



# PwC Restructuring Update - Q2 2022

Calm now: Challenges ahead

July 2022





# Contents

Download previous reports below 

Foreword	3
Executive Summary	4
Key Insights - Business Failure	6
Key Economic Indicators	7
Q2 Business Failure Highlights	8
Q2 Industry Highlights	10
Key Restructuring Issues Facing Irish Businesses	12
Revenue Debt Warehousing Facility & Creditor Forbearance	13
Global Headwinds More Relevant than Ever for Irish businesses	14
Ireland's Liquidation Rate Compared to the UK	15
Q2 County Highlights	17
iTraxx Crossover Index	18
Act Now	19
Contact Us	19
Appendix - Data Sources	20



# Foreword



**Ken Tyrrell**  
Partner – Business  
Recovery Services

## **Business failure rate**

- Business failures remain below the 17 year average - the business failure rate was 16 per 10,000 companies over the last twelve months to the end of June 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 record low levels.

## **Q2 2022**

- The insolvency rate for Q2 2022 has increased by 14% from Q1 2022, from 3.7 insolvencies per 10,000 companies up to 4.2 per 10,000 companies.
- The business failure rate for the first six months of 2022 was 18% higher than the first six months of 2021.
- Year-on-year, the insolvency rate is 17% higher than the same quarter in 2021.

## **Increase in SME liquidations**

- The overall increase in the business failure rate is primarily down to an increase in the number of liquidations of SMEs which are up 58% from Q1 2022 and this trend is likely to continue through the remainder of 2022.
- In contrast, the number of lender initiated receiverships is at an all time low and down significantly on previous quarters.

## **UK insolvency rate nearly four times higher than Ireland**

- There is now a very clear divergence between the liquidation rate per 10,000 in Ireland vs. the UK. The UK liquidation rate is now running at nearly four times the rate in Ireland (11 per 10,000).

## **Certain sectors are rebounding**

- The re-opening of the economy has contributed to a noticeable drop in the insolvency rate across three sectors: (i) travel & transport, (ii) arts, entertainment & recreation and (iii) real estate.
- From a very low level, the level of business failure in the hospitality sector has increased.

## **Expiration of Government pandemic supports**

- The economic supports that were put in place during the pandemic have now been removed, most notably the EWSS scheme. Similar supports were removed earlier in the UK during Autumn 2021, which did see a very significant pick up in liquidations in the following two quarters.

## **Challenges ahead**

- Businesses are now faced with a trifecta of rising inflation, interest rates and energy costs. We are likely to see increased pressure on profitability and cash flow over the coming months through Autumn and Winter 2022.
- As the Government pandemic supports have now expired, businesses will have to rapidly assess their core underlying profitability and ability to trade in the absence of wage subsidies and financial support.
- With quantitative tightening and increasing interest rates now firmly on the agenda, the level of sovereign debt across EU countries is back in the spotlight and likely to be an area of concern. This is demonstrated by the growing gap between Italy and Germany's 10-year sovereign bond spread, which reached its highest level since the start of the pandemic in 2020, at c. 2% (1.3% vs 3.3%). This spread is widely considered to be a measure of perceived financial risk in the Euro area.
- Recently surveyed, 70% of the economists from the National Bureau of Economic Research in the US are now predicting a US recession in 2023.

# Executive Summary

## Q2 2022 business failure highlights

- **Q2 2022 v Q1 2022 increase by 14%** - Q2 2022 (4.2 failures per 10,000) represents an increase compared to the previous quarter (3.7 failures per 10,000). This is an increase of 14% quarter on quarter.
- **Q2 2022 v Q2 2021 increased by 17%** - The second quarter of this year has seen an increase in insolvencies. In the same period last year, there was a business failure rate of 3.6 per 10,000. This figure is now up to 4.2 in Q2 2022. This represents a 17% increase in the number of business failures.
- **First 6 months 2022 vs. first 6 months 2021** - when the first half of this year is compared with the same period in 2021, the rate of business failure rate has increased by 18%.
- **Increase in SME liquidations** - there was an increase of 58% in the total number of liquidations in Q2 2022 when compared to the previous quarter. We expect this trend to continue into the second half of 2022.
- **Reduction in receiverships** - there has been a significant drop in the total number of receivership appointments during the second quarter of the year when compared to the previous quarter. Only 11 receiverships have been recorded during Q2 2022, this represents a 66% decrease from Q1 2022.

## Key restructuring issues facing Irish businesses

- **Expiration of Government pandemic supports** - the Employment Wage Subsidy Scheme (EWSS) has now ended. During its lifespan the level of support provided under the EWSS and the Temporary Wage Subsidy Scheme totalled almost €11 billion.
- **Revenue Debt Warehousing** - over 90,000 businesses were still availing of Revenue Debt Warehousing at the end of May 2022. The total amount outstanding of €2.9billion, an average of over €32,000 per business. The two sectors with the highest level of no repayments are (i) hospitality and (ii) arts, entertainment & recreation.
- **Trifecta of increasing Inflation, Energy Costs and Interest Rates** - while these are primarily global trends, as a small open economy they are having an increasing impact on Irish businesses and through the cost of living increases felt by consumers.
- **Low SCARP Uptake** - to date there has only been a handful of SCARP cases, but this is largely in line with the exceptionally low level of insolvencies at present.

