



BDO Optimism Index Q2 2016

with Behaviour and Attitudes



BDO



B&A

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Research Methodology

- For the past five years Behaviour & Attitudes has conducted a Business Confidence survey on a quarterly basis. A questionnaire has been developed for the business monitor which covers issues such as recent business results, projected employment levels, profit margins and expectations for the forthcoming year.
- The quarterly survey is conducted via telephone amongst a sample of 350 business owners/managers countrywide. The sample is drawn from a 'deduped' mix of reputable business listings including Bill Moss, Data Ireland, the Irish Times and Business & Finance Top 500 companies in Ireland.
- Interviewing was conducted through Behaviour & Attitudes Computer Aided Telephone Interviewing Unit (CATI) at Milltown House in Dublin. Interviews were conducted with the owner/chief executive of each selected company. Fieldwork on the project was conducted between 14th to the 24th April, 2016. All interviewing was centrally supervised and quality control verification was conducted on 15% of interviews undertaken.
- A sample size of 350 yields a dataset which can be deemed to be accurate to within plus or minus five percentage points. The geographical locations and company size of those surveyed match those for the profile of the country as a whole.

Foreword

BDO IS ONCE AGAIN DELIGHTED TO SHARE THE FINDINGS FROM OUR LATEST QUARTERLY OPTIMISM INDEX. THE INDEX, A CONTINUOUS SURVEY CARRIED OUT FOR THE LAST FIVE YEARS, TRACKS BUSINESS PERFORMANCE AND THE VIEWS OF BUSINESS LEADERS ACROSS IRELAND.



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The first quarter of 2016 presented both opportunities and challenges for businesses in Ireland. While the Irish economy was growing at the fastest pace in the EU, volatility in the global markets and concerns over the U.K.'s forthcoming Brexit referendum impacted on the wider business environment. This was evident in the dip in the activity levels of Irish exporters. But, overall business sentiment was up and Irish companies continued on their upward growth trajectory.

After two years of rapid economic expansion what we are now seeing is a stabilisation, or normalisation, of business activity levels in Ireland. 47% of businesses reported higher activity levels in the first quarter, in line with the same period last year, while only 18% reported a drop in activity levels, the

lowest since the survey began in 2011. Looking ahead 53% forecast a higher activity level in the second quarter, a slight improvement on the same period last year and a sign of steadying in the pace of growth.

Perhaps the most striking aspect of the Optimism Index is the divergence in the growth paths of mid/large businesses and the micro and transitional companies. Some 65% of mid/large companies reported higher business activity in the first three months of the year, almost double the level in quarter one of 2015. However first quarter activity levels for transitional and micro businesses stalled.

While there was only a modest increase in the number of companies reporting

higher employment levels in the first three months of the year (17% v 16% in Q1 2015), just 7% of companies said employment levels were lower compared to the same quarter last year. This is the lowest level since the survey began and points to a period of consolidation for businesses in Ireland.

Continuing the theme of consolidation and stabilisation the Index shows that 22% of companies were charging higher prices while just 6% of businesses were charging lower prices, compared to the same quarter last year. That is the lowest level of price cuts in the survey's history.

Similarly operating profit for companies increased slightly and, significantly, a rising number of companies outside of Dublin continue to show increased profits. 37% of businesses outside the capital reported higher operating profits compared to the same quarter last year, with just 18% posting a decline – again a record low for the survey.

All of this contributed to the Optimism Index's increased reading of 66.7 points for the quarter.

In summary then the BDO Optimism Index shows Irish businesses are continuing to grow, optimism is rising and activity is stabilising. While our exporters were hurt by the global volatility in the first three months of the year, they are bullish about their prospects in the second quarter as stability returns to macro-economic conditions and the great Brexit debate is resolved, one way or the other, offering visibility for companies.

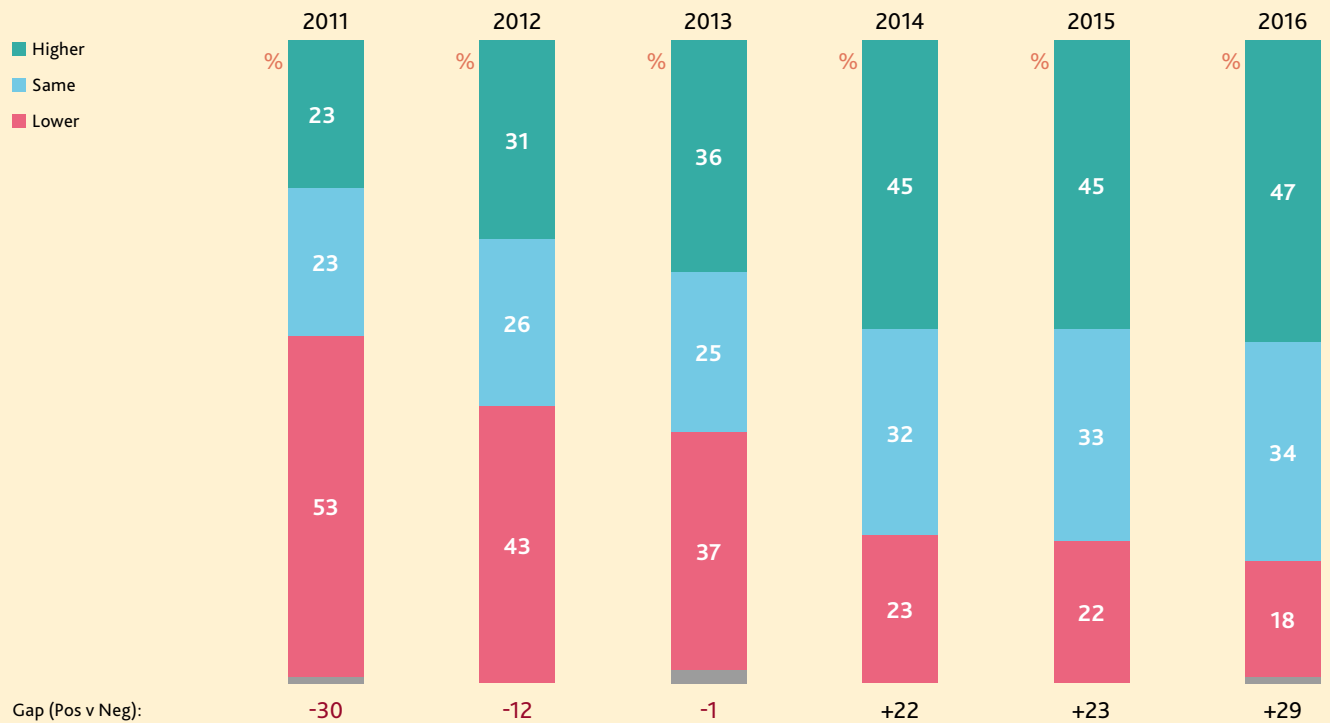


Current business activity



CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

QUESTION How has your business performed in the first quarter of this year – from Jan-Mar. Were your results higher, lower or the same compared to the same period last year?

