

Analysis of profit warnings

Issued by UK quoted companies

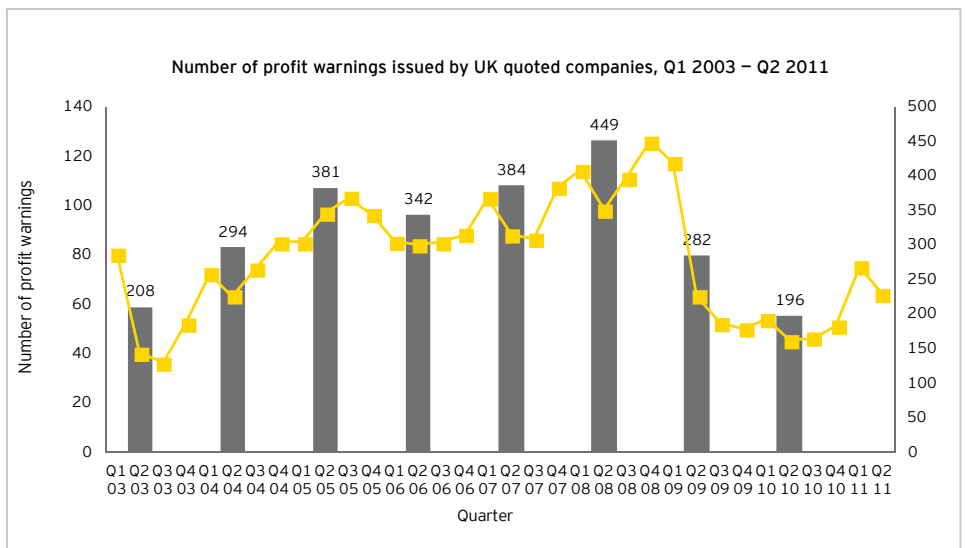


Retail on the ropes again

UK profit warnings rose sharply year-on-year in the second quarter of 2011, as sluggish growth and a weakening outlook forced an increasing number of companies to reassess their expectations.

With fiscal tightening now starting in earnest, it will be hard for the UK economy to gain further momentum in 2011. Fair weather and festive holidays can only provide a temporary fillip. Catalysts for the substantial and sustained private sector growth needed to offset fiscal retrenchment are much harder to find. Especially while high inflation remains a thorn in the side of the UK economy, sapping domestic demand, squeezing consumers and leaving lingering concerns about the potential for interest rate rises. Export and investment growth can only do so much to counterbalance this weakness, particularly whilst many of the UK's key markets face their own inflation and austerity battles.

UK GDP should stay out of the red in 2011, but not by much. The credit crunch has deeply bruised the UK economy, along with the economies of most of the developed world. 'Below-par' growth is the new normal, particularly for consumer-facing industries where adjusting to this new reality is proving an especially painful process.