“we may be seeing the first signs of businesses struggling in a post-pandemic environment without the pandemic supports and subsidies”



## Ireland and UK liquidation rates

- **UK liquidation rates continue to hit record highs** - the UK had the highest quarterly total of creditor voluntary liquidations for a second quarter (over 4,200 in Q2 2022) in a row. The recent quarterly totals are the highest since records began back in the 1960's.
- **The liquidation rate in the UK is nearly four times higher than Ireland** - the UK currently has nearly four times the amount of liquidations per 10,000 companies than the equivalent rate in Ireland.
- **Clear divergence between Irish and UK liquidation rates** - the UK is quickly returning to its 17 year average rate (52 per 10,000) whilst Ireland remains far below the average (39 per 10,000) with an annual liquidation rate of 11 per 10,000 at the end of Q1 2022.
- **The UK construction industry records the highest number of liquidations** - in the 12 months ending Q1 2022, the construction industry within the UK had the highest number of liquidations (over 3,200).

## Q2 industry highlights

- **Reductions in business failures for certain sectors** - the (i) Travel & transport, (ii) Arts, entertainment & recreation, and (iii) Real estate sectors have all reduced significantly from their peak pandemic levels.
- **Business failures in the hospitality sector trebled but remained at relatively low levels** - the sector recorded an insolvency rate of 8 failures per 10,000 during Q2 2022.
- **Highest industry increases in insolvencies during Q2** - the (i) Health, (ii) Mining and quarrying and (iii) Energy and utility industries had the highest increases from Q1 2022 to Q2 2022.

## Q2 county highlights

- **Kilkenny had the highest number of failures per 10,000 businesses in Q2 2022** - Kilkenny had a business failure rate of 13 per 10,000 in Q2 2022 compared to 2 per 10,000 in Q1 2022.
- **Dublin recorded a marginal decrease in insolvencies per 10,000 businesses in Q2 compared to Q1** - a fall from 7 per 10,000 in Q1 2022 down to 5 per 10,000 in Q2 2022.
- **There were no business failures in eight counties during the second quarter of the year** - Carlow, Donegal, Leitrim, Longford, Mayo, Sligo, Tipperary and Wexford.

## Q2 iTraxx crossover index

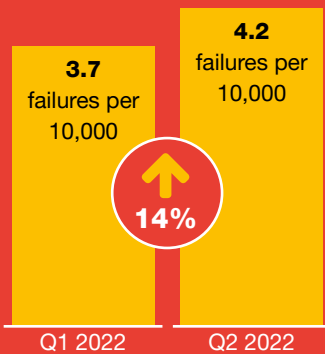
- The iTraxx Crossover index is a reliable and commonly-used measure of volatility in global financial markets. The increased volatility during Q2 2022 saw the index rise to 513bps on 28 June, almost doubling since the start of the quarter.

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

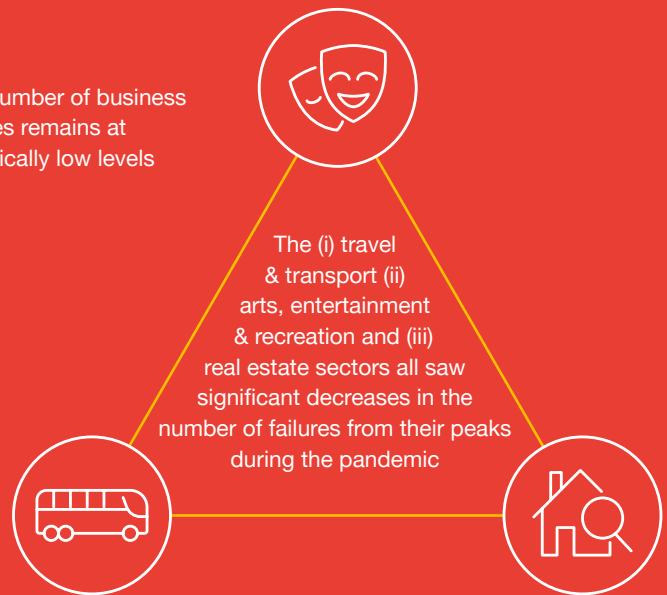
Our analysis is based on a per 10,000 measure which has become all too commonplace to hear since the pandemic started. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different 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 - Business Failure

## Business Failures



first six months of 2022 compared to the same period in 2021



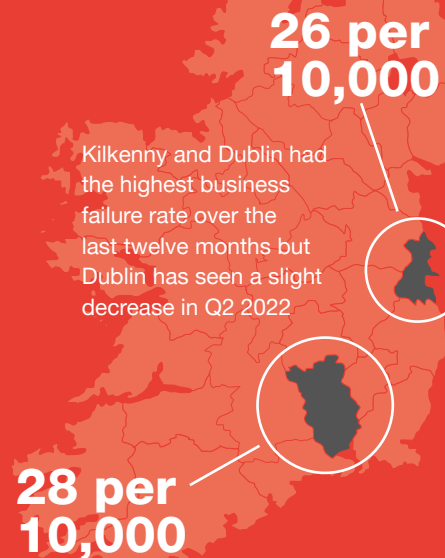
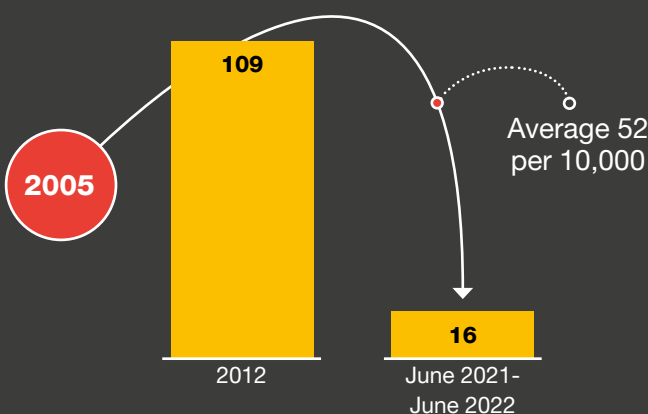
## The UK liquidation rate is four times higher than the equivalent Irish rate



