CBRE AIB Logistics & Supply Chain

CONFIDENCE INDEX 2019

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All figures and data relating to the CBRE AIB Logistics & Supply Chain Confidence Index within this report have been researched by Analytiqa.

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Introduction

CBRE Ireland, AIB and the FTAI, in conjunction with specialist sector research agency Analytiqa, have recently undertaken the fourth in a series of annual surveys to assess confidence and expectations in the Irish logistics and supply chain sector. This survey mirrors similar analysis that is undertaken by Analytiqa in other countries on this specialist sector of the economy.

We are once again delighted that more than 50 senior decision makers have expressed their views and insights to facilitate this important industry research. In addition to sharing their views on the recent performance of the logistics sector, respondents also outlined their expectations over the near term.

Respondents included CEO's, Managing Directors and senior management of some of the largest logistics providers and buyers of supply chain services across the island of Ireland. Over 75% of respondents have taken part in either three or all four of our surveys, giving us really valuable consistency of participation.

The resulting report examines key performance indicators for businesses operating within the logistics and supply chain sector, including revenue, profitability, capital expenditure and employment. It provides insights from both logistics buyer and provider perspectives giving us a 360 degree view of sentiment and addresses current issues and topics affecting the sector, such as Ecommerce, technological innovation, skills shortages, logistics property, supply chain finance and Brexit.

This year's survey reports a decline in confidence amongst supply chain professionals across the island of Ireland. For the first time in our series of surveys, we see a degree of pessimism amongst manufacturers and retailers, whilst optimism amongst logistics operators, after a rise in 2018, has dropped back to below 2017 levels.

Continued uncertainty over the terms of the UK's departure from the EU, and any future trading agreement has played a large part in our survey respondents' opinions this year. However, this is just one of many challenges that the logistics and supply chain sector continues to face on a day-to-day basis. Skills and talent shortages remain, whilst the careful management of rising costs is increasingly vital. These issues are set against a backdrop of slowing global economic performance, with forecast growth projections lower in 2019 across many advanced economies and European markets, including Ireland and the UK.

Despite these challenges, there are opportunities for growth across the sector. Amidst economic growth, a number of logistics operators have also seen a temporary upside, as risk-averse customers stockpile products, whilst changing trade regulations could offer chances to expand customs services to clients. Companies across the supply chain are also using technology to streamline their businesses, better manage processes and improve customer relationships to drive long-term growth.

We trust you will enjoy reading this year's edition of the CBRE AIB Logistics and Supply Chain Confidence Index.

GARRETT MCCLEAN
Executive Director, Head of Industrial & Logistics, CBRE Ireland

PAT O'SULLIVAN
Head of Real Estate Research, Corporate & Institutional Banking, AIB

CBRE Market Outlook

Transactional activity in the industrial & logistics sector of the property market in Ireland has been compromised for several years by a shortage of modern buildings with most development activity in the last couple of years comprising 'Build-to-Suit' projects. Indeed, a scarcity of modern premises has for many years featured as an issue of concern to respondents to the CBRE AIB Logistics & Supply Chain Confidence Index. However, industrial rents rose to a level in 2018 where new development was again viable and as a result, we saw the first signs of speculative development occurring in this sector in Dublin - a trend that has continued in the opening months of 2019. Encouragingly, several of the new buildings that are being constructed are being let prior to practical completion, such is the demand for modern stock.

Having achieved take-up of in excess of 300,000m^2 in 2018, take-up in the Dublin industrial & logistics sector reached an impressive 95,623m^2 in the first quarter of 2019, with 33 individual transactions signed in the three-month period. In addition to the volume of stock transacted in Dublin during the first quarter of the year, there is a large volume of industrial & logistics accommodation reserved at present, which bodes well for transactional activity in the coming quarters.

Although there are some new entrants, take-up is largely emanating from the expansion of existing companies across a range of different sectors, with a notable increase in requirements for large buildings of late. A number of occupiers are now in the process of relocating out of Dublin Port, which is creating additional demand for serviced sites along the northern section of the M50. Demand in the industrial & logistics sector is primarily emanating from companies involved in Ecommerce, logistics, pharmaceuticals and food manufacturing. There is also increased evidence of some Brexit-related demand - a trend that is likely to become even more tangible as companies continue to make efforts to streamline and adapt their supply chains, with some UK-based E-commerce occupiers expected to take a physical presence in Ireland for the first time over the course of the next 12 months.

The evolution of Ecommerce will increasingly be a substantial driver of demand within the logistics sector with every percentage increase in online penetration fueling additional demand for industrial & logistics stock to facilitate storage, distribution, final mile delivery and reverse logistics. New EU Geo-blocking legislation, which gives shoppers the same access to goods and services wherever they are in the EU, came into force late last year and is likely to further intensify demand for logistics and distribution accommodation in the Irish market in due course.

Across Europe, demand has been increasing for final mile delivery solutions around major conurbations. This is now materialising in Dublin and likely to occur in Cork, Limerick and Galway, aligned with the steady growth in online sales activity. Indeed, Dublin City Council are currently trialing a final mile delivery concept. While demand is predominately focussed on large modern purpose-built logistics facilities close to major road networks, final mile/urban logistics can be accommodated in older buildings with lower clear internal heights, which could provide opportunities to reposition some older stock in the capital in due course.

The current strength of demand for modern buildings is encouraging some developers to proceed with additional phases of development, albeit much of this industrial & logistics stock will not be delivered until 2020 and beyond. We expect to see additional phases coming on stream at Park Developments Group's Northwest Logistics Park in addition to Horizon Logistics Park, Dublin Airport Logistics Park, North City Business Park, Mountpark Baldonnell, and additional builds at Greenogue Business Park over the course of the next 12 months.

Encouraged by the strength of appetite for new buildings, there has been a notable increase in planning activity in this sector of late which should see some new supply coming on stream in due course. Encouragingly, the majority of developers are taking professional advice in advance of lodging planning for new schemes and additional phases of existing schemes to ensure they are developing industrial & logistics product that will satisfy end user requirements in terms of location, size, specification and fit-out. With all buildings having to comply with Near Zero Energy Rating (NZEB) regulations from next January, this is also now beginning to have an impact from a design perspective, and in turn is starting to impact on construction costs in this sector.

The specification in modern industrial and logistics buildings has increased significantly over recent years. However, much of the innovation is occurring within the envelope of the building. Technical requirements for new buildings have become extremely detailed, which in turn impacts on development costs. With robotics increasingly being used to pick goods stored at height, cubic capacity is becoming more important to occupiers within the storage sector of the supply chain. This increased demand for even higher clear internal heights is being incorporated into new buildings, with the current norm of 12 metres clear internal heights increasing to clear internal heights of up to 14 metres. Yard depths are also becoming increasingly important – an element that needs to be borne in mind from a design perspective when planning new logistics schemes.

Demand for industrial and logistics buildings in provincial locations is likely to remained muted for the foreseeable future. With rents in most provincial locations still not justifying new development, there is likely to be limited supply of new stock in 2019. We do not expect to see any provincial speculative development outside of Cork, where JCD are speculatively developing at Blarney Business Park.

Unlike the office sector, where some occupiers now opt for shorter leases with options to extend as a result of Lease Accounting rules, many occupiers in the industrial and logistics sector are still willing to commit to long leases to avail of tenant inducements, with most of the larger transactions in the market in 2019 in this sector likely to extend to between 10- and 15-years' duration. This in turn will add to the attractiveness of the logistics sector for investment purposes being that most investors are now focussed on securing long-term income streams. Sourcing core investment opportunities remains challenging but with new stock now being developed and let, this may create investible product in due course.

The value of industrial zoned land is expected to keep growing solidly over the course of the next 12 months, particularly for land that is serviced and has good accessibility to the M50. We also expect to see continued rental growth in this sector during the next year, with headline rental rates for best-in-class buildings expected to increase from €106 per m^2 (€9.85 per sq. ft.) to reach approximately 113 per m^2 or €10.50 per sq. ft. by year end 2019 - an uplift of 6.5%.

All in all, the prospects for the industrial sector at this juncture are positive although supply will remain relatively tight for tenants for the foreseeable future. The extent to which Brexit drives demand in this sector will ultimately depend on whether a hard or soft outcome materialises, but the logistics sector of the Irish property market is set to witness increased activity in either scenario.

AIB Viewpoint

The prevailing clouds of Brexit and global trade tensions weighed heavily on the logistics and supply chain industry in Ireland, as highlighted by the sharp fall in the CBRE AIB Logistics and Supply Chain Confidence Index for 2019. Despite this sharp fall in industry confidence, we believe the longer-term prospects for the industry remain very positive. Nevertheless, the industry does face significant shorter-term challenges that will need to be managed carefully.

The Irish economy has been confronted with a slowdown in global growth this year, most notably in its main export markets in Europe, as well as the deepening uncertainty in relation to Brexit. However, the general consensus is that the Irish economy should perform strongly again in 2019, with GDP projected to grow by around 4%. This would represent a moderation on the underlying growth rate of the economy of recent years, which has been put at between 4.5 to 5%. However, it would still be a very impressive growth performance given the more challenging external environment.

The ESRI have recently produced forecasts examining the impact of Brexit on the Irish economy in the short-term (2019 and 2020). It produced a baseline set of forecasts under a no-Brexit scenario, along with forecasts associated with certain Brexit outcomes. Overall, this results in a baseline real GDP forecast of 3.8 per cent for the Irish economy in 2019 and 3.4 per cent in 2020. However, under a disorderly no-deal exit for the UK, Irish GDP is expected to grow by just 1.2 per cent in 2019 and 2.5 per cent in 2020 – a significant shock to the Irish economy. Furthermore, the ESRI does warn that greater orders of disruption could occur as '…53 per cent of Irish trade volumes are transported to or through the UK. Thus any significant land bridge frictions pose the risk of significantly limiting Irish trade performance and international competitiveness.'

It is clear from the research completed for the CBRE AIB Logistics & Supply Chain Confidence Index that Brexit remains the dominant issue facing this sector. The index once again asked respondents what they felt were the greatest challenges or threats for their organisation from Brexit. It was not surprising that 36% of logistics operators, given how intrinsically linked their success is to macro-economic conditions, felt that an economic downturn caused by Brexit was the biggest threat. Manufacturers and Retailers, however, at 26% also felt increased administrative burden would be the biggest issue.

