Sector Insights & Outlook

February 2024

Bank of Ireland

Classification: Green

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

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As we begin another year, I am delighted to introduce our latest edition of the Bank of Ireland Corporate and Commercial Insight and Outlook report, brought to you by our dedicated Sectors Team. Our Sector Specialists work closely with Irish businesses and their advisors every day, and have a deep understanding of the challenges and opportunities that you face.

In this report, our Sectors Team provide expert analysis on the current Irish business landscape and share their outlook for the year ahead across the Agriculture, Hospitality, Health, Retail Convenience, TMT (Technology-Media-Telecoms), Food & Beverage and Manufacturing sectors. The report explores a number of the key trends and opportunities for businesses in Ireland, and highlights strategies that businesses are using to succeed.

Bank of Ireland understands that Irish businesses are facing an ever-changing economic and trading environment, particularly in the wake of enduring global events, supply chain disruptions, increased costs and changing consumer behaviours.

With that in mind, this edition contains a timely and topical update from our Group Chief Economist, Conall McCoille in respect of the outlook for the Irish economy.

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

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

We hope that you find this report both informative and useful as you plan for the year ahead. As always, we remain committed to supporting our customers, and we wish you all the best for a successful 2024.

Best regards,

Jilly Clarkin

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

Ireland set for steady expansion in 2024

We have recently published our new Bank of Ireland forecasts for the Irish economy (Table 1). The headline forecast is for GDP (1.5%) and modified domestic demand (2.3%) to see robust growth in 2024, following the statistical distortions that pushed down on measured activity last year.

However, the bigger picture is that Ireland's rapid pace of economic expansion now appears to be slowing as skills shortages, capacity pressures and infrastructural bottlenecks become a growing concern. That said, Ireland's medium-term prospects, underpinned by favourable demographics, investment and productivity remain favourable vis-à-vis the euro area and United Kingdom.

Table 1: Bank of Ireland forecasts for the Irish economy

	2023	2024	2025	2026
Household Consumption	3.3%	2.9%	3.0%	3.0%
Government Consumption	0.5%	2.5%	2.2%	2.2%
Investment	-12.5%	1.0%	2.0%	2.0%
Modified Investment	*-5.6%*	*0.3%*	*3.5%*	*3.5%*
Exports	-4.0%	3.0%	5.0%	5.0%
Imports	-5.1%	2.8%	4.0%	4.2%
GDP	**-1.9%**	**1.5%**	**4.0%**	**4.0%**
- Domestic Sector GVA	3.7%	2.5%	2.7%	2.7%
- MNC Sector GVA	-6.6%	0.5%	5.2%	5.2%
Modified Domestic Demand	**0.7%**	**2.3%**	**3.0%**	**3.0%**
Employment	3.8%	1.6%	1.5%	1.5%
Unemployment	4.3%	4.5%	4.5%	4.5%
CPI	6.3%	2.5%	2.0%	2.0%

Source: Bank of Ireland and Central Statistics Office

What to make of Ireland's negative GDP data?

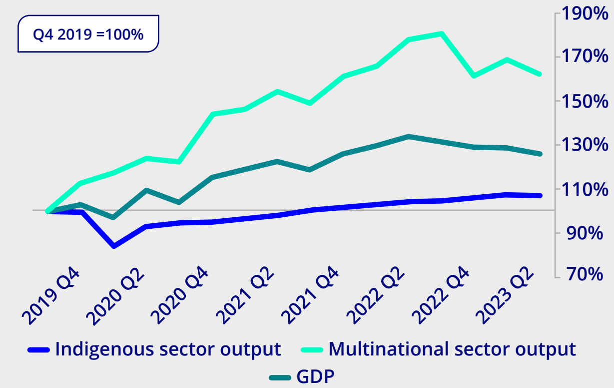
At face value Ireland's economy suffered a recession in 2023. The Central Statistics Office's (CSO) preliminary estimate was that GDP fell by 0.7% in Q4 2023, contracting for a fifth consecutive quarter and down 1.9% in calendar year 2023. What is happening? The root of the problem appeared to be the export sector, goods exports down an enormous 22% in the year to September.

However, it is now well understood that the multinational sector can often distort Ireland's GDP figures, just as it did in 2021 and 2022 when positive growth of 15% and 9% was recorded. This partially reflected a surge in 'contract manufacturing' in late 2022, but which has unwound over the past year, artificially pushing down on GDP growth.

In 2022 just ten companies accounted for €13bn, or 57% of corporate tax receipts. So it is quite possible only a small number of firms are now distorting the GDP data.

Contract manufacturing relates to the production of goods in other countries, but where the profits are counted in Ireland, contributing to GDP. Hence, the recent volatile GDP data probably tell us very little about the underlying health of the economy, export sector, or Ireland's attractiveness as a location for foreign direct investment.

Chart 1: The multinational sector explained the fall in Irish GDP in 2023



Source: Central Statistics Office

The underlying health of the export sector still looks robust

The Industrial Development Authority's (IDA) latest results on foreign direct investment were still relatively upbeat. In 2023, 248 fresh investments were won, up 2.5% on 2022 and expected to eventually create 19,000 jobs. Of these, just over half, or 132 were outside the Dublin region and one-third were 'greenfield', first-time-investments. We can also look at the official figures on investment spending on machinery and equipment (excluding volatile items such as aircraft). Capital expenditure on these items was €11.7bn in the first three quarters of 2023, still at an exceptionally high level historically, although perhaps inflated by investments in data centres. Still, the data implies that strong levels of FDI are being sustained.

An alternative picture comes from the IDA's figures on employment in the multinational sector. Here employment fell for the first time since 2009, albeit only marginally by 0.3% to 300,583. This may appear concerning. However, it entirely reflected a correction in the information and communications/technology (ICT) sector, after aggressive hiring during the Covid19 pandemic. Table 2 shows that despite the 2.9% contraction in 2023, the 113,600 employed by ICT companies in Ireland was still well above 2021 levels. Other multinational sectors saw modest gains last year, but building on sharp annual increases of 7%-8% in 2022.

Table 2: Employment at IDA client multinational companies

	2021	% Change	2022	% Change	2023
Information and Communication	107.0	9.5%	117.1	-2.9%	113.6
Buisness / Financial / Other services	52.0	6.9%	55.6	0.8%	56.9
Manufacturing	119.9	7.5%	128.9	1.5%	130.9
Total	278.9	8.2%	301.6	-0.3%	300.6

Source: Irish Industrial Development Authority

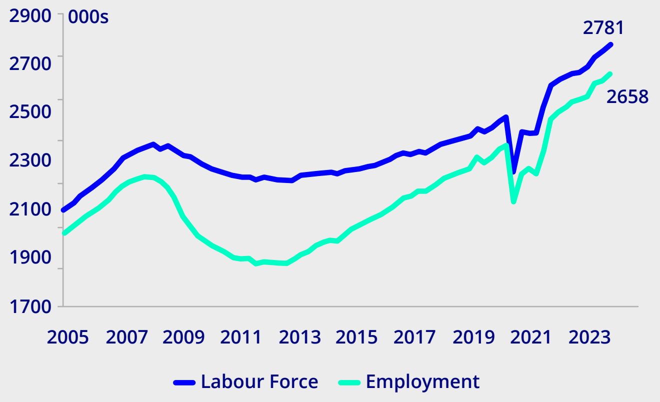
It's also worth pointing out that Irish traditional manufacturing output saw a decent 6.4% expansion in 2023, despite challenging global conditions. For example, euro area industrial production fell by 6.8% in the year to November 2023 as the impact of higher interest rates was felt and firms across Europe cut back on investment spending. In this context, the traditional manufacturing sector is still exhibiting its defensive resilient characteristics, concentrated in agri-food and other areas.

Labour market keeps consumer spending ticking over

It's worth highlighting the exceptional pace of jobs growth Ireland has recorded in recent years. Employment grew by 1% in Q3 2023, now 13%, or 308,000 above pre-pandemic 2019 levels. This frantic pace has been facilitated by strong labour force growth. The participation rate is now at 65.7%, a fifteen-year high. Net migration has also played a role. In the year to April 2023 the population grew by 97,600, or by 1.9%, of which the bulk, 77,600 was net migration.

Labour and skills shortages are now a clear feature of the Irish labour market. Hence, vacancies remain at historically high levels with average weekly earnings growing 4.6% in the year to Q3 2023. If anything, given how tight the labour market has been it is surprising pay growth hasn't accelerated to higher levels. However, skills shortages will inevitably act as a constraint on growth.

Chart 2: Ireland has seen exceptional growth in employment



Source: Central Statistics Office

Our forecast is that consumer spending grew by 3.3% in 2023, despite the squeeze on real incomes from elevated energy bills, higher interest rates and double-digit CPI inflation. True, fiscal measures to support households' disposable incomes have helped but it is really the strength of Ireland's labour market that has supported spending. Although individual households' real incomes have been under pressure, there are now far greater numbers of persons in employment.

Looking forward to 2024, we expect consumer spending will grow by a robust 2.9%. We expect jobs growth will slow to 1.5% this year. However, pay growth (5%) should exceed CPI inflation (2.5%) supporting spending. The Budget 2024 tax cuts and spending measures will also boost disposable incomes at the average wage by 2%, and by 5-6% for those on lower incomes.

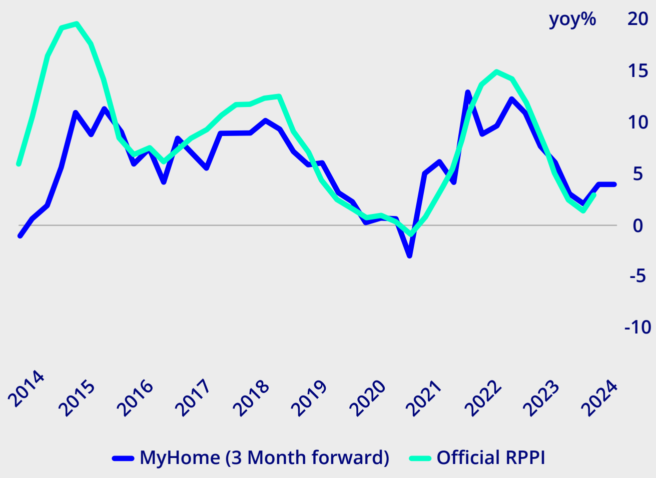
One uncertainty here is the pace at which household energy bills will fall in 2024, as lower wholesale electricity and gas prices are gradually passed-through. We have assumed a 20% fall through 2024. However, so far, household gas prices have fallen at a far slower pace in Ireland than in Europe or the United Kingdom. A sharper decline could push CPI inflation below our forecast for 2.5%.

Housing market regains momentum as shortage of supply felt

During the Covid19 pandemic Irish house price valuations clearly became stretched, particularly in the capital. The CSO's index for Dublin residential property prices fell for eight consecutive months, or by 4% peak-to-trough between October 2022 and May 2023. The national residential property price index also fell in each of the first five months of 2023, leading to speculation that Ireland could see negative house price inflation.

However, given the unresolved lack of housing supply, it was inevitable house price inflation would eventually regain momentum. In Q3 2023 "MyHome" asking price inflation accelerated to 4%. Also, the median premium home-buyers were prepared to pay over the original asking price rose from 1% in early 2023 to 4% by December. Hence, it was no surprise to see the CSO's official measure of residential property price inflation accelerating to 2.9% in November.

Chart 3: Irish House Price Inflation regained momentum in H2 2023



Source: Central Statistics Office

One positive surprise in 2023 was the pick-up in homebuilding activity. Housing completions and starts rose to 32,600 and 32,800 respectively last year. This was well ahead of gloomy predications that the threat to viability from energy prices and build cost inflation could push down on homebuilding activity. Looking ahead to 2024 we expect completions will rise to 34,000, albeit still well short of levels of 40,000-50,000 units that would be required to start addressing pent-up demand.

Budget 2024 will support growth this year

October's Budget for 2024 planned to raise core expenditure by 6% in 2024. This means the government will break its own self-imposed rule to limit spending growth to 5%. This decision has attracted some criticism that public spending risks being too expansionary, within an economy operating close to full capacity.

Within total spending, public capital expenditure is set to rise at a sharp pace of 11%, or by €1.3bn, to €13.2bn. However, both the Economic and Social Research Institute (ESRI) and Irish Fiscal Advisory Council (IFAC) have highlighted the many competing demands on the public purse; the National Development Plan, the rollout of primary health care, social and affordable housing targets and the investment required to address climate change.

In summary, addressing the many bottlenecks and capacity pressures that are inevitably emerging as the economy operates close to full capacity, are now the biggest challenge for Ireland's future prospects.

Agriculture 2023 Insights and 2024 Outlook

2023 Review

Summary:

2023 was very much a year of two halves – the first half saw significant falls in farm output prices driven by subdued global agri commodity markets coupled with sustained high prices for key inputs such as fertiliser and feed. It wasn't until the second half of the year that input costs for feed, fertiliser and fuel started to come off the record highs seen last year. For many farmers, the lag between farm gate price reductions and cost deflation impacted margins. Furthermore poor weather throughout the year, which saw limited rainfall in Spring and significant rainfall amounts in the second half of the year impacted grass growth and crop yields. Despite, these challenges, the sector performed strongly and delivered profit levels similar to 2020 and 2021 on most farms, across the key sectors.

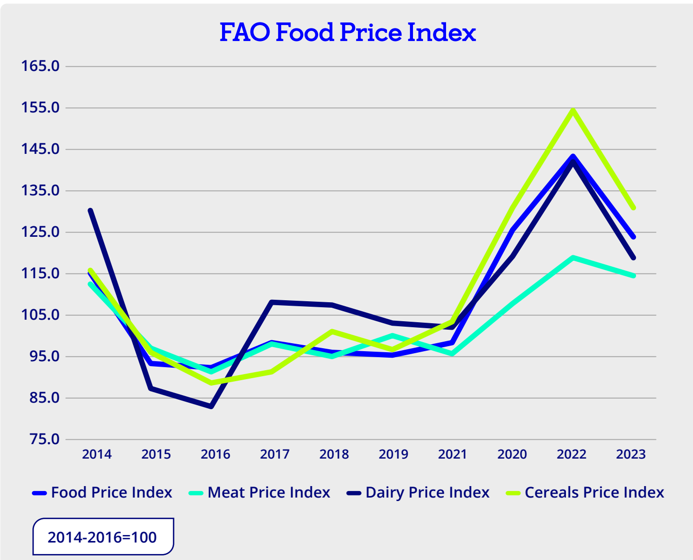
Key Sector Trends in 2023

Agri commodities fall off record highs

The FAO Food Price Index (FFPI), which tracks international prices of globally traded agri-food commodities, fell 14% for 2023 as a whole compared to 2022. The main food indices (cereals, meat and dairy) had reached record highs in 2022. The Cereal Price Index decreased 15% in 2023 compared to 2022, reflecting well supplied global markets. (FAO, January 2024)

In 2023, the Dairy Price Index fell 17% below the average for 2022 underpinned by lacklustre import demand, especially for spot supplies, amid ample stocks in importing countries, reflecting price declines across all dairy products. (FAO, January 2024)

In 2023 as a whole, the Meat Price Index fell 3.5% from 2022, due to increased export availabilities from leading exporting regions amid subdued import demand by key meat-importing countries reflecting declines in annual average values for beef, poultry and sheep meats, partially compensated by an increase in average pig meat prices. (FAO, January 2024)



Source: UN FAO Food Price Index, January 2024

Weaker prices drive drop in farm output

While there was a 3% fall in the volume of farm output in 2023 compared to 2022, weaker prices, accounted for a 9% drop in the value of Agricultural Output. Combined, almost €1.6bn was wiped off the value of farm output in 2023 compared to 2022. 86% of the fall in the value of agricultural output last year was driven mainly by a fall in the price of milk. (CSO, January 2024)

The main drops in volume came from a 26% fall in cereal output driven by poorer weather, along with a 3% drop in milk output volume and a 9% drop in pig output volumes in 2023 compared to 2022. The combined drop in price and volume saw a 48% drop in the value of cereal output and a 27% fall in the value of milk output in 2023 compared to 2022. (CSO, January 2024)

Input inflation remains stubbornly high

Despite the value of farm output falling 12% overall in 2023 compared to 2022, the price of key inputs (feed, fertiliser, energy) remained relatively high across 2023. The cost of farm inputs while slightly back (-5%) on 2022 levels remains 23% higher than 2021 levels. The value of fertilisers fell by 32% in 2023 compared to 2022 driven by a 16% drop in volumes along with a 16% drop in volumes. The value of feed remained relatively stable (up 2%) despite a 4% drop in feed volumes. Energy costs (diesel and electricity) were down 3% in 2023 compared to 2022. Plant protection products rose 9% in 2023 compared to 2022. (CSO, January 2024)

Farm incomes hit by €1.5bn in 2023

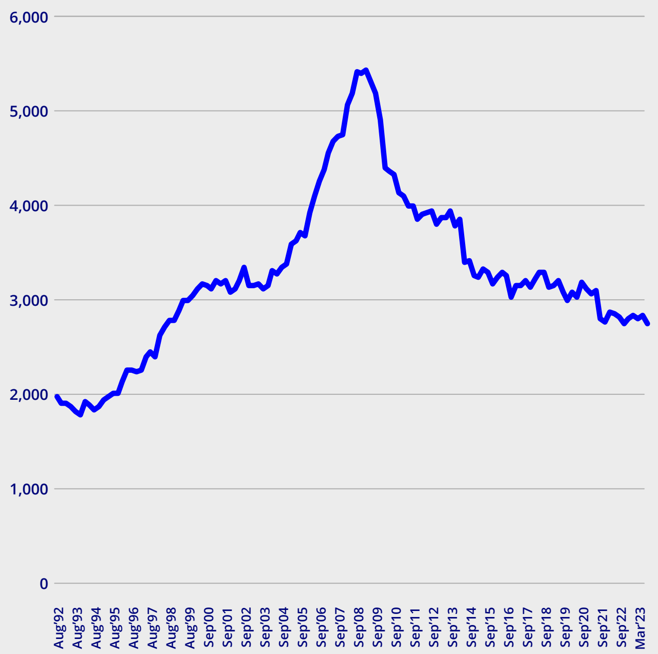
Farm incomes as measured by the operating surplus fell by €1.5bn or 33% to reach €3.2bn in 2023 compared to 2022. This drop was driven by a significant fall in farm output prices, some drops in output volumes coupled to continued high input costs. Farm incomes for 2023 are also 13% lower than 2021. (CSO, January 2024)

In 2023, average farm incomes fell 44% compared to 2022 (Teagasc, November 2023). Average dairy farm incomes for 2023 were €59,000, average tillage incomes €30,000, average cattle rearing incomes €10,000, average cattle finishing incomes €19,000 and average sheep incomes €17,000. (Teagasc, Novemeber 2023)

Farm Debt at lowest level in 25 years

The sector continues to deleverage as farmers pay down existing debt at a faster rate than taking out new debt. At the end of September 2023, the total debt on Irish farms was €2.75bn - the lowest level in 25 years and 2% lower than the end of September 2022. In the first 9 months of 2023, farmers took out €464m of new loans: 3% (€15m) more than the same period in 2022. (Central Bank, December 2023)

Evolution of Farm Debt over 30 years (€m)



Source: Central Bank of Ireland, December 2023

Strong performance by Bank of Ireland in 2023

Bank of Ireland continues to grow its lending to farmers in Ireland. In 2023, Bank of Ireland captured 55% of all new lending to farmers, demonstrating our commitment and appetite to support farmers in their business ambitions. Underlining Bank of Ireland's ongoing support of Irish farmers, the Bank has recorded Agri-lending growth of 20% since 2020. This contrasts with an overall market decline of 10% in new Agri-lending during the same period. (Central Bank, December 2023)

Farmers enter 2024 in relatively strong position

In 2023, while agricultural deposits with Bank of Ireland reduced marginally (down 4%), at the end of December 2023 they remain 75% higher than in 2020 as a result of 3 years of strong average profits and cashflows across farms. Overdraft utilisation rates, another key indicator of financial health on farms continues to remain low at c.14% utilised balance at year end.

