



MANUFACTURING OUTLOOK

THE HEARTBEAT OF THE ECONOMY

As consumer sentiment in both the domestic and international markets continues to pick up, the Irish manufacturing sector is looking forward to a period of solid growth according to research carried out by AIB and Ibec.

With over 4,000 manufacturers operating throughout Ireland, employing 159,000 staff between them, the manufacturing sector is an important component of the Irish economy. Manufacturing output accounts for 24% of Ireland's total economic output while accounting for the lion's share of Ireland's €89bn in exports during 2014.

Research carried out by Ipsos MRBI on behalf of AIB and Ibec, shows that the manufacturing

sector in Ireland is now enjoying a renewed period of growth on the back of increased consumer demand in both Irish and overseas markets. This has also been matched by heightened levels of optimism throughout the sector.

The research focused on 273 manufacturers operating in the engineering, pharmaceutical, food, drink, electronics, medical devices, printing and packaging sectors. Indigenous manufacturers accounted for 60% of the respondents while the rest were foreign-owned. In addition, some 71% of those surveyed had an export component to their business while they varied in size with 36% having a turnover in excess of €20m while at the other end of the scale, 26% said it was less than €1m.

While the manufacturing sector is a substantial employer, 21% of those surveyed employ in excess of 250 staff yet 27% of them actually employ less than 10 staff. But they are also optimistic on the employment front and 33% say their workforces will have increased this



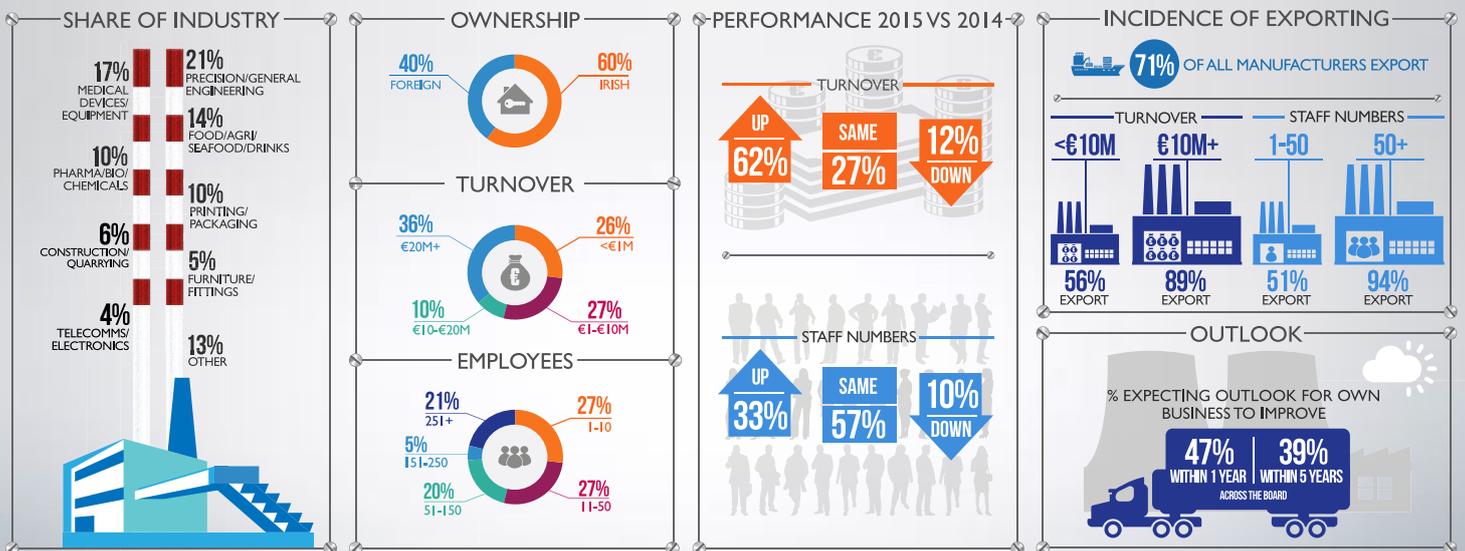
Aviné McNally

Director, Ibec Networks

year with the majority (68%) estimating that their headcount will be up by between 1-10%. The optimism is also evident in the expectations manufacturers have when it comes to their financial performance with 62% indicating that their turnover has increased in 2015.