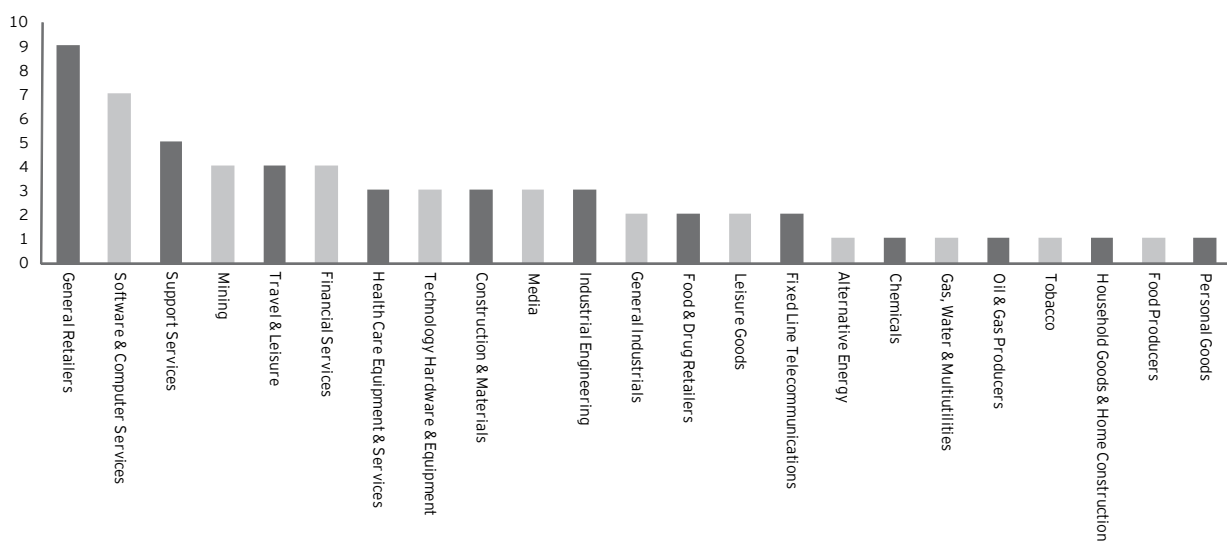


Profit warning highlights

- ▶ UK quoted companies¹ issued 64 profit warnings in Q2 2011, 42% more than the same quarter of 2010 and 15% fewer than they issued in Q1 2011.
- ▶ Profit warnings normally dip in the second and third quarters, due the characteristics of the corporate reporting cycle. Comparing year-on-year, Q2 2010 has seen the largest number and proportion of UK quoted companies warning in a second quarter since the peak of 2008.
- ▶ Looking by industry, the FTSE sectors with the highest number of profit warnings this quarter were FTSE General Retailers with nine, FTSE Software & Computer Services with seven and FTSE Support Services with five.
- ▶ The bleak midwinter has merged into a cheerless summer for quoted retailers who have issued more profit warnings in the first six months of 2011 than they issued in the whole of 2010 and almost twice as many as they issued in the whole of 2009. The next three months will stretch more retailers to the limit as they approach the next quarter rent day and seek credit for Christmas.
- ▶ Sectors reliant on retailers will watching their travails with alarm. The consumer electronics sector is under particular strain. A third of FTSE Leisure Goods companies have warned in the last year, the vast majority of which supply electronic appliances.
- ▶ Industrial sectors continued to issue exceptionally low numbers of profit warnings. However, weaker manufacturing surveys suggest companies are starting to feel the pinch of slower global growth and higher raw material prices.
- ▶ FTSE Support Services profit warnings fell dramatically, from 12 in Q1 to just five in Q2 2011. The market appears to have priced in the main thrust of public and private sector cost cutting, but slowing economic growth and the realities of fiscal austerity could necessitate further adjustment.
- ▶ Rising input prices remain a significant contributor to profit warnings, with a weakening economic environment making it harder for companies to pass on significant rises in raw materials. In the half of 2011, 29% of profit warnings cited pricing pressures, compared with 15% in the same period of 2010.
- ▶ Overall, 5.6% of all UK Main Market and 3.1% AIM companies issued a profit warning in Q2 2011, up from 3.4% and 2.5% respectively in Q2 2010.
- ▶ The average fall in share price on the day of warning was 15.5%, a sharp rise from 12.4% last quarter. Share prices tend to fall further on the day of warning when the number of profit warnings is rising – i.e., when expectations are falling – and when heightened uncertainty encourages investors to de-risk their portfolios.

¹ Main Market and AIM listed companies

Number of profit warnings issued by UK quoted companies by FTSE sector, Q2 2011



Diminished expectations

We are learning the hard way that the normal rules of recovery do not apply after credit crises.

More than a year after the end of recession, economic growth would normally have returned to strong and sustainable levels. Instead, the UK economy barely expanded in the six months to the end of the first quarter of 2011 and second quarter growth is likely to be lack lustre at best.

This slow pace of growth will last throughout 2011, with no guarantee that the UK economy will regain its previous vigour. Recessions caused by financial crises tend to leave deeper and longer lasting scars than downturns resulting from the 'normal' boom and bust economic cycle. This was easy to forget in the stimulus-boosted years. However, in the first half of 2011, most agencies significantly cut their UK growth forecasts for this year and next, as survey after survey dented hopes that the private sector will be able to take up the slack from public sector retrenchment. It is growth, but not as we know it; and adjusting to the reality of diminished expectations will be a painful business.

Recovery interrupted

Persistent high inflation, the thorn in the side of the UK recovery, is making it particularly difficult for the private sector to gather momentum. CPI has been above the Bank of England's target since 2009, moving 2.5% ahead in May 2011. However, the Bank of England's Monetary Policy committee (MPC) finds itself in a double bind. It believes that external forces are the main driver behind the rise in inflation, making an interest rate rise both painful and largely futile. However, this leaves inflation to act effectively as a tax on companies and households, hitting corporate cash flows and consumer wallets anyhow.

