

Zombie Companies

Myth or reality

Analysis of UK businesses

Births, deaths and liquidations

September 2013



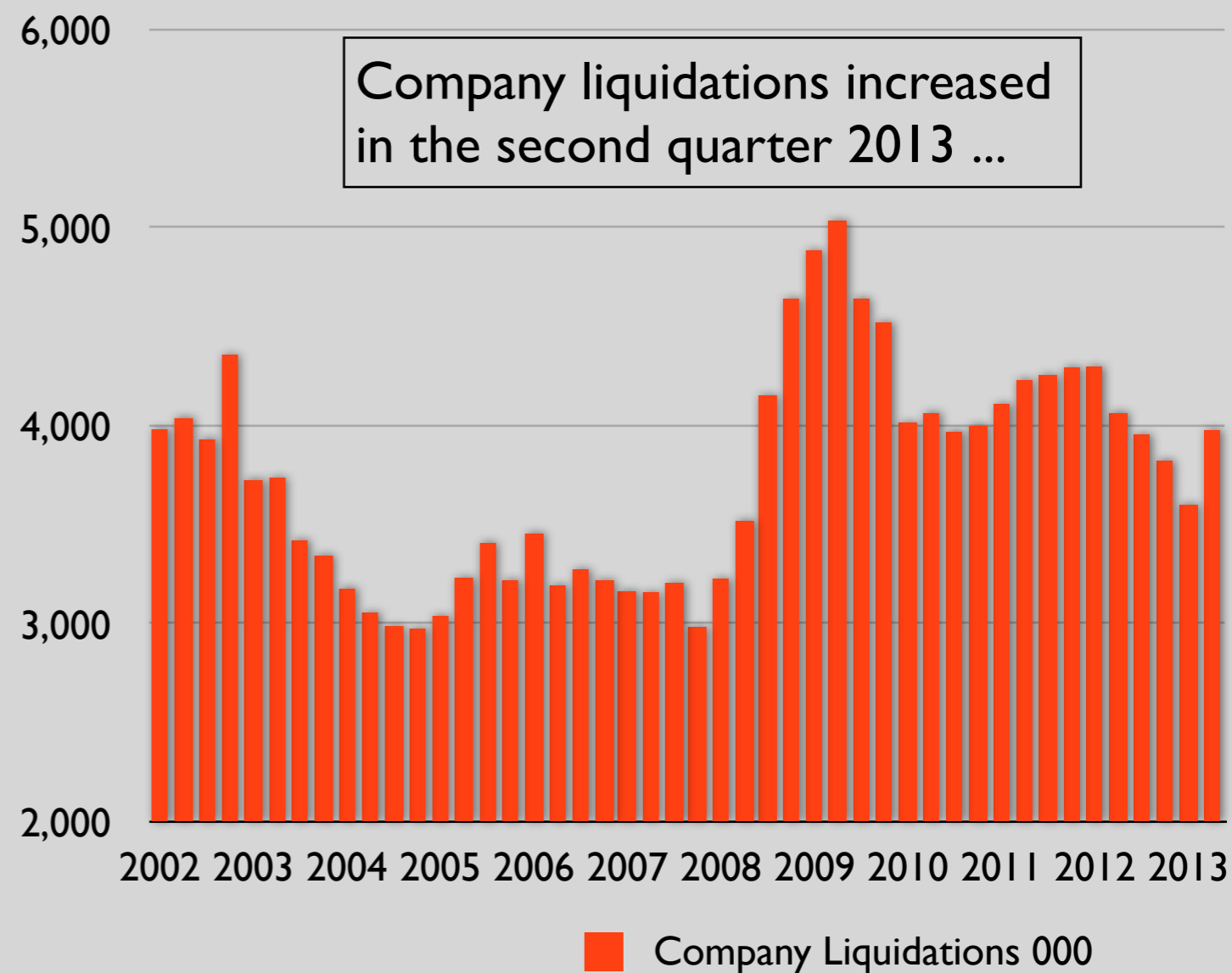
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The number of company liquidations increased in the second quarter 2013 to 3,978 from 3,601 in the first quarter and 4,064 in the second quarter last year.

We anticipate the number of liquidations in the current year will be 15,600 down from just over 16,000 last year.

But we expect the number of liquidations to be down for the year as a whole.



