

What lies beneath?

The hidden dangers of dormant companies



Many corporate groups, large and small, have accumulated dormant companies within their structure, whether through M&A activity, internal re-organisations or historic use of special purpose vehicles.

Dormant companies, which are hidden from the management's attention, can often form a large underbelly of corporate history quite separate from the immediately visible and active parts of the business. These companies could pose some very real dangers to the rest of the business or group.

Our research¹ indicates that nationally there are in excess of 450,000 companies and limited liability partnerships classified as dormant. 95,000 of these are located in the South East and South West regions of the UK. Some of these will have done little and have minimal value associated with them, but others will have trading histories that have left a ticking time bomb of potential claims arising from long forgotten guarantees and normal business hazards.

Through the passage of time, management's knowledge of these dormant companies and their history fades but the issues and risks associated with them remain. Gradually, the ability to deal with these matters reduces as records are destroyed and knowledgeable staff move on to new roles or even leave the organisation entirely.

You might be worried about one-off costs or have pushed this to the bottom of your 'to do' pile. However, taking action now to secure an orderly dissolution of these surplus and dormant companies can:

- eliminate the annual compliance costs associated with them and potentially save further administrative costs for the wider group

¹Fame UK and Irish companies database



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- bring finality to any contingent claims that may exist from corporate guarantees or from events during the companies' trading histories
- return balance sheet value that would otherwise be trapped in these companies to active companies within the group or to shareholders, potentially enhancing the perceived financial standing of the group
- if further investment or a trade sale is contemplated a clean group structure could lead to a better price and less costly due diligence.

Our restructuring team has supported many businesses in reducing their exposure from dormant group companies for a range of clients from household names to small family businesses. Our approach is to make the process as cost and time-efficient as possible, while taking into account your cost structures, objectives and appetite for risk.

If you would like advice on your company's situation, please contact us.



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