

HOW TO FIND & BUY **DISTRESSED** BUSINESSES AND ASSETS



INTRO

Despite economic improvements in 2024, the impact of high inflation and interest rates, low consumer confidence and the lingering effects of the COVID-19 pandemic are continuing to affect UK businesses.

Persistent headwinds have pushed huge numbers of companies to the brink of collapse, while organic growth has become increasingly difficult for those businesses lucky enough to not yet be facing serious financial distress.

DISTRESS LEVELS RISING

In the year ending July 2024, Insolvency Service figures showed that UK company insolvencies totalled 25,551 – 1.4 per cent more than the number seen during the financial crisis in 2008-09.

Meanwhile, according to Begbies Traynor data, there were close to 633,000 UK businesses in “significant financial distress” during the third quarter of 2024 – a 32.3 per cent year-on-year increase.

However, with hopes rising of an economic recovery in the UK, this situation presents an opportunity for business owners who may be struggling to achieve organic growth at a time they are planning how to capitalise on the potential recovery.

For such owners, M&A can be the most reliable route to achieving growth and distressed takeovers of potentially viable businesses can be the perfect way to grow through acquisitions and unlock incredible value.

In some cases, however, distressed companies will

not have a viable future as a trading concern. In this scenario, the company’s liquidation can still offer owners the chance to acquire valuable assets at a bargain price.

Following a liquidation, the licensed insolvency practitioner (IP) will seek to sell on assets including equipment, machinery and property in order to maximise returns for the company’s creditors.

Whether they are sold as a whole package, or split up individually or into groups, assets will typically be sold at bargain prices – with proceeds then distributed equally among creditors. Once the sale is finalised, the case is closed.

In this guide, we will talk you through the different forms of insolvency, detail how you can find and buy distressed businesses and assets, explain how distressed deals can help drive growth and provide vital tips on acquiring assets.

BSR
BUSINESS SALE REPORT

32
YEARS IN
BUSINESS

2500+
NEW BUSINESS SALE
LISTINGS PER ANNUM

£7B+
TOTAL DEAL FLOW

200+
UK PARTNERS

EARLY SIGNS OF DISTRESS



What are the signs that a business is in severe to critical distress? Here are some common warning signs to look out for. If the business doesn't implement recovery measures, a formal insolvency process is likely to follow.

- 01** Regular cash flow problems. Struggling to meet rent or payroll at month end. The business is simply spending more than it earns. Negative working capital ratio.
- 02** Interest payments are high. Lenders are taking a view that this is a higher risk company, and therefore charging more. Personal guarantees may be asked for by lenders.
- 03** Creditors are often hounding the company to pay up. Rise in debtor or creditor days. The company is defaulting on bills. County Court Judgements may have been issued against the company.
- 04** Profits are falling. Falling margins indicate that the company isn't raising its prices to compensate for rising costs.
- 05** Morale is low. Owners and managers are not happy as they are stressed and this gets passed down the line. People are leaving.

FINANCIAL DISTRESS

DISTRESS STATS

UK BUSINESS DISSOLUTIONS (2023)

585,807

BUSINESSES IN SIGNIFICANT DISTRESS (OCT 2024)

632,756

RISE IN DISSOLUTIONS OVER 2022

+10%

RISE IN DISTRESS LEVELS OCT 2023 VS OCT 2024

+32%

Early in the COVID-19 crisis, the government launched a range of support measures for businesses, including low interest loans, grants, furloughing, as well as the winding-up relief outlined above. These support offerings were heavily subscribed to, with the Bounce Back Loan scheme by far the most extensive in its reach with over 1.5 million businesses obtaining a low interest facility to help tide them over.

Aside from looking at court judgements, distress levels can be estimated by looking at key financial ratios and indicators, such as working capital (current assets less current liabilities); and where there are significant drops in retained profits and net worth.

By identifying companies in distress before an insolvency event or court judgement occurs is often a smart way to target acquisitions. These are companies who have mounting debts, diminished revenues and cashflows, and will often be amenable to an active investment or acquisition approach.

