

# PwC Restructuring Update - Q1 2022

Restructuring wave still yet to hit



# Contents

---

<b>Foreword</b>	<b>3</b>
<b>Executive Summary</b>	<b>4</b>
<b>Key Insights</b>	<b>6</b>
<b>Q1 Business failure insights</b>	<b>7</b>
<b>Restructuring issues facing Irish businesses</b>	<b>9</b>
<b>Q1 Industry Insights</b>	<b>11</b>
<b>Q1 County Insights</b>	<b>13</b>
<b>Ireland's Liquidation Rate Compared to the UK</b>	<b>14</b>
<b>iTraxx Crossover Index</b>	<b>15</b>
<b>Contact Us</b>	<b>16</b>
<b>Appendix - Data Sources</b>	<b>17</b>





# Foreword

---



**Ken Tyrrell**  
Partner – Business  
Recovery Services

## **Overall business failure rate remains at record low**

Earlier this year our research indicated that Government supports during the pandemic helped save over 4,500 Irish companies. Now as we look back at Q1, we can see that the business failure rate remains near record lows, not seen since 2005 and 2006.

## **Quarter 1 2022**

The number of business failures per 10,000 companies in Q1 is down 12% from the last quarter of 2021, which is broadly in line with the downward trend over the past few years. The level of Government supports has certainly achieved the objective of protecting businesses and jobs during the pandemic, with the Employee Wage Subsidy Scheme (“EWSS”) being the most impactful for businesses. The EWSS is due to expire at the end of April. While the level of business failures is down on the previous quarter, it is notable that the business failure rate per 10,000 companies in Q1 2022 is 19% higher than Q1 2021. This may point to an increased level of restructuring ahead in 2022 and something we will be monitoring closely in the months ahead.

## **Industry Sectors**

When we delve deeper into the Q1 numbers, we find that the Arts, Entertainment and Recreation sector continues to be encountering a relatively high level of business failure. However, the Real Estate sector had the greatest quarterly increase in failures per 10,000 (from 6 to 20) during the first quarter of 2022.

Retail and Hospitality are faring better than many expected, both are job intensive sectors and will face challenges as the EWSS tapers in April.

At a county level, we find that Dublin has the most business failures per 10,000 companies with some notable increases recorded in Sligo, Monaghan and Clare during Q1 2022.

## **Challenges ahead for many Irish businesses**

Businesses have emerged from the pandemic into a relatively buoyant economy which has provided them with the opportunity to deal with legacy debts and seek to repair severely damaged balance sheets. Most business owners are aware that the economic environment is very fluid, given the war in Ukraine, and businesses are facing some strong headwinds in the form of geopolitical uncertainty, higher energy costs and price inflation, continued supply chain issues as well as upward pressure on interest rates.

## **Volatility Ahead**

As we can see from the challenges above, “volatile” may be the best way to describe 2022 so far. With that in mind, the iTRAXX Crossover Index is a reliable and commonly-used measure of volatility in global financial markets and is now at its highest level in several years peaking at 419 in early March 2022. By way of historical context, the iTRAXX Crossover Index peaked at over 1,100 during the global financial crisis of 2007 to 2009.

We will be reporting again at the end of Q2 and, at that stage, we will be able to assess the impact of the current volatility and also consider whether the tapering of government pandemic supports has any material impact on the level of business failure in Ireland.

# Executive Summary

---

## Q1 business failure highlights

- There was a 12% decrease in the business failure rate per 10,000 companies from Q4 2021 (4.2) to Q1 2022 (3.7). These rates remain at record low levels which is largely due to the very strong level of Government support provided to businesses during the pandemic and widespread creditor forbearance.
- Over the past 12 months to the end of March 2022, the business failure rate of 15 per 10,000 companies which remains at a record low and levels not seen since 2005 to 2006. This figure is well below the average over the past 17 years of 52 per 10,000 businesses, with a peak of 109 per 10,000 in 2012.
- While the level of insolvencies remain at record lows, there was a 19% increase in business failures during Q1 2022 (3.7 per 10,000 companies) when compared to the same period in 2021 (3.1 per 10,000 companies). It will be interesting to see if this trend continues into Q2 and whether this is the first sign of a pick up in restructuring activity. We will continue to monitor this trend closely into Q2 2022.
- In volume terms, this represented an increase from 80 (Q4 2021) to 97 (Q1 2022) business failures.

