PwC Restructuring Update - Q1 2024

March 2024

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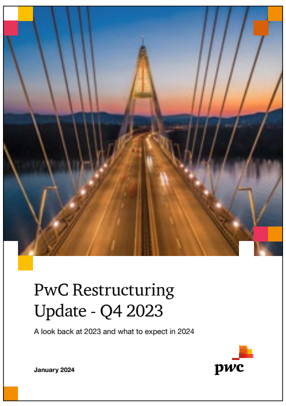

Foreword

Ken Tyrrell
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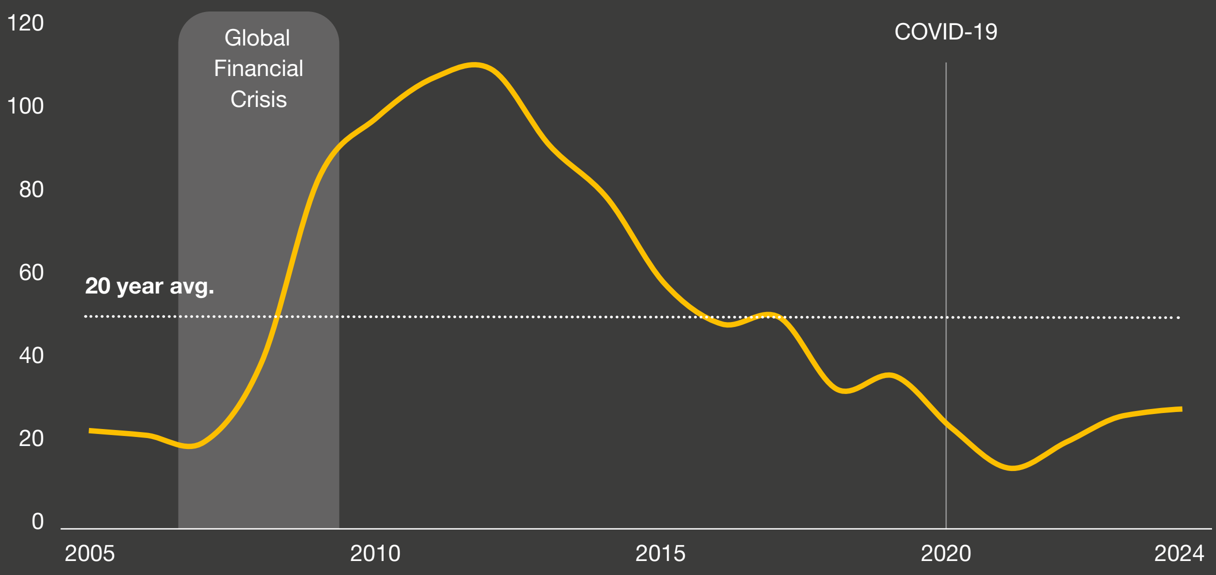
Recovery Services

Q4 Update

- **Insolvencies rise by over a third in Q1 2024 compared to the same quarter in 2023 -** The number of business failures has more than doubled from 102 recorded in Q1 2022 to 223 recorded in Q1 2024. There was also a 41% increase in the total number of insolvencies recorded when comparing 223 in Q1 2024 and 158 in Q1 2023.
- **Our PwC Insolvency Barometer shows that we're slowly returning to pre-pandemic levels** - The current annual business failure rate is 28 per 10,000 businesses compared to 36 per 10,000 businesses in 2019. Although the current rate has almost doubled since 2021 when the rate was 14 per 10,000 businesses, it remains well below the previous peak of 109 per 10,000 businesses back in 2012. Furthermore, if the rising trend of insolvencies continues over the next three quarters, then 2024 is on track to exceed the pre pandemic levels of 850 recorded insolvencies in 2019.
- **SMEs experiencing the most casualties -** SME liquidations continue to be the main driver of the increase in insolvencies, accounting for 85% of all insolvencies in Q1 2024. The number of recorded liquidations tripled from 63 in Q1 2022 to 189 for the same quarter of this year.
- **Rescue options remain underutilised** - Rescue processes (Examinerships and SCARPs) made up just 3% of insolvencies in Q1 2024. There were only 2 Examinerships and 5 SCARP's in Q1 2024. By comparison, there were 2 Examinerships and 8 SCARP's respectively recorded in Q1 2023 (6% of total insolvencies). These relatively low numbers may have been impacted by the extension of the Revenue warehoused debt (see below) however a large number of businesses are still carrying a significant level of warehoused tax debt on their balance sheets and may still require the use of Examinership or SCARP later in 2024.
- **Hospitality and Retail are feeling the pressure -** Hospitality had 45 insolvencies, while retail had 44. However, hospitality had over 3 times the equivalent business failure rate at 25 per 10,000 businesses, versus retail at 8 per 10,000 businesses. This highlights that the hospitality sector is being affected much more than the retail sector which has a higher volume of businesses in it. This is also reflective of what is happening in the economy as it's been well publicised that a large number of restaurants have closed in recent months. The hospitality and retail industries made up 40% of the total number of insolvencies in Q1 2024.