At the end of May 2022, over 90,000 businesses were still availing of the Revenue Debt Warehousing scheme with €2.9 billion in tax debt still owing, equating to over €32,000 on average for each business



## Failures per 10,000 over the last 17 years



# Key Economic Indicators



## Irish inflation at 8.2%

The Irish inflation rate rose to 8.2% in May 2022 which was higher than the EU average of 8.1%. The equivalent rates in the US and UK were 8.6% and 9.1% respectively. The Irish, US and UK rates are all at record highs not seen since the 1980's.



## Unemployment rate is down to 4.7%

The unemployment rate decreased to 4.7% in May 2022, a rate that many consider to be full employment. The UK unemployment rate was 3.7% in May which is the lowest reading since the 1970's. The US rate was 3.6% in May while the EU rate was 6.8% in April.



## ECB will increase interest rates by 0.25%

It is anticipated that the ECB deposit rate of -0.5% will increase by 0.25% in July 2022 with a further increase expected to follow in September. The Bank of England has already increased their interest rates to 1.25%, the fifth consecutive increase and highest rate in 13 years. The US Federal Reserve has raised its interest rates to 1.75% with further hikes expected in the months ahead.



## Ireland's GDP grew 10.8%

Ireland's Gross Domestic Product (GDP) grew by 10.8% during the first quarter of 2022 but the preferable metric for measuring economic activity for the Irish economy is gross national product which contracted by 0.4% during the same period.



## Consumer sentiment down to 55.5

The KBC Bank consumer sentiment survey dropped for the fourth month in a row to 55.5. Although the decrease in May 2022 was modest it was significantly down from a high of 85.8 in May 2021.



## Construction index at 51.5

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. The index was 51.5 in May 2022, marginally above the mark of 50 which would indicate that there has been no change month to month. The index has been decreasing for the last three months.

# Q2 Business Failure Highlights

## Q2 2022 Highlights

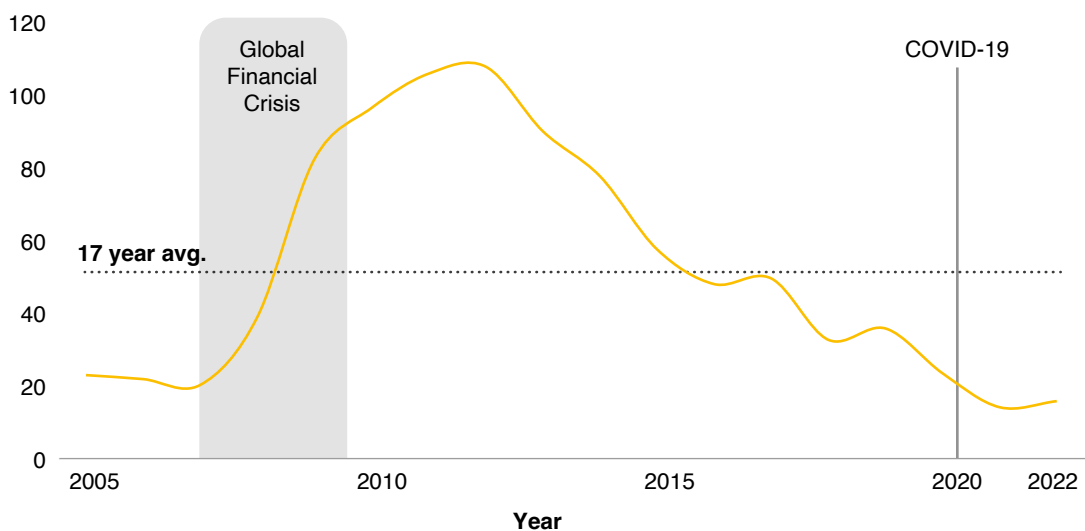
- **Q2 2022 v Q1 2022** - the number of business failures (4.2 failures per 10,000) in Q2 was higher than the previous quarter (3.7 failures per 10,000). This represents an increase of 14% quarter on quarter. When the first half of this year is compared with the same period in 2021, there is an even greater increase in business failures at 18%.
- **Q2 2022 v Q2 2021** - in the same quarter last year, there was a business failure rate of 3.6 per 10,000 which has now increased to 4.2 in Q2 2022. This represents a 17% rise in the number of businesses failing when compared to the same quarter for 2021.
- **SME Liquidations** - there was a 58% increase in the number of SME liquidations in Q2 2022 compared to Q1 2022 which was the primary driver in the overall increase in the business failure rate.
- **Receiverships** - there has been a significant drop in the number of receivership appointments during the second quarter of the year when compared to previous quarters. Only 11 receiverships have been recorded in total during the quarter, this represents a 66% decrease from Q1 2022.

