Corporate & Commercial Banking - Sectors Team. Developments & Insights

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Bank of Ireland

Classification: Green

Contents

Foreword – Jilly Clarkin: Head of Customer Journeys and SME Markets

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I am delighted to introduce our latest edition of the Bank of Ireland Development and Insights report, brought to you by our dedicated Sectors Team. Our Sector Specialists work closely with Irish businesses every day, and have a deep understanding of the challenges and opportunities that you face.

In this report, our Sector Specialists provide detailed analysis on the current Irish business landscape and share their outlook for the months ahead across the Hospitality, Health, Retail, Technology-Media-Telecoms, Manufacturing and Food & Beverage sectors.

At Bank of Ireland, we understand that Irish businesses are navigating an ever-changing environment, particularly in the wake of enduring global events, increased costs and changing consumer behaviours. Despite these challenges, Irish businesses have shown remarkable resilience and adaptability, finding innovative ways to thrive in a rapidly changing landscape. In this report, we will explore some of the key trends and opportunities for businesses in Ireland, and highlight some of the strategies that businesses are using to succeed in the face of adversity.

We also recognise that many businesses are taking fledgling steps with their Environmental, Social and Governance ("ESG") strategy and we are committed to supporting these initiatives in line with our own Group values. In this edition I am delighted to introduce Susie Crawford – our new Head of Sustainability within the sectors team who brings a wealth of experience in this area. Susie will play a key role in creating an integrated sustainability strategy for our SME customers as Bank of Ireland builds upon becoming the first Irish bank to be a founding signatory of the UN Principles of Responsible Banking ("UNPRB") – "Commitment to financial health and inclusion".

Bank of Ireland remain committed to supporting businesses, we understand that every business is unique, and our Relationship managers 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 Sectors team, please feel free to contact me at Jillian.Clarkin@boi.com. The contact details for all of the sector specialists are also outlined within the individual sector updates contained herein.

We hope that you find this report both informative and useful as you plan for the months ahead. As always it is a privilege to support our valued customers, and wish you continued success.

Best regards,

Jilly Clarkin

Sustainability

Sustainability
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Sustainability represents one of the biggest risks facing SMEs, incorporating, as it does, risks from legislation, regulation, societal change and of course the physical risks presented by climate change and biodiversity loss. All businesses need to adjust to this new reality, aligning their activities with the green transition. ESG (Environmental, Social, Governance) disclosures are mandated at EU level for larger companies under the Corporate Sustainability Reporting Directive (CSRD) and the scope of this will widen over the coming years. It's important to remember that supply chain information is key so even if your business isn't within scope, you will need to share information and data in order for your customers and other stakeholders to accurately report their progress.

I was appointed Head of Sustainability within the Bank of Ireland sectors team to guide and facilitate the sustainability journey for our SME customers. I have seen first-hand how challenging it can be to filter through the diverse range of impacts and risks that comprise ESG to understand what truly matters for an individual organisation or project. Having attained an MSc in Economic and Environmental Modelling back in 2009, I worked as an economist focusing on housing, transport, and infrastructure before developing a deeper focus on sustainability in the construction sector for Cairn Homes PLC.

I worked to raise the profile of sustainability in construction, driving engagement at and bringing about new commitments such as setting science-based targets for reducing carbon emissions and targets for protecting and enhancing biodiversity.

The work of becoming a more sustainable business can only begin when you know where to focus your attention. This is challenging for all businesses but help is at hand. There is now broad consensus around how to assess material impacts and risks and we can use internationally recognised frameworks and standards as a guide. First, consider your business's impact on the environment: raw materials, production processes, transport, buildings, energy/fuel use, how your product is used or service is delivered and even the end of life of the products. Second consider the impacts on the people the business interacts with: direct and indirect employees, customers, wider communities. Then look at this from the opposite perspective; what are risks your business faces due to changes in the environment, particularly climate change, as well as changes in society and communities? This approach, known as "double materiality" is a useful foundation for ESG strategy.

With a strategic road-map in place, Bank of Ireland can help support your plans across a range of sustainable investments.

Retail Sector Update

Retail Sector Update
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Grocery inflation continues:

Irish grocery inflation stands at 11.5%, whilst high on a historical basis, this represents the lowest monthly level reported since September 2022. The large supermarket operators have been proactive in addressing cost of living concerns with targeted ad campaigns and voucher offers being strongly promoted in recent weeks. As consumers seek cheaper alternatives across some product lines, all leading operators recognise that a strong own-brand offering is now critical to maintain customer engagement – growth in own brand (+11%) out-performing branded goods (+5%) in the 12 weeks to 5th September 2023.[1]

Investment continues within the market:

As the ever more discerning Irish consumer seeks excellence in store standards, Irish grocery and convenience retailers/ brands recognise that investment/differentiation is required to retain and attract footfall to their business. This investment includes the delivery of new and revamped best in class stores that showcase current initiatives and offerings from individual brands. Tesco recently announced an €80m investment in their network underpinned by eight new outlets and the significant upgrade of fifty existing stores, Aldi have opened five new stores in 2023 to date whilst Centra and Spar continue to expand their convenience store networks nationwide.[2]

Changing retail landscape:

The wider retail sector has delivered a robust performance to date in 2023 with sales volumes in the period May-August (excluding motor & bar sales) c2.5% better than the equivalent period in 2022. There has been strong performances in the electrical, food and furniture/home improvements sub-sectors in particular.[3] Retailers continue to assess the impact that current inflationary trends may have on discretionary spend and are tailoring their business plans accordingly. A re-invigoration of in-store retail in a post-pandemic landscape has seen numerous international retailers open stores in Ireland and occupancy levels return to more normalised levels. Dublin city-centre (impacted severely during the pandemic) now has an occupancy level of 85%+ in prime retail locations and national high-street footfall has increased by 15%+ when compared with 2022.[4]