Enviroflex – Sustainability linked loans to farmers

As the leading lender to Ireland's agriculture industry with over 82,000 farm customers on its books, the Group is supporting the sector's transition to lowering its environmental footprint by providing discounted flexible finance for farmers.

In November 2023, Bank of Ireland, in partnership with Kerry Dairy Ireland, launched its Enviroflex* sustainability linked loans to provide an additional funding option for farmers implementing sustainable farming practices. The new product rewards farmers who are on their journey to reducing their farms environmental footprint, increasing forestry and tree planting, improving biodiversity, water quality and animal welfare practises.

The partnership, which is underpinned by Bord Bia's Origin Green Sustainability Programme and the Teagasc Marginal Abatement Cost Curve (MACC), promotes and rewards accelerated sustainable action at farm level.

Enviroflex is initially available to farmer suppliers of Kerry Dairy Ireland who are participants in its Evolve Sustainability Programme. Bank of Ireland will extend Enviroflex to other partnering co-ops and primary processors throughout 2024.

Average Prices 2023 v 2022

Food price index (FAO):
-14%

Harvest Grain Prices (IFJ):
-33% to **€200/t**

Av. Base Milk prices (CSO):
-25% to **€0.40/L**

Av. Beef Price (DG Agri):
+1% to **€4.75/KG**

Av. Pig Price (Teagasc):
+23% to **€2.24/kg**

Av. CAN Fertiliser price (CSO):
-38% to **€528/t**

Av. Dairy Nut Feed prices (CSO):
+1% to **c.€352/t**

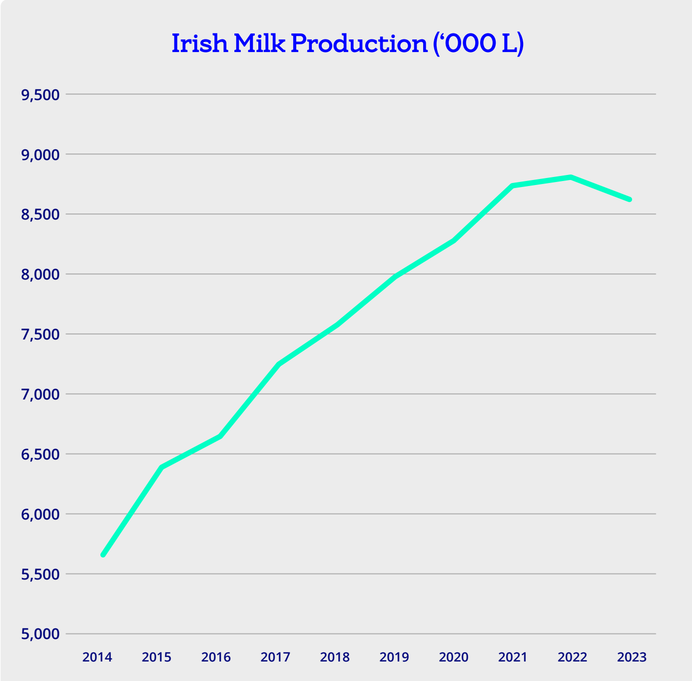
Sector Performance 2023

Dairy

After more than a decade of growth, on farm milk production declined c.3% in 2023 (CSO, January 2024). While dairy cow numbers increased marginally (+1%) to 1.65m head during the year, milk output volumes fell by c 200m litres as a result of poorer weather along with some farmers feeding less and drying off cows early in the Autumn due to weaker milk prices (CSO, January 2024). This follows a marginal increase in milk volumes (+1%) in 2022 compared to 2021 meaning milk volumes for 2023 are lower than 2021(CSO, January 2024).

While fertiliser prices did fall during the year (-38% on average) the reductions weren't seen until after April when the majority of fertiliser had been purchased and used. Similarly for feed, while there have been reductions in the second half of the year (c.€50-80/T) the total feed cost for the year rose 1% on average. (CSO, January 2024). As a result total production costs did not decrease during the year and are estimated to be c. 37c/L (Teagasc, January 2024).

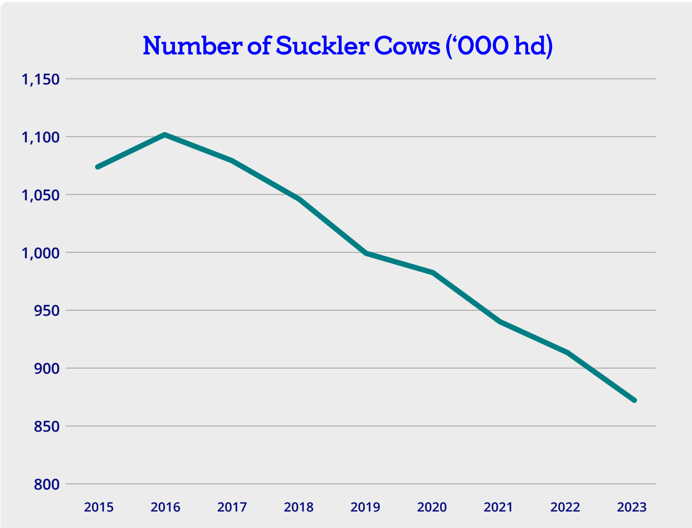
Overall, average base milk price (weighted) for the year decreased by 28% to €0.39/L including VAT (CSO, January 2024). This is in line with 5 year past average prices and 4c/L ahead of 10 year past average prices. (CSO, January 2024). Average dairy farm incomes are estimated to be down c. 60% to €59,000 for 2023 (Teagasc, November 2023).



Source: CSO, January 2024

Beef

Cattle slaughterings decreased by c. 40,000 head (-2%) to c.1.8m head in 2023 - the second highest level in 23 years (CSO, January 2024). In 2023, average prices for prime finished cattle were 3.5% higher than the average levels in 2022 and almost 20% higher than 2021 (CSO, January 2024). The decreases in fertiliser particularly during the summer months contributed towards lower input costs. Many farmers also used less due to the high price. As a result, average margins on cattle finishing farms remained stable in 2023 compared to 2022 while average margins on suckler farms increased 15% in 2023 (Teagasc, November 2023). The number of suckler cows continues to decline and is down 5% or 41,000hd in June 2023 compared to June 2022 (CSO, September 2023). Since 2015 suckler cows have declined 19% or 200,000hd mainly as a result of farmers switching to dairy (CSO, September 2023). Average cattle rearing incomes were €11,500 in 2023, while average cattle finishing incomes were €20,000 in 2023 (Teagasc, November 2023).



Source: CSO, December 2023

**= Lending criteria and terms and conditions apply*

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Warning: The cost of your repayments may increase.

Tillage

Total cereal area decreased 16,000ha (-6%) in 2023 compared to 2022 mainly as a result of poor sowing conditions in Autumn 2022 (CSO, December 2023). Poor weather during the growing season saw yields decrease across all cereal crops in 2023. Spring barley yields decreased by 21% on a per hectare basis, while winter wheat yields decreased 14% per hectare, compared to 2022 (Teagasc, December 2023). Furthermore harvest grain prices decreased 33% to €200/T as a result of increased maize production internationally (Farmers Journal, December 2023). Direct costs decreased in 2023 compared to 2022, driven by lower fertiliser (down 15%) and fuel (down 18%) costs. While margins expanded significantly in 2022, margins fell significantly in 2023, as a result of lower yields and grain prices (Teagasc, November 2023).

Pigs

The Pig sector fared much better in 2023 than in 2022 as tight supplies across the EU (following herd reductions) supported pig meat prices. The EU and Irish sow herd size reduced 9.3% and 8.8% respectively in 2023 compared to 2022 (CSO, January 2024). The reductions in grain price over the year didn't reflect into lower feed prices until the second half of the year. Average feed cost for 2023 remained stable at €1.55/kg (Teagasc, December 2023) and was 33% higher than 2021 levels. The past five year average feed cost is €1.29/kg (Teagasc, December 2023). The average pig meat price for 2023 was €0.42/kg or 23% higher than 2022 at €2.24/kg (Teagasc, December 2023). The key pig production profitability measure, margin over feed, was 2.7 times higher than 2022, at 69c for 2023. It wasn't until the after Q1 that the average margin over feed moved positive in 2023 (Teagasc, December 2023). Overall most pig producers moved back into profitability in 2023.

Land

While agricultural land prices rose 3% to €12,288 per acre in 2022 (Farmers Journal Land Report, 2023), 2023 saw a continued high demand for land throughout the year with average land prices rising a further 2-3% during the year. High quality land, particularly in areas of strong demand are achieving prices well above the average– and in excess of €20,000 in some cases. The prices continue to be driven by limited supply coupled with very strong demand – particularly from dairy farmers against a backdrop of evolving water quality regulations.

2024 Outlook

Summary:

Overall, 2024 looks set to see improved profit levels on farm compared to 2023 driven by reduced prices for key inputs. Agricultural commodities are in for an uncertain 2024 as extreme weather events become more the norm, not the exception and the potential for increased supply chain disruption as tensions continue across the Middle East and the Black Sea. Overall, despite reductions in fertilizer and feed costs, other cost levels look set to remain high. Against this backdrop of higher interest rates, inflation in input costs, uncertain agri commodity prices and increasing pressure to improve the environmental footprint of farming, farmers will need to double down on improving productivity through efficiencies to preserve profits at the same time as protecting the environment. While margins will remain uncertain and volatile in the short term, over the longer term the outlook for the sector remains positive. Given the increased focus at national and EU level on the environmental footprint of farms, the sector has a significant challenge ahead. Policy clarity, a supportive eco-system, and innovation will deliver on the sector's ambition.

7 key factors to watch in 2024:

1. **Lack of policy clarity reducing farmer confidence and increasing risk** - while the EU Farm to Fork Strategy and the EU Green Deal provide roadmaps at an EU level, there is little clarity as to how these strategies will be translated and implemented at farm level. This high level of uncertainty poses a particular challenge to the livestock sector but is also having indirect impacts on the tillage sector. Farmers are less confident about making investments in their farm business, taking on debt and planning for the future. Planned policies and measures for the sector, such as increased afforestation, water table management on agricultural organic soils and peatland rehabilitation, are projected to change the shape of scale of agriculture in Ireland. Furthermore, changes in air and soil temperature, changes in rainfall patterns, increased drought events and more extreme variability in weather will increase risk for farmers.

2. **EU priorities moving beyond food security:** New EU priorities including defence, enlargement and migration challenge the capacity to deliver greater funding for environmental transition. As discussions around the next Common Agricultural Policy (CAP) begin (2028 onwards), it comes at a time where the CAP is increasingly being asked to do more- beyond protecting family farm incomes and supporting the rural economy, to include the production of high-quality safe food and increasingly protecting rural landscapes and the environment. In essence farmers will increasingly need to do more to get access to CAP funds and this creates a level of uncertainty around farm incomes into the future.

3. **Environmental compliance will drive cost, investment and demand for finance:** Unlike other sectors, climate change and the related impact of weather will require adaptation in how farmers farm. Significant investment will be required to transition the Irish agriculture sector to a lower environmental footprint- whether that is reduced emissions, improved water quality and enhanced nature. Investments such as low emission slurry spreading equipment, additional slurry and waste water storage, along with additional space for calves and enhanced animal welfare, look set to dominate on farms throughout 2024. Many of these investments will not lead to additional profits or increased farm margins and in certain instances, especially where additional land is required, will increase costs.

4. **Demand for land to continue strong:** It is expected that land values will continue to increase in 2024, driven by the usual suspects of limited supply outstripped by increasing demand. While business people (non-farmers) continued to be strong buyers in 2023, particularly for large blocks, the favourable tax policies that have been in place for these buyers are reducing. Amongst farmers, dairy farmers continue to be very active, driven by environmental compliance. The rental/leased land market looks set to continue strong, driven predominantly by dairy farmers.

5. **Farm profits set to rise in 2024:** Assuming a return to more normalised weather patterns, Bank of Ireland is forecasting an increase in overall farm profits in 2024 compared to 2023. This increase is mainly driven by a reduction in fertiliser costs and a slight reduction in feed costs. While uncertainty, driven by geopolitical tensions remains a dominant feature across the world, it is expected that on average farm profits will increase by €0.5bn and return to levels seen in 2021.

6. **Higher interest rate environment to continue:** As the interest rate environment has changed, the past year has seen the cost of borrowing go up. Given that the overall debt levels are low and the industry is well capitalised, the sector as a whole is resilient to withstand the interest rate increases seen so far. It is unclear how rates will move over 2024 at this stage but it would appear that the era of low interest rates is over given the macro-economic environment. The drivers that caused interest rates to increase in the first place (including labour and energy prices) are still pushing hard.

7. **Pressure on Cashflows:** While farmers continue to pay down debt at a faster rate than taking out new debt, there are signals of short term cashflow pressure on some farms. It is particularly evident on farms that have invested heavily from cashflow in capital items such as farm buildings or machinery in recent years. When combined with weaker farm gate prices in 2023 coupled to high input costs and high tax bills from 2022, some farms may need to examine their debt structure and cashflow needs with their financial advisor. In October 2023, Bank of Ireland launched a Tax Loan* that enables farmers to spread the cost of their tax bill and associated other expenses over a term of up to 11 months with more manageable monthly payments.

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Bank of Ireland ready to support environmental ambition:

Bank of Ireland continues to be the leading lender to Irish farmers and the agri-food sector in Ireland with over €4bn invested across the Irish agrifood supply chain with over €1.2bn of this at farm level.

Banking over 80,000 family farms, many for generations, Bank of Ireland has grown its market share by 20% over the past 3 years. At a time when the market for agri lending has reduced by 10%. It is no surprise that agriculture is key to Bank of Ireland.

Bank of Ireland is confident about the future of the sector and is committed to supporting farmer's transition to a greener footprint. Banks have a unique role in helping to bridge the gap between finance and sustainability. We expect there will be a requirement for continued investment in infrastructure that improves the overall environmental sustainability of farms, and we will continue to work with farmers and stakeholders to support their future business requirements. Offering certainty with clear guidance to farm families over the next decade must be a key priority for stakeholders in the sector.

Bank of Ireland is confident that farmers will embrace the environmental challenge and is ready to support farmers to embrace policy changes in the knowledge that much of what is being asked of them will, in the first instance, enhance the environmental sustainability of farms but can also contribute to improving overall farm profitability.

In Bank of Ireland we recognise that we have a unique opportunity to support our customers and to enable Irish farmers and rural communities to thrive. Our proven financial capabilities and appetite, combined with comprehensive agricultural expertise, provide us with a strong platform to meet the funding requirements of Irish farmers and agri-businesses. We understand the farming cycle, agri commodity price volatility and the regular need to invest to maintain growth and profitability in this dynamic sector.

We have a strong appetite to support progressive, innovative and efficient farmers who continue to farm in an environmentally sustainable way.

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

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Head of Agri

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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 MBA from Smurfit School of Business.

Food & Drink 2023 Insights and 2024 Outlook

Summary

Whilst 2023 saw some reprieve for food and beverage companies from further input cost hikes, very high food inflation, 13.1% in spring 2023[1], weakened consumer spending power. Nonetheless the sector had a solid year's performance with exports remaining strong at €16.3bn (-4%) compared to a record 2022[2] and the Irish grocery market ended the year very strongly with Kantar reporting the highest-ever recorded December spend of €1.4bn[3] with inflation playing its part.

Heading into 2024, geopolitical uncertainties continue to create an ambiguous global backdrop. Whilst industry has learned to adapt to an ever-evolving global situation, the war in the Middle East has led to commercial shipping attacks in the Red Sea. Looking ahead, Bord Bia recently reported that 73% of food and drink exporters remain optimistic about expected market growth in the year ahead[4].

Sector activity & update for 2023/2024

- Export value of food and drink slowed by 4% to €16.3bn compared to a bumper 2022[5].
- Input costs eased in 2023 but global volatility remains with shipping & supply chains complex and container prices increasing[6].
- The after-effects of high input costs resulted in high food inflation, at 13.1% (YoY) in Ireland in April '23, dropping to 5.6% in December[7].
- Staffing remains an industry challenge with very low unemployment rate of 4.8% in Nov 2023[8]. The minimum wage change in 2024 and the increased salary threshold for foreign work permit holders adds further cost pressures.
- The Board of newly-created Agri-food regulator - An Rialálaí Agraibhia- was completed in Dec 2023 and is now operational, promoting fairness and transparency in the agri-food supply chain[9].
- Brexit continues to feature as importation rules for certain goods into GB change in 2024.

Key Sector Trends Jan-Dec 2023

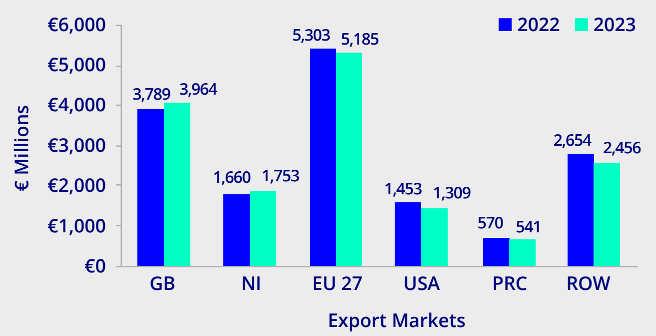
Food & Beverage Exports:

- The value of Irish food and drink exports fell back 4% to €16.3Bn albeit after a very strong 2022.
- Whilst most sub sectors experienced some decline in 2023, after 22% value growth in 2022, prepared consumer foods showed strong growth growing 7% to €3.1bn[10].
- January-November sector exports to Great Britain and Northern Ireland grew 5% YoY with other markets in decline.
- In the 12 week period to 26th November, Kantar reported the UK grocery market grew +7.5% vs 2022 with Lidl continuing strongly at +14.1% to gain highest ever share of 7.8%, Aldi +11.1% and Sainsburys +10.1%. Aldi is firmly the fourth largest retailer in the market with 9.6% market share and Morrisons now in fifth place[11].