- **2022 insolvencies remain at historically low levels** - the business failure rate was 16 per 10,000 companies over the last twelve months to the end of June 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 continues to remain at an artificially low level and record lows.
- **SCARP** - there has been a very low level of uptake in SCARP (Q3 in Q2 2022) to date. In volume terms, the number of appointments is similar to that of examinerships (2 in Q2 2022), albeit both are at extremely low levels.

### Why we use a per 10,000 business measure - Business Failure Rate

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

## Business Failure Rate per 10,000 companies





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

Insolvency Type	Q2 2022	Q1 2022	Q2 2021
<i>Total Corporate Insolvencies</i>	4.2	3.7	3.6
Liquidations	3.6	2.3	2.8
Receiverships	0.4	1.2	0.8
Examinerships	0.1	0.2	0.0
<b>SCARP</b>	0.1	0.0	N/A

**1. The business failure rate per 10,000 companies increased by 14% from Q1 2022 to Q2 2022**

There has been an increase in the number of businesses failing in the second quarter (4.2 per 10,000) of 2022 when compared with the previous quarter (3.7 per 10,000). This represents a rise of 14%. When we look at the failure rate for the first half of 2022 (7.9 per 10,000) compared to the first half of 2021 (6.7 per 10,000) we can see an even greater increase in numbers, representing an 18% increase which indicates an upward trend in failures. When the Q2 2022 figure is annualised (16.8), the business failure rate is above the current last twelve month average of 16 failures per 10,000.

**2. Q2 2022 vs. Q2 2021 failure rate**

There were 4.2 business failures per 10,000 recorded in Q2 2022 which is a 17% increase in the failure rate compared with the same quarter in Q2 2021 (3.6 per 10,000).

**3. Increase in SME liquidations**

The primary reason for the increase in the business failure rate during Q2 2022 was the additional number of SME liquidations. There were an additional 35 SME liquidations during Q2 2022 when compared to Q1 2022 representing a 58% increase quarter on quarter. This trend is likely to continue into the second half of 2022 as businesses come to terms with an ever increasing cost base.

**4. Significant decrease in the number of receiverships**

There has been a big drop in the number of receivership appointments during the second quarter of 2022 when compared to previous quarters. There were only 11 receiverships recorded during Q2 2022, this represents a 66% decrease from Q1 2022.

**5. The number of business failures remains at a record low level**

The business failure rate was 16 per 10,000 companies over the last twelve months to the end of June 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 artificially and record low levels.

**6. Similar number of SCARP and examinership appointments**

The small company rescue process ("SCARP") was enacted by the Government to provide an alternative restructuring tool for businesses and commenced in December 2021. However, uptake remains low with a similar number of SCARP (3 in Q2 2022) appointments as examinerships (2 in Q2 2022).

**Total number of quarterly Irish business failures**

Insolvency Type	Q2 2022	Q1 2022	Q2 2021
<i>Total Corporate Insolvencies</i>	111	97	95
Liquidations	95	60	73
Receiverships	11	32	22
Examinerships	2	5	0
SCARP	3	1	N/A

# Q2 Industry Highlights

## Q2 2022 Industry Highlights per 10,000 businesses

- There were reductions in the number of business failures across certain sectors during Q2 2022. The (i) travel & transport, (ii) arts, entertainment & recreation, and (iii) real estate sectors have all reduced significantly from their peak pandemic levels.
- Business failures in the hospitality sector almost trebled from Q1 2022 to Q2 2022 but still remain at a very low level compared to other sectors.
- No business failures were recorded in three sectors - (i) Information and Communication, (ii) Education and (iii) Administration and Support Services.
- The (i) health, (ii) mining and quarrying and (iii) energy and utility industries had the highest increases from Q1 2022 to Q2 2022.

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

Industry	Q2 2022	Q1 2022
Health	32	6
Mining and quarrying	14	0
Arts, entertainment and recreation	13	17
Finance and insurance	11	11
Energy and utility	11	0
Hospitality	8	3
Manufacturing	6	1
Real estate	4	20
Retail	4	3
Construction	3	2
Professional, scientific and technical activities	3	2
Other	3	0
Travel and transport	1	10
Information and communication	0	1
Education	0	0
Administration and support services	0	0





### 1. Reduction in insolvencies across various industries

As the country returns to its pre-pandemic lifestyle, certain sectors are recovering faster than others. During Q2 2022, the (a) travel & transport, (b) arts, entertainment & recreation and (c) real estate sectors all saw significant decreases in the number of failures per 10,000 businesses when compared to their peaks during the pandemic:

- A. Travel & Transport** - has begun to recover as people begin travelling again. The sector recorded a failure rate of 1 per 10,000 business in Q2 2022, when compared to its peak of 31 per 10,000 from Q4 2021.
- B. Arts, entertainment & recreation** - recorded a business failure rate of 13 per 10,000 companies in Q2 2022. This represents a drop from 42 failures per 10,000 from its quarterly pandemic peak.
- C. Real Estate** - this sector peaked in Q1 2022 with a failure rate of 20 per 10,000. The failure rate for Q2 is down to 4 per 10,000.