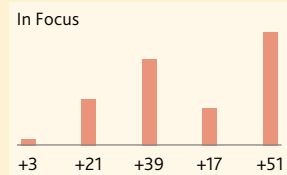
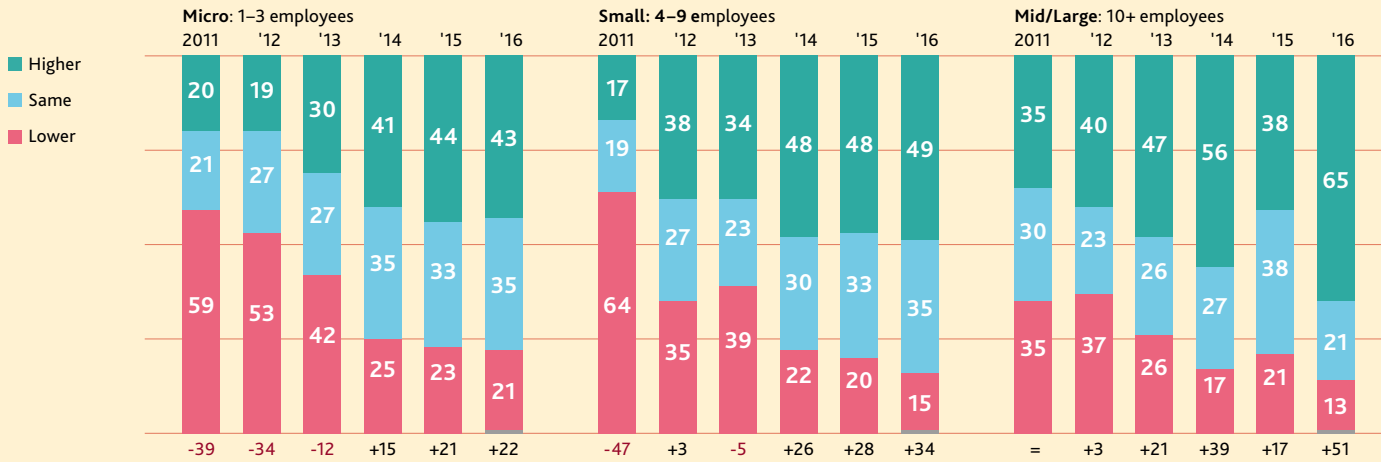


Business activity levels continue to improve compared to this point last year, though the rate of improvement has slowed somewhat.

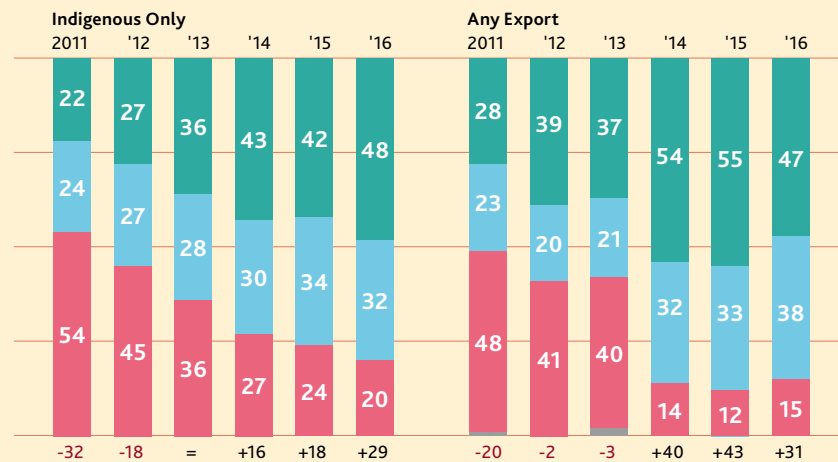
(First quarter compared with first quarter from previous year)

MID/LARGE SHOW THE MOST IMPROVEMENT FOLLOWED BY TRANSITIONAL, WITH NO CHANGE EVIDENT FOR MICRO

Responses per company size



Responses per trading behaviour



Indigenous companies continue to improve, however Exporters appear to be facing some challenges.

The BDO View



from Con Quigley

The research shows business results are stabilising, with strong improvements in both larger companies and those selling only on the Irish market. While the export market seems to have had a drop - no doubt due to global market volatility and Brexit uncertainty. That apart, this looks like the new normal.