Business Failure Rate per 10,000 companies



- **Revenue Debt Warehousing deadline approaching quickly on 1 May 2024 -** The zero interest rate and additional time to 1 May 2024 to agree a phased payment arrangement by Revenue has provided some respite for businesses who are continuing to avail of this scheme. Although this May deadline is now fast approaching and Revenue have recently advised that where businesses do not engage, warehoused debt will be subject to "immediate collection" after May 1 and "possible enforcement", with the standard interest rates of between 8% and 10% then applying to all debt owed. €1.7bn of tax debt remains warehoused by nearly 56,700 businesses.
- **The UK records its highest quarterly number of business failures -** the UK recorded 6,732 liquidations in Q4 2023 which is the largest quarterly number of liquidations since current records began. Q4 2023 exceeded the previous quarterly highs set during 2022 and 2023.
- **As seen in previous years, Lenders continue to remain relatively patient -** there were 27 receiverships in Q1 2024 which is in line with the same quarters for 2023 (24) and 2022 (33).
- **Insolvencies continue to be concentrated in the capital -** similarly to previous quarters, 53% of all business failures in Q1 2024 were registered in Dublin.

PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	**28**	2024
20 Year Average	**50**	Past 20 years
Highest	**109**	2012
Lowest	**14**	2021

Revenue Debt Warehousing

In February 2024, the Revenue Debt Warehousing scheme was extended again. Firstly, the interest rate for the warehoused debt was reduced from 3% to 0%, with any interest already paid being refunded to businesses. Secondly, businesses now have until 1 May 2024 to either:

- pay their warehoused debt in full; or
- engage meaningfully with Revenue in respect of agreeing a personalised Phased Payment Arrangement (PPA).

What sectors have the most debt warehoused?

Sector	Warehoused Debt
Retail	€392m
Hospitality	€299m
Construction	€231m

These 3 sectors comprise c. 50% of the total warehoused tax debt that remains outstanding and c. 40% of the businesses with warehoused tax debt outstanding. Retail and hospitality had the highest number of insolvencies in Q1 2024 with construction being the fourth highest sector.

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

Updated Revenue Debt Warehousing Figures for Q1 2024

€1.7bn of tax debt was still warehoused by 56,700 businesses

Just over 5,000 businesses owed **€1.4bn** or 83% of the total €1.7bn owing. The average tax warehoused debt still owing by these businesses was €280,000

226 businesses owed **€570m,** at an average of **€2.5m each**

46% of the 56,700 businesses owed less than **€500**

€3bn

At its peak during 2022 over €3bn of tax debt had been warehoused by over 105,000 businesses.

Local Economic Indicators

Irish inflation at 3.4%

The Irish inflation rate has continued to decline according to the Central Statistics Office ("CSO"), falling to 3.4% in February 2024 from an annual increase of 4.1% in January. February 2024 was the fourth consecutive month that the inflation rate remained below 5%.

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

The ECB interest rate at 4.5%

In January 2024, the European Central Bank ("ECB") announced that the three key ECB interest rates were to remain unchanged, with main refinancing operations at 4.50%, marginal lending facilities at 4.75% and deposit facilities at 4.00%. The main refinancing operations interest rate increased from 2.5% in December 2022 to its current rate of 4.5% in January 2024.

