PwC Restructuring Update - H1 2023

Insolvency levels rising from historic lows

June 2023

pwc

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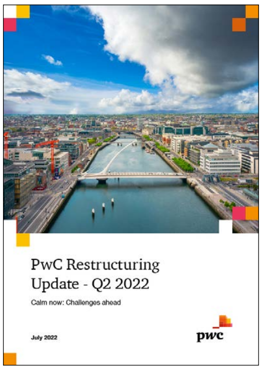
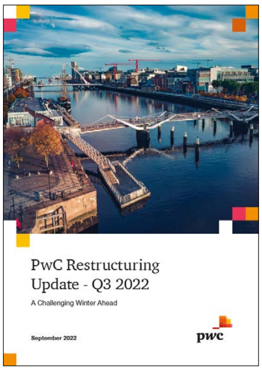




Foreword

Ken Tyrrell
Partner – Business Recovery Services

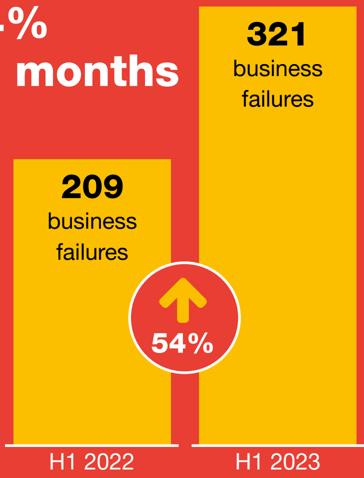
H1 2023 Highlights

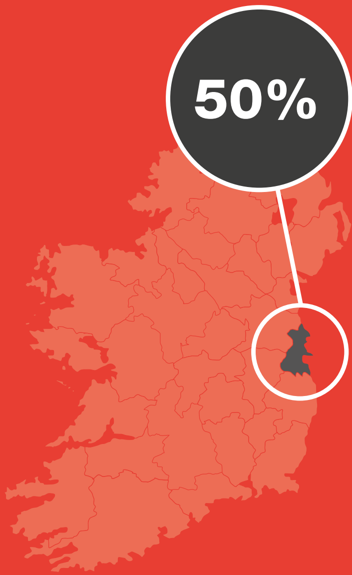
- **Insolvency levels are 54% higher for the first six months of 2023 when compared to the first half of 2022** - The first 6 months of 2023 has seen a total of 321 business failures, compared to a total of 209 in the first six months of 2022.
- **Quarterly insolvencies have increased by 55% in Q2 2023 when compared to Q2 2022** - The number of businesses which failed in Q2 2022 was 111. During the same period this year, 172 business failures were recorded in total. This represents an increase of 52%.
- **Our PwC Insolvency Barometer indicates an annual failure rate of 25 companies per 10,000. This is 79% higher than the lowest level of insolvencies recorded in 2021, but still remains lower than pre pandemic levels** - While there has been an increase in the annual failure rate (from a low point of 14 per 10,000 businesses in 2021 to 25 per 10,000 businesses in the last twelve months), the failure rate remains at historically low levels. The pre pandemic level of insolvency was 36 per 10,000 in 2019.
- **Revenue Debt Warehousing Update** - over 6,000 companies that availed of the Revenue Debt Warehousing Scheme still owe €1.9 billion in total (c. €300k on average) and will need to reach a phased payment agreement with Revenue before May 2024. Revenue recently announced that 510 companies which were eligible for its tax debt warehousing scheme have been liquidated with over €55 million of tax debt outstanding (with €50m of this being warehoused). As we get closer to the May 2024 deadline, we expect this number to increase. Total warehoused debt represents c. 2.5% of projected total Exchequer receipts in 2023. A further 57,000 companies owe €0.3 billion in total, but only €5k on average.
- **International insolvency levels are picking up in the US and UK. UK insolvencies increased by 40% year on year in May 2023** - despite a drop in failure rates in April 2023, the UK recorded an increase of 40% in business failures year on year in May 2023.
- **The US has seen an increase in the number of companies becoming insolvent** - The US has experienced an increase in companies filing for bankruptcy and is being reported as the highest number experienced in over a decade. By the end May of 2023, 27 large debtors had filed for bankruptcy compared to 40 for the entirety of 2022. Overall, the total Chapter 11 filings increased by 105% from Jan-May 2022 (332 fillings) to Jan-May 2023 (680 fillings).
- **In existence now for 18 months, SCARP appointments remain relatively low (38 in total), with SCARP accounting for less than 5% of all insolvencies during the past 18 months -** SCARP appointments still remain low and accounted for less than 5% since its inception. SCARP applications may begin to increase as the 6,000 companies with an average warehoused debt enter into negotiations with the Revenue ahead of May 2024 deadline.
- **The success rate in SCARP processes to date is just over 75% -** approximately three out of every four SCARP processes have been successful since its inception at the end of 2021.
- **The arts, entertainment and recreation sector had a failure rate of nearly three times that of the national average over the past twelve months -** The arts, entertainment and recreation sector had the highest annual failure rate over the last twelve months with 63 per 10,000 businesses. This rate is nearly three times that of the national average failure rate of 25 per 10,000 over the same period. The hospitality and health sectors had the next highest annual failure rates over the past year with 40 and 22 business failures per 10,000 respectively.
- **In overall numbers, Dublin accounted for 50% of all insolvencies in the last six months.** Dublin had the highest total number of business failures with 50% of the overall total during the first half of 2023. Dublin has on average accounted for roughly 50% of total insolvencies for the past number of years.

