Bank of Ireland

Sector Insights & Outlook

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Foreword

Welcome to our latest Sector Insights and Outlook publication.

I hope that you, your families and customers are safe and well in these challenging times. At Bank of Ireland, our focus is on building strong relationships with our customers and their advisors. Our sector specialists are recruited from industry, giving Bank of Ireland a unique understanding of the individual sectors and the opportunities and challenges that businesses face. The team are ideally placed to deliver solutions and support to enable our customers and their businesses to thrive. They work alongside our relationship managers and this combination of industry and bank expertise aims to deliver a real customer centric focus and a value add proposition for our customers' business.

In this edition of our Insights and Outlook, we outline the latest developments, head-winds and opportunities across ten pivotal sectors; Agriculture, Food & Drink, Hotels, Pubs/ Restaurants, Pharmacy, Long-term care, Manufacturing, Motor, Retail and Technology.

We also deliver regular bespoke webinars and podcasts aimed at both business owners and their advisors navigating a marketplace impacted by Covid19, Brexit and fluctuating consumer behaviour.

If you would like further information or to engage directly with one of our sector specialists, please feel free to contact me at June_M_Butler@boi.com. The contact details for all of the individual sector heads are also outlined within the individual sector documents contained herein.

Wishing you and your business every success for the remainder of 2020 and beyond.

June Butler

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Agriculture
2020 H1 Insights

The first half of 2020 was dominated by the COVID-19 pandemic which caused unprecedented challenges for the global economy. Although the agri sector was more insulated than other sectors of the economy, the COVID-19 related disruption had a direct impact on global agri commodity prices as the closure of restaurants and cafes led to a collapse in food service sales.

As farming has no off switch and supply continued, a sudden drop in demand created a pronounced market imbalance which was felt all the way back to farm gate prices. Furthermore, challenging weather conditions, including an exceptionally wet winter followed by an exceptionally dry spring and early summer, have impacted crop yield potential and grass growth rates coming into the second half of the year.

Dairy

For the first four months of the year global milk supply has been strong (+ 1.3%) with Irish supply up by 3% (European Commission). April saw a slowdown in global supply growth, driven by reducing milk prices, measures to reduce supply over peak, dumping of milk in the US and UK and dry weather across Europe. The closure of food service (which consumes 20% of dairy volume in Europe) caused significant disruption to global dairy markets and while retail sales increased, they did not fully compensate for the losses in food service.

The onset of COVID-19 in China at the turn of the year and its subsequent spread across the world saw the upward movement in global dairy product prices, visible in Q4 2019, stall in Q1 2020. Irish milk prices in 2020 were forecast to remain similar to 2019, at 34c per litre (Teagasc, Annual Review and Outlook 2020), at average fat and protein. In mid-March when the pandemic was sweeping through Europe, global dairy commodity prices were reflecting a milk price 20% (6c/l) lower than the Irish farm gate price at the time. Dairy markets have since bounced back and actual average base milk prices have fallen less than 10% (3c/l).

Beef

Since autumn 2018, beef farmers have endured a prolonged period of exceptionally low beef prices. This is as a result of excess supply across Europe, on-going Brexit market uncertainty and sterling/euro exchange rate fluctuations. As a result the Government introduced the Beef Exceptional Aid Measure (BEAM) scheme which provided €100m of support for the industry.

COVID-19 caused major market closures and disruptions across the sector, including the important live export trade. The closure of livestock marts during the peak trading period severely disrupted the domestic livestock market. The closure of food service, which accounts for over half of sales of premium cuts (steaks), eliminated a key market overnight while also creating a carcass imbalance driving down prices.

This impact of COVID-19 caused the national kill to fall 6.5% to 804,508 head (DAFM) and live exports to fall 22% to 174,721 head (Bord Bia) in the first six months of the year. Before the impact of COVID-19, Cattle prices (R3 steers) were down 20c/kg or up to €100 per animal compared to the average of 2017 and 2018 levels. And when Europe went into lockdown cattle prices collapsed 40c/kg to €3.50/kg-€3.60/kg. They have since recovered c. 20c/kg to €3.65/kg-€3.80/kg but remain below 2018 levels. (DAFM)

Tillage

The first half of the year was one of two weather extremes. Firstly the autumn and winter of 2019 proved very difficult for Irish tillage farms, with above average rainfall leaving many farmers unable to complete their planned winter sowings and forcing them to switch to lower yielding spring crops. Overall the area planted to winter crops (wheat, barley and oats) declined by 40% while the area planted to spring cereals increased by almost 60% (DAFM). Then a particularly dry spring/early summer severely affected crop potential. The difficulties caused by the weather were somewhat compensated by low disease pressure helping reduce crop protection costs. Other input cost such as fertiliser and fuel were also lower.

Pigs

Asian demand drove a 25% year on year increase in European exports, helping offset COVID-19 disruption. There has been a significant and growing global deficit of pigmeat as a result of the African Swine Fever (ASF) outbreaks in China in late 2018 and into 2019. This has seen an increase in pig prices in late 2019 and early 2020 to a relatively high €2/kg which has helped pig farmers to rebuild reserves.

However, COVID-19 has severely disrupted supply chains and especially impacted exports from Ireland and the EU to China. Irish pig processors had a backlog of products in cold storage which has resulted in a decrease in the pig price of 20c/kg or €17 per head (DAFM). Plant closures and weak foodservice demand has also impacted negatively on the price.

Land Sales

The average price of land in Ireland last year remained steady (down 1% on 2018) at €8,971/acre (Irish Farmers Journal Land Price Report 2019). The number of acres offered for sale last year fell 13% 61,506ac, which continues the downward supply trend of the last three years. Since 2009, the average price has hovered between €8,700/ac and just under €10,000/ac (IFJ Land Price Report). Since the price collapse of 2009, markets equilibrium appears to have been reached. While prices may deviate in certain counties or regions, average prices are relatively stable.

Agriculture
2020 H2 Outlook

The speed of reopening the food service sector across the world is key to improving the supply-demand imbalance created by COVID-19. However many other factors such as global economic growth, weather and Brexit will determine the speed and extent of the recovery in global agri commodity markets.

The outcome of Brexit negotiations will determine the way in which Ireland will trade with the UK in future. Any outcome other than continued tariff free access to the UK market will present significant challenges for the sector. Brexit aside and assuming a normalisation of recent weather patterns, incomes are expected to reduce across all farms this year. A global recession may impact demand growth in the medium term and delay a recovery to pre COVID-19 levels for dairy and beef.

Dairy

Dairy markets remain delicately balanced. While tighter supply growth combined with increased buying activity has helped firm global commodity prices for the moment, it is likely that supply will outweigh demand in the second half of the year. Furthermore, once government aid programs unwind, the economic impact of COVID-19, coupled with a global recession, will likely weigh on global dairy demand.

Nonetheless, 2020 offers the prospect of strong, continued growth – albeit at lower levels than seen in the last few years. Dairy farmers have some capacity to reduce their production costs in response to lower milk prices. The COVID-19 driven reduction in oil and energy prices will see reduced fuel, energy, fertiliser and feed costs. Despite reduced production costs, lower milk prices in H1 will mean lower profit margins on dairy farms in 2020. It is expected that conversions of dry-stock and tillage farms to dairy will continue to be a feature of the sector given its relative profitability and lower reliance on the EU funded Basic Payment.

Beef

It was expected beef prices would improve in 2020 as a result of increased demand from China following a cull of almost half its pig herd last year due to African swine fever. While this may support prices in the longer term, the reduced kill and lower live exports numbers as a result of COVID-19 (an extra 100,000 animals remain in the system), will likely keep prices lower in the medium term. The overhang on farms may act as a drag on prices in the coming months, until markets achieve more balance.

A contraction of supply is expected over the longer term which will stabilise prices. This is in the context of heightened competition globally due to increased output from the US, Brazil and Argentina in particular.

A new €50m compensation scheme for beef farmers to compensate for a fall in prices due to COVID-19 could see a payment of €100/hd for cattle slaughtered during February to June. With almost 50% of Irish beef exports going to the UK market, Brexit uncertainty continues to present challenges for the sector, as do supply side pressures at national and EU level and the potential impact of ongoing trade negotiations. Lower inputs costs (feed and fertiliser) will help margins however will not make up for the drop in factory prices meaning lower profit margins on beef farms in 2020.

Tillage

The switch to spring cropping coupled with the prolonged dry weather is expected to significantly impact on Irish grain supply in 2020 and could reduce it by as much as 17% (Teagasc). Straw yields are expected to fall by 25% due to a combination of lower yielding spring crops and drought (Teagasc).

Record low maize prices (as a result of low oil and ethanol prices) are dragging down all grains. While this could lower prospects of recovery, other factors such as global weather events could have a larger impact on prices in the medium term.

Alcohol sales have fallen 30% (Drinks Ireland, IBEQ) as a result of COVID-19, leading to a reduced demand for grains destined for the brewing and malting industries. This will push more grains onto the feed market.

Locally, feed demand could increase, reducing carryover stocks and giving some strength to native grains later in the year as an increasing number of mills opt to use Irish grains The straw price is expected to double (from a low base) in 2020 given the reduction in supply and low carryover stock.

November futures indicate a price of €180/t for dried wheat and €165/t for dried barley (MATIF/LIFFE). Prices are currently available for green wheat at €155/t and green barley at €135/t for harvest 2020 which puts them €20/t lower than Harvest 2019. A price of €172/t is currently available for malting barley for harvest 2020.

Despite reduced input costs (lower fertiliser and fuel prices), lower grain prices and yields will mean lower profit margins on tillage farms in 2020.

Pigs

Irish pig prices are currently running at €1.64c/kg – €1.68c/kg (DAFM). The outlook for the remainder of 2020 looks more positive albeit there is some uncertainly as to when a recovery in prices to levels seen pre COVID-19 will start. As restocking will take time, it is expected that there will be a further drop in Chinese production in 2020, which will reduce overall pork production. An improvement in prices will be driven by the underlying worldwide shortage of pigmeat.

Feed prices are the other main determinant of pig farm margins and it is expected there will be some stabilization in pig feed prices in the second half of the year driven by weaker grain and oilseeds prices.

Summary

Bank of Ireland remains optimistic about the prospects for the Irish agricultural sector. The sector has a global competitive advantage from its low cost grass based system. The sector overall is lowly geared and has been deleveraging over the last decade.

Challenges remain, including the threat of a hard Brexit and our dependence on the high value UK market for many of our key commodity exports. Ireland remains heavily self-sufficient in beef and dairy products in particular and producers will continue to be exposed to international commodity markets that will remain cyclical and volatile. The industry has become familiar with price volatility over the last decade and has introduced tools and measures to allow farmers better manage sustained periods of low commodity prices.

Our stability, proven track record and investment in people with agricultural know how, provide us with a strong platform to support existing and new customers through these cycles and continue to meet the funding and investment requirements of Irish farmers and agri-businesses.

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Eoin joined Bank of Ireland in 2020 as Head of Agri, from the Irish Farmers Journal, where he served as Agribusiness Editor upon joining the paper in 2014 and served as Deputy Editor from 2017 until his departure. He also has extensive experience in Irish and international Agri business, including 5 years as Managing Director of Target Fertilisers. Eoin holds a Masters in Agricultural Science from UCD along with an MBA from Smurfit School of Business.

Sources: Irish Farmers Journal, Teagasc, Central Statistics Office (CSO), Department of Agriculture, Food and the Marine (DAFM), Bord Bia, Euromonitor, European Commission, Drinks Ireland (IBEQ), Marché a Terme International de France (MATIF), London International Financial Futures and Options Exchange (LIFFE)

Food & Drink
2020 H1 Insights

Summary
The industry came into 2020 in a strong position, with significant export growth and broadening horizons as new markets opened in Asia. COVID -19 began to affect exports to China at the end of Q1 and this effect spread to the UK & Continental Europe from April onwards. While sales into the retail channel increased, foodservice dependent companies and sectors were badly affected. From a sectoral perspective, dairy remained more resilient than others, with the meat, fish and alcohol sectors all experiencing significant declines in exports, resulting in an overall decline in exports of 1% in the year to April. As an essential industry, most food processors remained open during even the strictest part of the lockdown; however they were at the forefront of adapting business models to the new physical distancing protocols.

2020 H1 Insights
Despite the challenges of COVID-19, the Irish Food & Drink sector has remained resilient. Looking to H2 the spectre of a no-deal Brexit remains a threat. Industry focus will continue to remain on diversifying into new markets, while preparing as much as possible for all possible Brexit outcomes.

Key Sector Trends
Change from Foodservice to Retail
The primary effect of COVID-19 on the sector was to move consumer demand from foodservice channels into retail. Food & Drink supply chains have become increasingly more complex and specialised; therefore it was not easy for foodservice oriented suppliers to change their product immediately to fit retail. For many, this proved detrimental to their overall business performance. Others managed to innovate and open new routes to market via their own website or by cooperating with new partners. Even within retail, as consumers focused on reducing their trips to the supermarkets, impulse and grab & go categories were abandoned in favour of long life take home staples. As a result of these new customer buying patterns, supermarkets reduced their range significantly with artisan producers in particular impacted by the reduced range.