Ireland's GDP is expected to recover and grow by 2.5% in 2024

The CSO reported that GDP in 2023 declined by 3.2% compared to 2022. Further, the European Commission has adjusted predictions for Ireland's GDP growth to 1.2% compared to an earlier prediction of 3% in Autumn of 2023.

Unemployment rate decreased to 4.2%

The Irish unemployment rate has dropped from 4.9% in December 2023 to 4.2% in February 2024, which is very close to the previous record low levels. The EU unemployment rate was significantly higher at 6.0% in January 2024, while the unemployment rate in the UK is lower than that of Ireland and the EU at 3.8%.

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

Consumer sentiment decreased to 70.2

Ireland's Consumer Sentiment Index experienced an 11.8 point increase in January 2024 to 74.2, noted as the largest increase in three years. However, in February the index decreased by 4 points to 70.2. The February contraction can be attributed to the cost-of-living pressures and a reduction in the positive consumer outlook recorded in January 2024.

Construction index at 47.4

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. An index below 50 indicates decreased activity. The index increased to 47.4 in February 2024 from 45.9 in January. February 2024 was the eight consecutive month of contraction in Irish construction activity.

Global Headwinds

1. Interest rates

At its recent meeting in March 2024, the US Federal Reserve confirmed that there is likely to be three interest rate cuts during 2024. The interest rate remains unchanged in its range of 5.25% to 5.50%. Similarly, the Bank of England also left its interest rate unchanged at 5.25%.

Whilst most financial markets expect the ECB, US Federal Reserve and the Bank of England to decrease their interest rates in 2024, it will be heavily dependent on the impact on inflation rates into 2024.

2. Inflation

The EU inflation rate decreased to 3.1% (Eurozone 2.8%) in January 2024 from 3.2% (Eurozone 2.9%) in December 2023, a significant reduction from the recent peak of 11% in October 2022. Elsewhere in the EU, certain countries recorded inflation rates that were significantly higher than the EU average in October: Romania (7.3%) and Estonia (5%) amongst others. Denmark and Italy have the two lowest inflation rates at 0.9% each.

The US inflation rate is 3.2% and the UK is 3.4% which are both very similar to the EU and Irish inflation rates. If these inflation rates reduce further then the pressure for interest rate cuts will grow.

3. Global politics

Political elections are expected and ongoing in major global territories including the European Parliament, UK (General), US (Presidential), India (General), Russian (Presidential), and South African (General), while local elections are due to be held in Ireland. The results of all these elections could have major implications in both the global and local economies and financial markets. Ireland is quite exposed to political changes in the major territories due to the high level of foreign direct investment that we receive.

Corporate focus for 2024

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

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

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

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

Q1 2024 Update

Q1 2024 Business Failure Highlights

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

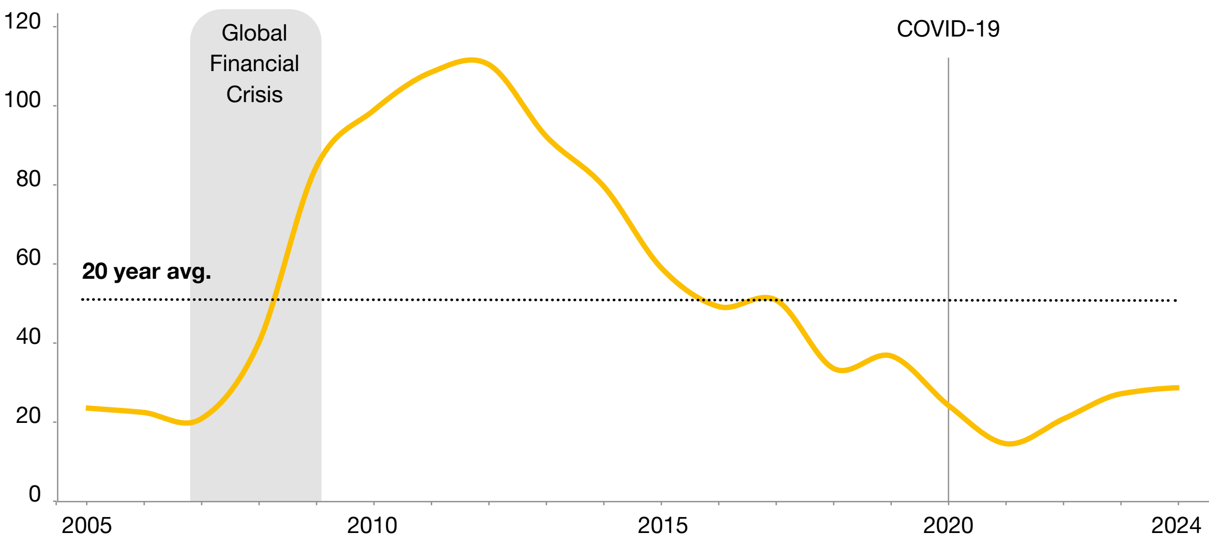
Our analysis is based on a per 10,000 measure which has become all too common to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries,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

