

Pre-Pack Empirical Research: Characteristic and Outcome Analysis of Pre-Pack Administration

Final Report to the Graham Review April 2014
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I Introduction

In July 2013, the Secretary of State for Business, Innovation and Skills, the Rt Hon Vince Cable MP, announced a review into pre-packaged administrations (“pre-packs”) and appointed Teresa Graham CBE to lead it (“the Review”).¹ Pre-packs have in recent years created a deal of comment within the media and academia. Successive Governments have consulted on pre-packs with as yet limited tangible results. Although empirical research into pre-packs has previously been conducted by Dr Sandra Frisby, such research was conducted some time ago and was not designed or commissioned by an independent review. This report explains the methodology adopted for, and the results of, a quantitative study into pre-packs which is intended to provide the empirical data needed for the Review. The overall aim of the study was to establish a robust and up-to-date baseline on pre-pack administrations.

There are approximately 750 pre-packs per annum. It was agreed that a randomly selected sample of 500 pre-packs from 2010 would be used for the study. The number of 500 was deemed to be sufficiently large for the dataset to be reliable and 2010 was selected as it permitted a regression analysis to be conducted in relation to survival of the purchaser at 12 months, 24 months and 36 months after the date of the pre-pack.

In order to enable a comparison between pre-packs and more traditional administrations involving a going concern sale, the study comprises Part A which looks at pre-packs and Part B which looks at traditional administrations involving going concern sales. A random sample of 100 traditional administrations from 2010 involving going concern sales was agreed for the counterfactual analysis in Part B. Furthermore a combined regression analysis has been conducted to consider the impact, if any, of a sale taking place in either a pre-pack or trading administration on the subsequent failure of the purchaser which is reported in Part C.

¹ The terms of reference for the review can be found at:
<http://www.bis.gov.uk/insolvency/insolvency-profession/Pre-pack%20administration%20review>

II Methodology

For both Parts A and B the study does two things:

- i) Provides data on the insolvency process. For Part A the data was collected from SIP16 reports held by the Insolvency Service and company records held at Companies House. For Part B, data purchased from Geoff Swire was used to identify non pre-pack administrations with comparable data to Part A being collected from Companies House records where available.

This includes information on:-

- The characteristics of companies entering the pre-pack/traditional administration;
 - Information about the insolvency practitioner (and his/her firm) carrying out the procedure;
 - General information on the pre-pack/traditional administration going concern sale; and
 - Details of the survival or failure of the purchaser.
- ii) Carries out a regression analysis of pre-pack/ traditional administrations to assess their respective abilities to deliver viable purchasing companies over the 36 month period following the sale.

In addition Part C combines the datasets from Parts A and B to allow for an analysis of the impact, if any, of a sale taking place in either a pre-pack or trading administration on the subsequent failure of the purchaser.

Part A Pre-packs

Part A1

The following data were collected in relation to 500 pre-pack sales:

1. Characteristics of company being pre-packed
 - i) Name and registered number of company
 - ii) Sector (SIC 2003 codes, subsequently converted to SIC 2007 codes for the purpose of analysis)
 - iii) Size of company - both:
 - Number of employees; and
 - Turnover
 - iv) Mode of appointment
 - v) Reason(s) for failure
 - vi) Whether company part of a group
 - vii) Whether company subsequently dissolved or entered creditors' voluntary liquidation
 - viii) Length of time company had existed prior to insolvency

-
2. Amount owed to creditors broken down into:
 - i) Fixed charge holders
 - ii) Preferential creditors
 - iii) Floating charge holders
 - iv) Unsecured creditors (including a separate figure where available showing money owed to HMRC – due to lack of data, attempts to collect figures for monies owing to the Redundancy Payments Service and the Pension Protection Fund proved impracticable)
 - v) Total debts
 3. Value of company assets (statement of affairs values) and details of any independent valuation
 4. Information about the Insolvency Practitioner (“IP”) carrying out the procedure
 - i) Name of IP(s)
 - ii) Name of IP firm
 - iii) IP’s remuneration (not expenses)
 - iv) IP’s involvement prior to the pre-pack
 5. General information on the pre-pack sale
 - i) Name of purchaser
 - ii) Purchase price of the business
 - iii) Whether the sale was to a connected party
 - iv) Whether deferred consideration was payable, the extent and timing of that deferred consideration and whether there was:
 - Full payment of the deferred consideration; or
 - Part payment and what proportion of total payment did deferred represent
 - v) If there was an element of deferred consideration, whether the IP took steps to secure that consideration (charge, personal guarantee etc)
 - vi) Whether there was any marketing of the business prior to the pre-pack and if so, the form it took and its duration
 - vii) Whether the purchaser has subsequently entered an insolvency procedure, if so, the type of procedure and the identity of the IP(s)
 6. Whether there was a dividend to creditors and the amount of the dividend: -
 - i) Fixed charge holders
 - ii) Preferential creditors
 - iii) Floating charge holders
 - iv) Unsecured creditors (collectively and with a separate consideration of the position of HMRC)
 - Whether there was a payment via the prescribed part and the amount of that payment, including whether or not the £600,000 cap came into force

Part A2

Regression analysis of pre-pack insolvencies to assess the procedure's ability to deliver viable purchasing companies.

This part of the study looks at the failure rates of purchasers from a pre-pack and identifies which characteristics change the chances of failure. The dependent variable in the regression analysis is a binary variable measuring whether the purchaser is continuing in operation (0) or has succumbed to a further insolvency procedure or ceased trading (1). The independent variables are:

- Whether the sale was to a connected party
- Whether there was deferred consideration and the payment period
- Size of the company pre-packed (turnover and employee numbers)
- Age of business prior to pre-pack
- Purchase price

The timing of the independent variable relative to the data in the dependent variable is considered at 12 months, 24 months and 36 months.

Part B Counterfactual – Administration with Going Concern Sale

Part B1

The following data were collected for the 100 traditional administrations where there was a business sale as a going concern:

1. Characteristics of company being in administration
 - i) Name and registered number of company
 - ii) Sector (SIC 2003 codes subsequently converted to SIC 2007 codes for the purpose of analysis)
 - iii) Size of company - both:
 - Number of employees; and
 - Turnover
 - iv) Reason(s) for failure
 - v) Whether company part of a group
 - vi) Length of time company had existed prior to insolvency
2. Amount owed to creditors broken down into:
 - i) Fixed charge holders
 - ii) Preferential creditors
 - iii) Floating charge holders
 - iv) Unsecured creditors (including a separate figure where available showing money owed to HMRC)
 - v) Total

3. Estimated Realisable Value of company assets (statement of affairs values)
4. Information about the IP carrying out the procedure
 - i) Name of IP(s)
 - ii) Name of IP firm
 - iii) IP's remuneration (not expenses)
5. General information on the trading administration sale
 - i) Name of purchaser
 - ii) Purchase price of the business
 - iii) Whether the sale was to a connected party
 - iv) Whether deferred consideration was paid, the extent and timing of that deferred consideration and whether it was paid in full
 - v) Whether the purchaser has subsequently entered an insolvency procedure, if so, the type of procedure and the identity of the IP(s)
6. Whether there was a dividend to creditors and the amount of the dividend: -
 - i) Fixed charge holders
 - ii) Preferential
 - iii) Floating charge holders
 - iv) Unsecured creditors

Part B2

Regression analysis of traditional administration with a going concern sale to assess the procedure's ability to deliver viable purchasing companies and compare with the analysis of the pre-pack sample.

This part of the study looks at the failure rates of purchasers from a traditional administration going concern sale and identifies which characteristics change the chances of failure. The dependent variable in the regression analysis is a binary variable measuring whether the purchaser is continuing in operation (0) or has succumbed to a further insolvency procedure or ceased trading (1). The independent variables are:

- Whether the sale was to a connected party
- Whether there was deferred consideration
- Size of the company entering administration (turnover and employee numbers)
- Age of business prior to pre-pack

The timing of the dependent variable relative to the data in the dependent variable is lagged at 12 months, 24 months and 36 months.

Part C

Finally, there is a combined regression analysis which considers the impact of whether, all else being equal, failure rates differ between business sales after pre-pack and trading administration.

III Summary of Outputs and Analysis

The data points listed above (Parts A1 and B1) for, respectively pre-packs and traditional going concern sales, have been provided on respective excel spreadsheets. The most significant findings are summarised and analysed below. These findings are followed by respective regression analyses (Parts A2 and B2) along with an explanation of the model selected which underpins the regression analysis. Finally, there is a combined regression analysis (Part C) which considers the impact of whether a sale takes place in a pre-pack or trading administration on the subsequent failure of the purchaser.

Part A Pre-packs

Data was collected for 497 companies utilising pre-pack administrations in 2010, with 499 cases being identified to reflect a small incidence of two unique business sales emanating from one pre-packed company (“oldco”). Where the data relates to oldco, the maximum dataset is 497, whereas when it relates to the pre-pack sale and purchaser, the maximum dataset is 499.

Reliable data could not be identified for all of the desired variables, accordingly some of the reports below refer to smaller datasets as, where necessary, any “not known” data has been excluded.

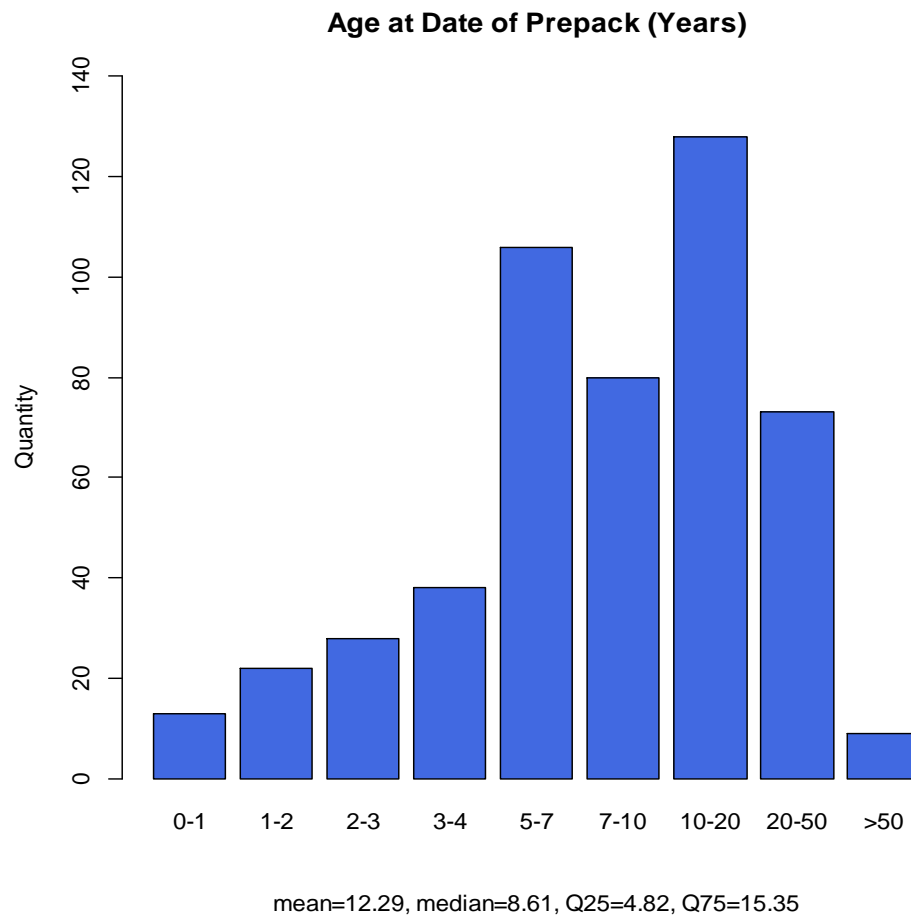
Part A1

A1 Details of oldco

In this section, we describe and make observational analyses of the nature of the companies, oldco, that were utilising the pre-pack process in 2010.

A1.1 Age of oldco

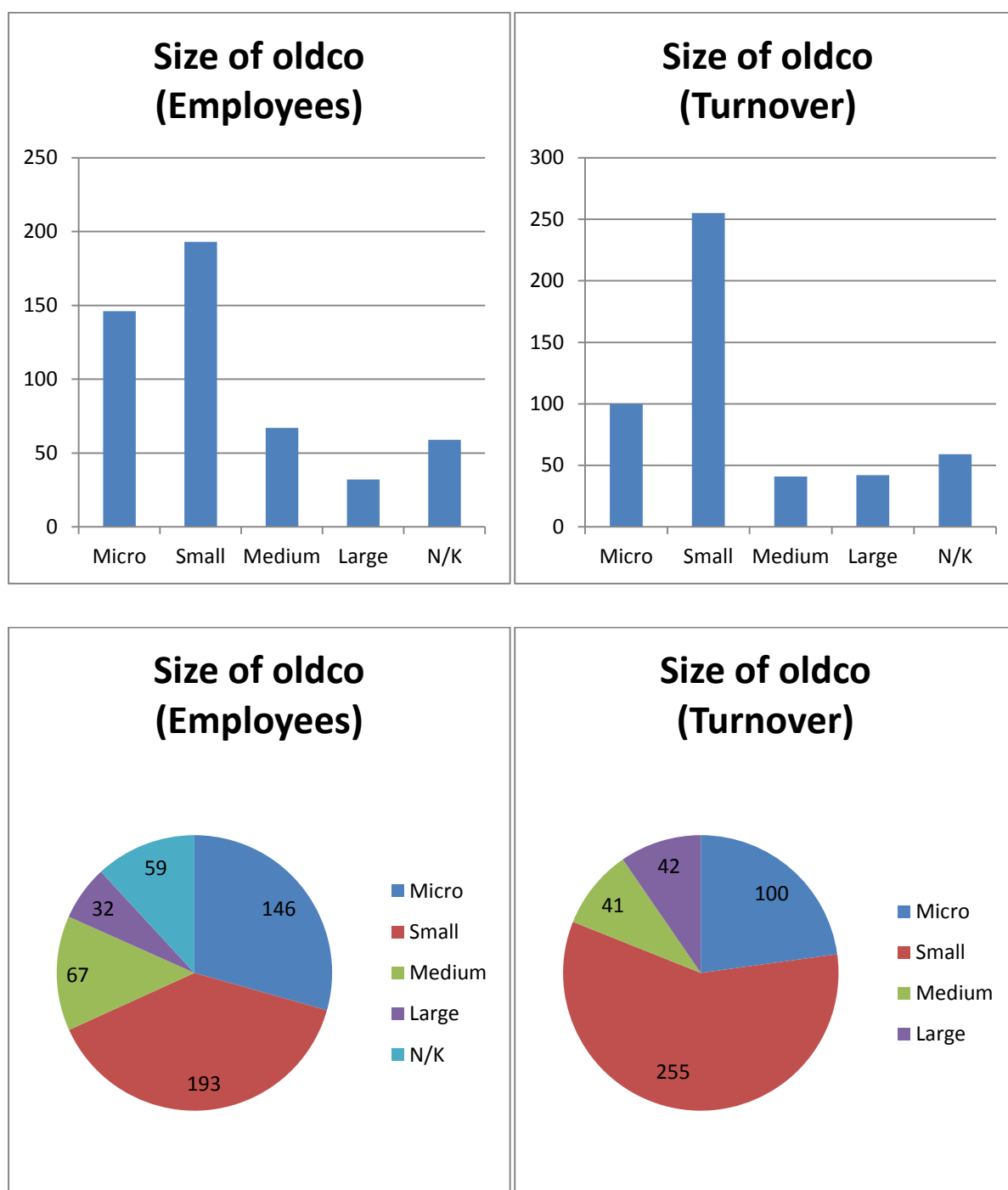
It would appear that the majority of companies making use of pre-pack administrations in 2010 had been incorporated between 5 and 15 years prior to entering administration. It is notable that there are very few companies which were less than two years old at the date of the pre-pack, which suggests that the serial pre-pack was not prevalent in 2010.



A1.2 Size of oldco

Companies were categorised, by both number of employees and level of turnover prior to their entering administration, into Micro (0-9 employees / turnover of £632,000 or less), Small (10-49 / £632k-£6.5m), Medium (50-249 / £6.5m-£12.9m) and Large (250+ / greater than £12.9m) in accordance with the latest EU Accounting Directive (Directive 2013/34/EU).

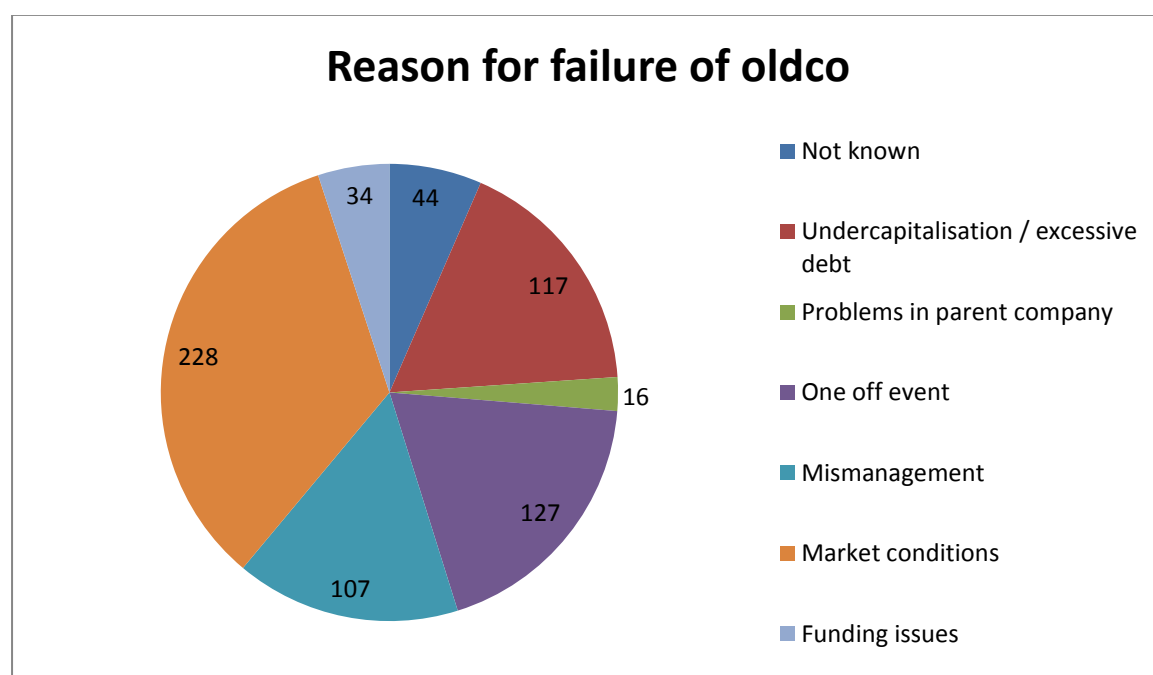
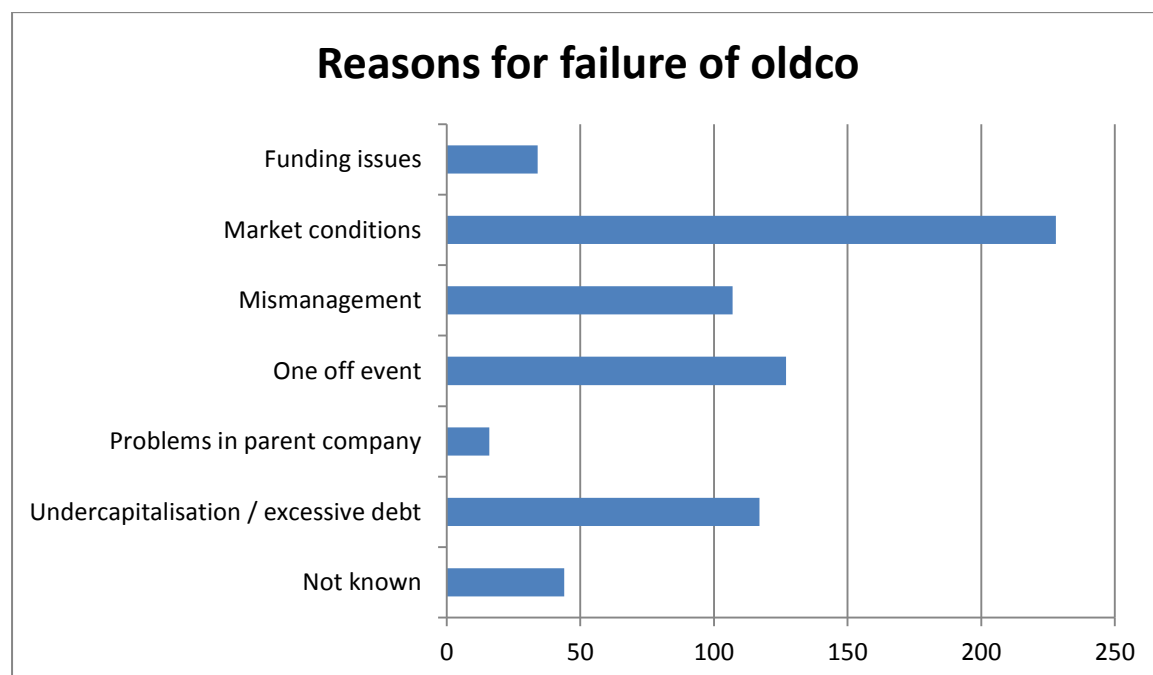
The majority of companies reviewed utilising the pre-pack process in 2010, for which pertinent data was available, fell into the Micro/Small categories (339/438 for Employees and 355/439 for Turnover).



A1.3 Reasons for failure of oldco

Commentary was gleaned from both SIP16 Reports submitted to the Insolvency Service and also, where possible in the absence of reporting in SIP16 Reports, from Statements of Proposals filed at Companies House to establish the reasons for oldco's financial difficulties and recourse to administration. This commentary was then coded by the Insolvency Service into the following categories, and up to two key factors identified for each company:

- Funding issues
- Market conditions
- Mismanagement
- One off event
- Problems in parent company
- Undercapitalisation / excessive debt
- Not known (where no viable reason was provided)



The most common factor identified by the Administrators for the failure of oldco was 'Market conditions' (including factors such as a downturn in trading due to wider economic conditions, increased cost of raw materials, and the strength of sterling against foreign currencies), accounting for a third of all stated reasons and almost twice as prevalent as the next factor, 'One off event'.

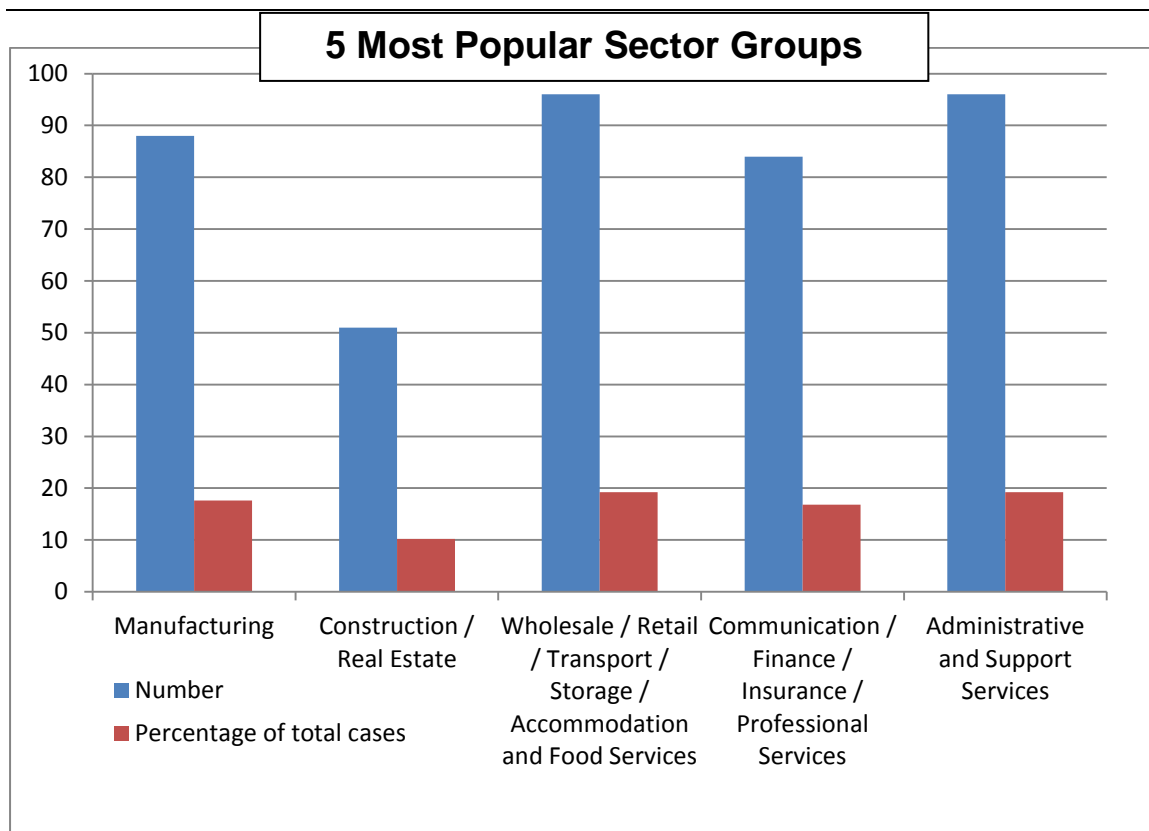
It is important to note that these factors are based on a categorisation of self-reporting by the IPs. Reasons were not always given, and the prevalence of 'Market conditions' and 'One off event' (which included bad debts caused by debtor insolvency) could be oversimplifying the situation.

'Mismanagement' was only identified in around a fifth of all cases (107 out of 497), and often was not expressed as such in the reporting reviewed. For example, an expansion into an unfamiliar area that coincided with the 2008 global downturn has been categorised as 'Mismanagement'. Furthermore, it is unlikely that an IP would cite mismanagement prior to selling the business to a purchaser controlled by the same management (see section A2.1 below for details of connected sales).

A1.4 Sector in which oldco operated

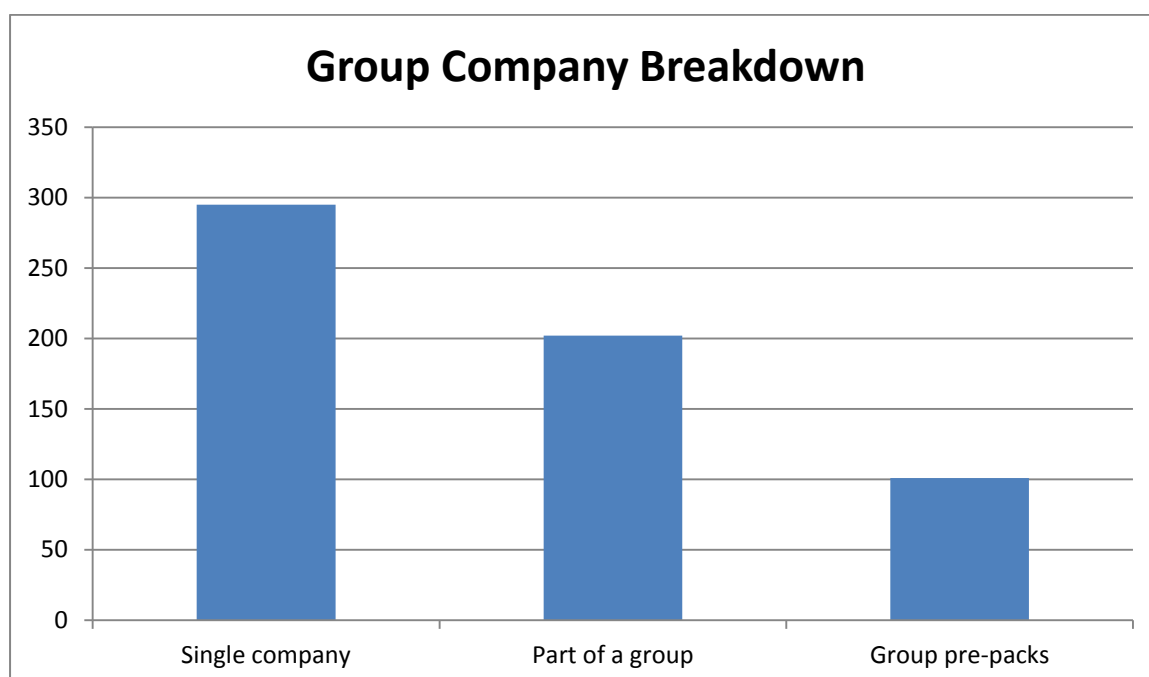
Although there is often a popular perception that pre-packs are particularly prevalent in certain sectors (such as the printing and transport industries), the data collected does not show this to be the case.

Each company has been categorised by the relevant SIC (Standard Industrial Classification) 2007 2-digit code, which identified 55 different classifications (not including those for which the SIC 2007 code could not be identified), though no obvious pattern emerges (see Appendix 1 for detail). These were further categorised into eleven related groups in an attempt to identify any pattern (see Appendix 2 for detail). Whilst it is clear that certain groups are more prevalent than others, there is no clear group which dominates the use of pre-packs.



A1.5 Presence of group companies

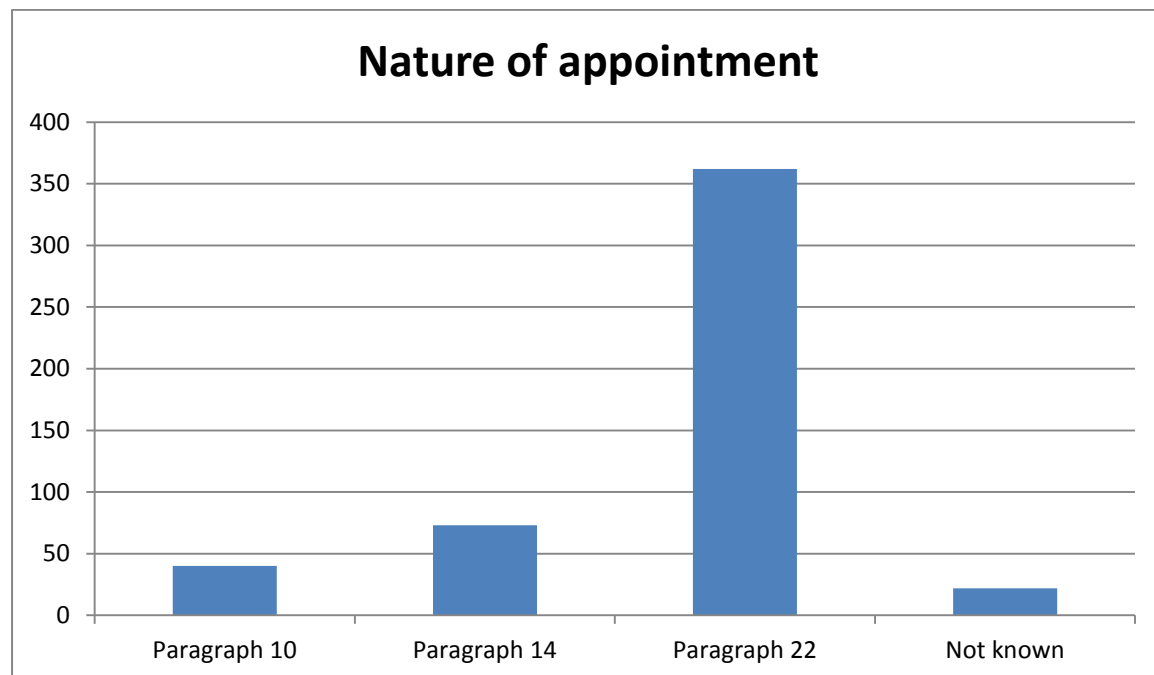
From the information contained in the SIP16 Reports and administration filings at Companies House, it was apparent that just over two fifths of companies that entered a pre-pack were part of a group of companies. However, only 59 sales concerned collections of group companies (comprising 101 oldco companies selling their businesses to either single or multiple purchasers).



A1.6 Nature of appointment

The out of court appointment of administrators by the directors or company pursuant to paragraph 22 of Schedule B1 of the Insolvency Act 1986 ("IA 1986") was the most popular appointment process, used in over 70% of all cases. In a number of cases this arose due to the absence of a qualified floating charge holder, however, it was apparent that a large number of appointments were made either with the consent of a qualified floating charge holder or after the expiry of the five working day notice period.

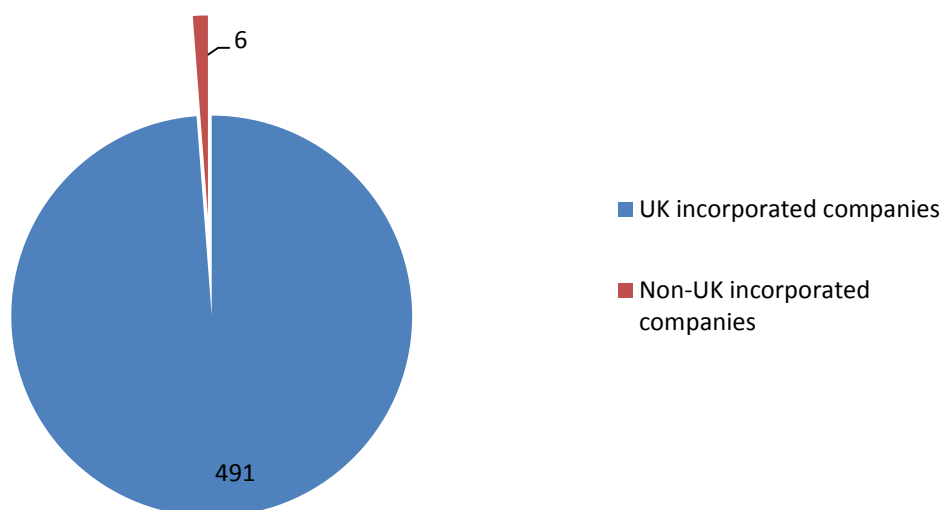
The small number of court appointments pursuant to paragraph 10 appear to have arisen where oldco was subject to a winding up petition and there was no qualifying floating charge holder.