Market Volatility
The rapid change of demand from retail to foodservice and the ripple effect as COVID-19 moved from China to the West caused considerable market volatility. This resulted in a significant decline in most commodity prices - creating headaches for primary producers and processors, but giving some relief to secondary processors. Commodity prices have begun to harden during the latter end of Quarter 2. Market volatility has been well illustrated by the impact on Norwegian salmon prices as a result of fears that they were linked to a COVID-19 recurrence in Beijing. Despite Chinese authorities confirming that there was no link, markets effectively closed and at one stage €1.3Bn was wiped off Norwegian aquaculture companies listed on the Oslo exchange.

Operational Complexity
Food processors were at the forefront of process innovations to ensure their plants continued to run even during the height of the lockdown. A range of measures were implemented such as additional PPE, Perspex screens and slowing of production to allow for greater distancing. For most operations, while this added complexity and cost it was effective in terms of staying COVID free. Meat processors, particularly those with large deboning operations, struggled to avoid COVID outbreaks in the early stages and a more widespread testing regime was introduced which appears to have successfully reduced the incidence of COVID in Ireland, if not abroad.

Supply Chain Pressures
Even before COVID-19 hit, Irish chilled & frozen exporters were coming up against challenges in accessing suitable containers for export. This was due to a backlog in China, where import of frozen pig meat had increased significantly due to African swine fever. As COVID-19 lockdowns hit China this was exacerbated. Sailing schedules across the board were hit resulting in significant delays on both imports and exports. Air freight was particularly affected with prices rising fivefold during the lockdown. This supply chain disruption, allied to market closures, resulted in a significant premium for cold storage.

Changing Export Profile
Over the period Jan-April 19, the UK accounted for 38% of our overall exports. This was partly due to Irish exporters building up stock profiles at the end of Q1 2019 in the UK, in advance of that quarter's Brexit deadline. For Jan-April 2020 the UK has returned to a lower level of exports - accounting for 34% of the total number.

Exports to the USA have also declined, mainly as a result of last October's imposition of tariffs. Dairy products, such as Kerrygold Butter and Dubliner Cheese, which accounted for 21% of our exports in Jan-April 2019, are now subject to 25% tariffs in the USA. Dairy exports fell by 16% for the four months of 2020. The effect of lockdown on US whiskey sales, which are particularly exposed to the out of home sector can be seen in the 24% decline in beverage exports, with over 80% of the decline occurring in April.

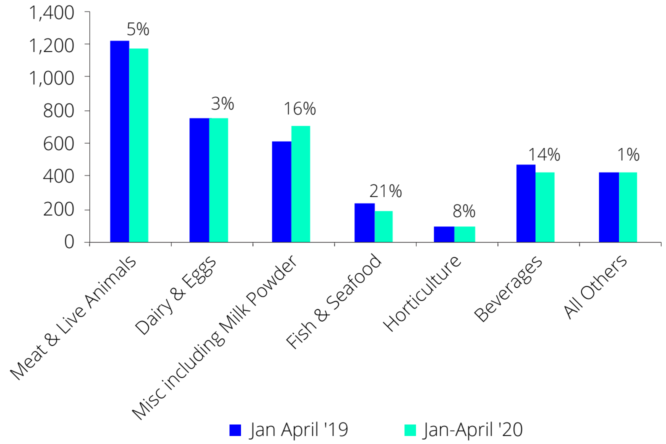
The success of market diversification strategies pursued by the industry can be seen by the fact that exports to countries outside of the USA and Europe grew by 20% in the four months to April.

Table - Export Size & Growth by Geography

€000s	Jan-Apr 19	Jan-Apr 20	Diff	% Ch.
UK	1,545	1,384	-161	-10%
EU	1,356	1,356	0	0%
China	272	299	28	10%
USA	333	287	-47	-14%
Others	604	748	145	24%
Total	**4,110**	**4,075**	**-35**	**-1%**

Source: CSO

Food & Drink Exports by Sector (Jan - April 2020 vs a year ago)



Source: CSO

Key Sector Activity
The continuing desire by consumers for healthier food lead to a number of strategic mergers, acquisitions and launches at the start of 2020, before COVID-19 broke. Kerry announced the acquisition of two North American companies that focus on the area of clean label ingredients. Strong Roots, the Irish vegan frozen brand, announced the expansion of its US footprint with a new office and extended distribution. There were a significant number of plant based product launches in all segments of the market from artisans to larger players.

Whiskey investment and development continued apace. There were a number of cask club launches as distilleries looked to interest investors in the potential returns for more mature Irish whiskey offerings. Enforcement of tightened restrictions on labelling, put pressure on brands that bought in and marketed whiskey from other distilleries, as the FSAI ruled that brands now need to be very transparent with consumers as to whether the whiskey was bought in or made on site.

Larger, internationally focused, Irish Food businesses continued to expand their global footprint, with the expectation that new trade deals would increase opportunities particularly in Asia.

Government support was vital to food & drink businesses during lockdown. The wage support scheme allowed businesses affected by the foodservice shutdown to retain skilled staff. Bord Bia launched a COVID-19 Response Marketing support package which awarded grant support to COVID-19 affected businesses in order to go online, develop new products & packaging and to open new customer channels.

Food & Drink
2020 H2 Outlook

Summary
While COVID related market disruption is likely to continue, the outlook for H2 is broadly positive. The outcome of Brexit trade negotiations will be a key focus of attention for the industry as we move into quarter 3.

Recovery in Food Service
The recovery in foodservice demand is critical to improvement in industry margins. Bord Bia has forecast a decline of 45-60% in turnover for the foodservice industry for 2020. Although, restrictions on restaurants have now lifted in many countries, foodservice demand is unlikely to return to previous levels as greater numbers continue to work from home, mass gatherings are restricted and consumer confidence is reduced. Food companies with a foodservice focus, while welcoming the improvement in demand, will need to reengineer their business models to cope with the changing profile of customer.

Online Growth
Looking ahead to H2, large numbers will continue to work from home and queuing for supermarkets in more wintry conditions is likely to be unpalatable, therefore the desire for in-home delivery is likely to remain strong. Supermarket delivery slots are likely to remain at a premium, so there may be opportunities for unmet consumer need. Covid related disruption resulted in businesses from foodservice wholesalers to artisan producers setting up direct to consumer models. Businesses will need to decide whether this is a core sales channel or an expensive distraction from their main business model.

Continued turbulence
With many health organisations predicting a second wave, businesses will need to be prepared for disruption. Disruption may be in the form of currency or commodity volatility, supply chain issues and or reoccurrence of lockdown. Therefore, food organisations will need to build in resilience into their model via increased cash reserves, strategic mergers or partnerships or through diversifying their product or customer range.

Brexit
As the UK government has not sought an extension to their current EU trading agreement, an EU/UK Free Trade Agreement will need to be concluded by the 31st of October, in order to avoid a no deal Brexit. In May, the UK published its proposed tariffs in the event of no agreement being reached. Under previously published terms, 87% of imports would be tariff free, however under the more recent proposal that amount had dropped to 60%. With 34% of all Irish Food & Drink exports going to the UK, Irish companies will be particularly impacted. The lack of clarity also affects UK exporters, with many expecting to lose European contracts in September if there is no clarity on a deal. The areas of contention regarding Food & Drink are primarily around fisheries and minimum standards - the so called "level playing field".

While the threat of a hard border has largely been removed due to the Northern Irish Protocol, clarity is still needed on many of the finer points of trade. This is particularly the case with regard to imports into NI from Britain. While the EU asserts that these imports should attract tariffs by default with any exceptions going through a justification process, the UK is taking the opposite position.

Market Diversification
Due to the continued threat of Brexit, Irish companies will continue to look further afield for opportunities. The Free Trade Agreement with Vietnam has now been ratified and exports to China continue to increase. Pig culls due to swine fever have continued to happen in 2020 in China, therefore demand for Pork remains high.

Sustainability
The disruption of COVID-19 has brought increased focus on the importance of food security and overall sustainability as it relates to food. The 2020, EU Farm to Fork Strategy also places sustainability at the heart of food production. From an Irish perspective we are likely to see a focus on shorter supply chains with alternative growing techniques such as hydroponics and vertical farming offering opportunities to replace some air freight imports. The Programme for Government also includes a new Food Ombudsman whose remit will be to improve transparency in the sector, particularly as it relates to price.

Funding Activity - What we expect to see
The focus on sustainability is likely to drive continued capital investment around renewable energy and waste reuse. Issues related to COVID-19 distancing will also increase the focus on automation. As businesses review their post COVID models, we expect an increasing amount of mergers and acquisitions as the industry adjusts to new demand and cost models.

Bank of Ireland
Bank of Ireland is committed to its role as a key partner for Ireland's largest indigenous Industry. This is amply demonstrated by our ongoing support of the Blas Na hEireann food quality awards and our deep sectoral knowledge. COVID-19 has highlighted the necessity for companies to have an in-market, long term, stable, finance partner that can offer timely support, dedicated relationship managers and an understanding of the cyclical nature of the various sub sectors.

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Roisin joined Bank of Ireland in 2019 as Head of the Food & Drink Sector to support the Bank's business and customers in this strong, indigenous industry. She brings an in depth understanding of the sector, having held a number of senior commercial positions in both local and multinational consumer goods companies in Ireland & the UK. These included PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development, including procurement and innovation, branding, marketing and sales achievement. Her most recent role was in the rapidly growing Sports Nutrition Industry.

Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.

Sources: Bord Bia, Central Statistics Office (CSO), Intrafish.com

Hotel Sector

2020 H1 Insights

The impact of Covid-19 on the hospitality Industry has been far greater than anyone initially anticipated; close social interactions which are essential to the sector are presently considered high risk for both employees and customers. Government regulations imposed to control the spread of the disease led to the closure of the vast majority of hotels, bars and restaurants and allowed for very limited trading for those that remained open. Irish Hotels reported strong trading for January and February before the first case of Covid-19 was reported in Ireland. The evolution of the pandemic forced the government to review the approach to reopening a couple of times, after 15 weeks of closure hotels were allowed to reopen on June 29th. Although the majority of hotels chose to open on the first day of "phase 3" or a week after, some chose to remain closed for a little longer and others will remain closed until next year. Business on the books remains relatively low for the majority of hotels, particularly those in Dublin which have a higher dependency on international visitors and corporate travel.

Hotel Sector 2020 H1 Review

- Domestic demand collapsed towards the third week of March when the government first asked Irish residents to stay at home in an effort to reduce the speed of the spread of what was then referred to as the "Corona Virus".
- Overseas visitor numbers took a nosedive at the same time as governments around the world issued advice on "non-essential" travel. Travel restrictions were later introduced by a number of countries trying to contain the spread; some have already confirmed they will not be lifted until Q4. Ireland's mandatory quarantine is still in place at the time of writing of this article which negates the appeal of Ireland as a tourism destination.
  - Dublin airport recorded 2,319 flights, a 89.4% decrease on May 2019; (Source: thejournal.ie)
  - Cork airport traffic saw 260 movements, down 95.3%; (Source: thejournal.ie)
- The CSO ceased the reporting of international visitors last March (last update released by the CSO for Feb 2019) and although passenger numbers are available the same level of detail is not; as visitors are not able to travel or engage in any tourism activity the records are not relevant.
- Over 90% of hotels closed last March, leaving the majority of the tourism industry's 260,000 employees either laid off temporarily or on short time. The reopening of hotels was brought forward by the government to June 29th however at the time of this report a large number of properties remain closed and some have already announced they will only resume trade in 2021. (Source IHF)
- The positive trend in the labour market over the last few years had supported a sustained increase in discretionary spend essential for the sector. The pandemic has disrupted the positive employment trend leading to a rise in unemployment which stands at 5.3% for the end of June compared to 4.8% four months prior at the end of February. (Source CSO)
- Transaction activity has been very limited with only two hotel sale transactions completed in Q1: K Club sold by Michael Smurfit for a reported €58m and Clonmel Park for a reported €7.5m and one in Q2: The Clayton in Charlemont, a sale/leaseback by Dalata reported at a total of €65m. (Source: Cushman & Wakefield)

Hotel sector sentiment (Crowe Hotel sentiment survey June 2020)

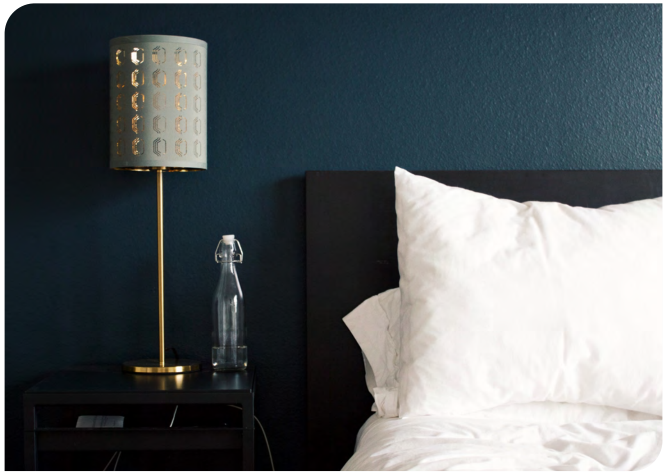
- 90% of the hotels needed to approach their bank for changes to their loan repayment terms or to seek working capital.
- 42% of hotels believe that Covid-19 will continue to have a negative impact on their business in 2022 and so the demand from domestic source markets is seen as critical to underpin hotel performance.
- Over 85% of hoteliers ranked the 'extension of temporary wage support scheme' within their top three Government supports requested.
- Performance expectations:
  - Dublin occupancy forecast 53% behind 2019.
  - Regional occupancy forecast 38% behind 2019.