Because, wherever inflation is coming from, it is proving exceptionally painful for the consumer. CPI has been an average of 1.5% above mean wage rises since the start of 2010, chipping away at disposable income for over a year. The failure of wages to keep pace with inflation might be good news for the Bank of England, in the sense that it has prevented domestic inflationary pressures escalating and forcing their hand on interest rates while the recovery is still weak. However, it also means that the consumer is becoming a significant drag on what is still a fragile recovery. Add in taxation and benefit changes to the toxic inflation-wages mix and you get the biggest fall in real disposable income in over 30 years, with consumers spending their savings and increasing their debts just to stand still, according to the latest GDP figures. Then combine this huge fall in real disposable income to rising input prices –

exacerbated by a weak pound, the increasing challenge from internet channels and a quarterly rent day in June and we see the most concentrated period of retail insolvencies since the troubled year of 2008.

When consumer spending hit a wall at the end of 2008, interest rates were falling, inflationary pressures were easing and VAT dropped to 15%. These spending boosts, along with relatively low unemployment, supported consumer sectors throughout 2009 and into 2010. However, in 2011 the catalysts for consumer recovery are few. VAT has increased to help plug the hole in the public finances; it is very unlikely to fall. Public sector austerity and weak private sector growth will keep unemployment elevated, helping to hold down wages. And, crucially, the only way is up for interest rates. This may not be until 2012, as markets now predict – providing one brighter spot for the UK consumer and economy; but the MPC cannot risk domestic inflation spiralling and may act quicker if the public's recent rising inflation expectations leak into wage demands. The only certainly is the era where low inflation could combine with low employment and low interest rates is long past. It may be least 2013 before consumer spending reaches pre-recession levels, according to the Ernst & Young ITEM Club, and even then, spending growth will remain below par for at least a decade.

The dynamic duo to the rescue?

This isn't just bad news for the retail sector; it's bad news for the UK economy, which is still over 60% reliant on consumption. Ideally, more of the UK's growth would come from the more sustainable duo of exports and investments. However, exports and imports are still small cogs in the UK economy. It will take a radical reshaping for exports and imports to compensate for declining growth in consumer and government spending and financial services – all sectors that have led economic expansion in the past.

The UK economy is taking steps in the right direction to rebalance towards more export-led growth, but they are still small steps. The UK finally moved into a net-export position in Q1 2011 only after a long period of weak sterling and booming global markets. Many UK companies have used weak sterling to increase prices, not volumes, and a previous lack of pro-activity in fast growing economies means the UK it is still playing catch-up. This leaves great potential for further export growth, but in an exceptionally competitive arena. The UK isn't the only nation to target exports to compensate for slow domestic demand and other nations, like Germany and Italy have a major head

Diminished expectations

start in vital BRIC economies. Meanwhile, emerging markets are also upping their manufacturing capacity to produce more goods at home and increasing trade with each other.

Moreover, there is also the added complication that the global economy shows signs of slowing in 2011, with rampant inflation forcing monetary tightening across most emerging markets and other developed nations fighting their own sovereign debt battles. Three eurozone nations have effectively lost this battle and surrendered to bailout. Greece is also on the verge of losing not just the battle, but also the war, by defaulting and potentially sparking a crisis that could drain liquidity and confidence out of credit markets yet again. Not a conducive atmosphere for investment and UK plc is likely to hold onto its considerable cash piles until eurozone concerns ease.

Capacity lost

The long and painful adjustment away from the UK economy's reliance on consumer and government spending growth means most analysts now predict only modest growth for 2011, barely above or even

just below the 1.5% recorded in 2010. However, despite their diminished expectations for 2011, most forecasters also still predict that UK GDP will spring back to what might be termed 'trend growth' by 2013-14. The OBR, for instance has GDP growth returning to 2.9% by 2013 and settling at 2.8% in 2015 – around the 1992-2007 yearly average.

Economies do normally revert to previous levels of growth after recession; however, the credit crunch has left a large scar across the UK's balance sheet, particularly in financial services, and a bounce back is by no means isn't guaranteed. According to the Financial Times, the UK's financial sector boosted annual productivity growth by an average of 0.4% between 2000 and 2008, but has shrunk by 9% since the start of the recession – almost twice the 4.7% decline in the economy as a whole. As banks continue to deleverage, sort through their zombie loan books and comply with increasingly tight regulation it is exceptionally unlikely that they will return to pre-recession growth rates. Less capacity in the economy means lower trend growth and a high vulnerability to inflation. The UK's current soft patch could blend into a much longer period of subpar growth.

