DUFF & PHELPS

Protect, Restore and Maximise Value

# Upside

**AUTUMN EDITION**

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# Contents

**Paul Clark**
Head of UK Restructuring
Restructuring Advisory, London
paul.clark@duffandphelps.com

# Welcome to Our Autumn Edition of Upside

Since our last edition, we have experienced a transformative period at Duff & Phelps - one that we believe will greatly enhance our market offering in the UK and internationally.

In February, Permira, the global private equity firm, acquired Duff & Phelps for $1.75 billion. This transaction affirms that Duff & Phelps has built a global and diversified franchise that helps clients protect and enhance their value. As we continue to execute on growth opportunities, we are confident that our clients and employees alike will benefit from this partnership with Permira – a firm with an outstanding track record of providing strategic support, as well as sector expertise, to its funds' portfolio investments.

You are probably familiar with Kroll, a global leader in risk mitigation, investigations, compliance, cyber resilience, security and incident response solutions.

In the first half of this year, Kroll became part of the Duff & Phelps family, an acquisition that was completed in May. The combined organisation now has nearly 3,500 employees located in 28 countries around the world, greatly extending our market reach and capabilities.

Additionally, in June we announced the formation of a new business unit: the Governance, Risk, Investigations and Disputes practice.

This new operation will combine our expertise in disputes and investigations with Kroll's extensive investigations, cyber security, due diligence and compliance skills.

This is an important new development for our clients, who are increasingly looking for solutions to address governance, risk and related challenges at a global level, with technical expertise and unquestioned independence and integrity.

This new business unit will work in tandem with our existing professionals in Valuation Advisory and Corporate Finance, to help our clients make informed decisions.

We are also expanding our footprint in the UK and in Ireland. The recent opening of our new Dublin office

located in the heart of the city at St. Stephen's Green provides capacity to increase headcount, and we are actively looking for financial services professionals in areas such as Valuation Advisory, Restructuring Advisory, Compliance and Regulatory Consulting and Real Estate Advisory Services.

Our team in the UK is growing with the addition of a number of new faces from Eddisons. Joining our Manchester practice are Paul Greenhalgh, David Cran, Phil Kelly, Tom Parker and Chris Holt, and joining our London practice is James Liddiment. This new team will focus on bank led valuation work. Please join us in welcoming them to the Duff & Phelps team.

Additionally, we welcome Eddie Bines, who recently joined as a director in our London office. Eddie brings a wealth of corporate restructuring and advisory experience. He specialises in working alongside clients to deliver corporate structure simplification ranging from large scale global entity rationalisation projects to managed wind down situations, one-off liquidations and solvent reconstructions. Welcome, Eddie.

We congratulate Sebastien Johnson on passing his final ACCA professional exams. Sebastien placed 1st in his Advanced Financial Management exam and 3rd overall for his combined exams score over the professional modules, globally. Well done on an outstanding achievement.

Over the past eight months, the Duff & Phelps Restructuring Advisory team has been working hard to identify issues that may be affecting your business. In this edition of *Upside*, we hope to share that information and provide insights into the recent work we've done for our clients.

**Paul Greenhalgh**
Managing Director
Real Estate Advisory Group, Manchester
paul.greenhalgh@duffandphelps.com

**Paul Williams**
Managing Director
Restructuring Advisory, London
paul.williams@duffandphelps.com

**Jimmy Saunders**
Director
Restructuring Advisory, Manchester
jimmy.saunders@duffandphelps.com

**Andrew Knowles**
Director
Restructuring Advisory, Birmingham
andrew.knowles@duffandphelps.com

# Hotels – Buoyant for Now

## The UK hotel sector is feeling the heat.

While the sector as a whole has reported steady figures this year due to the weak pound and an improved global economy, the road ahead looks uncertain. Some reports suggest that 1,800 hotels have a 30% risk of insolvency over the course of the next three years, and the sector has seen increased pressure from alternative options such as Airbnb.[1]

Hotels face difficulties filling vacant positions as the cost of labour has increased. The continued uncertainty around Brexit has resulted in a slowdown of applicants from the EU and has caused some European employees to leave the country. Similarly, the weaker pound has made the UK a less attractive place for Europeans to work. On the flip side, the weaker pound has made the UK an attractive travel destination, meaning the hotel sector has seen increased bookings from overseas travellers.