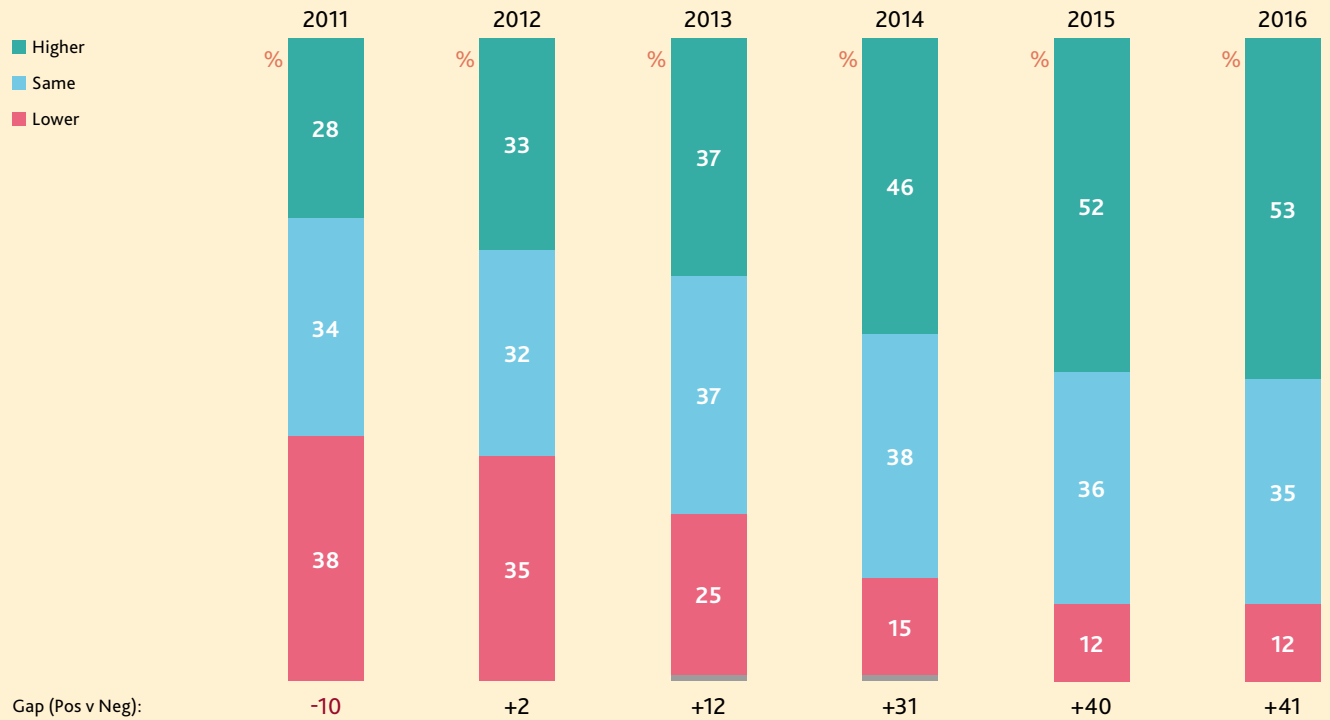
Only two categories have more than 20% reporting lower activity - domestic-only (conversely) and micro businesses. This makes sense as they are likely to be most exposed to the personal financial conservatism, inability and sometime unwillingness of SME to access funding, added to the still unresolved SME/mortgage debt.

Projections for Q2 2016

2

CURRENT BUSINESS ACTIVITY FOR 1ST QTR – TRADING ANALYSIS

QUESTION Thinking ahead - could you tell me whether the results for the next quarter (April to June 2016) will be higher, lower or the same compared with the same period last year?

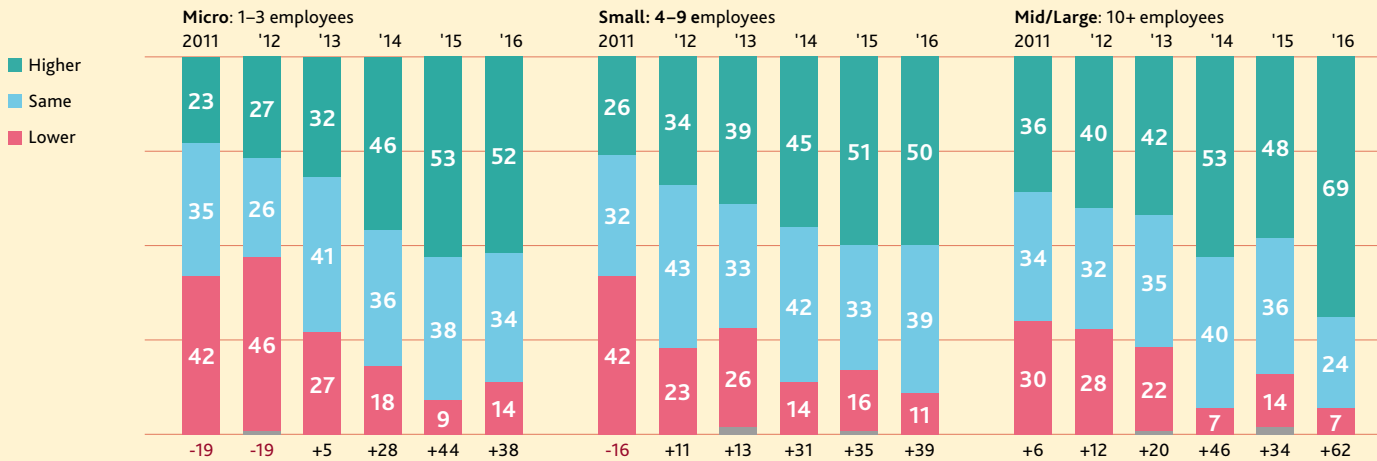


Growth expectations are high looking forward to the 2nd Quarter of 2016. Levels are in line with 2015.

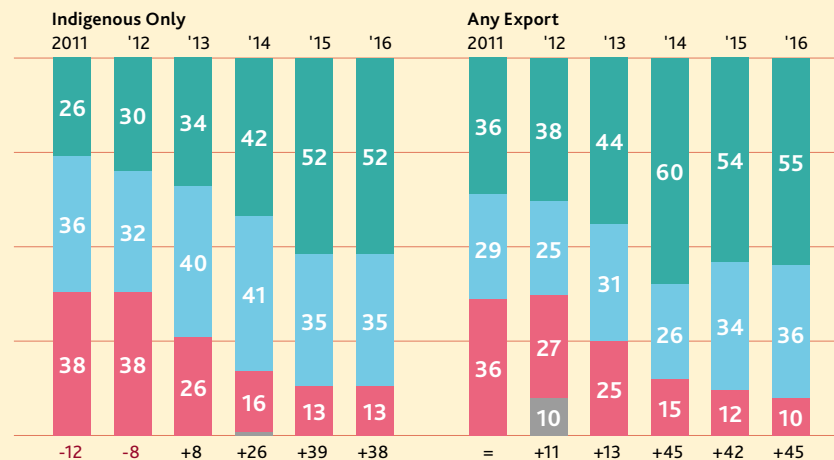
(First quarter compared with first quarter from previous year)

MID/LARGE COMPANIES THE MOST OPTIMISTIC, SMALLER COMPANIES MORE CAUTIOUS

Responses per company size



Responses per trading behaviour



Potential issues in relation to Exporters might be more short term in duration as there is a positive outlook for the next quarter. Indigenous companies unchanged.

The BDO View



from Con Quigley

Optimism abounds in Irish business. Interestingly exporters too are bullish – once we know the Brexit outcome, business believes it will cope either way.

