



# BDO Optimism Index

## Q1 2015

with Behaviour and Attitudes



**BDO**

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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 the 14th–24th April, 2015. All interviewing was centrally supervised and quality control verification was conducted on 15% of interviews undertaken.

- The table below sets out the profile of business company size in Ireland (Source: CSO and Bill Moss) compared with the achieved Behaviour & Attitudes Business Confidence Monitor sample:

No. of employees	Known profile	Survey Sample
1–3	42%	42%
4–9	28%	28%
10–19	14%	14%
20–50	11%	11%
50–250	6%	6%
250+	1%	1%

A sample size of 350 yields a dataset which can be deemed to be accurate to within plus or minus five percentage points.

# Foreword

**I'M PLEASED TO INTRODUCE THE BDO OPTIMISM INDEX FOR Q1 2015. WE HAVE BEEN GATHERING DATA SINCE 2010 BUT THIS IS THE FIRST TIME WE HAVE PUBLISHED OUR QUARTERLY REVIEW OF IRISH BUSINESS.**



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We survey Irish businesses on issues that really matter to them; financial results, projected employment levels, profit margins, growth expectations and optimism for the forthcoming year.

## **So what did they tell us?**

There are clear themes that have come out of this survey, some expected, and some not.

This quarter's BDO Optimism Index shows real signs of positive change among businesses in Ireland. There is continued cautious confidence driven by larger

companies as evidenced by their willingness to increase prices and the reported increased levels of turnover and operational profits.

Of equal significance is the fact that the gap in the two tier economy finally seems to be closing. Better results were recorded for businesses outside of Dublin from a range of indicators, including operational profit and overall business optimism. This is hugely encouraging news for the whole country.

Drilling down into some of the statistics, business growth is moving in the right direction and growth figures for this quarter against the same period last year remain strong. The advances seen in 2014 are continuing, although the rate of improvement has now slowed. Predictions for Q2 are also strong with over half of our businesses predicting year on year growth. The most basic indicator, turnover, is strong and that strength is driving optimism and in turn giving confidence to increase prices at last. Over a quarter of all Dublin businesses increased their prices in the last 12 months and the curve suggests even more will do so in the coming year.

19% of larger businesses were confident enough to increase their employment

numbers during the last year but micro businesses showed an unexpected contraction in employment of 6%.

The survey finds that only 22% of all businesses expect to access debt funding over the next 12 months. The number that expect to raise equity is even lower, at 9%. This is a worrying sign for future growth prospects for Irish business as sustainable long term growth needs to be underpinned by a sound capital base.

Considered as a whole, this report shows strong business optimism with a slight increase from the same period in 2014. In numerical terms, the BDO Optimism Index for Q1 2015 is 63.4 – put another way, a steady six out of ten respondents were optimistic, but not yet fully convinced about their future growth prospects. Ireland's business community may have learned to be cautious about the future and some will say that is a good thing. Economic indicators need to keep improving as our survey points to many businesses still being very much in recovery mode.

All things considered, this survey shows steadily improving business sentiment,

but also suggests more work is needed and hints that perhaps some of the growth is starting to plateau. The business community outside of Dublin is finally gaining a little ground, just as Dublin shows signs of cooling slightly.

My thanks to those who gave their time to participate in this survey and to those at Behaviour and Attitudes that carried out the field work.

I hope you find this survey useful and welcome your feedback and if you would like to contribute to future surveys, please let us know.

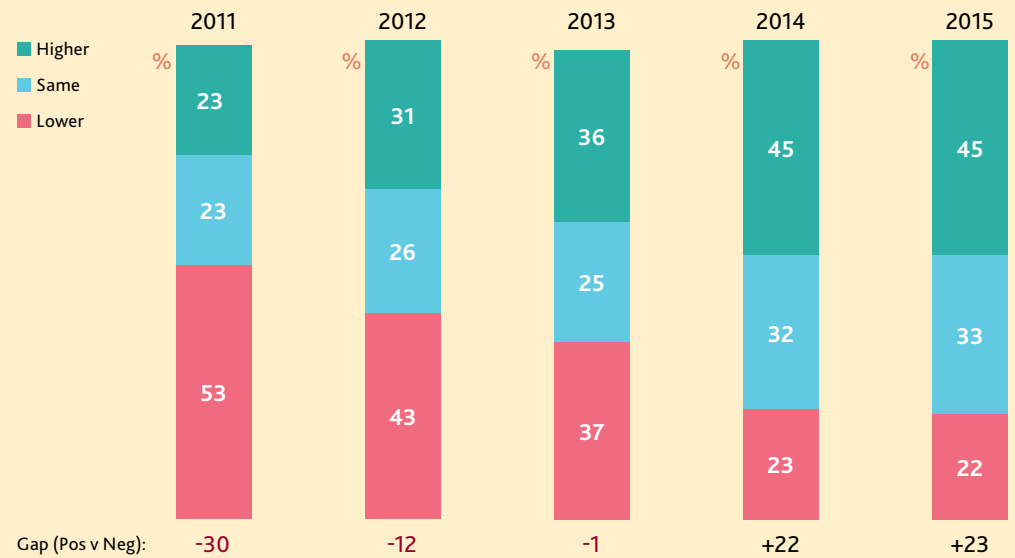


# Current business activity



## CURRENT BUSINESS ACTIVITY FOR 1ST QTR – 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?



(First quarter compared with first quarter from previous year)

