



BDO Optimism Index

Q1 2016

with Behaviour and Attitudes



BDO

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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 20th January and 1st February, 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

I AM DELIGHTED TO INTRODUCE THE FIRST BDO OPTIMISM INDEX FIGURES FOR Q1 2016. 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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in Q1 we surveyed Irish businesses on issues that are of significant importance to them; financial results, projected employment levels, profit margins, growth expectations, key business priorities and optimism for the coming year. This survey tells us the results for quarter four of 2015 and the aspirations and expectations for quarter one in 2016.

Firstly, looking back at 2015 Q4 performance, our figures show that Irish businesses continue to benefit from the upturn and push further into positive territory. 55% of respondents reported higher growth – the highest figure of 2015's four quarters and a 10% point movement since Q1. Export-led companies and the larger of our businesses reported the most positive end to 2015 with 63% reporting higher activity than a year earlier.

Positive news – however there are signs of an element of caution among our respondents. What is significant in this survey is the lower number of businesses expecting activity levels to rise in the first quarter of 2016. When asked to look ahead and predict performance for the current quarter against the same period last year, 48% of respondents said they expected their businesses to grow in Q1 2016. A strong figure, yes, but when compared to previous responses perhaps the first sign of a downward trend.

Indeed, 48% is the lowest response level of forward projected growth from each of the last four quarters. This lower level is particularly prevalent among the smallest of companies we surveyed, with only 40% projecting higher growth for the next quarter – a 13% point drop since Q1 2015.

The theme of gradual price rises continues, but at moderate levels. In Q4, 17% of our respondents said they were charging higher prices compared to the same period a year earlier. This figure is a 3% lower point movement than reported in Q1 and Q2 and a slight rise (1%) on Q3. Overall operational profitability is also up, at 41% for Q4 2015 from 38% the previous quarter.

In terms of employment, the respondents reported further increases in employment levels with the year to Q4 showing a rise of 19%, up 2% points on the figure given in the previous quarter.

Taking all of the data into account, the figure given for the overall optimism is at 66.9% - the highest it has been for all four quarters. This is a +2.1% point movement since Q3 and 3.5% point increase since Q1. This rise was led by strong positive figures for Q4, and soften a little by slightly weaker projected figures for Q1 of 2016. A good year all round and a positive start to 2016, however we will be keeping a keen eye on the key indicators for the next quarter in 2016 to see if the momentum gained begins to slow.

My continued 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 we welcome your feedback. If you would like to contribute to future surveys, please let us know.

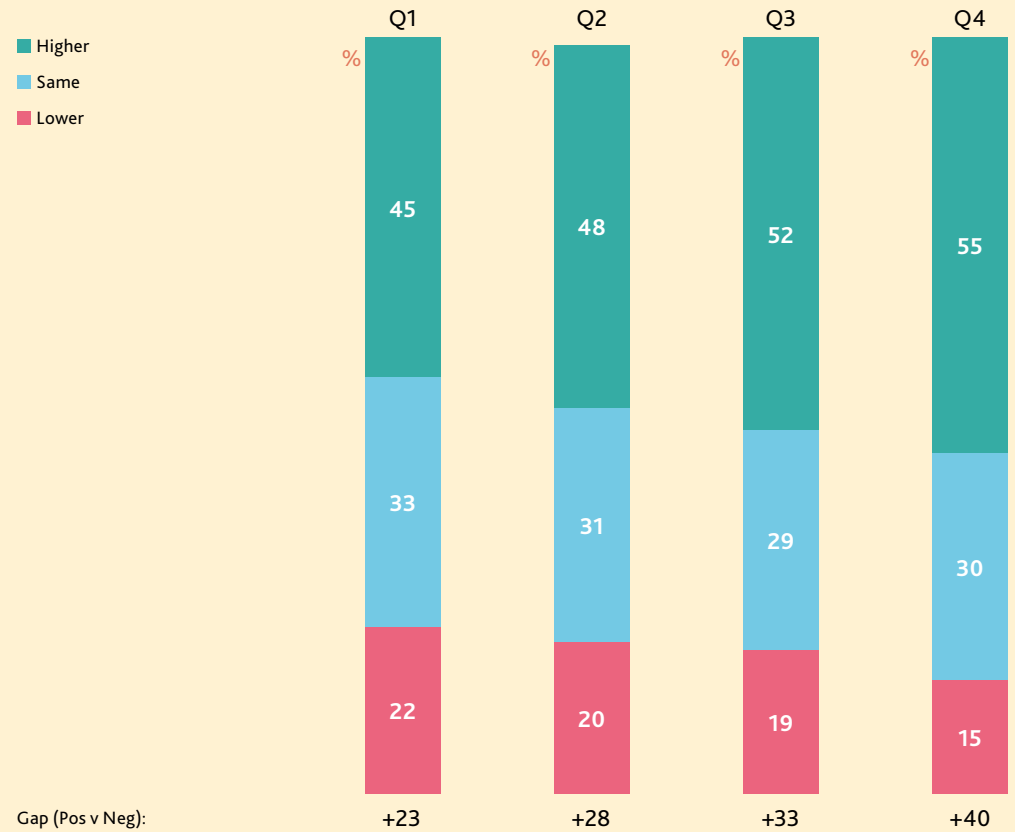


Current business activity



CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

QUESTION Looking back at Q4 2015, how did your business perform, were your results higher, lower or the same compared to the same period of the previous year?