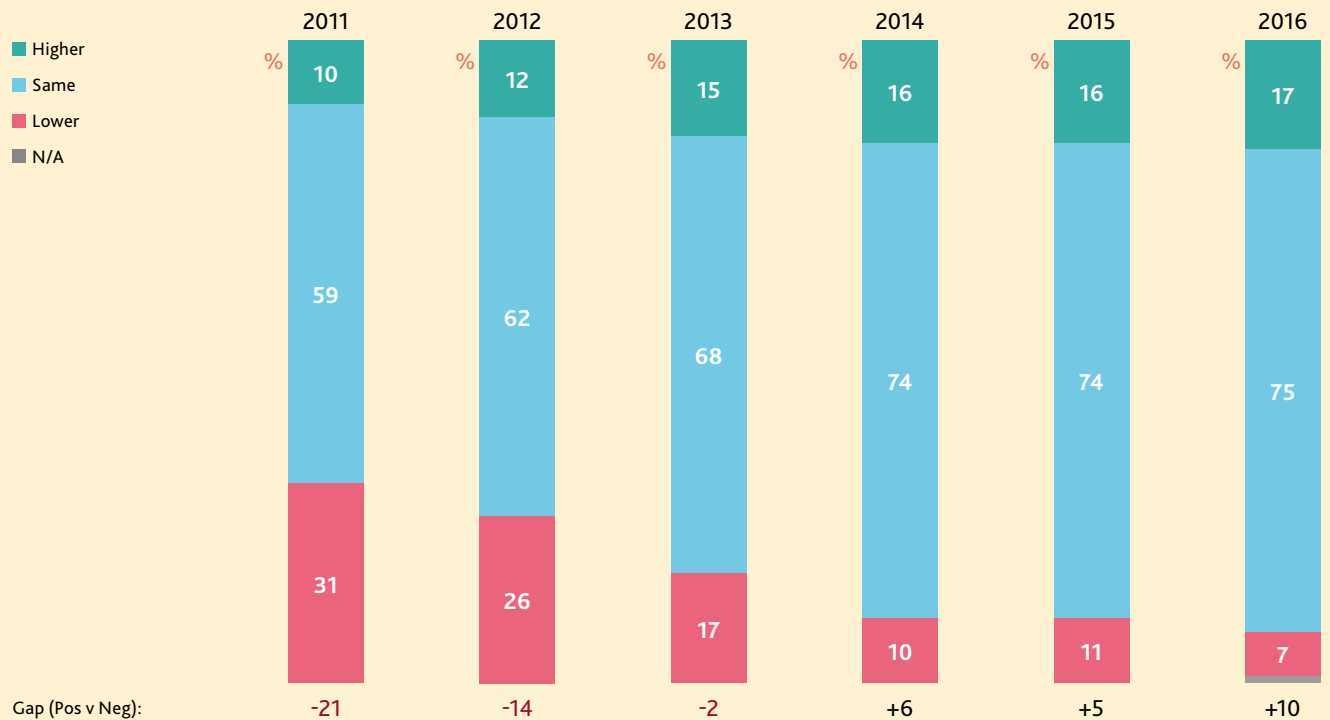
Clearly there are real growth opportunities in Ireland. It is a good time to invest and to expand – and a good time to take on investment. The seeming end of volatility in global markets that characterised most of the first quarter also likely fed into a renewed sense of optimism among companies in Ireland. There is another focus on Ireland as an investment/acquisition target.

Employment Levels

3

EMPLOYMENT LEVELS COMPARED TO LAST YEAR

QUESTION Could you indicate whether your employment levels are higher, lower or the same compared with the first quarter of last year?



Employment levels are improving after little movement for the past two years.

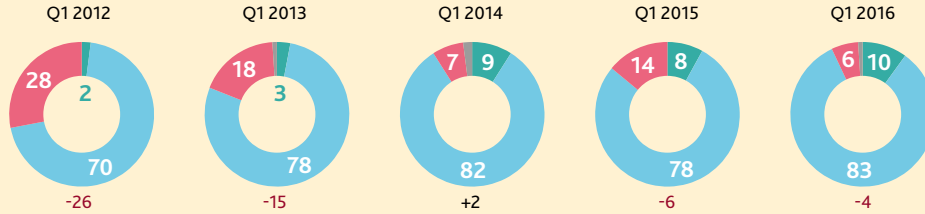
(First quarter compared with first quarter from previous year)

MICRO SIZES FIRMS SHOWING THE BIGGEST INCREASE IN EMPLOYMENT LEVELS

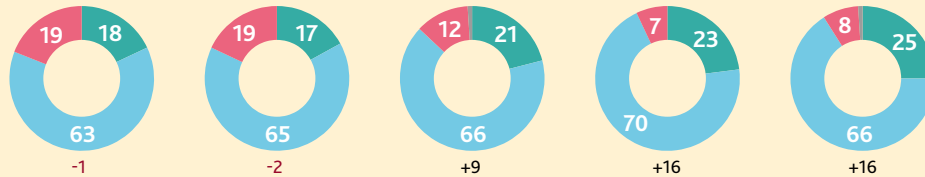
QUESTION Could you indicate whether your employments levels are higher, lower or the same compared with the first quarter of last year?

Responses per company size

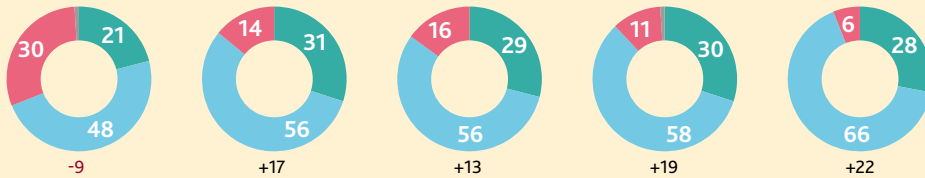
Micro: 1–3 employees



Small: 4–9 employees

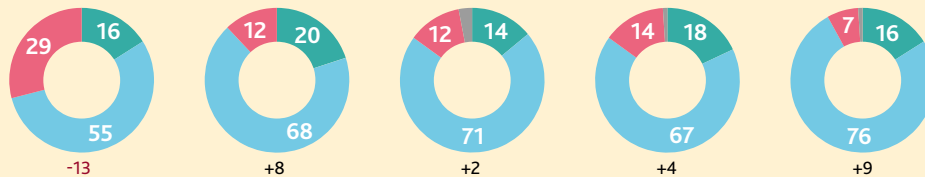


Mid/Large: 10+ employees

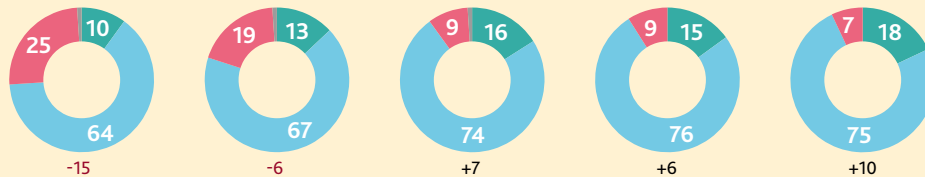


Responses by location

Dublin



Ex Dublin



Net growth in employment levels evident both in Dublin and outside of Dublin. Relatively little difference now evident between the two areas.

