PwC Restructuring Update - Q2 H1 2024

June 2024

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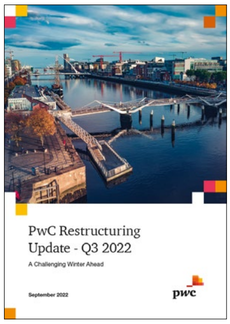
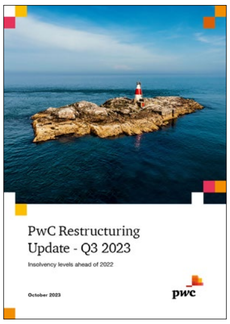
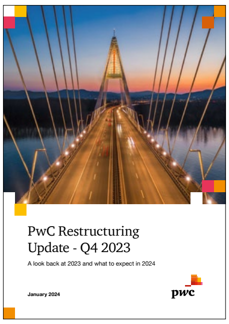
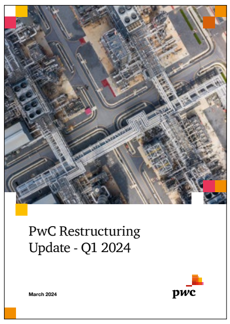








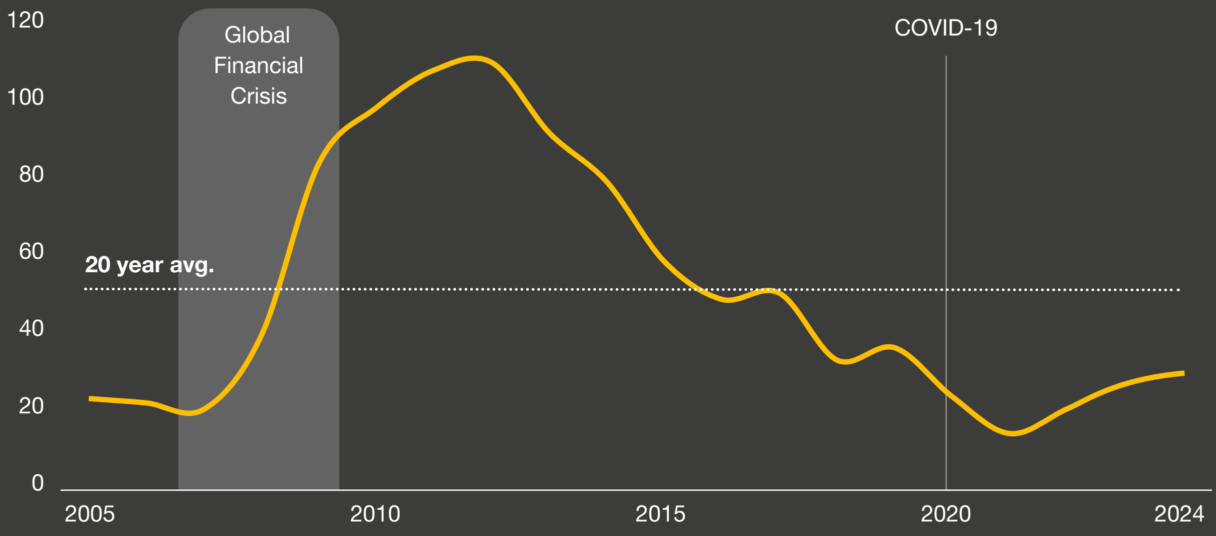
Foreword

Ken Tyrrell
Partner – Business Recovery Services

Q2 H1 Update

- **Insolvencies are 25% higher for the first half of 2024 -** Our PwC Insolvency Barometer indicates a 25% increase in insolvencies when comparing the first six months of 2024 to the first six months of 2023, with 416 recorded in H1 2024 and 331 recorded in H1 2023.
- **Insolvencies drop by just over 15% in the second quarter of 2024 -** In Q2 2024, insolvencies declined by just over 15% compared to the previous quarter. The number of recorded insolvencies dropped from 223 in Q1 to 188 in Q2 2024. However, it's worth noting that Q2 2024 saw a near 10% increase compared to Q2 2023, with 171 recorded insolvencies for that quarter.
- **Our PwC Insolvency Barometer shows the insolvency rate has remained steady quarter on quarter for 2024** - The current annual insolvency rate of 29 per 10,000 businesses has remained steady for the first half of 2024, increasing slightly from 28 per 10,000 in Q1. Although the current rate has doubled since 2021 when the rate was 14 per 10,000 businesses, it still remains far below the previous peak of 109 per 10,000 businesses back in 2012. Even with the comparatively low insolvency numbers in Q2 2024 vs Q1 2024, there is still the possibility of breaching the pre-pandemic levels of 850 recorded insolvencies in 2019, equating to 36 per 10,000 businesses for that year.
- **Cessation of Revenue's Debt Warehousing Scheme** - The Debt Warehousing Scheme has come to an end, with the latest figures from Revenue showing over 93% of the €3.2 billion of debt included in the Scheme has been discharged, secured through PPAs or likely to be secured through PPAs. Over 7,000 businesses did not engage meaningfully with Revenue ahead of the May deadline. Their warehoused debt, totalling €100m, is now subject to normal collection and enforcement procedures, along with interest rates of 8-10%. Many of these businesses are in the retail, hospitality and construction sectors and will either need to reach some agreement with Revenue or require some form of formal restructuring.
- **SME liquidations account for four out of five insolvencies -** SME liquidations continue to be the most common form of insolvency, accounting for 83% of all insolvencies in Q2 2024. There were 155 liquidations in Q2 2024, which is marginally higher than the same quarter in 2023, with 141 liquidations, and substantially lower than the previous quarter in 2024, with 189 liquidations.