As I engage with retailers on a daily basis, it's heartening to see progressive operators continuing to invest in their store network, omnichannel framework and energy efficiency whilst delivering a robust financial performance. To succeed and thrive, retailers must continue to innovate as they position their business model, marketing, stores, and operations to overcome and grow through the prevailing economic environment. Some key areas of focus are as follows:

- **Automation Investment:** Consistent with the wider European model, the digital transformation of the Irish retail sector has been fragmented to date leading to cost/ operational inefficiencies and delays in the delivery of improved supply-chain, analytics and omnichannel models across the sector. Retailers recognise that appropriate investment in this area is a key step in preserving profitability – ensuring that investment can be continued in the traditional areas of personnel, store design and product offering. It is akin to the nutritional, gym and flexibility work undertaken by elite sportspeople – unseen by most but integral to maintain peak performance.
- **The "Value" message:** Retailers need to clearly communicate their "value" bona-fides both in-store, online and in their marketing material. What is the current consumer view of their store/brand? Sometimes a market perception of being "too expensive" can be based on the lay-out or the look & feel of the store, or even the tone of advertising material. This may not align with the reality of the proposition.
- **Sustainable business - Scope 3 focus:** 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. It is well established that c90% of all emissions related to Retail are Scope 3 – linked to suppliers/consumers as opposed to direct emissions from the business itself/ purchased energy (Scope 1 and 2). To move the dial on Scope 3, retailers are starting to establish joint initiatives and incentivisation plans with their suppliers to support improved emission targets and the sharing of related data. In respect of consumer engagement – apps/tools that support customers to set and monitor climate targets for their shopping baskets are also on the horizon.
- **Omnichannel:** Leading Irish retailers now recognise that they need to be channel agnostic – able to serve their customers through an integrated mix of online and physical stores in an efficient, swift manner. As customers, our expectations are increasing every year – we want to be able to browse online & in-store, get real-time pricing and next day delivery for a wider range of products. Irish retailers are now delivering best in class "end to end" systems – providing us the consumer with options to click and reserve, click and collect, walk through virtual show-rooms/stores and personalise products. Retailers that deliver a user-friendly, reliable hybrid model utilising the best of online and physical stores are best positioned to maintain loyalty in a competitive marketplace.

A wider exploration of some of these themes can be found in an article I penned for the Sunday Independent recently focused on the grocery sector:

[Owen Clifford: Robust grocery sector must adapt to thrive in these times | Independent.ie]

[1] Kantar Irish Grocery market-share – 05 September 2023
[2] Shelflife magazine/Checkout magazine – June: August 2023
[3] CSO Retail Index 27/09/23
[4] Bannon Retail Pulse – September 2023

Hospitality Sector Update

Hospitality Sector Update
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Turnover on a growth path:

As we approach the last stretch of the year, a number of hotels are anticipating record breaking turnover for 2023. Price inflation combined with healthy levels of domestic and overseas demand and a slightly compromised supply landscape have contributed to the surge despite the elimination of the discounted rate of hospitality VAT. However, the positive turnover trend might not deliver record EBITDA for the same period due to significant increases in the costs and expenses as well as the elimination of government supports which subvented margins in 2021 and 2022 in particular.

With unemployment at 4.1%[5] to the end of August, and airline capacity expected to finish 2023 at 103%[6] of 2019 levels, the demand forecast for 2024 remains encouraging. However uncertainly prevails about the number of viable tourism accommodation facilities that might choose to extend their public contracts in the coming year impacting the supply dynamics in locations like Clare, Kerry, or Donegal where the concentration is higher.

Here to stay – Positive trend in domestic demand.

Statistics on domestic travel released by the CSO[7] at the end of July show an increase of 11% in trips for Q1 2023 vs Q1 2022 and a 16% increase vs the same period in 2019. The sustained growth in demand from the domestic market is encouraging as it could deliver larger numbers of loyal/repeat customers in the years to come. In an attempt to capture a larger share of the domestic market some properties have ramped up their advertising spend and have been increasingly using printed media.

As we get closer to the Christmas period it is important for hotels, bars, and restaurants to plan the timely launch of their voucher sales campaigns in line with the holiday season.

New data series – Overseas visitors.

Detailed information on inbound tourism was published by the CSO for Q2 2023 at the end of August[8]. The report indicates a total of 1.65m overnight trips by foreign visitors took place over the quarter, spending a combined total of €1,449m (excluding fares). Visitors from the UK accounted for 37% of trips and 20% of the expenditure. However, the CSO has indicated that the new series is not directly comparable with pre-Covid estimates, so it won't be until next year that a point of reference will become available. Strong numbers of American visitors were reported by properties particularly on the west coast. Year to July data from STR indicates occupancy for hotels in Kerry was about 10% ahead of same period in 2019.

Hotel Performance:

Average room rate continues to be the key driver for accommodation sales performance although occupancy continues its upwards trend with all locations except Dublin city reporting occupancy in line or ahead of pre-pandemic levels. Limerick continues to lead the way on rate growth with a reported 15% year on year increase to the end of August 2023 vs last year (2022) and 45% vs 2019.

In Dublin an increase of 4% in bedroom stock (c1,050 rooms) so far this year plus an additional 14% (3,711) between now and the end of next year, combined with the increase in hospitality VAT could deliver a slight RevPAR regression for 2024.

[5] CSO, Monthly Labour Market Reports, Monthly Unemployment ROI August 2023.
[6] Fáilte Ireland (OAG Schedule Analyser, June 5th, 2023)
[7] CSO, Household Travel Survey Q1 2023
[8] CSO, Inbound Tourism June 2023.