Key Performance Metrics

- As demand buckled in the second half of March so did the associated hotel occupancy before hotels eventually ceased trade. Average room rates showed a slight decline before flat lining in line with closures.
- The closure of c90% of the hotels has left a material gap in the amount of hotels capable of reporting accommodation statistics on a monthly basis. Stats available from STR and Trending.ie can only take open hotels into account.

Government supports

- The Department of Employment Affairs and Social Protection launched a total of 3 programs to support employers and employees: The Pandemic Unemployment Plan (PUP) , the Wage Subsidy Scheme (WSS) and the Covid-19 enhanced Illness benefit payment. (Source Gov.ie)



- The Department of Business Enterprise and Innovation launched a €10k "restart grant" for micro and small businesses based on a rates waiver/rebate from 2019.
- The Minister of Finance announced a €2bn Pandemic Stabilisation and Recovery Fund to be made available via Ireland Strategic Investment Fund (ISIF) to support medium and large enterprises
  in Ireland affected by Covid-19.
- The Department of Business Enterprise and Innovation announced a €2bn COVID-19 Credit Guarantee Scheme to support lending to SMEs for terms ranging from 3 months to 6 years, which will be below market interest rates.
- Commercial rates have been waived by County Councils for a 3 month period beginning on 27 March 2020 for businesses that have been forced to close due to public health requirements.
- Warehousing of tax liabilities for up to twelve months after recommencement of trading during which time there will be no debt enforcement action taken by Revenue.

Hotel Groups Activity

- Dalata completed a sale and leaseback of the Clayton Charlemont to real estate investment group Deka Immobilien. (Source Irish Times)
- The HSE is expected to pay Tetrarch over €20m for the rental of the City West Hotel and Conference centre after signing a ontract earlier this year that runs out at the end of October 2020. (Source RTE & The Sunday Times)
- iNua directors Paul Fitzgerald and Sean O'Driscoll took over ownership of iNua Partnership from Noel Creedon. Paul is now chief executive of iNua Partnership and Sean is the new CEO of iNua Hospitality plc, which is a separate legal entity that owns the

Hotel Sector

2020 H2 Outlook

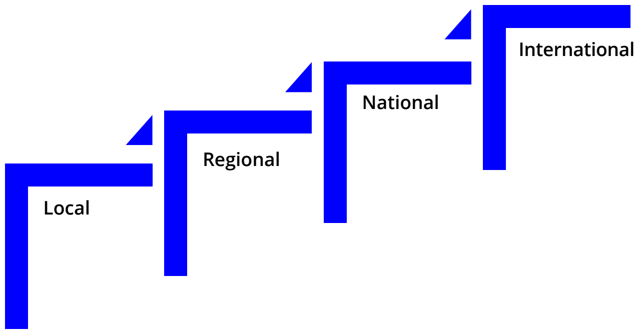
The reopening of hotels at the end of H1 2020 is expected to be the first step in the road leading to the recovery of the sector. Operators looking to resume trade had to consider a number of extraordinary expenses including investment in health and safety equipment and training whilst also reviewing procedures for the provision of service to their customers. While a degree of uncertainty prevails about consumer sentiment and associated changes in consumer behaviour, hotel operators are focusing their marketing efforts on the domestic market which is expected to be crucial to the sector recovery particularly in the short to medium term. Current levels of business on the books remain very low for the majority of Irish hotels. STR Europe has forecasted demand could take up to 4 years to recover particularly for cities with a strong supply pipeline.

Hotel Sector 2020 H2 Outlook

- Limited numbers of overseas visitors expected for the rest of the year due to prevailing travel disruption and restrictions limiting people's appetite for international travel. Hotels in Dublin and regionally continue to deal with on-going cancellations for July, Aug and September from the US and other key markets.
- International seat capacity has taken a big hit. Data firm OAG stated "it could take until 2022 or 2023 before the volume of fliers returns to the levels that had been expected for 2020". (reuters.com)
- Corporate demand at an individual and group level unlikely to return to any meaningful levels in 2020; a number of multinationals have already indicated staff are not expected back to their offices until 2021.
- The lack of scheduled entertainment, sporting and conference events in Dublin will impact performance for hotels in the city during the second half of the year.
- Strong expectations for the domestic market in particular the domestic leisure market which is anticipated to replace some of the international demand for the rest of the year.
- Hotel development/construction in Dublin has resumed although there are likely to be delays in the delivery of the additional c3,000 rooms originally expected to enter the market this year.
- The pronounced and potentially lengthy drop in demand could ultimately have an impact in average room rate as operators will have limited opportunities for the upwards yielding of rate; the prospective rate erosion could further extend the recovery period by a couple of years.
- Social distancing guidelines currently at 1m for food/drink service as well as the prevailing limit of 105 minutes will negatively impact hotel's bar and restaurant sales until they are eventually phased out.
- The current limit of 50 people for indoor events has led to the rescheduling of a large number of events which are now set to take place in the coming year, giving some operators a strong start for 2021.

Forecasted Occupancy recovery trend for Europe

- STR currently anticipates demand for European Hotels could take up to 4 years to return to 2019 levels (nearly 1 year longer than the Global Financial Crisis "GFC").



Stepped up demand recovery

Trends

- Stronger demand anticipated for regional hotels as customers are likely to seek out more remote destinations to avoid the risk of Covid-19 associated with larger urban areas.
- Hotels across Ireland made the best out of adversity by focusing on improving their assets during the lockdown. The lack of customers encouraged many hoteliers to complete projects that had been delegated as they were too intrusive to carry out while hotels were open.
- Covid-19 proofing: Perspex screens, sanitation stations and software upgrades to allow customers to complete check in and check out from their phones are among some of the most common items hotel managers invested in as they prepared to resume trade. Also common has been the elimination of breakfast buffets which have now been replaced with a la carte menus.

Regulatory

- Mandated closure of hospitality establishments at the end of Q1 2020.
- Reopening guidelines issued by Fáilte Ireland for all subsectors in the Hospitality Industry in early June after the government announced the revised plan for the lifting of lockdown restrictions. (Source Fáilte Ireland)
- On 29 May 2020, the Government decided to extend the suspension of redundancy provisions relating to temporary lay-off and short-time work which arose as a result of Covid-19 until August 10th (July stimulus could push this to 2021).

Potential Tailwinds

- The Government's July stimulus could prove crucial for the sector as it is expected to include provisions to the wage subsidy scheme as well as an extended waiver on commercial rates among other measures to support the sector.

Bank of Ireland

Bank of Ireland understands the challenges faced by the hospitality sector as a consequence of the Covid-19 outbreak. We are a strong supporter of the sector and will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the "New Normal".

Gerardo Larios Rizo
Head of Hospitality Sector

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Gerardo joined the Bank in 2012 after more than 15 years working in a number of roles in the hospitality sector. His wealth of experience includes hotels and restaurants in Mexico, Switzerland and Ireland where he spent 7 years with the Rezidor Hospitality Group (Radisson Hotels). He also spent 4 years with Dalata reviewing the financial performance of a number of hotels in Dublin and regionally. Gerardo is a Qualified Financial Advisor and holds an Associate Degree in Restaurant Management from CESSA, Mexico and a BBA Hospitality from Les Roches International Hotel Management.

Sources: thejournal.ie, Irish Hotels Federation (IHF), Central Statistics Office (CSO), Cushman Wakefield, Crowe Hotel sentiment survey June 2020, STR Europe, Govt.ie, Fáilte Ireland, Irish Times, Sunday Times, RTE news, Reuters.com

Long-Term Care Sector
2020 H1 Insights

Summary

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic and noted its alarming levels of spread and severity. The pandemic illustrated the vulnerability of our health system and its supply chain as it bore the full brunt of Covid-19 and responded quickly to "flatten the curve" and save lives.

Nursing Home Supply

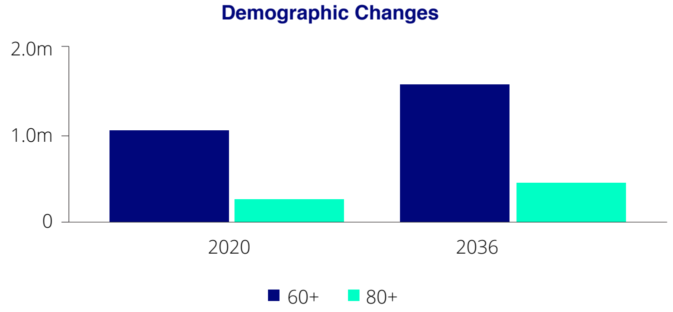
- Long-term residential care is provided by the private / not for profit (NFP) and public sector in 585 nursing homes with c. 31,969 beds. (Jan 2020)
- In 2019, six nursing homes (146 beds) were closed, 10 new nursing homes were opened and 14 nursing homes opened additional beds resulting in a net increase of 4 homes and 718 beds.
- We continue to see consolidation in the market with 36% of homes now in groups of 2 or more, with the Health Information and Quality Authority (HIQA) register showing a change of ownership for 22 nursing homes.
- This consolidation has been driven by the emergence of significant investment from large institutions with a long-term outlook such as AXA, InfraVia, Orpea, Primonial, Euryale and IMMAC, retirement of a number of smaller operators and the entrance of international operators into the market.
- There are currently 8 new homes with c. 1000 beds under construction; four of these homes are in Dublin. There are also extensions with an additional c.300 beds planned/ under construction.

Long-term Care Demand

- In order to understand the market and future demand, Bank of Ireland analysed and projected the needs on a county by county basis drawing from each county's unique demographic profile, Fair Deal uptake, existing beds, beds in planning, under construction and those that may be decommissioned. We also considered occupancy levels, resident profile and the possibility of the introduction of a regulated homecare scheme.
- Our review projects a 2026 demand for c.37,000 beds across the country; an increase of an additional c. 5,100 beds.

Demographics and the impact on healthcare

- Ireland's population and is now catching up with other European countries; by 2026 the population is projected to increase by 13% from 4.95m to 5.7m.
- The number of people aged 65 years is projected to increase by 52% from 975k in 2020 to 1.48m in 2036.



- Projected population increases are greatest for older ages with the population aged 80 and over set to increase from 170k in 2020 to 343k in 2036, an increase of 102%. This will have a profound impact on the demand for healthcare services with the Health Service Capacity Review (2018) projecting a 70% increase in the demand for home care and a 33% increase in demand for residential long- term care, by 2031.
- Spending will continue to be driven by our growing population, clinical and technology innovation, and competitive labour market. The Department of Health project demographic changes alone will increase health costs by between 1.4% and 1.6% annually.

Covid – 19 Impacts

- Nursing homes have certainly felt the Covid-19 headwinds, as initially the focus was preparing the acute hospitals for the projected surge of Covid-19 with limited attention given to the nursing home sector. In preparation, 1,363 patients were approved for transfer from acute hospitals to private nursing homes in March 2020, a 70% increase on the number of people transferred in 2019. At that time, only those patients who were showing signs of Covid-19 were tested for the virus.
- Evidence from international Covid-19 outbreaks identified significant levels of mortality and morbidity in high-risk groups and facilities such as long term residential care homes. In Ireland, we know from previous studies, that c. 80% of residents in nursing homes are >80 years, many with complex medical needs and cognitive impairment.
- HIQA identified to the National Public Health Emergency Team (NPHET), specific nursing homes (both public and private), where the operator would be challenged to effectively manage outbreaks with increased risks associated with multioccupancy rooms, insufficient bathrooms, and minimum day/dining space.
- During the pandemic, mass testing was carried out and showed that 56% of all nursing homes remained Covid-19 free and the great majority of the 30,000 residents never contracted the virus. However, 18% of residents of nursing homes had a confirmed diagnosis of Covid-19; of these four out of every five residents who tested positive for the virus recovered. However, tragically, despite all the best effort of staff and operators, in a numbers of homes some residents who died were positive for the Coronavirus but HIQA research found that some of these residents were already close to their end of life or their cause of death may have been due to other factors.
- Nursing Home operators reported increases in costs including overtime, retention initiatives and extra hours for carers and nursing staff to provide 1-1 care for residents in isolation as well as costs for additional cleaning hours for deep cleans to reduce Covid- 19 spread and the purchase of Personal Protective Equipment (PPE).
- The Government has provided additional funding to support all residents in private and NFP nursing homes during the pandemic through a Temporary Assistance Scheme.

Long-Term Care Sector
2020 H2 Outlook

Summary
In the long term, the good news is we are all living healthier and longer. By 2036, our over 80 population will increased from 170k in 2020 to 343k with the ESRI projecting a 39% increase in demand for residential long term care alongside a 70% increase in demand for homecare services. The non-cyclical nature of ageing, the level of regulation and the favourable demographics will result in continued growth and investment in the sector. However, in a post Covid world, it is likely that there will be changes to the models of care for older people and the regulatory approach. Bank of Ireland will continue to support care led models where an alignment of interests from residents to borrower is evident.

