Winding Up Petition - Case Study

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The team at Leading Corporate Recovery were recently approached by the directors of a shoe shop business which traded from multiple small premises in town centres. The company had a turnover of £1.8m and employed 35 people.

Whilst the business had traded successfully for a number of years, the downturn in the economy heavily impacted consumer spending and the company witnessed a dramatic fall in turnover and profit. At the point of meeting with Jamie Playford, Licensed Insolvency Practitioner, the company owed HMRC £70k and had accumulated trade debts of approximately £254k. The company had already entered into a Time To Pay arrangement with HMRC but had struggled to continue making payments and the landlord of one of the premises had threatened the business with a winding up petition as rent had not been paid.

Jamie initially conducted a full review of the company's financial position and identified that in recent months, trade had improved significantly and whilst turnover continued to increase, the burden of debt meant it was impossible for the Directors to make any progress with returning the business to a cash-positive position.

Having conducted the business review, it became apparent that some of the individual branches of the business were underperforming and had not been profitable for some time. It was decided that these should be closed in order to give the remainder of the business.

Jamie proposed that a Company Voluntary Arrangement would be a suitable procedure that would help restructure and rescue the business, allowing it to continue to trade whilst repaying the creditor debt it could afford. In the first instance, it was proposed that the initial repayment to creditors would be £2.5k per month in the first year, increasing to £3.5k over the remaining four –year term of the arrangement.

The directors agreed that this would be a sensible option and the proposal for the CVA was drafted. Unfortunately, whilst this was taking place, the company received the Winding up petition that they had previously been threatened with by a landlord.

Jamie immediately contacted the landlord to explain that the company were hoping to enter into a CVA and persuaded him to pause any action until the outcome has been confirmed. When the CVA was finalised, the Landlord voted for the proposal which gave a total dividend of 30p in the pound, with this increasing if the company had increased its profits.

To date, the directors have continued to meet their obligations under the CVA, all staff at the remaining branches kept their jobs and the company is seeing a return to a more positive, profitable position.

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