PwC Restructuring Update - Q3 2022

A Challenging Winter Ahead

September 2022

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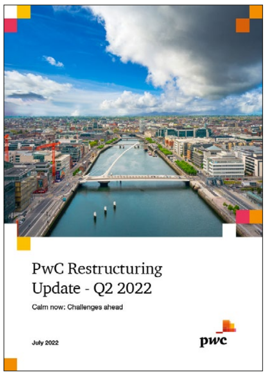
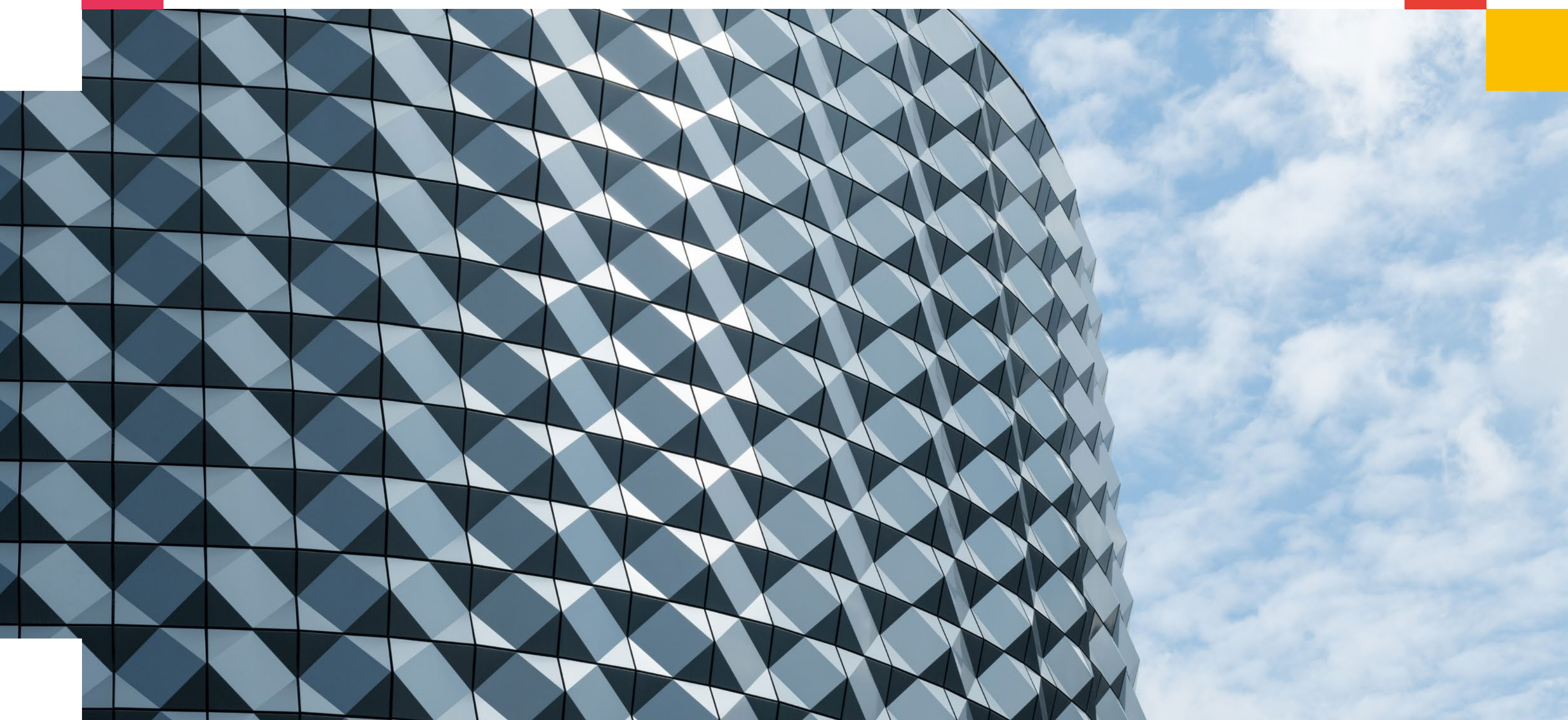




Foreword

Ken Tyrrell
Partner – Business Recovery Services

Direct economic impact of insolvencies - over €2 billion in 2022

- For the first time ever, we have calculated the direct economic impact from business failures in Ireland. This is a new method of analysing business failures and their financial and economic impact on the Irish economy. We have examined the financial statements of all companies that have failed during 2022 which has allowed us to estimate the economic impact or cost from failing businesses.
- For the year to date, over 350 companies have declared insolvency with associated debts outstanding in excess of **€1.6 billion**. We expect this figure will be well over **€2 billion** by the end of 2022.
- While this is a significant figure, it is set against a backdrop of record low insolvency rates in recent years. If insolvencies were to rise closer to Ireland's long term average, we would expect the annual direct economic cost of these business failures to rise to c. **€6 - €7 billion**.