Number and percentage of companies warning by FTSE Sector, Q2 2011

	No of companies warning	No. of companies in FTSE sector	% of quoted companies in the sector warning
Alternative Energy	1	13	8%
Chemicals	1	17	6%
Construction & Materials	3	34	9%
Fixed Line Telecommunications	2	11	18%
Food & Drug Retailers	2	9	22%
Food Producers	1	33	3%
Gas, Water & Multiutilities	1	10	10%
Financial services	4	153	3%
General Industrials	2	14	14%
General Retailers	8	54	15%
Health Care Equipment & Services	3	27	11%
Household Goods & Home Construction	1	26	4%
Industrial Engineering	3	45	7%
Leisure Goods	1	12	8%
Media	3	96	3%
Mining	3	112	3%
Oil & Gas Producers	1	82	1%
Personal Goods	1	18	6%
Software & Computer Services	6	111	5%
Support Services	5	164	3%
Technology Hardware & Equipment	3	30	10%
Tobacco	1	2	50%
Travel & Leisure	4	70	6%
Total	60		

Sector overview and outlook

Sector overview

This quarter once again highlighted the differing fortunes of consumer services and industrial sectors, with a vastly greater proportion of consumer services companies issuing profit warnings. The ongoing disparity stems largely from the difference in market exposure and pricing power. Broadly speaking, most consumer services companies are contending with increasingly hamstrung domestic consumers. This has weakened their ability to pass on their increasing operational and product costs, often exacerbated by a weakened pound. Meanwhile, many manufacturers have taken advantage of the same weakened pound to expand into faster growing markets abroad, providing them with the pricing power to pass on rising input prices.

This is the broad picture, but there are areas of weakness and strength all round. The disruption to supply chains caused by the Japanese earthquake and tsunami hasn't been enough on its own to cause a profit warning, but it has compounded other pressures to contribute towards a handful of manufacturing warnings this quarter. However, of broader concern to exporters, in particular, has been the suggestion of global economic deceleration. Rising commodity prices and fiscal and monetary tightening are beginning to hit growth in the UK's core and fastest growing markets. If markets slow, competition intensifies and the ability to pass on the rapid increases in input prices diminishes. Recent UK manufacturing surveys have still shown expansion, but the pace has slowed and the outlook is more subdued and watchful than it was in 2010.

Some parts of manufacturing are also coming under specific strain. Falling volumes in the consumer supply chain – apart from at the luxury end – is creating stress from top to bottom. From food producers to consumer electronics, manufacturers are reporting falling sales and a struggle to pass through price rises in highly competitive and slow growth environment. Even exceptional end market growth doesn't guarantee immunity from stress in the consumer supply chain, due to the strong level of competition. The smart phone and tablet market is expanding rapidly, but rivalry is intense, the replacement cycle feverish and the market fickle. Component suppliers who aren't in the latest, most fashionable product are suffering and even those that are in the right products can't rest on their laurels, since technology markets and trends move so fast. Success can be exceptionally short-lived and the pressures to innovate and to be part of the next big thing can be relentless and expensive –

especially for the smaller suppliers, who are reliant on a few key products. A quarter of FTSE Technology Hardware & Equipment companies have warned in the last nine months and 66% of those companies warning manufacture telecommunications equipment.

Profit warning outlook

Profit warnings are a measure of market expectations as well as market conditions. Last year, UK plc had both in their favour, with an expanding economy at home and rapid expansion abroad helping companies outperform against depressed expectations. In contrast, 2011 has brought slower than expected growth and rising input prices, along with considerable geo-political and market uncertainty. Global and UK economic growth has slowed and a growing number of UK quoted companies have reset their profit expectations as a result. In the first half of this year, UK plc has issued 40% more profit warnings than the first half of 2010 and almost 30% of these blamed price pressures, up from 15% in the first half of 2010.

The characteristics of the UK reporting cycle mean that profit warnings normally dip in the summer, when fewer companies have their financial year-end. It is also when the pace of business slows in many sectors. This makes it harder for companies to judge the full year outturn and leaves a window of hope that the autumn will bring stronger sales. Therefore, profit warnings may stay relatively static in the third quarter, barring a further sharp deterioration in growth or credit availability caused by events in the eurozone or the US. However, we expect profit warnings to rise again in the fourth quarter and for the total number of warnings issued in 2011 to be considerably higher than the number issued in 2010.