### 2. Business failures in the hospitality sector almost trebled but remains at low levels compared to other sectors

The business failure rate in the hospitality industry almost trebled from 3 to 8 per 10,000 businesses in Q2 2022. However, it remains at a very low level that is considerably below its historic averages.

### 3. No business failures were recorded in three sectors

The (i) information and communication, (ii) education and (iii) administration and support services did not record any business failures in the last quarter.

### 4. Insolvency levels for all industries remain at historic lows but some sectors had spikes during Q2 2022

There was only one sector which had a business failure rate higher than the average of 16 per 10,000. The health sector recorded a failure rate of 32 per 10,000 in Q2 2022, representing a significant increase from 6 in Q1 2022. However, this increase is predominantly down to a large group of companies in the health sector that were part of the same ownership group which went into liquidation during the quarter.

Other sectors which saw significant quarterly increases include (i) mining and quarrying (0 to 14) and (ii) energy and utility (0 to 11).



# Key restructuring Issues Facing Irish Businesses

In our Q1 2022 report, we highlighted a number of issues facing Irish businesses. The underlying trend or direction of these issues has been accentuated over the last quarter:

## 1. Expiration of Government supports

The Employment Wage Subsidy Scheme (EWSS) has now ended. During its lifespan the level of support provided under the EWSS and the Temporary Wage Subsidy Scheme totalled almost €11 billion. When the EWSS ceased there were still almost 21,000 businesses and 260,000 employees availing of it with the hospitality sector particularly affected by it ending.

## 2. Inflation

Since our last report the Irish inflation rate has continued to rise. It increased to 8.2% in May 2022, higher than the EU average of 8.1% but lower than the UK (9.1%).

## 3. Interest rates

The ECB has announced that it will increase the deposit interest rate from -0.5% to -0.25% in July 2022 in a bid to tackle inflation with further increases expected in September. This comes on the back of significant increases by both the US Federal Reserve (up to 1.75%) and Bank of England (up to 1.25%).

## 4. Energy costs

All major electricity and gas suppliers have announced price increases in recent months. A key challenge for businesses going forward will be their ability to absorb the higher costs without decreasing production or passing on these increases to their customers who will be price conscious.

Looking ahead, businesses will come under increasing pressure to control costs in an inflationary environment.

### Cash is King

As a result of these trends, the aggressive growth focused agenda for many businesses coming out of the pandemic may now evolve into more modest growth targets with a focus on cost controls and cash preservation strategy during the latter part of 2022. The increases in inflation, energy costs and rising interest rates all come at a time when many Irish businesses have only just emerged from the economic shock of the pandemic and will put many companies under pressure again.

The impact on profitability will naturally lead to a squeeze on cash flow and businesses will seek to control costs. The famous saying 'Revenue is Vanity, Profit is Sanity, Cash is King' might be very apt during the next phase of this economic cycle.

### Low SCARP Uptake

To date there has only been a handful of SCARP cases which is in line with the generally low level of insolvencies at present. In many ways, this is a good time for the process to be tested so it can be assessed as to whether any modifications to the process will be required. Over the remainder of this year and into 2023, we expect that an increasing number of businesses will avail of this restructuring tool, as well as the under utilised examinership process, as they seek to deal with legacy debts that they have little or no prospect of repaying.



# Revenue Debt Warehousing Facility & Creditor Forbearance

The Revenue Debt Warehousing scheme allowed businesses to 'park' their tax liabilities in a bid to ensure they had enough cash flow to continue operations throughout the pandemic.

At the end of May 2022, over 90,000 businesses were still availing of the warehousing scheme with €2.9 billion in tax debt still owing, equating to over €32,000 on average for each business. This equates to over two weeks or 4% of the total tax revenue collected in 2021.

A Revenue report published in March 2022 highlighted that 96% of the tax debt outstanding was made up by Employers' PAYE/PRSI (50%) and VAT (46%).

At the end of Q1, 59% of businesses that had availed of the scheme had repaid their debts in full, with 36% paying part of their outstanding debt (over 91,000 businesses). However, almost 12,000 businesses had yet to make any repayments (5%). The two industries with the highest level of businesses making no repayments are:

1. Hospitality; and
2. Arts, entertainment & recreation.

These two sectors also had the lowest levels of either full or partial repayments.

The businesses that have availed of the Debt Warehousing scheme have until the end of this year (or April 2023, for those most impacted by the more recent public health restrictions) to repay the outstanding debt or face an interest rate of 3%.

## Forbearance

In addition to Revenue's Debt Warehousing scheme, the majority of lenders have also provided some level of forbearance on repayments and in certain cases additional overdraft facilities were made available to businesses to allow them to continue operating through the pandemic. In a recent publication by the Central Bank, it's reported that the use of overdraft facilities by businesses has more than doubled in the last twelve months.

After a significant level of forbearance provided by almost all types of creditors coupled with the pandemic supports from the Government, it's apparent that a number of businesses are now facing large debts that are repayable to Revenue, lenders, landlords and other creditors. These debts will have to be repaid, restructured or won't be paid back in the short to medium term.

## Act Now

In our recent report, 'Act Now: From Recovery to Growth', we highlighted that due to Government support and debt forbearance, it is estimated that 4,500 businesses were saved from failure during the pandemic. Without Government pandemic supports and with increasing energy costs and inflation, these companies will face cash flow challenges in the year ahead.