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

Analysing insolvencies using absolute numbers only can be misleading due to the increasing number of Irish businesses over time. For example, the number of companies registered in Ireland in 2005 and 2023 was 160,707, and 302,959 respectively, an increase of almost 89%.

Solely looking at insolvency levels in absolute terms can be misleading given the rise in the total number of companies. For example, if 500 companies failed 20 years ago, the comparable number for today would be 943 given the rise in the total number of companies. Analysing business failures per 10,000 provides a much clearer picture and meaningful context to the analysis of insolvencies and takes account of the increased total number of companies.

Business Failure Rate per 10,000 companies



PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	**28**	2024
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Total number of Irish quarterly business failures

Insolvency Type	Q1 2024	Q4 2023	Q1 2023	Q1 2022
Total Corporate Insolvencies	*223*	*229*	*158*	*102*
Liquidations	189	162	124	63
Receiverships	27	46	24	33
Examinerships	2	11	2	5
SCARP	5	10	8	1

Irish quarterly business failure rate per 10,000 businesses

Insolvency Type	Q1 2024	Q4 2023	Q1 2023	Q1 2022
Total Corporate Insolvencies	*8*	*9*	*6*	*4*
Liquidations	7	6	5	2
Receiverships	1	2	1	1
Examinerships	<1	<1	<1	<1
SCARP	<1	<1	<1	0

1. Business failures increased by 41% in Q1 2024 when compared to the same quarter in 2023

There were 223 insolvencies in Q1 2024 compared to 158 in Q1 2023. If this trend continues into the next few quarters then 2024 is on track to exceed the pre pandemic levels of insolvency (850 in 2019). The number of insolvencies decreased marginally from Q4 2023 however the final quarter of each year is statistically the highest quarterly total year on year.

2. Insolvencies have more than doubled when Q1 2024 is compared to Q1 2022

There was an 119% increase in business failures from Q1 2022 to Q1 2024, with 102 and 223 insolvencies occurring respectively.

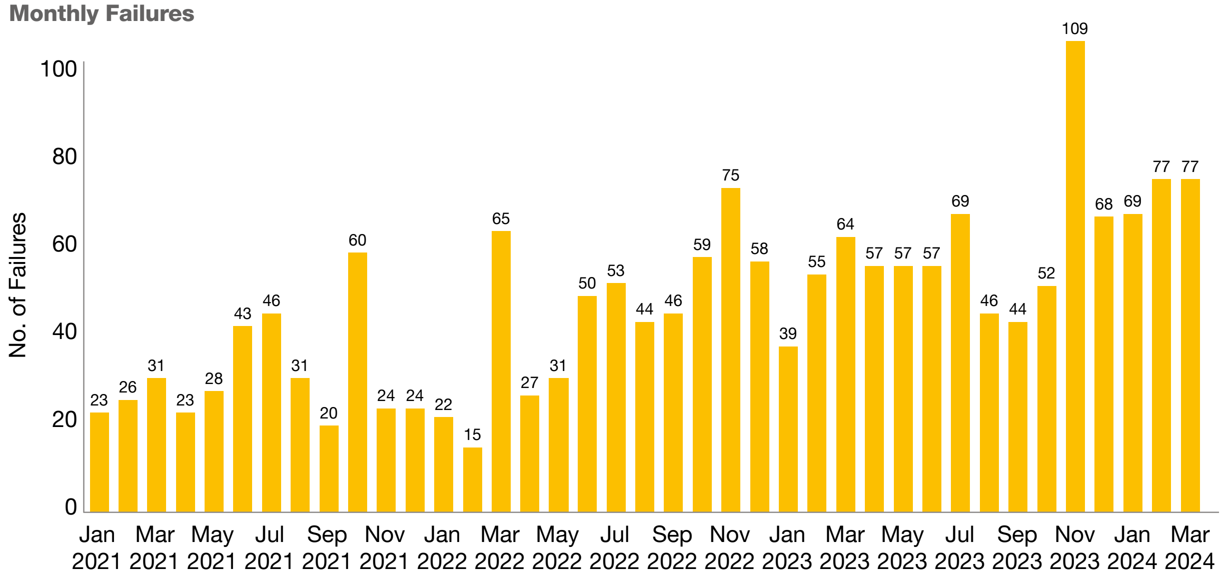
3. SME Liquidations continue to be the main driver of the increase in insolvencies

