Have consistently low interest rates, exacerbated by Covid-19, created a new zombie company apocalypse?

The term zombie is one normally associated with that of big budget tv programmes, bolstering Hollywood stars and a lot of extremely talented make-up artists and special FX. The overall aim of which is to convince you, the viewer, that the dead are truly walking amongst the living. In 2020 however, it may well be our stock market that is creating that same convincing illusion.

Zombie companies was a term coined during the financial crisis to describe a company not in insolvency but far from 'living'. The worrying statistic now is that it appears, like back in 2008, zombie companies are again on the rise. Statistics on the exact number is up for debate but it's believed 8% of firms within the UK are showing zombie like symptoms, with the Bank of America quoted saying they believe on a global scale that number is closer to 13%.

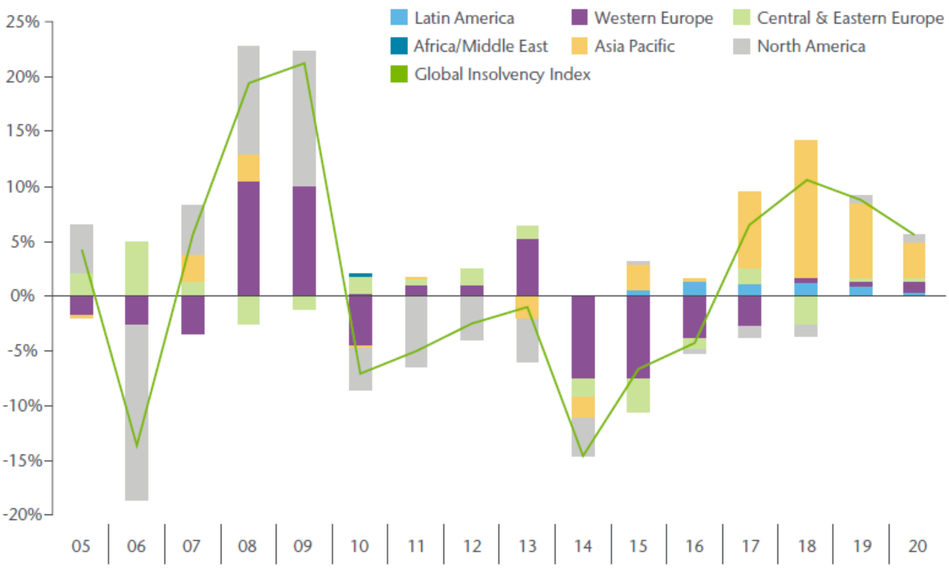
So what is a zombie company? That's a good question and similar to the percentile stats on the number of companies affected, what constitutes a zombie is up for debate. There are however some similarities across all views on what constitutes a zombified company, and those are:

- A static or falling turnover year on year
- Low profitability year on year
- Margins being squeezed
- Limited available cashflows
- Highly leveraged balance sheet

Interest rates have been low now for a while, even pre the coronavirus crisis, and this is definitely a contributing factor to the zombie apocalypse. KPGM estimates that 1 in 7 companies would have collapsed were it not for low interest rates, a worrying statement on its own but especially worrying when you take into account the wider economic picture.

And that statement goes into day of dead level of worry when you take into account that insolvencies are on the rise, even with the existence of zombie companies. The below graph shows the overall levels of insolvency across the globe.

Euler Hermes & Allianz Insolvency Indices by region, four consecutive years of increase



Source: Global insolvency Outlook 2020, Euler Hermes and Allianz, January 2020

The coronavirus crisis will influence the global economy, many may argue it already has, but the reality is the length of the disruption will determine whether it effects markets or if it brings them to a collapse. Supply chains have been affected that is unarguable, and that will have a knock-on effect to businesses bottom lines, whether that's through increased costs or simply lost turnover due to be unable to fulfil a customer's requirements.

The Bank of England's decision to lower interest rates down to its lowest ever level 0.1% will be seen as a good decision for most, for those in a zombified state though this could well provide an unwarranted stay of execution, or further mask the issues the business faces, making the illusion harder to see through even for the more savvy of investors.

If you're a business in zombification, the coronavirus could well be the tipping point. If your margins are being squeezed and you have low to no profitability, with low cash reserves, the last thing you want is to have to source your supplies from somewhere else, that will cost you in either the physical price of the goods, or in terms of speed and hassle.

Zombie companies highlight a lot of things, but one of the main aspects is that a set of numbers doesn't always tell the whole story of a company, and when you're trying to traverse the sometimes-murky world of credit management, information is the key.

In years gone by credit insurance has been a tool for mitigating insolvency risk, and whilst it still is, businesses are beginning to realise they can use the information provided by having credit insurance as a sales enabler in the business, a way to grow safely and securely.

> *"Credit insurance is a sales enabler. If you are not sure about the credibility of your customer, your insurance limit gives you the safety you need to go ahead with the sale"*

Matthias Beck
Group Risk & Insurance Manager

In essence you're switching up the credit management vs sales conversation. Rather than the insurance being a way to say no to the sales department, when the data is utilised properly it becomes a way of saying yes.

Only time will tell if the zombie apocalypse is really upon us and the long-term effects it may have to wider economy, but I think Warren Buffet summed it up best when he said,

"You only learn who's swimming naked when the tide goes out".

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