A1.7 Non-UK registered companies

A small number of companies (6 out of 497) not incorporated in the United Kingdom made use of the pre-pack process in 2010. Five of these companies are from the infamous Hellas Communications group of companies. Whilst the pre-pack process has therefore been used by non-UK companies, its use was not widespread on the data reviewed. Any suggestion that the UK is being used as a “bankruptcy brothel” in relation to pre-packs appears not to be supported by the evidence.

Use of pre-packs by non-UK incorporated companies



A2 Details of the pre-pack

In this section, we look at the details of the pre-packaged administration sales from 2010 that have been reviewed.

A2.1 Connected purchase

Sales of the business and assets of the pre-packaged company to a party connected to oldco dominated the sample reviewed. Almost two thirds of purchasers were connected to oldco for the purposes of s.249 IA 1986. The information recorded relied heavily on self-reporting by the administrators in the SIP16 Reports and filings at Companies House.

	Pre-pack	Proportion
Connected Sale	316	63.3%
Not Connected Sale	182	36.5%
N/K	1	0.2%
Total	499	100.0%

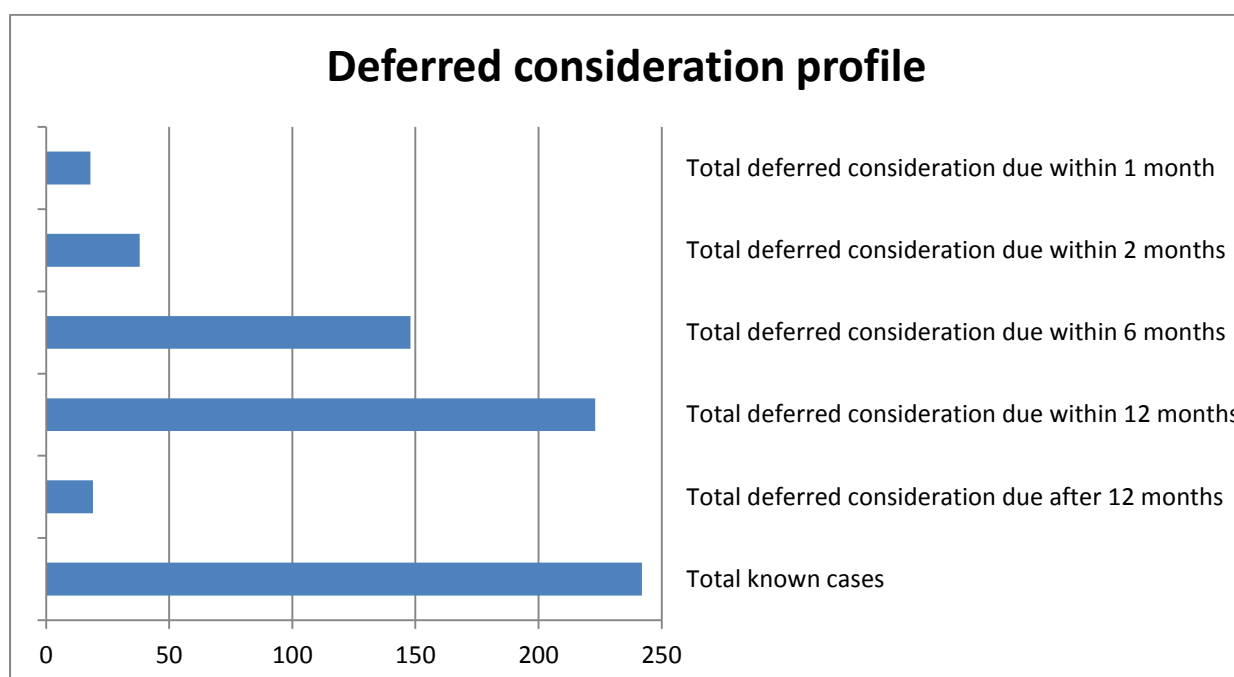
A2.2 Deferred Consideration

A significant finding of the research was the extent to which deferred consideration was utilised in pre-packaged sales in 2010. Over half of all sales (264/499) included an element of deferred consideration. The majority of these (171/264) took some form of security, normally in the form of a personal guarantee from the directors, though various other methods were used, including debentures over the assets of the purchaser, retention of title in the assets and fixed charges over property.

	Pre-pack	Proportion
Deferred Consideration	264	52.9%
- <i>with security</i>	171	64.8%
- <i>without security</i>	77	29.2%
- <i>security taken N/K</i>	16	6.1%
No Deferred Consideration	233	46.7%
N/K	2	0.4%
Total	499	100.0%

Where the purchase price was paid on a deferred basis, in the majority of cases (223/242 where data available) the deferred sum was due within 12 months of the purchase. However, in only a very few cases was the deferred consideration payable within two months of the sale completing (38/242), that is, before the administrator's proposals need to be distributed to creditors in accordance with paragraph 49 of Schedule B1 IA 1986.

In 239 (of the total 264) cases deferred consideration was agreed and was known to be payable within 36 months of the pre-pack sale completing. Of these 239 cases, the deferred consideration was not paid in full on 43 occasions. This failure to pay deferred consideration can be put down to a number of factors, the most common being the subsequent failure of the purchaser (28/43).



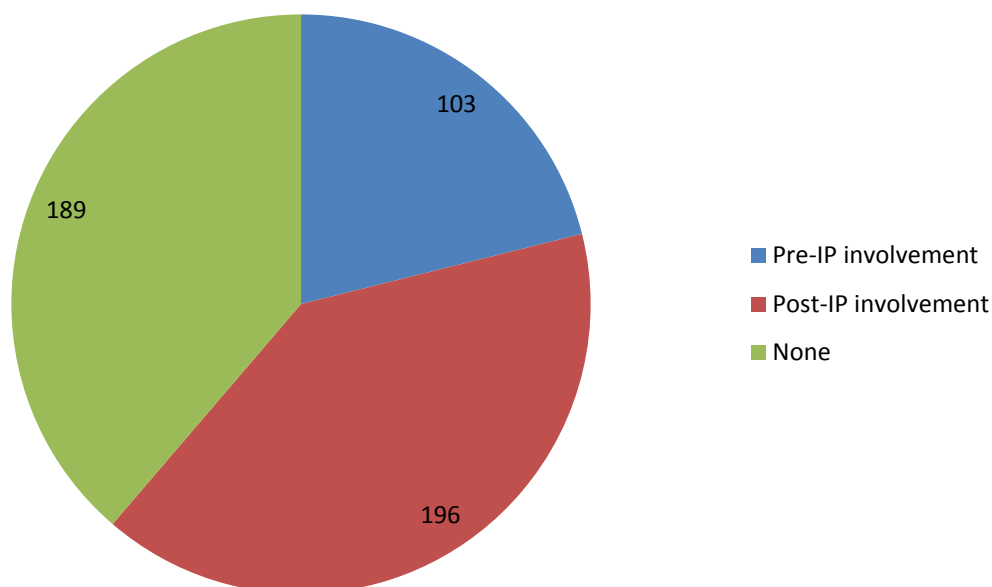
	Total deferred consideration due within 1 month	Total deferred consideration due within 2 months	Total deferred consideration due within 6 months	Total deferred consideration due within 12 months	Total deferred consideration due after 12 months
Yes	18	38	148	223	19
No	224	204	94	19	223
N/K	22	22	22	22	22
Total	264	264	264	264	264

A2.3 Marketing undertaken prior to the pre-pack administration

In the majority of cases reviewed, the administrators reported that marketing was carried out prior to the pre-pack sale (303/497). We note that this data is based on self-reporting by the administrators in the SIP16 Reports. Furthermore, there appears to be a wide disparity as to the level of marketing taking place. Please see Part IV of this report for further comment.

In over a third of all cases where marketing was carried out, it would appear it began prior to the IPs' involvement with oldco, suggesting that a reasonable number of companies using pre-packs in 2010 (103/497) had sought outside investment or interest prior to seeking specialist insolvency advice.

Marketing conducted



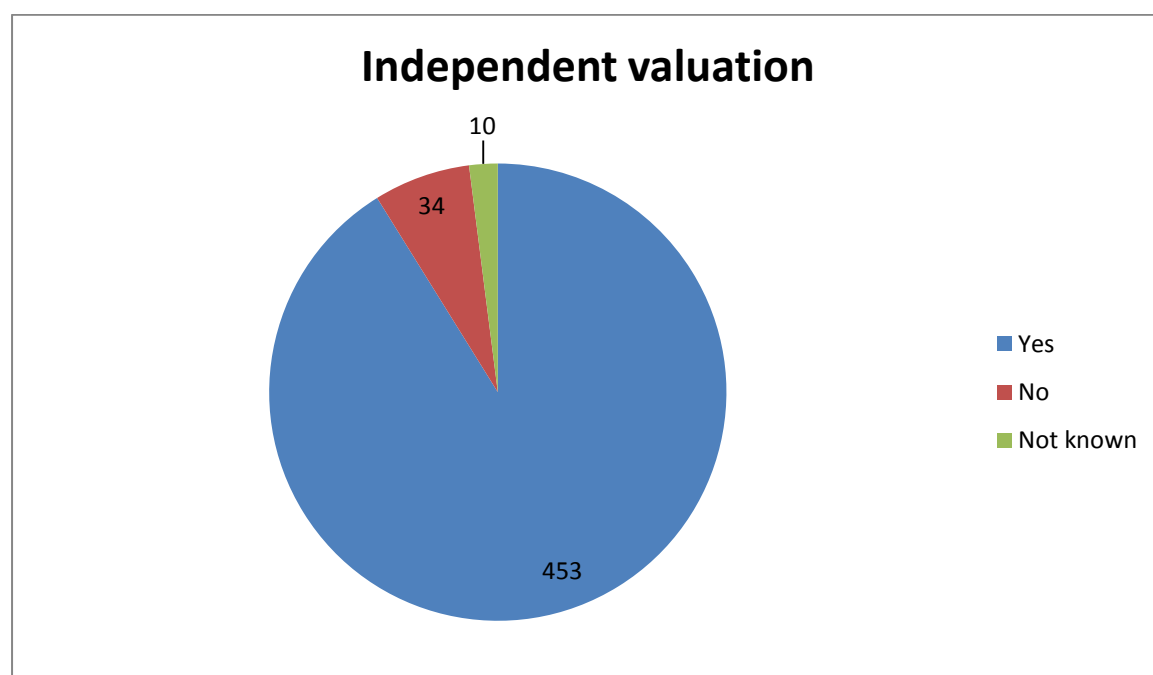
Marketing	Count
Yes	303
- pre-IP involvement	103
- post-IP involvement	196
- not known	4
No	189
Not known	5
Total	497

Generally, where marketing was carried out, in the small number of cases for which data can be ascertained, it largely appears to have been conducted within the month prior to the pre-pack sale completing (117/185). However, for over a third of cases there is no clear evidence from the SIP16 Reports as to when the marketing was carried out.



A2.4 Independent valuation

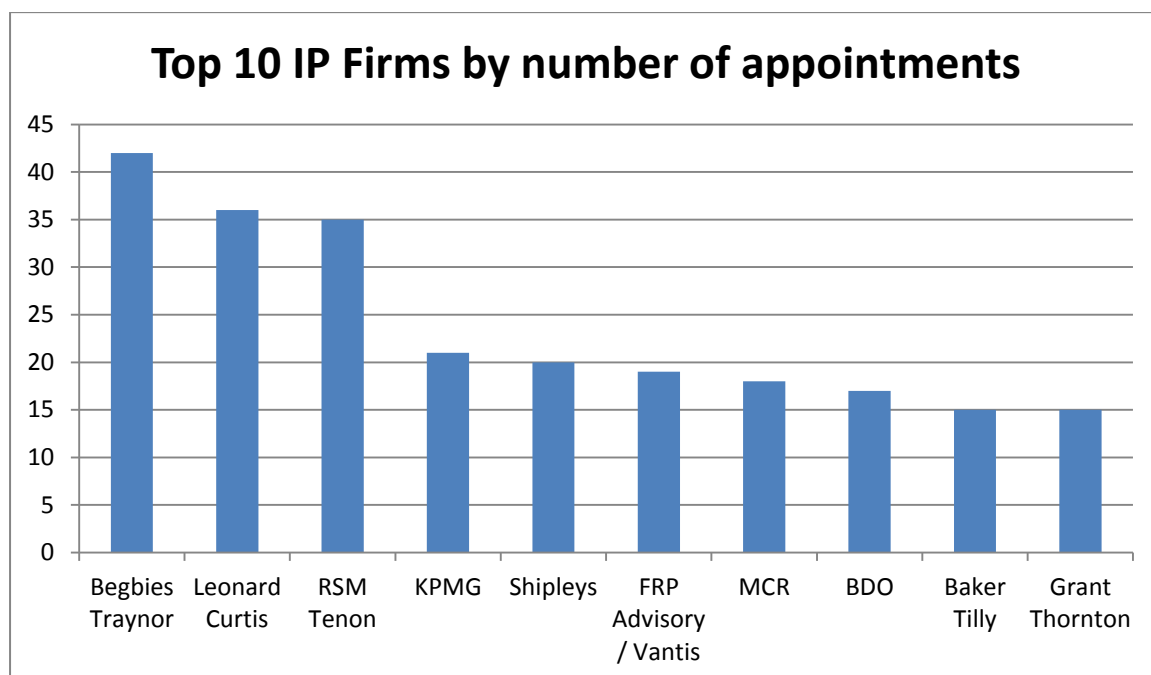
In the overwhelming majority of cases, an independent valuation was conducted as part of the pre-pack process. Please see our comments in Part IV about the limitations of certain valuations.



A2.5 Details of Insolvency Practitioner Firms involved in pre-packs

There were 103 different IP firms (“Firms”) engaged in the 497 pre-pack administrations reviewed. Of these, 52 Firms took only one appointment and a further 15 Firms took only two appointments.

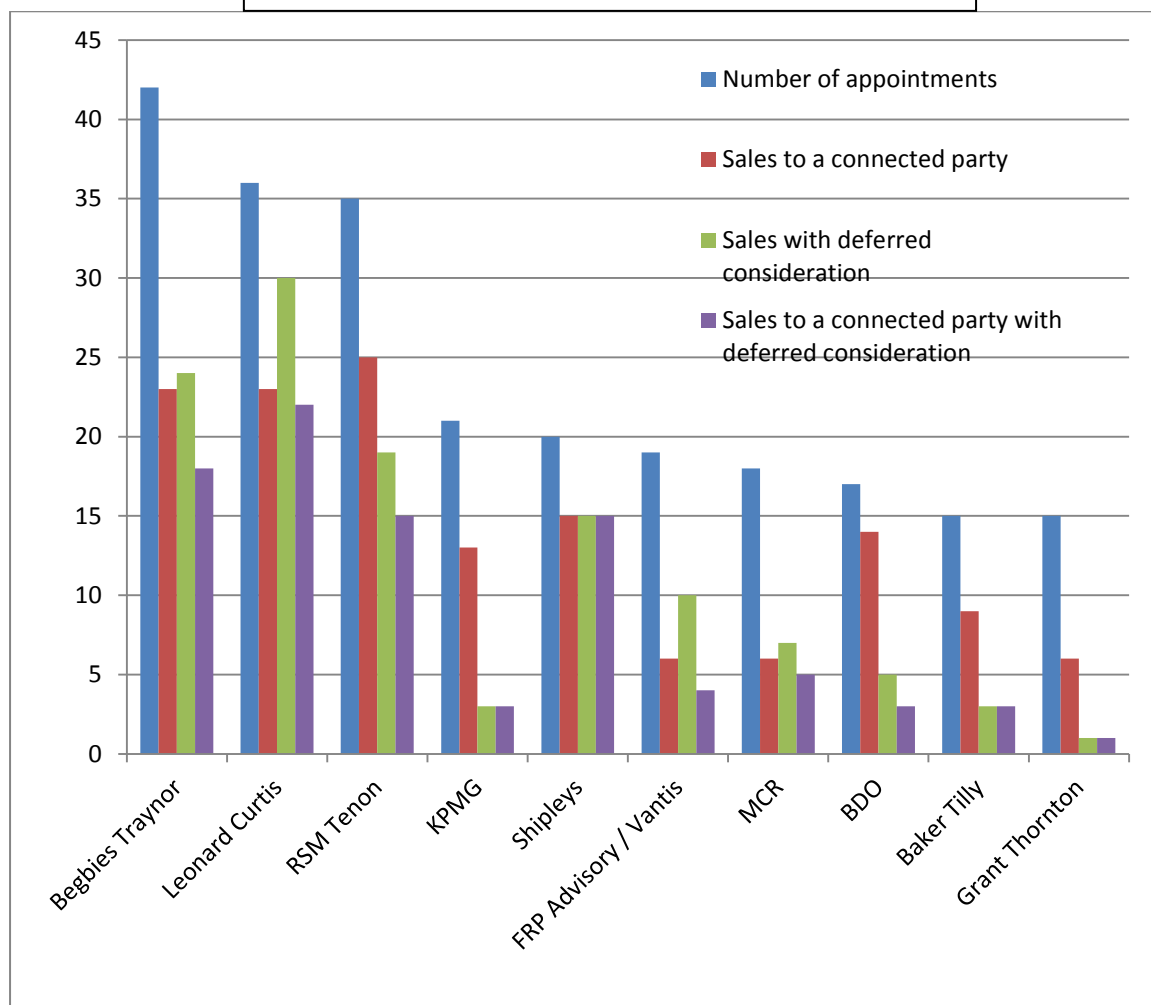
The following ten Firms accounted for almost half of the appointments (238/498 – NB one appointment was shared between two Firms):



Of the 103 Firms involved in pre-packs, 67 made use of deferred consideration, 77 sold the business and assets to a connected party and 58 completed purchases to a connected party involving deferred consideration.

The ten Firms with the greatest number of appointments were involved in transactions including deferred consideration and/or connected sales as follows:

IP Firm Use of Deferred Consideration and Connected Sale



As can be seen from the above chart, the prevalence of sales to a connected party and/or sales involving deferred consideration is not uniform, with deferred consideration in particular used in very few cases by each of KPMG, Baker Tilly and Grant Thornton.

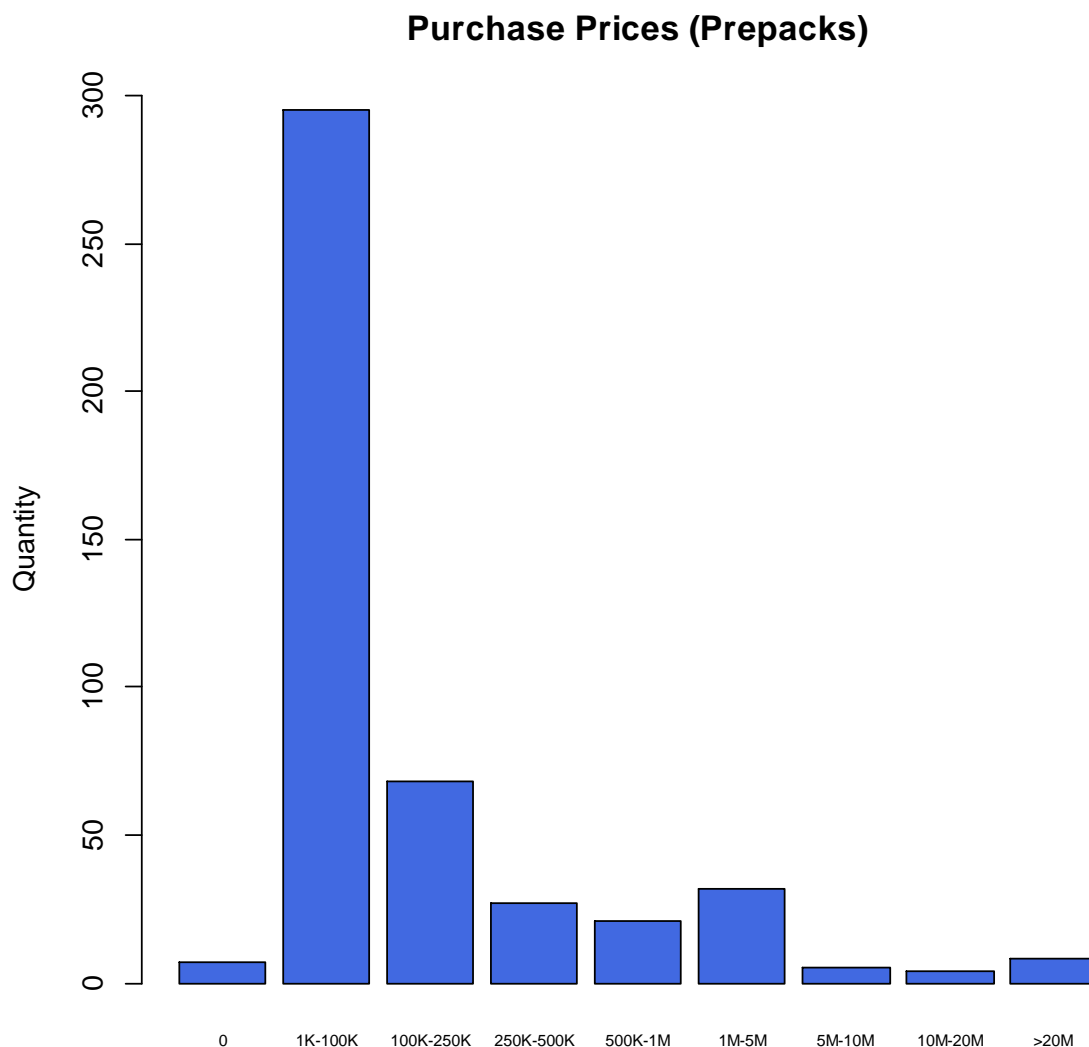
Across all 103 Firms, Begbies Traynor, Leonard Curtis, RSM Tenon and Shipleys are the Firms with the greatest number of pre-pack sales involving a connected sale and/or deferred consideration.

Full details of the appointment taking Firms is set out in Appendix 3.

A2.6 Purchase Price

It can be seen from the chart below that whilst there was a wide spread of purchase prices in pre-packs in 2010, from negligible sums to purchase prices in excess of

£20million, the majority of sales were completed for sums below £100,000. This suggests that pre-packs are dominated by smaller business sales as is reflected by the number of Micro/Small companies utilising the pre-pack process referred to in A1.2 above.



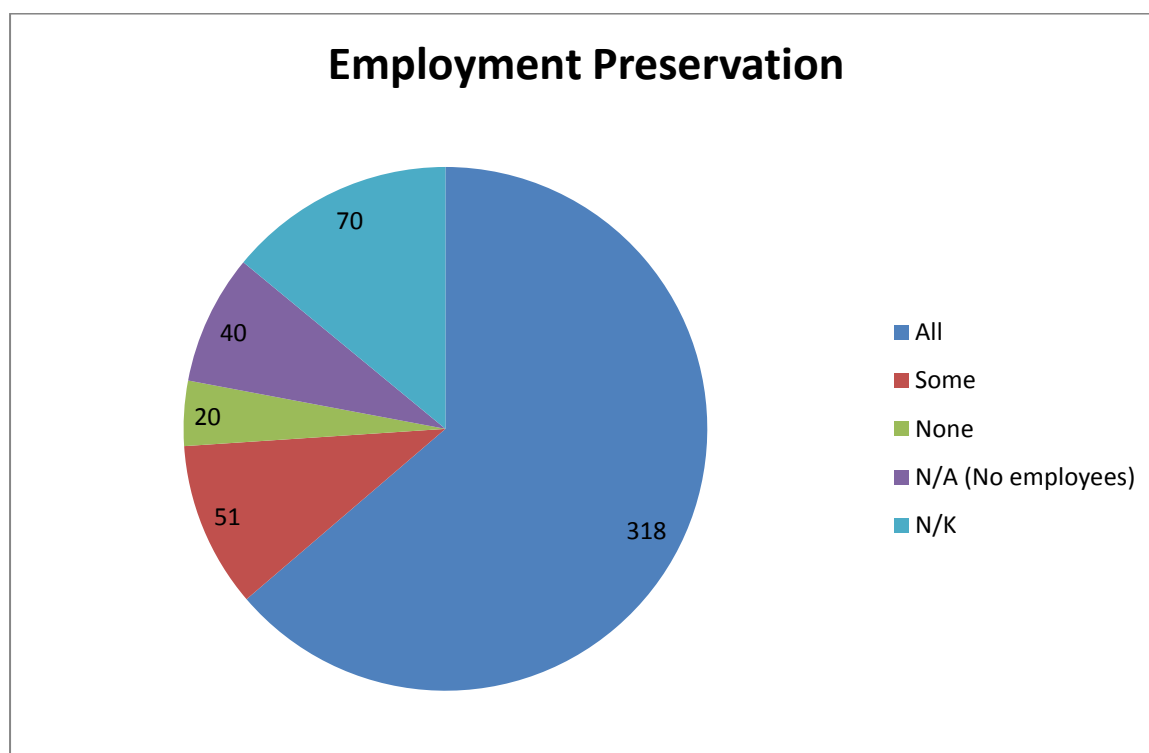
mean=6.67 million median=54,500 Q25=25,000 Q75=177,500

A2.7 Employment preservation by purchaser in pre-packs

A large number of SIP16 Reports cite the preservation of employment pursuant to the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") as one of the reasons for / benefits of using a pre-pack administration. The benefit is often reported as an outright preservation of jobs, but more usually as achieving a reduction in the likely preferential and unsecured creditor claims were the employees to be made redundant as a result of oldco's insolvency.

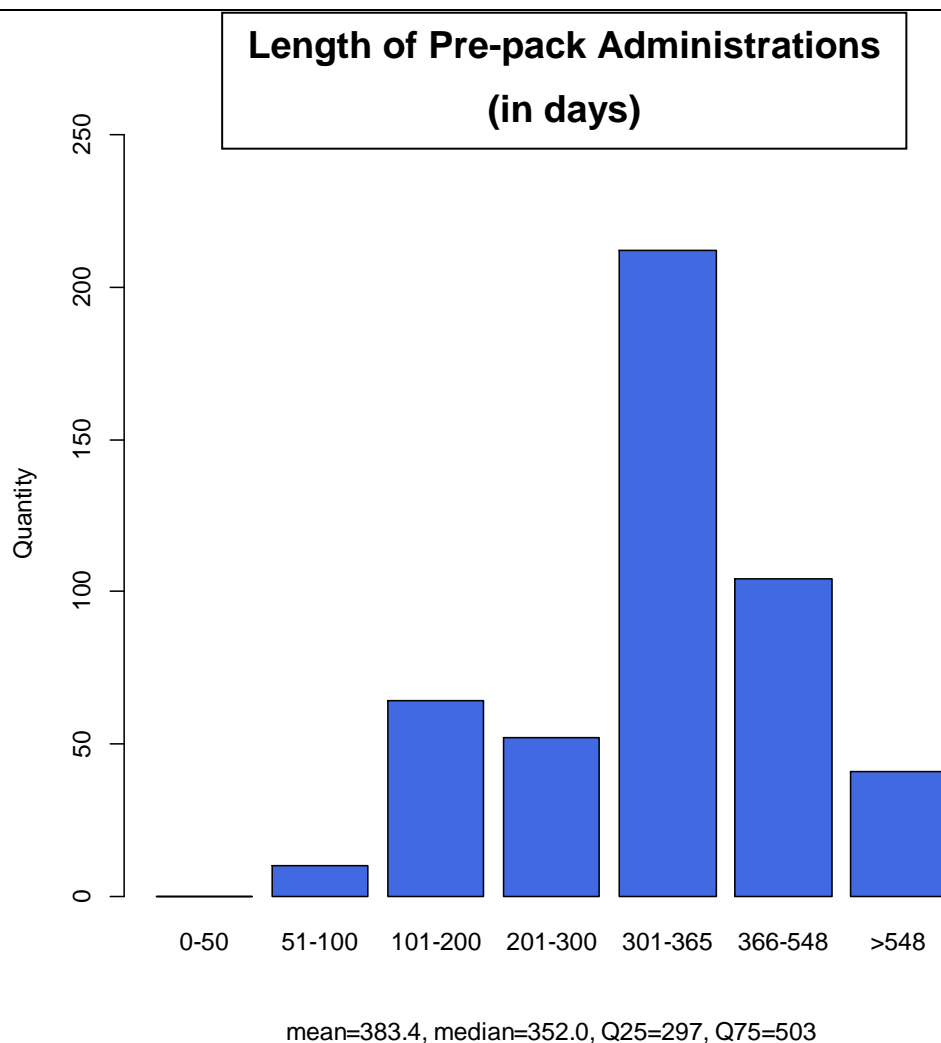
Despite this, the information regarding employment preservation reported in the SIP16 Reports is often poor and lacking in clarity. It would appear that where all of the jobs have been preserved pursuant to TUPE this is reported. However, where less than 100% employment preservation is achieved the data become less clear.

From the data available both in the filed SIP16 Reports and in the data available at Companies House it would appear that the majority of pre-packs preserve 100% of employment. Conversely, very few (20/499) result in no employment preservation – and these tend to be cases where the business was shut down prior to IP involvement and all employees had already been made redundant. The veracity of these figures cannot be confirmed, and it is not possible on the data presented to provide comment on the extent of employment preservation in the 51 cases categorised as ‘Some’.



A2.8 Length of administration

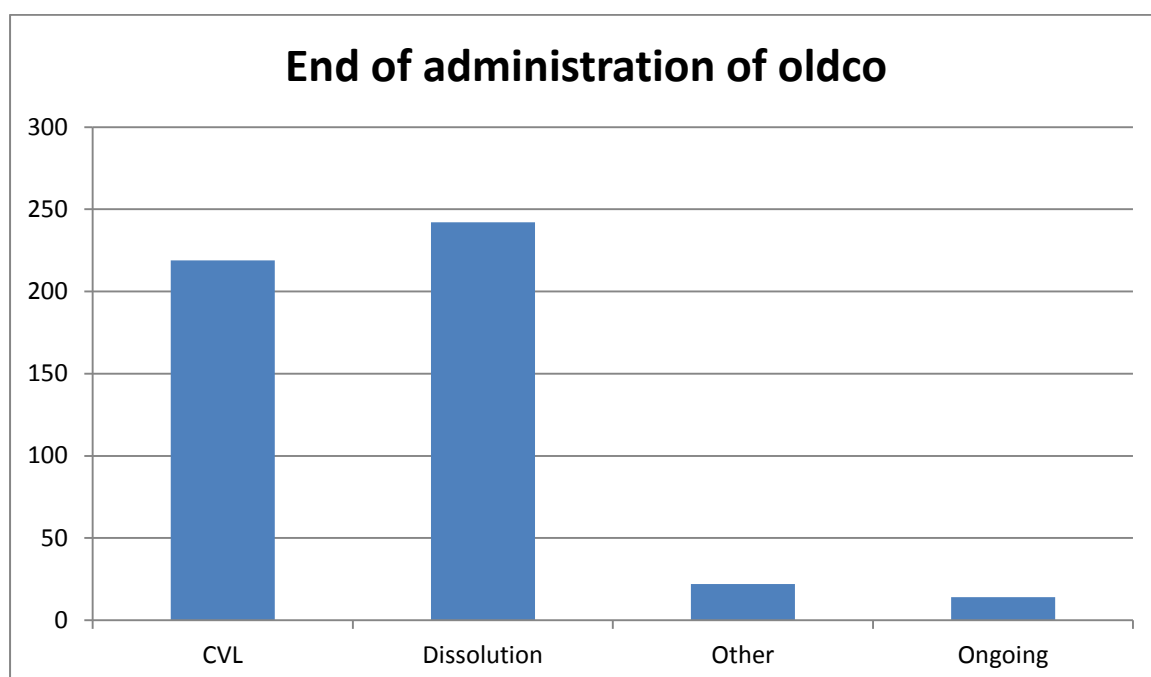
The majority of pre-pack administrations appear to be completed within the statutory 12 month period set out in paragraph 76(1) Schedule B1 IA 1986, and certainly over 90% of administrations have completed within the further six months allowed pursuant to paragraph 76(2)(b) Schedule B1 IA 1986 (though it cannot be said on the data collected that this is how these administrations were extended).



A2.9 End of the administration of oldco

The majority of pre-pack administrations ended in either Creditors' Voluntary Liquidation (219/497) pursuant to paragraph 83 of Schedule B1 IA 1986 or Dissolution (242/497) pursuant to paragraph 84 of Schedule B1 IA 1986. A small number of cases (22/497) did not end in the conventional manner, with a range of alternatives falling within the categorisation of 'Other', including where nothing appears to have been done following the end of the initial 12 month administration period, resulting in oldco returning to the Register of Companies as an apparently solvent company until such time as a compulsory striking off action is pursued by the Registrar.

It is noteworthy that, over three years on, 14 administrations were ongoing as at 1 February 2014.