There has been little or no certainty provided by the ongoing saga that is the negotiation of the Brexit Withdrawal Agreement. Given the lack of consensus in the UK it is still uncertain if a deal can be reached by October 1st 2019. The ongoing delays also suggests the possibility that Brexit may not happen at all, however, the UK can still leave with no deal at any time, therefore the threat of a 'No Deal' Brexit is still very much alive. It is this level of uncertainty which is making it increasingly challenging for businesses to plan for Brexit. We continue to encourage our customers to plan for a 'Hard' Brexit which will put their businesses in a stronger position to meet all eventualities.

AIB

Supply Chain Inflation

A key area for concern is that supply chain inflation appears to be remerging on a global basis for the first time in many decades. A combination of rising fuel pressures, tight labour markets, a hot logistics property market and growing infrastructure constraints are now stoking supply chain cost inflation. The current costs pressures in the global logistics and last mile markets are largely unprecedented – driver shortages and tight labour markets have pressured ground base rates in road and warehousing costs well ahead of inflation. These pressures are now becoming more apparent in the Irish market as well.

As supply chains alter and evolve in the run up to Brexit and beyond we also see working capital as a key issue for businesses to manage with 8% of index respondents feeling it was the 'Greatest Challenge' for their business in the wake of Brexit. Stock piling of inventory is already happening across the UK and Ireland as Manufacturers and Retailers seek to put contingency plans in place for Brexit. The requirement to hold additional stock ensures that the requisite product levels are maintained on shelves is of great concern for retailers. This is most acutely felt by those FMCG retailers, such as grocery and convenience stores that turn stock quickly and source a high volume of the ambient product lines from the UK. This will lead to significant capacity issues for the logistics sector while also leading to cash being tied up in the business for Manufacturers and Retailers. This is a risk which will need to be managed carefully.

Although only 3% of Manufacturers & Retailers and 6% of logistics operators felt currency fluctuations was the 'Greatest Challenge' from Brexit. The volatility in sterling exchange rates since 2016 should be a key concern particularly for those with a UK customer base or supply chain impacted by the UK land-bridge. Given the ongoing uncertainty in regard to Brexit negotiations, Sterling fluctuations are likely to remain a feature in the short term and could inflate supply chain costs.

Investment

It is clear from this confidence index and from AIB's own Brexit Sentiment Index that uncertainty associated with Brexit is making it difficult for businesses to plan which in turn is effecting investment decisions. It is evident that some businesses are now postponing capital expenditure plans due to this uncertainty. According to AIB's Brexit Sentiment Index, 35% of businesses have postponed investment plans. We are also seeing this across sectors such as Manufacturing and Retail, where businesses have exposure to Brexit and noting these sectors intrinsic link to the Logistics sector. However, on a positive note 62% of respondents to the CBRE AIB Logistics and Supply Chain Confidence Index still plan to make significant capital expenditure over the next 12 months.

Warehousing capacity is now a major issue for the sector and this is not only a Dublin phenomenon as we are also seeing this in pockets throughout the country. This has not been helped by Brexit where certain sectors have begun stock piling in the run up to Brexit deadlines. The lack of warehousing capacity follows a decade of under investment in this property type following the financial crisis when values plummeted to well below construction costs effectively making it uneconomical to build. As values have improved we are now seeing speculative and owner occupier development in this property space. Our Corporate logistics customers tend to prefer an asset light model seeking to lease warehouse capacity. In contrast demand remains from our Business customers for self-build or build to specification warehousing with many business customers still preferring to own their warehouse asset where possible. We are currently assisting a number of our Business customers with funding to increase their warehousing capacity.

Brexit uncertainty is also influencing fleet investment behaviours of Logistics providers. There was a contraction in new HGV registrations from Q1 2016 through 2017 following the Brexit referendum which has now stabilised. The weaker sterling has made UK imports of used HGVs more attractive with used imports increasing dramatically since the Brexit referendum with a 44% increase in used HGV registrations in Q1 2019 alone. Although the mix between new and used has shifted it is clear that overall fleet sizes are increasing in line with economic growth. We are also seeing a growing trend of placing a portion of fleet on contract hire.

The logistics and supply chain industry is critical to the success of the Irish economy and AIB is very actively involved in the industry, in terms of providing finance, working capital solutions and other supports. Despite the heightened level of uncertainty in the industry at the moment and the short-term problems it faces, we believe the longer-term prospects are very positive as it will benefit from a growing Irish economy, future infrastructural investments by the government under the Ireland 2040 plan and the ongoing shift to Ecommerce.

ROBERT QUILL
Head of Transport & Logistics, Business Banking, AIB

Measuring Confidence

In undertaking this survey, we have adopted the same methodology used across similar surveys conducted by Analytiqa research for other jurisdictions. In this, the fourth recording of the CBRE AIB Logistics and Supply Chain Confidence Index, we have for the most part followed the same questioning to aid comparison and analysis, whilst updating key elements to reflect more recent market developments.

Our index takes into account the proportion of respondents quoting improvement, no change or deterioration in the sector. In the calculation of the index, a reading of over 50.0 indicates an improvement, or expectation of future growth, while below 50.0 suggests a decline. The further away from 50.0 the index is, the stronger the change over the period.

The insights recorded take a dual perspective across the sector, with responses from those operating as logistics providers and buyers of these services. This report was supported by senior decision makers some of Ireland's most successful PLCs, prominent MNCs and large logistics providers including:

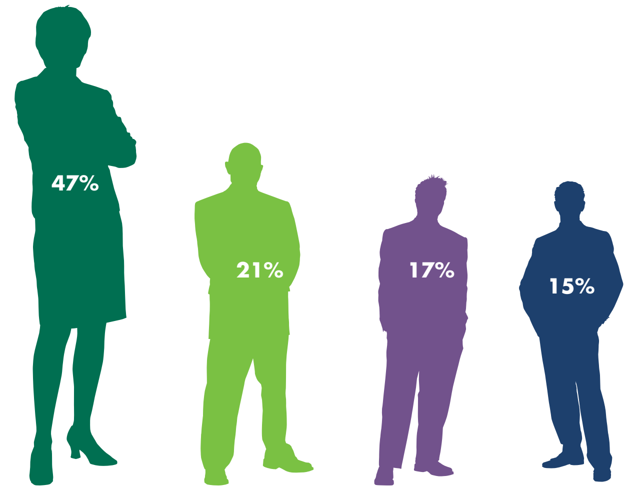
- accord – The Evolution of Generics
- aceexpressfreight
- aramex – delivery unlimited
- Bord na Móna – Naturally Driven
- Brian Cunningham Transport
- CEVA
- CDS – Clare Distribution Services
- C+G Logistics Group
- cubelogistics – the complete package
- Curtis and Lees Ltd. – Global Forwarding & Logistics
- celtic pure
- Connect Logistics
- DHL
- dpd
- fastway couriers
- FLO GAS
- Keelings – Our Passion Delivers
- BBL Groupe
- IWT
- MAXOL
- Reynolds Logistics
- Maurice Ward Group
- PRL
- PF Perennial Freight
- The Sandford Group
- STL Logistics
- DB Schenker
- Schneider Electric
- South Coast – Your Optimal Solution Provider
- Servier
- TotalProduce PLC
- Rhenus Logistics

Respondents

There was a total of 53 respondents to this year's survey of which 28 were from logistics firms and 25 were manufacturers and retailers.

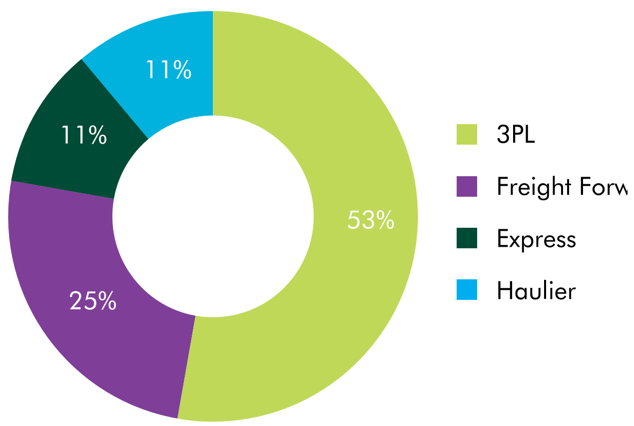
47% of respondents were classified as either CEOs or Managing Directors, while a further 21% of respondents were either Directors or senior Operational and Procurement professionals at their firms. A further 17% described themselves as Supply Chain Directors with 15% being Logistics Directors of their firms.

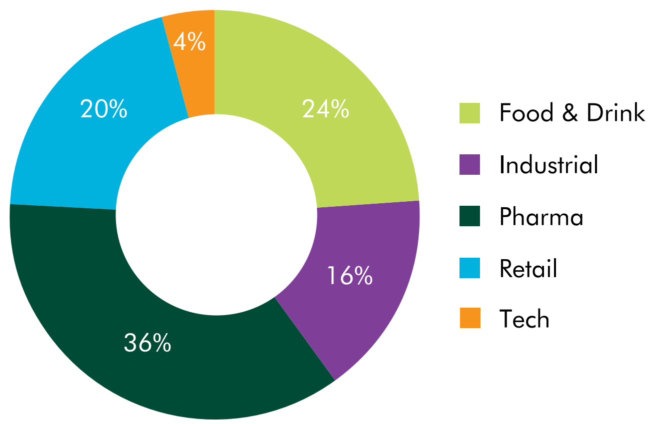
Across 82% of firms in the logistics sector, the survey was completed by either the CEO or the Managing Director. Meanwhile, 58% of respondents from manufacturers and retailers were either Supply Chain Directors or Logistics Directors.



Job Title of Respondents

Ceo/ Managing Director
Director/ Operations/ Procurement
Supply Chain Director
Logistics Director





Description of Logistics Respondents

Of the logistics firms that responded to this survey, 53% were categorised as a 3PL company, 25% as a Forwarding company, 11% were Hauliers with the remaining 11% being Express firms.

Description of Manufacturer and Retailer Respondents

Of the manufacturers and retailers that responded to this survey, 36% were described as Pharmaceutical companies, 24% as Food and Drink companies, 20% as Retailers, 16% as Industrial firms and 4% described as Technology firms.

How Confident is the Irish Logistics Sector?