Post Covid Outlook
Post Covid there are a number of areas that will impact the outlook for the sector:

- **The Report of the Expert Panel on Nursing Homes:** established by Government, to examine the complex issues surrounding the management of COVID-19 among this particularly vulnerable cohort is due in August. The Report is expected to provide immediate real-time learnings and recommendations in light of the expected ongoing impact of COVID-19 over the next 12-18 months.
- **Programme for Government (PFG):** In order to learn from Covid, a Commission on Care to examine care and supports for older people is proposed. Consideration may be given to the model of care for older persons, the configuration of service delivery and regulatory models, congregated environments, clinical governance, a safe staffing framework and the role of the health services alongside the role of other State bodies and the private sector.
- **Introduction of a regulated Homecare Scheme:** Research shows that people prefer to age at home and the PFG includes the introduction of a statutory scheme for regulated home care. Innovative nursing home operators, with their experience of regulation, may be best placed to provide home care services.
- **Regulation:** The current model of regulation of nursing homes, in place since 2009, is built on the premise of the registration of a designated centre and not on the model or type of service provided. HIQA have previously proposed a service-based model of registration supported by a suite of regulations specific to each model of care. A move to a service model regulatory approach matched with a reimbursement model could provide opportunities for operators to differentiate their services.
- In a post Covid world, it is possible that regulations may change to require the reconfiguration of homes to manage the prevention and control of infections and may include self-contained units and single ensuite bedrooms to facilitate isolation. This may result in reduced bed numbers and accelerate the deregistration of some homes, particularly homes where occupancy levels have dropped considerably, costs risen and significant investment will be required to reconfigure and future proof the home to meet regulations – this may account for >40% of current homes.
- **Consolidation:** This will continue with a focus on acquisition of quality 'fit-for-purpose' nursing homes. It is reported that Orpea S.A is to acquire a 50% stake of Brindley Healthcare. Orpea confirmed their purchase of the TLC nursing home group of 5 homes operating 674 beds.
- There may be some opportunities for co-operative type models where single operators can contribute centrally to build capacity and capability in areas such as clinical leadership, quality, regulation and infection control.
- Rising build costs has led to the capital value of greenfield nursing homes, once operational, being lower than the development costs – this may result in new homes not being built in counties with demographic demands. However, there are currently c.1,000 beds in development.
- Innovative operators are looking to provide the continuum of care in the communities as they align with the Slainte Care strategy. Pre Covid, we are seeing operators proposing extensions with "own door" access and smaller self-contained units in community settings. This trend is likely to continue.

Headwinds
- **Occupancy:** The World Health Organization has recommended that hospitals operate at 85% and although there are no specific recommendations I expect that most homes may be required to keep a number of isolation beds so occupancy going forward maybe on a 90- 93% basis. This will vary depending on configuration and isolation facilities.
- **Financial:** Costs in the sector will continue to increase, in particular staff costs as a result of the introduction of the "living wage" and mandatory pension costs. Regulatory requirements will also result in increased costs. The Temporary Assistance Payment Scheme has been extended for a further 3 months (July, August and September) to provide support to nursing homes and contribute towards their continued planning, preparedness and response to COVID-19.
- **Premises:** Operators may have to reconfigure homes and/ or build extensions to meet regulatory requirements and best practice guidelines in infection prevention and control.
- **EBITDA:** I project that homes may experience a 2-4% drop in EBITDA margin in the absence of any change of reimbursement model. This will of course depend, inter alia, on home type, bed numbers, configuration, Fair Deal rate, bed supply and of course the availability of a vaccine.

Funding Activity: What we expect to see
We expect to see extensions and reconfigurations of existing homes to meet both demand and regulatory standards.

Bank of Ireland
Bank of Ireland understands the challenges faced by the nursing home sector as a consequence of the Covid-19 outbreak. We are a strong supporter of the sector and in particular those care models where there is an alignment of interest from resident to borrower. We will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the "Next Normal".

Hilary Coates
Head of Health Sector

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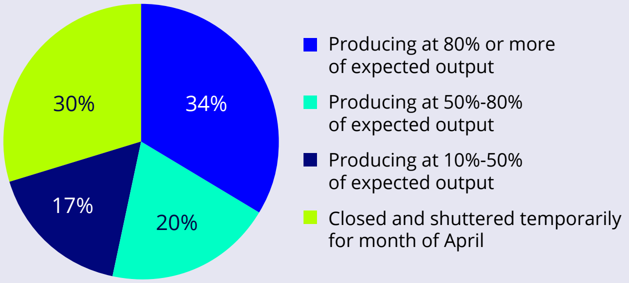
Hilary joined Bank of Ireland as Head of Health in 2014 and has supported healthcare providers to grow and scale their businesses. She held previous roles as Head of Healthcare Regulation in HIQA, Patient Safety Advisor at World Health Organization. Her extensive senior clinical and business experience gives her a unique understanding of clinical, regulatory and financial aspects of healthcare. Hilary originally qualified as a nurse and holds an MBA from UCD, post graduate qualifications in Risk Management, Corporate Governance, Regulatory Crime and Business and Executive Coaching.

Sources:w Central Statistics Office, Competition and Consumer Protection Commission, Source: Department of Health, Economic and Social Research Centre, Health Information and Quality Authority, Health Protection and Surveillance Centre, Health Service Executive (HSE), National Public Health Emergency Team, Organisation for Economic Co-operation and Development, Programme for Government, World Health Organization.

Manufacturing
2020 H1 Insights

After a promising start in January and February the first half of 2020 has been dominated by the impact of the Covid-19 pandemic on the manufacturing sector in Ireland with a significant deterioration in business conditions amid a collapse in global trade.

Survey conducted in early May with 193 of our larger non-food and drinks manufacturing customers



Summary

- **Covid-19 Pandemic:** The Covid-19 pandemic has affected every company in a very individual manner based on supply chain design, market demand dynamics, seasonality, market access and factory operations restrictions. Some factories ceased production completely for a period of time, some producers have decreased output and some essential goods manufacturers increased output and repurposed. All factories were phased into production by the end of June.
- **Factory Operations:** Compared to 2019, companies are operating very differently post Covid with resized businesses, work from home for indirect staff, increased process automation, new business models, re-organised supply chains and new factory operating and hygiene practices.
- **Funding Activity:** Early 2020 saw a high level of activity with approvals up 28% year on year by end February. Since the onset of Covid in March 2020 we have seen a decrease in overall funding requests and an increase in applications for Government supported schemes such as Strategic Bank Corporation of Ireland (SBCI) Covid-19 Working Capital Loan Scheme and SBCI Credit Guarantee Scheme.
- **Brexit and Trade Tensions:** A lack of progress in Brexit negotiations and the increasing likelihood of a hard Brexit combined with the implications of ongoing international trade tensions have added complexity and challenges to Covid recovery planning.

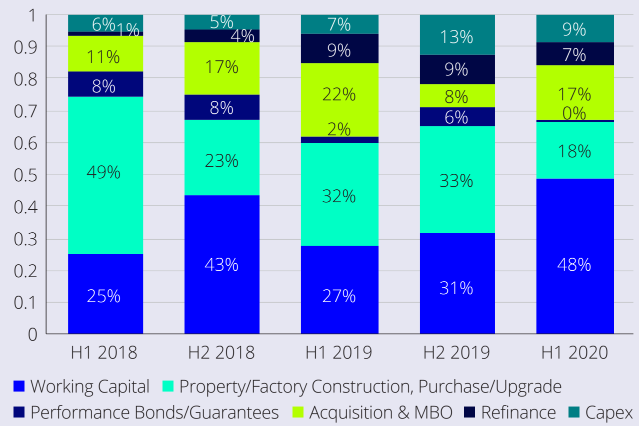
Key Trends

- Based on a Bank of Ireland survey of 193 large Small and Medium sized Enterprises (SME) non food and drinks manufacturing customers we established that 34% of companies were producing at 80% or greater of their expected output for April and 30% of large SMEs were closed and shuttered with no production output for the month of April.
- As per the AIB Irish Manufacturing Purchasing Manager's Index (PMI) the manufacturing sector started well with growth in January (51.4) and February (51.2). However, we have seen considerable contraction in March (45.1), April (36.0) and May (39.2) with growth commencing again in June (51.0) from the low base in May. Any figure greater than 50.0 indicates overall improvement of the sector.
- A total of 16% (36,900) of manufacturing employees claimed Pandemic Unemployment Payment (PUP) reducing to 24,300 in mid-June as more businesses reopened in May and June with many firms also availing of the Temporary Wage Subsidy Scheme (TWSS).
- Total Irish exports (Central Statistics Office (CSO) seasonally adjusted data) in the first four months of 2020 were €52.4 billion up 4.4% on the first four months of 2019. Total Irish imports in the first four months of 2020 were €28.4 billion down 4% on the first four months of 2019.
- The value of goods exports to Great Britain in the first four months of 2020 was €4.1 billion, a decrease of €340 million (-8%) on the first four months of 2019. The value of goods imports from Great Britain for January to April 2020 was €6.2 billion, a decrease of €204 million (-3%) on 2019.
- Both UK car and commercial vehicle production were down 41.7% and 29.8% respectively in the first 5 months of 2020 relative to the equivalent period in 2019 with a significant impact on Irish supply chains.
- The aeronautical and aviation industry has experienced a large Covid impact with Airbus announcing plans to cut around 15,000 employees, GE Aviation 13,000 and Rolls-Royce Holdings to cut at least 9,000 jobs.
- International airfreight capacity reduced by approximately 50% from March to May with the grounding of passenger planes removing the 'belly freight' capacity. As a result companies were experiencing up to a five-fold increase in air freight prices through May. Some Irish Roll-on-Roll-off (RoRo) sea freight routes were down by 30% year on year but some of that was due to Brexit stockpiling in Q1 2019.
- Many companies repurposed their manufacturing facilities to produce essential goods such as sanitizer liquid, plastic healthcare product containers, retail food packaging and Personal Protective Equipment (PPE).
- Covid demonstrated the global supply chain dependency on China with 30% of all components and materials involving Chinese manufactured goods.

Financing activity in the sector

- Total Bank of Ireland H1 2020 approvals for SME Manufacturing funding were down -5% and drawdowns were down -10%.
- We have seen an increase in applications for Government supported schemes such as SBCI's Covid-19 Working Capital Loan Scheme and Credit Guarantee Scheme.
- Capital Expenditure (Capex) funding, term debt for factory development and acquisitions as well as working capital to fund business expansion have continued through H1 2020.
- Asset Finance to support new equipment purchases and fleet development.
- Invoice Discounting line extensions to facilitate business growth and new business models.

Bank of Ireland Approvals Analysis – H1 2018 to H1 2020



Sector Development: Key numbers

- The Irish government proposed **€6.5bn** liquidity boost for SMEs to cope with Covid.
- **20%** of firms cut staff during June, down from **29%** in May and **41%** in April.
- Ireland is ranked **12th** (down from 7th) out of the 63 countries benchmarked in the 2020 IMD World Competitiveness Yearbook.
- According to CBRE prime industrial rents in the capital remained stable at **€110** per sq/M at the end of Q1 2020.
- According to IDA Ireland, **50%** of ventilators used in acute hospitals worldwide are made in Ireland.

Bank of Ireland

Manufacturing
2020 H2 Outlook

Bank of Ireland anticipates steady recovery from the impacts of Covid through H2 2020 however we expect SME manufacturing output to be lower in H2 2020 than for the equivalent period in 2019.

Markets

- Essential goods manufacturers will continue to flourish in 2020 only hampered by Covid related operational restrictions and some Covid related market access issues.
- The rate at which international markets recover will vary dependent on country specific lockdowns and companies producing non-essential consumer goods will see their markets return slowly as consumer spending power and confidence return through 2020.
- Automation companies dependent on large scale Multinational Corporations (MNCs) should see projects return in H2 as access to sites improves.
- Aeronautical/Aerospace industry has a particular challenge as we would not expect to see a full return to air travel until 2021. While some aircraft maintenance may increase in the short term new plane construction and new model development will slow for H2 2020.
- As we have seen a significant reduction in the automotive manufacturing sector in UK and the EU our SME automotive component suppliers will gradually ramp capacity through 2020
- Food retail packaging should remain a buoyant market while manufacturing for food service packaging material will remain depressed through the remainder of the year.
- Normal demand for construction materials from mechanical engineering firms and pre-cast concrete firms should return by year end with Irish construction market continuing to expand however contraction in the UK construction sector is expected to continue.
- While phase 1 of the trade negotiations between the US and China have been resolved in January we wait to see substantive outcomes and combined with the possibility of increased tariffs on EU exports to the US Irish manufacturers will have to deal with dynamic market changes and commodity material price fluctuations.

Brexit

- With the UK transition from the EU scheduled for end of year the lack of visible trade agreement progress is increasing the likelihood of a hard Brexit.
- On Wednesday 21st of May the UK Government published a proposed tariff list. It should be noted that this tariff list would only apply in the event of a no deal. It is proposed that 54% of non-food and drink Irish goods exported to the UK will incur a tariff with an average tariff of 2.8%.
- Companies will need to develop their knowledge and capability on customs duties, procedures, tariffs and revenue guarantees well in advance of the end of the year.

