



HOTELS, RESTAURANTS AND BARS REPORT 2016



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Welcome to the BDO Hotels, Restaurants and Bars Report 2016

BDO is delighted to introduce our Hotels, Restaurants and Bars report for 2016.

Last year's report highlighted the journey of our contributors during a time of recovery for the Irish economy and tourism sector. In 2016 as tourism growth and overall performance within the hospitality sector has increased, our contributors reflect on the key drivers for growth along with the challenges and opportunities for the sector moving forward.

The rate of growth in the hospitality sector is attributable to a number of factors including a strengthening of the global economy, favourable exchange rates, and increased capacity on air and sea services to Ireland. Closer to home, the retention of the VAT rate continues to have a very positive impact on the sector and Ireland's competitiveness internationally. Continuous innovation, new service and product offerings, and consolidation have also contributed to the recovery.

In spite of this strong performance the hospitality industry is facing a number of challenges. The level of uncertainty arising from the UK's EU referendum/Brexit and its potential impact across the sector is addressed by our contributors with a key focus on sustaining UK visitor numbers accounting for 3.346m or 41.6% of all overseas visitors according to Fáilte Ireland. We feel that it is critical for all businesses to review their business plans by examining both the consequences and opportunities associated with Brexit for their business. Businesses will need to look closely at their promotional strategies; customer data and demographics; and review the business' supply chain to ensure cost efficiencies are being maximised. Businesses heavily dependent on UK tourist numbers will need to be mindful of the 'worst case scenario' and ensure they keep close to their customers and not just rely on external information, that can sometimes be out of date or just anecdotal and not a true reflection of the market.

On a positive note, we see increased availability of funding in the



Stewart Dunne
Partner, BDO Dublin



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Partner, BDO Limerick

sector and banks looking to support investment opportunities. To secure this funding and support, it is vital for business owners to ensure they have robust management controls in place which fit the size and scale of their businesses. This investment is of critical importance to maintaining our overall value proposition and competitiveness. While analysts predict hotel mergers & acquisition activity to reach €710m by the end of 2016, there is a feeling that some of the multiples achieved have been top heavy, particularly in the Dublin

region. These multiples would be expected to correct themselves as capacity grows.

Increases in the minimum wage and skills shortages within the sector are once again highlighted as areas for concern. It is important that all stakeholders come together and properly engage to find effective ways of managing these concerns. The various representative bodies within the sector have a significant role to play in working with Government and the State Agencies to address the skill shortages. Further emphasis will need to be placed on the design and promotion of training and development for people entering the sector or looking to upskill and advance their careers.

In light of the challenges above, the message from the Minister for Transport, Tourism and Sport Shane Ross to the industry is clear, "it is imperative that the tourism industry examines current pricing levels to ensure that Ireland's competitive position is maintained". Additional initiatives to support this message include the new campaign launched in Great Britain to market Dublin to the 'Culturally Curious' market segment and the continuing market campaigns for the Wild Atlantic Way and Ireland's Ancient East.

Our thanks go out to those key industry stakeholders and operators who gave their time to contribute to this report. We hope you will enjoy reading it and we welcome your thoughts and feedback.

Stewart Dunne and Liam Hession





BDO Sector Outlook

The hospitality trading environment

The Irish tourism and hospitality sector enjoyed another year of strong performance during 2015 which has continued into 2016. Overseas visitors to Ireland grew by 13.7% during 2015, with strong growth recorded across all our key source markets. For the first time, tourism earnings reached €7.7bn. This is further evidence of the valuable role and importance of tourism to the Irish economy.

This strong growth in overseas visitors, combined with increasingly positive consumer sentiment domestically, has resulted in the sector moving from what we described in 2015 as "sustained growth and recovery" to one of more established and stabilised growth.

As we make our way through 2016, the outlook for the sector continues to remain very positive. Overseas visitors to Ireland for the first eight months of the year are up approximately 12% on the corresponding period in 2015. Strong growth is occurring in all market areas. As a result, domestically, operator sentiment across the tourism sector remains positive, with the majority of operators reporting business

volumes and bookings to be ahead of, or on par with, 2015 levels.

The decision by the UK, arising from the EU referendum, to leave the European Union has introduced a level of uncertainty into the market. The fall in the value of sterling against the euro has suddenly impacted on Ireland's competitiveness for visitors coming from the UK. Prior to the referendum, UK visitors had benefited from a strong currency differential when visiting Ireland.

The strong performance of the hospitality sector is threatened somewhat from an operating point of view through increases in the minimum wage and moves towards a national living wage. Representative bodies across the sector have been vocal in raising their concerns about the cost of implementing these changes and their overall effect on the industry.

Notwithstanding the challenges posed as a result of Brexit and increases in the minimum wage, the fundamentals of the market remain positive. ►

Globally, international tourist arrivals grew by 5% in the first two months of 2016 compared to the same period in 2015, with the United Nations World Tourism Organisation (UNWTO) predicting that international tourism will grow by between 3.5% and 4.5% worldwide this year.

Economic indicators within each of our key source markets (Great Britain, USA, France and Germany) are in the main positive, while travel trends in these markets point to a shift in travel destination choice away from destinations and locations which have recently been affected by terrorism towards what are perceived to be safer locations such as Ireland, Great Britain, Spain and the Scandinavian and Nordic countries. Domestically, we have seen increases in air access, which has resulted in increased capacity on key routes from the US.

Internationally, many of our overseas tourism trade partners share the same positive sentiment. However, the issue of hotel capacity constraints in Dublin and some of our key urban centres, particularly during the traditional peak, is a key issue. This poses some challenges in terms of realising the targets set for visitor numbers.

The increasing levels of operator confidence, driven in the main by a strengthening demand for the basket of tourism goods and services, has resulted in a level of price inflation across the sector. The improvements that were made in terms of competitiveness and Ireland's value proposition have contributed to the recent growth in tourism performance. One of the challenges for the sector will be to maintain a level of constraint when it comes to increasing price, particularly if we want to maintain the country's competitiveness. ■

FÁILTE IRELAND

Overseas visitors to Ireland, Jan-Sept 2016

↑12%

An increase of 12% in overseas visitors on the corresponding period last year

↑13.2%

Visitors from Britain up 11.3% while North American visitor numbers are up 15.4%

↑10.6%

Mainland European visitor numbers grew





MACCHIATO	2.50	3.00	3.50
LATTE	2.50	3.00	3.50
MOCHA	3.00	3.25	3.50
COLD BREW	3.25	3.50	4.00
HOT TEA	2.50	2.25	4.50
HOT CHOCOLATE			
8oz	12oz	16oz	
2.50	3.50	4.50	
+50¢ HOUSE SYRUP			
vanilla / caramel / peppermint			
BEVERAGES			
ORANGE JUICE	2.00		
LEMON JUICE	2.00		
ICED TEA	3.25		
SMOOTHIES	3.50		
strawberry / apple / mix fruits			
ITALIAN SODA	3.00		
MINERAL WATER	1.75		
sparkling			
SWEET & PASTRIES			
FRESH BAKED DAILY			





HOTELS

The hotel industry continues to be a big beneficiary of the improving economy and tourism sector. The economic downturn saw new hotel development grind to a halt with capacity contracting in many locations. As the global and domestic economies continue to recover, the demand for hotel accommodation is outstripping supply in certain markets which in turn is impacting positively on occupancy and revenue levels.

With uncertainty in the market relating to the impact of Brexit, the message from the hotel sector is clear; the recovery must not be taken for granted and the sector must be prepared to face the challenges such as the drop in the value of sterling making Ireland more expensive for our UK visitors, and any restrictions which may arise in terms of travelling between the two jurisdictions.

In summary, with the recovery in the overall hotel market now very well established, operator sentiment is strong, with the vast majority of hoteliers expecting overall business growth for the remainder of 2016 and into 2017. This view is echoed in our interviews with Tim Fenn Chief Executive of the Irish Hotels Federation, Joe Russell, Managing Director, Trump International and Pat McCann, CEO, Dalata Hotel Group.

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BDO Review

Hospitality Performance – Hotels

The hotel sector is enjoying a period of strong growth and according to the Fáilte Ireland Tourism Barometer September 2016, the vast majority of hotels have seen an increase in the volume of business to date this year. Only 5% of operators are indicating business levels to be down.

With hotels in Dublin, many of our urban centres and key tourism destinations showing strong growth in room rate, 2015 was indeed a record year for the sector with regard to occupancy and revenue per available room (RevPAR), as illustrated in the table below.

RevPAR €—JAN to DEC	2014	2015	€	%
Dublin	56.1	67.8	11.7	21%
Cork	55.3	60.6	5.3	9.6%
Galway	58.8	66.7	7.8	13.3%
Limerick	33.2	41.0	7.8	23.4%
Regional	46.1	48.7	2.6	5.7%