2022 Key Insights - a year in review

PwC Insolvency Barometer

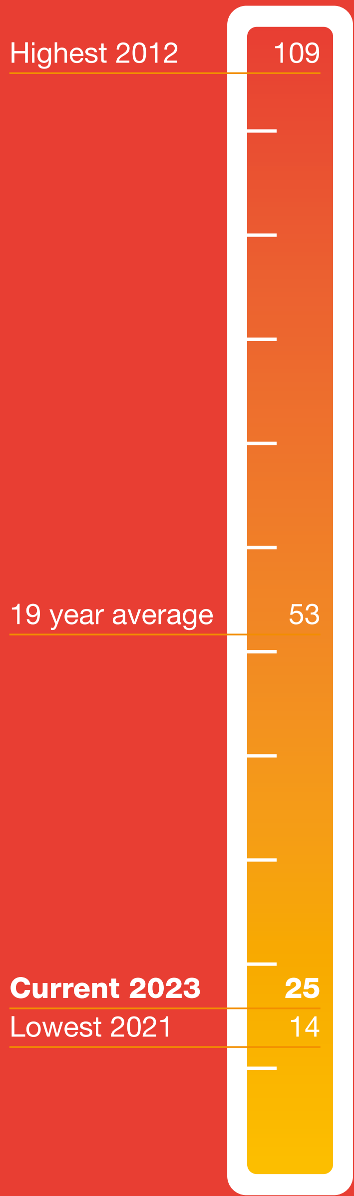
Insolvency levels are **54% higher for the first 6 months of 2023 vs. first six months of 2022**





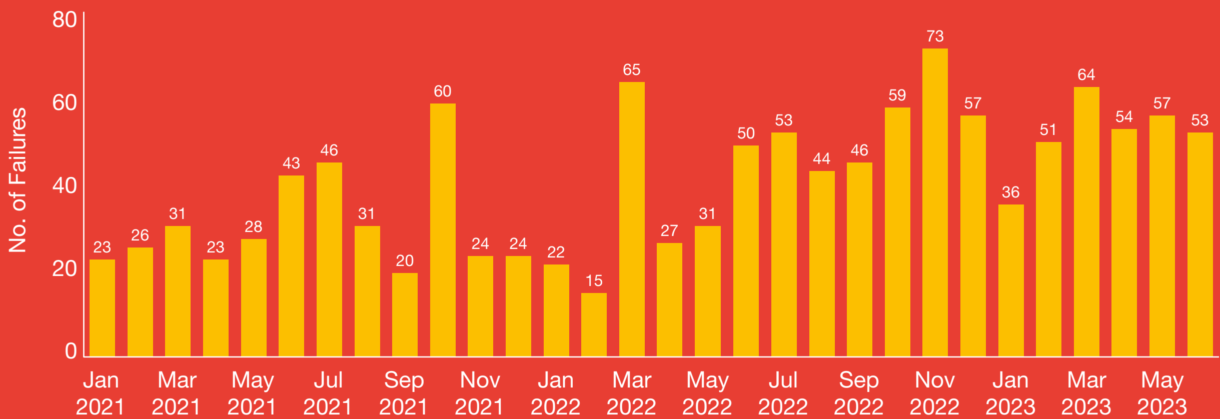
Dublin accounts for **50% of all insolvencies**

The arts, entertainment and recreation sector has an **insolvency rate x3 the national average**



Business Failure Rate per 10,000

Monthly Failures



Update Revenue Debt Warehousing Scheme

The Revenue Debt Warehousing scheme allowed businesses to 'park' their tax liabilities in a bid to ensure they had enough cash flow to continue operations throughout the pandemic. It provided vital liquidity support to businesses and continues to support businesses as they recover. In December 2021, the scheme was extended and three periods were set up. During the first two periods no interest was applied to the warehoused debt. The second of those two periods ended on 30 April 2023.