Confidence levels decline in 2019, as logistics operators remain more confident than manufacturers and retailers

The CBRE AIB Logistics and Supply Chain Confidence Index for 2019 has been set at 53.8. Whilst we are once again able to report an overall positive outlook from the sector, this represents a significant decline from 2018, from 63.3, and is the lowest level of confidence expressed in our four surveys so far.

Similar to 2018, logistics operators are more confident than manufacturers and retailers. However, after an upturn last year, confidence amongst logistics operators has dropped in 2019, more closely reflecting their opinions of 2017.

Confidence amongst manufacturers and retailers has dropped for the third successive year. For the first time in our series of reports, the level of sentiment within this sector has dropped below the 50.0 mark, at 48.8, reflecting an expectation of marginal decline in markets in the months ahead.

Confidence Index 2016 - 2019

Business Confidence Compared to 12 Months Previous

Brexit delays contribute to operational uncertainty and inventory challenges, set against a background of rising costs

Only 26% of respondents to our survey this year say they are more confident about business conditions in the logistics and supply chain sector than they were only 12 months ago, a figure down 21% on last year. At 40%, the number of respondents who said that conditions were 'somewhat more difficult' compared to 12 months ago was up by 16% year-on-year.

When asked how confident they were compared to 12 months previously, 22% of respondents say that conditions are 'somewhat more favourable', which is less than half the level of 2018. Only 4% of respondents say that conditions are 'much more favourable' than last year. 28% of respondents see current conditions as broadly the same, up marginally on last year, while 6% of respondents see current conditions as 'much more difficult'.

In the context of slowing economic growth and continued delays to the Brexit process, a deterioration in confidence year-on-year was perhaps to be expected. Manufacturers and retailers continue to face considerable challenges to secure supplies of materials and manage inventory, set against a background of rising costs and uncertainty, which makes capital planning more difficult.

For the large majority of logistics operators, Brexit remains the 'number one' challenge. Concerns expressed by our respondents in previous surveys are being realised, with prolonged uncertainty contributing to lower levels of economic growth, though it must be noted that Ireland's GDP growth forecast for 2019 is amongst the highest in the EU.

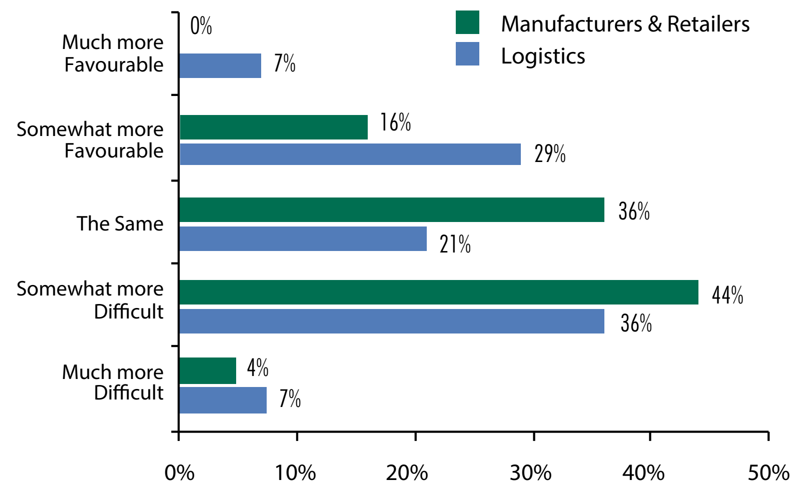
As our survey was being conducted in Q1, 2019, hopes that the UK may be in a position to negotiate a Brexit 'Deal' were fading, with political outcomes seemingly veering towards either a 'No-Deal' / 'Hard' Brexit, or alternatively an extension to the negotiation process. These outcomes, or indeed that of a 'softer' Brexit with no customs agreements in place, risk the introduction of trade tariffs and greater bureaucracy across supply chains, or the extension of the period of uncertainty. This will inevitably make longer-term planning more difficult and leave logistics operators to continue to help support customers' requests to 'de-risk' their supply chains until a solution is found.

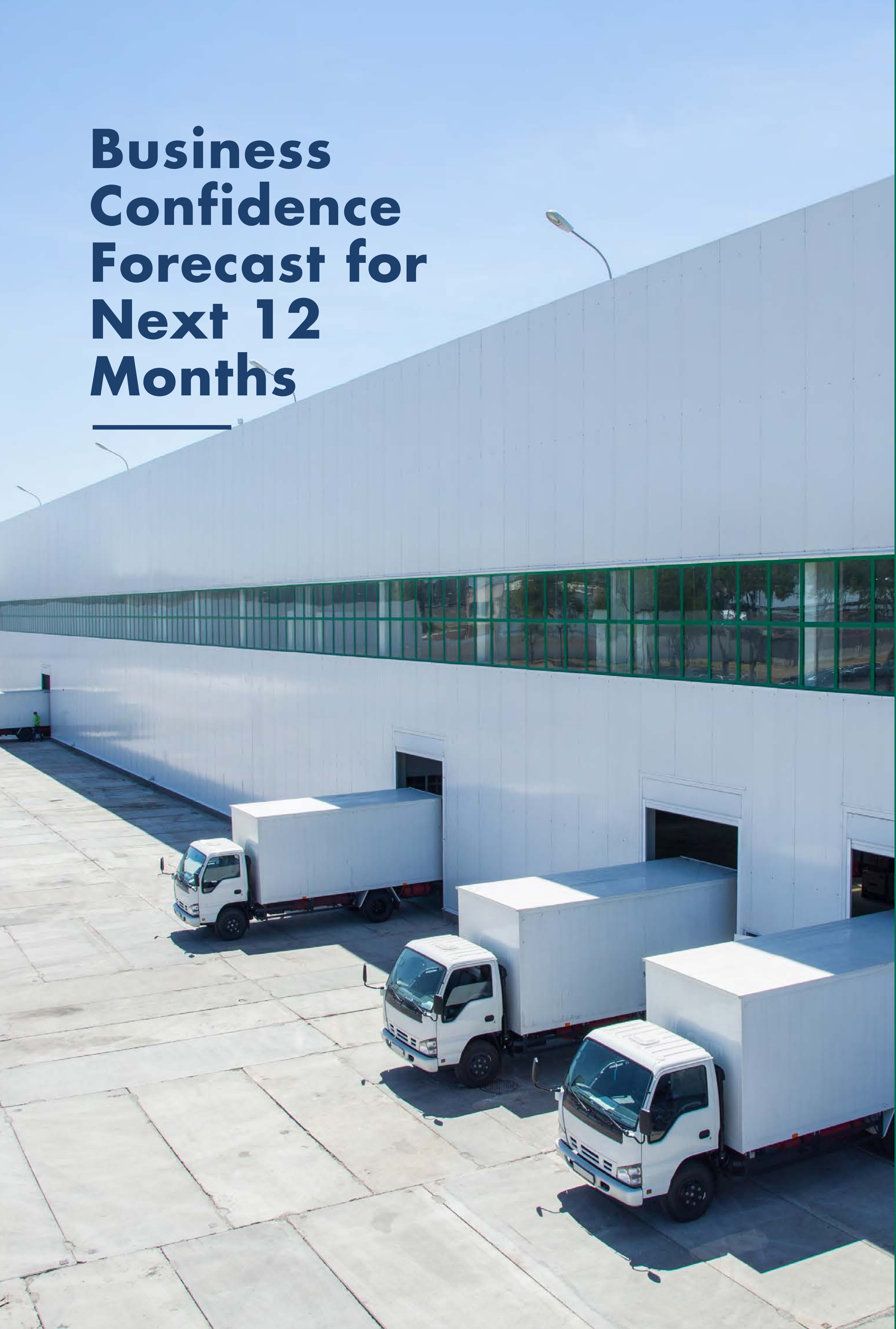
Logistics providers are more optimistic about current business conditions than their supply chain counterparts. 36% of logistics operators say that conditions are 'somewhat more difficult' compared to the same period last year, compared to 44% of manufacturers and retailers.

Whilst 21% of logistics operators view current conditions as 'the same' as last year (down 11%), this figure is 36% for manufacturers and retailers, up 20% from last year.

For manufacturers and retailers, only 16% perceive current market conditions to be 'somewhat more favourable' than 12 months ago, down from 40% last year, whilst 29% of logistics operators share that view, albeit down from 50% a year ago.

Business Conditions vs 12 Months Previous





Business Confidence Forecast for Next 12 Months

Continued delays to the Brexit process and forecasts of slower economic growth are behind declining levels of optimism for the next 12 months

When asked how confident they are about business conditions over the next 12 months, 72% of respondents expect conditions to be more difficult, up from 38% in 2018. 51% of respondents say that conditions will be 'somewhat more difficult', which is up from 28% on last year. A further 21% of respondents say that conditions are likely to be 'much more difficult' next year, a rise from the 10% share of 2018.

15% of respondents expect business conditions to be the same in the year ahead, while 11% expect conditions to be 'somewhat more favourable' over the next 12 months, down from 30% last year. Only 2% of respondents are expecting business conditions to be 'much more favourable' over the next 12 months.

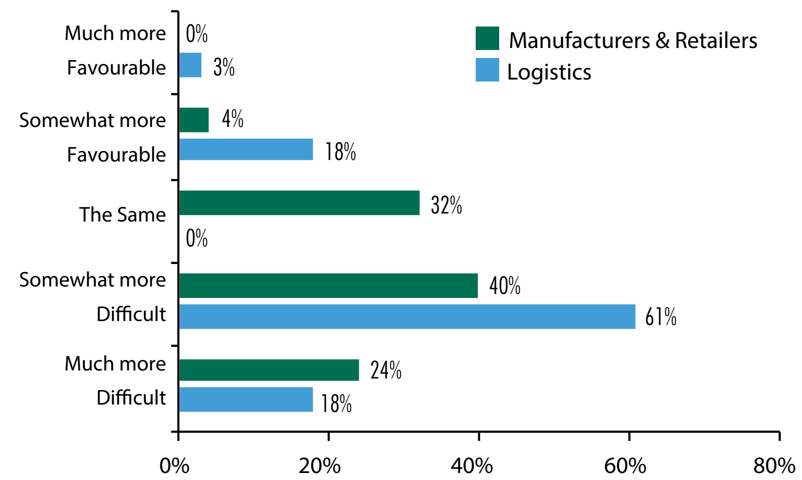
This declining optimism is being driven by lower anticipated levels of GDP growth in the year ahead, though it should be noted that countries across Europe are experiencing similar economic trends. Continued uncertainty surrounding the outcome of Brexit is also a decisive factor. These figures support our overall finding of a decline in confidence year-on-year. Many respondents that expressed a marginally positive, or neutral outlook last year, have this year switched their opinions to a more negative expectation of future conditions.