PwC Insolvency Barometer - insolvencies remain at historically low levels

- Business failure rates remain at historically low levels, a trend that we have seen during and now continue after the pandemic.
- The current business failure rate is **18** per 10,000 companies, which is well below the 17 year average of **53** per 10,000. By comparison, in the aftermath of the global financial crisis, this figure peaked at **109** in 2012.
- Ireland's current business insolvency rate is running at **17%** of the peak rate in 2012 and is at approximately a third of the average business failure rate over the past 17 years.
- There are some signs of an increase in the business failure rate when we look at quarterly trends and comparing year on year but these are coming from a very low base.

Q3 2022 Business failure - significant increase from Q3 last year

- The business failure rate has increased by **49%** when Q3 2022 is compared to the same quarter last year, from 3.7 insolvencies per 10,000 companies to 5.5 per 10,000.
- The business failure rate has also increased by **31%** quarter on quarter, from 4.2 insolvencies per 10,000 companies to 5.5 per 10,000.
- These increases are mainly driven by the increase in SME liquidations as we predicted in our last report.
- The number of lender initiated receiverships remain at very low levels and interestingly there were no examinership appointments in Q3 2022.
- Quarter on quarter there has been a large increase in the number of SCARP appointments however this increase is from a very low base. SCARP was used in 5% of all the insolvency cases during Q3.

PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	18	2022
Average	53	N/A
Highest	109	2012
Lowest	14	2021

UK liquidation rates continue to hit new records

- The number of liquidations in the UK have risen to new record levels in each of the last three quarters.
- The overall number of liquidations in the UK this quarter are currently higher than those recorded during the global financial crisis.
- The construction industry in the UK accounted for nearly one in five business failures over the 12 month period ending Q2 2022.

Certain industries & counties are being hit harder than others

- The (i) arts, entertainment and recreation & (ii) hospitality sectors recorded the highest rate of business failures in Q3 2022 with the failure rate almost doubling compared to Q2 2022.
- Over the last twelve months, 1 in 8 of all insolvencies were recorded in the construction sector
- Dublin had the highest rate of business failures, with the failure rate increasing by 80% quarter on quarter.

Challenges ahead

- **Energy Costs, Interest rate & Inflation Trifecta** - Businesses continue to be faced with a combination of rising inflation, interest rates and energy costs as highlighted in our last report. Inflation and energy costs are immediate issues with interest rates to become increasingly relevant in 2023 as ECB rates continue to rise and businesses face loan maturities. There will be a significant increase in pressure on the profitability and cash flow of businesses through the winter as businesses focus on operational performance improvement and cost reduction.
- **Consumer Confidence hitting all time lows** - In September, consumer confidence fell to an all time low in Ireland as reported in the KBC consumer sentiment index. Similarly consumer confidence in the UK fell to its lowest level during August since records began 50 years ago. German consumer confidence has also dropped to record low since their records began over 70 years ago. Encouragingly for Ireland, recent CRO figures indicate that Irish households are saving more than ever, with some level of this for precautionary purposes with rises in energy bills and cost of living in mind.
- **Revenue Warehousing** - As of July, 84,000 businesses were still availing of the Revenue debt warehousing scheme, for a total amount of nearly €3 billion. Discussions with the Revenue on restructuring these debts will be hugely important for these businesses over the coming months. Businesses will be carefully assessing whether they can generate enough cash to cover ongoing liabilities in addition to making contributions to historic debts such as parked tax liabilities.

Key Insights - Business Failure

€1.6 billion of debt owing from businesses that have failed in the year to date, expected to be over **€2 billion** by the end of 2022

During this year, 1 in 8 of all insolvencies recorded is in the Construction sector

€2.8 bn

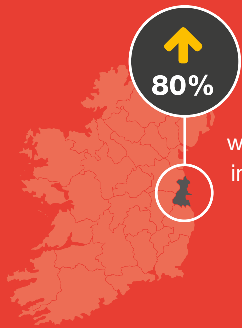
At the end of July 2022, over 84,000 businesses were still availing of the Revenue Debt Warehousing scheme with €2.8 billion in tax debt still owing, equating to over