Now that the pandemic is coming to end, Government supports have pretty much eased, debts are becoming due for repayment and an uncertain economic environment there is likely to be a large volume of Irish businesses that need to start planning for some form of restructuring.

# Global Headwinds more relevant than ever for Irish businesses

## 1. Interest rates

The US Federal Reserve's interest rate is now up to 1.75% and Bank of England has also recently increased their interest rate to 1.25%. The US and UK interest rates are well ahead of the current ECB refinancing interest rate of 0% although this will be increased to 0.25% in July 2022 with further increases expected before the end of the year.

## 2. Inflation

The inflation rate in the US and UK both hit 40-year highs during May 2022 as the rate hit 8.6% and 9.1% respectively in the 12 months leading up to May. Elsewhere in Europe, Belgium (9.9%), Germany (8.7%) and Spain (8.5%), all saw inflation rates higher than the European average of 8.1%.

## 3. High energy costs

Across the world energy prices have increased significantly. Uncertain market conditions have pushed oil to a 14-year high at \$130 per barrel. Russia accounts for approximately 12% of global oil production and 17% of global gas production. With supply shortages due to Russia's invasion on Ukraine, it is estimated that energy costs will continue to rise, having already increased by 46% since May 2021 according to the ECB.

## 4. Impact of the war in Ukrainian on food inflation

The outlook for the global economy has been adverse since Russia's invasion of Ukraine which sent energy and food prices spiralling. As a result, global trade with Russia has all but ceased due to the sanctions introduced. The supply shock of decreased global trade with Russia has caused price surges among many commodities. Uncertainty on the duration of sanctions and rebalancing global supply has caused volatile pricing environments. Industries using inputs that have escalated in price face supply uncertainty and decreasing profitability.

## 5. Stock markets

Stock markets have declined across the world since the beginning of 2022. The S&P 500 saw a sharp decline during the first quarter due to the Russian invasion of Ukraine. By the end of Q1, it had returned to similar levels as to those seen at the beginning of the year. However, during Q2 there was an even greater decline. During a ten day period at the beginning of June, the S&P declined by nearly 12%. This decline is due to economic uncertainty, primarily caused by rising interest rates and inflation amongst other factors.

## Food production inflation

Fertiliser prices continue to be adversely affected by the Russia-Ukraine conflict. Prices for Potash are up over 240% in Europe to €875/tonne, while in Brazil prices have surged to an all-time high of \$1,100/tonne, over triple the trading price of \$300/tonne at the beginning of 2021. Potash is crucial to the production of food staples such as corn, soy, rice and wheat, with Brazil, China and the US being among the largest consumers.



# Ireland's Liquidation Rate Compared to the UK

## 1. UK liquidation rates continue to hit records highs

As noted in our last report, 'Restructuring wave still to yet hit', the UK began to taper its pandemic supports in the second half of 2021. By the end of Q4 2021, the UK recorded over 4,100 creditor voluntary liquidations ("CVL's"), being the highest quarterly total since records began in the 1960's. This record was then exceeded during Q1 2022 with over 4,200 CVL's during this quarter.

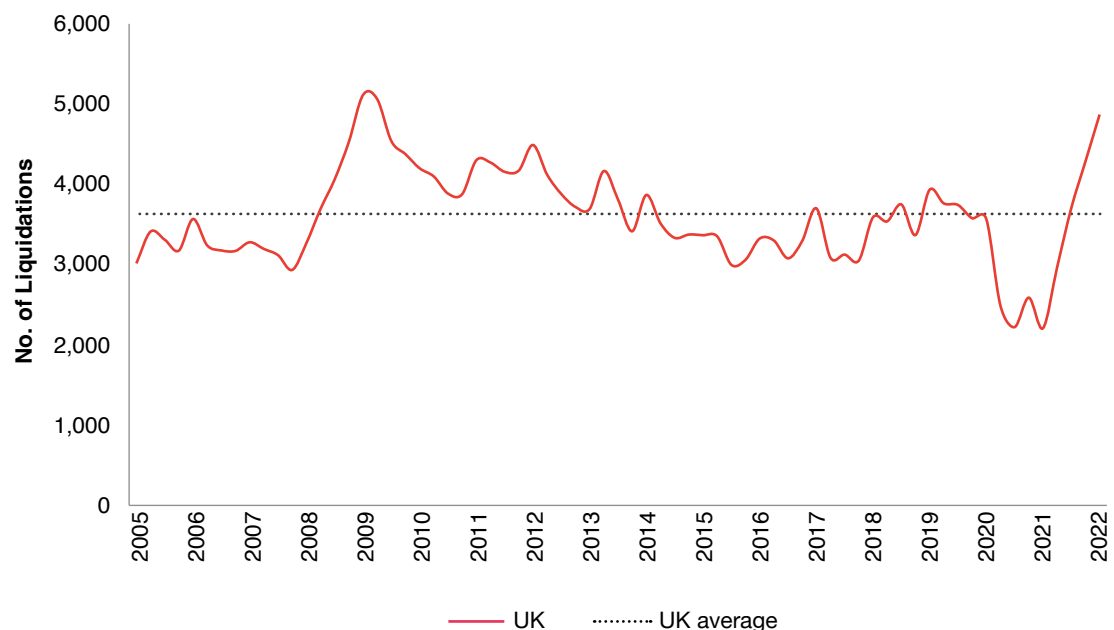
In the UK, one in 257 active businesses (39 per 10,000) entered liquidation in the twelve month period ending 31 March 2022. In terms of total numbers, the number of liquidations in the UK during Q1 2022 was similar to that of the global financial crisis which can be seen in the graph below:

## 2. The liquidation rate in the UK is nearly four times higher than Ireland

At present, the UK liquidation rate is increasing at a much greater rate compared to Ireland. The number of liquidations in the UK per 10,000 companies was nearly four times that of Ireland at the end of Q1 2022. Almost 5,000 companies entered liquidation in the UK during the first quarter of the year. This represents more than double that of the same period in 2021. On average, England & Wales accounts for 90% of the total number of liquidations in the UK.