For those continuing businesses, competition throughout the sector will likely continue to be fierce and margins will likely reduce even further.

Well-established, profitable hotels with low levels of debt and strong capital bases are best placed to navigate through the current storm. By contrast, those with high levels of borrowing and in need of essential modernisation will likely feel the impact more quickly. Senior lenders are cautious and it will likely be difficult to negotiate additional facilities to assist a business as cash flow tightens.

Many hotels may already be facing serious difficulty, and pressure from creditors may be rising steadily.

With a number of UK retailers having gone into administration in the last few months, and inevitably more to follow, the leisure sector is an industry that will naturally follow this course. While hotels typically won't be the first casualties within the sector, they are certainly not immune.

Hoteliers need to know how to create and sustain a "recession-proof business model." The warmer months may provide a temporary boost, but with Brexit uncertainty remaining, it is impossible to predict which way the industry will go.

1. http://insolvencyadvisor.org.uk/blog/are-hotel-insolvencies-set-to-increase-following-brexit/


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**Geoff Bouchier**
Managing Director
Restructuring Advisory, London
geoff.bouchier@duffandphelps.com

**Steve Muncaster**
Managing Director
Restructuring Advisory, Manchester
steven.muncaster@duffandphelps.com

# Pension Freedoms: Where Are We in the Battle to Protect Investors?

There have always been fraudsters and thieves, but pension freedoms, which were implemented April 2015, may have made it easier for scammers to prey on those looking for higher rates of return on investments.

The latest HM Revenue and Customs statistics on flexible payments regarding pensions show that £6.7 billion was withdrawn by 375,000 investors in the last 12 months, and £17.5 billion has been withdrawn from pensions since the changes were introduced.[1]

Pension freedoms are fundamentally beneficial, providing people with welcome control and flexibility over their retirement savings. However, these reforms have also increased the risk of retirees being targeted by scammers.

According to The Telegraph, 222,000 pensioners have made half a million withdrawals in the first three months of this year alone - 20,000 more than the last quarter of 2017. The total withdrawn in 2017–18 was £6.7 billion, the highest figure since the reforms were introduced in 2015.[2]

Some pensioners have chosen to invest without taking professional advice. This DIY approach of chasing higher returns could be exposing them to a high-level of risk since many are unregulated, illiquid and based on high commission rates. At worst, the pensioners could be increasingly exposed to fraudsters.

Recently, the market has seen a number of investment products promising very aggressive rates of return. In some instances, these are being revealed to retail investors anxious to see the return of their invested pension savings.

However, we suspect that many remain unexposed, because retail investors are concerned that this exposure would ruin the scheme and likely result in them permanently losing their money.

Retail investors should become more knowledgeable about their rights, specifically regarding any contractual arrangement with the company or legal entity in which they have invested. For example, if an investor has the right to be repaid capital and/or interest on a certain date and it has not occurred, they should consider enforcing their rights and not merely relying on assurances of future payment from those running the schemes.

1. https://www.gov.uk/government/statistics/flexible-payments-from-pensions
2. https://www.telegraph.co.uk/pensions-retirement/financial-planning/pension-freedoms-gaining-momentum-record-numbers-withdraw-cash/

**Philip Duffy**
Managing Director
Restructuring Advisory, Manchester
philip.duffy@duffandphelps.com

**Benjamin Wiles**
Managing Director
Restructuring Advisory, London
benjamin.wiles@duffandphelps.com

**Michael Lennon**
Director
Restructuring Advisory, Manchester
michael.lennon@duffandphelps.com


# High Street Woes

There are few sectors where the effects of the faltering UK economy have been more starkly visible than the retail sector. It seems that every day the media presents another story about a high street name facing financial difficulty.

There are a multitude of factors playing into the softening consumer demand, but the biggest issue of all is that consumers simply have less money.[1]

While the UK hasn't left the EU yet, the effects of the decision to leave is having a significant impact across the economy. It is perhaps being felt most severely in the retail market. The depreciation of sterling has had a significant impact on retailers' bottom lines, pushing up the prices of goods imported from overseas and hitting their purchasing power. Analysis from the British Retail Consortium (BRC) has indicated that global food commodity costs have risen by an average of 17% since 2016, indicating the pressure on retailers' supply chains.