## Key restructuring issues facing Irish businesses

- **Tapering of Government supports** - The EWSS finishes at the end of April 2022. 44% (113,000) of employees who currently benefit from this scheme are based in the hospitality industry.
- **Inflation** - The European Central Bank ("ECB") predicts that the average inflation rate will be 5.1% across the EU in 2022. The ERSI predicts that Ireland's average inflation rate in 2022 will be higher at 6.7%.
- **Interest rates** - It is expected that the ECB will begin to gradually increase interest rates after announcing that the Asset Purchasing programme ("APP") will end in the second half of 2022.
- **Energy Costs** - Higher energy prices are expected to affect the manufacturing, retail and hospitality sectors, amongst others, in the coming months. The airline industry is not expected to see an impact until 2023 as most are likely to have hedged their fuel costs for 2022.

## Q1 Industry highlights

- During Q1 2022, the real estate sector had the largest quarterly increase (230%) in failures per 10,000 companies, rising from 6 to 20.
- The arts, entertainment and recreation sector continues to have the highest business failure rate at 81 per 10,000 companies over the last twelve months.
- The Q1 2022 business failure rates per 10,000 companies in the hospitality and retail industries remain lower than might have been expected.
- There have been no business failures in the energy and utility sector in the last twelve months. This is in contrast to the UK whereby a number of companies in this sector have gone bust in the last six months.

## **Q1 County highlights**

- Higher than national average: Over the last twelve months, only 2 counties have a business failure rate higher than the national average of 15 per 10,000. Dublin and Kilkenny both recorded a business failure rate of 24 per 10,000 companies over the last twelve months.
- Q1 Increase from Q4 - the counties that showed the highest quarterly increase from Q4 2021 were Sligo, Monaghan and Clare.
- 9 counties didn't record any business failures during Q1 2022: Offaly, Westmeath, Kerry, Roscommon, Waterford, Donegal, Laois, Leitrim and Longford.

## **Ireland and UK liquidation rates**

- In Q4 2021, England and Wales had the highest quarterly total of liquidations since records began back in the 1960's primarily as a result of the UK Government ending a lot of their financial supports during the second half of 2021.
- The UK currently has triple the number of liquidations per 10,000 than the equivalent rate in Ireland.
- Ireland and the UK's annual liquidation rates per 10,000 companies remain at historically low levels and well below their national averages over the past 17 years.

## **Q1 iTraxx crossover index**

- The index has continued to increase since the start of 2022 and peaked at 419 in early March 2022 (increasing significantly from 242 at the end of 2021) evidencing the levels of volatility in global financial markets shortly after the war in Ukraine started.
- This peak is still well below the previous peak of over 1,100 during the global financial crisis.

## **Moving forward into 2022**

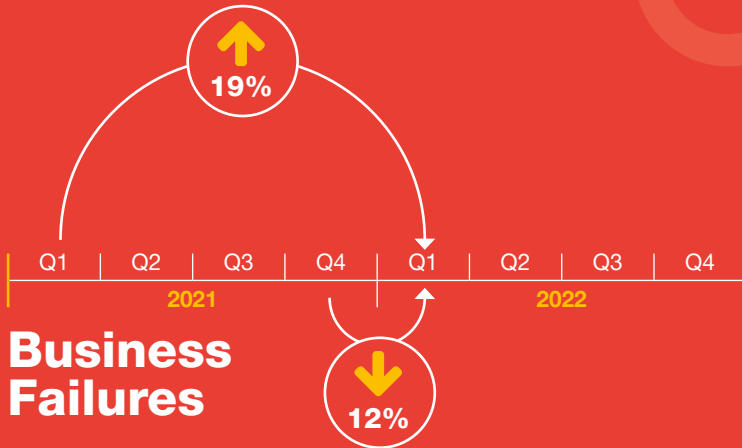
- The business failure results from Q1 2022 are a continuation of artificially low rates. Our report 'Act Now: From Recovery to Growth' estimates that over 4,500 companies were saved from going bust during the pandemic. A significant number of businesses are still on life support and now facing higher inflation, energy costs and potentially rising interest rates in the months and years ahead.
- 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 the Government support measures begin to taper off and warehoused loans (and/or rent) fall due for repayment, the brakes on insolvency and restructuring activity are likely to come off.
- The anticipated wave of restructuring activity still hasn't hit and many of the 4,500 companies identified in our report 'Act Now: From Recovery to Growth' are still in survival mode and trying to repair their balance sheets.

## **Why we use a per 10,000 business measure**

Our analysis is based on a per 10,000 measure which has become all too commonplace to hear since the pandemic started. 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.

