Act Now: From Recovery to Growth

The impact of government supports on business failure levels during the Covid-19 pandemic

February 2022

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Our research indicates that the government's financial supports helped to save **over 4,500** businesses from going bust during the pandemic

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Foreword

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At least 4,500 businesses have been saved by government supports

As we hopefully near the end of the most critical phase of the pandemic and the restrictions are lifted, it is a good time to look back and assess the level of government supports, and how many businesses they have saved from going bust. Using extensive data analytics and statistical modelling, we have undertaken research that involved a comprehensive analysis of over 18,000 business failures and insolvencies which took place over the past 17 years. This research indicates that at least 4,500 businesses have been saved from going bust due to these pandemic supports. During 2020 & 2021, c. €10 billion was paid under the Employee Wage Subsidy Scheme (formerly TWSS) to almost 120,000 businesses. A recent Central Bank of Ireland report indicated that the total government Covid-19 spend will be in the region of €35 billion.

2

Business failures at record lows (while England & Wales had the highest quarterly figures since 1960)

As restrictions are removed and the economy emerges from the pandemic, we have reflected on how businesses have performed over the past two years. While some firms and sectors have thrived, others have simply fought to stay afloat in the hope of trading again. Over the past two years, the number of businesses failing is at the lowest level since detailed records began. It appears that the government supports have propped up many businesses that would otherwise have not survived. In recent days England and Wales have announced that Q4 2021 saw the highest number of quarterly creditor voluntary liquidations since records began in 1960. The UK insolvency service noted that the increase coincided with 'the phasing out of measures put in place to support business during the pandemic'. The UK government's furlough scheme ended on 30 September 2021. With this in mind, while many of the 4,500 companies mentioned above will trade better once the economy fully reopens and recovers naturally, some will need further targeted supports. Others will need a level of restructuring/balance sheet repair and some will ultimately fail. It will be important not to tie up resources and talent in zombie companies and allow for re-allocation of scarce resources to other healthy businesses across the economy.

3

A new way to analyse business failures

During the pandemic, we have all become only too familiar with the number of Covid-19 cases per 10,000 people. This straightforward figure allows for an accurate and direct comparison across counties, regions and jurisdictions. This led us to explore whether it would be possible to achieve a similar comparison for the level of business failures. For the first time ever in Ireland, our research and data allows for a direct comparison of insolvencies across counties and by sector, with some surprising results. Also for the first time, we can compare Ireland's rate of business failure to that of our neighbours in England, Scotland, Wales and Northern Ireland. Over the past 17 years, we find that Ireland performs well, with significantly less business failures for every 10,000 businesses than the UK.

4

Balance sheets will need to be repaired

Additionally, we have explored some of the current issues facing SME's. While many may have survived the pandemic, their balance sheets are badly damaged and in need of repair. Management of working capital will be critical as businesses look to rebuild and position themselves for growth. We look at some possible solutions including the government's recently launched SCARP process, specifically aimed at SME's. At a corporate level we analyse the ITRAXX crossover index to see what it is telling us about volatility in the markets. There are some interesting readings from the past few months, with recent highs seen in January 2022.

5

Elevated Debt levels will inevitably lead to an uptick in restructuring

Many of the 4,500 businesses that have survived thanks to government aid still remain on life support. We estimate that there is at least €10 billion of debt presently overhanging Irish SME's, including warehoused Revenue debt, financial institution loans in forbearance and unpaid suppliers. While these businesses have survived they are not out of the woods yet and will require targeted supports to repair their balance sheets and work through the repayment of accumulated debts. As we see from the UK figures, once government supports begin to taper, it may lead to increased levels of restructuring.

Act Now: From Recovery to Growth

Businesses are shifting their focus from 'survive and stabilise' to recovery and growth. In line with our latest 'Act Now' research, four key priorities stand out

1. Re-align operations
2. Bolster liquidity and working capital
3. Step up deleveraging / reduce warehousing
4. Optimise business operations

Key Insights

2021 had the lowest annual insolvency rate
in the 17 year period studied

14

insolvencies for every 10,000 companies in 2021

Over

4,500

businesses saved by government supports

18,000 business failures analysed over 17 years

50

Additional businesses would have failed every week during the pandemic without government supports

Key Insights

Ireland vs. UK

The rate of annual liquidations per 10,000 companies in the UK is on average 35% higher than Ireland

35%

In Q4 2021 England & Wales had the highest quarterly total of creditor voluntary liquidations on record

Insolvencies per 10,000 by County

- **25** Kilkenny
- **24** Dublin
- **16** Roscommon

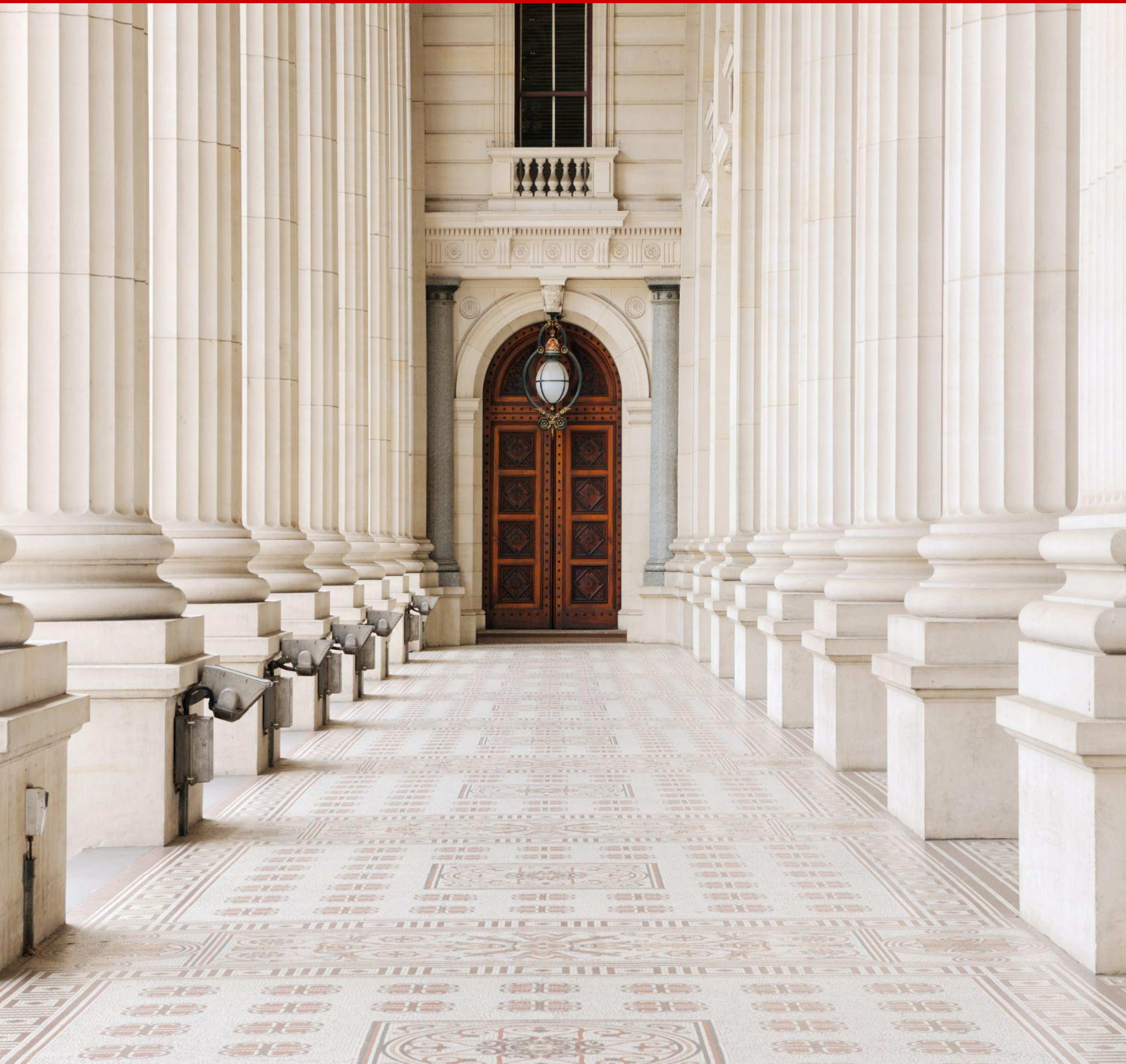
2012 was the peak year for business failures in Ireland (109 failures per 10,000 companies)

Insolvencies per 10,000 by Industry

- **85** Arts, entertainment & recreation
- **47** Travel & transport
- **36** Health

Lower rates of business failure in **retail and hospitality** due to government supports

The Impact of Government Supports



Government Backing Businesses

> Ireland's Economic Growth

Ireland escaped the worst of the economic downturn during the pandemic period primarily due to the provision of government supports. Our economic rebound was also given strong impetus by a highly effective vaccination programme.