"Overall, the survey is positive and it shows that the sector is optimistic and that it's playing a big role in Ireland's economic recovery. Manufacturing is the heartbeat of the economy. Not only does the sector contribute in terms of direct employment and expenditures in the economy, it also creates regional and secondary employment and stimulates innovation and research which are key drivers of technological advancement and management capability," says Aviné McNally, Director of Ibec >>

SECTOR PROFILE



Networks. She adds that Ibec is currently in the process of setting up the Irish Manufacturing Association to act as a cross-sectoral umbrella group to raise the voice of manufacturing in Ireland and to engage with industry and government to ensure it reaches its full potential.

“Despite the positive indicators, there are a number of issues and challenges raised within the survey that are being faced by the sector, particularly in relation to the competitiveness of the manufacturing sector overall,” she adds

“Challenges regarding national infrastructure, cross sector collaboration and access to skilled labour, have a significant impact for manufacturers. So we must focus on addressing those challenges because if we don’t, we will lose the opportunities and the gains that are there for the sector to take hold of,” she says.

“A lot of manufacturers struggle when it comes to accessing and retaining the skilled people they require”

Some of the external challenges listed by the survey’s respondents include the possibility of reduced demand, exchange rates and regulation and compliance-related issues, all of which have the potential to reduce the bottom line. Likewise, some of the internal challenges they face include pressure on profitability and margins, increased overheads, including labour costs, and the cost of energy and utilities.

“All of these issues have major implications on the sector’s competitiveness, especially for those companies that are exporting.

Manufacturing firms think strategically about the costs in their entire supply chain and what matters is the total cost base and the overall impact of the various elements. While we must focus on maintaining business and input costs, at the same time ensuring that there is a tax system in place that helps manufacturers retain staff and also encourages skilled people to come back to Ireland. A lot of manufacturers struggle when it comes to accessing and retaining the skilled people they require,” says Aviné.

While there are obviously challenges facing the manufacturing sector, there are also plenty of opportunities, she adds.

Increased output and an expected upturn in demand in both the domestic and international marketplace were cited as the main opportunities. In addition, it is clear from the research that manufacturers are keen to increase productivity and develop new processes that will make them more efficient.

“The value in developing cross sector dialogue and effective collaboration is greater than ever.”

“This can be achieved through successful collaboration and mentoring. The value in developing cross sector dialogue and effective collaboration is greater than ever; and is a key opportunity for manufacturers to benefit as it contributes to knowledge sharing, innovation, developing skilled talent, improving operational efficiency and supply-chain agility,” says Aviné.

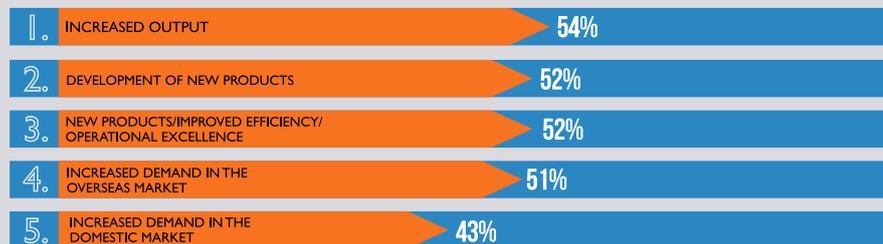
“For companies developing new products and focusing on innovation, we need to ensure that Ireland has a knowledge development box (KDB) which is focused on innovative ways of commercialising and developing knowledge into a final product. This will in turn drive innovation in Irish business and help attract and retain IP and related activity.

“In addressing these and other challenges we can create the environment which further supports and develops the manufacturing sector so that they continue to compete on the local and international stage,” she concludes.