The BDO View



from **Con Quigley**

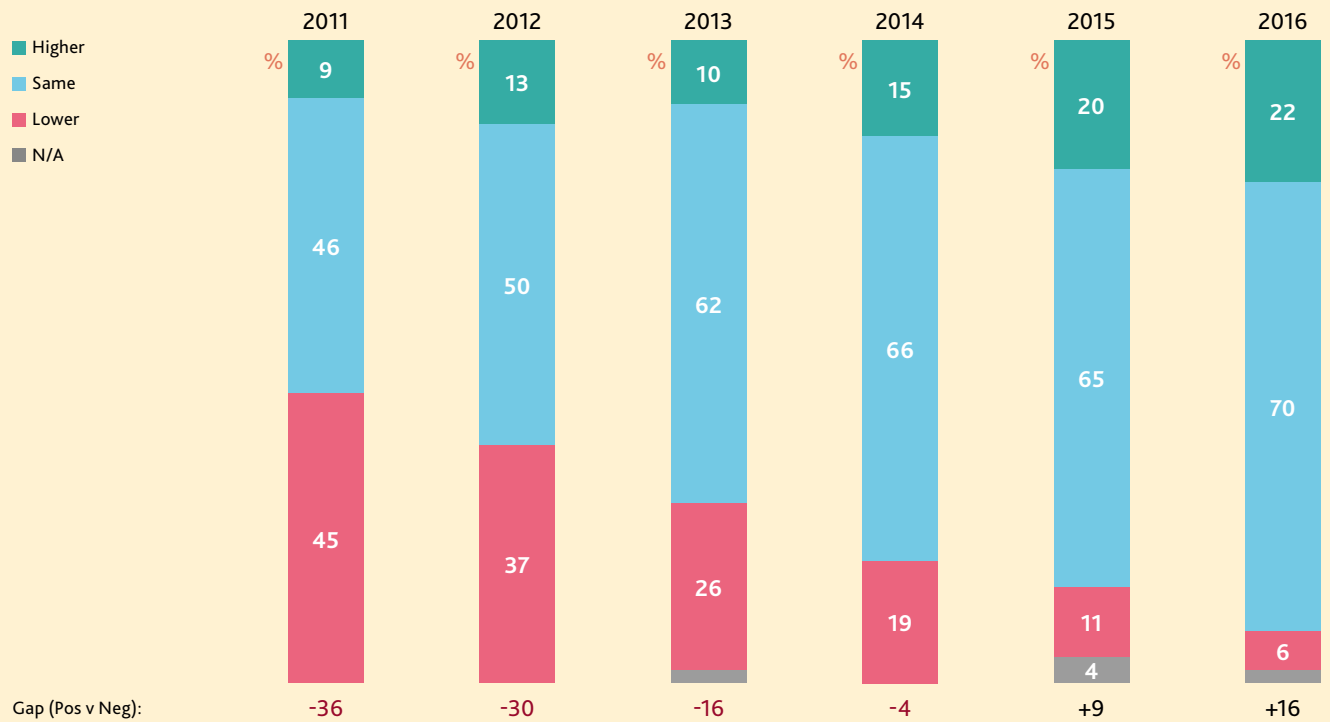
The survey shows that as few as 7% of businesses have a decrease in the numbers employed in the first quarter. This is indeed a very healthy state of affairs. It is consistent with the increasingly competitive market for talent that we are all experiencing. There is also a slight rise in the number of businesses reporting an increasing employment. Once again, the relentless focus on productivity means that employment within companies may not match the pace of their overall growth. But again, this is a measure of essential competitiveness in itself and shows a positive outlook for investment in Irish business.

Pricing

4

PRICES CHARGED – ALL BUSINESSES

QUESTION Could you tell us whether prices charged are higher, lower or the same compared with the first quarter of last year?

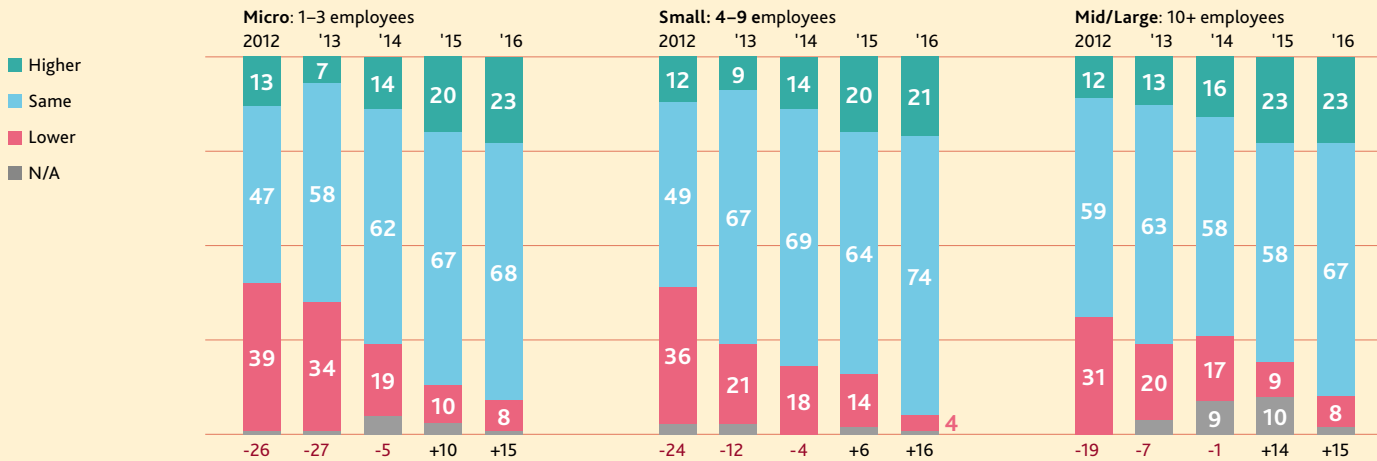


The tendency to charge lower prices that has been evident in recent years appears to be abating, though most companies are looking to maintain price levels rather than charge higher prices.

