4R BUSINESS RECOVERY

> RESCUE, RECOVERY & BUSINESS TURNAROUND

4R Business Recovery

CVAs (Company Voluntary Arrangement) Guide

4R Business Recovery Helping You

Turnaround Your Business

A Few Words From Kevin

Here at 4R Business Recovery, we understand that no two businesses are the same. Every day we help companies of all sizes turn things around against seemingly impossible odds.

Regardless of your situation, we're here to help.

This guide has been put together to help you understand what a Company Voluntary Arrangement is and what it could mean to you.

If you have any questions about what you see here, and would like to speak to one of our expert advisors, call 0800 902 0123 or email info@4rbusinessrecovery.co.uk

Alternatively, if you would like to contact me at kevinpritchard@4rbusinessrecovery.co.uk I will be happy to answer any of your questions directly.

I hope you find the guide useful. Our initial consultations are free and importantly totally confidential. We will work with you to devise an action plan that suits your circumstances.

Kindest regards,

Kevin Pritchard
Managing Director
4R Business Recovery Ltd

A Simple Introduction to... CVAs

What Is A CVA -

A Company Voluntary Arrangement (CVA) is a procedure which enables a company to come to an agreement with its Creditors about how its debt is to be repaid. It is a simple and effective way of saving an insolvent business that is facing difficulties.

Key Points

- **A formal time to pay arrangement with creditors**
- **You can pay off your debts over a period of one to five years**
- **Ability to write off significant outstanding company debts**
- **Protects your company from legal action while you restructure and cut costs**
- **Put your business in a better position for the future to survive**
- **The directors remain in control**

More About What a CVA Means To You -

Company Voluntary Arrangements were introduced by the Insolvency Act 1986 to give companies in financial difficulties a second chance. A CVA is a proposal that offers to repay your company debts over time. The document sets out a statement of affairs and informs creditors such as HMRC what the outcome would be if the company is liquidated. The CVA proposal has to offer creditors a better outcome than liquidation but often results in significant discount on the debt owed, with up to 70% of the debt being forgiven. The CVA proposal will include a forecast of profits and a cash flow with a proposed repayment plan with terms for your creditors. This can give you enough time to get things back on track and become a profitable business that is set for the future.

CVAs can last from 1 month up to five years. During this time the company is restructured so that your debts can be paid over that period giving you the ability to get the business back on track. The current directors will remain in control of the business whilst the company continues to trade.

When Should I Consider a CVA?

If you think your company is insolvent and you can't pay your bills on time, you should consider a CVA. It's not the best solution in every case, but if you believe your company has a viable future but simply needs some debt relief and time to pay, then a CVA often gives the business the best chance of survival.

A CVA is useful if creditors are threatening legal action. Companies are protected by a 28-day moratorium while discussions with creditors can take place. This is important as it puts a stop to winding up petitions and other aggressive creditor actions. For example HMRC will agree to stay a winding up petition or not publish a winding up petition that has already been issued when they receive a CVA proposal. This gives you the ability to restructure and propose a CVA without the constant threats from creditors of legal action so that your business can continue trading and be more prepared for the future.

You can even propose a CVA if the company is in administration or a liquidator has been appointed. To find out more about this simply contact us on 0800 902 0123.

Do Creditors Have a Say?

Yes, the CVA proposal is approved by a vote of your creditors at a creditors meeting. A meeting is held [most creditors vote by proxy online or by post] and a 75% majority by debt value OF THOSE WHO VOTE have to consent or approve the CVA.

The voting arrangements are slightly complex and often cause the most concern to directors considering a CVA i.e. will creditors vote "yes" ? We find that creditors will often agree to a well drafted CVA as it gives them the best chance of getting their money back from the company in debt.

If you are concerned about the vote then please give us a call so we can explain the mechanism more clearly, in summary it is not 75% of the total creditor debt but only 75% of the total creditor debt that vote that really matters.

Also, we can use connected creditors i.e. directors, shareholders and family members to secure the 75% on a first vote as long as we can secure 50% of the vote on a second vote of unconnected creditors.

