PwC Restructuring Update - Q3 2024

September 2024

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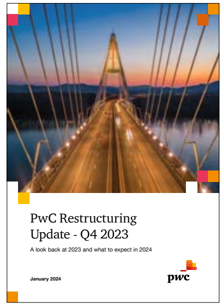
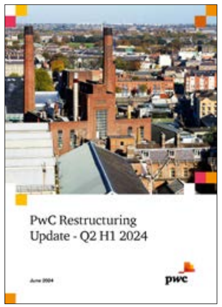




Foreword

Ken Tyrrell
Partner – Business Recovery Services

Q3 Update

- **Insolvencies are 35% higher year to date compared to 2023, and 86% higher than 2022 -** Insolvencies for the year to date are 35% higher than the first nine months of 2023, and 86% higher than the same period in 2022. There have been 661 insolvencies for the year to date, with 491 recorded for the same period of 2023, and 356 for the same period of 2022.

- **Insolvency rate per 10,000 businesses has doubled since the 2021 low but remains below 20-year average -** Our PwC Insolvency Barometer shows the annual insolvency rate has risen to 32 per 10,000 businesses, which is more than double the rate of 14 per 10,000 recorded in 2021. However, the current rate still remains below the 20-year average of 51 per 10,000 businesses, and far below the previous peak of 109 per 10,000 businesses recorded in 2012.

- **Insolvencies expected to reach 900 by year end** - Insolvencies were 15% higher in Q3 (232) compared to Q2 (201). This is 45% higher than the same quarter in 2023, and 73% higher than the same quarter in 2022. If this trend continues into Q4, we forecast total insolvencies to reach over 900 by the end of the year in line with our estimates earlier this year.

- **Retail insolvencies up 77% in Q3 -** Retail insolvencies have increased by 77% in Q3 (76) compared to both Q1 (43) and Q2 (43). The industry has recorded the highest number of insolvencies for the year with 162 to date.

- **Hospitality insolvencies remain at steady level -** Hospitality insolvencies have remained steady for the third quarter of the year, with 31 recorded which is consistent with Q2 (30) and below Q1 (49). Hospitality is one of the most adversely affected industries with an annual insolvency rate of 58 per 10,000 businesses, which is double that of retail (27 per 10,000) and three times that of construction (17 per 10,000).

- **Liquidated hospitality companies left behind €380,000 of liabilities on average** - Based on the most recent financial statements of the hospitality companies liquidated in the past 21 months, the average total liabilities left behind was just over €380,000.

- **Liquidations account for 84% of all insolvencies -** Liquidation remains the most common form of insolvency, accounting for more than 84% of all insolvencies in the year to date, with 99% of all liquidations being SMEs.

- **Rescue processes remain underutilised** - With 32 Examinerships/SCARPs recorded for the year to date, rescue processes account for merely 5% of insolvencies. This is consistent with the same period of 2023 (30), and suggests that there are underlying viability issues with the companies going straight to liquidation rather than availing of rescue processes such as Examinership or SCARP.

- **Lender patience remains consistent** - With 76 receiverships for the year to date, which is largely consistent with the same periods of 2023 and 2022, lender patience appears to be continuing.