(Trend from quarter one through to quarter four, 2015)

The BDO View



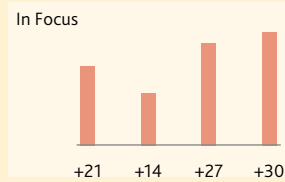
from **Con Quigley**

In each of our key business categories a larger number of respondents for Q4 2015 reported the same or higher performance than for the same quarter one year earlier. Larger companies and export-led companies reported the highest increases. Declining performance was reported in less than a fifth of the companies surveyed.

This is consistent with the macroeconomic indicators we are experiencing when working with our clients. Businesses are seeking to either invest, buy or sell based on their steady or growing profitability that is achieved as their business environment improves. It should be noted that in some sectors profits may be growing from a very low base and there is still great competitiveness and margin pressure throughout the recovering economy.

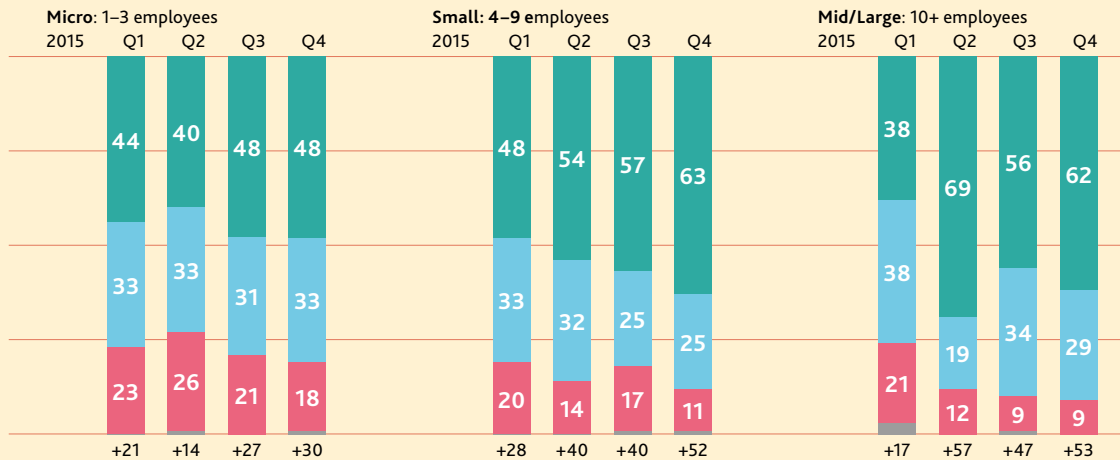
It is interesting that so many smaller and domestic businesses are reporting a stable or improving performance – given the perception that many individuals and families are still coping with reduced wages and personal debt which should have a knock-on effect to our smaller consumer-facing marketplace. Perhaps this group of consumers represent a falling, but still significant, minority of the overall market.