THE OPPORTUNITIES

TOP 5

OPPORTUNITIES (% CITING AS MAJOR)

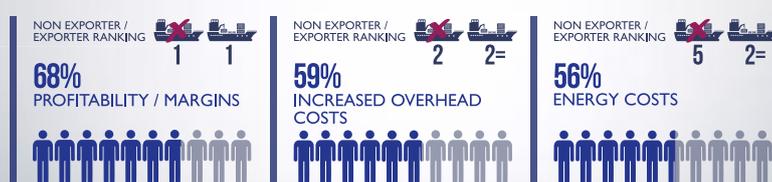


THE CHALLENGES

TOP 3 EXTERNAL CHALLENGES (% CITING AS MAJOR)



TOP 3 INTERNAL CHALLENGES (% CITING AS MAJOR)



THE COMPETITIVE CHALLENGE

Irish manufacturers are looking to become more competitive in international markets and are investing in a range of measures aimed at boosting efficiencies, says Alan Makim.



“The contribution of the manufacturing sector to the Irish economy cannot be understated. Manufacturing companies produce diverse products from food and drink, right through to medical devices, machinery and pharmaceutical goods and have fuelled Ireland’s strong export performance in recent years” says Alan Makim, Sector Specialist, AIB Business Banking.

He points out that an important issue for all manufacturers is their ability to be competitive in international markets while at the same time managing their own operational efficiencies. “This in turn can have a significant impact on the bottom line and, as the Ipsos MRBI research notes, maintaining profitability and margins was cited by 68% as a major internal challenge for many manufacturers,” says Alan.

“With so many manufacturing companies trading internationally, exchange rate volatility is obviously a threat to those that have foreign currency exposures,” he says. “Even small movements in rates can have a serious impact on profitability, particularly in a high volume low margin business. Through a specialised suite of treasury products and experienced teams, AIB can help companies protect their hard earned revenue from exchange rate risk,” he adds.

“Creating greater efficiencies and ultimately improving their competitiveness, both in the Irish and international marketplace, is a big issue for manufacturers, many of whom are exporting and competing with overseas companies with lower cost bases. In addition, with increased overheads and energy costs also

singled out by the respondents, Irish SMEs are exposed to higher natural gas and electricity prices than the majority of other European countries, putting them at an instant disadvantage to some of their European competitors,” says Alan.

He points out that SMEs have limited control over what they pay for a unit of energy but improving their efficiency through reducing energy consumption can have a really material impact on margins.

“Highly efficient businesses are leaner and more sustainable and this is why AIB has a dedicated €100m fund to support SMEs wishing to undertake energy efficiency projects,” he adds.

“The manufacturing industry remains a key sector for AIB with new lending to manufacturing companies up 24% for the first nine months of 2015 when compared to last year. Demand for plant and equipment finance is strong as business activity levels increase and companies begin

to replace older assets. SMEs should consider the total lifecycle cost rather than just the upfront expenditure when making an investment decision,” Alan notes.

“The research also shows that manufacturers are also planning significant investments over the next three years in areas like technology, equipment, new products and services, R&D, exporting and energy efficiency. This is very encouraging and clearly demonstrates that the sector is committed to growth and innovation.”

He notes that while 80% of the respondents to the survey indicated that future investment will be funded by retained profits, some 40% of them cited bank funding as the most likely source while Government or State agency grants were cited by 41%.

“Planned investment levels vary, with 20% of respondents saying they will require less than €50,000, rising to 49% who will need between €250,000 and €999,000 while 7% estimate they will invest between €1m-€10m. This bodes well for the manufacturing sector as it clearly indicates that it is in expansion mode and is keen to invest in areas that will make it more efficient, competitive and innovative,” concludes Alan.

AIB has a range of products and services to support manufacturing companies including asset finance, working capital finance and exchange rate risk management. To find out more about any of our products or services please talk to your relationship manager or visit www.aib.ie/business.



CASE STUDIES Two AIB customers who have developed successful indigenous manufacturing businesses, share their thoughts.



Bill O'Sullivan, Finance & IT Director, Boyne Valley Foods.