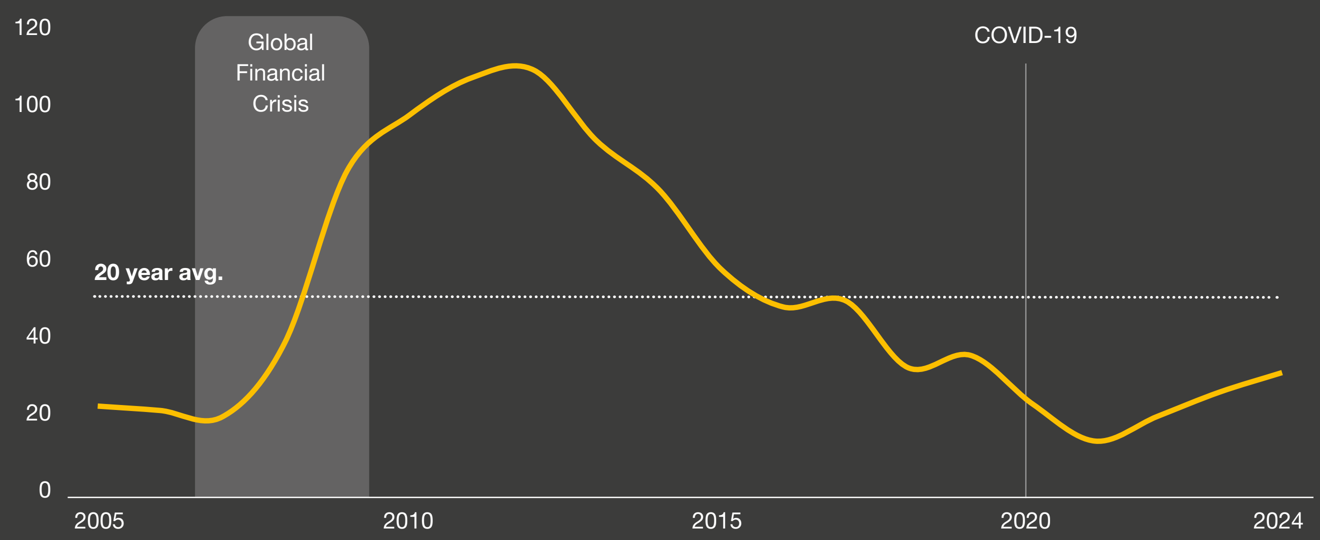
- **Concentration of insolvencies within Dublin persists -** Insolvencies continue to be concentrated in the east of the country with over 53% of all insolvencies for the year recorded in Dublin (344). Cork (45), Galway (39), Wicklow (27) and Meath (22) make up the other top 5 counties and account for almost 75% of all insolvencies for the year.

- **The UK experienced a slight decline in insolvencies for Q2 2024 -** The total number of insolvencies reported in the UK for Q2 2024 declined slightly compared to the same quarter in 2023. However, the trend of volumes of insolvencies in the UK remains at elevated levels.

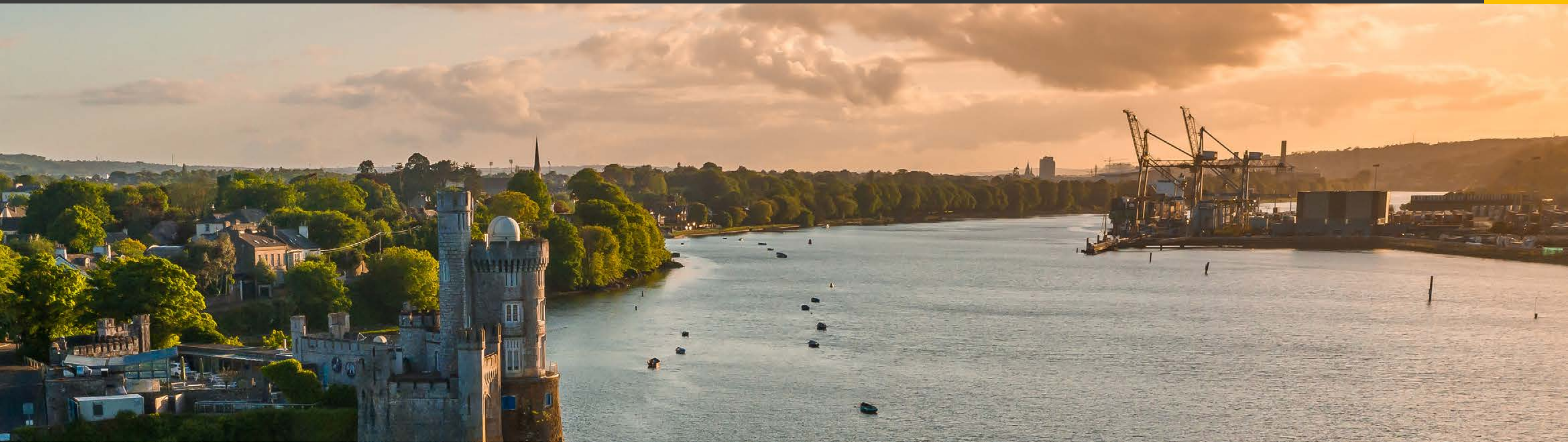
PwC Insolvency Barometer

	Insolvency Rate per 10,000	Year
Current	**32**	2024
20 Year Average	**51**	Past 20 years
Highest	**109**	2012
Lowest	**14**	2021

Insolvency Rate per 10,000 companies



Insolvency rate per 10,000 businesses has doubled since the 2021 low but remains below 20-year average



Industry In Focus - Hospitality

By the end of Q3, the hospitality industry had recorded 110 insolvencies for the year to date, with 98 of those being liquidations.