- **Slight uptick in companies availing of SCARP rescue process** - Rescue processes made up 6% of insolvencies in Q2 2024, with 3 Examinerships and 9 SCARPs, compared to only 2 and 5 respectively in Q1 2024, accounting for just 3% of all insolvencies. By comparison, there were 2 Examinerships and 10 SCARP's respectively recorded in Q2 2023 (7% of total insolvencies).

Insolvency Rate per 10,000 companies



- **Retail, hospitality and construction account for over half of insolvencies -** Retail recorded 40 insolvencies, hospitality recorded 32 and construction recorded 28 insolvencies, accounting for 55% of all insolvencies for the quarter. However, hospitality had almost 2.5 times the equivalent insolvency rate at 17 per 10,000 businesses, versus retail at 7 per 10,000 businesses, while construction insolvencies equated to 6 per 10,000 businesses. This highlights that although construction and retail are experiencing similar numbers of insolvencies, the hospitality sector is still the most adversely affected of all sectors.
- **The UK reports a slight dip in insolvencies -** the UK recorded lower insolvency numbers for May 2024 versus May 2023, however, PwC UK note the continuing trend of high insolvency figures in general shows many businesses still face significant financial pressures.
- **Enforcement from Lenders continues at relatively steady levels -** there were 21 Receiverships in Q2 2024 which is in line with the same quarter for 2023 (17), and the recent quarter in 2024 (27). These figures show Lenders remain patient and appear to want to avoid enforcement where possible.
- **Eight times more insolvencies in Dublin than the next county-** Over 53% of all insolvencies in Q2 2024 were registered in Dublin, recording 100 insolvencies.

PwC Insolvency Barometer

	Insolvency Rate per 10,000	Year
Current	**29**	2024
20 Year Average	**50**	Past 20 years
Highest	**109**	2012
Lowest	**14**	2021

Revenue Debt Warehousing

In May 2024, the Revenue ceased the Debt Warehousing Scheme.

Latest figures from their statistical report published on the 5th June, 2024, €3.2 billion of debt was warehoused at the scheme's peak in January 2022. Over 93% of this debt has now been either discharged in full, secured under a Phase Payment Arrangement (PPA) or is still under negotiations and most-likely to be placed under a PPA.

Over 11,700 had not meaningfully engaged with Revenue by the deadline of May 2024, with completion notices issued to these tax-payers. A cohort of 7,000 tax-payers with warehouse debts of over €500 did not engage with Revenue despite these completion notices. The total balance owed by this cohort is €100m, which is now subject to Revenue's normal enforcement and collections procedures, while the zero percent interest rate has expired and been replaced by the usual 8-10% rate.

Debts amounting to €120m were deemed uncollectable from just over 1,500 tax-payers, due to various reasons such as liquidation, examinership, bankruptcy and cessation.

What sectors have the most debt under PPAs?