Source: trending.ie

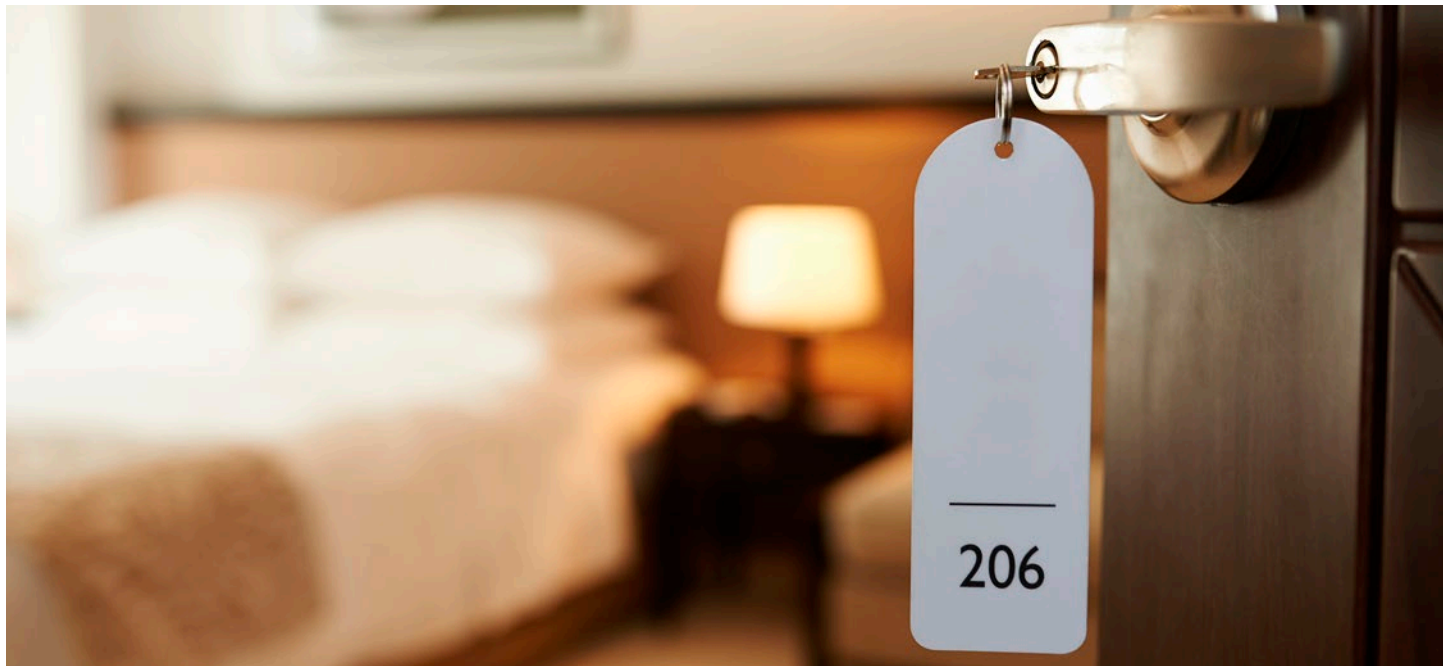
In 2016 the hotel sector continues to see increases in demand from both the overseas and domestic markets. This growth is evident across key market segments including: business/corporate guest, weekend and midweek business, leisure and special event business.

Improvements in RevPAR are contributing to year on year improvements in profitability with over 67% of hotels, according to Fáilte Ireland, reporting increased profitability during 2016. Given that this number is below those hotels that have seen an increase in business volumes, this would suggest that some hoteliers may have been a little slow to convert growing demand into improved profitability.

While a number of new hotels and extensions to existing properties are at various stages of the planning process, it will take some time for new stock of rooms to come on stream. Until this happens, the prospects for continued growth in room rates and occupancy levels remain strong.

Assuming no major external shocks, we would expect hotel performance to continue to enjoy a period of strong operational and financial performance.





Transactional activity in the hotel sector

According to Richard Duffy, Director, Corporate Finance BDO, the appetite for hotel assets shows no sign of abating, with 2016 looking like another stellar year in M&A activity performance. Recent market reports from CBRE predict the value of hotel transactions will be in excess of €710m for the year which is on par with 2015. The turnaround in the market particularly since 2014 has been phenomenal. It is a far cry from the period of 2008–2012 where there was little or no interest for investment in the sector and M&A activity was scarce. In all, it is estimated less than 45 hotels were sold over this five year period as compared against 2015 where 63 hotels changed hands.

With an improving economic environment, strong overseas visitor numbers, positive local consumer sentiment, consistently high occupancy rates and with significant increases in average room rates, it is easy to see why hotels are a prized asset for investors right now. There has been some concerns expressed by industry observers that the multiples on a few of the hotel transactions appear top heavy. It is true strong pricing has been achieved on some hotel asset sales. There have been a number of highly competitive sales processes, driven by the lack of availability of quality hotel stock for sale, particular in the Dublin region where the demand for rooms is outstripping supply. For example, it is reported during the sale of the Gresham Hotel earlier this year over 80 formalised bids were received.

Profile Transactions

Some notable transactions to name a few include:

- John Malone Partnership purchase of

Lifestyle Hotels for €150m (namely the Beacon, Morgan and Spencer Hotels)

- Spanish group Riu Hotels & Resorts acquisition of the fore-mentioned Gresham Hotel for €92m
- Deka, (German Fund) purchase of the Doubletree (formerly the Burlington), with a reported price tag in the region of €180m
- Prem Group purchased Tulfarris Hotel & Golf Resort
- Dalata Hotel Group €13m acquisition of the Clarion Hotel in Sligo
- Hilton Dublin Airport purchased by a consortium of Irish/UK Investors, and
- Tifco, is poised to take over the Travelodge franchise (currently subject to Competition Approval).

Outside of the greater Dublin region, transactional activity lags behind despite some improvement in 2016. The Clarion Hotel in Sligo is one of the larger regional deals to complete so far in 2016. Property agents are reporting a significant differential in the consideration achievable on the sale of hotels once outside the capital.

Buyer profile

Back in 2014 overseas investors dominated transactions and consisted mainly of private equity led property funds and individual American buyers.

Now there is a greater spread in the type of overseas investors with investment coming

from a variety of markets including the UK, Europe and beyond. Furthermore, domestic owners/operators have re-emerged and the likes of Dalata, Tetrarch and Prem have been highly acquisitive in the last two years. A leading property agent estimated recently of the transactions completed in the first half of 2016, over 75% of these were led by Irish investors.

Brexit

The uncertainty in the hotel sector with regard to Brexit is uniform across the country. The general feeling among businesses is that at this stage they can do little to influence the impact on their business and with so much uncertainty, it can be difficult to put in place any specific plans. However, while businesses are uncertain, they are also aware of potential opportunities which may arise for considered expansion plans into the UK market.

Capacity challenges

As identified in last year's report, the message this year around the lack of suitable hotel developments sites in Dublin remains a key issue. Competition for hotel development sites with commercial and residential space (which continue to offer a much stronger return on investment) is considered even more prominent. Another issue identified through our report is with the planning process and the length of time for new projects to be given the go-ahead.

Staffing

The Irish Hotel Federation are working with the Government and State Agencies to address skills shortages in particular encouraging young people to consider a career within the hospitality sector. ■

Opportunities & Threats in the Hotel Market

Tim Fenn, Chief Executive of the Irish Hotels Federation provides an insight into the current growth in the hotel market and the challenges facing the sector in terms of Brexit and hotel development.

2016 is proving to be a good year for the Irish Hotel Sector. What are the key factors that have contributed to this strong growth?

The hotel sector has benefited from a 13% increase in overseas visitors during the first half of 2016, building on a strong recovery in Irish tourism over the last three years. We are also seeing a recovery in domestic tourism as consumer confidence increases and a growing number of people take holidays and short breaks at home. During the first quarter in particular, the 2016 Centenary commemorations provided a significant boost both in terms of overseas visitors and business levels from the island of Ireland. Initial indications are that this strong performance will hold up for the remainder of 2016.

We have been supported by a range of pro-tourism initiatives that have enhanced Ireland's attractiveness as a tourism destination. These include the 9% VAT rate, which has brought Ireland more closely in line with tourism VAT rates in other European countries and other supportive measures introduced such as the zero rate air passenger tax and support for improved air access and connectivity. Our success on the marketing front has also been critically important. We have made enormous strides in growing market share thanks to highly effective campaigns from State tourism bodies, giving holidaymakers new and compelling reasons to visit. Examples include the recently launched Ireland's Ancient East trail and of course the Wild Atlantic Way, which is proving to be an enormous draw. Targeted investment in initiatives such as these is vital to the long-term success of our tourism product.

During 2015, there was clear evidence to demonstrate that a three tier recovery was taking place in the market. Is there any evidence to suggest a more sustained and nationwide recovery—or are there still some blackspots or challenging locations?

Continued growth in tourism is providing

benefits throughout the entire country. However, the three-tier recovery is still very much evident. Growth in hotel occupancy levels continues to lag in areas outside the traditional tourism hotspots and, as a result, there is an over-reliance on the domestic market for many premises outside the larger urban areas. Achieving a more even spread of visitors to the regions remains a significant challenge for our industry.

A number of factors have been cited as contributing to the recovery in the sector—our value proposition, the reduced VAT rate, growth in demand from key markets. Would you be concerned that some of these key factors are coming under threat as a result of internal and external market factors?

The biggest concerns we have are around threats to Irish tourism that are beyond our control. We are very dependent on the economic environment of our major source markets and remain vulnerable to external economic shocks. We must therefore plan accordingly and be ready to respond in a timely manner. As witnessed by the UK's decision to leave the European Union, there can be no room for complacency.

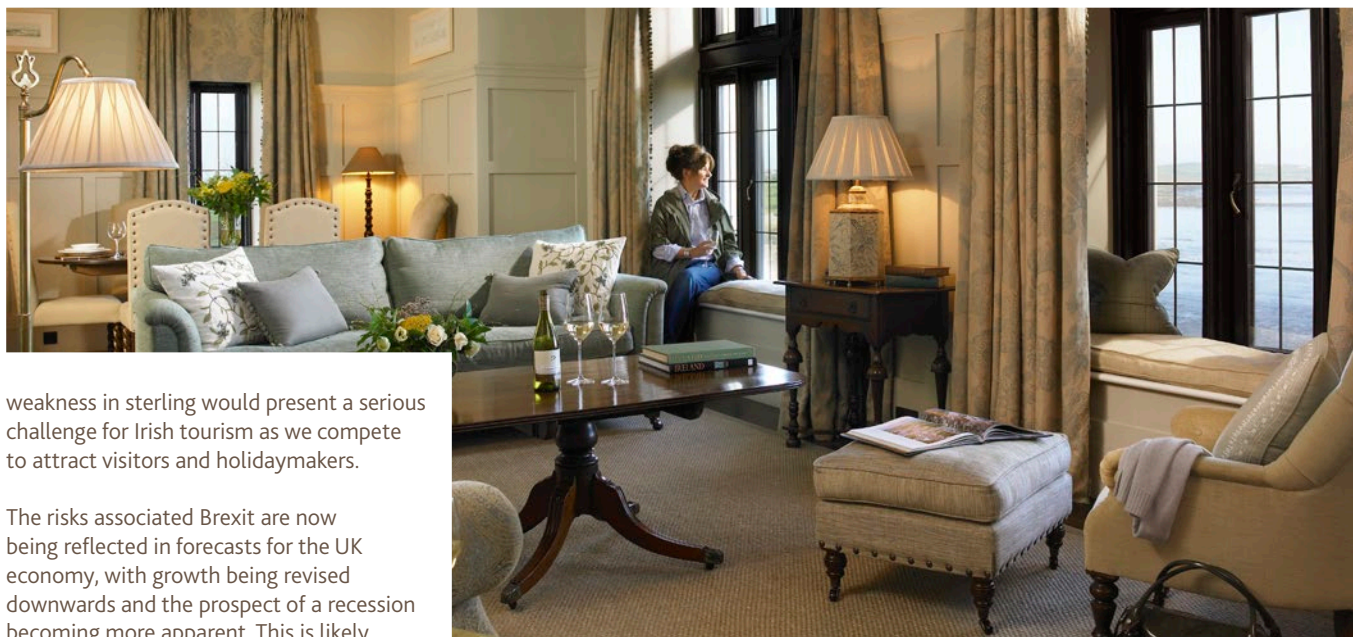


Tim Fenn
CEO, Irish Hotels Federation (IHF)
ihf.ie

Brexit—A real opportunity or threat to the sector?