Key challenges facing the industry

Operators and organisations within the industry cite many challenges including:

- food cost inflation
- increase in labour costs due to wages and PRSI changes
- increase in energy costs over recent years
- post pandemic demand shifts in urban areas and tighter consumer spending.

Underused rescue processes suggest no prospect of survival

With 90% of insolvent companies going straight to liquidation, formal company rescue processes are not being utilised which indicates fundamental problems with the business model and underlying profitability.

There have been only four SCARPs and two Examinerships within hospitality for the year to date. This suggests that there was no prospect of survival for the businesses that have gone into liquidation, and profitability issues were not capable of being solved.

Profitability appears to be the issue, not unsustainable debts

The issue in the industry is clearly about underlying profitability and not necessarily about unsustainable or historic debts. Based on their most recently filed accounts, the average total liabilities for liquidated hospitality companies over the past 21 months was €380,000.

Businesses survive for Christmas but struggle in the New Year

Looking at the level of hospitality insolvencies during the year we see a similar trend to previous years where businesses manage to trade up to Christmas but then struggle in Q1 and have to assess if their business is viable, hence the increase in insolvencies at the start of the year.

High number of closures in media do not fully translate to insolvencies

At first glance, these numbers may appear lower than some of the recently reported closures of restaurants, cafes, and bars. This is because many of these businesses are sole traders and do not operate as companies. Additionally, some businesses that have closed have not yet officially wound up their companies.

Dublin records half of the casualties for the year

Unsurprisingly Dublin has been the worst hit county for the year to date. It has accounted for half of all hospitality insolvencies, with 55 of the overall 110.

Hospitality insolvency rate is higher than the 20-year overall average. Hospitality has a current annual insolvency rate of 58 insolvencies per 10,000 companies.

In terms of historical context, the overall rate of insolvency in the hospitality industry is above the overall 20-year average insolvency level of 50 per 10,000 while most other sectors are currently well below historic insolvency levels. The statistics back up the well publicised issues that the industry is facing.

Insolvencies in Hospitality	Q1 2024	Q2 2024	Q3 2024	2024
Liquidation	43	29	26	98
Receivership	2	1	3	6
SCARP	2	0	2	4
Examinership	2	0	0	2
Total	**49**	**30**	**31**	**110**

Insolvencies in Hospitality	Dublin	Rest of Ireland	2024
Restaurants	35	28	63
Cafes	5	12	17
Pubs	9	4	13
Accommodation Related Businesses	5	4	9
Other Hospitality Businesses	1	7	8
Total	**55**	**55**	**110**

Q3 2024 Update

Q3 2024 Insolvency Highlights

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

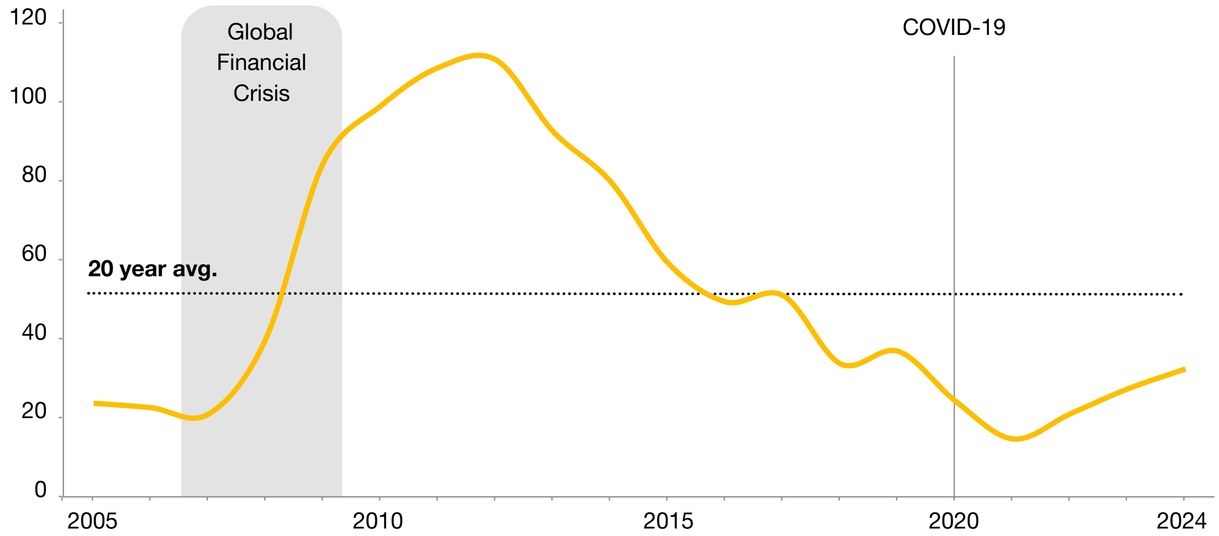
Our analysis is based on a per 10,000 measure which has become all too common to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries, 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
Current	**32**	2024
20 Year Average	**51**	Past 20 years
Highest	**109**	2012
Lowest	**14**	2021

