Insolvency Trends in Ireland

by David Russell

The Covid-19 virus reached Ireland in late February 2020 and within three weeks infections had been reported in all counties.

The Government responded by closing all schools, colleges, childcare facilities and cultural institutions on 12 March. By the 24 March almost all businesses, venues and amenities were closed and on 27 March the first stay-at-home order banned all non-essential travel and contact with anyone from another household.

As this pattern was repeated across the globe by the end of March 2020 well over 100 countries had instituted either a full or partial lockdown leading the IMF to describe the Covid-19 pandemic as "a crisis like no other".

According to the World Economic Outlook Report published by the International Monetary Fund in April 2021, the global economy contracted by 3.3% in 2020. This represented the deepest global recession since the end of World War II, eclipsing the Financial Crisis of 2007/2008.

Whilst the Republic of Ireland's economy grew by 3.4% in the year, this performance was driven almost entirely by export growth in the Pharmaceutical and Information Communication Technology sectors which witnessed a dramatic increase in demand during the Covid-19 pandemic and as a result these economic growth figures belie the underlying performance of the Irish domestic economy which contracted sharply by 5.4% , the average contraction across the 27 EU member states was 6.8% and 9.9% in the United Kingdom.

In common with almost all governments across the globe, in an attempt to prevent mass corporate insolvencies and limit any structural economic damage, the Irish Government reacted quickly introducing a range of state-backed financial support measures.

A rapid consensus emerged amongst economic commentators questioning the ability of Governments and Central Banks to control the crisis, forecasting a wave of business closures and mass corporate insolvencies.

In the intervening period, Ireland has been ranked among the strictest countries in the world when it comes to Covid-19 lockdowns, businesses in the tourism and hospitality industry remained shut at the end of July 2021 and unemployment remains stubbornly high (18.3% at the end of June 2021 including Pandemic Unemployment Payment claimants).

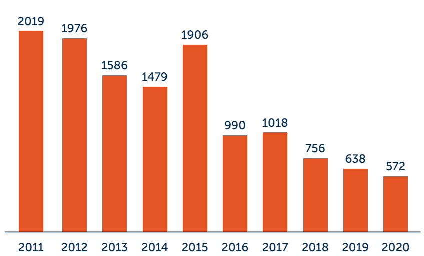
Despite this backdrop, corporate insolvency trends have defied the predictions of doom. According to figures available from CRFI VisionNet Ltd, in 2020, 572 corporate insolvencies were recorded. This represented a fall of 10.34% on 2019, the last full year before the pandemic, when 638 corporate insolvencies were recorded.

Insolvent Liquidations accounted for the majority of corporate insolvencies representing 77.27% of the overall insolvencies, a total of 442 Insolvent Liquidations were recorded in 2020 down from 516 in 2019.

Corporate Receiverships also witnessed a marginal increase with 103 being recorded in 2020, accounting for 18% of the overall insolvencies, up from 95 in 2019, whilst the number of Examinerships remained static at 27.

Insolvency Type	2020	2019	Change
Insolvent Liquidations	442	516	-14.34%
Receiverships	103	95	8.42%
Examinerships	27	27	0.00%
Totals	572	638	-10.34%

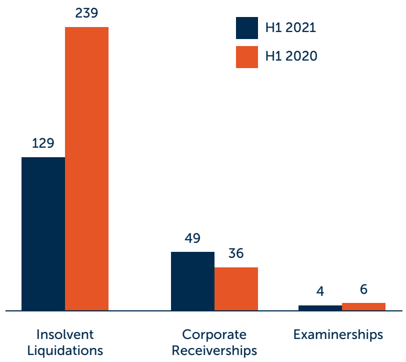
Corporate Insolvencies:
10 Year Trend



The trend of the fall in corporate insolvency rates, illustrated in the below graph, accelerated dramatically in the first half of 2021 when 182 corporate insolvencies were recorded, this represented a decrease of 35% from the same period the previous year when 281 insolvencies were recorded.

As in previous years insolvent liquidations accounted for the majority of corporate insolvencies, a total of 129 insolvent liquidations were recorded in the first half of 2021, representing 70.87% of the overall insolvencies, this is down from 239 in H1 2020. Again, the level of Examinerships has remained low with only 4 being recorded compared to 6 in H1 2020, only Corporate Receiverships showed an increase compared with H1 2020 with 49 being recorded which was up by 13 on the comparable period the previous year.

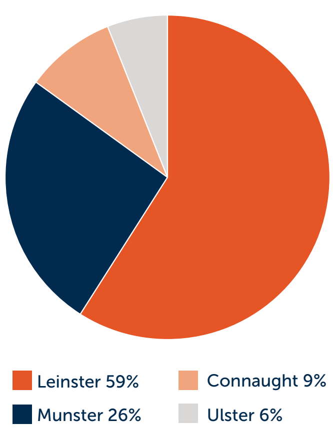
Insolvency Trends H1 2021 V H1 2020



Regional Analysis

Geographically the highest percentage of corporate insolvencies were recorded in Leinster, with the province accounting for 59% of the total recorded insolvencies, 26% of the total insolvencies were recorded in Munster, 9% in Connaught and 6% in Ulster.