The UK's liquidation rate is quickly returning to its 17 year average rate (52 per 10,000) from record lows whilst Ireland remains far below its equivalent average (39 per 10,000) with an annual liquidation rate of 11 per 10,000 at the end of Q1 2022. As such, a clear divergence is beginning to emerge between the liquidations rates of the UK and Ireland.

### UK Quarterly Liquidations



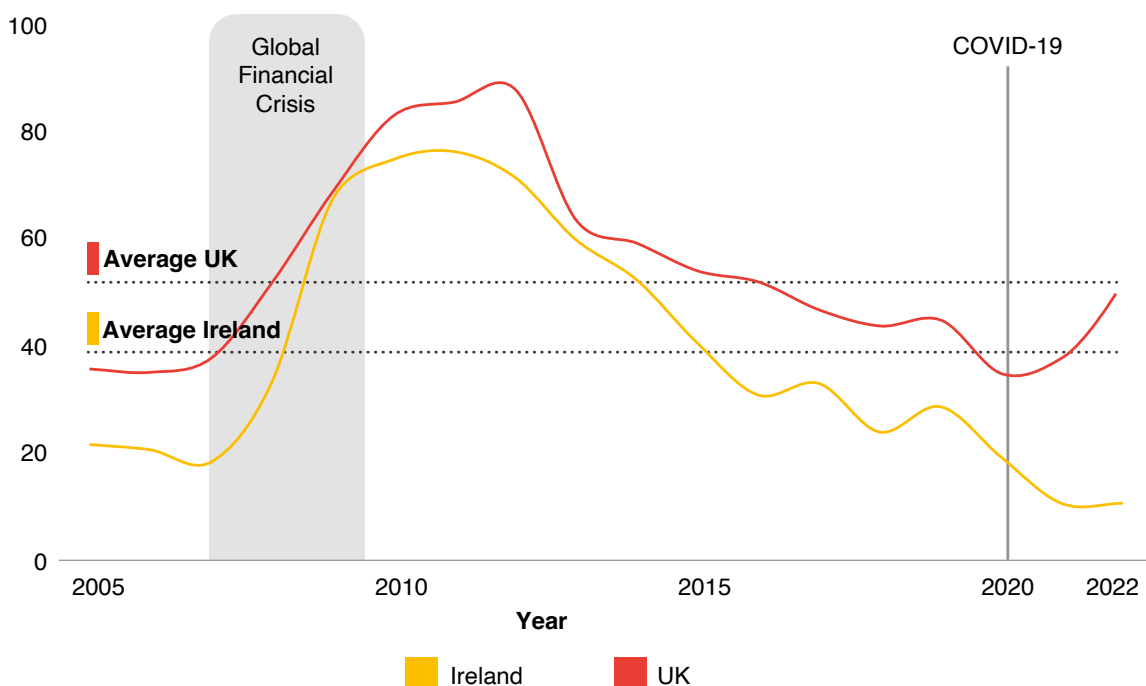


### 3. The UK construction industry records the highest number of liquidations

In the 12 months ending Q1 2022, the construction industry within the UK had the highest number of liquidations (over 3,200) when compared to other industries.

As historic data indicates, Ireland usually follows a similar pattern to that of the UK. There were 14 insolvencies per 10,000 businesses within the construction sector recorded in Ireland over the last twelve months. The supply shock which the world is now experiencing has resulted in the cost of raw materials for those operating in the construction sector to increase dramatically. Aluminium, steel and nickel are among Russia's metal exports, and some of the most commonly used metals worldwide. Supply uncertainty has pushed these products to record highs, with a 250% increase in nickel prices causing the London Metal Exchange to halt trading in early March.

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





# Q2 County Highlights

## Q2 2022 County Highlights per 10,000 businesses

- Kilkenny had the highest number of failures per 10,000 businesses in Q2 2022.
- Dublin had a marginal decrease in insolvencies per 10,000 in Q2 2022 when compared to Q1 2022.
- There were no business failures in eight counties during the second quarter of the year.
- There were five counties that had a higher failure rate over the last twelve months when compared to the national average.

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

County	Q2 2022	Q1 2022
Kilkenny	13	2
Roscommon	9	0
Cork	8	2
Cavan	7	5
Monaghan	6	6
Offaly	6	0
Laois	6	0
Dublin	5	7
Louth	5	5
Galway	5	4
Wicklow	5	4
Kerry	5	0
Waterford	4	0
Limerick	3	4
Meath	2	1
Westmeath	2	0
Clare	1	6
Kildare	1	3
Sligo	0	9
Wexford	0	3
Carlow	0	3
Tipperary	0	1
Mayo	0	1
Donegal	0	0
Leitrim	0	0
Longford	0	0

### 1. Kilkenny has the highest number of failures per 10,000 business in Q2 2022

During the second quarter of the year Kilkenny had the highest number of failures per 10,000 businesses (13 per 10,000). This represents a significant increase from 2 business failures per 10,000 in Q1 2022.

