

THINCATS

PRISM INSIGHTS

MID-SIZED SMES INSOLVENCY REPORT 2022

An analysis of insolvency rates across mid-sized
UK businesses from 2007-2022



Defining the mid-sized:

This report focuses on the population of mid-sized SMEs in the UK. These can be defined as:

- 10-250 employees
- EBITDA of £1m - £5m
- Up to £20m turnover
- 525,000 mid-sized SMEs across UK

Mid-sized
businesses
represent less than

5%

of private sector
businesses

Yet they account
for more than

25%

of private sector
turnover

Insolvency Report 2022 Key Findings

Insolvency rates rose from
0.39% in 2021 to
0.65% in 2022



Insolvency rates still **1/3**
of peaks following
2008 financial crisis



Insolvency rates below pre-pandemic levels for all sectors except **consumer services**



Government pandemic support was particularly effective at suppressing insolvencies for businesses with assets less than



£10m

7.7% increase in number of mid-sized businesses in 2022



Larger businesses experienced **lower insolvency rates** than smaller ones



Background

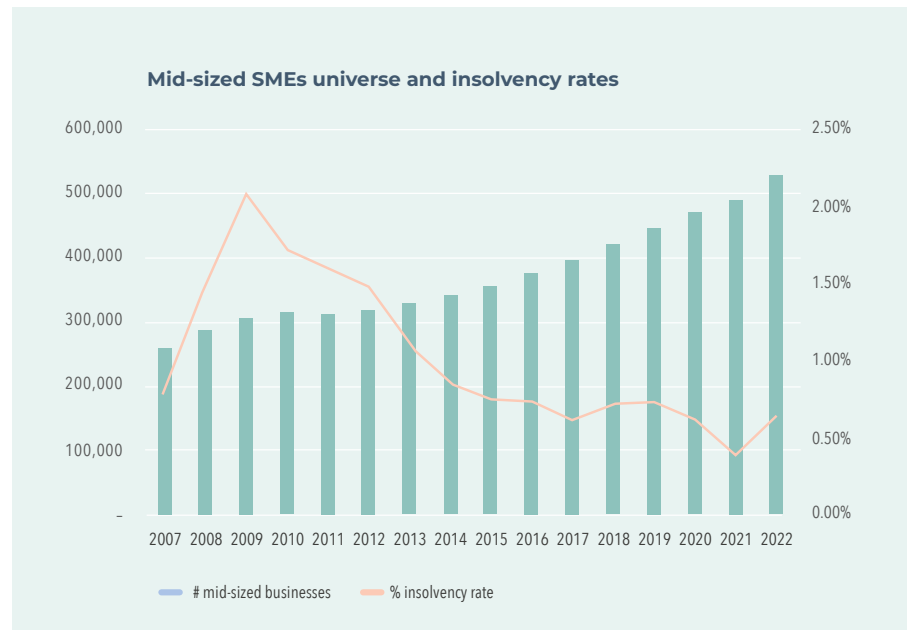
2022 was undoubtedly a challenging year for UK businesses for reasons that have been well documented. Whilst reports of rapid increases in business insolvencies may have made headlines, this analysis aims to provide an historical context to current insolvency rates and an insight into where they may go from here.

Based on data going back to 2007 and using ThinCats' proprietary credit model, PRISM, which focuses exclusively on mid-sized businesses (the Ms of SMEs), this report analyses more than 500,000 companies by size and by sector.

THIS REPORT ANALYSES
MORE THAN 500,000
COMPANIES BY SIZE
AND BY SECTOR



Overall picture 2007-2022



Source: ThinCats

**INSOLVENCY RATES
REMAIN BELOW THE
PRE-PANDEMIC LEVELS
OF 2019**

The chart above shows that insolvency rates in the mid-sized universe rose from an historically low level of 0.39% in 2021 to 0.65% in 2022. However, this remains below the pre-pandemic level of 0.74% experienced in 2019 and approximately three times lower than the peak of 2.1% witnessed during the Global Financial Crisis in 2009.

It's worth noting that the overall universe of mid-sized SMEs has continued to rise every year since 2007 apart from 2011. In 2022 a further 38,000 businesses were added representing a 7.7% increase on 2021.

While insolvency rates remained below 2019 levels, 2022 saw a pick up relative to 2021.

What drove rising insolvency rates in 2022?

It seems likely that there are three key drivers behind the uplift in 2022's insolvency rates although it is difficult to be definitive about which had the greatest impact.