1. Insolvencies increased by 35% versus the same period of 2023

According to our PwC Insolvency Barometer, 661 insolvencies were recorded by the end of Q3 2024. This is a 35% increase on the 491 recorded in the same period in 2023 and 86% higher than the 356 recorded in the same period of 2022.

Total number of Irish quarterly insolvencies

Insolvency Type	Q3 2024	Q2 2024	Q3 2023	Q3 2022
Total Corporate Insolvencies	*232*	*201*	*160*	*133*
Liquidations	190	165	135	113
Receiverships	30	24	17	13
Examinerships	1	3	3	0
SCARP	11	9	5	7

Total number of Irish quarterly insolvencies per 10,000 businesses

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

2. Insolvency rate per 10,000 businesses has doubled since the 2021 low but remains below 20-year average

Our PwC Insolvency Barometer shows the annual insolvency rate has risen to 32 per 10,000 businesses, which is more than double the rate of 14 per 10,000 recorded in 2021. However, the current rate still remains below the 20-year average of 51 per 10,000 businesses, and far below the previous peak of 109 per 10,000 businesses recorded in 2012.

3. Insolvencies expected to reach 900 by year end

Insolvencies were 15% higher in Q3 (232) compared to Q2 (201). This is 45% higher than the same quarter in 2023 (160), and 73% higher than the same quarter in 2022 (133). If this trend continues into Q4, we forecast total insolvencies above 900 by the end of the year in line with our estimates earlier this year.

4. Liquidations account for 84% of all insolvencies

Liquidation remains the most common form of insolvency, accounting for more than 84% of all insolvencies in the year to date, with 99% of all liquidations being SMEs.

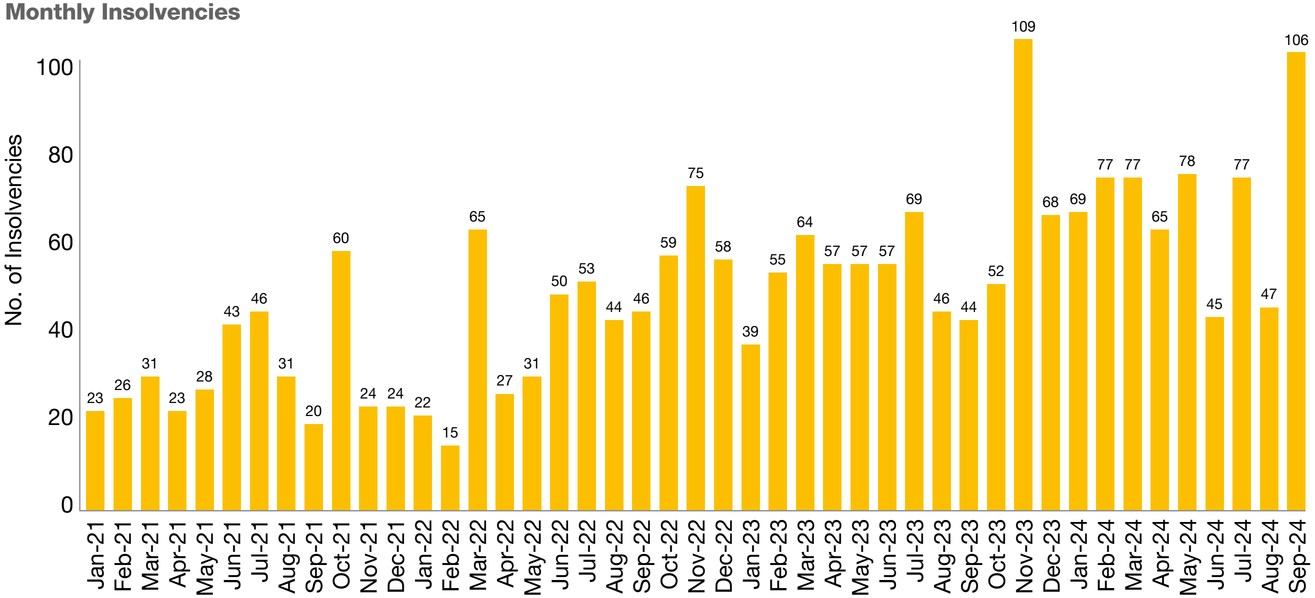
5. Rescue processes remain underutilised

