Sector Insights & Outlook

September 2024

Bank of Ireland

Contents

Foreword – Jilly Clarkin: Head of Customer Journeys and SME Markets: Bank of Ireland Corporate and Commercial

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Welcome to our latest edition of the Bank of Ireland Corporate and Commercial, Insight and Outlook report, brought to you by our dedicated Sectors Team. Our Sector Specialists work closely with Irish businesses and their advisors every day and have a deep understanding of the challenges and opportunities faced by this pivotal strand of the Irish economy.

In this report, our Sectors Team provide expert analysis on the current Irish business landscape and share their insights across the Agriculture, Hospitality, Health, Retail Convenience, TMT (Technology-Media-Telecoms), Food & Beverage and Manufacturing sectors.

The report explores a number of the key trends and opportunities for businesses in Ireland, and highlights strategies that businesses are using to succeed.

Bank of Ireland understands that Irish businesses are facing an ever-changing economic and trading environment, particularly in the wake of enduring global events, supply chain disruptions, increased costs and changing consumer behaviours. With that in mind, this edition contains a timely and topical update from our Group Chief Economist, Conall McCoille in respect of the outlook for the Irish economy. Another topic to the forefront of our customers and their professional advisors is Pension Auto-enrolment. Bobby McDonnell from our Corporate Pensions team provides an excellent analysis of same – summing up succinctly that “the best advice in respect of Auto-enrolment is to get advice”.

Bank of Ireland remains committed to supporting businesses, we understand that every business is unique, and our Relationship Management and Sectors Teams have the expertise and experience to provide tailored solutions that meet your specific needs.

If you would like further information or to engage directly with one of our Sector Specialists, please feel free to contact me at Jillian.Clarkin@boi.com. The contact details for the team are also outlined within the individual sector updates contained herein.

We hope that you find this report both informative and useful as you plan for the months ahead. As always, we remain committed to supporting our customers, and we wish you continued success.

Best regards,

Jilly Clarkin

Irish Economic Outlook: Conall McCoille – Group Chief Economist, Bank of Ireland

Irish economy still expanding at a rapid pace
In July, we published our latest projections for the Irish economy, for a 1% expansion in Irish GDP in 2024, but stronger 2.5% rise in modified domestic demand and 1.7% rise in employment.

Since our July forecasts, the revised Irish GDP data Q2 2024 were a little disappointing, but continue to be distorted by the multinational sector. In contrast, Ireland's exceptional pace of jobs growth has continued in the first half of 2024, well ahead of our forecasts and accompanied by the news the population grew at an extraordinary 1.9% (or 100,000) pace for a second successive year in 2024.

Hence, whilst we may have to revise our forecast for Irish GDP growth in 2024 down towards zero, or even into negative territory – the underlying story of our July forecast remains intact. That is, the recent exceptional rapid expansion of the Irish economy is slowing towards more sustainable rates, but with bottlenecks, capacity pressures and labour shortages becoming increasingly apparent.

Table: Bank of Ireland Economic Forecasts

Forecasts	2024f	2025f	2026f
Personal Consumption	3.0%	2.9%	2.8%
Government Consumption	1.5%	1.5%	1.5%
Total Investment	2.8%	0.9%	0.8%
Modified Investment	2.2%	1.8%	1.5%
Modified Domestic Demand	2.5%	2.4%	2.3%
Exports	6.2%	5.0%	5.0%
Imports	6.0%	4.3%	4.1%
GDP	**1.0%**	**3.9%**	**4.0%**
Employment	1.7%	1.5%	1.5%
Unemployment Rate (average)	4.3%	4.4%	4.4%
CPI	2.3%	2.0%	2.0%

Ireland's GDP data continue to muddy the waters
The latest Central Statistics Office (CSO) release indicates that GDP fell by 1% in Q2 2024, revised down from a 1.2% rise in the preliminary data. At face value the economy has contracted in five of the past six quarters. However, the distortions from the multinational sector that have affected Ireland's GDP data so heavily in recent years are now well understood and are still at play. This trend is clearly evident in Irish industrial production, which in Q2 2024 was down 10.5% on the year, but starkly split between a 14.5% contraction in the modern sectors (dominated by multinationals) but a healthy 11% gain in the output of traditional manufacturing firms.

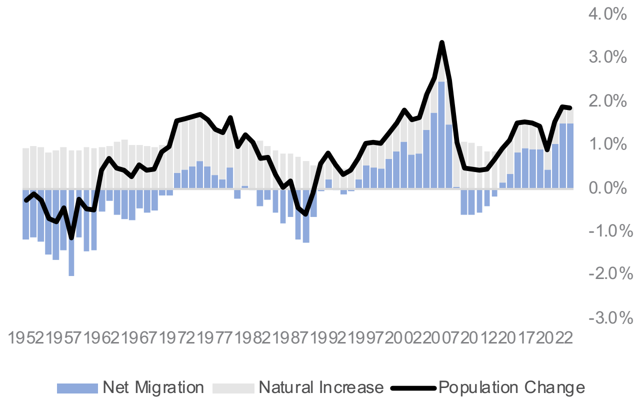
One feature of the Q2 GDP data that was surprising was that modified domestic demand fell by 0.5% on the quarter - hard to square against a range of other indicators which suggest the domestic economy continued to expand. For example, both consumer (+1.1%) and government spending (+1.5%) saw solid gains in the second quarter.

Also, the 'statistical discrepancy' between the expenditure and output side of Ireland's national accounts was exceptionally large in the second quarter, suggesting the CSO may be likely to make further revisions to the GDP data.

Exceptional labour market performance continues
In contrast to the GDP data, the latest labour market data suggest Ireland's extraordinary pace of job creation has continued. Irish employment grew by 0.8% in Q2 2024, up 2.7% on the year to 2.75 million, with the unemployment rate broadly steady at 4.4%. One striking feature of the data was that the female participation rate in the labour force was 61.4%, a record high. In addition, the CSO estimates the population aged over 15-years old is now 4.37 million, up 2.3% on the year.

The CSO's latest estimate is that the total population grew by 1.9% for a second successive year to 5.38 million in the twelve months to April 2024. Of this, 98,700 rise, the bulk (79,300) was accounted for by net migration, a contribution to population growth only surpassed in the 2007/08 period (see chart 1). This is an exceptional level of population growth and will inevitably place greater pressure on the housing market, infrastructure and demand for public services.

Chart 1: Irish Population Growth



Of course, a tight labour market is also showing up in wage growth. Thus far, Ireland's pay growth figures have not stood out from Europe, which suggest competitiveness has not yet been threatened. However, whilst euro area compensation per employee slowed to 4.3% in Q2 2024, in Ireland average weekly earnings were up 5.6% on the year to €50,000.

Housing market still under pressure

House price inflation accelerated to 8.6% in June, the fastest pace in almost two years. This is a stark change to the looser conditions in the housing market just twelve months ago. The official residential property price index (RPPI) fell for five consecutive months in the first half of 2023, a modest correction following the stretched valuations built-up during the Covid19 pandemic and as the impact of higher ECB interest rates was felt.

However, given Ireland's resilient economy and tight housing market, any soft patch for house price inflation was always likely to be short-lived. In September there were just 12,700 properties listed for sale on MyHome, close to a record low, and down from levels above 20,000 prior to the Covid19 pandemic.

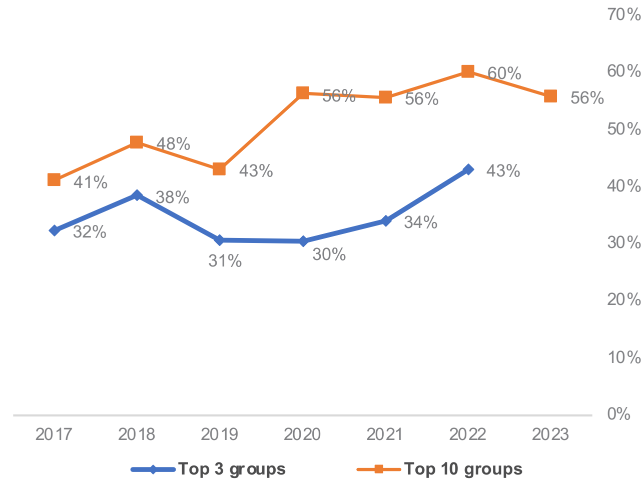
What is especially uncertain is how quickly homebuilding is likely to pick-up in 2024. That housing completions in H1 2024 were down 8.6% on the year, was a little disappointing, suggesting the disruption from elevated build cost inflation and energy prices in 2023 is still hindering output.

Housing starts accelerated to 51,000 in the twelve months to June 2024, but may reflect developers rushing ahead of an expected deadline on waivers for local authority and water infrastructure charges. Hence, the timing of when these starts translate into completions is especially uncertain. For now we are sticking with our forecast for 41,000 completions in 2025 and 45,000 in 2026.

Buoyant public finances provide room for manoeuvre in Budget 2025

Tax revenues have remained buoyant this year, up 7% in the first eight months of 2024 to €59.8bn. This included solid 7% and 7.5% gains in both income tax and value-added-tax receipts to €22.2bn and €14.5bn respectively and reflecting the robust gains in consumer spending, employment and pay within the Irish economy. Perhaps even more striking was that corporate taxes were up enormously, by 28% to €16.3bn, despite the many concerns surrounding this source of revenue. The potential vulnerability of the public finances to the multinational sector is now well understood. Specifically, that over half of corporate tax receipts have been accounted for by just the top-ten firms. However, research by the Irish Fiscal Advisory Council (IFAC) suggests the exposure is more acute, the top-three groups accounting for over 40% of receipts. In this context, the rationale to run substantial budget surpluses rather than spend potentially volatile revenue is all the more pressing.

Chart 3: Concentration of Corporate Tax Receipts



Budget 2025 is now scheduled to take place on Tuesday, October 1st. In its Summer Economic Statement (SES) the government signalled that an €8.3bn package of spending rises and tax cuts is likely. The Department of Finance also forecast that expenditure would rise by 6.9% in 2025 to €105bn, breaking the governments self-imposed spending rule of 5%.

Whilst this approach will contribute to demand and support the Irish economy in 2025, it puts aside concerns voiced by the Irish Fiscal Advisory Council (IFAC) amongst others that public spending could contribute to overheating pressures in the economy.

Auto-Enrolment Impacting Every Employer in Ireland: Bobby McDonnell – Corporate & Risk, Bank of Ireland

The long-awaited Auto Enrolment (AE) retirement scheme may finally be on the way in 2025. Timelines had previously confirmed that the first contributions to AE would be as early as January 2025, however the Department of Social Protection, headed up by Minister Humphries , has confirmed that the start date will be pushed back further into 2025. While this delay is no surprise, it has led to many employers asking for a definite timeline of when AE will actually begin so as to allow employers budget and plan accordingly. Legislation has already passed all stages in the Oireachtas, and the government has already chosen a partner, Tata Consultancy Services, to setup and run the AE system. Despite the delays the government has again assured that AE is on the way, and that both employers and employees should make themselves aware of the structure of AE and the other options available. At the time of drafting this article the exact dates are still not confirmed, and it is noted by the government that official updates will be provided on the government's auto enrolment web pages.

Who will this impact?
In short, in one way or another every employer in Ireland, regardless of size or industry and every employee regardless of contract term or type if they are not already in a pension scheme.

Even employers who currently already have existing private company pension schemes in place will need to see what adjustments may need to be made to their schemes, and to ensure that their existing schemes are competitive and still fit for purpose.

Some of the finer details have yet to be formalised and communicated by the new AE body, so while employers, employees and the wider pension industry waits to see the final information and weigh up the pros and cons, here is what we know so far.

What is Auto Enrolment?
Auto Enrolment is a new government administered retirement savings system; it is designed to ensure that anyone who is not building a pot for their retirement starts to do so. Ireland is the only OECD country with no form of this style of government backed pension scheme.

This new pension savings system will be made up from contributions from employers and employees with a government top-up to be added also. It will be administered by the National Automatic Enrolment Retirement Savings Authority which is a new government department. The government's plan is to phase this new scheme in over 10 years from inception, with contribution rates to rise every 3 years.

What do we know so far?
By its very nature it will be an opt out, rather than an opt in scheme, and we have already seen some of the criteria for this automatic opt in criteria for employers to determine who should be enrolled.

As the start date draws closer the pension industry is assuming more specific information will be made available from the Government as to how it will work in practice and some of the more specific rules will be confirmed. Below are some (but not all) of the main points that we know about so far:

- Employees meeting certain criteria will have to be automatically enrolled into the new scheme by employers. In the case of non-compliance penalties will apply.
- To be eligible, employees at the time of AE going live must not have a pension scheme in place through their employer, with either employer or employee contributions, or a combination of both. If they do have such a pension in place they cannot be auto enrolled.
- The initial minimum salary criteria for an employee will be €20,000, and maximum salary for matching contributions will be €80,000. Members earning below €20,000 will not be automatically enrolled but can opt in inf they wish.
- Age requirements will be from age 23 to 60 (as well as meeting the income threshold) but those outside these age ranges can chose to opt in
- Age checks will be made against Department of Social Protection data and reports via payroll directly to Revenue.
- Self-employed persons will not be eligible and will not have to comply with AE rules for now.
- Pension contributions will be calculated on an employee's payroll slip over the prior 13 week rolling period.
- An employee may opt out within months 7 and 8. If an employee does choose to opt out, they will be refunded the value of their contributions, but the employer contributions will remain in the AE system as a retained benefit for the employee. This option of opting out will only be available for the first 10 years of the scheme while it is phasing in. There will also be an option to suspend payments.
- If opted out, an employee will have to be automatically re-enrolled by their employer after 2 years of opting out if they still meet the criteria.

- There will be four investment options, with a target date fund set as the default, meaning that the funds will invest appropriately based on the members age and how close they are to retirement. Outside of the default fund members can chose between a high, medium, or low risk fund as an alternative to the life styling fund.
- Currently there is no option for employees to be able to make additional contributions through the AE system, meaning that if members of AE want to pay more into their pension above the stipulated amount, they would need an alternative pension vehicle to do so such as a PRSA.
- Employee contributions are not relieved for tax, USC, or PRSI instead there will be a top up from government.
- The State top up will be €1 for every €3 paid by the employee, equivalent to 25% tax relief.
- The percentage of contributions will be phased over time, beginning at 1.5% matching with a government top up of 0.5%

Years from launch	Employee	Employer	Government	Total
1 to 3	1.5%	1.5%	0.5%	3.5%
4 to 6	3.0%	3.0%	1.0%	7.0%
7 to 9	4.5%	4.5%	1.5%	10.5%
10+	6.0%	6.0%	2.0%	14.0%

What is the right approach for Employers?
Auto-Enrolment or Company Pension plan / PRSA

As is always the case with any financial planning, the specific needs of the Employer and Employee may make one more option more appealing than the other, AE or a private company pension scheme will have characteristics that differentiate them.

For example, occupational pension schemes afford generous tax relief to the employee contributions and offer much greater flexibility, including Additional Voluntary Contributions (AVCs), whereas it appears AE will be much less flexible with a fairly rigid structure with fewer options.

Employees who pay tax at 20% rate, or do not pay any tax will benefit from the State contribution in AE, which is effectively similar to a tax relief at a rate of 25%, as opposed to 20% or 0% in an occupational pension scheme.

Equally, employees who are higher rate taxpayers (currently 40%) will be significantly better off in an occupational pension scheme where they will get tax relief on contributions at the marginal rate rather than at 25% in Auto-Enrolment.

Employers with existing schemes in place, who ensure that all their employees are members of their Occupational Pension Scheme and adjust eligibility criteria accordingly will avoid the need to administer contributions to two or more schemes at the same time, i.e. some employees are Auto-enrolled and others are members of the Company Pension Scheme. Also, the absence of Risk Benefits (Death in Service/Income Protection) for employees with Auto-Enrolment is another key consideration.

Finally, and probably the most talked about point is that based on the current AE plan, there is no ongoing advice available to either employers or employees on AE which is proving to be challenging for many employers as they try to navigate the new plan.

Normally members of company schemes have queries about how much they will need at retirement and therefore how much needs to be saved now to get to that fund. Other topical questions include what fund they should choose, options at retirement, what happens in the case of death, early retirement, and transfers etc. These are all important questions for members to consider that require specific advice based on the individuals' circumstances. This is, at least for now, an area that seems to be not yet developed for the AE system.

Equally from an employer's perspective, they will also need to consider the administration burden and cost associated with all the options available, as well as areas such as employee engagement to ensure that employees see a retirement plan as the fantastic benefit of employment that it is.

Ultimately the issue we face in Ireland is that there is a shortfall of people who are saving for later in life. Any plan to help these people save will ultimately be a positive and AE will help drive awareness of the need for income in retirement and set more people on the path to a financially secure future.

It is important to note that the above is only a summary of the main points of AE, and this criterion may change as the final dates draw closer, obviously further terms and conditions will apply to the scheme. The best place to check the most up to date information is on government websites and to engage with your financial advisor to determine what the best option is when exploring alternatives.

To reiterate an earlier point, the best advice... is to get advice.

While great care has been taken in its preparation, the information in this article is based on our understanding of current legislation as of August 2024 and is subject to change without notice. It is intended to be a guide only and should not be relied on in relation to specific issues without appropriate financial, insurance, investment, or other professional advice.

Agriculture 2024
Insights and Outlook

As the summer days draw to a close, it is always an opportune time to reflect on the season to date. In this edition of our bi-annual Insights and Outlook we look at the key trends our regional Agri Development Managers are seeing amongst our customers across the country.

What is apparent over the past 12 months is that we are beginning to see the emergence of some new trends on farm. Some of these are as a result of evolving Government Policy such as enhanced focus on not only protecting the environment but improving it along with achieving the sectoral emissions targets. This is beginning to impact output, particularly on dairy farms. Similarly, farmers are very aware that the weather has negatively impacted farm output and driven costs over the past 12 months. However there is now an acceptance that climate change is not something in the future but more that our weather is already changing.

> “Farming is characterised by the global dynamics of supply and demand, geopolitics, and macroeconomics.”

