

Uncharted: the road to recovery

Episode three: The future of restructuring

Host: Rebecca Burn-Callander

Participants: Allan Kelly (Partner at FRP); Phil Reynolds (Partner at, FRP); Carolyn Dailey (Founder of Creative Entrepreneurs); Rob Turner (Partner at Brabners)

Rebecca Burn-Callander: Welcome to Uncharted: The Road to Recovery, an FRP Podcast hosted by me, Rebecca Burn-Callander. In this seven-part series, we speak to experts and business leaders from across the UK to identify and analyse the issues facing the UK business community in the wake of the coronavirus pandemic.

Rebecca Burn-Callander: This week we are talking about the future of restructuring. The pandemic has proven a catalyst for change in so many sectors, and the insolvency industry is no exception. Today we'll talk about the implications of some of these changes for UK business owners and share advice for those who are struggling right now.

I'm joined today by a brilliant and very wise panel.

Phil Reynolds is a restructuring specialist at FRP with more than 20 years' experience helping to bring organisations back from the brink.

We are also joined by FRP's Alan Kelly, a turnaround expert who's been steering organisations out of danger for 25 years.

Carolyn Dailey is founder of Creative Entrepreneurs, a movement that helps creative people turn their ideas into successful businesses. The arts are really suffering right now, so she'll talk us through the experiences of the business owners across our industry.

Rob Turner is an insolvency and restructuring expert in the corporate team at Brabners. He is our legal whizz today and will be guiding us through some of the technical detail. Thank you all so much for joining me.

I'd like to start by looking at some of the actual stats - so we saw a tenfold increase in insolvencies, way back in April, so that was right at the start of lockdown - presumably that was just the beginning.

Rebecca: Phil, what's install for the rest of the year? what trends are you seeing in terms of the insolvencies?

Phil: Well, so on that point – some governments actions have actually restricted the amount of insolvencies that can happen at the moment. There's basically a pause; mainly on liquidations, Our kind of house food at the moment, is building and when some of the government support start to cease, that's when we'll start to see an increase insolvencies – just when businesses run out of room to manoeuvre.

Rebecca: So obviously, the reaction has been to change some of the rules around insolvency, to try and save, as many businesses as possible. Presumably, this gives business owners a lot more breathing space and a bit of confidence, that they're going to be given the time and the legal framework to try and get themselves out of a financial hole.

Alan Kelly: Yeah, and I think - any changes to the law which helps promote rescue culture is quite exciting – and I have no doubt Phil will agree with me here – as a turnaround and restructuring specialist because, the more tools we have

in our box, the larger number of companies we can save or we can do things with, to help preserve them in some shape of form.

One of things Rob mentioned there, in terms of - some of the provision the government has actually put in place here, which is effectively the landlords delaying in terms of rent payments. The danger we possibly got coming out of this, is what Phil was saying is – there's a danger - there's a domino effect. So has one business starts to be pushed, it causes other businesses to cascade. But some of the things which the government have actually put in place here, like the restructuring plan – the moratorium – should actually give us a better opportunity to try and protect these businesses, to preserve them to go forward,

Rebecca: Hmm, and the rescue package won't work in isolation – I mean, because, as Phil pointed out, business leaders are going to be amazing communicators. They are going to have to stay in contact with all of their stakeholders, in order to make sure this can be managed – because they might be late with something, they might need to do a skill swap or leverage a different asset to make something work. Phil, can you talk me through some of the things that, business owners who are under pressure... some of the people they need to be speaking to, some of the actions they need to be taking?

Phil: Yes, well, natural human reaction when you're under pressure, is either to hide from the problem, or be kind of aggressive and fight. So it's very much trying to step away from that, and realise that you need to be open and honest with your stakeholders. Everybody appreciates we're in a very, very unusual situation, and the best thing to do is to have that open and honest communication. It's difficult, and people panic, I think that people react badly but it's a lot better to be open.

A lot of the work we do, myself and Alan, is almost act like kind of marriage guidance counsellors or in-betweens because really what we're trying to do, is make people realise that they're prejudging what the response will be.

I mean the government for example has been very positive in the main, say I just dealt with Carluccio's. Most of them were very responsive and flexible. They want to keep a tenant you know, if you hide from the problem, and just don't pay, then people will think the worst. If you have that communication you can start moving towards, hopefully, a consensual solution.