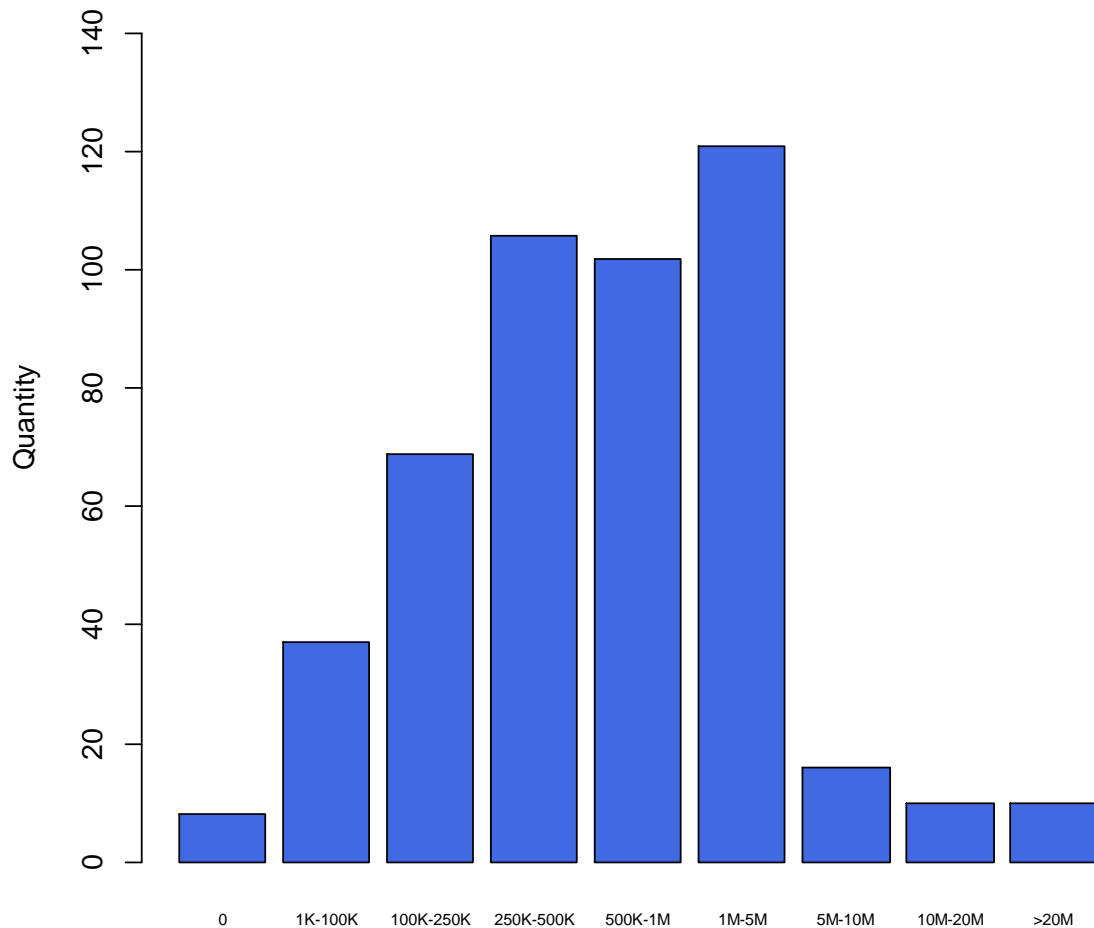


A2.10 Debt profile of oldco

It is observed that the majority of companies being pre-packed had a small to medium unsecured debt profile at the point of insolvency, with the middle fifty per cent of cases falling between £260,000 and £1.4million.

It is worth noting that the data collected may duplicate debt figures in group situations. As noted in A1.5 above, in over 200 cases, oldco was part of a group of companies where frequently companies cross guaranteed one another's debts (although the evidence for this was not consistently reported so it is not possible to give precise individual company debt figures).

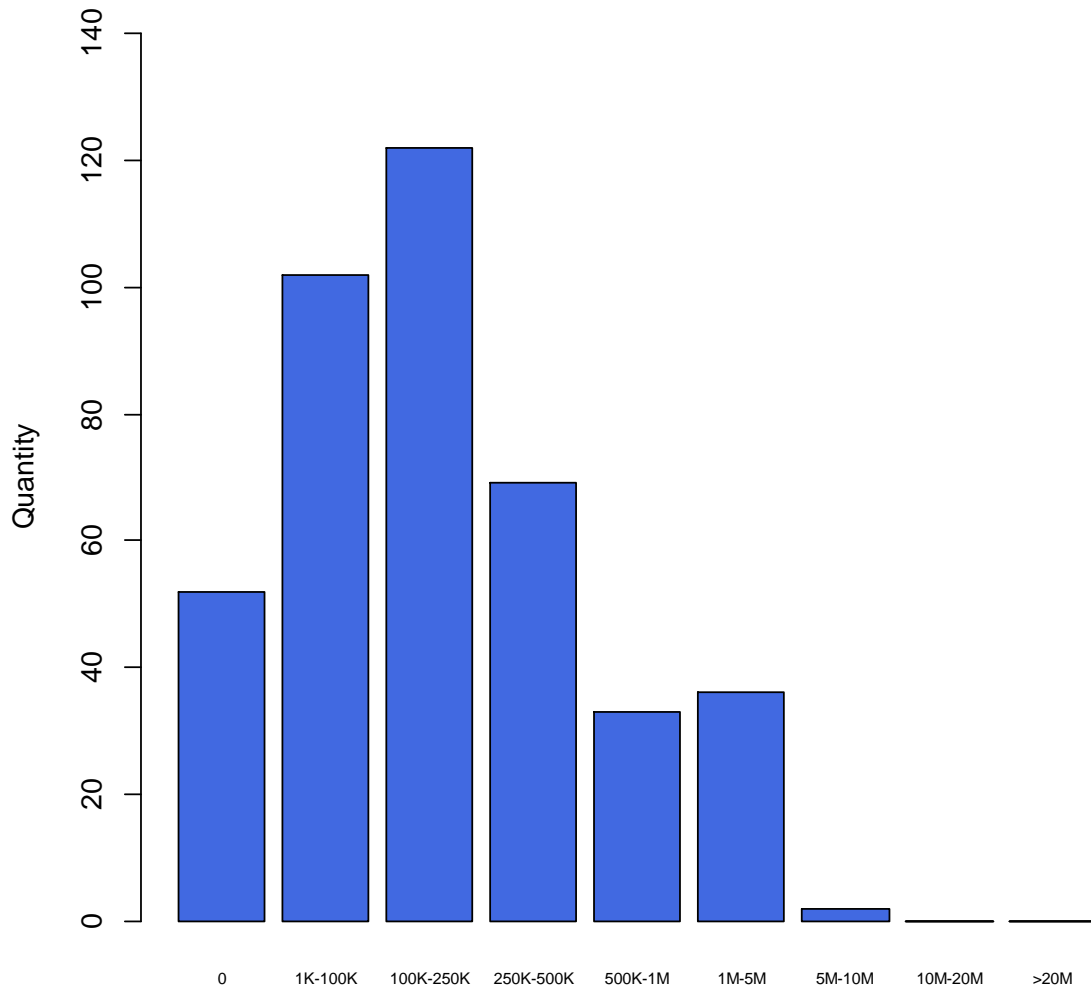
Debts Owed to Unsecured Creditors (Prepacks)



mean=5.27 million, median=0.565 million, Q25=0.26 million, Q75=1.4 million

Further, it would appear that HMRC was owed less than may have been expected. However, it must be noted that this figure is based on the Statements of Affairs filed by directors, or, in their absence, on the estimations of the Administrators based on the company records, such as they were. Accordingly the reliability of this data is questionable. It could not be quantified in the majority of cases, as the Administrators only infrequently made reference to filed claims by HMRC and often these were not verified given the unlikelihood of any dividend being paid.

Debts Owed to HMRC (Prepacks)



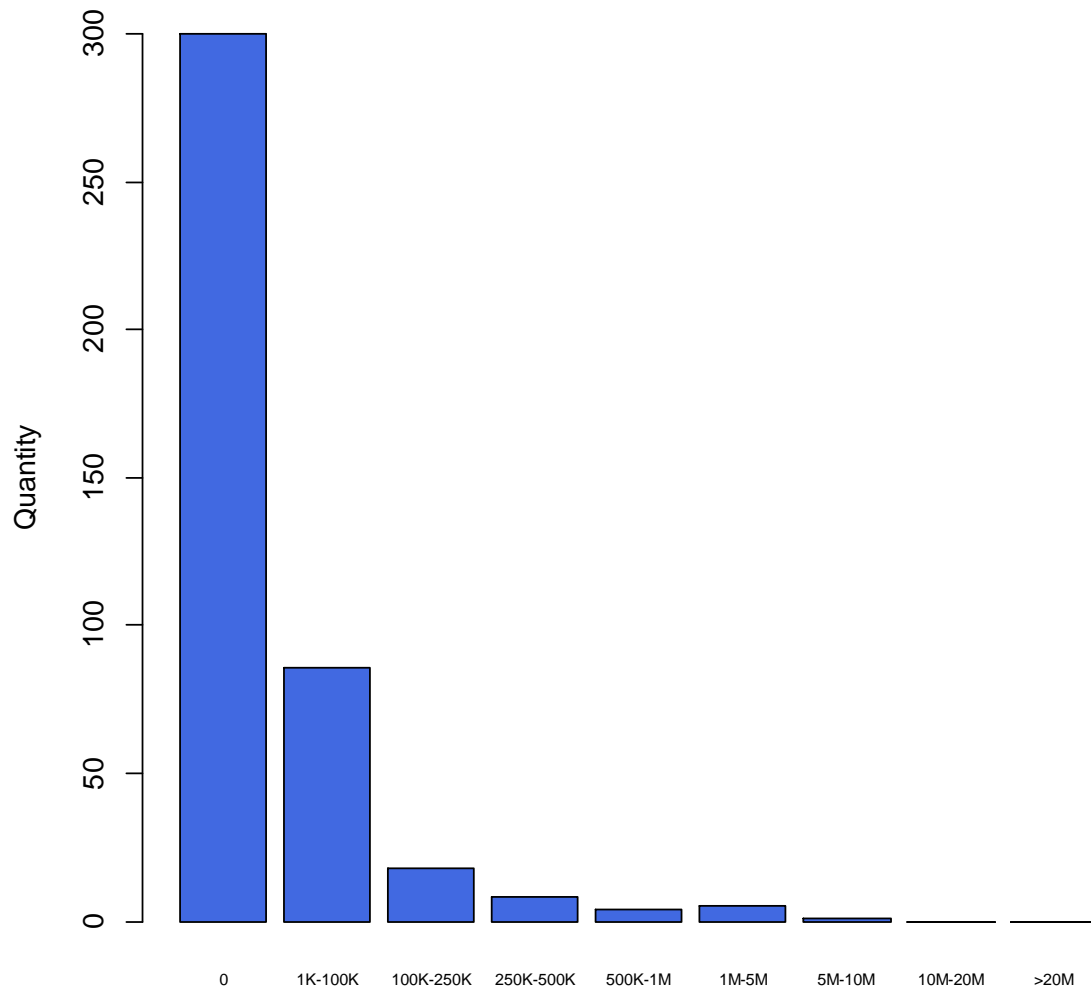
mean=375,800 median=156,200 Q25=41,500 Q75=377,700

A2.11 Distributions to unsecured creditors of oldco

It is observed that in the majority of cases no distribution was made to unsecured creditors in a pre-pack. This does not include a small number of cases where a subsequent liquidation (or in 14 cases the administration itself) are ongoing and there remains a possibility, though not a certainty, of a distribution being made to unsecured creditors.

Where a distribution has been made, it tends to be small when compared to the overall unsecured debt figures.

Dividends to Unsecured Creditors (Prepacks)



mean=62,020 median=0 Q25=0 Q75=5,340

Of the 497 companies using pre-packs which were reviewed, there was known unsecured debt data for 471 companies (in 8 cases the Statement of Affairs listed a figure of £0, whilst for a further 18 there was no information available). Of these 471 companies, over 58% of cases (275/471) resulted in no dividend to unsecured creditors and for over 15% (74/471) the outcome was unknown or proceedings ongoing.

For the 122 companies for which viable unsecured distribution data was available, the mean unsecured dividend represented 7.22% of the overall debt, though this appears to be skewed by a small number of larger distributions, with the majority of unsecured distributions within the range 0.56%-7.46%.

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	67.78%	7.22%
Median	75.07%	1.94%
25th Percentile	48.35%	0.56%
75th Percentile	98.77%	7.46%

Of the 122 companies mentioned above, 71 of the companies were involved in connected sale transactions. The mean unsecured dividend drops to 6.07% and the 25th-75th percentiles drop to 0.52%-6.81%, although the median dividend is consistent (1.93% as against 1.94%).

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	70.85%	6.07%
Median	79.87%	1.93%
25th Percentile	53.68%	0.52%
75th Percentile	100.00%	6.81%

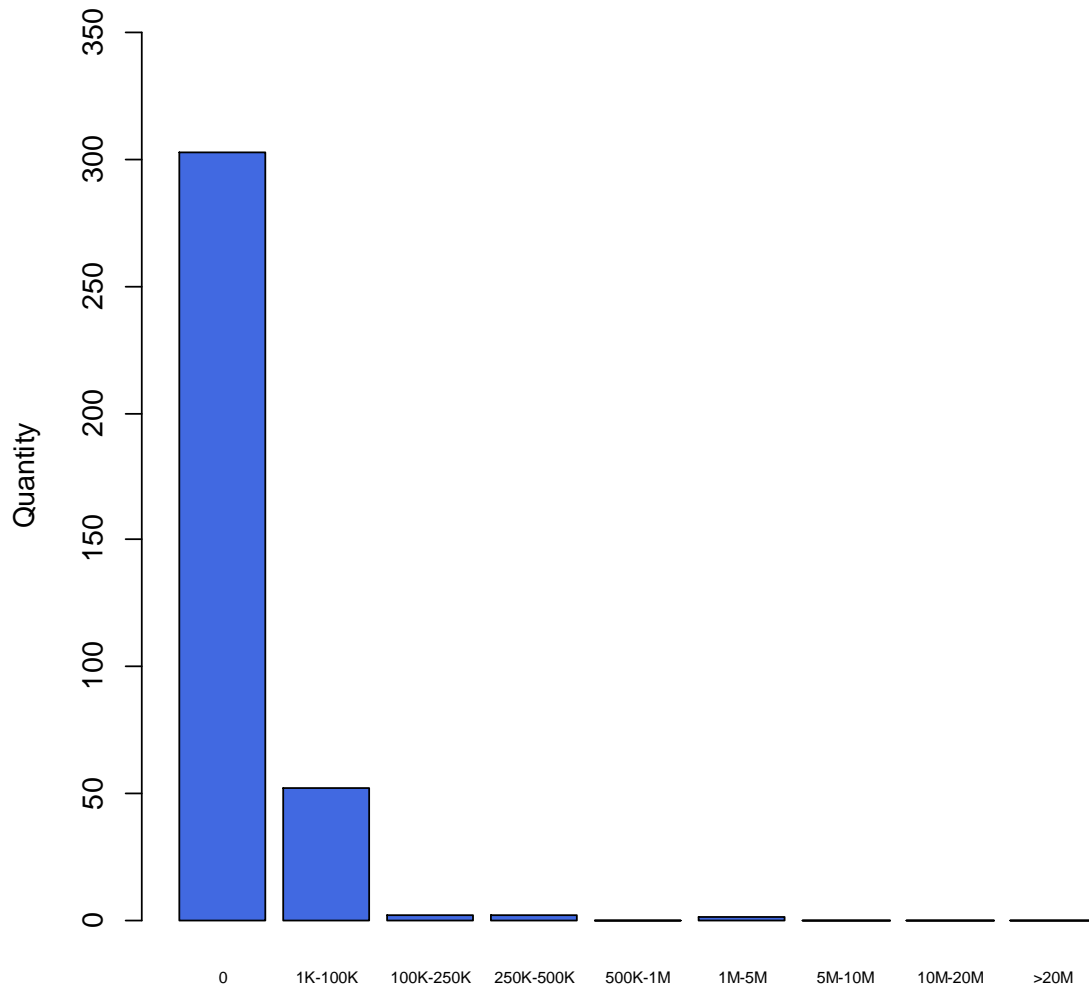
Fifty-one of the 122 companies did not sell their business as a going concern to a connected party. It can be seen the mean dividend noticeably increases (8.82% as against a general figure of 7.22% and 6.07% for connected sales), although the median is only slightly higher (1.96% compared to a general figure of 1.94% and 1.93% for connected sales). The 25th-75th percentile band is also noticeably higher for non-connected sales than connected sales (0.73%-8.04% as against 0.52%-6.81%).

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	63.50%	8.82%
Median	73.17%	1.96%
25th Percentile	42.46%	0.73%
75th Percentile	93.44%	8.04%

It would appear that there is a greater chance of distributions to unsecured creditors generally than to HMRC. This would seem at odds with the overwhelming presence of HMRC arrears in a large number of the pre-packs reviewed. However, this is explained by the paucity of data available from the IPs' filings at Companies House. Often, when a dividend is paid to the unsecured creditors, there is no breakdown as to which creditors received what. Given the standard of debt data referred to in section A2.10 above, being that it is reliant on the company records rather than filed proofs of debt, it has not been possible to calculate possible HMRC dividends as a

proportion of overall unsecured dividends. Accordingly, there are large gaps in the known data which prevent the whole picture being set out.

Dividends to HMRC (Prepacks)



mean=7,431 median=0 Q25=0 Q75=0

Of the 497 companies using pre-packs which were reviewed, there was known data on debts to HMRC for 363 companies (in 51 cases the Statement of Affairs listed a figure of £0, whilst for a further 83 there was no information available). Of these 363 companies, around 58% of cases (210/363) resulted in no dividend to unsecured creditors and for over 27% (99/363) the outcome was unknown or proceedings ongoing (this includes cases where a dividend was paid, but no detail was provided as to the amount paid to HMRC).

For the 54 companies for which viable data was available regarding distributions to HMRC, the mean dividend represented 2.71% of the overall debt, with the majority of distributions within the range 0.8%-4.7%.

The dividends to HMRC, as a proportion of recorded debt in the Statement of Affairs, were noticeably lower than those to unsecured creditors generally.

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	36.69%	2.71%
Median	30.07%	0.80%
25th Percentile	11.11%	0.22%
75th Percentile	57.36%	4.70%

A3 Subsequent failure of the purchaser

In this section, we investigate the incidences of subsequent insolvency of the purchaser in the pre-pack administration within three years of the sale completing, considering the various factors which may influence this subsequent failure.

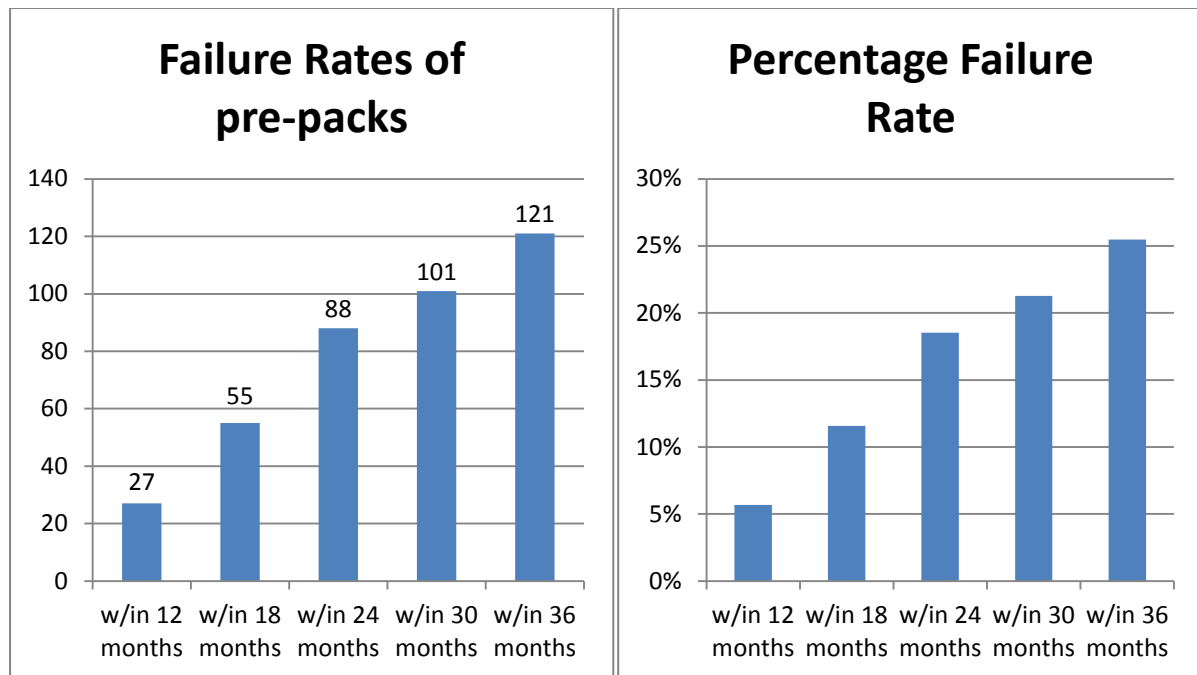
A3.1 Rates of failure of purchasers in a pre-pack

For the purposes of this report, a purchaser is deemed to have failed if it has entered into a formal insolvency process (including administration, liquidation and company voluntary arrangement ("CVA")) or if steps have been taken to strike the company off the Register of Companies.

SIP16 Reports have been reviewed for administrations which commenced between 1 January 2010 and 31 December 2010. In order to ensure a consistent comparison between administrations, failure rates for the purchasers were considered in the 36 months following the pre-pack sale, i.e. up to January 2014 for an administration which commenced in late December 2010 and the pre-packaged sale completed in early January 2011. Whilst it would have been possible to consider failure beyond 36 months for earlier pre-packs (up to 48 months in the case of a pre-pack from January 2014) this would not have provided a representative sample.

Failure (or survival) data was available for 475 of the 499 recorded transactions. It was generally not possible to ascertain subsequent failure where the purchaser was either an individual (though some instances of bankruptcy were apparent from the Administrators' reports and have been included) or an overseas company (we were able to track the performance of an Isle of Man registered company, but not any of the other overseas purchasing companies).

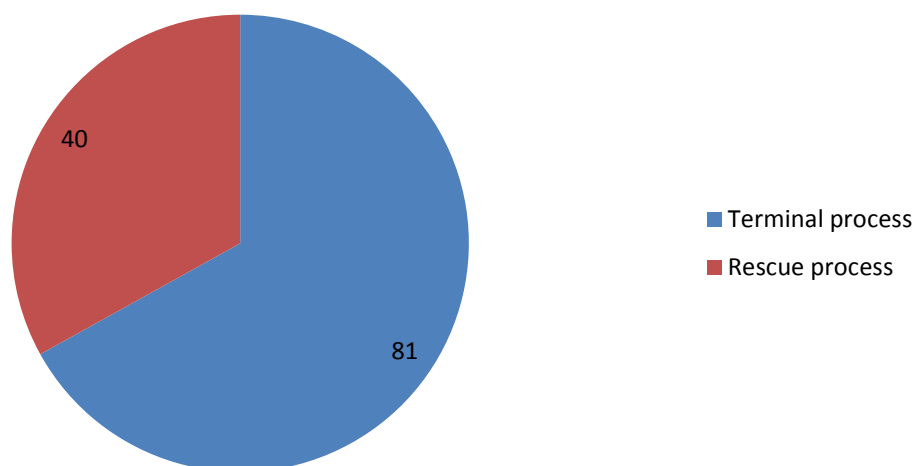
It can be observed that just over 5% of all pre-packs for which data can be ascertained failed within 12 months of the sale completing, with one purchaser entering Creditors' Voluntary Liquidation just 139 days after the pre-pack. There is a steady increase in each six month period thereafter to 36 months. By 36 months, 121 purchasers, or 25.5% of all sales, have failed.



Of the 121 purchasers that failed within 36 months of the pre-pack, it can be seen that around a third of these entered into rescue procedures (i.e. CVA or more usually administration), with two thirds facing terminal processes. This suggests that whilst 25.5% of pre-packs appear to have failed, only 17% have failed to the extent that the business is no longer viable. No further investigation has been conducted at this stage as to the outcome of these 40 cases where a rescue procedure was adopted.

The ratio of terminal processes to rescue processes is broadly 2:1 at 12, 24 and 36 months.

Nature of failure at 36 months



It is worth noting that as at 1 February 2014, 158 out of 475 purchasers had failed.

It is important to note that the recorded data tracks the purchaser from each company that entered administration. Where a group of companies entered administration and the business of the group was sold to a single purchaser (or indeed to fewer purchasers than original group companies), these purchasers would have been recorded multiple times. This approach was taken as the purpose of the study was to track the survival of the business comprised in each of the companies utilising the pre-pack process. In total, there were approximately 445 purchasers, with some buying the business from multiple companies. Failure data is available for 428 of these companies, with 120 unique purchasers failing at 36 months, a failure rate of 28%. This figure, which is higher than that reported for all purchaser data set out above, would suggest that where a single purchaser has bought the business from a number of companies, it is more likely to have survived to 36 months after the pre-pack.

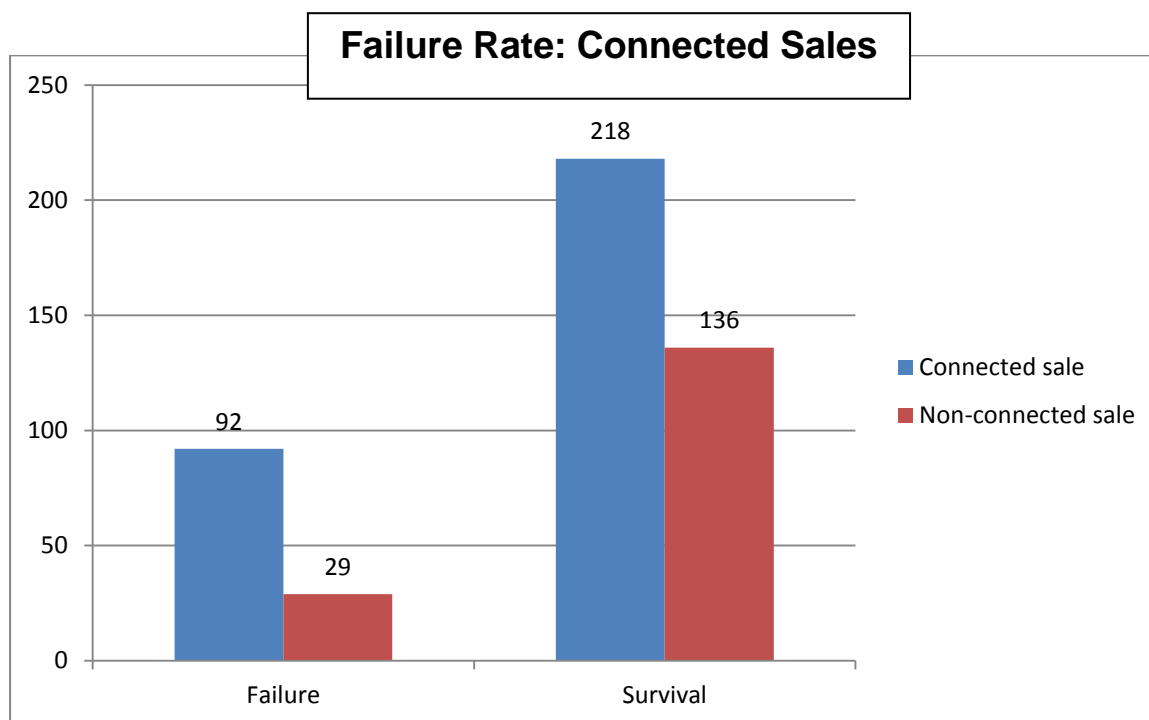
A3.2 Factors influencing failure of purchasers in a pre-pack

Having established the general statistics for the failure of the purchaser, we will now consider the possible impact of various factors relating to both the sale and the nature of oldco's business. All of the data below is based on failure at 36 months, unless stated otherwise.

A3.2.1 Impact of sale to a connected party

As discussed at section A2.1 above, there is a high prevalence of sales to a connected party in pre-pack administrations, with over 65% (310/475) of all sales

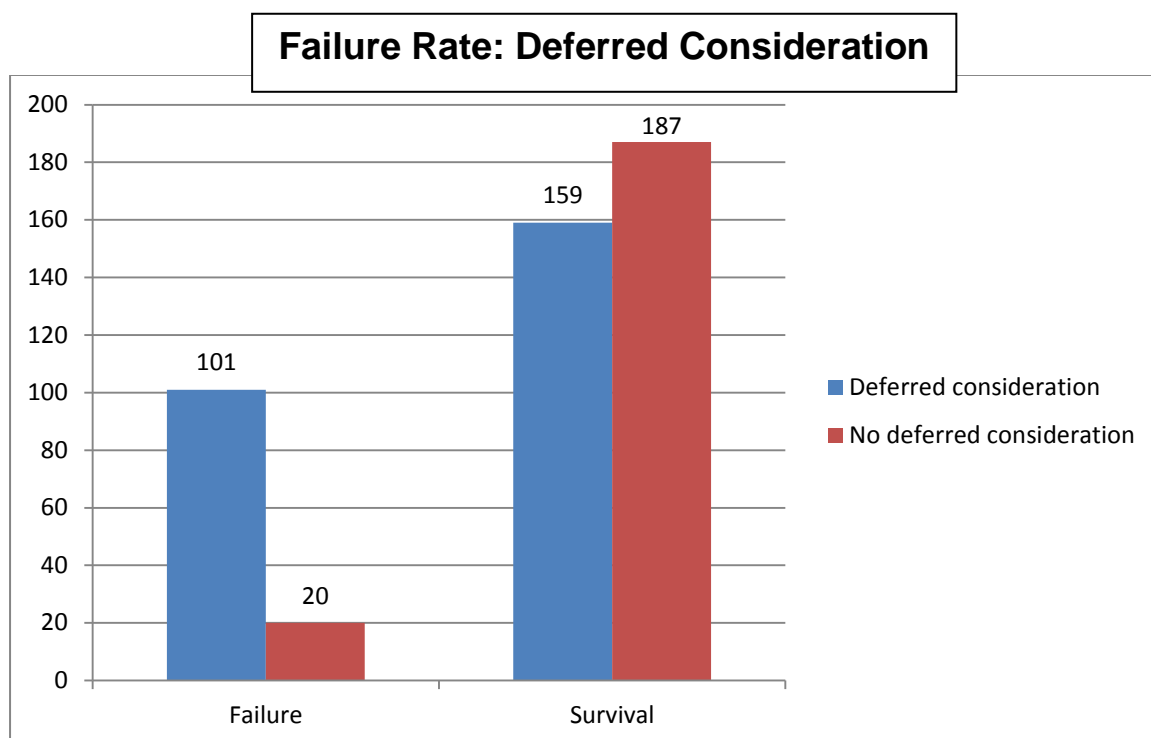
(where survival or failure data was available) being to a connected party. It is observed that there is a higher prevalence of failure of the purchaser where it was a connected party to oldco, than where it was not connected. More than three times as many connected purchasers failed within 36 months than non-connected purchasers, against a ratio of 1.8:1 connected purchasers to non-connected purchasers in pre-pack sales generally.



A3.2.2 Impact of deferred consideration

In addition to the strong presence of connected party sales, it has also been shown that deferred consideration was present in a majority of pre-packs sales (264/499), as discussed in section A2.2 above.

Whilst the incidence of deferred consideration is not as great as connected sales generally, the influence of deferred consideration on subsequent failure of the purchaser appears to be greater. Of the 121 purchasers that had failed by 36 months, 101 were involved in transactions where an element of the consideration was payable on a deferred basis (a ratio of over 5:1).



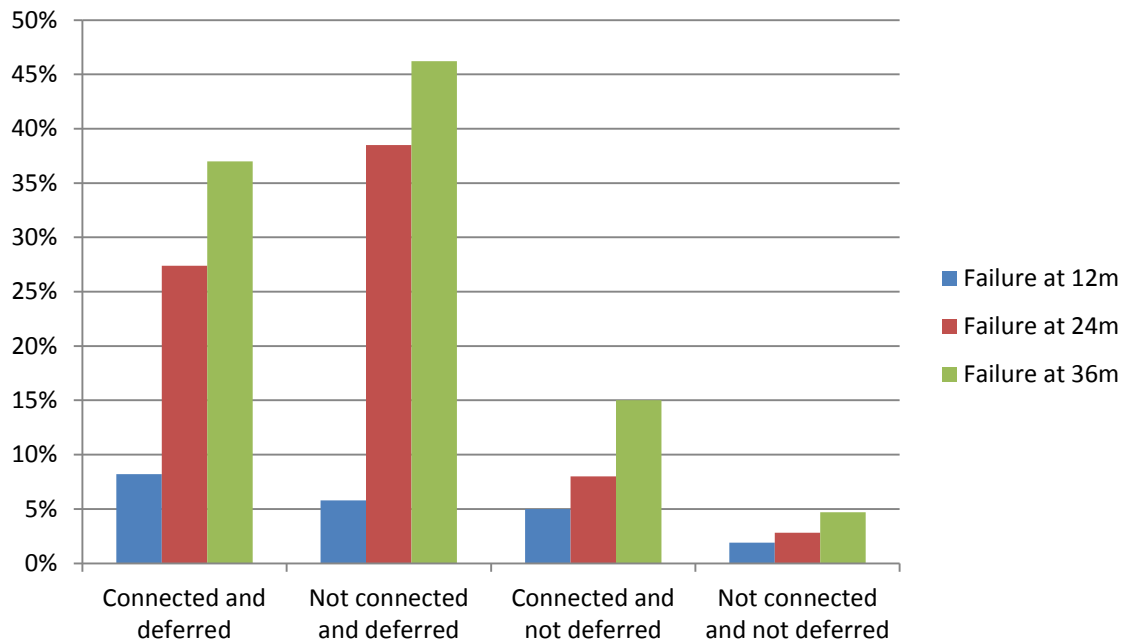
A3.2.3 Combined impact of sale to a connected party and deferred consideration

It has been seen that the incidence of both a sale to a connected party and deferred consideration individually appear to increase the rate of failure of the purchaser in a pre-pack administration. The combined effect of these two factors on the subsequent failure of the purchaser provides interesting data. As can be seen from the table below, the failure rate of a connected party sale increases from 15% of all cases without deferred consideration to 37.0% when deferred consideration is introduced. Generally, when deferred consideration is present, whether or not a connected sale is also present, the failure rate rises considerably.

