



# Supply chain disruption and the impact on businesses and lenders



As the U.K. navigates a post lockdown world, a combination of Covid-19 and Brexit related issues are placing significant strain on supply chains leading to lost revenue, increased costs and squeezing already constrained liquidity positions for many businesses.

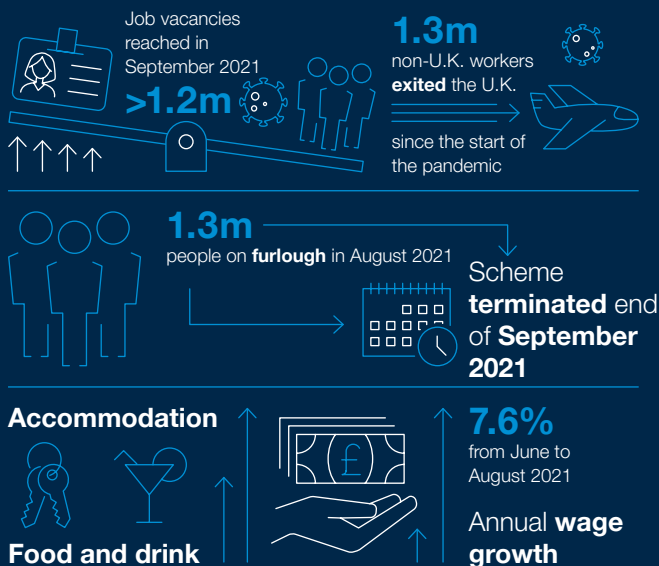


## Labour Shortages

The U.K. is amidst its worst staff shortages in over 20 years according to ONS data.

Covid-19 border controls and post Brexit immigration rules and sentiment, are making it difficult to replace the c.1.3 million of non-U.K. workers that have left the U.K. since the start of the pandemic. Furlough has also hindered job transitions leading to over 1.2 million job vacancies currently in the U.K.

This has led to businesses being unable to operate at full capacity whilst still suffering increased staffing costs due to having to pay higher wages in order to recruit and retain staff.



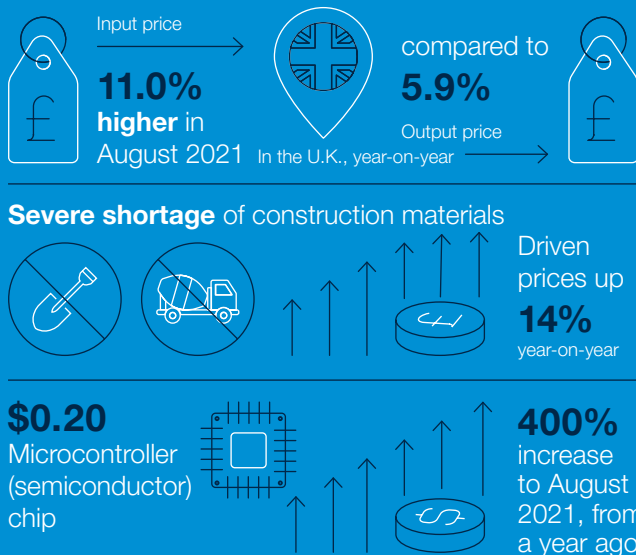
Source: ONS



## Increase in Input Prices

U.K. input prices have grown at their fastest rate in over 13 years, principally driven by raw material and labour shortages and increased shipping costs.

This divergence between input and output prices will lead to margin and cash flow erosion.



Source: A&M research and analysis, VDW, Statistisches Bundesamt, Nikkei Asia



## Shipping container challenges

Demand is far outweighing supply of shipping capacity.

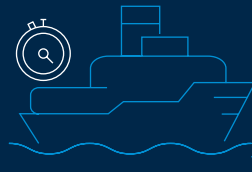
A change in consumer behaviour throughout the pandemic, stockpiling of inventory as the Brexit transition period ended and pent up demand as the global economy now reopens have all contributed to a surge in demand for manufactured goods.

National lockdowns easing at different times has also caused a mismatch in global supply and demand leading to containers ending up in the wrong locations. As a result there are currently extensive time delays in securing required containers.

These issues are significantly increasing ordering and delivery lead times and has led to an 11 year high in shipping costs.

**12.5%**

of global shipping capacity was unavailable in August 2021



due to port **congestion** and **delays**

year to date

**China's**



exports **grew**

**35.2%**



imports **increased**

**34.9%**



**\$3,700**

September 2019



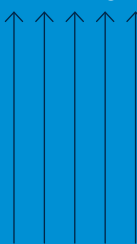
**\$20,600**

September 2021

40-foot equivalent unit container price

Source: British International Freight Association, Bloomberg

**Demand for haulage**



**120% higher**  
April 2021  
than April 2019



**100,000**

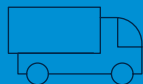
Extra HGV Drivers **needed** in the U.K. to **meet** current **demand**

**No British HGV drivers trained for over a year**



due to Covid-19

**30,000**  
drivers



have **left the U.K.** since Brexit in January 2021

Source: Haulage Exchange, Road Haulage Association



## Inventory build up

Due to this severe supply chain disruption, many businesses have been forced to move from a 'Just in Time' inventory model and increased their levels of purchasing in order to stockpile inventory.

Stockpiling and longer inventory holding periods puts increased pressure on liquidity and working capital needs and increases warehousing and insurance costs.



## HGV driver shortage

At a time when there has been a significant increase in demand for haulage, the U.K. is in the midst of a severe shortage of HGV drivers.

