UK Restructuring Update

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1. Introduction to Kroll

UK Restructuring - SME Mid Market Practice

THE UK INSOLVENCY MARKET
• London (30%)
• Manchester (14%)
• Birmingham (7%)

Overall UK market by number of administrations

Total Staff: 170
15 Managing Directors

Manchester
- 7 MD's
- 57 Fee Earners

Birmingham
- 2 MD's
- 17 Fee Earners

London
- 6 MD's
- 60 Fee Earners

Core Service Overview

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RESTRUCTURING

4 Core Services

ADVISORY
(32 STAFF)

- Turnaround / Solvent Solutions
- Options Reviews
- Financial Forecast Modelling
- Pre-Lend Reviews / Diligence
- Stakeholder Management
- HMRC Time to Pay
- Debt Advisory

100 cases per annum

REAL ESTATE ADVISORY
(11 STAFF)

- LPA Receiverships
- RICS 'Red Book' Valuations
- Property Asset Management
- Strategic Value Advisory
- Transaction Due Diligence

350 cases per annum

RESTRUCTURING
(96 STAFF)

- Administrations
- CVA's / Restructuring Plans
- Liquidations
- Contingency Planning
- Accelerated M&A Processes
- Contentious Insolvency
- **Corporate Structure Simplification**

55 cases per annum

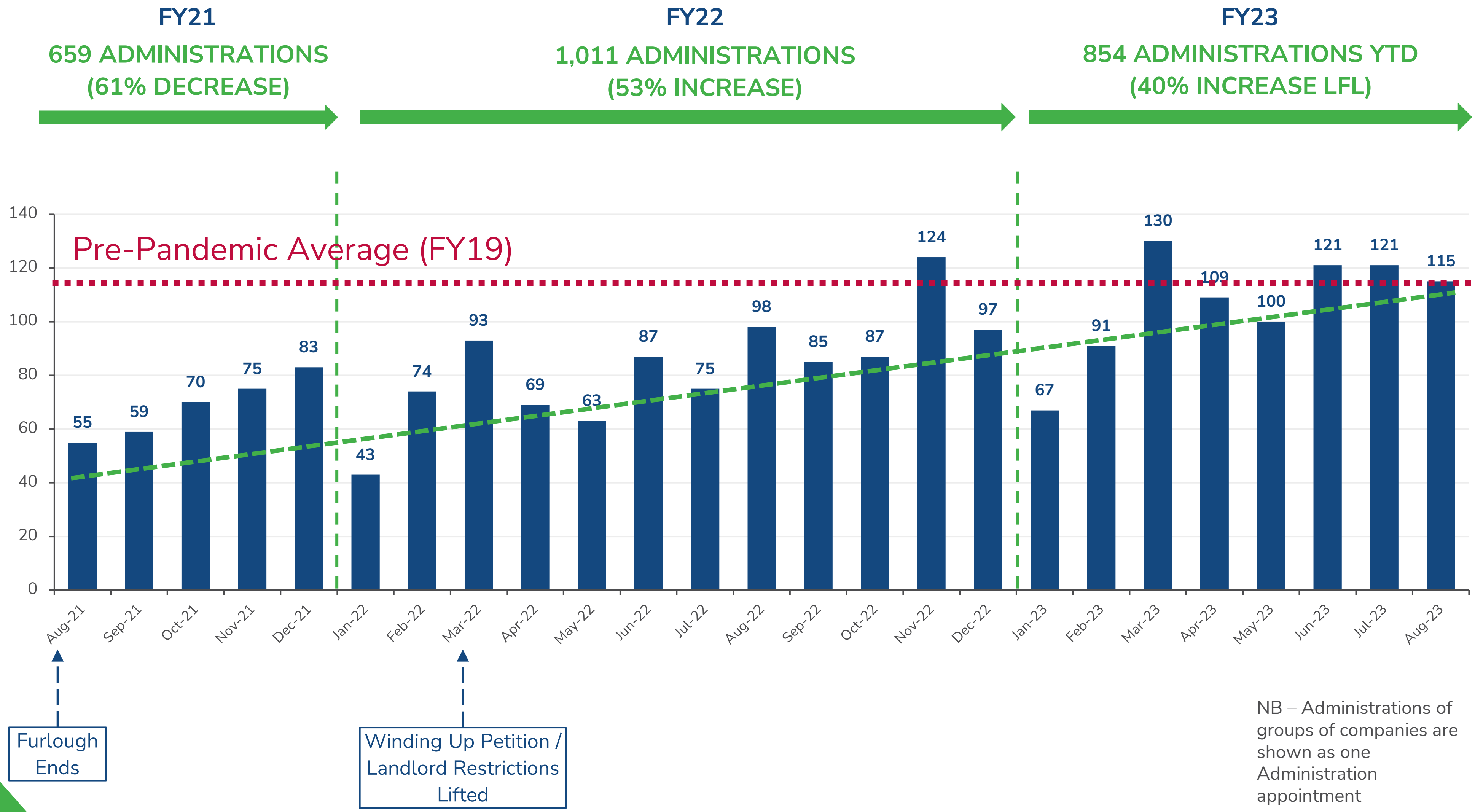
PERSONAL INSOLVENCY
(4 STAFF)