Incidence of connected sale and/or deferred consideration in failure at 36 months:

	Deferred consideration	Not deferred consideration	Total
Connected sale	37.0% (77/208)	15.0% (15/100)	29.9% (92/308)
Not connected sale	46.2% (24/52)	4.7% (5/107)	18.2% (29/159)
Total	38.8% (101/260)	9.7% (20/207)	25.9% (121/467)

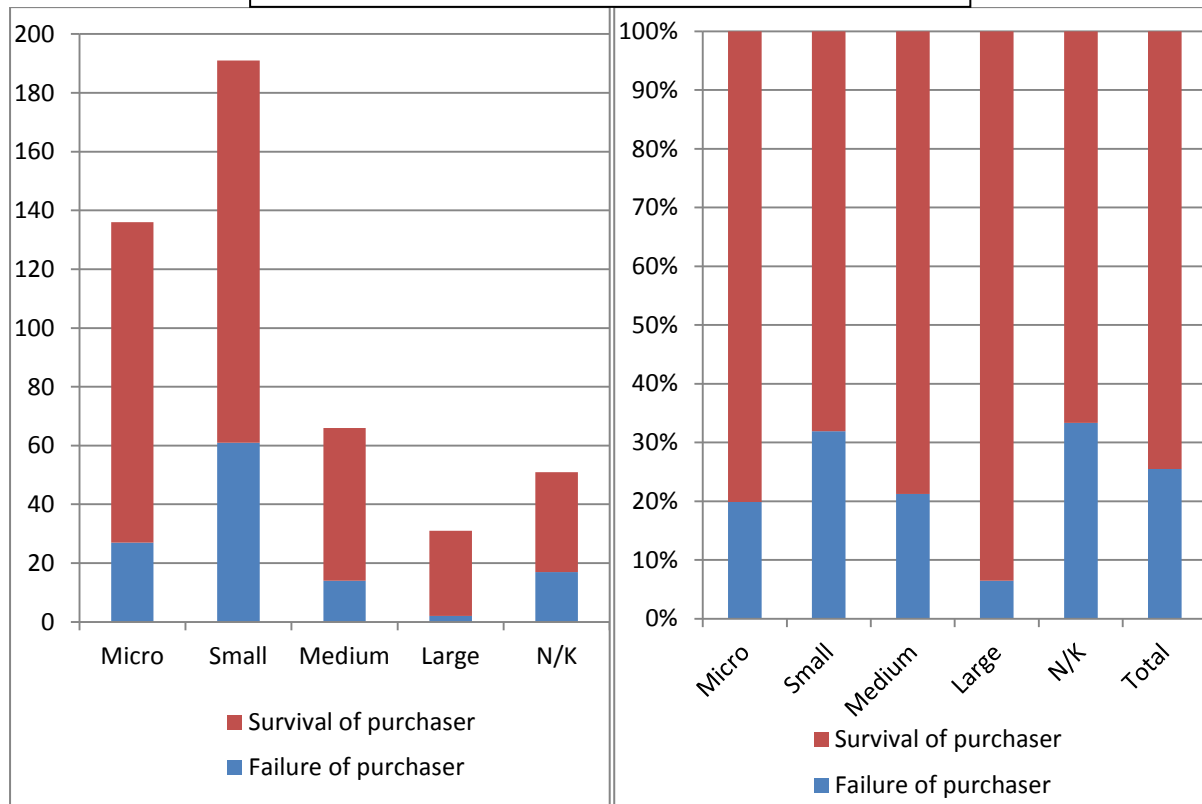
Failure Rates: Connected Sales and Deferred Consideration



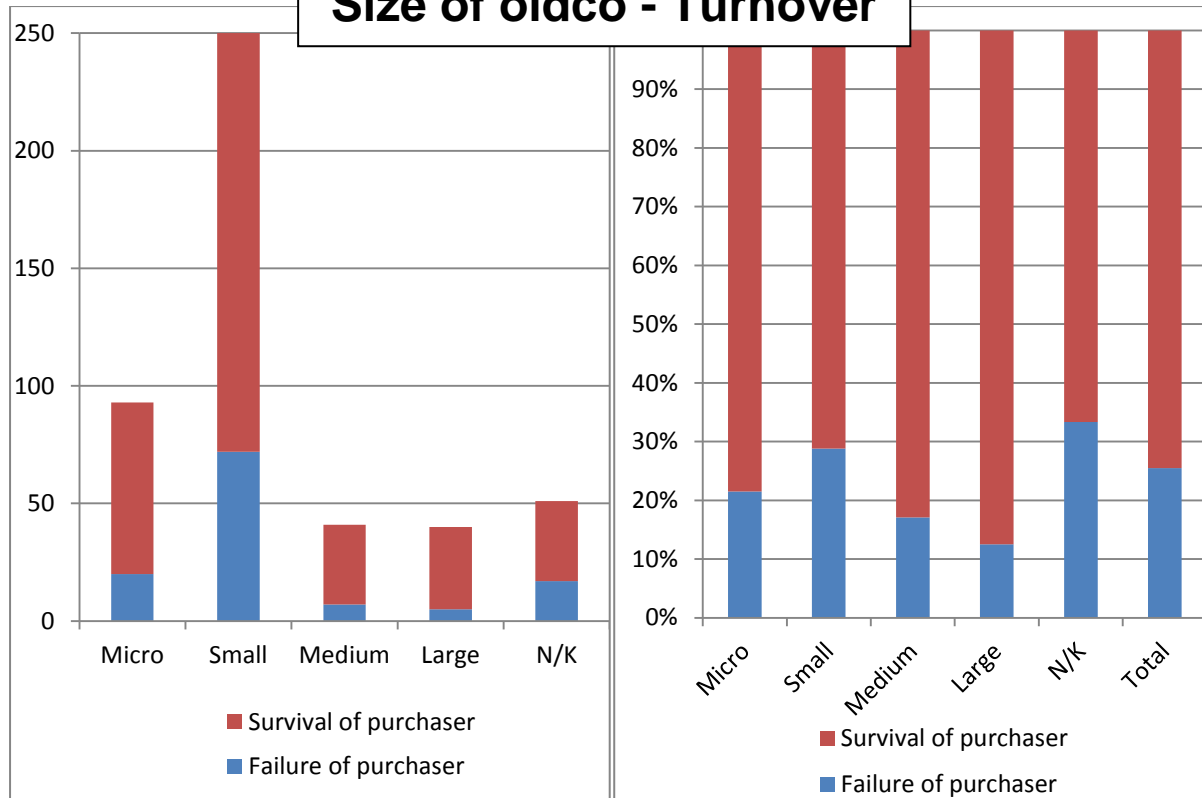
A3.2.4 Impact of size of oldco

As set out in section A1.2 above, the majority of companies utilising the pre-pack process in 2010 fell into the Micro/Small categories (339/438 for Employees and 355/439 for Turnover). Perhaps not surprisingly, the majority of subsequent failures amongst purchasers also stemmed from businesses sold by oldcos from the Micro/Small categories (88/121 for Employees and 92/121 for Turnover). Furthermore, the failure rates across the two size categories appear to be consistent.

Size of oldco - Employees

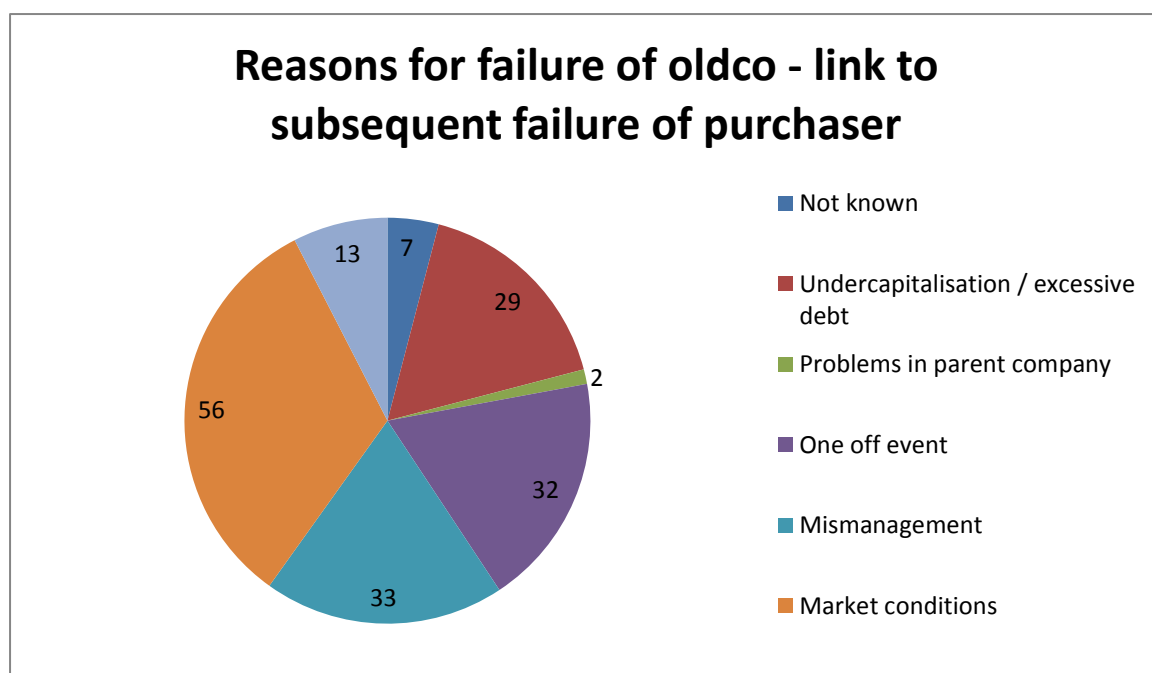
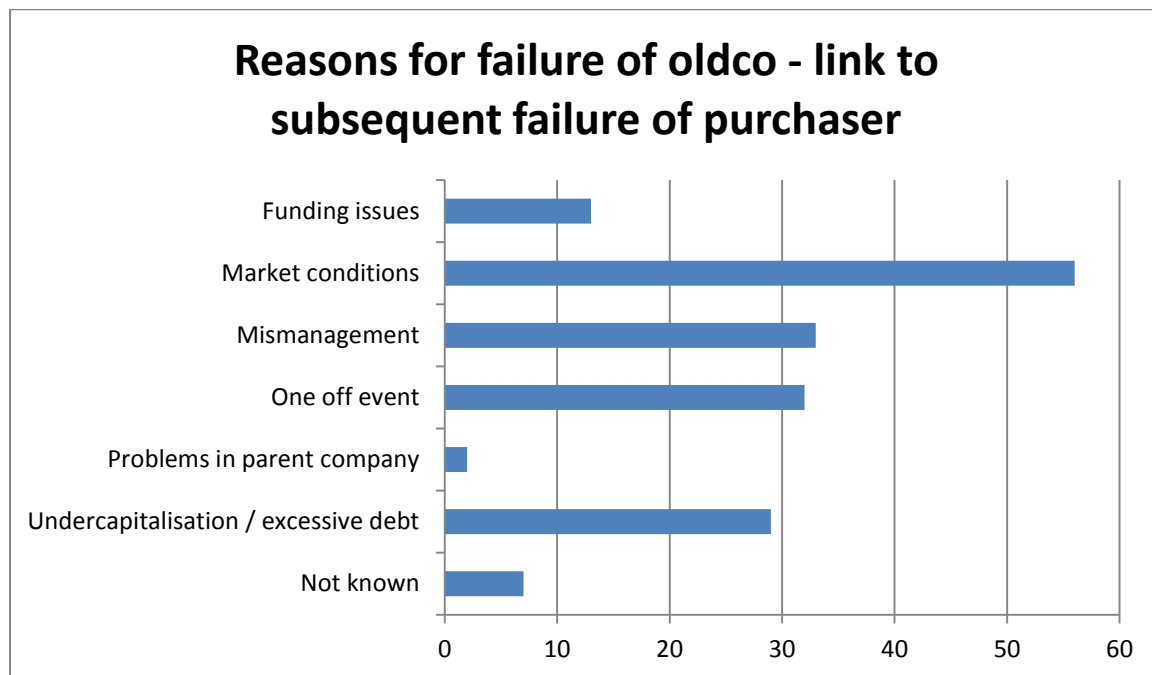


Size of oldco - Turnover

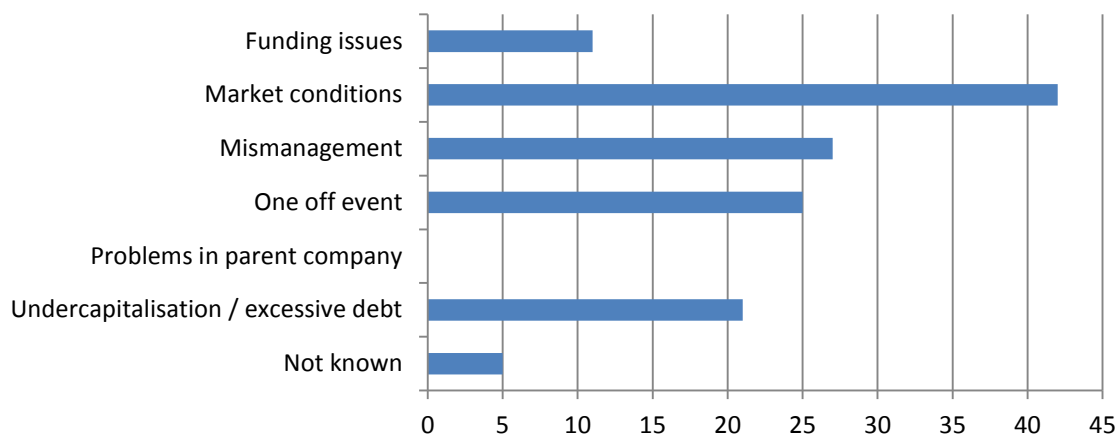


A3.2.5 Reason for failure of oldco

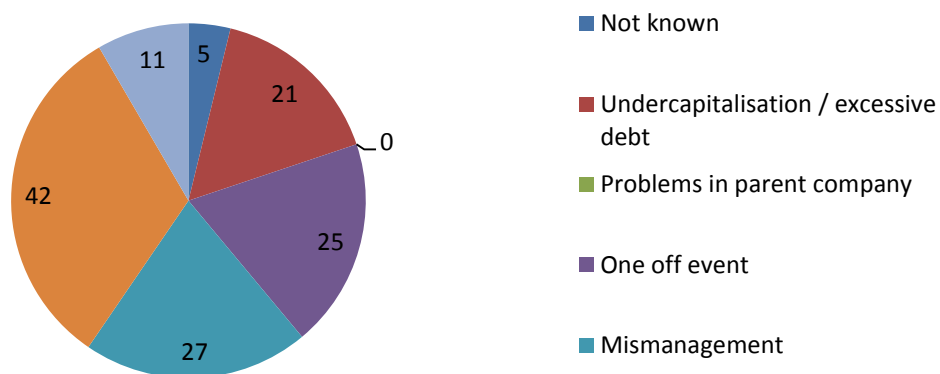
There does not appear to be any significant difference between the distribution of reasons for oldco failing where the purchaser subsequently fails. This is true even where the subsequent failure is broken down by connected and non-connected sales. It would have been expected that where mismanagement had been identified as the reason for oldco failing, there would be a higher prevalence of this reason where the connected party purchaser subsequently failed, however, this is not the case, as is apparent from the charts below.



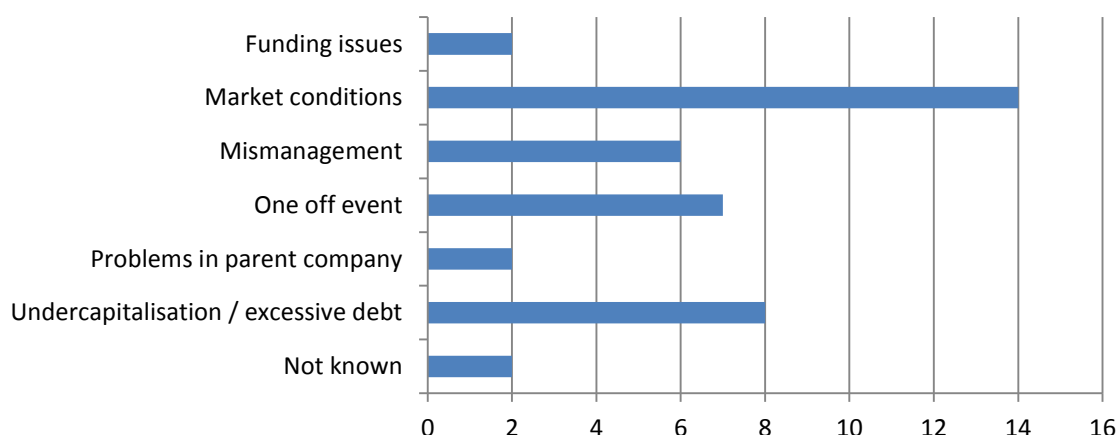
Reasons for failure of oldco - link to subsequent failure of purchaser and connected sale



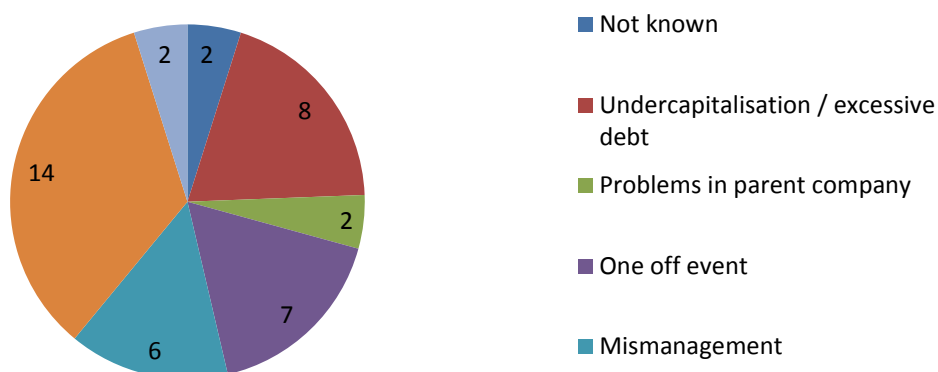
Reasons for failure of oldco - link to subsequent failure of purchaser and connected sale



Reasons for failure of oldco - link to subsequent failure of purchaser and no connected sale



Reasons for failure of oldco - link to subsequent failure of purchaser and no connected sale



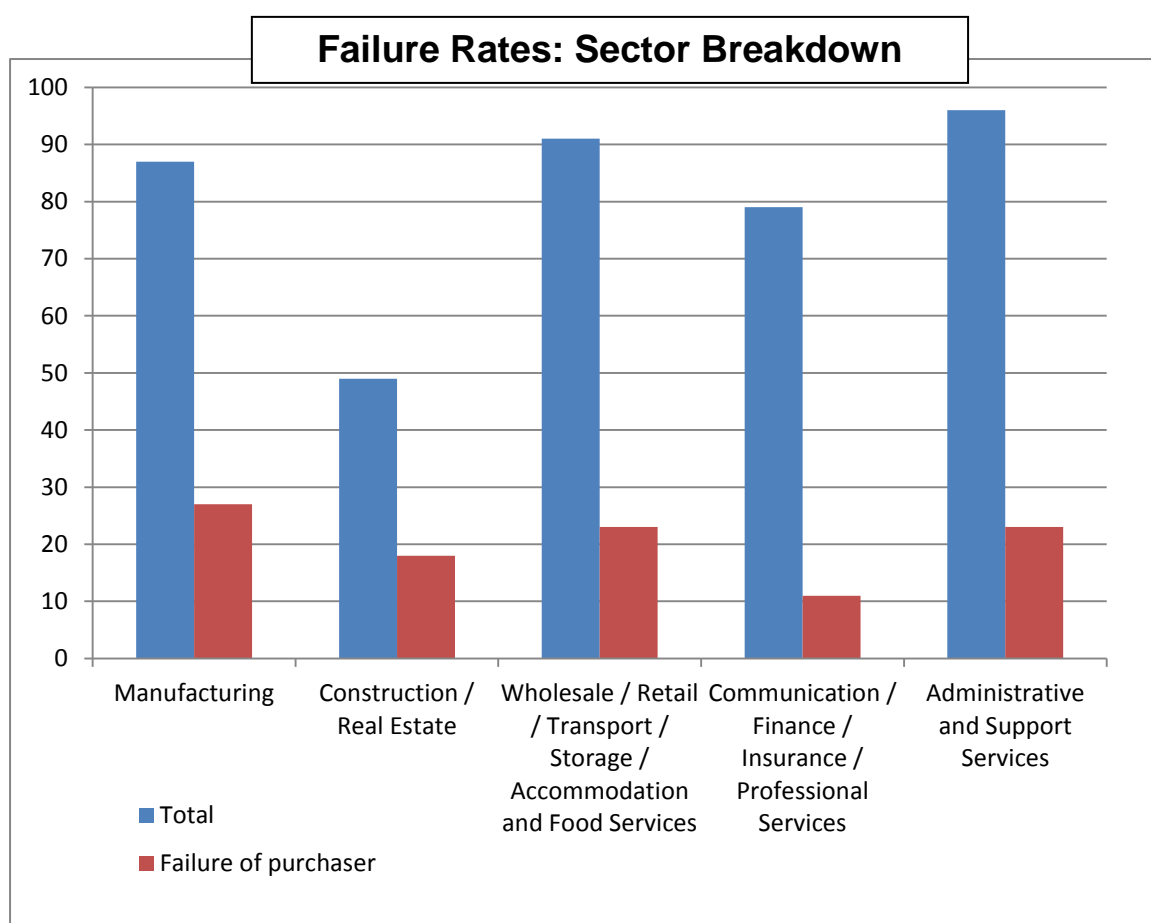
A3.2.6 Sector in which oldco operated

As with the distribution of sectors from which companies using the pre-packaged administration process are drawn (discussed in section A1.4 above), there is no discernable pattern of sectors linked to subsequent failure of the purchaser.

There is a small increase in the prevalence of failure in Manufacturing (SIC 2007 10-33) and Construction & Real Estate (SIC 2007 41-43 & 68) when compared to the

overall distribution of these sectors within all pre-packs, with around a third of all such pre-packs failing.

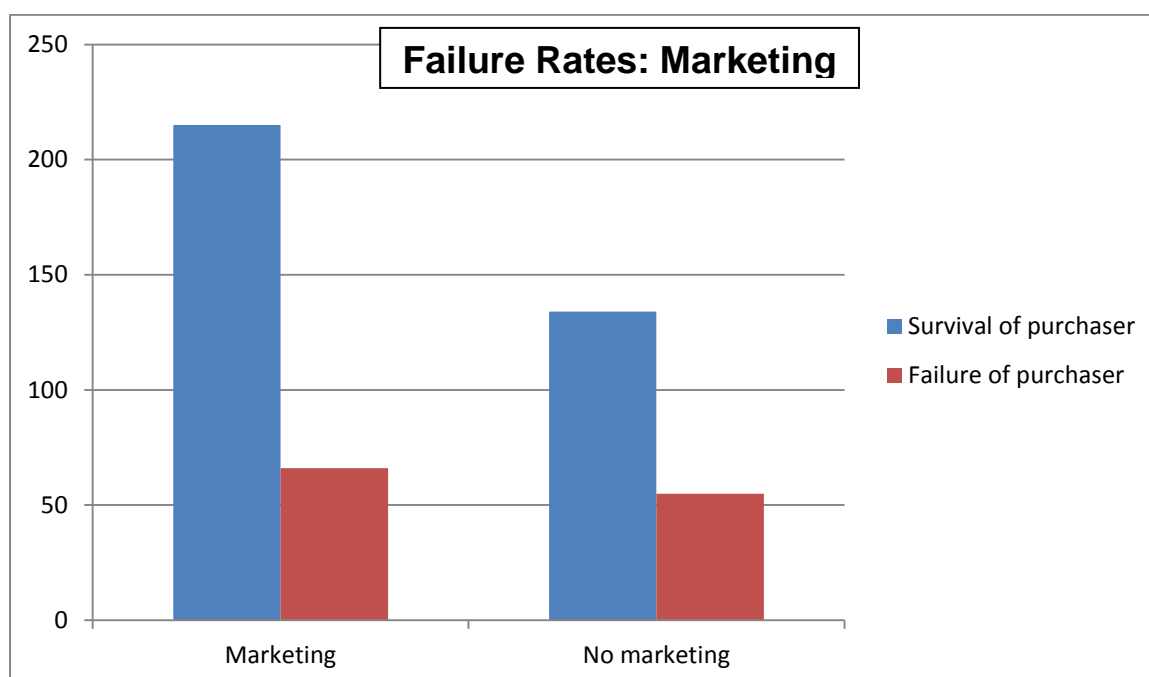
On the flip side, there is also small decrease in the prevalence of failure amongst purchasers buying from companies in the Communication, Finance, Insurance & Professional Services sector (SIC 2007 55-66 & 69-75).



A3.2.7 Marketing of business of oldco

In around two thirds of the cases reviewed, marketing was reported to have been conducted prior to the pre-packaged sale for differing periods and both before and after the IPs' involvement with oldco.

There would appear to be a stronger connection between the failure of the purchaser where no marketing has taken place (55/189) than when marketing had taken place (66/281), with a ratio of 1.25:1. It is, however, important to note the comments in section A2.3 above regarding the lack of detail as to the extent of the marketing conducted.

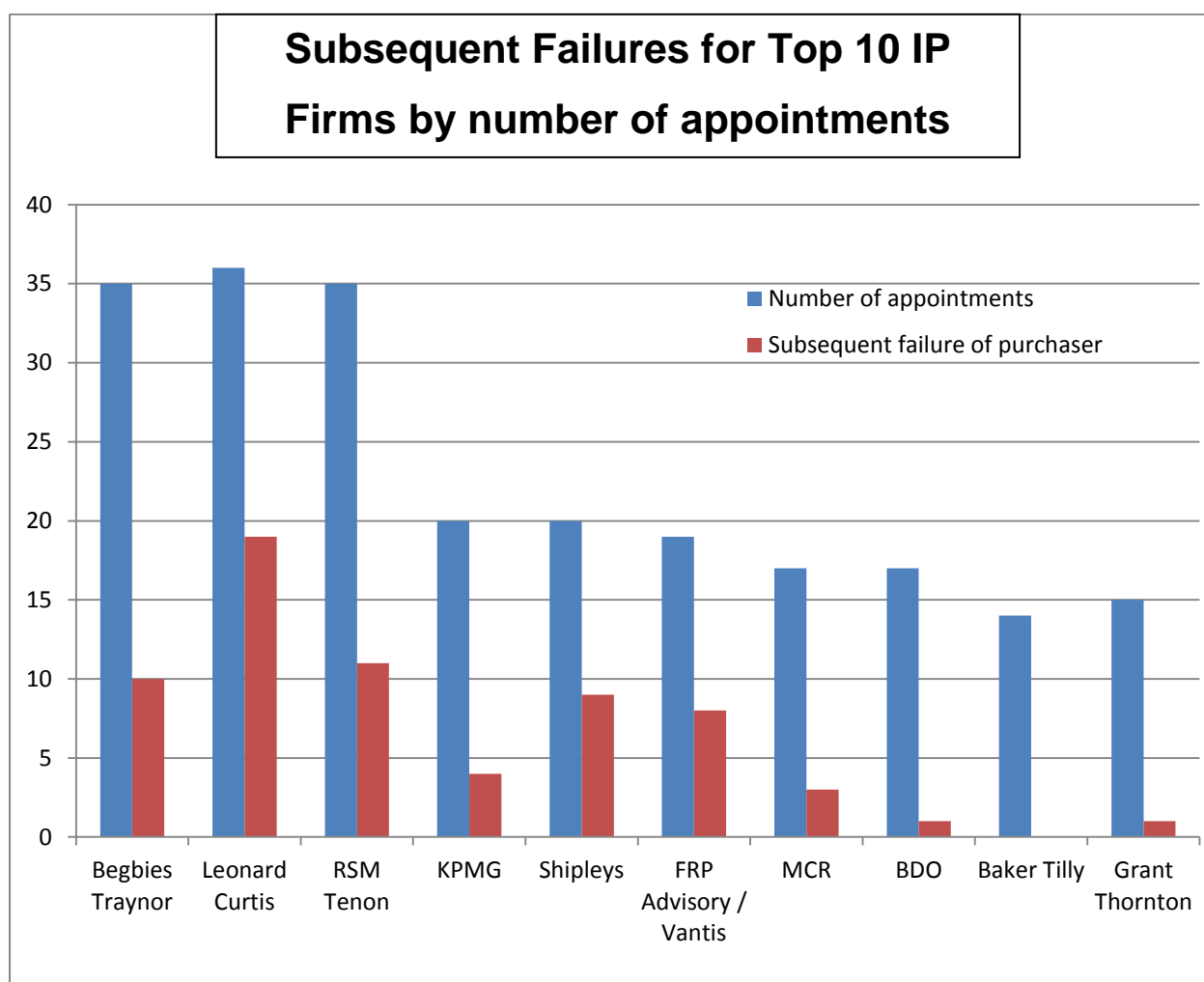


A3.2.8 Insolvency Practitioner Firms appointed in pre-packs

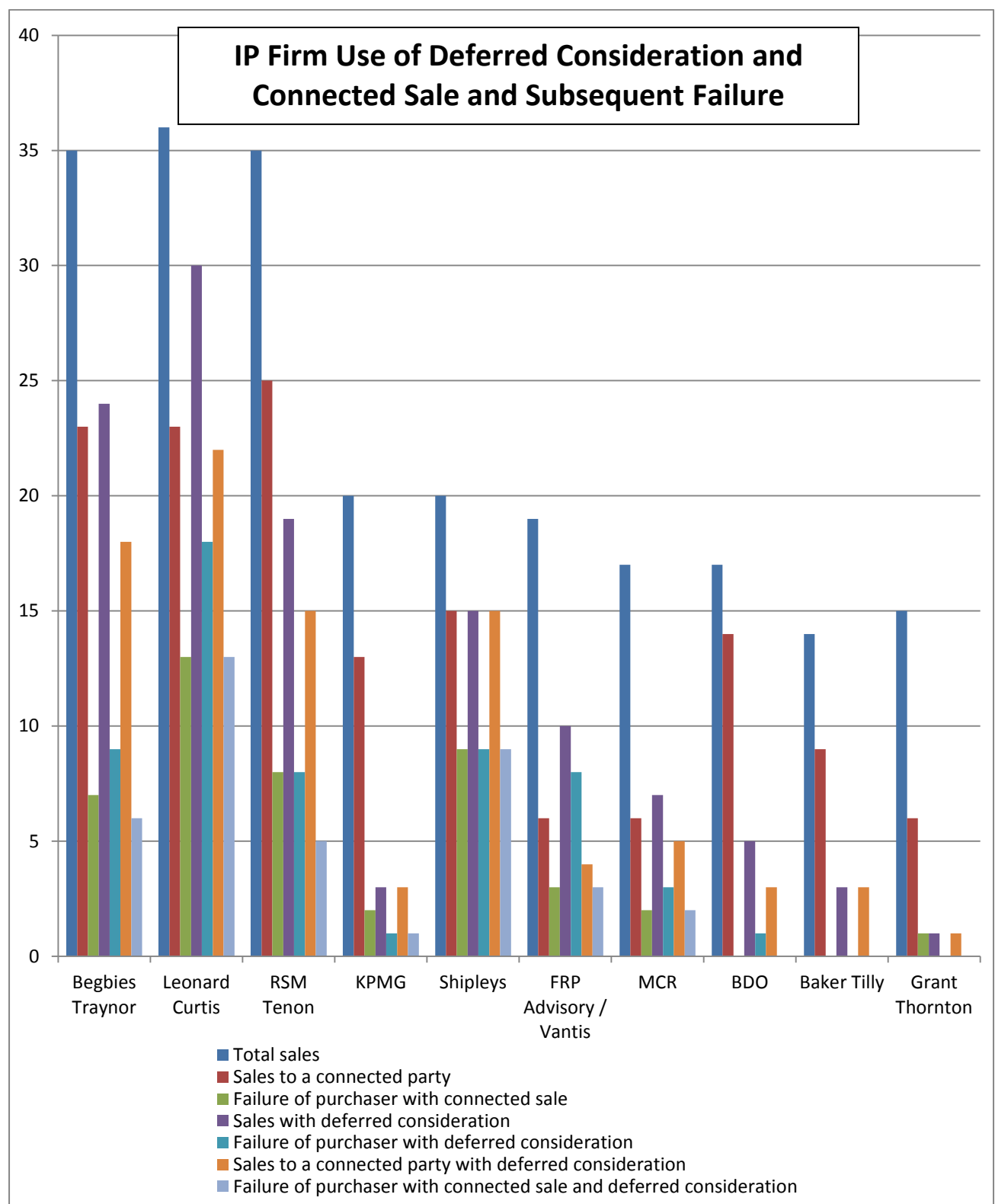
Of the 103 IP Firms whose IPs were appointed as administrators in the pre-packs reviewed from 2010, there is failure data for the purchasers for 99 of those Firms.