> Government Support Schemes

During the pandemic, various financial supports have been provided by the government. These ongoing financial supports comprise of income subsidies (EWSS, PUP and short term work support), loans/grants (government guarantee scheme, business/working capital/future growth loans and general grants) and waivers/deferrals (commercial rates waiver, warehousing of tax debts, temporary reduction of VAT rate) amongst others.

It is estimated that the government's pandemic related spending for 2021 will have been over €13 billion, with the EWSS and PUP alone amounting to almost €9 billion.

The government has provisioned for over €3 billion in pandemic related measures during 2022 with a further €4 billion being held in reserve as a contingency.

> Support as a % of GDP

Irish government support during the pandemic represented 7% of 2020 Real GDP. This compares with 31% in the US, 16% in the UK, and just 4% in Denmark. One significant contributing factor to Ireland's low rate here is that Ireland was the only EU economy to see a rise in GDP in 2020 (3%), while growth also climbed sharply in 2021 (11%).

"During 2020 & 2021, c. €10 billion was paid under the EWSS (formerly TWSS) to almost 120,000 businesses"

It's clear that the EWSS (formerly TWSS) has played a major role in keeping the adjusted unemployment rate from peaking any higher than 31% during the pandemic. Nevertheless, having nearly 1 in 3 people eligible for work and not in employment represented a colossal amount at its peak.

Revenue reported that during 2021 alone over €4.6 billion was paid to almost 48,000 businesses in respect of 628,000 employees from the EWSS. If this scheme had not been implemented then the cost of the PUP and the adjusted employment rate would have been far higher.

This would also have increased the number of insolvencies as some businesses would simply not have been able to afford to continue trading.

While many businesses have been saved in the short term, they will need continued support. Debt restructuring is required among some businesses while others will require a more formal process such as SCARP (which we discuss later in this report) or examinership.

Restructuring to Increase as Supports are Tapered

> Brakes on restructuring coming off as government supports are tapered

While the impact of the Covid-19 pandemic is receding, the coming year presents a fresh set of challenges as businesses deal with the withdrawal of government support and shift from stability and survival mode to long term recovery and growth.

The combination of state support and readily-available capital has made amend-and-extend or refinancing the clear and preferred solutions in many situations to date. The abundance of capital and pressure to put it to work mean that a lot of these refinancing agreements have been covenant-lite.

Where there has been some insolvency or more comprehensive restructuring activity, it has tended to be either sector (e.g. those most affected by the pandemic such as retail, hospitality and travel) or situation specific (e.g. fraud or businesses suffering from volatile commodity prices and supply chain issues).

As government support measures start to be withdrawn and temporary loans fall due for repayment, the brakes on insolvency and restructuring activity will begin to come off. Overleveraged capital structures will need to be addressed and maintaining lender forbearance and support could also become more challenging, particularly in sectors where the prospects for recovery and long-term growth are less clear.

"Overleveraged capital structures will need to be addressed. Maintaining lender forbearance and support could also become more challenging"

> Is restructuring increasing internationally as supports are tapered?

Some economies are already seeing a resulting increase in insolvency activity, particularly in the mid-market. Activity could accelerate even faster in less developed markets where there is less resilience and low Covid-19 immunisation rates could hamper recovery and heighten the dangers of a renewed wave of infections.

In most markets there will be a lag, though we would expect to see a step-up in restructuring activity through the course of 2022. At the other end of the spectrum, exceptionally rapid recovery and availability of capital for refinancing may prevent any significant surge in business failures in some markets such as the US.

> Sovereign Debt Burden

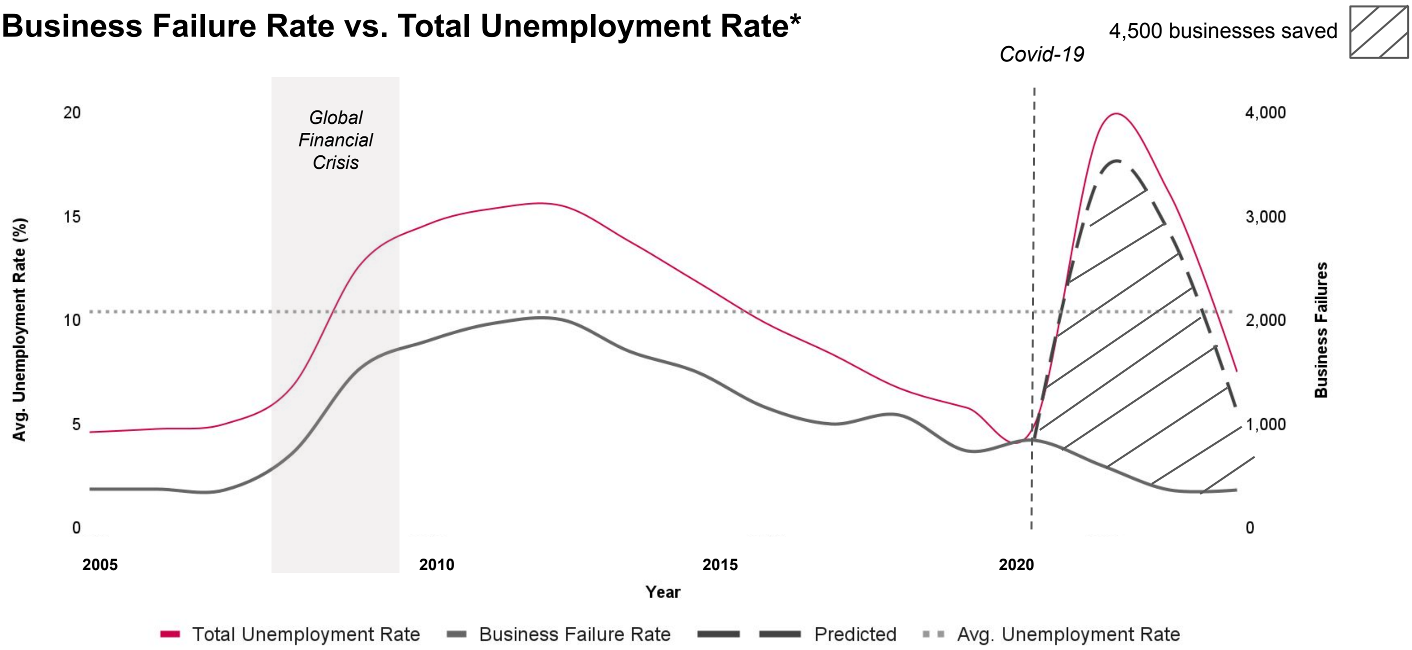
Further risks include the high level of fiscal debt after many governments borrowed money to help support businesses during the crisis. The debt burden means that the scope for further state aid in the event of fresh surges in infection could be limited. The risk is especially marked in countries where government debt was already high going into the crisis.

In economies where the rebound is furthest forward, the business focus is moving from short-term survival to recovery and growth. This brings with it challenges in managing the associated demands on liquidity and working capital.

How many Businesses have been Saved by Government Supports?

Modelling Business Failures During The Pandemic

Business Failure Rate vs. Total Unemployment Rate*



** Total unemployment rate is Covid-19 adjusted from March 2020*

"We have analysed over 18,000 instances of business failures over a 17 year period"

Our Approach

Our research covered 18,000 business failures during the period 2005 to 2021. Using extensive data analytics and statistical modelling, we examined a range of broad economic indicators. We have identified a very strong correlation between the number of annual business failures in Ireland and the annual unemployment rate.

The existence of this relationship allowed us to examine and estimate how many businesses have been saved by the introduction of government supports. This research has also opened up a new way for us to model and predict the level of business failures going forward under various economic scenarios.

We used the data analytics and statistical software to help identify any relationships or correlation between the business failure rate and the leading economic indicators available such as GDP, GNP, unemployment rate, inflation, interest rates and household savings, amongst many others.

Our research has identified a near perfect correlation between the unemployment rate and business failure rate in the years preceding the pandemic. Our findings are evidenced in the graph shown above.

This is the first time that this type of analysis has been carried out in an Irish context. This data has allowed us to model the number of business failures that may have occurred in the absence of government supports.

How many businesses have been saved by government supports?