It can be time-consuming to delve into individual company accounts to try to shortlist distressed companies within a sector, and for that reason not many business buyers pursue this strategy. At the Business Sale Report, we have developed a facility that allows users to search company records for off-market businesses that meet their acquisition criteria.



FORMAL INSOLVENCY PROCESSES



WINDING-UP PETITION

This is often the first step in the insolvency process that could ultimately lead to a company being wound up, i.e. placed into compulsory liquidation. Those owed large sums by individuals (sole traders) can issue a bankruptcy petition.

If a company owes a creditor more than £750 and cannot settle that debt (usually following a number of demands), then the creditor is able to apply to the courts for the company to be wound up. This will cost the creditor £332 in court fees, plus they will need to lodge a £2600 petition deposit to manage the winding up process. If the creditor's application to have the company liquidated is successful, then a winding-up order is issued.

That means the company's assets will be sold off and debts collected, with the funds used to pay all creditors.

Even if a company pays the creditor off, and pays the court £155 to cancel the winding-up order, the petition is still published and available to view on [business-sale.com](https://www.business-sale.com). The company is highly likely to still be in some kind of financial distress.

For anyone looking to buy a business, keeping abreast of any winding up petitions issued is a good idea as they can act as a sign that a business may be heading for insolvency. Firms in this situation can offer great opportunities for investors.

To find companies that have had winding-up petitions presented, or have just had insolvency practitioners place them into administration or liquidation, visit <https://www.business-sale.com/distressed-businesses>

FORMAL INSOLVENCY PROCESSES

ADMINISTRATION

During an administration, a company that is insolvent has its management transferred to administrators. Administration grants the company protection from creditors and the threat of being wound up through a moratorium on legal action.

In order for the company to enter administration, the process must satisfy one of the following statutory purposes: to rescue the company; to achieve a preferable result for creditors than could be achieved by winding up the company; or to realise property or other assets to distribute to creditors.

During the process, administrators take control of the company's management and seek to resolve the company's situation. This can be achieved either by the company undergoing a restructuring or being [sold out of administration](#).

LIQUIDATION

If an administration isn't a viable option for the company or its creditors, then a liquidation may be pursued. In a liquidation, the company ceases trading and will be struck off the companies register. Its assets are sold off in order to repay its creditors, with any remaining funds distributed among shareholders.

There are three different ways through which a company can enter liquidation.

Firstly, creditors' voluntary liquidation, in which a company director proposes liquidation and shareholders then vote to approve it.

Secondly, compulsory liquidation, in which a company is insolvent and a third party, usually a creditor, has successfully applied to the courts for it to be wound up.

Thirdly, members' voluntary liquidation, in which the company is solvent but wishes to cease trading, e.g. if the owner is retiring and doesn't wish to sell the business.

THE KEY DIFFERENCES

Administration is a formal process that is designed to give breathing space to a business in the hope that it can continue to trade with the aid of a rescue package or a realisation of some of the assets.

A liquidation is an orderly process of winding up a company that will never trade again.



BUYING A DISTRESSED BUSINESS

Buying a distressed business isn't as easy as just picking the first struggling company you come across. Despite the possibility of an attractive price tag, buying a business in any kind of distress is a risky investment and one that will require proper research and a clear plan.

BUILD A PROFILE

Firstly, you'll need to have a profile in mind of the type of business you want to acquire. What type of business or sector do you want to buy into? What location? What kind of size business do you want to acquire?

MOVE FAST

Secondly, you need to be prepared to move quickly. Having the profile of the business you want to acquire in mind before you've identified a specific target will be crucial to this, as will ensuring that you have the finances in place to do the deal.

Any insolvency practitioner or administrator will need to see proof that you have the capital to go ahead with the deal and, as they are under pressure in their role to ensure a quick resolution to the company's issues, they will not hesitate to find other interested parties if you don't have all the funds and documentation in place.

With time being of the essence, your due diligence when you have selected a company you wish to buy will need to be swift as well as rigorous. You won't always get the complete picture in a short space of time, so you'll need to ask the right questions.