As such, farm gate prices and input costs due to inflation have hit farm profitability over the past 12 months (Teagasc, National Farm Survey (NFS), July 2024).

Not surprisingly, the mood amongst farmers is somewhat subdued, with a weaker sentiment towards the future. This is not helped by a lack of policy clarity around key operational farm factors such as stocking rates and future environmental regulations. Combined this has the impact of reducing confidence at farm level especially around investment in the farm's future. Irish tractor sales are back c.10% (Farm Tractor and Machinery Trade Association, July 2024) year to date compared to same period last year.

It is a similar situation for a lot of machinery manufacturers. Building and development investment is also back significantly. The only investment that is holding up is land- and this is usually borne out of opportunity and the fact that a field comes up for sale on average only every 200 years in Ireland.

Despite lower farm incomes in 2023 compared to 2022 (Teagasc, NFS, July 2024), the sector looks in rude health –the majority of farms continue to be profitable (Teagasc, NFS, July 2024), farm debt levels are at 25 year lows (Central Bank, SME lending), fewer farms have debt than 5 years ago (Teagasc, NFS, July 2024) and agri deposits continue elevated well above pre-Covid levels (Central Bank, Irish Resident Deposits Private Sector Enterprises). However, when we look at individual farms, there are some signs of financial stress where they have lower productivity, have increased levels of debt to earnings, have difficulty paying bills and are increasingly concerned about the long term viability of the business. In our ,experience much of this can be solved by engaging with their accountant and financial provider, examining the structure of debt and the business and providing a path forward. Our team of agri-lenders are available to discuss these options and possible solutions with our customers.

Finally for this sector to continue to build on its past success and improving its environmental footprint, farmers need the confidence to invest in their farms future. To have confidence they need clarity and a degree of certainty. The market dynamics farming operates in are volatile and carry a degree of risk. Anywhere risk and uncertainty can be removed is positive not only for the farm business, but also the wellbeing of the farm family and the sector as a whole.

Eoin Lowry
Head of Agriculture

Mark Glennon, Agricultural Development Manager (North Leinster, Connacht, Ulster)

Investment from cash creating cashflow challenges: We are beginning to see cashflow tightness on some dairy and tillage farms as margins have come back significantly in these sectors in past 12 months. In many instances this is driven by capital expenditure works which have been funded via cashflow in the previous 6-12 months. We are also seeing farmers feeding more concentrates which is driving costs. Given the higher feed bills with Co-ops and Merchants over the summer months, we are seeing greater demand for stocking loans and overdrafts. We are working with our customers to retrospectively fund this cap-ex and/or pay merchant/co-op bills with a suitable product such as a term loan, or short term working capital such as a stocking loan or bank overdraft.

Farmers adjusting to lower stocking rates: We are seeing an increasing number of livestock farmers starting to adjust their stocking rate to what their land is capable of supporting i.e. the amount of grass that the farm can grow consistently from one year to the next. We have seen that more intensively stocked farms were impacted more financially over the past 12 months, as a result of poor weather conditions and higher costs. In general, our dairy farming customers who are in derogation have adjusted to the lower 220Kg/Ha Org N limit without too much disruption to their core business. This has been possible by; sourcing extra land, removing surplus low productive stock, removing beef stock, contract rearing in part or in full, and ensuring that they are farming at the most effective excretion rate band.

Increasing interest in Anaerobic Digestion (AD) projects: We have a number of proposals in train in the region for large scale AD plants however challenges still remain including security of feedstock supply, planning delays, grant support, grid connections and off-take agreements. We are beginning to see appetite from large scale intensive farm operations where they see it as an option to diversify income, reduce costs and utilise by-products from the farm.

Seeing significant demand from poultry sector: Despite higher development costs investment continues in the poultry sector. While new entrants to the broiler sector in particular have reduced (due to higher development costs), existing operators continue to invest and expand. We are seeing some expansion and new entrants into duck production as a result of increased demand. There is significant demand at present in the egg- sector with a number of new entrants alongside expansion of free range production.

Susan Maher, Agricultural Development Manager (South East & Midlands)

Buoyant land market driven by nitrates and dairy: Over the past 12-18 months, we have seen a significant switch in the proportion of lending from farm development to land purchase. We are seeing farms with a high stocking rate, or a high percentage of rented lands or farms with surplus deposits on hand have a strong appetite to buy land. We continue to see very strong demand for land, building on a very strong market in 2023. Average land prices have ranged from €10,000 per acre to in excess of €30,000 per acre depending on location, land quality and local demand. Non-Farmer Investors are still competing strongly for land.

Existing farm buildings becoming valuable: Given increased concrete and building costs, we are seeing a strong appetite from farmers to lease established farms with substantial farm buildings. These opportunities are arising where existing farmers are opting to retire or exit production. A value is now being attributed to existing farm buildings driven by current building and concrete costs which support increasing slurry storage capacity and overall housing facilities at a lower cost to new builds.

Increase in farmers exiting dairy: Across the country, we are beginning to see more farmers with no successors consider exiting dairying. Those that are exiting are looking to either lease the land or (depending on age) convert the farm to a calf to beef/ beef cattle/contract rearing system. The cost of compliance with increased environmental regulations is also a consideration to exit for farmers.

Fodder self-sufficiency and security of supply key focus on farm: In this region, we are seeing many livestock farmers try to build fodder supplies by incorporating their own whole crops alongside adding back in some tillage into the farm system. This is helping to ensure supply security for the winter and also allow more self-sufficiency in straw and fodder to reduce reliance on market dynamics.

Farmers cost of living has increased: like everyone else, we are seeing the cost of living increase for farmers. Based on 2023 accounts, drawings have increased across many farms (regardless of farm system) compared to 2022. Some of the increase may be due to higher than normal profits allowing for additional drawings. However when profitability dropped in 2023 versus 2022, drawings did not (or could not) reduce, as cost of living increases did not come back.

> “We are expecting dairy farmers to invest in increased slurry storage capacity to comply with nitrates regulations”

John Fitzgerald, Agricultural Development Manager (Cork, Tipperary, Waterford)

Subdued investment appetite driven by uncertainty and poor weather: Appetite to invest in farm infrastructure, machinery and equipment has been much lower in 2024 as a result of poor weather conditions over the past 12 months; lower farm profitability with a lot of uncertainty around production costs; uncertainty around the future of the nitrates derogation and inflated construction costs. We are expecting dairy farmers to invest in increased slurry storage capacity to comply with nitrates regulations, however there seems to be a reluctance at farm level currently given the lack of clarity around future stocking levels.

New entrants to dairy slowing: Across the country we have seen a significant slowdown in the number of new entrants to dairy compared to recent years. Prohibitive cost of sourcing land; cost of farm development; planning issues and more subdued future outlook are limiting the numbers entering.

However in some regions (particularly in north west and midlands) there continues to be an appetite from young qualified farmers to enter dairy from lower income farm systems such as beef. We are not seeing green field conversions like we did in the past. This is particularly true of tillage farm conversions given the cost to convert has increased to c.€10k per cow. Given these high building costs, many farmers who are converting to dairy, are now looking to adapt existing buildings in an effort to reduce conversion costs. There is also a notable trend where we are seeing more conversions invest on a phased basis – milking parlour & grazing infrastructure prioritised with farmers looking to existing sheds for over-wintering, calving and calf sheds. We are also seeing an increasing number of new entrants considering robotic milking systems given labour challenges.

Fixing interest rates to remove uncertainty: As a result of the ECB interest rate rises over the past 18 months, an increasing number of our customers (especially those with greater borrowings) are enquiring about fixing the interest rates on their loans. Given the current lower margin environment, knowing how much loan repayments will be into the future provides a degree of certainty for the farmer.

Farmers investing in solar to reduce costs: We are seeing an increasing number of farmers invest in solar (supported by TAMS 3 grants) to reduce energy costs on the back of high energy prices and strong return on investment. There is a particularly strong focus on poultry, pigs and dairy farms.

Pat Byrnes, Agricultural Development Manager (Clare, Kerry, Limerick, Tipperary)

Sustainability being embraced by farmers: In general increasing numbers of farmers are investing in sustainable action on their farms. For example, dairy farmers are embracing sustainable actions, Low Emission Slurry Spreading (LESS) and investing in new equipment, they are also changing how they grow grass, incorporating clover in new swards and using protected urea. Our tillage farming customers in particular are increasingly interested and incorporating precision and regenerative agriculture into their farming practices. We are seeing an increasing number of farmers invest in Solar to take advantage of the attractive grants and reduce their energy bills. Farmers who are taking on sustainable actions can avail of an Enviroflex* loan through participating co-ops.

Pig sector continues to consolidate: Strong trading conditions in 2023 and into 2024 have bolstered the financial position of many pig farms and has seen some pig farmers look at new investment and acquire additional units. Consolidation, which has been a key feature of the pig sector for decades continues, with larger existing operators acquiring smaller units. More recently this has been driven by the limited ability to expand existing units as a result of development costs and planning issues.

Farmers investing in additional slurry storage: We have seen a large increase in the number of farmers investing in additional slurry storage to future proof their business. In some cases, they are moving ahead of regulatory requirements, taking advantage of significant grants currently available. We see some farmers putting 6 months slurry storage in place to allow for potentially longer winters and later springs alongside providing more options and better utilisation of slurry. In many cases, this is an excellent investment, in that additional slurry storage will enable farmers to make better use of slurry which reduces dependence on chemical fertilizer, makes more efficient use of labour and is also better for the environment. However we are also having discussions with farmers around being aware of potential future changes to the nitrates derogation that may result in reduced stock numbers and in some instances there may not be a requirement to invest in additional slurry storage.

Beef remains highly dependent on government payments: On the beef side, we continue to see a level of investment. Despite the higher prices for beef overall, margins remain tight and the dependence on support and scheme payments continues on the majority of beef farms. We are seeing a pickup in investment in labour saving technologies and animal housing to improve work life balance, productivity and reduce labour demands.

Our team of Agri Development Managers are ready to take your call. Whether you are planning a farm development project or looking to expand and grow your farm, our nationwide team of Agri Development managers can help you achieve your goals.

To arrange an appointment with one of the team, simply select the relevant Agri Development Manager in the area that suits you best. If your county is not listed you can contact any of the Agri Development Managers below:

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5 steps to improving farm cashflow

* Level of security required and rate applicable, will be determined by the amount, purpose & term of facility, in conjunction with the nature and value of the security being offered. Lending criteria, terms and conditions apply. Over 18s only. Maximum credit of €500,000 available for online applications and over the phone. For amounts greater than €500,000 contact your Relationship Manager or local branch.

Warning: If you do not meet the repayments on your credit facility agreements, your account will go into arrears. This may affect your credit rating, which may limit your ability to access credit in the future.

Warning: The cost of your repayments may increase.

Sources: Teagasc, Central Statistics Office (CSO), Department of Agriculture (DAFM), The Farmers Journal, Bord Bia, Euromonitor, European Commission, Irish Business and Employers' Confederation (IBEQ), Marché à Terme International de France (MATIF), Intercontinental Exchange (ICE) Futures Europe, International Monetary Fund, World Bank, Food and Agriculture Organization (FAO).

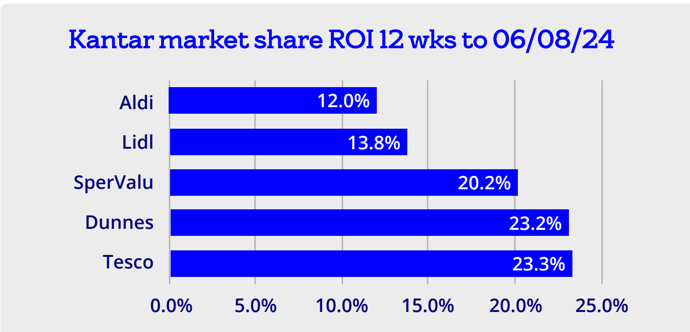
Food & Beverage 2024
Insights and Outlook

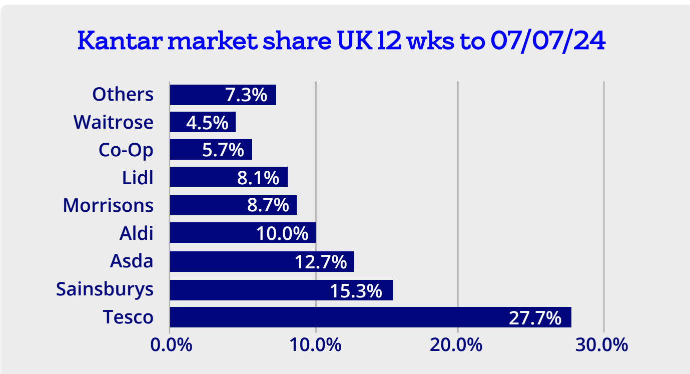
Summary

H1 2024 saw a solid result for exports, matching 2023, yet producers endeavour to manage costs, whilst keeping sight of future opportunities, and staying relevant to consumers.

Development and Insights August 2024

- Value of food and live animal exports in H1 2024 was €8.1 billion, matching 2023 exports[1].
- Exports were mixed with meat €2.3bn flat vs 2023 whilst dairy was €1.75bn or -11% YoY. Other sub sectors matched or were slightly ahead of 2023, whilst beverages made strong gains at +18% YoY to €1.04 Bn and seafood sales were €310m or +7% YoY[2].
- Food inflation remained low in June/July at +2.2% in ROI vs LY in Ireland[3], 1.5% in GB and 1.5% in the European Union. Forecasts suggest circa 2% for H2 2024[4].
- Input costs remain high but varied across raw materials, energy and transport, with producers striving to gain efficiencies, reduce cost base and energy usage.
- In the ROI grocery market in 12 weeks to 6th August, Tesco took the lead with 23.3% share, Dunnes number 2 at 23.2%, Supervalu 20.2%, Lidl 13.8% and Aldi slipped to 12.0%[5].





- In the UK, Kantar shows in 12 weeks to 7th July '24 Tesco achieved its largest share gain since Nov 2021 taking 27.7% share, Sainsburys was +4.7% to 15.3%, Asda 12.7%, Aldi 10%, Morrisons 8.7% and Lidl grew to 8.1%; smaller retailers Co-Op has 5.7% and Waitrose 4.5%[6].

Food & Beverage producers - a balancing act

Food and drink operators continue to juggle the balance between company, consumer and retailer requirements, with the balance more acute in an inflationary market. Producers aim to satisfy consumers, with innovative products, retailers with varied product ranges at keen prices, whilst satisfying their own shareholders and growing sustainably. As consumers become more sophisticated, producers and retailers need to increase their focus on analysing consumer behaviour and find ways to retain consumer loyalty and stay relevant with products. Brands and product ranges need to remain 'front-of-mind' and be in tune with evolving consumer preferences.

Private Label

Gradually, as food prices increased, consumers have turned to own-label products. The Private Label Manufacturers Association (PLMA), which runs a trade show in Amsterdam every year, claims that in 2023, sales of own-label product hit a high of €340 Billion or 38.5% of total grocery market value in Europe. That is +13% growth compared to +6% for branded goods[7]. Figure 1 shows the percentage of private label market share in a number of European countries. Own-label market share in ROI is similar to the UK at c.44%.

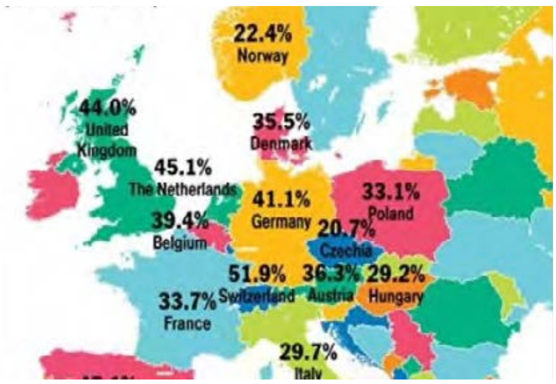


Fig 1 Source: PLMA (plmainternational.com

1 Goods Exports and Imports June 2024 - Central Statistics Office
2 Goods Exports and Imports June 2024 - Central Statistics Office
3 Food Inflation Forecast 2024/2025 (tradingeconomics.com)
4 Food Inflation Forecast 2024/2025 (tradingeconomics.com)
5 Grocery price inflation picks up again - Kantar (rte.ie)
6 Falling inflation, football and fake tan: summer events shape shopping habits (kantar.com)
7 No surprise, private label sales set new record | PLMA (plmainternational.com)

Food Inflation

Food Inflation in Ireland was reported at 2.2% in July '24 for food and non-alcoholic beverages, down from 2.3% in June, the lowest level in three years[8]. Whilst this was welcomed by consumers, who have managed high grocery prices by reducing basket size, switching brands or buying private label, cost challenges remain for producers. Kantar showed inflation of food and non-alcoholic beverages grew 2.8% in ROI in 12 weeks to 4th August '24 vs 2023[9]. In the European Union food and non-alcoholic beverage inflation was +1.5% in June '24 (1.8% in Euro area) vs. June '23[10].

In the United Kingdom, food inflation was recorded as +1.5% in June '24[11]. However in recent weeks, food inflation has edged higher in the UK with Kantar reporting +1.8% in the 4 weeks to 13th August[12].

Producers of premium brands and high-end products will be hopeful that food inflation stays low, and demand for their products picks up, but food inflation levels are not easy to predict.

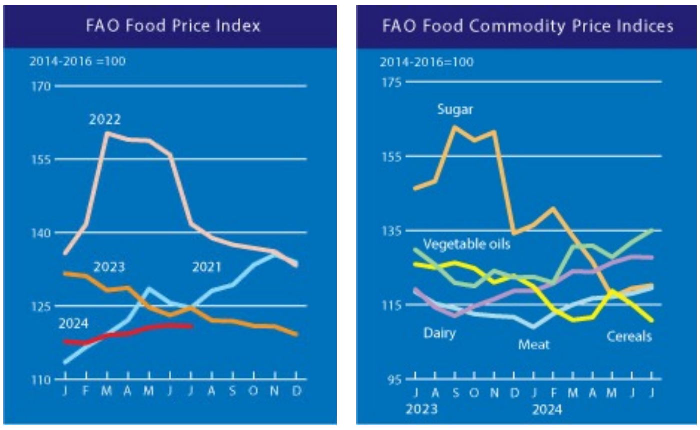


Fig 2: FAO Food Price Index | Food and Agriculture Organization of the United Nations

Food Index

The Food and Agriculture Association of the United Nations (FAO) food price index that measures the change in the international basket of commodities (meat, dairy, vegetable oils, sugar and cereals) was 120.8 in July '24[13], marginally below figure for June. A decrease in cereal prices outweighed increases in sugar, oils and meat products.