Period three began on 01 May 2023 and interest is now being applied at a reduced rate of 3% (usually 10%) until the final payment date. Businesses and individuals have until May 2024 to agree a 'Phased Payment Arrangement' with Revenue for the debt in which they have warehoused.

Revenue have recently provided a breakdown of amounts outstanding:

- **€2.2 billion** is the total amount of outstanding debt
- **63,600** companies are still availing of the scheme
- **€1.9bn** of the total outstanding amount is owed by 6,462 companies (an average of €290k per company)
- **€0.3bn** remaining is owed by an estimated 57,138 businesses (an average of €5k per company)
- Total warehoused debt only represents **2.5%** of projected Total Exchequer receipts in 2023

As noted in our previous research, an estimated 4,500 businesses had been saved due debt forbearance and government schemes (such as the debt warehousing scheme). As these supports taper and costs continue to rise, businesses may begin to struggle with their cash flow. In March 2023, Revenue announced that 510 companies which were eligible for its tax debt warehousing scheme have been liquidated with over €55 million of tax debt outstanding (with €50m of this being warehoused).

It was noted by the UK Insolvency Service that the recent increase in CVLs ("Creditors Voluntary Liquidations") in the UK, has been partly attributed to an increase in efforts by tax authorities to recover funds from businesses who are not able to pay their outstanding debts.

We anticipate that more companies will look to avail of formal restructuring processes such as examinership and SCARP to deal with legacy debts including warehoused Revenue debts.

SCARP highlights to date:

The highlights of the SCARP process to date are:

- **38** total
- **22** in 2022
- **16** so far in 2023
- **34** completed, **4** in progress
- On average **3 out 4** are successful
- Represented less than **5%** of all insolvencies during 2022/2023
- **10** examinerships over the same period

Local Economic Indicators

Irish inflation at 5.4%

The Irish inflation rate was 5.4% in May 2023, which is a significant reduction from three months previous in February 2023 (8.0%) and in December 2022 (8.2%). Even though the inflation rate has decreased, there is still continued pressure being placed on businesses and households in particular, as prices continue to rise.

Unemployment rate at 3.8%

The unemployment rate has dropped to an all time record low of 3.8% in May 2023 (3.9% in April 2023). The EU unemployment rate was significantly higher at 6.0% in May 2023. The unemployment rates in the UK and US were at 3.8% and 3.7% respectively in May 2023.

The ECB has increased their interest rate to 4.0%

In June 2023, the European Central Bank ("ECB") raised its main refinancing operation interest rate to 4.0% in an effort to stabilise inflation in the eurozone. This is in addition to an increase of 0.25% to 3.75% which was announced in May. The ECB have raised interest rates consecutively since July 2022; July 2022 (0.5%), September 2022 (1.25%), March 2022 (2.0%), December 2022 (2.5%), February 2023 (3.0%), March 2023 (3.5%), May 2023 (3.75%) and June 2023 (4.0%).

Ireland's GDP contracted by 4.6% in Q1 2023

Ireland's Gross Domestic Product ("GDP") fell by 4.6% in Q1 2023, this is on the back of annual growth of 12.2% in 2022. This quarterly contraction represents a second consecutive quarterly fall (1.3% decrease in Q4 2022).

Consumer sentiment increased to 62.4

Ireland's Consumer Confidence increased to 62.4 in May, from 59.2 in April. Sentiment had been increasing from a low of 42.1 in September 2022, despite a slight dip in March 2023 (53.9).

Construction index at 49.5

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. The index was 49.5 in March 2023, a decrease from the previous month (49.8). This number is higher than the dip which was experienced in December (43.2). The fall in Q4 2022 is being accredited to a decline in housing and civil engineering activity. Any figure below 50 indicates contraction, whilst any figure over indicates expansion.

Global Headwinds

1. Interest rates

Since our last report, the US Federal Reserve has increased interest rates to a 5.00% to 5.25% range. This is the 10th consecutive increase in interest rate that the US Federal Reserve has undertaken in the past 12 months, from a rate of 0.25% in March 2022. This increase brings the interest rate to a 16-year high. The Bank of England ("BoE") increased their interest rate to 5.0% in June 2023, this was in addition to the increase to 4.50% announced in May 2023. The June increase is the thirteenth consecutive increase and is higher than any interest rate experienced in the 2008 financial crisis. Despite recent increases, the ECB interest rate is still below that of the US and UK at 4.0%.