# The BDO View

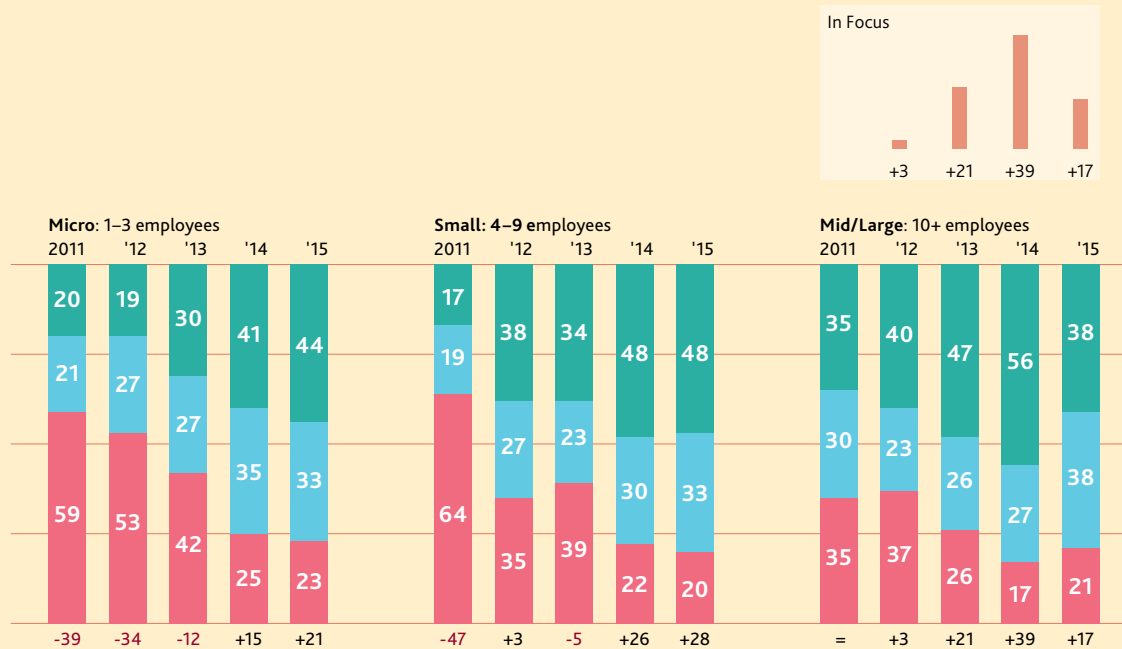
Overall, these results must be seen as generally positive. Last year's rapid growth rate has continued with business activity further accelerating.

It is encouraging that the positive performance recorded in 2014 has continued into further growth. A word of caution is needed however; the acceleration rate of growth shows only a slight increase for this quarter and there was a slowdown in the level of upward trajectory.

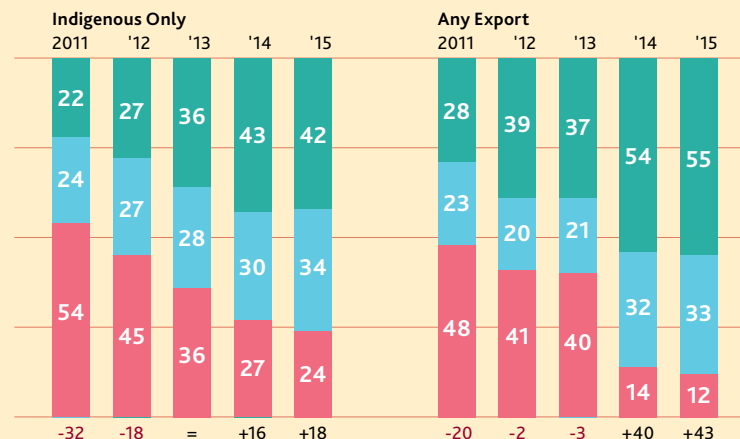
In addition, growth did not come to all. Over one in five of our companies contracted. Last year our larger enterprises led the way. Not so for this quarter, where it was the smaller companies that have continued their growth trajectory.

Responses per company size

- Higher
- Same
- Lower



Responses per trading behaviour

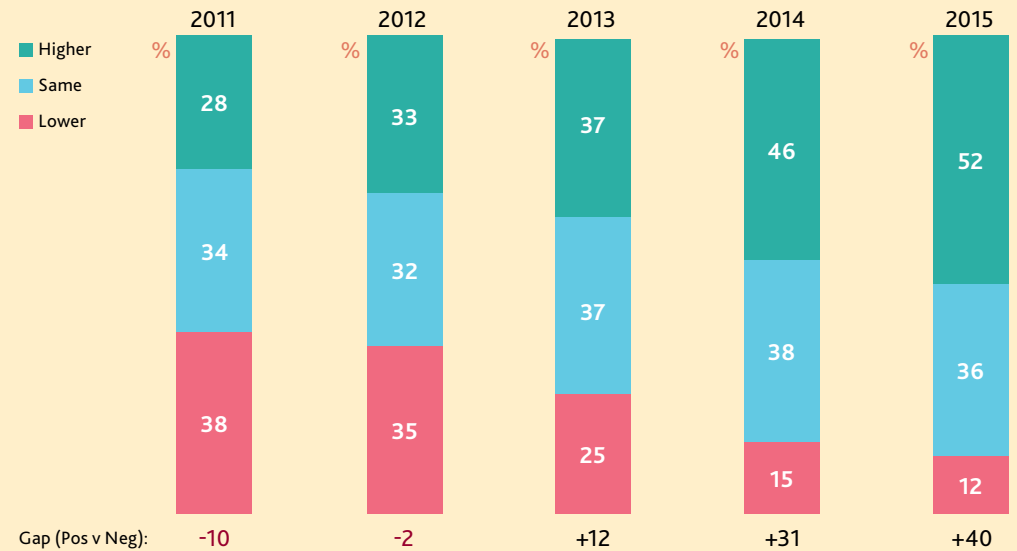


# Projections for Q2 2015

# 2

## BUSINESS ACTIVITY LOOKING FORWARD TO 2ND QTR 2015

**QUESTION** Thinking ahead - could you tell me whether the results for the next quarter (April to June 2015) will be higher, lower or the same compared with the same period last year?