Challenges

- We can expect to see ongoing constrained international supply chains with some countries going in and out of lockdown combined with reduced air freight capacity and ocean freight logistics problems.
- Costs of international freight will remain high in the next couple of months however we would expect to see it normalise towards the end of the year.
- Reducing supply chain dependencies, particularly on China, and balancing cost versus reliability of supply is a real challenge being both complex and costly to source and qualify new suppliers.
- Commodity price fluctuations will be the norm through the remainder of 2020 however low commodity prices will benefit companies restocking after contraction in H1.
- Modified and cancelled trade shows as well as reduced travel will inhibit normal business development and customer relationship management practices.
- The re-hiring of staff post Covid lockdown as companies re-size may have implications later with companies facing issues of letting staff go in an inappropriate manner.
- Factory operation restrictions developed to respond to Covid will remain in place through remainder of 2020 however increasing costs for new work practices and hygiene provisions will challenge our smaller SME's.

Funding Activity

- Government supported schemes such as SBCI's Covid-19 Working Capital Loan Scheme and Credit Guarantee Scheme as well as the return of the Future Growth Loan scheme.
- **Production Facility Development:** We anticipate a lower level of requests for funding of factory expansion, new factory construction and leasing of industrial premises.
- **Business Growth:** Continued growth in manufacturing output requiring capex, asset finance and working capital to fund the business.
- **Working Capital:** We are supporting businesses with Invoice Discounting, Foreign Exchange management, Early Pay facilities and stocking loans.
- **Acquisitions:** We anticipate a lower level of consolidation and acquisitions in the sector.

Bank of Ireland

- Our proven financial capabilities and appetite, combined with comprehensive sectoral expertise, provides us with a strong platform to meet the funding requirements of Irish manufacturers.
- We understand the investment cycle, including the need for regular expenditure to maintain growth and profitability in this dynamic sector, and we are eager to support progressive, innovative manufacturing companies in the further development of their businesses in 2020.

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Head of Manufacturing

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Brían joined the Bank in January 2016 having most recently worked as Operations Director for PCH International. Brían brings over 30 years of experience working in various manufacturing roles, creating, manufacturing and exporting a range of products from hardware to medical devices across Ireland, USA and China. He has extensive experience of operations process management, prototyping, product pricing, supply chain design, capex and cash-flow management from his various management roles in Hewlett Packard, NEC, Sennheiser and Amdahl Ireland. Brían also worked as a manufacturing operations, project management and product development consultant to SME manufacturing businesses.
Brían qualified in Electronics Engineering and completed an MBA with DCU. He lectured in Operations Management.

Sources: AIB Manufacturing PMI, CBRE, Davy, IDA, IMD World Competitiveness Yearbook., CSO Statistics, Society of Motor Manufacturers & Traders UK - SMMT Database, Central Bank of Ireland, Irish Exporters Association

Motor Sector
Insights & Outlook 2020

A look back at 2019...

Passenger Car Sales	Light Commercial Vehicles	Used Imported Cars
FYE 2019 -6.8%	FYE 2019 -0.4%	FYE 2019 +13.1%

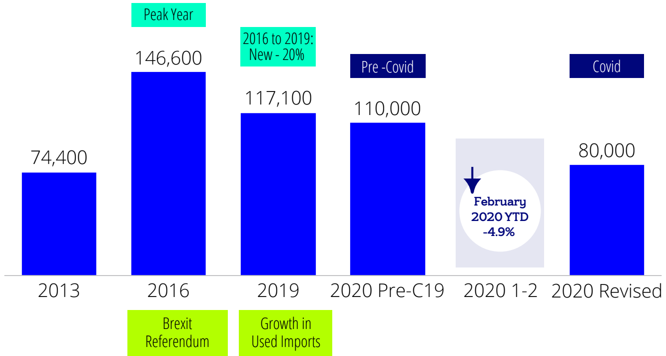
Passenger Cars: Volkswagen closed the year with the coveted #1 position and 11.5% market share, followed by Toyota with 10.4% in #2, Hyundai with 9.4% in #3, Ford with 8.2% in #4 and Skoda with 7.9% in #5.

Light Commercial Vehicles: Ford finished the year holding the #1 position for vans with 21.0% market share, followed by Volkswagen with 18.7% in #2, Renault with 14.3% in #3, Peugeot with 8.3% in #4 and Opel with 6.8% in #5.

Diesel remained the number one choice for Irish consumers accounting for 46.6% of total new car sales. 2019 was the first year diesel share fell below 50% since 2009. Petrol vehicles accounted for 40.6% of the new cars sold with Hybrid sales accounting for 9.9% in 2019. Electric vehicles (EV's) accounted for 2.9% of total new car registrations in 2019. As a comparison, EV's accounted for 1.9% of total EU registrations in 2019.

2020: Pre-COVID Environment

The new car market peaked in 2016 at 146,600 units following strong growth from a low base. Demand for new cars in Ireland has been in decline since 2017 as the industry felt the impact of Brexit. By the end of 2019, new car sales declined ca. 20% to 117,100 units from peak sales in 2016. Due to a weakened sterling, used passenger car imports from the UK market surged in the same period. Prior to the Brexit referendum in 2016, used car imports averaged ca. 50,000 units per annum and have increased every year since, reaching record levels in 2019 at ca. 114,000 units. This dampened new car demand in Ireland as used car values were impacted by cheaper imports from the UK. The effect of this increased Irish consumers cost to change when purchasing a new car. During the same period, consumer confusion began to rise concerning which engine type to choose in their next new car. This follows considerable EU-wide media reporting on electric and hybrid vehicles and the future of petrol and diesel engines. In Q4 2019, the Society of the Irish Motor Industry (SIMI) predicted sales of new cars would fall 6% in 2020 to ca. 110,000 units. Irish vehicle distributors were more optimistic, forecasting a range of -5% to +5% in 2020. In the first 2 months of 2020 (pre-COVID), sales of new passenger cars had declined c. 5%, largely in line with expectations.



Source: SIMI

Graph "New Car Sales: Ireland"

Sales Since Restart

The motor sector reopened on May 18th 2020 during phase one of reopening the Irish economy. Following almost two months of lockdown, motor dealers restarted vehicle sales and servicing divisions and have been trading well since. Receiving the "green light" to reopen both service and sales operations in phase one was critical to motor dealers in Ireland due to the seasonality of vehicle sales in the Irish market. The focus of activity has been concentrated on rebuilding service/aftersales pipelines along with reducing exposure to used car stock in advance of the second new vehicle sales peak which commences each year in July. Dealers are engaging with consumers both physically at their premises and also through the using technology including remote video presentations of new and used cars.

In the first six weeks since restart (CW 21-26) in Ireland;

- passenger car sales excluding hire drive registrations[1] have declined c. 32%
- light commercial vehicle sales declined c. 43%
- combined sales of both have declined c. 35% (3,304 v. 5,100 units)
- used passenger car imports have declined c. 59%

It is worth noting that volumes of vehicle registrations are low in May/June and this is indicative of seasonality ahead of the second peak. June represents just 1% of annualised new car sales whereas July represents c. 21% (in normal trading conditions). The market performance since restart is therefore encouraging, proving some consumers have an appetite to continue with collection of new vehicles ordered pre-COVID (for those that collected in May/June and for those that have postponed until July). Motor dealers are reporting brisk trade of both new and used vehicles since restart and it is positive to see consumer sentiment and vehicle sales begin to recover.

[1] The hire drive (HD) market crashed by c. 80% in 2020 as car rental companies cancelled orders due the impact of COVID on tourism; thus HD sales are excluded to understand the underlying consumer and business demand.

Rate of Recovery

In the first 6 months of 2020, combined sales of new passenger cars and light commercial vehicles declined by c. 34%. The overall market is likely to remain down c. 30% in 2020 due to the seasonalisation of new vehicle sales, where c. 70% of sales occur in H1, along with motor manufacturing plants closing globally due to COVID and its impact on vehicle supply. If this is the outcome, sales of passenger cars and used imports in 2020 could mirror those last seen in 2013.

Irish motor dealers are reporting to be busy however, and there are global reports of pent-up vehicle demand that may be replicated across Europe in 2020 and Ireland from 2021 onward (due to seasonality of sales). The Chinese automotive sector is experiencing a "V-Shaped" recovery with vehicle sales +4.4% y-o-y in April and +14.5% y-o-y in May. The market there, however, is different to that in Europe due to lower levels of car ownership. This compares to a more mature market in Europe. The sector does not currently expect a "V-Shaped" recovery in Europe, but rather a "U-Shaped" gradual recovery over the next 18 months.

The recovery in Europe will be supported by fiscal measures such as those seen most recently in France and Germany. The German government announced revised incentives for electric vehicles (EV's) to support the motor sector there. Germany is now offering a €9,000 subsidy (split €6,000 government, €3,000 manufacturer) to incentivise consumers to purchase new EV's. This incentive applies to new cars only. The German announcement follows the lead taken by the French government who now offer subsidies of up to €12,000 for new electric vehicles, but also offer incentives of €3,000 for consumers to trade up to used cars (petrol/diesel/hybrid) that conform to the latest stringent emissions rules.

In Q1 2020, electric vehicles share of new car registrations increased to 3.7% in the EU (compared to 3.3% in ROI). The incentives offered by France and Germany are likely to accelerate the demand for electric vehicles in those countries and it will be interesting to note how neighbouring countries (and in particular, Ireland) follow their example. Car manufacturers are likely to focus the production restart on low/zero emission vehicles to meet this demand in H2 2020 and beyond.

Motor Sector
Insights & Outlook 2020

The Society of the Irish Motor Industry (SIMI) will represent the sector in Ireland, seeking a variety of fiscal supports to stabilise and reboot the sector here.

2021 may see the return of (or an element of) the hire drive / rental car market although this will be dependent on recovery of overseas tourism to Ireland. This sales channel represents c.15% of annual car sales and has averaged 18,000 new cars annually over the last three years in Ireland.

In 2021/2022, the motor sector in Ireland may experience a COVID related bounce due to;

- commuters choosing to avoid public transport and purchasing cars
- reversal of non-ownership trend among younger consumers
- potential fiscal measures supporting sales of ultralow/zero emissions vehicles

New Vehicle Emissions

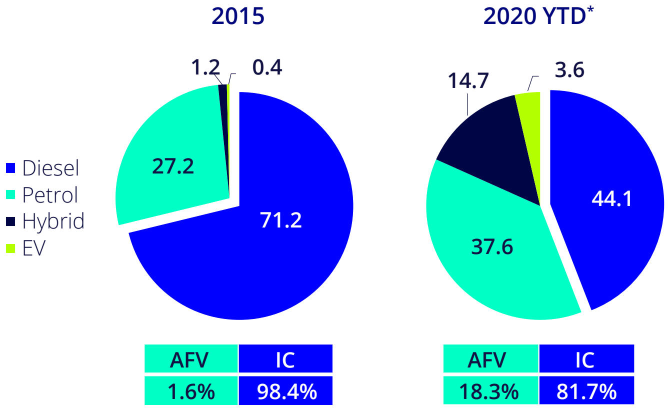
Automotive manufacturers require time to develop and scale EV's and bring them to market. Pre-COVID, the sector was investing €57billion annually into R&D in the EU and is committed to move toward Carbon Neutrality by 2050.

Road transport accounts for 21.1% of Greenhouse Gas Emissions in the EU with passenger cars representing 12.8%. The sector has delivered a reduction of c. 31% in CO_2 emissions since 2000, as CO_2 emissions from new car sales fell to c. 118g/km in 2017. By 2021, automotive manufacturers in the EU must achieve a CO_2 target of 95g/km from sales of new cars or face significant penalties.

Electric Vehicles will therefore become part of the motoring landscape in the coming years. Manufacturers will continue to develop more EV options to meet these strict EU emissions targets along with consumer demand.

This technology is expensive to produce however, and will remain high for EV and carbon neutral fuels according to the European Automotive Manufacturers Association (ACEA). The implication is that electric vehicle prices are likely to remain high in the mid-term.

Ireland should take note from the French example of restarting their motor sector. Incentivising new electric vehicles could be considered to be elitist favouring the wealthier cohort in our society. The French also incentivised the sale of newer, cleaner used vehicles with internal combustion engines, enabling those who can't afford a new car to trade up to a car that is "cleaner and greener".



Source: SIMI, *Jun YTD

Graph: "Engine Share of New Car Sales: Ireland"

Programme for Government

The leaders of Fine Gael, Fianna Fáil and the Green Party have signed off on a programme for government and a draft document of "The Programme for Government; Our Shared Future" was released recently. The Green Party is likely to heavily influence government strategy concerning carbon reduction and the move to be carbon neutral by 2050. Policy developments will be important to follow as new emissions strategies will impact the motor sector in Ireland. Page 33 of the document states policy changes will be far reaching and will include "...accelerating the electrification of the transport system, including electric bikes, electric vehicles, and electric public transport, alongside a ban on new registrations of petrol and diesel cars from 2030"

It is widely believed in the sector that the 2030 date proposed to ban the internal combustion engine in Ireland is unrealistic and diverges widely from the UK target of 2035 and the EU target of 2040. The repetition of this messaging is confusing for consumers who are considering changing their vehicles and are uncertain whether to change now or wait to see how government policy evolves.