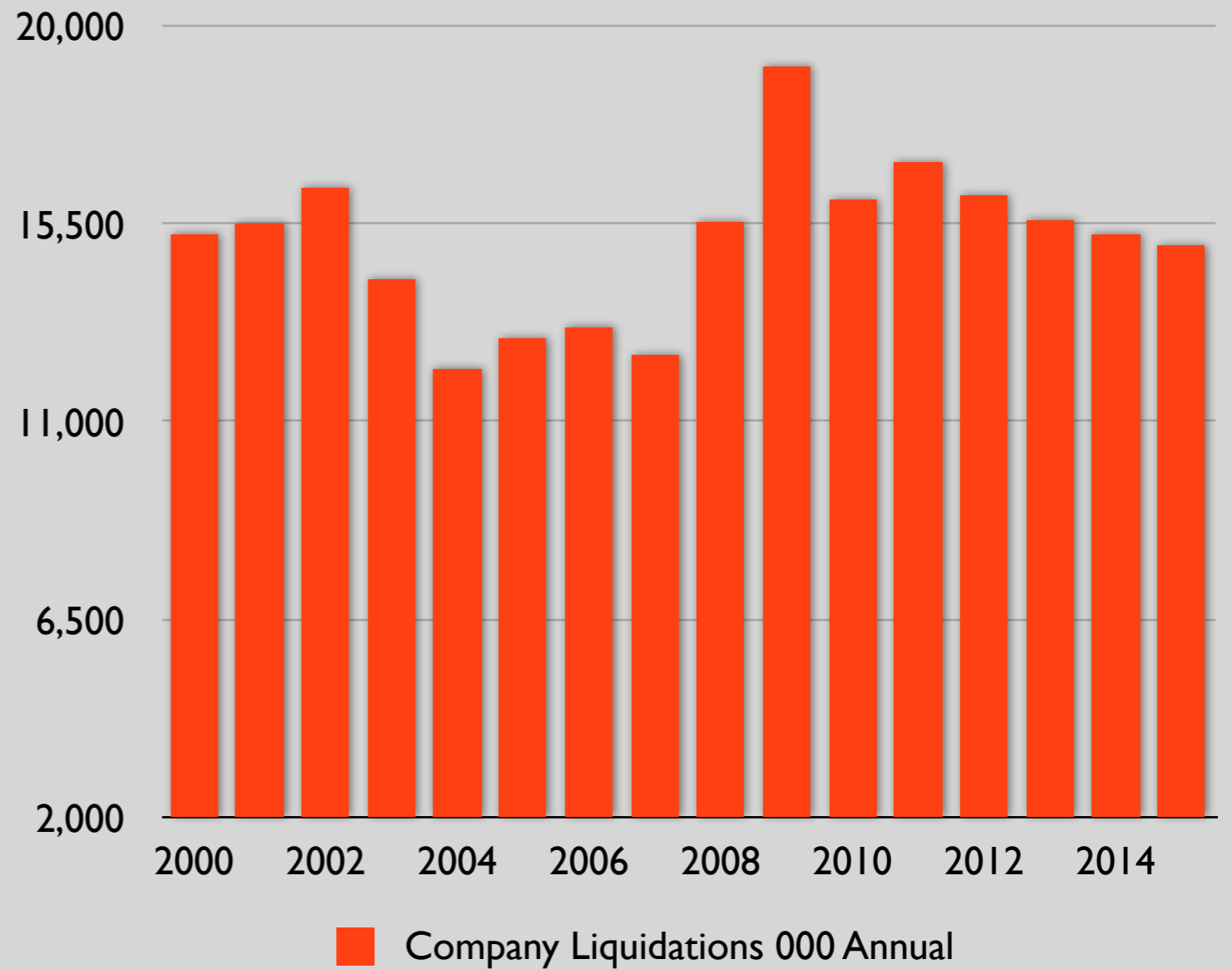
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Births and deaths 2000 - 2012
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We also anticipate the level of annual liquidations will fall further in 2014 and 2015 as the economy recovers.



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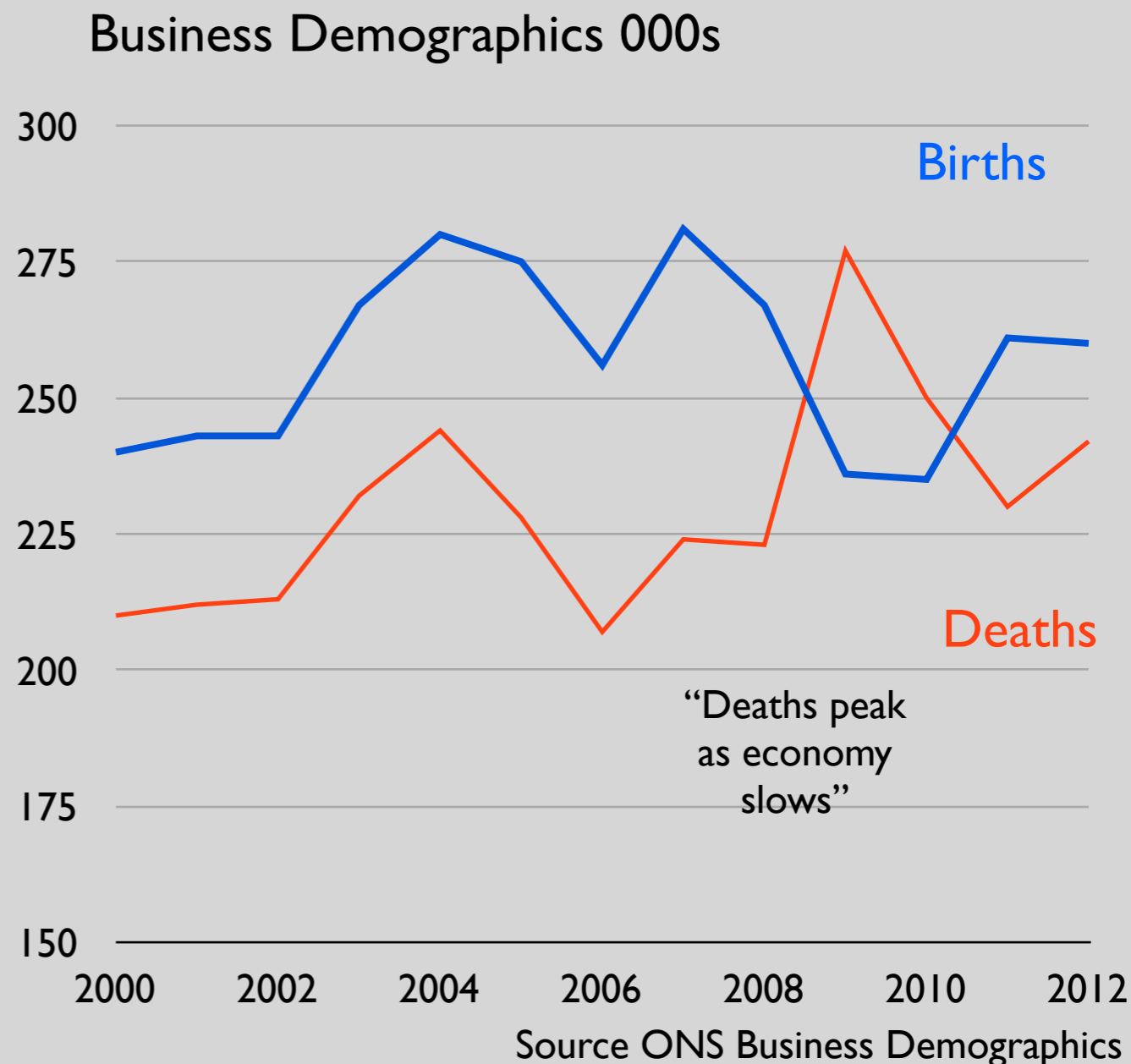