Con Quigley, Corporate Finance Partner

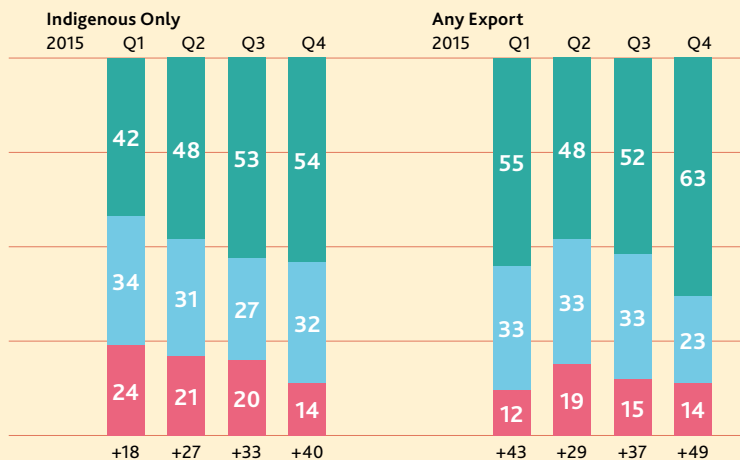


Responses per company size

- Higher
- Same
- Lower



Responses per trading behaviour

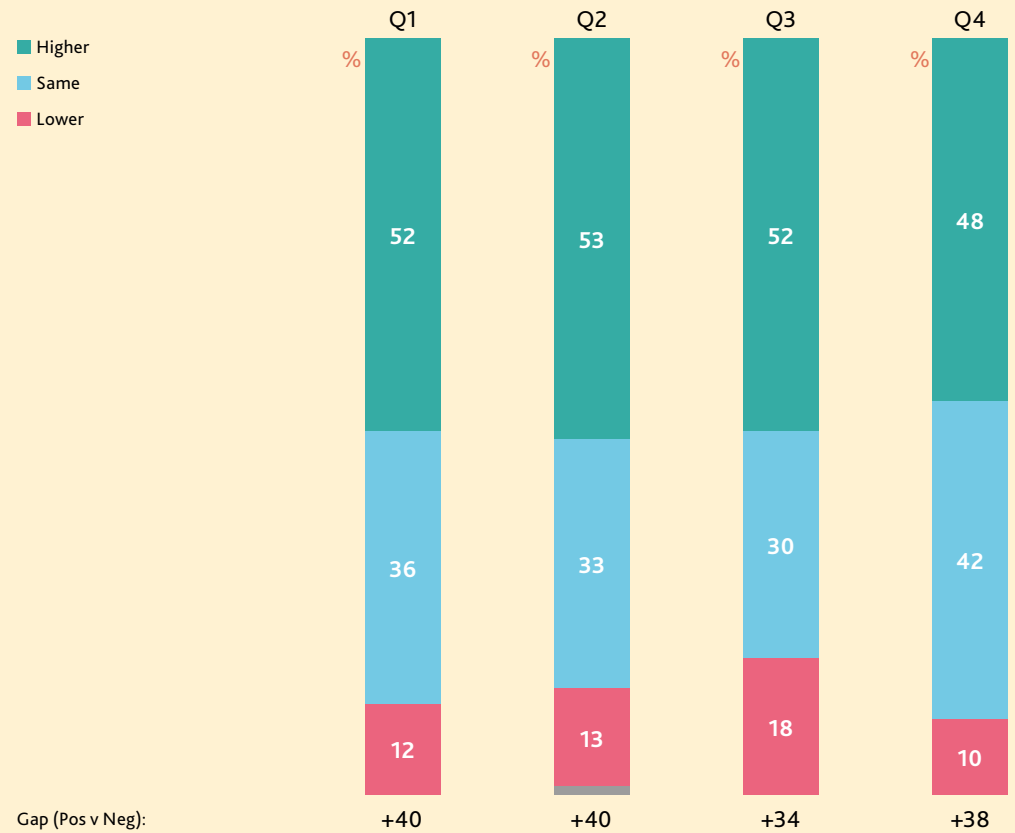


Trends in projections for this quarter

2

BUSINESS ACTIVITY LOOKING FORWARD

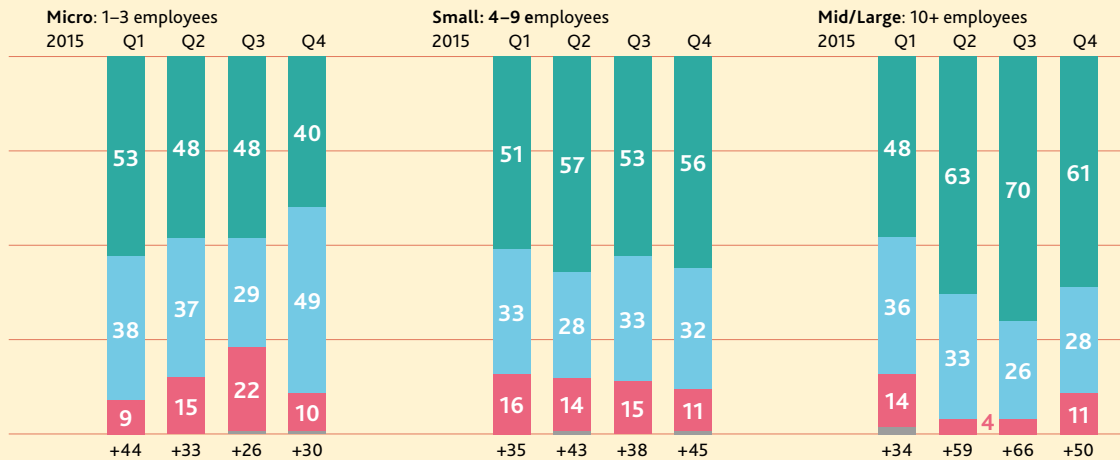
QUESTION Thinking ahead, could you tell me whether the results for this quarter will be higher, lower or the same compared with the same quarter of the previous year?



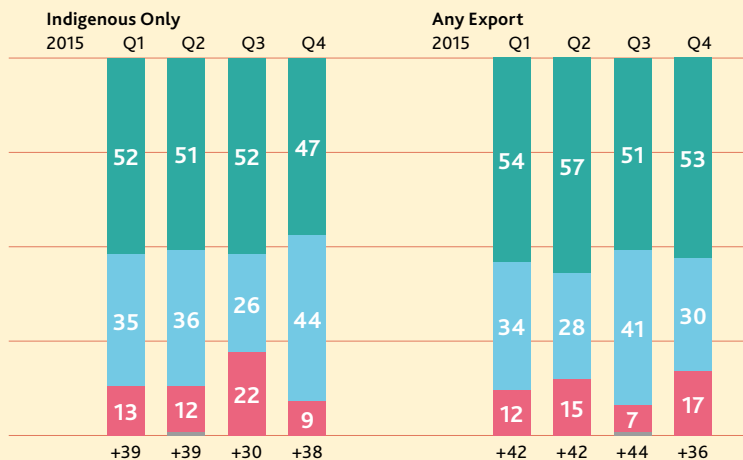
(Trend from quarter one through to quarter four, 2015)

Responses per company size

■ Higher
■ Same
■ Lower



Responses per trading behaviour



The BDO View



from **Con Quigley**

In this section we can see the first signs of an element of caution among our respondents. 48% of those who gave their opinion said they expected their businesses to grow this quarter (Q1 2016). While undoubtedly a very positive figure, it is the lowest growth forecast reported for the last four quarters. It will be interesting to see if this is the beginning of a downward trend or a one off blip.

