An uphill battle

EY-Parthenon quarterly
analysis of UK profit warnings

Q4 2024

EY Parthenon
Building a better working world

Contents

Q4 2024 highlights

71	18.8%	38%	34%	11.9%
profit warnings from UK-listed companies in Q4 2024	UK-listed companies warn in 2024	FTSE Retailers warn in 2024	profit warnings cite delayed or cancelled contracts in 2024	median share price fall on the day of warning in Q4 2024
An 8% year-on-year fall, but the percentage of companies warning is unchanged at 6.4%	The third highest annual percentage of companies warning in 25 years of profit warning analysis	Cost-of-living pressures ease but demand remains volatile and pressure on the bottom line intensifies	Heightened uncertainty led to a record number of warnings linked to delayed or cancelled business spending	Investor reaction to warnings falls in a rollercoaster year for global markets

Jo Robinson
EY-Parthenon
Head of UK & Ireland
Turnaround and
Restructuring Strategy

Forecasting disruption

In 2024, nearly 19% of UK-listed companies issued profit warnings, the third highest total in 25 years of EY's analysis. Strikingly, three of the six highest annual profit warning levels have occurred within the last three years, with 2023 and 2022 ranking fourth and sixth, respectively.

Why have profit warning levels remained so high for so long? Even in a recession, we'd normally see warning levels peak and then fall. It's clear that companies have faced an extraordinary succession of forecasting challenges since the pandemic. They've contended with a series of interconnected disruptions to supply chains, material and energy costs, and the labour market, as well as higher interest rates. To compound this, 2024 was an exceptional year of global uncertainty and policy upheaval, with a record level of warnings linked to contract and spending delays as businesses held back from recruitment and investment.

It is evident that companies have faced a series of continuous challenges since 2020. However, are all these forecasting difficulties solely pandemic-related? Notably, in 2019, a higher percentage of companies issued warnings than 2008, during the peak of the financial crisis. This suggests that we need to look deeper into the forecasting process, as well as how companies are adapting to longer-term changes in the economy and their markets. We're living through a period of extraordinary transitions in energy, technology, and politics, to name but a few, with a broad range of unpredictable impacts. This is why, in this paper, we're exploring forecasting strategies, focusing on the topical example of geopolitics, where companies need to respond to both short-term policy changes and deeper structural issues in the wake of last year's significant election cycle.

Typically, a sustained rise in company earning pressures would be followed by a significant rise in insolvencies. But again, this cycle has been different. The availability of cheap, long-term debt and pandemic support provided breathing space for both businesses and stakeholders to explore consensual solutions and new restructuring options. However, more companies are reaching a tipping point as cumulative pressures build. We don't expect a huge uptick in insolvency levels in 2025, but we are seeing more stress and distress, and more businesses and stakeholders are now viewing insolvency processes as the best path forward.

The pace of profit warnings has eased slightly in early 2025, but the road ahead is still rocky and further earnings challenges clearly lie ahead – some known, but with many scenarios still possible in trade, geopolitics, interest rates, and beyond. The economic outlook might improve, but it will still feel like an uphill battle for many companies.

> “2024 was an exceptional year of global uncertainty and policy upheaval …

Economic outlook

A laboured recovery

The UK economy should regain an upward trajectory in 2025, but momentum is weak, and the outlook is clouded by domestic and global challenges.

Preliminary data suggests that UK economy flatlined in the second half of 2024. GDP data showed no growth in the third quarter with a flat performance by the service sector and 0.7% increase in construction activity offset by a 0.4% fall in production. Meanwhile, GDP is estimated to have fallen by 0.1% in October and rose by just 0.1% in November 2024, with weak industry survey data in December pointing to another difficult month. While retail sales showed some bright spots, it seems that consumer spending and the UK economy had lost momentum at the end of 2024.

There are reasons to be cautiously optimistic about the UK's prospects in 2025. Real wages will continue to grow as wages outstrip inflation, which should support a recovery in consumer confidence and spending. Higher inflation expectations have tempered hopes for interest rate cuts, but forecasts suggest at least two 25bp reductions in the next 12 months, potentially injecting some momentum into the economy – especially if households start spending their savings. The UK's reliance on the export of services provides some shelter from potential US tariff changes.