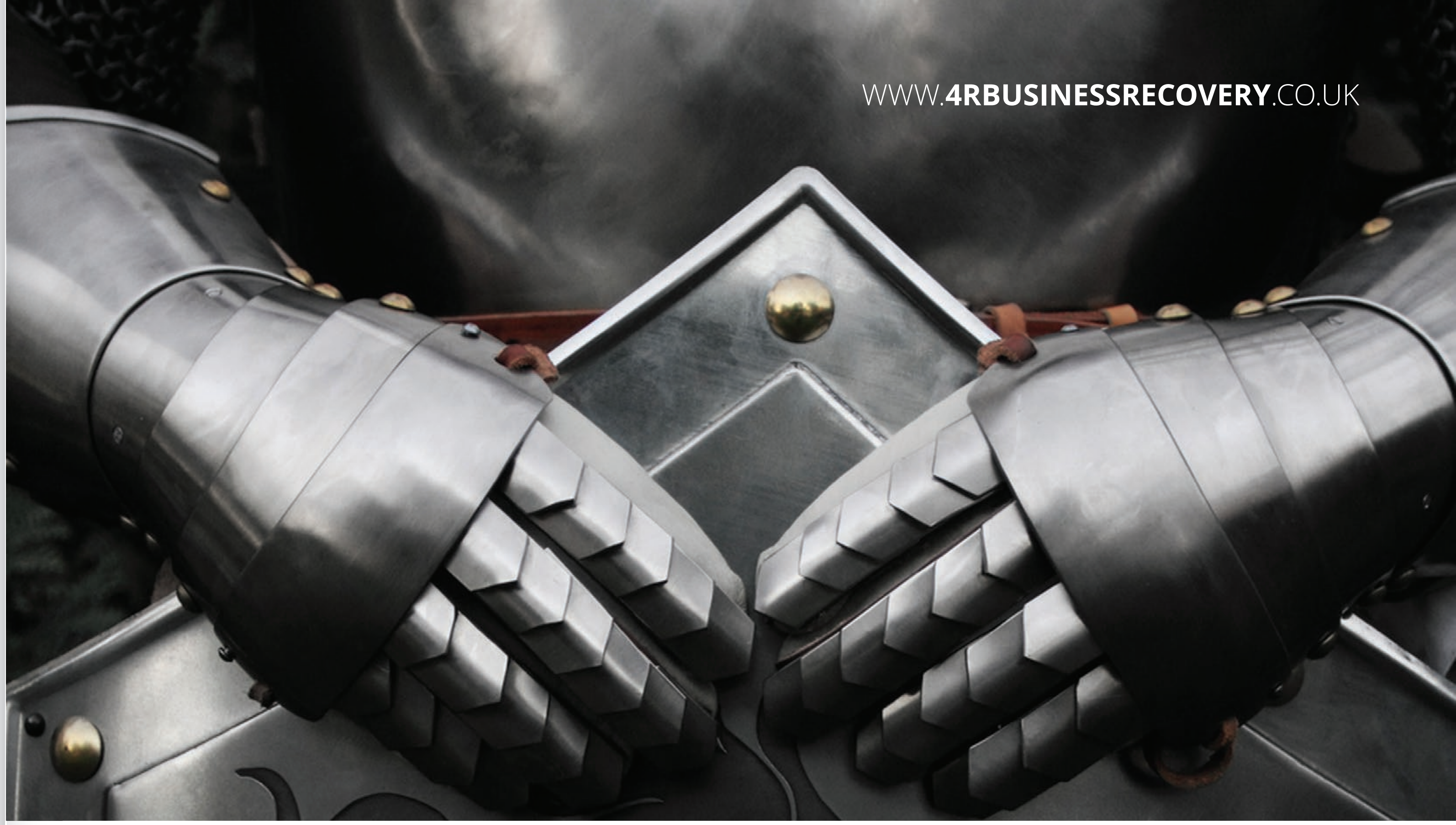
What about those Creditors who vote "No"?

If the CVA is approved by a simple majority of those who vote then all creditors are bound by the terms of the CVA. The process of being bound is critical as clearly not all parties will be happy with the outcome from the proposal. The Insolvency Practitioner in proposing the CVA, is appointed to ensure equitable treatment of all creditors so they are bound to the agreement even if they voted "No".

Key Points to Remember

- **An Insolvency Practitioner is a licensed professional will need to be engaged to propose the Company Voluntary Arrangement and normally will act as the Nominee and then Supervisor of the CVA. They have a duty of care the ensure that the affairs of the company are properly reviewed and all options explained to the directors, they also need to be satisfied that a CVA represents the best outcome for the unsecured creditors.**
- **A significant proportion of CVA proposal's are processed by Insolvency Practitioners using a standard template. For a simple CVA this is often appropriate however your business probably deserves a bespoke and well written proposal that provides sufficient information and reassurances to increase the chances of success. Call 4R now for further information on how the right proposal will secure a yes vote.**

Once a CVA has been approved it will then become binding for all of your creditors including lenders, the HMRC and suppliers.



Will HMRC agree?

You may have read or heard that HMRC won't agree to a CVA, but that's simply not true. They will, provided it is a detailed and realistic plan that enables them to be paid the tax due. As they're often owed the largest sum of money, getting them on your side means it's more likely your CVA will be approved.