€33,000 on average for each business

Q2 - Q3 2022 Failures per 10,000

31%	
4.2	5.5
Q2 2022	Q3 2022

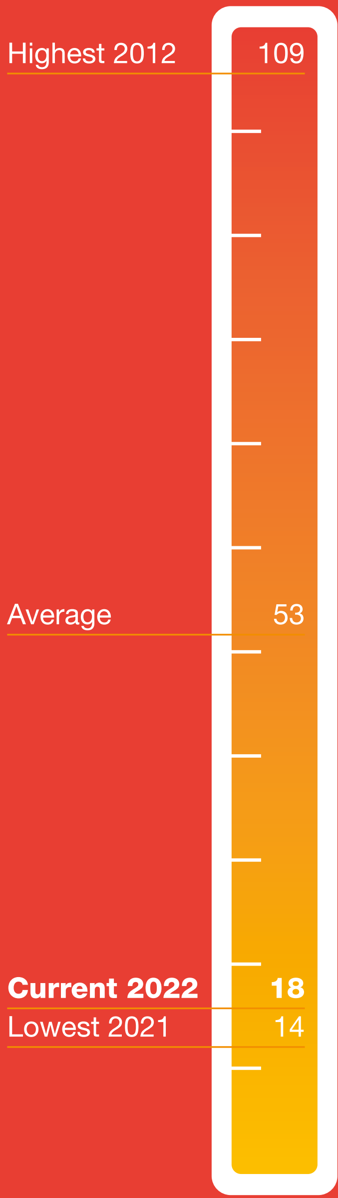
Q3 2022 figures (5.5 failures per 10,000) represent an increase compared to the previous quarter (4.2 failures per 10,000). This represents an increase of 31% quarter on quarter



Dublin had the highest rate of business failures, with the failure rate increasing by 80% from Q2 2022

The UK liquidation rate is three times higher than the equivalent Irish rate

PwC Insolvency Barometer



Business Failure Rate per 10,000

The number of business failures remains at historically low levels

The (i) arts, entertainment and recreation & (ii) hospitality sectors recorded the highest rate of business failure in Q3 2022 with both of their failure rates

almost doubling when compared to Q2 2022

The rate of business failures has increased by 49% in Q3 2022, compared to the same quarter last year

49%

The Direct Economic Impact of Business Failures

For the first time ever in Ireland, we are now publishing data on the direct economic impact of business failures. This is a new method of analysing business failures and their impact on the Irish economy. In addition to providing an update on the actual number of insolvencies, this gives a broader measure of the economic and financial impact of insolvencies.

The direct economic impact from business failures in the year to date was

€1.6 billion*.

This figure represents the aggregate level of debts outstanding from businesses that have failed in the year to date.

Having analysed the business failure rate and the associated economic impact for the year to date, we expect this figure will be well over

€2 billion

by the end of 2022.

As we have noted on previous pages of this report, the current business failure rate of 18 per 10,000 is far below the 17 year average of 53 failures per 10,000. As such, the economic impact of business failures could increase to circa

€6 - €7 billion per annum*

if the number of business failures return to normal levels.

For companies that failed during 2022, we have calculated the debt outstanding from the last set of accounts filed. As there tends to be a 12-24 month gap between the last filed accounts and the date of insolvency, the level of debts outstanding at the date of insolvency tends to be significantly higher than the last filed accounts. This would in turn indicate that the actual debts outstanding are in reality higher than €1.6 billion reported. Excluding some larger companies and groups, the average debts per company that failed during 2022 was just over €2 million.

Mitigating the economic impact of these outstanding debts will be any recoveries from assets for the benefit of creditors. In most SME liquidations, there is generally little if any returns at all for most creditors. In receivership cases, recovery is limited to the value of underlying security.

There will also be broader indirect economic losses arising from insolvencies which we have not calculated in this analysis such as loss of employment, impact on taxes and disruption to other business. Irish unemployment remains at record lows and effectively at full employment. This allows the employees of businesses that have failed to quickly find new jobs or opportunities and mitigates greater economic damage. If employees cannot find new jobs and remain unemployed, this will amplify the economic damage of future business failures above and beyond the pure financial liabilities.

*As per the last set of accounts publicly available

Local Economic Indicators

Irish inflation at 8.7%

The Irish inflation rate rose to 8.7% in August 2022. This was lower than the EU average of 9.1%. There is increased pressure being placed on businesses and individuals as prices continue to rise.

Unemployment rate rose to 4.3%

The unemployment rate increased slightly from 4.2% to 4.3% in August 2022. The EU unemployment rate was significantly higher at 6.0% in July 2022. The unemployment rates in the UK and US were 3.6% and 3.7% respectively in August 2022.

ECB have increased their interest rate to 1.25%

In September, the European Central Bank ("ECB") raised their main refinancing operation interest rate by a further 0.75% in an effort to stabilise inflation in the Eurozone. This is in addition to an interest rate increase of 0.5% announced back in July 2022.

Ireland's GDP grew by 11.1% in Q2 2022

Ireland's Gross Domestic Product ("GDP") grew by 11.1% year-on-year by the end of the second quarter of 2022. Meanwhile, Gross National Product ("GNP"), which is a more meaningful measure of economic activity in Ireland, grew by 0.4% in the same period.

Consumer sentiment drops to a 14 year low

The KBC Bank consumer sentiment survey dropped to 42.1 in September. It had been up at 81.9 back in January prior to Russia's invasion of Ukraine. This represents a significant decline and a figure lower than any during the Covid-19 pandemic. It's now down to a level not seen since the global financial crisis over 14 years ago.

Construction index at 46.9

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. The index was 46.9 in August 2022, this is an increase from both June (46.4) and July (41.8) 2022. The decline in July 2022 was most notable in the residential sector.