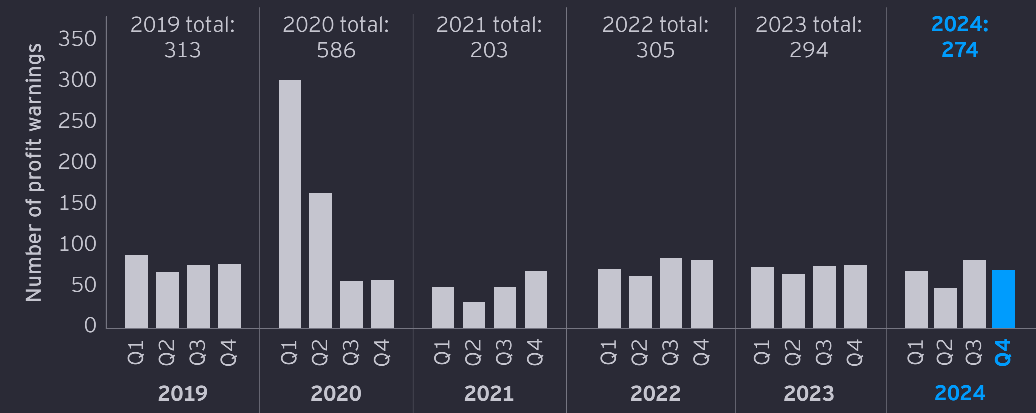
But the outlook is still fraught with questions. There is still a risk that companies continue to hold back from spending and recruitment in 2025. Increases in employer National Insurance contributions and the National Living Wage (NLW) are a significant new challenge to company earnings, especially in employment heavy sectors with limited pricing power. The Institute of Directors reports that its members are more cautious, with profit uncertainty their primary constraint. Meanwhile UK Government spending, which was expected to boost growth in 2025, could be jeopardized by increased borrowing costs. Beyond domestic policy and spending, US trade and defence policies are in a state of flux and there are more critical elections to come in Europe and beyond.

This leaves us with potential for output growth to improve, however, businesses need the right conditions for investment, innovation, and enterprise. A quiet year in domestic and foreign politics would be a good start – but, yet again, that seems unlikely.

Our profit warning console contains more current and historic data:
ey.com/warnings

UK profit warnings remained high in 2024

Number of profit warnings by quarter



Sector overview

Chronic uncertainty

Uncertainty once again triggered high levels of profit warnings in Q4 2024, particularly in the industrial and technology sectors. Key issues included inventory overhangs, contract delays, and slowing order books, making for a challenging end to the year and raising concerns for 2025.