(Projections compared with equivalent quarter from previous year)



# The BDO View

In short, the outlook continues to be optimistic. Optimism has increased since 2013 and this continues with further optimism around growth levels for the next quarter.

It is encouraging that now, more than half of the respondents believe their businesses will enjoy an increased level of activity in the next three months compared to the same period in 2014.

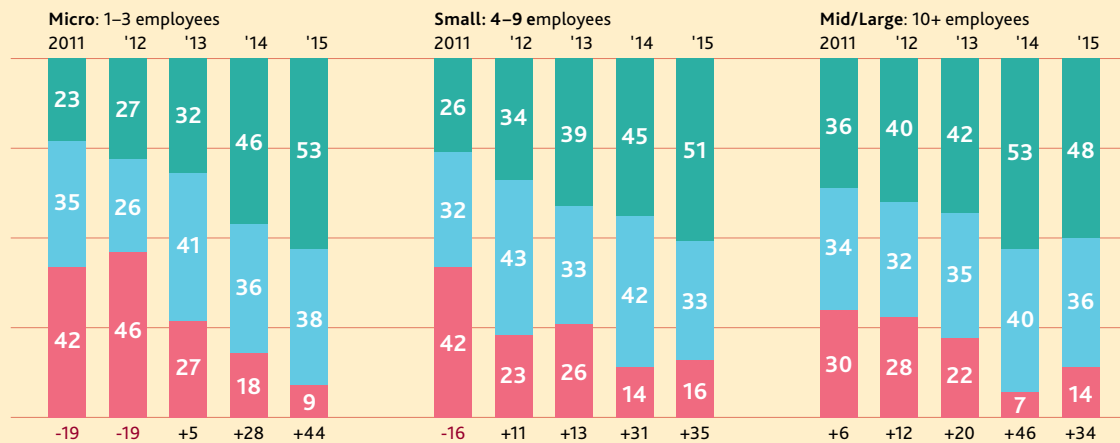
In addition, this growth is expected right across the business spectrum and across all sizes of companies. Significantly, our micro and small enterprises showed the highest level of optimism, a noticeable change from last year.

Furthermore, this optimism wasn't simply founded on anticipated increased levels of exports.

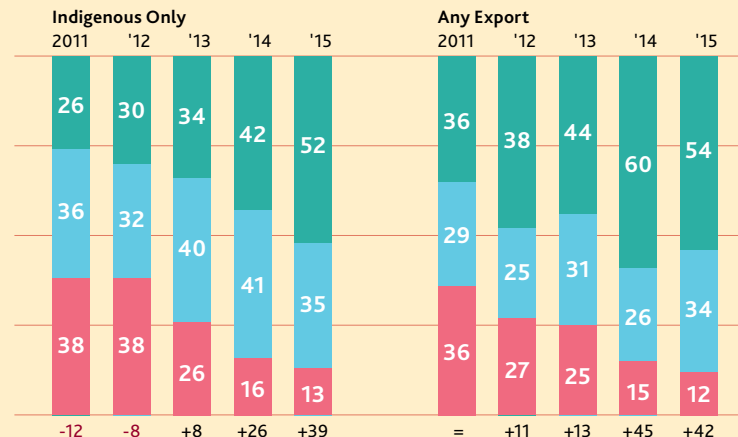
Exporting companies are optimistic for Q2, but so too are the indigenous only companies, with over half seeing growth coming in Q2 compared to 2014.

