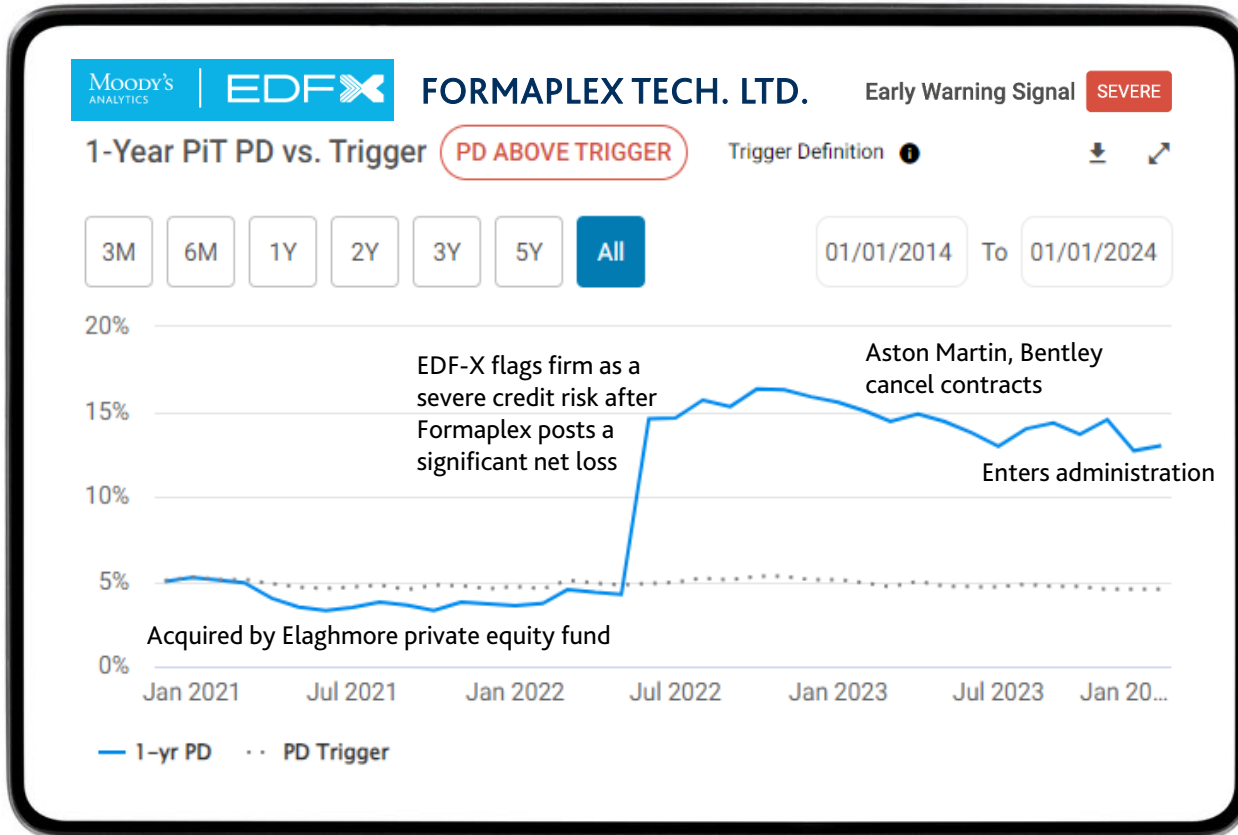


CASE STUDY: FORMAPLEX TECHNOLOGIES LIMITED

A strained balance sheet, rising input costs and the loss of two key customers pushed UK-based component manufacturer Formaplex into administration



ANALYSIS

Formaplex, a manufacturer of specialized components for diverse industries, grappled with the dual challenges of slim margins and escalating input costs. The company's roots can be traced back to its inception as a parts supplier for F1 racing teams, from where it broadened its horizons to cater to the aerospace, marine, defense, and medical markets. Despite this impressive diversification, the firm found itself in a precarious position when two of its key clients severed their ties. Economic headwinds combined with the pressure of rising costs ultimately pushed Formaplex into administration in January 2024.

Formaplex's capital structure, already strained, became increasingly vulnerable due to the surge in input prices. Operating at a substantial loss, the firm reported a net profit margin of -23% for the year ending June 2022. The company's limited cashflows added further pressure to its balance sheet, as evidenced by its debt coverage ratio, leverage, and liquidity positions. Compared to a group of economically similar firms, Formaplex stood out as one of the poorest performers. The inflationary environment of 2021-2022 only magnified these weaknesses, as it drove costs even higher.

A crisis materialized in late 2023 when Aston Martin and Bentley, two of Formaplex's key clients, cancelled supply contracts. The auto manufacturers highlighted Formaplex's financial instability and its implication on their supply chains. With an unsustainable capital structure and evaporating revenues, Formaplex was left with few options and shuttered operations before entering administration in January 2024.

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