Brexit poses a particular challenge to our industry given our heavy reliance on holidaymakers and business travelers from the UK, which accounts for over 40% of overseas visitors. Chief among the concerns we face are increased economic uncertainty and a significant weakening in the value of sterling against the euro compared to this time last year. This has reduced the spending power of visitors from Great Britain and Northern Ireland. A sustained





weakness in sterling would present a serious challenge for Irish tourism as we compete to attract visitors and holidaymakers.

The risks associated Brexit are now being reflected in forecasts for the UK economy, with growth being revised downwards and the prospect of a recession becoming more apparent. This is likely to have a knock-on effect on consumer spending patterns and the numbers of British people travelling overseas.

Is it inevitable, in light of the strong demand and capacity shortfalls in the market, that we will continue to see growth in average room rates? What does this mean in terms of Ireland's value proposition?

Room rates are recovering following dramatic declines during the downturn and this has been more evident in larger urban areas and tourism hotspots. These areas are now reaching sustainable levels that allow for further investment in the sector, which will go a long way to addressing capacity issues. The challenge is to ensure a broader recovery in average room rates across the country as a whole. This will take time given the significant ground lost in many rural areas. In terms of value for money, Ireland remains highly competitive compared to other European destinations with which we compete as demonstrated by the continued growth in visitor numbers. The international tourism industry in which we operate is exceptionally competitive and we fight hard for every visitor and tourism euro earned.

With the uplift in hotel transaction activity and the strong values being achieved in some transactions, is the issue of debt-overhang slowly correcting itself?

The hotel sector has made significant strides in reducing debt levels to more sustainable levels. Debt in the industry has declined over the past five years from an

estimated €6.7 billion to €3.7 billion and new equity investment has entered the sector, bolstering balance sheets. The recovery in the industry's financial condition has not been uniform, however, and more needs to be done to return the sector outside of Dublin to long-term financial stability.

What are the key challenges faced by anyone looking to develop a new hotel in Ireland at present?

As with every sector of the economy, investment in new developments needs to be based on sound fundamentals. There are areas around the country where average room rates and demand do not currently justify investment in new hotel stock. So it is vital that the local market and business environment is fully researched. However, even in large urban areas with high levels of demand, challenges can exist. In particular, site costs can act as a barrier given the strong competition that exists with developers in the commercial office and residential space.

We are seeing a lot of refurbishment and capital investment in the sector at present. Is this a sign of increased confidence or is this borne out of necessity to ensure that hotels remain competitive?

The requirement for ongoing investment in our product was an issue during the downturn. However, this is now largely being addressed as a result of the recovery in the financial viability of hotels and guesthouses and a significant increase in confidence within the sector.

Recent research by the IHF suggests that some 89% of hoteliers plan to invest in refurbishment and increased capital expenditure over the next 12 months.

Skills shortages continued to persist throughout a number of sectors of the economy. How is this affecting the hotel sector and what is being done to address it?

This is certainly an issue for our sector with over 80% of our members telling us they are having difficulty recruiting suitably qualified craft/entry level staff. In particular, there is a need for additional resources to be allocated to provide young people with the skills required for a career in the tourism and hospitality sector. This is an area we are working closely with the government and state agencies to address.

How will the retention of the 9% VAT rate in this year's Budget impact on the hotel sector?

Our key priorities in this year's budget submission was the retention of existing supports for Irish tourism such as the 9% VAT rate and zero rate air passenger tax. These measures have proved enormously successful and have enabled our industry to create an additional 50,000 jobs since 2011. They are vital to our continued competitiveness. Direct actions by the government including the 9% VAT rate have helped level the playing field for tourism businesses to compete for visitors with other European destinations and are vital in underpinning and sustaining growth. ■

Unrivalled Expertise in Hospitality

Pat McCann, Chief Executive of Dalata Hotel Group speaks to BDO about the Dalata Group, his views on room prices, competitiveness and the outlook for the hotel market after the Brexit vote.

Can you tell us about the group and your portfolio?

Dalata Hotel Group plc is Ireland's largest hotel operator, with a current portfolio of 40 three and four star hotels with more than 7,500 rooms. Dalata successfully operate Ireland's two largest hotel brands, the Clayton and the Maldron Hotels across Ireland and the UK, as well as managing a portfolio of partner hotels.

The Dalata Hotel Group has seen significant revenue growth during the first six months of 2016. What do you consider to be the success factors behind this growth?

We are unusual in that as a group we are growing and increasing in size. It is just over two and a half years since we floated in March 2014 and commenced our current acquisition process.

Our business will continue to benefit from the fact that many of the properties which we acquired are still in what we call the 'ramp-up phase'. We have undertaken significant change in a number of these hotels, switching, in a number of cases, to a much more rooms focussed operation. This has delivered strong revenue and profit growth. We are confident that this growth can be maintained and we will carry this momentum into 2017.

The Irish hotel market and in particular the Dublin market has seen strong growth in average room rate and occupancy during 2016. How confident are you that this can be maintained?

Very confident. If you look at the market at present, there are a number of very important factors at play. In the first instance, there has been very little growth in new hotel supply. That is, from my experience, somewhat unique particularly for a capital city. At the same time, we have witnessed some very important developments in terms of key pieces of infrastructure. Dublin

Airport has doubled in size, coupled with the increasing number of events taking place in the city in venues such as the Convention Centre, 3Arena, Bord Gáis Energy Theatre, and Aviva Stadium.

More recently, and what I refer to as the 'Google Effect'—has resulted in strong growth in the levels of employment across the technology and financial services sector. These companies and their employees are frequent hotel users. We are seeing continued growth from our corporate markets.

In short these factors have contributed to a period of sustained growth in demand, but with very little increase in supply.

Are negative comments around hotel prices and room rates, particularly in Dublin, fair?

There can be a lot of misunderstanding about hotel prices and how hotel pricing works. The general public and many commentators are usually only exposed to what we in the industry refer to as the "headline or transient prices", which in fact only represents a small portion of business.

If you looked at achieved average room rates in Dublin in the last six months according to STR or by international standards it's extremely low. Out of a basket of approximately 20 European cities, Dublin is number eleven in terms of room rate but number one in occupancy. In my view, we will never be able to command the room rates achieved by hoteliers in cities like London and Paris, but perhaps that should be our ambition.

As I see it, this notion about our rates and competitiveness derives from local/national commentary and is not something I am hearing from our international customers. In an international context, we are still extraordinarily cheap and offer good value. As an example I am back after



Pat McCann
CEO, Dalata Hotel Group
dalatahotelgroup.com

two weeks travelling through the UK, US, and Europe and the cheapest room I could get in an average hotel was €200 in Frankfurt and £170 in Edinburgh.

While rates in Dublin have increased they remain at levels which from the perspective of international hotel investors are low on a revenue per available room (RevPAR) basis, which translate into lower returns on investment. This in my view has compounded some of the challenges in terms of new supply coming to the market. The idea that we've lost the run of ourselves in terms of competitiveness is simply not true at all.

It is recognised that there is a shortage of about 5,000 rooms in Dublin at the moment. Outside of the challenges around low RevPAR and capacity to generate return on investment, are there other barriers stopping the supply and how can they be overcome?

First of all, the biggest barrier to new supply is securing suitable sites. We are once again in a market where we are competing with the developers of office and residential projects for sites. The returns on these types of investments are typically higher and as a consequence these investors will bid higher for these sites.

Secondly the planning process continues to



prove difficult and tedious. It takes a long time to navigate the entire planning process and as is more often the case, new hotel projects will end up with An Bord Pleanála for a decision. This slows down the process dramatically and can add another six months to the project. To give you an example, we acquired two sites at Charlemont and Kevin Street. Both developers took it to a point and ran out of steam in terms of continuing the development.

The final issue comes back to that of funding. The banks, particularly the Irish banks, got badly burned on many hotel projects in the period 2008–2011. They are as a consequence much more cautious when it comes to hotel projects, so this is a key challenge for

many hotel developers/investors. Dalata is somewhat fortunate as funding is not the issue for us—the challenge for us is finding the right sites, at the right price and successfully navigating the planning process.

The result of the UK's EU referendum took a lot of people by surprise and you were quoted as saying "as a group Dalata needed to adapt". How as a group have you responded to the challenges presented?

Simply there is nothing to respond to currently because the only change that has happened since the Brexit vote is related to currency. There's little we can do to influence this. We don't hedge our P&L so for Dalata all we can do is to monitor and respond to movements in the market. Undoubtedly Ireland is in a vulnerable position, particularly if the volumes of UK business begin to fall as a result. However, we have not seen any obvious signs of a slowdown yet.

We are in a somewhat unreal situation where Brexit is very much the topic of conversation, yet no one fully knows or understands what the likely implications are. I saw somebody produced a report recently which indicated that 92% of companies have no plans to respond to Brexit which is very understandable when you don't know what you're responding to. There are so many unknowns at present that it is very difficult to put any meaningful plans in place.