Accommodation sales KPIs[9]

Accomodation KPIs 2019-2021	YTD Aug 2023														
	Occupancy %					Average Rate €					RevPAR €				
Location	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Dublin All (STR)	83	36	28	76	83	143	107	102	166	184	119	38	29	125	152
Dublin city centre (STR)	84	33	22	72	81	166	128	122	193	210	140	42	27	139	169
Galway (Trending)	75	53	54	75	82	113	107	138	140	154	86	57	74	105	126
Cork (Trending)	80	53	46	73	80	107	103	132	141	154	86	55	61	103	124
Cork (STR)	79	43	42	70	79	112	104	126	151	158	89	44	53	107	125
Limerick (Trending)	73	45	31	77	85	88	78	89	110	127	64	36	28	85	108
Kilkenny (STR)	N/A	42	37	68	76	N/A	121	169	166	173	N/A	51	63	112	131
Regional (Trending)	77	53	46	75	82	100	89	113	125	141	77	47	52	94	116

Budgeting for next year

With 8 months down and less than four more to go, businesses are now planning their budgets and cash flows for 2024. Aside from the usual year on year considerations there are a couple of additional items that should be accounted for:

- **ESG Focus:** Green ambitions for the coming year would need to be budgeted for; research into supports and grants is essential as is the timing for launching initiatives.
- **Revenue:** Larger VAT bills should be expected in the coming year following the increase in VAT. For many properties the repayment of warehoused tax obligations kicks in during Q2 2024.
- **Pension auto-enrolment:** This scheme which will be introduced next year will be implemented in phases. Employer contributions will start at 1.5% of gross pay[10]. This one is particularly important as the cost of wages and salaries has escalated significantly in recent times and now accounts for over 40% of sales at some regional hotels.

[9] STR © CoStar August 2023 data for Dublin Region, Dublin city, Kilkenny & Cork; Trending.ie (BPO) data for Cork, Galway, Limerick & Regional.
[10] Gov.ie; Auto-enrolment scheme

Healthcare Sector Update

Healthcare Sector update
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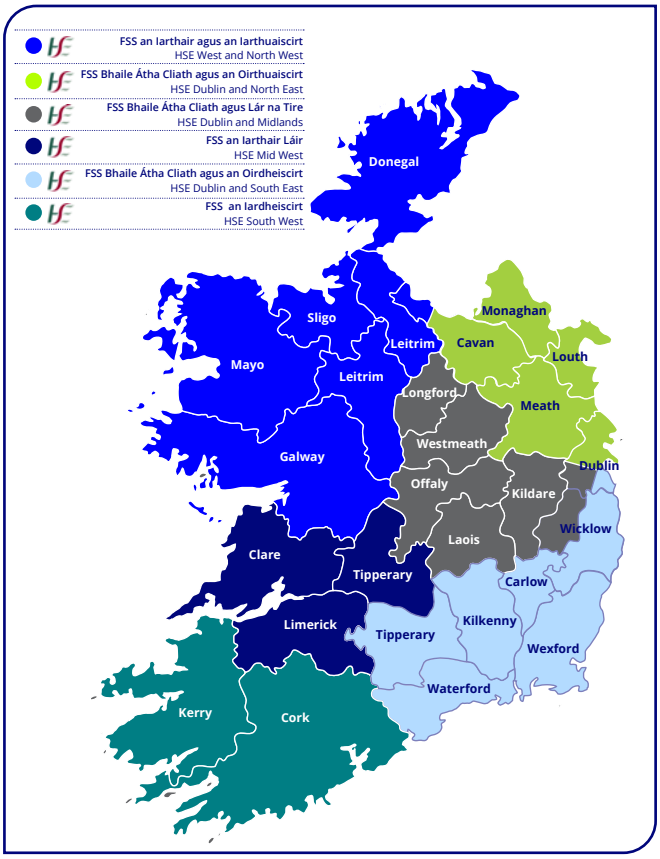
Sector-wide Developments:

A central plank of the Sláintecare reform agenda involves the reorganisation of the HSE into six distinct health regions, referred to as Regional Health Areas, replacing the current nine Community Health organisations (CHOs) and the six hospital groups, many of which have overlapping territories. This change is imminent, with implementation planned for February 2024 and further reforms and devolution of authority taking place on a phased basis through 2024 and 2025. The stated aim is to address existing shortcomings and enable the HSE 'to plan, manage, and deliver integrated care for people in line with the needs of their regional populations and in partnership with stakeholders'[11]. With the appointment of six Regional Executive Officers, each formally accountable for health and social care in their area, there will be direct accountability to the HSE CEO. This change will have implications for the health sector as a whole.

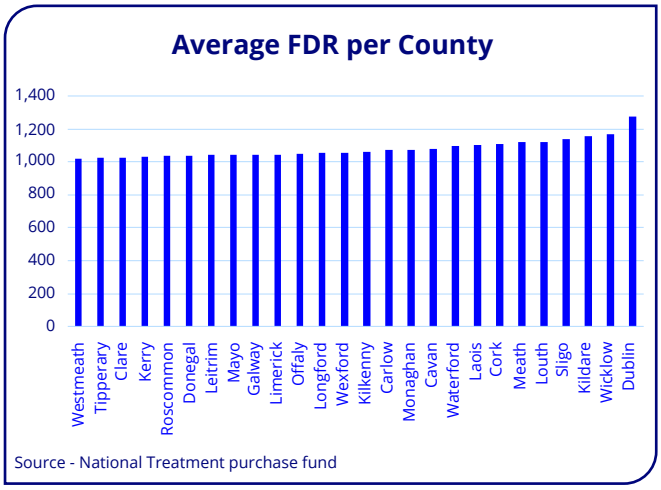


Nursing Home Developments:

Headwinds largely associated with the funding model continue to affect the sector and there is very real concern that current market conditions are preventing investment and development in the sector. Given the growing demand for additional beds it is evident that we have reached a critical juncture. Buyers are operating with caution and carefully evaluating the risks and potential returns associated with investing in nursing home developments.

Whilst a challenging operational environment persists, headwinds have been partially mitigated by increases in funding through the National Treatment Purchase Fund (the 'Fair Deal' scheme). Q2 & Q3 saw rate increases of 2.3%, annualised at a 4.6% increase. The variance in the average increase per county ranged from €95 per week in Cavan and Longford to €31 in Kilkenny. This information is based on data available from the National Treatment purchase fund.