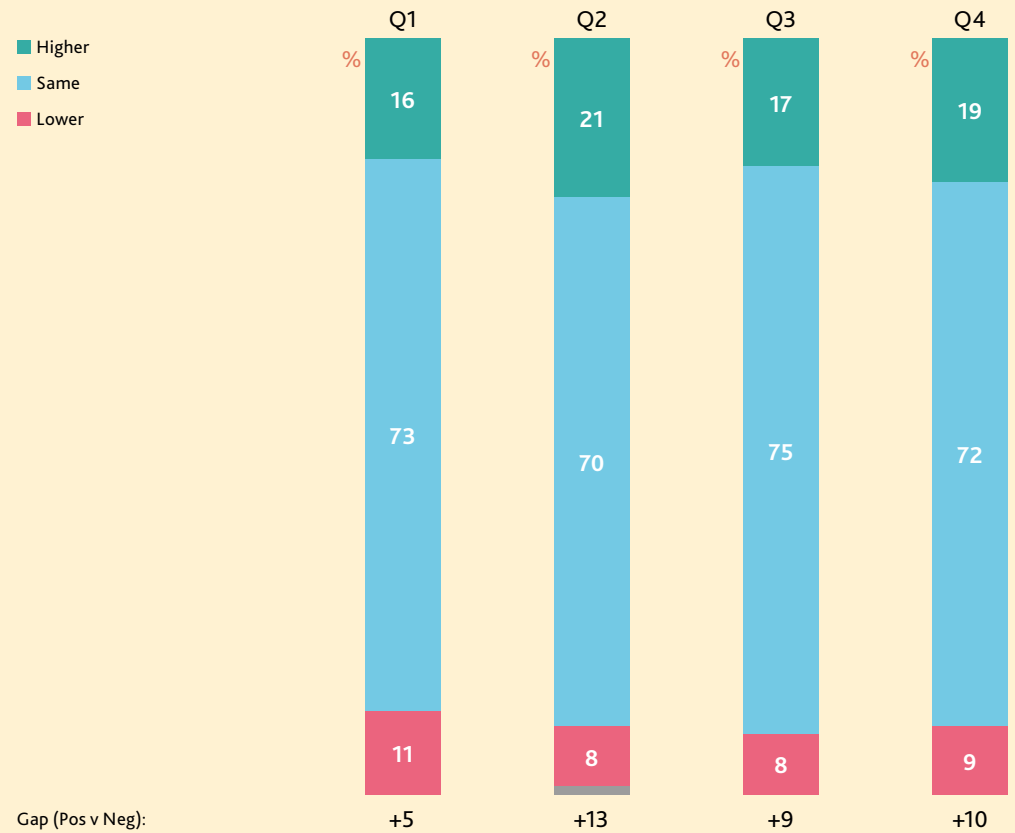
What is of note is that a significant portion of our exporters surveyed (17%) project some drop in performance levels. This may be driven by the range of macro uncertainties in world markets – uncertainties not as influential in the overall optimism of Ireland's indigenous companies and their prevailing sense that the recovery is ongoing. Among this group only 9% predicted a drop in trading levels for Q1 2016.

Employment Levels

3

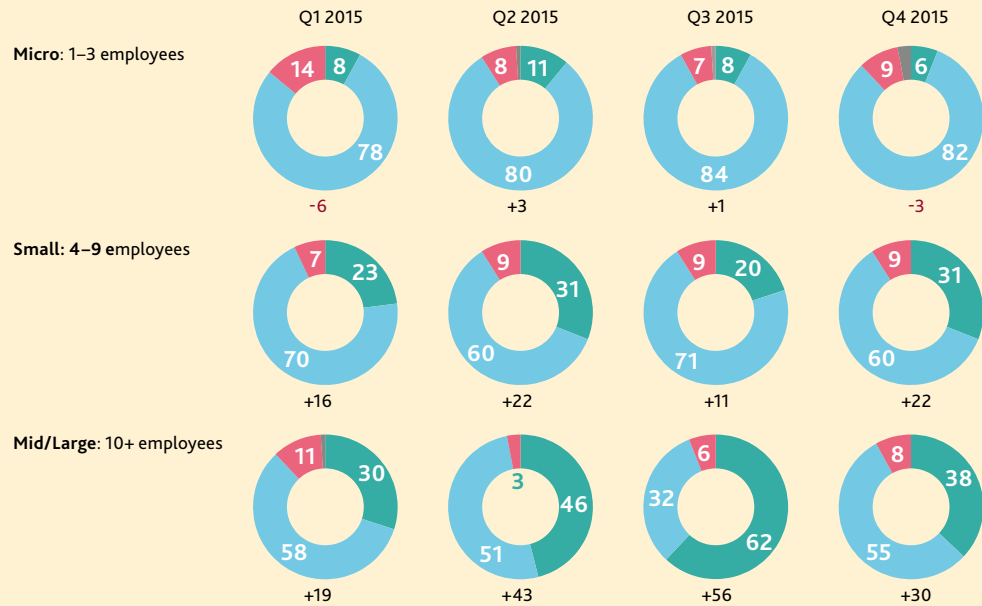
EMPLOYMENT LEVELS COMPARED TO LAST YEAR

QUESTION Looking back at Q4 2015, could you indicate whether your employment levels were higher, lower or the same compared with the equivalent quarter of the previous year?