2. Inflation

The annual EU inflation rate was 8.1% in May 2023 (6.1% in the eurozone), down from 8.3% in April 2023 (7.0% in the eurozone). The Irish inflation rate was below this level at 5.4% according to Eurostat. Elsewhere in the EU, certain countries recorded annual inflation rates which were significantly higher than the EU average: Hungary (24.0%) and Latvia (15.1%). Cyprus and Greece currently have the lowest annual inflation rate in the EU at 3.0% each. The US inflation rate is currently at 4.0% and the UK at 8.7%. With high inflation rates, pressure is placed on businesses across the globe as consumers tighten their spending habits and wage demands increase.

3. The US has seen an increase in the number of companies becoming insolvent

The US has experienced an increase in companies filing for bankruptcy and is being reported as the highest number experienced in over a decade. During the first five months of 2023, there have been more bankruptcy filings in the US than any other comparable period since 2010. By the end May of 2023, 27 large debtors had filed for bankruptcy compared to 40 for the entirety of 2022. These bankruptcies come after years of support and refinancing which allowed companies to survive. Overall, Chapter 11 filings increased by 105% from May 2022 (332 fillings) to May 2023 (680 fillings).

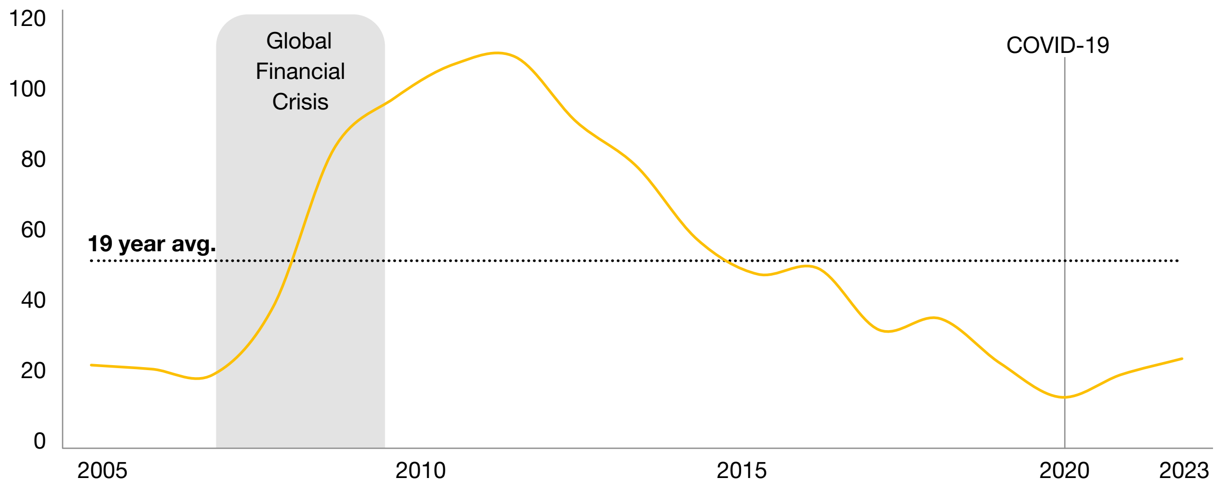
Failure Rate Update H1 2023

Business Failure Highlights

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 common 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.

Business Failure Rate per 10,000 companies



PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	**25**	2023
19 Year Average	**53**	Past 19 Years
Highest	**109**	2012
Lowest	**14**	2021

Irish quarterly business failure rate per 10,000 businesses

Insolvency Type	Q2 2023	Q2 2022	Q2 2021
Total Corporate Insolvencies	*6.4*	*4.2*	*3.6*
Liquidations	5.6	3.6	2.8
Receiverships	0.5	0.4	0.8
Examinerships	0.0	0.1	0.0
SCARP	0.3	0.1	N/A

There has been a large increase in the total number of companies in Ireland over the past 20 years

Analysing insolvencies by absolute numbers only can be misleading due to the increasing number of Irish businesses over time.
For example, the number of companies registered in Ireland in 2005 and 2022 was 160,707, and 263,835 respectively, an increase of 64.2%.

Solely looking at insolvency levels in absolute terms can be misleading given the rise in the total number of companies. For example, if 500 companies failed 20 years ago, the comparable number for today would be 820 given the rise in the total number of companies. Analysing business failures per 10,000 provides a much clearer picture and meaningful context to the analysis of insolvencies and takes account of the increased total number of companies.

1. Insolvencies levels are 54% higher for the first six months of 2023 when compared to the first half of 2022.

The first 6 months of 2023 has seen a total of 321 business failures, compared to a total of 209 in the first six months of 2022. This represents a 50% increase. In 2019, pre-pandemic there were an estimated 424 business failures recorded in the first half of the year.

2. Quarterly insolvencies have increased by 55% in Q2 2023 when compared to Q2 2022.

The number of businesses which failed in Q2 2022 was 111. During the same period this year, 172 business failures were recorded in total. This represents an increase of 52%.

