreased across every sector and every region of the UK economy, but the most marked improvement in financial health during Q2 was among London-based businesses, where the number of companies experiencing 'Significant' distress fell by 5% to 43,737 (Q1 2016: 46,234 companies).

The findings echo former Chancellor George Osborne's comments in the wake of the Brexit result that the UK economy is "about as strong as it could be to confront the challenge our country now faces". However Begbies Traynor warns that over the next six months at least, any positive improvements seen since April are likely to be reversed following the immediate negative impact that the Brexit result had on British businesses.

Julie Palmer, Partner at Begbies Traynor, says:

"Our data shows that levels of 'Significant' corporate distress decreased across all regions and all sectors of the economy in the lead up to the Referendum vote; the first time we've seen such an improvement since the period immediately following last year's General Election. This suggests that UK businesses were in a relatively stable and improving financial position ahead of the Brexit vote, however we expect this trend to reverse as a result of the uncertainty created since then.

"UK construction and real estate has certainly been hit hardest following the Brexit result, with many high profile investors pulling out of UK property over the past three weeks. With experts predicting that London property prices could plummet by as much as 20 percent and nearly 50,000 firms in this sector already suffering from 'Significant' financial distress, the foundations for this sector are looking decidedly shaky."

Ric Traynor, Executive Chairman at Begbies Traynor says:

"Although more than half the country voted for a Brexit, the result has undoubtedly caused a spike in uncertainty while raising concerns over job security, contributing to weaker consumer confidence and the deferral of investment plans, all of which is likely to impact spending and business growth in the short term.

"The Bank of England's commitment to maintaining interest rates at a record low, as well as the Government's inference that they might cut corporation tax to less than 15 percent, could help to stabilise the economy and consumer sentiment over time. However we expect the business environment to worsen over the next six months, at least, before we settle into the 'new normal'.

“Assuming Prime Minister Theresa May and her new Cabinet do invoke Article 50 as planned, the process of exiting the EU, while at the same time agreeing new trade agreements, is likely to be a long and drawn out affair, so businesses should prepare themselves for the long haul.”

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About Begbies Traynor Group

Begbies Traynor Group plc operates from over 40 UK locations through two operating divisions:

Begbies Traynor is the UK’s leading independent business recovery practice handling the largest number of corporate appointments, principally serving the mid-market and smaller companies. We provide a range of specialist professional services primarily to businesses, their professional advisors and the major banks covering insolvency, restructuring and risk management activities.

Eddisons is a leading UK firm of chartered surveyors, offering a wide range of specialist services to banks, insolvency practitioners, and owners and occupiers of commercial property. The core services offered are valuation and disposal of property including fixed charge property receiverships; valuation and disposal of machinery and business assets; auctions; insolvency insurance brokerage; property and facilities management; and building consultancy and ratings valuations.

Information on Begbies Traynor Group can be accessed via the Group's website at www.begbies-traynorgroup.com

About Red Flag Alert

Red Flag Alert measures corporate distress signals through a comprehensive and complex methodology, drawing on factual legal and financial data from a wide range of relevant sources for companies that have been trading for over a year.

The release refers to the numbers of companies experiencing ‘Critical’ problems which are those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary Arrangements.

The release also refers to the numbers of companies experiencing ‘Significant’ problems, which are those with minor CCJs (of less than £5k) filed against them or which have been identified by Red Flag’s proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help prepare them for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com