Jan-Dec Exports Bord Bia	2022 €bn	2023 €bn	Variance	% of total
Dairy	6.8	6.3	(8%)	39%
Meat & livestock	4.2	4.2	(1%)	26%
Prepared Cons. foods	3.0	3.1	7%	19%
Drinks	2.0	1.8	(8%)	11%
Seafood	0.6	0.55	(14%)	3%
Horticulture/cereals	0.3	0.295	(6%)	2%
Total	**16.7**	**16.3**	**(4%)**	**100.0%**

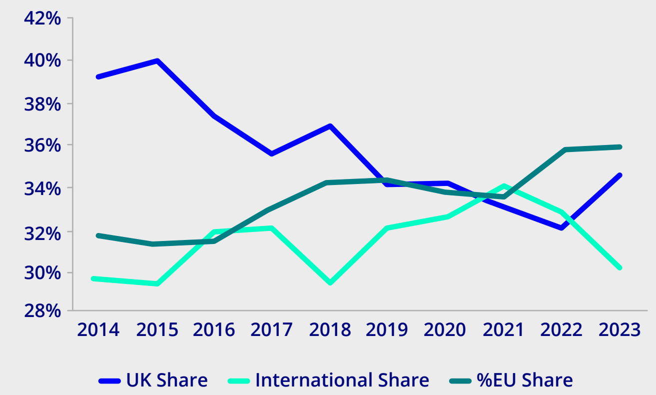
Source: Bord Bia

Fig 1: Food & Bev. Export Markets (Jan-Nov) €15.2bn



Source: Bord Bia

Fig 2: Percentage share of exports to the EU, UK and International markets



Source: Bord Bia

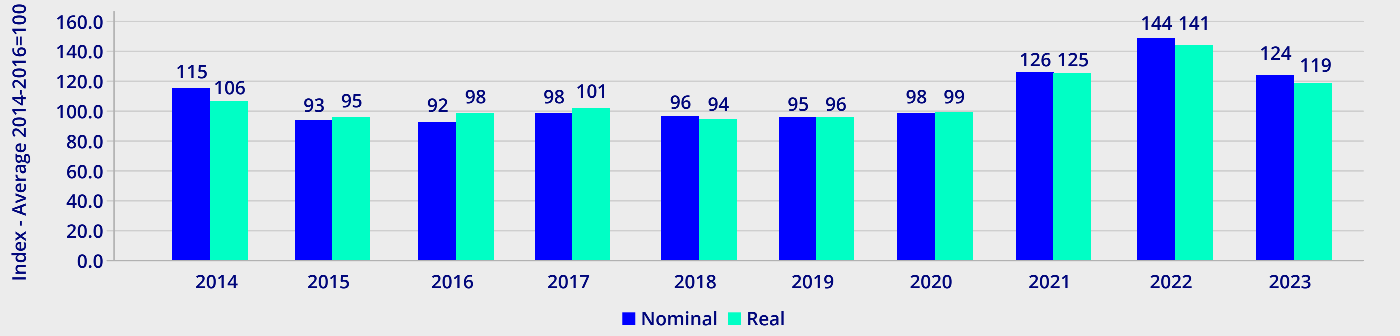
1 Ireland Food Inflation (tradingeconomics.com) Dec2023
2 Performance and Prospects 2023 - 2024 (bordbia.ie) 10th January 2024
3 Record-breaking December for grocery sales in Ireland as spend surpasses €1.4 billion (kantar.com)
4 Performance and Prospects 2023 - 2024 (bordbia.ie) 10th January 2024
5 Bord Bia (bordbiaperformanceandprospects.com)
6 Drewry - Service Expertise - World Container Index - 18 Jan
7 Ireland Food Inflation (tradingeconomics.com)Dec2023
8 Monthly Unemployment - CSO - Central Statistics Office
9 Agri Food Regulator
10 Performance and Prospects 2023 - 2024 (bordbia.ie) 10th January 2024
11 Record grocery sales predicted: stage set for bumper £13 billion Christmas (kantar.com)

Food Inflation:
Significant input cost increases in the last few years led to very high food inflation in 2023. There was a time lag in consumer price inflation, as producers grappled with cost increases, trying to find ways to manage the higher cost base and maintain margins. In 2023 the Food and Agricultural Organisation (FAO) basket of commodities dropped (Fig 3) with all commodities except for sugar, lower than in late 2022[12]. Kantar reported food inflation continuing to fall to 7.1% in the last three months of 2023[13]. However with higher wage costs in 2024, and supply chain cost challenges back in the mix, inflationary pressures remain for the sector.

Further afield, Hungary, with the highest food inflation in the EU at 46.9% in January '23[14], dropping to 4.6% in December 2023, has taken drastic measures to tackle shrinkflation. From March 2024, it requires large food retailers to display price warnings on products that have shrunk in size[15].

There is continued consumer price sensitivity and consumers are very focussed on cutting food costs through reduced higher-value purchases and more private label purchases. Shoppers continue to make more frequent and smaller shopping trips to avoid unnecessary purchases.

Fig 3: UN Food & Agriculture Organisation Food Price Index



Source: FAO Food Price Index | World Food Situation | Food and Agriculture Organization of the United Nations

The Windsor Framework brought changes for goods entering Northern Ireland from GB in 2023 with the latest changes from October 2023. The green/red lane system means goods for circulation in N.I. pass easily through the green channel with 'Not for EU' labels. Goods intended for the EU go through the red lane with customs declarations and some checks.

Post-Brexit changes: Whilst no longer in the headlines, further Brexit changes will take place in 2024, adding complexity and cost for exporters. The Border Target Operating Model requires exporters of animal & plant-based products to GB to classify exports based on the UK's new classification as low, medium or high risk. Products include live animals, meat/fish-based and germinal products, animal by-products, plants, fruit and vegetables.

- From 31st January Export Health Certificates and Phytosanitary Certificates will be required for medium-risk animal products, plants and plant products moving from EU & Ireland to GB.
- Prenotification of imports of Sanitary and Phytosanitary (SPS) goods from Ireland on the UK's SPS import system (IPAFFS) will be required, something already in place for other EU countries exporting to GB.
- From October 2024, there will be documentary and physical identity checks for medium-risk animal products, plants and plant products imported to GB from Ireland.

Supply Chain: Geopolitical events including the war in Ukraine, the discontinued Black Sea grain deal, extreme weather, the lingering effects of the Covid pandemic, and more recently the disruption to commercial shipping in the Red Sea, continue to impact supply chains. The Red Sea conflict has put further strain on already-fragile supply chains with shipping companies forced to avoid the Suez canal and take an alternative longer route. The unknown nature and timelines of this disruption has led to a significant rise in container costs.

ESG and sustainable food production: Whilst food and beverage producers in Ireland recognise the urgency to produce sustainably, there are varying degrees of action. Energy-saving initiatives remain to the fore of activity. Operators have been keen to avail of green transition supports, such as from Enterprise Ireland, to advance their green transition. SMEs do cite lack of expertise or bandwidth in their operations and cost constraints as being factors in delaying their green transition.

B Corp certification has gained traction with a small number of Irish food & beverage operators now B-Corp certified. B Corp Certification is a designation that a business is meeting high standards of verified performance, accountability, and transparency on various factors from employee benefits and charitable donations to supply chain practices and input materials. This is very positive from an ESG perspective. B Corp set up an office in Ireland in late 2023 which will encourage further participation.

Approval Activity

Transactions include approvals for stock management, loans for enhanced production capacity and for heightened seasonal activity. There are operators looking to increase production and to increase automation. Loans for green initiatives are being employed for the introduction of green technologies such as solar panels, heat pumps, CO2 recovery and more sustainable food production methods.

[12] FAO Food Price Index | Food and Agriculture Organization of the United Nations
[13] Grocery price inflation falls again to 7.1% - Kantar (rte.ie)
[14] Hungary Food Inflation (tradingeconomics.com)
[15] Hungary targets 'shrinkflation' with mandatory warnings (rte.ie)

2024 Outlook

- The outlook for the sector in 2024 remains optimistic despite global uncertainty. Food and beverage producers continue to show remarkable strength and flexibility weathering the shocks of recent years.
- Inflationary challenges remain with increased staffing costs a key concern.
- Food inflation will continue to feature but to a lesser extent than 2023.
- It is likely that consumer food shopping and consumption patterns will remain cautious.
- ESG - Sustainable /local food production and reduction of food waste will become increasingly important to the sector.
- The UK's Border Target Operating Model will introduce new controls for products entering GB, Ireland's largest food & beverage export market.
- Producers are increasingly focussed on innovation in response to evolving food trends.

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

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

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

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

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

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

Health 2023 Insights and 2024 Outlook

Summary

Following a sustained period of volatility, a degree of stabilisation has seen an interesting blend of consolidation and change, with associated challenges and opportunities across the Health Sector. The HSE has reported improved performance in H2 2023, with the number of patients on trolleys down by 20% in comparison with the same six months in 2022.[1] Some cautious optimism and positivity are also reported in the private sector, albeit tempered by a critical focus on cost containment, which has proven to be challenging. Two keys to success in 2024 will be understanding the importance of staff retention and a commitment to improving green credentials.

Nursing Homes

Market Dynamics

The private nursing home sector, across the whole size spectrum, is undergoing a turbulent period marked by economic, operational, and regulatory challenges. Staffing costs, interest rates, and related macroeconomic factors continue to impact the sector, squeezing margins. This has resulted in a general decrease in nursing home valuations with EBITDA multiples being paid ranging from 6x-13x depending on the quality and location of the asset.[2] That said, H2 2023 also saw some positive developments, including a move towards equalisation of the Fair Deal Rate (FDR) (particularly beneficial for smaller rural operators), improved bed occupancy levels, and a small degree of staff stabilisation. Following the large number of smaller nursing home closures in 2022 (14 homes, avg size=30 beds), fewer closures occurred in 2023 (11 homes, avg size=42 beds), with three of those (Aperee Living Group) deregistered as a result of governance concerns rather than financial viability. The decrease in closures between 2022 and 2023 has been attributed to post-pandemic stabilisation in the sector and the higher FDR. H2 2023 saw annualised FDR increases of 7.3%, up from 5.5% in H1, with Donegal and Tipperary seeing the highest average increases, and Dublin and Carlow the lowest. Dublin continues to have the highest average FDR at €1,296, with Leitrim having the lowest at €1,041 (differential €250 per week/€13,260 per year, per resident).[3]

The Aperee Living Group closures lend weight to concerns expressed by the ESRI about the risks associated with any further consolidation leading to a nursing home sector dominated by bigger group operators.[4] The 192 bed closures in a short space of time necessitated HSE intervention. The consolidation trend is set to continue with group operators including Mowlam Healthcare and Orpea adding to their portfolio, with a number of new home openings. An established UK real estate developer, Simply UK, has started its first development in Ireland with a site currently under construction for a 99 bedded 'luxury' nursing home at The Naul, Co. Dublin. The group currently own/operate 18 care homes in the UK under the brand 'Éire Care Nursing Home Group'. The French based Emera group are seeking an exit from the Irish market. The group has a 70% stake in Virtue Integrated Care, with 13 nursing homes and three home care services. The HSE recently registered 60 new beds at new facility, Ballyshannon Community Hospital, based at the old Sheil hospital site in Donegal. There are a further seven HSE facilities under construction with 530 beds due to come on stream this year in counties Cork (x2), Kilkenny, Kerry, Louth, Tipperary, Meath.

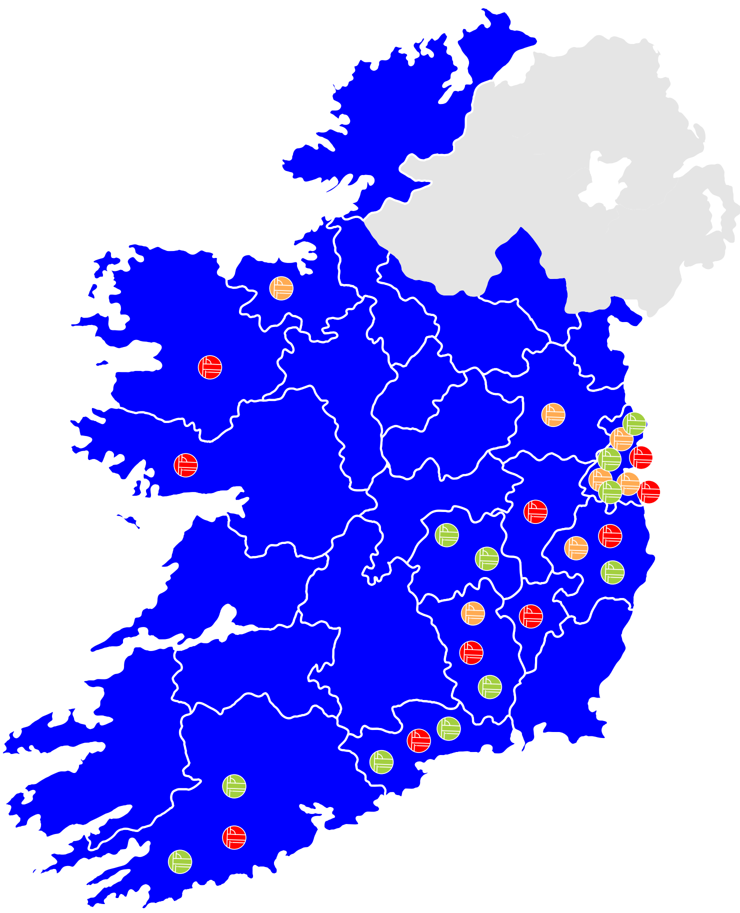
2023/24 Private Nursing Homes Opened, Under Construction & Closed

Openings	Operator	County	Beds
Curam Care Home Carrigaline	Curam Care	Cork	*111
Kilkenny Care Centre	Mowlam Healthcare	Kilkenny	90
Leopardstown Care Centre	Mowlam Healthcare	Dublin	*150
The Residence Portlaoise	Orpea Residences	Laois	*101
Kilminchy Lodge *extension	Orpea Residences	Laois	+22
Woodlawn Manor Nursing Home	Coolmine Healthcare Ltd.	Dublin	97
Kilbarry Care Centre	Mowlam Healthcare	Waterford	90
Charleville Nursing Home	Mowlam Healthcare	Cork	*60
Clondalkin Lodge Residential Home	Bartra Healthcare	Dublin	150
Tramore Nursing Home	Mowlam Healthcare	Waterford	93
Carnew Nursing Home	Genesis Healthcare	Wicklow	90

Actual bed numbers stated, currently registered with HIQA for fewer beds until full compliance met.

Under Construction	Operator	County	Beds
The Residence Kilkenny	Orpea Residences	Kilkenny	80
Dunshaughlin Care Home	Grace Healthcare	Meath	96
Sugarloaf Care Centre	Silverstream	Wicklow	119
The Residence Portmarnock	Orpea Residences	Dublin	151
Virtue Stepaside	Virtue Integrated Care	Dublin	119
Coolmine Sligo Nursing Home	Coolmine Healthcare ltd.	Sligo	105
Naul Nursing Home	Éire Care Nursing Home Group	Dublin	99

Closed/Deregistered	Sector	County	Beds
New Lodge (Bloomfield	Voluntary	Dublin	24
Riverdale Nursing Home	Private Sole Operator	Carlow	31
Corrandulla Nursing Home	Private Sole Operator	Galway	21
Shannagh Bay Nursing Home	Private Sole Operator	Wicklow	43
St Anne's Nursing Home	Private Sole Operator	Mayo	26
Padre Pio Nursing Home	Private Sole Operator	Dublin	31
Shalom Nursing Home	Voluntary	Kildare	33
Aperee Living Ballygunner	Private Group	Waterford	64
Aperee Living Belgooly	Private Group	Cork	68
Aperee Living Callan	Private Group	Kilkenny	60
Cedar House Nursing Home	Voluntary	Dublin	24



The Department of Health (DoH) launch the RSI scheme

The new Nursing Home Resident Safety Improvement (RSI) Scheme, administered through the National Treatment Purchase Fund (NTPF), was launched on 1 January 2024. This scheme provides financial support for structural improvements associated with resident safety, in accordance with HIQA Regulation 27 (Protection against infection) and Regulation 28 (Fire precautions).[5] It is available to all HIQA & NTPF registered private and voluntary nursing homes. Work covered by the scheme and undertaken since January 2020 can be claimed retrospectively. The €10m fund allocated for Budget 2024 will allow all eligible nursing homes to claim a maximum of €25k.

Design Guide for Long Term Residential Care

A public consultation document, 'Design Guide for Long Term Residential Care',[6] is currently seeking submissions. Jointly produced by the Department of Health, HSE and HIQA, the document sets out expected minimum standards for all future new builds, extensions to existing nursing homes and conversions of an existing building into a nursing home. The point to note is that, in addition to National Building Regulations and EU Energy Directives, the guide requires providers to comply with minimum elderly and dementia specific care quality standards in both building design and location. For example, it recommends a maximum size nursing home of 84 beds, configured into smaller 12 bedded units or households, incorporating the Teaghlach, or 'Household' model of care. It also requires a minimum bedroom size of 16.5 sqm of 'usable floor space', an increase from the current 12.5 sqm, with an adjoining ensuite at minimum 6sqm in size. The report also highlights the Climate Action Plan 2019 and emphasizes the importance of energy efficiency, energy conservation and smart technology.

Recommendations for future Long-Term Residential Care Settings (Consultation Document)

84 Beds max.

16.5 sqm Room size of usable floor space

12 Bedded 'Households'

6 sqm Minimum ensuite facility size

(Source: DoH, HSE & HIQA, November 2023)

It will be interesting to see how enforceable the guide will be when the document comes into effect, but it seems likely that future HIQA registration will be tied to the expected standards being met. It is proposed that applicants should consult with the office of the Chief Inspector prior to any planning permission, with HIQA able to highlight any areas that do not meet relevant design guide regulation standards. The design guide will also inevitably have cost implications which might further impact the development of new builds and renovations. With the cost of nursing home construction currently estimated at between €250k-€300k per bed (up from €111k in 2017, and €162k in 2022 in rural locations and €128k in 2017 and €191k in 2022 in urban locations)[7] the stipulations included in the design guide might prove challenging for investors and providers.

Workforce Challenges

The 12% increase to the national minimum wage to €12.70 per hour, combined with the Statutory Sick Pay entitlement of 5 days is positive news for staff such as Health Care Assistants (HCAs) but rising employment costs continue to put pressure on providers, particularly smaller nursing home operators with tighter margins. The imminent public sector pay deal, 10.25% over 2.5 years, is likely to further increase pressure in the private sector, exacerbating the cycle in which nursing home staff recruited and trained by private operators transfer to the public sector following expiration of their initial fixed-term contract.