From our perspective, we did say our plan was to start to expand in the UK where we have a sizeable business. While we remain committed to this objective, we have slowed our plans somewhat until there is a little more clarity on Brexit and its implications.

Our long-term view is that regardless of what happens there's still a large economy in the UK that's going to be working and if it does take a blip it will still recover. From our perspective while we expect some change I am not sure to what extent it will affect our business.

What we as a group and Ireland do need to watch, plan and be able to respond to is any meaningful fall in business from the UK market. With approximately 25% of international arrivals coming from the UK, any significant fall in visitor numbers would undoubtedly reverse many of the recent gains and strong growth that has been achieved in overall tourism performance. ■

Playing the Trump Card

New investment and a high-profile owner has seen Trump International Golf Links & Hotel in Doonbeg, Co. Clare spring back to life. Managing Director, Joe Russell talks about bringing the personal touch to a five-star experience.

Tell us a little bit about Trump International Golf Links & Hotel, Doonbeg?

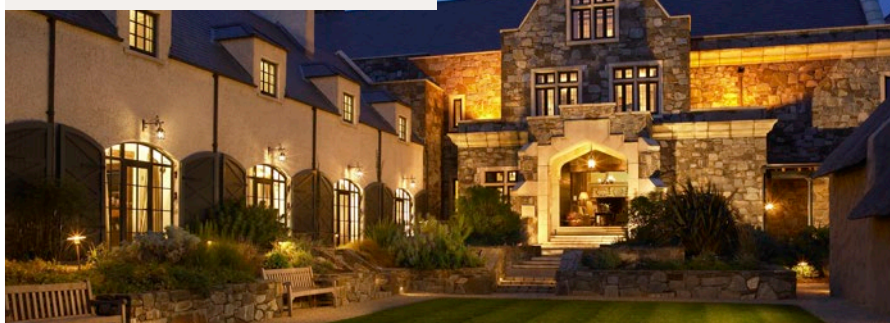
When Donald Trump took over the business in 2014 we were emerging from a challenging couple of years. Together with the recession, we had a tremendous storm on the west coast of Ireland that impacted on many communities, properties and businesses and in our case left our golfing season in peril for 2014 due to significant damage to our golf course. However, amongst a number of objectives set by The Trump Organisation, the renovation and redesign was top priority and a works program was set and actioned immediately. In May 2016, we relaunched the new golf course and thankfully with that we have had the best year since we opened. The Trump Organisation and of course the Trump family has really supported the business and are contributing hugely to its success.

In terms of the business at Trump Doonbeg, it can be broken down into green fee and associated revenues e.g. retail, hotel, spa and catering operations. We also have the real estate and membership component, where we sell our real estate to private individuals and manage the various aspects of the estate on their behalf and the business itself.

How strong is the appeal of the Trump brand to your clientele?

In the golfing world, the Trump brand is very strong, the view being that Donald Trump

Joe Russell
Managing Director, Trump International
Golf Links & Hotel
trumphotelcollection.com/ireland



knows how to create and maintain a world class golf course and operation. The hotel company is also set to grow over the coming years, so there is huge excitement with the various developments being announced.

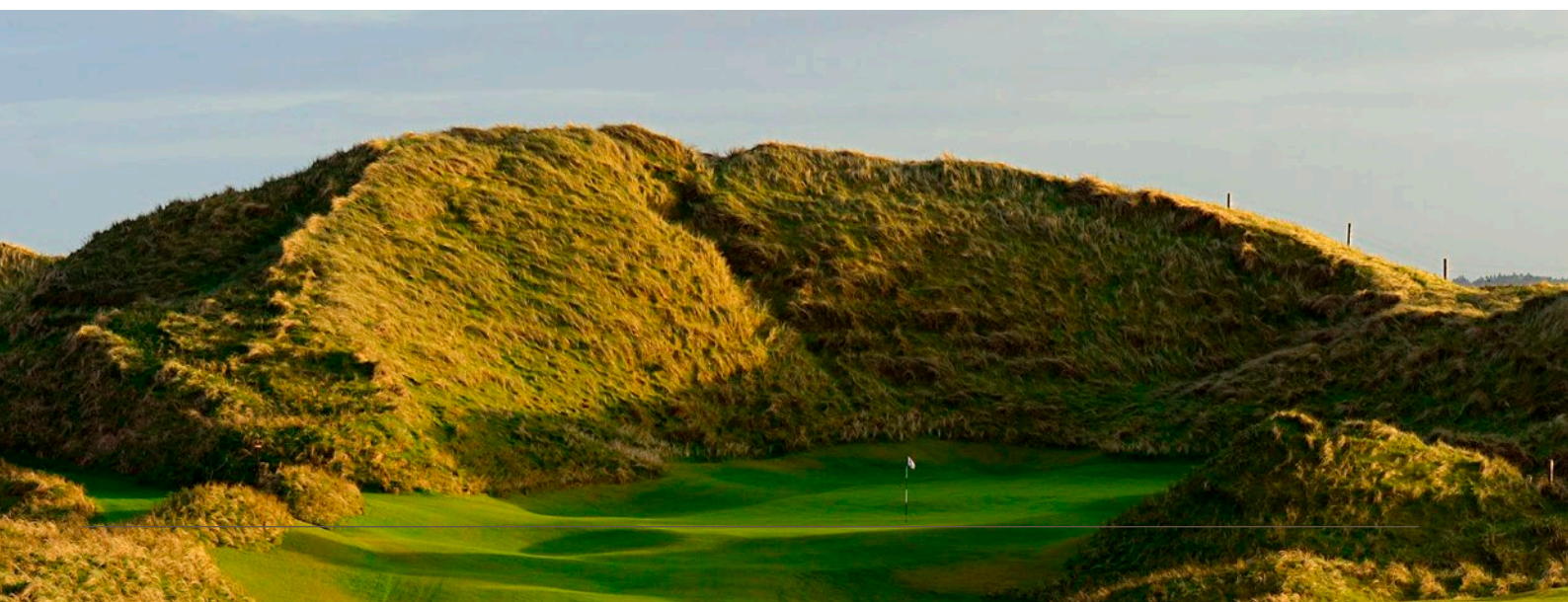
Last year, the main markets to deliver to our business were 49% Irish, 39% North America and 7.8% UK with the remaining balance from around the globe. In 2016, we are forecasting close to around 43% from North America. Our rates have steadily increased on our fantastic room product with the on-site spend very encouraging. Thankfully our advance bookings are a positive testament to the reach and strength of the Trump brand and marketing exposure.

The coastal protection works proposed here have received attention in the media. Can you talk about those?

We see these as important to our future, the golf course being the core asset of this business. Over the last 13 years, the coast has eroded approximately 15 meters in places and something has to be done to address the situation. If the dunes at Doonbeg are breached, it's not just the resort that will be affected but the neighbouring farmlands behind this area also.

You've said that collaboration and not competition is critically important for golf clubs in Ireland. Can you talk about that?

Yes, absolutely. Golfers visiting Ireland





want to try out different courses, so our competition is not a neighbouring course, it's a region (e.g. Scotland or the northeast of Ireland). We must ensure, collectively, that our offering, pricing, service and value in this context remain competitive.

As an industry, we have seen that our biggest attribute is our Cead Mile Fáilte and to be honest we lost some of that during the boom but to be fair, it also returned very quickly when it was highlighted. Our employees at Trump Doonbeg embrace a philosophy that we call the 'hugability factor'. The only difference between people working here is a different level of responsibility—ultimately we're all here to do the same thing—look after our guest.

In terms of promoting Clare, how effective has the Wild Atlantic Way been?

The Wild Atlantic Way is a brilliant idea, and the work at both national and local authority level in many counties is excellent. My only concern would be taking it for granted and not maintaining a strong focus on promotion and communication. We have a winning formula so let's keep it going, there is so much competition internationally.

I would like to see new opportunities identified, those beautiful signature points maintained in top order right along the route and never say to ourselves, "that's it; the Wild Atlantic Way project is done".

We've seen a lot of refurbishment and capital investment over the last couple years. Is that a sign of increased confidence or the necessity to remain competitive?

I think it's a little of both. As you know however, the recession pushed back a lot of investment but customer expectations didn't stand still. As we continue to lead the way out of recession over other economies in Europe, confidence is growing, travel is increasing and people are spending again. Within the Trump organisation, there is an expectation that hotels, resorts and courses within the portfolio maintain their premises in top condition which is commensurate with our objectives at Doonbeg.

Is it a challenge to attract and retain staff at the moment?

There are certain positions that are more challenging than others for example with attracting chefs. This situation does affect your approach to selection and

recruitment. On the flip side, particularly in our location, we are lucky to have hired and trained a local workforce who are proud of their association with the company and strive to deliver on their promise to delight the customer every day. There are also a number of in-house programs we have adopted to assist with employee retention through our HR department which have proven very successful.

In terms of the year ahead, how optimistic are you?

2017 is showing very positive signs at the moment with advance bookings showing strong growth. Our golf course will have settled down after two years of refurbishment and people love the changes that were made over the past two years.

Is there anything that you think may be a gap in terms of product enhancement for the tourism sector?

In terms of developing the overall tourism product, we saw the interest among our guests to find their family roots as part of The Gathering. An Irish centre for genealogy would be a great addition, a place where people from overseas with Irish connections can visit. ■



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RESTAURANTS

The positive outlook for the restaurant sector presented in our 2015 Report has continued into 2016. The restaurant sector continues to benefit from stronger than expected economic growth, positive consumer sentiment, a strong and growing domestic and international tourist market, falling unemployment rates and the continuation of the 9% VAT rate for tourism and hospitality. These factors are contributing to increased levels of optimism and confidence throughout the sector.

Despite the uncertainty Brexit brings, operator sentiment remains positive and there is clear evidence to suggest that restaurateurs, throughout the county, are focused not just on sustaining but actively looking to grow their business. Finding and securing suitable premises to fuel this expansion remains a challenge. This growth also places increasing demands on what is an already stretched and under resourced labour market pool.