Cocoa prices continue to stay high since spiking in April of 2024 with cocoa futures trading at circa $9,000 per tonne[14] an increase of 130% since the start of 2024. Stocks remain tight after a poor season in '23/24. Prices for the rest of 2024 are estimated to stay high and volatile, due to the extent of the poor crops in Ghana and Cote d'Ivoire, demand uncertainties, and early predictions from farmers in West Africa, biggest producers of cocoa, that the '24/25 harvest may look better[15]. Chocolate producers have needed to raise their prices to manage their cost base which adds to food inflation.

Deposit Return Scheme The DRS scheme for plastic bottles & drinks cans reports 400m plastic bottles were returned since 1st February[16], peaking at 90m in June. This is good progress in a short time. The incentive to collect and return containers (due to high deposit rate) is evident from cleaner streets and it's encouraging to see schemes being set up for charities to benefit. There are challenges with machines at capacity or out of order in some stores.

Looking to other European countries, some operating return schemes for decades, the DRS evolution can continue to improve. In France, bottles are shredded in the machine, requiring less frequent emptying, and in Denmark & Sweden bottles can be dumped into the newer machines, making the return much faster. The scheme here has the opportunity to further develop to help ROI reach its single use plastic reduction target. The inclusion of the Return logo seems unnecessary once the system has settled as it creates extra complexity /cost for producers and requires separate production runs for a small market like Ireland.

[8] Ireland Inflation Rate (tradingeconomics.com)
[9] Grocery price inflation picks up again - Kantar (rte.ie)
[10] European Union Food Inflation (tradingeconomics.com)
[11] European Union Food Inflation (tradingeconomics.com)
[12] UK grocery inflation edges higher after 17 months of decline | Reuters
[13] FAO Food Price Index | Food and Agriculture Organization of the United Nations
[14] Cocoa - Price - Chart - Historical Data - News (tradingeconomics.com)
[15] International Cocoa Organization (icco.org)
[16] Checkout | Latest Irish Retail News, Insights & Analysis

ESG

- Energy efficiency initiatives continue to be the number one sustainability action for most businesses with solar panels, heat pumps, heat recovery systems and production efficiencies also featuring.

> "One operator cited that due to energy usage measurement, it established that the production method on one of their sites was five times more efficient than another site which led to the installation of a heat recovery system."

- Whilst climate change is impacting crops and food security, one positive change in Ireland is grapes can now be grown and harvested as wine production moves northwards. One producer growing vines and making wine commercially is Old Roots vineyard in Co Wexford. A variety of grapes including Cabernet, Chardonnay, Pinot Noir and Pinot Blanc have grown there since 2015 and Old Roots now supplies some hotels with wines[17].

Sustainable Food and Beverage Production – Ireland and the EU

As we look to develop a more sustainable food system in Ireland, it is important to consider this as an integrated part of a sustainable food production system within the EU. The scale of food and drink production across the EU is vast, one of the largest manufacturing sectors in Europe[18].

- There are 4.6 million employed in food and drink production with a turnover of €1.1 Trillion[19].
- Approx 300,000 businesses in this space, with 90% of them employing fewer than 20 people[20].

As sustainable food production evolves, and food circularity increases, it is important for Ireland's food sector to tap into EU developments and supports, and be an integral part of the change.

Price Competition – Mondelez fined for contravention

The EU allows free movement of goods, and holds great commercial opportunity, with its 450m population. To keep tabs on single market activity, the European Commission acts as the EU watchdog. In May this year, it imposed a significant fine of €337.5m on Mondelez International for breaching EU law[21]. Mondelez, one of the world's largest producers of chocolate and biscuit products, distributes its products using traders, brokers and exclusive distributors, typical for fast moving consumer goods (FMCG).

Fig 2. Source : Commission fines Mondelēz (europa.eu)

Between 2015 and 2019 it was found to have hindered cross-border trading of products and 'artificially partitioned the internal (EU) market'. The Commission found it engaged in various anti-competitive practices, abusing its dominant position, and restricted or ceased supply to maintain higher pricing in other markets[22]. This ruling sets a precedent regarding cross-border trade. The substantial fine sends a strong signal to those operating in the EU regarding distribution agreements and how they operate.

Brexit and Border Target Operating Model

The Border Target Operating Model (BTOM), introduced post-Brexit, means products brought into Great Britain are subject to new UK controls. The National Audit Office estimates £4.7Bn has been spent to date implementing the BTOM as changes were introduced with the UK's departure from the EU[23].

Since 30th April 2024, imports into GB are subject to non-routine checks; some shipments need documentary checks and identity seal checks on entry and exit. October 2024 will bring more documentary, identity and physical checks for live animals, an extra cost for those trading with GB.

Northern Ireland

Northern Ireland's food and beverage sector is evolving and growing with an increased focus on locally- produced products. The industry straddles a diverse range from fishing and agri-food production to brewing and distilling. It is worth £5.4 Bn, and is the largest producer of the region's manufactured sales (37%)[24]. It is the only market in the world that offers tariff-free market access to both Great Britain (GB) and the European Union (EU) putting NI in an enviable position[25].

In July a new Agri-Food Investment Initiative of £46 million was launched to support the agri-food sector, including food and beverage processors[26]. This was developed by Invest NI to improve the sector's competitiveness. It is anticipated funds will be used for innovation and to help operators adopt greener technologies.

[17] Irish wine being produced in a warming climate (rte.ie)
[18] Sustainable food systems - FoodDrinkEurope : FoodDrinkEurope
[19] Data & Trends of the European food and drink industry 2023 - FoodDrinkEurope : FoodDrinkEurope
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[22] Data & Trends of the European food and drink industry 2023 - FoodDrinkEurope : FoodDrinkEurope
[23] BTOM updates (export.org.uk)
[24] Food and drink | Invest Northern Ireland (investni.com)
[25] Food and drink | Invest Northern Ireland (investni.com)
[26] New £46 million scheme launched to support agri-food and drink processors in Northern Ireland to improve efficiency and productivity | Manufacturing & Supply Chain (manufacturing-supply-chain.com)

Looking Ahead

- The dairy sector in ROI, and indeed the wider EU, holds concerns that an anti-subsidy probe into EU dairy imports, recently opened in China, may affect Ireland's dairy exports (c€45m)[27]. This was a day after the EU published higher tariffs for Chinese electric vehicles[28].
- High costs and further planned increases to wages and employee benefits, will further challenge producers' cost base yet retention of good staff remains a key focus.
- Food inflation estimates from Trading Economics are low single digit of 2.5-3.2% in Q3/Q4 '24, 1.8-2.4% in the EU and 1.9-2.5% in the UK[29].
- Supply Chain issues have largely settled yet transport costs remain high. The latest World Container Index (WCI) shows the average price of a 40ft container is $5,428, 48% below the pandemic peak of $10.3k (Sep 2021), but 282% higher than the pre-pandemic cost in 2019[30]. Road transport costs also remain elevated with personnel & fuel costs high and new CO2 emissions-based tolls coming into effect[31].
- Despite the various challenges outlined and geopolitical uncertainties, overall the sector remains positive in outlook for 2024, looking to future innovative opportunities for sustainable food and beverages.

Bank of Ireland

Bank of Ireland is committed to its role as a key partner and supporter of Ireland's largest indigenous Industry. Our continuing support of the Blas Na hEireann food quality awards and our breadth of sectoral knowledge highlight this.

We understand the requirement for food and beverage companies to have an in-market, long-term, stable, finance partner that can offer support, dedicated relationship managers and an understanding of the various sub-sectors.

Lucy Ryan

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Lucy joined Bank of Ireland in Jan 2023 as Head of the Food & Beverage Sector, to support the Bank's lending in this important, indigenous industry.

She brings an in-depth understanding of the Food & Drink sector to the role having worked for 25 years in food and drink operators in Ireland, Italy and UK across a number of companies and product categories.

She has held various senior commercial positions, many of them customer-facing, in consumer goods' companies including Diageo, C&C Group (Bulmers Ltd), Mark Anthony Brands International, Valeo Foods and BFree Foods.

Lucy holds a French & Italian languages degree from UCC and a Post Graduate qualification from UCD Smurfit Business school.

[27] China opens anti-subsidy probe into EU dairy imports (rte.ie)
[28] China opens anti-subsidy probe into EU dairy imports in pushback against EV tariffs | Reuters
[29] Food Inflation Forecast 2024/2025 (tradingeconomics.com)
[30] Drewry - Service Expertise - World Container Index - 15 Aug
[31] Road freight transport: The freight rates in Europe fell during Q1 (upply.com)

Health 2024
Insights and Outlook

Summary

By 2040, Ireland is expected to have around one million additional residents.[1] Expanding services for the health and well-being of this growing population is a stated government priority, with further progress made towards a model of universal healthcare in H1. Developments in the Sláintecare plan have included expanding access to GP and primary care services, enhancing the scope of the pharmacist, and facilitating the move of some residents from institutional to community-based care more appropriate for their needs. There has also been further integration of digital, AI, and assistive technologies in efforts to enhance healthcare services.

The sector continues to experience familiar challenges, including workforce shortages, staff accommodation, waiting list pressures, and the need for increased funding to support growth and sustainability. The health and social care budget for 2024 was originally set at €23.5bn, reflecting a 4.6%YOY increase, with an additional allocation of €1.5bn subsequently required.[2]

Despite the ongoing challenges, the outlook for the sector remains strong. There is a commitment to improving access, quality, and equity, with a growing reliance on private sector investments to address capacity demands.

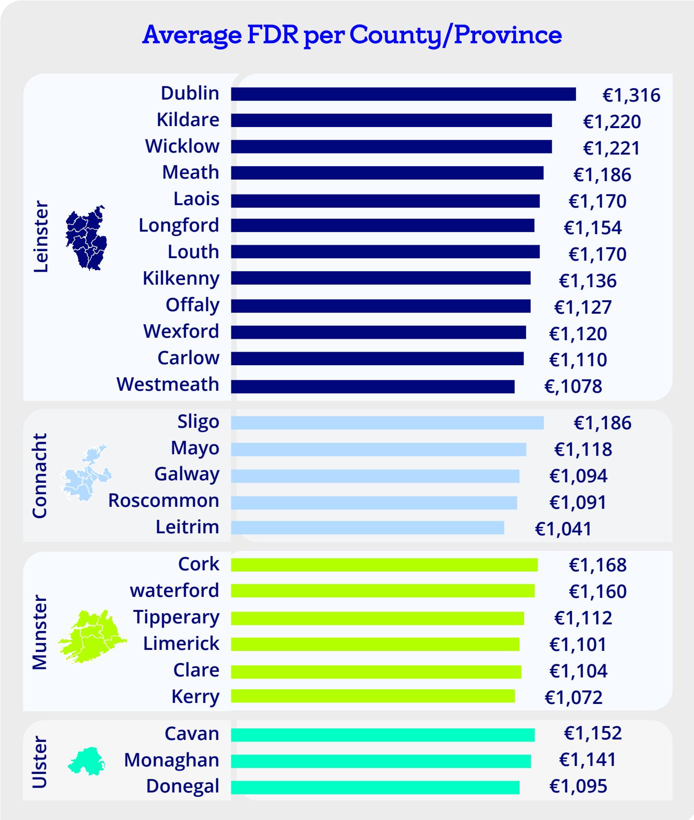
Key Sector Trends

Nursing Homes

The Nursing Home sector, boosted by higher Fair Deal Rates (FDR), the €25k Resident Safety Improvement Scheme and a more stabilised workforce, is displaying continued signs of recovery. A notable trend in the sector is the move towards diversification, with some nursing home groups, now comprising almost 50% of the market, expanding into or considering specialised services such as dementia care, rehabilitation, complex disability support, and home care services.

Whilst the consolidation trend continues, H1 has seen reduced merger and acquisition (M&A) activity, likely linked to regulatory uncertainties and cost pressures. Operators are now focusing on upgrading existing facilities and expanding capacity. Closure rates have decreased, with five facilities deregistered so far this year, compared to seven in 2023. Certain operators have reported challenges with the Operating Company/Property Company (OpCo/PropCo) structure, leading to rent reduction negotiations. Operating company, Passage Healthcare, for instance, has ceased operations at their two Dublin homes, attributing this outcome to escalating operational costs.

The YOY Fair Deal Rate (FDR) increase of 5.5%, compares to 4.7% for the previous year, with the national average FDR increasing from €1,109 to €1,175.[3] Many operators report that this increase, though welcome, still lags behind the actual operational costs which, according a Nursing Homes Ireland commissioned report, increased by 36%.[4] Regional rate variations are still marked, with Dublin having the highest FDR (€1,316) and Leitrim the lowest (€1,041). This differential of €275 per resident per week, would equate to an annual income differential of €886,600 for the average sized 62 bed nursing home.

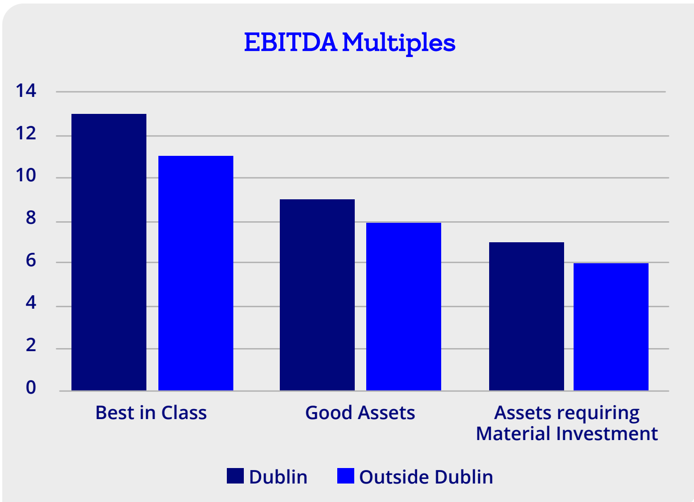


Given the competition for staff and the reliance on inward migration, an ever-increasing practice among nursing home operators, both independent and groups, is to provide accommodation for their employees, either through purchasing or renting houses. Staffing pressures continue to challenge the sector as a whole and, with the HSE recruitment pause lifted in July, there is likely to be a shift of staff from the private to the public sector.

Valuations

Whilst there has been a reduction in the valuations of nursing homes, with reduced EBITDA multiples being paid, particularly for older homes with lower bed numbers, poor room mix and compliance issues, there is evidence of stabilisation in the sector. With further interest rate reductions expected there is potential for higher valuations.

The 2023 Increased Cost of Business (ICOB) grant assisted small businesses with commercial rates up to €30k. However, 2024 has seen substantial increases in commercial rates, with some operators reporting hikes up to +150%. Local authorities rely on commercial rates as a major source of income, making up around 26% of their total revenue.[5]



2024 Private Nursing Homes Opened, Under Construction & Closed

Openings	Operator	County	Beds
Sugarloaf Care Centre	Silver Stream Healthcare Group	Wicklow	119
Dunshaughlin Care Home	Grace Healthcare	Meath	96*
Curam Care Home Carrigaline	Curam Care Homes	Cork	111
Kilkenny Care Centre	Mowlam Healthcare	Kilkenny	90
Leopardstown Care Centre	Mowlam Healthcare	Dublin	101
Total			**517**

Under Construction	Operator	County	Beds
The Residence Kilkenny	Emeis (formerly Orpea)	Kilkenny	80
The Residence Portmarnock	Emeis (formerly Orpea)	Dublin	151
Virtue Stepaside	Virtue Integrated Care	Dublin	119
Coolmine Sligo Nursing Home	Coolmine Caring Services Group	Sligo	105
The Naul	Éire Care (Simply UK)	Dublin	99
Clonattin Nursing Home	Amhola/Axis Construction	Wexford	96
Rolestown Nursing Home	Amhola/Axis Construction	Dublin	90
Total			**740**

Closed/De-registered	Operator	County	Beds
Lucan Lodge	Passage Healthcare	Dublin	74
Sally Park Nursing Home	Passage Healthcare	Dublin	41
Fingal House	Independent	Dublin	17
Aperee Living Callan	Aperee Living Group	Kilkenny	60
Kylemore House Nursing Home	Notice of closure / Independent	Wicklow	38
Heatherfield Nursing Home	Independent	Meath	30
Total			**260**

** Currently 38 beds registered*

Overview of people engaging with disability services[7]

Adult Disability

31,698 records reviewed

9,089 adults living in Residential Settings

Adult Demographics

17,170 male **54%**

14,528 female **46%**

34% 18 - 34 years

34% 35 - 54 years

32% ≤ 55 years

Primary Disability

60% Intellectual disability — 56% male, 44% female

17% Neurological — 45% male, 55% female

7% Autism — 77% male, 23% female

Adult Residential

1,932 places required

Health Research Board (HRB), 2024

Disability

In Ireland, just over 9,000 adults with disabilities currently require care in residential facilities. Primarily this care is provided by voluntary organisations and the private sector (89%: 1,585 facilities with 9,089 beds), with the HSE operating 163 facilities with 982 beds (11%).[6] Additionally, an estimated two thousand adults are already in need of, or will soon require, residential services, with 80% currently under the care of a primary caregiver, more than half of whom are aged over 60 years.[7]

The disability sector continues to align with Sláintecare through transitioning individuals from institutional (congregated) settings to regular homes with personalised support (supported living), shared by no more than four individuals, along with support staff. Residential placements are predominantly long-term, with average length of stay in excess of 15 years. Some placements offer short stay/respite care and/or emergency support during crisis situations.