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Liquidations peak as the economy moves into recession and ...

According to the larger scale business demographics data, the number of business “deaths” or de registrations surges in recession...

and the number of “births” or new registrations falls.



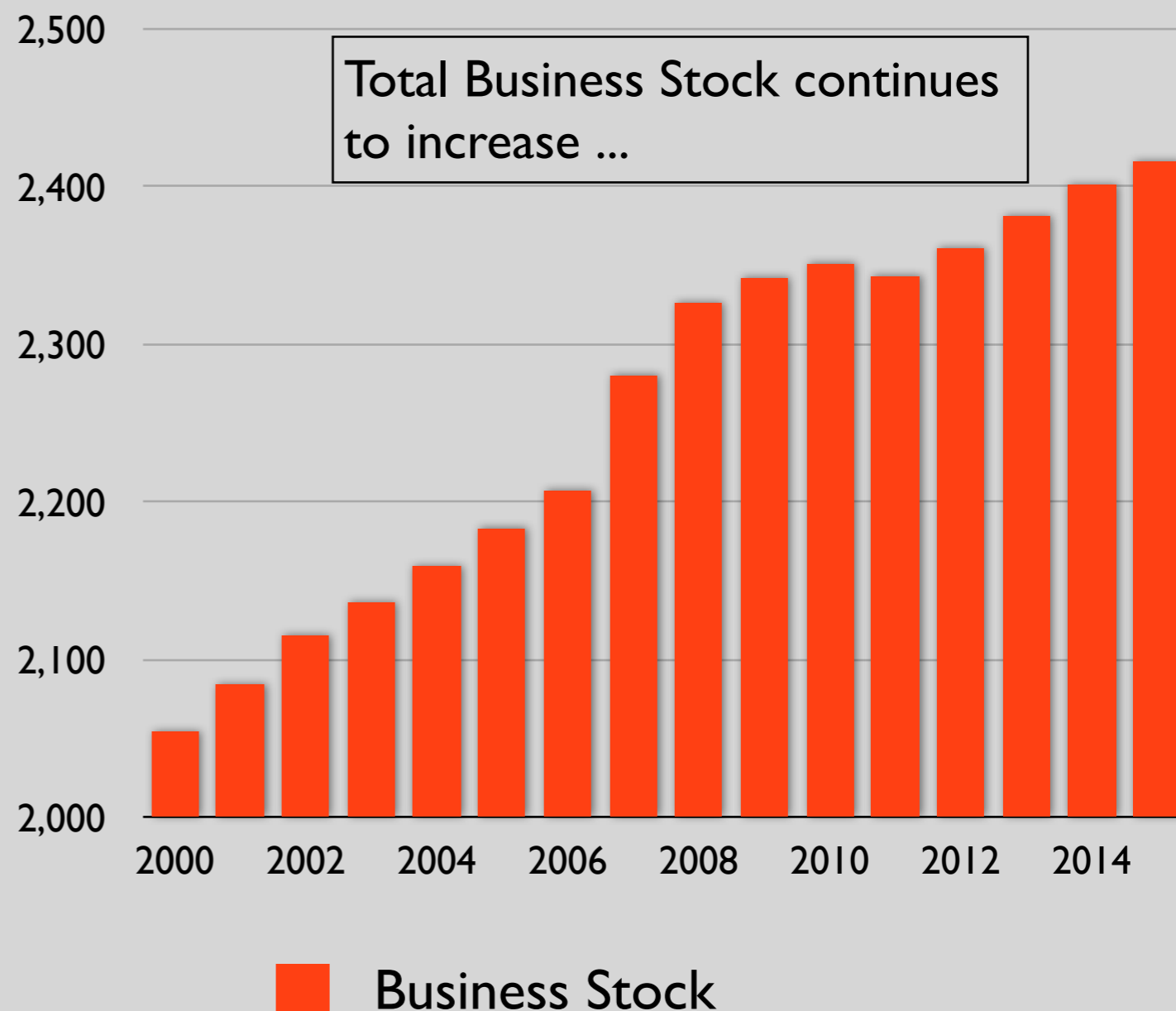
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The rate of growth of the total stock of businesses falls as the economy slows.