BUSINESSES WHICH
HAD BEEN SURVIVING
ON "BORROWED TIME"
WERE NO LONGER
SUSTAINABLE

- **Unwinding of pandemic support**

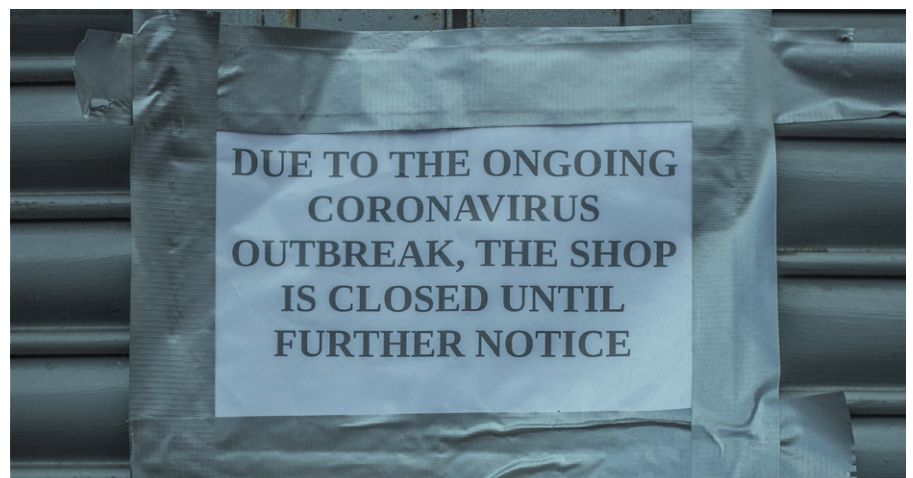
The record low insolvency rates witnessed in 2020 and 2021 were undoubtedly a result of the huge investment by the government in its range of pandemic support packages for UK businesses. This meant that businesses that would have typically failed during more normal times were given an extended life. As the pandemic support was withdrawn, so these businesses which had been surviving on "borrowed time" were no longer sustainable.

- **Impact of pandemic scars**

A second group of insolvencies are those businesses that would normally have survived, but for whom the impact of the pandemic was so severe that despite the pandemic support programmes, were irreparably damaged once the support was withdrawn.

- **Impact of new macro-economic challenges**

A final group are those businesses that managed to trade successfully through the pandemic, but struggled as a result of supply chain issues as global trade picked up post-pandemic and new macro-economic challenges such as higher interest rates and rising energy and food costs amplified by Russia's invasion of Ukraine at the end of February 2022.



