

EXIT STRATEGIES

UNDERPERFORMING BUSINESSES

Many people think that as Insolvency Practitioners we can only help when a company is insolvent and is forced into a formal process. However, we can also assist with the voluntary closure of a business.

A group may have a subsidiary whose business is not performing to the standard of the rest of the group or is just no longer relevant to the group's strategy. Closing the business could have the following advantages

1. Release capital which can be reinvested in better performing parts of the group or returned to investors;
2. Free up senior management time; and
3. Avoid possible claims against the directors for wrongful trading if they allow the company to continue to trade and it eventually goes into insolvent liquidation.

Often the management are not aware of what the costs of closure would be and they are worried that the parent may be liable for any shortfall. We can advise on what the likely closure costs would be eg estimate the amounts that employees would be entitled to on redundancy (these amounts are often much lower than expected by European clients), and provide comfort that, in the absence of any cross guarantees, the parent will not be called upon to meet any liabilities of a subsidiary. This would enable management to make an informed decision when considering their options.

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So what is involved ?

If a decision is made to close down a business the directors could immediately place the company into liquidation and appoint us to be liquidators; we would then be responsible for the entire wind down. This would have the advantage for the client of freeing up senior management time, however costs could be saved by management tidying up the company as much as possible before placing it into liquidation, for example by collecting outstanding debts disposing of assets and settling liabilities.

When deciding on the date of liquidation it is important to consider the tax implications, the liquidation itself brings a tax period to an end. Also any distributions of surplus assets to the shareholders from the liquidation are considered a return of capital, whereas a dividend paid from reserves pre-appointment is taxed as income.

A planned exit strategy will allow for tax efficiencies to be exploited minimising any tax liabilities, both in the Company being closed and in the parent. It will also be necessary when closing the business to bring all corporation tax computations up to date.

Why us?

Moorfields Corporate Recovery is a specialist firm providing restructuring and insolvency solutions to businesses, financiers, stakeholders and professionals including accountants and lawyers.

So why are we considered specialists in our field ?

- We focus 100% of our time on corporate restructuring and insolvency solutions.
- We have a dedicated team of corporate simplification experts who regularly work with SME'S to blue chip companies.
- We dedicate 100% of our time on corporate simplification/ MVL procedures and project management.
- We are committed to seeking practical solutions and provide lasting practical solutions focused on meeting our clients' requirements.



CASE STUDY

JAPANESE QUOTED COMPANY

“Release capital which can be better invested”

Company Overview

- Subsidiary of Japanese quoted company.
- Previously operated a London office on behalf of parent company.
- Office closed and lease terminated before liquidation
- Cash balance of £1.6 million.

The Challenge

- Shareholder wanted cash distributed, but Company did not have distributable reserves.
- Shareholder wanted company wound up and dissolved.

Moorfields Action

- Began legal action to recover debt where the debtor attempted to avoid payment.
- Identified rates overcharge not known to client. Secured refund of £60,000.
- Distributed £1.6 million to shareholder before its year end.
- Agreed and paid final Corporation Tax liability.
- De-registered Company for VAT and reclaimed all outstanding VAT.

The Result

- Returned cash to shareholder in accordance with agreed timetable.
- By identifying unknown assets secured greater than expected return to shareholder.
- Freed shareholder's management from having to deal with UK tax issues.
- Successfully wound up Company

Thank you for all your help. We will certainly be in contact again when/if we need any assistance on any other companies”

Large PLC based in London

CAN WE HELP?

If you would like to discuss how Moorfields can assist in placing your company into MVL, or any of the issues raised above, please contact:

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Corporate Recovery