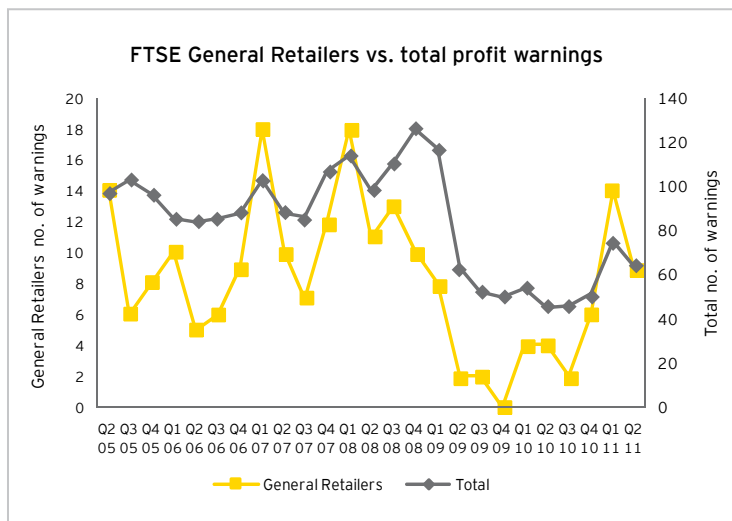
Profit warnings from consumer-facing companies will lead this increase. The renewed pressure on disposable income in 2011 has already sparked the next round of retail restructuring and taken retail profit warnings back towards their 2008 peak. It can only be a matter of time before some of this pressure passes up the value chain to advertisers and media companies. In business services, the initial sharp shock of the first round of private and public sector cost cutting appears to have past. However, any sizable shift in growth expectations may yet spark a further round of corporate cost cutting, whilst fiscal austerity has yet to begin in earnest. We have yet to see how well companies in this sector have really managed costs and expectations.

Focus on sectors

FTSE General Retailers

Retail is back on the ropes again in 2011. FTSE General Retailers issued nine profit warnings in the second quarter of 2011, more than double the number issued in the same quarter of 2010. UK quoted retailers as a whole¹ have issued 26 profit warnings in the first half of 2011, more than they issued in the whole of 2010 and almost twice as many as they issued in the whole of 2009.

The benchmark year for retail is obviously 2008, when we saw so many companies in the sector fail. Quoted retailers did issue more profit warnings in the first half of 2008 in numerical terms. However, waves of restructuring have slimmed down the retail sector considerably in the last three years, cutting the number of quoted retailers by almost 40%. Therefore, the actual proportion of quoted retailers warning is virtually identical in 2011 as it was in the troubled times of 2008.



¹ FTSE General Retailers and FTSR Food & Drug Retailers

Spring fillip can't disguise tighter consumer squeeze

In many ways, the stresses on the consumer are actually higher in 2011 than they were in 2008. In contrast to previous recessions, household disposable income actually rose during 2008, helped by falling mortgage rates and relatively low unemployment. However, stimulus measures only delayed the impact on the UK consumer, who is certainly feeling the pain now. The latest GDP figures show household real disposable incomes falling by 2.7% year-on-year in Q1 2011, the biggest annual drop since 1977. Tax rises, benefit cuts, and below-inflation wage increases took their toll on consumers in 2010; and they are still biting today. The sheer scale of this income squeeze is preventing households from raising their savings in any meaningful way, despite cutbacks in high street spending. Consumers are actually taking on more debt just to stand still and now have £1.45 trillion outstanding – more than at the start of the credit crisis².

In this context, the spending boost gained from the long run of spring bank holidays, the fine spring weather and the Royal Wedding could only be temporary and not enough to revive retailers burdened by debt, weakened by snow and punch-drunk from years of tough trading. What's more, by the end of the quarter, it was clear that the holiday spirit had not encouraged extra sales so much as encouraged consumers to bring discretionary spending forward. Official figures showed a 1.4% decline in retail sales in May and CBI reported the worst retail figures for a year in June. Consumer confidence had come down with the bunting and this sharp pullback in spending left many retailers short of cash in the run up to June quarter rent day, triggering a slew of administrations and major restructurings.

² Lending to Individuals, *Bank of England*, May 2011; released 29 June 2011

Focus on sectors

The battle for growth

There is little immediate respite for General Retailers, who will be competing for a smaller disposable income pie until at least 2013. Consumers will have much less to spend on non-essentials until then, according to The Ernst & Young ITEM Club, who estimate that real disposable income will continue to fall well into 2012 and that consumer spending will remain subdued for the next decade. The economic conditions that drove pre-crisis spending have gone and the catalysts for growth that helped retailers out of the mire in 2008 are largely absent or unlikely to return. In particular, interest rates, which were still falling rapidly in 2008, can only rise from their current low point and the impact of any increase on mortgage holders will be widespread: two-third of mortgages are now based on standard variable rates – or their equivalent. Higher interest rates will come as a shock for many households highly accustomed to low interest payments and although MPC now seem unlikely to raise rates before the winter, and perhaps not until 2012, the threat still hangs over householders. The still weak job market and the probability of more significant private and public sector job losses makes this threat even more poignant – enough on its own to have a dampening effect on spending.