This year's health budget includes a specific allocation of €10m for such services, enhancing existing provision and improving access to respite within homes. With a stated aim of improving disability services, €2.8bn was allocated to the Department of Children, Equality, Disability, Integration and Youth (DCEDIY), an increase of 65% over seven years.[8]

An estimated 60% is allocated to residential services, with the HSE increasingly procuring services from private providers as often they are the only cohort with HIQA-approved capacity. Private and voluntary registered providers are funded by the HSE through 'section 38 arrangements' (fully funded) or 'section 39 assistance' (through a service level agreement).

There is strong demand for residential services and a shortfall of capacity, with this demand projected to grow considerably in light of both demographic changes and current unmet needs.[9] Furthermore, at year end 2023, there were 1,532 people who remained living in congregated settings, such as nursing homes or other institutions.[10] This shortfall in provision is primarily driven by a lack of capital investment by the HSE and voluntary providers. Disability services represents a small but growing for-profit sector, with significant further growth potential.

Pharmacy

Despite facing challenges in 2023, the phramacy sector has seen improvements in the first half of 2024, including a more stable labour market, reduced reliance on locum cover as well as lower interest rates. Furthermore, the sector's post-pandemic positioning has pharmacists leveraging their profession as accessible clinicians, enhancing their role in primary healthcare. The Expert Taskforce, established by the government to explore expanding the scope of the pharmacist, has recently published recommendations proposing that pharmacists be authorised to prescribe for, initially, eight specified conditions or minor ailments.[11]

1. **Allergic Rhinitis**
2. **Cold Sores**
3. **Conjunctivitis**
4. **Impetigo**
5. **Oral Thrush**
6. **Shingles**
7. **Uncomplicated UTI / Cystitis**
8. **Vulvovaginal Thrush**

Various training, operational and regulatory adjustments are first required though, with the intention for these to be in place by early 2025. Reimbursement for prescribing services was not within the scope of the Taskforce and remains a matter of government policy. This has potential for additional revenue streams similar to the NHS 'Pharmacy First' scheme which was launched in the UK in January.

It is anticipated that the day-to-day work of pharmacies will evolve to more patient-facing primary care, by offering consultations for these conditions, prescribing medicines and advising on holistic health and wellness. Community pharmacies have longer opening hours than GP surgeries, including weekends and holidays, making them more accessible and have potential to alleviate GP workload. According to a recent Ipsos survey, there has been a 50% rise in the number of patients opting to have private consultations with pharmacists, increasing from 15% to 22%.[12] EY forecasts that, by the end of the decade, pharmacies will undergo a significant transformation in their physical layout, shifting away from dispensary-centric setups with more emphasis on providing treatment and more space for consultations.[13] This projected evolution is expected to lead to an increased utilisation of pharmacy consultations and create new opportunities for business growth in this sector, potentially resulting in additional remuneration for the expanded services offerd.

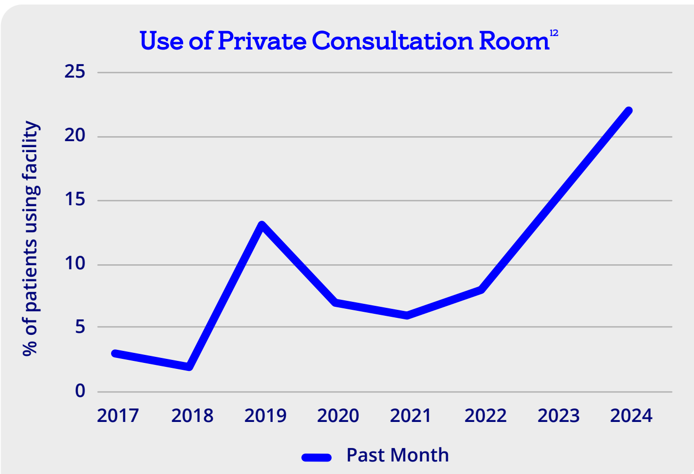


Table 2: Public attitudes towards pharmacy: 2024 survey
IPU Review July / August 2024

A standard pharmacy design typically covers approximately 158 sqm, with about half for the prescription / dispensing area and half front of shop. It is thought a minimum of 6.5sqm would be required for a dedicated patient care area.[14]

Transactional Landscape

A review of pharmacy transactions carried out by intermediary firm Fitzgerald Power, analysed just under a hundred transactions.[15] The majority, approximately 73%, of transactions involved independently owned businesses, with symbol groups comprising around 23%.

Valuation analysis of transaction's the firm were involved in over the three year period indicated an average EBITDA multiple of 4.78x. Further analysis based on revenue ranges demonstrated that the multiple rise increase corresponded with higher turnover levels.

H1 has been an busy period for the sector with a particularly active period in terms of transactions, with this expected to remain elevated for the remainder of 2024.

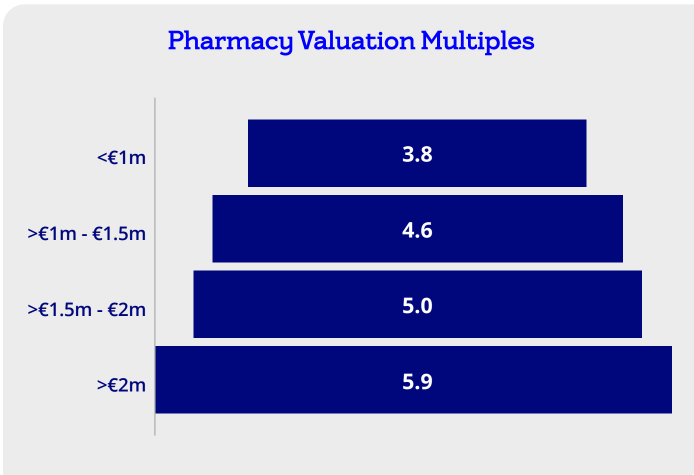


Table 3: Pharmacy Valuation Multiples, (Fitzgerald Power, June 2024)
**Note: data based on IM presentation, not actual multiple ultimately achieved.*

Funding Activity

The post-covid rebound continues, showing a strong trend of credit approvals and drawdowns reported for H1 2024 with a significant year-on-year increase across various healthcare sectors including pharmacies, nursing homes, GP practices, disability and diagnostic services.

The healthcare sector is witnessing a busy transactional landscape, evidenced by numerous pharmacy acquisitions and store revamps. There is an uptick in nursing home applications seeking refinancing, funds for development projects, regulatory compliance work, and energy upgrades. The home care and disability sectors are also seeing heightened activity, reflecting targeted government funding aligning with policy objectives.

Bank of Ireland

In the coming months and years, the healthcare system will need to strengthen collaborative working across partner organisations. Strong leadership will be required to deliver sustainability changes, drive improvement, and encourage innovation. Bank of Ireland understands the challenges faced by private health companies across the sector. We are a strong supporter of innovative change and will continue to work closely with our customers and communities to enable them to thrive in the current headwinds.

2024 H2 Outlook

The demand for healthcare services is bolstered by significant demographic shifts. The healthcare sector outlook in Ireland is highly favourable, with ongoing initiatives to enhance healthcare services, accessibility, and infrastructure, supported by increased government spending. Efforts are concentrated on improving patient/resident care, operational efficiency, expanding capacity, and addressing issues like waiting times and staffing shortages. Technological advancements, including Artificial Intelligence (AI) and digital health solutions like Electronic Medical Records, are set to streamline operations and drive transformation.

However, disparities exist within the health sector, with certain segments poised to excel more than others. While there is optimism for continued Fair Deal Rates increases, nursing home operators may face challenges due to rising operational expenses and high employee turnover rates. Forward-thinking businesses that align with government priorities are well-positioned to grow and capitalise on opportunities in the evolving healthcare landscape.

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Sources:

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[4] *Challenges for Nursing Homes in the Provision of Older Persons Care, PwC, May 2023*
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[8] *Our National Service Plan 2024, HSE, January 2024*
[9] *Disability Capacity Review 2032, Department of Health, July 2021*
[10] *Disability Services – Tuesday, 9 Jul 2024 – Parliamentary Questions (33rd Dáil) – Houses of the Oireachtas*
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Hotels 2024
Insights and Outlook

2024 H1 Insights

After a slow start to the year, demand for tourism accommodation has picked up in recent months. All markets reported by STR[1] outside Dublin, are now reporting Revenue Per Available Room (RevPAR) figures in line or ahead of same time last year to the end of July. Dublin continues to lag slightly behind last year due to a material increase in hotel bedroom supply within the "economy" segment which has impacted both rate and occupancy figures to date. Belfast has reported the strongest year on year improvement with a 13.6% increase in RevPAR at the end of July 2024. A total of 25k Fáilte Ireland registered bedrooms remained under government contract in ROI at the end of May[2] this year. The number is materially down (8.5%) on the figures reported November last year.

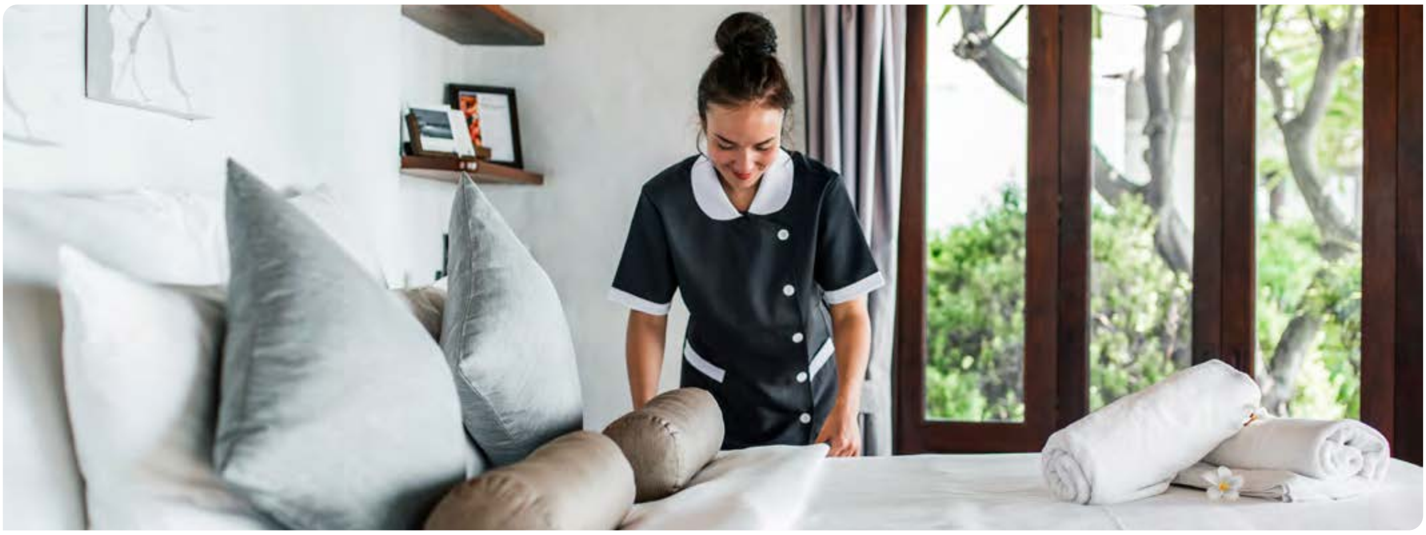
Stats available from the CSO[3] to the end of June show a 15% increase in inbound trips for the 6 months of 2024 vs. last year, and a 22% increase in expenditure for the same period. Irish Domestic demand statistics for Q1[4] show an 11% increase on trips vs same time last year but only 10% increase in expenditure.

Profit margins have come under pressure for the sector due to a convergence of factors including the hospitality VAT, wage increases and escalating sick pay entitlements, among others. Pressure is more visible in the food and beverage services sectors where margins are traditionally lower as demand is fast to react when "value for money" becomes an issue.

Accommodation Statistics

The cancellation of over six hundred Aer Lingus flights[5] during their pilot's industrial action negatively impacted on demand in June and July this year[6]. Tourism accommodation providers have on average (when including Dublin), reported a marginal softening in demand for the first seven months of this year. Demand trends have been patchy; Kilkenny and Belfast are marginally up on last year while Dublin, Galway and Cork are trailing behind. The end of the discounted rate of VAT has put additional pressure on profit margins but average room rates are holding up strongly despite the impact of the 4.5% increase in hospitality VAT.

- **Dublin All[7]**: A soft July impacted YTD totals after strong performance reported for the month of June. July 2024 Year to Date (YTD) RevPAR is 5% down on last year (Occupancy 1% down and Average rate 4% down)
  - Hotel bedroom supply in the Dublin region increased by an estimated 7.7% between July 2023 and July 2024.[8]
- **Dublin City centre**: July 2024 YTD RevPAR is 6.8% down on last year (Occupancy 1% down and Average rate 5.8% down)
  - Average room rate rose to €248 for the month of June in the city centre driven by a number of events. "Hotel performance peaked on Saturday June 29th (supported by Swifties) with occupancy at 95.5%, ADR of EUR305.30 and revenue per available room (RevPAR) of EUR291.59[9]
- **Galway**: July 2024 YTD occupancy remains down on last year (1% below 2023), however average room rate growth of €5 (3%) has compensated for this bringing the RevPAR up 2% YOY.
- **Cork**: Reported occupancy and rate fell behind fell behind last year for June and July 2024. YTD RevPAR is marginally behind last year (2%) with softer average occupancy and rate for the period.
  - Hotel bedroom supply in Cork city increased by 187rooms (8.8%)[10] this year with the opening of the Premier Inn in Morrison's Quay.
- **Limerick** continues to lead the table on RevPAR growth within ROI. July YTD Occupancy is in line with last year, however average rate is up €8.3 (5%) for the same period.
- N.B. 25% of failte Ireland registered accommodation in neighbouring Clare and 7% in Limerick currently under govt contract.
- **Belfast** has maintained its spot in the RevPAR leader table for in the Island of Ireland with a 13.6% Year on Year RevPAR Increase at the end of July 2024.
- **Derry**: Slight slowdown in occupancy for the first half of the year compensated by strong average room rate of €111 (7% up on last year)



1 STR is the global leader in hospitality data benchmarking, analytics, and marketplace insights. (STR is part of CoStar Group Inc)
2 Fáilte Ireland, An Updated Overview of Beneficiaries of Temporary Protection (BOTP) and International Protection (IP) Contracted Bed Stock, May 2024
3 CSO, Inbound Tourism, June 2024
4 CSO, Household Travel Survey, Q1 2024
5 www.bbc.com, Aer Lingus pilots vote to accept pay deal 23/07/24.
6 Irish Times, Dublin's Buswells Hotel takes €55,000 financial hit on bookings affected by Aer Lingus cancellations 17/07/24.
7 STR, Accommodation statistics, July 2024
8 STR CoStar, Global Forecast – Dublin May 2024
9 STR CoStar, "Dublin- The weekend that was" Press Release, 03/07/24.
10 Increase based on Fáilte Ireland Hotel Registrations (Statutory Accommodation Register, Q3 2024)

Table 1: Accommodation sales Key Performance Indicators, Ireland, July 2024

Hotel room sales Key Performance Indicators

Room / Accommodation Sales KPIs	Year to date July											
	Occupancy %				Average Rate €				RevPAR €			
Location	2019	2022	2023	2024	2019	2022	2023	2024	2019	2022	2023	2024
Dublin All	82	74	82	81	139	163	181	173	115	121	148	140
Dublin city centre	83	71	80	79	164	189	206	194	137	134	164	153
Galway	73	66	74	73	117	152	170	175	85	100	125	128
Cork	77	69	77	76	110	149	155	153	85	103	119	117
Limerick	70	73	80	80	135	152	178	186	94	111	142	148
Kilkenny	71	65	70	71	111	164	169	170	79	106	119	121
Ireland Provincial	71	65	73	73	105	139	153	159	74	90	112	116
Belfast	72	71	76	77	87	112	119	135	62	80	91	104
Derry / Londonderry	69	64	69	67	78	102	104	111	54	65	72	75

N.B. A higher rate of VAT (13.5%) applies to 2024 year to Average Room Rate vs 9% in the 6 Months to June 2023.

Transaction Activity

- The strong financial performance reported by the hospitality sector in Ireland during 2023 has propelled hotel transaction activity so far this year. Investors have focused on the sector as it continues to lead performance across commercial real estate. Hotels, particularly in Dublin, remain an attractive asset class and so international buyers and funders have dominated the landscape to date.
- JLL[11] Estimates a total of €816m of hotel assets have already transacted in ROI this year, encompassing a total of 1,579 hotel bedrooms. Average price per key for the year €517k has been skewed by the Shelbourne (€260m)[12] and Press Up Group (€355m)[13] transactions. If these are taken out the price per key drops to €368k. JLL estimates there are an additional €500m worth of active transactions in the pipeline, some of which could be completed this year.
- In Northern Ireland, the market has also been active, notable sales reported this year include Etap, Holiday Inn Express Antrim, The Lodge Hotel, The Londonderry Arms and The Park Inn. "The market remains very hot and is being buoyed up by the prohibitive cost of construction and protracted process of planning"[14]. The Armagh City, The Roe Park Resort and The Rosspark hotels are currently up for sale.
- Moderately strong transaction activity also reported in the licensed trade with well-established pubs transacting in Dublin including McSorley's in Ranelagh for an estimated €5.5m, and Foley's Pub in Baggot Street for €7m[15]; in Cork Reardon's and Oliver Plunkett are being acquired by Attestor Capital[16]. In the restaurant space London investment firm Cheyne is anticipated to take a majority stake in the Press Up Hospitality Group[17] which owns restaurants such as Captain America's, Elephant and Caste and Angelina's, among others.

Demand

- Low levels of unemployment in Ireland (4.7% at the end of July 2024 reported by the CSO)[18] continue to support healthy levels of discretionary spend from the domestic market. Household Travel survey reports[19] for year-end December 2023 showed an increase of 8% in trips from the domestic market and a very marginal decline in average spend (1% down) against the same period in 2022. Stats released for Q1 this year show the trend continues with a 10% increase in trips and a more pronounced drop in average spend (5%). Operators across the country have been reporting this trend, highlighting shorter stays and a softening in ancillary spend.
- Encouraging trends in the number of overseas visitors' trips. Ireland reported a 15% increase in the number of overseas visitor trips for the first half of 2024[20] vs same period last year. However, the average length of stay (based on the room nights delivered), reduced from an average of 7.8 last year to 6.9 this year, meaning trips are getting shorter. As a result of this (and similar to the trend with the domestic market) the average spend per trip also took a tumble of 11% for comparable periods in 2023 and 2024.