To highlight the opportunities and challenges outlined above we spoke to Adrian Cummins, CEO of the Restaurants Association of Ireland. We are also delighted to present the views from Paul Cadden, owner of Saba and Helen O'Donnell, Proprietor of the Hunt Museum Café.

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BDO Review

Hospitality Performance – Restaurants

The Restaurant sector continues to present an optimistic outlook for 2016 with consumer demand for dining out continuing to rise and restaurants reporting improved business performance.

According to the Fáilte Ireland Tourism Barometer, 2016 started very well for restaurants with approximately half (49%) reporting an increase in the number of tables taken up by tourists compared to 2015. Interestingly, the Barometer report highlights a growth in visitors from North America and Europe, specifically France.

With a view on the impact of Brexit and the subsequent threat of a drop in visitor numbers from the UK, the above statistics from September 2016 provide an

insight to the sector in terms of growth opportunities to look at alternative markets with 66% of restaurants expecting an increase in North American visitors.

Last year, we identified that a three tier recovery was evident in the sector, with growth particularly strong in Dublin and major tourism centres. There is now clear evidence to suggest a more even distribution of this improving performance, although the rate of growth is lagging somewhat in the midlands.

Increasing levels of innovation are common within the sector and we are witnessing a number of new concepts being developed, enhancing both our overall restaurant and tourism offering.

Job shortages in the sector

A key trend emerging for the Restaurant sector is a shortage in the market for qualified chefs. The RAI has reinforced the message by highlighting the lack of chef training centres with only 1,800 chefs qualifying each year from certifiable training programmes. The shortage of skilled staff extends throughout the sector. Addressing the skills shortages has become a key issue with the RAI calling on government and policy makers to develop an educational strategy for the sector.

Modelling Ireland's VAT rate

In 2015, BDO called on government to examine what is happening in other European Union countries to support and encourage activity within the restaurant sector. There is little evidence to suggest that much has been done notwithstanding the retention of the 9% VAT Rate.

It is clear however that other countries are looking at what has happened in Ireland, with the Hungarian government taking the step of reducing its VAT rate on food in line with the Irish model as a means of stimulating activity in the sector.

Innovation in the sector

At the centre of the restaurant sector is the need to be increasingly innovative when it comes to the food offering. We have seen an increase in the trend of “food-to-go”



through suppliers such as Deliveroo and Just Eat with more and more operators providing this as an option to its customers. In keeping with the trends towards a healthy lifestyle, many restaurants are also producing menus that offer low calorie, gluten free, health conscious alternatives to their customers—a more proactive approach rather than forced measures such as calories on menus. Innovation with regard to pricing

remains important, but there is evidence to suggest some price inflation taking place in the market.

Refurbishment

A large number of operators in the market have refreshed or refurbished their premises in an attempt to move with customer demands, trends and reposition themselves to stay relevant. ■



Change and Challenge on the Menu

Adrian Cummins, CEO of the Restaurants Association of Ireland talks about evolving trends, increasing red tape and the need to market Ireland's food offering effectively.

It's been clear for some time that recovery is on track in Dublin. What's the picture in the country overall?

Dublin is doing very well at the moment but, overall, we would see that challenges still exist, particularly in the provincial towns and the smaller cities. The exception is the Wild Atlantic Way and the high tourism density areas. The general consensus is that tourism numbers are good in Ireland at the moment but that the tourist hotspots are benefitting most. The good news is that, to address this, the new government has sent a clear message that it wants to develop a Shannon and Lakelands brand that will complement Ireland's Ancient East, Wild Atlantic Way, and Destination Dublin. So that's positive, but work needs to start for the 2017 season straight away.

The RAI proposed an action plan for rural restaurants. What has come of that?

We're talking to the relevant agencies within the Department of Tourism and Department of Finance. We believe the best way to achieve this is for a rural business incentive or support that would benefit everyone, so we're putting that message strongly to government now.

The retention of the VAT rate is related to that and a huge issue in its own right. One of the points we are highlighting is that, across Europe, governments have looked at the Irish model and are replicating it. The Hungarian government recently decided to reduce its VAT rate on food from 28% to 5%. In reality, it will be 9% because an additional 4% will be put into a tourism marketing fund. That's a clever move and it confirms the Irish approach to stimulating activity in this highly labour-intensive industry was right. Our 9% VAT rate should be seen as our effective tourism corporation tax. Either we are serious about it or we're not.

What is your feeling on how Brexit will impact on the sector?

Probably the most pressing issue with regard to Brexit is the sterling exchange rate. The cost of coming to Ireland for British tourists has increased, so the high-density British tourism market areas, for example Dublin, will suffer as a result. The way to address that is for Tourism Ireland and Fáilte Ireland to refocus their marketing activity in the UK. Restaurants in the border areas are also going to feel that immediate impact. Another consideration is that UK imports coming into Ireland will be cheaper, so the big food



Adrian Cummins
CEO, Restaurants Association of Ireland

rai.ie

service operators in Northern Ireland will see a growth in demand and that will be at the expense of suppliers in the Republic. On the upside, I would see opportunities for Ireland longer term if we can get our act together with regard to attracting FDI and the financial services players from London into Ireland.

In places where the economy is recovering, there are obviously more opportunities. But are any significant issues holding back that growth?

The issue of rising rents and finding suitable premises is a major one, particularly in Dublin, and I don't see any quick solution to it. The progress on construction in the country is not where it should be. Shortages of skilled labour is also a major challenge. We need to see work permits around the sector being issued again to open up the market. The RAI is calling for the re-establishment of CERT and for one body to be in charge of hospitality education policy—rather than tourism education—in Ireland. We really need to invest in showing young people the range of career options in hospitality—not just culinary. We are seriously behind the curve on this, and it is costing our industry.

There are other kinds of issues emerging. For example, you have Dublin City Council





talking laudably about supporting the industry but, on the other hand, proposing a ban on fast food locations near schools. This kind of well-meaning but misguided sentiment could have a serious effect for our industry if measures are implemented that haven't been thought through.

What's happened with regard to the plan to introduce a calorie count on menus?

We met with the Department of Health just before the last general election, and plans were afoot to introduce the legislation, but then the election was called. I would say the legislation will be introduced at some point, and we will certainly be opposing it. To me, it adds fuel to the whole question of 'why would you get into this business in Ireland?' If you open a restaurant, you don't get any financial support or grant aid. No one congratulates you, no matter how much employment you provide or local suppliers you support. Instead, the Government finds new ways to add bureaucracy and red tape to your workload. It's amazing we see any entrepreneurship in the sector given how many things are stacked against it.



Are we doing enough to promote Ireland as a food destination?

It's a huge opportunity and I would say that not enough has been done. There's no marketing campaign to get the message out, even though everybody agrees the quality of the food offering here is now second to none. If you look at what Northern Ireland has done, I think we could certainly take the bull by the horns and say we are going to have a year to celebrate food and drink. Some people will quibble with the drink element, but I feel you have to include it. When you look at the research around the motivation for people coming here, our drinks heritage is central to a lot of that activity, yet at an official level you have this ongoing issue where no one wants to embrace it or be seen to promote it.

A few years ago we had the phenomenon of the pop-up restaurant. What do you see as the key trends at the moment?

The day of the pop-up has probably come to an end and there are a variety of reasons for that. What has really taken off is 'food to go' as part of the restaurant offering, where a company like Deliveroo brings what's on the restaurant menu right to your home. We are also seeing the restaurant industry going into the alcohol business in a bigger way and, while it brings some challenges, we're seeing the arrival of more international brands and food concepts to Ireland. It's a sign of the opportunities that are seen to be here.

If you were to give some advice to someone thinking about opening a restaurant, what would it be?

Do as much market research as possible and have a very good, costed, business plan. Engage an accountant before you hire anyone else! Above all else, you need to know the industry: once you have done your market research, know what the outcomes will be. Margins are likely to be low, it is hard work, with long hours, a lot of headaches, and when everybody is paid, don't expect to be a millionaire any time soon. ■

Savouring Success at Saba

Saba brings a stylish twist to Thai and Vietnamese cuisine in Dublin. Owner Paul Cadden talks about staying ahead of the curve as customers' needs change.

Saba recently celebrated its 10-year anniversary in business. What's been the key to its success?

The first thing I'd say is we have been very fortunate in terms of our team over that last 10 years. Our head chef has been with us since day one, as have the management team. In all, about 17 people have been with us through the 10 years and we've been very happy to reward that loyalty with career progress. One of our bar managers started off as a barista, while the manager of SABA Baggot St first joined as a waitress. Our general manager, restaurant manager and reservation manager similarly came up the ranks over the last decade. As a company, we invest a huge amount in training and it definitely pays off.

In addition to investing in people, you also invested in the business. Can you talk about that?

Yes. We completed some refurbishments during the summer to keep our image up to date. We work very hard on our menus and focus on moving with the times. Recently, we brought on board a nutritionist so that we could stand over the health of our food in a credible, scientific manner. We also came up with dishes like Caveman, which bring a paleo aspect to our menu, and we have dishes notated with gluten free, vegan, SABA-slim and SABA-light. All of that has really helped us to capture a particular market. Around 90% of our audience is female but both men and women are a lot more health conscious in general and it's great to be able to meet those needs.

So innovation is an important element of your success?

As a restaurant you always have to work on staying fresh. We've introduced different events throughout the year to capitalise on emerging trends. In January, for example, we have the Caveman Festival which is all about really health conscious paleo dishes—people love that after Christmas. We celebrate

Vietnamese New Year and Thai New Year, as well as more familiar events such as Halloween. People want a reason to go out and our job is to provide them with one. You could say that innovation in pricing is also what guided us through the recession. We were one of the first restaurants to drop prices in regard to package offers—like the lunchtime two course for €13.95, which is actually still running, and the two course €24.95 menu, which runs early in the week.

There's been a boom in terms of new restaurants in Dublin. Does that signal consumers are back eating out in a big way?

Absolutely. In the last five or six years, new restaurants in the region between Dawson St and South Great Georges St have added, I think, about 1,600 restaurant seats to the area. That's definitely a sign things are on the up and we can see the benefit of that too. Largely, that's in terms of steady growth rather than any major upsurge. There's no doubt the city centre has become a very vibrant dining out space, with the added bonus for consumers that it is such good value.