We anticipate the total volume of business stock will increase to 2.4 million by 2014 - 2015.



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| Business Births and Death Rates 2000 - 2015 | | | | | | | | | |
|---|--------|--------|-------|--------|--------|--------------|----------------|------------------|--|
| Year | Stock | Births | | Deaths | | Liquidations | | | |
| | Number | Number | Rate | Number | Rate % | Number | % Total Deaths | % of Total Stock | |
| 2000 | 2,054 | 240 | 11.7% | 210 | 10.2% | | | | |
| 2001 | 2,084 | 243 | 11.7% | 212 | 10.2% | | | | |
| 2002 | 2,115 | 243 | 11.5% | 213 | 10.1% | 16,306 | 7.7% | 0.77% | |
| 2003 | 2,136 | 267 | 12.5% | 232 | 10.9% | 14,223 | 6.1% | 0.67% | |
| 2004 | 2,159 | 280 | 13.0% | 244 | 11.3% | 12,191 | 5.0% | 0.56% | |
| 2005 | 2,183 | 275 | 12.6% | 228 | 10.4% | 12,894 | 5.7% | 0.59% | |
| 2006 | 2,207 | 256 | 11.6% | 207 | 9.4% | 13,136 | 6.3% | 0.60% | |
| 2007 | 2,280 | 281 | 12.3% | 224 | 9.8% | 12,506 | 5.6% | 0.55% | |
| 2008 | 2,326 | 267 | 11.5% | 223 | 9.6% | 15,535 | 7.0% | 0.67% | |
| 2009 | 2,342 | 236 | 10.1% | 277 | 11.8% | 19,077 | 6.9% | 0.81% | |
| 2010 | 2,351 | 235 | 10.0% | 250 | 10.6% | 16,045 | 6.4% | 0.68% | |
| 2011 | 2,343 | 261 | 11.1% | 230 | 9.8% | 16,887 | 7.3% | 0.72% | |
| 2012 | 2,361 | 260 | 11.0% | 242 | 10.2% | 16,138 | 6.7% | 0.68% | |
| 2013 | 2,381 | 260 | 10.9% | 240 | 10.1% | 15,579 | 6.5% | 0.65% | |
| 2014 | 2,401 | 260 | 10.8% | 240 | 10.0% | 16,087 | 6.7% | 0.67% | |
| 2015 | 2,416 | 260 | 10.8% | 245 | 10.1% | 16,187 | 6.6% | 0.67% | |
| Average | 2,286 | 260 | 11.4% | 235 | 10.3% | | 6.5% | 0.66% | |

Data Source Business Data
Office for National Statistics
Business Demography 2011
Date 13 December 2012
Data for 2012- 2015 forecast

Company Liquidations
Insolvency Service
Insolvency Statistics Q2 2013
Date : 06 August 2013
Coverage: England and Wales
Data for 2013 forecast based on Q2 actuals

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The great enemy of the truth is the myth*

There is a belief that as economies recover,
(as pressure on working capital increases for example)
more business will be forced into liquidation -
This is a myth

There is a belief that UK business failures are lower
(in the current recession cycle)
a portend of more failures to come
This is also a myth.

*The great enemy of truth is very often not the lie but the myth – persistent, persuasive, and unrealistic. Too often we enjoy the comfort of opinion without the discomfort of thought. President John F. Kennedy – Commencement Address at Yale University, Old Campus, New Haven, Connecticut, June 11, 1962



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September 2013

John Ashcroft



Business Failures are a co-incident indicator

1 Business Failures are a coincident indicator - as the economy falters the rate of failure increases, as the economy recovers the rate of failure slows.

In the 1980 cycle, as the economy recovered, the rate of business insolvency also increased, there was a positive correlation between growth and recovery.

In the 1990 cycle, insolvencies were inversely coincident with economic growth, as the economy slowed, failures increased but as the economy recovered, the rate of insolvencies fell.

In the 2008 cycle, insolvencies were inversely coincident with economic growth, as the economy slowed, failures increased but as the economy recovered in 2010 and 2011, the rate of insolvencies fell.

2 As the economy recovers in 2013, the rate of business failures will fall and not increase as many analysts predict.

3 The rate of business failure has been significant in the recession with the rate of business deaths increasing from an average 10% of total stock in the period 2000 - 2008 to 12% in 2009 and 13% in 2010. We estimate the rate of deaths in 2011 and 2012 to be 12%, significantly above trend rate

4 The net rate of business formation fell by almost -3% in 2010 compared to a net growth rate of +1.8% in the period 2000 - 2008.