Liquidations made up 85% of all insolvencies in Q1 2024. As in previous quarters, it is the number of liquidations that is driving the rising insolvency levels. The number of liquidations has also trebled when Q1 2024 (189) is compared to Q1 2022 (63).

4. Rescue Processes (Examinerships and SCARPs) made up just 3% of insolvencies in Q1 2024 compared to 6% in Q1 2023

There were only 2 Examinerships and 5 SCARP's in Q1 2024 compared to 2 Examinerships and 8 SCARP's in Q1 2023. These two rescue processes continue to be under utilised and the relatively low numbers during Q1 2024 may have been impacted by the extension of the Revenue debt warehousing scheme as outlined on page 5 above.

Monthly Failures



Business Failures in the UK

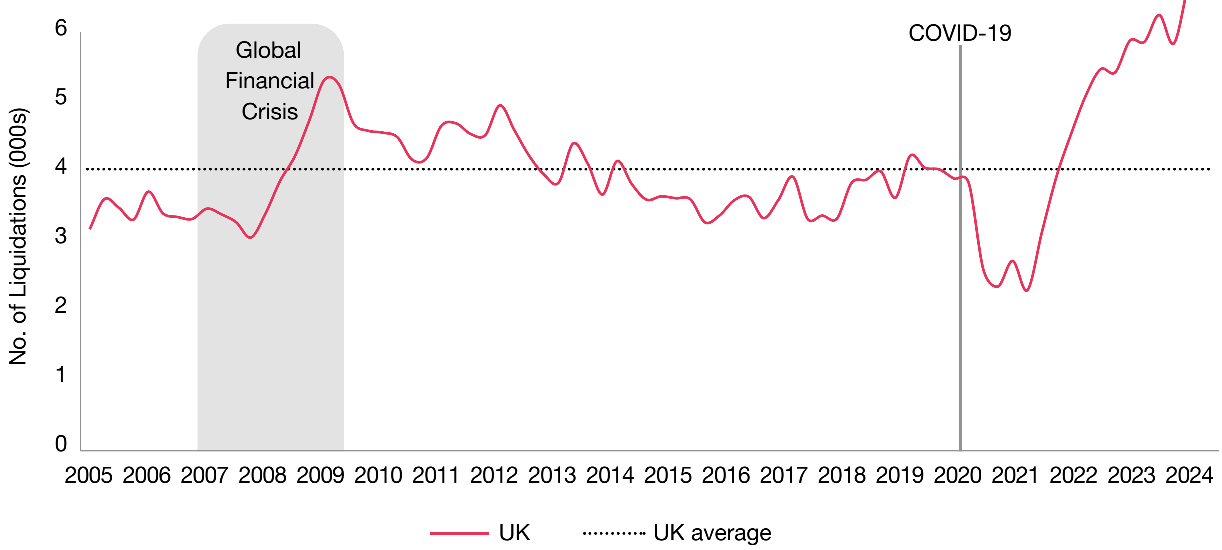
1. The UK recorded its highest quarterly levels of business failures since records began

The UK recorded 6,732 liquidations in Q4 2023 which is the largest number of business failures on record. Q4 2023 exceeded the previous quarterly highs set during 2022 and 2023. This is an increase of 15% from Q3 to Q4 2023.