So is it all good news or are there any major issues that concern you?

As an industry, we are always dealing with red tape and it's a constant challenge. On an annual basis you have to deal with environmental health officers and fire officers, fats, oils and grease licenses, sunshine tax for seating outside, a special restaurant license you have to go to circuit court for, a wine licence, and all the hidden costs to running a restaurant. Rates went up 84% at the last review, insurance is starting to climb again, and rent is obviously a big issue.

Then there are wage costs. Currently the minimum wage is €9.15. Nobody has a problem with that but putting it up to €11, as has been suggested, would put unbelievable pressure on businesses. Accessing chefs



Paul Cadden
Owner, Saba Restaurant
sabadublin.com

is a particular issue for us has because all our chefs are Thai. Currently no new work permits are being issued into the sector so it's very difficult to bring Thai chefs in. That puts even more pressure on wage costs because all Thai restaurants and take-aways are drawing from the same pool.

Is Ireland doing enough to promote its food offering internationally?

In the last 10 years we've advanced in leaps and bounds with regard to our artisan producers and the amount of excellent restaurants throughout the country. It's





not just in Dublin. Galway is going to be the European City of Gastronomy and that's a sign of confidence and the amazing restaurants there. There are excellent restaurants throughout the country, and great belief in the quality of what we produce. I think it's up to individual restaurants and the industry to tell the story, as well as Fáilte Ireland and Tourism Ireland.

What impact do you think Brexit will have on the business?

We have a huge amount of Northern Ireland customers and would have quite a lot of, say, hen and stag parties from England, so it's going to be interesting to see what happens now that sterling has weakened against the euro. There hasn't been a serious immediate impact among the hotels at the moment because of the strength of the US market, but I definitely think it will be felt at some point.

There are some concerns about price inflation in the Dublin hospitality market. Is that an issue?

The market will tolerate slight increases here and there but we always need to watch out for sharp increase in prices. I think what keeps restaurants, especially in Dublin, keen on price is competition. You know you can charge whatever you like but if you're empty it's not going to get you very far. So competition is good and it's healthy. Every morning you wake up you have to be thinking 'how do we get bums on seats today?'

How optimistic are you at the moment?

In terms of tourism, Ireland is definitely back on its feet. The retention of the 9% VAT rate will help to sustain this. It has made it great value to dine out and it's created 42,500 jobs. In Dublin, there are great further positives in the number of new office developments and the general feel good factor out there. Ironically, that actually made this July/August a bit quieter than normal, because more people were away on holidays than before, but that's a really positive thing. When you look at the impact of successful restaurants in Dublin, and even more so in provincial Ireland, the amount of people they employ directly, the spin-off into the farming community, artisan producers, craft beer producers, and service providers, they have a huge impact, and that has to be recognised. ■



Treasure in the City

The Hunt Museum houses a superb collection of art and antiquities in Limerick. Helen O'Donnell explains how its café sustains its appeal to locals and visitors alike.

Helen O'Donnell

Proprietor, The Hunt Museum Café

huntmuseum.com

Tell us a little about the Hunt Museum café?

Next February, the Hunt Museum café celebrates 20 years in business. People might think we draw our client base primarily from visitors but we have a very strong local base, in spite of being a little bit away from the centre of the city. To attract that business our price point is really important and we run a very competitive business with really good service. During the recession, we developed a catering offering. This came about in order to utilise our staff, kitchen and facilities better. We did it to survive and it has proved very successful in adding to the overall strength of the business.

Is there a lot of strategic planning in terms of running the business?

Planning is essential in a business like this. Everything has to be marked and measured. I know the bottom line in relation to every product I sell, and I personally go to the cash and carry to pick up products and see where the deals are. The reality is that you've always got to be on your toes and you cannot allow slippage. That means constantly questioning prices, perhaps even moving suppliers from time to time.

What has changed in Limerick over the last few years?

Certainly this summer, we've noticed a pickup in business and footfall. We opened the garden here at the museum, which means you can now walk along the river, from King John's castle to Saint Mary's cathedral, through the gardens of the museum, have a coffee or lunch and then continue along the river. Limerick was behind the curve in terms of drawing footfall. I'm involved in the Chamber of

Commerce and our work has been to try to address that. The City of Culture 2014 was an excellent contribution to this; it raised the profile and changed the brand of the city.

How has consumer taste evolved over the years?

Consumers are much more aware of what they are eating now, and much more interested in new things. There was a time, 20 years ago, when if you had goats cheese on the menu, people would look at it and say, 'I think I'll just have the coleslaw'. Today, with travel, cookery shows, other nationalities coming to live in Ireland, and the range of ethnic restaurants we have, Irish people have a much broader palate. That's made it much more interesting and actually much nicer to work in the industry. There's an openness to trying new things and people like to be surprised to find new things that work.

How do you promote the café to the local community?

In tandem with the museum, we do some advertising but an awful lot of our promotion comes via word of mouth. We are currently upping our skills on social media and we understand it really is the future in terms of advertising. At a very practical level, you can tell people immediately about a special event or offer. The fact that there's a changing exhibition space, as well as the permanent exhibition, also means the museum stays interesting to the local community.

How will Brexit impact your business?

You certainly can't underestimate the impact and I think it will be very broadly felt. We would have noticed that tourists from the UK tend to comment that Ireland was expensive, whereas other nationalities had less of a concern. With the weaker sterling, they're going to find it that bit more expensive so experience would suggest that's going to have an impact.





What are the emerging issues a café like this has to deal with?

There are constant issues in terms of food that you have to stay on top of. Currently, there's the issue of calorie count. I think sometimes we are over regulated as an industry; we have numerous licences to comply with, which mean a lot of paper work. On the positive side, the 9% VAT has been very important and I think it's really important that this is retained. When you look at the huge number of hotels, restaurants and small coffee shops we now have in Limerick, all competing but also all helping to bring in tourists, the VAT rate has definitely been a bonus.

The RAI has proposed that 2017 be the year of food and drink in Ireland. Do you agree?

Yes, I think it's a fabulous idea, certainly the food side. I think the focus on drink might raise some concerns given the issues around alcohol we face in this country.

I have no doubt we are completely underselling ourselves as a place that produces some of the best food in the world: our beef is world class, our lamb is excellent, and our fish is superb. We have some of the best raw ingredients in the world and we need to think about

how we present it, and how we sell this country as a destination for food.

Are people eating out more now than a year or two ago?

We've seen the swings and roundabouts and we've come a long way from the time that people just stopped coming out to lunch. They're back and the growth of all the restaurants in the city is evidence of that. One factor is that people's disposable income has increased. There's also the fact that, for many busy people, it is sometimes almost as cheap, and more convenient, to dine out than to prepare food at home after a long day at work.

Are you optimistic about the year ahead?

I'm optimistic for the year ahead and optimistic for the café's future here at the museum. There are plans to expand and change the orientation of the museum towards the river, so there's a very exciting future for this space and we'd hope that we will grow with that and continue to be successful in our business.

There will always be a café here as long as the museum is here. It won't always be me but I've been here for 20 years and I would hope to contribute to another few years before I retire. ■







BARS

The sustained recovery for the bar sector which was particularly evident in Dublin during 2015 has continued into 2016. The growth can be attributed to the same set of factors positively impacting on the restaurant and hotel sectors.

The craft beer market continues to grow, although there is some way to go before it captures meaningful market share from the traditional established brands. At the same time food remains an increasingly important element of a pub's offering blurring the lines of differentiation between the traditional pub and restaurant business.

We discuss the latest trends in the sector and an overview of the outlook for the bar industry in Ireland for 2016 with the Licensed Vintners Association; Vintners Federation of Ireland; Frank Gleeson, Group Managing Director, Mercantile Group; and Brian Murphy and Cian Burke, The Curragower.

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BDO Review

Hospitality Performance – Bars

With little statistical information available, in terms of key performance metrics for the pub industry, anecdotal evidence provides the best indicator to overall performance in the sector.

One of the key factors underpinning the improving trading environment for bars has been the growth in tourist numbers. Rural pubs in locations where there are much more modest or little to no levels of tourist activity are still finding trading conditions tough.

This has resulted in the closures of some pubs, the majority of which are located within sparsely populated areas and where there is often an oversupply of competing pubs locally. However in general the rate of pub closures within the sector has slowed down with bars, particularly in rural areas, sustaining current levels of activity.

The shift towards food sales continues, with food sales accounting for an increasing percentage of the overall sales mix. This is a trend that is expected to continue.



Transactional activity in the sector

While the bar sector has not seen the same increase in the level of transactional activity experienced by the hotel sector, there has been a strengthening in the values being achieved in individual pub sales, mainly in Dublin. This increase is being driven by the limited number of pubs for sale entering the market, pushing asset prices up. Despite the

above stated increases, the provincial/rural "local" has yet to feel the benefit of the return of customers to the pub scene, resulting in a low level of pub sales and purchases. Indeed some rural pubs are still seeing a steady decline in turnover.

It is our experience that a large proportion of merger and acquisition activity in this sector has been driven by operators seeking to refinance their debt out of intermediate debt holders, such as Bain Capital, Cerberus and Goldman Sachs.

The largest deal this year by far was the Mercantile Group and the merger with Capital Bars. The combined Group revenue is reported at €40m plus per annum. Other portfolio groups such as Loyola Group and Paddy McKilleen Junior's Pressed Up Entertainment Group, to name a few, continue to be active in expanding their operations.

Wage costs

The increases to the minimum wage last year has had an impact on businesses within the sector with pressures being placed on operational costs which cannot be passed

down to the consumer due to the high level of competition in the sector.

Focus on food

In terms of growth, the bar sector is critically aware of the importance of the food offering as part of the overall service. As highlighted by the contributors to this report it may be necessary for bars to adapt and change their strategy to ensure they can offer this new service while at the same time maintain a focus on providing core bar services.

