SQUIRE PATTON BOGGS

Common Signs of Business Stress and Distress

UK – 2026

What is Stress?

Internal or external factors which put pressure on a business and/or mean that it isn't performing or operating as well as it should be

What is Distress?

Internal or external factors that mean the viability of some or all of the business is threatened

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

A failure to recognise 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.

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

This note is intended as guidance only and should not be relied on as legal advice. Should you require advice in relation your own specific circumstances, please contact one of our team whose contact details are at the end of this guide.

	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 (ROT)) • Credit insurance is difficult to find, or it is becoming more difficult or expensive to increase cover • Key suppliers falling behind with deliveries, or decreases in quality of goods, will impact the performance of the business • 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 stock levels • Demand for goods and/or services slowing within the market generally	• Loss of key supplier or customer • Receiving letters of demand, court proceedings, unpaid judgments, statutory demands and/or winding up petitions • Suppliers put the business "on stop" • Credit insurers withdraw cover • Customers are demanding performance bonds • Contracts are being placed elsewhere
Corporate Activity	• Plans for acquisitions are delayed or shelved due to uncertainty • Disposals 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 • Disposals 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 • Numerous or irresolvable disputes at board level

	Signs of Stress	Signs of Distress
Performance	• Borrowing margins are becoming tighter and headroom in facilities is squeezed • HMRC debt is increasing • 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 • There are sector-specific challenges in the market the business operates in • Exchange rate inflation • 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 • HMRC Time to Pay arrangements have been utilised • Revenue is falling, even though there is growth elsewhere within the market or sector • Earnings before interest, tax and amortisation (EBITA) is insufficient to fund interest, investment or financial commitments • There are acute supply chain problems, e.g. key supplier failure • Significant hikes in prices, e.g. raw materials or energy, that aren't hedged or otherwise budgeted for • Subsidiary company significantly underperforming or loss-making
Lender Attitude	• Lenders are requiring a greater level of 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 reporting accountants, or reporting accountants are appointed • Existing lenders are restricting the use or availability of funds, or refusing to advance further monies • Management of the company's accounts has been transferred to a specialist unit within the lender • Loans are being marketed to or have transferred to alternative capital providers • New borrowings are unavailable
Communications	• Profit warnings • Accounting reference date is changed • Management are 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	• There is an accounting "black hole" • Fraud • There is a large pension deficit • Creditor demands for payment

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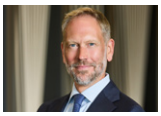

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