

CVA Case Study - Professional Services



New Thinking. Leading.

The team at Leading Corporate Recovery were recently approached by a local professional services company that was on the verge of receiving a winding up order from HMRC.

The Problems

In the free initial meeting, we identified that the company had struggled during the economic downturn due to a large reduction of work but, as the directors always looked at the pipeline optimistically, staff numbers were not reduced at all. Both profit and reserves had been exhausted and the company had fallen into arrears with creditors (around £70k to suppliers, £80k to HMRC and a £50k bank overdraft).

The Symptoms

The overdraft reached its limit each month when wages were paid, a few suppliers had put the company on stop, and the company was paying HMRC £6,000 per month that it could no longer afford, however HMRC were threatening the business with winding up proceedings if the payments stopped and so it was imperative that action was taken quickly to protect the business.

The Review

Jamie Playford, Licensed insolvency Practitioner, conducted a full review of the company's financial position, including the assets and liabilities, the recent trading performance and also the future work pipeline. This review showed that although a number of new contracts had recently been won, these were not yet having any significant impact on the overall profit and, in fact, due to very generous terms offered by the company in order to win the work, the new contracts were actually hampering the cash flow even further. It was established that the future order book was very promising and the directors were keen to keep the business trading. There were also

personal guarantees provided by the directors to the bank, which they were keen not to see called in.

The Deal

Having discussed the financials with the directors, we were able to suggest a number of changes that would make an immediate impact on profitability and cash flow and, as the future of the business looked viable, a Company Voluntary Arrangement (CVA) was proposed over a three year period, with the company paying £2,500 per month, which the directors were confident was affordable. This was projected to pay creditors around 40 pence in the pound on their debts.

We opened discussions with major stakeholders, including the bank and HMRC, and also kept employees informed, as there were whispers surrounding the company's problems starting to get out to suppliers and staff. Word also got out to a major customer, so we also held a meeting with them to reassure them that the company would be able to continue. The bank was generally supportive, although the overdraft needed to be refinanced and so we introduced the company to a specialist commercial finance broker, who was able to raise funds against some of the company's assets in order to replace the overdraft and prevent the personal guarantees being called in. This was implemented and funds drawn down within ten days.

The Result

Within four weeks of our first meeting with the client, we had convened and held the creditors meeting and gained the creditors' approval for the CVA. The company was able to continue trading and the exercise has highlighted the problems with low-margin contracts and weak credit control. As a result, the company has been able to increase profitability and cash in a short space of time.

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To date the company has met its obligations under the CVA and the directors are thrilled with the resulting restructure, as it enabled them to continue trading with an improved cash flow and no distractions that creditor pressure causes. Once the term of the CVA has concluded, the outstanding balance that is due to creditors will be written off.

How can a CVA help you and your business?

A Company Voluntary Arrangement, or CVA, was introduced to provide an alternative option to companies who are facing liquidation. A CVA is used as a rescue tool which allows a company to repay some or all of its unsecured debt whilst continuing to trade. The CVA itself is supervised by a Licensed Insolvency Practitioner (the Supervisor) whilst the company continues under the existing management.

What are the main benefits of a CVA?

- ① Your business will become more financially stable with an improved positive cash flow.
- ② Ensure the directors remain in control of the business.
- ③ Lease and employee obligations can be renegotiated.
- ④ Fees are often lower than an Administration or Liquidation.
- ⑤ It can be implemented quickly so you can focus on getting your business back to profitability.
- ⑥ It can help in cases where the business needs to restructure.
- ⑦ Legal actions such as county court judgements and winding up petitions cannot be pursued.
- ⑧ It can help in cases where directors have been unable to negotiate repayment plans with creditors or HMRC.
- ⑨ Once the CVA has been successfully completed, any outstanding unsecured debt is written off.



A CVA will help improve cash flow and reduce debt levels and, in most cases, the company will make a single, affordable monthly payment to the Supervisor. The Supervisor will distribute this payment on a pro rata basis amongst all unsecured creditors. The CVA is usually fixed over a period of up to five years and the amount the company repays can vary from just a small percentage of the overall debt to repayment in full. At the end of the CVA any outstanding unsecured debts will be written off, allowing the company to wipe the slate clean.

Our team have many years of experience in drafting and negotiating CVA proposals that work for the future benefit of your business and as all of our CVAs are bespoke, they will deal with the unique circumstances of your business.

We will also support you in the discussions with stakeholders such as employees, your bankers, HMRC and key suppliers and customers to ensure that the business has every opportunity to be successful in the future.

If you feel a CVA is suitable, we would welcome a chance to discuss this further with you and to explain the benefits of working with Leading Corporate Recovery.