Common Signs of Business Stress and Distress

US – December 2022

We have set out in this guide some key signs of stress or distress to look out for.

What is Stress?

Internal or external factors that put pressure on a business and/or negatively impact a business's performance and operations.

What is Distress?

The viability of some or all of the business is threatened due to internal or external factors.

A failure to recognize and address stress in a business may lead to distress.

A failure to recognize and manage distress will more often than not result in either business failure or serious value dilution for key stakeholders.

Timely identification and management of stress and distress will usually save money, jobs and, ultimately, businesses.

	Signs of Stress	Signs of Distress
Customer, Supplier and Creditor Relations	• Margins on supply contracts becoming tighter • Supplier tightening payment/protection terms (such as retention of title) • Credit insurance is difficult to find, or is becoming more expensive • Key suppliers falling behind with deliveries, or decreases in quality of goods • Disputes with landlords, suppliers or creditors • Customers seeking greater visibility of financial performance before placing an order • Supply chain disruption creating pressure on funding and performance • Overreliance on individual projects, customers, suppliers or contracts • Unplanned-for increase in inventory levels • Demand for goods and/or services slowing within the market generally • Increase in litigation	• Entry of adverse judgments • Loss of key supplier or customer • Receiving demand letters, court proceedings, statutory demands and/or involuntary bankruptcy petitions • Suppliers put the business "on stop" • Credit insurers terminate coverage • Customers demanding performance bonds or increased security • Contracts being placed elsewhere
Corporate Activity	• Plans for acquisitions are delayed or shelved due to uncertainty • Sales are taking longer than anticipated • Rebranding or expansion into different sectors may cause margins to be stretched too thinly • Refinancing terms are more expensive than expected	• Financing has failed or is significantly delayed • New borrowings are unavailable • Sales of parts of the business or assets are contemplated to free up cash or eliminate losses
Management	• Growth is still pursued, but there is recognition of the need to self-fund. • There is a difficulty in attracting new senior management	• Sudden focus on cash and cost rather than growth • Looking to borrow additional funds to plug cash flow gaps • Significant and quick changes in senior management and/or at board level • Loss of key employees/layoffs • Numerous or irresolvable disputes at board level

Performance	• Borrowing margins are becoming tighter • Profitability, within the business or specific departments, has fallen or has not grown in line with forecasts • Top line growth, which was previously consistent, has plateaued • A material increase in borrowing is forecast • Emergence of a strong competitor • Market conditions are worsening • Sector-specific challenges in the market the business operates in • Raw material and/or production cost inflation • Inability to pass on increasing costs to customers • Increasing overhead costs without a corresponding increase in revenue • Business model challenged by technological advances	• Borrowing facilities have been (or are expected to be) exceeded • Cash flow has become tight • Credit terms exceeded • Taking longer than usual to pay suppliers • Business is (or is expected to be) in breach of loan covenants • Revenue is falling, even though there is growth elsewhere within the market or sector • EBITA is insufficient to fund interest, investment or financial commitments • Acute supply chain problems, e.g. key supplier failure • Significant hikes in prices, e.g. raw materials or energy, that are not hedged or otherwise budgeted • Subsidiary company significantly underperforming or loss-making
Lender Attitude	• Lenders are requiring a greater level of financial information • Agreed lender forbearance due to end • Existing lenders signal an unwillingness to increase their exposure • Lenders appoint specialists to oversee credit issues alongside relationship bankers • Higher interest payments	• Lenders are requesting the appointment of financial advisors, or financial advisors are appointed • Existing lenders are restricting the use or availability of funds, or refusing to advance further funds • Management of the company's accounts has been transferred to a specialist unit within the lender • Loans are being marketed to or have been transferred to alternative capital providers • New borrowings are unavailable
Communications	• Profit warnings • Accounting reference date is changed • Management is downplaying growth expectations • Customer/end-user complaints or disputes	• Two or more profit warnings • Delays to announcements in relation to results • Delays in filing accounts • Significant uptick in adverse social media reports
Other Issues	• Staff shortages • Lack of investment in new technologies • Doubts over the efficacy of accounting policies	• An accounting "black hole" • Fraud • Large pension deficit • Creditor demands for payment

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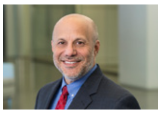

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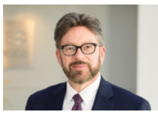

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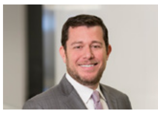

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