Global Headwinds more relevant than ever for Irish businesses

1. Interest rates

The US Federal Reserve is now up to 3.25% having increased by 0.75% in September for the third time straight. The Bank of England ("BoE") increased their interest rate to 2.25% in September having already increased by 0.5% in both June and August. The increase in September was the seventh consecutive increase and it's now at their highest rate in nearly 14 years. The ECB interest rate is far below that of the US and UK at 1.25% after two increases announced in recent months. Further increases are expected from the ECB, BoE and US Federal Reserve.

2. Inflation

The current annual inflation rate in the EU is 10.1% (eurozone area - 9.1%) with the Irish inflation below this level at 8.7%. Elsewhere in the EU certain countries recorded annual inflation rates which were over double the EU average: Estonia (25.2%), Latvia (21.4%) and Lithuania (21.1%). France currently has the lowest annual inflation rate in the EU at 6.6%. The US inflation rate is currently at 8.3% and the UK at 9.8%. With high inflation rates, pressure is placed on businesses across the globe as consumers tighten their spending habits.

3. High energy costs

Across the world energy prices have increased dramatically. Uncertain market conditions pushed oil to a 14-year high at $130 per barrel earlier in the year. Currently a barrel is trading at an average of $80. Russia has cut its gas supply to Europe via Nord Stream 1 pipeline indefinitely. One third of all Russian gas exports to Europe are via this pipeline. As a result, a shortage of gas supplies may cause supply rationing and cause energy prices to surge even further for both consumers and businesses.

The energy and utility sector is proving to be a difficult environment for businesses to operate in. So far this year, four residential energy providers have exited the market as it has proved difficult to make a profit. This is as a result of surging wholesale energy costs since the Russian invasion of Ukraine. Ireland is reliant on gas imports as Ireland is regarded as a high-risk location in terms of exploration activity. As a result, there have been no commercial discoveries in recent years which would greatly benefit the sector.

4. Supply chain constraints

As a result of supply chain constraints and uncertainty many businesses have adopted a 'just in case' inventory management system. This system can be cash draining as a result of over-ordering and increased inventory write-off costs.

Q3 Business Failure Highlights

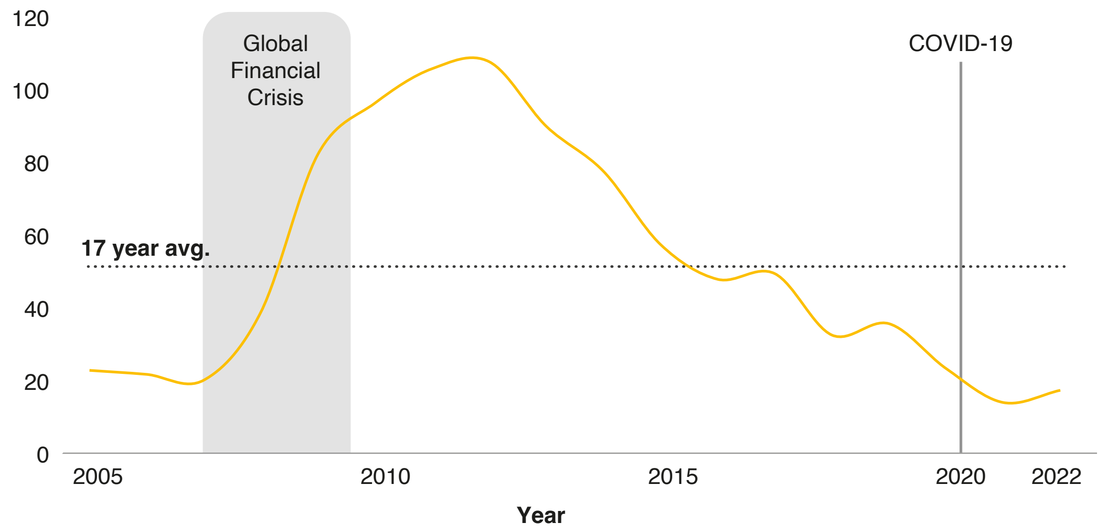
PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	**18**	2022
Average	**53**	N/A
Highest	**109**	2012
Lowest	**14**	2021

1. The business failure rate has increased by 49% during Q3 2022 when compared to the same period last year

The business failure rate of 5.5 per 10,000 businesses during Q3 2022 represents a 49% increase when compared to the same quarter last year (3.7 failures per 10,000 businesses). There has also been a quarter on quarter increase in business failures of 31% as there were 4.2 business failures per 10,000 during Q2 2022. These increases have been predominantly down to the additional number of SME liquidations as we had predicted in our last report whilst the number of lender initiated receiverships remains at an all time low.

Business Failure Rate per 10,000 companies



Why we use a per 10,000 business measure - Business Failure Rate

Our analysis is based on a per 10,000 measure which has become all too commonplace to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries, towns, counties or countries with different population sizes. It provides meaningful context to the numbers rather than simply looking at them in absolute terms.