- Individual Voluntary Arrangements (IVA's)
- Bankruptcies
- Strategic Personal Advice
- Pre-Action Asset Recovery Reports

85 cases per annum

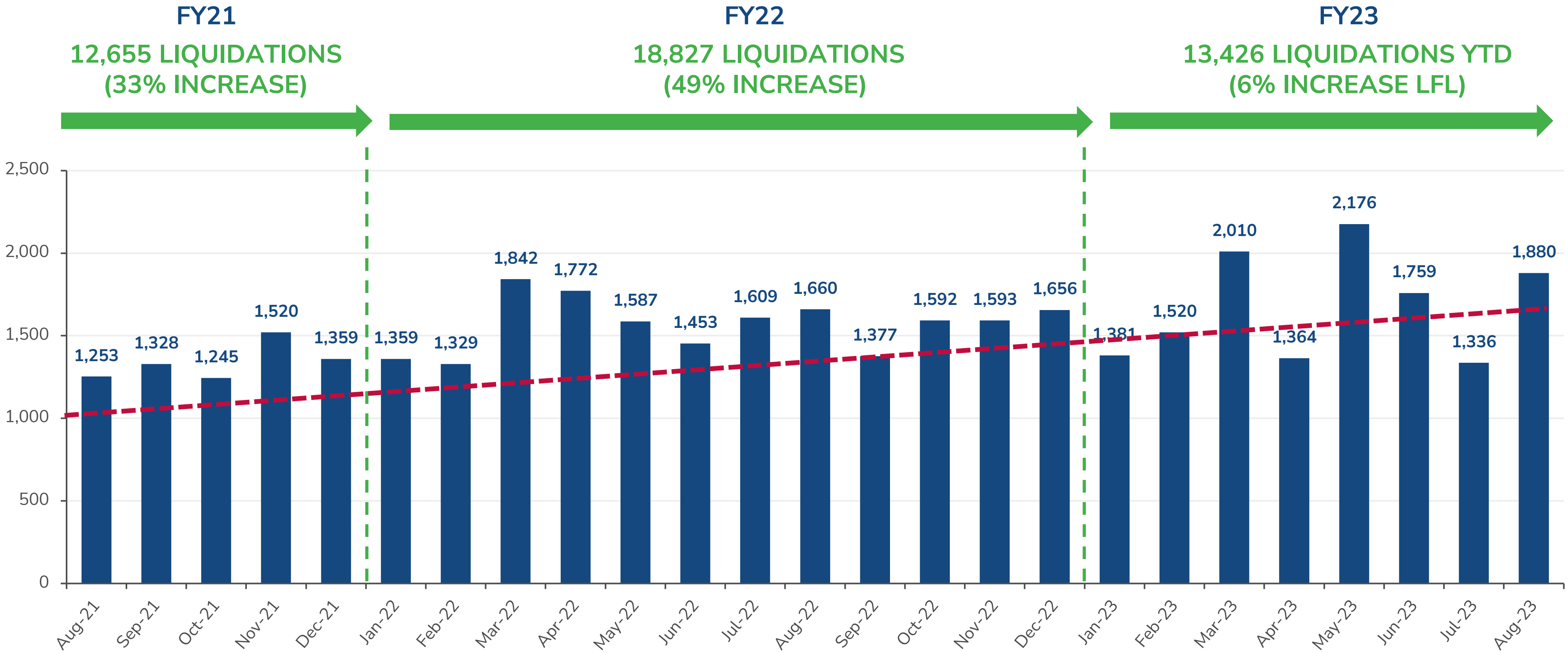
2. UK Restructuring Market Insolvency Statistics

