The uneven recovery in London

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Following the launch of our new programme, 'The uneven 'recovery', we share the fourth in our series of regional reports focusing on growth and distress in London. In this article, we look at what our new data model, Clarity, is revealing about the prospects for growth and the impact Covid had on SMEs in the capital as we examine levels of distress.

Informed by Clarity

Data and insight in this article are informed by our new and unique data asset, Clarity.

Clarity takes data from multiple sources and then analyses and benchmarks that data to identify the sectors and individual companies that are under the most stress and need help to recover, the regions that have fared better over the last two years, and pinpoints businesses that have the greatest propensity for collapse and those that are set to grow.

> *"There's no doubt Covid has had a lasting impact on London, as working patterns and spending habits have changed and will come under further pressure from inflation."*
>
> **Simon Bonney**
> Managing Director, Restructuring & Insolvency

Authors:

Simon Bonney
Managing Director
Restructuring & Insolvency
+44 (0)791 762 8665
simon.bonney@quantuma.com

Marie Wadeson
Managing Director
Marketing & Business Development
+44 (0)746 454 5678
marie.wadeson@quantuma.com

Visit **www.quantuma.com/clarity** to find out more about our new and unique data model.

Key takeaways

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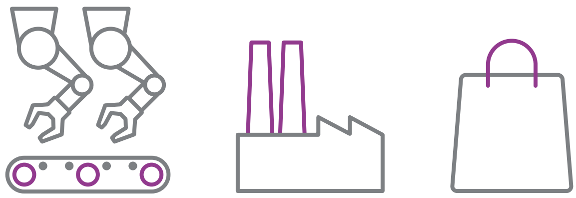
The **pandemic** has had a **profound impact** on the growth prospects for London's SMEs.

London SMEs are left trailing in comparison with all UK regions with a growth score that is 19% lower than that of SMEs in the Midlands, South West, and Wales and 14% lower than that of SMEs in the North and Eastern regions.

Manufacturing, Construction, and Wholesale/Retail were the **sectors impacted most**.



Looking closer at the growth and financial stability for SMEs in London, Clarity reveals that the worst-hit sectors were Wholesale/Retail, Manufacturing, and Construction, followed by Education, Transport/Storage, and Accommodation/Food.

A spike in the number of the **most severely distressed SMEs** towards the end of 2021.

In January, over 50% of all the most severely distressed mid-market SMEs in the UK captured by Clarity were London-based.

Jobs at risk amongst the most severely distressed SMEs.

Clarity reveals that the percentage of jobs in London's most severely distressed SMEs was five times greater than that of the UK with the capital having 26% of jobs in those businesses that have the highest risk of insolvency vs 5% across the UK as a whole.

Acknowledgements

LAECEUM
STRATEGY I ADVISORY I DATA I ANALYTICS

Clarity has been created **in partnership with Laeceum**, an advisory and consulting boutique specialising in strategic R&A, SME data and analytics, corporate strategy, and corporate development and advisory. The Laeceum team comprises Founder Ravi Chauhan, Senior Adviser John Mould, Analyst Oliver Benson, and Economist Anjalika Bardalai. You can find out more about Laeceum here: **www.laeceum.com**

Growth and financial stability in London

In our first report on 'the uneven 'recovery', published in April, we revealed Clarity's analysis of the UK's growth prospects and that London SMEs are left trailing in comparison with all UK regions. The capital has a growth score that is 19% lower than that of the Midlands, South West, and Wales and 14% lower than that of SMEs in the North and the Eastern regions.

UK regional growth comparisons: SMEs in the North, on average, score lower than Midlands, South West, Wales, and Scotland, are marginally ahead of London and the South East, whilst on par with SMEs in the Eastern region.

Source: Quantuma Clarity

With the COVID-related restrictions generally impacting tourism, hospitality and leisure, the nightlife economy, and retail sectors the hardest, London was profoundly impacted given its reliance and concentration of trade in those sectors.