Irish quarterly business failure rate per 10,000 businesses

Insolvency Type	Q3 2022	Q2 2022	Q3 2021
Total Corporate Insolvencies	*5.5*	*4.2*	*3.7*
Liquidations	4.7	3.6	2.7
Receiverships	0.5	0.4	0.9
Examinerships	0.0	0.1	0.1
SCARP	0.3	0.1	N/A

2. The annual business failure rate remains at a record low levels

In our Q2 2022 restructuring report "Calm now: challenges ahead", we highlighted that the annual business failure rate per 10,000 business over the last twelve months ending Q2 2022 was 16. At the end of Q3 2022 the last twelve months business failure rate has risen marginally to 18 failures per 10,000 businesses. This figure is still well below the 17 year average of 53 failures per 10,000.

3. Uptake in SCARP during Q3 2022 - represents 5% of all insolvencies in Q3 2022

Q3 2022 saw an increase in the number of SCARP as we had predicted in our last report. There were 7 new SCARP appointments recorded in Q3 2022 compared to just 4 across the previous two quarters. SCARP appointments accounted for 5% of all of the insolvencies during the quarter. There were no examinerships during the period.

Total number of Irish quarterly business failures

Insolvency Type	Q3 2022	Q2 2022	Q3 2021
Total Corporate Insolvencies	*143*	*111*	*98*
Liquidations	123	95	71
Receiverships	13	11	25
Examinerships	0	2	2
SCARP	7	3	N/A

Ireland's Liquidation Rate Compared to the UK

1. Liquidations in the UK continue to rise above record levels

As noted in our last report, 'Calm now: Challenges ahead', the UK had recorded a record number of liquidations in both Q4 2021 and again in Q1 2022. Since the publication of our last report, this record was exceeded yet again with nearly 5,500 liquidations recorded during the second quarter of the year. Creditor voluntary liquidations are the most commonly used insolvency process in the UK having accounted for 87% of all UK insolvencies in Q2 2022.

The number of liquidations in the UK during Q2 2022 increased by 75% when compared to the same period in 2021 (Q2 2021). They also increased by 7% quarter on quarter.

In a recent report published by the UK government, it was noted that the number of total business failures increased by 43% in August 2022 when compared to the same month last year.

2. The number of liquidations in the UK are higher than those recorded during the global financial crisis

Liquidations in the UK have continued to rise quarter on quarter since the beginning of 2021. Over the twelve month period ending Q2 2022, 1 in every 228 companies went into liquidation. This figure is higher than any twelve month period during the global financial crisis.

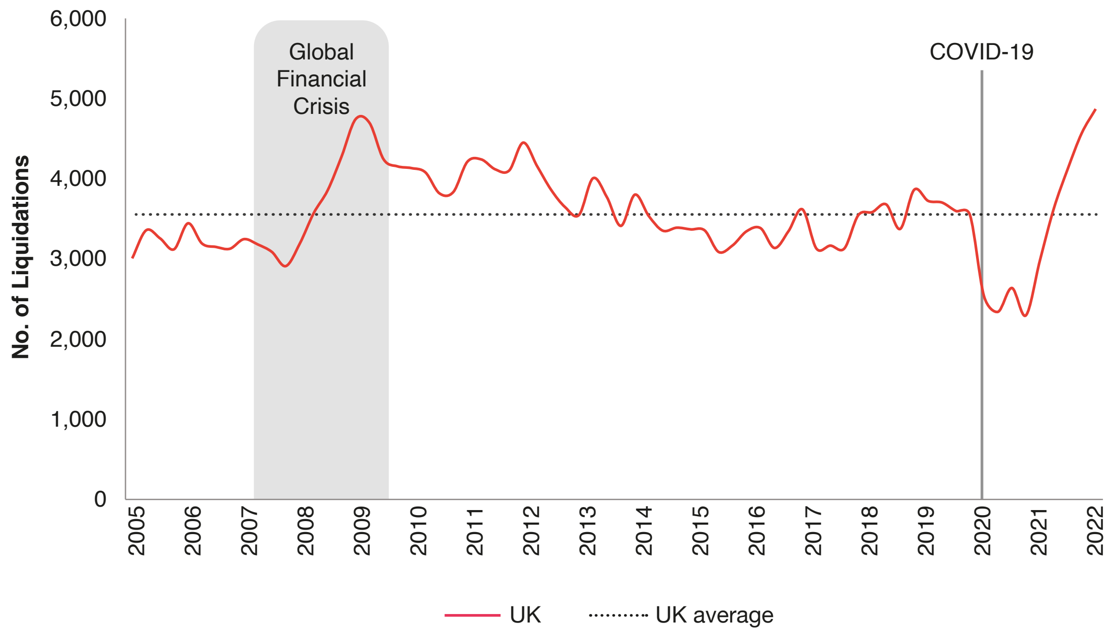
The record number of liquidations in the UK highlights the severe cash flow pressures that businesses are facing as a result of rising interest rates, energy costs and inflation amongst other factors. All of which are similar issues that Irish businesses are having to deal with.