# Key Insights

There was a 19% increase in business failures per 10,000 during Q1 2022 when compared to the same period in 2021

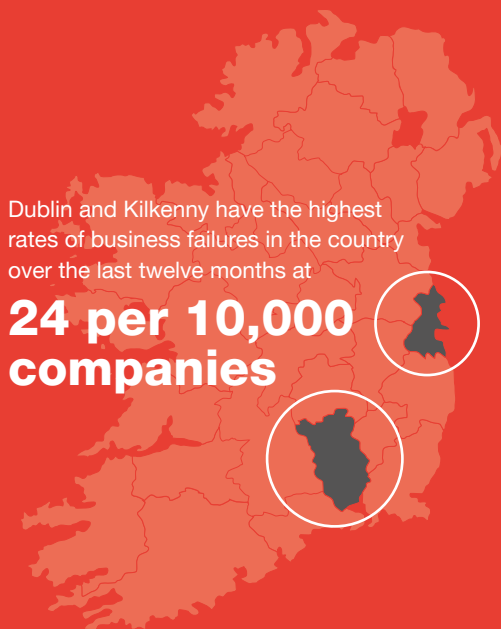


The quarterly business failure rate per 10,000 companies reduced by 12% from Q4 2021 to Q1 2022



Dublin and Kilkenny have the highest rates of business failures in the country over the last twelve months at

**24 per 10,000 companies**



**The UK has triple the annual number of liquidations**

per 10,000 companies than Ireland. Both territories are well below their 17 year averages



“Insolvencies remain at record lows”

# Q1 Business failure insights

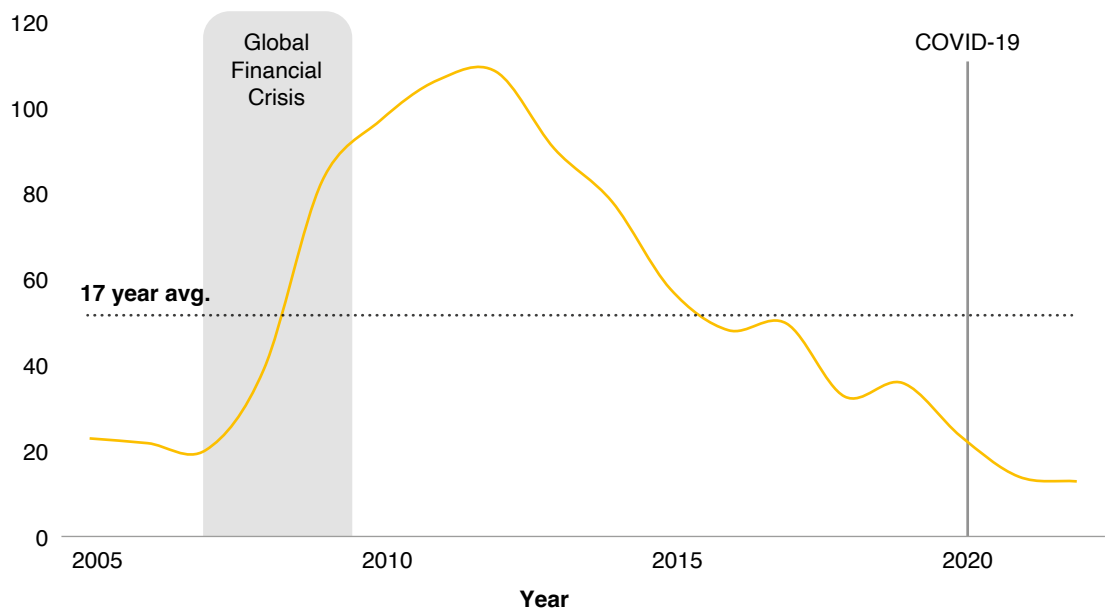
## Q1 highlights

- The business failure rate per 10,000 companies decreased by 12% from Q4 2021 (4.2) to Q1 2022 (3.7). These rates remain at very low levels which is largely due to the level of Government support to businesses during the pandemic and widespread creditor forbearance.
- The business failure rate was 15 per 10,000 companies over the last twelve months, to the end of March 2022. This rate is much lower than the average rate over the past 17 years of 52 per 10,000 businesses, with a peak of 109 per 10,000 in 2012.
- The rate of business failures remains at an artificially low level and at record lows.
- There was a 19% increase in business failures during Q1 2022 (3.7 per 10,000 companies) when compared to the same period in 2021 (3.1 per 10,000 companies). We will continue to monitor this trend to see if it continues into Q2 2022.