The single biggest individual increase in Fair deal rates "FDR" during the 6-month period was €107 per week, achieved by nursing homes in Clare. The counties that experienced the highest average increase in FDR during this period were Longford (€95), Cavan (€95), and Kerry (€79). On the other hand, the counties that had the lowest average increase in rates were Kilkenny (€31), Dublin (€41), and Cork (€42).



The current transactional environment is sluggish, characterised by a decline in M&A activity. Companies are adopting a cautious 'wait and see' strategy, prioritising the consolidation of their existing operations and implementing stringent cost controls. There is a notable decrease in the willingness to expand and take on additional debt.

[11] HSE Organisational Reform Health Regions Implementation Plan, July 2023

Pharmacists

Launched last year the free contraception scheme, open to young women, transgender and non-binary individuals aged between 17-26 years, has now been expanded to those aged 27 to 30 years. Potential inclusion of 16-year-olds is currently being considered by the Department of Health.

At present, only emergency contraception is available directly without prescription. The Community Pharmacist is widely acknowledged as the most easily accessible professional and, according to a RCSI study, almost half of women (47%) expressed preference for obtaining contraception from their pharmacist.[12] Considering that there are no clinical reasons for contraception to be supplied through prescription, evidence from other jurisdictions such as America and Canada, shows that 'prescription free' approaches improves access to a greater extent than 'cost free' models. There are calls for Community Pharmacists to expand the scope of practice to include providing a full range of contraception services.

Realising potential through Data and Enabling Technologies

The Healthy Islands Pilot, currently being undertaken by the University of Galway in a collection of offshore islands in the west of Ireland, through the 'HIVE lab' (Health Innovation via Engineering), aims to tackle healthcare challenges by enhancing the well-being of the population through the application of technology and engineering. Individuals are receiving necessary support within their own communities through such initiatives as telemedicine/online consultations, telemonitoring, rapid diagnostics, robotics, AI, and drone delivery of medications. The aim is to promote longevity and improve overall quality of life, preventing unnecessary hospital admissions. The project, a collaboration with the HSE, and funded by the Sláintecare Integration Innovation Fund, aims to provide 'proof of concept' with a view to mainstreaming if successful[13]. At 31%, Ireland has one of the highest rural based populations. With only 15% of Irish GPs serving this dispersed and predominantly elderly cohort[14], the results of this pilot could have positive benefits for our rural communities and indeed the health service as a whole.

[12] RCSI, Irish Contraception and Crisis Pregnancy Study 2010. A Survey of the General Population
[13] Sláintecare Integration Innovation Fund - Pobal
[14] ICGP, 'Shaping the Future', October 2022

Food & Drink Sector Update

Food & Drink Sector Update
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Overview

The sector has remained robust in 2023 having honed its ability to manage the ongoing macroeconomic ambiguity. Food inflation proved a big headache across markets, peaking in spring '23 and whilst it has eased, consumer prices remain high. Supply chain constraints have improved. Orders in some sub sectors, e.g. seafood, from export markets were softer, affected by high inflation and weaker purchasing power.

January - July 2023 saw Food & Beverage exports maintain 2022 export levels but a more mixed picture emerged with food exports +3% and beverages -9%[15]. Overall CSO reported a €9.4bn value which equated to a +1% v 2022. In that period, GB and EU exports grew with demand softer in US and Rest of the world.

Whilst certain commodity costs have eased, overall input costs remain high. With the war in Ukraine facing a second winter, uncertainties such as restricted grain, oils and fertiliser supply, with the Black Sea blockade in place, and energy prices remain of concern.

Sustainability continues to feature strongly with Food and beverage operators and 44% of green supports issued by Enterprise Ireland in 2022 were to the Food & beverage sector.

Inflation

Food inflation remains an area of focus for all those along the food chain to manage. In Ireland it has eased since the annualised 13.1% in March '23, registering 8.2% in August[16], but it continues to be a challenge. Due to public / government pressure, retailers are focussed on reducing consumer prices, which in turn is affecting suppliers with margins being squeezed.

In the EU, in July, Trading Economics reported food at 12.5% more expensive than July '22[17] but the pattern is mixed: Germany was the one EU member to see food deflation in Q2, due to lower producer prices for dairy, produce & oils and a very competitive retailer landscape. It was reported that French supermarket Carrefour has put stickers on some big brands in-store to pressure large suppliers to drop prices[18].

UK food & non-alcoholic beverages inflation has slowed year on year but remains high at 13.6% recorded in August 2023[19] with fish, vegetable and dairy prices falling.

Whilst producers have secured price increases, helping mitigate margin pressures, value chains are still under strain in some sub-sectors and inflation management continues to be a daily focus for the Food & Beverage sector.

Brexit, Windsor Framework and TOM

Brexit continues to have an impact on exporters to GB. Whilst operators have adapted to manage the arrangements and regulations to date, a new Border Target Operating model (TOM) is scheduled to start in January 2024, the fifth delay to its start date. This is for the importation of animal-based products into the UK, requiring stringent customs procedures for animal and meat-based products. Exporters are reviewing requirements including custom health certs, qualifying to be a registered importer in the UK and vet checks, with added complexity and costs being of concern.

The Windsor framework is due to be implemented on a phased basis from Q4 2023 for EU/GB trade with the transition likely to take at least twelve months. This will introduce a green and red lane system for goods entering Northern Ireland for local use or onward shipping and simplified paperwork for agri-food goods.

Outlook for remainder of 2023

Sentiment in the sector remains strong despite high costs/ low margins and food inflation continuing to take their toll. Food exports remain solid apart from some sub-sectoral specific softening. Outlook is positive for Q4 but is sub-sector specific. Food inflation will continue to ease but at a slower pace than needed by consumers with interest rate hikes also impacting spending power.