There will also be tougher competition for this smaller disposable income pie. The credit crisis hasn't just placed a long-term squeeze on disposable income; it has also accelerated changes in behaviour. The consumer is considerably more price-conscious after years of promotional activity and increasingly price-savvy, with more online tools available to enable price comparison and cash-back for online purchasing. Consumers are also increasingly looking for convenience, be that through online or one-stop shopping and non-specialty stores are losing out to supermarkets and department stores. As a result of their non-food success, the big four supermarkets are planning to open a massive 19 million square foot of space by 2014 – mostly devoted to non-food. This means even more competition for the high street and even more competition between supermarkets themselves. No one can afford to be complacent in this aggressive environment. Even the discount end of market is now starting to show signs of strain as it contends with rising prices and falling sales, as its customer cut back to pay essential bills.

Cutting the cloth to suit new realities

Well positioned, well capitalised and well run retailers continue do well, even in tough environments. However, the end of the perpetual year-on-year increase in high-street sales will undoubtedly claim weaker casualties. It is important that retailers adapt their strategies, capital and cost bases now, rather than waiting for trouble. The increased focus on sector weakness could make banks think twice about exercising forbearance on struggling retail loans and suppliers will be looking for more upfront payments from weaker customers.

Most retailers have cut costs, although there is always more to do. Rent is the biggest overhead and the hardest to deal with. Cutting the rent bill normally means waiting for leases to expire in order to exit unprofitable stores or to renegotiate terms on profitable ones. However, there are ways to cut costs in the meantime, by subletting a portion of the store or, for profitable stores, looking for opportunities to lower rent by offering longer-terms to landlords.

Cutting overheads isn't the only answer. In this more competitive environment, it will be vital to invest in order to capture customer loyalty through improved service and rewards and to ensure the business adapts continuously to changing consumer buying patterns. Technology and recession effectively restructured the music industry and the consumer electronics market is currently facing a similar radical readjustment. Adapt or fail is the message. There is also a place for aggressive discounting, which isn't necessarily cutting prices to the floor, but being innovative and proactive in taking offers to the consumer and not just reacting to stock overhangs.

Christmas – more than ever – will be vital chance for a hard-pressed sector to build strength for the tough times ahead. However, getting that far will be too much for some, with another quarter day to navigate in September and no let up in prices or the consumer squeeze.

Focus on sectors

The retail fallout

The increasing pressure on retailers, amply illustrated by a spate of administrations this quarter, will have a knock on effect throughout the UK economy; however, some segments will find themselves particularly in the line of fire.

Changing consumer challenges landlords

Retail landlords face the immediate pressing issue of rising retail insolvencies and the long-term challenge from the change in consumer behaviour, both of which could leave more units empty on our high street. It hasn't been the easiest few years for the retail property sector. The recession, the collapse of a large number of major chains in 2008 and retail CVAs have contributed to around 15% of units lying vacant. Although even this figure may be artificially improved by pop-up shops and short-term lets. Such a high numbers of vacancies generally places pressure on rents. This doesn't happen overnight or in all locations. Leases give commercial landlords a buffer from immediate pain and prime shopping areas have far fewer voids. However, the pressure is showing in new and re-lets, especially in secondary locations, where retailers are asking for shorter leases and terms that allow them to pay monthly, as opposed to quarterly, or even based on turnover.

This enforced lease and rent flexibility is creating more uncertainty in retail landlords' income streams, which may further damage their ability to attract investment and refinance and service their debts. However, flexible terms may prove even more necessary in the future. Research by R3 recently found that around a third of consumers are now doing more of their shopping online, with one in five also buying non-essentials in supermarkets, not specialist chains. Retailers know that to survive they need to adapt their business model to meet the demand for convenience driven, multichannel shopping. This will mean reviewing the location, type and number of their stores. But, whether retailers chooses to close secondary locations or to move more out of town, the upshot for most retail chains will be a smaller number of physical shops in 'better' locations. Thus, even further expanding the gap between prime and

secondary areas. Although, complacency is never an option in retail and even for prime centres will need to invest and fight to retain fickle footfall.