Over half of these Firms were not involved in pre-packs where the purchaser subsequently failed (56/99), although this changes quite significantly when Firms with only one appointment are excluded. Fifty Firms were involved in two or more pre-packs, with just 17 not linked to a subsequent purchaser failure. A fifth of Firms taking more than one appointment saw at least half of the purchasers subsequently fail (10/50), whilst two Firms saw all of the pre-packs they were involved in fail (both Firms taking two appointments).

The ten Firms with the greatest number of appointments had very different results when we consider the subsequent failure of the purchaser. Four Firms saw less than a fifth of purchasers fail within 36 months of the pre-pack (Baker Tilly – 0, BDO – 1, Grant Thornton – 1, and MCR – 3). At the other end of the scale, three Firms were involved in sales where the purchaser failed in at least 40% of cases (Leonard Curtis – 19/36, Shipleys – 9/20, and FRP Advisory/Vantis – 8/19).



It can also be seen that those Firms making greater use of sales to connected parties and/or sales with deferred consideration see a greater number of these cases failing. This is not wholly surprising given the observations about the impact of connected sales and deferred consideration on subsequent failure of the purchaser discussed in Sections A3.2.1-3.2.3 above. KPMG and Baker Tilly appear to be an exception to this general observation. In the case of the former, this may be due to the specific nature of the appointments involved and the impact of the level of purchase price. Please see the comments in Section A4 below on this point.



Full details of the appointment taking IP Firms is set out in Appendix 5.

Part A2

A4 Regression Analysis: Factors affecting failure of the purchaser in a pre-pack over time

A regression analysis has been conducted on the data collected in respect of the sample of 497 companies that utilised the pre-pack procedure in 2010, to identify the influence of a number of key variables on the outcome for the purchaser in the pre-pack process. A binomial logistic regression (with logit link) has been carried out on the 466 cases for which data is available for the three responses (failure of purchaser within 12, 24 and 36 months)² and the following variables were found to be significant:

- (i) whether deferred consideration was payable; and
- (ii) if there was a sale to a connected party; and
- (iii) level of purchase price.

The results of each of the models (i.e. looking at failure at 12, 24 and 36 months) are set out below. The data is set out in Appendix 6 for completeness.

The impact of other variables not referred to below was investigated, but none were found to be significant. It should be borne in mind that this does not necessarily imply that there is no relationship between these variables and chances of failure of the purchaser, but that variation in the chances of survival are already accounted for by variables already in the model.

A4.1 Failure of purchaser at 36 months

The model shows that the presence of deferred consideration, a connected sale and/or a 'small' purchase price (i.e. £1.5 million or less) all increase the chance of failure of the purchaser.

There is, however, a significant negative interaction between connected sales and deferred consideration. The presence of either deferred consideration or a connected sale increases the chance of a subsequent failure of the purchaser. However, where both are present, whilst there is an increased chance of failure than if neither were present, subsequent failure is less prevalent than may have been expected. On the data modelled, where deferred consideration is present, if a connected sale is also present it does not further increase the chance of failure, but potentially increases the chance of the purchaser's survival. It must be noted that there are a number of additional variables which may be contributing to this effect.

² The sample in these models is smaller than that in Section A3 above due to an absence of purchase price information for one company

A4.1.1 Points to note

- 26.0% (121/466) of purchasers in a pre-pack have failed within 36 months of the sale completing.
- Connected Sale and Deferred Consideration were present (either individually or together) in 77.0% of all cases, and hence both were absent in 23.0% of all cases. (This contrasts sharply with the Trading Administration data where both were absent in 63.4% of all cases – see analysis in Section B4 below).
- Both Connected Sale and Deferred Consideration were present in 44.6% of all cases, (as opposed to only 8.6% in the trading administration data).

A4.1.2 Failure rate at 36 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	37.0% (77/208)	15.0% (15/100)	30.0% (92/308)
Not connected sale	47.1% (24/51)	4.7% (5/107)	18.4% (29/158)
Total	39.0% (101/259)	9.7% (20/207)	26.0% (121/466)

From the table above we see that, ignoring the presence or absence of deferred consideration and the level of the purchase price, in the observed data 30.0% of connected sales fail. Similarly, ignoring the presence or absence of a connected sale and the level of the purchase price, 39.0% of pre-packs where deferred consideration is present fail. These headline figures are somewhat misleading, however, as the interaction between deferred consideration and connected sales is interesting, strong and significant, and must be taken into account.

On their own, the presence of deferred consideration and the presence of a connected sale *only* are estimated to multiply the failure: survival ratio by factors of 15.95 and 3.57 respectively. If no interaction were present, the combined effect of both being present would be a factor of 56.94 (i.e. 15.95×3.57). However, on the data reviewed, the presence of the interaction (i.e. deferred consideration and connected sale) actually appears to lessen the combined effect of the two factors: the presence of both only being forecast to multiply the failure to survival ratio by a factor of 10.80 (as against the expected 56.94). It should be noted that given the large amount of variation in the data, it is feasible to conclude that if deferred consideration is present, the addition of the presence of a connected sale does not increase the chances of failure.

A4.1.3 Impact of purchase price and company size on failure

As stated, the model shows that the presence of a connected sale, the presence of deferred consideration and a 'small' purchase price all increase the chance of failure of the purchaser at 36 months.

If two pre-pack administrations are identical regarding deferred consideration and connected sale status, a 'small' purchase price is estimated to, on average, multiply the ratio of failure: survival by a factor of 4.31.

A4.1.4 Impact of size of company

It is also worth noting that there is a connection between a 'large' purchase price for a business (i.e. greater than £1.5 million) and where the pre-packed company was large in terms of turnover and employee numbers. Accordingly, similar statements to that made for purchase price may also be made concerning large values of these oldco size variables, though the connection is not as strong. This is of course to be expected, as a company with a large turnover (and large employee base) is likely to be more valuable to a purchaser if a going concern sale is considered viable (i.e. the continued employee liabilities are outweighed by the potential profitability).

A4.2 Failure of purchaser at 24 months

The only variable found to be significant is whether deferred consideration is payable. Whilst the presence of a connected sale and/or purchase price are not significant, there is still a significant interaction between connected sale and deferred consideration: where there is both a connected sale and the presence of deferred consideration, failure is less prevalent than where deferred consideration is present but there is no connected sale.

A4.2.1 Points to note

- 18.8% of purchasers in a pre-pack have failed within 24 months of the sale completing.
- Connected Sale and Deferred Consideration were present (either individually or together) in 77.0 % of cases.
- Both Connected Sale and Deferred Consideration were present in 44.6% of cases.

A4.2.2 Failure rate at 24 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	27.4% (57/208)	8.0% (8/100)	21.1% (65/308)
Not connected sale	39.2% (20/51)	2.8% (3/107)	14.6% (23/158)
Total	29.7% (77/259)	5.3% (11/207)	18.8% (88/468)

From the table above we see that, ignoring the presence or absence of deferred consideration, in the observed data 21.1% of connected sales fail within 24 months. Similarly, ignoring the presence or absence of a connected sale and the level of the purchase price, 29.7% of prepacks where deferred consideration is present fail. As with failure at 36 months the interaction between the variables needs to be taken into account.

The model shows that the presence of deferred consideration *only* multiplies the failure: survival by an estimated factor of 22.4, however if connected sale is also present the estimated factor is only 13.1.

A4.3 Failure of purchaser at 12 months

Due to the small number of failures at 12 months, meaningful analysis is difficult. Only the presence of deferred consideration is (mildly) significant.

A4.3.1 Points to note

- 5.8% of purchasers in a pre-pack have failed within 12 months of the sale completing.

A4.3.2 Failure rate at 12 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	8.1% (17/208)	5.0% (5/100)	7.1% (22/308)
Not connected sale	5.9% (3/51)	1.9% (2/107)	3.2% (5/158)
Total	7.7% (20/259)	3.4% (7/207)	5.8% (27/466)

The model shows that the presence of Deferred Consideration increases the chance of failure at 12 months. Where there is deferred consideration present, the ratio of the failure to survival is estimated to be, on average, 2.4 times greater than if there is no deferred consideration.

Part B Counterfactual – Trading Administrations with a sale as a going concern

Part B1

Data was collected for 99 companies which were identified as effecting a sale of the business as a going concern from the Administrators' filings at Companies House during a trading administration in 2010, with 110 cases being identified to reflect the incidence of more than one business sale emanating from one company ("oldco"). Where the data relates to oldco, the maximum dataset is 99, whereas when it relates to the going concern sale and purchaser, the maximum dataset is 110. Reliable data could not be identified for all of the desired variables, accordingly some of the reports below refer to smaller datasets, as where necessary any "not known" data has been excluded.

In the analysis below, comparisons will be made against the observations for pre-pack administration sales in Part A above, where the data is available. It is important to caveat any comparison with the following key points:

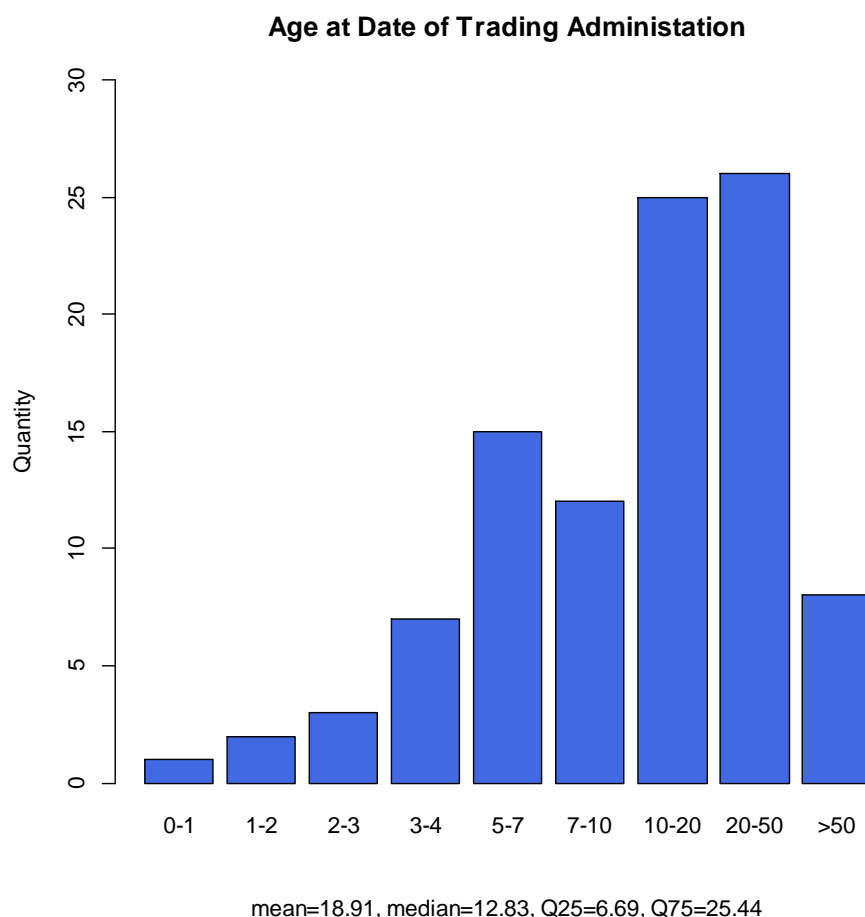
1. The sample for trading administration sales is considerably smaller than for pre-pack administrations; and
2. Whereas for pre-pack administrations the SIP16 Reports filed with the Insolvency Service provided a ready-made list of companies which had been involved in a pre-pack administration going concern sale in 2010, no equivalent list was available for trading administration sales. In order to identify the sample, a list of all administrations commenced in 2010 obtained from Geoff Swire (www.geoffswire.co.uk/services), with all pre-pack administrations of which the Insolvency Service was aware removed, was reviewed. In order to ensure a representative sample, we attempted to collect data for 20 companies (or as many as there was data for) from each active audit size listed (Group, Full, Medium, Small and Exempt). In some cases the identification process was relatively straightforward, whereas in others it proved time consuming and often fruitless. Certain sectors were observed to be less likely to use a going concern sale outside of a pre-pack, such as in the property development sector.

B1 Details of oldco

In this section, we describe and make observational analyses of the nature of the companies, oldco, that appear to have effected a sale as a going concern in administration in 2010.

B1.1 Age of oldco

The majority of companies for which the businesses were sold as a going concern in a trading administration, as opposed to a pre-pack sale, were incorporated between 6 and 26 years prior to the administration commencing. This is a considerably wider and older profile than for those companies using pre-pack sales in 2010.

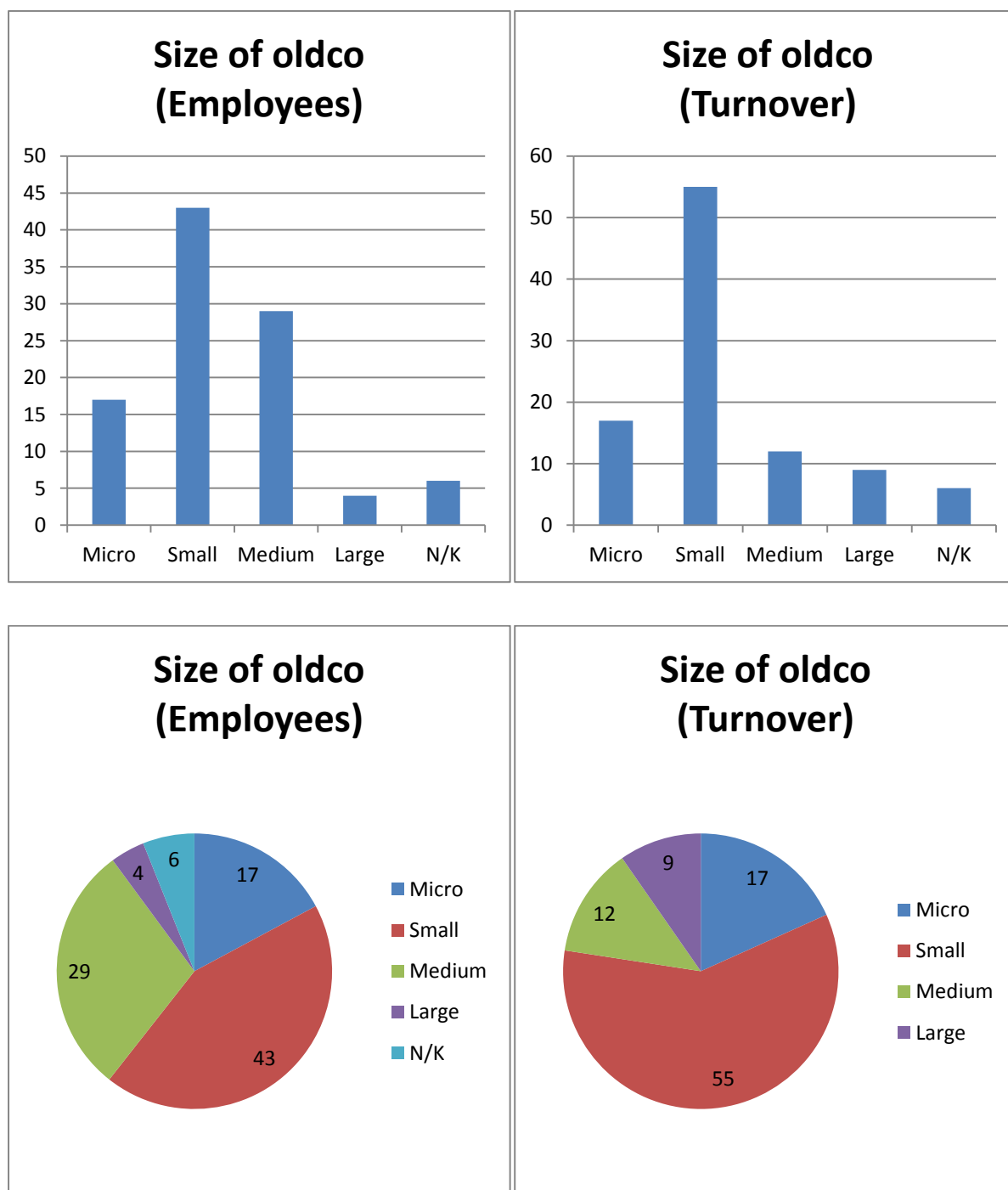


B1.2 Size of oldco

As in Part A, the companies were categorised, by both number of employees and level of turnover prior to their entering administration, into Micro (0-9 employees / turnover of £632,000 or less), Small (10-49 / £632k-£6.5m), Medium (50-249 / £6.5m-£12.9m) and Large (250+ / greater than £12.9m) in accordance with the latest EU Accounting Directive (Directive 2013/34/EU).

As with pre-pack administrations, the majority of companies reviewed, for which pertinent data was available, fell into the Micro/Small categories for Turnover (72/99). However, there was a greater prevalence of Medium sized companies (29/99) in the counterfactual data. The difference is likely down to the stratified sampling technique adopted (see above), although it is noted that from the

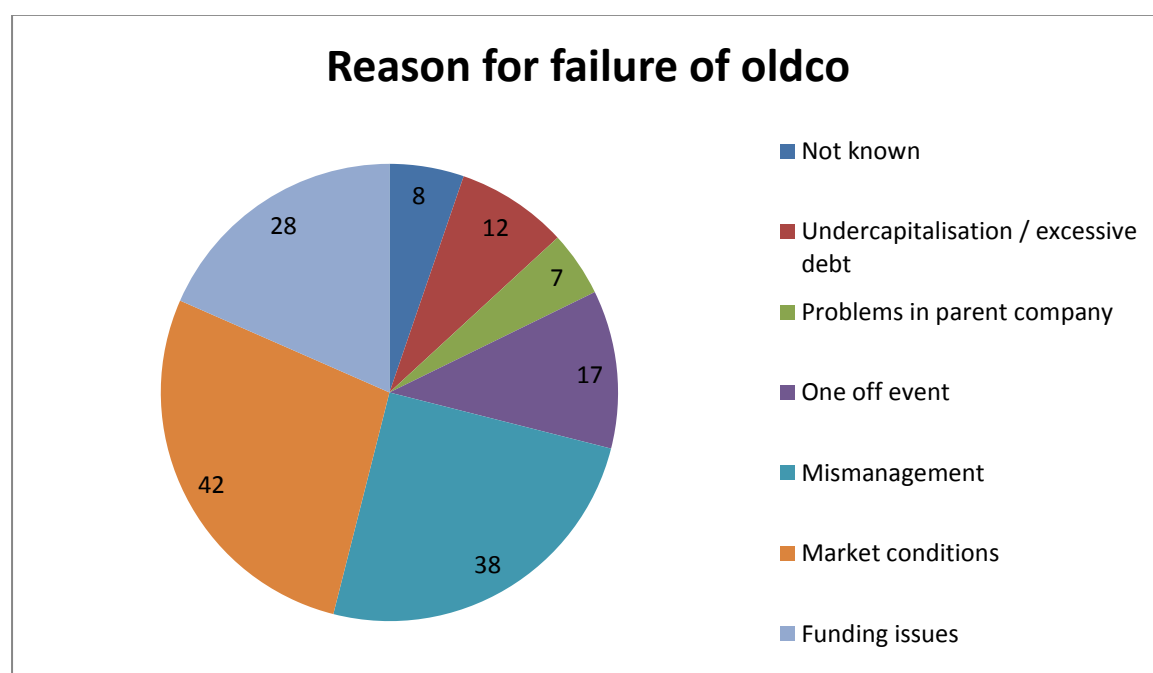
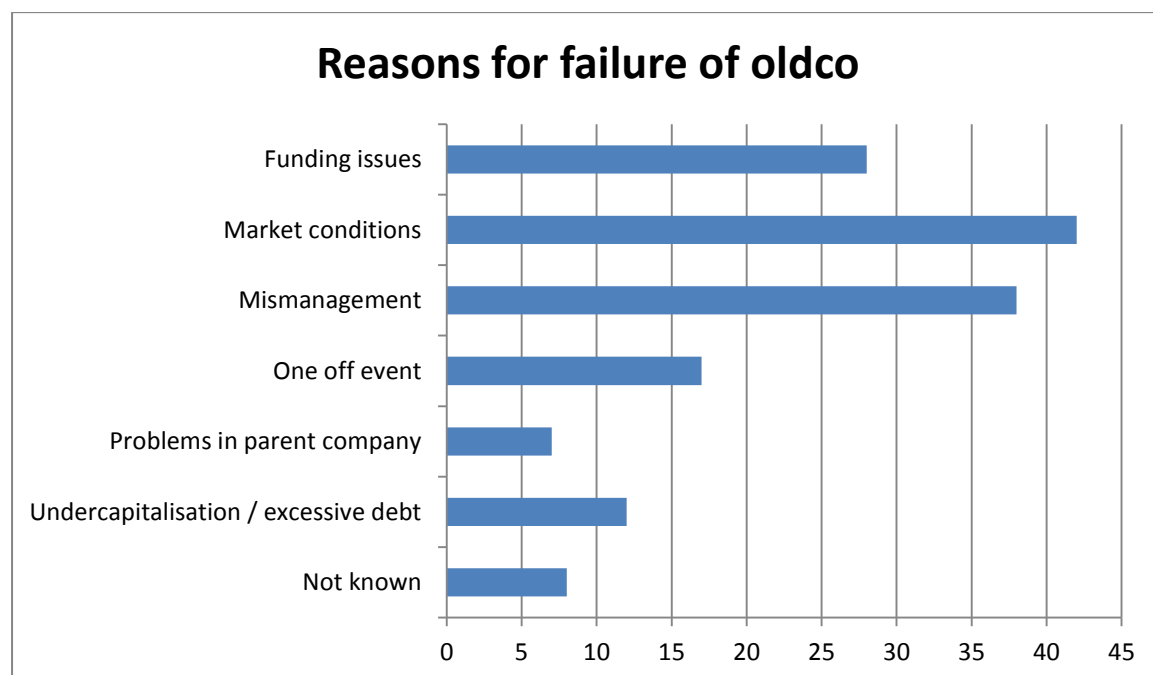
categorisation sampled, only 16 'Medium' sized companies could be identified that had utilised a going concern sale in a trading administration.



B1.3 Reasons for failure of oldco

Commentary taken from Statements of Proposals filed at Companies House was again categorised by the Insolvency Service in the same manner as for Part A, namely up to two of the following factors were identified for each company:

- Funding issues
- Market conditions
- Mismanagement
- One off event
- Problems in parent company
- Undercapitalisation / excessive debt
- Not known (where no viable reason was provided)



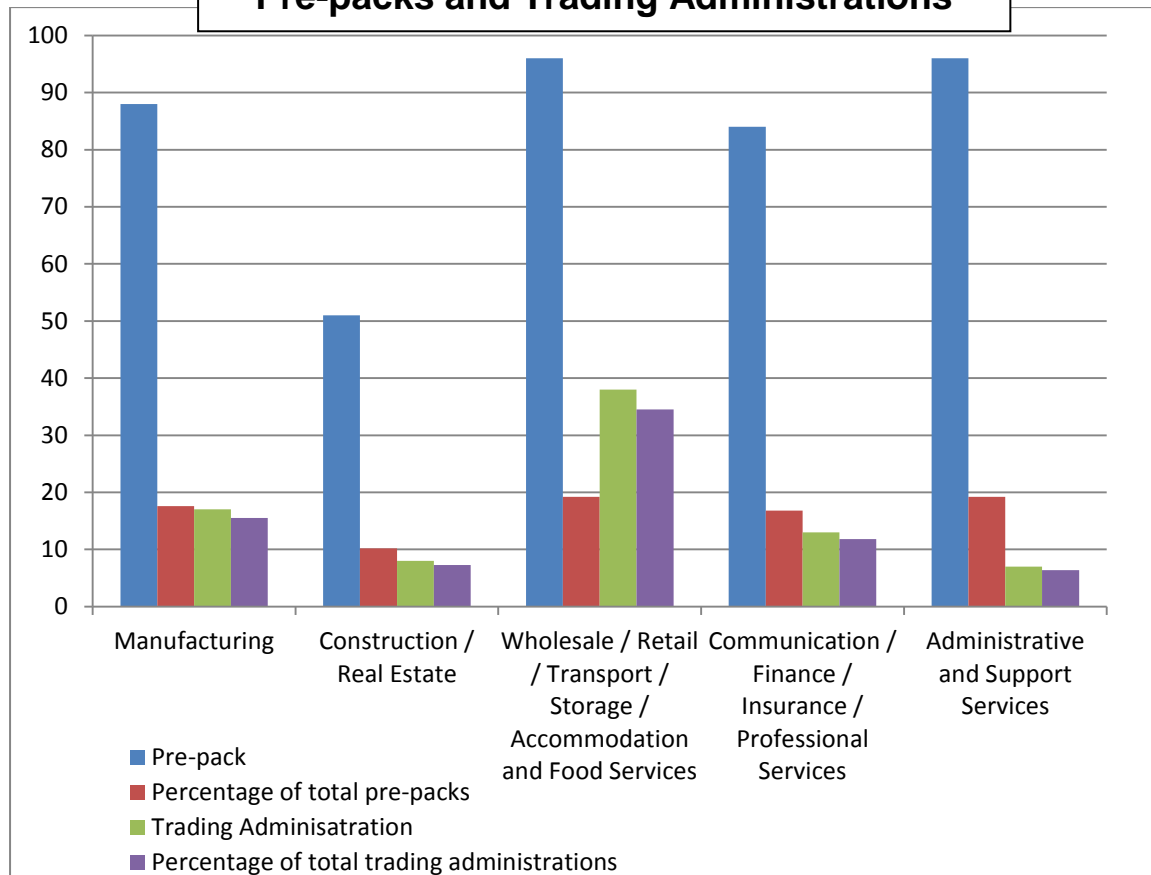
Similarly to pre-packs, and perhaps not surprisingly given the economic climate in 2010, the most common factor identified by the Administrators for the failure of oldco was 'Market conditions', though accounting for just over a quarter of all stated reasons (as opposed to a third in the pre-pack data). Interestingly, 'Mismanagement' was identified almost as often as 'Market conditions' (38 times compared to 42), yet it appeared in less than a sixth of cases in pre-packs. This disparity could be down to a number of factors, including the greater proportion of larger companies in the counterfactual sample, the greater propensity of connected sales in pre-packs (see section B2.1 below) or even the coding strategy.

Finally, a far greater proportion of pre-pack companies suffered a 'One off event' than those whose business was sold in a trading administration.

B1.4 Sector in which oldco operated

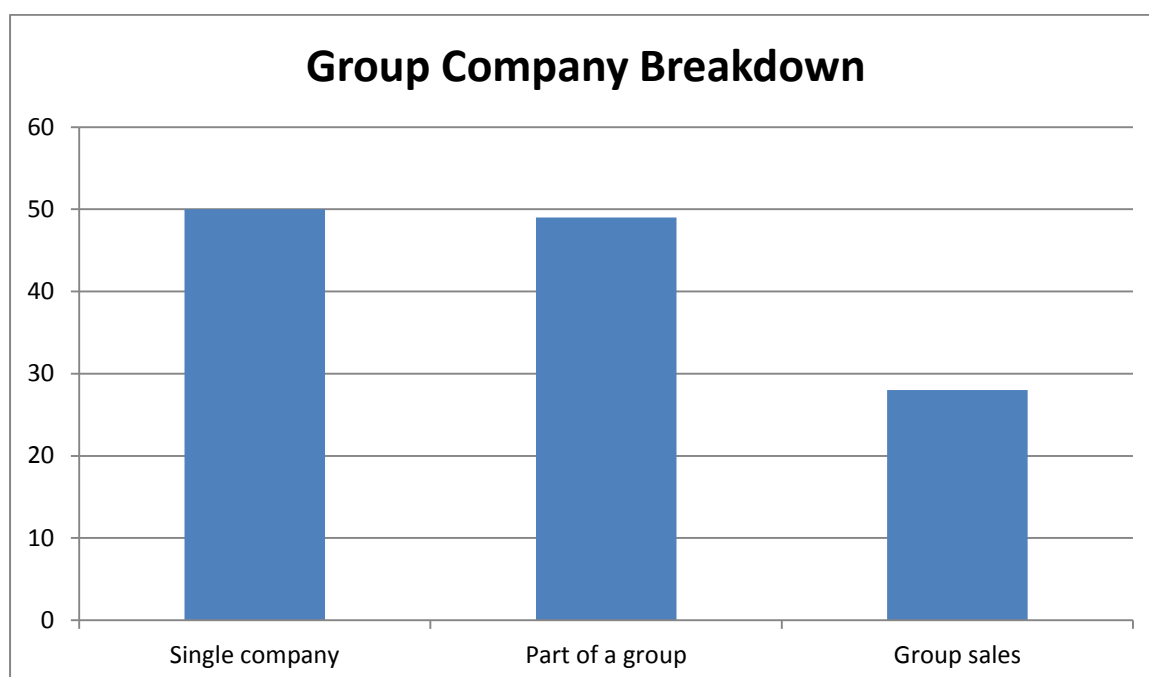
Again, each company has been categorised by the relevant SIC (Standard Industrial Classification) 2007 2-digit code, which identified 30 different classifications (not including those for which the SIC 2007 code could not be identified), though no obvious pattern emerges (see Appendix 7 for detail). These were further categorised into same related groups as for pre-packs in an attempt to identify any pattern (see Appendix 8 for detail). It would appear that companies within the Wholesale, Retail, Transport, Storage, Accommodation & Food Services category dominated. It is worth noting that these were also prevalent in pre-pack sales.

5 Most Popular Sector Groups: Pre-packs and Trading Administrations



B1.5 Presence of group companies

From the documentation reviewed, it appears that almost half of the companies whose business was sold as a going concern in a trading administration formed part of a group of companies (49/99) and of the sample 28 were part of a sale of group companies. This is a higher proportion than that observed for pre-packs. However, the stratified sampling technique referred to above would likely have affected this.



B2 Details of the trading administration going concern sale

In this section, we look at the details of the trading administration going concern sales from 2010 that have been reviewed.

B2.1 Connected purchase

Whereas going concern sales to a connected party dominated the sample of pre-packs reviewed, the opposite is observed for going concern sales in a trading administration. Only around a fifth of purchasers were connected to oldco for the purposes of s.249 of the IA 1986, as compared to almost two thirds in pre-packs. Again, the information recorded relied on self-reporting by the administrators in filings at Companies House.

	Trading Administration	Proportion
Connected Sale	20	18.2%
Not Connected Sale	86	78.2%
N/K	4	3.6%
Total	110	100.0%

B2.2 Deferred Consideration

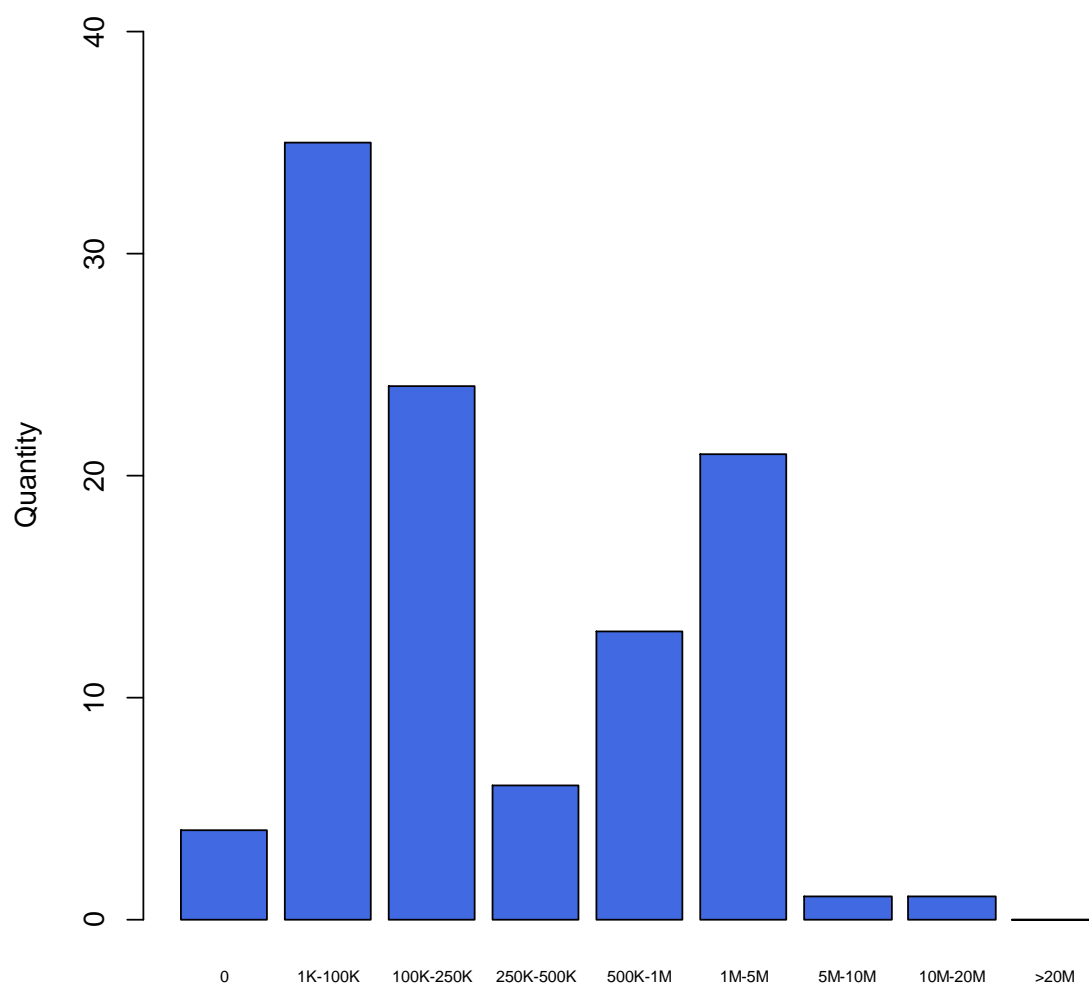
Similarly, whilst the use of some element of deferred consideration was apparent in the majority in pre-pack sales (264/499), it was used in less than a quarter of all the trading administration sales reviewed (25/110). Furthermore, where it was used in a trading administration sale, security was rarely taken (only in 8 out of 25 cases). There is therefore greater certainty, in terms of asset realisations, for creditors in the trading administration sales reviewed.