Boyne Valley Group has come a long way since its founder Malachy McCloskey started out working in his family's fruit and vegetable shop in Drogheda back in the 1950s. Today the group is one of Ireland's most successful indigenous manufacturers, employing over 200 staff at its 269,000 sq. ft. headquarters in Drogheda.

The group's stable of consumer-focused brands includes household names like McDonnells, Chivers, Erin, Don Carlos, Lakeshore, Lifeforce, Homecook and the eponymous Boyne Valley Honey. In addition, it manufactures the Killeen brand of refuse and cleaning products while it is also contracted to make Brillo Pads for the global household products company SC Johnson.

According to Bill O'Sullivan, the group's Finance & IT Director, the 2012 acquisition of Premier Food's Irish brands added an export

dimension to the business and now 10% of turnover is attributable to exports to 30 different countries.

"We plan to increase our export business and we have been working with the likes of Bord Bia and Enterprise Ireland, who have been very helpful in terms of their expertise, research and knowledge of international markets. They have also given us insights into

"We start with the consumer and look at what they want and then work our way back from there."

the concept of Lean manufacturing and how manufacturers like ourselves can optimize the production process and become more efficient," he says.

With a portfolio of category-leading consumer brands, one of the biggest challenges for the company is to stay abreast of needs of the consumer and their changing retail and consumption habits.

"We start with the consumer and look at what they want and then work our way back from there. We are fortunate that we have a range of excellent brands but we have to constantly look at what's going on in the marketplace," he says.

"Innovation is key for us. Whether it's something like developing a new range of curry sauces for McDonnells or mini-pots of jelly for Chivers, it all goes back to the consumer and what they want. So we have to invest a lot in our brands and in understanding the consumer," he adds.

A customer of AIB for over 50 years, Bill says the bank has played an important role in the company's expansion down through the years. "We've always had a good and close working relationship with the bank and it has worked alongside us as the company has grown. This is particularly true when we embarked on our biggest expansion in the company's history in 2012 with the acquisition of Premier Foods' Irish brands. The good thing is the bank understands the business and that's very important," he says.



Brian McKeon, Managing Director, DL Precision.

Founded in 1987 as a tool-making company, supplying precision tooling to the engineering sector, the Galway-headquartered **DL Precision** is now a leading supplier of special purpose components to the European medical device and aerospace industries.

Operating from a manufacturing facility on the outskirts of Galway, the company employs 55 staff. With many of the world's leading medical device manufacturers in the Galway region, DL Precision was perfectly located to tap into the supply chain for many of them, says managing director Brian McKeon.

"In the late 1990s the company began to supply small components to electronics companies in the area as well as to medical device companies that were basing themselves in the Galway region. Then in the early 2000s

we began to make special purpose tooling to the customer's design and we also made a greater effort to win more business from the medical device sector. We now supply six of the top 10 medical device manufacturers in the world," he says.

In 2011, it expanded into the international aerospace sector by supplying precision-engineered and flight-critical components to international aerospace companies. As a result, the company's export business has grown with approximately 40% of the company's turnover now attributable to its aerospace customers. By 2018, exports are expected to increase to 70%.

"The international aerospace industry is huge and the order books of companies like Boeing and Airbus are full for the next 20 years and that's good for companies like ours," he says.

Operating in a competitive global market, DL Precision has invested heavily boosting its

operational efficiencies through a range of initiatives, including SC21 (Supply Chain for the 21st Century) and a LEAN programme.

"These are ongoing initiatives that will make us much more efficient and which will help to empower the workforce and help the company become a lot more dynamic innovative and forward looking," he says.

With the help of finance from AIB, the company has also invested in a 20,000 sq. ft. state-of-the-art climate controlled premises in Galway, which it moved into in November 2014.

"It's a capital intensive business and we will continue to invest in new machinery and production processes and AIB has been very supportive of the company from the outset. As a lot of our sales are denominated in dollars, AIB has also helped us manage our foreign exchange exposure by providing us with very competitive rates and constant updates about currency movements," he concludes.

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