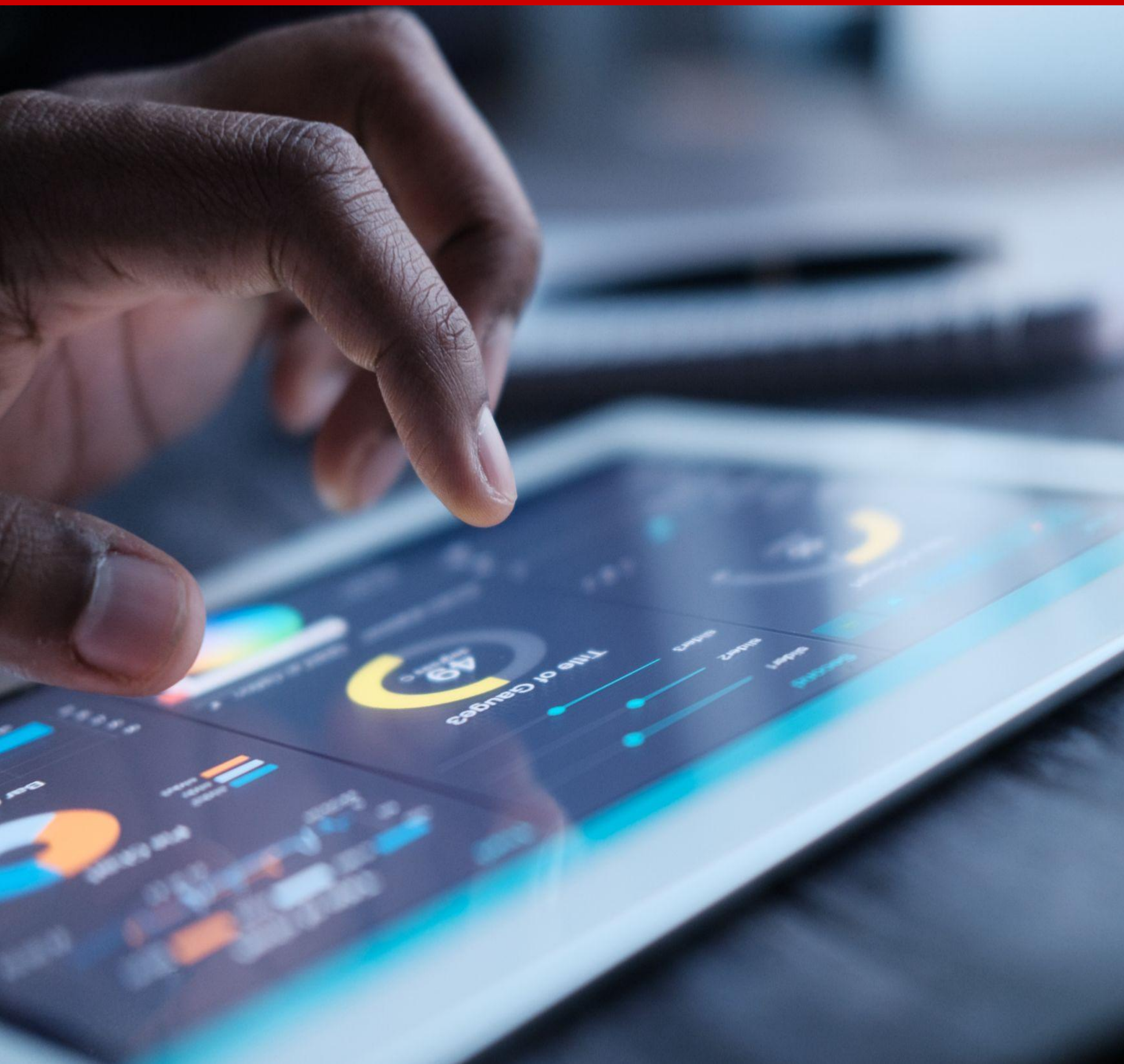
Based on our analysis, if the business failure rate had continued to correlate with the Covid-19 adjusted unemployment rate (which includes the PUP) during the pandemic, then approximately 4,500 more businesses would have failed during the period. The actual number of businesses that went bust in this time was in the region of 880.

This is much higher than other estimates but is supported by our statistical research of the correlation between the business failure rate and the unemployment rate over a 17 year period. We believe that there could have been over 3,500 business failures in 2020, which would have nearly doubled the previous record annual peak of business failures of 2,000 (2012) seen at the height of the economic crash.

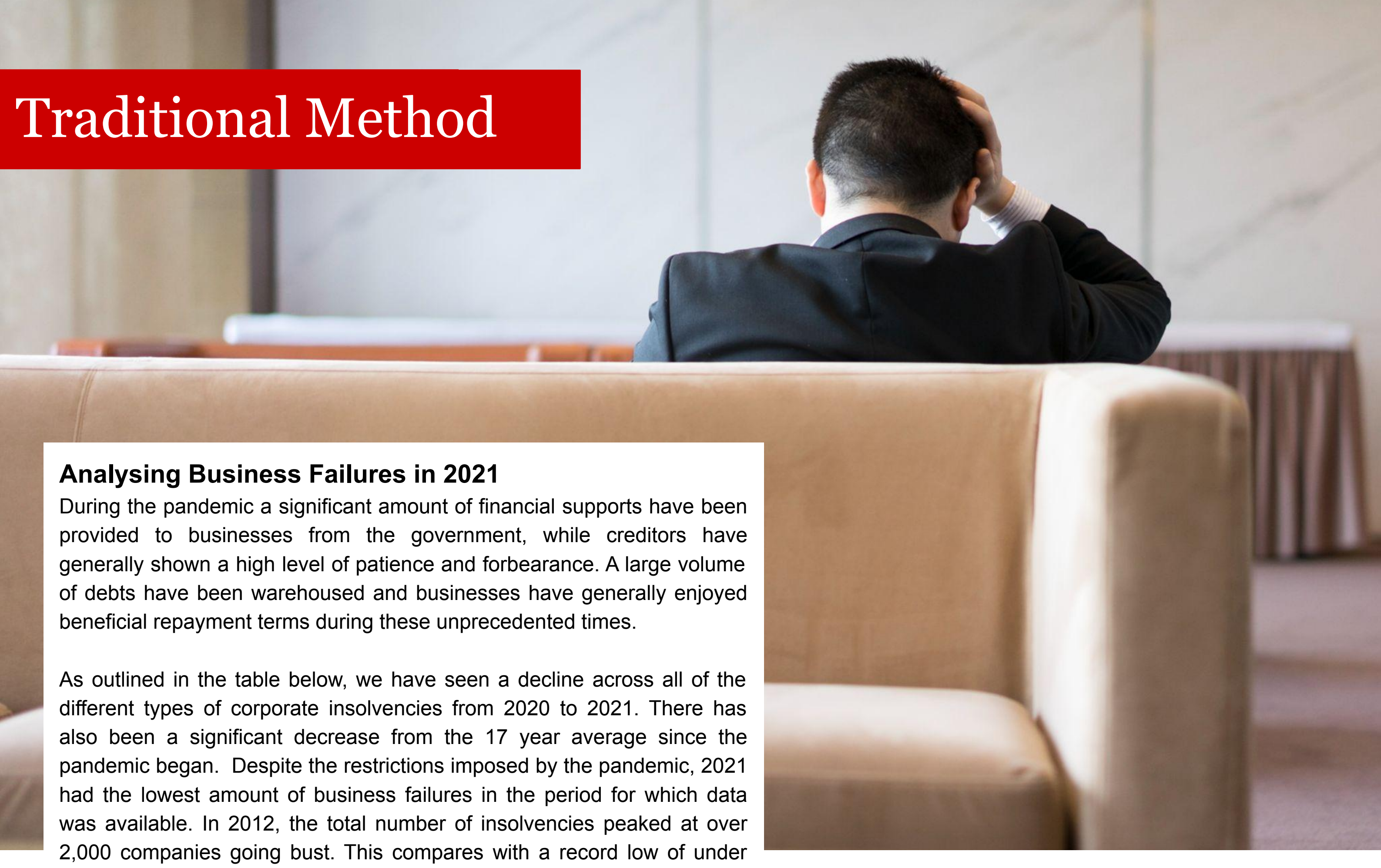
Our data suggests that without government pandemic supports and creditor forbearance, an additional 50 companies would have failed every week during the pandemic. In reality there were only c. 10 business failures per week since the pandemic first struck.