3. Business failure rate by sector in the UK - nearly one in five business failures are in the construction sector

As reported in our last report 'Calm now: Challenges ahead', the construction industry within the UK recorded the highest number of insolvencies compared to other industries for the twelve month period ending Q1 2022. During the second quarter of this year, the construction industry again had the highest number of business failures with 19% of all business failures over the last twelve months ending Q2 2022.

Over the past twelve months ending Q2 2022, the retail sector in the UK recorded the second highest rate of failures with 13% of all recorded failures within

UK Quarterly Liquidations



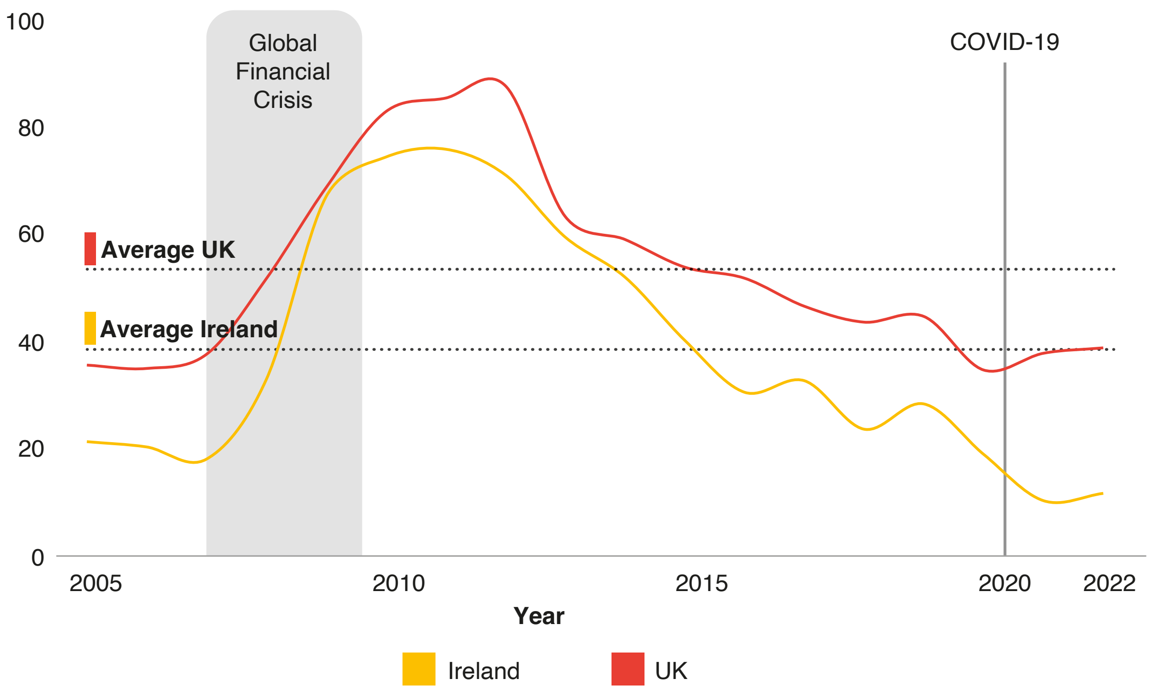
the sector in the UK. In a recent report published by PwC, it was announced that high street stores in the UK were closing their doors at a rate of 12 per day during the first half of this year. While this figure is lower than was recorded during the pandemic, the winter will be tough for retail stores with forced price increases as a result of the energy crisis and supply chain constraints. Currently, retail footfall remains 10% to 15% below pre-pandemic levels in the UK.

The hospitality sector recorded the third highest rate of failures in the UK with 12% of all failures over the last twelve months up to the end of Q2 2022.

4. The liquidation rate in the UK remains over three times higher than Ireland

The UK liquidation rate is 36 per 10,000 which is three times higher than the Irish rate of 12 per 10,000 during the twelve months ending Q2 2022.

Ireland's Liquidation Rate Compared to the UK (rolling twelve month average)



Q3 Industry Highlights

Quarterly business failure rate per 10,000 by industry:

Industry	Q3 2022	Q2 2022
Arts, entertainment and recreation	21	13
Hospitality	15	8
Finance and insurance	14	11
Health	10	32
Education	9	0
Travel and transport	8	1
Real estate	6	4
Professional, scientific and technical activities	5	3
Manufacturing	5	6
Construction	4	3
Retail	4	4
Information and communication	2	0
Administration and support services	1	0
Mining and quarrying	0	14
Energy and utility	0	11
Other	0	3

1. The i) arts, entertainment and recreation & ii) hospitality sectors recorded the highest rate of business failures in Q3 2022

Both the arts, entertainment and recreation (21 per 10,000) and hospitality (15 per 10,000) sectors recorded the highest rate of business failure during Q3 2022. The failure rate in both of these sectors almost doubled during Q3 2022 when compared to the previous quarter.