### Why we use a per 10,000 business measure.

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

## Business Failure Rate per 10,000 companies







**Irish quarterly business failure rate per 10,000 businesses**

Insolvency Type	Q1 2022	Q4 2021	Q1 2021
Total Corporate Insolvencies	3.7	4.2	3.1
Liquidations	2.3	3.3	2.2
Receiverships	1.2	0.5	0.9
Examinerships	0.2	0.4	0.0

**1. The business failure rate per 10,000 companies decreased by 12% from Q4 2021 to Q1 2022**

The business failure rate per 10,000 companies decreased from 4.2 in Q4 2021 down to 3.7 in Q1 2022 (12%). We did however see a spike in the number of Receiverships in Q1 2022 but this was primarily as a result of a large Dublin based real estate group of companies going into Receivership during the period.

**2. The business failure rate per 10,000 companies remains well below the 17 year average**

Over the past twelve months the business failure rate is 15 per 10,000 companies. This remains well below the average over the past 17 years at 52 per 10,000 businesses, peaking at 109 per 10,000 in 2012. In our report 'Act Now: From Recovery to Growth', we estimated that over 4,500 businesses were saved primarily as a result of the Government's supports, with a number of these businesses essentially being put on 'life-support'. We expect to see a greater number of insolvencies in the coming quarters, and years.

**3. There was an increase in the business failure rate per 10,000 companies of 19% in Q1 2022 when compared to the same period in 2021**

When Q1 2022 is compared to the same period in 2021, the business failure rate per 10,000 companies increased from 3.1 to 3.7. In volume terms, this represented an increase from 80 to 97 business failures. It will be interesting to see if this trend continues into Q2 and whether this is the first sign of a pick up in restructuring activity. We will continue to monitor this trend closely into Q2 2022.

**Total number of Irish business failures**

Insolvency Type	Q1 2022	Q4 2021	Q1 2021
Total Corporate Insolvencies	97	109	80
Liquidations	60	86	57
Receiverships	32	14	22
Examinerships	5	9	1



# Restructuring issues facing Irish businesses

## 1. EWSS ceasing on 30 April 2022

The EWSS, which replaced the temporary wage subsidy scheme, will end on 30 April 2022. According to a recent report published by Revenue, over 22,000 businesses were still registered for the EWSS in February 2022 comprising over 256,000 employees. It's interesting to note that 44% (113,000) of these employees are based in the hospitality industry alone. It remains to be seen how these businesses will manage once the Government supports have been tapered.

The UK Government started to taper their financial support to businesses during the second half of 2021 which is the likely cause of the highest quarterly total of liquidations on record in England and Wales during Q4 2021 (over 4,000).

## 2. Ongoing Revenue forbearance

The Government has extended the forbearance for businesses of Revenue debts for a further twelve months interest free up to the end of 2022. Over 95,000 businesses are availing of this forbearance and the warehoused debt is over €3bn according to a recent report from Revenue.

In our report from February 2022 we estimated that the Government's financial support helped to save over 4,500 businesses from going bust during the pandemic. A significant number of these businesses are likely to struggle when the €3bn of Revenue debt starts to become repayable, particularly from 2023 onwards.



## average inflation rate in Ireland 6.7% 2022



### 3. Inflation

The ESRI predicts that the average inflation rate in Ireland will be 6.7% during 2022 before reducing to 5% in 2023. These figures are well ahead of the ECB's 2% target inflation rate. The ECB predicts the average inflation rate across the EU will be 5.1%.

The UK is experiencing a similar increase with an inflation rate of 6.2% in February 2022. Whilst in the US, the inflation rate reached 7.9% by the end of February 2022, the highest recorded rate in over forty years.

The increased inflation rate appears to be caused by a number of different factors such as the fallout from the pandemic, supply chain disruptions, increased wages and energy costs, the war in Ukraine and sanctions against Russia amongst others.

This is a perfect storm for a large volume of Irish businesses who have an ever increasing cost base coupled with significant levels of debts built up during the pandemic, which remain owing to Revenue, landlords and lending institutions.

### 4. Interest Rates

The ECB hasn't increased their main interest rate yet but they have advised that any interest rate increases will be gradual. They have yet to disclose any clarity on when increases will begin although it is expected that interest rates will gradually increase now that the ECB has announced that the APP will end in the second half of 2022.