Your suppliers want to keep a customer, you know, your customers want to keep you as a supplier. If you think on, say, the art sector, which Currently looks at the wider societal benefits of your operations... I do quite a lot for the charity and not-for-profit sector, and they want to protect their frontline services, but they all need to get cooperation from all the other parties to make that work.

A lot of what we do is that, getting the communications lines flowing, making sure the information is there and that people have got a stable platform to build a plan on. If we go back to one of Rob's points that he mentioned, on the wrongful trading rules being a kind of way through period. This is to allow businesses to take a little bit more of a gamble that the business will come back I think the main takeaway is if you have an issue, it's to be open and honest at the moment... and, actually you're probably pushing more an open door than you ever have been.

Rebecca: Absolutely. And actually, that point about not putting your head in the sand, Carolyn, when it comes to creative entrepreneurs often their passion isn't the building of the business, it's that they are creating something amazing or beautiful or entertaining. They're artists so they're not always the most natural business owners. They haven't done an MBA - do you feel like this advice is maybe particularly relevant for them right now?

Carolyn: Completely, 100 percent, that's the whole reason for creating Creative Entrepreneurs, its exactly what you just described. Creative people think in sort of the opposite order as typical entrepreneurs.

They are driven by their idea, that they *need* to get out into the world, and so they don't tend to have business training or business backgrounds. It's absolutely crucial especially... I mean in normal days the business side tends to be a challenge for them. And that's what we really want to help everyone with; the right learning, and networks.

And in times like these where there is a crisis, where even the most accomplished entrepreneur who has an MBA, isn't quite sure what to do, it's very, very important to get this kind of advice and information out to the creative sector.

I mean it doesn't come naturally, creative people aren't sort of the natural negotiators, knowing how to drive a hard bargain or the best bargain you can for yourself etc.

So I think all this advice around open communication - and also just understanding the landscape - because it isn't their typical landscape, so everything -Phil's saying, you know, understanding what the interests of everybody is in the supply chain, that they don't want to lose suppliers, and customers and all that kind of stuff... I think is even more valuable to get out to the creative sector because they lack so much of that information.

Rebecca: Yeah absolutely and Rob, I'd like to bring you in here because we've seen some interesting trends in terms of the revival of the pre-pack, we talked earlier and about many high-profile CVAs.

What are the trends that you're seeing - I mean for example, the pre-pack issue. I mean is this the way the world is going? Are we looking at a lot of light touch, speedy insolvencies coming through? What does the future hold?

Rob: Well a 'pre-pack administration' is essentially where a business is sold in administration, as a going concern, immediately upon the administrator being appointed. So the administrator's work is essentially front ended. They do a lot of work before the company actually drops into administration - all the marketing and the like take place before it actually goes into administration. Historically in the early 2000s and up to perhaps 2005-2006, there were an awful lot of prepacks. They were supported largely by the government and the Enterprise Act, and the rescue culture at that time... during that time, there was quite a lot of criticism. They were seeing being susceptible to abuse, because the marketing of the business was necessarily limited, and it often resulted in a sale of the business back to the management.

But I think we're probably coming full circle now, potentially.

So prepacks are a useful tool for an administrator to have in their armour they can't always trade businesses on they need funding and the work in a trading-on is time and cost intensive, so it's a useful tool to have and I think with the rescue culture coming back in, I think we'll be seeing more and more prepacks over the coming months.

Rebecca: But does the benefit of the prepack also minimizes the disruption to the trading and to the customers. Often these things can kind of happen and everyone who buys that service or that product is almost none the wiser unless they read the business press.

Rob: And it saves jobs. I mean there are a level of checks and balances that have been put in place since, and principally, it's the job of the administrator to ensure that the creditors are protected going forward.

There probably is some abuse out there but I would say that more often than not, it's actually a good thing. It's a good thing for employees, it's potentially a good thing for creditors, and it's obviously a good thing for the business and the directors, so in the right circumstances a pre-pack is a good thing for the economy.

CVAS are an interesting one - obviously they're being used more and more particularly in sort of retail. I think they will continue to be to be used because obviously retail is hardest hit at the moment. The interesting question is, what effects

CVAS are having on the creditors of those companies, and in particular landlords and commercial landlords who are being forced to sort of cram down their rent.