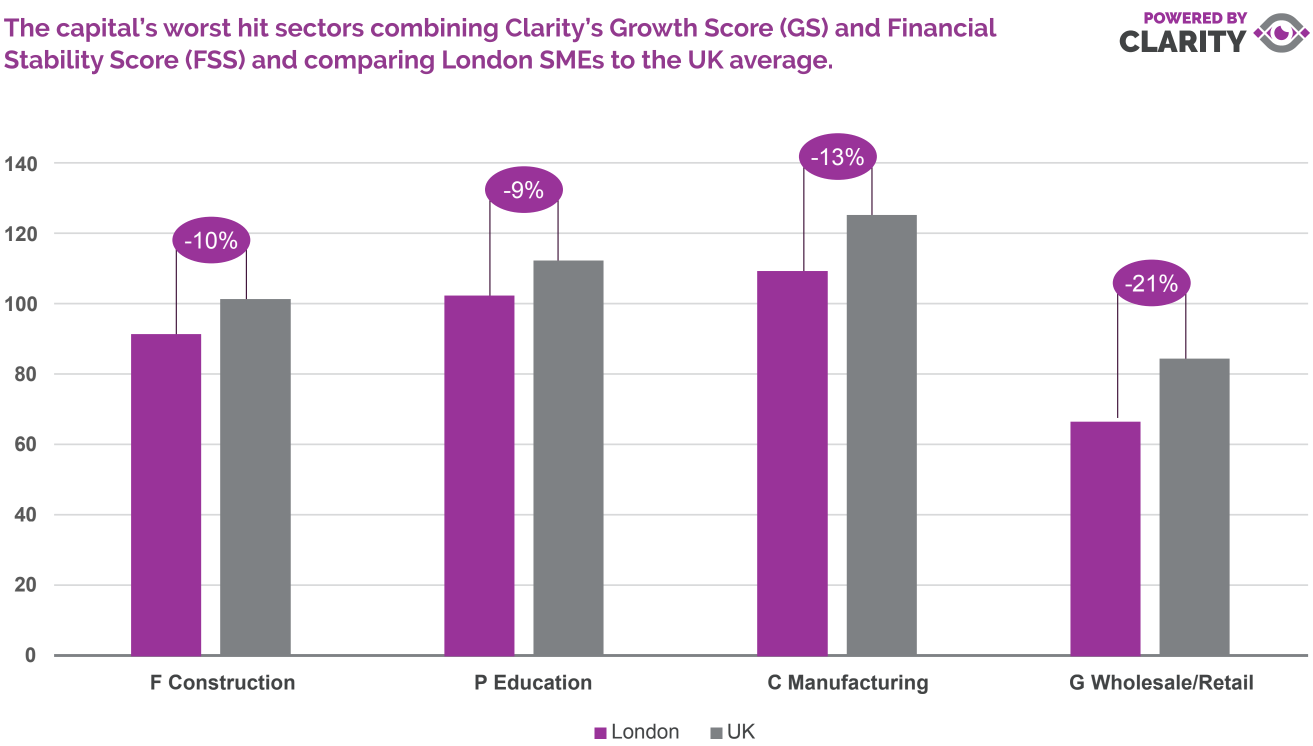
London was the third most popular visitor city in the world in 2019, with 19.6m overseas visitors (Source: Euromonitor International), but as lockdown restrictions were introduced, this wiped out an entire section of the capital's economy for large parts of 2020 and 2021.

The changing dynamic of where people work because of Covid also has – and continues to – hurt London's economy and SMEs. The change in people's working habits and the rise of working from home has meant London's revival from the pandemic has been dampened. Commuters continue to stay away from the office for most of the working week, which is continuing to stifle trade and those SMEs dependent on commuter trade. A report from King's College London's Policy Institute and Business School revealed that a staggering three-quarters of Londoners worked from home during Spring 22. Unfortunately, this trend looks set to continue.

The capital's worst-hit sectors

Looking closer at the growth and financial stability for SMEs in London, Clarity reveals that the worst-hit sectors were Wholesale/Retail, Manufacturing, and Construction – followed by Education, Transport/Storage, and Accommodation/Food.

The capital's worst hit sectors combining Clarity's Growth Score (GS) and Financial Stability Score (FSS) and comparing London SMEs to the UK average.



Source: Quantuma Clarity

Recovery is happening, but it's slow progress

Despite the lasting impact of the pandemic, the picture has looked more positive in recent months. The capital is outpacing the rest of the UK according to The Office for National Statistics, which reports that London's GDP rose by 1.2% from January to March – faster than the UK average of 0.8%. How positive the picture looks in another three months as inflationary pressures take hold, living costs remain high, and the war in Ukraine continues, remains to be seen. As with our other regional reports, we will revisit the prospects for growth for London SMEs in our next series due out later this year in September and October.

> *"The green shoots of the 1.3% GDP increase in January to March suggest that a slow recovery is gathering pace."*
>
> **Simon Bonney**
> Managing Director, Restructuring & Insolvency

The efficiency of SMEs in London

In addition to growth and distress, Clarity measures the efficiency of SMEs by looking at leverage, profitability, liquidity, and risk. And again, on these measures, London SMEs have fallen behind the UK average, according to Clarity.

London-based SMEs have lower levels of operating leverage than UK SMEs, with a Debt Gearing ratio of 9% compared to 16% for the UK and, when it comes to profitability, London SMEs are behind the UK average particularly on Return on Shareholders Funds which is at 9% compared to 11% for the UK as a whole.