The rate of inflation has also grown steadily, raising the price of basic household goods and leaving many families, particularly those on low incomes, with significantly less disposable income. This is being felt in many markets, including the automotive industry and leisure sector, but retailers are more susceptible than most to fluctuations in both consumer spending and the global supply chain.

Along with reducing the amount of money in consumers' pockets, Brexit may be impacting both business and consumer confidence. Many consumers are perhaps anticipating a period similar to what followed the financial crash of 2008, of job losses and companies going into administration. Therefore, they are saving money for a rainy day.

Since 2011, the banks have paid out over £28 billion in compensation for mis-sold payment protection insurance (PPI).[2] This has resulted in what some economists call "helicopter money," large sums of cash distributed to significant swathes of the population. Coinciding with the UK finally emerging from one of the toughest economic periods in living memory following the financial crash, it is

easy to understand why people who were suddenly handed a large windfall may have had the confidence to spend it on themselves, rather than saving it.

In addition to the dangers that Brexit and the end of PPI pose to the retail industry, there is a potentially more destructive, more systemic and essentially irreversible threat to the market: the rise of online shopping. This may not yet be at the level where it is really eviscerating the traditional retail market incumbents. After all, many brick-and-mortar retailers have developed sizeable online presences. However, the rate of growth will concern retailers.

Adding to the pressure on brick-and-mortar retailers' margins is the increase in business rates brought in by the government in 2017. This has had a profound effect on the health of high street, with figures from the BRC suggesting that retailers may find themselves with an additional £273 million to pay. With many independent retailers already in a precarious position, this could lead to further cash flow pressures.

1. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/supplementaryanalysisofaverageweeklyearnings/june2018
2. https://www.canaryclaims.co.uk/ppi-claims-reach-28-billion/

**Geoff Bouchier**
Managing Director
Restructuring Advisory, London
geoff.bouchier@duffandphelps.com

**Steve Clancy**
Managing Director
Restructuring Advisory, Manchester
stephen.clancy@duffandphelps.com

# The UK Government Moves on Plastics

The global waste industry has been thrown into turmoil as China halted its import on almost all categories of plastic and poor-quality cardboard and paper.

The ban on imports of millions of tonnes of plastic waste – which came into effect in January 2018 – is already causing a build-up of rubbish at UK recycling plants and those operating in what is a commodity market face chaos and financial stress in the short-term.

In addition, the UK Government has launched a wave of initiatives designed to cut down on single use plastics, which is in turn putting added pressure on the recycling industry.[1]

This change in waste removal could have serious impacts on the UK. Below are a few recent statistics on recycling and rubbish removal.

- The UK recycling rate for waste from households was 45.2% in 2016, increasing from 44.6% in 2015. But there is a EU target for the UK to recycle at least 50% of household waste by 2020.[2]
- The recycling rate for waste from households increased in all UK countries in 2016. The recycling rate for England was 44.9%, compared with 43.0% in Northern Ireland, 42.8% in Scotland and 57.3% in Wales.[3]
- UK biodegradable municipal waste sent to landfill in 2016 was similar to that in 2015, remaining at approximately 7.7 million tonnes or 22% of the 1995 baseline value.[4]
- In 2016, 71.4% of UK packaging waste was either recycled or recovered compared to 64.7% in 2015. This exceeds the EU target to recycle or recover at least 60% of packaging waste.[5]

The figures on one hand look positive, but they fail to take into account one of the most seismic changes to affect the industry to date: China. In July 2017, China's government


told the World Trade Organization that it intended to halt the import of 24 grades of plastic, textiles and paper; which it said were often contaminated with dirty or hazardous material. Plastics, including PVC and polyethylene, are also covered by the ban, as well as mixed batches of paper and cardboard.

The UK, which has little capacity to recycle plastic, has been trying to locate newer markets for recycling since China announced its possible ban in 2017. In the absence of alternatives, businesses face turmoil in the short-term, creating a huge strain on financial resources with cash flow being badly hit in many cases.