Table 2: Domestic Household travel Ireland (CSO) - Trend

Period	2014	2016	2018	2019	2022	2023	2024
Q1	1,719	2,069	2,118	2,223	2,308	2,571	3,011
Q2	2,165	2,040	2,553	2,553	3,397	3,826	
Q3	3,093	3,159	3,807	3,807	4,506	4,518	
Q4	2,013	2,014	2,441	2,641	3,064	3,394	
Total trips	**8,990**	**9,282**	**10,919**	**11,620**	**13,275**	**14,309**	**3,011**
Total spend €000's	**€1,713**	**€1,798**	**€2,006**	**€2,147**	**€2,930**	**€3,122**	**€576**
Average spend per trip year €	190.6	193.7	183.7	184.7	220.7	218.2	
Average spend per trip Q1 €	142	159	159	163	204	201	191
YOY variance in avg spend	-10%	2%	-14%	3%	67%	-1%	-5%
Average length stay (year)	2.9	2.7	2.6	2.5	2.6	2.4	
Spend per night €	65.7	70.3	70.7	72.8	85.6	91.9	

[11] JLL, Isobel Horan, Aug 2024.
[12] The Irish times, Shelbourne Hotel in Dublin sold to Archer Hotel Capital, 29/03/24
[13] The Irish Times, McKillen jnr completes sale of majority stake in Dean Hotels, 10/04/24
[14] Northern Irish Hotels Federation, Hotel Landscape, July 2024 Snapshot.
[15] Lovin Dublin, "Two of the city's best-known pubs are set to change hands" 07/06/24.
[16] Irish Examiner, "Cork Reardens in advanced sale talks for up to €30m" 10/04/24.
[17] Irish Independent, Majority stake in Press Up hospitality group 'to be taken by London investment firm'21/06/24.
[18] CSO, Monthly Unemployment Rate, July 2024
[19] CSO, Household Travel Survey Quarter 4 and Year 2023 and Quarter 1 2024
[20] CSO, Inbound Tourism, June 2024

Table 3: Inbound Visitors to Ireland (CSO) – H1 2024 vs H1 2023

Region / Market	Trips			Average stay (nights)			Average spend (per trip) €		
	H1 2023	H1 2024	Variance %	H1 2023	H1 2024	Variance %	H1 2023	H1 2024	Variance %
GB (England, Scotland & Wales	1,090	1,245	14%	5.0	4.6	-9%	449	418	-7%
Other Europe	1,019	1,164	14%	9.1	7.3	-19%	821	682	-17%
USA & Canada	557	663	19%	8.3	8.2	-2%	2,379	2,127	-11%
Other Residencies	152	176	16%	17.2	15.8	-8%	8,428	7,740	-8%
All Residencies	2,817	3,248	15%	7.8	6.9	-11%	287	256	-11%

Hotel Development

- Positive average room rates for hotels in Dublin continue to support a healthy development pipeline of around 10,000 hotel rooms of which about 30% are under development[21]; regionally new properties are opening in Cork and Galway but only a limited number of bedroom extensions expected elsewhere because of escalating development costs.
- Tightening of margins in food and drink sales could support development of additional bedroom stock in well-established operations; the business case for investment could prove more appealing for those looking to improve on profit margins.

Government Contracts

- A total of 77,315 beds are presently under government contract for humanitarian purposes, a fall of 8.5% since November 2023. An estimated 32.4% of these beds (25,079) are in premises on Fáilte Ireland registers (hotels, B&Bs, Guesthouses), 10% of all registered tourism bed stock is under contract. County Clare, at 25% is the only county with more than 20% of registered bed capacity out of use for tourism. Meath, Louth, Mayo, and Wicklow all have 15-19% of registered stock under contract. The Taoiseach recently confirmed that about seventy refugee accommodation contracts[22] will expire "shortly," and properties could return to public use.

Trends

- Industry groups continue to lobby for the restoration of the lower rate of VAT for Hospitality sales (Food and Accommodation). The increase which came in to effect last September, is said to be main driving factor behind a number of restaurant closures. According to a recent report from the Restaurant Association of Ireland (RAI)[23], the closure of one restaurant results in the loss of twenty-two direct jobs on average. The RAI estimates an average of two restaurants, cafes and other food-led businesses are closing their doors each day.
- Price inflation in Hotels and Restaurants in the 12 months to July 2024 is running at 4.3%, well ahead of the 2.2% average for all items reported by the CSO for the period.[24]
- Passenger cap at Dublin airport remains a major concern for stakeholders across the sector as the 32m cap could already be breached this year. A number of airlines including Air Canada and Etihad have already failed to secure all take-off and landing slots they requested for winter.[25]
- Brands continue to strengthen their presence in the Irish market. Marriot, IHG, Ruby, Premier Inn and Radisson all expected to add new properties to their ROI portfolios this year.
- Challenging start of the year for businesses across the sector. Fáilte Ireland's latest tourism barometer (May 2024)[26] indicated that 44% of sampled businesses had experienced a decrease in visitor numbers. The drop is more pronounced in the food and drink space where 55% reported weaker trade. The slight slowdown in demand could be linked to combination of factors, including lower disposable income, higher prices implemented across hotels, bars and restaurants, and lack of tourist accommodation in some areas as well as the prolonged poor weather impacting domestic demand.
- Increased cost pressures are challenging businesses to review their operations as they look to implement efficiencies to protect the bottom line. Operational reviews are driving an appetite for refurbishments, repurposing of facilities like unused meeting rooms and nightclubs, and the development of additional bedroom stock.
- Slowdown in average spend reported for both domestic and overseas visitors. The trend was already emerging last year and has been associated with the unwinding of the increased savings accumulated during the pandemic, but the gap has grown marginally larger. Average spends per domestic trip for ROI residents for Q1 this year is down 6.4% on the peak reported for Q1 2022.

[21] Sarah Duignan, STR; "A decade of data Ireland and Beyond," Irish Hotel Federation Investment Conference, June 2024
[22] RTE, Some hotels housing Ukrainians could return to public use- Harris, 27/05/24.
[23] Economic and Financial Impact of Restaurant Closures, April 2024
[24] CSO, Consumer Price Index, July 2024
[25] Irish Independent, Low-cost airline Jet2 squeezed out of Dublin Airport due to passenger cap, July 8th, 2024.
[26] Failte Ireland, Tourism Barometer, May 2024

ESG

- Businesses in the hospitality sector continue to explore options to improve on their green credentials. Enquiries about support for "green" investments including heat pumps, solar panels and other equipment upgrades are on the rise.
- Whitbread hotels (Premier Inn) have been pushing for their buildings to be as green as possible, while also looking at their biodiversity metrics. Matt Gent from Whitbread confirmed that the last hotel to open in Cork is rated as BREEAM Very Good (A2), and the group's pipeline in Dublin and regionally is all rated under BREEAM Excellent and expected to be 100% electric powered by the time they open.
- The JMK Group has been focusing on their green credentials for some time. JMK indicated[27] their next two openings: 1) Cork (Moxy & Residence Inn, 194 bedrooms) and 2) Belfast (Aloft & Residence Inn, 228 bedrooms) will both boast BREEAM[28] "Excellent" and Leadership in Energy and Environmental Design (LEED) "Gold" credentials.

Tax debt Warehousing

- Almost 90% of the €1.65 billion debt that remained in the warehouse at the start of April 2024 was now either paid in full, secured under phased payment arrangements or included within a proposed phased payment arrangement which is in the process of being finalised.[29]
- 1,820 businesses are in the Accommodation & Food Services Sector, with a total outstanding balance of €180m are in a phased payment arrangement (PPA).[30]
- A total of 762 businesses in the Accommodation & Food Services sector with a combined outstanding debt of just under €13.5m did not engage with Revenue by the May 2024 closing date.

Sector Outlook

Premises that cease to accommodate refugees over the coming months will require varying levels of refurbishment before they can return to provide accommodation for the tourism market.

Further planned increases to minimum wage, a further ramp up in paid sick leave and the introduction of auto-enrolment could compromise the viability of some businesses in the foodservices sector in the coming year.

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+353 87 7951253

[27] Zain Kajani, 24/07/24
[28] BREEAM is a world-leading sustainability assessment method for the built environment and infrastructure. (BREEAM.com)
[29] Revenue.ie, Additional update on the Debt Warehousing Scheme
[30] Fáilte Ireland, An Analysis of Debt Warehousing June 2024

Manufacturing 2024 Insights and Outlook

2024 – H1 Lookback – A cautious start as inflation eases, supply chain predictability improves, ESG goes mainstream, but global demand continues sluggish as a sustained upswing in new orders remains elusive.

Irish Manufacturing started 2024 on an asymmetric mix of optimism and caution. Optimism on the back of strong performance in 2023, but caution as demand slowed and manufacturing continued in contraction territory through H2 2023. Interest rate hikes across EU, US, and UK which have not been reversed, and have had the desired effect of constraining demand and slowing inflation. With that comes a correction and slowdown in manufacturing output.

However, Ireland's rate of contraction has been slower and lagging that of its peers with Purchasing Managers' Index (PMI)[1] averaging 49.4 for H1 2024 compared to 46.3 for the EU, our biggest trading partner. These numbers however tell a composite story and different sub sectors are performing differently during 2024 as follows:

- Global PC sales have recovered with 3 consecutive quarters of year-on-year growth.[2]
- EU Automotive registrations up YOY 4.5% H1 24 but down 18% on 2019. EVs volumes only grew by 1.3%.[3] In Ireland year to end of July they have fallen by 24% compared to 2023.[4]
- Global sales of Semiconductor manufacturing equipment expected to grow in 2024 by 3.4% driven by AI.[5]
- Industrial construction equipment expected to fall in 2024 by 8%.[6]
- Agri equipment are forecasting falls of 20 to 25% for year end 2024.[7]
- Data centres, & Modular construction and sustainability retrofitting all continue strong.
- Continued growth in medical devices sales with CAGR forecasts of 6.1% to 2030.[8]
- Pharma sales also expected to grow by 5.1% in 2024.[9]

Irish Manufacturing is deeply anchored in all the above supply chains and so individual businesses will feel the pain differently.

Key Sector Trends

- **Purchasing Managers Index (PMI) data:** 2024 data has continued in contraction territory (<50) with June at 47.4, a 12-month low, but then a fragile recovery in July to 50.1. EU data remains stubbornly low at 45.8 for July, with an accelerated decline in contraction of orders, output, and employment. Sluggish orders, lower production output, higher risk adversity, tighter spending, elevated interest rates, unpredictable geopolitics, and cautious business confidence all serve to dampen manufacturing activity.
- **Supply Chain Resilience** remains a top priority for manufacturing to maintain business continuity and protect reputation. The Global Supply Chain Volatility Index GSCVI[10] for July at -0.22 is a reversal of earlier positive improvement signs and signals underutilisation of global supply chains. Manufacturing would much rather be stretched but this continues to be elusive.
- **Inflation (HICP)** has eased to 1.5% in July 2024, down from 4.6% in 2023 but manufacturing input prices remain elevated.[11]
    - Container shipping costs are up 203% on this time last year from $1,832 to $5,551.[12]
    - SMEs are passing on costs but not without pushback.
    - Given higher price tags, lower spending capacity, consumers are delaying purchases or switching to service offerings e.g., holidays and leisure.
- **2024 Irish GDP, Exports, and Industrial Output:**
    - 2024 GDP grew 0.7% in Q1 and contracted 4% annually. Manufacturing which contributes c. 35% to GDP, contracted 5.7% quarter on quarter and 15.5% annually.[13] This is largely driven by the MNC sector and represents a correction from elevated activity in 2022 and 2023 to more normal levels.
    - Exports H1 2024 increased by 7% YOY dominated by exports to US +23%, and sectors Pharma +21% and Machinery +20%.[14]
    - Production output June data is up 6.2% on a rolling 3mth. basis (Apr to June) but down 6.8% compared to same 3 mth. period in 2023, split between the modern sector -13.6% and the traditional sector +11.1%.[15]
- **Employment:** Economy is at full employment and shortages of key technical skillsets are still the case. However, given the softening of manufacturing data, there are cases of capacity reductions and associated employment impact in certain sectors such as construction/agri. equipment where inventory levels are high.
- **ESG, Digital and AI agendas gain momentum in 2024:** All driven by a combination of digital transformation, supply chain reconfiguration, ESG metrics, regulatory compliance awareness, and higher fuel costs improving payback periods for electrification and renewable sources. Ireland emissions reduced by 6.8% in 2023 to their lowest level in three decades.[16] Solar energy has seen exponential growth and has passed the milestone of 1 Gigawatts (GW) in Ireland with a target of 8 GW for 2030.[17] To put global solar growth in context, in 2004 it took one year to install 1 GW of solar. The forecast for 2024, is for 600GW installation of solar or 2GW per day.[18]
- **Geopolitics, Rise in Protectionism and Strategic Autonomy:** One of the lasting impacts of COVID-19 and accelerated by Russia Ukraine conflict has been the desire for major economies to have greater strategic autonomy and less reliance on global supply chains. It is a complex picture of economies moving away from mutual benefit to national gain and impossible to predict how it will play out. Irish manufacturing is in a strong position to navigate the impacts given the deep roots of both the MNC and SME manufacturing community.
- **Trade restrictions on the increase:** Globalisation is in reverse, with major economies retreating to protectionism mode. From 500 in 2015, trade restrictions have exponentially grown to nearly 3000 in 2023.[19]
- **EV Tariffs:** US and EU have imposed 100% and 37.6% respectively on Chinese EV imports.[20]

- **Global Elections:** Roughly half of the globe are headed to the polls in 2024.[21] Expect the level of protectionist measures to increase with potential impacts, which are difficult to quantify for the Multinational and SME manufacturing community. Notwithstanding above, the reality is Irish Manufacturing enterprises have deep roots here, but nonetheless must plan for different outcome scenarios. In particular Government would be wise to model how corporation tax from manufacturing might be impacted. The Department of Finance has launched a major research project on the risks Ireland faces from deglobalisation, to be published after the summer.[22]
- **US Economy Slowdown Fears:** Manufacturing's second biggest market after Europe, defied most 2023 economic forecasts of a recession and delivered growth of 2.5%.[23] H1 2024 has continued strong with a bull stock market on steroids which has been just recently had the brakes applied on the back of fears of recession in the absence of Fed rate cuts. Add to this consumer debt hit new highs in Q1 2024 and a historically high debt to GDP ratio of 124.7%, all points to a potential correction. However, and on an optimistic note, while views are mixed, many fundamental data points including employment, output, inflation are positive and strong and suggest that fears of a downturn may be misplaced.[25]

Key Trends and Metrics for Irish Manufacturing Sector

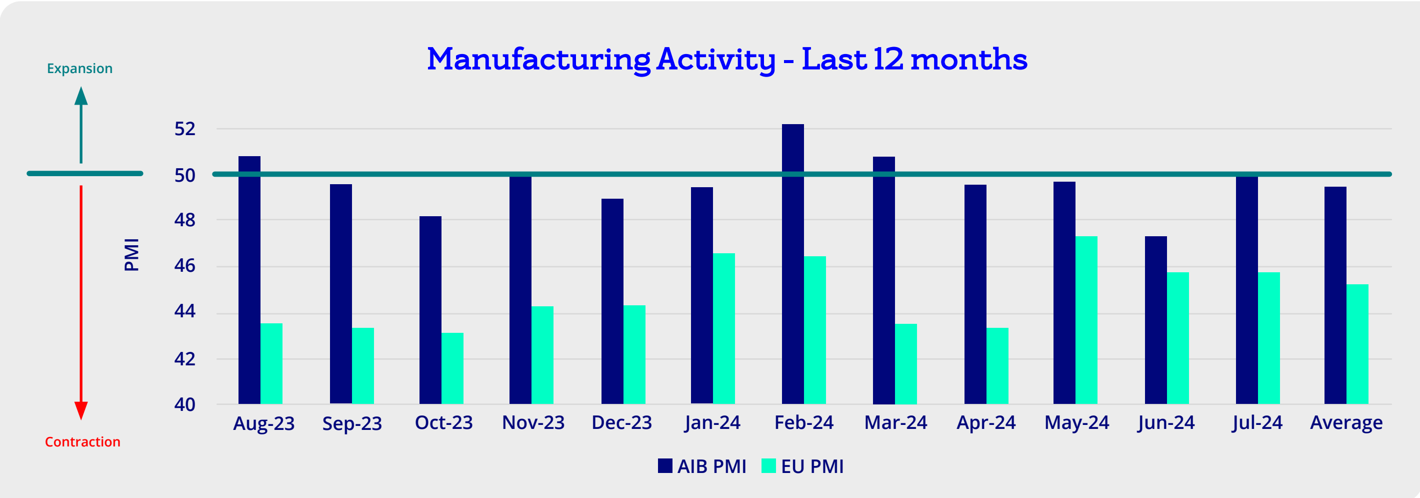


Table 1: Sources: PMI S&P Global

Irish Manufacturing PMI (Table 1)

PMI is a questionnaire sent to 250 manufacturing companies, and a result greater than 50 represents expansion. The last 12 months has been one of stubborn contraction with a return to steady growth in both Ireland and EU remaining elusive. Ireland is faring better with a 12-month average 49.5 compared to the EU averaging at 45.2. However, as our biggest trading partner, there is a risk of contagion with downward capacity and employment adjustments to match lower demand levels. Some sub sectors such as Industrial Equipment have already adjusted to match moderated demand levels post the inflated Covid 19 period where uncertainty peaked demand above real needs. As high inventories unwind, interest rates remain high, input costs remain elevated demand will continue sluggish in the short to medium term.