London SMEs have fallen behind the UK average on all measures of efficiency captured by Clarity.

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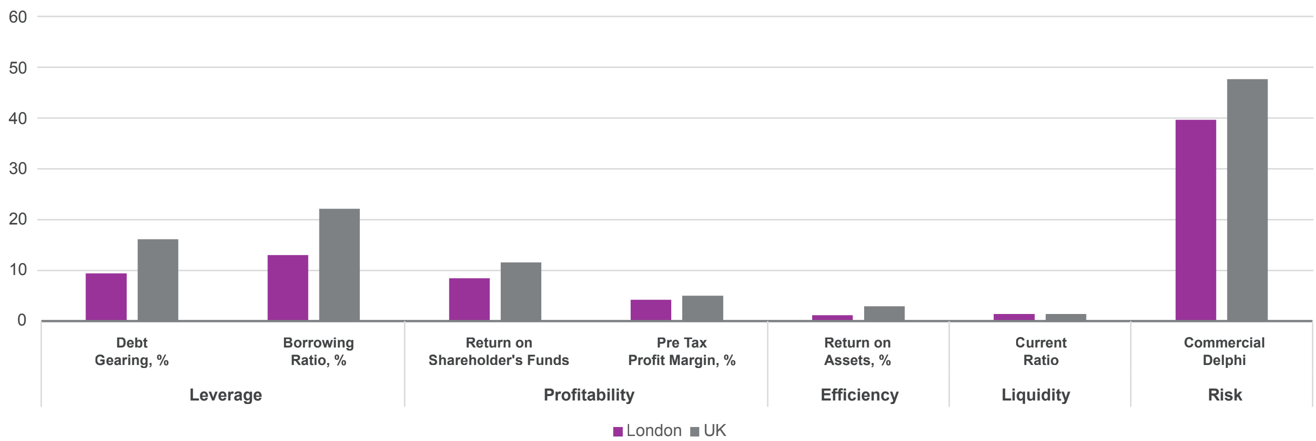

Source: Quantuma Clarity

*Commercial Delphi: A single score to assess commercial viability derived using a combination of company accounts, payment performance, director information to predict defaults and suitability for lending.

Evolution of distress in the region

For the next section of this article, we use data taken from the insolvency propensity component of Clarity to identify and categorise SMEs based on their level of distress (with a focus on those firms with total assets between £0.5 - 40m). Each segment is classified according to its insolvency risk, which ranges from 4-25 times greater than the 1% observed average insolvency rate for all mid-market SMEs in the UK, including:

- those SMEs that have an insolvency risk of between 4 and 8 times more likely;
- those with an insolvency risk of between 8 to 15 times more likely; and
- those with an insolvency risk of between 15 and 25 times more likely.

When comparing the evolution of distress for SMEs in London over five months (September 2021 to January 2022), we can see that the number of distressed SMEs across all three categories rises gradually from September through to December in the case of the 4-8% and 8-15% categories with a significant drop between December and January.

Evolution of distress for London SMEs: in January there was a spike in the number of the most severely distressed SMEs.