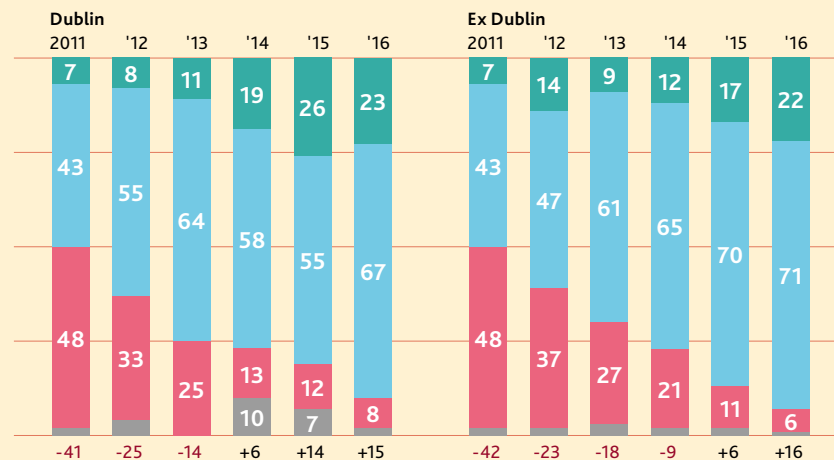
(First quarter compared with first quarter from previous year)

STEADY INCREASE IN PRICING ACROSS MICRO AND TRANSITIONAL WITH MID/LARGE MAINTAINING LEVELS

Responses per company size



Responses by location



Companies based outside Dublin are more likely to be charging higher prices compared to last year, moving more in line with Dublin levels.

The BDO View



from Con Quigley

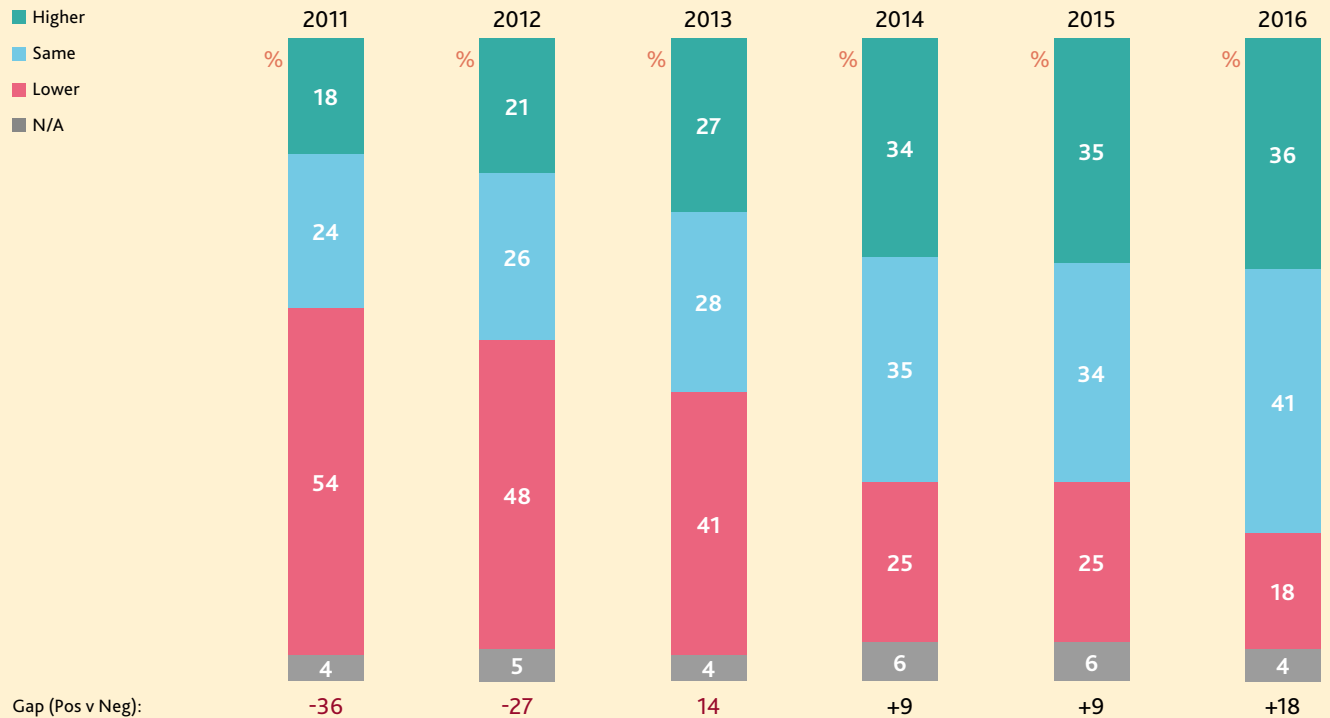
Prices seem to be very stable – unchanged prices are reported by 70% of respondents – the highest over the period. Given the tight margins of recent years, this means most companies have to rely on incremental growth to generate acceptable returns on capital employed. Across all sizes of businesses the level reporting a fall in price fell to the lowest since the survey began. While among the remaining 30%, there is a swing towards increased prices.

Profits

5

OPERATIONAL PROFIT – YEAR ON YEAR

QUESTION Could you tell us whether operational profit is higher, lower or the same compared with the first quarter of last year?