So CVAs can actually sort of, control or reduce the amount of rent that's paid by the company in CVA up to its landlord and that could potentially have really quite profound effects on commercial and institutional landlords.

Rebecca: It pushes the pain away from the business that's suffering, but then someone always has to feel it somewhere down the line. You're basically just spreading it elsewhere, which is tricky because you don't know what the impact might be on that other business or that other organisation.

Rob: It is a balancing act, it's always a balancing act, and it's very difficult to find the right points of balance.

Rebecca: Playing devil's advocate here - I mean, we're talking about the wrath of insolvencies that are likely the pinch points later in the year... but is there a chance that the UK will emerge? yes, it'll be sad, there'll be casualties, There will be business we'll miss, it's been incredibly distressing for a lot of people, but could the economy emerge leaner and possibly even more productive? Alan what do you think?

Alan: Well I've seen businesses becoming a lot more agile.

They've already started to adapt, to change, to respond, and they're becoming much more quick in terms of how they are actually reacting to some things. We've seen things like restaurants going to takeaway, going to home dining packs, and things like that.

Businesses moving online, which Carolyn just said, things like distilleries moving gin to handwash. I do think they'll be opportunities out there. Part of this is about corporate renewal unfortunately, there will be some failures. There's probably not an awful lot we can do to prevent some businesses from failing somewhere along the line. But that'll give opportunities to other businesses to grow, indeed for people to actually come through, start-ups trying to take a business forward and develop something I mean possibly a completely different framework to what one of the failed businesses has actually been employing.

Rebecca: And would you say, Phil, that actually the consumer can end up winning in that scenario -because although some businesses may fall by the wayside, the new start-ups that are born will be so focused on customer demand, and customer need, and they will have grown up in a completely hostile economic environment - which makes for quite interesting businesses.

Phil: Yeah, I mean, certainly the point. The winners are going to have to understand their customers a lot better and deliver that product or service to their customers more. I mean if you think broadly, in pure economic terms, what happens to the failures is, you're giving capital back to other parties who will hopefully be able to use it better.

I mean, prior to Covid there was always quite a lot to talk about zombie companies, being businesses that had very heavy debt burdens, but with the benefit of a very low interest rate environment. They could just carry on operating, just kind of lurching around... not growing, not developing. Maybe this is a kind of shock that will kickstart those sectors of the economy which are being dragged down.

Rebecca: Carolyn, I'd love to ask if you've seen - from your perspective looking at so many creative businesses -- any new interesting start-ups that have come about? Maybe specifically *because* other organisations are not rising to the challenge in that particular sector, or they're responding to a renewed need from customers?

Carolyn: One of the ones that I think is the most interesting is a digital fashion business that - in fact they just had a demonstration - they had their first live, human model the other day. It lets you try on clothes digitally. Literally, there's a woman trying on a few different pieces of their fashion collection, and it is hard to get your head around.

Because then you're wearing this fashion in a digital world, with all of your friends, and the idea is that you're buying a dress or you're buying whatever to then participate in a virtual experience.

And that's where you're going to wear your new virtual fashion. There are some very forward-thinking businesses like that coming out of this. I think the whole digital virtual world is going to be very, very, exciting, I mean you already have people who are because of how they were fixed before Covid, i.e video games, they're *flourishing*, because they can do production, as opposed to film and TV, which really got hurt, because they couldn't do physical production because of social distancing.

Video games are doing great., but taking that one step further and creating a whole virtual world for all kinds of things, like I said before, for fashion shows, runways, we'll see what happens... but those are key for marketing fashion.

They're starting to create all kinds of new engaging virtual worlds, and I think that's one of the most exciting areas.

Rebecca: So, the rise of digital, the explosion of virtual worlds and virtual immersion. I'd like to do some more crystal ball gazing and kind of look at what other industries we think, are in the process of revolution.

Alan, through your conversations with business owners, with your colleagues, are there any other areas that are seeing intense and speedy change and development?

Alan: We're starting to see some supply chain rationalization. I think what's happened recently has proven that, some of the global supply chains, albeit they're probably a lot cheaper, they are fraught with risks. When China went into lockdown first, that had an impact on the UK manufacturing side even though we hadn't really gone into any lockdown. We started to actually experience a downturn in our trade, before we were hit.