Global Supply Chain Volatility Index (GSCVI) (Table 2)

The Global Supply Chain Volatility Index, published by company GEP (a global leader in procurement and supply chain), based on data derived from a monthly survey of 27,000 businesses, has fallen from the dizzy heights of 6 in 2022 to below zero in July 2024 at -0.22.

Data for May and June pointed to tentative signs of demand strengthening in the supply chain and has now been reversed in July. Demand for raw materials and semi-manufactured goods weakened in July, falling at fastest rate this year, signalling slowing global economic growth. The key drivers are:

- Global supply chain capacity rises, amid calls for a reversal in interest rate hikes.
- Asian factory demand, particularly China, is at its weakest since December 2023.
- Suppliers to North America report underutilised capacity.
- European market continues to struggle, with region's manufacturing recession persisting.

In summary the latest data signals economic weakness as we head into the second half of 2024. We continue to see a combination of the other side of bullwhip effect i.e. gluts following oversupply, plus ongoing impact of dampened demand driven by inflation and high interest rates.

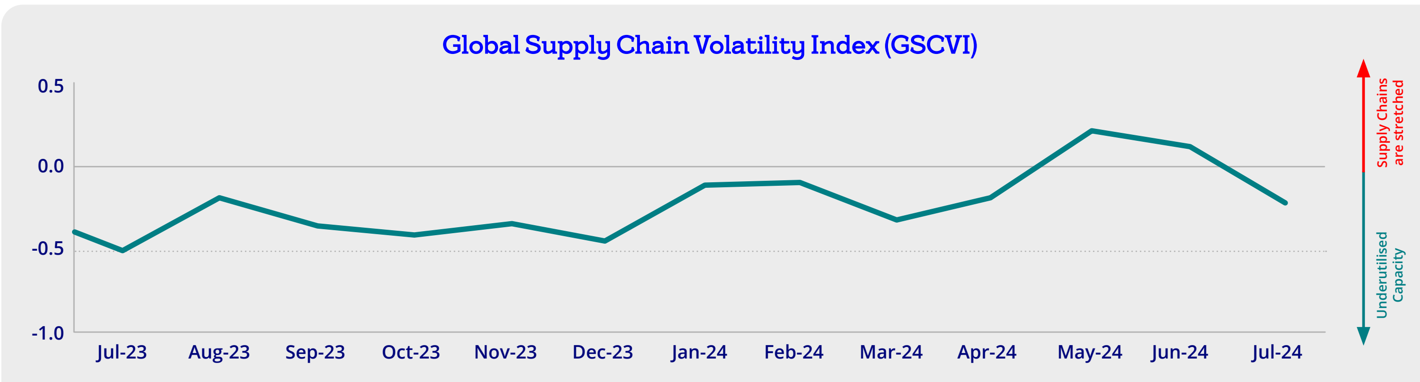


Table 2: Sources: GEP, S&P Global

Imports, Exports, Industrial Output and Turnover

Imports and exports performance are summarised in table 3 for period H1 2024. In totality, imports were down YOY by 7%, while exports were up by 7%. Increase in exports is driven by US +23% and the Pharma and Medical Devices sector + 21%. Machinery and transport sector also up 20%. Looking at June alone, exports were down 10% YOY and down 61% YOY for Great Britain.

For Manufacturing production and turnover summarised in table 4, production output is overall down 15% for H1 2024. This is made up of the modern sector which down by 18%, and by contrast the traditional sector which is up by 11%. The rolling 3-month comparison is positive for all metrics and suggests fragile improvement in activity overall.

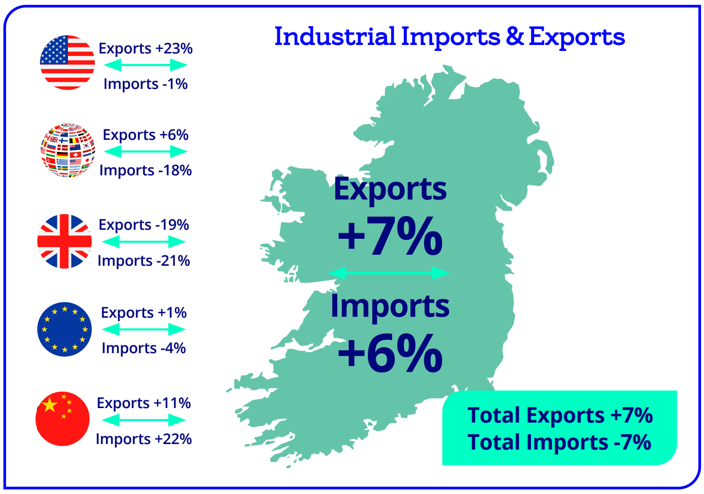


Table 3. Source : CSO

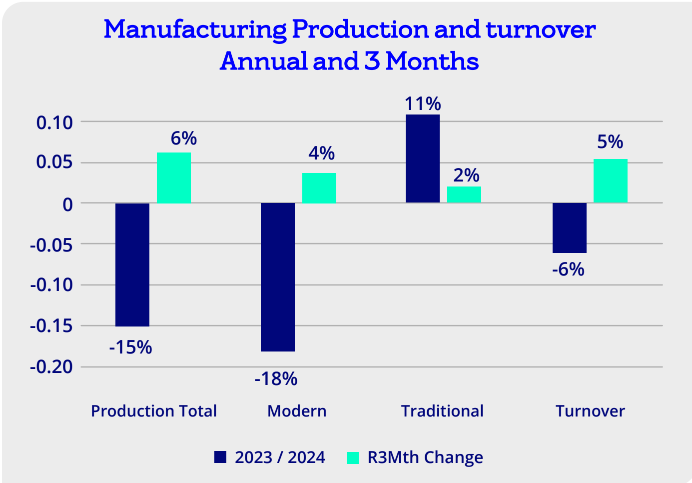


Table 4: Source: CSO

Manufacturing Input Price Inflation

Inflation (HICP) has dropped in 2024 to 1.5% in July down from 4.6% July 2023 and from 2.7% January 2024. The EU figure for July was 2.6%. While this is welcome news, it stems from the fact that the comparison period is now firmly in the elevated prices zone and the reality is that manufacturing input prices continue high when compared to pre Covid-19 levels. See tables 5 and 6 below.

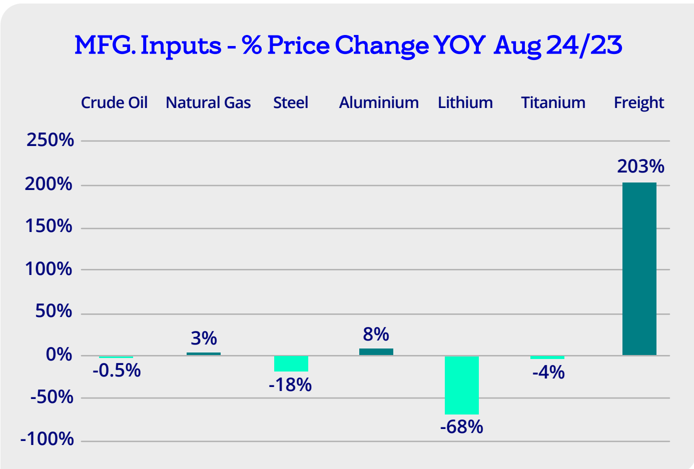


Table 5. Source: Tradingeconomics

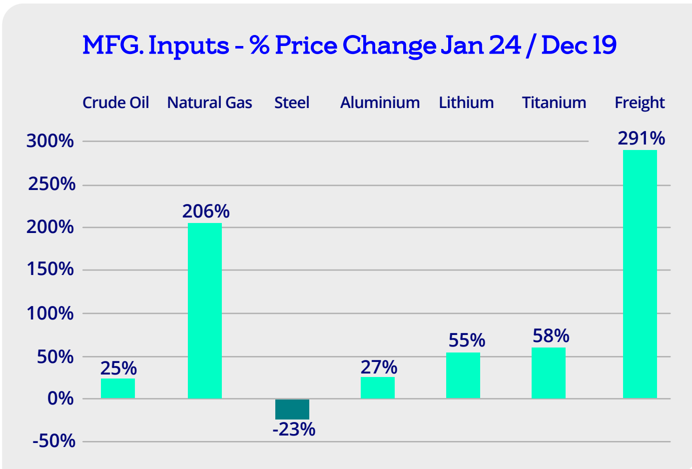


Table 6. Source: Tradingeconomics

Table 7. Source: CNN Jan 2024[26]

Lithium pricing is significantly down due to higher supply levels and a drop in EV demand. Freight is significantly up and is attributed to longer routes by virtue of avoiding the Red Sea and adding up to 15 days in transit times (Table 7). In addition, availability of empty containers is reduced due to longer time been spent on water. Natural Gas pricing is contingent on mild winters and robust storage strategies. Steel is down significantly at -18% YOY and at its lowest level since 2016. Overcapacity in and demand drop due to construction crash in China are drivers here.

Wage inflation rose to 4.3% in June 2024, higher than 2.5% 2019 levels.[27] This is an ongoing concern for SMEs as they are confronted with an array of cost increases including minimum wage, sick pay, pension enrolment. A laser focus on costs and margins will continue and given the risk of continued slump in EU, a further interest rate reduction is widely anticipated in September.

Spotlight on Northern Ireland and Comparison to UK and ROI

Following a recent visit to our office in Belfast, I thought it would be useful to share some data on Manufacturing in Northern Ireland. Northern Ireland enjoys a thriving manufacturing sector supporting 88,000 direct jobs and contributing 14% of economic output.[28] Home to a range of indigenous and well-known multinational players, Northern Ireland manufacturing subsectors include Industrial Equipment, Transport Equipment, Aerospace, Pharmaceutical, Medical Devices. See top ten sectors below.

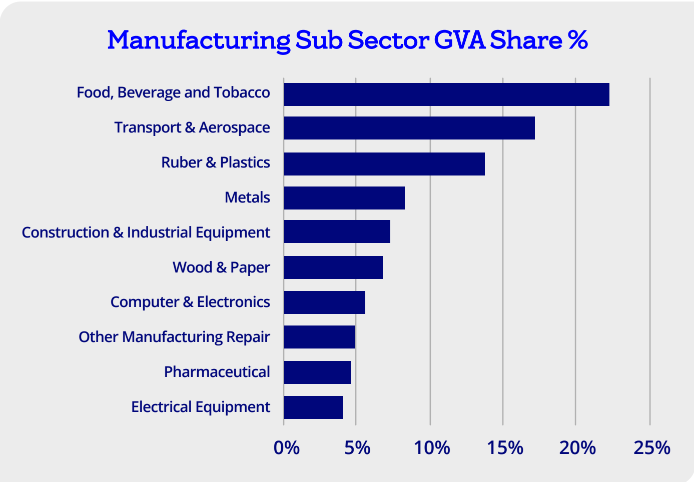
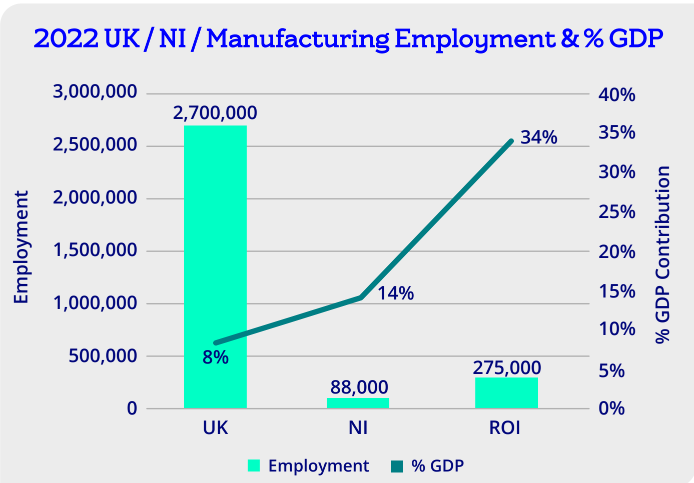
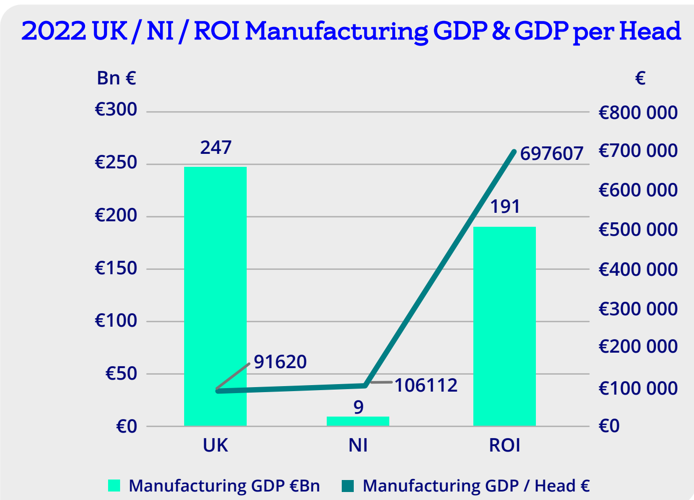


Table 8: Source: Manufacturing NI and Oxford Economics Report 2016 [29]

See tables 9,10 below which summarise and compare key metrics for Manufacturing in UK, NI and ROI.



Tables 9: Sources: Office for National Statistics and CSO [30]



Tables 10: Sources: Office for National Statistics and CSO [31]

This comparison brings into stark focus how highly dependent the Irish Economy is on Manufacturing and indeed the contribution made from foreign direct investment (FDI) and our huge portfolio of multinationals in the technology and pharma spaces. At almost €700,000 contribution per employee, compared to €92K for UK, Ireland ranks the highest in productivity of OECD countries. This leadership position provokes considerable debate about our exposure here and in particular on the corporation tax front. Bottomline is our manufacturing eco system has deep roots and strong anchors here. We are the only English-speaking country in the EU, are highly educated, hardworking, and strong relationship builders.

However, with our strong lead and in the words of Shakespeare's Henry IV, "Uneasy lies the head that wears the crown" - there is no room for complacency.

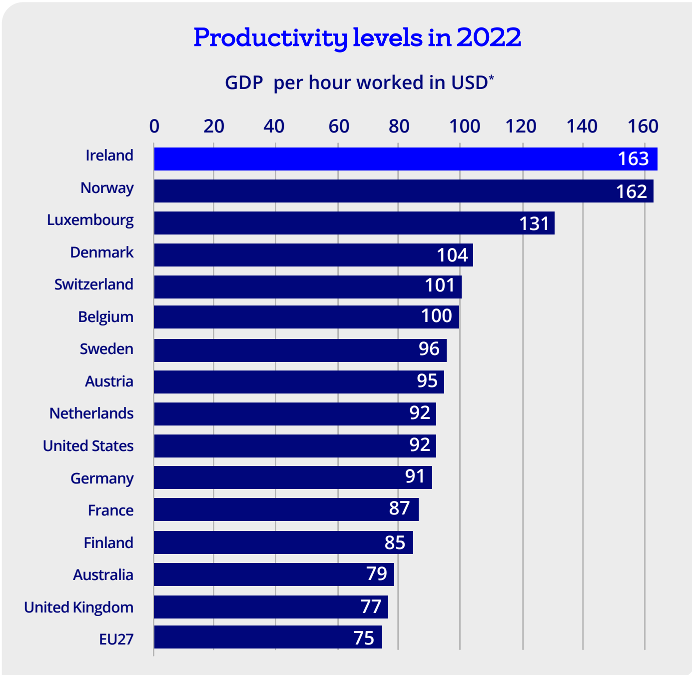


Table 11: Source: OECD [32]

Funding Activity in the Sector

- Funding activity levels in the sector reflects a number of trends including:
  - Caution in the sector given the uncertain macro-economic environment and ongoing geopolitical risks
  - High and significantly increased deposit balances driven by a bumper years in 2022 & 2023
  - High interest rate environment prevails
  - Relief from higher working capital needs given improved supply chain dynamics
  - Demand for funding stagnant at 18% according to a survey of 1,500 SMEs that was released in April 2024 [33]
  - M&A deal volumes are up YOY from 195 to 207
- Funding was dominated by working capital followed by M&A, MBO transactions and capital expenditure
- BOI continue to support clients against supply interruptions and inflation
- There is a wait and see element on interest rates and for funding options which offer lower fixed rates and are green related

Manufacturing 2024 Outlook and Beyond – Optimism despite macroeconomic clouds with focus on costs and margins.

Tailwinds 2024

- Irish Manufacturing activity continues higher than pre Covid levels
- Irish Manufacturing activity higher than EU peers
- US Manufacturing continues to expand
- Further interest rate reductions in H2 2024
- Resilient to economic cycles
- SMEs continue to benefit from MNCs reconfiguring their supply chains to local and more secure partners
- Key sectors of Pharma, Medical Devices, Data Centres, Modular Construction all growing
- Generally strong balance sheets

Headwinds 2024

- PMI, Industrial output, and GDP data all point to a moderation in growth
- "Oversupply" during supply chain crisis has resulted in gluts in certain sectors and constrained new order activity
- Capacity adjustments will impact employment levels
- Complex Geopolitics with unintended and unpredicted consequences
- Input costs remain high, margins are under pressure and customers seeking reverse of increases
- Labour shortages and competition for certain talent in a tight market continues

Despite all the "unpredictability", Irish Manufacturing is broadly positive for solid outcome in 2024. While overall growth may be on a knife edge, Irish Manufacturing is resilient and agile in navigating economic cycles. With a laser focus on costs and margins, combined with an eye for leveraging competitive advantage from green credentials, Irish manufacturing fundamentals are strong and well positioned for stronger growth in 2025.

Conor Magee

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Conor joined Bank of Ireland in 2021. He is an accomplished senior executive and brings with him significant business and manufacturing experience gained both In Ireland and internationally. He has a strong track record of business plan delivery, scaling and turnaround and is an expert practitioner in Lean thinking, supply chain best practice and cost management in the Manufacturing sector.

Conor held various senior positions in Cargotec, a global manufacturer of Industrial Equipment for Cargo handling and transport having worked in Ireland, China and Finland.