"Over 4,500 businesses have been saved during the pandemic"

A New Statistical Approach to Analysing Business Failures



Traditional Method



Analysing Business Failures in 2021

During the pandemic a significant amount of financial supports have been provided to businesses from the government, while creditors have generally shown a high level of patience and forbearance. A large volume of debts have been warehoused and businesses have generally enjoyed beneficial repayment terms during these unprecedented times.

As outlined in the table below, we have seen a decline across all of the different types of corporate insolvencies from 2020 to 2021. There has also been a significant decrease from the 17 year average since the pandemic began. Despite the restrictions imposed by the pandemic, 2021 had the lowest amount of business failures in the period for which data was available. In 2012, the total number of insolvencies peaked at over 2,000 companies going bust. This compares with a record low of under 400 companies in 2021.

The number of personal insolvencies also fell in 2021 in line with the reduction in corporate insolvencies. They were also significantly down on a peak of over 1,800 in 2016.

While focusing on the total number of business failures in any given year does provide a good snapshot of a point in time, it doesn't necessarily tell the full story. The results of this analysis has limitations in that they ignore the overall business population at the time. For example, from 2005 to 2021 the number of companies registered in Ireland increased from 160,000 to 260,000. This makes it difficult to compare data year on year or across different industries, counties or jurisdictions.

Our new measure, as outlined in the next few pages, addresses many of these deficiencies. It allows for much clearer comparisons across years, industries and regions.

Insolvency Type	2021	2020	% Change	17 Year Annual Avg.	Peak
Total Corporate Insolvencies	**368**	**598**	**39%**	**1,068**	**2,003 (2012)**
Liquidations	280	492	43%	391	1,410 (2011)
Receiverships	78	84	7%	258	654 (2012)
Examinership	10	22	55%	27	84 (2009)
Personal Insolvencies	1,091	1,362	20%	735*	1,815 (2016)

**the average for personal insolvencies is over an eight year period as the personal insolvency legislation was overhauled in 2012.*

A New Enhanced Measure

Business failures per 10,000 companies

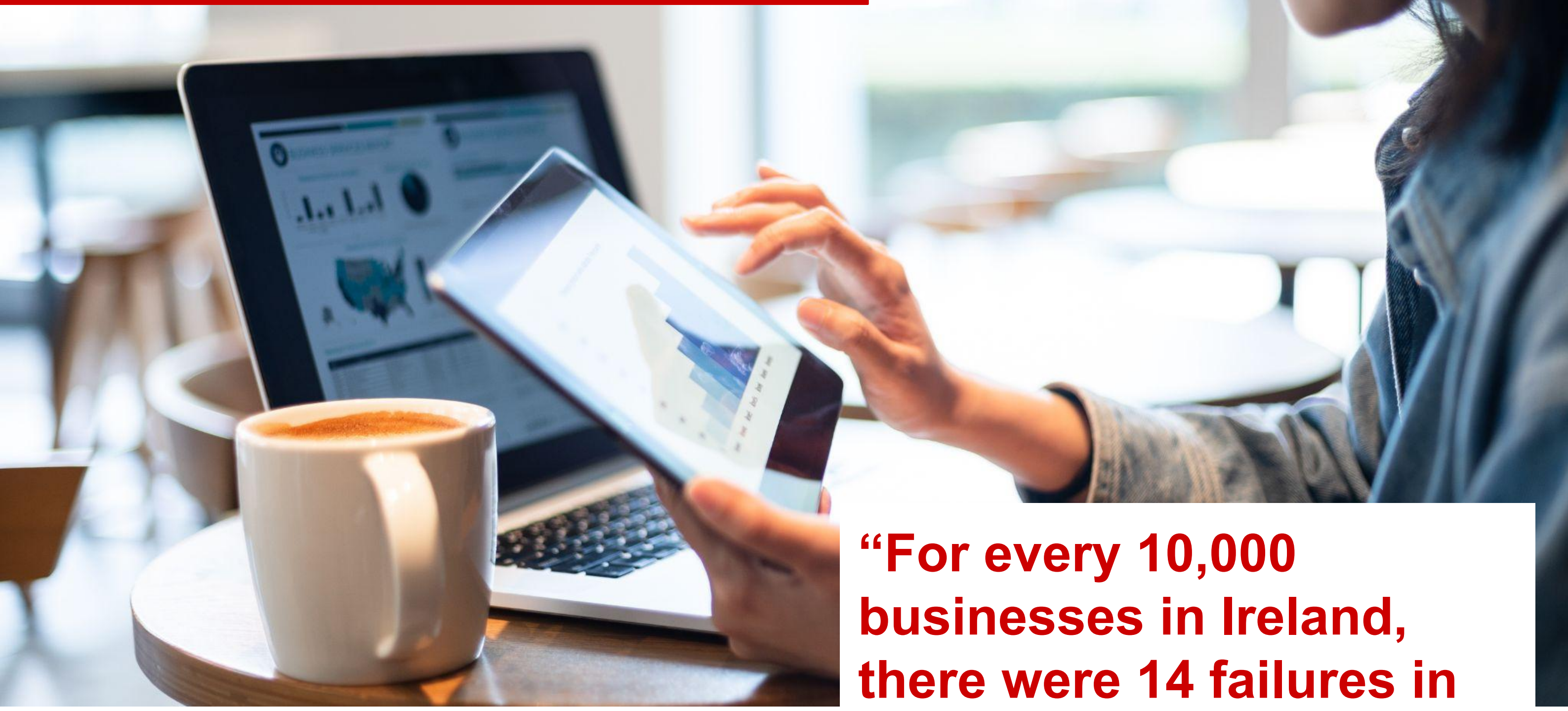
Historically in Ireland business failures have always been analysed using the total volumes in any given year. Unfortunately, this method doesn't allow for accurate comparisons across different time periods, industries, counties or jurisdictions.

During the pandemic it has now become all too commonplace to hear the number of Covid-19 cases per 100,000 people. We also see this type of measure commonly used when comparing the birth rates or death rates of different regions or countries.

This is a simple yet effective statistic for comparison purposes between different periods, towns, counties or countries with different population sizes. It provides meaningful context to the numbers rather than simply looking at them in absolute terms.

For the first time ever in Ireland, we are now publishing data on the number of business failures per 10,000 businesses. We have also analysed the business failure rate per 10,000 by county, industry and jurisdiction.

A New Enhanced Measure



"For every 10,000 businesses in Ireland, there were 14 failures in 2021, a record low"

Why analyse business failures per 10,000?

We have decided to apply this measure when analysing business failures to allow for a better comparison across different years, counties, industries and/or jurisdictions.

Now for example we can look at the rate of business failure per county in Ireland while automatically adjusting for the volume of businesses in any county or region. We can also provide accurate comparisons across different industry sectors, taking into account the number of businesses operating in each industry.

Finally, our new enhanced method allows for a much improved international comparison. For the first time ever, we can now properly compare the liquidation rates in Ireland with our UK neighbours, who use similar business failure methodology. Later in our report, we present the results of reviewing this data over the past 17 years across the Republic of Ireland, Northern Ireland, Scotland, England & Wales.

Our key findings

1. **2021 Insolvency Rate per 10,000** - As outlined in the table below, the number of insolvencies per 10,000 in 2021 was 14.
2. **Down from 2020** - this was a significant drop from the 2020 figure of 24 and is well below the peak of the economic crash (109) in 2012.
3. **Record Low** - Last year marked a record low for the number of liquidations on a per 10,000 basis between 2005 and 2021.
4. **Types of Insolvency** - all types of business failures in 2021 were either below or on a par with their 2020 results.
5. **Peak** - The peak activity rate across all types of insolvency occurred during the financial crisis years of 2009 to 2012.