Market update & historic UK Administration appointments



NB – Administrations of groups of companies are shown as one Administration appointment

Market update and historic UK creditors' voluntary liquidations (CVLs)



Year	Number of Liquidations
2019 (pre-pandemic)	12,058
2020 (COVID support measures)	9,490
2021 (relaxation of COVID support)	12,655
2022 (no COVID support)	18,827
2023 YTD / Annualised	**13,426 / 20,139**

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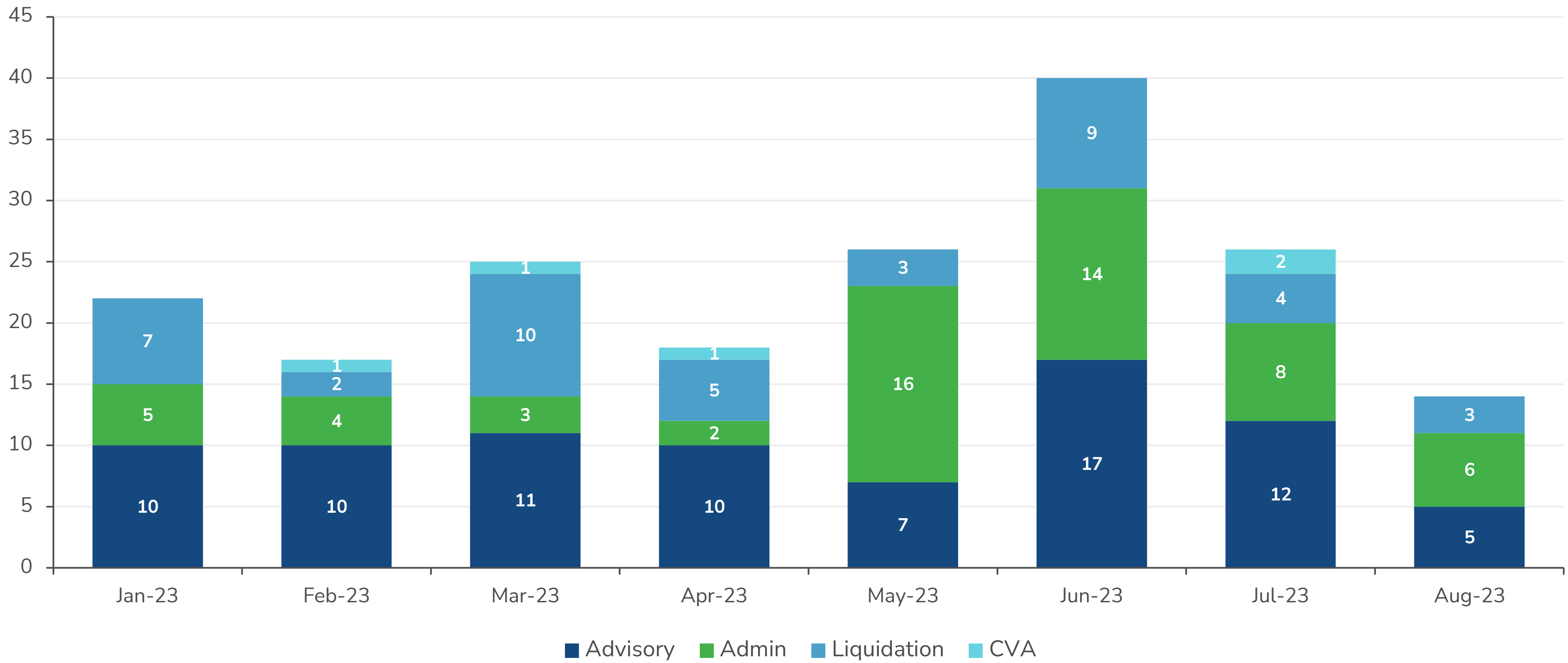
Kroll Appointments and Engagements – 2023 YTD