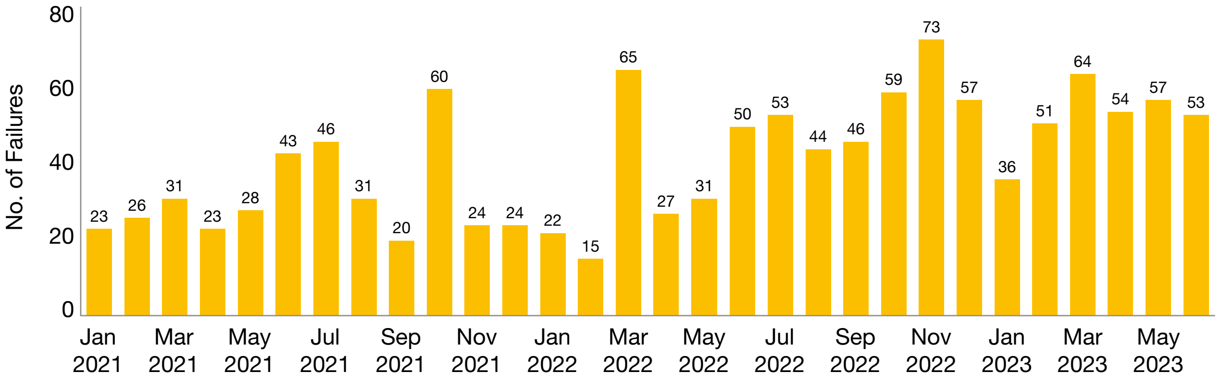
3. Our PwC Insolvency Barometer indicates a business failure rate of 25 per 10,000 companies which is 79% higher than the lowest level of insolvencies recorded in 2021 but still remains lower than pre pandemic levels.

While there has been an increase in the annual failure rate (from a low point of 14 per 10,000 businesses in 2021 to 25 per 10,000 businesses in the last twelve months), the failure rate remains at historically low levels. The pre pandemic level of insolvency was 36 per 10,000 in 2019.

4. Monthly failures have been increasing since the beginning of 2021.

Overall, monthly business failures have been generally on the increase since early 2022. November 2022 saw the highest number of monthly insolvencies since the beginning of 2021 with 73 insolvencies registered. Meanwhile, the lowest number of failures was recorded in February 2022 with only 15 businesses failing.

Monthly Failures



5. In existence now for 18 months, SCARP appointments remain relatively low (38 in total), with SCARP accounting for less than 5% of all insolvencies during the past 18 months.

SCARP appointments still remain relatively low and accounted for less than 5% of total business failure in Q2 2023. It has been 18 months since SCARP was enacted and there has been only 38 appointments.

Insolvency Type	H1 2023	H1 2022
Total Corporate Insolvencies	*321*	*209*
Liquidations	273	155
Receiverships	32	43
Examinerships	1	7
SCARP	15	4

Total number of Irish quarterly business failures

Insolvency Type	Q2 2023	Q1 2023	Q2 2022	Q1 2022
Total Corporate Insolvencies	*172*	*149*	*111*	*97*
Liquidations	150	123	95	60
Receiverships	14	18	11	32
Examinerships	0	1	2	5
SCARP	8	7	3	0

Business Failures in the UK

UK insolvencies increased by 40% year on year in May 2023.

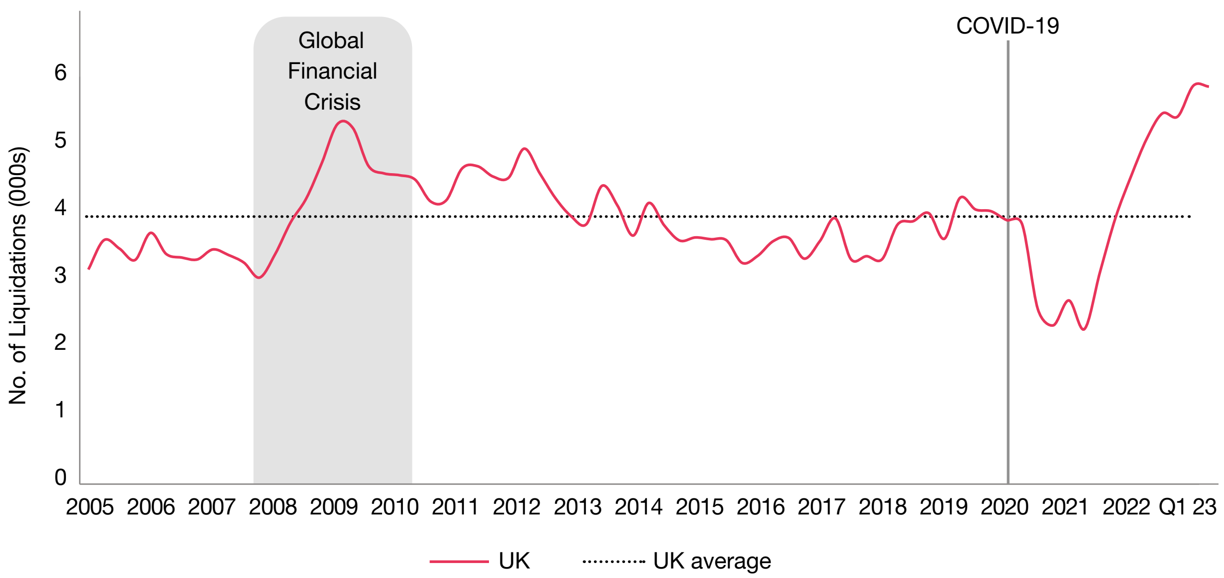
Despite a slight decrease in April 2023, the UK recorded a 40% increase in business failures year on year in May 2023. Figures recorded in May 2023 represent levels higher than