It'd be quite interesting to see how some of these larger businesses now react and balance that risk, the cost element, and whether we start to get some onshoring. So in terms of opportunities, I can see there being some things like that will start to come back on side. I think the overall thing will be just how businesses actually do change, adapt and become more agile, leaner and whether there is a new normal, compared to what the old normal was.

Rebecca: I suppose following on from that the idea... sorry Carolyn, you're nodding there - tell me what your point is about this.

Carolyn: Well, and just crystal ball gazing, I wonder if new models may come up in the creative world... so I spoke a minute ago about the exciting new start-ups, mainly digital, etc. But huge heroes of our culture, whose businesses depend on people being packed into venues,

I wonder if a new model may come up where government may step in far more for these institutions that bring so much to all of our lives... I think on two levels the government *should* be interested in this, and they're not.

If they can't survive on their donations or ticket sales, what's supposed to happen to these amazing organisations? I think that number one, government may rethink that and say, 'do you know what, we're just going to have to step in on a more permanent basis', to have these run on the basis of what they do for society as a whole.

Especially with what we've all gone through. But also - looking at them as a return on investment, so in a much more calculating economic sense, how much tourism and every other kind- of businesses that goes on in cities and things, that all of these cultural organisations bring to the economy?

I think there may be a rethinking of the funding of those.

Rebecca: Do you mean just funding, or could you mean a fundamental almost renationalisation or nationalisation of some of the treasures in the arts world?

Carolyn: Well, that's a scary word, but yes, I mean in essence. Think about Britain, think about how the world views Britain, so much of it is British culture - it's the theatres, it's the British Museum, it's music, it's all these things. And so I can see more an understanding of the economic, but also wider societal benefit, of having a funding model that will make them sustainable, no matter what happens with future pandemics.

Rebecca: We're seeing the government playing that role in such a big way now, and especially with charities. Phil you mentioned you work a lot with the third sector. We saw the government pinpointing various organisations that were doing work to help the most vulnerable during COVID-19, and they were actually you know pinpointing them for funding. Is that going to be happening a lot more? How is the charity sector getting through this when so many donations are drying up?

Phil: With the charity sector, I mean over the last 10-15 years, effectively the government has outsourced to a lot of its services to the third sector to perform, so they're providing key core components of social care - all the way through.

There's a big drive – obviously now the government has gone about to sourced it - it needs to keep moving and going. Really the challenge is probably in that sector is going back to the point Carolyn mentioned, is collaboration.

I think this is going to be a real driver for the third sector to – either have a lot more mergers where they're just going to try and get the scale to be able to survive and actually be able still provide the services, but take out costs at the bank. That's going to be a big effort, whether that's going to be more collaborations or whether it goes all the way through to formal mergers. We have to see how it goes.

I'm hoping for one that this will be a step change to try and improve the efficiency in the sector and actually deliver the services it needs, but try and take out some of the costs that are there. Tracking back to one of your points about crystal ball gazing, one of the things I see is, particularly used technology. If you look at say fintech, some of the solutions in there - that's going to be very disruptive to the current financial sector, which is often quite a core component of UK plc. There's opportunities there when you look at some of the work they're doing in artificial intelligence.

Whole swathes of the current workforce could be replaced you know. So you don't need the same people to do these jobs, because effectively the AI would do it for you. That's going to be a big step change and that's where the agile business, ones that adapt quickly, will be able to take that market on.

Rebecca: Presumably it takes a fair amount of investment to make that move so the automation can be a huge kind of money saver later on but to implement it to rejig the business. That's quite tricky when you're cash-strapped in the short-term, right?

Phil: Yep as Alan mentioned, there is still a lot of liquidity, there is a lot of money in the market and still a lot of people looking for opportunities.

If you have something which can disrupt, you should have a big cost of advantage over incumbent competition.

I think there will be opportunities there and, just the other day, one of the major PE funds just raised another couple of billion for a fighting fund – looking for opportunities. When there's distress when there's stress, when there's change, that's where people can make a lot of money.

