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Newman & Partners

Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at **insolvency@newmanandpartners.co.uk**

Pre-pack administration – what you need to know

Business owners facing the prospect of administration may wish to clear down their obligations to creditors in the hopes of achieving a sale and/or continued trading. A pre-pack administration is a formal insolvency procedure that allows an insolvent company to legally sell its assets before appointing an administrator.

A pre-pack administration can be particularly useful where the sale of all, or part of a company's business is anticipated with a trade buyer or third party, as it can help to free up cash flow for trading. During a pre-pack administration, time is taken by a business and its insolvency advisers to market the business and negotiate a sale, with the aim of completing the transaction on the first day of the administration. This helps to ensure that there is a continuation of trade and a smooth transition to new owners.

To commence a pre-pack administration a plan is prepared, and a contract of purchase is drawn up, which provides protections via the courts for the business. Administrators can then sell the business and its assets from day one and debts can be resolved. The benefit of this process is that it helps to protect the value of the business and reduces the costs of continued trading for the insolvent owners, which could harm a potential sale or recovery.

The main benefits of a pre-pack administration can be summarised as:

- **Continued trading** – Businesses can continue to operate without interruption or damage to the company's value.
- **Speed** – The pre-packaging of a deal means that a sale can take place immediately.

- **Better returns for creditors** – There is typically more money for creditors compared to a liquidation, as assets are sold with no interruption to business and a higher price can be achieved.
- **Costs are lower** – The process is often more cost-effective than a 'trading administration', as administrators do not need to find funding to continue trading the business.

Despite the usefulness of pre-pack administration, there has been criticism of this process due to the lack of transparency involved. Much of the actions taken by a business using a pre-pack administration have traditionally been quite private, which some have claimed unfairly prejudices unsecured creditors. In response to this, several pieces of legislation have been introduced when the sale is to a connected party, whereby a qualifying report from an independent evaluator is obtained or creditor approval for the sale is sought in the alternative before the sale is completed.

CONSIDERING A PRE-PACK ADMINISTRATION OR WOULD LIKE TO KNOW IF IT FITS YOUR REQUIREMENTS? PLEASE SPEAK TO OUR EXPERIENCED TEAM TODAY FOR THE LATEST ADVICE AND GUIDANCE.

UK corporate debt affected by the weakened pound

Sterling-denominated corporate debt has been affected by a pension cash grab, as investors react to volatility in the markets and the price of Government bonds, after the former Chancellor's tax cuts earlier this year. While it may seem like a distant memory, the actions of the former Government have pushed up borrowing costs for companies across the country and forced pension funds to sell their gilts to properly hedge their positions.

Although the Bank of England took measures to prevent a spiralling crisis, the damage was done with an estimated £30 billion wiped from the UK economy, which has had a wide-ranging impact on public and private debts.

Paola Binns, a sterling corporate bond portfolio manager at Royal London Asset Management told the Financial Times: "What you're seeing in the corporate bond market is a fire sale. You had this before, with Brexit — UK borrowers were having to pay a premium to access corporate bond markets. It's coming back now." But why is this driving up corporate debt? Paolo explained that investors were demanding a higher return for holding British companies' debt, which pushed up the cost of borrowing for businesses.

Analysts and asset managers looking at the current market said that mid-cap companies that do much of their business in the UK will be hit harder than international companies, as they are more reliant on sterling-dominated borrowing. "It's a real issue for companies with revenues in sterling not being able to come to market in euros and dollars," added Greil Castro, co-head of public markets at Muzinich & Co in the same Financial Times article.

These same market experts said that the one bonus had been that many businesses did not have immediate borrowing needs, thanks to accessing funding when interest rates were low. This, they say, will give the economy time to recover before businesses might need to refinance debt.

IF YOUR BUSINESS OR ONE YOU KNOW IS STRUGGLING WITH CONSIDERABLE DEBTS AND THEY REQUIRE ADVICE, WE CAN HELP. TO FIND OUT MORE ABOUT OUR INSOLVENCY, RESTRUCTURING AND RECOVERY SERVICES, PLEASE CONTACT US.

Could late payments save your business?

There has been a lot of publicity about the availability of finance for small to medium-sized enterprises (SMEs), particularly traditional bank loans or equity investments. With many lenders withdrawing products and funding during these uncertain times, businesses need to try different approaches to access funding, particularly if they are already showing signs of distress.

One of the most common reasons for a business's failure is the late payment of invoices, but did you know they could offer a business a way of accessing finance quickly to deal with cash flow shortfalls? Invoice financing has been available to businesses for some time, but its advantages are still often not fully appreciated by many businesses.

Invoice finance is provided by a lender against an unpaid invoice, which is used as security for funding. This gives businesses quick access to a percentage of that invoice's value, which is usually between 75 - 95%. All the borrowing company often needs to do is provide their details and a copy of the invoice they intend to take finance against.

Then when the payment is made, the balance is used to repay the debt plus any additional charges.

While this erodes profits, it does give businesses access to the cash they need to continue trading. Faced with a decision between paying the bills or not, many firms are favouring the simplicity and speed of invoice financing – businesses can even be approved and paid within 48 hours or less of a finance request with some lenders.

Within this form of finance, there are two types of products available – invoice financing and invoice factoring. The main difference between the two types of finance is who collects the unpaid invoices. With invoice financing, the company borrows against its unpaid bills and retains control of its sales ledger, including recovering the unpaid sums. In comparison, invoice factoring sees the company sell its sales ledger to a lender who then collects the unpaid bill on its behalf.

Of course, like any borrowing, it is not without risk. The two main common concerns are an over-reliance on this financing option and lengthy delinquent payments. The longer it takes to recover the sum of money owed, the higher the invoice financing costs will rise. If you do not have an effective credit control process in place already, this could cut further into your profits or lead to losses.

CAREFUL CONSIDERATION IS NEEDED BEFORE TAKING OUT ANY FORM OF FINANCE AND SPECIALIST ADVICE SHOULD BE SOUGHT. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT US.

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