pre-pandemic numbers. In addition to this increase, it was noted that there was a 34% increase in CVLs ("Creditors Voluntary Liquidations"), which has been partly attributed to an increase in efforts by tax authorities to recover funds from businesses who are not able to pay their outstanding debts.

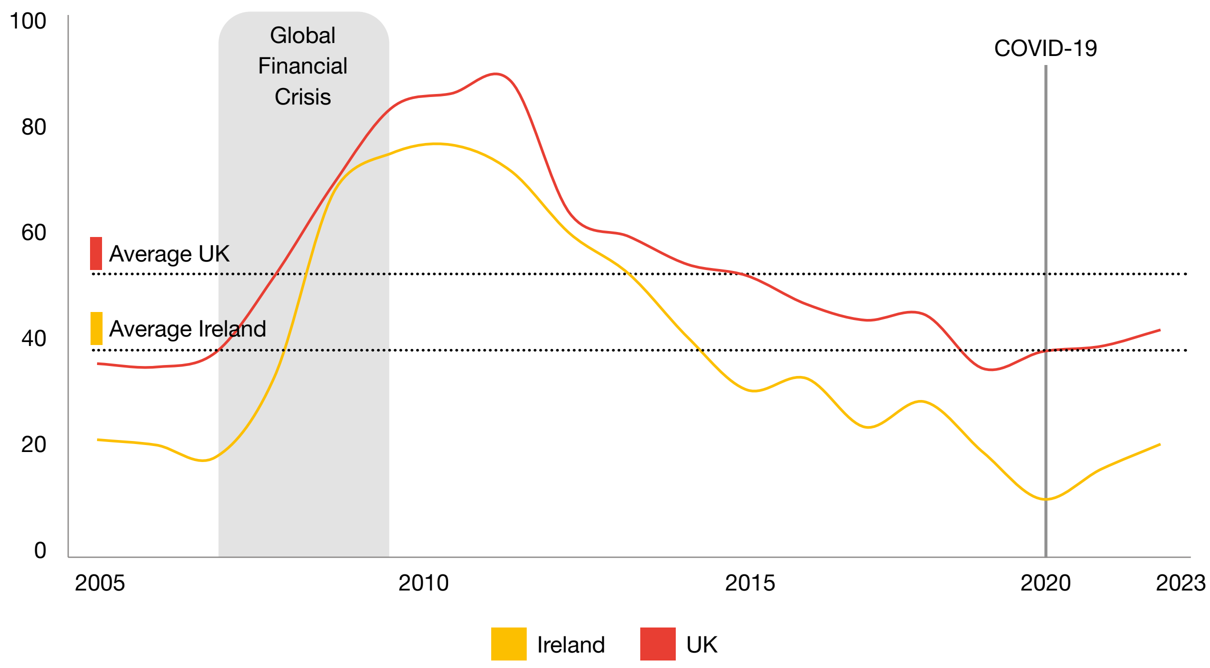
Meanwhile, on a quarterly basis, the total number of insolvencies experienced by the UK in Q1 2023 was 4% less than the total number of insolvencies recorded in Q4 2022. The UK has recorded 42 business failures per 10,000 over the last twelve months, this is compared to Ireland's 25 failures per 10,000. CVLs are the most commonly used form of insolvency and accounted for 82% of the filed insolvencies in the UK during the first quarter of the year. Whilst in Ireland, CVLs account for 77% of the total number of insolvencies filed during the same period.