This has come at a bad time for the sector, which has reported tight margins for a number of years, compounded by cuts in central government funds to local authority environmental services budgets and a global fall in commodity prices on recycled materials.

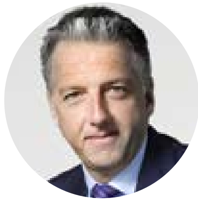
Waste management and re-processing businesses are facing a triple whammy. The speed at which their core market evaporated, combined with global competition for new markets and the costs of having to store and sort waste, which is increasing on a daily basis. Local recycling units are now facing the very real issue of increasing costs as they strive to sift and sort in the UK before shipping to new markets, which with the closure of the Chinese market, are already swamped.

1. https://www.theguardian.com/environment/2018/apr/14/government-sets-aside-fund-to-fight-plastic-waste-oceans
2. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683051/UK_Statisticson_Waste_statistical_notice_Feb_2018_FINAL.pdf
3. https://www.letsrecycle.com/news/latest-news/defra-recycling-rate-2016/
4. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683051/UK_Statisticson_Waste_statistical_notice_Feb_2018_FINAL.pdf
5. https://ciwm-journal.co.uk/overall-uk-recycling-rate-rises-0-6-to-reach-45-2/

**Allan Graham**
Managing Director
Restructuring Advisory, Birmingham
allan.graham@duffandphelps.com

**Michael Bills**
Managing Director
Restructuring Advisory, London
michael.bills@duffandphelps.com

**Benjamin Wiles**
Managing Director
Restructuring Advisory, London
benjamin.wiles@duffandphelps.com



**Matt Ingram**
Managing Director
Restructuring Advisory, Birmingham
matthew.ingram@duffandphelps.com

# Protecting Investments

In recent months, Duff & Phelps has led the restructuring of many businesses across the country from a wide variety of market sectors, including retail, leisure and manufacturing.

Our ability to consider the long-term impact of the operational turnaround in each case has enabled us to deliver a strong platform for each business to exit the restructuring process to the satisfaction of all stakeholders involved.

One of the most high-profile cases was the oldest surviving amusement park in the UK, Dreamland, where our approach secured over £35 million in new investment.

The relationship and the sharing of a common vision for Dreamland and Margate with secured creditor Arrowgrass, allowed Duff & Phelps to implement a detailed, broad and unique turnaround within a short period and to maximise the current and future returns for all stakeholders involved in the project.

Following the exit from administration and the satisfaction of the Company Voluntary Arrangement (CVA) in early January, the company was returned to the control of the directors and Arrowgrass, the new shareholder, with the commitment of ongoing funding to safeguard the future of the Dreamland project. This change secured jobs and ongoing trade with a number of local suppliers.

At the end of last year, Duff & Phelps successfully sold one of the best-known brands in the retail bedding market, Feather & Black. This was a high-profile case in the UK media, because Feather & Black is a well-established bedroom furnishings brand offering premium bedroom furniture. The brand was founded in 2005—although the business traces its history to 1994—and had 25 retail stores nationwide.

Duff & Phelps continued to trade the business as it sought a buyer and secured the successful sale of the majority of the business and its assets to Hilding Anders International (HA Group), a leading bedding and mattress company operating throughout Europe, Russia and Asia. HA Group

Dreamland Post Redevelopment

has 26 brands across premium/international and strong regional/local segments, together with a private label offering. HA Group is focused on 21 core markets with sales in over 60 countries worldwide.

More recently, Duff & Phelps also worked with Solstice, a high-end fruit and vegetable distributor to prestigious London restaurants and hotels, sourcing fresh produce from the UK and Europe.

We were pleased to announce the successful sale of the Solstice business to Reynolds, one of the UK's leading independent fresh fruit and vegetable suppliers. This not only facilitated business continuity, but also preserved the jobs of the entire workforce. We expect the business to continue to gain momentum under its new ownership.

**Philip Dakin**
Managing Director
Restructuring Advisory, London
philip.dakin@duffandphelps.com

**David Fleming**
Managing Director
Restructuring Advisory, Manchester
david.fleming@duffandphelps.com

**Trevor Birch**
Managing Director
Restructuring Advisory, London
trevor.birch@duffandphelps.com

# Is the Packaging Sector Unravelling?

The global consumer packaging market (paper and board products and rigid plastics) is currently worth an estimated $400 billion.[1] But it is an industry under pressure.