Prior to Cargotec, Conor worked in the automotive sector with Iralco Automotive and Magna Donnelly in Ireland and Opel AG in Germany. He holds an MBA from Michael Smurfit School of Business, a Mechanical Engineering Degree from UCD, and a Diploma in Business Coaching from Smurfit Executive Development.

Sources: CSO, ONS, Gov.ie, IBEC, Bank of Ireland, The Economist, S&P Global, Irish Times, Guardian, Europa.eu, statista, SBTi, tradingeconomics, ACEA, ECB, SEAI, DETE, GEP, CNN, Renatus, OECD

[1] PMI Releases (spglobal.com) Aug 2024
[2] Gartner Says Worldwide PC Shipments Increased 1.9% in Second Quarter of 2024 July 2024
[3] New car registrations: +4.3% in June 2024; battery electric 14.4% market share - ACEA - European Automobile Manufacturers' Association July 2024
[4] Switch to electric motoring stalls as EV sales fail to pick up in July – The Irish Times August 2024
[5] Global Total Semiconductor Equipment Sales Forecast to Reach Record $109 Billion in 2024, SEMI Reports | SEMI July 2024
[6] What's next for global construction equipment sales in 2024? - Construction Briefing March 2024
[7] John Deere - Investor Relations May 2024
[8] 8 Medical Device Trends and Outlook for 2024 (alpha-sense.com) April 2024
[9] Pharmaceuticals Industry Trends January 2024 | Atradius January 2024
[10] Global Supply Chain Volatility Index | GEP July 2024
[11] Consumer Price Index July 2024 - Central Statistics Office August 2024
[12] Drewry - Service Expertise - World Container Index - 08 Aug 2024
[13] GDP by Sector Quarterly National Accounts Quarter 1 2024 Final - Central Statistics Office July 2024
[14] Goods Exports and Imports June 2024 - Central Statistics Office August 2-24
[15] Industrial Production and Turnover June 2024 - Central Statistics Office August 2024
[16] Ireland's greenhouse gas emissions in 2023 lowest in three decades | Environmental Protection Agency (epa.ie) July 2024
[17] Ireland's Solar Revolution (irishsolarenergy.org) June 2023
[18] Sun Machines | The Economist June 2024
[19] Global trade has nearly flatlined. Populism is taking a toll on growth (worldbank.org) February 2024
[20] The biggest casualty in the EU's China EV tariffs? The climate | Article | Hinrich Foundation July 2024
[21] Half the World to Vote in 2024, With Global Ramifications (voanews.com) January 2024
[22] Irish economic model at risk in global subsidy war, finance officials warn | Business Post June 2024
[23] Real GDP growth rate U.S. 2023 | Statista
[24] US Government Debt: % of GDP, 1969 – 2024 | CEIC Data
[25] A global recession is not in prospect (economist.com)
[26] How the Red Sea crisis could clobber the global economy | CNN Business January 2024
[27] Year-on-year wage growth in Ireland rose to 4.3% in June (rte.ie) July 2024
[28] Manufacturing in Northern Ireland – A Powerhouse of Economic · CPL UK
[29] Insights | Manufacturing NI
[30] Home - Office for National Statistics (ons.gov.uk)
[31] Home - CSO - Central Statistics Office
[32] Highest and Lowest Productivity Levels in OECD-countries in 2022 (qery.no) April 2024
[33] gov - SME Credit Demand Survey – January 2023 –December 2023 (www.gov.ie) April 2024

Retail Convenience 2024
Insights and Outlook

Grocery/Convenience sector continues to perform strongly. Retailers navigating a turbulent economic environment linked to inflation, access to personnel and fluctuating consumer sentiment.

Retail Convenience: H1 2024 Review

Summary

- **Robust performance:** Robust performance delivered by the sector in H1 2024. A shift in consumer behaviour to increased frequency patterns coupled with increased engagement with own-brand ranges.
- **Inflation:** A stabilisation of price inflation for consumers – operators continue to address cost/overhead profile proactively.
- **Consolidation:** Increased consolidation has become a feature of the market with larger grocery/fuel operators expanding their store network and diversifying their sales mix.
- The large supermarket operators have been proactive in addressing cost of living concerns with targeted ad campaigns and voucher offers being strongly promoted.
- Margin growth and preservation have become an imperative for retailers linked to an increased cost framework driven by personnel, insurance and energy overheads.

H1 2024 Key Trends

- Strong growth in take-home grocery sales continued. Irish grocery inflation stood at 2.8% in July / August 2024 representing a normalisation of food prices in the market.The large supermarket operators have been proactive in addressing cost of living concerns with targeted ad campaigns and voucher offers being strongly promoted in recent weeks. As consumers seek cheaper alternatives across some product lines, all leading operators recognise that a strong own-brand offering is now critical to maintain customer engagement. Own-brand product sales increased by c4% compared to 2023 with the expansion of "Premium" / higher quality own-brand ranges delivering growth of c10%.[1]
- Dunnes and Tesco continue to vie for the number 1 position in respect of grocery market share. This has been driven by a particularly strong performance by Dunnes in the wider Dublin region whilst Tesco's increased market share reflects Joyce group integration/increased level of new store openings in recent times.

Sector Developments – Key Numbers

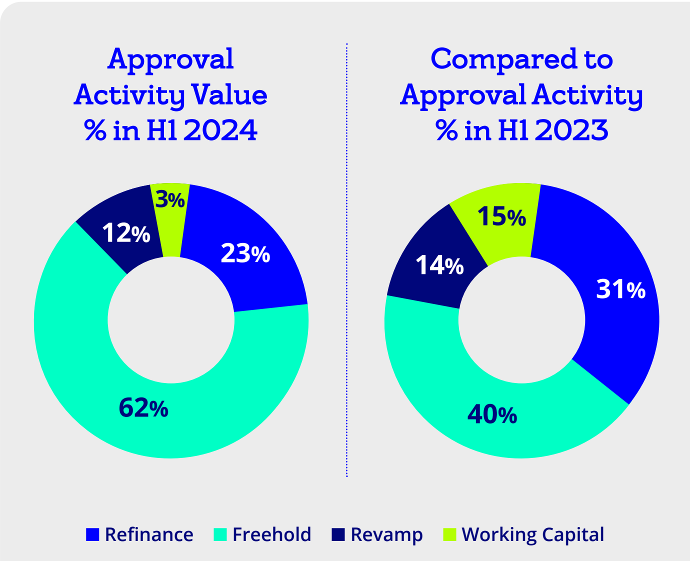
25	The milestone birthday celebrated by Aldi Ireland in 2024.[2]
€35m	Investment earmarked by BWG as it seeks to expand the Mace brand nationwide.[3]
50	Number of biomethane fueled trucks acquired by Tesco Ireland to service its 177 stores.[4]
7	Number of Gala branded stores acquired by Maxol from Naas Oils bringing their retail footprint in excess of 250 stores.[5]

[1] Kantar Irish grocery market share August 2024
[2] Aldi press release June 2024
[3] Mace press release February 2024
[4] Tesco press release June 2024
[5] Maxol press release June 2024

Key Activity in the Sector in H1 2024

- Shopping patterns reflected cost of living concerns with increased frequency (shopping little & often) becoming a feature of the market. As expected, food inflation, linked to a significant decline in international food commodity prices in recent months retracted significantly in 2024. As many food/drink manufacturers absorbed increased costs in 2023 to remain price competitive – it is expected that robust price negotiations will remain a feature of the market in 2024. Balancing consumer and supplier relationships will be key in this respect.[6]
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. COVID-19 has been a catalyst for some retailers to investigate future options in respect of both ownership and operational models.

Approval Activity Value %

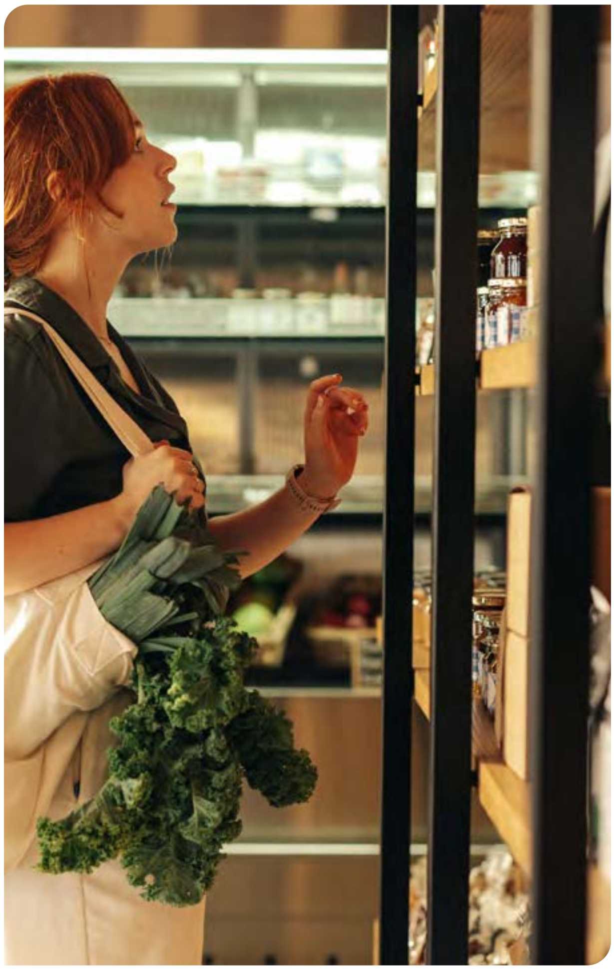


Bank of Ireland business banking data

- Recent studies across Europe have demonstrated that saving money on food remains a top priority across all income groups. This has led to increased engagement with own brand products and a discernible improvement in own-brand range / options across the sector. The proactive delivery of premium, healthy and sustainable products across the own-brand range will be required to meet customer expectations and preserve retailer margins.[7]

Sector Developments: Investment & Economic

- A significant level of new store openings/extensive store revamps has occurred in 2024 to date across all regions supporting job creation and the wider Irish business eco-system. This reflects both the competitive nature, robust financial health and positive outlook of the leading brands in respect of the Irish market.
- The increased cost and regulatory burden presented by the proposed living wage structure, pension auto-enrolment and insurance in a competitive environment has led to an up weighted focus on margin development/ preservation from retailers, wholesalers, and their advisors. Recruitment and retention of personnel in a "full employment" environment continues to be a key challenge for the sector.
- Consolidation and cross-sectoral partnerships remain a feature of the wider Irish grocery / convenience / forecourt market. Tesco integrating nine Joyce group stores within their network, Maxol trialing Dunnes Stores products in-store and Circle K purchasing nine forecourt convenience stores from Pelco just a flavour of transactions/activity in the market. Individual store sale activity increased significantly linked to succession planning, landlord de-leveraging and independent retailers expanding their store portfolios.
- The de-carbonisation of end-to-end operations remains a key focus for leading operators linked to supplier, Government and consumer expectations/requirements. Multi-million-euro investments linked to improving energy efficiency profile across the fleet, logistics and store network has been a feature of sector announcements / strategies in 2024. The requirements of International suppliers seeking to reduce their scope 3 emission profile under new Corporate Sustainability Reporting Directive ("CSRD") legislation will continue to act as a driver / incentive in the green transition of the Irish grocery / convenience sector.



Market activity focused on store investment and consolidation to continue within the sector. Margin preservation and environmentally friendly/carbon reduction initiatives to retain a key focus for 2024.

Retail Convenience: H2 2024 Outlook

2024 Key Numbers

350 million Number of bottles/containers processed by the Re-Turn scheme between launch on 1st February and 4th July 2024.[8]

20 Expected growth in Centra stores nationwide in 2024 per Musgrave Group supporting the creation of c500 new jobs.[9]

€30m Value of investment by Lidl Ireland across 250 suppliers who have participated in their Kickstart development programme.[10]

9 Number of forecourt/convenience stores acquired by Circle K from the Pelco group (subject to CCP approval).[11]

H2 2024 Retail Convenience Outlook

- **Robust Outlook:** Overall a resilient sector to economic shocks; Strong sales performance to continue but increased focus on margin preservation and cost management required to maintain profitability levels/leeway for investment.
- **Funding Activity:** Strong active pipeline of store purchase and associated revamp proposals– retailers recognise that customer experience/excellent standards will be key to attract and retain market share.
- **ESG Investment:** Increased investment in environmentally focused store network, waste management, circular operational framework and fleet fuel consumption to support targeted reduction in carbon emissions from the sector.

Market

- In a competitive labour market – sourcing and retaining the best people is vital to sustain a retail business. A structured employee development plan that incorporates role variety, up-skill opportunities and competitive remuneration needs to be embedded within the culture of the business. The smart use of digital/automation tools can deliver the dual goal of increased efficiency and an improved working environment. Retailers familiarising themselves with generative artificial intelligence ("AI") capabilities in this regard.
- Linked to the development of all personnel within the sector, The Irish chapter of LEAD has been established with the goal of attracting, retaining and advancing women in the retail and consumer goods industry through education, leadership and allyship.
- Significant revamp programme will continue to be rolled out in 2024 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards. Movement on revamp costs linked to fluctuating material supply base to be monitored closely. Detailed analysis pre and post revamp will be an imperative to ensure that a maximum return on investment is delivered via sales mix improvement, margin growth and cost saving.
- As consumers seek cheaper alternatives across some product lines, all leading operators recognise that a strong, diversified own-brand offering will be critical to maintain customer engagement as the inflationary cycle continues. However, Own-brand is not all about price/value – the development of premium, proprietary in-house food solutions can provide a strong margin-generating differentiation point for retailers when delivered effectively.
- In Ireland, the number of people aged over 65 has doubled in the last twenty years from c400k to c800k in 2023 equating to c15% of the population.[12] This statistic is expected to rise towards c1.5 million by 2050. At a European level, the "silver economy" is set to represent more than 35% of spending consumption by 2030. Given this exponential growth, meeting the needs of our senior shoppers should be a key focus area for all Irish retailers.

[8] Re-Turn press release: August 2024
[9] Centra press release: February 2024
[10] Lidl press release: June 2024
[11] Circle K press release: July 2024
[12] Irish Census 2022 - Central Statistics office

ESG

- Irish retailers are cognisant that a robust strategy for the de-carbonisation of their business model is required to meet Government, investor and consumer expectations/ requirements into the future. Corporate social responsibility linked to sustainable and environmentally friendly in-store activities will therefore be a key area of focus for all retailers – energy efficient equipment, elimination of single-use plastic, improved recycling facilities and reduction of food waste. This will enable an improved cost base whilst meeting consumer expectations in respect of ethical trading.
- Whilst feedback on the Irish deposit return scheme (launched on 1st February 2024) was initially mixed – engagement from consumers has improved month on month. Average daily returns in excess of 3 million were achieved in July resulting in c350 million units being processed in the first six months of the scheme.[13]
- Studies have identified that c90% of all emissions related to Retail are Scope 3 – linked to suppliers/consumers as opposed to direct emissions from the business itself/ purchased energy (Scope 1 and 2). To move the dial on Scope 3, retailers are starting to establish joint initiatives and incentivisation plans with their suppliers to support improved emission targets and the sharing of related data. In respect of consumer engagement – apps/tools that support customers to set and monitor climate targets for their shopping baskets are also on the horizon.

  Further information and links to resources are provided in our "**Short Guide to Sustainability**" attached to the end of this update.

[13] Re-turn press release August 2024

Funding Activity

- Store purchase strategies will continue to develop in H2 2024. COVID-19 has been the catalyst for increased levels of succession planning/retirement which is driving this activity.
- Revamp funding to continue with a particular focus on energy efficient equipment and processes.
- Robust refinance activity projected linked to loan book purchasers seeking to deleverage

Bank of Ireland

- In Bank of Ireland we recognise that we have a unique opportunity to support our customers and to enable Irish businesses and the communities we jointly serve to thrive.
- Our proven financial capabilities and appetite, combined with comprehensive sector expertise, provide us with a strong platform to meet the funding requirements of Irish retailers.
- We understand the investment cycle, including the need for regular expenditure to maintain growth and profitability in this dynamic sector, and we have a strong appetite to support progressive, innovative retailers in the further development of their businesses in 2024.

Owen Clifford

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Owen Clifford is Head of the Retail sector within Bank of Ireland since 2015. Owen is responsible for the continuing development of the Bank's growth strategy in this key area and has actively supported leading retailers and stakeholders in the sector to grow and develop their business in a sustainable manner. He is a regular contributor to national media and industry publications in respect of topical issues in the sector.

Owen has brought extensive industry knowledge and experience to this role, having worked in the retail sector with Musgrave Retail Partners Ireland where his role involved supporting independent retailers to maximise their profitability and to develop long-term, stable business models.

Owen holds a first class honours degree in Law and Accounting from the University of Limerick and is a Fellow of the Institute of Chartered Accountants Ireland and an Associate of the Irish Taxation Institute. He previously held roles with PricewaterhouseCoopers and Deloitte.

Technology, Media & Telecoms (TMT) 2024 Insights and Outlook

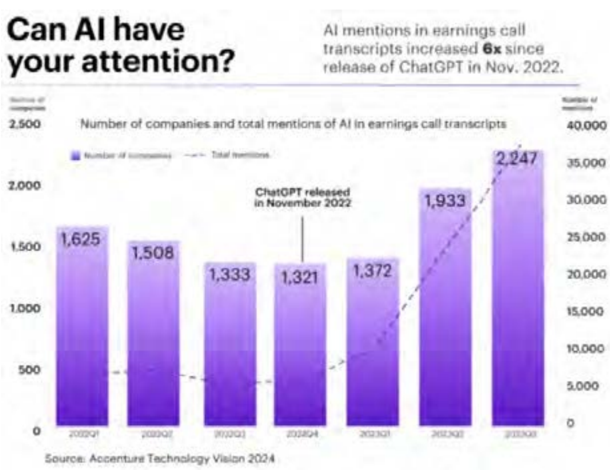
Summary

While all things relating to artificial intelligence (AI) continue to dominate technological discourse, business leaders remain cautious about investment in the technology. Maybe now is the time for those creating the technology to place more focus on demystifying its capability and derisking its benefits for businesses.