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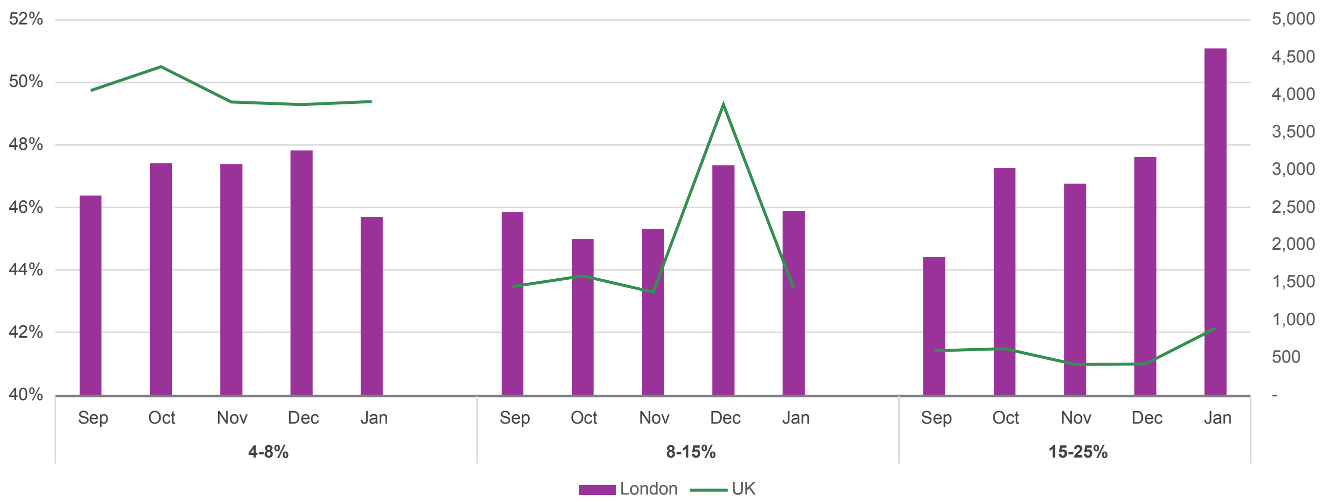
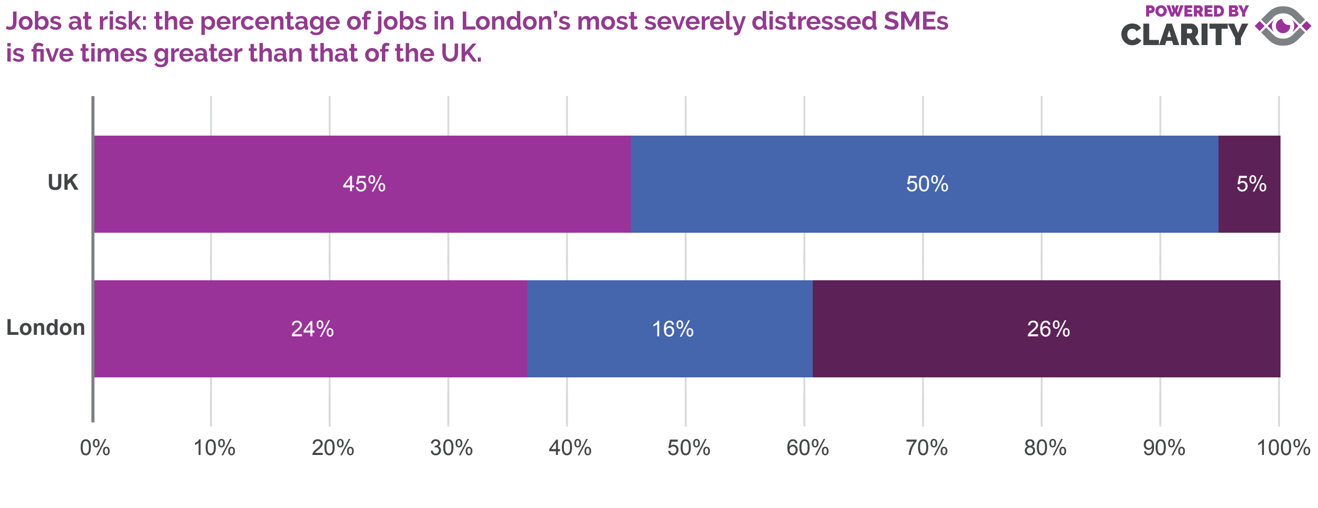


Source: Quantuma Clarity

However, within the 15-25% category, there was a significant spike in January. The reason for this sudden escalation is most likely down to businesses' poor Christmas trading results. Sectors such as Hospitality, Tourism, and Retail had looked to Christmas 2021 as a chance to recover some lost ground, but as the Omicron variant of Covid emerged, many shoppers and tourists stayed away from London, piling yet more pressure on those businesses. According to data from Springboard (a retail data analytics firm), Central London's footfall was down as much as 48% compared with Christmas Eve in 2019, making it the hardest-hit retail destination in the UK.

Jobs at risk

Taking Clarity's insolvency propensity model, we have analysed those SMEs in all categories of distress and the number of jobs that are potentially at risk. those with an insolvency risk of between 15 and 25 times more likely.



Source: Quantuma Clarity

Compared to the UK as a whole, employees in businesses that are in the 4-8% category SMEs in London are around half of the equivalent figure in the UK. Similarly, London SME employees in the 8-15% distressed category roughly amount to one-third of the equivalent in the UK as a whole. However, what is striking is the number of employees in the most severely distressed category of 15-25% is five times more than the equivalent figure in the UK as a whole.

How to get in touch

If you would like to speak to our team about anything we have shared in this report, Clarity, or any aspect of our uneven recovery programme, please get in touch with Marie Wadeson, Simon Bonney, or your local Quantuma office.

If you would like to know more about Clarity and how the data model works, you can find out more by downloading our short guide.

You can access the latest insight, news, and updates on 'The uneven recovery' by visiting this page.

Simon Bonney
Managing Director
Restructuring & Insolvency
+44 (0)7917 628 665
simon.bonney@quantuma.com

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