Responses per company size

Higher  
Same  
Lower



Responses per trading behaviour

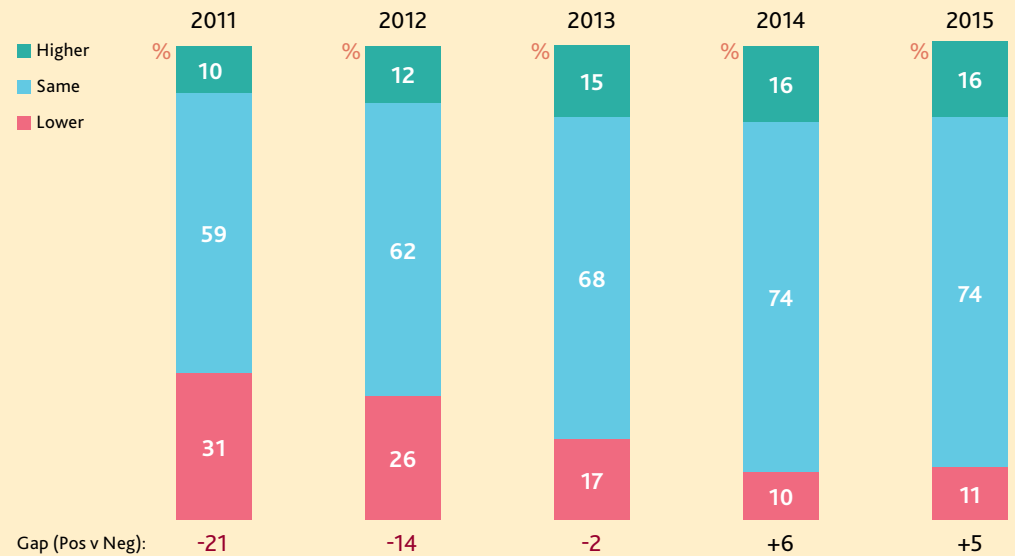


# Employment Levels

# 3

## EMPLOYMENT LEVELS COMPARED TO LAST YEAR

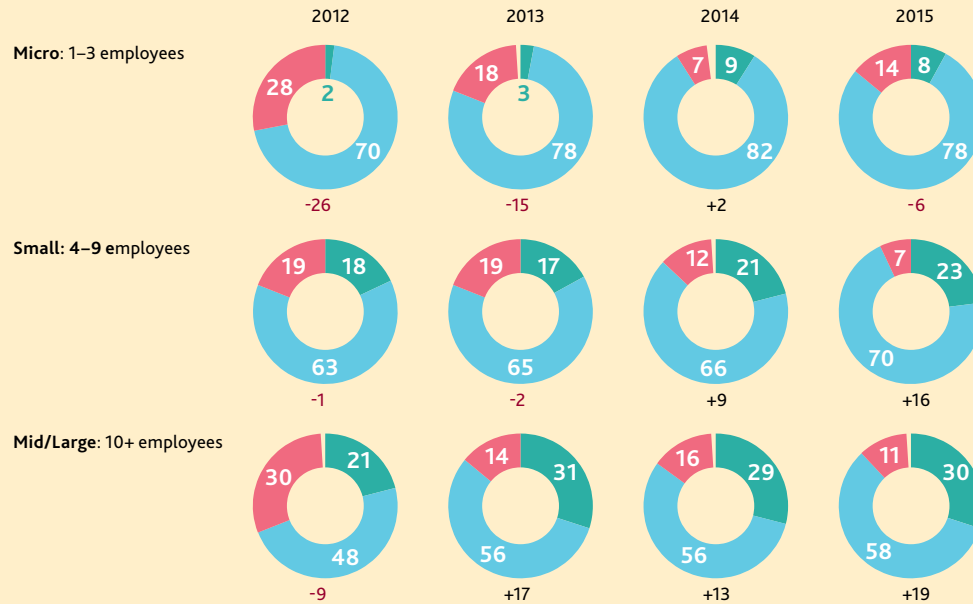
**QUESTION** Could you indicate whether your employment levels are higher, lower or the same compared with the first quarter of last year?



(Projections compared with equivalent quarter from previous year)

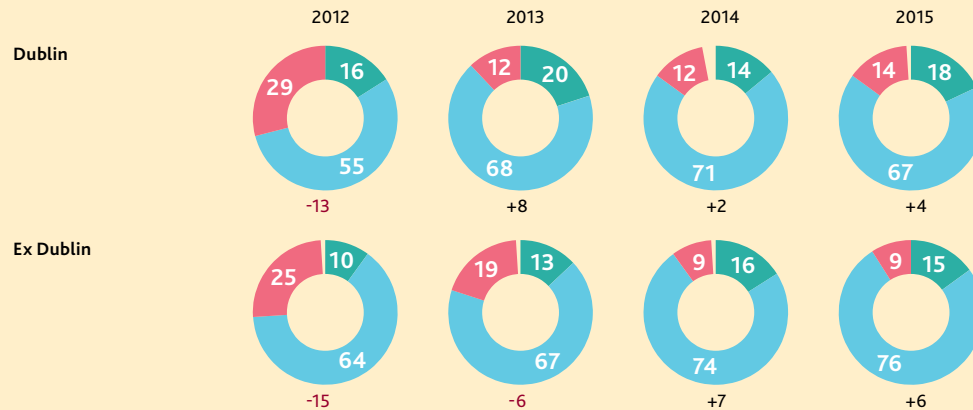
**QUESTION** Could you indicate whether your employments levels are higher, lower or the same compared with the first quarter of last year?

Responses per company size



■ Higher  
■ Same  
■ Lower

Responses by location



# The BDO View

Optimism has been rising since 2013, however employment level rises have lagged behind. Last year was the first in the past five years to show an increased level among respondents, and this year again we see an increase.

Looking longer term, underlying trends are positive, however the rate of growth acceleration is slightly down.

In total there was a net 5% rise in relation to increased/decreased employment levels.

Looking a little deeper, we see employment level rises in all areas except our micro businesses, who slipped back into negative levels (-6%) compared to 12 months prior.

With regard to geographical breakdown, Dublin saw growth in 2013 but it was a year later when this occurred outside of Dublin.

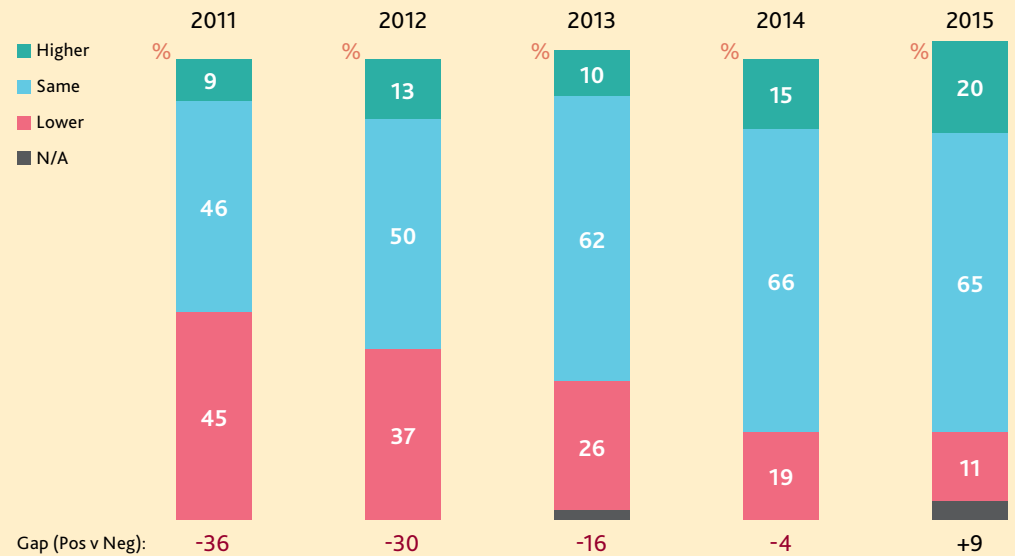
For this period, net employment growth was evident in companies both in Dublin and outside of the capital, a trend continued from 2014.