TMT 2024 H1 Review

Technology

Data from EY Ireland's recently published Tech Leader's Outlook[1] for 2024 made for interesting reading. Despite the high level of interest in AI among those surveyed, more than six in ten (62%) are not yet investing in AI technologies and do not have an AI strategy. Ireland's tech leaders have instead focused on ensuring their digital infrastructure and core technology is operating seamlessly. The cautious approach by AI leaders may be a bellwether for the adoption of the technology at large. The recent volatility in tech stocks that saw an estimated combined loss in value of c€1.3[2] trillion among the 'magnificent seven' (Nvidia, Apple, Amazon, Meta, Microsoft, Alphabet and Tesla) among other reasons, is said to have been caused by concerns about profitability around investment in AI by 'big tech'. Despite the extraordinary investment made in the technology, investors had become wary as to when they will see a return in the bottom line. Accenture published their Technology Vison[3] report earlier this year which highlighted that AI mentions in earnings call transcripts has rocketed since the launch of ChatGPT in November 2022 (see below). This says more about companies 'jumping on the AI bandwagon' in exaggerating their progress, than necessarily having concrete propositions to bring to the market. Those companies building transformational AI need to do more to educate their customers to help them be less cautious about investing in the technology. Maybe then, their investors will see a return. Time will tell.



Media

Bank of Ireland was delighted to partner with Animation Dingle earlier in its 12th year, to support all that is great about Ireland's animation industry. Over three days executives from global streaming channels, broadcasters and heads of studios descended on Dingle in what is a unique festival. In bringing together industry and students, it serves as an excellent platform to harness a pipeline of talent to support the growth of the industry here in the years to come. Pictured below is the legend that is Peter Lord, who is a regular visitor to Animation Dingle. If you look closely, you will see his good friend Morph. Readers of a certain age will remember Morph on BBC children's TV show, Take Hart back in the day. Peter is Co-founder of Aardman Animations studio which has received seven Oscar® nominations and have won four, including one for a Wallace and Gromit feature production.

Telecoms

The first half of the year saw Viatel continue on its growth journey with MJ Flood Technology being the group's ninth acquisition since 2020. This latest acquisition augments Viatel's leadership position in cybersecurity, cloud technology and communications. It has been a busy several years for the group, to say the least. They have moved from a traditional telecoms provider, in a deeply commoditised sector, to become a more broad-based cybersecurity, connectivity and digital services business. Over recent months Vodafone have been following a similar strategy as they too, have expanded their offering to include Microsoft 365, cloud services, data analytics tools and cyber security. Both companies are capitalising on their core offering of internet connectivity and augmenting their offering by providing additional services, competing with traditional managed services providers, paving the way for further consolidation in the sector.

2024 H1 Key Sector Trends

Cloud adoption soars: the number of Irish companies hosting all of their corporate systems in the cloud has more than doubled to 32%[4] up from 15% in 2023. While those that continue to retain their systems on premises and only use cloud for hosting of less sensitive data has fallen to 17%. These results demonstrate that businesses have come to trust cloud technology and the flexibility and scalability it offers when compared to legacy systems. The pandemic gave rise to usage of a proliferation of different cloud technologies as companies grappled to stay connected and in business and the growth in cloud storage demonstrates the maturity and confidence businesses now have in this type of infrastructure.

Investment in cyber security protection: Four out of five senior executives surveyed as part of PWC's Digital Trust Insight Survey 2024 said they planned to increase their cyber budget to meet their needs and secure their digital platforms, while also making provision to manage the integration of disruptive technologies this year. This dovetails with feedback received over recent months, with many of our customers operating and servicing the cybersecurity sector, reporting significant growth in demand for their services and technology. This demand can be explained from two perspectives, firstly, with the proliferation of cyber threats, companies must now have robust security posture in place to defend against potential breaches. Secondly, with NIS2[5] (EU-wide legislation on cybersecurity) on the horizon, which takes effect from October 18th next, along with regulatory compliance demands, are providing the catalyst for businesses to increase their investment in cybersecurity.

Tech talent continues to be a challenge: the trend of recent years continues as companies of every size in the sector face challenges with trying to hire skilled talent. Recent research from ManpowerGroup suggests as much as 81%[6] of Irish companies are finding attracting talent difficult. As one would expect, the more specialised and skilled the role, so too are the associated challenges of finding candidates to fill those roles. Those that are open to a move obviously have higher expectations around salary, bonuses, benefits and conditions, further adding to wage inflation. Restrictions in the mobility of talent is compounded by the housing crisis as the potential to hire talent externally is also curtailed. Ireland continues to be an attractive location for candidates outside the EU, but with the added complexity of requiring a work permit on top of finding accommodation adds to hiring challenges for employers.

Sector Developments - Key Numbers

€500m[7]

the value of grant funding made available through the Disruptive Technology and Innovation Fund (DTIF) to new projects as part of Call 7, that is open for submission of applications.

€8m[8]

the amount of funding raised by CleverCards (a digital payments platform). This investment will be used to expand its business, scale its products and explore new opportunities.

200[9]

the number of new roles being created by KPMG at their EU AI hub in Dublin, over the next three years across areas such as risk, regulatory services and cyber security.

79%[10]

by value, the proportion of (M&A) deals accounted for by the TMT sector in the first half of this year.

€237m[11]

the figure presented by An Garda Síochána reported as stolen in cyber-enabled frauds, in the period 2020 to 2023.

Key activity in the Sector:

M&A

The trend of recent years continues, as the TMT sector leads the way in terms of performance in Ireland's M&A market, according to William Fry's latest, M&A Half Year Review[12]. Seven of the 20 largest transactions so far this year have taken place in this sector, including the top two. TMT sector was also the highest in terms of volume of deals at 28%, albeit down from 32% for the same period last year. What's interesting about the types of deals being done, is how they demonstrate interdependencies in the TMT sector and the cross over into industry related infrastructure deals. These include Phoenix Towers International's acquisition of Cellnex Irish mobile masts business and Blackstone's acquisition of Winthrop Technologies to acquire digital infrastructure. Also noteworthy during the period saw the Swedish private equity firm, EQT acquire Keyword Studios for €2.6 billion.

Recent Venture Capital investment in the sector

Venture Capital funding continues to show some worrying signs. The IVCA recently published results for the first half of the year which shows overall funding fell by almost a quarter (22%) on the same period last year to €752.7m. Yet, interestingly funding in the second quarter was the second highest on record at €494m, up 7% on the same period last year. Crucially this latest report shows that funding for those businesses looking to raise in the €5-€10m range fell by 44% on the same period last year.

Most of the deals in the €10m+ range, which performed well in the last quarter, 90% of the funding came from international investors, which continues to demonstrate how reliant those businesses are on external investors. Seed funding held up well in the quarter which can be seen from the activity of Delta Partners.

Delta Partners Investments H1 2024

Delta Partners continue to invest in Ireland's scaling technology sector and have been busy during the first half of the year, as they continue to invest in seed and early-stage start-ups. Bank of Ireland and Enterprise Ireland are cornerstone investors in this fund along with Fexco and several family offices.

Investments during H1 include:

ZeroMission: the Clonmel based leading provider of an EV fleet management platform for commercial electric vehicles (EV's), secured $3m investment to continue its growth and expansion strategy. The round was led by Delta Partners and Greencode Ventures.

STRATxAI: the Dublin based Fintech, successfully raised €1.5m and officially launched 'Alana' a powerful investment platform that leverages AI to generate smart investment portfolios. The product is already active with investment industry partners including eToro.

Jamango: the Dublin based developers of a browser-based game creation platform raised $2.5 million to accelerate development ahead of launching globally later this year. The pre-seed funding round was co-led by Delta Partners and Elkstone with additional funding from notable angel investors including Brian Caulfield (Chair of Scale Ireland), Brendan O'Driscoll (VP of Product at Figma), and Conor Sheahan (Founder of CKS Finance) who joins as Chair.

Inspeq AI: the Dublin based AI company raised $1.1m in funding. They are on a mission to help global companies deliver a safe, secure, and responsible AI Future. Specialist AI investment firm Sure Valley Ventures lead the funding round, with participation from Delta Partners.

MarketSizer: the Dublin based market intelligence platform that helps SaaS vendors to grow their business with insights on the commercial activity of their competitors, closed pre-seed funding round, totalling €1m. The round was led by Delta Partners with additional support from Enterprise Ireland and angel investors.

We are finally seeing cloud technology becoming ubiquitous, almost three decades since the term was first invented. This will inevitably contribute to further growth opportunities for cloud, data and SaaS providers over the remainder of this year, through 2025.

TMT 2024 Outlook

Key 2024 numbers

€100m[14] the amount of annual funding being called for by Technology Ireland in their Budget 2025 submission to meet national and EU digital transition targets (2025 – 2030).

40% the increased rate of Section 481 tax relief (from the current rate of 32%) that Screen Producers Ireland are calling for, in relation to all eligible Irish expenditure to safeguard the production of films in Ireland.

13.5%[15] the reduced VAT rate being requested by Telecommunications Industry Ireland, in their Budget 2025 submission, to achieve National Connectivity Strategy goals, promoting fibre and 5G connectivity.

€250m[16] the record allocation announced by Enterprise Ireland for a new cycle of the Seed and Venture Capital scheme for the period 2025 through 2029.

71%[17] the volume of (UK) respondents of KPMG 2024 Global ESG due diligence study that reported the important of ESG in M&A transaction over the last 12 to 18 months.

Technology

Despite recent macro challenges the sector remains resilient, benefitting from the expansion of digitisation and digitalisation of every sector. As more businesses expand their digital footprint through the adoption of technology platforms and tools, many of our customers that are managed service providers will inevitably maximise these opportunities. As already alluded to, cloud service and storage providers will continue to see growth over the remainder of the year through 2025. Further education of the market in how to integrate AI more easily is needed, do derisk the investment, for businesses. In this regard, the European Digital Innovation Hubs (https://ceadar.ie/edih/) have a role to play. They are not for profit and have a mission to help businesses better understand where AI can empower organisations.

Media

Looking ahead at the live action/creative space, it will be interesting to see how the government react to the UK increasing tax incentives to 40% net tax relief (up from 25%) for independent feature films. This new legislation announced in March 2024 was enacted before the UK general election. This presents a significant advantage on the UK production sector and will be interesting to see, what, if any, changes are made in Budget 2025 to safeguard Ireland's growing film production sector.

Telecoms

Ireland's traditional telecoms sector continues to mature with the mobile market continuing to be dominated by Vodafone Ireland and 3 Ireland, followed by Eir. Smaller, Mobile Virtual Network Operators (MVNO) such as Tesco and Virgin Mobile make up the majority of the remainder of the market. With such saturation and limited growth opportunities it is inevitable these players will seek to expand their services offerings, similar to that of Vodafone, referred to earlier in terms of providing digital add-on services. We are likely to see a continued drive to expand subscriptions on 5G networks that will include Machine-to-Machine (vehicle telemetry, asset tracking etc.) and ramping of Internet of Things connectivity to increase the breadth of existing and new revenue streams, in a saturated market.

AI - creating a strategy for business

There has been so much 'noise' associated with AI of late, one would be forgiven for being overwhelmed as to how and what a company can use it for, or if they need it at all. Much of the narrative continues to focus on whether it will replace humans and take their jobs. In reality, AI tools will not take people's jobs, but those companies that are using the technology, could. Recently we have heard from customers across different sectors looking for advice on how they can begin to integrate AI in their businesses. Thus, below I set out a step-by-step approach that could help companies craft an AI strategy for their business.

Step 1: Important to Start with an open mind, do not be afraid of, or intimidated by jargon, terminology, or the technology.

- Remember that AI is a tool, that in simple terms helps machines and computers carry out activities, that would typically require a human mind to do, such as reading from and learning data or making decisions.
- Everyday examples of AI in action:

  - Smart assistants: Siri, Google, Alexa and Netflix, where your interactions with the technology helps them (machine) learn your preferences and likes and dislikes so that in future they can create personalised (AI) recommendations.

  - Look at how other businesses in your sector are using AI. Common uses include customer service or supply chain management, but the applications/potential uses are infinite.

Step 2: What do you want to achieve.

- Ask yourself, what is your objective, what are your business goals? How would you like AI to help you achieve them?
- Is it operational efficiency; cost efficiency/reduction; better customer service; increase sales/enter new markets or create fresh marketing collateral/branding?
- Focus is very important, there is only so much one can tackle at any one time, so it is best to concentrate on the most important/pressing business goal(s).

Step 3: Assess your current position.

- Data: how do currently collect data, are you collecting enough and in the correct way? AI works best when it has data from which to learn from. Your objective here is critical, what do you want to learn, is it from sales, your customers or new markets? Do you have useful data stored digitally?
- You need technology: to use AI you will need access to technology such as computers, software and access to data storage.
- Using AI as a tool: the next most important asset is having the correct and relevant skills set to work with AI. Have you got the requisite skills set within your team, if not, you need to think about how you upskill/hire the talent or engage experts to manage the process for you.

Step 4: Create a plan to map your AI journey.

- Having looked at your goals and your internal capabilities, now capture how you will start using AI in your business. You might decide, you want to focus on a project that looks at how AI can help you better understand sales trends, customer patterns or how to optimise distribution channels.
- Budget and time: then, similar to other project planning, you need to put a price and a timeline on the project.
- Ideally start with a small project to test how you work with AI which could be on sales trends, then review to assess what went well with a view to improving as you progress.

Step 5: Once comfortable, you can begin to grow your AI activity.

- Increase AI integration: provided you are successful with an initial/pilot project, you can then begin to assess how it can be used across other parts of your business divisions and operations.
- Important: critical to ensure your team are included at every stage to help them adapt. They need to see it as a tool to help them with their jobs, not to replace them. Gaining their buy-in and increasing their comfort level is important. Follow this with the provision of the necessary training and supports to help them integrate AI tools within their workstreams.

Step 6: Seek to continuously improve.

- Need to constantly assess your progress: continue to check how AI is helping to achieve business goals.
- Maintain vigilance: the AI industry is rapidly evolving. Need to stay abreast of new/advanced tools and methodologies as they come on stream so that they can be adapted and use to support your business.

Step 7: Critical to embrace and adopt a data-driven culture.

- Data-First Approach: Need a top-down bottom-up approach to ensure everyone in your business embraces and uses data when making decisions. Don't tell me what you know, show me what you can prove. The more the business relies on data, the better the outcomes from using AI.
- Collaboration is key: Need to engender an environment where sharing ideas and working together on AI projects is part of the DNA of the organisation and becomes business as usual.

In summary, these steps are set out as a guide to help businesses struggling with not know where to start their AI journey. They can be used to gradually introduce AI into a business, helping it to introduce the concept, test its use and hopefully use it as a tool to help them grow and become more efficient while maintaining competitiveness and relevance in the market.

Launch of National Enterprise Hub[18]: this new all-of-government service was launched recently by Minister for Enterprise, Trade and Employment, Peter Burke TD. It's staffed by experts and trained advisors with the aim of helping businesses access a range of government supports. For the first time a service had been put in place that brings together all of the various 180 supports (such as grants, loans, funding, government schemes and expert advice) across 19 different government departments and state agencies, all accessed through one portal. In short, it's a one-stop-shop to make it easier for entrepreneurs and business leaders to access available supports. For more information log on to: https://www.neh.gov.ie/

Grow Digital[19]: Minister of State for Trade Promotion, Digital and Company Regulation, Dara Calleary TD recently launched a new website that allows businesses to take an assessment which then provides them with a digital scorecard. They also get advice on the various supports available to them to improve their offering and through digital technologies. Grow Digital has lots of case studies with various digital success stories from a range of different businesses, showcasing how they have embraced digital solutions to boost their operations. The launch of Grow Digital is a key deliverable under Harnessing Digital, Ireland's National Digital Strategy. For more information log on to: https://www.growdigital.gov.ie/

Cyber Readiness Institute (CRI): it was launched in 2017 and is based in the United States. Its founding partners are Mastercard, Microsoft, The Centre for Global Enterprise and PSP Partners. It was set up with a view to creating and developing free resources to improve cyber readiness among small and medium sized enterprises (SMEs), while securing global value chains. This resulted in the creation of the Cyber Readiness Program that guides SMEs to become cyber ready. It is a free program that will help make businesses safer, more secure and help defend against cyber threats. It also provides excellent tips and advice to help educate employees to know what it means to be cyber ready. To access this free program or for more information, log on to https://cyberreadinessinstitute.org/

Funding Activity

- Funding international expansion continues to be a key driver behind much of the activity we are seeing and we expect this to continue through the remainder of the year.
- Refinancing of alternative lenders is also a key driver, as founders seek to reduce their cost of capital to bring repayments back to typical senior debt levels.
- MBOs and continued consolidation across the Managed Service Providers space has been a feature of the year so far repeating the trend of recent years, with similar deals in the pipeline that will drawdown over the coming months

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In Bank of Ireland, we recognise that we have a unique opportunity to support our customers, help enable Irish businesses and support the communities we jointly serve to thrive. Our understanding and comprehensive sector expertise provide us with a strong platform to meet the funding requirements of Irish Technology, Media, and Telecoms companies. We have an appreciation of the diverse types of businesses, revenue and growth models.

We are delighted to continue to provide various facilities to some of Ireland's best-known TMT brands. By having a designated TMT team, we can deliver on our ambition to support Ireland's indigenous Technology, Media and Telecoms Sector, with the experience, the knowledge and most of all an understanding of your business.

Talk to our Technology, Media & Telecoms Team today, to see how we can help you grow your business.
Email: TechnologyMediaTelecoms@boi.com

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Paul joined Bank of Ireland in 2019 as Head of Technology. He has a background in technology transfer having previously worked at the ADAPT Centre at Trinity College, Dublin, and the Walton Institute at Southeast Technology University, where he led commercialisation activities, while also guiding and supporting new venture creation and spinouts. He managed the Consumer Technology portfolio for IDA Ireland across New England and Eastern Canada. He also led corporate business development activity for Eishtec (an Irish start-up acquired by Infosys) across the North American market. He holds a Master of Business in International Management from Southeast Technology University.

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