In England and Wales, the construction sector recorded the highest number of insolvencies with 19% of all insolvencies recorded in this sector over the last twelve months. Retail and hospitality recorded 16% and 13% of total insolvencies respectively. These three sectors combined accounted for 48% of all insolvencies over the past twelve months. In Ireland, the same three industries recorded the highest number of total insolvencies over the last twelve months.

UK Quarterly Liquidations



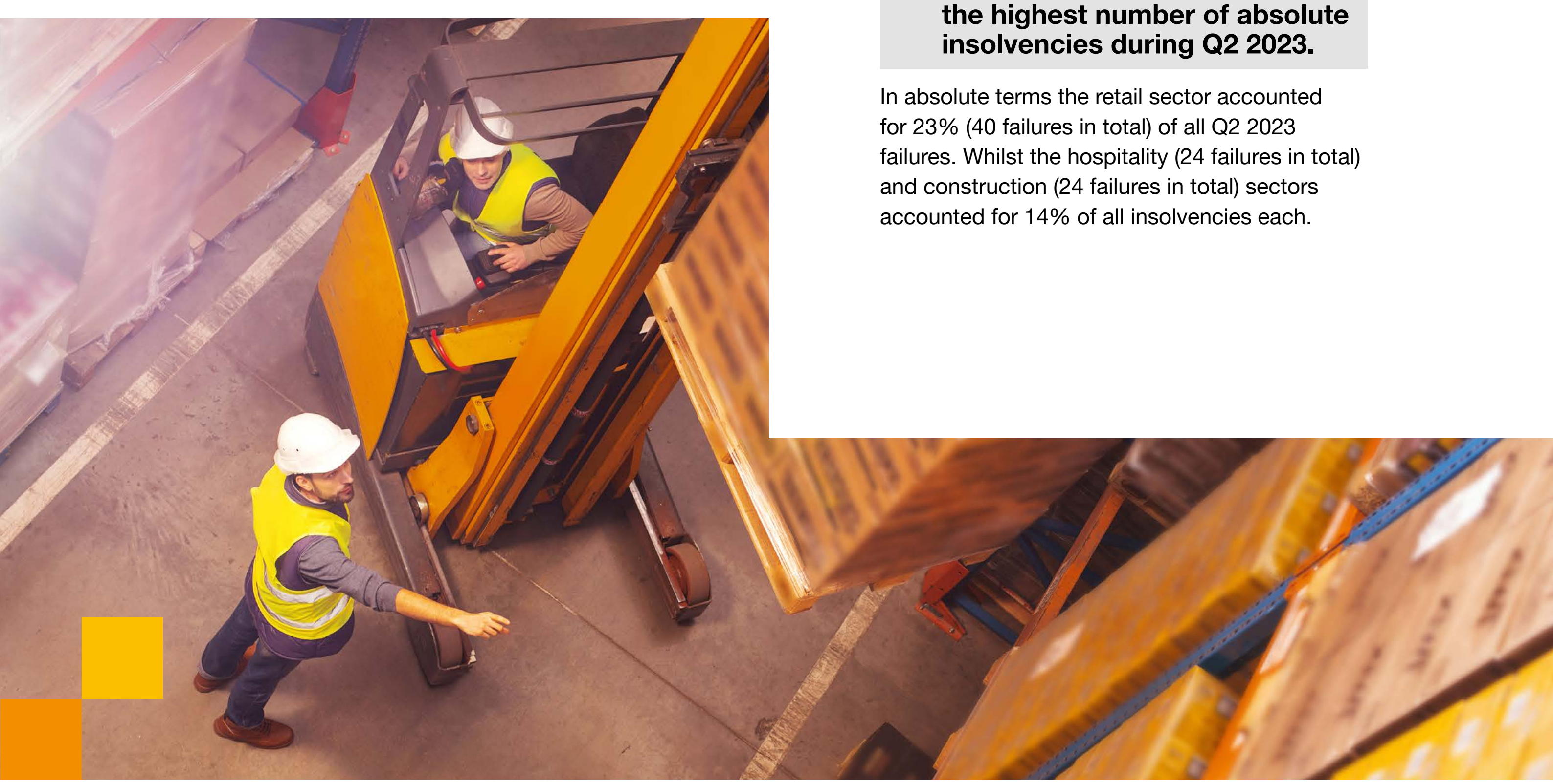
Ireland's Liquidation Rate Compared to the UK (rolling twelve month average)



Industry Highlights

Quarterly business failure rate per 10,000 by industry:

Industry	Q2 2023	Q1 2023	Q2 2022
Arts, entertainment and recreation	25	21	13
Finance and insurance	20	7	11
Mining and quarrying	14	0	14
Hospitality	13	10	8
Education	10	6	0
Retail	7	8	4
Health	6	4	32
Real estate	6	2	4
Construction	6	5	3
Travel and transport	5	8	2
Information and communication	5	2	0
Manufacturing	4	9	6
Professional, scientific and technical activities	4	3	3
Other	3	3	3
Administration and support services	1	0	0
Energy and utility	0	11	11



1. The arts, entertainment and recreation sector had the highest failure rate in Q2 2023.

The arts, entertainment and recreation sector recorded the highest failure rate during the second quarter of 2023 with 25 failures per 10,000.