The responses differ somewhat between logistics operators and manufacturers and retailers. Though both sets of respondents are less confident about the year ahead than they were 12 months ago, logistics companies are once again more optimistic.

18% of logistics operators say that conditions over the next 12 months are likely to be 'somewhat more favourable' compared to the same period last year (down from 39%) compared to just 4% of manufacturers and retailers (down 16%).

Meanwhile, 3% of logistics operators say that conditions are likely to be 'much more favourable' over the next 12 months, whilst, for the second successive year, no manufacturers and retailers shared this opinion. Almost one-third (32%) of manufacturers and retailers forecast no change year-on-year.

Business Conditions Over Next 12 Months



- 69% of respondents expect turnover in their organisation to increase over the next year
- 61% forecast higher profits for their companies in 2019 (2018: 60%)
- 62% of companies are either 'likely' or 'very likely' to make significant capital expenditure in the year ahead
- Only 6% of respondents expect to reduce headcount over the next 12 months (2018: 12%)

Growth Opportunities

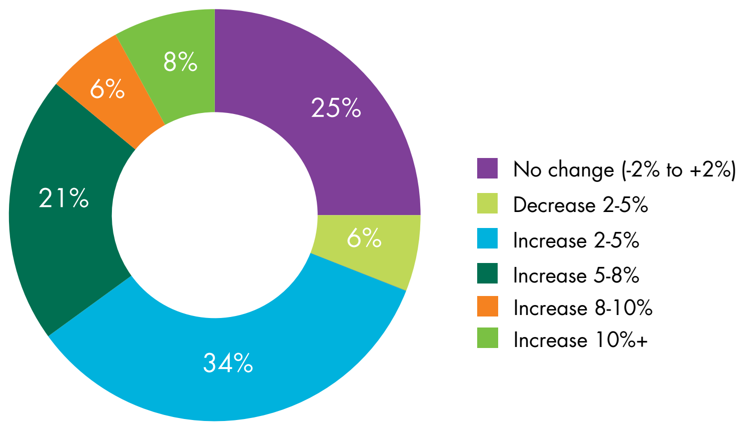
The study aims to uncover the confidence indicators to validate the index score. We asked participants to reveal their projections and plans for the year ahead across four key metrics. In this section, we will look at turnover, profitability, capital investment and workforce projections to determine the changes in key business indicators and decisions, supporting confidence levels throughout the industry.

Anticipated Changes in Turnover

When asked about anticipated changes in turnover over the next 12 months, it remains encouraging to note that 69% of respondents said they expected turnover in their organisation to increase over the next year, though this figure represents a 16% decline year-on-year. 34% of respondents expect a relatively modest increase of between 2% and 5% in turnover over the next 12-month period, with a further 21% anticipating an increase of between 5% and 8% in turnover in the period. 6% of respondents forecast an even higher increase in year-on-year turnover of between 8% and 10%, while another 8% expect turnover in their business to increase by more than 10% over the next 12 months.

Just 6% of respondents expect turnover to deteriorate in 2019, broadly in line with the 7% response noted in 2018, and once again, no respondents are expecting turnover to decline by more than 5% in the year ahead. The remaining 25% of respondents, up from an 8% share last year, expect turnover to remain stable over the next 12 months.

Change in Turnover over next 12 months



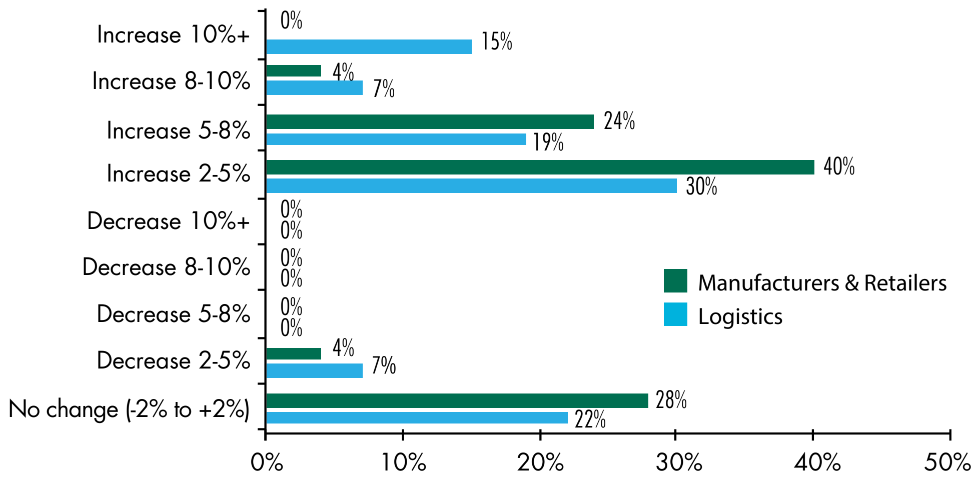
In line with last year's results, logistics operators are more confident of increasing turnover in their businesses over the next 12 months when compared to manufacturers and retailers, though the level of disparity in confidence has narrowed considerably.

71% of respondents in the logistics sector are expecting to increase turnover over the next 12 months (compared to 96% last year), while 68% of manufacturers and retailers expect to grow turnover over the next 12 months (down from 72% of respondents last year).

30% of logistics operators (46% in 2018) expect to see turnover growth of between 2% and 5% this year, with a further 19% forecasting growth of between 5% and 8%. 15% of logistics operators expect revenue growth in excess of 10% in 2019. Respondents in this category were drawn from all categories of service provide, across freight forwarding, contract logistics and courier and express.

Similarly, the majority of manufacturers and retailers (40%) expect to see turnover growth of between 2% and 5% this year, with a further 24% forecasting growth of between 5% and 8%. In 2019, 12% of manufacturers and retailers have switched expectations of a negative turnover outlook, to a more 'neutral' view. 28% are forecasting no change in turnover for 2019 (up from 12%), whilst only 4% (down from 16% in 2018) expect turnover to decline in the year ahead.

Change in Turnover in next 12 months (Logistics v Manufacturers and retailers)



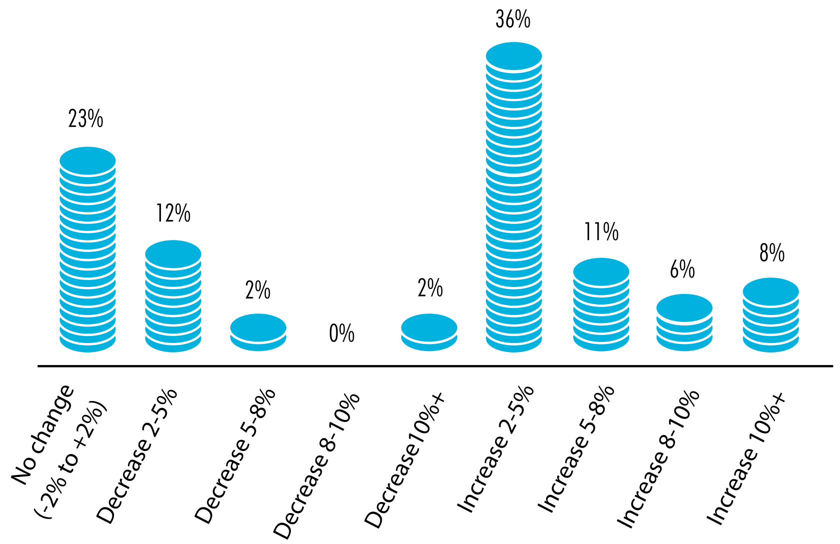
Anticipated Changes in Profitability

Whilst respondents are generally confident about increasing turnover of their businesses, when asked about anticipated changes in profitability over the next 12 months, growing profitability can be a more challenging objective.

It is therefore encouraging to see that respondents are generally positive, with 61% expecting increased profitability over the next 12 months, a figure broadly the same as the 60% who shared this view in 2018.

23% of respondents expected no change in profitability this year (down from 27%) and while 16% expected deterioration in profitability this year (up from 8% in 2017 and 13% last year), three-quarters of those (12% of respondents) expect profitability to decline by between 2% and 5%.

Profitability in Next 12 Months

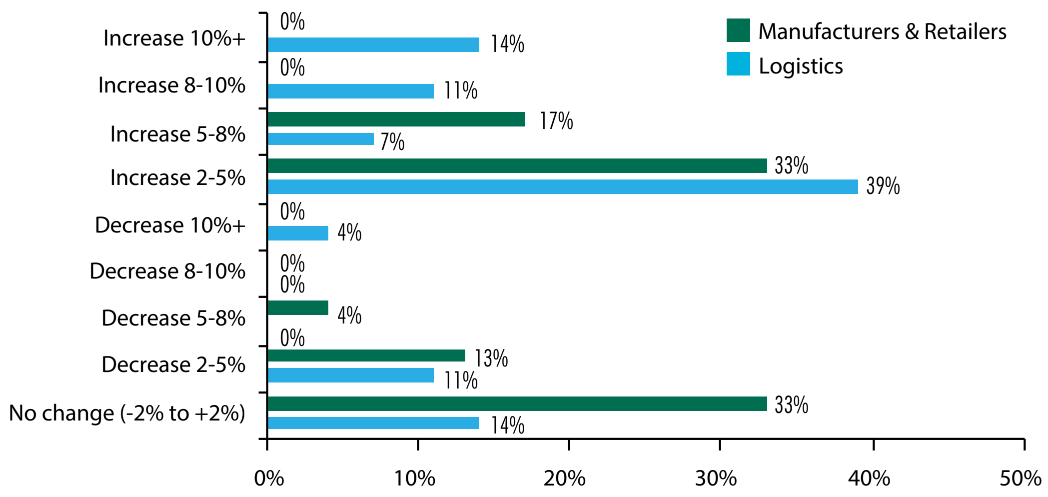


Logistics operators are considerably more confident of increasing profitability in their businesses over the next 12 months when compared to manufacturers and retailers. 71% of respondents in the logistics sector are expecting to increase profitability over the next 12 months compared, up from a 70% share of respondents last year. In contrast, one-half (50%), of manufacturers and retailers expect to increase profitability in 2018 (up from 48% last year). 14% of logistics operators expect no change in profitability in 2019, compared to 33% of manufacturers and retailers.