	Trading Administration	Proportion
Deferred Consideration	25	22.7%
- with security	8	32.0%
- without security	17	68.0%
- security taken N/K	0	0.0%
No Deferred Consideration	83	75.5%
N/K	2	1.8%
Total	110	100.0%

B2.3 Purchase Price

It can be seen from the chart below that as with pre-pack sales, there was a wide spread of purchase prices in trading administration going concern sales in 2010, though none in excess of £20million. However, whereas pre-pack sales were dominated by sales below £100,000, the trading administration going concern sale prices appear to have a more evenly distributed, with a large number falling into the £100,000-£250,000 and £1million-£5million brackets. This may well have been affected by the sampling method, however, with a greater proportion of medium and large companies selected from the data available.

Purchase Prices (Trading Administrations)



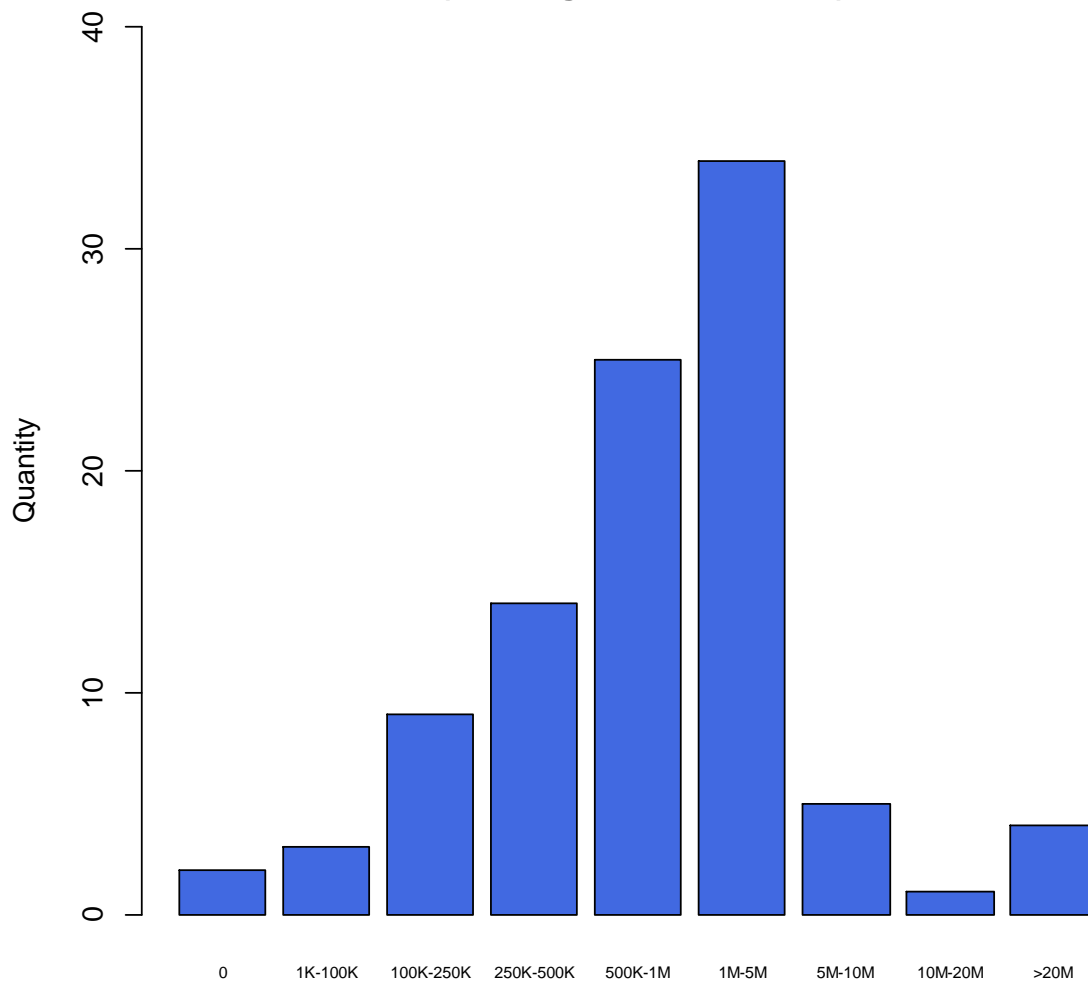
mean=807,200 median=150,00 Q25=50,000 Q75=869,000

B2.4 Debt profile of oldco

As with pre-packaged administrations, it is observed that the majority of companies using trading administration going concern sales had a small to medium unsecured debt profile at the point of insolvency, though the middle fifty per cent of cases falling slightly higher, between £420,000 and £1.83million (as opposed to £260,000 and £1.4million).

As reflected in section A2.10 above, it is worth noting that the data collected may duplicate debt figures in group situations. As noted in B1.5 above, in around half of cases reviewed, oldco was part of a group of companies where frequently companies cross guaranteed one another's debts (although the evidence for this was not consistently reported so it is not possible to give precise individual company debt figures).

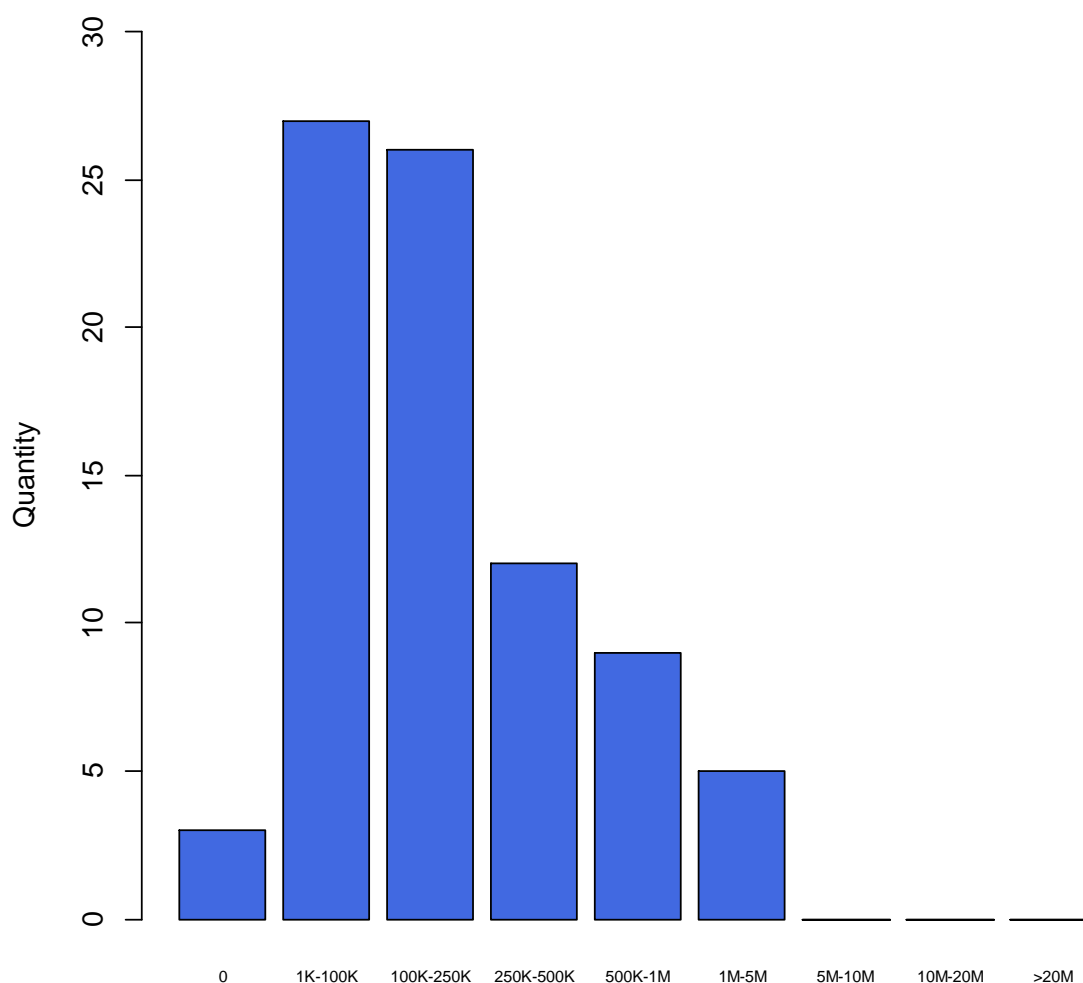
Debts Owed to Unsecured Creditors (Trading Administrations)



mean=3.67 million, median=0.96 million, Q25=0.42 million, Q75=1.83 million

The profile of debts owed to HMRC is observed to be similar to that of the pre-pack companies described in Part A above, despite the slightly differing profiles of the companies involved.

Debts Owed to HMRC (Trading Administrations)



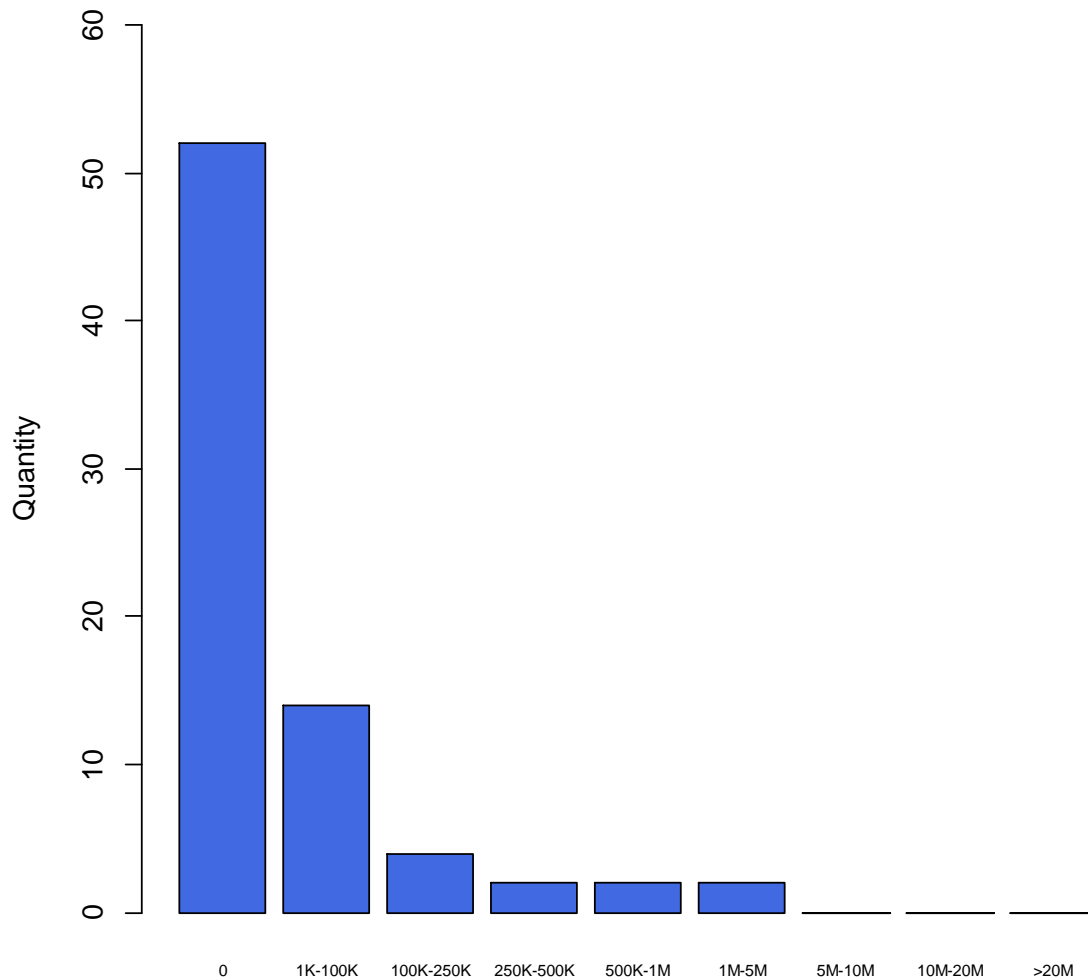
mean=271,900 median=140,400 Q25=53,040 Q75=360,200

B2.5 Distributions to unsecured creditors of oldco

As with the data observed for pre-pack sales, it appears that in the majority of cases no distribution was made to unsecured creditors in a going concern trading administration sale. Again, this does not include a small number of cases where a subsequent liquidation (or in 1 case the administration itself) is ongoing and there remains a possibility, though not a certainty, of a distribution being made to unsecured creditors.

Where a distribution has been made, it tends to be small when compared to the overall unsecured debt figures. There are, however, a small number of more significant distributions to unsecured creditors.

Dividends to Unsecured Creditors (Trading Administrations)



mean=93,140 median=0 Q25=0 Q75=8,506

Of the 99 companies whose business was sold as a going concern in a trading administration which were reviewed, there was known unsecured debt data for 95 companies (in 2 cases the Statement of Affairs listed a figure of £0, whilst for a further 2 there was no information available). Of these 95 companies, over 50% of cases (49/95) resulted in no dividend to unsecured creditors and for over 23% (22/95) the outcome was unknown or proceedings ongoing.

For the 24 companies for which viable unsecured distribution data was available, the mean unsecured dividend represented 13.06% of the overall debt, though this appears to be skewed by a two significant larger distributions, with the majority of unsecured distributions within the range 0.48%-8.40%. The mean figure is significant higher than that witnessed for pre-packs, although the median is lower and the range is wider.

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	48.92%	13.06%
Median	40.61%	1.49%
25th Percentile	20.47%	0.48%
75th Percentile	79.45%	8.40%

Of the 24 companies mentioned above, 4 of the companies were involved in connected sale transactions. The mean unsecured dividend drops to 3.21% and the 25th-75th percentiles drop to 0.42%-3.79%. Whilst these figures are lower than for pre-packs, there is insufficient data to comment in any detail.

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	61.90%	3.217%
Median	62.03%	1.00%
25th Percentile	48.88%	0.42%
75th Percentile	74.25%	3.79%

Eighteen of the 24 companies did not sell their business as a going concern to a connected party (the data is not known for 2 companies). The figures are broadly similar to those for all companies, save for the 75th percentile which has declined.

	Unsecured Debt as a proportion of overall debt	Unsecured Dividend as a proportion of overall debt
Mean	42.63%	13.67%
Median	38.90%	1.45%
25th Percentile	18.15%	0.42%
75th Percentile	70.45%	6.76%

The data available does not show a substantial difference between the levels of distributions to unsecured creditors, as a proportion of overall debts, made in either pre-pack or trading administrations.

It has not been possible to analyse distributions to HMRC based on the data available.

B3 Subsequent failure of the purchaser

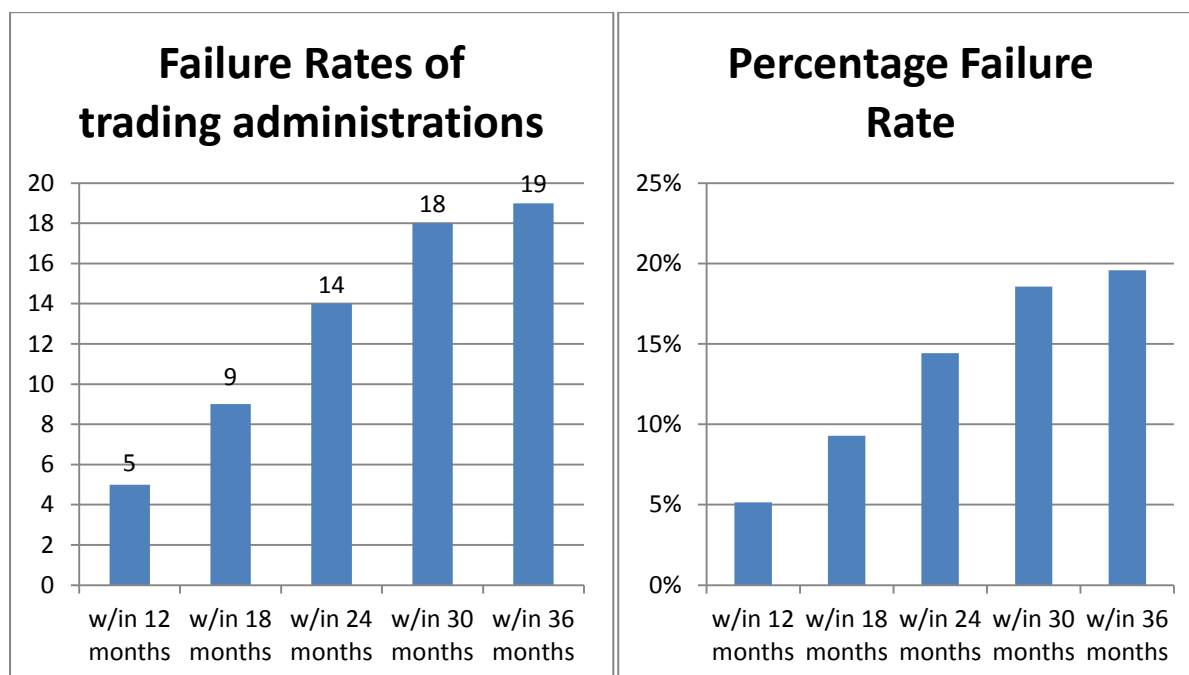
In this section, we investigate the incidences of subsequent insolvency of the purchaser in a trading administration going concern sale within three years of the sale completing, considering the various factors which may influence this subsequent failure.

B3.1 Rates of failure of purchasers in a trading administration going concern sale

The same approach was adopted as for the pre-pack study in Part A above to establish subsequent failure of the purchasers.

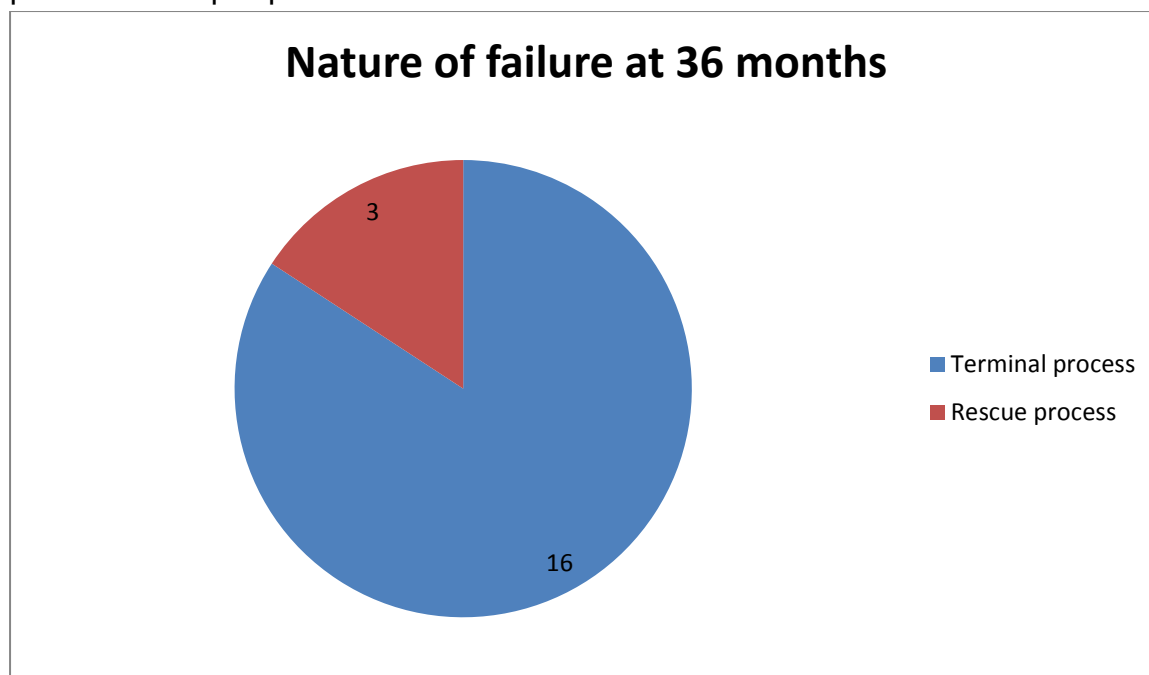
Failure data was available for 97 of the 110 recorded transactions. It was generally not possible to ascertain subsequent failure where the purchaser was either an individual or an overseas company.

It can be observed that just over 5% of all trading administration going concern sales for which data can be ascertained failed within 12 months of the sale completing. There is a steady increase in each six month period thereafter to 30 months, and by 36 months 19 purchasers, or 19.6% of all sales, have failed. The initial failure statistics closely resemble those for pre-packs, however, it can be seen that after 12 months the failure rate increases at a slower pace and appears to tail off after 30 months, with only one further failure in the period 30-36 months.



Of the 19 purchasers that failed within 36 months of the going concern sale, it can be seen that less than a sixth of these entered into rescue procedures (all

administration), with the remainder facing terminal processes. This compares less favourably to the incidence of subsequent rescue procedures in pre-packs (around a third of companies entered a subsequent rescue process). It must be noted that the purchaser in a trading administration appears less likely to enter into an insolvency process, with a greater prevalence of both rescue and terminal procedures for purchasers in pre-pack administrations.



As at 1 February 2014, only one further purchaser had failed, leaving a total of 20 failures.

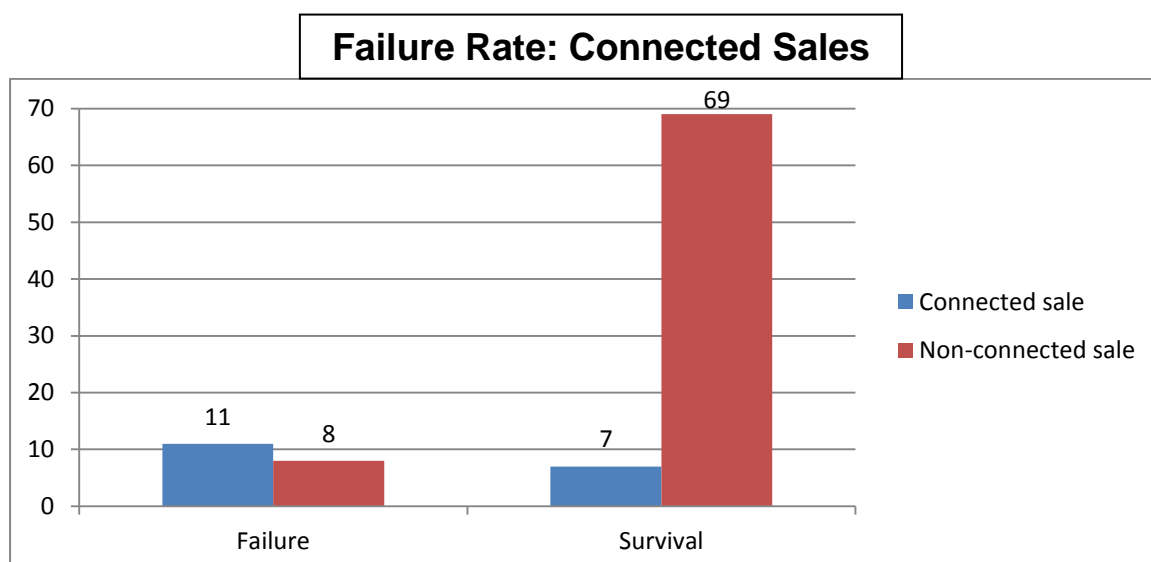
Again, as was the case for the pre-pack data, it is important to note that the recorded data tracks the purchaser from each company that entered administration. Where a group of companies entered administration and the business of the group was sold to a single purchaser (or indeed to fewer purchasers than original group companies), these purchasers would have been recorded multiple times. This approach was taken to be consistent with the pre-pack data, for which the purpose of the study was to track the survival of the business comprised in each of the companies utilising the pre-pack process. In total, there were approximately 90 purchasers, with some buying the business from multiple companies. Failure data is available for 83 of these companies, with 16 unique purchasers failing at 36 months, a failure rate of 19.3%. This figure is marginally lower than that reported for all purchaser data set out above. This contrasts with the data presented for pre-packs, where the failure percentage increased when the data was pared down to unique purchasers, suggesting that a group sale has little impact on subsequent failure for going concern sales in a trading administration.

B3.2 Factors influencing failure of purchasers in a trading administration going concern sale

Having established the general statistics for the failure of the purchaser, we will now consider the possible impact of various factors relating to both the sale and the nature of oldco's business. All of the data below is based on failure at 36 months, unless stated otherwise.

B3.2.1 Impact of sale to a connected party

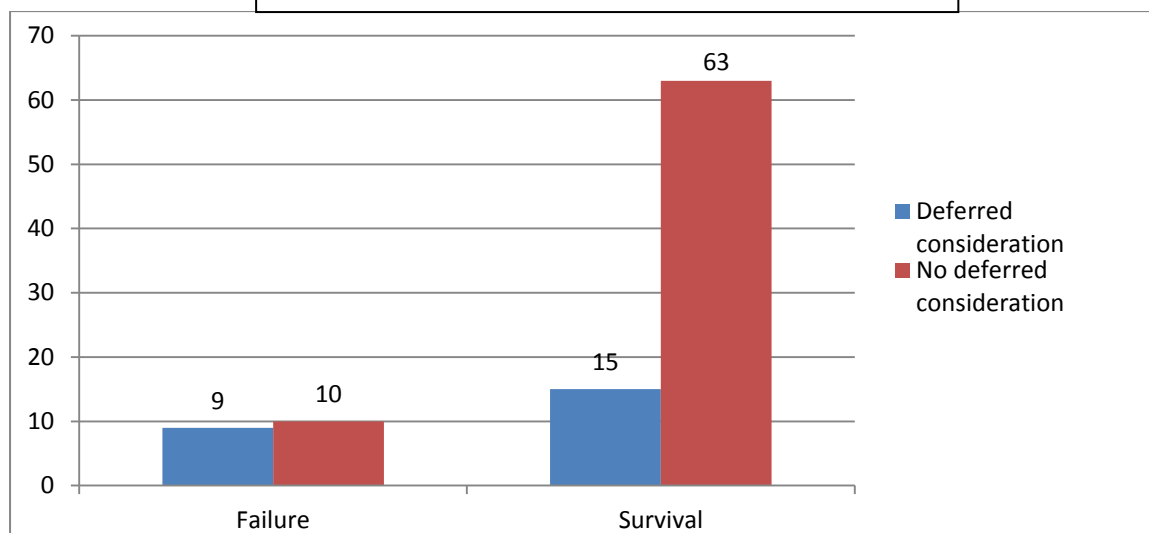
It is observed that more purchasers failed at 36 months where the sale was to a connected party than if it was not (11:8), and over half of connected sales resulted in failure of the purchaser (11/18). However, generally connected sales were far less prevalent in trading administration sales than pre-packs.



B3.2.2 Impact of deferred consideration

Deferred consideration was also utilised less often in trading administration sales and does not appear to be a significant factor in subsequent failure of the purchaser (unlike for pre-pack sales where deferred consideration was present in almost 85% of transactions resulting in failure of the purchaser). A higher proportion of purchasers do appear to fail where deferred consideration is present in a trading administration sale (9/24 compared to 10/73).

Failure Rate: Deferred Consideration

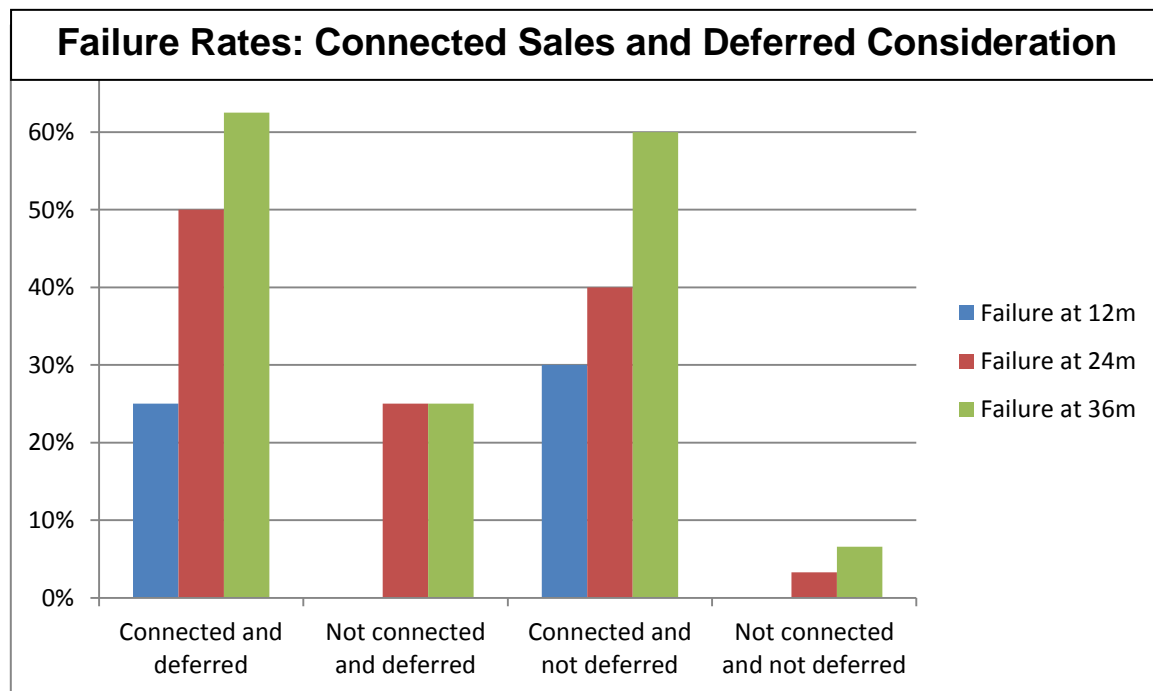


B3.2.3 Combined impact of sale to a connected party and deferred consideration

It has been seen that a higher proportion of sales involving either a connected party or deferred consideration appear to result in the purchaser failing than if not present. It is therefore not surprising that where both appear, the observed failure rate further increases. From the available data, it would, however, appear that sales to a connected party are more likely to lead to the purchaser failing than a sale with deferred consideration.