[15] Goods Exports and Imports July 2023 - CSO - Central Statistics Office
[16] Consumer Price Index August 2023 - CSO - Central Statistics Office
[17] European Union Food Inflation - August 2023 Data - 1997-2022 Historical (tradingeconomics.com)
[18] Carrefour sticks price warnings on food to shame firms (rte.ie)
[19] United Kingdom Food Inflation - August 2023 Data - 1989-2022 Historical (tradingeconomics.com)

Manufacturing Sector Update

Manufacturing Sector Update
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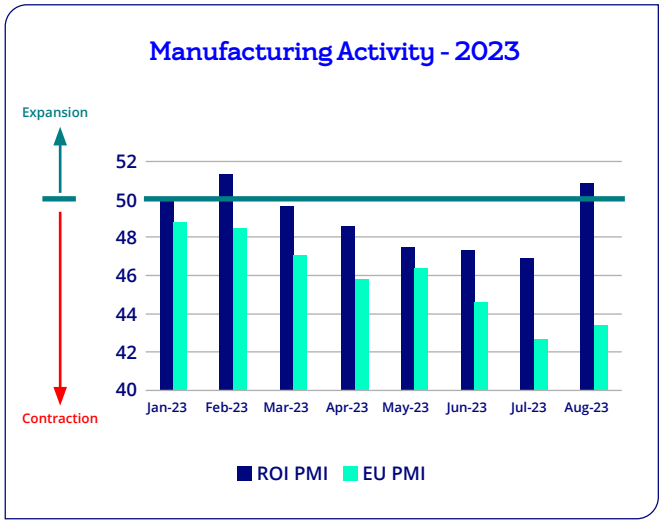
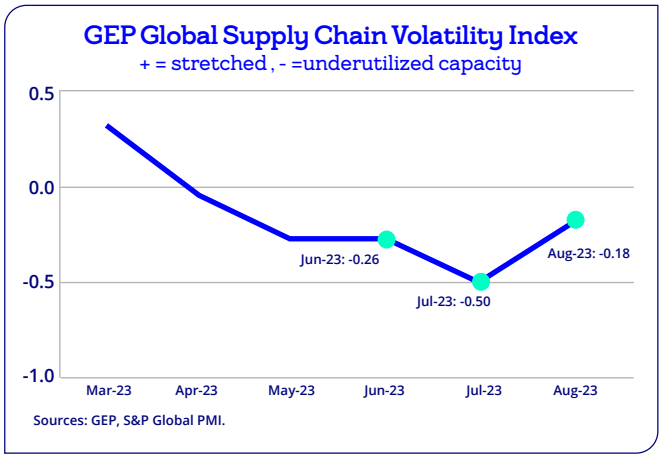
Irish Manufacturing tips into expansion after five months of contraction.

Ireland's manufacturing Purchasing Managers' Index PMI[20] for August 2023 nudged into expansion territory at 50.8 following five months of contraction hitting a low of 47 in July. This upwards inflection in August is attributed to a growth in new orders which have risen for the first time in six months, and in particular export orders. Latest export data reflects this improvement with H1 2023 now down just 3% YOY when compared to the period January to April when export activity was down 6% YOY. By comparison PMI data for our European colleagues remains weak with an EU PMI score of 43.5. However this represents a marginal improvement and an upward turning point. The hope is that green shoots of growth maybe on the horizon after months of contraction. Also positive is that for now at least big employment cuts remain off the table as companies both in Ireland and overseas appear to be holding back from capacity cuts given the time and money they have invested in building same. In short, it remains to be seen if Ireland and EU have indeed reached the bottom of the downward cycle. Irish manufacturing can only thrive if its export partners including the EU return to growth.



Global Supply Chain Volatility Index shows small improvement.

The August 2023 data from the Global Supply Chain Volatility Index also shows improvement with August data at -0.18 up from -0.5 in July. As with PMI data, improvements are fragile, demand remains subdued and supply chain capacity stays underutilised.



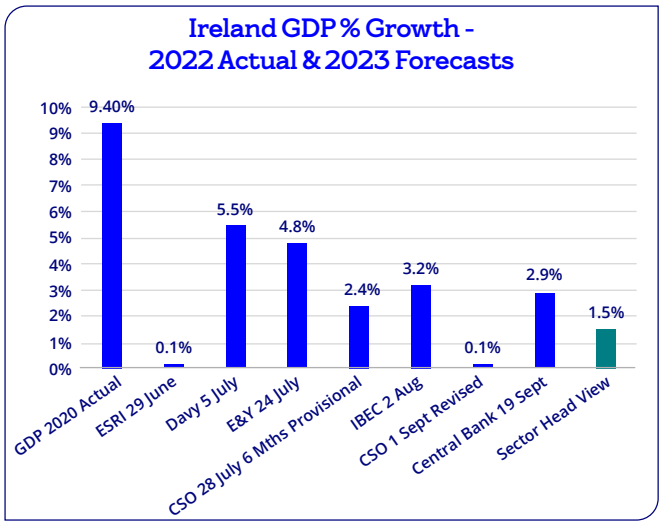
Global manufacturing finds itself navigating a fine line between recession and stagnation. In the case of Ireland we are between mild contraction and modest growth.

Based on a number of recent customer visits, and supported by more positive sentiment data, the mood music is still cautiously optimistic to deliver moderate growth in 2023 as inflation of input prices including energy continue to ease.