Irish business failures per 10,000 businesses

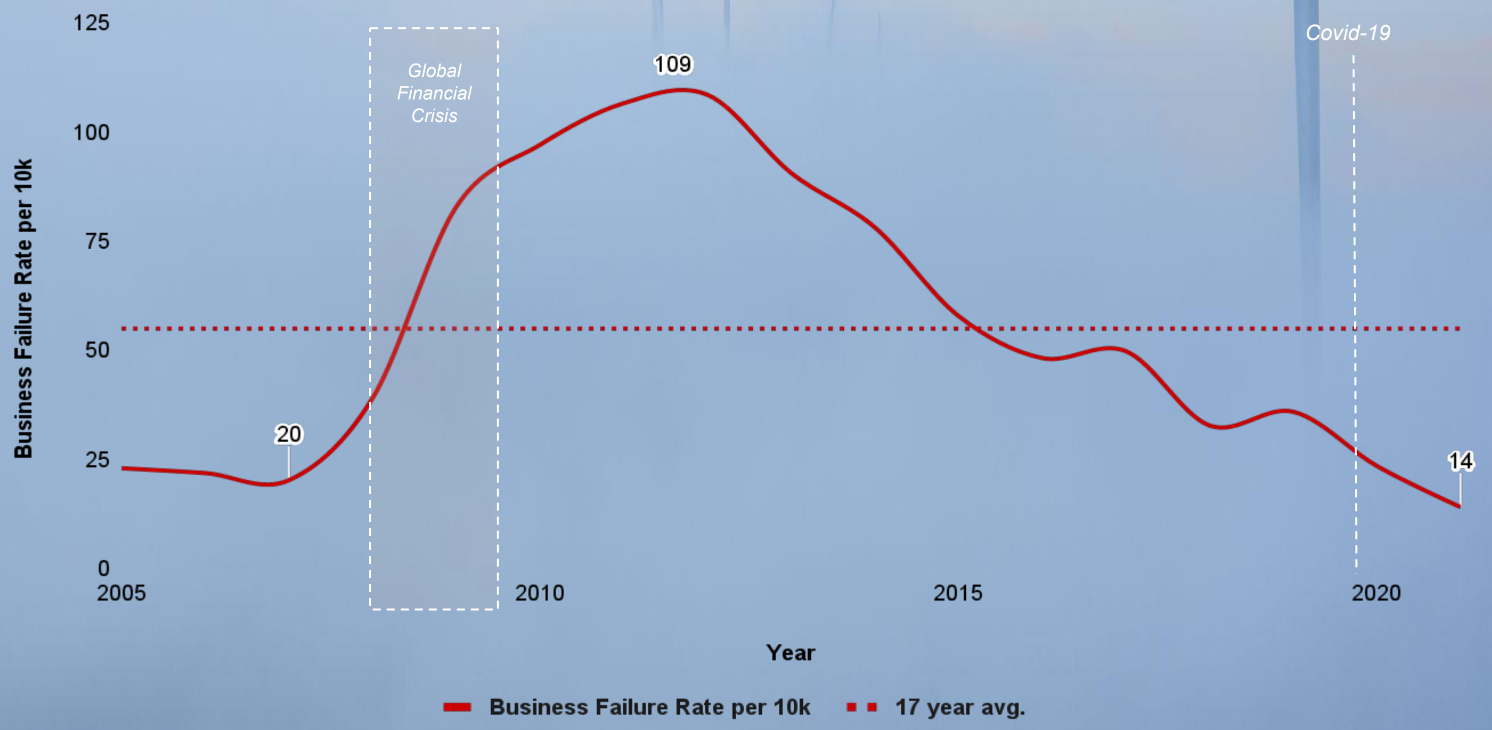
Insolvency Type	2021	2020	17 Year Annual Avg.	Peak	Low
Total per 10,000	**14**	**24**	**55**	**109 (2012)**	**14 (2021)**
Liquidations	11	20	40	76 (2011)	11 (2021)
Receiverships	3	3	14	35 (2012)	<1 (2007)
Examinerships	<1	1	1	5 (2009)	<1 (2006)

A New Enhanced Measure

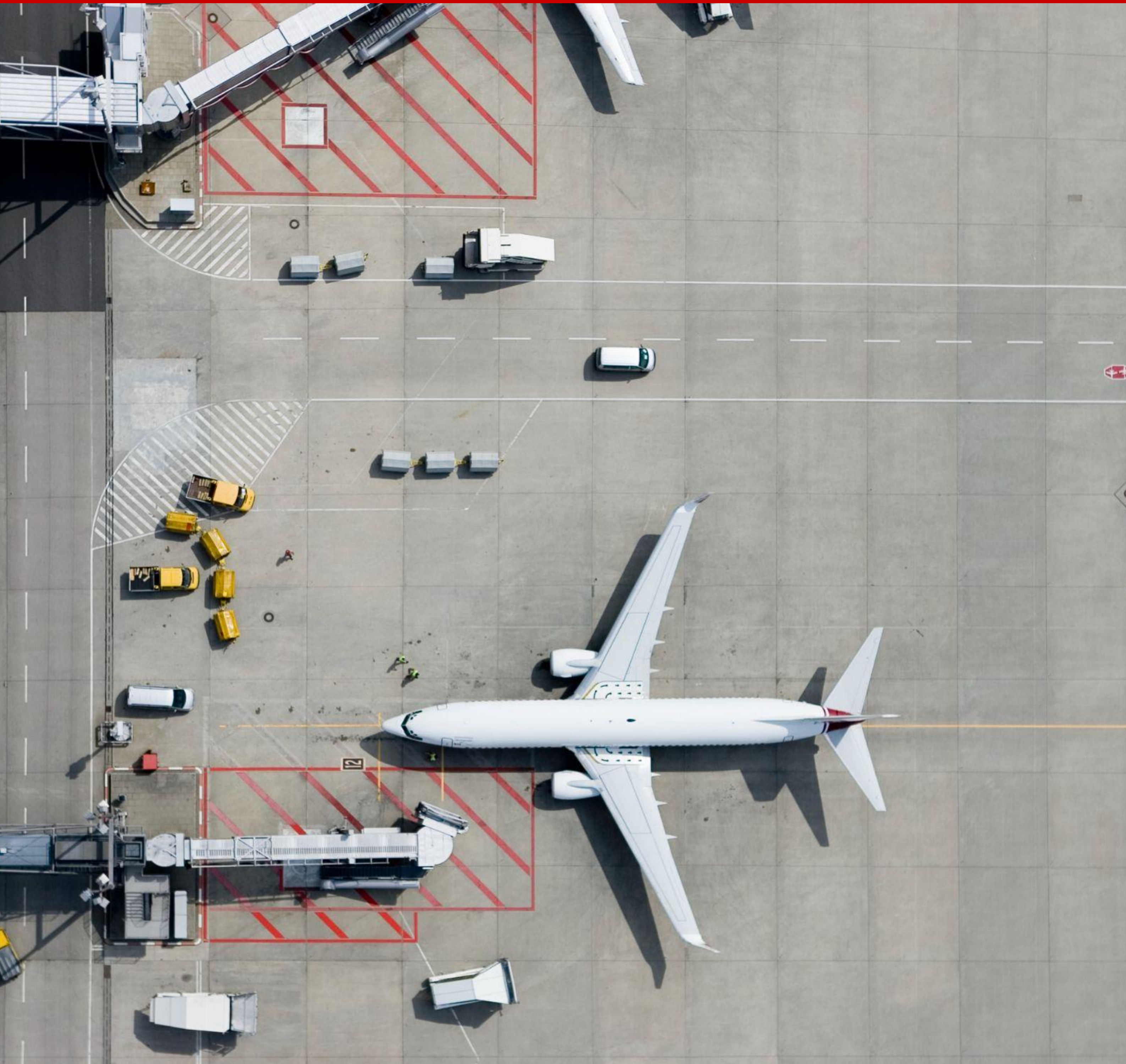
The business failure rate per 10,000 was down 87% last year from its peak in 2012

2021’s business failure rate per 10,000 was down 75% on the 17 year average

Business failures in Ireland per 10,000 businesses (2005-2021)



County & Industry Insights



County Analysis

"Kilkenny & Dublin saw the highest rates of business failures in 2021"

From our analysis of CSO data and our own business failure research we were able to analyse business failure rates on a county by county basis per 10,000 for the first time ever. We can now compare counties on a fair basis, based on the size of their respective business community. These values can then be compared to the national rate of 14 business failures per 10,000 companies in 2021.