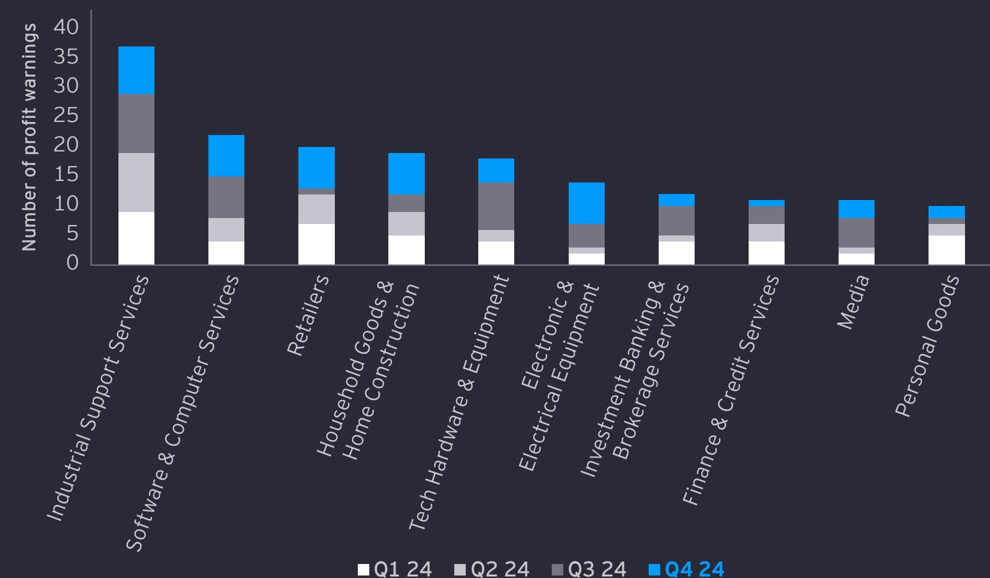
- The FTSE sectors with the highest number of profit warnings in Q4 2024 were: Industrial Support Services (8), Software and Computer Services (7), Household Goods and Home Construction (7), Electronic and Electrical Equipment (7), and Retailers (7).
- The FTSE sectors with the highest percentage of companies warning in the last 12 months were: Personal Goods (75%), Telecommunications Equipment (58%), Household Goods and Home Construction (52%), and Technology Hardware and Equipment (53%).
- In 2024, 34% of warnings cited delayed or cancelled spending, compared with 26% in 2023 and 18% in 2022. Rising costs triggered 17% of warnings, down from 19% in 2023 and 50% in 2022. Consumer confidence featured in 11% of warnings, down from 16% in 2023.

In 2024, uncertainty became a chronic theme in UK profit warnings. The ripple effects of corporate hesitation to commit to new spending, contracts, and employment maintained high warning levels, even as cost pressures eased, particularly in industrial and technology sectors. This shift – from cost-related issues to confidence-related concerns – resulted in an atypical UK profit warning profile for 2024. Notably, for the first time since 2016, the highest percentage of companies warning wasn't the Consumer sector.

For the first time in our analysis, Technology FTSE sectors had the toughest profit warning year, with the percentage of companies warning more than doubling to 30% from 14% in 2023. This was followed by Consumer with 27% of companies warning, down from 32% in 2023, helped by the easing cost of living. The level of Industrials companies warning rose to 26%, from 22%. Financial Services was the only other part of the economy where warning levels rose, up to 16% from 15% in 2023, as banks and other lenders felt the impact of regulatory changes and investigations.

Companies need confidence to transition from retrenchment to expansion, but in 2025 they still face policy uncertainties and challenges, including trade risks and rising wage and employment costs. Some sectors are more exposed to rising employment costs, and we cover two of them – retailers and the recruitment sector itself – later in this paper. But almost no part of the UK economy is entering 2025 without concerns over geopolitical risks and policy changes. As our data underlines, uncertainty and pressure in one part of the economy can quickly have knock-on impacts elsewhere.

Profit warnings by FTSE sector



Our profit warning console contains more current and historic data: ey.com/warnings

Managing forecasting risks

Why have profit warnings remained so high for so long? With unpredictability becoming the norm, should companies rethink their forecasting strategies?

Accurate forecasts are crucial for business operations, underpinning strategic planning, risk management, stakeholder confidence, and regulatory compliance. Listed companies face added risk, as any significant miss to forecasts must be publicly disclosed, potentially affecting investor confidence.

Almost one in five UK-listed companies issued at least one profit warning in 2024, the third highest level in 25 years. This trend isn't isolated to 2024; since 2019, our previous high-water mark of 17.7% of companies warning in 2008 has been surpassed almost every year.

This is clearly a complex issue, but two related problems come up repeatedly in our conversations with listed and private companies: optimism bias and reliance on past events. There is an assumption that the current level of change and uncertainty is the exception, rather than the norm. But this ignores fundamental changes in technology, geopolitics, climate change, and customer behaviour that are reshaping the global economy.

Companies have been increasing the sophistication of their forecasting by incorporating scenario planning, key risk assessments, and big data analytics. However, if their underlying assumptions are overly optimistic or based on outdated information, it undermines the reliability of these forecasts.

To address this, companies should regularly update their assumptions to reflect current realities and emerging trends. They should also diversify their data sources, incorporate real-time analytics, and continuously monitor geopolitical and technological developments. By doing so, companies can build more resilient and adaptable forecasting models that better prepare them for future uncertainties.