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September 2013

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Methodology and Data Source

2.1 In this short paper we analyse the data for UK business formation total stock, business births and deaths from the period 2000 - 2012.

2.2 We also analyse the UK insolvency data from 1980 - 2012

2.3 We compare the trends in insolvency data from 1980 with the economic cycles measuring the economic slowdowns tagged as 1980, 2000 and 2008.

2.4 Data Source

Business Data

Office for National Statistics
Business Demography 2011
Date: 13 December 2012
Coverage: UK
Data for 2012 estimated

Company Liquidations

Insolvency Service
Insolvency Statistics Q2 2013
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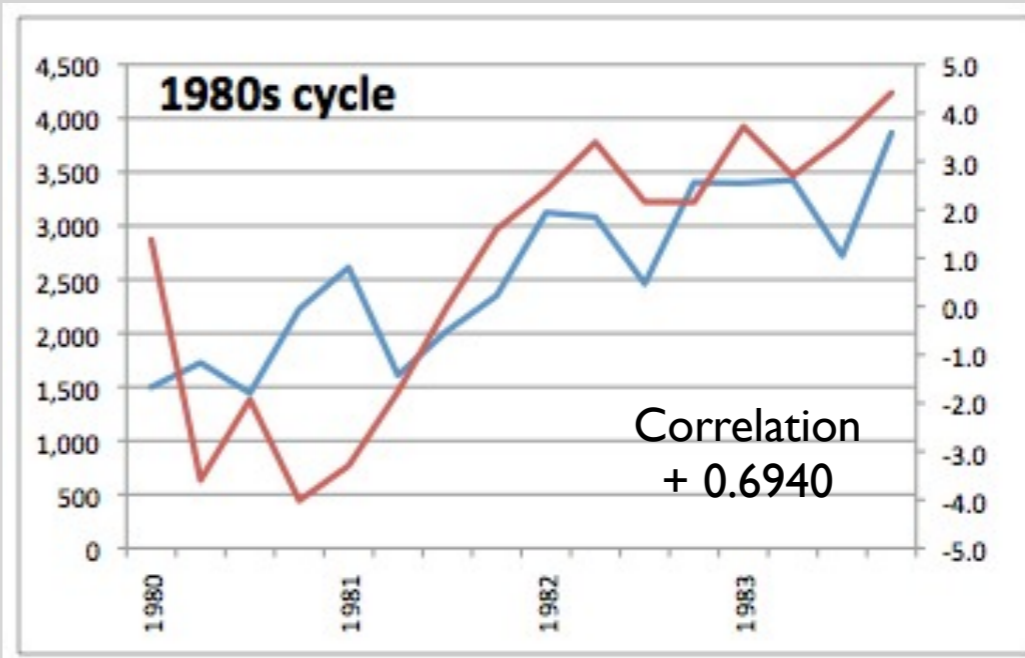
3 Liquidations and GDP

Business Failures are a coincident indicator - as the economy falters the rate of failure increases, as the economy recovers the rate of failure slows.