The Irish health sector remains heavily reliant upon staff recruited from outside of the EEA via the work permit system. Recommendations that the minimum remuneration threshold for HCAs and home care workers from this demographic, which was due to increase from €27k pa to €30k pa in January 2024 and to €34k pa in January 2025, have been deferred for an unspecified period following intervention by Nursing Homes Ireland.[8]

The provision of accommodation for staff is a growing trend that aims to address the needs and challenges faced by both staff and healthcare providers.

Senior Living

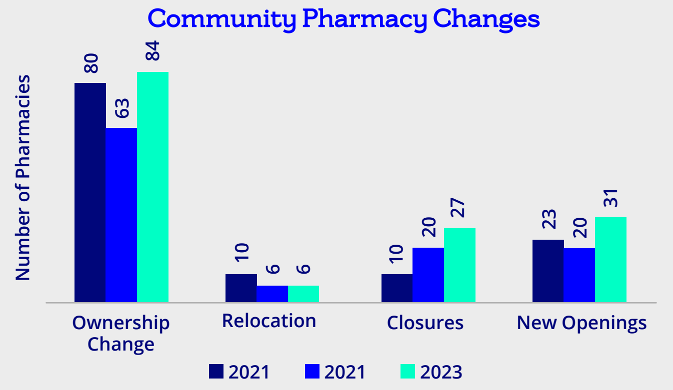
H2 saw CBRE Healthcare publish a document: The Market for Senior Living in Ireland,[9] encouraging a revisiting and re-imagining of the retirement village initiatives developed in Ireland between 2005–2010. The report advocates the development of 'Senior Living' schemes, which break from the assumption that retirement communities go hand in hand with nursing homes, towards more independent living away from the care associated with residential services. Pointing to success in other countries, including the UK, the report cites dual beneficial intentions: 1) to enable older people to 'right size' their living environment in communities with other retirees, and 2) to free up some of the estimated 1.2m unoccupied rooms in family houses. The report concludes that that there is a clear requirement and a demand for Senior Living solutions in Ireland and suggests ways, including the exploration of government incentives, to stimulate development.

Home Care

The proposed new statutory scheme for the financing and regulation of home care is now at an advanced stage. The regulatory framework consists of primary legislation for licensing home care providers, regulations outlining minimum requirements for obtaining a license and HIQA national standards. HIQA and the Chief Inspector will have legal authority to grant, amend or revoke a license, not dissimilar to the nursing home sector. Platinum Home Care, a new Irish home care provider, is planning to provide national home care services in six new HSE Regional Health Areas. An enhanced HSE Home Support Tender rate was introduced in 2023, allowing for payment to home carers for travel time, payment of or above the National Living Wage, and the legacy rate being brought in line with the new revised rates of funding.[10] Anecdotally, a positive impact is reported regarding reduced staff attrition.

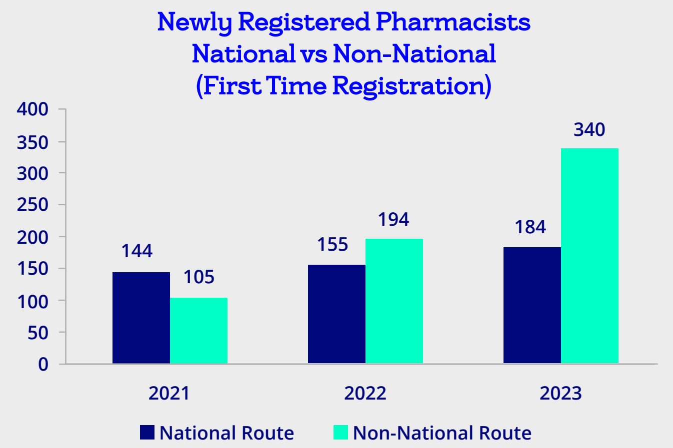
Pharmacy

The consolidation trend in the pharmacy sector, which saw Uniphar's acquisition of the McCauley Pharmacy group in H1 2023, continued in H2 2023, with the acquisition of McCabes Pharmacy by the LloydsPharmacy chain, under the PHOENIX healthcare group. This union, 32 pharmacies from the former and 82 from the latter, will operate under the McCabes brand (conditional on approval by the Competition and Consumer Protection Commission). There are currently 1,907 Community Pharmacies registered and data reflects a dynamic market in 2023 with an uptick in new openings, closures, and ownership change.



(Source: PSI, January 2024)

Whilst shortage of qualified pharmacists has been a key challenge over recent years, data from the Pharmaceutical Society of Ireland (PSI) shows a 6% increase in registered pharmacists since 2022 (current N=7480), with a marked rise in EU, UK and other third country route registrations compared to recent years.[11]



(Source: PSI, January 2024)

A noteworthy planning application has been made in Limerick, by Clúid Housing Association in partnership with Tinwat Holding, to construct a development of mixed-use units, including domestic dwellings, a neighbourhood centre incorporating 42 elderly housing units, a 90 bedded nursing home and retail units including a pharmacy with a drive through dispensary window.

Market Trends & Headwinds

A notable increase in the volume of prescription items and related inquiries about medications has been reported, attributed to the ageing population and the overall rise in the number of prescribed medications. The biggest challenge in the sector remains the static community drug scheme payment rate, which accounts for around 57% of the average pharmacy turnover and has not seen an increase in 16 years.[12] Other headwinds to follow 2023 into 2024 include staff retention difficulties and medication supply issues.

Policy

In November 2023, the Expert Taskforce to Support the Expansion of the Role of Pharmacy published its first interim Phase 1 report and recommendations.[13] These were accepted by the Minister for Health and with effect from 1 March 2024, the legal validity period of certain prescriptions will be extended from 6 months to a maximum of 12 months.

This will give pharmacists the autonomy, where appropriate in line with the person-centred care ethos, to extend the dispensing period of prescribed medications, improving patient access to medication, expanding the scope of pharmacists, and reducing the workload of GPs. The Irish Pharmacy Union's response to this development has been guarded on the basis that 'pharmacists are already stretched and would find it difficult to safely deliver prescription extension services', but this development nevertheless represents 'a potential key step in the empowering of the profession for the future'.[14]

Phase 2 of the taskforce, Empowering Pharmacists to Prescribe within their scope of Practice, is currently in progress, exploring the possibility of pharmacists being given autonomy to substitute alternative medications where appropriate. This would bring Irish pharmacy more in line with the independent prescribing practices currently operating in the UK and would assist in managing supply chain issues.

Funding Activity

- Credit applications reflected a busy period for the sector.
- We have continued to finance going-concern pharmacy purchases, including both single unit businesses and further consolidation within established groups.
- Nursing home approved applications have included extensions, regulatory compliance CapEx and refinancing, together with working capital requests.
- Funding has been approved for Home Care companies.
- A continued focus on the green agenda is also noted with credit approvals for investment in energy efficient technologies.

Sector Outlook H1

Looking forward to 2024:

- An increasing and ageing demographic will ensure demand for private healthcare services remains high.
- Significant regulatory changes, including pharmacy scope and nursing home design, will present both opportunities and challenges.
- Effective retention strategies will be key to managing changing staff demographics, reducing costs associated with staff attrition and providing consistent and effective care.
- ESG will be in even sharper focus, with 2024 representing a turning point for health sector businesses engaging with environmental and social responsibilities, to comply with regulations and futureproof long term financial performance.
- The coming year will also see a focus on technology strategies that prioritise data accuracy and innovative solutions to challenges, as businesses evolve to meet changing demands.
- The use of AI generative applications will gain momentum in 2024 enhancing systems, easing administrative burdens, breaking down silos, and scaling tailored patient communication.
- It is expected that the Home Care sector will develop at pace in the coming months and years.
- Consolidation within bigger groups and cooperation between smaller businesses will continue to develop, helping to maximise revenues through stronger negotiating positions and increased ability to avail of government grants.

Bank of Ireland

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

ESG

2024 will undoubtedly mark a turning point for Irish health sector businesses, with an increased focus on ESG coming into practice. Whilst most health businesses will fall outside the scope of the reporting obligations under the Corporate Sustainability Reporting Directive (CSRD), the old adage 'what gets measured, gets done' remains pertinent, with businesses expected to prioritise sustainability KPIs. Green credentials will be increasingly linked to business valuations and transactions. Bank of Ireland will continue to champion the transition to environmental sustainability.

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Sources:

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[3] *NHI, January 2024*
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[5] *S.I. No. 415/2013 - Health Act 2007 (Care and Support of Residents in Designated Centres for Older People) Regulations 2013*
[6] *Draft Design Guide for Long-Term Residential Care Settings for Older People, Department of Health, HSE, HIQA, December 2023*
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Hotels 2023 Insights and 2024 Outlook

2023 H2 Insights

2023 was a record year for many (if not most) hotels in the Republic of Ireland (ROI). A combination of healthy occupancy levels, strong average room rates, and a softening of energy expenses, delivered record turnover and profits across all asset classes and locations. The beneficial cash flows that followed, have allowed many hotel owners and managers to invest in their assets, their staff and ultimately their customers' experience. Investment in ESG initiatives was also top of the agenda across the tourism and hospitality sector as more hoteliers look to further improve on their sustainability credentials.

Air access to ROI was 3% ahead of 2019 levels[1] and supported strong inbound travel; GB visitors accounted for 37% of inbound travel (volume) for the period of March to November 2023[2], although it was North american visitors that spent the most money contributing to 37% of the overall overseas travel expenditure in ROI for the same period. Domestic leisure demand continued to support the performance of accomodation, food and beverage sales during the year further enhanced by robust wedding figures reported by mulitple venues. Increase spend was shaped by inflation with the CSO[3] reporting a 6.6% increase in the Restaurant and Hotel sector for 2023, a slightly lower figure than the 8.1% reported for 2022. The Government contracts continue to distort accommodation statistics, as an estimated 12%[4] of registered hotel bedrooms in Ireland are currently dedicated for direct provision purposes with no definite end date in sight.

Accommodation Statistics

A positive supply and demand dynamic delivered high occupancy and double digit RevPAR growth across all reported ROI locations[5]. The last quarter of 2023 showed a visible slowdown of demand in Dublin with both occupancy and rate falling behind 2022 for the months of November and December (the return of the 13.5% rate of hospitlaity VAT impacted stats from September to December).

Dublin; despite reporting a soft last quarter, the city centre reported a 5.4% average increase in occupancy in the 12 months to December 2023, and an €8 (4%) increase in average room rate. The opening of about 1,700 additional hotel bedrooms in the city during the year influenced occupancy and average room rate performance.

Galway finished 2023 with an average occupancy of 79% and a rate of €155 (average room rates for August exceeded the €200 mark) this represents a rise of 14% in RevPAR for 2023 vs last year.

Cork reported occupancy of around 90% and an average room rate of circa €156 for year ending December 2023. Hotel bedroom supply will increase by almost 400 new hotel bedrooms in Cork city next year.

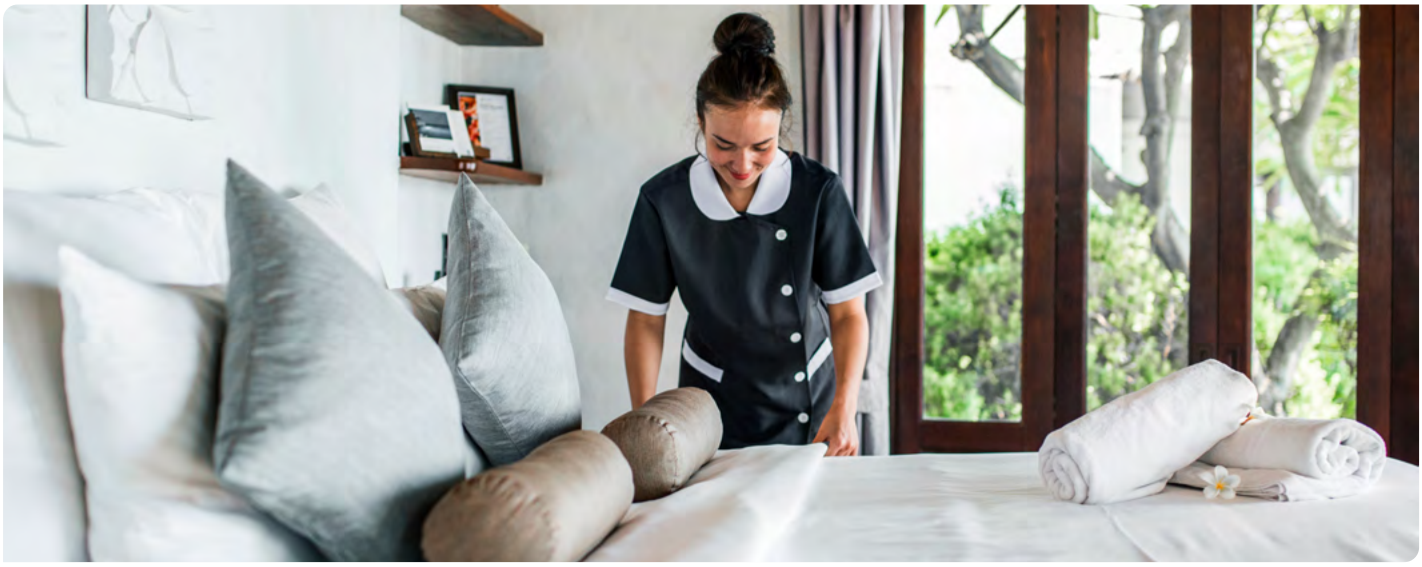
Limerick hotels continued to lead the way in RevPAR growth during 2023 with a 22% increase reported vs 2022. The increase was primarily driven by a 15% increase in average room rate which finished the year at €126.

Accommodation sales statistics Dublin, Galway, Cork, Limerick, Kilkenny and Regional (2019-2023)[5]

Hotel room sales Key Performance Indicators

Room / Accommodation Sales KPIs	Occupancy %			Average Rate €			RevPAR €		
Location	**2019**	**2022**	**2023**	**2019**	**2022**	**2023**	**2019**	**2022**	**2023**
Dublin All (STR)	82	78	82	142	170	180	117	132	147
Dublin city centre (STR)	83	75	80	167	196	204	140	147	164
Galway (Trending)	77	77	79	111	141	155	85	108	122
Cork (Trending)	80	74	80	113	141	152	90	105	122
Cork (STR)	79	72	78	114	151	157	90	109	122
Limerick (Trending)	74	79	84	84	111	127	62	87	106
Kilkenny (STR)	74	68	74	116	165	172	86	113	128
Regional (Trending)	77	76	81	98	126	140	76	96	114

(Source: STR & Trending.ie)



1 Fáilte Ireland, Air & Sea Access (Planned Capacity Winter 2023/2024)
2 CSO, Inbound Tourism Statistics, November 2023
3 CSO, CPI Index, December 2023 & December 2022
4 Update on Government Contracted Accommodation Stock, June 2023
5 STR accommodation statistics December 2023, Trending.ie accommodation statistics December 2023

Transaction activity

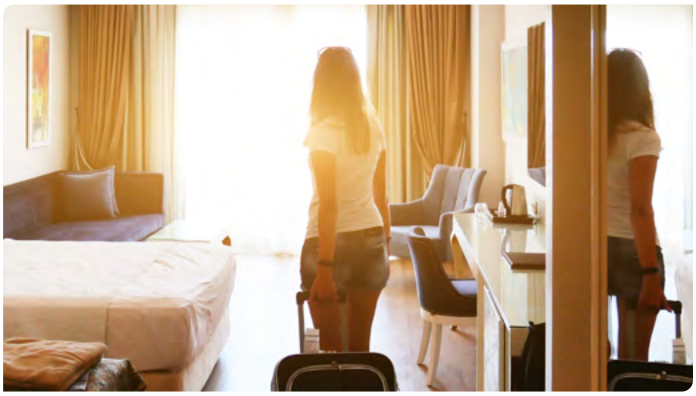
Whilst only a handful of hotel sale transactions completed during the year, there was plenty of activity with bids considered for a number of additional assets, and some large transations pending completion, including the sale of the Shelbourne hotel (Archer Capital reportedly closing on a deal to acquire[6]), and the sale of the majority stake in the Dean Hotel group being aquired by Lifestyle Hospitality Capital and Elliott Investment Management[7].

The strong financial performance reported by the sector during 2022 and 2023 may deliver healthy sales premiums for hotels as these are generally valued on EBITDA multiples, on a per room basis we can expect the Shelbourne to break the record of c€700k per room set by the sale of the Marker Hotel in 2019.

Inbound visitors

Tourism and travel statistics made available by the CSO for 2023 are no longer comparable to historical reports due to changes in the collection and processing of the data. However some of the overarching trends indicate that little has changed in terms of the basic makeup of inbound travel. The North american market maintains its position as the most profitable one for the hotel sector[8];

- GB Market; 1.7m trips delivering a spend of €861m; 37% share by volume and 20% by value - Avg spend €528 (30% of this was spent on accommodation and 60% in day to day expenses)
- North America; 1.1m trips delivering a spend of €1,570m; 23% share by volume and 37% by value – Avg spend €1,479 (51% of this was spent on accommodation and 42% in day to day expenses)
- Other Europe; 1.6m trips delivering a spend of €1,457m; 35% share by volume and 34% by value – Avg spend €894 (45% of this was spent on accommodation and 51% in day to day expenses)



Hotel bedroom development

Dublin city saw an increase of about 6% in the number of hotel bedrooms during 2023 dominated by branded properties in the economy segment including Motel One, Easy Hotel, Clink Hostel, Travelodge Plus and Premier Inn. Around the country new hotel bedrooms were developed through extensions of existing hotels but this will change in 2024 with new hotel openings in Dublin, Cork and Galway as brands strengthen their presence outside the capital.

Food & Beverage sales

- The foodservices sector performed remarkably well last year, although part of the reported growth/bounce was led by inflation rather than volume. Overall, the market increased by 14% from year end 2022 to year end 2023; the "Hotel and Accommdation" sub-sector was slightly ahead of the average with a 16% increase for the same period as reported by Bord Bia[9].
- Alcohol consumption[10] declined marginally in the 9 months to September 2023 (- 4%) compared to the same period in 2022. However, a surge in the consumption of non-alcoholic beverages has compensated sales volumes across most premises.
- The dynamics of demand in the foodservices sector continue to change, and this has contributed to some extent to the surge in restaurant closures reported by the media during 2023.
- Sales prices have managed to keep up with the pace of inflation, but we are aware that the balance is delicate for food and drink sales in particular where the current headwinds could threaten the viability of some businesses. Some pubs and restaurants have reacted by reducing the number of trading days, reviewing their menus, and closely watching their purchases and portions.