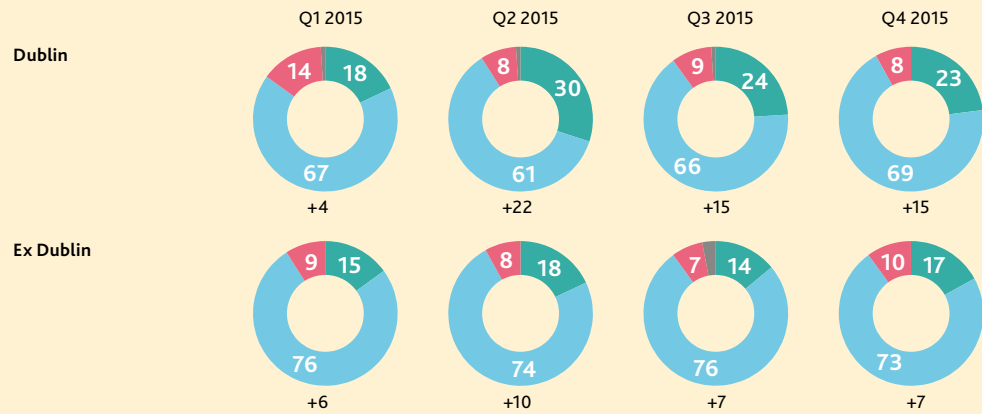


(Trend from quarter one through to quarter four, 2015)

Responses per company size



Responses by location



■ Higher
■ Same
■ Lower
■ N/A

The BDO View



from **Con Quigley**

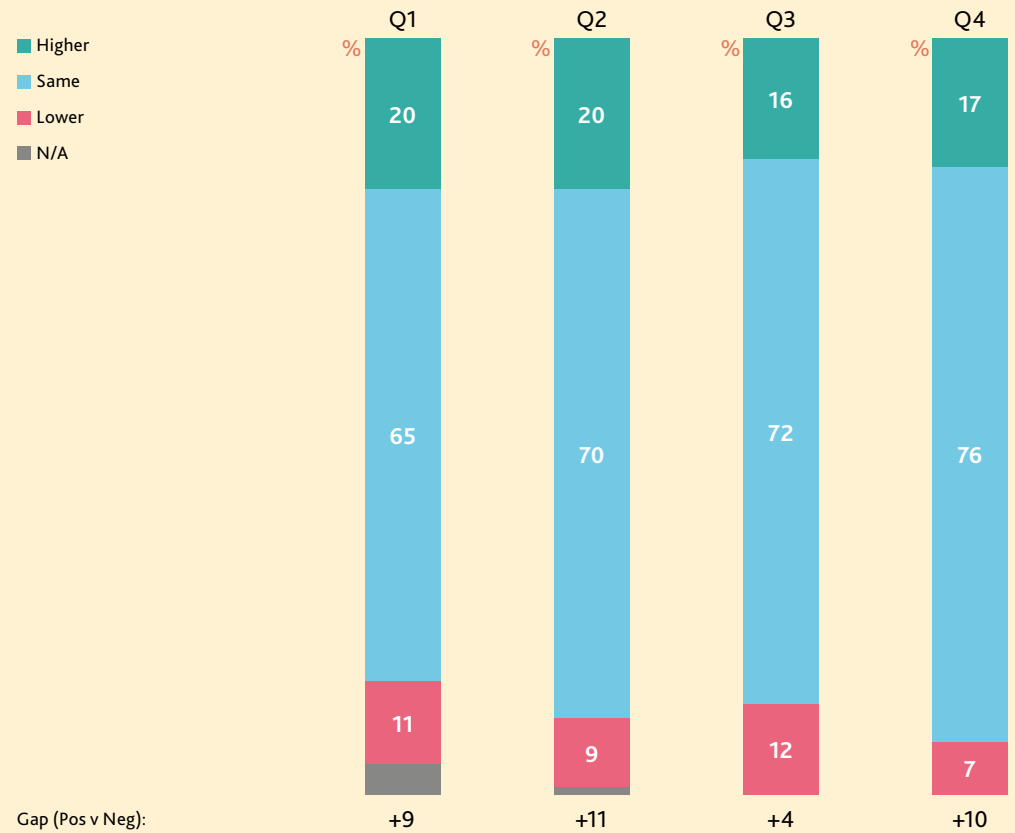
Reported employment levels present a mixed picture though still positive. Mostly no businesses reported year on year change – but those who did report change are twice as likely to have an increase as decrease. On the face of it, this reflects an economy where increases in output and employment are achieved in the context of increasing productivity, new business creation and employment opportunities.

Pricing

4

PRICES CHARGED – ALL BUSINESSES

QUESTION Looking back at Q4 2015, could you tell us whether prices charged were higher, lower or the same compared with the equivalent quarter of the previous year?