[20]PMI Releases (spglobal.com)
[21]Global Supply Chain Volatility Index | GEP

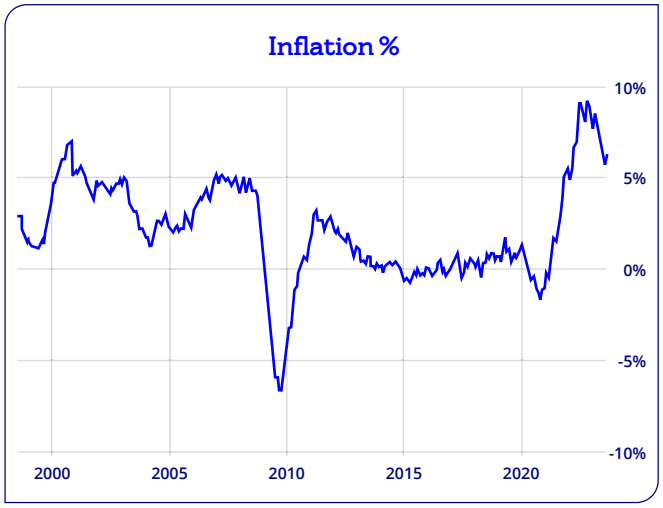
Many GDP forecasts are likely overstated and Manufacturing is a key growth lever

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%. For 2023 we have a range of forecasts for GDP outcome from between 0.1% to 5.5% (See Chart)[22]. Given the above dependency of the economy on Manufacturing combined with lower exports, it is likely that the year-end outcome will be closer to the lower end. With exports and orders improving and a strong tailwind catchup output push in Q4, GDP growth in the region of 1.5% is deemed a reasonable assumption.



Inflation comes in all shapes and sizes, as price hikes are clawed back in supply chains

Historically we have to go back to 2000[23] to find inflation levels similar to those experienced in August of 6.3%. So our Gen. Zs, born 1996 to 2010, have known nothing other than close to 0% inflation. Now they find themselves shocked by price increases everywhere and having to navigate a myriad of terminology to help them better understand what is really going on. Let's take a closer look[24].



- **Excuseflation:** Global economic shocks like the energy crisis create excuses for business to hike prices
- **Greedflation:** A contentious term where businesses allegedly use inflation as a cover to raise prices more than needed
- **Sellers Inflation:** Sellers using supply bottlenecks and demand levels to hike prices and maximise profits.
- **Shrinkflation:** Inflation in disguise. Smaller sized products but selling at the same prices. Toblerone reduced its weight from 170g to 150g by widening the valleys and reducing the peaks of its famous chocolate bar.
- **Skimpflation:** "Same product" but with less features, less ingredients or reduced quality. Think automotive and the chip shortage forced reduction in features but not always corresponding price drop.
- **Stagflation:** Also called recession inflation and is a toxic mix of high inflation, economic stagnation and rising unemployment. Everyone's nightmare!

And the good news is that we are now seeing some...

- **Disinflation:** Where the rate of inflation is slowing as is the case in the US and hopefully soon in the EU allowing the current interest rate hike cycle to stall.
- **Immaculate Disinflation:** A relatively new term and in essence the holy grail of slowing inflation combined with no rise in unemployment. Already seen in the US, where labour market is strong . The ECB are pitching for a similar outcome within the EU.

The reality is we are seeing a mix of the above depending on sub sector and supply/demand dynamics. The good news for consumers is that manufacturers are now coming under pressure from their customers to reverse temporary price increases as supply chain constraints have receded.

[22] Quarterly Economic Commentary, Summer 2023 | ESRI, What to expect for the Irish economy in 2023? | Davy, The all-island economy: grounds for optimism? | EY Ireland, Preliminary GDP Estimate Quarter 2 2023 - CSO - Central Statistics Office, GDP by Sector - CSO - Central Statistics Office, Ibec publishes Economic Outlook report for Q2 2023 - IBEC, Quarterly Bulletin 2023:3 - The path back to lower rates of inflation is likely to be gradual and uneven (centralbank.ie)
[23] Ireland Inflation Rate - August 2023 Data - 1976-2022 Historical - September Forecast (tradingeconomics.com)
[24] What do shrinkflation, skimpflation and stagflation mean and are they worse than inflation? | Euronews
[25] 'Immaculate disinflation' is the new economic buzzword. But what does it mean? | CNN Business

Technology, Media and Telecoms (TMT) Sector Update

Technology, Media and Telecoms (TMT) Sector Update
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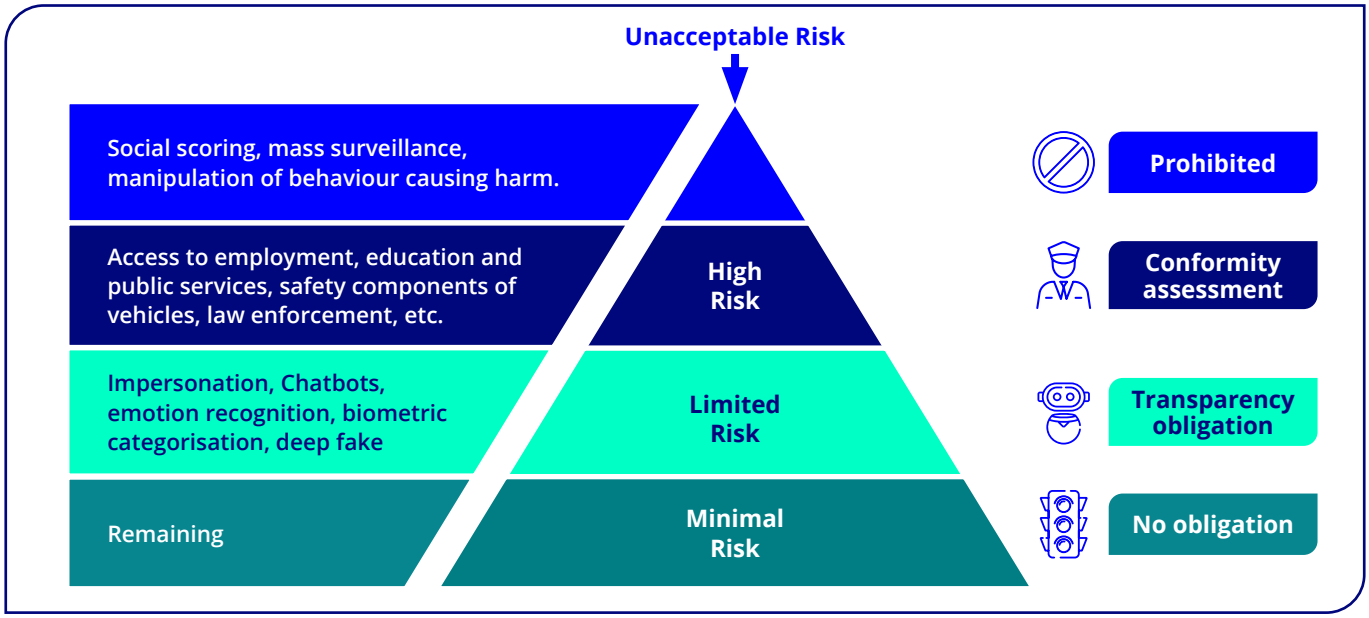
Artificial Intelligence (AI) Act moves a step closer.