Reflecting a downturn in confidence is the statistic that 15% of logistics operators expect a deterioration in profitability over the next 12 months (up from 4% in 2018). This compares to 17% of manufacturers and retailers, a figure that more positively, is down from 24% last year.

Of those respondents forecasting a drop in profits in 2019, the majority are anticipating a fall at the lower end of our scales. 11% of logistics operators expect profitability to decrease by between 2% and 5% this year, while 13% of manufacturers and retailers expect to see the same decline.

Profitability in Next 12 Months (Logistics v Manufacturers and Retailers)



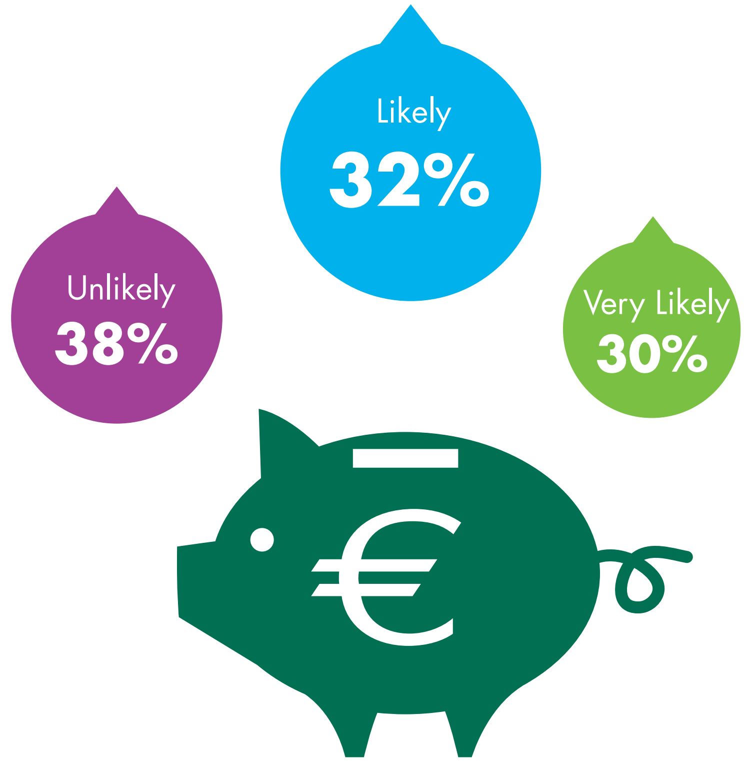
Forecasts of Capital Expenditure

When asked about the likelihood of their company making significant logistics and supply chain related capital expenditure over the next 12 months, respondents are marginally less positive than they were 12 months ago.

32% of respondents said it was likely that they would make significant capital expenditure in these areas over the next 12 months (down from 38% in 2018), while 30% said they were very likely to do so, which is encouraging and an increase from 27% last year and 22% in 2017.

64% of respondents in the logistics industry said they were likely or very likely to incur significant capital expenditure over the next 12 months (compared to 81% last year, but a better reflection on the 58% share in 2017), while the equivalent figure for manufacturer and retailer respondents was 60%, compared to a 48% share in 2018. 40% of manufacturers and retailers said they were unlikely to incur significant capital expenditure in their supply chains this year compared to 36% of logistics companies.

Likelihood of Significant Capital Expenditure over Next 12 Months



Forecast Changes to Employment

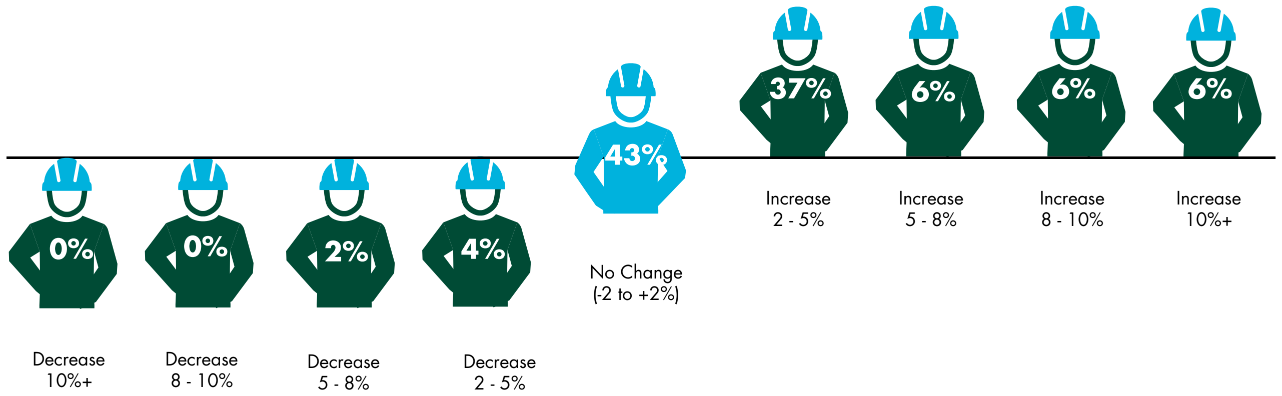
When we asked our respondents if they would be making additions, or reductions, to their supply chain-related headcount over the next 12 months, 43% didn't anticipate making any changes, compared to 36% this time last year.

Despite the significant business challenges facing our respondents, 51% intend to increase their logistics-related headcount to some extent over the next 12-month period (in line with 52% last year) with the largest cohort (37%) expecting to increase their headcount by between 2% and 5% year-on-year. Only 6% of respondents expect to see a reduction in headcount over the next 12 months (down from 12% last year), with two-thirds of these expecting to reduce headcount by between 2% and 5%.

More than 64% of respondents in the logistics sector expect to increase headcount in their organisations in the next 12 months (down from 82% last year) compared to 36% of manufacturers and retailers (up from 20% last year and at the same levels as 2017). Over 39% of logistics operators expect to increase headcount by between 2% and 5% over the next 12 months, compared to 36% of manufacturers and retailers, i.e. all the manufacturers that are forecasting growth in headcount expect this increase to be between 2% and 5%.

Almost one-third (32%) of logistics operators expect no change in headcount year-on-year, which is up considerably from 14% compared to last year while 56% of manufacturers and retailers are expecting supply chain headcount to remain steady in 2019, down slightly from 60% one year ago. Encouragingly, less than 4% of logistics operators expect to see a decline in headcount this year while amongst manufacturers and retailers, only 8% of respondents are expecting to reduce staff numbers in 2019 (down from 20% last year and unchanged from 2017 levels).

Expectations for Headcount in Next 12 months



Brexit

- 84% of respondents believe Brexit will have a negative impact on supply chains across the island of Ireland (2018: 71%)
- Whilst the opinions of 67% of respondents towards Brexit have not changed, 26% have become more pessimistic in their outlook
- In the event of a "Hard Brexit / No-Deal' scenario, two thirds of respondents forecast a drop in profits

The UK's decision to leave the EU continues to influence business confidence across all sectors on the island of Ireland. For the third year in succession, it has affected the outlook of our respondents. Uncertainty around the outcome of Brexit negotiations continues, having heightened over the course of the last 12 months. As we launch this, our fourth survey, in May 2019, the future relationship between the EU and UK post-Brexit is yet to be defined, both politically and in terms of trade.

For many manufacturers and retailers, the threat of extensions and significant delays to their supply chains, and the subsequent consequences, such as disrupted production lines or empty store shelves, remain. Additionally, the imposition of customs tariffs, an increase in non-tariff costs (such as administrative costs and border clearance costs) and the possible requirement to source new suppliers, or identify alternative trade routes to European markets, are very real concerns.

Logistics operators arguably face even greater complexity and uncertainty, often managing customer requirements across multiple industry sectors, each with their own Brexit-related challenges. For some operators, Brexit is an opportunity to deepen customer relationships, offer additional services and advise customers on the way forward. For others, it has been a cause of commercial tension, with changes to operating processes being dictated to them by customers looking to modify their supply chains.

In this section, we asked our respondents to update their opinion on the issue of Brexit and also assess how their attitude had changed, if at all, from their position 12 months ago.

84% of our respondents believe Brexit will have a negative impact on supply chains across the island of Ireland, up from 71% 12 months ago. Just 7% believe the outlook will be 'neutral' whilst 9% foresee a positive outcome.

Over three-quarters (76%) of logistics operators expect a negative impact on supply chains, up from 69% last year, as do 95% of manufacturers and retailers. Whilst 12% of logistics operators feel that Brexit can have a positive impact on supply chains across the island of Ireland (down from 19% in 2018), only 5% of manufacturers and retailers feel the same way (a drop from 10% 12 months ago).

Brexit – Current Opinion

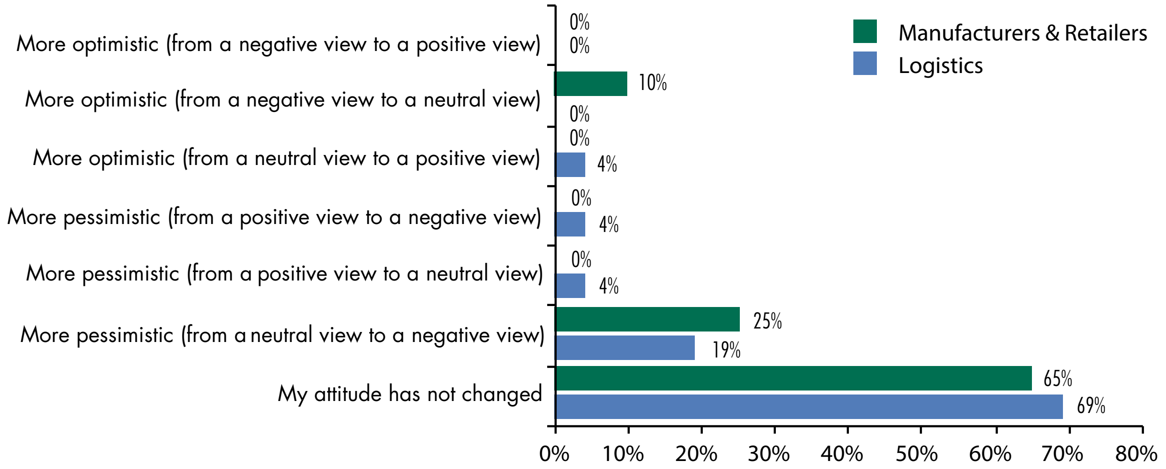
	The impact of Brexit will be positive	The impact of Brexit will be negative	The impact of Brexit will be neutral
Logistics	12%	76%	12%
Manufacturers & Retailers	5%	95%	0%

In the last 12 months, over two-thirds (67%) of our respondents state that their feelings towards Brexit have not changed, up from 47% last year, whilst more than one-quarter (26%) have become more pessimistic in their outlook, with the majority of these respondents moving from a 'neutral' view to a negative perspective.