ROI Foodservice Market	2018	2019	2020	2021	2022	2023	Index of Recovery 2023 2019 = 100
Limited Service Restaurants	2151	2266	1520	1738	2355	2629	116.0
Hotels and Accomodation	1090	1157	491	551	1024	1183	102.2
Pubs	1014	1039	350	352	979	1120	107.8
Full Service Restaurants	694	727	313	380	693	813	111.8
Coffee Shops and Cafes	342	362	246	291	360	397	109.7
Other Commercial	242	258	79	107	251	294	114.0
Institutional	496	515	299	294	437	493	95.7
Total	€6.03bn	€6.3bn	€3.3bn	€3.7bn	€6.10bn	€6.93bn	110.0

6 The Sunday Times, Sunday Jan 14th
7 JLL Research
8 CSO Inbound Travel Statistics, 8 months to Nov 2023 (Total spend quoted excludes air fares)
9 2023 Bord Bia Irish Foodservice Market Insights Report
10 Revenue.ie, Quarterly excise receipts and volumes Q3 2023

Hotel sector 2023 H2 Insights and 2024 H1 Outlook

Profit margins could come under pressure this year with a higher rate of VAT, increases to minimum wage and paid sick leave entitlements as well as mandatory pensions all putting a squeeze on profits. However, owners and managers appear optimistic about trading prospects for 2024 after a strong end of year and healthy levels of business on the books for the year ahead as well as expectations for inflation to fall below 3%[11] in the year ahead. Sustained employment statistics (unemployment rate of 4.9% reported by the CSO for December 2023)[12] provide some comfort on discretionary spending patterns from the domestic market in the coming months.

Tourism Ireland has predicted a significant rise in US tourism in Ireland in 2024, with numerous new flights announced between Ireland and the US including a number of additional routes to Shannon Airport which reported a 29% increase in passenger numbers last year. Sustainability is frequently referenced in business plans these days and is likely to shape the investment landscape in 2024. Reflecting this growing interest, "Tourism Ireland is to join with Failte Ireland and NI Tourism in launching a new standard for tourism stakeholders who offer a sustainable product or service"[13]. The scheme will be launched in 2024 will aim to support businesses committed to sustainability.

Most agents agree that 2024 could be a record year for the hotel transaction market in Ireland based on active transactions and a number of high profile properties currently on the market.

Trends

- Strong levels of transaction activity are expected in the Irish Hotel sector this year based on a number of live deals, including: sale of the Shelbourne Hotel, Hampton Hotel in Donnybrook, the sale of the majority stake of the Dean Hotel Group to Lifestyle Hospitality Capital and Elliott Investment Management and the recently announced sale of the Radisson St Helen's Hotel in Stillorgan. The Slieve Russell Hotel in Cavan will come to the market later this year.
- Dublin hotels are set to benefit from an increase in the number of world class entertainment events during 2024 with scheduled performances from Bruce Springsteen, Coldplay, Taylor Swift, and Pink, among others. These high calibre events are highly profitable for hotels and the wider hospitality sector. However, the increase in hospitality VAT and additional bedroom stock hitting the market could negatively impact on average room rate and occupancy statistics for some locations in the coming year. STR forecasts a slight RevPAR drop for Dublin (c-7%) in 2024[14].
- More hotel openings; in Dublin Accor will open the doors to the Hoxton Hotel (129 bedrooms) on Georges Street and the Press Up group will open "The Leinster" (55 bedrooms), while in Cork Whitbread will open its first Premier Inn outside Dublin (187 rooms) and JMK is expected to open its Moxy and Residence Inn by Marriott development; in Curracloe, the Neville Group is set to open the 50 bedroom Ravenport hotel this Spring.
- The question remains about the slowdown in development because of escalating construction costs, but the level of enquiries reviewed at Bank of Ireland last year would indicate many intend to press ahead. Hotel room occupancy and rate trends are the biggest enabler for projects, and Dublin retained the top position when it comes to Occupancy in 2024 across all major European capitals[15].
- The phased repayment of warehoused tax obligations will begin May 2024 and may add to the cash flow pressures of those who have yet to settle their obligations. A sizeable portion of businesses have already been in discussions with revenue.

Staffing

Prevailing unemployment levels in Ireland, and the focus on moving towards a "living wage" continue to encourage hoteliers to improve efficiencies in their operations, which is not easy to deliver without impacting on the customer experience. Staff turnover represents a big expense to the sector, and so staff retention should remain a top priority in the coming year. In recent times there has been a noticeable increase in properties offering staff accommodation, personal development plans and flexible employment contracts aimed at improving staff wellbeing. Auto-enrolment, which kicks in next year could further align employment in the sector with other industries.

ESG

Bank of Ireland is a founding signatory of the UN Principles of Responsible Banking initiative on financial health and inclusion, and we are committed to support our customers and communities as they embark on their journeys for a more sustainable future. As of today, we offer a wide range of products like the Growth & Sustainability Loan Scheme in conjunction with the Strategic Banking Corporation of Ireland (SBCI) as well as incentives from Sustainability linked targets in offer letters where we reward customers who deliver on their ESG ambitions to tailored supports and solutions for specific proposals. There is no one size fits all as everyone's journey is completely different, and we understand that. There is limited pricing flexibility with interest rates at the moment, but we look at all options to ensure sustainability ambitions are rewarded with an adequate pricing model.

[11] Reuters, Irish central bank cuts economic growth, Dec 2023
[12] CSO, seasonally adjusted monthly unemployment December 2023
[13] Hospitalityenews.ie Sustainability Standard for Tourism (18/01/24)
[14] STR, BOI 7th annual hotel sector breakfast briefing (23/11/23)
[15] CBRE, Real Estate Market Outlook (18/01/24)

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Manufacturing 2023 Insights and 2024 Outlook

2023 - A year of contraction, lower inflation, economies defying gravity, strong employment, growing conflicts, complex geopolitics, the hottest year on record, a growing realisation that ESG carbon targets are under serious threat and Artificial Intelligence.

Contraction: Irish Manufacturing started 2023 on an asymmetric mix of optimism and caution. Optimism on the back of record performance in 2022, but caution as global demand slowed. EU manufacturing has been a full year in contraction, with sluggish demand and new orders, while Irish Manufacturing has fared much better with only moderate contraction coming off a record 2022 performance.

Lower Inflation: Interest rate hikes have had the desired effect with inflation falling back. The reality is though that input prices remain elevated and Manufacturing must have a laser focus on cost and margin improvement.

Economies Defying Gravity: Most commentators forecasted a global recession in 2023. Yet GDP growth was 3% (The Economist 17.12.23). Yes some economies like Germany did go into recession. However somehow US with high interest rates, defied the economic logic of high inflation reduces demand, which in turn increases unemployment. The opposite has been true.

Strong Employment: Employment has remained strong in 2023 in Ireland and US. However this is a lagging indicator and signs are that without a material upturn in demand, Manufacturing including Ireland will cut capacity. November 2023 EU PMI report[1] noted that "Employment falls for first time in almost three years as eurozone downturn continues"

World Conflicts: Ongoing conflicts in Ukraine and The Middle East with no clear pathway to resolution create huge uncertainty and trigger a slowdown in consumption and demand for goods. The Middle East crisis has opened a whole new supply chain uncertainty for manufacturing with container ships rerouting away from the Red Sea adding significant time and cost to manufacturing inputs.

Complex Geopolitics: 2023 saw an increase in the risks and uncertainties for manufacturing associated with geopolitics. A growing move away from globalisation to protectionism because "business trust" is broken, creates tension between trading partners. VUCA - Volatility, Uncertainty, Complexity, Ambiguity, is the new norm.

ESG and Climate Change: 2023 will go down has the hottest year on record. The urgency of the crisis is not matched by the pace of change. Carbon Targets are not on track and Intent to address is not matched by action.

Artificial Intelligence: ChatGPT, Generative AI and Large Language Models entered our collective minds in 2023.

Despite the challenges above, Irish Manufacturing has delivered a solid performance in 2023:

- 2023 Value of Irish exports are down YOY by 5% but up on 2021 by 21%[2]
- Corporation tax receipts totalled €23.8BN overall, up 5.3% YOY[3] with ca. €10BN attributable to Manufacturing
- MNC Employment stayed above 300K with 248 new investments[4]
- SME/Enterprise Ireland Employment grew 3% to 225K[5]
- Employment in Manufacturing stands at 271K+ up from 230K in 2018[6]
- Manufacturing are embracing the Green Agenda driven by MNC demands, and strategic imperative
- SMEs proven to be the engine of MNCs and Manufacturing growth

The optimistic view, sentiment and ambition is that Manufacturing contraction has hit a turning point and that 2024 will see a return to at best moderate growth. However the turning point is recent, weak and vulnerable to ever more risky geopolitics. A prolonged contraction, may trigger capacity reductions and a drop in employment levels cannot be ruled out.

Summary of Key Impacts

- **Geopolitics, Rise in Protectionism, Strategic Autonomy, Democracy:** This will continue as a complex picture of economies moving away from mutual benefit of globalisation to national gain of protectionism. It is impossible to predict how it will play out. 2024 will test democracy as an estimated 4 billion people in more than 50 nations - 50% of the world's population - will vote in national elections.[7] The outcomes are likely to shape global politics for years to come. Irish manufacturing is in a strong position to navigate the potential impacts of above given the deep roots of both the MNC and SME manufacturing community.
- **Brexit:** Exposed Irish Manufacturing has adjusted and there is no negative noise from enterprises specifically in connection with Brexit. The dominating narrative now is the impasse in NI and the "buyer's remorse" wider acknowledgment that Brexit has not worked and according to a report report from Cambridge Econometrics has cost the UK economy £140Bn so far. According to a December. 2023 NCSR (National Centre for Social Research) poll a majority are now in favour of re-joining the EU.[8]
- **Russia Ukraine & Middle East Conflicts:** Sadly both conflicts show no sign of resolution. Supply Chain logistics has been disrupted again with the effective closure of the Red Sea route (Table 1). This accounts for 15% of global trade will add 10- 15 days to shipping routes cost driving up manufacturing input costs.[9]

Table 1. Source: CNN Jan 2024

- **Factory Operations:** With the headwinds of energy inflation and labour shortages, Manufacturing response has been twofold. Behavioural and shift pattern changes to optimise energy usage (see more under ESG section) and an acceleration of the digital agenda and higher levels of automation.

1 PMI Releases (spglobal.com) Jan 2024
2 Goods Exports and Imports - CSO - Central Statistics Office Jan 2024
3 gov.ie - Exchequer surplus of €1.2 billion in 2023; tax revenue in line with expectations; Ministers McGrath & Donohoe (www.gov.ie) Jan 2024
4 IDA Ireland reports strong annual results for 2023 | IDA Ireland Dec 2023
5 Employment in Enterprise Ireland supported companies increases to a record 225,495 | Enterprise Ireland (enterprise-ireland.com) Jan 2024
6 Business Demography - CSO - Central Statistics Office Aug 2023
7 Half the World to Vote in 2024, With Global Ramifications (voanews.com) Jan 2024
8 Renatus Private Equity Weekly M&A Newsletter - 14/01/2024
9 How the Red Sea crisis could clobber the global economy | CNN Business Jan 2024

- **Predictable Unpredicability** has become the new normal.
- **Supply Chain Resilience** continues a top priority for manufacturing to maintain business continuity and protect reputation. The bittersweet news is that supply chain constraints are easing with Global Supply Chain Volatility Index GSCVI[10] at -0.44 down from peak "bottleneck" values in 2021 of >6. As noted above the latest body blow now playing out is the Red Sea blockage.
- **Inflation has eased from high of 7.5% to 2.5% in November 2023 but back to 3.2% in December11[11]:**
  - Pressure on SMEs to reverse earlier price increases
  - Consumers are justifiably pausing consumption as some big ticket items like EVs are falling in price
- **2023 Irish GDP Forecasts** ranged from widely optimistic to more data driven results as commentators repeatedly downgraded their outlook. In 2022 Irish Manufacturing delivered export growth of 26% and close to 40% of total GDP. Ireland delivered 9.4% GDP growth in 2022 of which Manufacturing contributed about 4%. Given the above dependency of the economy on Manufacturing combined with 5% lower exports, it is likely that the 2023 year-end outcome will be in the red zone (Table 2).
- **Purchasing Managers Index (PMI) data:** 2023 has been a year of contraction with latest December PMI at 48.9 driven by falling orders and lower production output. Higher risk adversity, tighter spending, elevated interest rates and muted business confidence all serve to amplify fears of an economic downturn in 2024.

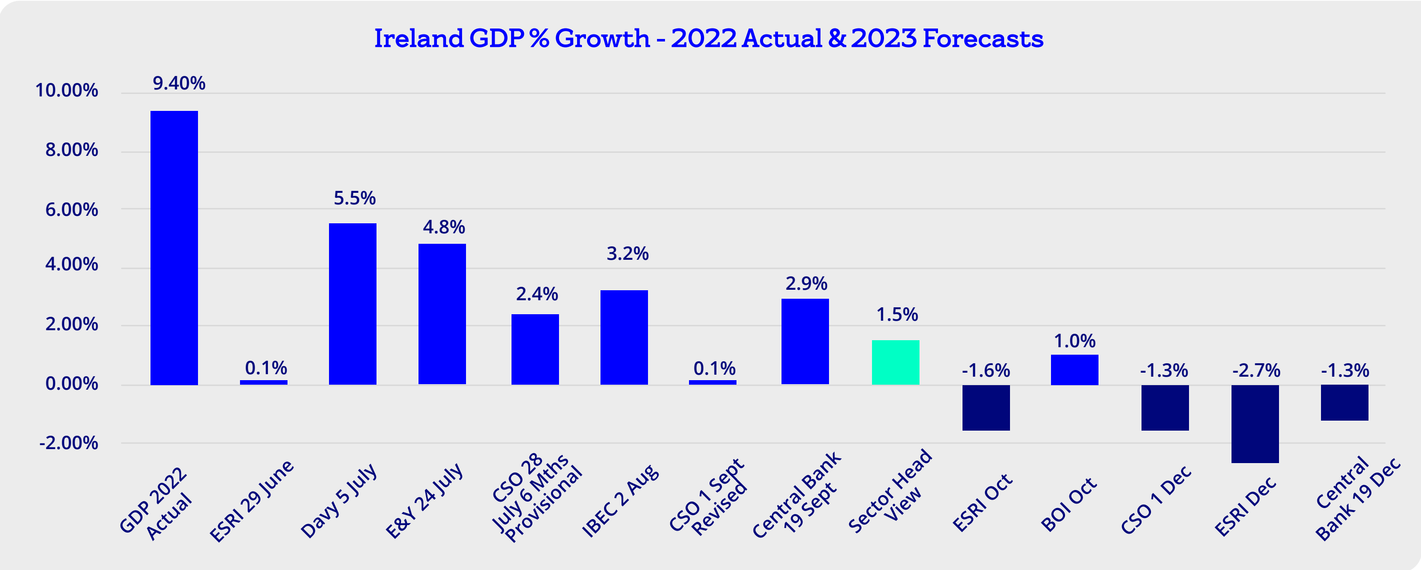

Table 2: Sources: CSO, ESRI, Davy, EY, IBEC, Bank of Ireland, Central Bank

- **Labour market shortages:** Economy is at full employment and shortages of key technical skillsets are still the case. These are being partly addressed with increased levels of automation, and in-house employee networks. Availability of affordable accommodation remains a key barrier to attracting talent and some business owners have become landlords. The "abundance" of manufacturing activity is not matched by infrastructure needs of housing, transport, grid capacity.
- **ESG, Digital and AI agendas gain momentum in 2023.** All driven by a combination of digital transformation, supply chain reconfiguration, ESG metrics, regulatory compliance and higher fuel costs improving payback periods for electrification and renewable sources.
- **Artificial Intelligence went mainstream in 2023:** ChatGPT, Generative AI and Large Language Models entered our collective minds and lexicons in 2023. It is the dominant theme of the 2024 World Economic Forum Annual Meeting in Davos. Global CEOs are excited about 20%+ productivity improvements, but that comes with heightened concerns around job losses, existential risk to humans and the pervasive increase in disinformation. The reality is that nobody can keep up with the pace of change but manufacturing must find ways of navigating the opportunities that AI presents which in the end are human centric and deliver Amplified Intelligence to their business.

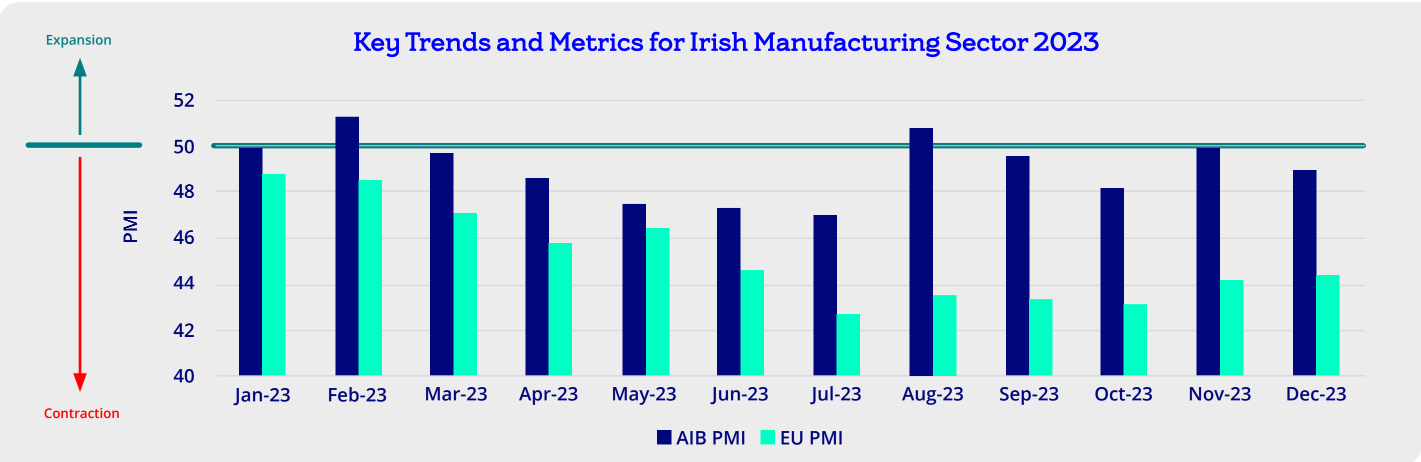

Table 3: Sources: PMI S&P Global Jan 2024

[10] Global Supply Chain Volatility Index | GEP Jan 2024
[11] Consumer Price Index - CSO - Central Statistics Office Jan 2024

Irish Manufacturing PMI

PMI is a survey of 250 manufacturing companies. A result greater than 50 represents expansion. Ireland has spent most of 2023 in mild contraction with an average score of 49. By comparison, our biggest market, the EU, has averaged much lower at 45 with significant new order decline and weaker demand. Latest data suggests a fragile upward turning point but this needs to be sustained into H1 2024 to avoid capacity adjustments and employment impacts (Table 3).

