



THE GENFITT KNOWLEDGE

**PERFORMANCE TRENDS
IN THE IRISH AGRICULTURAL SECTOR**



GENFITT KPMG

FOREWORDS



Paul Duggan

**Chairman
Genfitt**

Welcome to the 3rd Edition of Genfitt's Knowledge Report. The response we got to the 2017 edition encouraged us to continue with the project, with the objective of learning from the 2017 Report and improving it for 2018.

We have developed the research methodology and included an online survey and, once the field work was complete, we convened an Expert Group to discuss what the field work revealed. The Expert Group included representatives from farming bodies, industry associations, academia, the financial sector and government bodies. We are grateful for the time they and all who participated in the research contributed. We are also grateful for the continuing support of KPMG.

The main conclusion is that 2018 has been a challenging year, despite relatively strong output prices – inclement weather was the biggest challenge. Despite this, the industry is cautiously optimistic, in the face of significant uncertainty. A sign, perhaps, of increasing maturity and professionalism.



David Meagher

**Partner
KPMG in Ireland**

KPMG is delighted to partner with Genfitt again in relation to this timely perspective on the state of the Irish agri sector. You will see that a number of key themes have emerged including, not surprisingly, the effect of the unusual weather and concerns over the impact of Brexit. It is also interesting to note that technology is becoming increasingly important, and it is encouraging to see that farmers are generally positively disposed to making the most of the technological advances that will inevitably revolutionise farming in the years ahead. We hope that you find this report informative and insightful as the sector makes its plans for 2019.

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INTRODUCTION

Welcome to the 3rd edition of The Genfitt Knowledge report

The Genfitt Knowledge is an independent research study commissioned on behalf of Genfitt, part of the Gardiner Group, and sponsored by KPMG Ireland. The objective of this report is to provide a real world view of the Irish farming industry (Dairy and Beef) through the eyes of the people working in the sector.

The research gathered the perspectives of Co-Ops, Farm Machinery dealers, agri-trading businesses and farm machinery manufacturers, as well as opinions of key trade bodies and publications including Teagasc, FTMTA, Agriland and Farming Independent. The data was collected to understand factors affecting performance in 2018, as well as to predict the market place in 2019 and beyond.

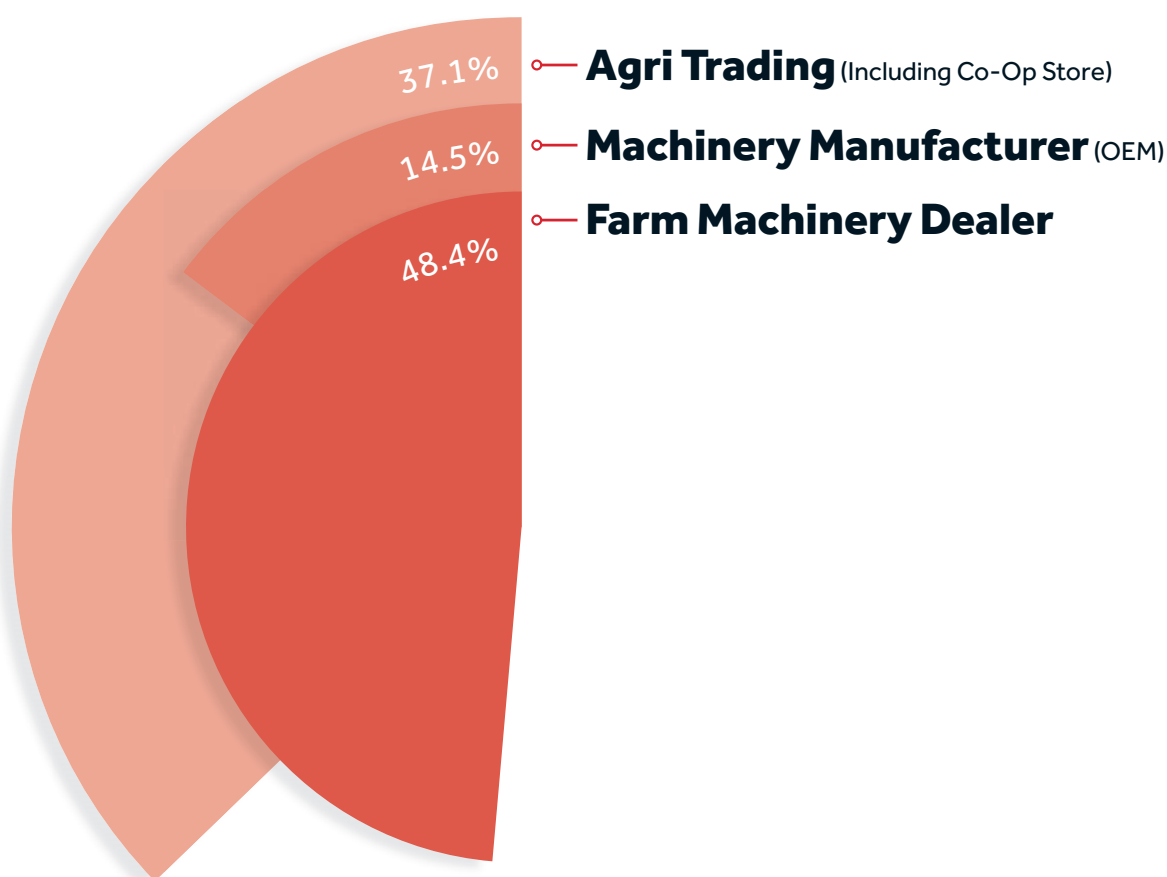
Genfitt would like to thank all the participants across Ireland for their time and opinions. We hope you find the report of interest and that you will continue to support our commitment to leading the collation of insight and knowledge in the years ahead.