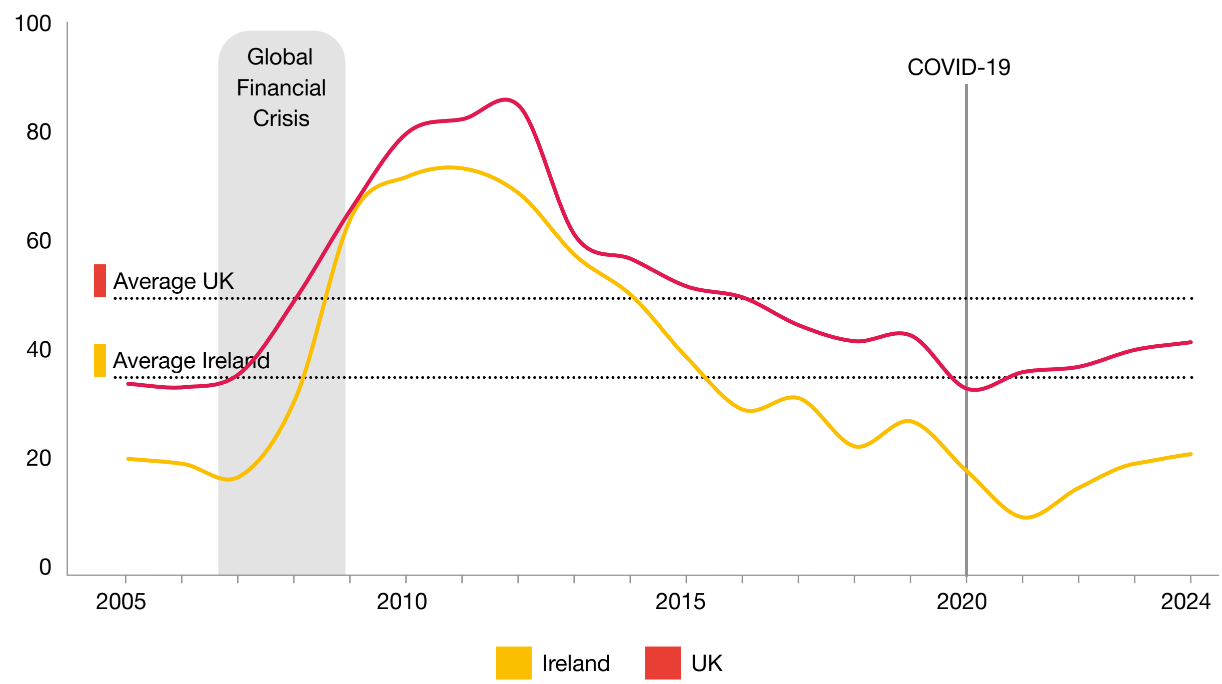
2. As per previous quarters, the UK liquidation rate continues to be more than double that of the equivalent Irish rate

As was the case in the last quarter, the gap between the liquidation rate in the UK (44 per 10,000 businesses) is almost double that of the equivalent rate in Ireland (23 per 10,000 businesses).

UK Quarterly Liquidations



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



Q1 Industry Highlights

Business failure rate by industry:

Industry	Per 10,000 businesses	Absolute figures
	Q1 2024	Q1 2024
Hospitality	25	45
Retail	8	44
Finance and Insurance	23	26
Construction	6	25
Information and Communication	8	18
Real Estate	11	16
Administration	8	15
Professional, scientific, and technical activities	3	11
Manufacturing	5	9
Travel and transport	8	8
Health	4	2
Other	7	2
Mining and Quarrying	14	1
Energy and utility	11	1
Arts, entertainment and recreation	0	0
Education	0	0

1. Hospitality continues to have a very high business failure rate

Hospitality had 45 insolvencies, while retail had 44. However, hospitality had over 3 times the equivalent business failure rate at 25 per 10,000 businesses, versus retail at 8 per 10,000 businesses. This continues the trend from 2022 and 2023 whereby hospitality consistently had one of the highest failure rates quarter on quarter..

2. Similar to Hospitality, Retail is again at the top of the insolvency list

40% of business failures in Q1 2024 occurred in the hospitality and retail sectors, with 45 and 44 insolvencies respectively. These two sectors also have the most warehoused debt with Revenue as outlined on page 5 above.