With 32 Examinerships/SCARPs recorded for the year to date, rescue processes account for merely 5% of insolvencies. This is consistent with the same period of 2023 (30), and suggests that there are underlying viability issues with the companies going straight to liquidation rather than availing of rescue processes such as Examinership or SCARP.

6. Lender patience remains consistent

With 76 receiverships for the year to date, which is largely consistent with the same periods of 2023 and 2022, lender patience appears to be continuing.

Monthly Insolvencies



Q3 Industry Highlights

Insolvency rate by industry:

Industry	Absolute figures Q3 2024	Absolute figures 2024	Per 10,000 businesses 2024
Retail	76	162	27
Hospitality	31	110	58
Construction	27	80	18
Finance and insurance	22	67	56
Health	14	20	37
Information and communication	13	41	18
Administration	11	28	15
Real estate	8	35	23
Arts, entertainment and recreation	8	13	51
Energy and utility	7	7	70
Manufacturing	4	33	16
Travel and transport	4	25	23
Education	4	5	10
Professional, scientific, and technical activities	2	32	8
Mining and quarrying	1	2	26
Other	0	1	3

1. Retail insolvencies up 77% in Q3

Retail insolvencies have increased by 77% in Q3 (76) compared to Q1 (43) and Q2 (43). The industry has recorded the highest number of insolvencies for the year with 162 to date.

2. Hospitality insolvencies remain at steady level

Hospitality insolvencies have remained steady for the third quarter of the year, with 31 recorded which is consistent with Q2 (30) and below Q1 (49). Hospitality is one of the most adversely affected industries with an annual insolvency rate of 58 per 10,000 businesses, which is double that of retail (27 per 10,000) and three times that of construction (17 per 10,000).

3. Liquidated hospitality companies left behind €380,000 of liabilities on average

Based on the most recent financial statements of the hospitality companies liquidated in the past 21 months, the average total liabilities left behind was just over €380,000.

4. Energy and utilities industry has highest rate per 10,000 businesses

The energy and utilities industry has recorded 7 insolvencies this year, all in Q3, which equates to an annual insolvency rate of 70 per 10,000 businesses. This demonstrates that although the industry has recorded low numbers in absolute terms, due to the number of businesses in the industry, it’s quite high on a relative basis.

Q3 County Highlights

Insolvency rate by county:

Industry	Absolute figures	Absolute figures	Per 10,000 businesses
	Q3 2024	2024	2024
Dublin	123	344	38
Cork	17	45	14
Wicklow	11	27	30
Galway	10	39	24
Limerick	9	15	14
Meath	8	22	20
Kildare	7	15	13
Louth	7	18	25
Kerry	6	19	20
Wexford	6	14	16
Longford	4	6	26
Westmeath	4	12	22
Carlow	2	7	22
Cavan	2	4	9
Mayo	2	16	20
Offaly	2	3	8
Roscommon	2	2	5
Tipperary	2	8	9
Waterford	2	7	12
Clare	1	10	13
Donegal	1	11	12
Kilkenny	1	4	8
Leitrim	1	2	9
Monaghan	1	1	3
Sligo	1	5	13
Laois	0	5	14

1. Concentration of insolvencies within Dublin persists

Insolvencies continue to be concentrated in the east of the country with over 53% of all insolvencies for the year recorded in Dublin. The county has the highest annual insolvency rate of 38 per 10,000 businesses.

2. Top five counties account for 75% of insolvencies for year to date

Dublin, Cork, Galway, Wicklow and Meath make up the top 5 counties and account for almost 75% of all insolvencies for the year.

3. Monaghan has the lowest number of insolvencies for the year

Monaghan has only recorded one insolvency for the year to date.