The remaining 7% of respondents are now more optimistic in their outlook for supply chains in a post-Brexit world than they were 12 months ago, though over half of this band of respondents have moved to a 'neutral' position from a negative viewpoint.

In a change in position from our 2018 survey, logistics operators have become marginally more pessimistic than their customers, the manufacturers and retailers, about the outcome of Brexit. 27% of logistics operators state that they have become more pessimistic in their outlook for supply chains over the last 12 months (as opposed to 25% of manufacturers and retailers).

Brexit – Change in Attitude



With the outcome of Brexit negotiations yet to be concluded, we asked our respondents to consider the impact on their businesses of two key scenarios, the UK leaving the EU in a 'Hard Brexit / No-Deal' scenario, or the UK exiting the EU with a Deal agreed and in place.

In the event of a ''Hard Brexit / No-Deal' scenario:

- 46% of logistics operators expect to see a decline in turnover
- Two thirds of respondents, including 82% of manufacturers and retailers, forecast a drop in profits

However, if a Brexit 'Deal' is agreed:

- 17% of logistics operators expect to see a decline in turnover
- 14% of respondents, and just 5% of manufacturers and retailers, forecast a drop in profits

Impact to Key Financial Metrics in 2019 Under Each Brexit Scenario

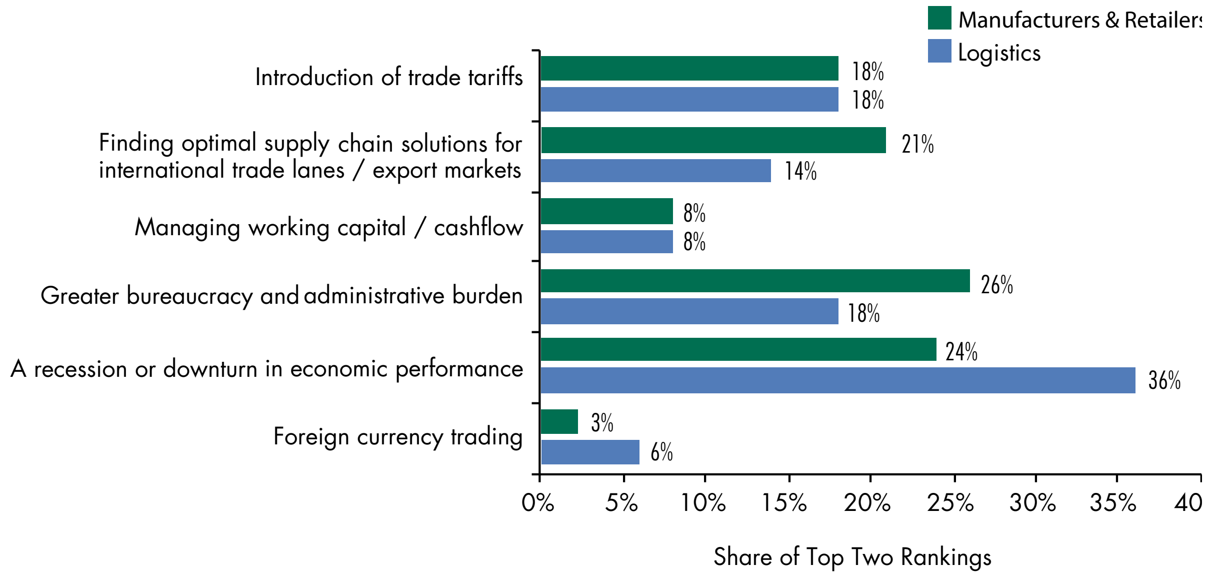
HARD BREXIT WITH NO-DEAL		OVERALL	LOGISTICS	MANUFACTURERS & RETAILERS
Turnover	Increase	24%	37%	6%
	Decrease	44%	46%	41%
	No Change	32%	17%	53%
	Sub-Total	100%	100%	100%
Profitability	Increase	22%	38%	0%
	Decrease	66%	54%	82%
	No Change	12%	8%	18%
	Sub-Total	100%	100%	100%
Cashflow	Increase	22%	17%	29%
	Decrease	29%	29%	29%
	No Change	49%	54%	42%
	Sub-Total	100%	100%	100%

A BREXIT DEAL IS AGREED		OVERALL	LOGISTICS	MANUFACTURERS & RETAILERS
Turnover	Increase	29%	29%	28%
	Decrease	12%	17%	5%
	No Change	59%	54%	67%
	Sub-Total	100%	100%	100%
Profitability	Increase	29%	29%	28%
	Decrease	14%	21%	5%
	No Change	57%	50%	67%
	Sub-Total	100%	100%	100%
Cashflow	Increase	15%	21%	6%
	Decrease	12%	8%	18%
	No Change	73%	71%	76%
	Sub-Total	100%	100%	100%

Our survey once again asked respondents to identify the greatest challenges or threats posed to their organisation by Brexit. For logistics operators, the possibility of an economic recession as a result of Brexit is, by some considerable margin, their greatest fear. This is followed by managing, and coping with the consequences of, the possible introduction of trade tariffs, followed by greater bureaucracy and administrative burdens.

For manufacturers and retailers, the greatest challenge is expected to be managing the greater bureaucracy and administrative burdens that may arise from a change in trade relationships post-Brexit, whilst the possibility of a recession or downturn in economic performance features second amongst their fears. Close behind this, manufacturers and retailers appreciate that finding alternative, optimal, supply chain solutions for international trade will be a considerable challenge.

Brexit – Greatest Challenges



47% of respondents are now more positive towards Eircode (2018: 30% and 2017: 20%)

Eircode

We are delighted to report a significantly more positive view towards the Eircode system in the last 12 months, compared to our respondents' opinion at the same time last year.

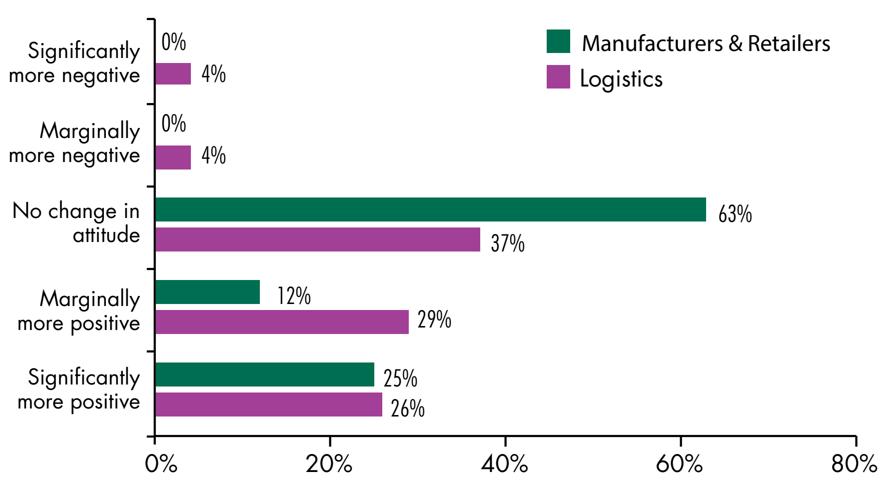
Just under one-half (49%) of respondents said there had been no change in their attitude (down from 66% in 2018). However, 47% of respondents however said they were more positively disposed towards the Eircode system than they were 12 months ago (up from 30% last year and 20% in 2017). Just 4% of respondents, the same level as 2018, describe themselves as more negative towards Eircode than they were 12 months ago.

Interestingly, logistics operators have overtaken manufacturers and retailers as being more positively disposed towards Eircode in the last 12 months with 55% saying they are more positive about the system now than they were last year (up from 22% in 2018) compared to 37% of manufacturers and retailers (down slightly from 39%).

37% of logistics companies said they felt no different about Eircode compared to last year, while almost two-thirds (63%) of manufacturers and retailers said there was no change in their attitude towards the postcode system year-on-year.

Respondents noted that the greater adoption of Eircode is benefitting their business in a number of ways. In addition to route and delivery planning becoming more effective, in the parcel sector, in particular, on time delivery performances are improving.

Change in Attitude towards Eircode in the Last 12 Months (Logistics v Manufacturers and Retailers)



Whilst there is a significant upsurge in positivity towards Eircode, it remains the case that 82% of respondents say they have not adapted their business processes in the last 12 months in order to exploit Eircode. This opinion is reflected similarly across both logistics and manufacturer and retailer respondents.

A higher share of respondents are reporting higher levels of Ecommerce-related activity, as companies seek opportunities beyond the UK and EU

Technology is a key facilitator to managing expected growth levels in Ecommerce operations

Ecommerce

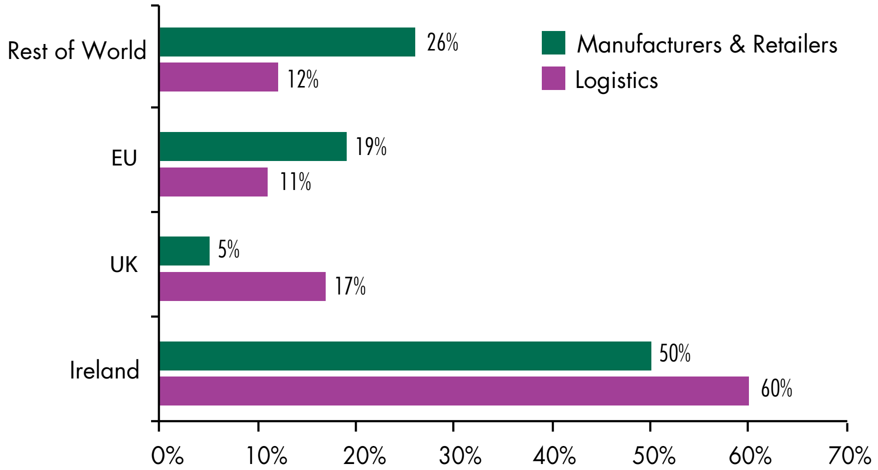
When asked what growth rate (year on year) our respondents' companies achieved in 2018 in their Ecommerce related activity (in both B2B and B2C segments) across the island of Ireland, an increasing share are reporting higher levels of growth. 57% reported growth of up to 5%, down from 82% last year. However, 26% of respondents reported growth of between 6% and 10% (up from 7% in 2018), whilst 4% saw growth of between 10% and 15% (down from 11%) and 13% registered growth in excess of 15%.

