

Distress Curve and Options for Business Survival

UK - 2025

	Distressed M&A sale				
Early signs of business distress		Restructuring Plan (RP)	Company Voluntary Arrangement (CVA)	Administration	Liquidation (voluntary/compulsory)
Outcome for the Business					
Business most likely to find a solution to cash flow/solvency challenges and can trade though. Business will likely survive.	Business in financial distress but the business is still viable, and its value can be preserved by a sale of the shares/assets. Business will likely survive.	Business will likely survive	Business will likely survive	Administrators appointed who will take over management and control of the business.	Liquidator appointed Business ceases to trade Liquidator will investigate the reasons for the business failure
Options for Management					
Agree informal or formal compromises with creditors Agree time to pay agreement with HMRC Close unviable operations or sell loss-making divisions Restructure the workforce Tighten debt recovery processes Increase existing working capital facilities or refinance Consider invoice discounting/ factoring/asset based lending Private equity funding Debt for equity swaps	Most options are still available. Although value in the business is likely to have reduced by this point there is still a viable business to save and management can control the outcome.	Most options are probably still available however an RP is likely to be reasonably expensive and requires creditor approval and court sanction which management cannot control. For businesses that are carrying significant HMRC debt, the options will be driven more by HMRC's attitude than management's views.	Time constraints, cash constraints and HMRC's attitude will limit the options. A CVA requires a majority of independent creditors to approve, and management cannot control the outcome.	The Administrators will decide on the outcome for the business. No options for management other than they may be able to buy the business back by pre-pack sale. Director's conduct investigated and may face personal liability.	No options business has cease to trade. Director's conduct investigated and may face personal liability.

In simple terms, the earlier a business identifies when it is (or is likely to) face a period of distress the more options there are for management to address any challenges.

The further down the distress/stress curve the business gets, the less control management have, the more professional fees that are likely to be incurred in trying to find a solution, the opportunity to trade through the difficulties is reduced/extinguished and the risk of personal liability for management increases.

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