Incidence of connected sale and/or deferred consideration in failure at 36 months:

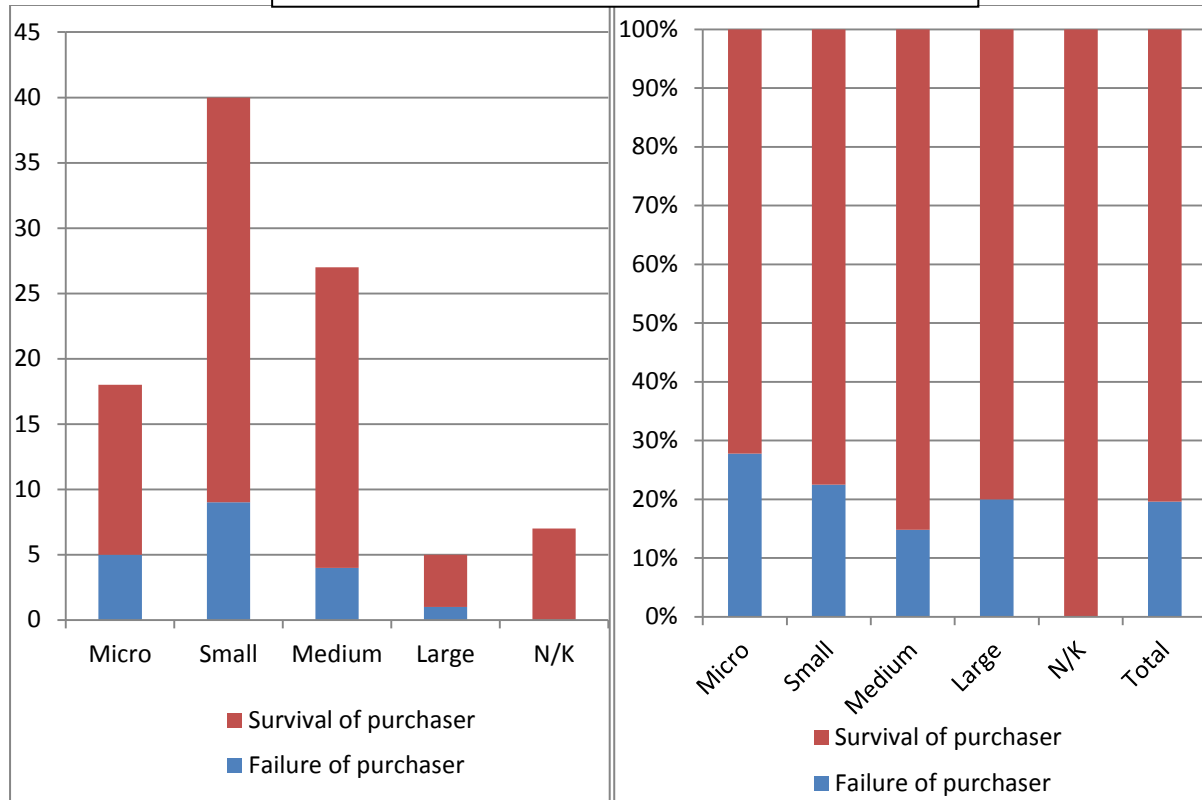
	Deferred consideration	Not deferred consideration	Total
Connected sale	62.5% (5/8)	60% (6/10)	61.1% (11/18)
Not connected sale	25% (4/16)	6.6% (4/61)	10.4% (8/77)
Total	37.5% (9/24)	14.1% (10/71)	20.0% (19/95)



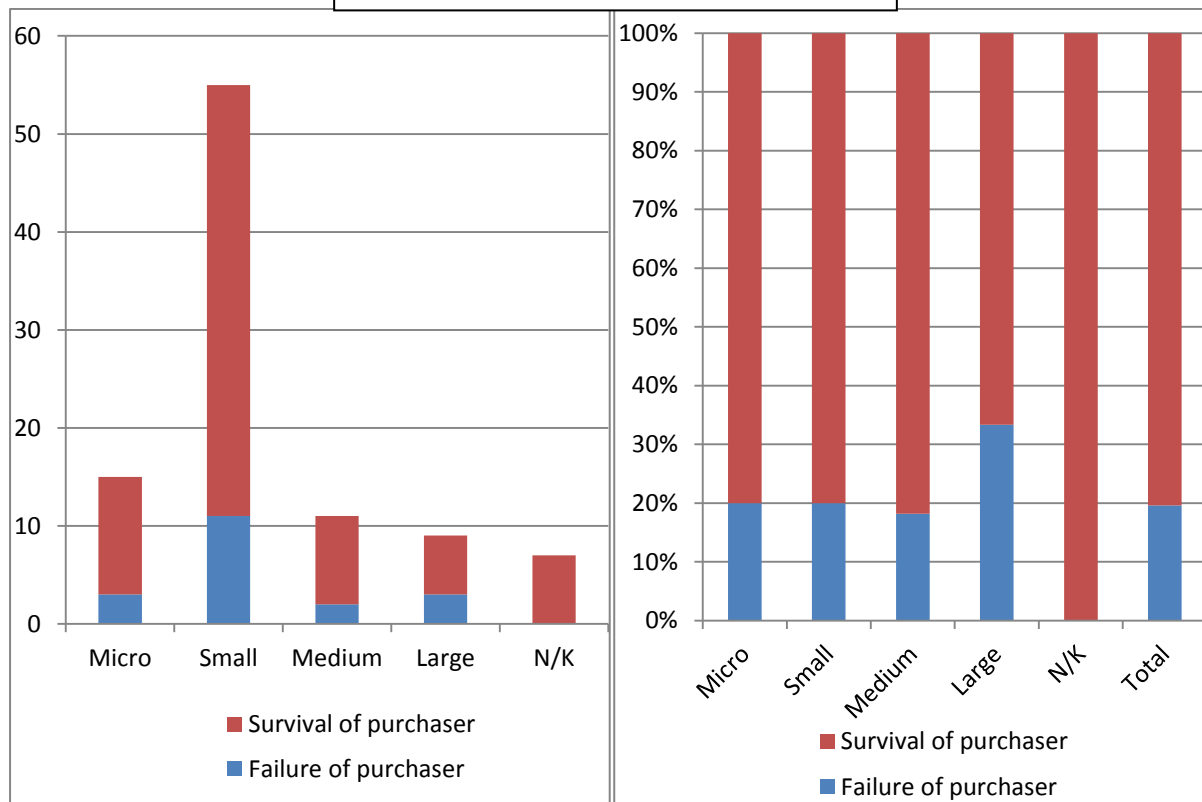
B3.2.4 Impact of size of oldco

It was observed at section B1.2 above that a greater proportion of medium sized companies, by number of employees, were included in the counterfactual dataset, although the majority of companies fell into the Micro/Small categories. Perhaps not surprisingly, the majority of subsequent failures fell out of businesses sold by oldcos from the same categories. Although there is a greater prevalence of failure of large companies for trading administration sales, this is out of a very small sample (1/5 for Employees and 3/9 for Turnover).

Size of oldco - Employees

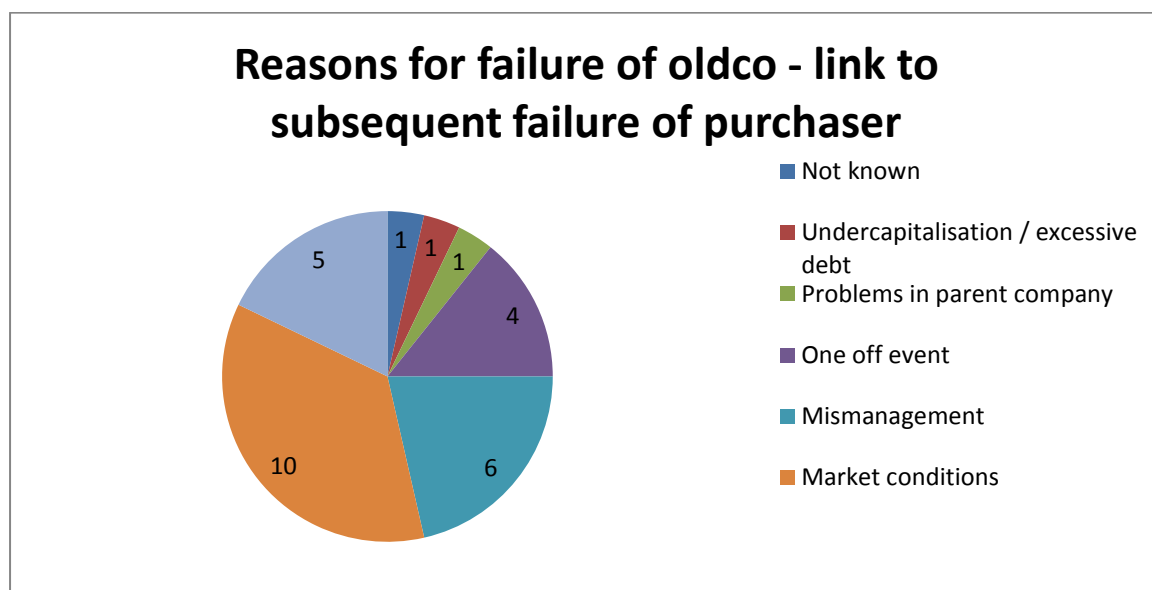
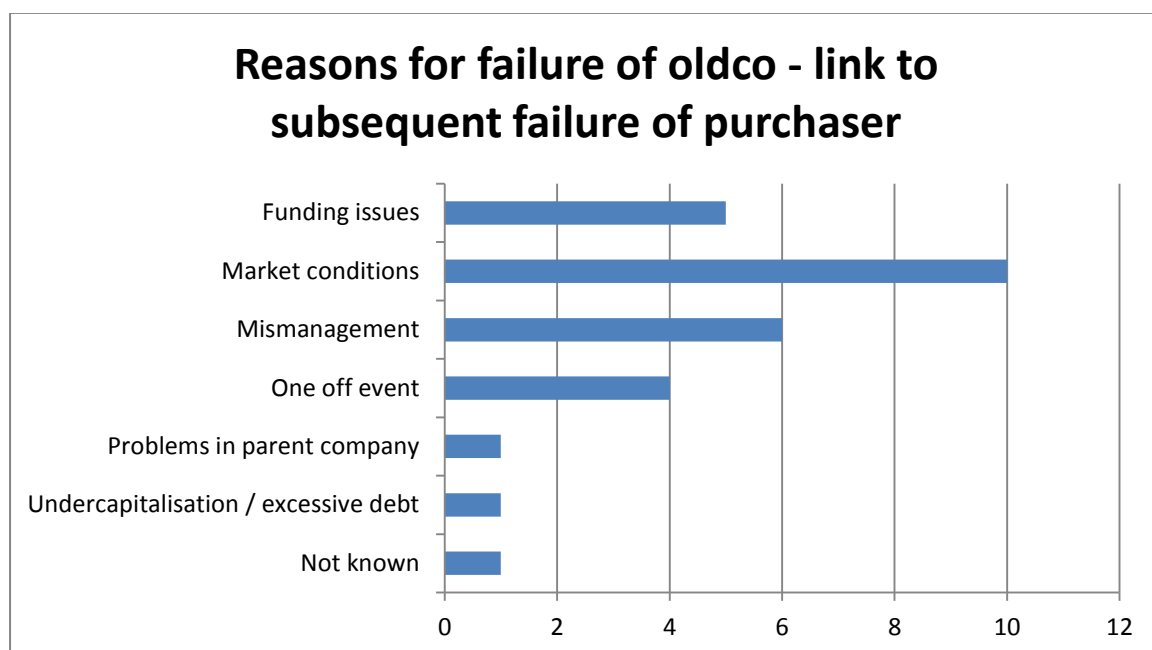


Size of oldco - Turnover

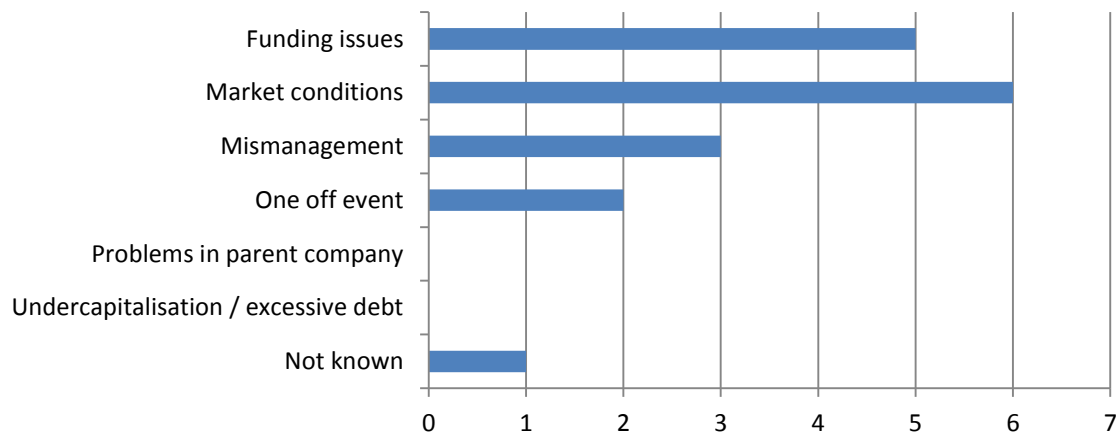


B3.2.5 Reason for failure of oldco

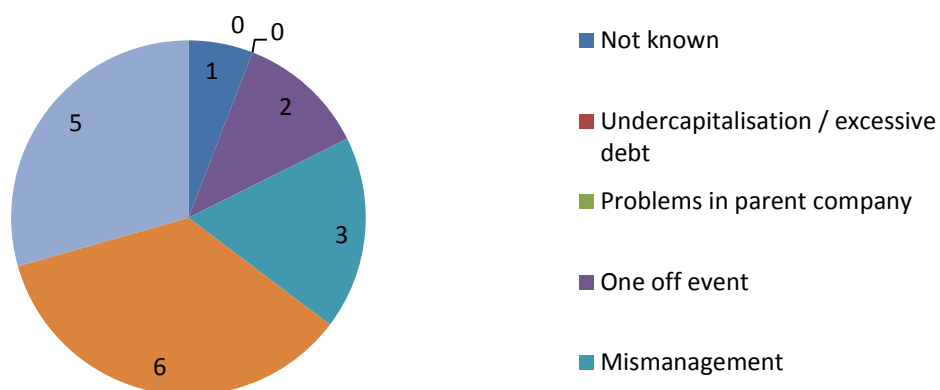
There does not appear to be any significant difference between the distribution of reasons for oldco failing where the purchaser subsequently fails. This is broadly true where the subsequent failure is broken down by connected and non-connected sales, although it is interesting that mismanagement appears less frequently and funding issues more frequently where the sale is to a connected party. It would have been expected that where mismanagement had been identified as the reason for oldco failing, there would be a higher prevalence of this reason where the connected party purchaser subsequently failed, however, this is not the case. It must be noted that these are very small samples once the data is further broken down in this way.



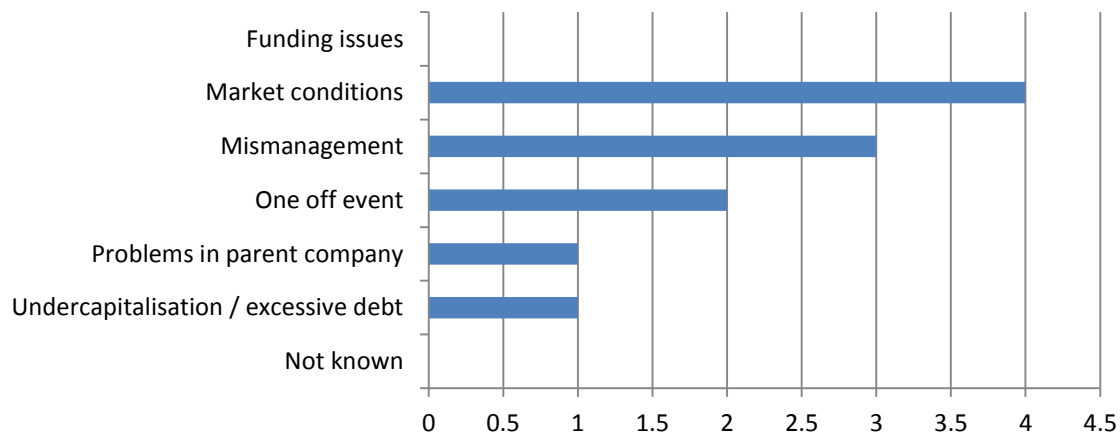
Reasons for failure of oldco - link to subsequent failure of purchaser and connected sale



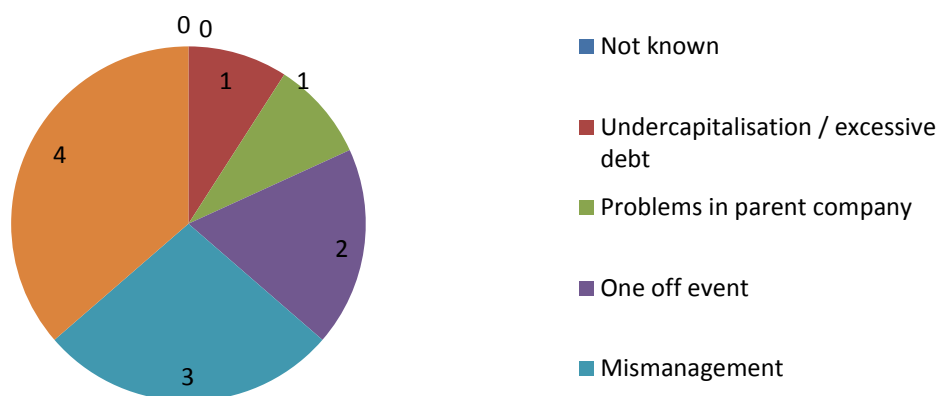
Reasons for failure of oldco - link to subsequent failure of purchaser and connected sale



Reasons for failure of oldco - link to subsequent failure of purchaser and no connected sale

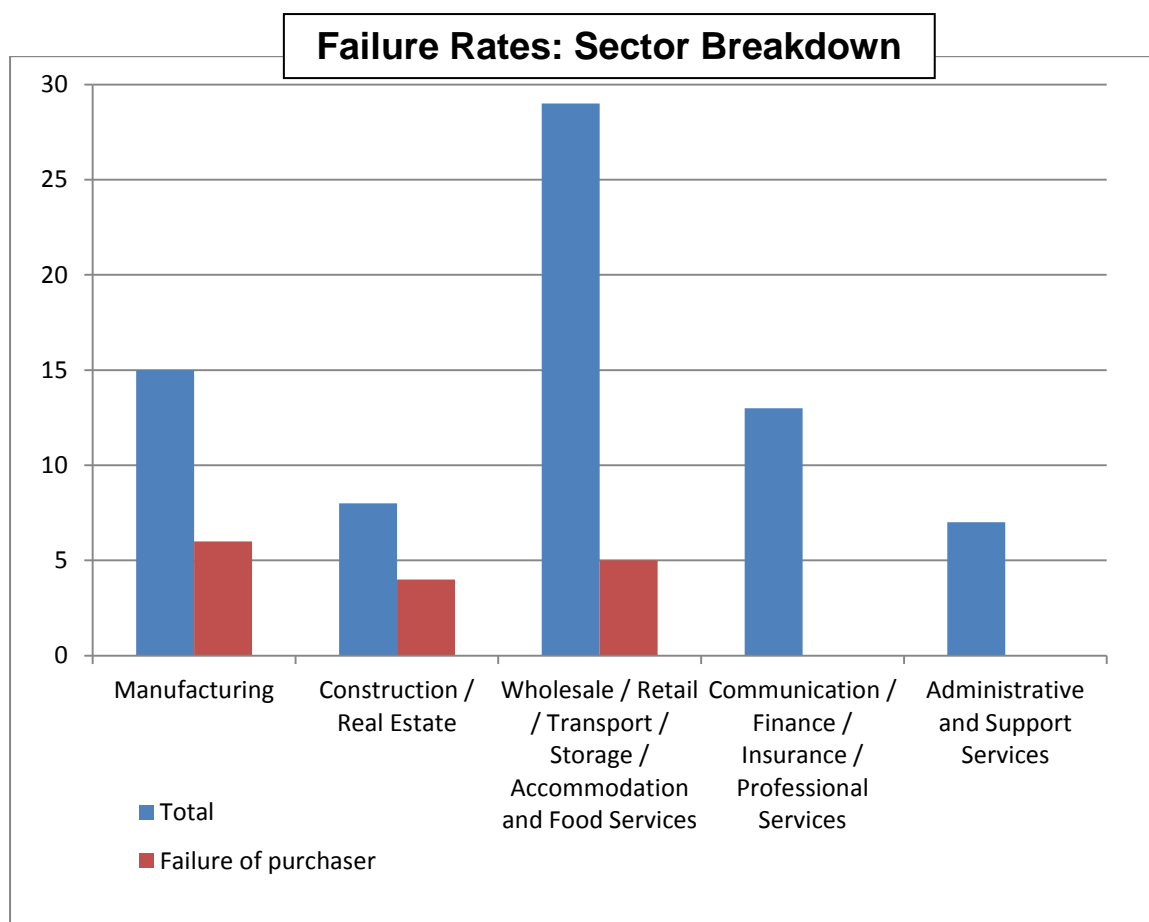


Reasons for failure of oldco - link to subsequent failure of purchaser and no connected sale



B3.2.6 Sector in which oldco operated

There does not appear to be a discernable pattern of the sectors from which oldco was drawn linking to subsequent failure of the purchaser. The failure data is too small to draw any conclusions when distributed in this manner.



Part B2

B4 Regression Analysis: Factors affecting failure of the purchaser in a trading administration going concern sale over time

A regression analysis has been conducted on the data collected in respect of the sample of 99 identified companies that effected a sale as a going concern in a trading administration in 2010, to identify the influence of a number of key variables on the outcome for the purchaser in the process. A binomial logistic regression (with logit link) has been carried out on the 93 cases for which data is available for the three responses (failure of purchaser within 12, 24 and 36 months) and the following variables were found to be significant:

- (i) whether deferred consideration was payable; and
- (ii) if there was a sale to a connected party.

It should be remembered that as this is a much smaller sample than for the regression analysis conducted for the pre-packs, 'significant evidence' is harder to obtain.

The results of each of the models (i.e. looking at failure at 12, 24 and 36 months) are set out below. The model data is set out in Appendix 10 for completeness.

The impact of other variables not referred to below was investigated, but none were found to be significant. It should be borne in mind that this does not necessarily imply that there is no relationship between these variables and chances of failure of the purchaser, but that variation in the chances of survival are already accounted for by variables already in the model.

B4.1 Failure of purchaser at 36 months

B4.1.1. Points to note

- 20.4% of purchasers in a trading administration have failed within 36 months of the sale completing.
- Connected Sale and Deferred Consideration were present (either individually or together) in 36.6% of cases. This is nearly half the corresponding percentage for pre-packs.
- Both Connected Sale and Deferred Consideration were present in 8.6% of cases, as opposed to 44.6% of cases for pre-packs.
- There is no significant interaction between connected sale and deferred consideration, however the interaction term has been retained in the model to reflect the pre-pack model.

B4.1.2 Failure rate at 36 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	67.5% (5/8)	60.0% (6/10)	61.1% (11/18)
Not connected sale	25.0% (4/16)	6.8% (4/59)	10.6% (8/75)
Total	37.5% (9/24)	14.5% (10/69)	20.4% (19/93)

From the table above we see that, ignoring the presence or absence of deferred consideration, in the observed data 61.1% of connected sales fail within 36 months. Similarly, ignoring the presence or absence of a connected sale, 37.5% of

purchasers in trading administration sales where deferred consideration is present fail within 36 months.

The model shows that the presence of deferred consideration only increases the failure to survival ratio by an estimated factor of 4.57. The presence of connected sale only increases the failure to survival ratio by an estimated factor of 20.6.

The model shows that the presence of a connected sale and the presence of deferred consideration both increase the chance of failure at 36 months. Where there is no deferred consideration present, the ratio of the probabilities of the purchaser failing to succeeding is estimated to be, on average, 20.6 times greater if there is a connected sale, than if the sale is to an unconnected party. Similarly, where there is no connected sale, the ratio of the probability of the purchaser failing to succeeding is estimated to be, on average, 4.57 times greater if there is deferred consideration, than if there is not.

If both deferred consideration and connected sale are present, the ratio of failing to succeeding is estimated to be, on average, 22.9 times greater than if neither is present. As with the observations from the pre-pack model, this indicates that the presence of both deferred consideration and connected sale appears to have a very similar effect to the presence of the variable with the larger associated factor (here connected sale) taken independently.

B4.2 Failure of purchaser at 24 months

B4.2.1. Points to note

- 15.1% of purchasers in a trading administration have failed within 24 months of the sale completing.
- There is no significant interaction between connected sale and deferred consideration, however the interaction term has been retained in the model to reflect the pre-pack model.

B4.2.2 Failure rate at 24 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	50.0% (4/8)	40.0% (4/10)	44.4% (8/18)
Not connected sale	25.0% (4/16)	3.4%(2/59)	8.0%(6/75)
Total	33.3% (8/24)	8.7% (6/69)	15.1% (14/93)

From the table above we see that, ignoring the presence or absence of deferred consideration, in the observed data 44.4% of connected sales fail within 24 months. Similarly, ignoring the presence or absence of a connected sale, 33.3% of purchasers in trading administration sales where deferred consideration is present fail within 24 months.

The model shows that the presence of deferred consideration only increases the failure to survival ratio by an estimated factor of 9.5, and that the presence of connected sale only increases the failure to survival ratio by an estimated factor of 19.0. If both are present, the estimated factor is 28.5.

B4.3 Failure of purchaser at 12 months

B4.3.1. Points to note

- 5.3% of purchasers in a trading administration have failed within 12 months of the sale completing
- No variables were found to be significant. As only 5 out of the 93 purchasers had failed at 12 months this is unsurprising.

B4.3.2 Failure rate at 12 months: Impact of Deferred Consideration and Connected Sale

	Deferred consideration	Not deferred consideration	Total
Connected sale	25.0% (2/8)	30.0% (3/10)	27.8% (5/18)
Not connected sale	0.0% (0/16)	0%(0/59)	0.0%(0/75)
Total	8.3% (2/24)	4.3% (3/69)	5.4% (5/93)

From the table above we see that, ignoring the presence or absence of deferred consideration, in the observed data 27.7% of connected sales fail within 12 months. Similarly, ignoring the presence or absence of a connected sale, 8.3% of purchasers in trading administration sales where deferred consideration is present fail within 12 months.

Part C Combined Regression Analysis

The Complete Data: Failure of the purchaser at 36 months

In total, 446 pre-pack administrations and 93 trading administrations with going concern business sales were analysed. 26.0% of purchasers in pre-pack administrations had failed at 36 months, as opposed to 20.4% of purchasers from trading administrations.

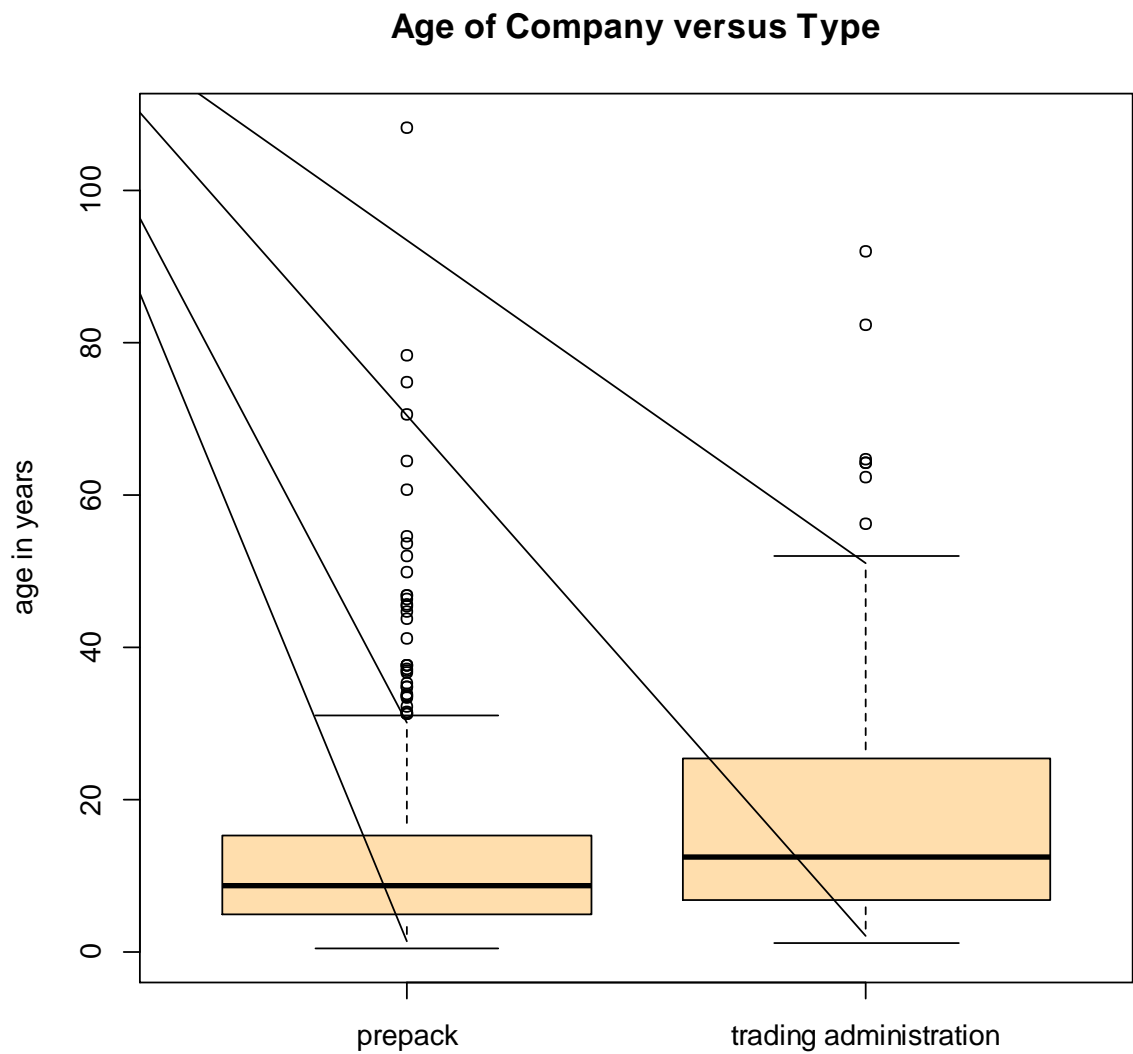
As noted in the discussions in sections A4 and B4 above, both connected sales and deferred consideration were more prevalent in pre-pack administration sales than trading administration sales. Both of these factors are associated with increased likelihood of failure.

The primary focus of this section is to assess whether the type of administration sale (i.e. pre-pack as opposed to trading administration) significantly affects the chances of survival.

The model shows that, all other factors being equal, the failure to success ratio is 2.4 times greater for going concern sales in a trading administration than for pre-pack sales. Interestingly, the models for failure at 24 months and 12 months both illustrate similar increased failure to success ratios for trading administrations as opposed to pre-packs, the models estimating increases by factors of 2.3 and 2.6 respectively. Essentially, in identical circumstances (i.e. whether or not the purchaser is connected, whether there is deferred consideration, the purchase price and the size of the insolvent vendor) save for the type of sale, pre-pack or trading administration, the model shows a greater instance of failure amongst trading administration sales. It must be acknowledged that the lower presence of deferred consideration and sales to connected parties in trading administration sales does somewhat skew the data, as we are not comparing even data sets.

Overall, on the data reviewed, there is a higher expectation of failure of purchasers in a pre-pack sale given the higher probability of deferred consideration being present.

The analysis of the combined data is also interesting with regard to the impact of the age of the insolvent company on subsequent failure of the purchaser. Whilst the age of the company at time of administration was investigated and found not to be significant in either the pre-pack or trading administration models of failure at 36 months, it is significant in the combined analysis of failure at 36 months, purchasers from older companies are, on average, less likely to fail. It should be noted that, as illustrated by the boxplots below, the age profile of the insolvent companies in pre-pack administrations is somewhat less than that of those in trading administrations; the median age of pre-packed companies being 8.7 years, and the median age of companies in trading administrations 12.5 years. Also, the spread of typical ages is greater for trading administrations, hence its inclusion in the model is advisable.



The model data is set out in Appendix 11 for completeness.

IV Reflections

In addition to the analysis detailed in Part III above, there were also a number of impressionistic observations made through the data collection process that were not recorded (or capable of being recorded) in the aforementioned spreadsheets. A number of these reflections are discussed below. It must be emphasised that the statistical evidence as discussed above shows clearly that a purchaser in a pre-pack administration is far more likely to fail within 36 months if the purchase price involves deferred consideration. A sale to a connected party is also a statistically significant factor in subsequent failure (and connected sales were found in over two thirds of all pre-packs). With regard to the smaller sample of going concern sales in administration, connected sales appear to be the only significant factor in subsequent failure.

The following points have not been shown to be statistically significant but are our observations on our experience of carrying out the empirical study.

1. Quality of reported data

The quality of information provided by SIP16 reports and that registered at Companies House is somewhat variable. In addition, there are quite often inconsistencies between what has been said in a SIP16 report and what is stated in the administrator's subsequent statement of proposals. It would seem that a more specific prescriptive template for SIP16 reports might lead to a greater consistency between SIP16 reports and permit assessment of the pre-packs in question more readily. For example, if employment preservation is seen as an important and laudable function of pre-packs (it is often highlighted by IPs as one of the main reasons for the decision to pre-pack), then specific figures for employment preservation may usefully be included in the requisites for SIP16 reporting.

2. Reason for utilising pre-pack procedure

Most pre-packs are carried out where the company in question is clearly insolvent under s 123 IA 1986 on a cash flow basis (if not also a balance sheet basis). The majority of pre-packs involve an appointment by the directors (often even where a qualifying floating charge holder has the power to appoint). It is a requirement, where there is a directors' appointment, for the directors to make a statutory declaration that the company is, or is likely to become, unable to pay its debts according to the s 123 definition (paras 27 and 111 of Sch B1). A relatively small number of the pre-packs surveyed involved what were in effect reorganisations of very large businesses which may have been balance sheet insolvent but do not appear to have been cash flow insolvent. In such circumstances, it is not always apparent why a pre-pack was needed at all (as there appeared to be no particular urgency), especially in circumstances where the pre-pack had been planned for several months. The statutory meaning of inability to pay debts under s 123 has itself been the subject of significant litigation in recent years, and contrary to the meaning of inability to pay

debts in individual insolvency includes balance sheet insolvency (the law on bankruptcy includes only cash flow insolvency). It might be possible to limit the use of pre-packs to cases which genuinely need the urgency of the process by requiring those making the appointment to declare the company is cash flow insolvent (narrowing the s 123 definition for this purpose).

Most pre-packs involved relatively small companies where the IPs were instructed quite close to the date of the pre-pack, where the company was usually cash flow insolvent (and was experiencing creditor pressure) with only a relatively limited amount of time to plan the pre-pack or to market the business.