2. The arts, entertainment and recreation sector had a failure rate of nearly three times that of the national average over the past twelve months.

The arts, entertainment and recreation sector had the highest annual failure rate over the last twelve months with 63 per 10,000 businesses failing. This rate is nearly three times that of the national average failure rate of 25 per 10,000 over the same period. This is despite a slight dip in failures recorded in this sector in the most recent quarter. The hospitality and health sectors had the next highest annual failure rates over the past year with 40 and 22 business failures per 10,000 respectively.

3. (i) Retail, (ii) hospitality, and (iii) the construction sectors had the highest number of absolute insolvencies during Q2 2023.

In absolute terms the retail sector accounted for 23% (40 failures in total) of all Q2 2023 failures. Whilst the hospitality (24 failures in total) and construction (24 failures in total) sectors accounted for 14% of all insolvencies each.

County Highlights

Quarterly business failure rate per 10,000 by county:

County	Q2 2023
Monaghan	17
Louth	13
Meath	11
Dublin	10
Offaly	9
Cavan	7
Laois	6
Kerry	6
Donegal	6
Kildare	5
Galway	5
Leitrim	5
Mayo	4
Westmeath	4
Cork	4
Waterford	4
Tipperary	4
Roscommon	3
Carlow	3
Kilkenny	2
Wexford	2
Limerick	2
Wicklow	2
Clare	0
Sligo	0
Longford	0

1. In overall numbers, in terms of counties, Dublin had the highest number of insolvencies first half of 2023.

Dublin had the highest total number of business failures with 50% of the overall total the first six months of 2023. Dublin has on average accounted for roughly 50% of total insolvencies for the past number of years.

2. Monaghan, Louth and Meath had the next highest failure rates per 10,000 businesses when looking at counties.

Monaghan recorded a failure rate of 17 per 10,000 businesses during Q2 2023. Meanwhile, Louth and Meath had failure rates of 13 and 11 per 10,000. These represent the top three failure rates recorded across Ireland during the quarter.

3. There were 3 counties in which no business failures were recorded during Q2 2023.

There were no business failures recorded in 3 counties during Q2 2023 - Clare, Longford, and Sligo.

Cash Management Culture

In the face of general market disruption, geopolitical change and high profile challenges across different industries, businesses are feeling the effects of an uncertain market with restructuring activity rising and risk of shocks remaining in the market. Creating a cash-conscious culture is critical to ensure organisations can improve and accelerate their resilience to mitigate the impacts and flourish in the future. To achieve this, everyone in an organisation needs to be focused on cash. This is a collective responsibility from the boardroom and across the business - not just the finance team or treasury to make decisions impacting cash.

Five ways to optimise your company's cash culture

1. **Make cash the business of everyone in the organisation.** Cash is bigger than the treasury and finance departments; they both have a key coordinating role in effectively managing cash but it's the operations of the business that are making daily decisions that impact cash. Push cash up everyone's agenda.

2. **Cash can mean different things to different people, so make cash relevant to everyone.** Having a common language of cash across the organisation (operations and finance) is vital to instilling a proactive cash conscious culture:

- Reliable cash forecasting
- Effective expenditure management and tactical actions
- Cash reporting and incentivisation, tailored to audiences across the organisation
- Management of cash tax and government incentives
- Centralising management of true cash availability and foreign currency cash
- Effective management of banking and other financing facilities.

3. **Forecasting cash and appropriately granular scenario planning** on both a medium and short term basis should involve both operations and finance teams. These are essential in reflecting and understanding the real operational risks that exist in the current volatile market.

4. **Understanding and sharing your minimum cash thresholds** to help the wider business manage the daily decisions and cash commitments that they are making (once the decision is made, the cash is committed).

5. **Optimising supplier and customer working capital terms and relationships** to conserve and generate the cheapest form of cash available to you.

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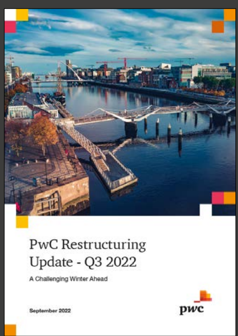

Appendix - Sources

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- Companies Registration Office
- Courtsdesk
- European Central Bank
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