Look into the reasons why the company fell into distress in the first place. This will be key to assessing whether you can turn the company around. If the problems that lead the company into trouble are persistent and beyond your capacity to solve then moving to acquire the business would probably not be wise.

Conducting a physical inspection of any of the business' property or assets will be vital to ensuring that you know exactly what you are taking on board. Does it tally with the sales memorandum?

Throughout these processes, having trustworthy advice will be crucial. For that reason, make sure that, when considering making a distressed acquisition, you retain a lawyer or another experienced M&A advisor to assist you in everything from selecting an acquisition target, to due diligence, to negotiations with the administrators or insolvency practitioners.

TSP Engineering, a heavy engineering firm based in Cumbria, was founded in 1945 and worked across sectors including steelmaking, construction, defence, renewables and nuclear. However, the firm fell into administration in September 2024 amid increasingly tough market conditions, growing financial pressure, debt and a historic lack of investment.

Shortly after their appointment, joint administrators Iain Nairn and Sean Williams of Leonard Curtis concluded a successful sale of the business to Workington Engineering, saving 160 jobs and ensuring that customer contracts could continue without delay. The firm was described as "a great business that has been held back by historic lack of investment" but is now "in a position to move forward on a positive footing."

WHY BUY A DISTRESSED BUSINESS?

With each level of seller distress comes equal measures of buyer opportunity and risk. Distressed businesses can offer huge value to a smart buyer, but keep in mind that if you make a critical mistake along the way, a distressed acquisition could cost you more than you bargained for. Let's look at the three main plus points:

ATTRACTIVE PRICE



While there is of course a considerable degree of risk associated with buying a distressed business or its assets, there's no denying that distressed acquisitions offer one very attractive feature: a below-market price.

A low price doesn't necessarily mean good value, so conducting proper due diligence will be vital to unlocking real value in a distressed acquisition.

An attractive price tag won't count for much if you rush into an acquisition of a business that you can't turn around or of assets with very little actual value.

But, with proper due diligence and advice from a lawyer or turnaround practitioner, a distressed acquisition does provide the opportunity to acquire a potentially successful business or valuable assets at a bargain price.

DEBTS REMOVED



Another obvious advantage of buying a business out of administration or liquidation is that its debts will have been wiped during the administration process and the business will no longer have significant creditors.

While this alone may not be enough to resolve the issues that lead the business to its distressed state, it still removes what would have proven a significant problem for a struggling business and enables your ownership to start with a clean slate.

When it comes to acquiring distressed assets, this may come with the advantage of any liabilities having been removed.

However, it will be crucial to perform due diligence on any assets to ensure there are no skeletons or hidden liabilities that could impact you, such as intellectual property disputes, product liability claims, adverse litigation judgements or, in the case of property, contaminated land clean-up costs.

Blue Sea Food Company, a Devon-based processor of British crab, fell into administration in August 2024 after experiencing challenging trading conditions following the COVID-19 pandemic. The administration put more than 160 jobs at risk and could have had potentially devastating effects for South West crab fishers who supplied the firm, as well as its many UK customers.

Fortunately, shortly after the appointment of administrators, the company's trade and certain assets were acquired by seafood importer and processor New England Seafood International (NESI). Dan Aherne, CEO of NESI owner Woocheen Global Seafood, said Blue Sea Food was "a great business" that had "suffered under too high a debt burden."



POTENTIAL FOR A QUICK DEAL



If you lay the groundwork well in advance by developing a clear profile of the kind of company you'd like to acquire and get your financing and documentation in place ahead of time, this gives you the power to move quickly once you find the right acquisition target. Many standard business acquisitions can take many months, with much higher associated costs. A long deal timeline takes a lot of patience, with time and energy moved away from your core business for much of the process.

The next step is to commence negotiations with administrators or insolvency practitioners. This needs to be conducted swiftly. The IPs will be working on a time-critical basis and are highly motivated to complete a sale in order to resolve the company's future.