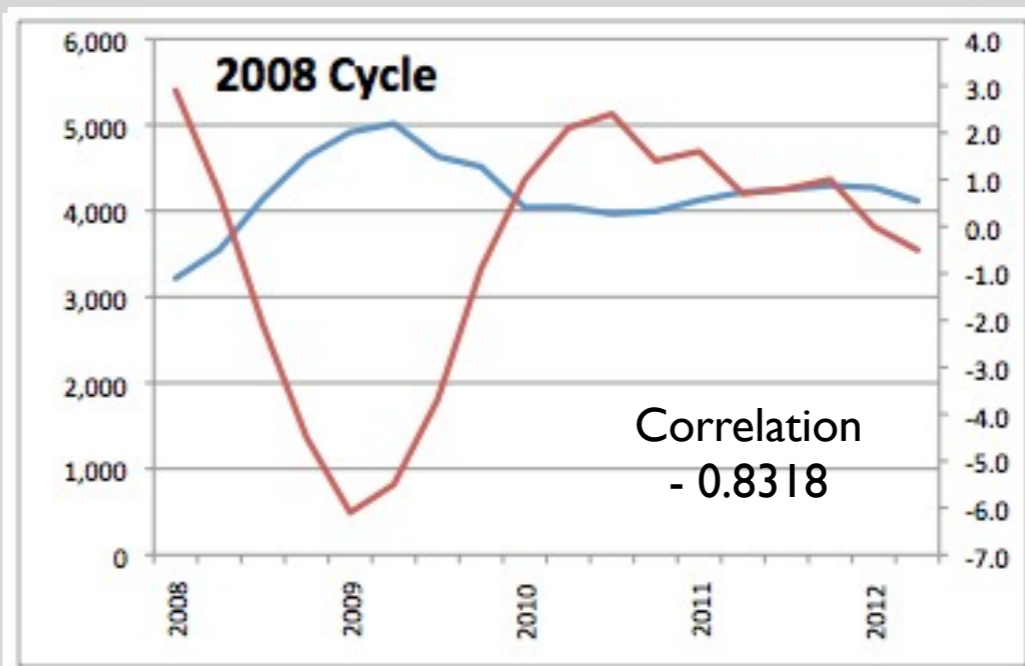
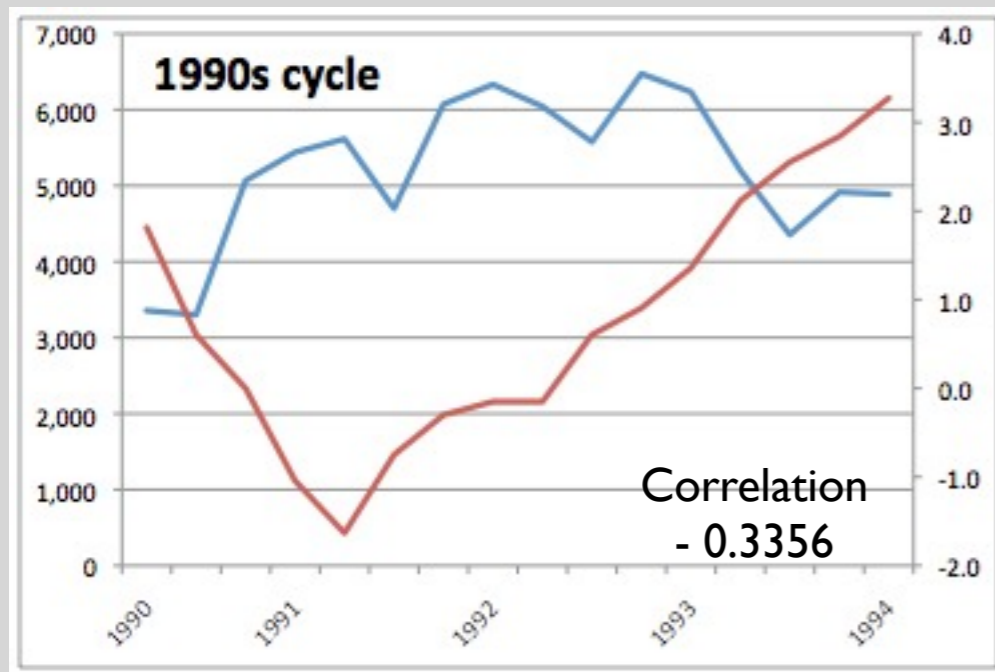
In the 1980 cycle, as the economy recovered, the rate of business insolvency also increased, there was a positive correlation between growth and recovery.

However, in the 1990 cycle, insolvencies were inversely coincident with economic growth, as the economy slowed, failures increased but as the economy recovered, the rate of insolvencies increased moderately then fell.

In the 2008 cycle, insolvencies were inversely coincident with economic growth, as the economy slowed, failures increased but as the economy recovered in 2010 and 2011, the rate of insolvencies fell.



Business Liquidations -- Changes in GDP --



As the economy recovers in 2013, the rate of business failures will fall and not increase as many analysts predict.

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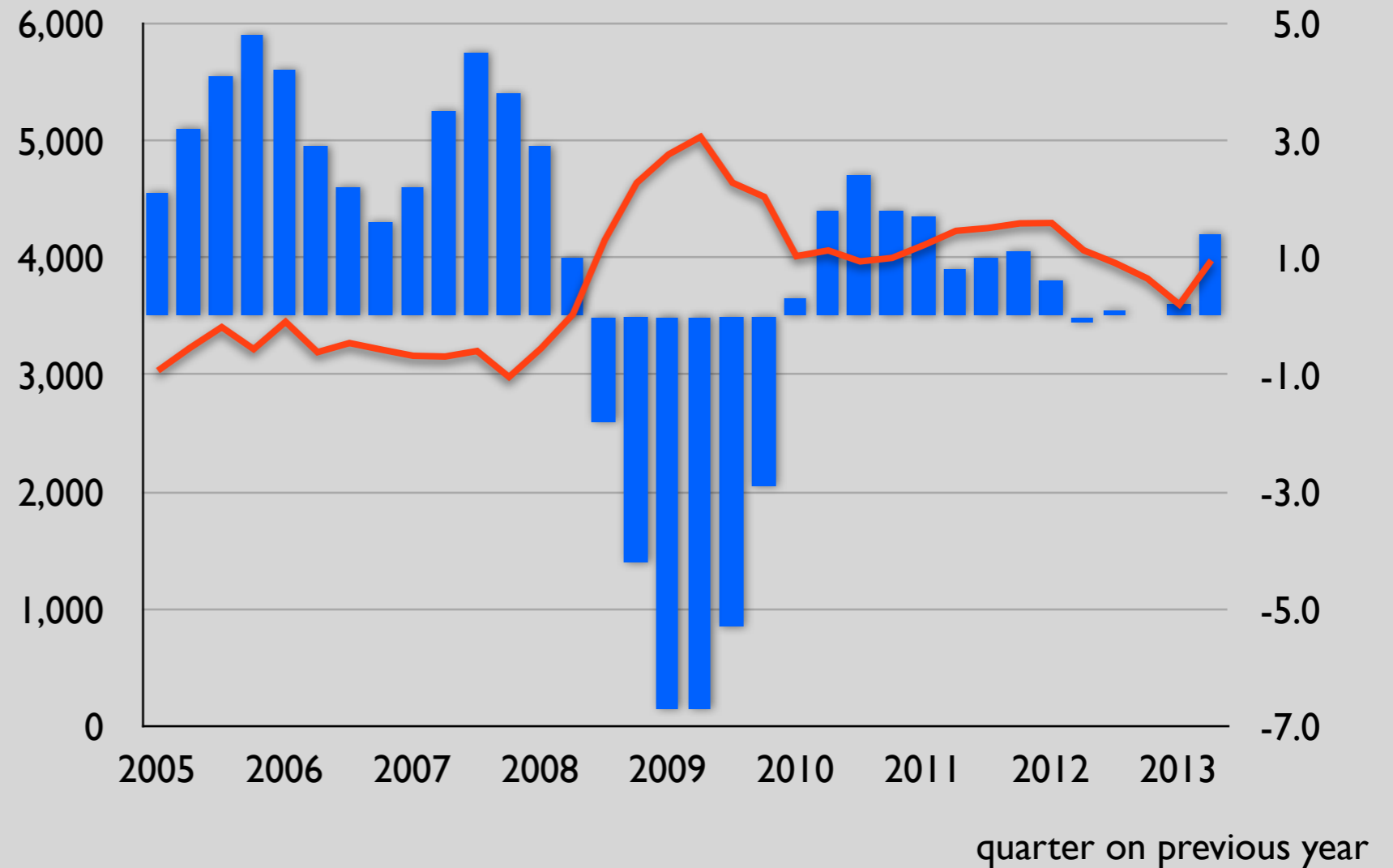
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4 Current cycle