Global Supply Chain Volatility Index (GSCVI) (Table 4)

The GEP Global Supply Chain Volatility Index, based on data derived from a monthly survey of 27,000 businesses, has fallen from the dizzy heights of 6 to -0.44, or, its lowest level since May 2020.

This dramatic fall points to:

- Weaker **demand** for raw materials, commodities and components
- A lower **inventory** requirement to buffer above
- Reduced **material shortages**
- Easing of **labour** demands and risk of unemployment in sector rising
- **Transport costs** return to normal
- Downward **price** pressure

In summary the latest data signals persistent weakness in the global economy with recessionary conditions prevailing in Europe. While sentiment going into 2024 may be positive as data indicators slowly improve, it continues to be overshadowed by geopolitical shocks which show no sign of abating.

Imports and Exports, Industrial Output and Turnover [2,12]

Imports and exports performance are summarised in graphic (Table 5) for period Jan – Nov 2023. In totality imports were YOY unchanged while exports are down by 5%. Given that 2022 was an exceptional year driven by volume, inflation and spill over from 2021, this exports performance is actually very strong. It is up 21% when compared to 2021. The drop is concentrated in the Pharma sectors down 5% and Machinery down 14%. Markets impacted are US down 15% and China down 35%.

A similar picture emerges for Manufacturing production and turnover (Table 6). Total annual comparison January to November is negative reflecting the export profile. However traditional production output performed better than modern (including Pharma) at +5% production growth YOY.

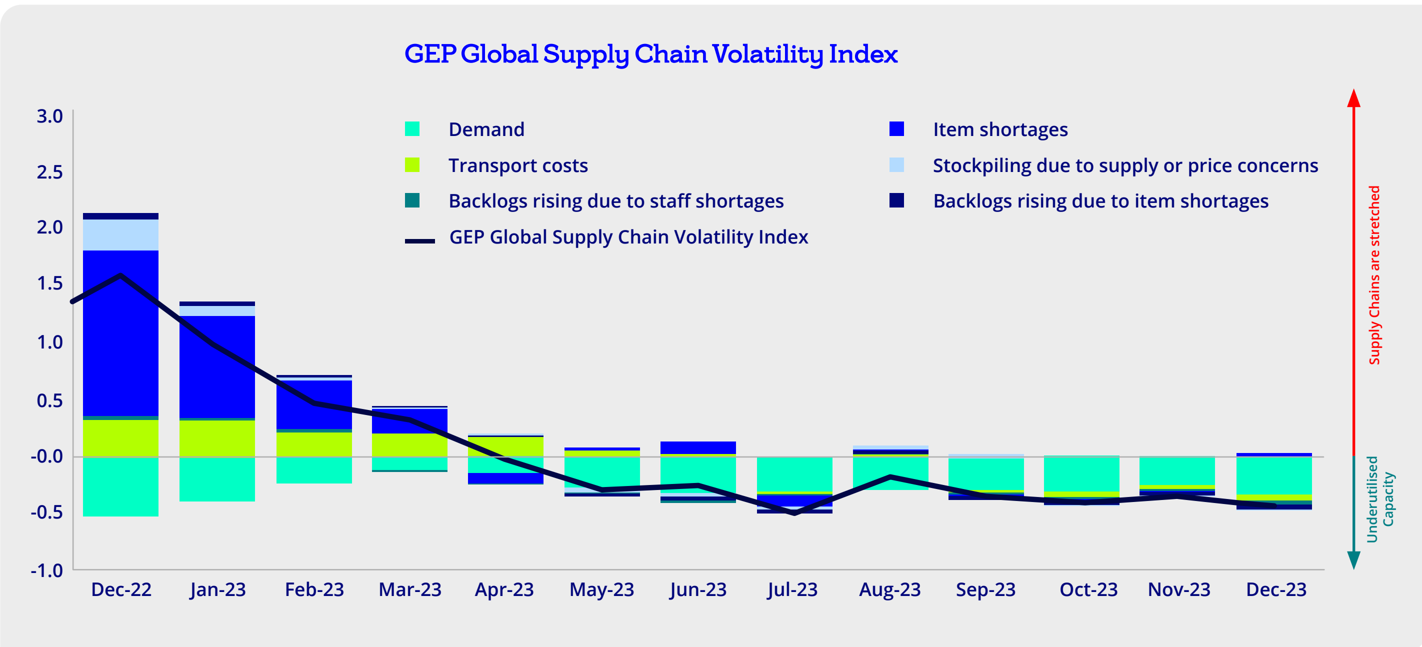

Table 4: Sources: GEP, S&P Global Jan 2024

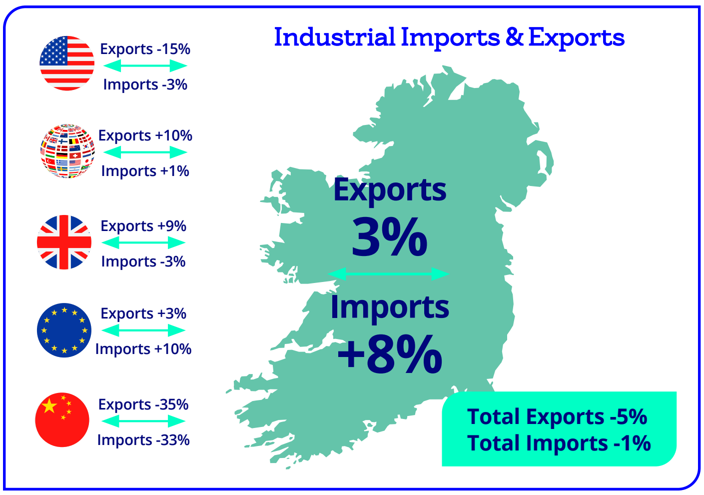

Table 5. Source : CSO

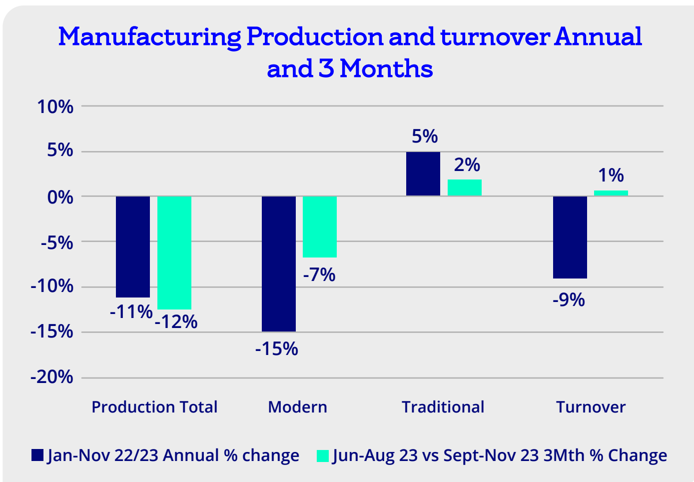

Table 6: Source: CSO Jan 2024

[12] Industrial Production and Turnover November 2023 - CSO - Central Statistics Office Jan 2024

Manufacturing Input Price Inflation[13,14]

Inflation (HICP) has eased in 2023 from 7.5% in January down to 2.5% in November but reversing upwards to 3.2% in December. While this is good news, the reality is that manufacturing input prices continue elevated when compared to pre Covid-19 levels. See tables 7 and 8 below.

Lithium pricing drop is welcome and driven by EVs gaining volume. Natural gas is still double pre Covid 19 levels. Freight has spiked again in January due to Red Sea closure and there will be renewed upward pressure on oil which uses this route. Wage inflation is likely to continue in the short term given shortages and some of the 2024 tax reliefs taking effect may slow further downside in inflation. The implication of these softening of inputs costs is that SME customers, MNCs and OEMs will exert pressure to crawl back some of the earlier pricing increases given.

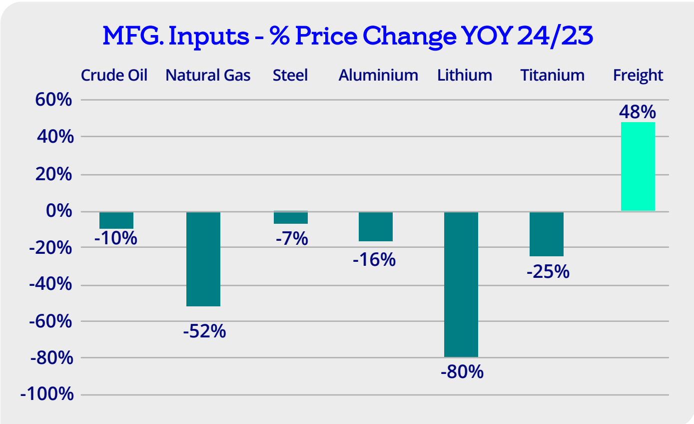

Table 7. Source: Tradingeconomics Jan 2024

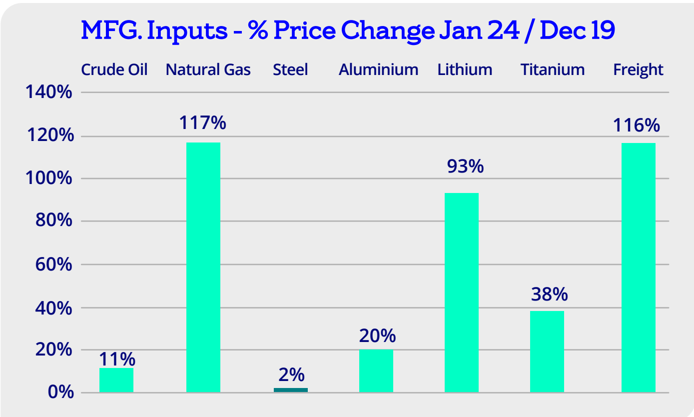

Table 8. Source: Tradingeconomics Jan 2024

ESG - 2023 the year when Carbon targets are mandated for Ireland - Intent needs Action

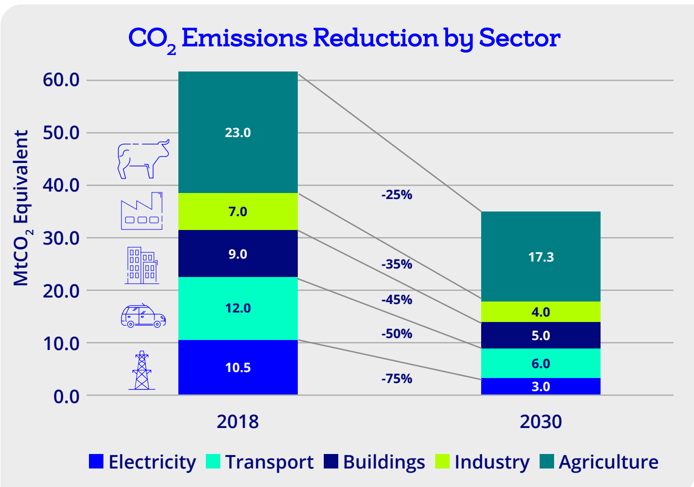

Table 9. Source: gov.ie press release Nov 2022

2023 was the year when compliance with carbon targets was no longer optional as it became a legal and regulatory requirement.

Carbon targets published on 28th July 2022 for Ireland are shown in Table 9. Manufacturing accounts for about 12% or 7 $MtCO_2e$ (Million Tons Carbon Dioxide Equivalent) of total emissions and the 2030 target is a reduction of 35% to 4 $MtCO_2e$.[15]

The reality is that progress in Ireland has followed a similar pattern to the global one and so it is imperative that intent now turns to action as the 2030 target hill to climb will only get steeper and more expensive as 2030 draws closer.

Key Actions to reduce Carbon Footprint in Manufacturing

Carbon Neutral Energy Sources	Electrification & Logistics
• Heat pumps, SolarPV, Biomass • Grants support up to €162,600 from SEAI • Energy Management Systems • Process heat recovery systems for energy intensive processes • Renewable Electricity to increase from 40% to 80%	• EVs for logistics internal and external • Localise suppliers • Bulk and consolidated transport • Maximise transport utilisation with no empty routes
Supply Chain Scope 3 Emissions	**Energy Efficient, Digital and Automation Capex Program**
• Pareto suppliers by carbon impact • Transparent supply chains in accordance with code of conduct	• Upgrade assets to Best available technology (BAT) • Automation • SMART and data driven process steps • Artificial Intelligence
Waste Mgt. and Circular Economy	**People Power**
• Mindset of zero waste • Zero polluting emissions • Migrate from linear business models to circular ones across product portfolio • Design intent for circularity • Circularity to increase 2% to 10%	• ESG is embedded in DNA and Strategy of organisation • Power of green behaviour • Like safety ESG is everyone's responsibility • Measure, track, communicate progress with clear KPIs

[13] Commodities - Live Quote Price Trading Data (tradingeconomics.com) Jan 2024
[14] Drewry - Service Expertise - World Container Index - 18 Jan Jan 2024
[15] gov.ie - Government announces sectoral emissions ceilings, setting Ireland on a pathway to turn the tide on climate change (www.gov.ie) Nov 2022

In its recent publication, "Climate Action – A Toolkit for Business"[16], IBEC together with Accenture have provided a practical Climate Action Toolkit which outlines five steps:

1. Calculate Carbon Footprint
2. Mobilise and prioritise actions
3. Commit and set targets
4. Implement
5. Measure and Communicate

Step 1 involves the identification of Scope 1, 2 and 3 emissions shown in table 10.[17] The requires a number of key steps:

1. Choose a **base year**
2. Set the **business boundaries**
3. **Categorise** the emissions
4. **Data** collection
5. Apply **Emission factors** (SEAI)
6. Calculate **GHG emissions**

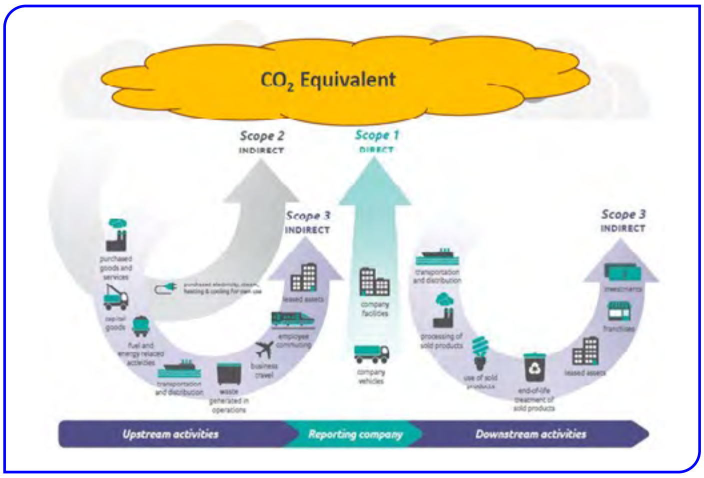

Table 10. Source: EUSME Centre Jun 2023

In addition to above, a key opportunity for Irish Manufacturing to reduce its carbon footprint, is to maximise their circularity. Move from the linear take, make waste to embracing the 9R's as per table 11 which shows that maximum Green benefit is achieved when material is designed out of a product while minimum benefit is achieved from recycle and recover, as carbon effort for both is high, relative to the gain.[18]

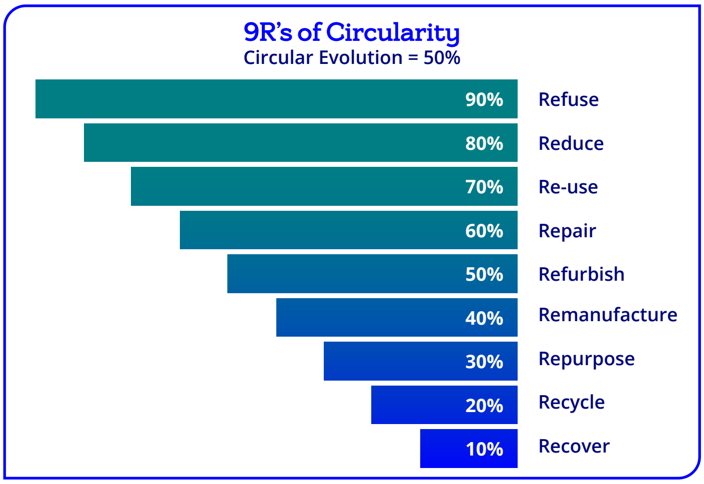

Table 11. Source 9Rs of Circular Economy Aug 2019

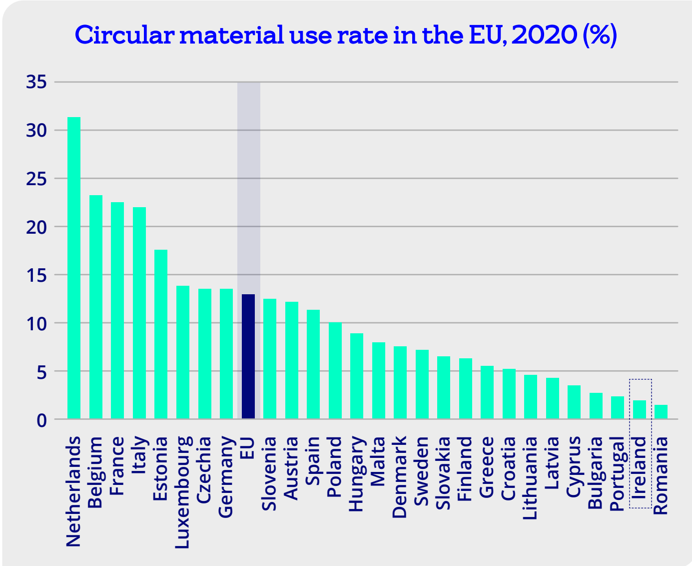

Table 12. Source dataset: Statistics | Eurostat (europa.eu) Nov 2023

Table 12 shows that Circular Economy in Ireland accounts for less than 2% of materials consumed getting a second life when compared with the EU average of 12%.[19] So the only way is up and represents a huge opportunity for Irish Manufacturing to pivot away from linear models. Currently at a global level the value of circular business is less than 10% of a typical linear business model. According to research paper "Financing in an inclusive circular economy", Schröder & Raes, Chatham House, the value of the electronics industry is estimated at $2,000BN, whereas the E-waste market is valued at $42BN or just 2% of the linear model.[20]

There are many challenges to transition to circular economy, including awareness of benefits, funding availability, return convenience at end of first life and perhaps what feels like "self-cannibalisation" of existing linear models. The good news is that Irish Circular Economy Act became law in July 2022 providing for the development of a Circular Economy (CE) strategy, a Fund, targets to increase current level sixfold and a levy on certain single use items e.g. Paper Coffee Cups.