In recent months, the European Parliament approved the Artificial Intelligence Act (the world's first legislation to regulate the use of AI). This triggered discussions between the three political institutions of the European Union; the European Commission, the Council and the Parliament, which will now seek to reconcile the three different versions to determine the final wording of the Act. It is expected that the definitive version of the AI Act will be published by the end of 2023. The regulation is then expected to be fully effective in 2026. Similar to GDPR before it, a two-year grace period is being contemplated. This would then give companies the time to adapt gradually and make provisions to prepare appropriately for when the Act comes into force.

Enshrined in the Act is a four-tier risk classification system, unacceptable risk, high, limited and minimal in terms of the risk level posed by AI technology to the health and safety or rights of a person (see graphic below).

Generative AI systems (e.g., ChatGPT) will have to comply with transparency requirements, such as disclosing that content was generated by AI. It will also need to prevent it from generating illegal content or use of copyrighted data. A recent class action lawsuit in the US by a group of prominent authors, including George R.R. Martin, Jonathan Franzen and John Grisham has seen OpenAI being sued over alleged copyright infringement, for that very reason. The authors are contesting that OpenAI used their work to train the large language models, that power ChatGPT. It for this very purpose that the EU are driving ahead with implementing the Act and will, in future, provide the safeguards to protect the copyright of individuals and the privacy rights of individuals.

It is incumbent on business from every sector to start assessing whether the systems they are using, fall within the Act's definition of AI, and make provision for same. If those systems are found to be in the high-risk or prohibited categories, those businesses will need to implement a legal framework that incorporates undertaking regular risk assessments, data processing impact assessments and adhere to detailed record-keeping protocols. User manuals, service-level agreements, licences/master licence agreements will all need to be reviewed as they fall under this new legislation and be updated accordingly over time. The risk to businesses is significant with companies found to be non-compliant facing fines that could reach up to €30 million or 6% of global income/turnover. Similarly, those found to be submitting false or misleading documentation to regulators will also face fines. The advice to businesses is to become familiar with the Act and its provisions and to seek guidance from their legal advisors as to the steps needed to be undertaken in preparation for when the legislation is fully enacted.



Recent Technology sector investment:

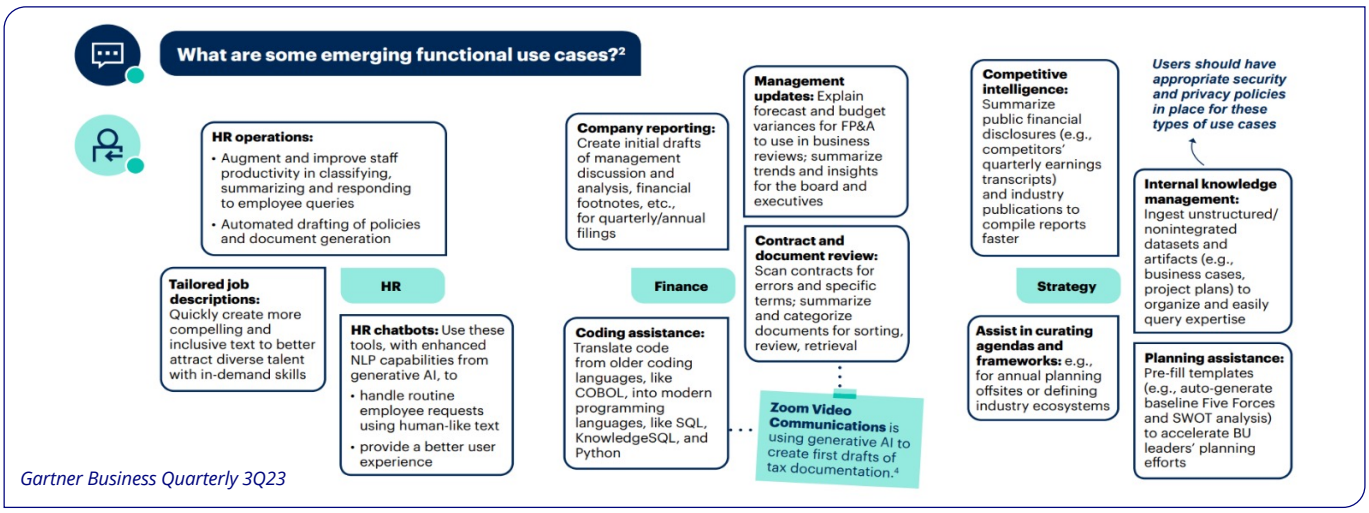
Venture capital investment into Irish technology rose by 24% in the first half of 2023 to a record €963.2m, according to the Irish Venture Capital Association VenturePulse survey, published in early September. Investment in AI was also in the top three sectors receiving investment, raising €83m or 9% of the total. Envirotech/clean energy was the leading sector raising 57% or €550.5m of the total VC investment, followed by life sciences at €92.2m (10%). The survey also shows that seed rounds while continuing to prove challenging recovered in the second quarter of the year, rising by over 80% to €44.9m following a decline in the previous quarter.