Suppliers squeezed

Retail suppliers will also be watching travails of the retail sector with concern. In the last year, UK consumer product manufacturers have faced a rapid escalation in raw material, packaging and energy prices exacerbated by the weak pound. Price rises have hit food and drink manufacturers exceptionally hard. The price of wheat, for instance, has risen by around 70% in the last year and oil prices are up around 50%, placing pressure on prices at every stage of the supply chain. What's been surprising is that despite this rise in overheads and costs, profit warnings from the FTSE Consumer Goods super sector have stayed low, at just six in Q2 2011, compared with 16 in Q2 2008, the last time food and oil prices boomed.

Clearly, many suppliers have managed to pass on a good deal of their price increases in 2010-11, helping them to meet profit expectations. However, this pass-through is getting tougher and tougher as the consumer comes under greater strain. Anxious to retain cost conscious and stretched consumers, retailers are now asking suppliers for even lower prices and a further increase their promotional activity, refusing to stock brands if producers can't meet price limits. Promotional goods made up almost 40% of UK grocery spending in June 2010, up by more than 10% on last year. Input prices may be easing – oil in particular has come off its recent highs – but the pressure on suppliers is intensifying. FTSE Personal Goods and FTSE Household Products manufacturers cited pricing pressures in all but one of their profit warnings in the last 12 months. Producers need to find greater and greater efficiencies in their own processes to keep costs down and satisfy their customers.

Q2 2011 – by sector, size and region

Count of industry sector		Region							Grand total
FTSE Sector	Turnover band, £mn	London	Midlands/ East Anglia	North West	South East	South West/ Wales	Yorkshire/ North East	Scotland & NI	
Alternative Energy	£201m – £1bn				1				1
Chemicals	under £200m			1					1
Construction & Materials	under £200m			1	1				2
	over £1bn	1							1
Financial Services	under £200m	2		1					3
	£201m – £1bn						1		1
Fixed Line Telecommunications	over £1bn	2							2
Food & Drug Retailers	under £200m						1		1
	£201m – £1bn		1						1
Food Producers	over £1bn				1				1
Gas, Water & Multiutilities	over £1bn				1				1
General Industrials	under £200m						1		1
	over £1bn	1							1
General Retailers	under £200m				1	1	1		3
	£201m – £1bn		1		2				3
	over £1bn		1		2				3
Health Care Equipment & Services	under £200m		1	1	1				3
Household Goods & Home Construction	£201m – £1bn	1							1
Industrial Engineering	under £200m						2		2
	over £1bn					1			1
Leisure Goods	under £200m				2				2
Media	under £200m	1			1	1			3
Mining	under £200m	1					2		3
	over £1bn	1							1
Oil & Gas Producers	under £200m	1							1
Personal Goods	under £200m					1			1
Software & Computer Services	under £200m	1			2	2	1	1	7
Support Services	under £200m			2		1	1		4
	£201m – £1bn	1							1
Technology Hardware & Equipment	under £200m						1	1	2
	over £1bn						1		1
Tobacco	over £1bn					1			1
Travel & Leisure	under £200m					1			1
	£201m – £1bn					1			1
	over £1bn	2							2
Grand Total		15	4	6	15	11	11	2	64

Number and percentage of warning companies by turnover, 2007 – 2011

	Q1 2007		Q2 2007		Q3 2007		Q4 2007		Q1 2008		Q2 2008		Q3 2008		Q4 2008	
Turnover band																
under £200mn	79	77%	69	78%	66	77%	74	69%	74	65%	70	71%	77	69%	75	60%
£201mn – £1bn	12	12%	12	14%	10	12%	23	21%	28	25%	14	14%	21	19%	33	26%
Over £1bn	12	12%	7	8%	10	12%	10	9%	12	11%	14	14%	13	12%	18	14%
Total	103	100%	88	100%	86	100%	107	100%	114	100%	98	100%	111	100%	126	100%

	Q1 2009		Q2 2009		Q3 2009		Q4 2009		Q1 2010		Q2 2010		Q3 2010		Q4 2010	
Turnover band																
under £200mn	73	62%	32	51%	32	62%	36	72%	42	78%	32	71%	29	63%	25	49%
£201mn – £1bn	29	25%	22	35%	19	37%	9	18%	9	17%	8	18%	11	24%	19	37%
Over £1bn	14	12%	9	14%	1	2%	5	10%	3	6%	5	11%	6	13%	7	14%
Total	117	100%	63	100%	52	100%	50	100%	54	100%	45	100%	46	100%	51	100%