3. Two sectors recorded zero business failures in Q1 2024

(i) Arts, Recreation & entertainment and (ii) Education recorded no insolvencies in Q1 2024.

Q1 County Highlights

Business failure rate by county:

County	Per 10,000 businesses Q1 2024	Absolute figures Q1 2024
Dublin	14	119
Cork	6	17
Galway	9	14
Meath	8	8
Mayo	9	7
Kerry	7	7
Kildare	5	6
Clare	8	6
Louth	7	5
Wexford	6	5
Donegal	5	4
Wicklow	5	4
Laois	9	3
Limerick	3	3
Sligo	9	3
Westmeath	6	3
Kilkenny	4	2
Waterford	4	2
Carlow	3	1
Cavan	2	1
Longford	5	1
Offaly	3	1
Tipperary	1	1
Leitrim	0	0
Monaghan	0	0
Roscommon	0	0

1. In both overall numbers and per 10,000 businesses, Dublin continues to have the highest failure rate

Dublin was the county with the most insolvencies in Q1 2024 with 119 in absolute numbers and 14 per 10,000 businesses. Insolvencies in Dublin made up 53% of all insolvencies in the country during Q1 2024.

2. 67% of all insolvencies occurred in Dublin, Cork and Galway

Dublin, Cork and Galway had 119, 17 and 14 business failures respectively accounting for 67% of all insolvencies during Q1 2024. Dublin and Galway also had the highest insolvencies per 10,000 businesses during the quarter.

3. There were 3 counties that recorded no business failures in Q1 2024

Leitrim, Monaghan and Roscommon had zero insolvencies in Q1 2024.

Cash Management Culture

In the face of general market disruption, geopolitical change and high profile challenges across different industries, businesses are feeling the effects of an uncertain market with restructuring activity rising and risk of shocks remaining in the market. Creating a cash-conscious culture is critical to ensure organisations can improve and accelerate their resilience to mitigate the impacts and flourish in the future. To achieve this, everyone in an organisation needs to be focused on cash. This is a collective responsibility from the boardroom and across the business - not just the finance team or treasury to make decisions impacting cash.

Five ways to optimise your company's cash culture

1. **Make cash the business of everyone in the organisation -** Cash is bigger than the treasury and finance departments; they both have a key coordinating role in effectively managing cash but it's the operations of the business that are making daily decisions that impact cash. Push cash up everyone's agenda.
2. **Cash can mean different things to different people, so make cash relevant to everyone -** Having a common language of cash across the organisation (operations and finance) is vital to instilling a proactive cash conscious culture:
   - Reliable cash forecasting
   - Effective expenditure management and tactical actions
   - Cash reporting and incentivisation, tailored to audiences across the organisation
   - Management of cash tax and government incentives
   - Centralising management of true cash availability and foreign currency cash
   - Effective management of banking and other financing facilities.
3. **Forecasting cash and appropriately granular scenario planning** on both a medium and short term basis should involve both operations and finance teams. These are essential in reflecting and understanding the real operational risks that exist in the current volatile market.
4. **Understanding and sharing your minimum cash thresholds** to help the wider business manage the daily decisions and cash commitments that they are making (once the decision is made, the cash is committed).
5. **Optimising supplier and customer working capital terms and relationships** to conserve and generate the cheapest form of cash available to you.

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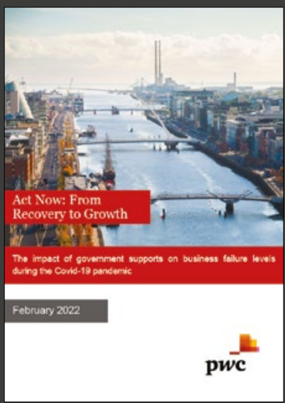

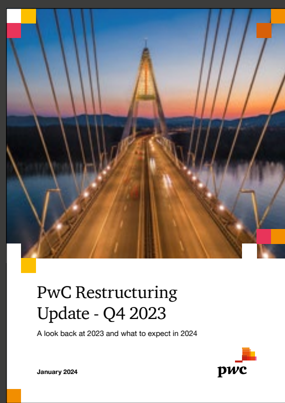

Appendix - Sources

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

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