Profit warnings have only dipped below 2008 levels once since 2019

% of companies warning by year

Market reaction

(Another) rollercoaster year

Concern over whether central banks can successfully navigate interest rate adjustments, inflation control, and economic growth fluctuated in 2024. This confidence rollercoaster meant that investor reaction to profit warnings remained volatile, and listings sparse, affecting the size of the market.

A further UK rate cut is anticipated in February, but renewed inflation worries have clouded the outlook. The market is only signalling one more fully priced cut of 25bp after the expected February cut in 2025, down from four quarter-point cuts expected just a few months ago. As we stand at the end of January 2025, the path of interest rates has been predictably unpredictable, and the only certainty is that there will be more twists before the year is out.

Interest rate uncertainty has contributed to market volatility and the listings market. EY's analysis shows that the total number of listings on the Main Market and AIM in 2024 was 18 – the lowest volume of listings since EY started to record this data in 2010. The London Stock Exchange also saw 88 companies delist or transfer their primary listing from the Main Market in 2024. A number of these companies cited declining liquidity and lower valuations compared to other markets as reasons for moving away from the London Stock Exchange, particularly the US, which offers deeper capital pools and higher trading volumes.

Listings not keeping pace with delistings is a long-running trend. The number of UK-registered listed companies on the Main Market and AIM – our profit warning universe – has fallen in size by 46% since 2007 and 8% in 2024 alone. The drop is most stark on AIM, where numbers have dropped by 60% in this period. AIM companies now make up just over half the population of UK-based listed companies, down from a peak of close to three-quarters of the market in the mid-2000s.

As we enter 2025, there are reasons for cautious optimism. A stabilised domestic policy environment post-election, a robust pipeline of deals, and listings reform could create opportunities to restore London's competitiveness, potentially driving an increase in IPO activity in 2025.

Our profit warning console contains more current and historic data: ey.com/warnings

A rollercoaster year

% median share price drop on day of profit warning

Navigating post-election landscapes

After a bumper election year in 2024, what happens next? What actions can companies take to mitigate risks and capitalise on policy changes and deeper structural changes in the geopolitical landscape?

The geopolitical backdrop has fundamentally changed in the last decade. Geopolitical hotspots were once confined to small geographies, which limited the sectors exposed to them. But in recent years, we've seen a sea-change in political norms, the extent of geostrategic risk, and the speed of change. Companies that previously dealt with minimal risks now need to develop strategies and scenario plans for radical change, from policy to changing trade conditions. Even companies accustomed to dealing with risk need to adapt to a much faster pace of change.

Overlaying that deeper structural change is what looks set to be a year full of radical policy change following an extraordinarily large number of national elections in 2024. Upcoming elections in Germany, France, and Canada will further shape the policy landscape in 2025.

EY's Geostrategic team has analysed the key policy themes to watch in 2025, with three standout areas to watch:

Economic sovereignty: The dominant trade policy trend has moved from near-shoring to friend-shoring to on-shoring. Economic competition between states is intensifying, and there is a far greater focus on policies that protect domestic industries and intellectual property. The growth of discriminatory trade policy interventions presents opportunities and risks.

Intensifying geopolitical rivalries: Geopolitical rivalries are intensifying with knock-on impacts across the globe. The US-China relationship is a source of global friction. The militarisation of space is another area of concern, with half of the critical infrastructure of advanced economies, according to the OECD[1], reliant on space technology.