UK GDP Q2

In the 2008 cycle, insolvencies were inversely coincident with economic growth, as the economy slowed, failures increased but as the economy recovered in 2010 and 2011, the rate of insolvencies fell.
Correlation -0.8318



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5 Current cycle

Correlation - 0.8318

In the current cycle :

Economic growth sampled within a range of 0.5% to 5% is identified with a "steady state" of Business Liquidations between 3000 and 4500 per quarter.

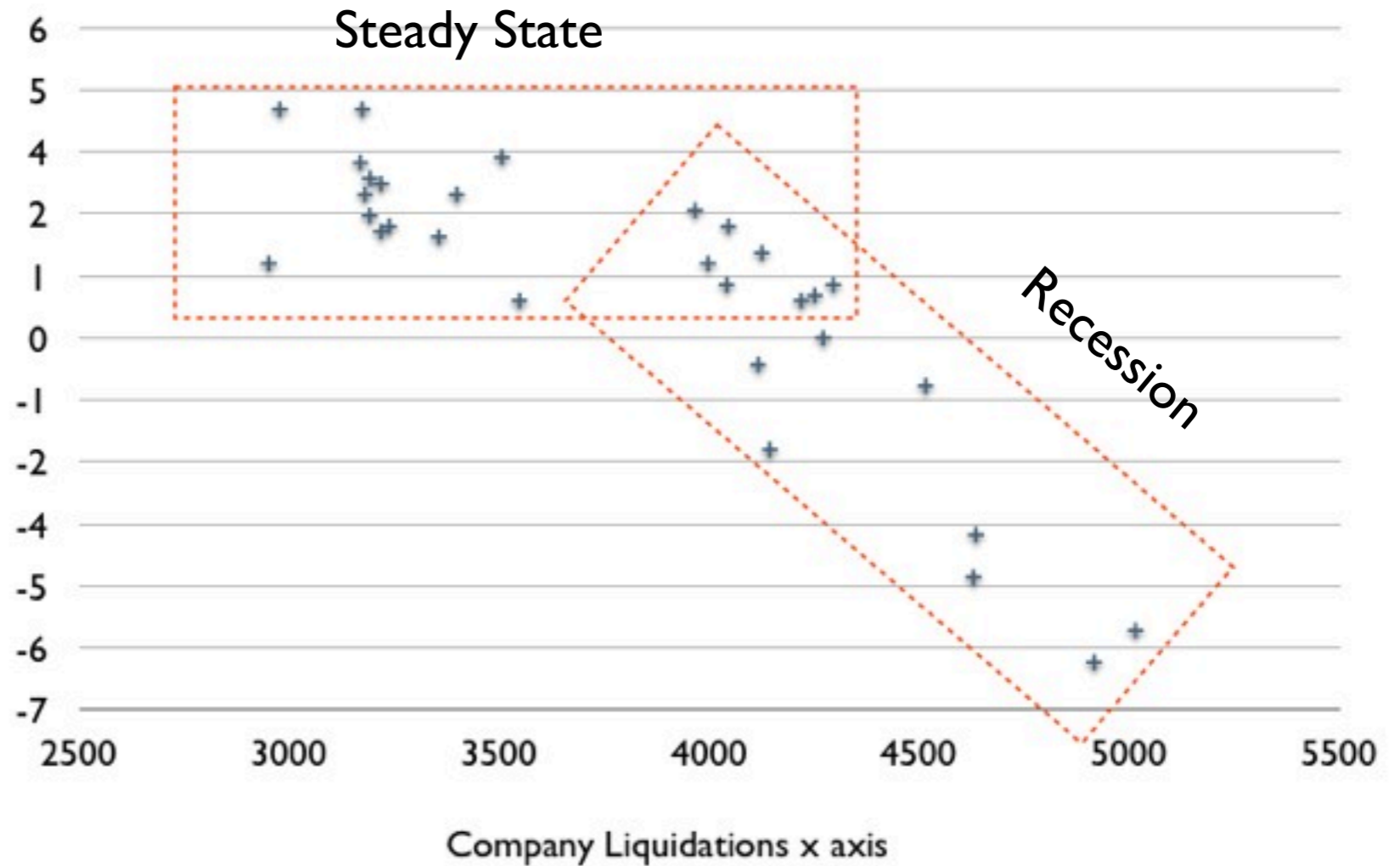
Recession defined as negative growth is identified with an increase in Business Liquidations of between 4,000 and 5,500 per quarter.