Regional Analysis H1 2021



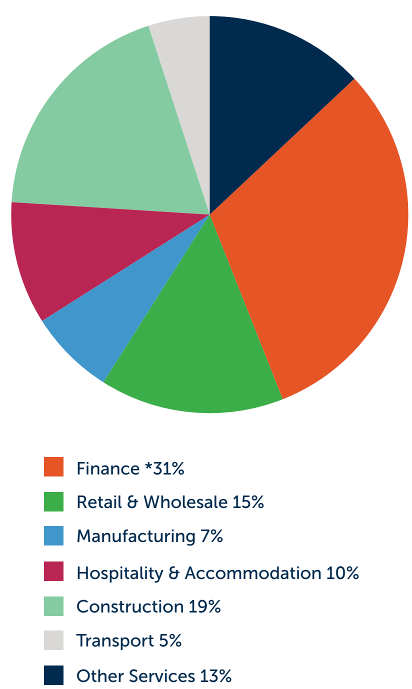
It should be noted however that businesses in the provinces of Munster, Connaught and Ulster disproportionately operate in the sectors hardest hit by the Covid-19 pandemic (wholesale retail, accommodation, entertainment and food services) when compared to Leinster and a change in the regional pattern is likely to emerge in H2 2021 and into 2022.

Sectorial Analysis

As can be seen from the pie chart below insolvencies in the sectors most impacted by the ongoing Government restrictions buck the expected trend, in H1 2021 just 10% of corporate insolvencies (17) were recorded in the Hospitality and Accommodation sector.

The true picture of the impact of the Covid-19 pandemic on the Irish economy has yet to emerge and as the reality of the post Covid-19 economy dawns, a disproportionately sharp rise in the percentage of insolvencies in the Hospitality and Accommodation sector can be anticipated. Likewise, it is not yet clear to what extent the accelerated trend toward online shopping during the pandemic will reverse in H2 2021 and into 2022, in any event a sharp percentage rise in insolvencies in the Retail and Wholesale sector can also be expected.

Sectorial Analysis H1 2021



*Finance includes investment holding companies.

Age Profile

Historically the start-up bracket (companies less than 5 years old) has accounted for around a quarter of corporate insolvencies on an annual basis. However, again the H1 2021 statistics available from CFRI VisionNet Ltd show a distortion in this trend with just 14% of corporate insolvencies relating to companies falling into this bracket, 16% were in the 5-10-year bracket, 31% were in the 10-20-year bracket, 21% were in the 20-30-year bracket, 8% were in the 30-40-year bracket and 10% were over 40 years old.

This age profile analysis reflects a broadly similar picture to the previous year and suggests that given the inherently fragile nature of the balance sheet of start-up companies, that a sharp rise in corporate insolvencies can be anticipated in this bracket during H2 2021 and into 2022.

Although largely attributed to the government backed financial support measures and creditor forbearance, the reasons behind the low level of corporate insolvencies are not entirely clear, however previous crises have demonstrated that solvency issues, debt defaults, and non-performing loan build-ups may take several quarters to peak.

Rather than avoiding the wave of business insolvency filings altogether, the evidence suggests the recent insolvency trends hide the true level of financial distress. In the years 2009 to 2012, there were 1,200 to 1,400 insolvent liquidations per annum in Ireland, without continued government backed financial support and reform of insolvency laws, it is likely that government has merely postponed the coming of the tide to the months and years ahead.

As the state-backed financial support measures come to an end in the second half of this year and forbearance arrangements with landlords, banks and other creditors expire many companies are likely to be compelled to enter insolvency.

Whilst in theory the Examinership process offers companies with a strong underlying business, but which are considered insolvent as a result of

being burdened by an unsustainable level of debt, a viable alternative to insolvent liquidation, in practice there are relatively few Examinerships on an annual basis due to the prohibitively high costs, estimated by the Revenue Commissioners to be between €80,000 and €130,000 on average.

To their credit the Irish Government has taken bold and decisive pre-emptive action in the shape of the Companies (Small Company Administrative Rescue Process and Miscellaneous Provisions) Bill 2021 which became law in July 2021 amending the provisions of the Companies Act 2014 to introduce a stand-alone rescue framework for small and micro companies, which represent 98% of the companies in Ireland employing approximately 788,000 out of a total labour force of just over 2.4 million.

This reform of Insolvency Law represented the most radical change in the Republic of Ireland since 1990. At that time the Examinership process was introduced to prevent the imminent collapse of the Goodman Group of Companies in the wake of the export ban on Irish beef to Iraq during the first Gulf War when the attendant impact for the wider economy would have been catastrophic due to the strong agricultural bias at the time.

Only time will tell just how successful the new Small Company Administrative Rescue Process will be in preventing the predicted wave of corporate insolvencies, persistently high long-term unemployment and in limiting lasting structural economic damage.

David Russell

David is the managing director of Charlemont Capital Solutions Ltd which he founded in 2015.

Charlemont Capital Solutions Ltd provides professional corporate recovery, restructuring and insolvency solutions to executive managers, directors, shareholders and other stakeholders of financially distressed companies as well as solvent groups of companies wishing to restructure their operations.

Charlemont Capital Solutions Ltd was named Restructuring Solutions Experts of the Year (Republic of Ireland), by Acquisition International Magazine, in the 2021 World Finance Awards.