Insolvencies in the UK

1. The UK experienced a slight decline in insolvencies for Q2 2024

The total number of insolvencies reported in the UK for Q2 2024 declined slightly compared to the same quarter in 2023. However, the trend of volumes of insolvencies in the UK remains at elevated levels.

2. Peak of UK insolvencies yet to come

Insolvencies reached a three-decade high in 2023, but analysis from PwC UK predicts that the peak is yet to come.

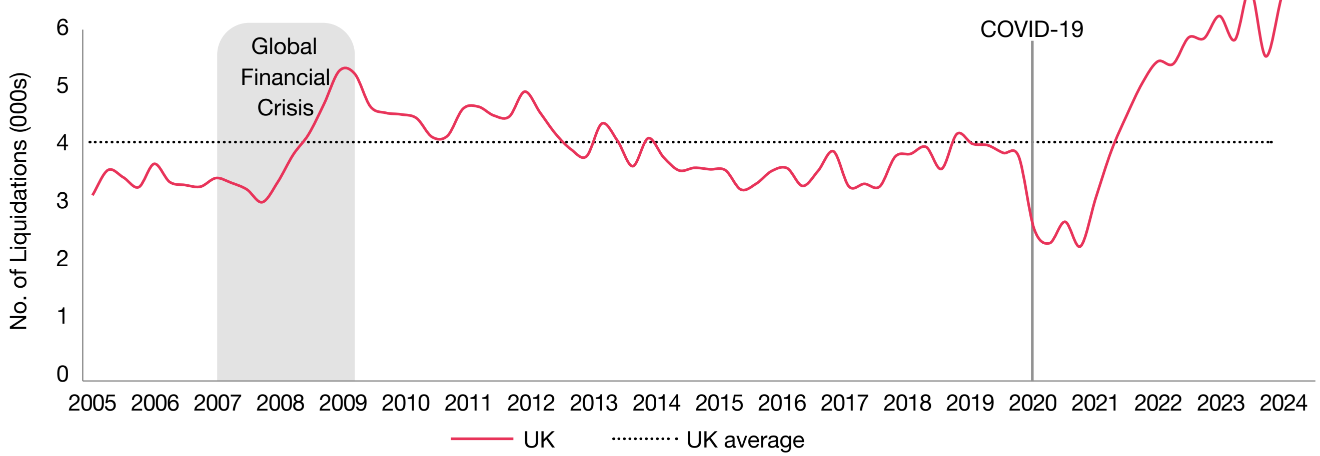
3. The UK liquidation rate continues to be higher than the Irish equivalent rate

The UK's liquidation rate in the 12 months to August 2024 was 56 per 10,000 businesses. This is still higher than the Irish equivalent rate of 32 per 10,000 businesses.

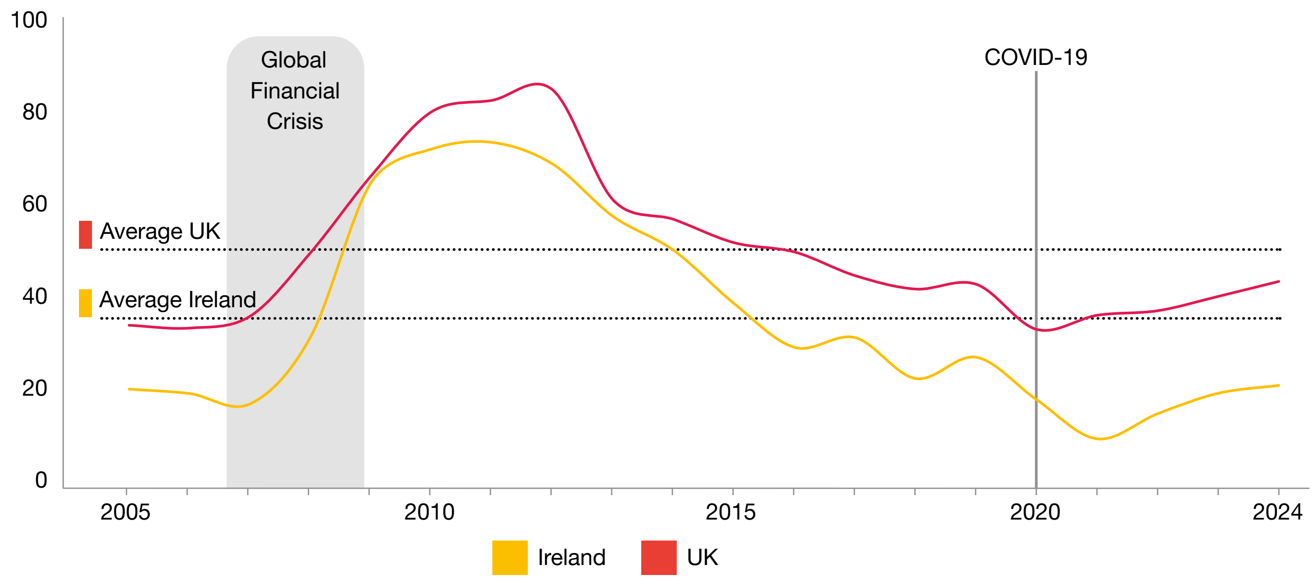
4. Most industries saw increases in company insolvency numbers in the last 12 months