This shortage has resulted in requiring longer lead times and missed timed delivery slots

This has led to lost sales, increased supply costs and cash being absorbed in building buffer stocks.

**30.8m sq ft**

**occupied**  
in the U.K.

(over 50,000 sq ft)

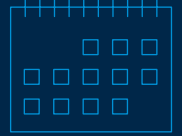


**large industrial warehouse units**








**100%**

**increase** in H1 **2021** from prior year



Source: Knight Frank



	 Labour shortages	 Input price increases	 Container challengers	 HGV driver shortage	 Inventory build up
Manufacturing	●	●	●	●	●
Retail	●	●	●	●	●
Healthcare	●	●	●	●	●
Media & Entertainment	●	●	●	●	●
Education	●	●	●	●	●
Financial Services	●	●	●	●	●
Construction	●	●	●	●	●
Oil & Gas	●	●	●	●	●
Automotive	●	●	●	●	●
Restaurant & Pubs	●	●	●	●	●
Transportation & Logistics	●	●	●	●	●
Aviation and airlines	●	●	●	●	●
Hospitality and leisure	●	●	●	●	●
Technology	●	●	●	●	●

● High impact
 ● Moderate impact
 ● Minimal impact





## Key considerations for Corporates

The disruptions buffeting the supply chain are pushing companies to re-think any return to a pre-pandemic status quo. While businesses continue to contend with the lingering challenges of COVID-19, this can act as a springboard to build supply chain resilience, prepare for a new normal and seize the opportunities created by disruption such as the phenomenal growth being experienced in e-commerce as a direct result of global lockdown.

A&M believe that increasing supply chain resilience is a key imperative for businesses and have identified 5 actions to underpin improvement in resilience:



**Forecasting:** Overlay wider supply market dynamics into own forecasts e.g. additional supply pressure as a result of competitors all re-stocking at the same time.



**Supply Planning:** Build supply side risk assessment into your S&OP process and inventory setting decisions to protect customer service.



**Portfolio Management:** Analyse all SKUs in your manufacturing process to identify the most critical ones and how exposure can be mitigated. Classify what is strategically important inventory and buffer accordingly.



**Sourcing:** Incorporate supply risk mitigation into sourcing strategies such as dual sourcing, local sourcing and ensuring contracts provide a reasonable degree of protection for disruption.



**Responsiveness:** Establish an early warning system including leading indicators and cross functional team of people who monitor and react quickly to emerging supply chain risk.



## Key considerations for Lenders

Whilst we expect these disruptions to be temporary, they will undoubtedly persist into 2022. In an effort to alleviate the current disruptions, the UK Government is stepping in with temporary measures such as relaxations to HGV drivers working hours and qualifying process, offering temporary visas for foreign drivers and increasing the number of seasonal workers permitted to enter the UK. However some industry associations such as the RHA have said they expect it will take 18 months to be resolved. This will lead to lost revenue, increased costs and margin & cash flow erosion, ultimately placing strain on performance and working capital requirements.

Since the beginning of the pandemic, Lenders may have already provided support across their portfolio by waiving or amending covenants, extending maturities and/or increasing facilities. Given the extent of the disruption currently being seen across the U.K., we would expect that further support may be required and there to be additional asks of Lenders.

We may see requests to Lenders to increase facility sizes and to renegotiate debt terms. This will impact debt levels, leverage ratios and associated covenants, all of which will need to be carefully assessed in the context of a changed risk landscape.

### Lenders will need to consider:



Is there sufficient liquidity in the short term to navigate the current disruption?



There will need to be heightened scrutiny of inventory levels, purchasing processes and overheads. Are there robust processes in place to manage these effectively?



What options are available to Management to preserve and maximise cash? Working capital optimization will be crucial.



Should these supply chain issues continue in the medium term, what does the medium to longer-term liquidity and cash flow forecasting look like?



Has there been rigorous testing of assumptions and stress testing used in developing appropriate Business Plans?



Is the balance sheet and specifically the capital structure, suitable for the longer-term outlook for the business?





## How A&M can help

The team have extensive experience restructuring businesses across Europe and globally including Virgin Active, Hertz, Trevi, Eddie Stobart, New Look and Addison Lee. We support lenders to identify issues, stabilise situations and implement consensual solutions:



Liquidity assessments through robust short term cash flow forecasting



Effective working capital management to maximise cash



Strategic and business plan reviews (IBR's)



Independent assessment of operational restructuring proposals



Assessment of borrower financial restructuring proposals



Options analysis, scenario planning and capital structure modelling



Negotiate and implement balance sheet restructuring



Financial covenant assessment/reset



Contingency planning



Tactical use of restructuring tools (CVA's/ S26A restructuring proposals/pre-packs)



Exit/Enforcement of security

We can support clients in delivering transformations and performance improvement initiatives related to supply chain resilience:



Rapid Operational Transformation



Strategic Sourcing & Procurement



Industrial & Footprint Strategy



Integrated Demand & Supply Planning



Logistics & Distribution



Sustainable Solutions



Our approach to helping businesses and their lenders is different. We combine best in class diagnostic capability with top-table Financial Advisory professionals. Additionally we have subject matter and sector experts who have typically held C-suite roles in major corporations who have tackled these very issues



## A&M: Leadership. Action. Results.<sup>SM</sup>

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations. When traditional improvement activities are not enough, A&M's restructuring and turnaround heritage brings fact-based, action-oriented leadership to deliver rapid results.

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### ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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397679/October 21

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