As the economy slows, failures increase but as the economy recovers in 2010 and 2011, the rate of insolvencies fall.

The Saturday Economist

GDP y axis

Liquidations and GDP



The Saturday Economist

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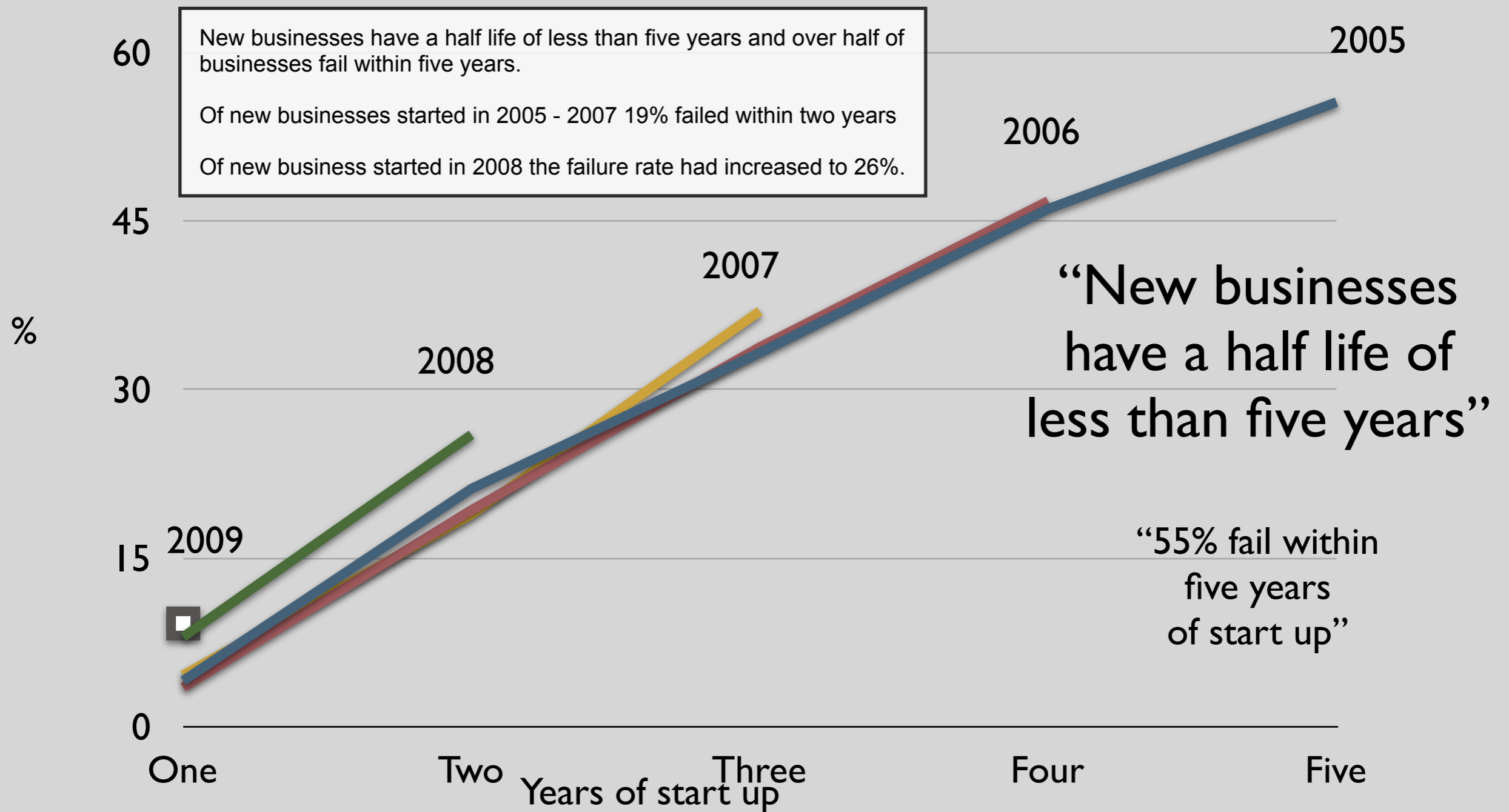
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6 Business start up failure rate



Source ONS Business Demographics

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