Consumer spending, raw material inflation, the drive to reduce waste and even the impacts of product innovation and supply chain management are adding to a complex picture for the consumer packaging sector.

Consumers tend to have a love-hate relationship with packaging. While they recognise its importance in protecting goods as well as the information provided on some consumer packaging, consumers are increasingly concerned about its implied cost and environmental impact when packaging is regarded as unnecessarily excessive or wasteful.

Similarly, the UK government amongst many are also taking an increasing interest in the environmental aspects of packaging, seeking to curb waste and increase recovery and recycling rates.[2]

The health of the packaging industry is inextricably linked to that of the world economy. However, reliant upon upstream industries for their raw materials, packaging converters must cope with fluctuations in raw material prices, dependent upon levels of supply and demand.

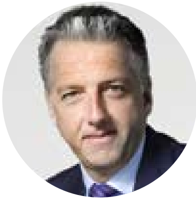
In a climate of low overall inflation, rising prices for raw materials has added pressure on some converters. Brand owners and retailers alike are also exerting downward pressure on prices, which are exacerbated by moves toward consolidation at all levels of the supply chain.

In addition, packaging buyers moving toward central purchasing has also affected margins. The growing use of e-commerce and reverse auctions has made the entire materials-sourcing business (especially in commodity areas) much simpler, promoting cost efficiency for users of consumables.

What will these trends mean for businesses in this space? As pressure from environmental regulations, demographic changes and developments in e-commerce increases, we may see an increase in the rate of consolidations and mergers, as well as failures. Packaging converters should make use of the latest business stabilisation strategies to aid their survival through this realignment of the industry, including accurate forecasting and financial modelling, options analysis, stakeholder management, sensitivity analysis and stress tests.

1. https://www.omicsonline.org/conferences-list/food-packaging-industry-scenario-in-italy
2. https://www.theguardian.com/environment/2018/apr/14/government-sets-aside-fund-to-fight-plastic-waste-oceans

**Michael Bills**
Managing Director
Restructuring Advisory, London
michael.bills@duffandphelps.com



**Matt Ingram**
Managing Director
Restructuring Advisory, Birmingham
matthew.ingram@duffandphelps.com

**Paul Smith**
Managing Director
Restructuring Advisory, Manchester
paul.smith@duffandphelps.com

# Skidding Off the Forecourt

The UK new car market has continued to fall throughout 2018, with a decline in sales driven by a near total collapse in diesel sales; however, petrol sales actually rose by 0.5% year on year.[1]

As with any business, cash flow is king, and recent months have delivered a mixed picture for the industry. The bad weather in early 2018—including the "Beast from the East"—inevitably reduced footfall on dealer forecourts. Easter coming earlier this year did not help, since it tends to be a family-focused time of year as opposed to an opportunity for car buying. There will be some dealers with large numbers of new vehicles on their stocking plans. These will become due for payment unless the dealers can negotiate further lines of finance from their manufacturer partners, who will have to continue to support them if new car sales continue to falter.

Manufacturers have clearly been supporting their dealer networks through the relaxation of onerous franchise terms, as well as through strong bonus and incentive schemes. It is not yet clear how long this support will continue. August saw a spike in sales for the UK new car market, as customers appeared to capitalise on considerable discounts offered by dealers ahead of the new emission regulations coming into effect. Any models not tested under the new WLTP regime cannot be sold post 1 September 2018.[2]

The sector is facing some critical structural issues as the era of cheap money and PPI payments comes to a close[3] and the number of consumers turning to the web to do their research on brands increases. An interest rate rise just before the all-important new registration month of September is not the sort of news that dealers want customers to be reading about, especially as over 80% of new car sales are bought on some form of credit agreement.[4]

However, not only is the market facing a threat from the drying up of cheap credit but also from the current negative sentiment toward diesel cars and the lack of infrastructure for mass use of hybrid and electric vehicles. Our advice to those UK car dealerships already feeling the pinch on cash flow is to act now.