Sector	Warehoused Debt in PPAs
Retail	€268m
Hospitality	€180m
Professional, Scientific and Technical (PSaT)	€145m
Construction	€137m

These 4 sectors comprise 60% of the total warehoused tax debt in PPAs that remains outstanding and c. 58% of the businesses with warehoused tax debt PPAs outstanding. Retail and hospitality had the highest number of insolvencies in Q2 2024 with construction being the third highest sector.

It's apparent from a review of these figures that a large volume of businesses in the retail, hospitality and construction sectors will require some form of restructuring and/or insolvency process towards the later end of 2024.

Updated Revenue Debt Warehousing Figures for Q2 2024

Over **€2.9 billion** of the €3.2 billion peak debt has been discharged or secured by PPA

€1.2 billion of debt has been secured by PPAs with 12,750 tax-payers

95% of the PPAs agreed are due within a 5-year period

7,000 tax-payers were removed from the scheme with €100m now subject to enforcement collection and standard interest and penalties

It will be interesting to see future statistics from Revenue regarding overall tax-payer compliance with the agreed PPAs

Local Economic Indicators

Irish inflation at 2.6%

The Irish inflation rate has continued to decline according to the Central Statistics Office ("CSO"), falling to 2.6% for April and May 2024, from an annual increase of 4.1% in January. May 2024 was the seventh consecutive month that the inflation rate remained below 5%.

The IMF predicts that the Irish annual inflation rate will reduce to 3.2% in 2024 and 2% in late 2025.

The ECB reduces interest rates

The European Central Bank ("ECB") announced that the three key ECB interest rates were to decrease by 25 basis points, with main refinancing operations at 4.25%, marginal lending facilities at 4.5% and deposit facilities at 3.75%. These changes were brought into effect on the 12th June 2024.

Ireland's GDP grew by 0.9% in Q1 2024

The CSO reported that GDP in Q1 2024 rose by 0.9% according to provisional figures released on 6th June 2024, slightly below the preliminary expected increase of 1.1%. Further, the European Commission has predicted growth of 1.2% for 2024, and 3.6% for 2025.

Unemployment rate decreased to 4.0%

The Irish unemployment rate has dropped from 4.9% in December 2023 to 4.0% in May 2024, which is very close to the previous record low levels. The EU unemployment rate was significantly higher at 6.0% in April 2024, while the unemployment rate in the UK sits between Ireland and the EU rates at 4.4%.

The Central Bank of Ireland ("CBI") predicts that the Irish unemployment rate will remain below 5% out to 2026.

Consumer sentiment registers further decrease

Ireland's Consumer Sentiment Index registered a 4.5 point decrease from 70.2 in February 2024 to 65.7 in May 2024, The recent further contraction from the high of 74.2 in January can be attributed to the cost-of-living pressures signalling frustration at the lack of improvement. This sentiment is not unique to Ireland as consumer sentiment in the US has hit a 6-month low in May 2024.

Real Estate Construction index at 49.8

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. An index below 50 indicates decreased activity. The index increased to 53.2 in April 2024 after expanding for 2 months, but dropped to 49.8 in May 2024. Despite the pause in growth seen for total construction activity, work on housing and commercial projects continued to increase in May. The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index posted fractionally below the 50.0 no-change mark in May to signal broadly stable output in the sector midway through the second quarter.

Global Headwinds

1. Interest rates

From its recent press release in June 2024, the US Federal Reserve stated there will be no reduction in interest rates until the US achieves maximum employment, deciding to maintain the target range for the federal funds rate at 5.25% to 5.50%. Meanwhile, the Bank of England also left its interest rate unchanged at 5.25% for the seventh consecutive period.

The ECB did proceed to lower interest rates by 25 basis points, from 4% to 3.75%, in line with the ECB's aim to reach 2% inflation rate by 2025.

2. Inflation

As of April 2024, the EU inflation rate was 2.6% (Eurozone 2.4%), remaining stable from the preceding month of March 2024, although reduced from January's rate of 3.1% (Eurozone 2.8%), and a significant reductions from the recent peak of 11% in October 2022.

Three countries recorded far above the average - Romania (6.2%), Belgium (4.9%) and Croatia (4.7% - while the three lowest recorded rates were Lithuania (0.4%), Denmark (0.5%) and Finland (0.6%).

The US inflation rate is 3.3% and the UK is 2.8%, which are both within range of the EU and Irish inflation rates.