53% of logistics operators achieved growth of up to 5% in their Ecommerce related activity in 2018 (up from 50%), whilst 67% of manufacturers and retailers reported the same level of growth (down from 69%).

Our respondents were asked to identify the share of their Ecommerce activity in 2018, by geography. 56% of Ecommerce activity has the island of Ireland as its basis (up from 49% last year), with the UK accounting for a further 12%, down from 20%. The remaining share of activity is segmented between the European Union (14%) and the rest of the World (18%).

In anticipation of a more challenging future trade relationship with the UK, and tougher economic conditions across the EU, both logistics operators and manufacturers and retailers are reporting higher shares of their Ecommerce activity attributable to the 'Rest of the World'.

Share of Ecommerce activity by Geography (Logistics v Manufacturers and Retailers)



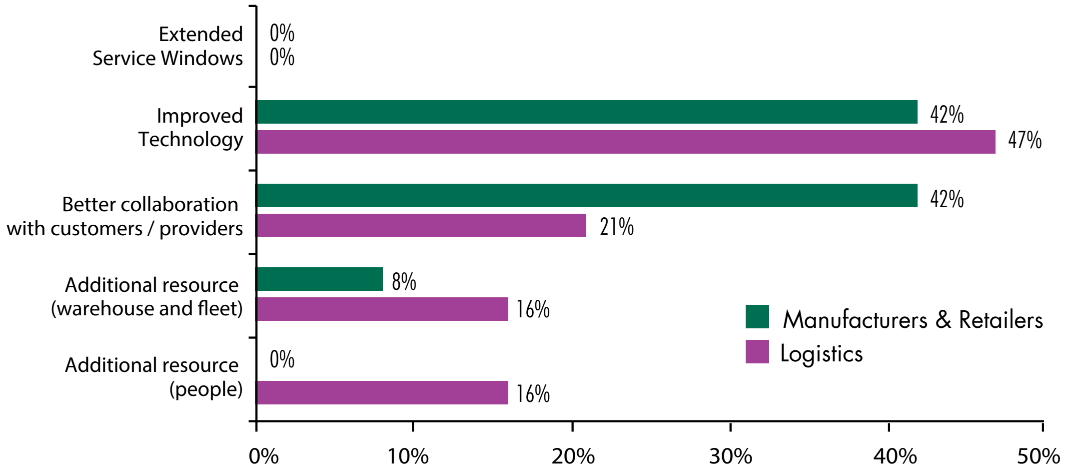
Looking ahead, when asked how their companies would accommodate growth in Ecommerce in 2019, 45% of respondents said that they would do this by improving technology in their organisations, a similar share compared to 44% who opted for this answer last year.

A further 29% said they would do so by improving levels of collaboration between customers and service providers (up from 22% last year), while 13% also stated that investment in warehousing and / or fleet operations would be required. 10% said that they would have to recruit additional people to accommodate Ecommerce growth.

The responses from logistics operators and manufacturers and retailers differed somewhat, as they have done in the last three years, with a greater role outlined for physical assets (be they people, fleet or warehouses) at logistics operators.

However, both audience groups shared the belief that improvements in technology will allow for more streamlined processes and enable growth to be effectively managed. 47% of logistics companies said they would utilise technology improvements (up from 36% last year) as opposed to 42% of manufacturers and retailers, down 11%, as they place greater emphasis on collaboration with service providers.

Accommodating Growth in Ecommerce



77% of respondents expect an increase in demand for logistics property in 2019 (2018: 71%)

Logistics Property

2018 was characterised by severe shortages of modern industrial and logistics stock to satisfy demand across the island of Ireland. Rents increased at the start of year, but stabilised throughout the second half.

77% of our respondents expect an increase in demand for logistics property in 2019 (up from 71% in 2018 and 56% in 2017), with logistics operators once again considerably more bullish in this respect, mirroring trends in all three previous surveys.

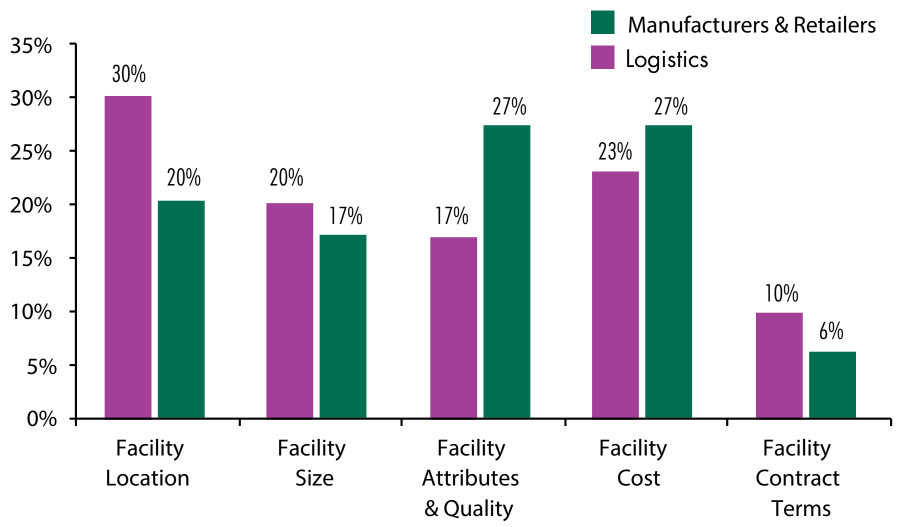
92% of respondents from the logistics industry expect to see an increase in demand for logistics properties in 2019 (similar to 93% last year and up from 77% in 2017) compared to 57% of manufacturers and retailers (up from 43% in 2018).

When asked what challenges they expect to encounter in relation to supply or in securing additional warehouse accommodation, the issues which resonated most with respondents (27% and 24% respectively) was the location and the cost of facilities. In a change from 2018, location took over as the most important issue from cost. A further 20% of respondents overall said the attributes and quality of new facilities was a concern, with 19% of respondents concerned about of the size accommodation on offer.

Analysing these challenges by type of occupier, we see that the biggest issues for logistics operators are the location and costs of new accommodation, with the availability of facilities of a sufficient size rated as the third most important issue. For manufacturers and retailers, the cost of a new facility rates as the joint-most important issue, alongside attributes and quality, which saw a significant increase in importance this year.

Looking to address these issues, the industrial and logistics property sector is expected to see an increase in prime industrial rents in Dublin of up to 6.5% over the course of the next 12 months, rendering speculative development viable in some instances.

Issues in Securing Logistics Property



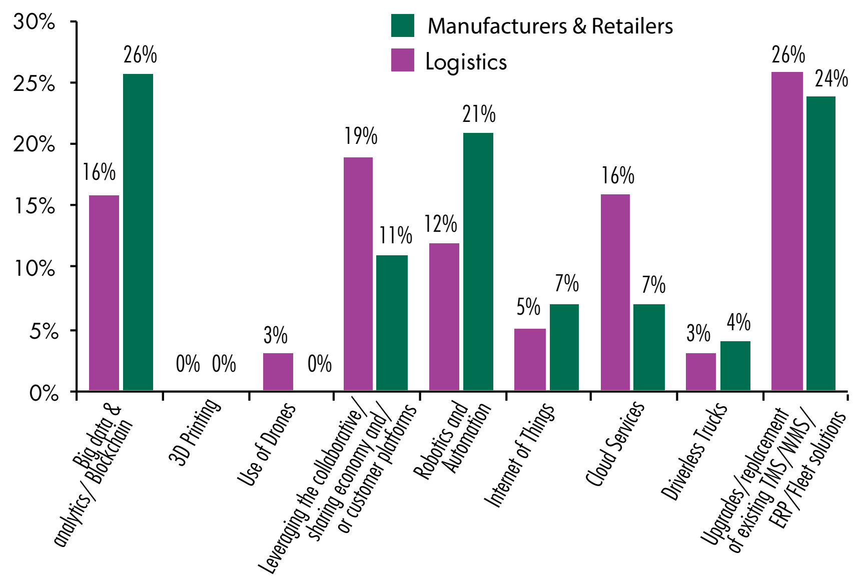
Ahead of Big Data, blockchain, robotics and automation, upgrades of existing technology applications will have the greatest impact on supply chains in 2019

Innovation

Respondents were asked to identify which supply chain technology applications are likely to have the biggest impact on their business over the next three years.

Whilst many technology applications are often perceived as very 'futuristic' solutions, such as the use of drones, or driverless trucks, for our respondents, the biggest impact on their supply chains in the next three years is expected to be derived from the upgrade / replacement of existing transport management, warehouse management, enterprise resource planning or fleet software solutions (TMS/ WMS/ ERP/ Fleet solutions), as chosen by one-quarter (25%) of respondents. Close behind, however, will be the impact made by the application of big data, analytics and blockchain solutions, as highlighted by 20.0% of respondents, followed by the use of robotics and automation, as identified by 16% of logistics operators, manufacturers and retailers.

Innovation in Supply Chain Solutions



For logistics operators, the upgrade / replacement of existing TMS/ WMS/ ERP/ Fleet solutions is likely to have the biggest operational impact over the next three years, ahead of the use of the collaborative / sharing economy, or the use of customer platforms. In joint-third place, the application of cloud services and big data, analytics and blockchain solutions are expected to have significant roles to play.