The volume of insolvency and advisory appointments has grown through the year in line with the growth in national insolvency appointments

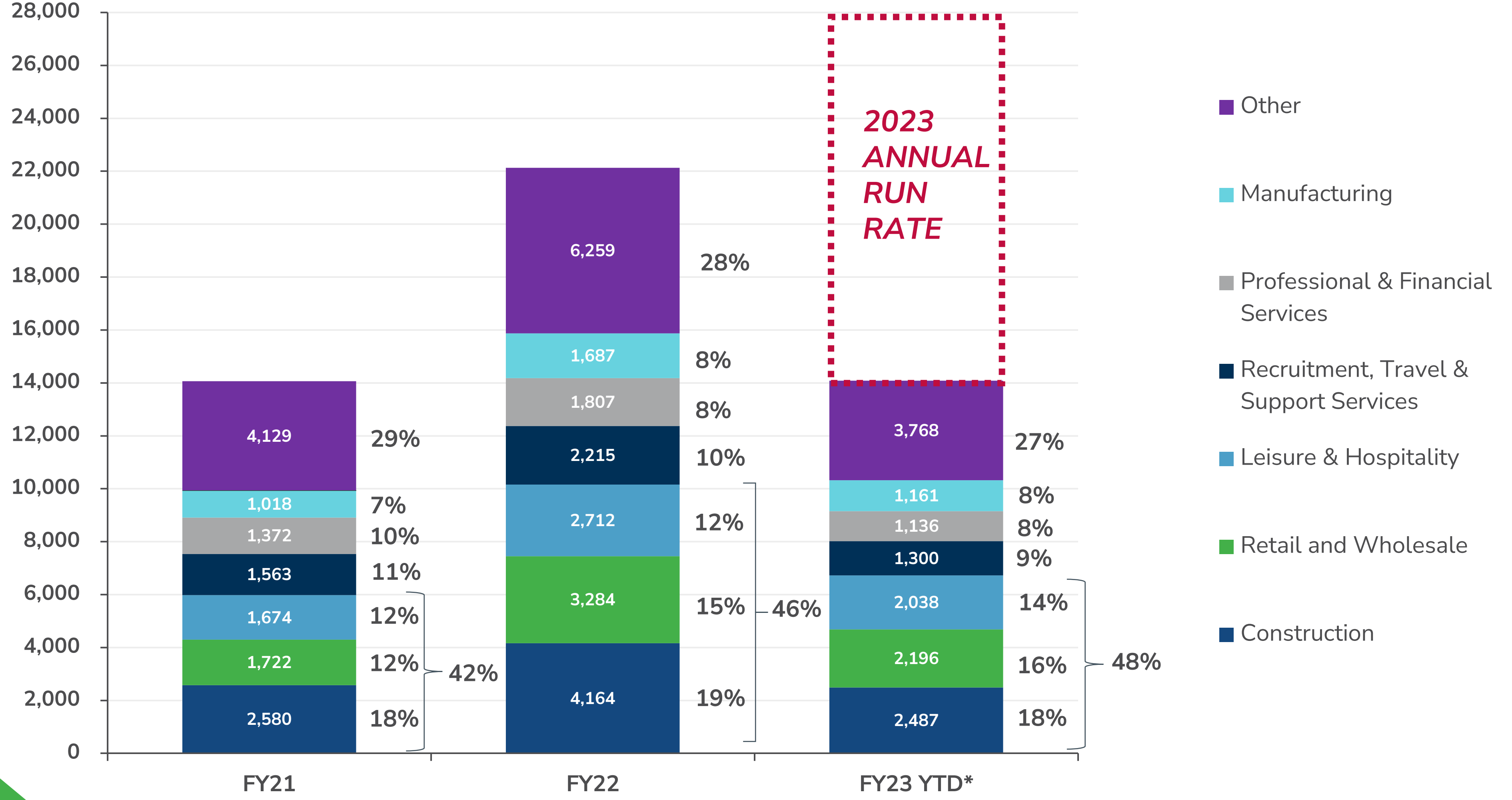
We have been appointed over larger, more complex insolvency matters in the latter half of the year.