### 2. Dublin recorded a marginal decrease in Q2 2022 compared to Q1 2022

There were 5 business failures per 10,000 in Dublin during Q2 2022 which is marginally down from 7 per 10,000 business in Q1 2022.

### 3. There were no business failures in eight counties during the second quarter of the year

There were no business failures recorded in 8 counties during Q2 2022 - Carlow, Donegal, Leitrim, Longford, Mayo, Sligo, Tipperary and Wexford. In addition, Longford has not recorded any business failures in over a year.

### 4. There were five counties that had a higher business failure rate over the last twelve months when compared to the national average

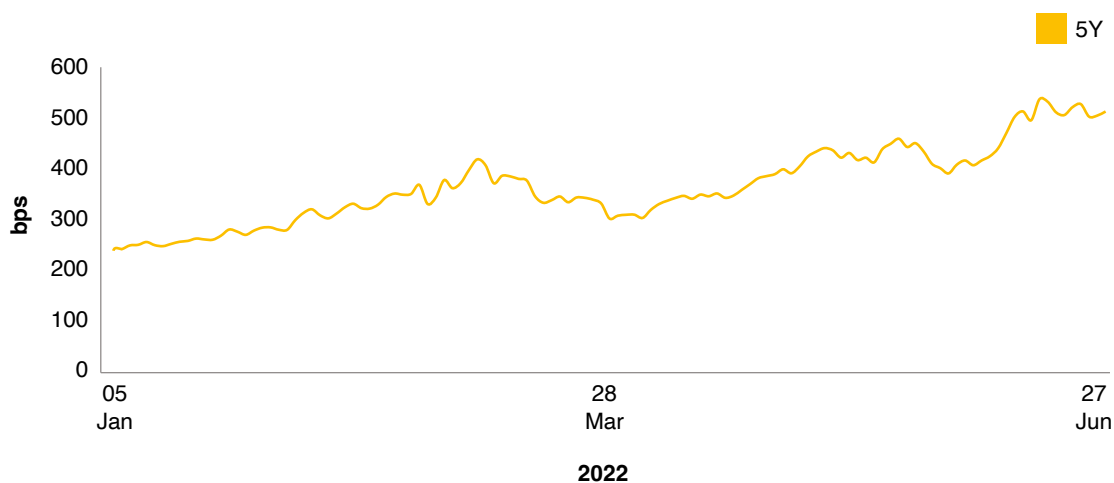
With the annual business failure rate nationally recorded at 16 per 10,000 businesses over the last twelve months, there are four counties that had a higher failure rate over the past twelve months. Kilkenny had a failure rate of 28 per 10,000, followed by Dublin with 26, Louth had 18, and both Cavan and Cork had a failure rate of 17 over the past twelve months.

# iTraxx Crossover Index

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

The iTraxx Crossover Index continues to run at very high levels. The increased volatility has caused the price to hit 513bps on June 28. This is nearly double the price at the beginning of the second quarter as the index continued to increase steadily throughout the quarter. By way of historical context, the iTraxx Crossover index peaked at over 1,100bps during the global financial crisis of 2007 to 2009.

By comparison, the European Leveraged Loan Index (“ELLI”) distress ratio (the percentage of loans trading at less than 80 cent on the Euro) increased from 2.2% in April to 3.8% in May, the highest level in the last 12 months. This is still a relatively low level, with upward movement indicating increasing distress in corporate debts across Europe. We will continue to report on this indicator in our Q3 and Q4 reports later this year.



# Act Now

## Assess your working capital

Companies must 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 meeting renewed customer demand and delivering delayed investment.

## Identify multiple funding sources

The limited availability of further Government support will increase reliance on existing lenders, shareholders and access to the capital markets. This may be less forthcoming in sectors where the prospects for recovery and long-term growth are less clear.

## Monitor your cash flow

In this uncertain and potentially stop-start pathway to recovery and economic growth, it's essential to monitor cash flow and develop realistic forecasts which take account of potential varying recovery scenarios and, in particular, increasing rates of inflation in Ireland and around the world.

## Revise business plans

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. Revised and flexible business plans will be required to allow for quick forecasting and reacting to market changes. Robust data driven reporting will enable a fast response to changes and prevent profit leakage.

## Contact Us

Download previous reports below



---

**Ken Tyrrell**  
Partner – Business Recovery Services  
E: ken.tyrrell@pwc.com

---



---

**Declan McDonald**  
Partner – Head of Business Recovery Services  
E: declan.mcdonald@pwc.com

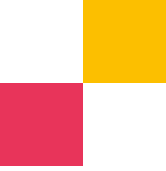
---

# Appendix - Data Sources

- Bloomberg - iTraxx XOVER CDS S36 5Y
- Bloomberg - SPX:IND
- BNP Paribas Real Estate
- Central Statistics Office
- Central Bank of Ireland
- Companies Registration Office
- Courtsdesk
- European Central Bank
- Eurostat
- Experian Gazette
- Financial Times
- Forbes
- Gov.ie
- Gov.uk
- KBC Bank
- Revenue Commissioners
- 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.





**pwc**