Brexit

The UK formally left the EU on 31 January 2020. We are currently in the transition period which is due to end on 31 December 2020. The impact of Brexit to the sector and, in particular, currency fluctuations will continue to be monitored closely in H2 2020.

Finance Opportunities

We expect that trends pre-COVID will carry into H2 2020/2021. Consolidation of single operators into larger dealer groups is likely to continue. In the short-term, motor dealers may require increased short term working capital needs. Refinance opportunities will present themselves from time to time and we welcome the opportunity to discuss these needs with new customers.

Supporting our Customers

Bank of Ireland Finance (BIF) supports 12 motor franchises representing c. 40% of annual new car sales and we remain committed to our customers.

To enable our customers to restart their businesses, we have rolled out a "Deferred Payment Start" initiative which covers Hire Purchase, PCP and Lease Products. The first payment date with Hire Purchase, PCP & Lease is normally 30 days after the commencement date of the finance agreement. BIF will now allow a customer to avail of up to 90 days before the first payment commences.

The deferred payment start option will be made available alongside BIF's existing product offering for Consumers and Non-Consumers purchasing a new or used motor vehicle through any of our 12 motor franchise partnerships. We wish all our partners and customers the very best in H2 2020 and beyond.

Bank of Ireland and the Irish motor sector is open for business...

Stephen Healy
Head of Motor Sector

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Stephen joined Bank of Ireland in 2018 and brings over 20 years Motor Sector Industry experience having held senior positions in both wholesale distribution and in retail as a motor dealer where he operated as Dealer Principal for 7 years – read more about him at boi.com/motorsector.

Sources: SIMI, ACEA, Jim Power Economics.

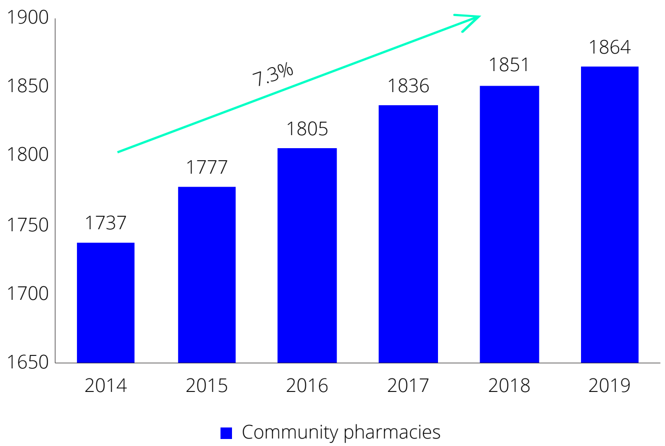
Payment deferral available on request. By deferring repayments at the start of your finance agreement borrowers will pay more interest over the term of the finance agreement than if they started to make repayments from the outset. Finance provided by Bank of Ireland trading as Bank of Ireland Finance.

Community Pharmacies
2020 H1 Insights

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic and noted its alarming levels of spread and severity. The pandemic illustrated the vulnerability of our health system and its supply chain as it bore the full brunt of COVID-19 and responded quickly to "flatten the curve" and save lives. Community Pharmacies quickly responded to COVID-19, introduced innovative changes and focused on patient needs. Pharmacies with a high dependency on retail sales have experienced a considerable drop in turnover.

Community Pharmacy Market

- The Irish Pharmacy sector remains a fragmented market, though consolidation is increasing. Despite industry predictions since 2014 that the number of retail pharmacies would reduce, the numbers have risen.
- At the start of 2020 there were 1864 community pharmacies registered by the Pharmaceutical Society of Ireland.



Sources: Pharmaceutical Society of Ireland

Activity

- Pharmacists are the most frequently accessed healthcare professionals. In Ireland, evidence suggests that 2 million people visit a community pharmacy each month and that 20 million prescriptions are filled in pharmacies annually.
- Every year c.76m items are dispensed by retail community pharmacies under State schemes (GMS etc.), with each item dispensed costing c. €16.29 resulting in an annual cost to the State of c. €1,227m (c.7% of the overall health spend). Private spending on medications is estimated at c. €228m.
- In recent years trading conditions have been challenging for the pharmacy sector with significant price erosion and reduction in fee income from government schemes as the State has attempted to realise savings. In parallel, the sector has experienced increasing operational costs, particularly those relating to staff and rent costs.
- These pressures have resulted in some pharmacies moving from a dispensing model to primarily a retail model where income is derived from discretionary spend which is reliant on a buoyant economy.
- Over the last 5 years, our assessment of dispensing rates and prices shows the volume of items dispensed has increased while the value of these items has decreased.

Key Development H1 2020

- During the Pandemic, benchmarking across some independent pharmacies initially showed a 9% increase in dispensing income and 30% increase in non-dispensing income for items such as hand sanitisers, off script medicines such as Vitamin C and health and wellbeing purchases. However, pharmacies with a focus on retail, in particular cosmetics and gifts, continued to report a decreased turnover with the Irish Pharmacy Union (IPU) reporting retail sales in pharmacies dropping by an average of 36% and one in five pharmacies having laid off staff (mainly retail staff for cosmetic and gift concessions where there has been a significant drop in consumer spending).
- Innovative promoters repurposed retail space to focus on patient needs including sanitisation products (gels and cleaning products), thermometers, blood pressure apparatus, vitamins and wellness products as well as introducing solutions to reduce risks of infection spread including, "one in one out" queuing system, Perspex screens , increased use of technology including ordering via phone, email, Facebook, and Apps and medication delivery for "at risk" and older patients.
- As part of the response to COVID-19 the Minister for Health signed changes in legislation which relieved some of the pressures on GPs, pharmacists, patients and nursing home residents in accessing prescription medications. These changes included:
  - **Electronic transfer of prescriptions:** Prescriptions can be sent from a prescriber to a pharmacy via an electronic system approved by the HSE and will reduce the need for a patient to attend at a surgery to collect a prescription during the emergency.
  - **Validity of a prescription for non-controlled drugs:** this is temporarily increased from 6 months to 9 months as of the date specified on the prescription.
  - **Repeat prescriptions:** Pharmacists can use the professional judgement of the pharmacist to dispense repeat medications.

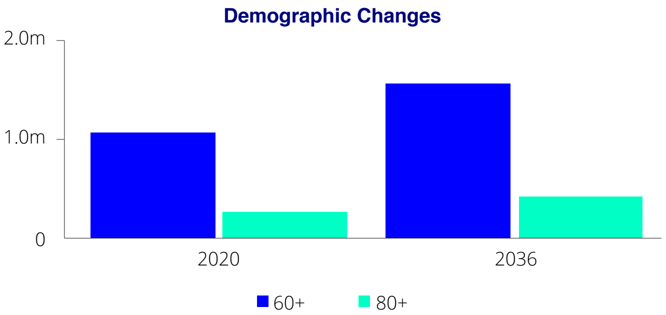
Community Pharmacies
2020 H2 Outlook

Summary

- Pharmacists responded swiftly to COVID-19 and focused on patient and community needs. The demographics and corresponding rise in chronic conditions with resultant polypharmacy will continue to favour pharmacists. This will contribute to the sector recovery. A shift in focus to clinical care may result in the closure of a number of outlets and further consolidation of the sector.

Demographics and the impact on healthcare

- Ireland's population is now catching up with other European countries; by 2026 the population is projected to increase by 13% from 4.95m to 5.7m.
- The number of people aged 65 years is projected to increase by 52% from 975k in 2020 to 1.48m in 2036.
- Projected population increases are greatest for older age groups with the population aged 80 and over set to increase from 170k in 2020 to 343k in 2036, an increase of 102%. With this ageing population there will be a parallel increased use of multiple medications by patients.



Sources: CSO

Community Pharmacy Outlook

- Pharmacy owners have previously proven resilient and adapted their business model to market changes. Already, in response to the COVID-19 crisis, we are seeing examples of innovation with many introducing apps for ordering, phone helplines and delivery services while other have pivoted to online sales and a focus on wellness. We expect to see this innovation continue in H2 2020.

- The demographics and corresponding rise in chronic conditions will continue to favour pharmacists with the Economic and Social Research Institute (ESRI) projecting demand for medicines dispensed under public schemes to increase by c.35% to >115m items by 2030.
- The numbers of pharmacies per capita is high and the sector has seen significant reform in the last decade with average income and EBITDA reducing on an annual basis. This has resulted in a sluggish transaction market with pharmacies now trading between 4 – 4.5 x EBITDA (down from 5 – 5.5 in 2018). We project similar trading for the remainder of the year in advance of a busy 2021 transaction market.
- **Financial:** Costs in the sector will continue to increase, in particular staff costs as a result of the introduction of the "living wage" and the shortage of pharmacists. Pharmacists are also reporting increased costs as a result of implementing physical distancing and safety initiatives.
- **EBITDA:** The Irish Pharmacy Union (IPU) have raised concerns about maintainable EBITDA going forward and are seeking a moratorium on the deduction of the 20% withholding tax from HSE payments. I project that some pharmacies may experience a drop in EBITDA margin. This will, of course, depend on the location, competition and the business model.
- The sector is somewhat at a juncture with some pharmacists advising that they want to increase their clinical input and contribute to the implementation of Sláintecare. COVID-19 may fuel these changes as pharmacists focus on patients and their care and wellbeing and move away from retail sales. This may result in the closure of a number of outlets with a retail focused business model and further consolidation of the sector.

Bank of Ireland

Bank of Ireland understands the challenges faced by the community pharmacy sector. We are a strong supporter of the sector and will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the "New Normal".

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Head of Health Sector

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Hilary joined Bank of Ireland as Head of Health in 2014 and has supported healthcare providers to grow and scale their businesses. She held previous roles as Head of Healthcare Regulation in HIQA and Patient Safety Advisor at World Health Organization. Her extensive senior clinical and business experience gives her a unique understanding of clinical, regulatory and financial aspects of healthcare. Hilary originally qualified as a nurse and holds an MBA from UCD, post graduate qualifications in Risk Management, Corporate Governance, Regulatory Crime and Business and Executive Coaching.

Sources: Bank of Ireland/ Fitzgerald Power; Central Statistics Office (CSO); Department of Health; Economic and Social Research Centre; Health Service Executive (HSE); Irish Pharmacy Union; Organisation for Economic Co-operation and Development; Pharmaceutical Society of Ireland; Programme for Government

Bank of Ireland

Pubs & Restaurants

2020 H1 Insights

The provision of on-site food and drink is a lively trade that has long been a symbol of Irish hospitality; visits to pubs in particular are one of the highlights for international visitors and is often cited as a key component of the Irish tourism offer. The wider tourism sector encompassing accommodation, food and beverage service and visitor attractions is a key component of the economy, providing employment to around 260,000 Irish residents accounting for almost 8% of employment. Over the last decade, changes in consumer behaviour and competitive landscape have led to an accelerated churn in the restaurant sector, and forced a number of publicans to cease trade altogether; however a number of restaurants and pub groups have efficiently adapted their operating models and managed to expand during this time. The Covid-19 pandemic forced the closure of the vast majority of pubs and restaurants for a total of 15 weeks (21 weeks for drink only pubs).

Hospitality Sector 2020 H1 Review

- After a strong January and February footfall collapsed soon after the first Covid-19 case was reported on Feb 29th and two weeks later in an unprecedented move pubs were mandated to close.
- Over 90% of pubs and restaurants had closed by the end of March, leaving the majority of the industry's employees either laid off temporarily or on short time. The reopening of restaurants and pubs serving food was brought forward by the government to June 29th however licensed premises offering no food were asked to remained closed until August 10th (phase 4).
- A number of pubs and restaurants resumed operations prior to phase 3 offering delivery and collection of food and beverage products which presented some challenges in menu engineering and packaging as well as logistics.
- Overseas visitor numbers nosedived in March as governments around the world issued advice on "non-essential" travel. Travel restrictions were later introduced by a number of countries trying to contain the spread. Ireland's mandatory quarantine is still in place at the time of writing of this article which negates the appeal of Ireland as a tourism destination. The CSO ceased the reporting of international visitor numbers last March (last update released by the CSO for Feb 2019) and although passenger numbers are available the same level of detail is not; as visitors are not able to travel or engage in any tourism activity the records are not relevant.
  - Dublin airport recorded 2,319 flights, a 89.4% decrease on May 2019; (Source: thejournal.ie)
  - Cork airport traffic saw 260 movements, down 95.3%; (Source: thejournal.ie)
- The positive trend in the labour market over the last few years had supported a sustained increase in discretionary spend essential for the sector. The pandemic has disrupted the positive employment trend leading to a rise in unemployment which stands at 5.3% for the end of June compared to 4.8% four months prior at the end of February. (Source CSO)
- Transaction activity has been very limited with only but a handful sold primarily for redevelopment. .