Manufacturers will not want to see longstanding dealerships suffering and possibly even disappearing as a result of an economic slowdown. Accurate forecasting, planning ahead and embracing of the rescue principles that Duff & Phelps promotes will be necessary to manage a challenging economic period.

1. https://www.theguardian.com/business/2018/apr/05/sales-new-cars-uk-slump-march
2. https://www.autoexpress.co.uk/car-news/consumer-news/94714/uk-new-car-sales-up-23-per-cent-in-august-as-hybrid-demand-surges
3. https://www.fca.org.uk/news/press-releases/fca-finalise-plans-place-deadline-ppi-complaints
4. https://www.independent.co.uk/money/spend-save/new-car-buy-consumers-finance-oncredit-diesel-registrations-drop-income-a8246106.html

**Philip Dakin**
Managing Director
Restructuring Advisory, London
philip.dakin@duffandphelps.com

**Michael Bills**
Managing Director
Restructuring Advisory, London
michael.bills@duffandphelps.com

# Taxi!

The London private-hire car industry, comprising 2,400 predominantly family-run businesses, is under mounting financial pressure that could lead to multiple collapses as a result of the change in the Transport for London (TfL) licensing regime.

In September 2017, TfL approved increases that will see five-year licensing fees for some private-hire car operators in London leap from less than £3,000 to £700,000 in some instances.[1]

At a judicial review, the Licensed Private Hire Car Association (LPHCA) was seeking an injunction to halt the fee increases and force TfL back to the negotiating table. As part of the case, it has presented evidence based on TfL's own figures that some 40 operators have already collapsed. The LPHCA lost the case in May 2018 and so the new licensing regime is now expected to be implemented.

For many family-run businesses, the new regime could add considerable stress to cash flow as the cost of licensing rises. Whilst many operate on a cash-in-hand basis, a considerable number will have corporate accounts that are settled at the end of the financial month, with invoice finance facilities utilised to support firms' cash flow requirements prior to accounts being settled. Many invoice finance providers supporting these businesses may now be questioning the financial viability of their clients in this sector.

The charges, which last rose in 2013, are based on the number of cars run by any one specific firm. For example, those operating between 101 and 500 cars will see their license fees leap from £2,826 to £150,000; the amount rises to £700,000 for operators with 1,001 to 10,000 cars.

Invoice finance is a key way that many businesses in this sector fund their working capital requirements. But, what happens when markets change—such as the imposition of a new licensing regime, one that will hit the sector in unforeseen ways? There is no doubt that this will impact the cash flow and underlying viability of many private-hire car operators.

1. https://tfl.gov.uk/info-for/media/press-releases/2017/september/tfl-confirms-changes-to-private-hire-operator-licence-fe

**Jimmy Saunders**
Director
Restructuring Advisory, Manchester
jimmy.saunders@duffandphelps.com

**Steve Clancy**
Managing Director
Restructuring Advisory, Manchester
stephen.clancy@duffandphelps.com

**Paul Williams**
Managing Director
Restructuring Advisory, London
paul.williams@duffandphelps.com

# Is the Restaurant Sector Struggling with Hunger Pains?

The dine-at-home market is growing rapidly as demand for ready-to-eat delivered food is increasing ten times faster than dine-out, according to NPD Group.[1] Due to this, the UK restaurant sector is facing major disruption.

Technology has offered growth that didn't exist several years ago through online and app-driven channels. However, this growth has caused disruption in the restaurant sector, presenting challenges and often requiring capital investment when businesses face many other cash flow pressures.

Inflation in the UK continues to run at around 3%, levels not seen since 2012, driving food and beverage prices up at a time when consumer confidence levels are still showing a downward trend. Real wages have contracted for ten years now, the longest period of contraction since the 1860's,[2] and whilst customers put choice and convenience high on the menu, value will always be a key decision-making factor.

Labour costs continue to rise as national minimum wage increases are implemented; for example, as of April 2018, 21-year-olds receive £7.38 p/h, up from £6.50 just three years ago, an increase of 14%.[3] The hospitality sector maintains a large proportion of staff on zero-hour contracts, which, given the recent spotlight, makes them vulnerable as at least one major political party has pledged to ban the contracts outright.