Construction experienced the highest number of insolvencies (17% of all insolvencies), followed by wholesale and retail trade (16%) and accommodation and service activities (15%).

UK Quarterly Liquidations



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



Local Economic Indicators

Irish inflation at 1.7%

In August, the Irish inflation rate fell to below 2.0% for the first time in 3 years since June 2021 according to the Central Statistics Office ("CSO"). Inflation fell to 2.2% for June and July 2024, from an annual increase of 4.1% in January. August 2024 was the tenth consecutive month that the inflation rate remained below 5%.

The ECB reduces interest rates

The European Central Bank ("ECB") announced that all the three key ECB interest rates were to decrease below 4.00%, with main refinancing operations at 3.65%, marginal lending facilities at 3.90% and deposit facilities at 3.50%. These changes were brought into effect on 18 September 2024.

Ireland's GDP grew by 1.2% in Q2 2024

Preliminary estimates by the CSO reveal that GDP increased by 1.2% in Q2, higher than the revised 0.7% growth reported from Q1, which is the sharpest rate of growth reported since late 2022. Further, the European Commission has predicted growth of 1.2% for 2024, and 3.6% for 2025.

Unemployment rate decreased to 4.3%

The Irish unemployment rate has dropped 0.4 percentage points from the previous month for August 2024, which is very close to the previous record low levels of 3.9%. The EU unemployment rate was significantly higher at 6.0% in July 2024, (Euro area 6.4%), while the unemployment rate in the UK sits between Ireland and the EU rates at 4.1% for May to July 2024.

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 6.8% point increase from 63.7 in June 2023 to 70.5 in June 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 68.2 in June 2024.

Real Estate Construction index at 50.0

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 49.9 in August 2024. Despite the pause in growth seen for total construction activity, work on housing and commercial projects continued to increase in August. The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index posted at the 50.0 no-change mark in August to signal broadly stable output in the sector midway through the third quarter.

Global Headwinds

1. Interest rates

From its recent press release in September 2024, the US Federal Reserve declared a reduction in interest rate ranges by 0.50% to between 4.75% and 5%. This is due to the easing of inflation and the balance of risk according to the Fed. Meanwhile, the Bank of England also lowered the interest rate to 5%, a drop for the first time in 12 months from 5.25%.

The ECB did proceed to lower interest rates to 3.65% in line with their aim to reach 2% inflation rate by 2025.

2. Inflation

As of August 2024, the EU inflation rate was 2.2%, (Eurozone 2.2%), falling from 2.6% in July 2024. This is a significant decrease in the last 12 months from a high 5.3% in August 2023 and the lowest rate of inflation since July 2021. Inflation alleviated for Germany (2.0%), France (2.2%), Italy (1.2%) and Spain (2.4%) - while four countries recorded an increase in inflation; Latvia (0.9%), Malta (2.4%), Slovakia (3.2%), and Finland (1.1%).

The US inflation rate is 2.5% and the UK is the same as the EU inflation rate at 2.2%.

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.