At BSR, we often send 'Fast Sales' updates to members, where assets are being sold in a hurry, offering a valuable opportunity to acquire distressed assets.

REAP THE REWARDS LATER



A big part of the attraction of a distressed acquisition is taking a struggling business on (at a reduced price) and turning it around into a successful enterprise.

Not only do you get the reward of running a flourishing business, but also the satisfaction of having acquired it for a bargain and the pride in having put in the hard yards to turn it around.

With so many UK businesses in significant financial distress and insolvency rates showing no signs of being set to drop significantly any time soon,

opportunities to acquire distressed businesses and assets are rife and could be for some time.

There have also been strong indications that the UK economy is improving, something that is broadly expected to continue through 2025.

As a result, buyers have the chance to acquire distressed businesses at low prices, with debts removed, and the opportunity to then begin their turnaround strategies in a recovering economy.

TIPS FOR BUYING DISTRESSED ASSETS



ONLY DEAL WITH THOSE THAT CONTROL THE ASSETS

Make sure that you are buying assets through an insolvency practitioner appointed by the company, or with a firm they have appointed to work with i.e. surveyor or auction house. Do not deal with a company director unless you can be sure the company is not technically insolvent. Moving assets or selling property at a lower price before an IP is appointed can be seen as wrongful trading and a breach of the Insolvency Act 1986, referred to as 'Transaction at under value'. That would trigger a formal investigation and assets would be taken back by the Insolvency Practitioner.



DO YOUR RESEARCH

There may be more than one Insolvency Practitioner dealing with the company's assets, so it's worthwhile doing some research on what's offered by each. Check that the Insolvency Practitioner is licensed and properly qualified by a relevant association or body. Understand fully what is up for sale, and have your first tranche of questions to the seller carefully pre-prepared to save everybody time.



CHECK FOR ASSOCIATED CONTRACTS

If you are looking at buying assets that include service contracts (i.e. with machinery or other technical equipment), be aware that these probably end in the event of insolvency. Before buying any assets, check that suppliers will agree to an ongoing contract and all parties are happy to continue. Some lenders or third parties may have security over certain assets which you'll need permission to release.



HAVE FINANCE READY

A quick sale is typically preferred because of time constraints, so buyers should ensure they have funds accessible. There could be various other buyers interested so having funding in place puts you in a good position. Buying a whole business as opposed to just a few assets will involve greater due diligence and responsibility on both sides. Insolvency practitioners will not want to be wasting time on 'tyre-kickers', so make sure that you appear serious in every respect. Having proof of funds is a very good start.



PREP YOUR ADVISERS

If you don't have an in-house legal and accounting team that you can draw on, then make sure you have primed your lawyers in advance, so any deal is not jeopardised by unnecessary waiting. The same with your accountants if you think their advice is going to be needed. In most cases, whether you are buying assets or the company as a whole, getting both legal and financial/tax advice is highly recommended.



CONCLUSION

By their very nature, distressed acquisitions carry considerable risk and can easily go wrong. Often, the old adage that:

“If it seems too good to be true, it probably is” applies.

However, with access to the right tools, preparation, having solid advice and conducting due diligence, acquiring a distressed company or its assets can prove an incredibly valuable investment.

Once stabilised, the path ahead is not so different to investing in any other kind of business that has a demonstrable demand for its product or service going forward, for at least long enough to maximise the return on investment prior to or at the point of intended exit.

For over 30 years, Business Sale Report has enabled thousands of committed business buyers to find their perfect acquisitions, resulting in over £7 billion of completed transactions.

Whether you are looking to buy a profitable or distressed business, searching for an on or off-market opportunity, we have the databases, tools and resources to make it very easy to quickly narrow down your search and make contact with the target’s owners.

As soon as the business has been acquired, you will be starting on the road to making it ‘exit-ready’. Our in-house Certified Exit Planning Advisors can help you every step of the way.

Get in touch with us today on 020 8875 0200, email us at info@business-sale.com or visit our website at www.business-sale.com.