# Pricing and Profits

# 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?



(Projections compared with equivalent quarter from previous year)

# The BDO View

Price movement is the real game changer in this Quarter's survey. For the last four comparative years, the net change in pricing for our respondents has been negative. Last year 15% said their prices rose, however almost one in five, 19%, said they fell.

That has now changed.

Of all those surveyed, 20% increased their prices in the last 12 months, with only 11% reducing them. Plus, price rises are not restricted to one size of company, but are shown in each of the three size categories surveyed.

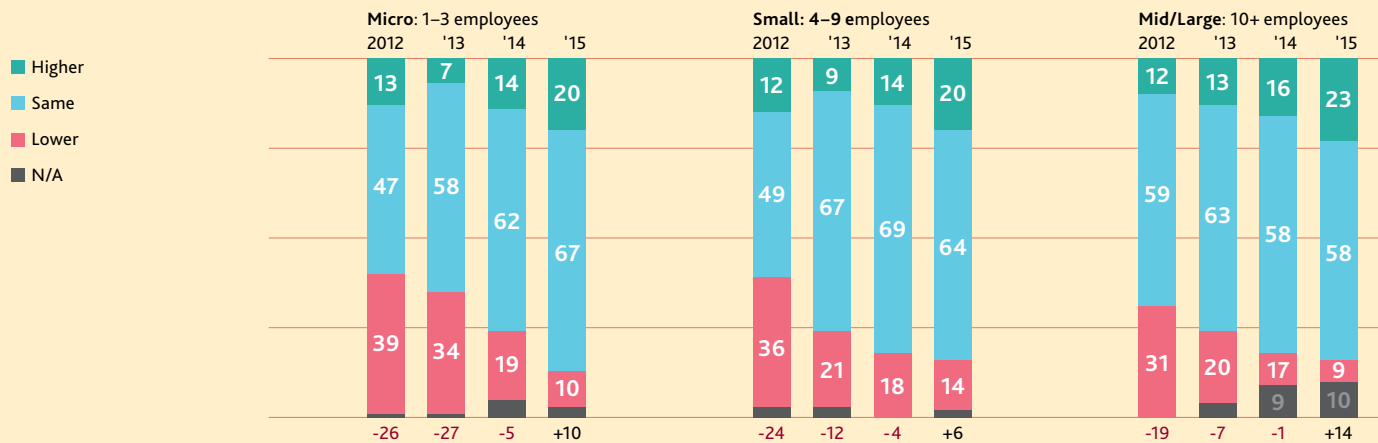
Dublin led the way in price rises, with over one in four surveyed from the capital saying they increased their rates.

What is even more stark is the underlying growth curve of prices. The 9% increase this quarter grew from a 4% decrease compared to 2014, and a 16% decrease in the comparative period in 2013.

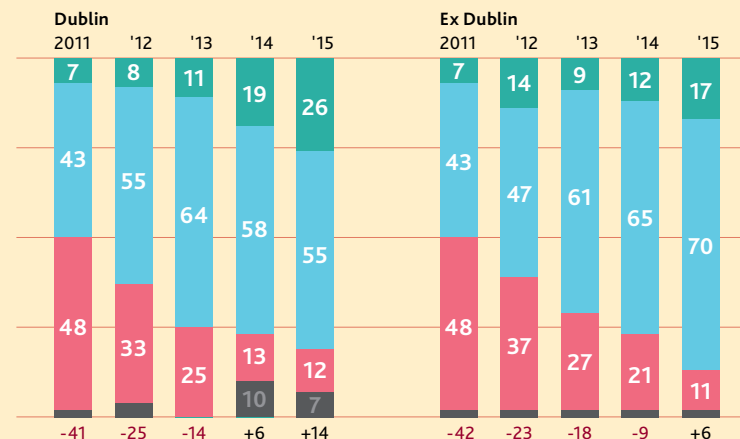
What does this mean for 2016? In truth, that is unclear, however following the current trend we may see as many as one in four businesses increase prices in the next 12 months.