Demand for Food services in Ireland

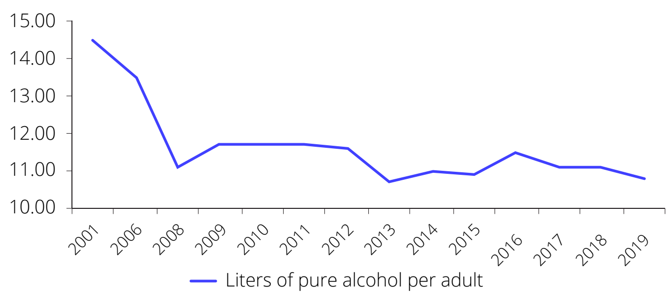
- Irish consumers spend an estimated €8.55bn on out of home food and non-alcoholic beverage in 2019, up 4.5% on previous year.

	2016	2017	2018	2019	2019 vs 2016
Limited Service & Restaurants	2624	2715	2856	2995	14%
Hotels & Accommodation	1344	1353	1386	1531	14%
Pubs	1274	1343	1445	1415	11%
Full Service Restaurants	913	943	994	1039	14%
Coffee Shops & Cafes	397	424	456	482	21%
Other Commercial	276	291	311	330	20%
Institutional	712	717	738	763	7%
	€7.5bn	**€7.8bn**	**€8.2bn**	**€8.55bn**	**14%**

Source: Bord Bia Irish Foodservice Market and Consumer Insights

Alcohol Consumption in Ireland

- Ireland's drinkers consume 68% more than the global average rate of alcohol consumption, and about 45% above Ireland's low risk drinking guidelines.
- Alcohol consumption by Irish people dropped slightly last year.



- Source: Alcohol Action Ireland

Government supports

- The Department of Employment Affairs and Social Protection launched a total of 3 programs to support employers and employees: The Pandemic Unemployment Plan (PUP) , the Wage Subsidy Scheme (WSS) and the Covid-19 enhanced Illness benefit payment. (Source Gov.ie)
- The Department of Business Enterprise and Innovation launched a €10k "restart grant" for micro and small businesses based on a rates waiver/rebate from 2019.
- The Minister of Finance announced a €2bn Pandemic Stabilisation and Recovery Fund to be made available via Ireland Strategic Investment Fund (ISIF) to support medium and large enterprises in Ireland affected by Covid-19.
- The Department of Business Enterprise and Innovation announced a €2bn COVID-19 Credit Guarantee Scheme to support lending to SMEs for terms ranging from 3 months to 6 years, which will be below market interest rates.
- Commercial rates have been waived by County Councils for a 3 month period beginning on 27 March 2020 for businesses that have been forced to close due to public health requirements.
- Warehousing of tax liabilities for up to twelve months after recommencement of trading during which time there will be no debt enforcement action taken by Revenue.

Regulatory

- Mandated closure of hospitality establishments at the end of Q1 2020.
- Reopening guidelines issued by Fáilte Ireland for all subsectors in the Hospitality Industry in early June after the government announced the revised plan for the lifting of lockdown restrictions. (Source Fáilte Ireland)
- On 29 May 2020, the Government decided to extend the suspension of redundancy provisions relating to temporary lay-off and short-time work which arose as a result of Covid-19 until August 10th.

Pubs & Restaurants

2020 H2 Outlook

The reopening of pubs and restaurants for H2 2020 is expected to be the first step in the road leading to the recovery of the sector. Operators looking to resume trade had to consider a number of extraordinary expenses including investment in health and safety equipment and training whilst also reviewing procedures for the provision of service to their customers. Uncertainty prevails about the long term impact of the pandemic in consumer sentiment and behaviour, publicans and restauranteurs are focusing their efforts on reassuring staff and clientele that they are doing everything they can to guarantee their safety while on their premises. Prevailing social distancing guidelines dictate a minimum distance of 1m between customers from different households and a maximum seating time of 105 minutes which will impact businesses ability to capitalise on periods of high demand (Fri/Sat night) for as long as they remain in place.

Hospitality Sector 2020 H2 Outlook

- Bars and restaurants in tourism destinations favoured by international visitors could experience a slower recovery.
  - Limited numbers of overseas visitors expected for the rest of the year due to prevailing travel disruption and restrictions limiting people's appetite for international travel.
  - International seat capacity has taken a big hit. Data firm OAG stated "it could take until 2022 or 2023 before the volume of fliers returns to the levels that had been expected for 2020". (reuters.com)
- Reduced footfall around office buildings due to prevailing "work from home" guidelines will impact trade for cafes, bars and restaurants in a number of locations particularly around Dublin.
  - Corporate demand at an individual and group level unlikely to return to any meaningful levels in 2020; a number of multinationals have already indicated staff are not expected back to their offices until 2021.
- Strong expectations for the domestic market in particular the domestic leisure market which is anticipated to replace some of the international demand for the rest of the year.
- The lack of scheduled entertainment and sporting events will impact demand for bars and restaurants in large urban areas during the second half of the year.
- Industry bodies; Restaurants Association of Ireland (RAI), Vintners Federation of Ireland (VFI) and the Licensed Vintners Association (LVA) have all expressed concern for the sector and indicated that government supports need to remain in place at the risk of a number of bars and restaurants going out of business.

Social distancing impact on capacity

- A report on the impact of social distancing on the licensed premises was jointly commissioned by the LVA and the VFI. The report suggests the 1m social distancing could reduce capacity by 50%.

	100m2 Bar/ Lounge Standing	100m2 Bar/ Lounge Seating with tables
Existing Capacity permited under Fire Safety Regulations	200 persons	100 persons
Capacity after applying WHO 1m physical distancing requirements	100 persons	65 persons
Resulting capacity as percentage of existing permitter capacity (WHO)	50%	65%
Capacity after applying 2m HSE physical distancing requirements	25 persons	34 persons
Resulting Capacity as percentage of existing permitted capacity (HSE)	12.50%	34%

Source: Knapton Consulting Engineers, Report on impact of occupancy numbers on licensed premises as a result of Covid-19)

Trends

- Innovative approach to take-away/delivery services; there is now an abundant offer of meal and beverage kits by a number of leading bars and restaurants across the country.
- Bars and restaurants across the country have revised their menus to protect their profit margins as they reopen to uncertain levels of demand. Pubs reopening on phase 3 also had to consider the government's €9 food spend requirement on their pricing strategy.
- **Covid-19 proofing:** Perspex screens, sanitation stations and software upgrades to allow customers to pay at the table (already embraced by most restaurants but not bars) all widely embraced by the sector.
- Focus on electronic payments, the last few cash-only bars like Grogan's in Dublin are moving to card payments.

Potential Tailwinds

The Government's July stimulus could prove crucial for the sector as it is expected to include provisions to the wage subsidy scheme as well as an extended waiver on commercial rates among other measures to support the sector.

Bank of Ireland

Bank of Ireland understands the challenges faced by the hospitality sector as a consequence of the Covid-19 outbreak. We are a strong supporter of the sector and will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the "New Normal".

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Head of Hospitality Sector

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Gerardo joined the Bank in 2012 after more than 15 years working in a number of roles in the hospitality sector. His wealth of experience includes hotels and restaurants in Mexico, Switzerland and Ireland where he spent 7 years with the Rezidor Hospitality Group (Radisson Hotels). He also spent 4 years with Dalata reviewing the financial performance of a number of hotels in Dublin and regionally. Gerardo is a Qualified Financial Advisor and holds an Associate Degree in Restaurant Management from CESSA, Mexico and a BBA Hospitality from Les Roches International Hotel Management.

Sources: thejournal.ie, Central Statistics Office (CSO), Bord Bia Irish Foodservice Market and Consumer Insights,, Alcohol Action Ireland, Govt.ie, Fáilte Ireland, Knapton Consulting Engineers, Reuters.com

Retail Convenience

2020 H1 Insights

Grocery & Convenience sector demonstrated unflinching commitment to customers and communities during unprecedented trading conditions in H1 2020.

Summary

- **Unprecedented Growth:** Exceptional growth delivered by grocery retailers linked to Covid19 related demand. Shopping behaviour and frequency patterns favoured larger operators in the Irish market.
- **Customer Goodwill:** Sector response to pandemic; supporting communities and vulnerable in society has generated goodwill and trust towards retailers and their staff.
- **Investment:** Store revamp activity was paused for a large proportion of H1 2020 due to Covid19 restrictions. Retailers are now re-commencing revamp and store purchase proposals. Bank of Ireland continues to actively engage and support grocery retailers with investment plans.

2020 H1 Key Trends

- Strong growth in take-home grocery sales linked to Covid19 customer requirements and behaviour. Growth of 25% delivered in the 12 weeks to 17 May 2020 per Kantar; the largest growth recorded in 15 years.
- Supervalu, Dunnes and Tesco continued to compete strongly for the no. 1 spot in grocery market share with Aldi & Lidl maintaining a strong foothold in the Irish market. Supervalu is now the largest grocer benefiting from its extensive community focused store network and online capability.
- Covid 19 has driven a large divergence in performance amongst convenience focused operators. Neighbourhood stores (Centra & Eurospar) have reported a strong performance whereas many city/town centre and forecourt stores have seen a significant deterioration in footfall linked to increased working from home practices etc.
- The Irish consumer now expects a frictionless/accessible shopping experience linked to health and safety and progressive retailers are continuing to invest in omni-channel strategies and technology (click & collect/on-line loyalty clubs) to drive improved engagement opposite their customers and employees.

Sector Developments – H1 2020 Key Numbers

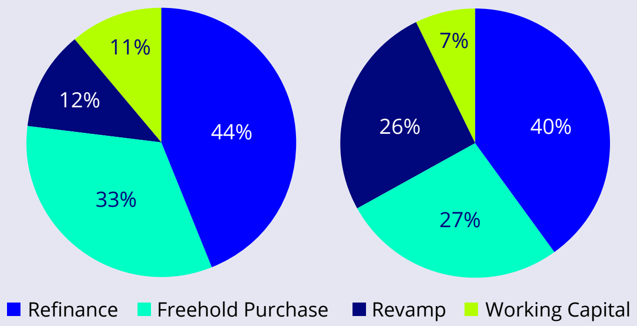
- **25%:** Grocery sales increase in 12 weeks to 17 May 2020 per Kantar.
- **76%:** Increase in online grocery sales v H1 2019. A significant shift in consumer behaviour driven by necessity, albeit from a low base.
- **25%:** Growth in sale of Irish products in-store per Nielsen (May 2020) as Irish consumers become more provenance and traceability focused.
- **73%:** Increase in hair colorant sales in the 12 weeks 17th May – reflecting Covid19 specific requirements underpinning sales growth.
- **1000%:** Sales increase in hand santiser in week ended 8th March – health and safety will continue as a priority for the Irish shopper in their store/retailer preferences.

Key Activity in the Sector in H1 2020

- Despite exceptional demand, the overall grocery supply chain proved robust; a testament to the contingency plans in place by Irish grocery operators/wholesalers.
- Proactive initiatives put in place to protect both staff and customers; Perspex screens, Rota re-alignment, contactless payment increase etc. Strong sector collaboration with Government and Health & Safety Authority.
- Shopping patterns have reverted to the "Big weekly grocery shop". This has led to a negative impact on gross margin percentage as less impulse/more considered shopping behaviour emerges.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. Covid19 has been a catalyst for some retailers to investigate future options.

Approval Activity Value %

Approval Activity Value % 2020 | Approval Activity Value % 2019



Sector Developments: Investment and Consolidation

- Tesco has continued its contraction strategy by selling its operations in Thailand, Malaysia and Poland in recent months. Cork man, Ken Murphy will take over as Tesco Global CEO in H2 2020. (Source: Checkout Magazine, June 2020)
- Musgrave was granted planning permission in April for a new Supervalu store in Newcastle, Co Dublin continuing the brand's recent expansion in the Dublin commuter belt region.
- A number of key executive appointments have taken place in H1 2020 – Niall O'Connor has been appointed MD of Aldi Ireland & Shane Flynn has been appointed MD of Avoca by its parent Aramark group. (Source: Shelflife Magazine, June 2020)
- Consumers continue to have a key focus on food provenance and healthy options. This demand is being met by expansion/investment from Fresh the Good Food Market and Nolan's of Clontarf amongst others. Musgrave has signed an exclusivity agreement with The Happy Pear for the island of Ireland and BWG has launched a healthy-eating guide in conjunction with the FAI.
- A significant pipe-line of funding activity developed in H1 2020 despite Covid19 impact with revamp / freehold purchase accounting for c45% of approvals as progressive Irish retailers seek to future-proof their business.

Retail Convenience
2020 H2 Outlook

A continued up-weighted focus on customer/staff safety, health and wellness. Margin preservation key linked to change in consumer behaviour.

2020 Key Numbers

- **€300k:** Level of investment from Centra to promote "Guaranteed Irish" brands as part of a new partnership.
- **1,200:** The reduction in carbon emission tonnes which Tesco aims to deliver from its partnership with Green Generation, a Kildare based green energy operation.
- **9:** The number of expected new stores unveiled to the Irish market by Aldi in 2020 under the stewardship of new MD, Niall O'Connor.
- **€6m:** Level of Funding raised by Buymie an Irish firm led by Devan Hughes to expand its online grocery platform across Ireland and UK. Recent partnership signed with Co-op stores in UK.
- **76%:** The percentage of people who now use contactless weekly per statistics from the Irish Banking and Payments Federation. (May 2020)

2020 H2 Retail Convenience Sector Outlook

- **Robust Outlook:** Overall a resilient sector to economic shocks; no renewed restrictions will be key for footfall re-instatement in high convenience and forecourt stores.
- **Funding Activity:** Strong active pipeline of store purchase and revamp proposals– retailers recognise that customer experience/ excellent standards will be key to attract and retain market share.
- **Partnerships:** Increased collaboration/partnership agreements between grocery retailers and producers/restaurants/food-service operators expected.