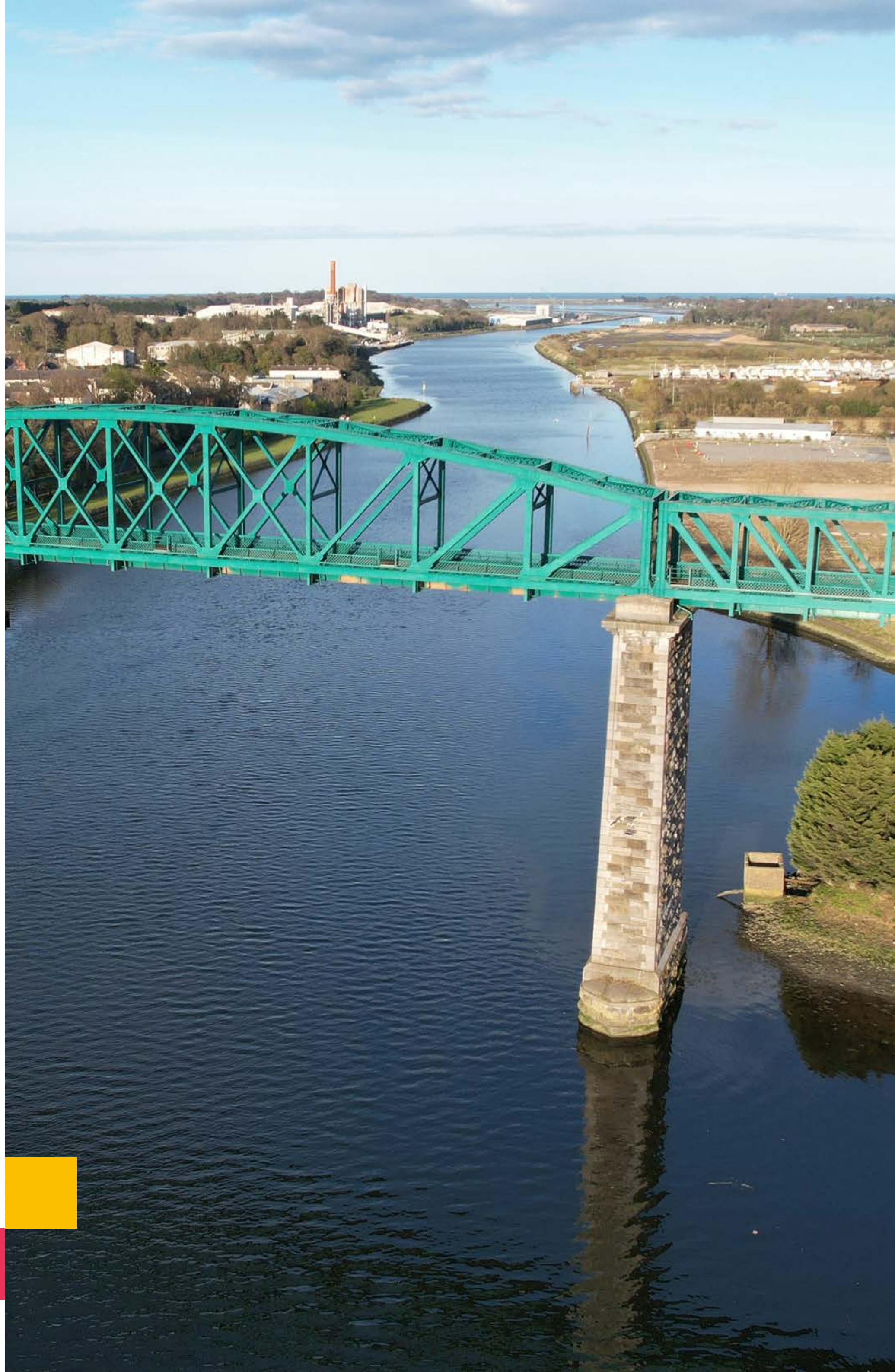
Fatigue
Some management teams in challenged sectors are fatigued after the past few years of unprecedented economic conditions.

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. **Cash flow forecasting and appropriately granular scenario planning -** on both a medium and short term basis, planning should involve both operations and finance teams. These are essential in 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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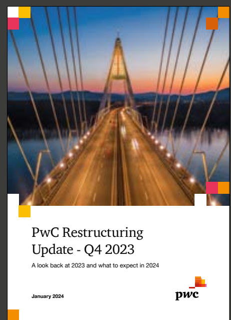

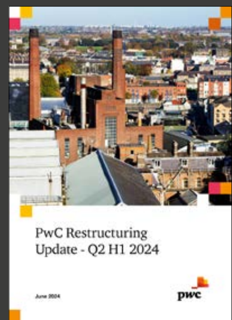

Appendix - Sources

- 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.