Outrage over business rates has been grabbing headlines for years, underscored by the recent slew of businesses with a high street presence being restructured, whether via Administration or Company Voluntary Arrangement, or even being wound down. Although this year's Consumer Price Index is going to set business rates, pegging against the Retail Price Index, property costs are increasing significantly just at the time when customers demand more value for their money. The trifold squeeze on margin is coming from revenue, costs and overheads.



In the new economy, commissions payable to online food ordering platforms are typically in the range of 20% to 25% of the order value.[4] Taken with the loss of wet sales associated with delivered food, these commissions fundamentally alter the business model and owners must adapt to this.

Traditionally, the capacity of a kitchen only needed to account for the number of in-house covers. Now, with online orders coming in at the same time, a kitchen must cater for in-house covers and delivery orders, creating capacity and staffing challenges.

As a result, the property market is changing. We see landlords and restaurateurs with access to delivery agents moving away from dine-in customers, as they look to maximise kitchen space and reduce underutilised dining space in their properties. Properties with a larger kitchen capacity or one which can be extended to meet the demand for take-away are now attracting a premium.

The online home delivery market will continue to evolve, and we already see certain aggregators operating 'dark kitchens,' servicing only online delivery orders to try to keep up with demand. This follows the 'dark store' model operated by some supermarkets as they first transitioned into online grocery sales. At the moment, smaller operators do not have the scale or capital to do this themselves, much as independent grocers couldn't compete with larger supermarkets; however, the difference is that aggregators are presently applying this model in conjunction with existing branded restaurant chains.

It is only a matter of time before the aggregators look to take additional margin by creating quality, white-label offerings to match branded restaurant food. Making their own products is risky, but it also presents opportunities for the aggregators to exercise more control over output and reputation. Supermarkets are a prime example of how quickly the private label has caught up with name brands over recent years.

The food delivery market is expected to grow by 17% in value over the next two years, meaning it could be worth close to £5bn by 2020,[5] according to market analyst NPD. While disposable incomes may be flat, people are increasingly looking to spend their cash on experiences, including dining at a restaurant or at home via delivery.

The restaurant sector is going through a period of sustained change. Operators will need to balance the day-to-day cash flows in a challenging market against securing the vital capital investment required to shape the business for the future. Our UK Restructuring Advisory team is uniquely positioned to advise the industry and stakeholders, whether this involves securing the right investment for the business, managing creditors through a transitional period or providing restructuring/solvency advice.

1. https://www.theguardian.com/lifeandstyle/2017/mar/03/restaurant-takeaway-delivery-boom-uk-deliveroo-ubereats-food
2. https://www.thetimes.co.uk/article/wages-rise-faster-than-inflation-to-end-squeeze-on-incomes-k92t9qq28
3. https://www.gov.uk/national-minimum-wage-rates
4. https://www.quora.com/What-is-the-business-model-of-online-food-ordering-websites
5. https://www.npdgroup.co.uk/wps/portal/npd/uk/news/press-releases/the-unstoppable-rise-of-the-takeaway-delivery-phenomenon-means-the-market-is-now-worth-4-2-billion-up-73-in-a-decade/

**Sarah Bell**
Managing Director
Restructuring Advisory, Manchester
sarah.bell@duffandphelps.com

**David Grier**
Managing Director
Restructuring Advisory, London
david.grier@duffandphelps.com

**Trevor Birch**
Managing Director,
Restructuring Advisory, London
trevor.birch@duffandphelps.com

# Recent Criticism of CVAs Raises the Question "Are They Fit for Purpose?"

## Is it time for secondary IPs to sanity check CVAs?

In 2018, we have seen a number of high-profile retail restructurings and common to many is the use of a Company Voluntary Arrangement (CVA). After much press comment, which tended to focus on the plight of landlords, *R3*, the Association of Business Recovery Professionals, produced a report in May 2018 entitled, 'Company Voluntary Arrangements: Evaluating Successes and Failures', which comments on the use of CVAs as effective restructuring procedures. This report highlights the existing strengths and notes development potential for the current CVA process.