Impact of social media on the pub trade

The bar sector has become increasingly focused on meeting the individual needs of its patrons. Getting access to finding out more about those needs has never been easier with social media. However businesses will need to be innovative in order to engage with their audience and to build an online confidence. With more and more bars offering deals online if you share a picture, attend an event or send a tweet, the message is clear that in order to achieve a certain level of social media success your message needs to be clear, concise and addressing the right market. ■





Irish Vintners Review & Outlook 2016

Donal O'Keeffe, Licensed Vintners Association, and Pdraig Cribben, Vintners' Federation of Ireland, provide an insight into the key drivers and changes affecting the industry in the past year.

Donall O'Keeffe
CEO, Licensed Vintners Association
lva.ie

What are the key factors currently driving activity in the bar sector?

Consistently, month-on-month, the on trade has enjoyed strong growth during 2016. It's being led by Dublin, other major urban centres and the main tourist towns. This is down to a few factors. Firstly, the economy is clearly recovering and consumer confidence is improving steadily. People feel more secure about their employment and future and are therefore more willing to spend their discretionary income. The trade also continues to benefit from the very strong tourism performance that has been achieved this year. Secondly, publicans have improved their offering whether that's by moving into craft beer, selling high quality wines, coffees or serving excellent food. And thirdly, Irish people, at our core, like to socialise. While at-home entertaining is still very popular, people like to be out socialising. That need to be out and about remains very strong and pubs are well placed to benefit from it. Finally our members continue to benefit from the number of large events taking place in the city's prime venues—Croke Park, The Convention Centre, Aviva Stadium and The National Concert Hall—we are lucky in that they bring a lot of business to the city.

We've seen increasing levels of consolidation and transaction activity in the market over the last 12 months or so. Do you think this trend is likely to continue?

Absolutely. The market was essentially frozen from 2008 to 2013 and now we are seeing that there is a pent up desire to sell and a demand to buy pubs once again. The banks are open to lending to the sector and there is finance available for

good operators to purchase decent pubs. I expect that we will see more normal and stable levels of transaction activity return to the sector over the next couple of years.

Is the sector seen as an attractive career choice and is there a new generation of publicans coming to the market?

Yes and it is a very healthy thing—they bring a new energy, fresh ideas and a new approach to the business and that is very important for the sector. If you look across the city now you will see sons and daughters of publicans running the pubs and it's great at every level.

Is the craft beer market continuing to build momentum?

Certainly and it continues to enjoy annual growth. There is huge consumer interest in it and much media attention around it because it makes a great news story—small craft brewery, using local ingredients, brewing beer locally—it's been very good for pubs. Having said that, craft beer accounts for approximately 2% of total beer sales in the on-trade so it's a tiny category. If you look at the United States where it is much more advanced, craft beer represents approximately 12% of total beer sales. So over a generation, we would expect craft beer to grow to 8–10% of the market but the mainstream players will continue to dominate, no question.

What sort of impact do increases in the minimum wage have on the sector?

Wages are the single largest variable cost in the business, sitting anywhere from 22–38% of turnover depending on the type of pub it is—so a truly significant element of cost. We felt that the minimum wage increase last year to €9.15 per hour was extremely high relative to inflation in the country, it added to existing cost pressures on our businesses and was difficult to absorb as the sector was not in a position to put prices up. We feel the 10 cents that is currently proposed by

The Low Pay Commission is reasonable. For us, the long-term goal is for wages to rise at a rate no more than the rate of inflation. We have to retain our competitiveness and ensure wages do not race ahead as it will ultimately hamper our ability to create jobs.

Do you think the regular media criticism of the prices charged by some publicans, particularly in Dublin's tourism hot spots, is fair?

This issue has been with us as long as there have been pubs. There are areas of the city, at peak locations, where prices are higher as the costs of doing business in those locations are higher. Ultimately, we feel that there is a pub to suit every customer. In the middle of the city centre you will find high priced pubs, low priced pubs, and everything in between. It's important however that the trade offers value because at the end of the day this is a discretionary spend and people won't go if they feel they are being ripped off. So the fact that the trade is in recovery, both in the city centre and across the suburbs, is proof to us that the trade continues to offer value to the customer.

What impact is Brexit likely to have on the sector?

In the aftermath of the Brexit decision there wasn't any obvious or notable fall off in activity. We put this down to the fact that many people would have had their holiday plans made and simply carried on. However, we are worried about bookings for the final quarter of the year as UK tourists will be adjusting to the fall in the value of sterling. On a positive note, and what is important to remember is that the currency variances are applicable throughout the entire Eurozone area and whether a British tourist is looking to book a weekend away to Dublin or Madrid, the same issue applies. In this regard, it is vital that the entire hospitality sector does what it can to ensure that Ireland Inc. retains its international competitiveness. ■



Padraig Cribben
CEO, Vintners' Federation of Ireland
vfi.ie

How is the licensed trade outside Dublin currently performing? What factors are driving this performance?

There is a recovery taking place but not in a way that is in any way evenly spread. The biggest factors at play are increased employment and, as a result, disposable income, tourism and stronger consumer confidence. Coupled with these are an increased emphasis on food in pubs and a greater concentration on events.

The rate of pub closures around Ireland has slowed down, with 2016 witnessing good recovery in bar sales. I think what we're seeing is the resilience of the trade. The bar trade has responded well, very quickly, effectively and efficiently to the challenges of the last number of years.

What sort of impact are increases in the minimum wage having on the sector?

The last two combined increases are having significant effects especially for those with a substantial food offering. It is not just these increases but the relativity issues that are damaging. If the minimum wage is the base rate there are relativities from there and all of those in jobs with higher rates will seek to maintain relativities. Not only that but their representatives will seek to maintain the relativities on their behalf. This leads to a spiralling effect on wage costs that will ultimately result in job losses and greater costs to the exchequer.

We must remain competitive in this sector. Labour costs are one of the highest costs experienced in the trade and any increase in these labour costs will have an effect on that competitiveness. It needs to be recognised that we are competing with

countries like Portugal and Spain for tourism where the respective minimum wage rates are almost half of the rate in Ireland.

What are the other major issues or challenges facing the sector at present?

Availability of suitable labour especially chefs, growing insurance costs and commercial rates. With respect to the issue of rising insurance costs, we believe that the government need to fully and further empower the Personal Injuries Board. It is vital that instead of that (the Personal Injuries Board) becoming a kind of stepping stone - that it becomes the place where the vast majority of claims are fixed.

The uncertainty created as a result of Brexit is also impacting on our members, particularly those in the border counties which have seen a downturn of between 8-12% spend of British tourists compared to this time last year.

Are you/your members seeing any discernible emerging trends in terms of the profile of your customers?

Not particularly. In some areas there is a slight movement back to the pub from the younger generation but it would be an exaggeration to call it a trend at this stage. What has been more discernible is the pattern of business, for many of our members, has gone from being one of seven days to being very concentrated at the weekend particularly Fridays, Saturdays and Sundays up to tea time.

With many bars continuing to increase and build on their food offering, how important is the retention of the reduced VAT rate for the licensed sector?

While tourism is on the up there are many external and some internal issues that could dampen the growth. We must try to control the controllables and the reduced VAT rate is a prime example of this. It is essential for the entire hospitality industry that the

reduced VAT rate was retained and as such we are delighted for the recent assurance on this issue from Minister Noonan.

Has the VFI made progress in its efforts to have the Government do away with the ban on the sale of alcohol on Good Friday?

At the start of 2016 and in anticipation of the 2016 celebrations we launched the #AboutTime Campaign, which called on the Government to allow the sale of alcohol as normal on Good Friday. We see the current law as an imposition on pubs throughout the country and our members regularly encounter tourists each Good Friday who cannot understand why they can't go to the pub for a drink. We believe that there is broad public support to do away with the ban all over the country. Despite our efforts to date, we are yet to receive any real commitment to amend the legislation.

As we head towards 2017, how optimistic are you for the future of the Irish pub?

Very optimistic. There is probably still a level of over pubbing but that will sort itself out in time mainly through a lack of succession. That said the future for the trade is good. I would expect that the nature of our business will change significantly in the future, with a much greater concentration on food and high quality events as a means of driving customers to our premises.

Finally, this time last year, both the VFI and LVA were heading towards what we thought would result in a merger of the two organisations. Clearly this hasn't happened. Have these plans been put on hold or shelved completely?

We are working towards implementing the learnings from the process which were many, varied and detailed. Furthermore we remain committed to continuing our collaboration with the LVA on issues of importance affecting publicans and the licensed sector in Ireland. ■

Managing Success at the Mercantile Group

Frank Gleeson, Group Managing Director, Mercantile Group, speaks to BDO about the benefits of consolidation in the sector, impact of social media and the promotion to the wider tourist sector.

Frank Gleeson

Group Managing Director, Mercantile Group

mercantilegroup.ie

Tell us a little about the Mercantile Group.

The Mercantile Group is one of the leading entertainment and hospitality businesses in Dublin City Centre. We now operate 14 businesses employing more than 650 employees. Our aim is to lead the charge in the hospitality industry in Dublin city with innovative and high quality offerings.

How did the merger with Capital Bars come about?

Both the Mercantile and Capital Bar Group had successful businesses—all Dublin city centre located but in complimentary locations. The synergy between the two leading groups in the city was an obvious decision and it has resulted in significant cost efficiencies and significant buying power. We are now one of the leading hospitality bar groups and this will give us the platform to expand over the next three years.

Would you expect to see further mergers and consolidation in the sector?

I believe that we could see future mergers in the industry, there is great negotiating power, knowledge and facilities that can come with economies of scale in the hospitality sector, e.g. better deals with suppliers.

With regard to consolidation in the sector, from 2008 to 2012, just over 900 businesses failed in the license trade. However from 2012 onward there have been many new entrants to the marketplace, particularly in the Dublin licensed market. There is now a blurring of the lines between pub and restaurant businesses, restaurants are competing with pubs in the late night bar business. The industry has become highly competitive and there will be casualties as a result.

How is the business model for Dublin pubs evolving? Is there greater emphasis on food and providing live entertainment? Is demand strong throughout the week or are there peaks?