3. Global politics

Political elections are due to take place in major global territories including the European Parliament, UK (General), and the US (Presidential), while elections have taken place in India (General), Russian (Presidential), and South African (General). Local elections have been held in Ireland while a general election is expected to be called before the end of the year. The results of these sets of elections are likely to have major implications in both the global and local economies and financial markets.

Corporate focus for 2024

Higher cost of debt
Whilst debt maturities may present a challenge for some corporates, higher interest rates and other macro factors that erode debt servicing capacity are also expected to drive a number of defaults.

Focus on refinancing
Refinancing has overtaken M&A as the primary purpose of new leveraged loans. In the leveraged loan market the focus has very much been on amending and extending facilities.

Working capital
Against a backdrop of high inflation and low M&A activity, driving value through operational improvements is more critical than ever.

Fatigue
Some management teams in challenged sectors are fatigued after the past few years of unprecedented economic conditions.

Q2 2024 Update

Q2 2024 Insolvency Highlights

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

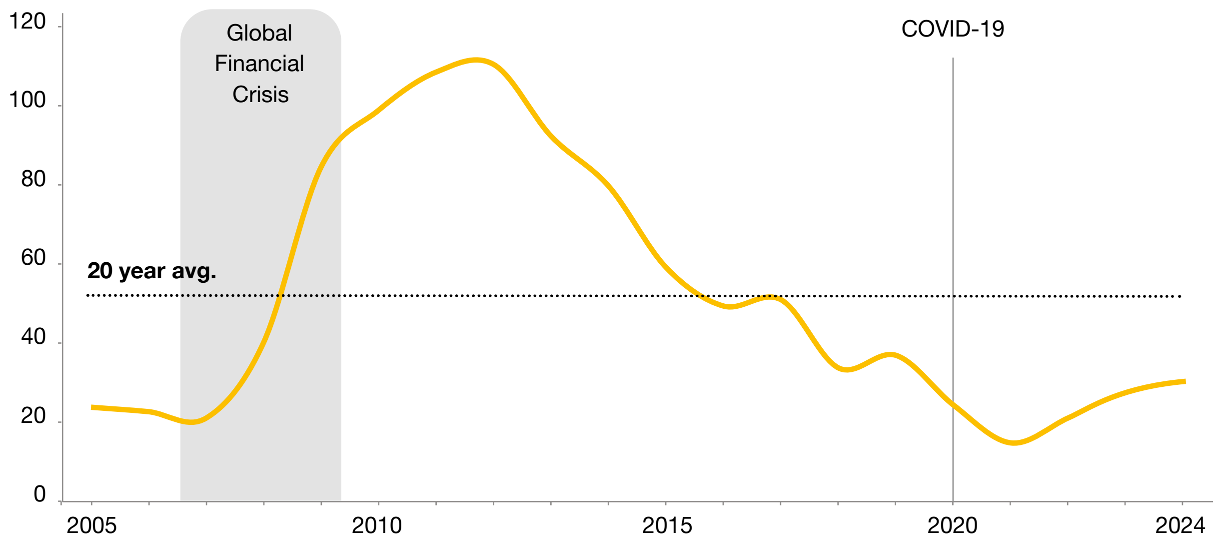
Our analysis is based on a per 10,000 measure which has become all too common to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries,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

There has been a large increase in the total number of companies registered in Ireland over the past 20 years, which means extra care needs to be taken when comparing annual levels of insolvency

Analysing insolvencies using 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 2023 was 160,707, and 302,959 respectively, an increase of almost 89%.

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 943 given the rise in the total number of companies. Analysing insolvencies 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.

Insolvency Rate per 10,000 companies



PwC Insolvency Barometer

	Insolvency Rate per 10,000	Year
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Total number of Irish quarterly insolvencies

Insolvency Type	Q2 2024	Q1 2024	Q2 2023	Q2 2022
Total Corporate Insolvencies	*188*	*223*	*171*	*108*
Liquidations	155	189	141	92
Receiverships	21	27	18	11
Examinerships	3	2	2	2
SCARP	9	5	10	3

Total number of Irish quarterly insolvencies per 10,000 businesses

Insolvency Type	Q2 2024	Q1 2024	Q2 2023	Q2 2022
Total Corporate Insolvencies	*7*	*8*	*6*	*4*
Liquidations	5	7	5	3
Receiverships	<1	<1	<1	<1
Examinerships	<1	<1	<1	<1
SCARP	<1	<1	<1	<1

1. Insolvencies decreased by just over 15% in Q2 2024 when compared to the previous quarter

In Q2 2024, insolvencies declined by 15% compared to the previous quarter. The number of recorded insolvencies dropped from 223 in Q1 to 188 in Q2 2024. However, it's worth noting that Q2 2024 saw a near 10% increase compared to Q2 2023, with 171 recorded insolvencies for that quarter.