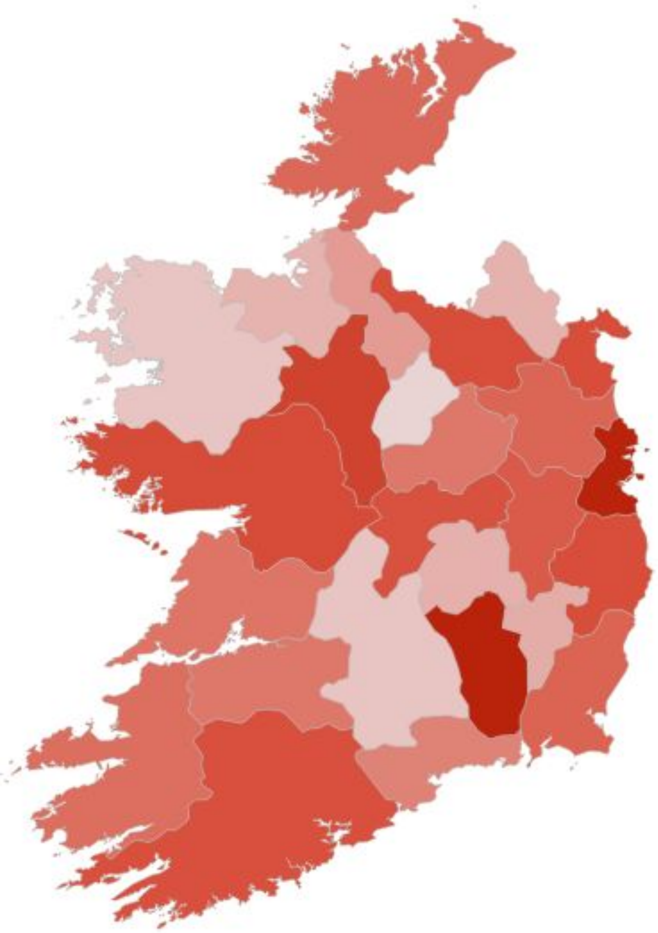
Rate of business failure per 10,000 companies

County	Failure rate per 10,000
Kilkenny	25
Dublin	24
Roscommon	16
Galway	13
Wicklow	13
Cavan	13
Louth	13
Cork	12
Offaly	12
Kildare	11
Wexford	10
Meath	10
Donegal	10
Kerry	9
Clare	9
Limerick	9
Westmeath	8
Waterford	7
Leitrim	5
Carlow	4
Laois	3
Monaghan	3
Sligo	3
Mayo	1
Tipperary	1
Longford	0

Kilkenny and Dublin stood out as the counties with the highest rates of insolvencies per 10,000 businesses, at 25 & 24 respectively. The liquidations of two real estate groups were the primary main reason for the elevated figure in Kilkenny during 2021 coupled with the relatively low number of businesses registered in Kilkenny. In contrast, with a large number of companies, Dublin accounted for over 50% of the total number of insolvencies while also having a relatively high rate of 24 insolvencies per 10,000 companies. Albeit, national averages being at a record low.

Roscommon (16), Galway (13) and Wicklow (13) made up the remainder of the top five in 2021. Cork (12) and Kildare (11) recorded lower than average rates, which was notable considering the counties' urban centres and quantity of businesses.

County Analysis



> National average

Given that the national average for the year was 14 failures per 10,000, it is interesting that only three counties exceeded this figure. The volume of insolvencies in Dublin influences the average heavily as the county recorded 52% of Ireland's total insolvencies in 2021.

> Lowest rates of business failure per 10,000 companies

At the lower end of the scale, Longford saw no business failures recorded in 2021. Mayo and Tipperary both saw a rate per 10,000 of just 1 while Sligo (3), Monaghan (3) and Laois (3) also recorded very low insolvency rates in the year.

> No clear urban/rural divide

There is no evident split in the insolvency rates between counties or regions that would be classed as urban or rural, nor are there any clear provincial outliers on an overall basis.

Highest rates of business failure

Dublin

Kilkenny

Roscommon

Lowest rates of business failure

Tipperary

Longford

Mayo

Industry Analysis

"The arts, entertainment and recreation sector saw the most insolvencies per 10,000 with a figure of 85 in 2021"

Using a combination of data from the CSO and our own research, we were able to identify which industries suffered the most failures using the per 10,000 basis to allow for accurate comparison.

Arts, Entertainment and Recreation takes major hit

The arts, entertainment and recreation sector saw the highest insolvency rate in 2021, with a figure of 85 per 10,000. This is almost twice as high as the second-placed industry (travel and transport). This is understandable given the strict restrictions imposed on events in the arts, culture and recreational space during the past twelve months. A number of businesses in this sector simply could not survive even with the financial supports available to them.

Retail failures lower than expected

The insolvency rate among retail businesses at 8 per 10,000 is lower than would have been expected. While this shows that supports did their job, it is also likely that many of these businesses are on life support and will need restructuring and/or capital investment going forward.

Hospitality supports working

The same can be said for the Hospitality sector, given its rate of 16 per 10,000. Although this is above the national annual rate of 14 business failures per 10,000 in 2021, it is lower than expected for an industry impacted so heavily by the pandemic. Many of these businesses occupy city/town centre locations with high rents and will struggle to meet creditor, landlord and debt repayments as support schemes end.

Industry	Failure rate per 10,000
Arts, entertainment and recreation	85
Travel and transport	47
Health	36
Finance and insurance	29
Real estate	28
Energy and utility supply	24
Hospitality	16
Construction	15
Other	14
Manufacturing	11
Education	11
Administrative and support services	9
Retail	8
Information and communication	7
Professional, scientific and technical activities	6

Industry Analysis

Travel & Transport

The winding up of Irish-registered companies within the Norwegian Air airline group certainly influenced this figure, comprising over 50% of the overall sector total.

Travel and transport ranked second on our list at 47 insolvencies per 10,000

Health

The insolvency rate within the Health sector was 36 per 10,000, which is certainly higher than expected. This figure was influenced by the liquidation of a number of contractors within the medical practice during the year.

An ability to work from home

At the other end of the scale, industry sectors such as Information & Communication, and Professional, Scientific & Technical Activities saw very few failures in 2021. These sectors were not hugely impacted by the pandemic and the simple transition to working from home meant it was business as usual for many in these sectors.

Sectors that will need restructuring as supports are tapered

Looking ahead to 2022 and 2023, businesses at the centre of the restructuring radar include those in sectors most severely affected by lockdowns and travel restrictions. These include tourism, aircraft leasing, airlines, hospitality and bricks-and-mortar retail.

Other focus areas include sectors already feeling the impact of the move to Net Zero such as mining and energy, as well as those experiencing growth pains as they emerge from the pandemic (supply chain issues, labour shortages, commodity price volatility and inflation).

Industry	Failure rate per 10,000
Arts, entertainment and recreation	85
Travel and transport	47
Health	36
Finance and insurance	29
Real estate	28
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Construction	15
Other	14
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Education	11
Administrative and support services	9
Retail	8
Information and communication	7
Professional, scientific and technical activities	6

Liquidation Rates across Ireland & the UK

Liquidation Rates across Ireland & the UK

Comparisons to the UK over a 17 year period

For the first time, we have been able to compare the liquidations per 10,000 in the Republic of Ireland with that of our neighbours in England, Wales, Scotland and Northern Ireland. This new method of analysing liquidations allows for a more comprehensive and accurate comparison across countries, as well as across multiple years.

It is evident from our research, as shown in the graph below, that the quantity of liquidations per 10,000 in Ireland is consistently lower than that of the UK. Over a 17 year period, the average UK liquidation rate per 10,000 has been 35% higher. Ireland has had an average of 40 liquidations per 10,000, while the equivalent figure in the UK figure across the same period is 54.

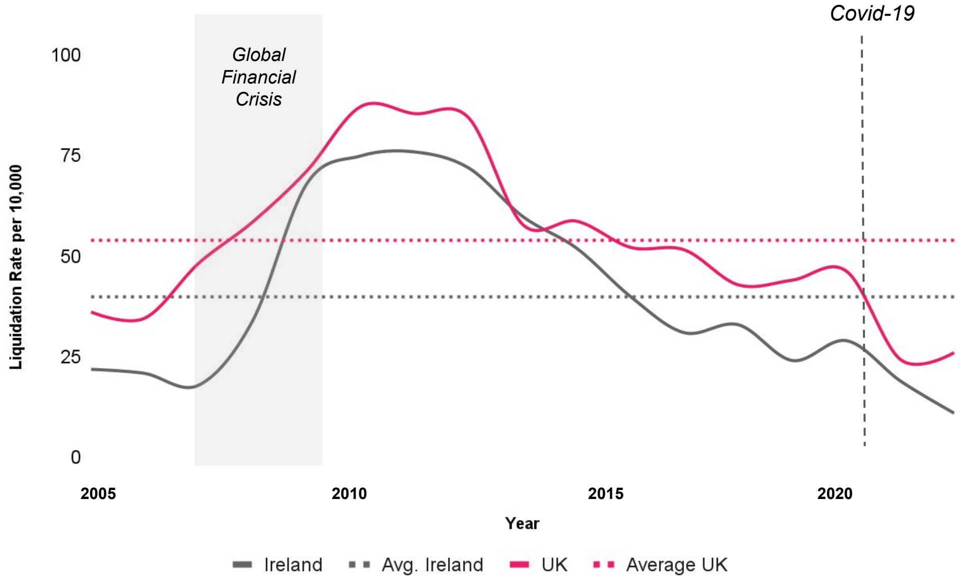
There might be a greater culture in the UK among businesses to enter liquidation. Whereas in Ireland liquidation is seen more as a last resort and typically does not arise as often. This may explain why the two jurisdictions have mostly followed the same trend over the period, with Ireland consistently at a lower base rate despite both jurisdictions facing similar external factors.