The Bank of England recently increased their main interest rate to 0.75% which is the third time they have increased it in four months from when it was 0.1% in December 2021. They have also suggested that they will increase the rate further to 1.5% by the middle of 2023.

The US Federal Reserve also recently increased their main interest rate from 0.25% to 0.5% in March 2022. It is expected that by the end of the year this will be increased to 2% and to 2.75% by the end of 2023.

If and when the ECB begins to increase the main interest rate, the result will be to the detriment of many Irish businesses who will be facing increased interest repayments. According to a recent Central Bank of Ireland report, 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.

### 5. Energy costs

The war in Ukraine and the subsequent sanctions on Russia have led to a significant increase in energy costs for Irish businesses in 2022. These increases are on the back of price increases that previously occurred during 2021 as a result of economies emerging from the pandemic. Currently trading at over \$100 per barrel, major oil traders have warned that the price of oil may reach \$200 a barrel as a result of the international boycott of Russian oil.

Businesses in the areas of manufacturing, retail and hospitality amongst others will begin to see the impact much sooner in the coming months, and even more so towards the end of the year with the cooler temperatures in Autumn and Winter. Most airlines will have hedged the cost of their fuel until the end of this year, we expect to see the real impact of the increases in 2023. We've already seen evidence from the UK that a number of businesses within the hospitality sector are already experiencing difficulties as they cannot cover their rising energy costs.

### 6. SCARP / Examinership

The small company rescue process ("SCARP") was enacted by the Government to provide an alternative restructuring tool for businesses and commenced in December 2021. There has been a low uptake by businesses to date, mainly due to the ongoing financial supports being provided by the Government and creditor forbearance.

Starting from an extremely low level, we expect the uptake in SCARP and Examinerships (only 5 business entered Examinership during Q1 2022) to increase during 2022 & 2023 as Government's supports taper, such as the EWSS, and Revenue forbearance begins to end while other debts continue to fall due (e.e. Landlords, banks, suppliers, etc.). Many businesses will be in need of restructuring as a result. In our previous report 'Act Now: From Recovery to Growth', we estimated that 4,500 companies were put on 'life-support' as a result of the Government's financial supports.

# Q1 Industry Insights

## Q1 Industry Highlights per 10,000 businesses

- During Q1 2022, the real estate sector had the greatest quarterly increase (230%) in failures per 10,000 (from 6 to 20)
- The arts, entertainment and recreation sector continues to have the highest annual business failure rate at 81 per 10,000 companies over the last twelve months.
- Hospitality (3 per 10,000) and Retail (3 per 10,000) still remain lower than might be expected over the last three months.
- There have been no business failures in the energy and utility sector in the last twelve months. This is in contrast to the UK whereby a number of companies in this sector have gone bust in the last six months.

### Quarterly business failure rate per 10,000 by industry:

Industry	Q1 2022	Q4 2021
Real estate	20	6
Arts, entertainment and recreation	17	9
Finance and insurance	11	10
Travel and transport	10	31
Health	6	6
Hospitality	3	3
Retail	3	2
Construction	2	3
Professional, scientific and technical activities	2	2
Manufacturing	1	2
Information and communication	1	2
Mining and quarrying	0	14
Other	0	7
Education	0	0
Administration and support services	0	3
Energy and utility	0	0

## Q1 industry analysis

### 1. Real Estate & Construction facing some issues

During Q1 2022 the real estate sector saw its business failure rate per 10,000 businesses more than treble (from 6 to 20) when compared to the previous quarter. This is largely due to a large group of companies within the one real estate group entering receivership during the period. There were also some high profile construction failures in Q1 2022 and we expect this sector to be under pressure due to supply chain issues, labour shortages, inflation pressures and working capital issues.

### 2. Arts, Entertainment and Recreation continues to take a major hit

This sector continues to have the highest business failure rate at 81 failures per 10,000 companies over the last twelve months. However, Q1 2022 saw the industry business rate failure per 10,000 almost double (from 9 to 17) when compared to the previous quarter.

### 3. Hospitality failures lower than expected

Hospitality experienced a business failure rate of 3 per 10,000 companies in Q1 2022, which continues to be relatively low in comparison to other sectors and lower than might be anticipated given the issues faced by this sector during the pandemic.