Sector analysis – total insolvencies

One in five insolvencies occur within the construction sector.

Almost one in two occur construction, retail and leisure/hospitality



*FY23 YTD includes up to 31 July 2023 as August 2023 data is not yet available

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3. Market Outlook

Major recent UK insolvencies

Major Administrations in the last eight months

wilko

BUCKINGHAM Group Contracting

AustinFraser

HENRY CONSTRUCTION

cineworld

UK Windows & Doors Group

LLOYD FRASER

iW

axiom

RoyaleLife

Market Outlook

Bounce Back Loans Arrears / Defaults (Jun-23)

Major Clearing Banks	Loans in Default (£m)	Loans in Arrears (£m)	% Loans in Default / Arrears*
Barclays Bank	2,802	972	26%
Lloyds Bank	1,960	672	23%
HSBC Bank	1,408	552	19%
NatWest Bank	1,407	474	16%
	7,577	2,670	21%

As at June 2023, a total of £46.6bn has been lent over the BBLS scheme, across 1.5m facilities.

* Includes in default and settled claims

Market Outlook

Bounce Back Loans Arrears / Defaults (Jun-23)

Challenger Bank lenders with Highest Default Rates	Claim Made / Settled (£m)	Loans in Arrears (£m)	% Loans in Default / Arrears*
Starling Bank	761	205	47%
Metro Bank	570	126	40%

Certain Challenger Banks have much higher default rates (40%+) which could create issues for the Banks

A total of £10.4bn (22%) out of £46.6bn lent is either already claimed under guarantee or in default.

*** Includes in default and settled claims**

Market Outlook

CBILS (Jun-23)

Lender	Loans (£bn)	No. of Loans	Average Loan Size (£k)
NatWest Bank	4.5	16,600	272
HSBC Bank	3.3	11,581	281
Funding Circle	3.0	17,254	173
Barclays Bank	2.5	9,201	266
Lloyds Bank	2.3	9,406	248
Close Brothers	1.2	6,039	194
Other	9.2	27,756	94
	25.9	97,837	264

- 63% on Schedule
- 33% Repaid
- **2% in default**
- **2% claims/settled**

Default rates much lower for CBILS (4%) than Bounce Back Loans. White Oak and Funding Circle top the default rates at 9% and 6% respectively.

£16.7bn of capital still to be repaid (£1.1bn settled/in default/arrears/claimed)

Market Outlook – Property and Real Estate

Current Position and Outlook

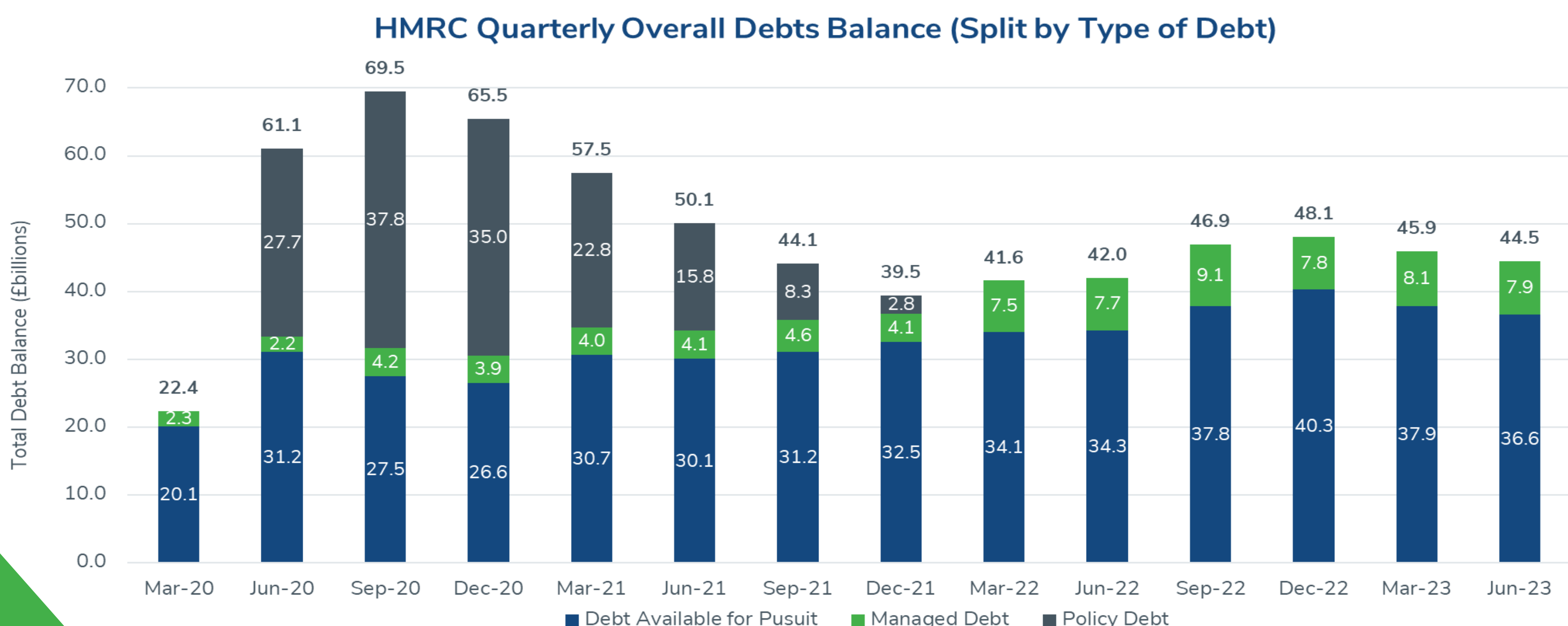
- Higher debt service costs
- LTV's increasing
- Covenant breaches
- Capital markets / funding challenges
- Construction sector distress
- Impact of work from home culture
- Lower New Builds
- "Throw Back The Keys…"