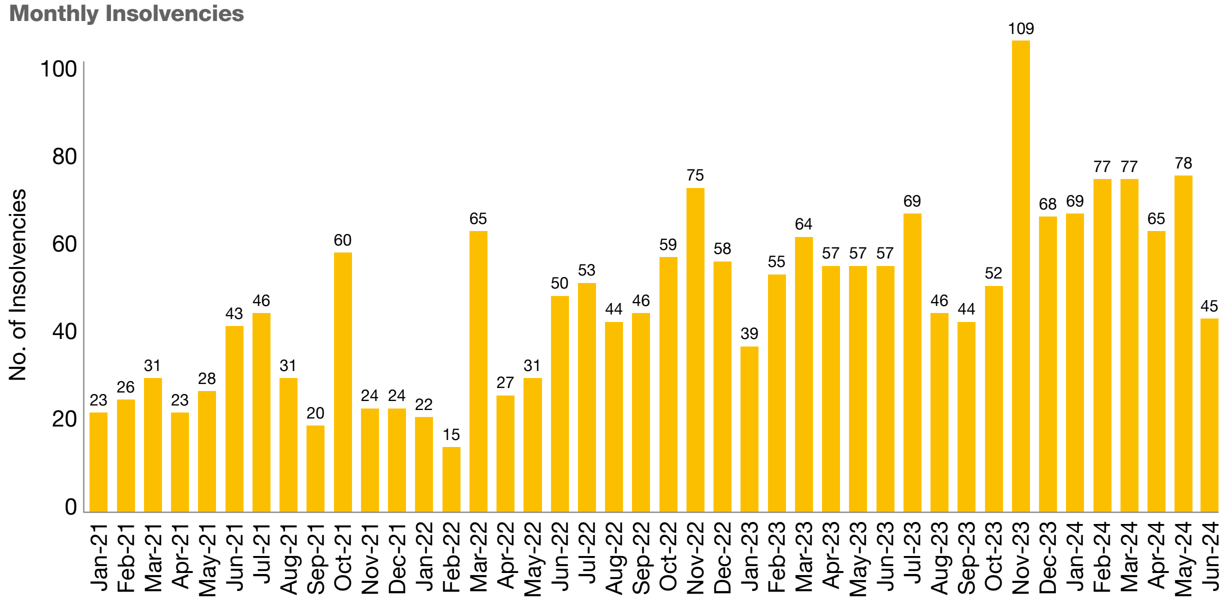
2. SME liquidations account for four out of every five insolvencies

Liquidations made up 83% of all insolvencies in Q2 2024. As in previous quarters, it is the number of liquidations that is driving the rising insolvency levels. The number of liquidations for this quarter was marginally higher than the figure for Q2 2023, with 155 and 141 liquidations recorded respectively. Encouragingly however, there was an 18% drop quarter on quarter from Q1 to Q2, from 189 to 155 liquidations

3. Uptick in use of Rescue Processes (Examinerships and SCARPs)

There were 3 Examinerships and 9 SCARP's in Q2 2024 compared to 2 Examinerships and 5 SCARP's in Q1 2024. These two rescue processes continue to be under utilised, however, the slight uptick in Q2 2024 may have been influenced by the cessation of the Revenue debt warehousing scheme as outlined on page 5 above.