With a significant number of employees (113,000) in this sector having their wages topped up by the EWSS and the reduction in Government supports, we anticipate that there may be an increase in the failure rate within the hospitality sector during 2022.

failure rate in the arts, entertainment and recreation sector at 81 per 10,000 companies



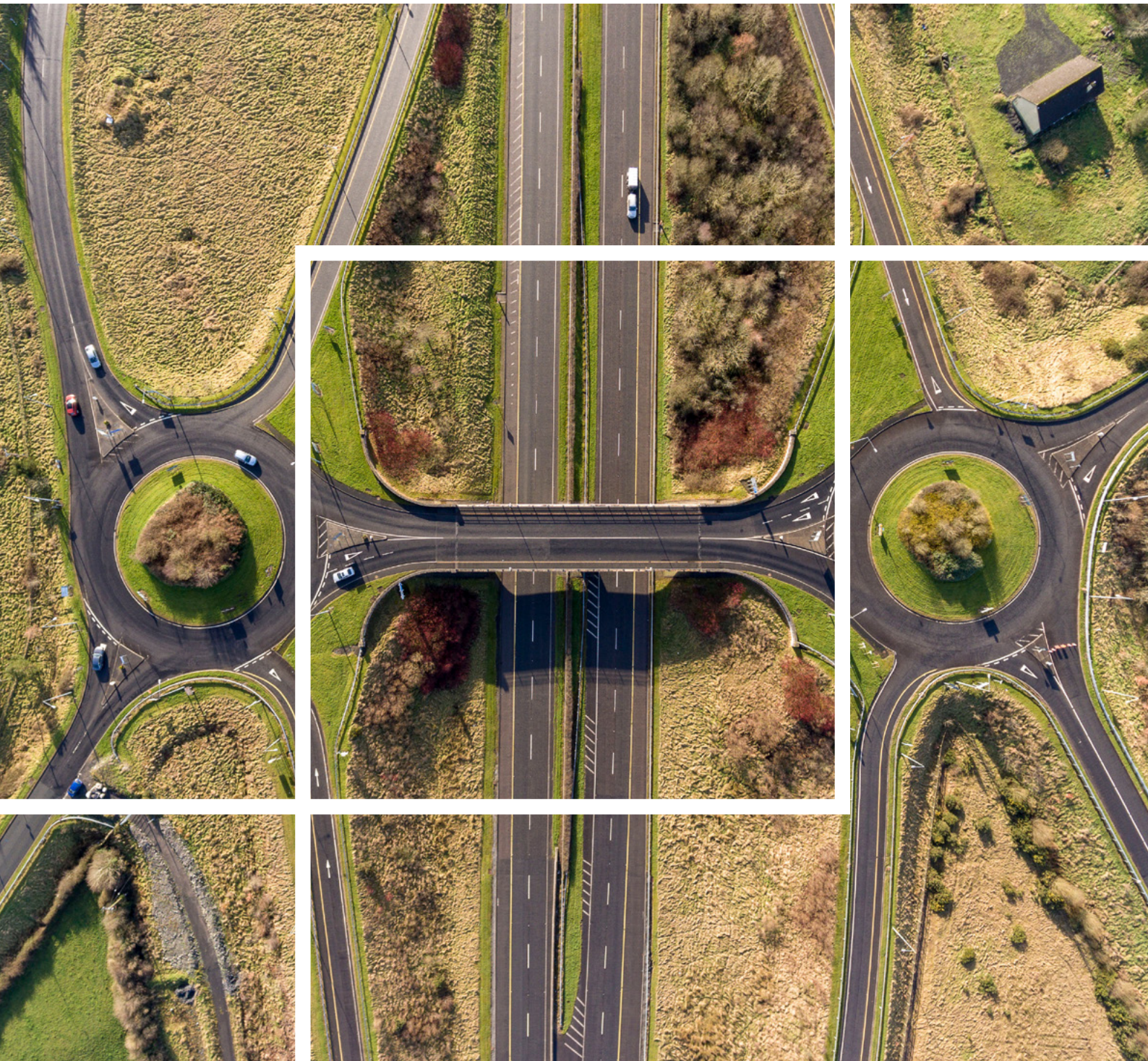


#### 4. Retail continues to be lower than anticipated

Similar to the hospitality industry, the failure rate among retail businesses was 3 per 10,000 businesses for Q1 2022 which is lower than we would have expected. It's likely that many of these businesses are on life support availing of Government supports or creditor forbearance and they will need some type of restructuring and/or capital investment going forward.

#### 5. No business failures recorded within the energy and utility supply industry over the last twelve months

There were no insolvencies recorded within this industry in the last twelve months. This is in contrast to the UK over the last six months where a large number of utility suppliers have gone bust due to soaring wholesale costs. We expect to see more activity in this area over the coming year as the industry copes with an ever increasing cost base.