IPs frequently justify the use of a pre-pack sale, as opposed to a traditional administration, by citing two factors:

- Firstly, a pre-pack is often considered necessary due to lack of funds to trade in administration. This has also been cited as a reason for not marketing the business. These justifications appear often not to stand up to a great deal of scrutiny. Some comparison of IP fees charged and drawn down in both pre-packs and going concern sales may illustrate this point. In a third of the going concern sales considered, the business was sold within 14 days. In those cases, on average, the IPs charged fees of £169,929 of which £114,243 was on average drawn. In pre-packs, the average fee charged was £87,882 and the average fee drawn was £64,451. Even though the figure for going concern sales is understandably higher than in pre-packs, it is interesting to note that even for pre-packs, where there would appear to be limited scope for IP activity post appointment, the fees charged and drawn are still significant. In many pre-packs, the same IPs who sold the business by way of a pre-pack, also charge a subsequent significant fee when acting as liquidator. Without some explanation (which is rarely if ever forthcoming) it is not clear why a lack of funds should be such an overwhelming reason vitiating against a trading administration or post appointment marketing.
- Secondly, IPs regularly rely on the reduction in the quantum of preferential debts achieved as a result of the pre-pack, due to the transfer of the majority, if not all, of the employees to the purchaser under TUPE. This is reported as beneficial to the unsecured creditors, as it reduces the potential claims that could dilute the funds available to them. Whilst this may be the case, this rationale does not seem obviously to fall within the scope of Paragraph 3 Schedule B1 IA 1986, nor in practice is a distribution to unsecured creditors often secured as a result. This reasoning therefore appears less than convincing.

The circumstances where it might be appropriate to use a pre-pack, or to put it another way, the characteristics of a “good” pre-pack, remain somewhat elusive.

3. Nature of marketing

Marketing was often reported as occurring where in fact it was very limited, such as enquiries made within the IP firm itself with no genuine external marketing occurring. Sometimes, IPs have accepted the word of the directors that there is no ready market for the business outside the management team (or other connected parties). Another related issue here is that on occasion the business is such that the only possible buyer is the incumbent management team, due either to the management team owning the premises from which the business trades or where the business is reliant upon a third party's consent which would not be forthcoming to an outside purchaser. This seems wrong in principle as the management team benefit from the restrictive manner in which they have previously chosen to trade.

Independent valuations are often merely desk top valuations and it is common, where there is a connected sale, for the purchase price to match the valuation figure. There is rarely any explanation as to the valuation methods used by the valuers, and it is often limited to certain assets, normally the chattels and property, but not the intellectual property or goodwill. It would seem that more could be done to explain the valuation methodology and where the valuation coincides with the eventual purchase price whether or not the IP has divulged the valuation to the purchaser.

Although there are some examples of serial pre-packing, this practice is not common but perhaps ought to be restricted with potential professional conduct implications for IPs who act in serial pre-packs. Many companies being pre-packed are old and established companies.

4. Role of IPs and distributions to creditors

The evidence clearly suggests that businesses pre-packed by certain IP Firms have a better chance of survival than those pre-packed by certain other Firms. There is some evidence that the company being pre-packed is sometimes placed into liquidation with the same IP acting as liquidator (with an often significant additional fee) and although the liquidation is deemed necessary in order to make a distribution to unsecured creditors, the liquidation often results in no such distribution. There are potential issues around subsequent liquidations and the appointment of pre-pack administrators (or others within the same IP firm) as liquidators in those liquidations. An additional point of concern with many pre-packs, at least towards the bottom end of the market, is that virtually all the proceeds of sale are used up by IP fees and other costs. It might be interesting to consider a limit on IP fees restricted to a particular percentage of total realisations. This would be likely to discourage the weaker pre-packs at the bottom end. If such a restriction on IP fees applied to the aggregate of fees charged both in the pre-pack and any subsequent liquidation, a dividend to unsecured creditors would seem more likely.

The prescribed part under s 176A was not encountered often, which was normally due to there being limited net floating charge realisations once the costs of the process were taken into account. This seems particularly common where the

company's book debts have been factored and so outside the terms of any floating charge. The widespread use of factoring appears to protect secured lenders very effectively. It might be that the policy behind the Enterprise Act 2002 in relation to s 176A and the removal of the Crown preference which coincided with the effective loss of the fixed charge on book debts (through case law developments) has been to some extent frustrated by widespread factoring (or invoice discounting). As the debt factor is able to claim the book debts outside the administration, this limits the assets available to the administrator either to trade or to pay his or her own fees or disbursements. The charges imposed by debt factors appear worthy of separate consideration as it is commonly the case that a secured lender is paid in full (including associated additional charges) from the book debts leaving little, if anything, for unsecured creditors. One of the main criticisms of the floating charge in the late nineteenth century was that it was a security that was executed in secret (without public registration until 1900) and that once the company in question became insolvent, the floating charge holder would sweep away all the company's assets. The modern position of debt factors/invoice discounters bears some comparison with that Victorian concern and perhaps such factoring agreements need to be characterised as assignments by way of security rather than absolute assignments and thereby become publicly registrable.

The rules on approval of pre-appointment fees introduced in April 2010 appear to have gained gradual acceptance by the IP profession with most IPs recording separately pre and post appointment fees and appearing to have obtained the requisite consent for pre-appointment fees by the end of 2010. The rules as to whose consent if required do encourage an IP to keep secured creditors satisfied, to avoid any preferential creditors and to ensure no dividend to unsecured creditors is likely. If only secured creditors are to be paid out in the pre-pack, only the secured creditors need to consent to the administrators' pre-appointment fees.

There is no evidence of IPs having significant professional relationships with companies prior to their being appointed in a pre-pack.

5. Traditional trading administrations

For the counterfactual study in Part B, it was interesting to note how many non pre-pack administrations did not involve going concern sales. Although no full analysis of this phenomenon has been carried out, out of 66 medium sized companies which entered administration in 2010 (which were not pre-packs), only 16 involved going concern sales. This suggests that, pre-packs apart, going concern sales are only occurring in approximately 1 in 4 administrations. One possible conclusion to draw from this is that pre-packs are taking over or have taken over traditional administrations (which lead to a going concern sale). One of the benefits of administration, espoused originally by the Cork Committee, is that it enables the expertise of an external manager to take control of a business and either to rescue it or to sell it on in better shape than on appointment. The increased use of pre-packs appears to be robbing these businesses of the benefit of such expertise.

Appendix 1

Sector of company subject to pre-packaged administration – 2 Digit SIC 2007

SIC 2007 Codes (2 Digit)	Sector Name	Prevalence	Prevalence Rate
01	Crop and animal production, hunting and related service activities	3	0.6%
10	Manufacture of food products	10	2.0%
11	Manufacture of beverages	1	0.2%
13	Manufacture of textiles	2	0.4%
14	Manufacture of wearing apparel	1	0.2%
16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	5	1.0%
17	Manufacture of paper and paper products	3	0.6%
18	Printing and reproduction of	9	1.8%

	recorded media		
20	Manufacture of chemicals and chemical products	1	0.2%
22	Manufacture of rubber and plastic products	2	0.4%
23	Manufacture of other non-metallic mineral products	5	1.0%
25	Manufacture of fabricated metal products, except machinery and equipment	24	4.8%
26	Manufacture of computer, electronic and optical products	2	0.4%
27	Manufacture of electrical equipment	1	0.2%
28	Manufacture of machinery and equipment n.e.c.	1	0.2%
29	Manufacture of motor vehicles, trailers and semi-trailers	2	0.4%
30	Manufacture of other transport	2	0.4%

	equipment		
31	Manufacture of furniture	6	1.2%
32	Other manufacturing	11	2.2%
35	Electricity, gas, steam and air conditioning supply	1	0.2%
38	Waste collection, treatment and disposal activities; materials recovery	2	0.4%
41	Construction of buildings	15	3.0%
43	Specialised construction activities	32	6.4%
45	Wholesale and retail trade and repair of motor vehicles and motorcycles	6	1.2%
46	Wholesale trade, except of motor vehicles and motorcycles	24	4.8%
47	Retail trade, except of motor vehicles and motorcycles	23	4.6%
49	Land transport and transport via	11	2.2%

	pipelines		
52	Warehousing and support activities for transportation	4	0.8%
55	Accommodation	3	0.6%
56	Food and beverage service activities	25	5.0%
58	Publishing activities	4	0.8%
59	Motion picture, video and television programme production, sound recording and music publishing activities	8	1.6%
61	Telecommunications	5	1.0%
62	Computer programming, consultancy and related activities	11	2.2%
64	Financial service activities, except insurance and pension funding	29	5.8%
68	Real estate activities	4	0.8%
69	Legal and accounting activities	5	1.0%
70	Activities of head offices; management consultancy	8	1.6%

	activities		
71	Architectural and engineering activities; technical testing and analysis	4	0.8%
72	Scientific research and development	1	0.2%
73	Advertising and market research	7	1.4%
74	Other professional, scientific and technical activities	2	0.4%
77	Rental and leasing activities	3	0.6%
78	Employment activities	32	6.4%
80	Security and investigation activities	5	1.0%
81	Services to buildings and landscape activities	3	0.6%
82	Office administrative, office support and other business support activities	53	10.6%
86	Human health activities	7	1.4%

90	Creative, arts and entertainment activities	3	0.6%
92	Gambling and betting activities	3	0.6%
93	Sports activities and amusement and recreation activities	4	0.8%
94	Activities of membership organisations	2	0.4%
95	Repair of computers and personal and household goods	1	0.2%
96	Other personal service activities	18	3.6%
non-trading	non-trading	5	1.0%
N/K	Not Known	35	7.0%
Total		499	100.0%

NB The total of 499 includes two companies that are represented twice as there were two distinct business sales.

Appendix 2

Sector of company subject to pre-packaged administration – Categorised

SIC 2007 Code Range (2 Digit)	Sector Name	Prevalence	Prevalence Rate
01-09	Agriculture and Mining	3	0.6%
10-33	Manufacturing	88	17.6%
35-39	Utility Supply	3	0.6%
41-43 & 68	Construction / Real Estate	51	10.2%
45-56	Wholesale / Retail / Transport / Storage / Accommodation and Food Services	96	19.2%
58-66 & 69-75	Communication / Finance / Insurance / Professional Services	84	16.8%
77-82	Administrative and Support Services	96	19.2%
84-88	Public Administration / Education / Health and Social Work	7	1.4%
90-93	Arts, entertainment and recreation	10	2.0%
94-96	Other service activities	21	4.2%
Non trading	Non trading	5	1.0%
N/K	Not known	35	7.0%
Total		499	100.0%

NB The total of 499 includes two companies that are represented twice as there were two distinct business sales.

Appendix 3

Details of Insolvency Practitioner Firms involved in pre-packs

Firm	Total Appointments	Sales to Connected Party	Use of Deferred Consideration	Sales to Connected Party with Deferred Consideration
Abbey Taylor	1	1	0	0
Accura Partners	1	1	0	0
Adcroft Hilton	1	N/A	N/A	N/A
Armstrong Watson	3	2	3	2
Atherton Bailey	1	1	1	1
B&C Associates	5	3	4	3
Baines & Ernst Corporate	5	5	3	3
Baker Tilly	15	9	3	3
Barringtons Corporate Recovery	1	1	1	1
Barry Mitchell & Company	1	0	1	0
BDO	17	14	5	3
Beesley & Company	1	1	1	1
Begbies Traynor	42	23	24	18
BHG Chartered Accountants	1	1	1	1
BN Jackson Norton	1	1	1	1
Bond Partners	12	10	10	10
Brackenbury Clark & Co	1	0	1	0

BRI (UK)	1	1	0	0
Bridge Business Recovery	3	0	0	0
Buchanan Roxburgh	1	1	0	0
Buchlers	1	0	0	0
BWC Business Solutions	3	3	3	3
Carter Backer Winter	1	1	0	0
Chantrey Vellacott DFK	4	3	3	2
Clarke Bell	1	1	0	0
CLB Coopers	1	0	1	0
CMB Partners	2	2	2	2
Cooper Parry	1	0	0	0
Cowgill Holloway	1	0	0	0
David Rubin & Partners	3	2	1	0
Debtfocus	1	1	1	1
Deloitte	14	2	0	0
Durkan Cahill	2	2	1	1
Ensors	1	0	0	0
Ernst & Young	1	0	0	0
F. A. Simms & Partners	3	3	2	2
Findlay James	2	2	2	2
Frost Business Recovery	1	1	0	0
FRP Advisory / Vantis	19	6	10	4
FTI Consulting	8	7	6	6
Geoffrey Martin & Co	1	1	1	1
Gerald Edelman Business Recovery Professionals	2	1	1	1
Grant Thornton	15	6	1	1
Griffin & King	1	0	0	0

Harris Lipman	1	0	1	0
Harrisons	10	9	10	8
Hart Shaw	1	0	0	0
Hazlewoods	1	N/A	N/A	N/A
HCW Recovery Solutions	1	1	0	0
James Cowper	2	2	1	1
Janes	1	1	0	0
Johnston Carmichael	1	1	0	0
Kallis & Company	1	1	1	1
Kelmanson Insolvency Solutions	1	1	1	1
Kirk Hills Insolvency Practitioners	2	1	1	1
KPMG	21	13	3	3
Leonard Curtis	36	23	30	22
MacIntyre Hudson	1	1	0	0
Mackenzie Goldberg Johnson	1	0	0	0
Marshman Price	1	0	1	0
Mazars	9	7	5	4
MB Insolvency	3	3	3	3
MBI Coakley	2	2	2	2
MCR	18	6	7	5
McTear Williams & Wood	2	0	2	0
Milner Boardman & Partners	2	0	0	0
Moore Stephens	5	5	5	5
Moorfields Corporate Recovery	5	2	2	1

Northpoint	1	1	1	1
Nortons Recovery	1	N/A	N/A	N/A
O'Hara & Co	1	1	0	0
P & A Partnership	11	10	7	7
Parker Andrews	7	7	5	5
Peter Hall	1	1	1	1
Peters Elworthy & Moore	1	0	1	0
Pitman Cohen	1	1	1	1
PKF	10	7	6	4
Poppleton and Appleby	1	N/A	N/A	N/A
Portland Business & Financial Solutions	2	1	2	1
PricewaterhouseCoopers	13	4	1	0
Refresh Recovery	2	2	2	2
ReSolve Partners	2	0	0	0
Rimes & Co	1	1	1	1
RJC Financial Management	1	0	0	0
Robson Scott Associates	2	2	2	2
RSM Tenon	35	25	19	15
Senate Recovery	8	8	7	7
Shipleys	20	15	15	15
Silke & Co	1	1	0	0
Smith & Williamson	6	3	2	2
Smith Cooper	1	1	0	0
SPW Poppleton & Appleby	1	0	0	0
Tait Walker	1	0	0	0

The Business Debt Advisor	1	1	1	1
The Redfern Partnership	2	2	2	2
Tomlinsons	1	1	0	0
Turpin Barker Armstrong	2	2	2	2
UHY Hacker Young	5	3	4	2
Valentine & Co	3	3	2	2
White Maund	1	0	0	0
Wilkins Kennedy	1	1	0	0
Wilson Field	7	6	6	5
Zolfo Cooper	13	1	2	1
Total	498	309	261	209

Appendix 4

Failure data by categorised oldco sector data – Pre-packs

SIC 2007 Categories	Prevalence (where full failure data)	Prevalence Rate	Prevalence of failure	Failure Rate (within category)	Failure Rate (overall)
Agriculture and Mining (01-09)	1	0.2%	0	0.0%	0.0%
Manufacturing (10-33)	87	18.3%	27	31.0%	22.3%
Utility Supply (35- 39)	3	0.6%	1	33.3%	0.8%
Construction / Real Estate (41-43 & 68)	49	10.3%	18	36.7%	14.9%
Wholesale / Retail / Transport / Storage / Accommodation and Food Services (45-56)	91	19.2%	23	25.3%	19.0%
Communication / Finance / Insurance / Professional Services (55-66 & 69-75)	79	16.6%	11	13.9%	9.1%
Administrative and Support Services (77-82)	96	20.2%	23	24.0%	19.0%

Public Administration / Education / Health and Social Work (84-88)	7	1.5%	1	14.3%	0.8%
Arts, entertainment and recreation (90-93)	10	2.1%	1	10.0%	0.8%
Other service activities (94-96)	21	4.4%	4	19.0%	3.3%
Non trading	4	0.8%	1	25.0%	0.8%
Not known	27	5.7%	11	40.7%	9.1%
Total	475	100.0%	121	25.5%	100.0%

Appendix 5

Details of Insolvency Practitioner Firms involved in pre-packs

Firm	Total Appointments (where full failure data)	Total Failure	Connected Sale Failure	Deferred Consideration Failure	Connected Sale and Deferred Consideration Failure
Abbey Taylor	1	1 (100%)	1 (100%)	0	0
Accura Partners	1	1 (100%)	1 (100%)	0	0
Adcroft Hilton	0	0	0	0	0
Armstrong Watson	3	1 (33.3%)	0	1 (33.3%)	0
Atherton Bailey	1	0	0	0	0
B&C Associates	4	0	0	0	0
Baines & Ernst Corporate	5	1 (20%)	1 (20%)	1 (20%)	1 (20%)
Baker Tilly	14	0	0	0	0
Barringtons Corporate Recovery	1	0	0	0	0
Barry Mitchell & Company	1	1 (100%)	0	1 (100%)	0
BDO	17	1 (5.9%)	0	1 (5.9%)	0
Beesley & Company	1	1 (100%)	1 (100%)	1 (100%)	1 (100%)
Begbies Traynor	35	10 (28.6%)	7 (20%)	9 (25.7%)	6 (17.1%)
BHG Chartered Accountants	1	0	0	0	0
BN Jackson Norton	1	0	0	0	0

Bond Partners	10	3 (30%)	3 (30%)	3 (30%)	3 (30%)
Brackenbury Clark & Co	1	0	0	0	0
BRI (UK)	1	1 (100%)	1 (100%)	0	0
Bridge Business Recovery	3	1 (33.3%)	0	0	0
Buchanan Roxburgh	1	0	0	0	0
Buchlers	1	1 (100%)	0	0	0
BWC Business Solutions	3	1 (33.3%)	1 (33.3%)	1 (33.3%)	1 (33.3%)
Carter Backer Winter	1	0	0	0	0
Chantrey Vellacott DFK	4	0	0	0	0
Clarke Bell	1	0	0	0	0
CLB Coopers	1	0	0	0	0
CMB Partners	2	0	0	0	0
Cooper Parry	1	0	0	0	0
Cowgill Holloway	1	0	0	0	0
David Rubin & Partners	3	0	0	0	0
Debtfocus	1	0	0	0	0
Deloitte	11	0	0	0	0
Durkan Cahill	2	2 (100%)	2 (100%)	1 (50%)	1 (50%)
Ensors	1	0	0	0	0
Ernst & Young	1	0	0	0	0
F. A. Simms & Partners	3	1 (33.3%)	1 (33.3%)	1 (33.3%)	1 (33.3%)

Findlay James	2	1 (50%)	1 (50%)	1 (50%)	1 (50%)
Frost Business Recovery	1	0	0	0	0
FRP Advisory / Vantis	19	8 (42.1%)	3 (15.8%)	8 (42.1%)	3 (15.8%)
FTI Consulting	7	0	0	0	0
Geoffrey Martin & Co	1	1 (100%)	1 (100%)	1 (100%)	1 (100%)
Gerald Edelman Business Recovery Professionals	2	0	0	0	0
Grant Thornton	15	1 (6.7%)	1 (6.7%)	0	0
Griffin & King	1	0	0	0	0
Harris Lipman	1	1 (100%)	0	1 (100%)	0
Harrisons	11	4 (36.4%)	4 (36.4%)	4 (36.4%)	4 (36.4%)
Hart Shaw	1	0	0	0	0
Hazlewoods	0	0	0	0	0
HCW Recovery Solutions	1	0	0	0	0
James Cowper	2	0	0	0	0
Janes	1	0	0	0	0
Johnston Carmichael	1	0	0	0	0
Kallis & Company	1	0	0	0	0
Kelmanson Insolvency Solutions	1	0	0	0	0

Kirk Hills Insolvency Practitioners	2	1 (50%)	1 (50%)	1 (50%)	1 (50%)
KPMG	20	4 (20%)	2 (10%)	1 (5%)	1 (5%)
Leonard Curtis	36	19 (52.8%)	13 (36.1%)	18 (50%)	13 (36.1%)
MacIntyre Hudson	1	0	0	0	0
Mackenzie Goldberg Johnson	1	0	0	0	0
Marshman Price	1	0	0	0	0
Mazars	9	3 (33.3%)	3 (33.3%)	2 (22.2%)	2 (22.2%)
MB Insolvency	3	2 (66.7%)	2 (66.7%)	2 (66.7%)	2 (66.7%)
MBI Coakley	2	0	0	0	0
MCR	17	3 (17.6%)	2 (11.8%)	3 (17.6%)	2 (11.8%)
McTear Williams & Wood	2	0	0	0	0
Milner Boardman & Partners	2	0	0	0	0
Moore Stephens	5	0	0	0	0
Moorfields Corporate Recovery	4	0	0	0	0
Northpoint	1	1 (100%)	1 (100%)	1 (100%)	1 (100%)
Nortons Recovery	0	0	0	0	0
O'Hara & Co	1	0	0	0	0
P & A	11	3 (27.3%)	3 (27.3%)	3 (27.3%)	3 (27.3%)

Partnership					
Parker Andrews	7	3 (42.9%)	3 (42.9%)	3 (42.9%)	3 (42.9%)
Peter Hall	1	0	0	0	0
Peters Elworthy & Moore	1	0	0	0	0
Pitman Cohen	1	1 (100%)	1 (100%)	1 (100%)	1 (100%)
PKF	9	2 (22.2%)	2 (22.2%)	0	0
Poppleton and Appleby	0	0	0	0	0
Portland Business & Financial Solutions	2	0	0	0	0
Pricewaterhous eCoopers	12	1	0	1 (8.3%)	0
Refresh Recovery	2	2 (100%)	2 (100%)	2 (100%)	2 (100%)
ReSolve Partners	1	0	0	0	0
Rimes & Co	1	0	0	0	0
RJC Financial Management	1	0	0	0	0
Robson Scott Associates	2	1 (50%)	1 (50%)	1 (50%)	1 (50%)
RSM Tenon	35	11 (31.4%)	8 (22.9%)	8 (22.9%)	5 (14.3%)
Senate Recovery	8	1 (12.5%)	1 (12.5%)	1 (12.5%)	1 (12.5%)
Shipleys	20	9 (45%)	9 (45%)	9 (45%)	9 (45%)
Silke & Co	1	0	0	0	0
Smith & Williamson	5	1 (20%)	1 (20%)	0	0

Smith Cooper	1	0	0	0	0
SPW Poppleton & Appleby	1	0	0	0	0
Tait Walker	1	0	0	0	0
The Business Debt Advisor	1	0	0	0	0
The Redfern Partnership	2	0	0	0	0
Tomlinsons	1	0	0	0	0
Turpin Barker Armstrong	2	1 (50%)	1 (50%)	1 (50%)	1 (50%)
UHY Hacker Young	5	4 (80%)	2 (40%)	3 (60%)	1 (20%)
Valentine & Co	3	2 (66.7%)	2 (66.7%)	2 (66.7%)	2 (66.7%)
White Maund	1	0	0	0	0
Wilkins Kennedy	1	0	0	0	0
Wilson Field	7	3 (42.9%)	3 (42.9%)	3 (42.9%)	3 (42.9%)
Zolfo Cooper	8	0	0	0	0

Appendix 6

Pre-Pack Regression Analysis Model

1. Failure of purchaser at 36 months

Call:

```
glm(formula = dataPP$F36 ~ dataPP$DefCon * dataPP$Connected +
     qq(dataPP$Purchase), family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-4.3241	0.8501	-5.086	3.65e-07 ***
dataPP\$DefConYes	2.7693	0.5395	5.133	2.85e-07 ***
dataPP\$ConnectedYes	1.2718	0.5394	2.358	0.01838 *
qq(dataPP\$Purchase)Small	1.4607	0.7545	1.936	0.05286 .
dataPP\$DefConYes:dataPP\$ConnectedYes	-1.6619	0.6255	-2.657	0.00789 **

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 531.34 on 461 degrees of freedom

Residual deviance: 462.95 on 457 degrees of freedom

(4 observations deleted due to missingness)

AIC: 472.95

2. Failure of purchaser at 24 months

```
glm(formula = dataPP$F24 ~ dataPP$DefCon * dataPP$Connected, family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-3.5458	0.5856	-6.055	1.41e-09 ***

```
dataPP$DefConYes      3.1075    0.6521    4.766    1.88e-06 ***
dataPP$ConnectedYes   1.1034    0.6920    1.595    0.1108
dataPP$DefConYes:dataPP$ConnectedYes -1.6394    0.7650 -2.143    0.0321 *
```

```
---
```

```
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 451.59 on 465 degrees of freedom

Residual deviance: 395.71 on 462 degrees of freedom

AIC: 403.71

3. Failure of purchaser at 12 months

```
glm(formula = dataPP$F12 ~ dataPP$DefCon, family = "binomial")
```

Coefficients:

```
      Estimate Std. Error z value Pr(>|z|)
(Intercept)  -3.3524    0.3845 -8.718 <2e-16 ***
dataPP$DefConYes  0.8717    0.4495  1.939  0.0525 .
```

```
---
```

```
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 206.22 on 465 degrees of freedom

Residual deviance: 202.03 on 464 degrees of freedom

AIC: 206.03

Appendix 7

Sector of company in trading administration – 2 Digit SIC 2007

SIC 2007 Codes (2 Digit)	Sector Name	Prevalence	Prevalence Rate
13	Manufacture of textiles	2	1.8%
18	Printing and reproduction of recorded media	2	1.8%
20	Manufacture of chemicals and chemical products	1	0.9%
24	Manufacture of basic metals	2	1.8%
25	Manufacture of fabricated metal products, except machinery and equipment	3	2.7%
26	Manufacture of computer, electronic and optical products	1	0.9%
28	Manufacture of machinery and equipment n.e.c.	1	0.9%
31	Manufacture of furniture	1	0.9%

32	Other manufacturing	4	3.6%
35	Electricity, gas, steam and air conditioning supply	1	0.9%
38	Waste collection, treatment and disposal activities; materials recovery	1	0.9%
41	Construction of buildings	6	5.5%
43	Specialised construction activities	1	0.9%
45	Wholesale and retail trade and repair of motor vehicles and motorcycles	2	1.8%
46	Wholesale trade, except of motor vehicles and motorcycles	10	9.1%
47	Retail trade, except of motor vehicles and motorcycles	9	8.2%
49	Land transport and transport via pipelines	3	2.7%
55	Accommodation	11	10.0%

56	Food and beverage service activities	3	2.7%
58	Publishing activities	3	2.7%
64	Financial service activities, except insurance and pension funding	5	4.5%
68	Real estate activities	1	0.9%
71	Architectural and engineering activities; technical testing and analysis	4	3.6%
74	Other professional, scientific and technical activities	1	0.9%
78	Employment activities	1	0.9%
82	Office administrative, office support and other business support activities	6	5.5%
86	Human health activities	5	4.5%
93	Sports activities and amusement and recreation activities	3	2.7%
96	Other personal service activities	4	3.6%
Non-trading	Non-trading	1	0.9%

N/K	Not Known	12	10.9%
Total		110	100.0%

NB Total of 110 includes 6 companies that are represented twice, as there are two distinct sales, and 2 companies that are represented three times, as there are three distinct sales

Appendix 8

Sector of company in trading administration – Categorised

SIC 2007 Codes (2 Digit)	SIC 2007 Categories	Prevalence	Prevalence Rate
01-09	Agriculture and Mining	0	0.0%
10-33	Manufacturing	17	15.5%
35-39	Utility Supply	2	1.8%
41-43 & 68	Construction / Real Estate	8	7.3%
45-56	Wholesale / Retail / Transport / Storage / Accommodation and Food Services	38	34.5%
58-66 & 69-75	Communication / Finance / Insurance / Professional Services	13	11.8%
77-82	Administrative and Support Services	7	6.4%
84-88	Public Administration / Education / Health and Social Work	5	4.5%
90-93	Arts, entertainment and recreation	3	2.7%
94-96	Other service activities	4	3.6%
Non trading	Non trading	1	0.9%
N/K	Not known	12	10.9%
Total		110	100.0%

NB Total of 110 includes 6 companies that are represented twice, as there are two distinct sales, and 2 companies that are represented three times, as there are three distinct sales

Appendix 9

Failure data by categorised oldco sector data – Trading Administrations

SIC 2007 Categories	Prevalence (where full failure data)	Prevalence Rate	Prevalence of failure	Failure Rate (within category)	Failure Rate (overall)
Agriculture and Mining (01-09)	0	0.0%	0	N/A	0.0%
Manufacturing (10-33)	15	15.5%	6	40.0%	31.6%
Utility Supply (35- 39)	2	2.1%	1	50.0%	5.3%
Construction / Real Estate (41-43 & 68)	8	8.2%	4	50.0%	21.1%
Wholesale / Retail / Transport / Storage / Accommodation and Food Services (45-56)	29	29.9%	5	17.2%	26.3%
Communication / Finance / Insurance / Professional Services (58-66 & 69-75)	13	13.4%	0	0.0%	0.0%
Administrative and Support Services (77-82)	7	7.2%	0	0.0%	0.0%

Public Administration / Education / Health and Social Work (84-88)	5	5.2%	0	0.0%	0.0%
Arts, entertainment and recreation (90-93)	3	3.1%	0	0.0%	0.0%
Other service activities (94-96)	3	3.1%	1	33.3%	5.3%
Non trading	1	1.0%	0	0.0%	0.0%
Not known	11	11.3%	2	18.2%	10.5%
Total	97	100.0%	19	19.6%	100.0%

NB Total of 110 includes 6 companies that are represented twice, as there are two distinct sales, and 2 companies that are represented three times, as there are three distinct sales

Appendix 10

Counterfactual Regression Analysis Model

1. Failure of purchaser at 36 months

```
glm(formula = dataTA$F36 ~ dataTA$DefCon * dataTA$Connected,
     family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-2.6210	0.5179	-5.061	4.16e-07 ***
dataTA\$DefConYes	1.5224	0.7756	1.963	0.049650 *
dataTA\$ConnectedYes	3.0265	0.8276	3.657	0.000255 ***
dataTA\$DefConYes:dataTA\$ConnectedYes	-1.4171	1.2456	-1.138	0.255263

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 94.173 on 92 degrees of freedom

Residual deviance: 71.292 on 89 degrees of freedom

AIC: 79.292

2. Failure of purchaser at 24 months

```
glm(formula = dataTA$F24 ~ dataTA$DefCon * dataTA$Connected,
     family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-3.3499	0.7194	-4.656	3.22e-06 ***
dataTA\$DefConYes	2.2513	0.9224	2.441	0.01466 *

```
dataTA$ConnectedYes      2.9444  0.9665  3.046 0.00232 **
dataTA$DefConYes:dataTA$ConnectedYes -1.8458  1.3295 -1.388 0.16502
```

```
---
```

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 78.797 on 92 degrees of freedom

Residual deviance: 60.014 on 89 degrees of freedom

AIC: 68.014

3. Failure of purchaser at 12 months

N/A

Appendix 11

Combined Regression Analysis Model

1. Failure of purchaser at 36 months

```
glm(formula = data$F36 ~ data$Type + data$DefCon * data$Connected +
    hh(data$Purchase) + log(data$Age), family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z
value Pr(> z)			
(Intercept)	-3.6127	0.6427	-
5.621 1.90e-08			
data\$TypeTA	0.8623	0.3602	
2.394 0.016669			
data\$DefConYes	2.5892	0.4404	
5.880 4.11e-09			
data\$ConnectedYes	1.6745	0.4456	
3.758 0.000171			
hh(data\$Purchase)NotLarge	1.1988	0.5003	2.396
0.016567			
log(data\$Age)	-0.2821	0.1231	-
2.291 0.021952			
data\$DefConYes:data\$ConnectedYes	-1.7067	0.5198	-3.283
0.001026			

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 625.17 on 551 degrees of freedom

Residual deviance: 534.82 on 545 degrees

AIC: 548.82

2. Failure of purchaser at 24 months

```
glm(formula = data$F24 ~ data$Type + data$DefCon * data$Connected +
    hh(data$Purchase) + log(data$Age), family = "binomial")
```

Deviance Residuals:

Min	1Q	Median	3Q	Max
-1.3837	-0.7816	-0.3764	-0.1822	2.8866

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-4.3546	0.8106	-5.372	7.79e-08 ***
data\$TypeTA	0.8425	0.3987	2.113	0.03459 *
data\$DefConYes	2.9368	0.5366	5.473	4.43e-08 ***
data\$ConnectedYes	1.6040	0.5693	2.817	0.00484 **
hh(data\$Purchase)NotLarge	1.2993	0.6302	2.062	0.03923 *
log(data\$Age)	-0.2630	0.1362	-1.930	0.05355 .
data\$DefConYes:data\$ConnectedYes	-1.8343	0.6327	-2.899	0.00374 **

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 528.34 on 551 degrees of freedom
 Residual deviance: 450.39 on 545 degrees of freedom
 (7 observations deleted due to missingness)
 AIC: 464.39

3. Failure of purchaser at 12 months

Call:

```
glm(formula = data$F12 ~ data$Type + data$DefCon * data$Connected +
    hh(data$Purchase) + log(data$Age), family = "binomial")
```

Coefficients:

	Estimate	Std. Error	z value	Pr(> z)
(Intercept)	-5.4871	1.2864	-4.265	2e-05
data\$TypeTA	0.9501	0.5772	1.646	0.0998
data\$DefConYes	1.3676	0.9364	1.460	0.1442
data\$ConnectedYes	2.1186	0.8323	2.546	0.0109
hh(data\$Purchase)NotLarge	1.2101	1.0387	1.165	0.2440
log(data\$Age)	-0.1588	0.2154	-0.737	0.4609
data\$DefConYes:data\$ConnectedYes	-1.2103	1.0293	-1.176	0.2397