Responses per company size

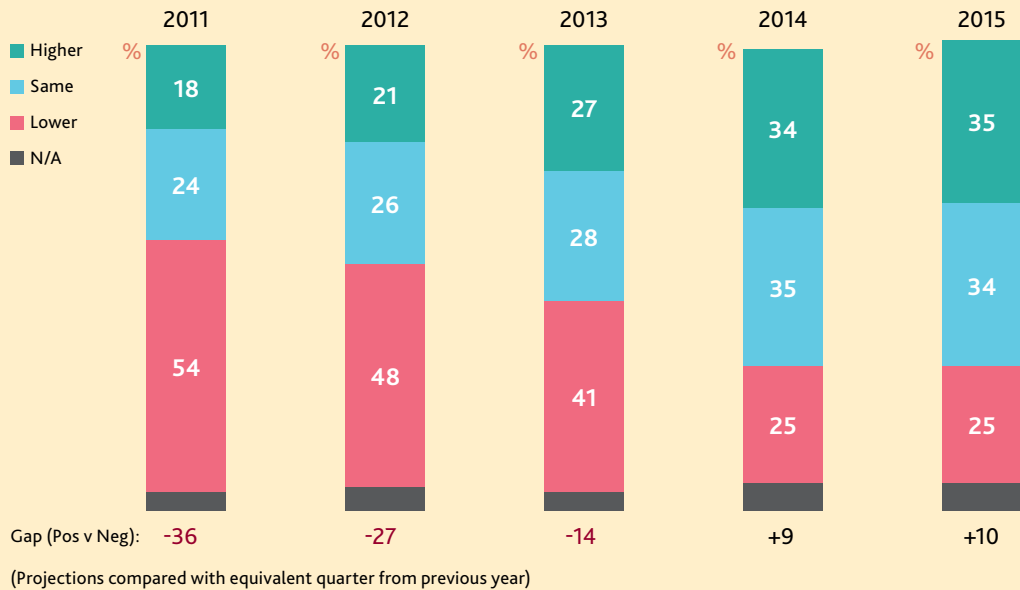


Responses by location

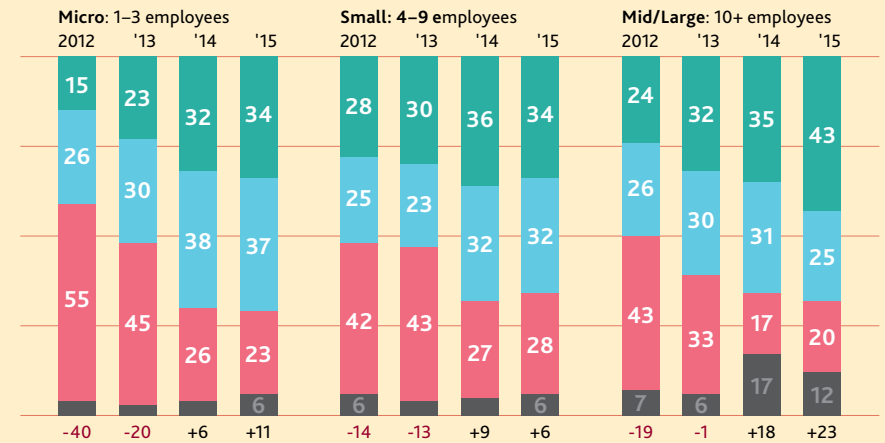


## OPERATIONAL PROFIT – YEAR ON YEAR

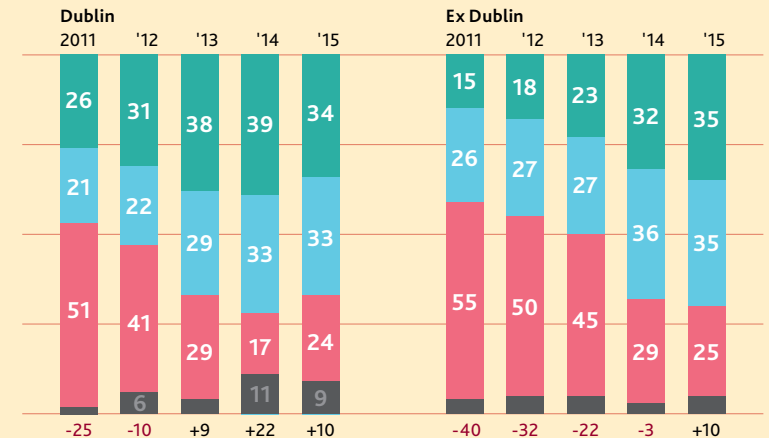
**QUESTION** Could you tell us whether operational profit is higher, lower or the same compared with the first quarter of last year?



Responses per company size



Responses by location



## The BDO View

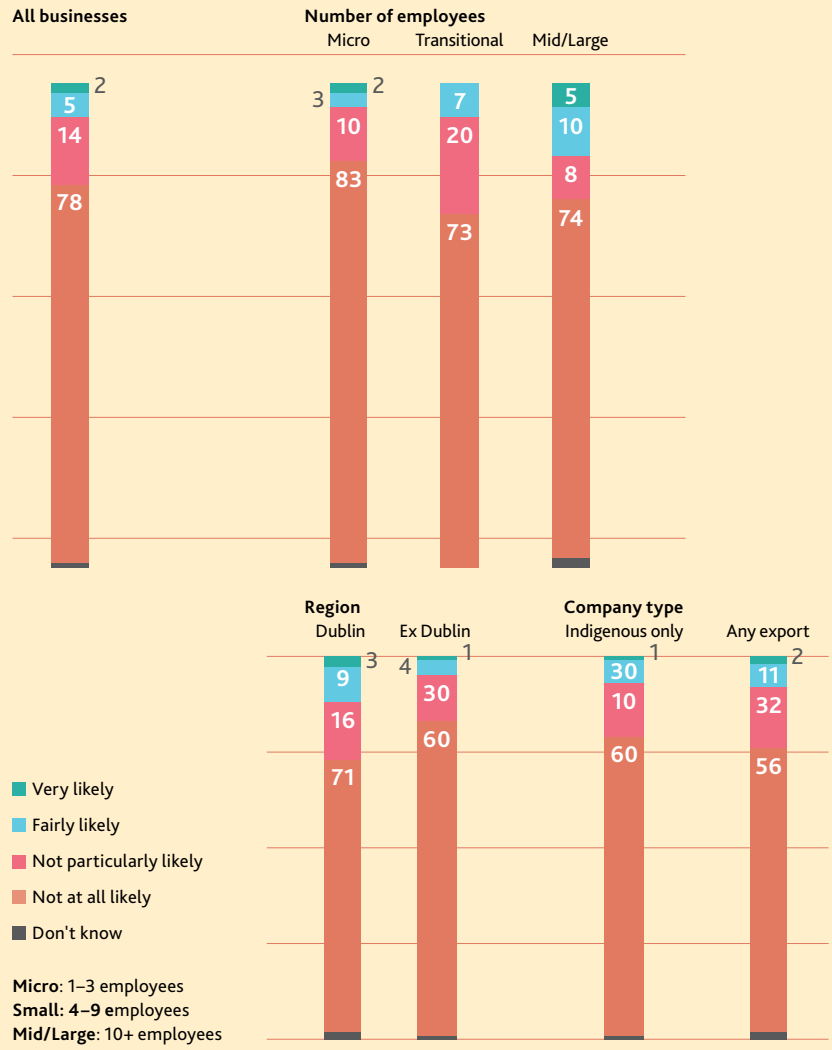
Profits are up for the second year running, with over one in three companies enjoying a rise in profit in the last 12 months. Growth was strongest among our largest companies, and interestingly, it was companies outside of Dublin that showed the strongest continual rise, with a reduced number experiencing growth in Dublin (although still an increase of 34%).