# Q1 County Insights

## Q1 County Highlights per 10,000 businesses

- **Higher than national average:** Over the last twelve months, only 2 counties have a business failure rate higher than the national average of 15 per 10,000. Dublin and Kilkenny both recorded a business failure rate of 24 per 10,000 companies over the last twelve months.
- **Lower than national average:** Cork continues to trend lower than most of the other larger counties with a business failure rate of 11 per 10,000 over the past twelve months.
- **Counties with the highest increases from Q4 2021** - the counties that showed the highest quarterly increase in the business failure rate per 10,000 were Sligo (0 to 9), Monaghan (0 to 6), and Clare (1 to 6).
- **Counties with no business failures in Q1 2022** - 9 counties didn't record any business failures in Q1 2022: Offaly, Westmeath, Kerry, Roscommon, Waterford, Donegal, Laois, Leitrim and Longford.

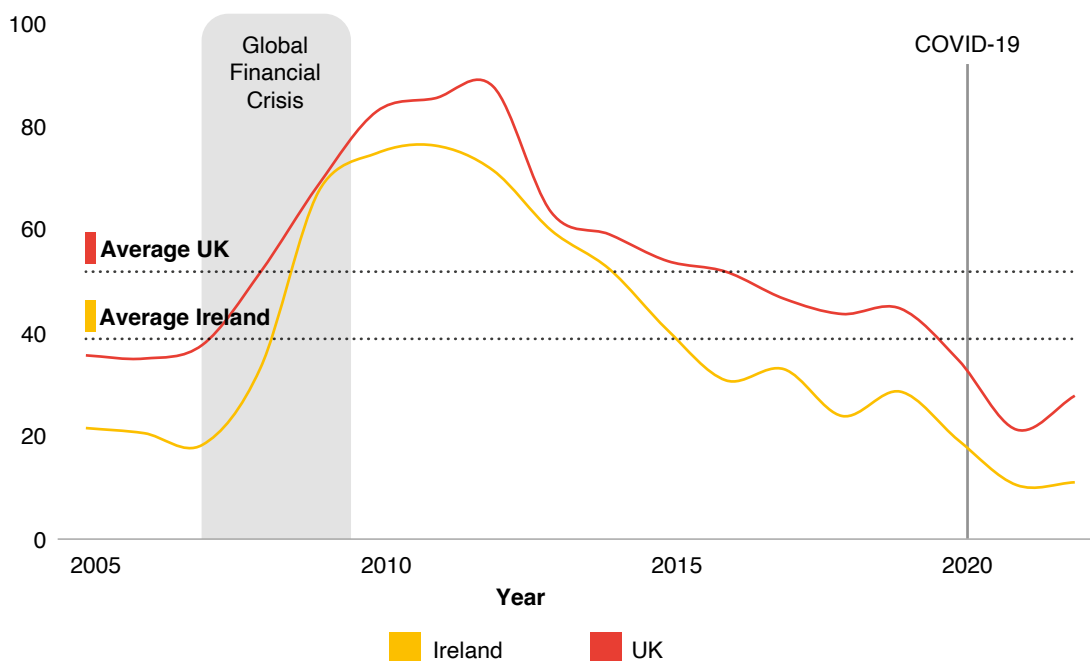


9 counties didn't record any business failures in Q1 2022

## Quarterly business failure rate per 10,000 by county

County	Q1 2022	Q4 2021
Sligo	9	0
Dublin	7	8
Clare	6	1
Monaghan	6	0
Louth	5	6
Cavan	5	2
Galway	4	3
Wicklow	4	6
Limerick	4	3
Kildare	3	0
Wexford	3	3
Carlow	3	0
Kilkenny	2	0
Cork	2	2
Meath	1	2
Tipperary	1	0
Mayo	1	0
Offaly	0	9
Westmeath	0	8
Kerry	0	5
Roscommon	0	3
Waterford	0	0
Donegal	0	1
Laois	0	0
Leitrim	0	0
Longford	0	0

# Ireland's Liquidation Rate Compared to the UK



## Liquidations per 10,000 companies

Country	12 month rolling average	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)

### 1. Record number of UK liquidations in Q4 2021

As highlighted, England and Wales have had the highest number of creditor voluntary liquidations (over 4,000) since records began, in Q4 2021 as the UK Government financial support began to taper off during the second half of 2021. We expect to see an increased volume of liquidations in Ireland, albeit off a very low base, as the Irish Government supports begin to taper during 2022.