For manufacturers and retailers, the application of big data, analytics and blockchain solutions is seen as having the greatest impact over the next three years, followed the upgrade / replacement of existing TMS/ WMS/ ERP/ Fleet solutions and the use of robotics and automation. These three 'applications' stood out clearly as the three most important technologies for manufacturers and retailers.

New Business

To better understand commercial dynamics in the supply chain, respondents were once again asked to identify the key drivers influencing contract wins from customers (manufacturers and retailers) or contract awards to logistics operators in the last 12 months.

Almost one-third of respondents (32%) cited price competitiveness as being of significant importance, closely mirroring previous survey results. This was followed by the ability for a logistics operator to provide value added services to their customers (22%). 18% said that the scale of a logistics operator's network played a part, whilst a similar share said that personal relationships were a key influence in the decision making process.

There were some notable discrepancies of opinion between logistics operators and manufacturers and retailers, with the latter placing price well ahead of other issues (40%). Elsewhere, logistics operators were far more keen to stress the importance of personal relationships as key to influencing contract awards in the last 12 months, with a 24% share compared to just 9% of manufacturers and retailers.

M&A Activity

Merger and acquisitions continue to be a key dynamic of the fragmented logistics service provider market. Logistics operators were asked if they intended making any acquisitions over the next 12 months. 42% of respondents stated that such activity was on their agenda for 2019, unchanged from last year's response, and a 9% increase on 2017.

Of the respondents who said they intend making an acquisition in 2019, over one-third (36%) said they intended to do so in order to expand their service offer. A further 27% cited a desire to enter a new sector as the reason behind their M&A strategies, whilst 9% of logistics operators stated that Brexit-related issues would be the main driver of their acquisition plans.

3PL in Ireland

When manufacturers and retailers were asked for their perception of the 3PL service provider market across the island of Ireland, a majority (57%) said that the choice and variety of service providers is adequate, though this share was down from 63% in 2018.

One-third of respondents said that there are too few service providers capable of meeting their company's service requirements across Ireland, whilst 10% of respondents called for greater M&A activity and consolidation of logistics operators.

Amid Brexit uncertainty and threats to the UK land-bridge as a trade route to Europe, respondents are calling for greater investment in sea ports and their related infrastructure

Investment in Ireland

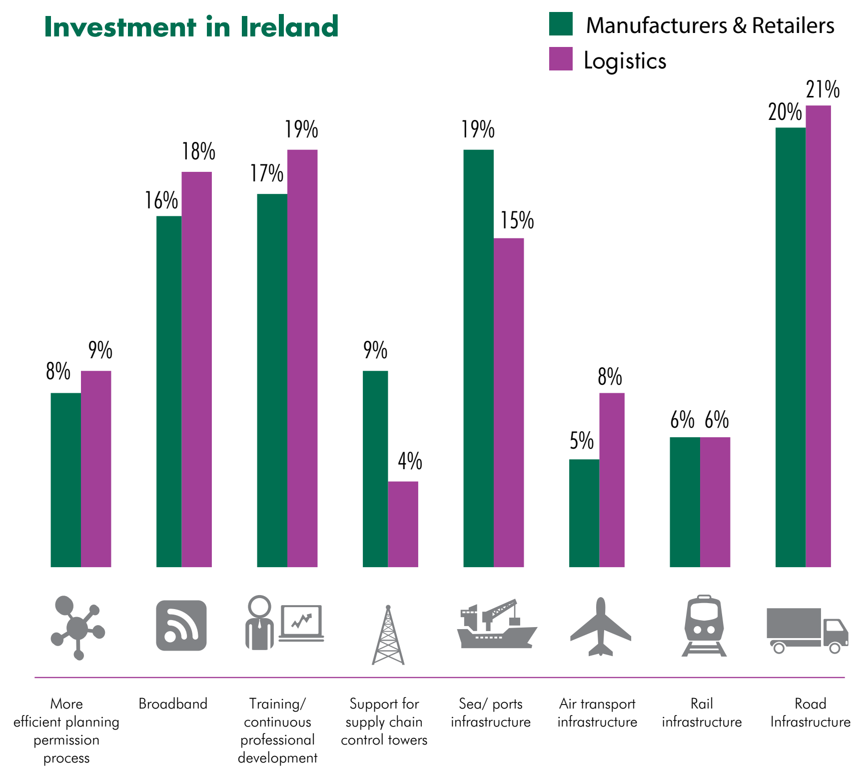
Influenced by Brexit uncertainty and a potential future requirement to reduce dependency on the UK land-bridge as a trade route to Europe, our respondents, senior logistics and supply chain professionals across Ireland, are calling for greater investment in sea ports and their related infrastructure.

Whilst increased funding towards roads and training featured higher on a 'wish-list' of public sector investment demands, investment in sea ports rated alongside investment in broadband, and recorded the biggest change in opinion over 2018 results.

Investment in road infrastructure, training / continuous professional development and further development of broadband services were nominated as the top three priorities for our respondents in both our 2016 and 2018 surveys.

The opinions of logistics operators and manufacturers and retailers remain fairly closely aligned, with each group putting forward a similar 'top three' priorities for supply chain investment across the island of Ireland.

For logistics operators this is investment in roads, followed by training and broadband. For manufacturers and retailers, this is roads, followed by sea ports, then training and broadband services.



Companies are enhancing training and improving pay to address skills shortages and attract future employees

Skills and Talent

Attracting and retaining staff, overcoming shortages of key personnel, especially drivers, a knowledge gap in the skills of key employees and wage inflation have been highlighted by our respondents as key issues facing their businesses.

These challenges are not specific to the island of Ireland. With a shortage of skilled labour an ever-increasing issue for supply chains globally, we asked our respondents what measures they have taken in the last 12 months to address the talent and skills shortage in their own businesses.

Over one-quarter (26%) of our respondents have increased both the volume and quality of their training to address skills shortages. 20% have improved pay and working conditions in an effort to attract future employees, whilst 18% have invested more in their company's HR department and recruitment processes.

Elsewhere, a similar share of respondents (each at around 12%) have either engaged with younger people and introduced apprenticeship schemes, collaborated with trade and educational organisations or encouraged greater diversity in career opportunities within their businesses by, for example, training warehouse workers to become truck drivers.

Addressing the Talent / Skills Shortage

For logistics operators, enhancing the volume and quality of their training and improving pay and conditions are the two 'preferred' strategies to help overcome skills shortages in their businesses.

For manufacturers and retailers, the focus is on training and investment in HR departments and recruitment processes. They are also more likely than their logistics counterparts to encourage greater diversity in career opportunities within their businesses.

Logistics operators focus on 'winning new contracts' and 'raising margins' in the year ahead

For manufacturers and retailers, 'cost control' and 'optimising operational efficiencies' dominate strategies in 2019

Business Priorities

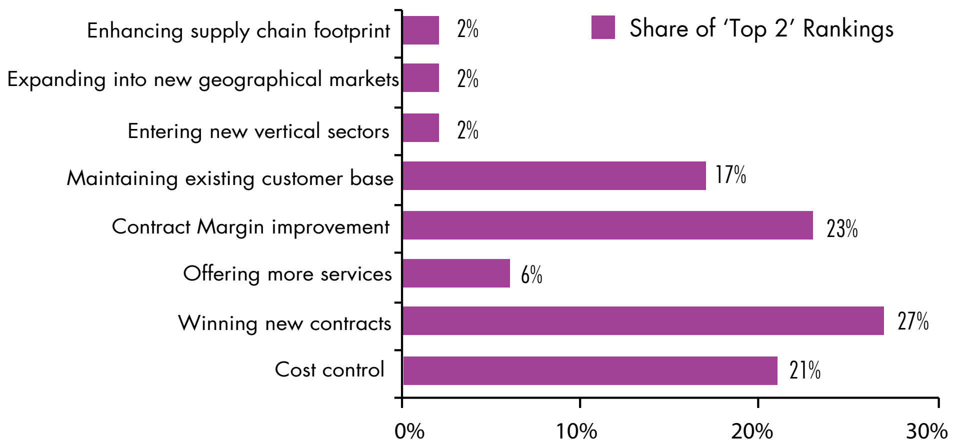
In line with our previous surveys, we asked logistics operators, manufacturers and retailers to rank in order of importance, from a series of eight key issues, their main priorities for the coming 12 months. The charts below analyse how frequently each issue was nominated as one the respondents' top two priorities.

For the first time in our series of reports, in 2019, 'winning new contracts' has taken its place as the top priority for logistics operators in the year ahead. Alongside this, the second most important priority for service providers is to increase the profit margins of the business they are winning from customers.

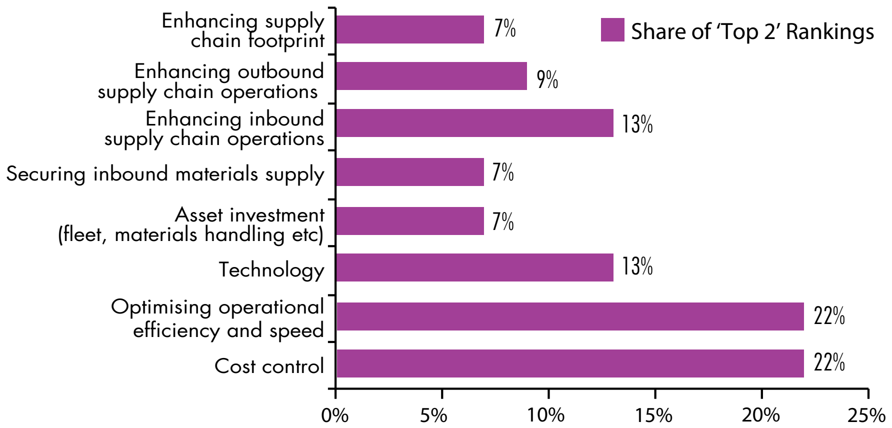
Managing costs and maintaining existing customer bases, the top priorities in 2018, have slipped to third and fourth place, respectively, this year.

When asked what their key business priorities for the next 12 months are, the two most important issues identified by manufacturers and retailers are 'cost control' and 'optimising operational efficiencies and speed', in line with sentiment posted in 2018. A focus on technology is a bigger priority in 2019 and this, together with 'enhancing inbound supply chain operations' make up the next two most important priorities.

Business Priorities - Logistics



Business Priorities - Manufacturers and Retailers



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