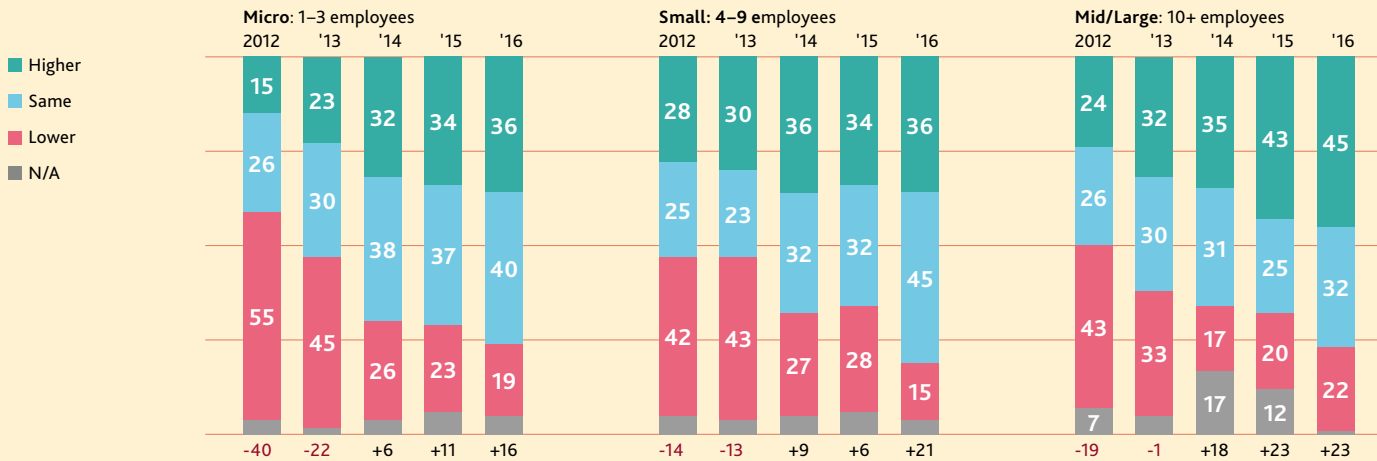


Profitability levels have improved having been static last year. The movement however involves more going from saying they have lower profits into the same level rather than any overall increase in profitability.

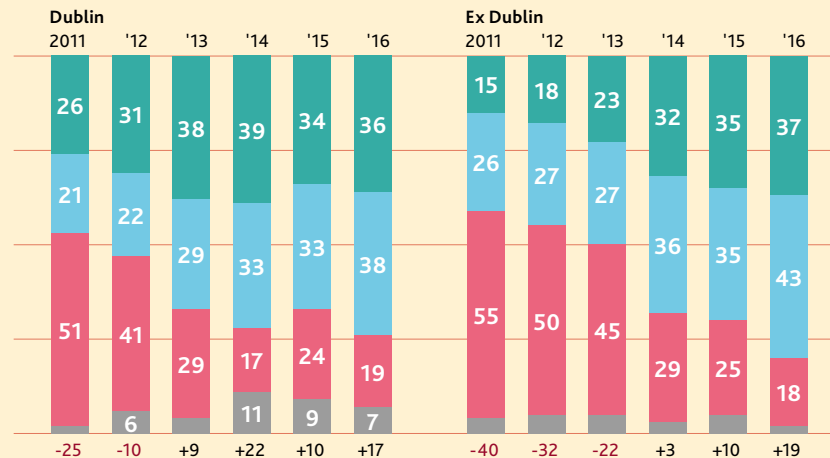
(First quarter compared with first quarter from previous year)

THE IMPROVEMENT IS BEING DRIVEN BY TRANSITIONAL FIRMS AND TO A LESSER EXTENT MICRO FIRMS WITH MID/LARGE UNCHANGED

Responses per company size



Responses by location



Ex Dublin companies are at similar levels as their Dublin counterparts for the past two years.

The BDO View



from Con Quigley

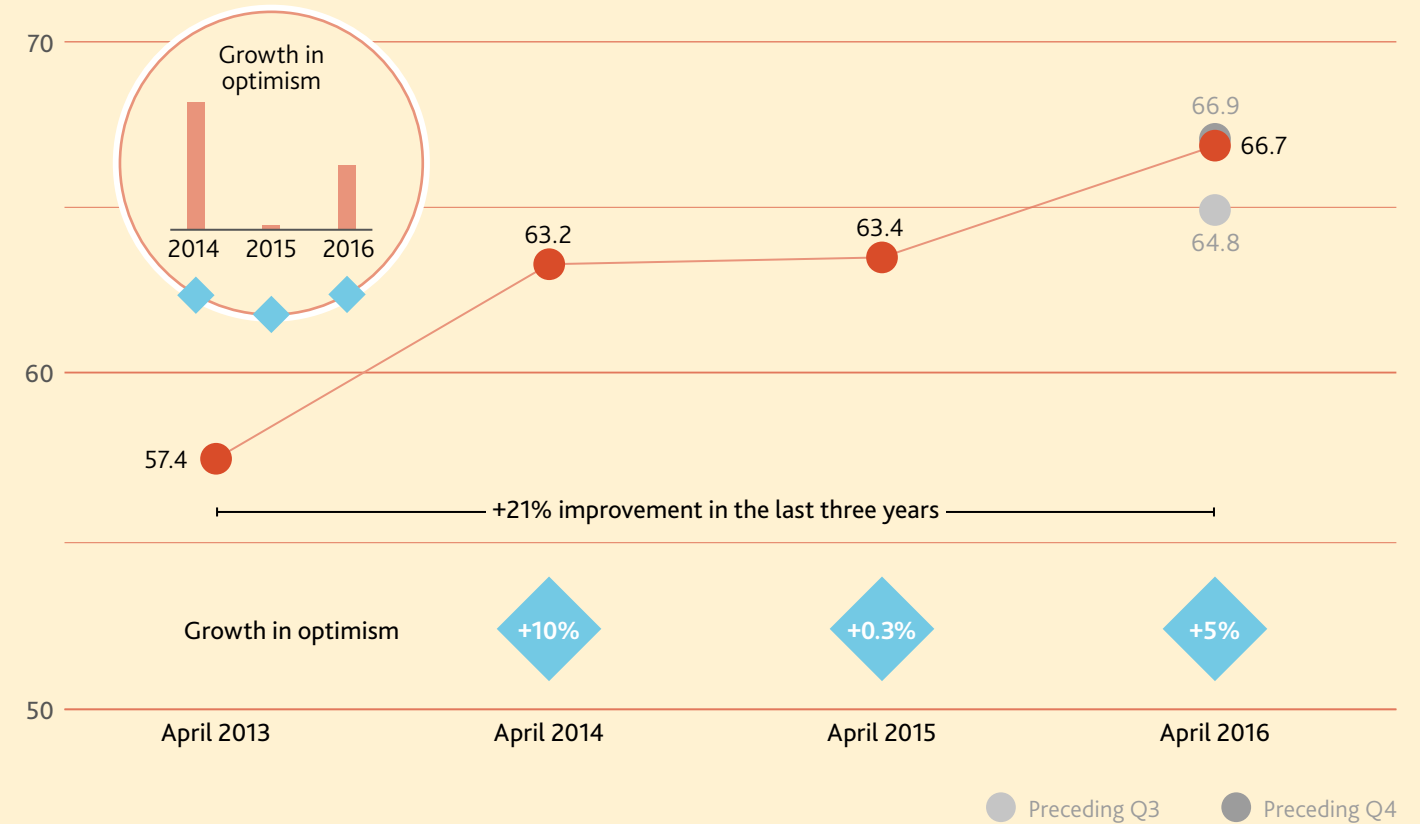
The results point to a consistent positive overall trend. And critically, there is very little difference between business in Dublin and outside. This suggests that the regions (and even micro businesses) are finally experiencing more of the recovery – all they need now is more and better support from the banks and investors to match it. Given the strong trends, this will surely happen now.