Bank of Ireland continues to invest in early stage/scaling businesses through its participation as a cornerstone investor (along with Enterprise Ireland, Fexco and several family offices) in Delta Partners latest venture capital fund. Recent investments by Delta Partners include:

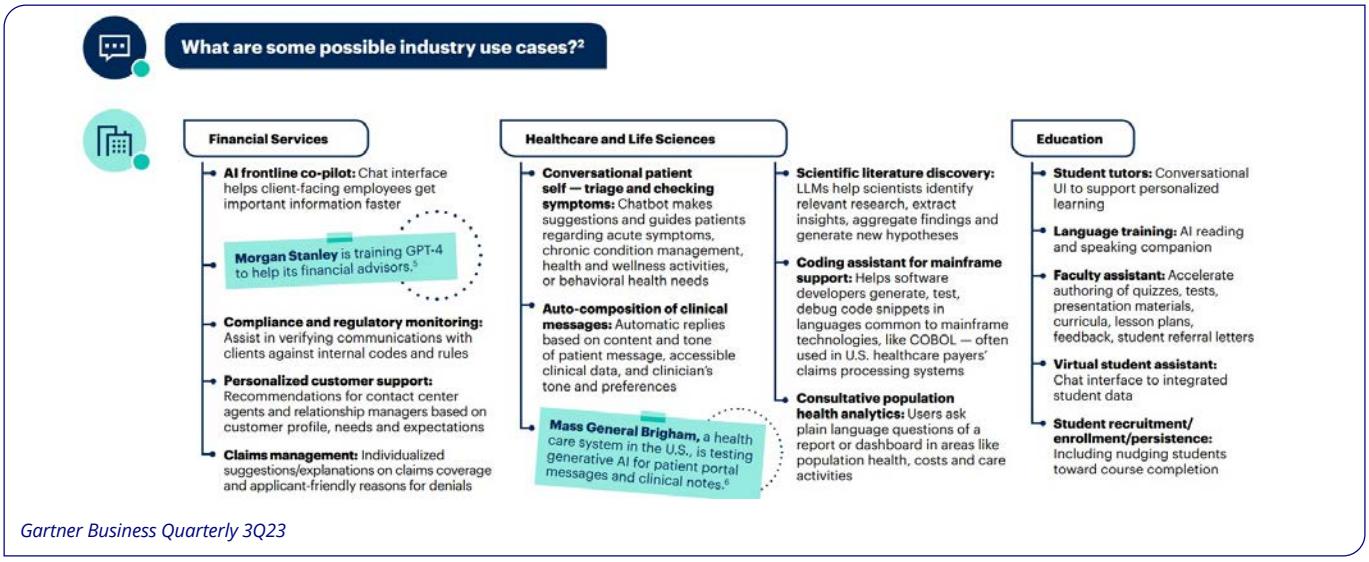
- **Tailr:** Innovative cloud-based software firm Tailr announced investment of €700,000, with participation from Delta Partners, UK investor Haatch alongside Enterprise Ireland and angel investors. Tailr's revolutionary cloud-based SaaS platform addresses the inefficiencies and challenges faced by the clothing industry, enabling real-time data flow between design teams, fabric mills, and factories. The platform streamlines production processes, ensuring consistent sizing across fabrics, cuts and seasons while supporting clothing brands in achieving their sustainability goals.
- **Recruitroo:** have developed an award-winning platform that solves global labour shortages. They have secured a €1 million investment round, led by Delta Partners, with participation from Enterprise Ireland and several notable angel investors. The funding will enable Recruitroo to further develop its end-to-end global recruitment and migration platform and expand its presence in the UK and European markets. As countries in the Western world navigate chronic labour shortages that are contributing to a supply chain and cost of living crisis, Recruitroo is solving major pain points for businesses that are scaling their global workforce.
- **Kayna:** An award-winning embedded insurance infrastructure platform announced that it has closed a €1 million pre-seed funding round, co-led by Delta Partners and Middlegame Ventures, with participation from Aperture and InsurTech Fund. Kayna provides technology and data orchestration between insurance carriers, brokers and any vertical software-as-a-service (SaaS) platform. This drives top-line growth for vertical SaaS providers while providing relevant insurance to underserved SMBs.

Food for thought

In its latest Business Quarterly Report, Gartner has published data based on a poll of over 2,500 executives, which showed that more than half said they have been planning to spend more on AI of all kinds. The data also shows that the most pressing issue on the minds of those executives, was, what steps they need to take over the next twelve months. This is to ensure they are not playing catch up for years to come, while balancing potential environmental impacts through the purchase of clean power. The report goes on to illustrate emerging functional and industry uses where AI is being deployed, which could provide something to consider for businesses grappling as to how they can make AI work for them. See graphics below.



Gartner Business Quarterly 3Q23



Gartner Business Quarterly 3Q23

Want to know more about AI but do not know where to start?

At a recent Tech sector event in Dublin, the chair of one of the panel discussions asked how many of those in the audience were actively using Generative AI or other AI systems in their place of work. Based on a show of hands, the result was quiet low. During the ensuing discussion/Q&A the consensus suggested that lots of companies are proceeding with caution when it comes to adapting and adopting these technologies. This may well have something to do with the tsunami of innovative technologies and systems that are being launched almost on a daily basis. Or it could also be that the pace of change is proving to be overwhelming for some companies. Whatever the reasons, this too is not going away. Businesses need to start thinking seriously about developing their own AI strategies and for those wondering where to start, there is a solution.

CeADAR, Ireland's Centre for Applied AI has been supporting Irish companies for over ten years in applying AI and using data analytics to help them either improve processes or create new products and services. CeADAR has also been designated by the European Commission to become the European Digital Innovation Hub (EDIH) for AI in Ireland. These Digital Innovations Hubs are tasked with helping SMEs and Public Service Organisations learn more about how AI and data analytics can help these organisations and to the advantages/benefits they can bring. They also help companies access funded specialist training, test technologies/co-develop customised applications, offer support with identifying sourced of suitable funding or connect companies with other stakeholders and the wider AI ecosystem. These supports go some way to de-risking and demystifying how businesses can embark on their AI journey. For more information click: https://ceadar.ie/edih/

Sources: World Economic Forum, William Fry, AIAct.eu, europarl.europa.eu, ceadar.ie, Delta Partners, Gartner Business Quarterly 3Q23, Reuters.