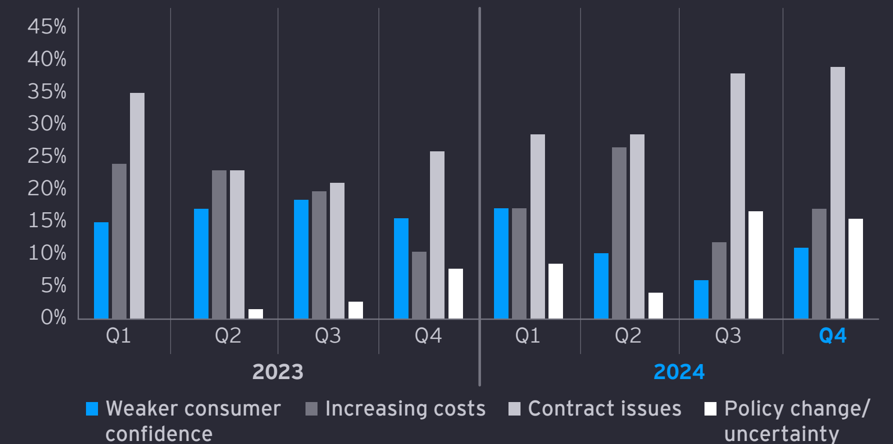
From election to policy change: More polarised politics have created more abrupt changes in policy. Last year's elections haven't just created regime change; they've led to fundamental shifts in tax, immigration, and climate change policies.

How can companies adapt both to the short-term policy challenges and deeper changes in the landscape?

- **Hold the line:** Understand the underlying drivers affecting your business and avoid reacting to every piece of news and threat.
- **Avoid assumptions:** Don't assume like-for-like reactions in trade policy. Export controls, such as China's restriction of rare earth metals exports, may be used instead of traditional retaliation.
- **Scenario plan:** Work through scenarios about how policies will evolve to reduce exposure and change emphasis.

Companies need to develop a deep understanding of the dynamics of their specific markets and plan accordingly so they can navigate the complexities of the post-election landscape and make informed decisions.

Uncertainty triggers more profit warnings linked to contract issues and spending delays



1 The Space Economy in Figures

Sectors to watch

Retail

Pressure on consumers began to ease in 2024, but retail profit warnings remained widespread. Festive trading reports are broadly positive, but demand is only part of the story. Higher employment costs and the investment needed to adapt to changing buying behaviour will challenge every retailer in 2025.

FTSE Retailers (non-food) issued seven profit warnings in Q4 2024, totalling 20 for the year, down from 24 in 2023. However, the percentage of companies warning fell only slightly to 38% from 39%. Most warnings came from apparel and home improvement. Related sectors also suffered, with three-quarters of FTSE Personal Goods and over half of FTSE Household Goods and Home Construction companies issuing warnings in 2024.

Why are profit warnings still high? Disposable incomes started to rise in 2024, but this came after one of the biggest hits to living standards in the post-war period. Consumers' confidence, whilst improving, is still bruised and fragile. Half of all FTSE Retailers' profit warnings in 2024 cited weaker confidence. The EY Holiday Shopping Survey shows that price was still the most critical factor for 48% of consumers, whilst 53% were worried about how they would afford the festive season.

And this isn't a straightforward demand story. Increasing routes to market and AI's growing capabilities have created a more complex and competitive web of channels and customer interactions. Social shopping is gaining importance, with 20% of consumers, and 33% of Gen Z, expecting to buy from shoppable social content, influenced by social media and peer reviews. AI enables new entrants to quickly develop customer propositions, adding to the competitive pressure.

Therefore, retailers were already facing added costs and complexities, even before the rise in employment costs. A British Retail Consortium survey of CFOs from 52 leading UK retailers shows around two-thirds are considering price rises in response to changes to National Insurance and the National Living Wage. However, with consumers highly focused on price, passing these increases on will be challenging.

The latest post-Christmas trading statements are tellingly upbeat on festive demand but downbeat on the outlook. It appears that most retailers got their buying and sales timing right. It's clear that shoppers are willing to spend if the price is right and the proposition is strong. The consumer outlook for 2025 should also improve if wages continue to outstrip inflation. But retailers have been almost universally cautious about the outlook because they are uncertain how much of the increase in employment costs they can mitigate through automation and efficiency savings or pass on in price increases.

This will advantage retailers that have already reshaped their business. Agile retailers with a clear proposition, excellent operational skills, and a deep understanding of customer needs are performing well — whatever their sector. However, many have lacked the operational, financial, and management bandwidth to reset their business. More businesses are surviving day-to-day, unable to generate enough momentum to move forward, and consumer demand is unlikely to increase quickly enough to help.