Absolutely, it has become vital for pubs and bars to have some sort of food offering. There is less daytime drinking going on in most bars and it is therefore important to attract customers throughout the day, whether that is through food or coffee offerings.

The weekend is still our busiest period of the week, however customers are beginning to go out early and mid-week. Where customers spent larger sums of money in just one night over the weekend, this spend has been diluted throughout the week. We therefore focus on attracting customers every night of the week through running events, festivals, promotions and group offerings.

Are you noticing any discernible trends in terms of the profile of your customers or their drinking patterns and preferences?

Yes 100%. Customers want greater quality and choice when they go out nowadays. They want new and different experiences and don't mind paying extra for it. This is clear when we look at the steady rise in craft-breweries, cocktail offerings, coffee roasters and organic producers.

The age profile of our primary customers is predominantly the 18–35 year olds who are out and socialise 2–3 times a week. This group are more digitally literate than any other previous demographic. They are well travelled and expect the same offerings and standards that they have found abroad; what happens in New York or London is now happening here instantly, but the key is being able to execute it effectively.

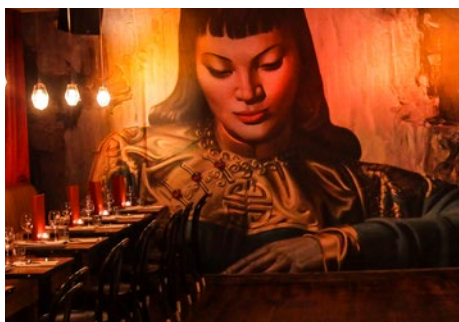




What influence does social media have on how you manage and operate your business?

If we look at the facts: the average Irish person spends approximately 1hr 40mins per day of their time on the internet, browsing through social media. We have placed paramount importance on constantly improving our online presence.

Quality imagery and authentic content online is vital if we are to attract our target



customers' attention. Online reviews can have a high impact on public perception of your business whether it is negative or positive.

What impact, if any, are increases in the minimum wage having on your business?

As rents and rates are climbing back up again, the market is becoming fragile. We need to always be mindful if there are any changes regarding the minimum wage. That said, we have our minimum wage starting at €9.35 an hour but in turn we don't pay Sunday premium as a result.

Is enough being done to promote the pub as part of the overall tourist experience/ offering?

I do believe a lot is being done to promote the pub as an integral part of the tourist experience. We were invited to the Irish Pubs Global Federation Gathering 2016 in late



September and gave a speech on Modernising the Irish Pub. Lonely Planet put 'Visiting an Irish Pub' as number 3 on the list of top 21 things to do in Ireland.

The Irish pub is a very special concept and pillar of tourism in Ireland, however if we are to attract younger generations into our bars, we need to create something authentic. While travelling abroad, many of us have seen the stereotypical 'Irish bar' with a standardised interior, music and offering. The days of this type of bar are quite numbered and we therefore must adapt and modernise. Modern bars should be looking at the following issues:

- Event-driven evenings
- Strong online presence
- Mixology
- Promotions
- Quality pub grub
- Craft beers
- Live music
- Great outdoor spacing.

How confident are you for 2017?

I expect to see a high level of consolidation in the coming 12–18 months. The growing competition over a small customer base means that the most innovative, competitive, knowledgeable and perseverant operators will remain in the sector.

Brexit will have big implications on the Irish Tourism and Hospitality industry. The drop in the value of British sterling could result in a significant decrease in the number of British tourists visiting Ireland in the future; we have already experienced this over the last two months.

With the growing threat of terrorism in many parts of Europe, Ireland has become one of the safest countries in Europe to visit. I believe this will positively impact our tourist trade over the coming year. ■



Quality in the Heart of the Limerick Quarter

Brian Murphy and Cian Bourke proprietors of the Curragower since 2008 address how they have adapted their business to drive growth and how Brexit may affect business in Limerick.

Tell us a little about your business here at the Curragower?

We took over the running of the bar from Cian's family in 2008 with a focus on the drinks side of the business. Currently the main focus of the business has shifted to the restaurant side with food being the driving force. We have come from being just a local bar, sports orientated to more of a gastropub restaurant.

What is your customer profile?

Our customer profile is very broad. The age group is a mix of 19 to 25 year olds up to pension age and families. The location of the bar plays an important role in its attraction to the market along with our food offering.

So as you mentioned, you both took over the Curragower in 2008, was it challenging navigating the downturn and have you seen a huge turnaround since then?

When we took over the business in mid 2008 the country was in a pretty bad way. It was a difficult few years to get through. On a positive note starting at that time, we didn't have big figures that we were trying to hit and we weren't looking at massive losses. We also weren't looking at our figures and feeling that we were down 30% or 40%. While it was a really difficult time and business was quiet and there were a lot of long hours and pressure, the fact that we weren't looking at massive losses when we started in 2008 kept us fighting our way through it.

What trends are currently driving growth in the Vintners market?

For our bar the biggest trend is gin. We see that moving towards whiskeys in the next 12 months. Whiskey sales are up and diversifying a lot more from the more common well known brands. There is a lot more fringe whiskey companies coming on the market and doing really well in the same way that gin did over the last two years.

Brian Murphy, Cian Bourke
Proprietors, The Curragower
curragower.com

With regard to the evolution of craft beer, what sort of impact has this had on your business?

Obviously the craft beer market has been huge in the last three or four years and is still growing all the time and we don't see that stopping any time soon.

The impact of craft beer sales has been very positive in our business. It has broken up the strangle hold that the bigger brands had over sales which I think encourages more people to try new things.

Has your customer profile changed over the last few years in light of trends changing?

We would say people are consuming alcohol less at home than they would have been in the last four or five years in our experience.

You have already mentioned that the food offering has been huge business since 2009, would that be the main focus at the moment?

Yes—it has been steadily growing all the time. This year will be our first year where food sales will surpass drink sales. In particular, since our extension, one of the most important elements for any suburban pub in this day and age is to have a strong food offering. If you're not doing food, or you're not doing it well in a suburban area it's hard to compete.

How does the Limerick economy shape how well your business is doing?

Ultimately, the more people employed, the more people are out spending. In the last two years we've definitely seen a big increase in corporate spend in terms of the local businesses having functions, bringing clients in and business people eating out.

Is the skills shortage a major issue for your business?

There is a big skills shortage in our business





with chefs and this is a well known issue in the industry. The RAI are really making it a big issue. The government definitely need to get involved at some level to try and focus a bit more on immigration and training.

Do you try to hire staff locally or would you tend to have a lot of non-nationals?

We try to hire locally all the time. We are surprised there isn't more training locally for chef staff. There's a good course in Limerick Institute of Technology but we're surprised there aren't more FAS training or apprentice programmes available.

Do you have difficulty retaining staff once they are trained in?

No, we don't have that problem. We have trained two chefs since we became proprietors and both of them are still with us. All of our bar staff and managers were trained by us and they have all stayed.

Do you think enough is being done in terms of marketing the bar sector outside of Dublin by Fáilte Ireland and Tourism Ireland?

We see a lot of business from the Wild Atlantic Way. In terms of those kinds of weekend trips, there is a greater focus on Dublin. Limerick, as a whole, could definitely look at marketing the county as more of

a weekend destination. We do need to improve the hotel facilities to accommodate more visitors, and have a better offering in terms of hostels and affordable accommodation for the younger people and backpackers. These improvements create a better atmosphere for the traveller who comes to Limerick. If you look at Galway city and what they do and the numbers they get on a yearly basis, we definitely need to tap into that as much as we can while tourism numbers remain positive.

Do you think Brexit will have an impact on the bar sector? Would you have a lot of UK tourists here?

It is very hard to know how Brexit is going to go. It is the big question mark out there at the moment. We don't see it affecting us in a huge way—we do get a reasonable amount of British tourists, but most of our visitors are American and European. We haven't seen a drop off in recent months but at the moment it is very difficult for us to quantify or to know whether or not there will be an impact. In terms of our products that we buy in, we're not buying anything directly from the UK so it's difficult to determine if this will effect our suppliers or have a big impact on the prices. It is just a case of seeing out Brexit and seeing what happens.

How optimistic are you about the year ahead?

We are very optimistic at this stage into our financial year and are seeing an increase in sales. Most of this increase is due to the increased capacity, with our extension. We are still very optimistic for the year going forward and we have plenty of room to grow. We're definitely expecting a lot more competition as there are a lot more new bars opening in Limerick. However we are still very confident we can hold our own against any other competition that comes to the city. There is plenty of room for more businesses in Limerick to open—bars and restaurants—to do well and to improve the offering of the city. As far as we are concerned more businesses doing well creates a better atmosphere, draws people into the city and gets people out enjoying themselves.

Did you have a real need to extend once you started the food offering?

Last year before the extension we were turning people away on a regular basis. It was apparent that we needed a bigger space and so we undertook the extension which took a while. It was a difficult enough process but we got there in the end. It is open now since Christmas 2015 and we can now seat over two hundred patrons. ■

HOSPITALITY SECTOR TEAM

Our knowledge of hospitality trends coupled with many years of practical and advisory experience have made BDO a respected authority in the field. BDO's specialist hospitality advisory team is a multi-disciplinary group which combines extensive strategic planning, operations, corporate finance, recovery and taxation expertise.

We have a long-standing reputation as advisers of choice to the hotel, leisure and tourism sector. When it comes to supporting our clients' interests, we know that in-depth knowledge of this industry and how it operates is every bit as important as professional expertise. Our combination of experience and technical skill means we can always find the best way to achieve your goals—such as opening a new premises, enhancing your competitive position, or simply obtaining quality accounting and tax advice.

BDO's activities are as varied and diverse as our clients' demands. However, we always have two goals: client satisfaction and professional integrity. We aim to achieve both.

Our team is made up of experts in their field and is perfectly placed to assist and guide operators, financiers and other key stakeholders to:

- Plan and implement a strategy for their business
- Review operational and financial performance
- Effectively manage weak and underperforming hospitality businesses
- Critically appraise an investment
- Secure third party funding, and
- Negotiate with operations partners.

Our specialist hospitality consultancy and advisory services include:

Asset Management	Corporate recovery/insolvency	Market & financial viability
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