HMRC even have a specialised department for dealing with CVAs – the Voluntary Arrangement Service (VAS).

What are Modifications?

Creditors, and specifically HMRC, have the ability to accept the CVA proposal but the vote is conditional upon an agreed modification to the operation of the CVA. Typical modifications might include for example an undertaking that the company will ensure that all tax returns will be made on time and that a failure to pay future HMRC debts on time are grounds to fail the CVA once approved.

Why Consider a CVA?

A CVA is good for everyone involved:

- Creditor's interests are being put first as they're more likely to get the money they're owed, which means the directors are much less likely to be accused of wrongful trading or of creating preference.
- Shareholders, directors and owners have more chance of seeing the company return back to profitability with the future mapped out better than before.
- There's no need to wind up the business, which preserves jobs and helps the local economy.
- No investigation into a directors conduct as there is no liquidation.
- Cash flow usually improves straight away. It is sometimes difficult to comprehend how cash flow can be improved and generated to significantly improve the relaunch of the business. If you want to understand how cash flow can be given a boost then call us now.

Top Tip

- **The nature of the insolvency industry is that the focus is on ensuring that the Insolvency Practitioner who is acting as Nominee and Supervisor has signed off a "compliant" CVA. This focus on compliance is critical and understandable but the consequence is the CVA is often unrealistic and ultimately even if approved will often fail. It is a sad fact that about 70% of CVA's fail within two years of being approved. The reason is simple. The focus is centred on compliance with regulations and guidance and not on business turnaround and the resources required to ensure a business has taken the key actions to ensure success are not in place. In short your business needs a well written compliant BUT REALISTIC proposal that will not only secure the vote but also ensure the business is a success moving forward.**

What Sort of Restructuring is Involved?

While securing a discount in the total level of debt and spreading the cost of that debt over a number of years is a large part of the process, a CVA offers a unique opportunity to restructure your business. It is also about helping your business prepare for the future so that you don't get into difficulties again. These include -

- The ability to re-negotiate or terminate onerous hire purchase agreements or finance contracts.
- The ability to terminate property leases and renegotiate rents
- You may want to reconsider staffing levels (Redundancy payments are paid by the Redundancy Payment Office).
- Change processes so that they are more stream lined and effective for the business
- You could sell off some of your assets or parts of the business to raise funds
- Enter into joint ventures or look at refinance such as factoring etc

A CVA not only helps you re-structure your debts but also helps you preserve cash within the business. This enables you and your co-directors to set the business up for the future and look at ways of re-structuring the business to offer a better quality of service and maybe even add more services and products to your portfolio.

Are CVAs Expensive?

Compared to other insolvency procedures, CVAs aren't expensive. The cost varies from business to business depending on circumstances. It is wise to bear in mind that the improvements to cash flow that a CVA provide makes it a very affordable option in most if not all cases.

Our Top Tips –

- **Make sure you get advice when drawing up a CVA – the right proposal is more likely to be accepted and is less likely to fail in the long term.**
- **Check how many CVAs the turnaround company have done, 4R have often secured a "Yes" vote when a previous CVA has failed to be approved. As experienced business turnaround specialist, we have worked with hundreds of businesses in difficulty, and have a very high success rate.**
- **Ensure the CVA proposals are realistic. Many CVAs fail because the repayments are too high.**
- **Accept that things have to change – your company won't recover if things stay the same.**
- **Be prepared to work hard to make the CVA a success.**

What to Do Now

- Firstly, find out if your company is insolvent. One definition is not being able to pay debts when they become due.
- Decide if your company is viable. Has it been profitable in the past? Could cash flow be improved if you had fewer debts? If it's viable, a CVA is probably the best option.
- Ask 4R Business Recovery for advice – often we'll recommend a CVA, but there may be another option that's even better for you.
- Let us help you restructure your business using a licenced insolvency practitioner to draw up and propose your CVA agreement.

A Final Top Tip

If your company has bank borrowing or commercial finance or a debenture then please call us urgently for advice. If you do not know what a debenture is or if a debenture is lodged against you company then again call us and we will run a FREE COMPANY PROFILE CHECK and with one call we can confirm if a debenture or fixed and floating charge is in place.

It matters because the debenture holder has specific powers over the company and can often force the company into more draconian insolvency measures. We work with banks and funders and can help steer the company through the process without further stress so if you have a debenture or are unsure call 4R now.

If your business is under threat, **contact 4R Business Recovery for an initial consultation completely FREE of charge.** We will advise you on what is best for your business.

We are here to put your mind at rest and enable you to go forward in a positive frame of mind.

Simply call us today on **0800 902 0123** to speak with one of our expert advisors, or contact us through a simple form online via our website.

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