# M&A and Funding

# 5

## BUSINESS MERGERS OR ACQUISITIONS

**QUESTION** How likely are companies to be involved in mergers or acquisitions, of any type, over the next 12 months?



## The BDO View

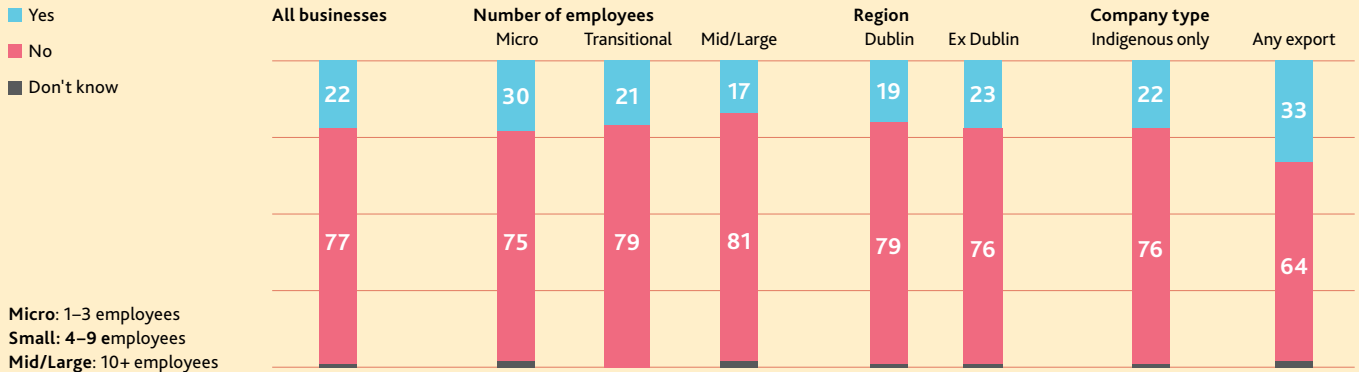
In some respects the responses to our Mergers and Acquisition question are predictable. There should be little surprise that companies based in Dublin (12%) and those of a larger size (15%) are the ones that are the most likely to consider acquisition activity in the coming 12 months.

Digging deeper, and in tandem with the answers to the funding questions (to follow), perhaps knowledge of the sources of funding, and crucially the understanding of how to access funding, still remains an issue. Be assured that funding is available, but the path to receiving it is complex and expert support is needed.

BDO figures recently released show that M&A activity in Q12015 is at its highest level for five years. From the responses given, some businesses do not yet see the opportunities available to them through M&A. The lack of enthusiasm of exporting companies to use M&A activity as part of their strategic plan is disappointing. For those companies to ignore this as an element of their growth strategy is to miss a huge opportunity. BDO would strongly urge them to reconsider.

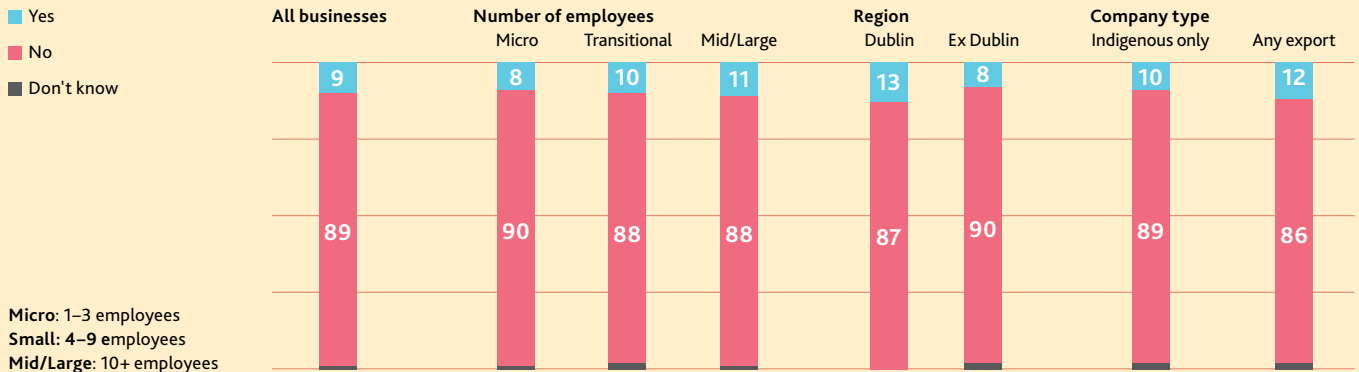
### BUSINESS FUNDING VIA DEBT – MORE EXPORT LED COMPANIES

**QUESTION** Do companies expect to raise funds for their business over the next 12 months from any of the following sources: bank borrowings, loans, working capital finance.