As awareness grows and consumers vote with their wallets, more and more players will become active and raise their profile in this space. Apple offer trade in for older devices and Nokia have just offered a new smart phone with a repair kit as per table 13.[21] In addition to all of above Manufacturing should also consider independent accreditation to validate their green credentials. Options include the B Corporation ESG standard[22] or Excellence in Energy Efficiency Design (EXEED) certification in process with SEAI.[23]

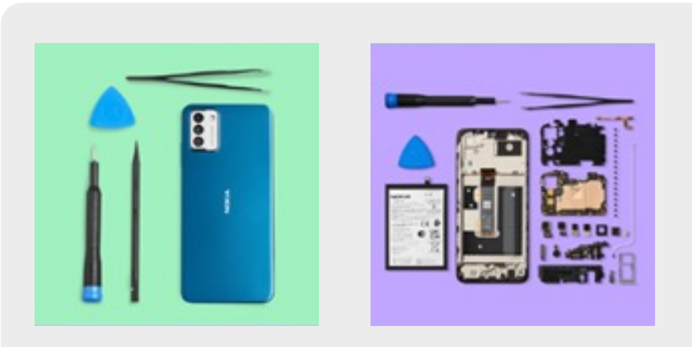

Table 13. Nokia Repair Kit Dec 2023

[16] Climate Action A Toolkit for Business - IBEC Jun 2023
[17] Carbon Footprint Reduction and Energy Efficiency for SMEs in China | EU SME Centre: China Market Research, Training, Advice | Get Ready for China Jun 2023
[18] How Can One Achieve Sustainability By Embracing 9R's Of Circularity? | by Shweta Singh | Medium Aug 2019
[19] Statistics | Eurostat (europa.eu) Nov 2023
[20] Financing an inclusive circular economy | Chatham House – International Affairs Think Tank Jul 2021
[21] Making self-repair simpler (nokia.com) Dec. 2023
[22] Evolving and adapting the B Corp Certification performance requirements based on stakeholder and community feedback (bcorporation.net) Dec 2023
[23] EXEED Certified Program | Business & Public Sector | SEAI Dec 2023

ESG Compliance Reporting Overview

ESG Compliance reporting kicks into gear in 2024. The main directives are summarised below with links for more detailed information, which companies should review to determine scope and timing for reporting.

Directive	Purpose	Timing	More Information
Corporate Sustainability Reporting Directive (CSRD)[24]	Enhance disclosure of environmental data	January 2024	Corporate Sustainability Reporting - DETE (enterprise.gov.ie)
Carbon Border Adjustment Mechanism (CBAM)[25]	Avoidance of Carbon Leakage and to regulate import of carbon intensive materials	October 2023	Carbon Border Adjustment Mechanism - European Commission (europa.eu)
Due Diligence Directive (CSDDD)[26]	Due diligence of supply chains for environmental and human rights issues	Under review in EU	Corporate sustainability due diligence - European Commission (europa.eu)
German Supply Chain Due Diligence Act (GSCDD)[27]	Due Diligence specific for companies with significant presence in Germany	January 2024	German Supply Chain Due Diligence Act (SCDDA) explained - IBM Blog

Reasons to be Optimistic about a Greener Future in Manufacturing

- Over 6970 Companies including BOI are signed up to the Science Based Targets Initiative (SBTi)[28]
- The economics of renewable energy fuels continues to improve with grants for Solar conversion recently increased to up to €162,500 for businesses.[29]
- Wind energy electricity accounted for 35% of needs in 2022, a saving of €2Bn for gas and will continue to scale subject to planning and grid constraints.[30]
- Ireland has experienced over 45% growth for EVs YOY.[31]
- Triggered in part by energy inflation and security of supply, 2023 has seen a noticeable uptick in Manufacturing embracing the Green Agenda:
  - Behavioural Changes – shift planning, switching off, energy cost awareness
  - CapEx projects in renewable energy sources – heat pumps and solar panels
  - Avail of Government supports
  - Marketing their "Green credentials" with customers

In summary, while the targets remain daunting and challenging, and pace is still too slow, a lot is happening to move the needle. More and more businesses recognise ESG as a strategic imperative for value creation and survival. Under the new Corporate Sustainability Reporting Directive (CSRD) obligated companies must disclose detailed information annually. While this kicks in from 2026 for SMEs, many will bring this forward to meet the demands of their customers and to be "report ready" when legally required.

Funding Activity in the Sector

- Bank of Ireland Business Banking 2023 drawdowns are marginally behind level of 2022 reflecting:
  - Caution in the sector given the uncertain macro-economic environment and ongoing geopolitical risks
  - High and significantly increased deposit balances YOY
  - High interest rate environment
  - Relief from higher working capital needs given improved supply chain dynamics
  - Demand for funding continues to fall and is down 4 points (20% to 16% of firms) YOY according to last credit survey of 1,500 SMEs that was released in September 2022.[32]
  - M&A deal volumes are down 7% YOY overall from 453 to 419.
- Funding was dominated by term loans, asset finance, green capex, followed by M&A and MBO transactions.
- There is a wait and see element on interest rates and for funding options which offer lower fixed rates and are green related.

Survey Roundup - Business Sentiment is higher for 2024 than 2023

Despite the complex and high risk geopolitical backdrop as we start 2024, many surveys show that CEOs and businesses are surprisingly more positive than this time last year. Perhaps a function of survey timing - before Middle East crisis and Red Sea blockage – shocks are never far away but here are four highlights:

KPMG 2023 CEO Survey:[33] High Optimism

Table 14: Source: KPMG Nov 2023

PWC 2024 27th CEO Survey:[34] "CEOs are twice as likely to expect the global economy to improve this year compared to last year"

IBEC Manufacturing Survey:[35] "Manufacturers are cautiously optimistic about the current business environment compared to last year"

2024 Eurochambres Survey:[36] Business Confidence up on 2023

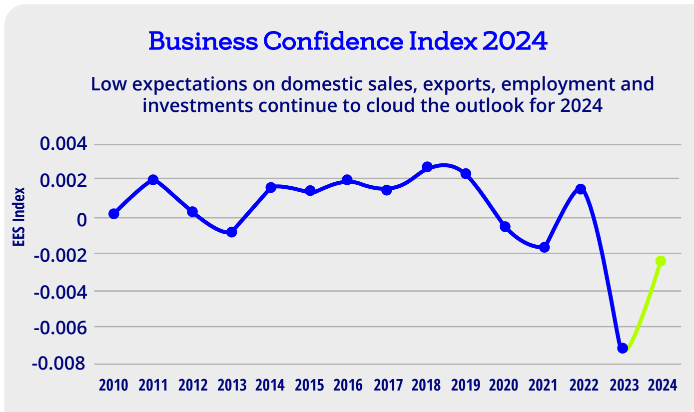

Table 15: Source: Eurochambres Nov 2023

[24] Corporate Sustainability Reporting - DETE (enterprise.gov.ie) Dec 2023
[25] Carbon Border Adjustment Mechanism (europa.eu) Dec 2023
[26] Corporate sustainability due diligence (europa.eu) Dec 2023
[27] German Supply Chain Due Diligence Act (SCDDA) explained - IBM Blog Dec 2023
[28] Target dashboard - Science Based Targets Dec 2023
[29] Business Grants & Supports | Business & Public Sector | SEAI Dec 2023
[30] Wind farms supplied 35% of electricity in 2023 (rte.ie) Jan 2024
[31] Ireland improves in the drive to EV adoption | Carzone News Jan 2024
[32] gov.ie - Credit Demand Survey April 2022 - September 2022 (www.gov.ie) Jan 2023
[33] CEO Outlook 2023 - Survey of business leaders - KPMG Ireland Nov 2023
[34] Thriving in an age of continuous reinvention | PwC Jan 2024
[35] Manufacturing Report - Ibec Nov 2023
[36] Eurochambres Economic Survey 2024: persistent challenges and economic climate set to limit business growth next year - Eurochambres Nov 2023

Manufacturing 2024 Outlook and Beyond - Optimism despite growing cloud of Geopolitics with a laser focus on costs and margins.

Tailwinds 2024

- Irish Manufacturing is hugely resilient with enormous positive dividends gained by shocks of COVID-19, Brexit and Ukraine serving it well to navigate the uncertainties of 2024.
- SMEs continue to benefit from MNCs reconfiguring their supply chains to local and more secure partners
- SMEs have benefited from vertical integration changes in response to supply chain headwinds.
- The shocks of energy inflation and shortages are accelerating conversion to Greener alternatives.
- Latest PMI data indicates a fragile trend in direction of growth.
- Inflation impacts are receding but customers are seeking to reverse increases.
- FDI activity remains buoyant and will support growth.
- Manufacturing is embracing ESG and rate of adoption is increasing as funding grants increase

Headwinds 2024

- PMI, Exports, Industrial output and GDP data all point to slower demand and recessionary caution.
- The risks pf geopolitics complexity and 2024 election results will overshadow the macro-economic landscape.
- Supply chain pain is back on the agenda with logistic cost spiking upwards as a consequence of Red Sea blockage.
- Rising input costs, including materials, minimum wage, social costs will weaken competitive profile and must be countered with a laser focus on business costs and margins.
- Labour shortages and competition for certain talent in a tight market continues.
- Interest rates reduction forecasts for 2024 may be over optimistic, thereby stymying investment appetite.
- There may be capacity adjustments in certain sectors depending on how macroeconomics plays out.
- Infrastructure of transport, housing, utility grids need to match Manufacturing ambitions and not be a barrier to growth.

The fundamentals of Irish Manufacturing continue strong. The optimistic view, is that Manufacturing contraction here and in EU has hit a turning point and that 2024 will see a return to moderate growth. However the turning point is recent, weak and vulnerable to ever more risky geopolitics. Manufacturing may indeed find itself navigating a downward adjustment in capacity and employment levels until customer orders start to rise in the medium term. The short term will be sharp focus on cost and margin management.

Conor Magee

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

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

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

Sources: CSO, Gov.ie, IBEC, Bank of Ireland, The Economist, S&P Global, Irish Times, Guardian, Europa.eu, statista, SBTi, tradingeconomics, ACEA, ECB, ESRI, SEAI, IDA, IMD, DETE, PWC, KPMG, E&Y, GEP, CNN, Renatus, Enterprise Ireland, Irish Manufacturing Research, Circuléire

Retail Convenience 2023 Insights and 2024 Outlook

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

Retail Convenience: 2023 Review

Summary

- **Robust performance:** Robust performance delivered by the sector in 2023. A shift in consumer behaviour to increased frequency patterns coupled with increased engagement with own-brand ranges.
- **Inflation:** The unprecedented level of food inflation became the subject of political focus - easing in commodity prices started to filter through to shop shelves in H2 2023.
- **Consolidation:** Increased consolidation has become a feature of the market with larger grocery/fuel operators expanding their store network and diversifying their sales mix.

2023 Key Trends

- Strong growth in take-home grocery sales continued. Whilst inflation levels across the sector hit unprecedented levels (17%) linked to post Covid-19 supply and Ukraine war issues in H1, a significant retraction in same occurred in H2 reflecting a decrease in international commodity prices.[1] The Competition and Consumer Protection Commission ("CCPC") also reported that there was "no evidence to suggest excessive pricing in the Irish grocery market".[2]
- Dunnes continues to hold the number 1 position in respect of grocery market share driven by a particularly strong performance in the wider Dublin region. Tesco market share increased in the period reflecting the integration of the Joyce group stores within their portfolio.
- The large supermarket operators have been proactive in addressing cost of living concerns with targeted ad campaigns and voucher offers being strongly promoted. An expanded own-brand offering has also resonated with consumers with c10.5% growth delivered across unbranded lines in the pivotal Christmas period.[3]
- Margin growth and preservation have become an imperative for retailers linked to an increased cost framework driven by personnel, insurance and energy overheads.

Sector Developments – Key Numbers

60 The milestone birthday celebrated by Spar Ireland in 2023.[4]

€85m Profit figure reported by Tesco Ireland for y/e February 2023 – first time that its Irish financials reported on a stand-alone basis.[5]

2 million Number of plastic bottles/ aluminum cans collected by Lidl Ireland in two DRS trial stores up to November 2023.[6]

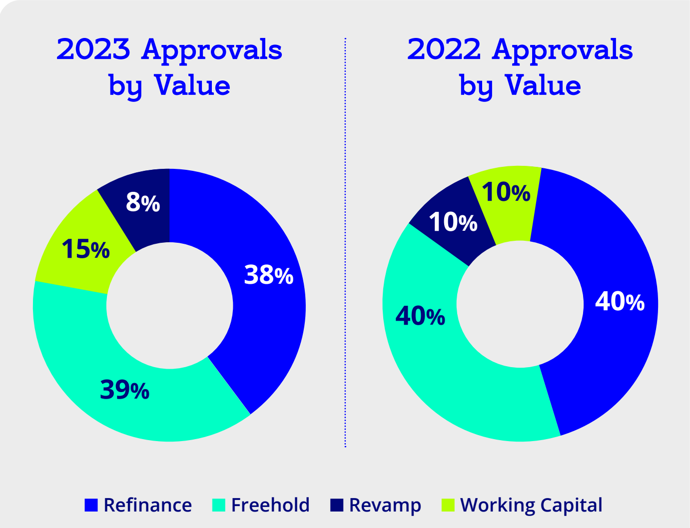
26,500 Number of solar panels installed across 100 Supervalu & Centra stores supporting a carbon reduction of 12%.[7]

[1] Kantar Grocery market share analysis - Jan-June 2023
[2] CCPC – Analysis of Irish grocery retail sector - June 2023
[3] Kantar grocery market share - Jan 2024
[4] Spar Ireland press release - June 2023
[5] Tesco press release - September 2023
[6] Lidl press release - November 2023
[7] Musgrave press release

Key Activity in the Sector in 2023

- Shopping patterns reflected cost of living concerns with increased frequency (shopping little & often) becoming a feature of the market. As expected, food inflation, linked to a significant decline in international food commodity prices in recent months retracted significantly in H2 2023.
- As many food/drink manufacturers absorbed increased costs in 2023 to remain price competitive – it is expected that robust price negotiations will be a feature of the market in early 2024. Balancing consumer and supplier relationships will be key in this respect.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. COVID-19 has been a catalyst for some retailers to investigate future options in respect of both ownership and operational models.

Approval Activity Value %



Bank of Ireland business banking data

- Recent studies across Europe have demonstrated that saving money on food remains a top priority across all income groups. This has led to increased engagement with own brand products and a discernible improvement in own-brand range/options across the sector. The proactive delivery of premium, healthy and sustainable products across the own-brand range will be required to meet customer expectations and preserve retailer margin.[8]

Sector Developments: Investment & Economic

- A significant level of new store openings/extensive store revamps occurred in 2023 across all regions supporting job creation and the wider Irish business eco-system. This reflects both the competitive nature, robust financial health and positive outlook of the leading brands in respect of the Irish market.
- The increased cost and regulatory burden presented by the proposed living wage structure, pension auto-enrolment and insurance in a competitive environment has led to an up weighted focus on margin development/preservation from retailers, wholesalers and their advisors. Recruitment and retention of personnel in a "full-employment" environment continues to be a key challenge for the sector.
- Consolidation and cross-sectoral partnerships remains a feature of the wider Irish grocery/convenience/forecourt market. Tesco integrating nine Joyce group stores within their network, Applegreen and Marks & Spencers agreeing a 10 year "brand within a brand" partnership and Musgrave purchasing fine-food distributor, Ritter Courivaud a flavour of some of the transaction activity in 2023. Individual store sale activity increased significantly linked to succession planning, landlord de-leveraging and independent retailers expanding their store portfolios.
- The de-carbonisation of end to end operations remains a key focus for leading operators linked to supplier, Government and consumer expectations/requirements. Multi-million euro investments linked to improving energy efficiency profile across the fleet, logistics and store network was a feature of sector announcements/strategies in 2023. The requirements of International suppliers seeking to reduce their scope 3 emission profile will continue to act as a driver/incentive in the green transition of the Irish grocery/convenience sector.

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

Retail Convenience 2024 Outlook

2024 Key Numbers

60 Number of Applegreen stores that will carry M&S products linked to a 10 year partnership agreement.[9]

100% Level of energy across Aldi Ireland store portfolio that is generated via green/renewable sources.[10]

€10m Value of partnership between Maxol and Bewley's coffee which will be rolled out across 72 Maxol owned stores.[11]

€44m Daily spend on groceries conducted via card/digital wallet in Ireland.[12]

2024 Retail Convenience Outlook

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

Market

- In a competitive labour market – sourcing and retaining the best people is vital to sustain a retail business. A structured employee development plan that incorporates role variety, up-skill opportunities and competitive remuneration needs to be embedded within the culture of the business. The smart use of digital/automation tools can deliver the dual goal of increased efficiency and an improved working environment.
- Linked to the development of all personnel within the sector, The Irish chapter of LEAD has been recently established with the goal of attracting, retaining and advancing women in the retail and consumer goods industry through education, leadership and male allyship.
- Significant revamp programme will continue to be rolled out in 2024 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards. Movement on revamp costs linked to fluctuating material supply base to be monitored closely.
- Detailed analysis pre and post revamp will be an imperative to ensure that a maximum return on investment is delivered via sales mix improvement, margin growth and cost saving. The "localisation" trend will continue with store revamps taking a more bespoke, community focused approach.
- As consumers seek cheaper alternatives across some product lines, all leading operators recognise that a strong, diversified own-brand offering will be critical to maintain customer engagement as the inflationary cycle continues. However, Own-brand is not all about price/value – the development of premium, proprietary in-house food solutions can provide a strong margin-generating differentiation point for retailers when delivered effectively.

ESG

- Irish retailers are cognisant that a robust strategy for the de-carbonisation of their business model is required to meet Government, investor and consumer expectations/ requirements into the future. Corporate social responsibility linked to sustainable and environmentally friendly in-store activities will therefore be a key area of focus for all retailers - energy efficient equipment, elimination of single-use plastic, improved recycling facilities and reduction of food waste. This will enable an improved cost base whilst meeting consumer expectations in respect of ethical trading. The proposed roll-out of the Irish deposit return scheme under the auspices of Re-Turn will be monitored with interest. The commencement date is 1st February 2024.
- Studies have identified that c90% of all emissions related to Retail are Scope 3 – linked to suppliers/consumers as opposed to direct emissions from the business itself/ purchased energy (Scope 1 and 2).[13] To move the dial on Scope 3, retailers are starting to establish joint initiatives and incentivisation plans with their suppliers to support improved emission targets and the sharing of related data. In respect of consumer engagement - apps/tools that support customers to set and monitor climate targets for their shopping baskets are also on the horizon.

[8] McKinsey – grocery trends 2023
[9] Applegreen/M&S press release December 2023
[10] Aldi press release November 2023
[11] Maxol press release – September 2023
[12] Quarterly payments monitor, October 2023 - Banking & Payments Federation Ireland
[13] British Retail Consortium - Climate Roadmap 2022.

Funding Activity

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

Bank of Ireland

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

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

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

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

Technology, Media & Telecoms (TMT) 2023 Insights and 2024 Outlook

Summary

Our approach to brainstorming, ideation and generation of content for any setting, has changed forever as generative artificial intelligence (AI) becomes more widely used as a tool to inform decision-making/validating ideas and concepts.