Rebecca: And there's always there's all money for good businesses isn't it. The idea that you can't find finance... the fact is, if you've got a strong business model, if you are a passionate leader, you will *always* be able to find money. Is that a slightly naive comment from me?

Phil: At the moment I think we're as Alan mentioned, if you went back to another recession, basically you couldn't get funding, at all. But at the moment the market for funding it's not just going to your high street lenders anymore. There's a plethora of funds, debt funds, challenger banks, peer-to-peer lenders, whole new sectors to look at.

So there are a lot more opportunities. A lot of our job a lot of it is trying to help businesses find the right debt to move on. The right proportion of debt, how it works, do you need more equity - all of those things come into the kind of wider solution. But at the moment we're seeing a general softening in some of the sector's, probably in development and construction where maybe some of the lenders are pulling back. But you know when I talk to the main clearers you know they're all saying, 'we're still open for business. We still want to lend.' And it's not just to CBILS, it's across the piece.

Rebecca: And I'd love to expand on this, because we're kind of touching on the advice for those at the helm of businesses, that are in distress. We've talked a lot about the need to communicate and stay in touch with all your stakeholders regularly. We've talked about the need to explore digital options. What else should business leaders be factoring in? What should their process be? Their doors have been closed, they're struggling, how can they how can they look at their business plan and think about the future to try and come out of this in in the right way? Alan, what advice would you give to the businesses that you're meeting that are in difficulty?

Alan: Well, planning is a bit of a challenge at the moment just because we're not sure how quickly the economy's going to bounce back. And every sector is going to have different challenges and have to make different assumptions behind that.

One of the management teams we were trying to help recently, said in terms of looking forward it's like nailing jelly to a wall. That's because it is a big challenge for them - but really they need to look at their business overall. Like I said earlier it's not what might have worked in the past.

Start look at what the wider markets are doing, so look at what your operations are, what your operations have been and what actually they might have to change to for the future. Look at your customer base - has your customer base got any distress? And look at your supply chain as well, because if something drops out of your supply chain, how do you operate?

Start to map out the risks your business actually has, and put in place plans in terms of mitigation behind that. If something does happen, then you've got some mitigation. One of the things we do like to do, and Phil will agree on this, is - back to that engagement with your stakeholders - what they *do* want you to be doing is taking a problem to them.

They want you to be taking the solution with them so you've actually thought about what the problems going to be, but you've got a plan and whether they don't necessarily agree with that plan, at least you've thought of something and they'll typically work try to work with you to get a better outcome, if they can. I think that's really important in terms of taking your business forward.

Rebecca: I think that's brilliant advice, because that's that idea of always having a solution in mind, being constructive, I think that can often get lost in the negotiation piece. Carolyn, what about you? What advice are you giving to the businesses in your community?

Carolyn: I just wanted to touch on a key point which I believe, which is talent. There's this massive kind of reshuffle of everything going on right now, as you think about your business in the future, everything Allen just said. How do you come out of this, how do you flourish in the new normal? Talent! There's so many people who have been displaced, really talented people who have been displaced. People that you might have collaborated with in the past, or you just know about them, and think, 'Gosh I always thought that was a really talented person.' I would just encourage people to take their blinders off and be very aware that people that you never thought would, might come available or are available now. People who have skills you never thought... you could see how to use them now, with your new plans and new business you can.

I would really focus on all the talent that's out there and your new needs... there are people who can really help you build your new business in the new world,

Rebecca: Absolutely! Alan, you've got something to add to that, I can see.

Alan: Yeah and that's important in terms of...back to Phil's point before, about gaining investment. People is a huge thing for a lot of businesses - albeit you've got a good product, you've got a good growth story and everything else, but the *people* behind it are fundamental to that for any investor coming in. Having the right people and bringing the right people on board will be key at the moment as well.

Rebecca: On that point about talent I think that is so relevant because there is almost this myth that, when there are mass redundancies, that somehow everyone will just be desperate for a job.

But actually there's always a wall for top talent isn't there, because they always they always find an amazing opportunity and people always want to hire those people.

And actually, Carolyn, your point about finding great people, and keeping an eye out. We've also lost a barrier, which is; you don't need to live near the company you want to work for anymore -because we're in this working from home virtual culture now.