Monthly Insolvencies



Insolvencies in the UK

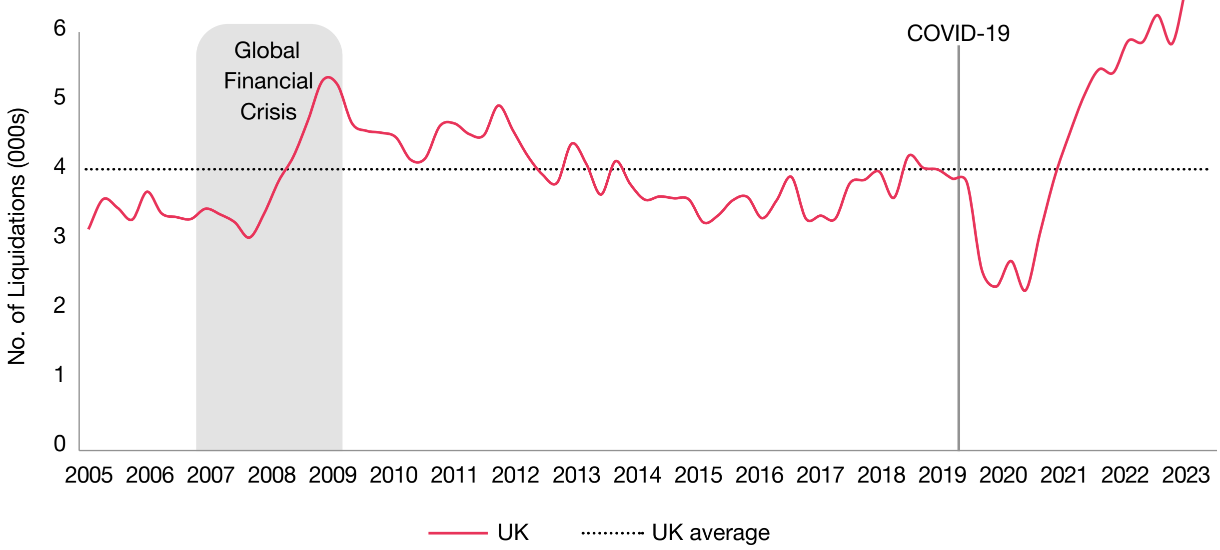
1. The UK recorded a slight dip in insolvencies in May 2024

The UK recorded a 21% decrease in insolvencies compared to May 2023, which was the highest recorded monthly figures since 2008.

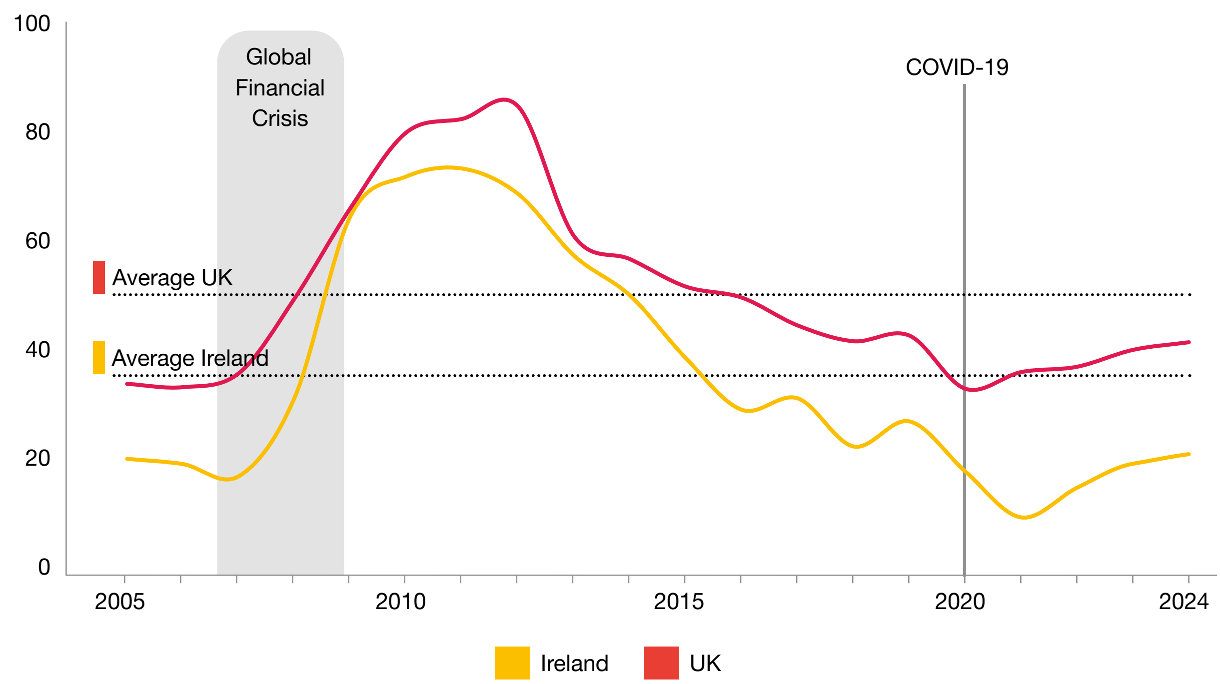
2. As per previous quarters, the UK liquidation rate continues to be higher than that of the equivalent Irish rate

As was the case in the last quarter, the gap between the liquidation rate in the UK (44 per 10,000 businesses) is 50% higher than that of the equivalent rate in Ireland (29 per 10,000 businesses).