4. Market Outlook: HMRC

Market Outlook: HMRC

Overdue debts

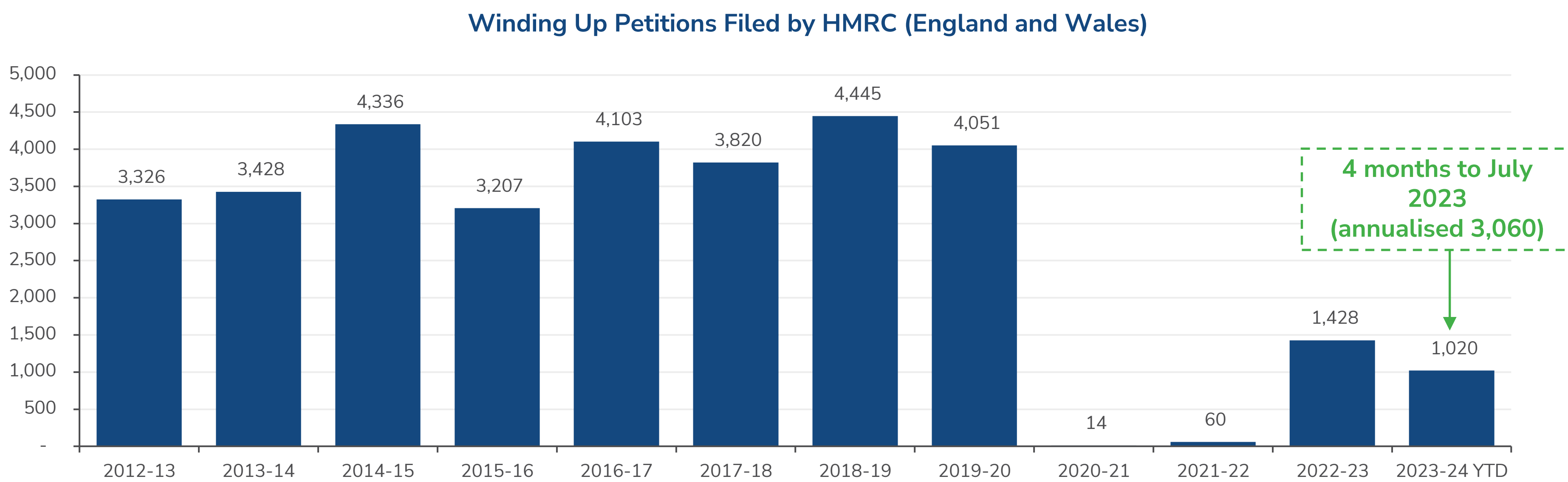
- The current debt position of HMRC has decreased slightly but remains £30bn higher than pre-COVID levels.
- Managed Debt (in TTPs) remains 3 times that of pre-COVID
- Pressure from HMRC is escalating and its appetite for forbearance is tightening and this is reflected in the latest stats.