In 2021 the Irish liquidation rate per 10,000 was 11 (compared to a total insolvency rate of 14), while the UK rate was 26, (over double that of Ireland). Brexit might have impacted these figures but we can see from the chart that the differential between the jurisdictions has been relatively steady during the 17 years.

The impact of the global financial crisis can be seen in the rise in liquidations from 2007 to 2012, with a general reduction up to 2020 a feature of improving economic conditions. Liquidations lagged the peak of the global financial crisis (2007 to 2009), with England and Wales peaking in 2009, Northern Ireland in 2010 and the Republic of Ireland and Scotland in 2011.

Going forward we will be monitoring this data to see if the strong correlation between liquidation rates in both countries continues, particularly as businesses get to grips with the aftermath of the pandemic and government supports taper off.

Ireland vs. UK liquidations per 10,000 (2005 to 2021)



"The average UK liquidation rate per 10,000 has been 35% higher than comparable figures in Ireland"

Uptick in Q4 2021 - there was a record number of creditor voluntary liquidations in England & Wales during Q4 2021

Liquidation Rates across Ireland & the UK

Comparisons to the UK in 2020 and 2021

There were over 4,000 creditors voluntary liquidations in England and Wales during Q4 2021. This was the highest quarterly total since records began in 1960. This is likely to be a result of the UK government ending a number of pandemic supports for businesses. There is a strong chance that we will see a similar spike in liquidations here in Ireland once government supports taper off.

The existence of pandemic supports across all jurisdictions studied was evident in that 2020 and 2021 were the years featuring the lowest number of liquidations per 10,000 businesses across the board for the period analysed. All regions experienced their peak at some stage during the financial crisis years of 2009 to 2011.

"In Q4 2021, England & Wales had the highest quarterly total of creditor voluntary liquidations since the data was first collated in 1960"

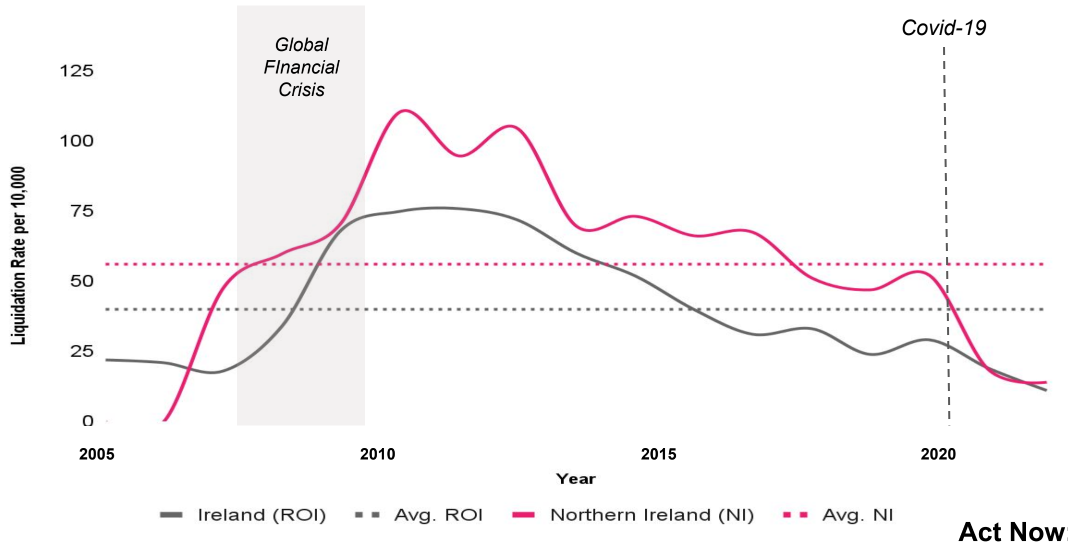
Similarities on the island of Ireland

The 2021 figure for the Republic of Ireland (11) is very similar to that of Northern Ireland (14) and looking at the graph below, it is evident that liquidation rates in Ireland closely track those in Northern Ireland. A downward trend has existed in both regions since 2012, and while the gap widened at times since then, there has been a clear convergence recently. Northern Ireland has the lowest rate of liquidations per 10,000 companies in the UK, potentially indicating that it has been less impacted by Brexit.

Liquidations per 10,000 by jurisdiction

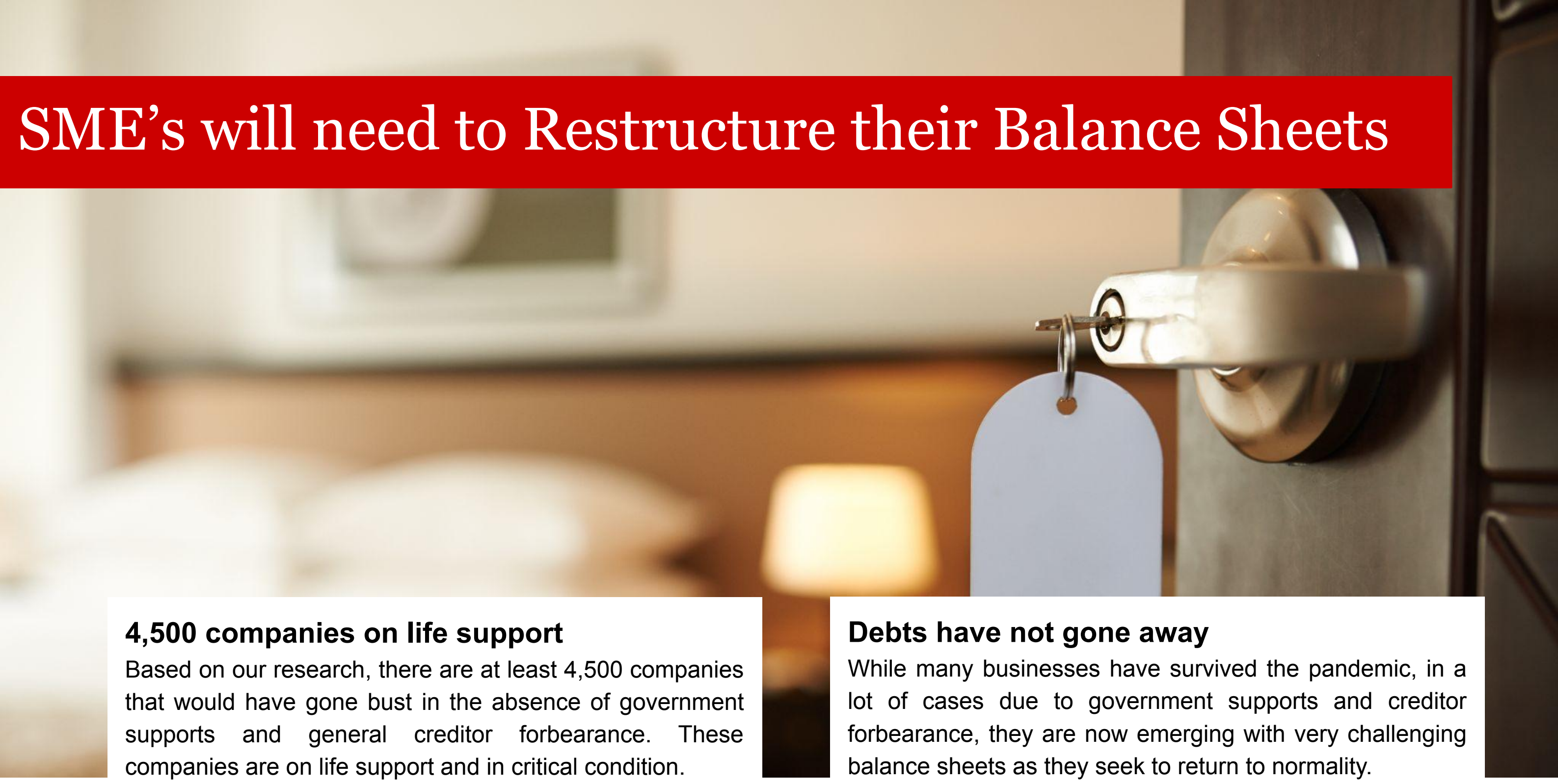
Country	2021	Peak	Low
Ireland	11	76 (2011)	11 (2021)
Northern Ireland	14	110 (2010)	14 (2021)
England/Wales	32	88 (2009)	27 (2020)
Scotland	32	89 (2011)	28 (2020)

Republic of Ireland vs. Northern Ireland liquidations per 10,000 (2005 to 2021)



Restructuring Issues Facing Irish Businesses

SME’s will need to Restructure their Balance Sheets



4,500 companies on life support

Based on our research, there are at least 4,500 companies that would have gone bust in the absence of government supports and general creditor forbearance. These companies are on life support and in critical condition.