### 2. The UK currently has triple the number of liquidations per 10,000 than Ireland

Over the past year, Ireland has been running at 11 liquidations per 10,000 companies whilst the UK has been running at 32 liquidations per 10,000 which

is nearly three times higher than Ireland. It is worth noting that the pandemic supports from the UK Government tapered in Autumn 2021. From a review of the past 17 years, we have seen from the historic data that Ireland's liquidation rate tends to lag a few years behind the UK.

### 3. UK & Ireland liquidation rates at historic lows

Both Ireland and the UK are running well below their 17 year average liquidation rates per 10,000 companies of 39 and 52 respectively. The 17 year average in Ireland has been 25% lower than the UK's equivalent rate.

The recent figures are even further below their previous peaks from the global financial crisis as outlined in the table above.



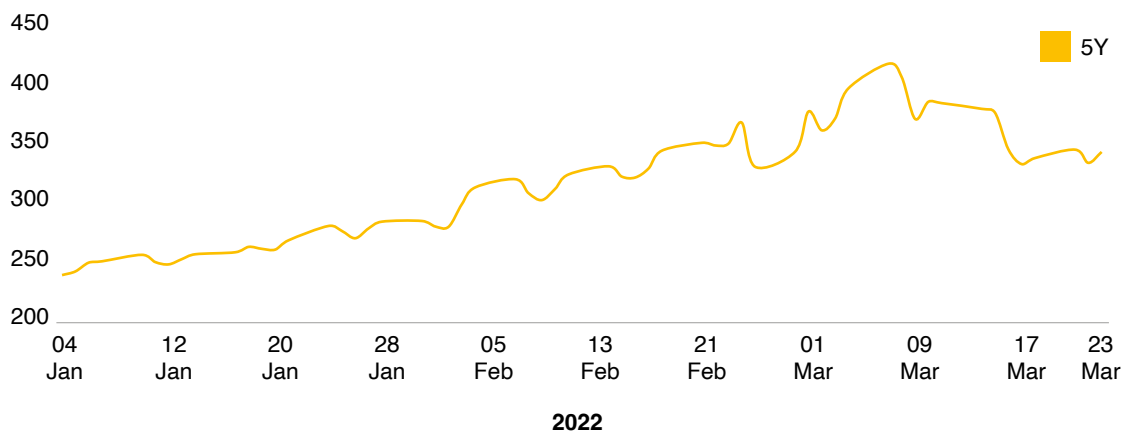
# iTraxx Crossover Index

The iTraxx Crossover index is a reliable and commonly-used measure of volatility in global financial markets. The spread on the iTraxx Crossover index measures the cost of hedging against junk-rated companies defaulting on their debt.

**Impact of Omicron in Q4 2021:** Towards the end of November 2021, the index jumped sharply to 290 following the news of the Covid-19 Omicron variant arriving in Europe.

**Winding down of quantitative easing:** January 2022 saw some of the biggest movements of the iTraxx Crossover index since March 2020. This is potentially due to concerns over the US Federal Reserve's withdrawal of quantitative easing, a more aggressive fiscal approach and the general stock market correction.

**Increased volatility has led to recent index highs** the index has continued to steadily increase in February and March. Since the war began in Ukraine, the index has been fluctuating at a high level and peaked at 419 (increasing significantly from 242 at end of the 2021) in early March 2022. Additionally, the war has exacerbated the ongoing trends of increasing energy costs, supply chain difficulties and higher inflation rates. By way of historical context, the iTraxx Crossover index peaked at over 1,100 during the global financial crisis of 2007 to 2009.



\*iTraxx Crossover index (spread in bps)



# Contact Us

---



---

**Ken Tyrrell**  
Partner – Business Recovery Services  
E: [ken.tyrrell@pwc.com](mailto:ken.tyrrell@pwc.com)

---



---

**Declan McDonald**  
Partner – Head of Business Recovery Services  
E: [declan.mcdonald@pwc.com](mailto:declan.mcdonald@pwc.com)

---

# Appendix - Data Sources

---

- Bank of England
- Bloomberg - iTraxx XOVER CDS S36 5Y
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- ESRI
- European Central Bank
- Experian Gazette
- Financial Times
- Federal Reserve
- Gov.uk
- Office for National Statistics (UK)
- Revenue Commissioners
- Wall Street Journal
- Vision-net



This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. 2022 PricewaterhouseCoopers. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