Market Outlook: HMRC

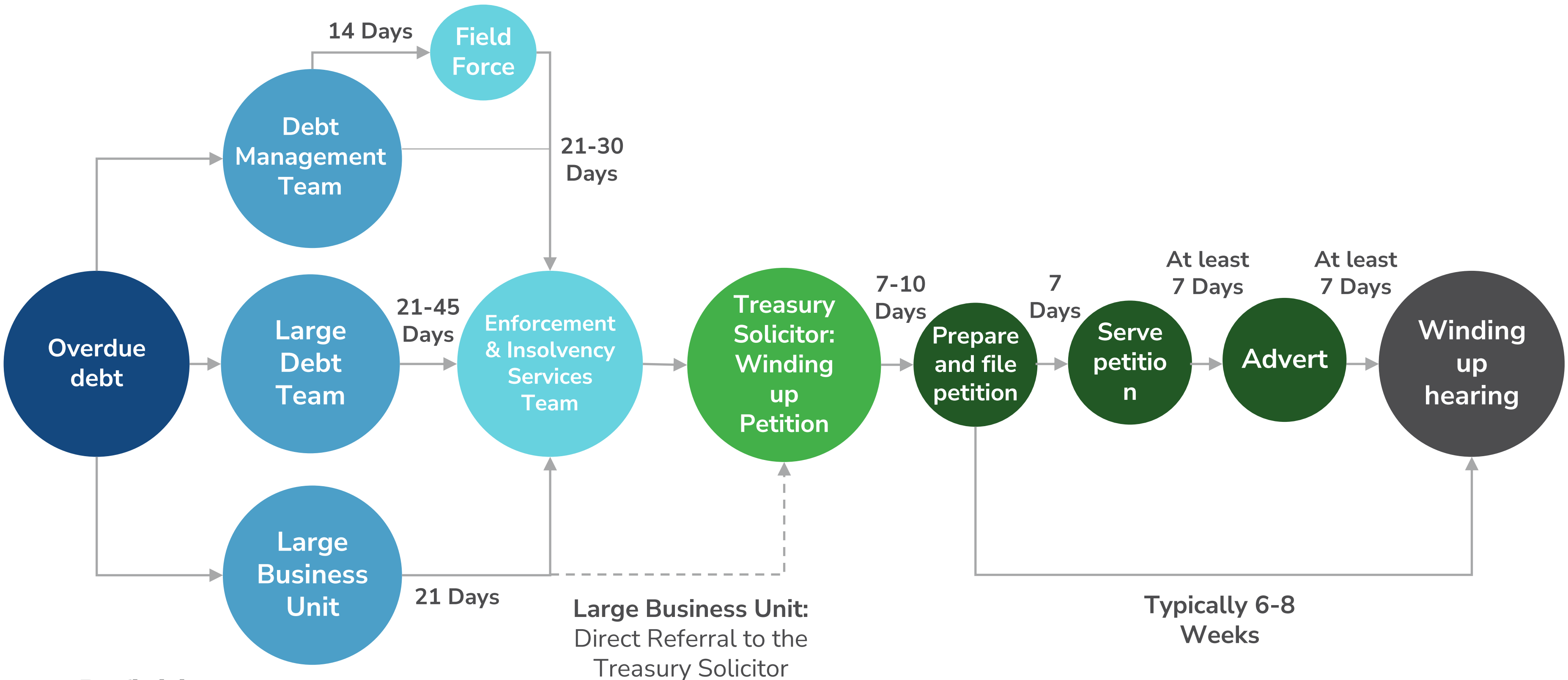
Winding up petitions

- HMRC's has increased enforcement activity in 2023/24, although winding up petitions are slightly behind pre-COVID levels (arguably only because of resource issues).
- This is directly contributing to the increase in insolvencies (particularly Administration appointments).