Overall Optimism

6

BUSINESS ENVIRONMENT – OPTIMISM FOR YEAR END

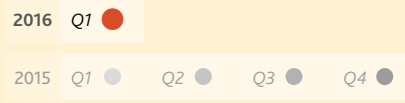
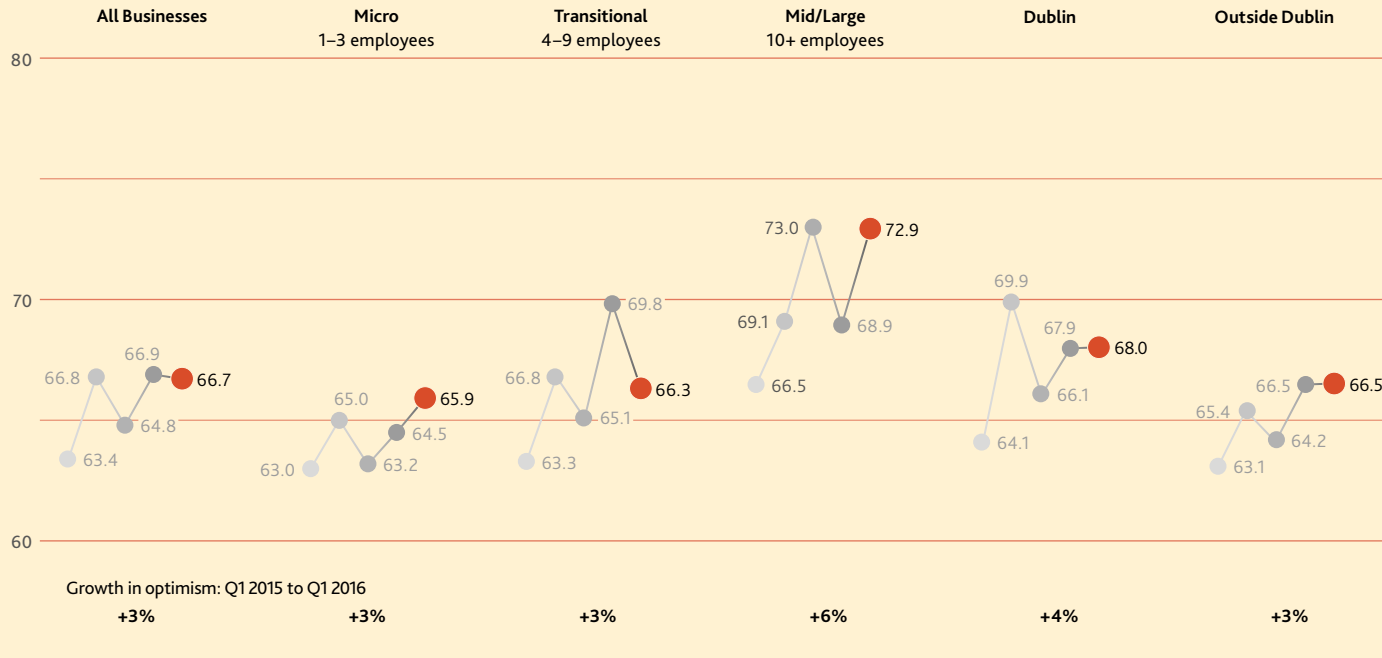
QUESTION Looking forward, how optimistic are firms for a favourable business environment?



Absolute optimism would equal 100 points. Currently it stands at 66.7 points.

Projections compared with equivalent qtr from previous year.

OPTIMISM HAS INCREASED BEING MOSTLY DRIVEN BY LARGER COMPANIES AND EXPORTERS



Despite a slight decrease in optimistic respondents in transitional companies, all other sectors continue to be as or more optimistic than in previous quarters.

The BDO View



from **Con Quigley**

Optimism is high. Businesses are clearly in a good place. Considering the uncertainty around Brexit, Irish government stability and performance and the difficulties in global markets, the results are very strong.

There is a slight decrease in optimistic respondents in transitional companies (4-9 employees) but that seems to be an aberration. All other sectors continue to be as, or more optimistic than in previous quarters.

It is a very good time to invest in the growth opportunity in the Irish market because there is a real sense that the players in the market feel their businesses are robust, competitive and able to grow.

About BDO

BDO is one of Ireland's leading Audit, Tax and Advisory firms, specialising in advising businesses across all sectors, ranging from the development stage through to successful international growth. What unites all our clients is their ambition, and our drive to help deliver it.

Through our own professional expertise and by working directly with businesses, we have developed a unique insight into what makes a business successful. It is this insight that makes us true business advisers, rather than mere financial consultants.

We operate a partner-led approach in all our client dealings which ensures our partners and directors are highly accessible to clients. Each client is appointed a client liaison partner to oversee operations and communicate with you directly.

Dealing with BDO is different. Our approach is pragmatic and hands-on which ensures timely, straightforward advice. Our assignments are led by senior personnel with an in-depth understanding and knowledge of the market. This delivers high value for all our clients and practical solutions that are based on unrivalled sectoral experience and expertise.

For more information please contact:
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About Behaviour & Attitudes

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Established over 30 years ago, Behaviour and Attitudes provides a full range of market research services, ranging from CAPI, CATI, online and of course qualitative.

Specialist sectors include: Media, Retail & Shopper, Technology & Telecoms, Financial, Political & Social, Polling, Automotive, Healthcare and Public Sector & Utilities.

For more information please visit Behaviour & Attitudes website at: www.banda.ie or contact Luke Reaper on +353 1 205 7500.

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