Carolyn: It's, it's amazing, it just completely changes everything. I mean we are even experiencing that ourselves. There used to be this kind of stigma that everybody's got to be together, and of course it depends on what kind of business you have. But if you have a business where, actually, you don't all need to be physically together, it opens up all kinds of new possibilities. And not even you know somebody who's outside London - they could be in LA or Sydney. I mean, it really is fascinating.

Also, it's a shift that is obviously going to be very hard for businesses that are about commercial property or that are about offices and co-working spaces. That's obviously incredibly challenging. On the other hand, for other businesses, it means it takes a whole expense off, of your books and you can spend more of that money on talent rather than on the office space.

Rebecca: I love that we're seeing the silver linings and I'd like to continue on that theme. Rob, you were nodding a few times there, but what are the bright points in the horizon that you're excited about, that you think could bring some hope?

Rob: Well, I was just thinking about professional services firms, like lawyers and accountants the fact that this has brought an opportunity for us to seek out clients from further afield. To work with clients from multiple jurisdictions and the like. So I think that does t bring opportunities as well.

Rebecca: And I suppose that's the point to always remember that, with every challenge in times of crisis, there is always opportunity too - although it can be hard to focus on that. So are you going forward with cautious optimism Phil, or are you still very much waiting to make a decision on that side?

Phil: Yeah, I think the government, in broad terms, has done what it can to try and hold things together.

With a view to hopefully we get a v-shaped recovery in the economy, and that effectively there will be this pent-up demand where it's a matter of everything's reopened, people are trading. - The key thing is confidence; they're very much trying to keep the confidence up and that's the key component if you're going to try and trade out of this issue.

Like Alan, I think my view is we're probably looking at more of a U-shaped recovery and the challenge is going to be how long we're at the bottom of that 'U' before we start coming up.

A lot of businesses will have basically burned through their reserves over the last hundred days and can they have the support they need to get them through this, to be able to start to build up again.

but our job only works when there's a market for assets, and there's people wanting to buy businesses. So we can't do our job unless there's an active market - we need people who've got the money, got the ideas, and believe that they can turn the business around, for us to do our job properly.

I think Rob mentioned that was he when he said there were these football clubs before, that you know you always needed another buyer to come along to sort out the mess of the last ones.

Rebecca: That was an interesting point about confidence and it got me thinking about how it's quite hard to be optimistic when we live in a culture where bad news sells. When you open the business pages, it's all about the failures, and that's what sells papers – sells clicks.

It must be quite tricky, when you're in the advice side and you're trying to bring some optimism, when there is just bad news everywhere, right? Alan, is that is that one of your jobs then to be almost like a cheerleader?...We can do this!

Alan: It is! We don't want businesses to fail. You get much more satisfaction from your job by actually helping something succeed. You restructure something and you help produce a viable business to take forward, and that's really important to us when we're actually going in. We go in very much with an open mind.

The thing which always amazes me is entrepreneurs are very resilient, so they do change, they do adapt, and they do create, which is fantastic. The UK has, I think, historically had this culture of developing and creating ideas, right through from the Industrial Revolution, to the present day. So longer-term we will be okay. I do think we will have some rough times, and some people will have some very rough times over the next one or two years, but I think a lot of that is going to depend on how confident the consumers and the people are of doing things again. or how the governments actually go in to encourage and promote confidence back into the general populace.

Rebecca: Yeah that's such a good point, there are so many unknowns right now, and if any of those unknowns are resolved in the next couple of weeks or months, the picture could change dramatically. So how, how wedded is everyone on this podcast, to kind of watching the news and trying to align themselves to whatever is going on in the world with vaccines or government money. Or, is it more about just doing what you can with what you've got right now?

Carolyn: We were all so shocked when this all first happened.

But I think now I've found a really healthy balance, which is, keep in touch with key things that you need to know about.

Like, I'm not watching every news conference. I'm keeping up every day on developments but not sort of letting it run my life. So I think It's getting familiar with what kind of pieces of information you really need to know - and shutting out the rest of the clutter.

Rebecca: That's great advice, guys I think that's a good place to stop.

I feel like we've talked through the future of restructuring and we've talked about everything that anyone facing insolvency right now needs to know. Thank you for bringing all your wisdom, advice, and insight.

It's been wonderful talking to you all, and thanks so much.