2. The failure rate in the construction industry remains stable

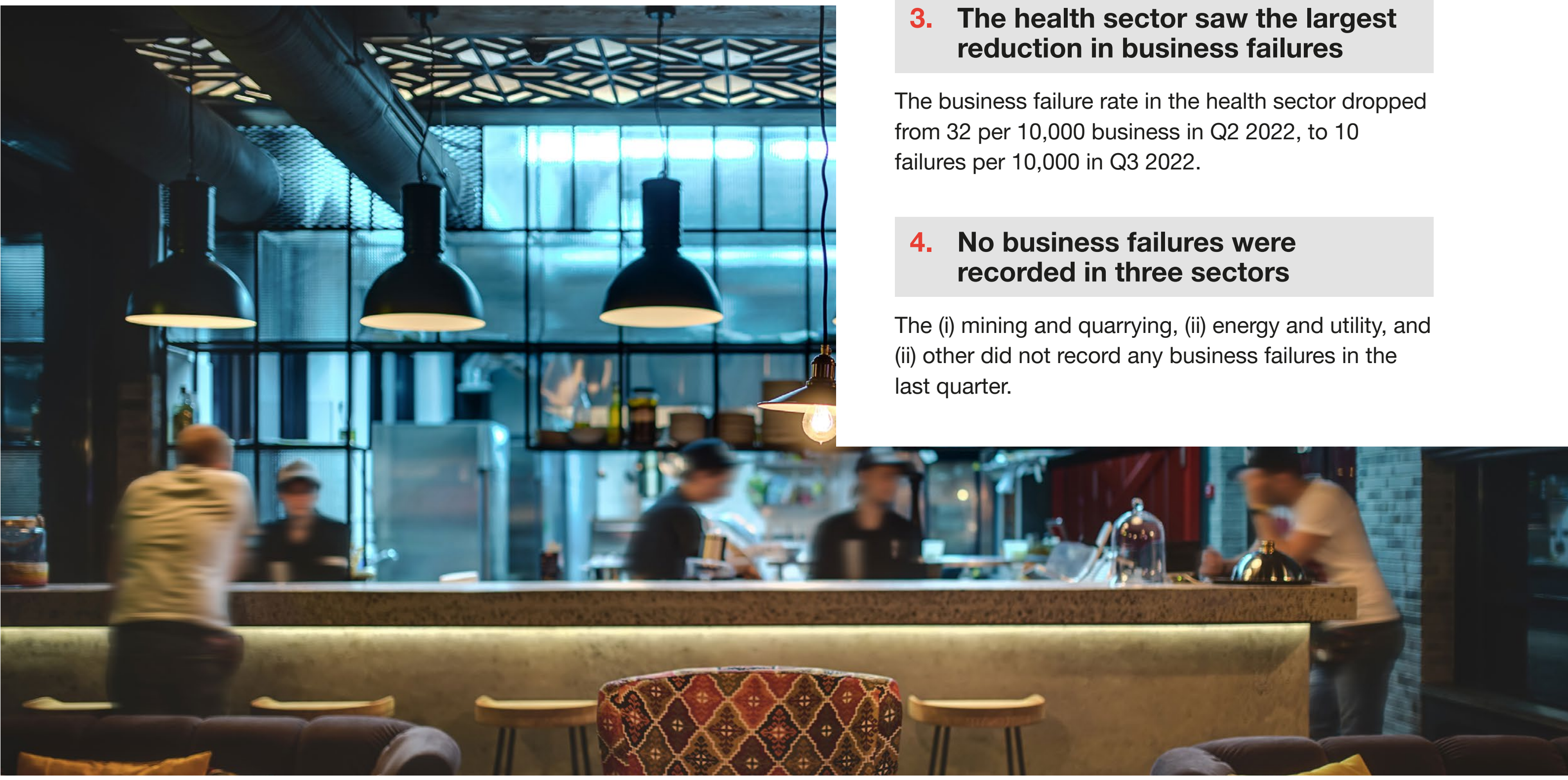
The number of business failures within the construction sector remains at low levels, with 4 failures per 10,000 companies recorded during Q3 2022. Over the past twelve months, one in eight failures have been in the construction sector. This is compared to one in five in the UK. In a recent report by BNP Paribas, the construction industry reported the greatest month-to-month contraction in activity in over a decade (excluding periods of pandemic related disruption) amid rising costs and a reduction in demand. During the 12 month period ending Q2 2022, the construction industry within the UK had the highest number of insolvencies (over 3,650) when compared to other industries.

3. The health sector saw the largest reduction in business failures

The business failure rate in the health sector dropped from 32 per 10,000 business in Q2 2022, to 10 failures per 10,000 in Q3 2022.

4. No business failures were recorded in three sectors

The (i) mining and quarrying, (ii) energy and utility, and (ii) other did not record any business failures in the last quarter.