Throughout the pandemic there has been a high level of forbearance and patience shown by many creditors, with a large portion of debts being warehoused during the period. Creditors will be seeking repayment of these debts in 2022 and 2023 as businesses who were impacted by the pandemic begin to trade again at pre-pandemic levels.

Lender Forbearance

Retail banks have issued forbearance measures to borrowers with €4.7 billion loans (which represents 1 in 10 loans to SME’s) in the 10 month period ending September 2021, according to a recent report from the Central Bank of Ireland (“CBI”). In addition, CBI’s research indicated that 59% of these forbearance measures were short term repayment arrangements and 65% of the borrowers were in sectors most affected by the pandemic.

A certain cohort of these borrowers will require further forbearance measures which is likely to cause issues for retail banks who are under continued pressure from the ECB to reduce their non-performing loans. This means that many SME’s will be having very important discussions with their lenders in 2022 as they look to restructure their loan facilities. For some, this may be an extension to the term, continued interest roll up or moratoriums but for others it will be more serious and involve more complex restructuring.

Other Creditor Forbearance

In addition to government supports and lender forbearance, there has been widespread creditor forbearance including the Revenue Commissioners, Landlords, local authority rates and utility companies. Trade suppliers have also been very patient in terms of deferring payment or arranging repayment plans. Just recently Revenue reported that almost 100,000 businesses have availed of over €2.9 billion in warehoused tax debt.

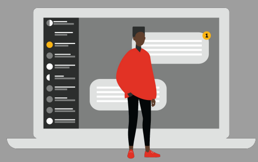
Debts have not gone away

While many businesses have survived the pandemic, in a lot of cases due to government supports and creditor forbearance, they are now emerging with very challenging balance sheets as they seek to return to normality.

As businesses seek to rebuild their balance sheet they may find that the debt overhang may be too much and that a level of repair is needed. Many businesses are just about hanging on, without access to capital, and they will be looking to processes such as SCARP (discussed on the next page) and examinership over the coming years.

Priorities ahead > Act Now: Recovery to Growth

1. Companies need to 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 at the same time meeting renewed customer demand and delivering delayed investment.
2. The limited availability of further government support in some economies 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
3. In this uncertain and potentially stop-start pathway to recovery and growth, it’s essential to **monitor cash** and develop realistic forecasts which take account of potential varying recovery scenarios.
4. 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.



Small Company Rescue Process (SCARP)

SME’s will need restructuring advice

In some instances, businesses will not be able to consensually restructure their balance sheets. They will need advice from restructuring professionals as to the formal restructuring options available to them such as the well established examinership process. A new alternative process is the government’s recently commenced restructuring tool, Small Company Administrative Rescue Process (“SCARP”), which is aimed at SME’s.

Many of the 4,500 businesses that have been saved from failure by the government supports may look at SCARP as a means to repairing their balance sheets. This will allow them to return to regular operations without the worry of managing creditors and overhanging debts.

Introduction of the new SCARP Process

SCARP aims to provide a more accessible and cost-effective restructuring process for smaller businesses. It is a formal insolvency process which enables restructuring by way of a compromise arrangement between a business and its creditors. Once approved SCARP is legally binding on all creditors.

What does SCARP achieve?

SCARP facilitates the restructuring of a business’ creditors and fundamentally repairs the balance sheet. This should allow companies to continue trading and hopefully emerge stronger.

Who manages the process?

To enter SCARP a business must engage in the services of an Independent Insolvency Practitioner to act as a “Process Advisor”. They work with the relevant stakeholders to achieve the best outcome for all parties.

How long does it take?

There is a maximum 70 day timeline between the appointment of the Process Advisor and the scheme’s conclusion, provided there are no objections from creditors.

Is it a court process?

Should SCARP be accepted by all creditors without any appeals, there is no need for court involvement with the exception of the Process Advisor’s final report which is to be filed in the relevant court.

To be eligible for SCARP companies must meet two of the following criteria:

< €6m Balance Sheet

< €12m Turnover

< 50 employees

98% of Irish companies are therefore eligible

Corporate Restructuring

Corporate Distress Indicators

The ITRAXX Crossover index is a reliable and commonly-used measure of volatility in global financial markets. Towards the end of November 2021 the index jumped sharply to 290 following the news of the Covid-19 Omicron variant arriving in Europe. By the end of December 2021 the index was back down to 225 due to the risk of Omicron being perceived as less severe than was initially thought.

January 2022 has seen some of the biggest movements of the ITRAXX Crossover index since March 2020. It has increased by 118bps to 343 from the end of December 2021 due to concerns over the US Federal Reserve (Fed) withdrawal of quantitative easing, a more aggressive fiscal approach, geopolitical unrest and the general stock market correction.

The change in Fed policy has resulted in a widening of the 10-year yield curve, which continues today. These factors have also led to investors selling off high growth technology stocks as seen in the c.15% decline in the Nasdaq Composite and the tech sector of the S&P 500 since November 2021, with these high valuation stocks become less attractive in a normalising environment.

"January 2022 has seen some of the biggest upward movements of the ITRAXX Crossover index since March 2020"

Expanding the Corporate Restructuring Toolkit

Legislation and innovation are improving the speed, choice and flexibility of restructuring options and solutions. The expected uptick in restructuring is coinciding with the introduction of useful new options and the removal of many of the barriers that have held up proceedings in the past.

As mentioned earlier, the Irish government enacted and recently launched the SCARP restructuring process. This is directly aimed at SME's. For the larger restructurings, the medium and large Irish companies will look to the well-established examinership process and Companies Act 2014 Part 9 Scheme of Arrangement.

Increasingly in recent years and possibly due in part to Brexit, there has been an increasing international interest in the Irish restructuring processes and this is something we see continuing over the coming years.

An extensive list of recent international developments includes the new UK Restructuring Plan, Dutch 'scheme' (WHOA), as well as new legislation in Germany, Belgium, Greece, Brazil, India, the UAE and Saudi Arabia.

As interest rates begin to rise, there will be increased pressure on over-leveraged companies who will be looking at ways to restructure. Depending on the level of interest rate increases that come through during 2022 and 2023, more pressure will be placed on upcoming refinancings and on companies' ability to repay existing debt levels.

Corporate Restructuring Key Trends for 2022

Supply Chain Disruption

The corporate focus is shifting from stability and survival to recovery and growth. But unstable supply chains are disrupting and heightening the pressure on working capital - the lifeblood of the day to day operations of any business.

Supply chain disruption could hold up recovery and jeopardise some businesses. From steel to semiconductors, supplies of raw materials and finished goods, along with the capacity to transport them, are under pressure or are seeing a significant rise in prices. Severely affected sectors include construction, where disruption is causing project delays and pressure on costs and cash flows.

In turn, a number of automotive manufacturers have had to curtail or temporarily shut down production altogether because of the shortage of semiconductors. In addition, the recent increase in wholesale gas prices in Europe has had an adverse impact on the energy retail sector and is likely to lead to further supply chain pressures. Rising raw material prices are also heightening inflationary pressures, which may translate into interest rate rises in due course.

Alongside supply chain bottlenecks, resurgent demand is adding to shortages of key skills. We've already seen how travel restrictions have curtailed the movement of seasonal staff – from crop pickers to hospitality workers. We've also seen how many workers in shutdown sectors such as hospitality have taken up jobs in other industries and seem unlikely to return.

Longer term issues include the shortage of commercial drivers worldwide, with often poor conditions, lack of diversity and an ageing workforce continuing to diminish an already shrunken talent pool and making it difficult to attract new recruits.

"63% of responses to a recent PwC manufacturing survey rank supply chain as a key concern"

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Appendix: Data Sources

- Bloomberg - ITRAXX XOVER CDS S36 5Y
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- Court Service of Ireland
- CRIF Vision-Net
- Insolvency Service of Ireland
- Gov.uk
- Gov.ie
- Office of the Revenue Commissioners
- PwC UK - Global Restructuring Trends
- PwC UK - Working Capital Report