Encouragingly, the report confirms that a CVA is an effective tool in many situations, citing its flexibility as its greatest strength, but suggests it is not a panacea for every company. Most criticism seems to revolve around the lack of transparency and the initial planning by directors not being sufficiently robust to deliver the restructuring plan. Equally, to have the best chance of delivering an agreed upon outcome for all stakeholders, the nominees must be thorough in their assessment of the CVA plan with their roles and duties clearly articulated.

In considering both recent general comment and the findings from the *R3* report, there should be an enhanced degree of transparency in the construction and implementation of CVAs if all stakeholders are to maintain confidence in the process. For example, it has been recently argued that retail CVAs are simply focussed on restructuring lease liabilities and to focus solely on this class of creditor is both short-sighted and weakens the CVA's chances of survival.

While there is little argument that a CVA is a legitimate step on the road to restructure, it is not the only tool available. What often appeals to company directors is that the CVA mechanism ensures they can keep control of the business throughout the restructuring process, unlike other insolvency tools, which will see the business placed in the hands of an Administrator. An important question is whether or not an independent Administrator would be better placed to carry out the necessary restructuring under the protection of the court and then offer a CVA to creditors.

There are, of course, other routes available to insolvent companies, including a Scheme of Arrangement, which is a compromise or arrangement between a company and its members or creditors under Part 26 of the Companies Act 2006 (formerly section 425 of the Companies Act 1985). However, this route can be costly and uncertain.

A Scheme of Arrangement can be used to effect a solvent reorganisation of a company or group structure as well as to enable insolvent restructurings such as debt for equity swaps or by a wide variety of other debt-reduction strategies. This requires approval by at least 75% in value of each class of the members or creditors who vote on the scheme.

Duff & Phelps promotes setting out and testing the evidential base of a CVA. As a result, we have developed our own ‘CVA Framework’ for companies in an insolvent position looking for the most effective way forward. Integral to this is whether the CVA itself is the correct route as a first stage in the recovery process and then detailing the rationale in a robust Nominee report.

The CVA was originally designed as a consensual restructuring vehicle with none of the apparent stigma that was historically associated with administration, but it is also one of the least transparent. The British Property Federation provides independent scrutiny for its members where there are multiple units, identifying provisions in the CVA, which would cause landlords problems. In a similar vein, now may be the time to review the existing CVA framework to bring into the process a higher threshold for Nominees and the content of their reports. In the event that this fails to move the needle towards more successful CVAs, it then may become necessary for a third-party Insolvency Practitioner to review the CVA proposal and provide a critique of the Nominees’ report. This would add much needed transparency to an opaque process, but inject a second, professional opinion and sanity check on whether the CVA route is the correct one for that individual company.

Recently, the UK Government announced consultation, which may lead to further reform of current insolvency legislation. *R3* responded by welcoming the government’s long-awaited decision to move forward with its corporate insolvency framework reform proposals, which may be the most significant update to the corporate insolvency landscape since the 2002 Enterprise Act. We will observe the impact this has on CVAs.

# Duff & Phelps Helped Raise £20,000 for Children's Charity

We are delighted to report that we have been instrumental in raising over £20,000 for the children's charity, *When You Wish Upon a Star,* which supports children with life-threatening illnesses.

Since 1990, *When You Wish Upon a Star* has helped over 17,000 sick children fulfil their dreams, from swimming with dolphins to meeting Mickey Mouse in Disneyland, Florida. The charity is heavily reliant on donations from the general public and businesses from the local area. The donation will go a long way in supporting their work.

On 1 March, many of you joined us at a fund-raising sports dinner for the charity. This event was an opportunity for businesses of all sizes in the North West to engage with the local community and make an important contribution to an admirable cause. We are delighted that we managed to raise in excess of £20,000, which is a transformative amount for a truly inspiring charity.

This effort by the team in Manchester comes on the heels of the firm's recent launch of the Duff & Phelps Charitable Foundation, an employee-directed non-profit organisation committed to promoting volunteerism and assisting charitable organisations in achieving their goals.

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## CONTACT

**London**
The Shard
32 London Bridge Street
London SE1 9SG
+44 (0) 207 089 4700

**Manchester**
The Chancery
58 Spring Gardens
Manchester M2 1EW
+44 (0) 161 827 9000

**Birmingham**
35 Newhall Street
Birmingham B3 3PU
+44 (0) 121 214 1130

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