Q3 County Highlights

Quarterly business failure rate per 10,000 by county:

County	Q3 2022	Q2 2022
Dublin	9	5
Galway	7	5
Wicklow	7	5
Westmeath	6	2
Louth	6	5
Leitrim	5	0
Meath	5	2
Longford	5	0
Kerry	5	5
Cork	4	8
Kilkenny	4	13
Clare	4	1
Offaly	3	6
Monaghan	3	6
Wexford	3	0
Carlow	3	0
Donegal	2	0
Limerick	2	3
Tipperary	2	0
Kildare	2	1
Mayo	1	0
Roscommon	0	9
Cavan	0	7
Laois	0	6
Waterford	0	4
Sligo	0	0

1. Dublin had the highest rate of business failures, with the failure rate increasing by 80% from Q2 to Q3 2022

During the third quarter of the year Dublin had the highest number of failures per 10,000 business (9 per 10,000). This represents a significant increase of 80% when compared to Q2 2022.

2. Longford and Leitrim saw the biggest increase in it's business failure rate

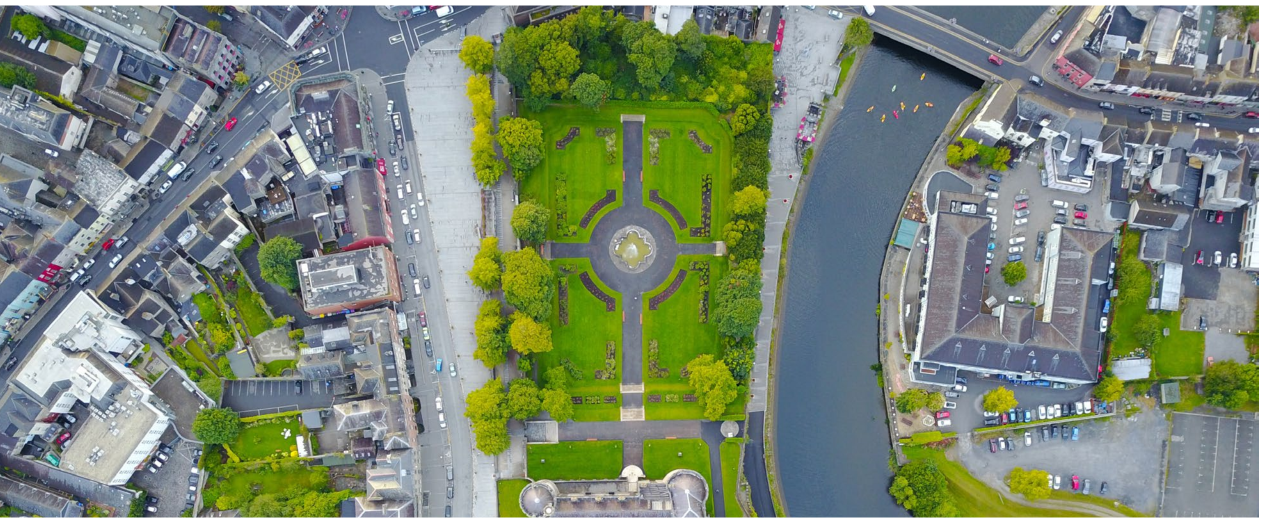
Longford and Leitrim recorded the greatest increase in business failures during the quarter albeit from a very low base. The rate increased from 0 per 10,000 in Q2 2022 to 5 per 10,000 in Q3 2022 for both counties.

3. Kilkenny and Roscommon saw the greatest decreases in their business failure rates

Both Kilkenny (4 per 10,000) and Roscommon (0 per 10,000) recorded the greatest decrease in business failures during the quarter. Both failure rates reduced by 9 per 10,000 during Q3 2022 when compared to Q2 2022.

4. There were no business failures in five counties during the third quarter of the year

There were no business failures recorded in 5 counties during Q3 2022 - Roscommon, Cavan, Laois, Waterford and Sligo.



Act Now

Assess your working capital

Companies must re-appraise and shore up their liquidity and working capital requirements to address the unwinding of government support and debts accrued during the pandemic, while meeting renewed customer demand and delivering delayed investment.

Identify multiple funding sources

The limited availability of further government support will increase reliance on existing lenders, shareholders and access to the capital markets, which may be less forthcoming in sectors where the prospects for recovery and long-term growth are less clear.

Monitor your cash flow

In this uncertain and potentially stop-start pathway to recovery and economic growth, it's essential to monitor cash flow and develop realistic forecasts which take account of potential varying recovery scenarios and, in particular, increasing rates of inflation in Ireland and around the world.

Revise business plans

The immediate demands don't just include day-to-day expenses, but also funding for future growth and adapting to the trends reshaping marketplaces and economies. Revised and flexible business plans will be required to allow for quick forecasting and reacting to market changes. Robust data driven reporting will enable a fast response to changes and prevent profit leakage.

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Appendix - Data Sources

- Banking and Payments Federation Ireland
- Bloomberg
- BNP Paribas Real Estate
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- European Central Bank
- Eurostat
- Experian Gazette
- Financial Times
- Gov.ie
- Gov.uk
- KBC Bank
- PwC UK
- Reuters
- Revenue Commissioners
- Vision-net
- Wall Street Journal

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