(Trend from quarter one through to quarter four, 2015)

The BDO View



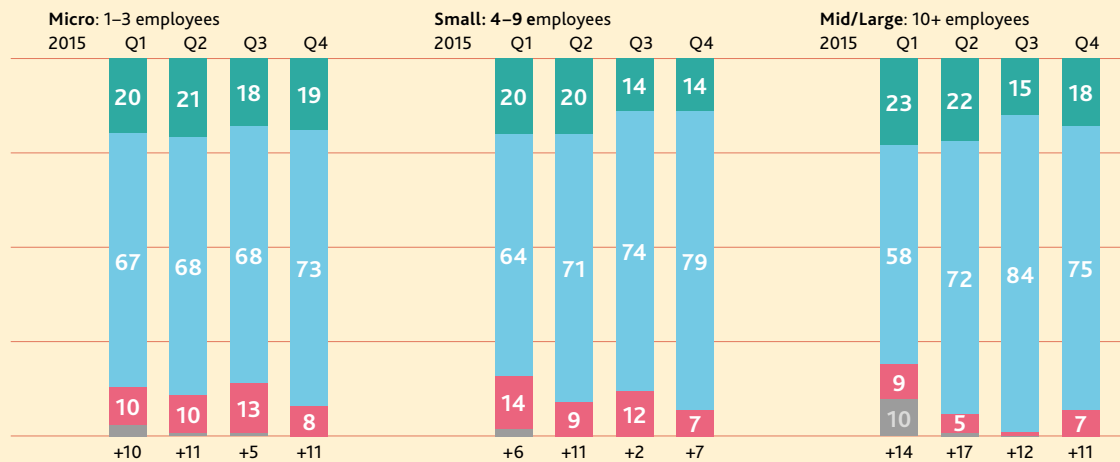
from **Con Quigley**

There were more respondents reporting increasing prices than those reporting decreasing prices, however the prevailing majority reported price stability. Based on our experience with clients, we can attribute this to a continuing high level of competitive pressure on margins throughout the economy and a relatively stable average cost environment.

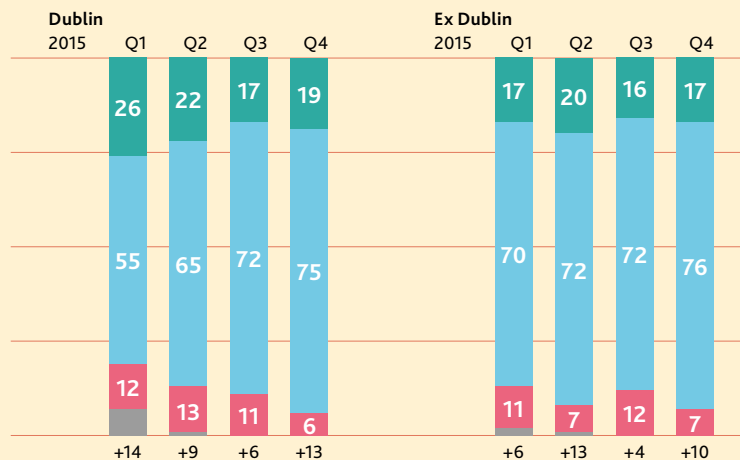
Of those who did report price increases, the majority were among the larger companies in comparison to other segments. However, in general terms the overall price movement, and specifically the lack of it, was consistent across all categories in Q4 2015.