TMT 2023 Review

Technology

Despite the continued negativity in the media surrounding job losses in 'Big Tech,' the demand for tech talent remained robust, with Cybersecurity and AI professionals in particular, being in high demand. While there might be a perception that businesses have stalled their hiring plans in light of layoffs announced by 'big-tech', there is evidence to suggest that for some businesses it's about managing and making-do with their current crop of talent. As competition for candidates continued, some businesses have chosen to re-evaluate their hiring needs, as it was becoming a distraction. We continue to hear from customers that, where there has been a supply of candidates, the issue remains, many do not have the relevant skills-set or experience. Overall, the sector has performed well in 2023. Consolidation continued across the technology managed services space continuing the trend of recent years. In the context of M&A activity, valuations stabilised, with the general consensus that founders have refocused attention on sustainable growth, underpinned by a strategic focus on profitability and tight cost controls.

Media

Across the media space, we have seen further consolidation through acquisition by new and traditional media companies to stay relevant, expand their audience, enhance digital capabilities, create new/diversify their revenue streams, while maintaining a competitive edge in a rapidly evolving media landscape. DMG Media Ireland (BusinessPlus.ie, Evoke, Extra.ie etc) continued on its acquisition trail in 2023, acquiring Everymum[1] which is one of Ireland's leading parenting websites. While The Business Post acquired Relish Research[2], the research and polling company. Diversification and the acquisition of established online brands can quickly bolster digital presence across a broader target audience when compared to building new platforms from scratch. Furthermore, it can offer more targeted advertising opportunities to advertisers. This in turn boosts revenue generation and competitive edge, through offering unique content and perspectives that differentiate them from other news outlets/traditional media.

Telecoms

Latest available data published by ComReg last December shows that 5G mobile subscriptions increased 69% year on year, comprising a total of 1.4m mobile broadband, voice and machine to machine subscribers. These statistics appear to support the findings of a survey conducted by Bearing Point[3] during 2023, that when compared to the EU averages, Ireland demonstrates a high awareness of the benefits that 5G can bring. The survey also suggested that users in Ireland are also inclined to pay a higher premium for 5G compared to their European counterparts.

2023 Key Sector Trends

ChatGPT chatbot 1st birthday: it's fair to say a lot has changed since it burst on the scene in late 2022. One thing is for sure, the days of starting any activity with a blank sheet of paper are well and truly behind us. The potential is infinite, where one can seek ideas about anything from generating concepts for a new business; a side hustle to generate extra income, or how to simply improve a CV, which are then produced in moments, notwithstanding the potential hallucinations it can present. Recent further developments have seen ChatGPT being able to hear, see and speak, enabling voice conversations through its mobile application. Speaking with a contact of mine recently he told me how he knew of a founder of a tech business that is in fundraising mode, who took a spin in his car on a Sunday morning and had a conversation with ChatGPT, about all things related to raising funds for his business. It provided insights on what he should do to prepare, who then to talk to, what a term sheet would look like, negotiable and non-negotiable items, along with the ability to generate charts and data. The interesting thing here is that following his conversation with the app, the founder saw no need to engage an intermediary and the associated costs. There is no doubt that the technology is not perfect, but it paints quiet a startling picture of how fast the landscape is changing and how even highly skilled, professional roles, will be impacted too, much sooner than originally thought.

The Sphere bringing virtual reality to life...without the goggles: whether you're a fan or not, U2's residency at the Sphere (which reportedly cost €2bn+) in Las Vegas, both launched and heralded a new era in live entertainment in a computer-generated, immersive experience. What makes this really interesting is that while companies, such as Meta, thought users wanted to wear goggles and join the Metaverse, this instead allows users to experience virtual reality and the shared atmospherics of a live event, without the associated headgear. The Sphere brings virtual reality to life, without the goggles. The Sphere itself, is the world's largest spherical structure at 516 feet wide and 366 feet tall, coupled with the highest resolution LED screen on earth that can project any form or content. It is powered by a range of technologies, using humanoid robots, AI and patented technology to deliver, a unique immersive sound experience, using wave-field synthesis. For the uninitiated, this allows the Sphere to beam precise, clear sounds to any part of the venue, known as beamforming[4]. This lets them have control over what people hear and where, based on where they are sitting. Different sounds can be enabled in various parts of the audience or isolated at various stages during a show; the applications/uses are infinite. From an attendee's perspective, they get to experience the event as though they are wearing headphones, but without the need for same. The Sphere can accommodate 17,600 fans; of which 10,000 sit in specially designed haptic chairs (similar to type of gaming chair that has a speaker(s) built-in), that enhance the immersive experience. Other experiential elements allow for sensory stimulus such as feeling hot/cold air or aromas to be projected to these chairs, incidental to what's happening in the show. Virtual reality, IMAX and a sensory immersive experience, all rolled into one. So, what does all this mean for the future of live entertainment? In the development phase of The Sphere over 60[5] patents have been filed with an expectation this could surpass the 100. These patents one would expect will be commercialised into various offerings/technologies/services, which will be licenced to recoup the cost of the investment. As a first step, learnings/advancements in beamforming audio systems at the Sphere could be deployed in a stadium near you, before too long. It has also demonstrated a solid use case for the actual deployment of virtual reality technology.

The Sphere, Las Vegas[6]

Live action/Animation future: Irish media and entertainment sector continues to thrive; testament to the world-class storytelling, producers, crews, artistry and technology of the creative industry. Many of the Ireland's foremost producers of content were showcased at Marché International des Programmes de Communication or MIPCOM annual trade show held in Cannes at the end of last year. MIPCOM is renowned as one of the largest media and TV professionals trade events and plays host to the world's top content distributors and studios. Ireland's Creative Sector continues to grow in stature for the quality and reputation of its storytelling, with strong demand, in particular, for original intellectual property. According to Enterprise Ireland, the growing Irish media and entertainment sector is set to be worth a staggering €6.14bn by 2026. In order to maximise this opportunity and build on success to date, the Cultural & Creative Industries Skillnet in collaboration with the sector continues to design and develop the relevant skills and talent development programmes to address the ongoing needs of the cultural & creative sectors. The training programs are subsidised in areas such as Animation, Visual Effects, Games, Film, TV, Immersive Technologies, AR/VR, Virtual Production and Digital Media to name a few. These courses are at the intersection of creativity and technology that might be of interest to those looking to straddle both or seeking to tap into opportunities in this burgeoning sector. For more information click on the link: **https://www.creativeskillnet.ie/training-courses-events/**

Sector Developments - Key Numbers

No.1[7]

Swoop, named as the fastest growing technology company in Deloitte Technology Fast 50 Technology Awards for 2023.

€65m[8]

the amount of Series A follow-on funding raised by Everseen, the Cork-based computer vision and hyper automation solutions provider, led by existing investor Crosspoint Capital Partners.

€500,000[9]

the amount of R+D funding received by FoodCloud, (a tech-based social enterprise which redistributes food which would otherwise end up as waste), awarded from Enterprise Ireland's Agile Innovation Fund to further develop its innovative food redistribution platform.

35[10]

the number of new jobs (in sales and marketing, software development, and legal and compliance) announced by Clevercards.

27.6%[11]

Eir's market share of total retail fixed broadband subscriber lines according to ComReg's Quarterly Key Data Report, published in December ('23).

Key activity in the Sector:

M&A

Softbank acquires controlling stake in Cubic Telecom: one of the biggest tech stories of 2023 announced at the beginning of December that Softbank Corp, the telecoms arm of the Japanese tech investment giant was taking a 51 percent stake in Cubic Telecom[12]. The investment was €473m, valuing the business at over €900m.

This is wonderful news for Barry Napier who is staying on as CEO and all the team at Cubic and provides them with enhanced access to showcase their connected vehicle technologies in the Asian automotive industry. According to an article by McKinsey by 2030, 95 percent[13] of new vehicles sold globally will be connected. This augurs well for Cubic Telecom with lots of potential to grow further in the time ahead.

Mail Metrics completes acquisition of Dafil: Mail Metrics, the customer communications platform provider acquired print and billing communications provider Dafil[14], their third acquisition since 2021, They have strong ambitions to be the market leader across regulated industries, such as financial services and utilities in Ireland and UK markets, with further expansion into the US probably not too far behind.

The business has grown rapidly in recent years where revenues numbers have increased from €1 million in 2019 to a projected €40 million at the end of 2023. Growth through acquisition has enabled the business to rapidly acquire customers in regulated markets providing significant opportunities to upsell its technology suite, shortening the lead time and increasing revenues over recent years. Mail Metrics have won several awards recently including being placed on the Deloitte Technology Fast50 Awards list, the Deloitte FSI Awards and Nick Keegan, CEO has recently been shortlisted for the EY Entrepreneur of the Year 2023.

Recent investment in the sector

Latest available data from the Irish Venture Capital Association painted a stark picture as funding into Irish SMEs fell by almost 40%[15] to €190m in the third quarter of 2023, down from €309m in the same period of the previous year. What is most alarming from this data was that the value of deals across all sizes fell significantly. For example, during the period, the value of deals between €3-€5m fell by 34% to €193.8m down from €300m for the same period in 2022. More worryingly, the value of deals between €5-€10m fell by 76%. The trend of Ireland receiving significant investment from international funders in recent years was reversed, falling in value by 69%. The largest deal during the period was the announcement of a €60m investment in Ocuco[16], the global leader in eyecare software solutions, by Accel KKR, to boost global expansion plans and demand for their omnichannel, cloud-based solution.

Delta Investments for 2023

On a more positive note, Delta Partners continued to invest in seed and early-stage technology start-ups. Bank of Ireland and Enterprise Ireland are cornerstone investors in this fund along with Fexco and several family offices. Investments during 2023 included:

Kayna: a Cork based startup providing embedded insurance infrastructure solutions that enable insurance carriers and brokers to embed their insurance products within any vertical SaaS platform to offer insurance products to their SME customer base, secured an investment round with participation from Delta Partners. Kayna's technology enables carriers and brokers to access a unique data set to ensure SME's get more accurate insurance, while significantly reducing their own distribution costs of serving the SME market.

Recruitroo: a Dublin based startup that is building a software platform that will manage the process of semi-skilled workers from outside the EU into roles within the EU secured a new investment led by Delta Partners. Dealing with visas, work permits, national insurance numbers, travel and accommodation etc. Recruitroo automates the process and reduces paperwork to get semi-skilled workers into roles faster.

Tailr: a Waterford headquartered startup that provides a platform for fashion brands and manufacturers to streamline production processes, secured €700K in investment, led by Delta Partners. With Tailr, fashion brands can reduce sampling time and ensure consistent sizing which ultimately reduces ecommerce returns and landfill.

As government recently approved guidance on the use of AI in the public service, the responsible and ethical use of this and other technologies will come into sharp focus for SMEs during 2024, along with how to integrate and optimise opportunities, presented by the technology.

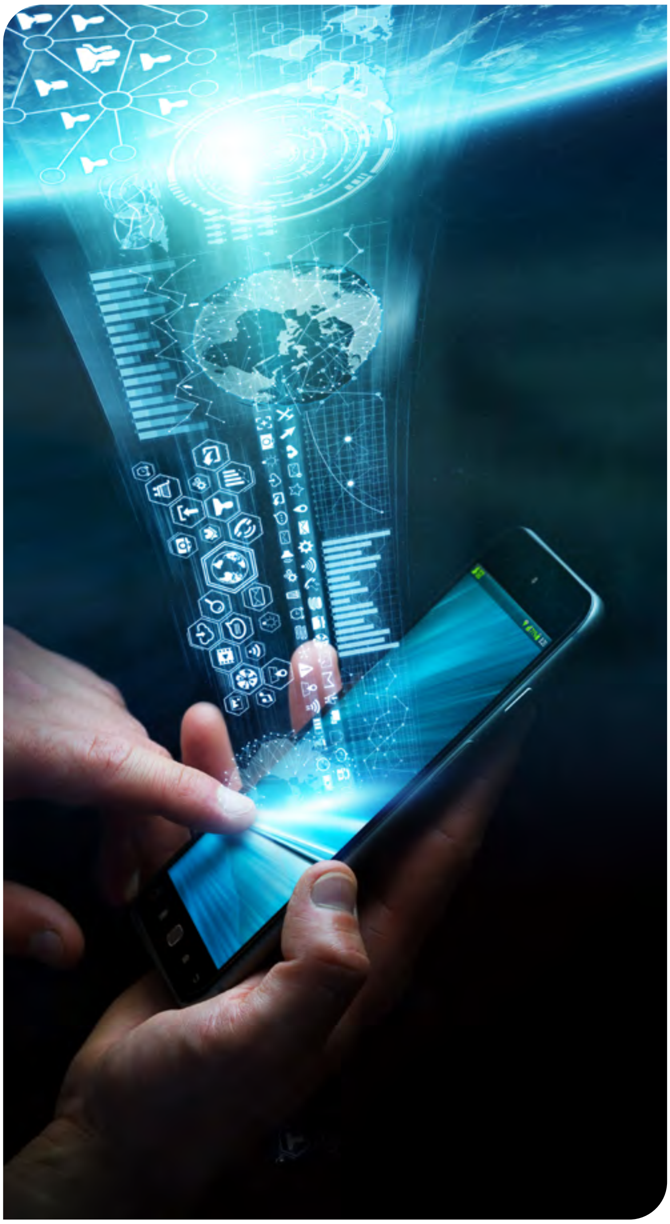
TMT 2024 Outlook

Key 2024 numbers

€10.7m[17]	$5.1trn[18]	$1.49bn[19]	€125m[20]	€348m[21]
investment by government in the expansion of the National Cyber Security Centre	forecasted worldwide spending on information technology for 2024	projected value of Ireland's IT Outsourcing market in 2024	increase of the eligible expenditure cap of Section 481 tax credit for projects	committed investment by government to continue rollout of the National Broadband Plan, delivering high-speed broadband services to an additional 100,000 homes and businesses in Ireland in 2024.

Technology

Digitalisation continues and businesses from every sector need to be able to work with and become data driven. Given the dearth of skilled and available talent to meet the needs of businesses, this will continue to drive upskilling and re-skilling initiatives. The days of employees claiming to not know anything about information technology are also behind us, every employee needs to embrace a digital mindset to develop competencies in digital problem solving, understanding of data and continuous learning. We are likely to see a step change from government to drive digital upskilling over the course of this year.



Media

The sector is forecasted to grow to €6.14bn[22] by 2026, largely driven by a significant uplift in internet advertising. Market penetration is through smart phones, with increasing amount of advertising channelled through apps and in association with the surging podcast market. This will drive further consolidation in the sector this year. Traditional media, particularly more regional titles continue to struggle to gain share from advertisement investment as larger content providers seek to increase their share/consolidate of advertising spend by syndicating content, while moving these businesses online and moving to a subscription model. In a report published by Coimisiún na Meán[23] in 2023, showed that the percentage of those who have subscribed to any form of online news site has shifted slowly from 7% (2015) to 12% (2019) to 15% (2023), with the highest percentage of subscribers being in the 25–34-year-olds (21%). What does this mean for the sector for the year ahead, lots of opportunity but also some work to be done to convince more subscribers to go beyond the paywall.

Telecoms

Based on recent findings from a Bearing Point survey, alluded to earlier, it is likely that we will see various initiatives to encourage more subscribers and increase adoption of 5G in Ireland given the apparent willingness of customers to pay more for the service. Expect to see lots of advertising campaigns across this year highlighting all the associated benefits. Further consolidation is also likely and with news of Macquarie Capital Principal Finance making a strategic investment in Viatel Technology Group[24] last December, safe to say we will hear of more announcements as they continue on their acquisition trail of recent years.

Market

Digital advancement: Whatever one's preference, whether it is OpenAI's ChatGPT, Google's Gemini Ultra or Anthorpic's Claude 2, the reality is generative AI will accelerate further over the coming year. These technologies will become integrated into many sectors from the legal industry to health diagnostics and broader manufacturing industry. Big data now has a support tool to enable businesses to glean insights and make predictions much quicker than in any time in the past. Leadership teams can evaluate various scenarios and plan contingencies in moments as opposed to weeks and months. In short, the hype is over, the focus will on be harnessing the power of the technology as a tool to augment and support the work that humans do, as opposed to replacing them.

Virtual wards: Digital health will also come into sharp focus this year as the HSE launches its Virtual Wards[25] programme. University Hospital Limerick and St. Vincent's University Hospital, Dublin have been chosen to roll out the programme initially, with other sites expected later in the year. This is the beginning of telehealth at scale in Ireland, with remote monitoring of patients through a range of connected devices. Physical ward rounds in hospitals will be replaced with home visits or video calls. Personalised monitoring of each patient is based on individual alerts and protocols so that any deviation or deterioration in a patient's condition is acted upon accordingly. Over time many different illnesses are expected to be managed through virtual wards. This will create new opportunities for start-ups and scaling businesses across Ireland that are building various solutions for the future of connected health, to trial/roll out their solutions.

EU AI Act: Agreement among EU members was reached between the European Parliament and the Council on the Artificial Intelligence Act (AI Act) in early December. The Act aims to establish a legal framework for AI, focusing on transparency, accountability, and ethical use of AI. The AI Act applies to all AI systems impacting people in the EU and applies across all sectors. The Act sets the tone as a global landmark for AI regulation is a reflection of how the EU is seeking to lead the way in creating legislation to set out the guidelines on what trustworthy and responsible use of AI looks like. The Act is expected to come into force during Q3 or Q4 this year, with enforcement of prohibitions six months after that date.

Disinformation and deepfakes: More than half the world's population[26] (and GDP) or more than 40 countries will vote during 2024 with the United States, Pakistan, European Union, Russia and potentially the UK all in election mode. One of the most pressing challenges is the threat of disinformation. Synthetic content such as AI generated media and deepfake videos, audio and images also have the potential to spread disinformation.

There has been a 10-fold increase in the amount of synthetic content/deepfakes detected globally from 2022 to 2023: 1740% deepfake rise in North America, 1530% in APAC, 780% in Europe (inc. the UK), 450% in MEA and 410% in Latin America. Hence, we are likely to see an acceleration in the creation and development of technologies that can identify and mitigate the effects of disinformation. It is critical that robust tools are developed to combat the threat caused by synthetic content, not only to maintain integrity of digital communications but to protect and preserve trust in society.

Funding Activity

Digitalisation and the adaption and adoption of AI technologies is likely to increase during 2024 providing opportunity for software development and managed services business in the roll out of these technologies. The sector had gone through a correction over the last 18 months and businesses are now more focused on growing sustainably and building profitable businesses, rather than pursing top line growth to enhance their overall enterprise value.

We would expect to work with businesses of this type to support their growth ambitions during the year. While there has been an increase in the volume of alternative lenders in the market over recent years, we would expect to see businesses that have matured over recent years seek to refinance their existing debt to reduce their cost of capital over the coming months.

Bank of Ireland

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

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

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

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