### BUSINESS FUNDING VIA EQUITY – 1 IN 10 COMPANIES

**QUESTION** Do companies expect to raise funds for their business over the next 12 months from any of the following sources: Equity/Venture capital, private equity, growth capital.



## The BDO View

The statistic that stands out is the fact that fully one third of exporters expect to borrow in the coming year. This is encouraging and points to ambitious strategies that should ultimately lead to growth, jobs and a healthier banking sector. Looking at domestic facing companies, one in five expects to borrow. A lower number than the exporters, but understandable. For these companies growth is slow, inconsistent and fragile and thus debt has a greater level of risk. Overall, BDO would be comfortable seeing a small increase in the level of new debt if it reflects increased ambition among enterprises.

Raising equity has always been a very infrequent event for Irish business, but it is a key driver for economic growth. It also has a second benefit; more equity in SME sector to drive debt resolution. Yet less than 1 in 10 think they'll raise equity. There are three factors behind this. Firstly, a natural hesitancy to use equity financing – more needs to be done to educate around this. Secondly, much of the funding available is not SME focussed and this also needs to improve. Finally more use needs to be made of creative solutions such as sale and leaseback to encourage businesses to take in funding from new sources.

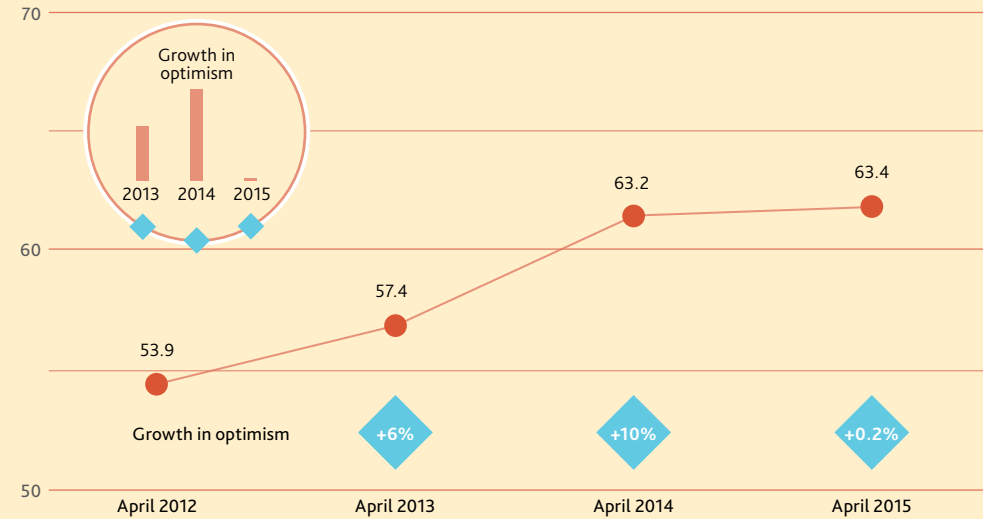


# Overall Optimism

# 6

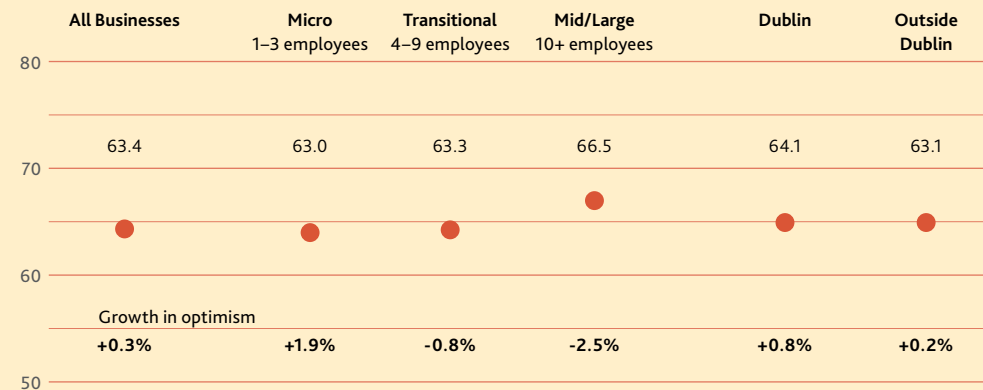
## BUSINESS ENVIRONMENT – OPTIMISM FOR YEAR END

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



Projections compared with equivalent qtr from previous year.  
Absolute optimism would equal 100 points. Currently it stands at 63.4 points.

## LARGER COMPANIES MOST OPTIMISTIC.



## The BDO View

The Optimism Index value is the rating all respondents gave when asked 'on a scale of 1 to 10 how optimistic are you for the future'. As a percentage the value for this quarter is 63.4.

So what does this mean and how optimistic are our businesses?

To put the number into context, the level of optimism is very slightly up on last year, however the trend of much greater optimism each year has slowed. 2013 and 2014 saw big leaps (17% increase over the period) but it was less than a 1% increase this time.

When looking for a rationale for this apparent slow down in positivity, many of the factors covered in this survey play a part: a slowdown in the rapid growth for exporting businesses, price pressures and their effect, and profits still not uniformly showing growth.

All of this points to some optimism, but maybe not quite a clear road ahead for all our businesses just yet.

# 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.

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They pride themselves on having the most experienced director team in Ireland. All projects have a Director involved.

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](http://www.banda.ie) or contact Luke Reaper on +353 1 205 7500.



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