Responses per company size

- Higher
- Same
- Lower
- N/A



Responses by location

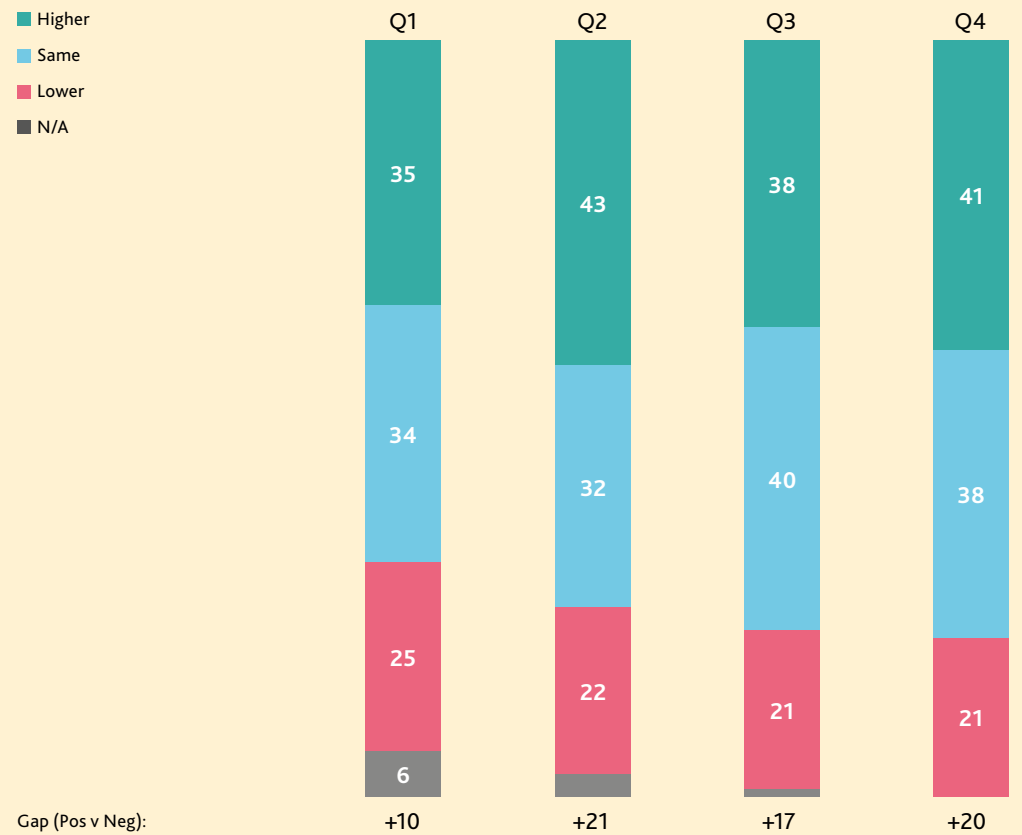


Profits

5

OPERATIONAL PROFIT – YEAR ON YEAR

QUESTION Looking back at Q4 2015, could you tell us whether operational profit was higher, lower or the same compared with the equivalent quarter of the previous year?



(Trend from quarter one through to quarter four, 2015)

The BDO View



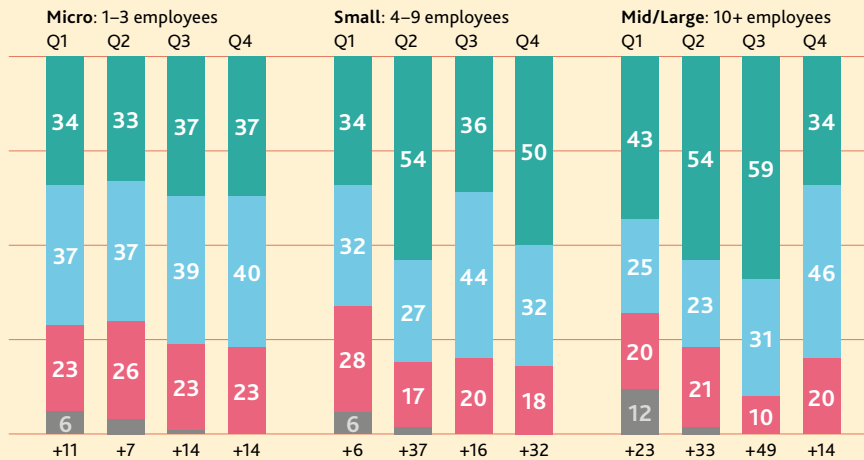
from **Con Quigley**

Over 40% of all businesses reported increasing profits against the figure for 12 months prior. More Dublin businesses (49%) reported increased profits than those outside Dublin (38%) – but there was a much lower differential in the number experiencing a decrease (20/22%).

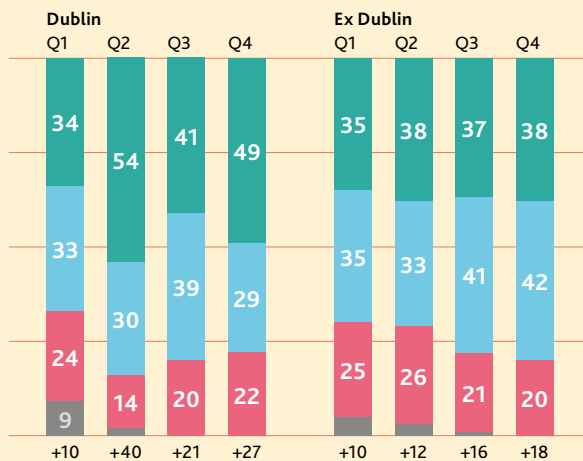
The main deviation was among larger businesses. 34% reported an increase in profits for Q4 2015 which stands out as a much lower figure against the almost 60% that reported higher profits in the previous quarter.