CONSUMER SERVICES IS THE ONLY SECTOR WHERE INSOLVENCY RATES ARE HIGHER THAN BEFORE THE PANDEMIC

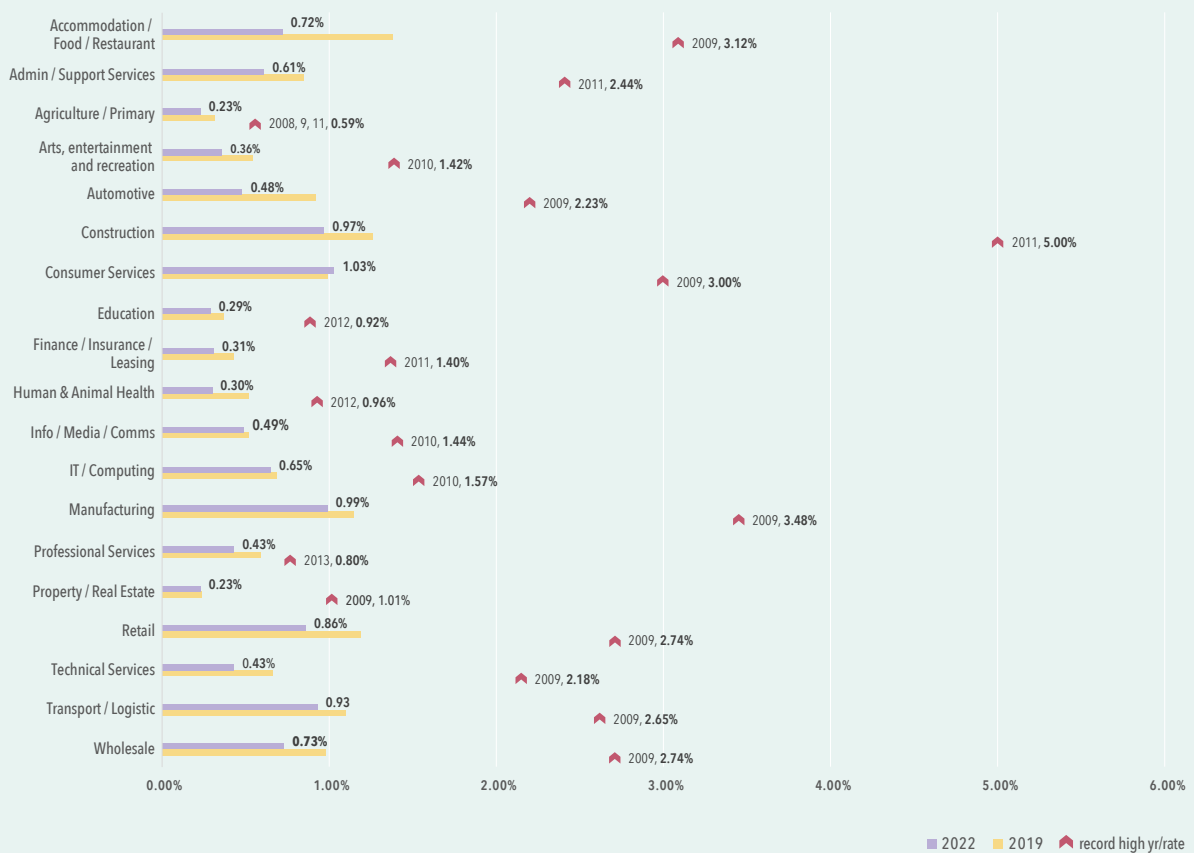
Sector Analysis 2019-2022

Looking at insolvency rates by sector reveals a similar pattern to the overall universe with most sectors experiencing an uplift in 2022 from the lows of 2021 although to levels still below their pre-pandemic rates of 2019.

An interesting outlier is the Accommodation, Food & Restaurants sector where insolvency levels fell from their 2021 levels to record a new record low in 2022. Explanations for this could be that the pandemic wiped out the weakest players in this sector (highest insolvency rates of all sectors in 2020 and 2021), meaning that those that survived are the fittest and best-placed to withstand the post-pandemic challenges.

The only sector where the insolvency rate in 2022 was marginally higher than its pre-pandemic rate was the Consumer Services with a rate of 1.03% in 2022 compared to 0.99% in 2019.

Mid-sized SME insolvency rates by sector vs record high year



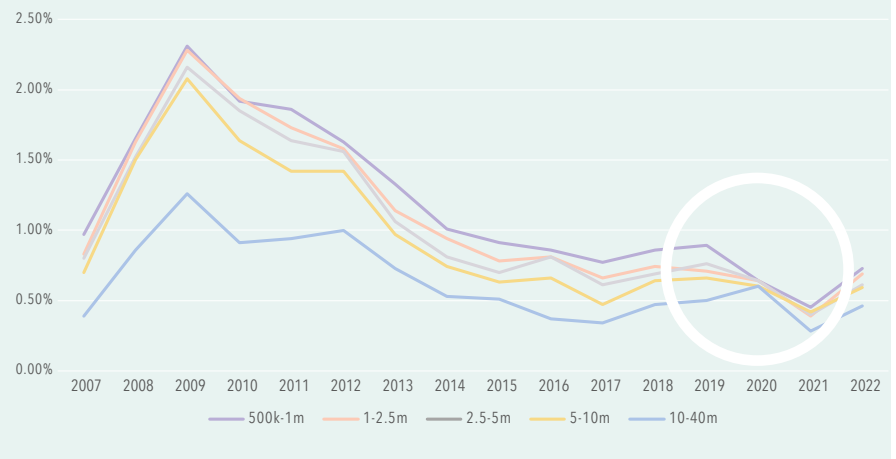
Size Matters

From our experience, the larger a business the more resilient it is to economic shocks and this is borne out in the insolvency rate statistics across the universe of mid-sized businesses.

The smallest mid-sized SMEs (total assets from £0.5m - £1m) consistently exhibited the highest insolvency rates across the 16 years since 2007, while business with assets greater than £10m had the lowest insolvency rates.

Interestingly, insolvency rates in 2020 converged for all mid-sized SMEs into a narrow range between 0.60 – 0.65%. In fact, businesses with assets greater than £10m experienced a slight increase in insolvency rates from 2019 to 2020, while those with assets below £10m saw a reduction in insolvency rates. This suggests that the pandemic support packages were particularly effective in supporting smaller sized businesses.

Mid-sized SME insolvency rates by asset size 2007-2022



INSOLVENCY RATES IN 2020 CONVERGED FOR ALL MID-SIZED SMES INTO A NARROW RANGE

Source: ThinCats

Where are insolvency rates heading?

Although it is difficult to quantify how much of 2022's uplift in insolvencies is due to a natural return to more normal levels of business failure, continuing fragility resulting from the pandemic, or the impacts of new global macro-economic challenges which emerged in 2022, it is probable that insolvency rates in 2023 will increase from 2022 levels.


It seems likely, though, that current UK specific and global economic challenges will have a greater impact on future insolvency rates than any lingering effects of the pandemic. Although the UK economy appears to have underperformed recently in GDP terms compared to its international peers, recent forecasts suggest that any downturn in economic activity will be shallower and shorter than predicted only a few months ago.


Given this backdrop, a rise in insolvency rates to levels above pre-pandemic levels seems likely for some sectors in 2023, although increases to levels anywhere near those achieved during the Global Financial Crisis would require further substantial and very damaging economic shocks.

More positively, the number of mid-sized businesses in total continues to rise growing by 7.7% in 2022 which is above the 10 year average of 3.8% from 2010 to 2019 - a period between the financial crisis and the pandemic.





 thincats.com

 [Thincats](https://www.linkedin.com/company/thincats)

ThinCats is a trading name of ThinCats Limited (Company No. 09707863) whose registered office is at 2&3 Charter Point Way, Ashby Park, Ashby De La Zouch, Leicestershire, United Kingdom, LE65 1NF