Market

- Significant revamp programme rolled out in H2 2020 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards. Increased volume of activity linked to restrictions in H1 2020.
- Detailed analysis pre and post revamp will be an imperative to ensure that maximum return on investment is delivered via sales mix improvement, margin growth and cost saving.
- Increased collaboration/partnership agreements between grocery retailers and producers/restaurants/food-service operators expected as they seek to provide a healthy/nutrition focused differentiation point for the Irish consumer.
- The long-term model adopted by high convenience and Forecourt retailers will be examined – can they effectively pivot towards grocery top-up and/or a hub for people working from home through increased delivery capability?
- Corporate social responsibility linked to sustainable and environmentally friendly in-store activities will 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.
- All retail businesses will need to focus strongly on margin preservation in H2 2020 linked to functional/more considered shopping behaviour.

Funding Activity

- Revamp activity to restart linked to a proactive revamp strategy from progressive retailers nationwide (subject to no further Covid19 linked restrictions)
- Store sale activity primarily linked to succession planning will continue to develop in 2020. Leasehold retailers will continue to see opportunities to purchase the freehold interest of their stores.
- Refinance activity projected in the sector in H2 2020 linked to exiting banks and loan book purchasers seeking to deleverage.

Bank of Ireland

- As Ireland's leading business bank, 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 2020.

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Head of Retail Convenience

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Owen joined Bank of Ireland in 2015 as Head of Retail Convenience. Owen previously worked for Musgrave Retail Partners Ireland where his role involved supporting independent retailers to maximise their profitability and to develop long-term, sustainable business models. During this time, Owen developed significant knowledge of finance, operations and legal / regulatory requirements specific to the retail convenience sector.

Owen holds a BA 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 and previously held roles with Pricewaterhouse Coopers and Deloitte.

Sources: Shelflife magazine, Checkout magazine, Kantar, Nielsen, Irish Banking & Payments Federation.

Technology, Media & Telecoms Sector (TMT)
2020 H1 Insights

H1 2020

In January it emerged that Pointy, the Dublin start-up founded by Mark Cummins (CEO) and Charles Bibby (CTO) was being acquired by Google, who it was estimated paid in the region of €147 million to take control of the business. Pointy provides hardware and software technology to help physical retailers, especially those that might not already have an extensive e-commerce storefront detailing in-store inventory, to get their products discoverable online without any extra development work.

Impact of COVID-19 on the TMT Sector

Acceleration of Digital Transformation

The pandemic has accelerated the move to digitisation for many businesses. Cloud computing is now of its day and any trepidation that may have existed heretofore around security or where information would be hosted have all been overcome. As the world adapted to remote working, decisions around adoption, assessment and deployment of technology that would normally take up to a couple of years, were now being accomplished in weeks. Companies who had already began the offline-to-online transition have managed better in terms of navigating through the pandemic with less difficulties and problems and has also highlighted the need for more emphasis and focus on a company's technological presence. This will now lead to more digital efficiency around managing sales demand (online), accessibility (discovery/searchable), delivery (autonomous/limited contact) and the reputation (social) of a business.

Potential strain on Telecoms infrastructure

During March as the pandemic took hold and millions of people had to work from home, fears grew that broadband networks might crash. The EU subsequently called on streaming service providers such as Netflix and YouTube to limit their services. To put in context, Italy had seen a three-fold increase in the use of video conferencing following the beginning of its full lockdown, which contributed to a 75pc rise in residential data traffic and mobile networks recently.

Cancellation of major Tech events

The pandemic also precipitated the cancellation of major technology events across the globe such as SXSW (Austin) and Mobile World Congress (Barcelona) along with numerous other industry and networking events. The loss of these events continues to reverberate as the opportunity cost continues to negatively impact lots of businesses across the TMT space as they try to make up for loss of sales and business development pipeline opportunities. While the full impacts of Covid are still being assessed and understood some companies have told us that they were overly pessimistic in their projections for reduction in sales in Q2.

Government launched €2m COVID-19 scheme to get retailers online

A new scheme to help boost the on-line presence of retail businesses affected by COVID-19 was launched. The scheme aimed to provide applicants with financial support of up to 80pc of eligible project costs, with funding ranging from €10,000 to €40,000. The €2m fund was open to national retailers, with a physical store and employing more than 10 people, to accelerate their on-line proposition and enabling eCommerce in both domestic and export markets.

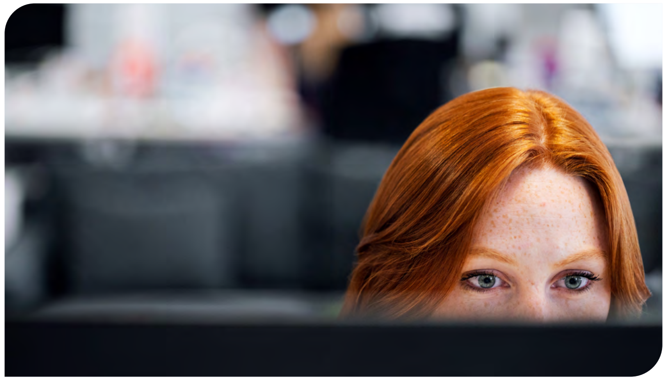
The eCommerce Association of Ireland (eCAI) also launched a 'Task Force' of eCommerce professionals to help Irish business owners through the crisis. They provide a support network of leading tech mentors to members, e-retailers and businesses to aid in setting up operations or services on-line. More info: ecai.ie/taskforce

Journey to online: While many of our customers may now be seeking to move online; getting online and understanding what needs to be done can be stressful for companies. Below are some examples of companies that help businesses with getting online/ distributing product through various platforms:

- **Scurri:** a cloud-based solution to help optimise the online ordering, shipping and delivery process for retailers. (scurri.com)
- **Kooomo:** provide a platform that seamlessly connects all sales channels, helping customers to manage online stores. (kooomo.com/en/)
- **Luzern Solutions:** offer an end-to-end solution comprising online store and ecommerce platform. (luzern.co/)
- **Pointy:** enables retailers to have their products for sale on-line, making them searchable to help shoppers find those products in their local area. (pointy.com/ie)
- **NRGStore:** is an e-commerce platform that enables other suppliers to sell their product ranges and services online. (nrgstore.ie)

Venture Capital

The Irish Venture Capital Association (IVCA) published its VenturePulse survey for the first quarter. The value of deals in the €1- €5m category fell by 44% from €68.8m in the first quarter 2019 to €38m this year. The total number of deals also fell, from 30 to 18. Deals in the under €1m range fell by 39% from €13.8m to €8.4m with the number falling from 36 to 22.



Bank of Ireland lending in H1

Lending: H1 has seen strong demand, with an increase in lending approvals up on the same period last year to the TMT sector. This growth is a continuation of the trend of recent years. The main requirements being funding for growth/acquisition and expansion into new markets. Key sector segments continue to be SaaS, telecoms and digital/media space. Likewise, we are seeing significant growth from companies delivering solutions into the health sector as we see an acceleration of the adoption of digital technologies.

H1 Sector Activity – Acquisitions/Investment

Ireland – some notable activity over the period:

Fundraising

Evervault: the Dublin-based internet infrastructure company has closed a $16 million Series A investment round led by Index Ventures. Founder & CEO, Shane Curran, won the BT Young Scientist of the year competition back in 2017 at the age of 17. Evervault are building a technology solution that simplifies and protects data privacy, rather than depending on regulation.

Keelvar Systems: the Cork-based company develops artificial intelligence for the procurement market, raised $18 million (€16m) in funding to support its expansion plans across Europe and the US, as well as increasing investment in the company's core technologies. Keelvar Systems have seen an escalation in demand from large enterprise seeking to automate elements of their supply chain as a result of COVID-19.

Investment

VR Education: the Waterford based company, which develops virtual reality software announced that HTC Corporation, the Taiwanese conglomerate were investing €3 million in the business and taking a 20% stake. This funding is a huge step forward for the company which was founded in 2015 and will enable them to further develop their ENGAGE platform and grow sales through HTC's global distribution channels.

Technology, Media & Telecoms Sector (TMT)
2020 H2 Outlook

As we look ahead to the latter part of 2020, while no one really knows how long the pandemic will last, it is fair to say that Digital Transformation is here to stay and we are going to see a significant uplift in technology enabled, 'digital first' businesses across every sector.

Programme for Government – National Digital Strategy: the proposal includes a commitment to commence a public consultation on the development of a National Digital Strategy with a view to completing and publishing the strategy within six months of the formation of the new government. This proposed strategy demonstrates a statement of intent by the new government as to the importance of technology and the role it will play going forward in terms of a digitally enabled society.

Rural broadband: remote working is now seen as strategically important in supporting the reduction of Ireland's carbon footprint. Connectivity to broadband is now being viewed importantly from an environmental point of view which is likely to result in expediting the roll out of the National Broadband Plan. A strategy for remote working and remote service delivery forms part of the new programme for government and will drive opportunities across every part of the country, offering candidates to 'work from anywhere' there is connectivity.

Contact Tracing App

At the time of writing, Ireland's Contact Tracing App is now launched and surpasses 1.4 million registrations. This, by any standards is a remarkable show of solidarity by the Irish public. Initially planned by the HSE to launch back in March; Nearform, the Waterford-based company that built the app had to overcome various barriers in terms of privacy issues and bluetooth functionality (for iPhones) along the way. While there have been some issues raised in relation to elements of the apps functionality, its ultimate roll-out is an important weapon in the fight against COVID-19.

Remote Working

As thousands of us have adapted to remote working the consensus is that this new way of working is here to stay. Many people have questioned the logic of how they spent long hours, commuting on trains or driving the roads of Ireland getting to and from work before COVID-19. Many global technology companies have been operating a remote working strategy for some time and while it might not have seemed too attractive before, it has certainly grown in popularity in recent months. In a recent National Remote Working study undertaken by NUI Galway on behalf of the Western Development Commission, 83% of respondents expressed a preference to continue to work remotely post COVID-19. 51% had never worked remotely before COVID-19. Grow Remote (growremote.ie) a not-for-profit social enterprise, is on a mission to enable more people to work from wherever they like and in so doing can live and participate more in their local communities across the island of Ireland. It wants to increase the number of remote workers, that is, people in full-time employment just without the typical office environment. To further support the connection between individuals, job seekers and businesses looking to hire remote workers, Grow Remote also posts job opportunities on its job board (growremote.ie/irish-remote-jobs-board/). The advantages of remote working are many, such as improved work-life balance, reduced costs of commuting and greater flexibility in how to organise one's working day. Likewise the benefit for business is happier and more productive employees.

Growth in Telehealth

During H1 we witnessed a streamlining of procurement models in both the HSE and NHS, with both health services seeking to acquire new technologies quickly and deploy them rapidly. This has resulted in a boon for companies in the TeleHealth/HealthTech sectors. We have also seen doctors right across Ireland delivering consultations through video calls which has proven beneficial to both clinicians and patients with neither part recording any diminution in the quality of the experience.

According to McKinsey, in the US, consumer adoption of Telehealth has skyrocketed, from 11 percent of consumers using telehealth in 2019 to 46 percent of consumers now using telehealth to replace cancelled healthcare visits. Pre COVID-19, the total annual revenues of US telehealth players were an estimated $3 billion; with the acceleration of consumer and provider adoption of telehealth and the extension of telehealth beyond just virtual urgent care, up to $250 billion of current US healthcare spend could potentially be virtualised.

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 Technology, Media and Telecoms companies.

We are delighted to continue to provide various facilities to some of Ireland's best-known technology brands across various sector segments, but we won't stop there. It is is our ambition to grow further and by having a designated Technology team we can deliver on our agenda to be the Bank of Choice for Ireland's Indigenous Technology Sector, with the experience, the knowledge and most of all an understanding, of your business.

Talk to our Technology Team today, to see how we can help you grow, your business.

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As Head of Technology, Media and Telecoms Sector, Paul works with colleagues all over the country to assess companies seeking debt finance. A passionate advocate for the Sector, focused on translating the nuances and different technology business models to enable colleagues and the bank better understand the businesses and support decision making around their readiness for debt. Paul has more than 20 years' business experience in working with technology-driven organisations from R&D-led institutions like TSSG at Waterford Institute of Technology and Trinity College's Adapt Centre to managing IDA Ireland's Consumer Technology portfolio out of Boston. Paul also completed a posting in the Middle East, based in Bahrain, assessing multi-million dollar investment projects in the region. He has also worked closely with spin-outs and mentored new and established technology companies. A native of Waterford, Paul holds a Master of Business (Hons) Internationalization from Waterford Institute of Technology.

Sources: Business Insider, CNBC, Technology Ireland, Gartner, Yahoo Finance, Grow Remote, RTE.ie, Irish Times, Renatus, Tech Crunch, CEOMagazine.com, Health Service Executive (HSE), AXIOS, Western Development Commission (WDC), McKinsey & Co.