UK Quarterly Liquidations



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



Q2 Industry Highlights

Insolvency rate by industry:

Industry	Per 10,000 businesses	Absolute figures
	Q2 2024	Q2 2024
Retail	7	40
Hospitality	17	32
Construction	6	28
Manufacturing	10	20
Finance and Insurance	14	17
Professional, Scientific, and Technical	3	13
Information and Communication	4	9
Real Estate	6	9
Travel and Transport	8	9
Administration	2	4
Health	6	3
Arts, Entertainment and Recreation	8	2
Education	2	1
Mining and Quarrying	13	1
Energy and Utility	0	0
Other	0	0

1. Retail leads in absolute numbers, but Hospitality continues to be adversely affected per 10,000

Retail recorded 40 insolvencies, while Hospitality and construction recorded 32 and 28 insolvencies respectively. However, hospitality had over 2.5 times the equivalent insolvency rate at 17 per 10,000 businesses, versus retail at 7 per 10,000 businesses. This continues the trend from 2022 and 2023 whereby hospitality consistently had one of the highest insolvency rates quarter on quarter.

2. Top three sectors account for over half of all insolvencies

Retail, hospitality and construction together account for over 53% of all insolvencies recorded in Q2 2024. While the top five sectors, which includes manufacturing, and finance and insurance make up over 70% of insolvencies in the quarter.

3. Energy and Utilities recorded zero insolvencies in Q2 2024

Energy and utilities recorded no insolvencies for the quarter, demonstrating the sector's resilience against macroeconomic factors

Q1 County Highlights

Insolvency rate by county:

County	Per 10,000 businesses Q2 2024	Absolute figures Q2 2024
Dublin	11	100
Galway	8	12
Wicklow	14	12
Cork	4	11
Kerry	6	6
Meath	6	6
Donegal	6	5
Louth	7	5
Mayo	6	5
Tipperary	6	5
Limerick	3	3
Waterford	5	3
Westmeath	6	3
Carlow	6	2
Cavan	5	2
Kildare	2	2
Wexford	2	2
Clare	1	1
Leitrim	4	1
Longford	4	1
Sligo	3	1
Kilkenny	0	0
Laois	0	0
Monaghan	0	0
Offaly	0	0
Roscommon	0	0