Responses per company size

- Higher
- Same
- Lower
- N/A



Responses by location

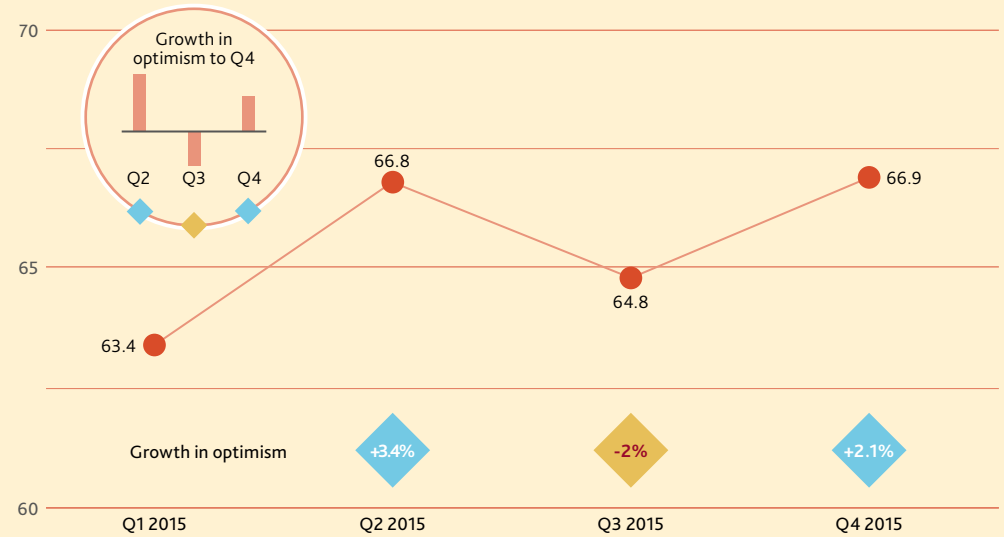


Overall Optimism

6

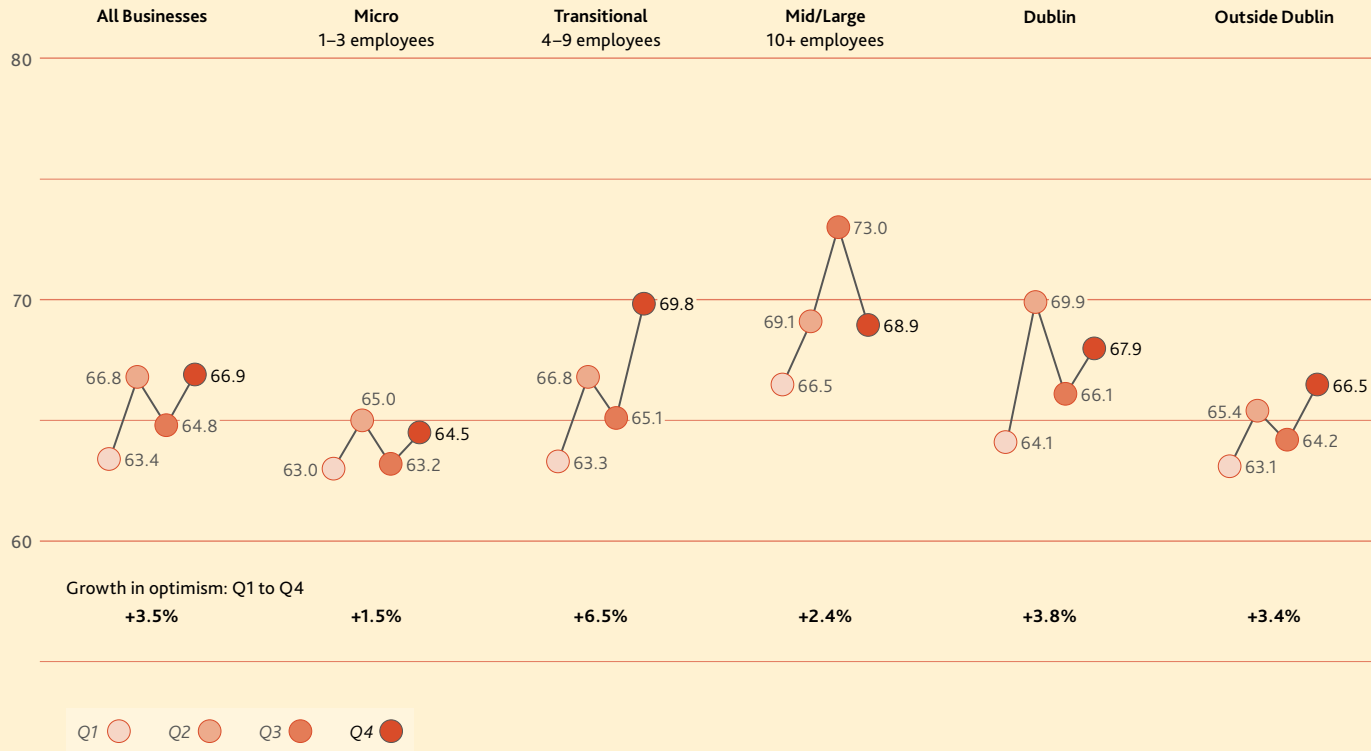
BUSINESS ENVIRONMENT – OPTIMISM FOR YEAR END

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



Projections compared with consecutive quarter of 2015.
 Absolute optimism would equal 100 points. Currently it stands at 66.9 points.

LARGER COMPANIES MOST OPTIMISTIC.



The BDO View



from **Con Quigley**

Taking all other factors into account, we see optimism for this quarter rising by a 2.1% point increase. We all know that demand and investment are fuelled by optimism and that these are essential components of a growing economy.

But all business valuation is a function of future expected performance.

So ongoing optimism is fuelling not only the recovery but also our competitiveness and our reported collective profitability. This in turn is driving growth in shareholder value for businesses based in Ireland.

Combined with low costs of funds and plentiful supply, this probably explains why valuations achieved by businesses taking in capital often outperform sellers' expectations. By contrast, global uncertainty may be affecting the optimism of would-be international buyers and in turn the prices they will pay for Irish businesses.

Taken together, these attitudes may represent good news for those of us who want to see more Irish business owners make the decision to retain and grow their business internationally rather than sell out prematurely.

Con Quigley, Corporate Finance Partner

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.

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

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