	Q1 2011		Q2 2011	
Turnover band				
under £200mn	45	60%	40	63%
£201mn – £1bn	18	24%	9	14%
Over £1bn	12	16%	15	23%
Total	75	100%	64	100%

Turnover band	4-year average	
under £200mn	51	66%
£201mn – £1bn	18	22%
over £1bn	10	12%
Total	79	100%

*N.B.: Figures are to the nearest whole number.
Totals may add up to slightly above or below 100%.*

Number and percentage of warning companies by region, 2007 – 2011

Region	Q1 2007		Q2 2007		Q3 2007		Q4 2007		Q1 2008		Q2 2008		Q3 2008		Q4 2008	
London	36	35%	24	27%	23	26%	29	27%	36	32%	32	33%	37	33%	43	34%
Midlands/East Anglia	13	13%	16	18%	14	16%	19	18%	17	15%	10	10%	21	19%	22	17%
North West	10	10%	7	8%	7	8%	10	9%	11	10%	4	4%	8	7%	10	8%
Scotland and NI	3	3%	5	6%	5	6%	5	5%	3	3%	4	4%	6	5%	8	6%
South East	25	24%	21	24%	25	28%	30	28%	28	25%	22	22%	19	17%	20	16%
South West/Wales	7	7%	6	7%	6	7%	6	6%	13	11%	13	13%	11	10%	15	12%
Yorkshire/North East	9	9%	9	10%	6	7%	8	7%	6	5%	13	13%	9	8%	8	6%
Total	103	100%	88	100%	86	100%	107	100%	114	100%	98	100%	111	100%	126	100%

Region	Q1 2009		Q2 2009		Q3 2009		Q4 2009		Q1 2010		Q2 2010		Q3 2010		Q4 2010	
London	32	27%	18	29%	15	29%	18	36%	11	20%	7	16%	9	20%	11	22%
Midlands/East Anglia	12	10%	10	16%	9	17%	7	14%	12	22%	9	20%	8	17%	6	12%
North West	13	11%	3	5%	10	19%	4	8%	3	6%	2	4%	4	9%	10	20%
Scotland and NI	3	3%	3	5%	0	0%	2	4%	1	2%	2	4%	3	7%	1	2%
South East	24	21%	14	22%	6	12%	9	18%	15	28%	12	27%	11	24%	11	22%
South West/Wales	14	12%	5	8%	7	13%	5	10%	6	11%	7	16%	6	13%	6	12%
Yorkshire/North East	19	16%	10	16%	5	10%	5	10%	6	11%	6	13%	5	11%	6	12%
Total	117	100%	63	100%	52	100%	50	100%	54	100%	45	100%	46	100%	51	100%

Region	Q1 2011		Q2 2011	
London	22	29%	15	23%
Midlands/East Anglia	10	13%	4	6%
North West	8	11%	6	9%
Scotland and NI	2	3%	2	3%
South East	24	32%	15	23%
South West/Wales	2	3%	11	17%
Yorkshire/North East	7	9%	11	17%
Total	75	100%	64	100%

Region	4-year average	
London	22	28%
Midlands/East Anglia	12	15%
North West	7	9%
Scotland and NI	3	4%
South East	18	23%
South West/Wales	8	11%
Yorkshire/North East	8	10%
Total	79	100%

Contributor to Q2 2011 analysis of profit warnings

Contacts

Keith McGregor, Partner	Corporate Restructuring	kmcgregor@uk.ey.com 020 7951 0710
Alan Hudson, Partner	Corporate Restructuring	ahudson@uk.ey.com 020 7951 9947
Alan Bloom, Partner	Corporate Restructuring	abloom@uk.ey.com 020 7951 9898
Andrew Wollaston, Partner	Corporate Restructuring	awollaston@uk.ey.com 020 7951 9944

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

About Ernst & Young's Transaction Advisory Services

How organizations manage their capital agenda today will define their competitive position tomorrow. We work with our clients to help them make better and more informed decisions about how they strategically manage capital and transactions in a changing world. Whether you're preserving, optimizing, raising or investing capital, Ernst & Young's Transaction Advisory Services bring together a unique combination of skills, insight and experience to deliver tailored advice attuned to your needs – helping you drive competitive advantage and increased shareholder returns through improved decision making across all aspects of your capital agenda.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place,
London, SE1 2AF.

© Ernst & Young LLP 2011. Published in the UK.
All Rights Reserved.



In line with Ernst & Young's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

www.ey.com/uk

1137355.indd (UK) 07/11. Creative Services Group.