Market Outlook: HMRC

Enforcement process re-cap (HMRC has reinstated pre-COVID processes)



Definitions

- **Debt Resolution Team** – deals with tax arrears of less than £350k.
- **Large Debt Team** – deals with tax arrears in excess of £350k.
- **Large Business Unit** – Large Corporate taxpayers (Annual VAT liability >£2.3m).

A TTP proposal can be agreed with HMRC at any time before the winding up petition is heard at Court.

5. Sectors in Crisis

Market Outlook: Restructuring Activity

Kroll has specialist teams in these sectors helping businesses navigate headwinds and deliver successful turnarounds and restructures

Food Sector

- Spiralling input costs
- Energy cost inflation
- Labour shortages
- Cost of living crisis changing buying habits

Kroll has taken multiple advisory engagements this year

Healthcare Sector

- Labour shortages, partially linked to Brexit
- Wages inflation
- Industrial action and consequential impact on care and capacity

Kroll has taken 60+ care home appointments this year

Construction Sector

- Cost inflation and contractual restrictions on pass-through pricing
- Labour shortages and resultant inflation
- Deferral of investment
- Increased main contractor failure rates

Continues to lead sector insolvencies

Retail Sector

- Cost of living crisis
- Reduced high street footfall
- High rents and rates
- Wages inflation
- Energy costs

Is Wilko the first of many big casualties?

06. Case Studies

How not to manage stakeholders…

Case study – Project Rock (live case)

Waste Recycling Business based in the South-East with 90 employees

BACKGROUND

£13m	£1.2m	£4.5m
Turnover	EBITDA	Debt Structure

KEY ISSUES

- Group of companies with one poor performer (lost £5m+ in last 5 years). HMRC arrears of £1m at this point.
- Asset rich - £16m of freehold property and only £3.5m of debt.
- Failed to disclose losses to principal lender. Bank restructured facilities and took additional security / covenants.
- Client then breached multiple covenants and HMRC arrears increased to £2.5m.

CONSEQEUNCES AND RESCUE PLAN

- Bank rachets down ID advance rate in response to covenant breaches. Bank eventually serves notice to re-bank.
- Kroll introduced to run debt advisory process.
- HMRC threatens enforcement (distraint) and Bank freezes facilities. Directors forced to file Notice of Intention to Appoint Administration ("NOIA").
- Accelerated debt advisory process targets bridging funders and turnaround debt funds. Five offers received within five days for £5.5m of funding.
- HMRC support secured to allow refinance to conclude, bank facilities restored and NOIA allowed to fall away.

Case study – Project Donald

Lender / Buy-Side FDD for the acquisition of a distressed manufacturer in the aerospace sector

BACKGROUND

£6.5m	£0.5m	£7.1m
Turnover	EBITDA	Debt Structure

KEY ISSUES

- Precision engineering business with high growth potential but facing potential Administration.
- Targeted by £50m turnover aerospace group. Heads of Terms agreed with acquisition price of £10m inc £100k upfront, £2.5m pref shares, £3m in property and the balance as performance upsides on sale.
- Funding structure of ID, asset finance, term debt and Buyer debt (£500k RCF).

CHALLENGES

- Kroll retained to complete all forecast modelling work for the deal.
- FDD identified that the funding structure created in adequate headroom.
- Acquiror used Kroll as a conduit to communicate unfavourable restructure of the deal to vendors.
- Kroll advised Buyer to raise funds against P&M assets to raise additional funding and de-risk the transaction for the lender.
- This required a complete refresh of the deal and critical stakeholder management to hold the deal together.
- Further FDD exercise was completed and resulted in a Buyer equity contribution of £1m+ to get the deal over the line.

07. Closing Comments

Closing Comments

- Restructuring and Turnaround market busier
- Volume of distressed cases we are seeing is increasing
- War for talent between Restructuring firms
- ABL dealers harder – tightening credit appetite
- Capital markets frozen – worse than Global Financial Crisis
- End of cheap money – lower leveraged buyouts
- Harder refi’s – less access to new capital / Fewer exit routes for incumbent funders
- Debt forgiveness / “Extend and Pretend” / Vulture Fund risk
- Opportunities for good businesses with strong balance sheets to acquire

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