Recruitment

The recruitment sector was grappling with a downturn in activity across key geographies and sectors, even before the Autumn 2023 Budget announcement on employers' National Insurance Contributions (NICs) and the National Living Wage (NLW). A high level of profit warnings in 2024 — and further warnings in early 2025 — underline the challenge ahead.

The FTSE Industrial Support Services sector has issued the highest number of profit warnings every quarter since Q2 2023. In 2024, companies in the sector issued 37 profit warnings, up from 23 in 2023, with recruitment companies contributing 14 (37%) of these warnings. Notably, most of these profit warnings pre-dated the announced changes to employers' National Insurance and the National Living Wage.

The timing of this rise isn't surprising. The recruitment sector is usually a good yardstick for business confidence, and it is from mid-2023 onwards that we started to see profit warnings linked to declining corporate spending also starting to rise. This prolonged period of macroeconomic turbulence and political uncertainty has significantly restrained client and candidate confidence, leading to delays in corporate decision-making and candidates being more reluctant to accept job offers.

Key sectors and geographies have also come under pressure during this period. The technology sector, a significant client for many recruitment firms, has experienced a relative downturn in fortunes. For the first time in 25 years, the tech sector led profit warnings in 2024 in terms of percentages. This earnings challenge has resulted in fewer job placements and lower fee income for recruitment companies. The French and German economies and job markets have also come under pressure, with reduced hiring activity.

Layered on top of this challenge are the changes announced last autumn in the Budget to employers' NICs and the NLW. Their impact is still unclear as companies work through the implications and potential mitigations, including job cuts and automation. Recruiters to sectors that are most labour-intensive and have a high proportion of NLW employees are clearly more exposed, especially if they have limited ability to pass cost increases to customers.

Recruitment firms are inherently linked to broader economic conditions, but to build greater resilience, they may need to shift their market positioning. This includes evaluating their operational footprint, divesting non-core operations, benchmarking costs, and increasing efficiency. The sector faces a challenging period as businesses adjust to budget changes and regain confidence. Larger companies have more capacity to endure these challenges, while niche, highly exposed areas will likely experience a more significant impact.

UK overview

[Please click the buttons to find out more]

Your EY contacts

Jo Robinson UK & Ireland Turnaround and Restructuring Strategy Leader + 44 20 7951 9817 jrobinson1@parthenon.ey.com	**Alan Hudson** UK & Ireland Turnaround and Restructuring Strategy Partner, Global Insolvency Leader + 44 20 7951 9947 ahudson@parthenon.ey.com	**George Mills** UK & Ireland Turnaround and Restructuring Strategy Partner, Capital Solutions Lead + 44 20 7951 4546 gmills1@parthenon.ey.com
Simon Edel UK & Ireland Turnaround and Restructuring Strategy Partner, Insolvency Lead + 44 20 7951 9904 sedel@parthenon.ey.com	**Sam Woodward** UK & Ireland Turnaround and Restructuring Strategy Partner, National Markets Lead + 44 161 333 2616 swoodward@parthenon.ey.com	**Kirsten Tompkins** Market Analyst and Author + 44 121 535 2504 ktompkins@parthenon.ey.com
Silvia Rindone UK & Ireland Strategy & Transactions Leader, Retail Sector Lead + 44 20 7951 4157 silvia.rindone@parthenon.ey.com	**Jon Morris** Private Equity Value Creation Partner, Cash and Working Capital Lead + 44 20 7951 9869 jmorris10@parthenon.ey.com	**Meg Wilson** UK & Ireland Reshaping Results Partner, Travel Sector Lead + 44 20 7760 8192 meg.wilson@parthenon.ey.com

Our profit warning console contains more current and historic data: ey.com/warnings

contacts

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the 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. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized — helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon

Ernst & Young LLP
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.
© 2025 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

EYSCORE 000524-25-UK
UKC-037118.indd 01/25. Artwork by Creative UK.
ED None

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.

ey.com