1. Dublin proceeds to have far highest insolvency rate in overall numbers

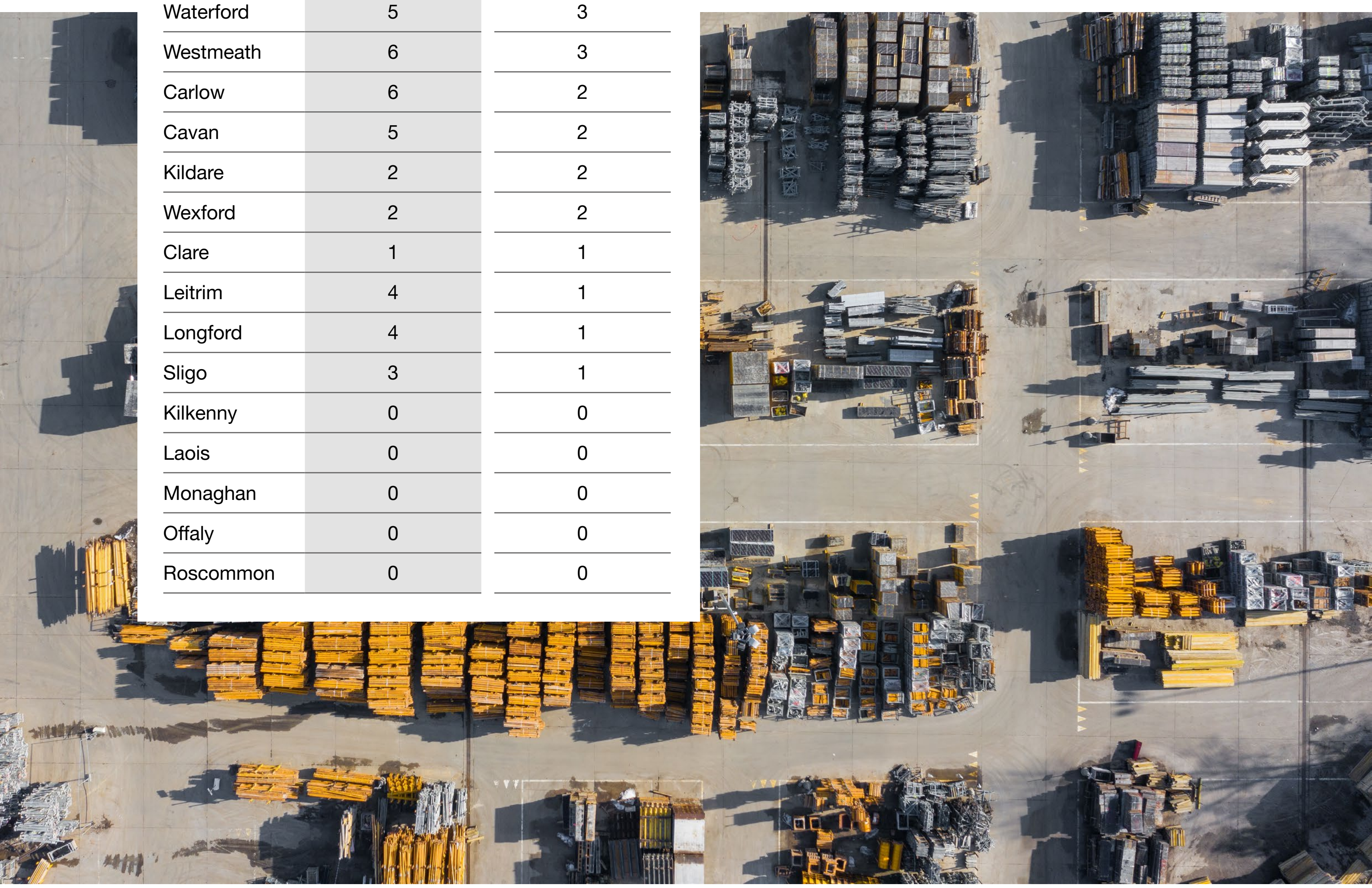
Dublin recorded over four times more insolvencies than the next two counties, Galway (12) and Wicklow (12), combined, with 100 recorded insolvencies.

2. Wicklow recorded highest number of insolvencies per 10,000 business

Wicklow recorded the joint second highest number of insolvencies in absolute numbers, with 12 recorded, equating to the highest insolvency rate of 14 per 10,000 businesses.

3. Five counties that recorded no insolvencies in for the quarter

Kilkenny, Laois, Monaghan, Offaly and Roscommon had zero insolvencies in Q2 2024.



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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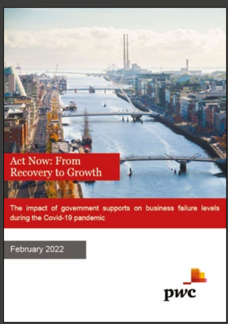

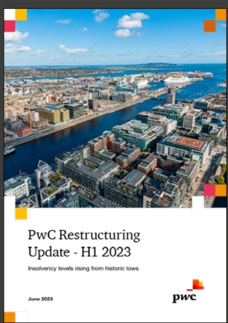

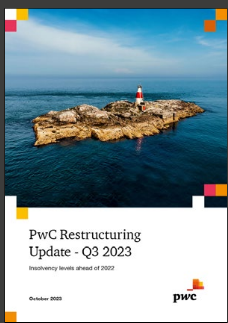

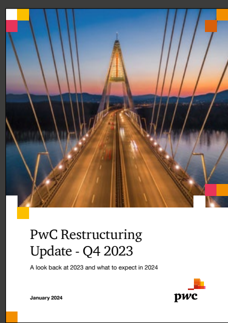

Appendix - Sources

- BNP Paribas Real Estate
- Bank of England
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- European Central Bank
- Eurostat
- Experian Gazette
- Gov.ie
- Gov.uk
- Irish League of Credit Unions
- International Monetary Fund
- PwC UK
- PwC US
- Revenue Commissioners
- Vision-net

Revisions

The figures in this report may differ slightly from previous versions of this report largely due to the cut-off timings of previous reports, incorrect corporate filings and/or notices.