METHODOLOGY

The research was carried out by an independent researcher over a 12 week period from June to August 2018. There were four distinct elements to the research:

1. Desk research to identify the macro issues in the industry in H1 2018
2. This work informed an online survey; respondents to this survey were:



3. Desk research and an online survey highlighted key trends which were explored in greater depth through a series of face-to-face interviews with a representative number of resellers and agricultural machinery manufacturers
4. Finally the conclusions arising from the first three phases of the research were discussed by an expert group to draw conclusions about 2018 key trends and the outlook for 2019

The resulting report provides an early review of 2018 and an assessment of the outlook for 2019.



THE MACRO TRENDS AFFECTING THE IRISH FARMING SECTOR IN 2018

From our survey participants



Identifying the trends

In order to identify the macro trends affecting the agri industry, the online survey asked participants to comment across the following topics:

- The state of the market in 2018
- The factors affecting business
- The impact of technology
- And the future predictions for 2019 and beyond

The following pages reveal what we discovered...

THE STATE OF THE MARKET 2018

Q. Overall, how do you rate the state of the farming market in Ireland?

(1 being poor, 10 being excellent)

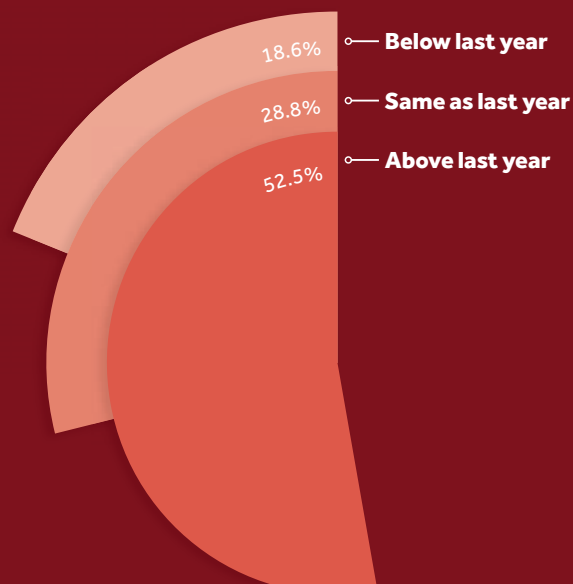
The majority of participants rated the market place as “quite good”, with 48% of people scoring it at 7.5 out of 10.

There were, however, some respondents who disagreed with the majority view, with 2% giving the market a score of just 2, and 6% rating it a 9 or 10.



Q. How has your business performed so far this year compared to 2017?

The majority of respondents are reporting their businesses are having a better year in 2018 when compared to the previous year.



THE FACTORS AFFECTING TRADE

Q. What are the main factors impacting your business in 2018?

(please rank each factor between 1 and 5, with 1 not impacting the business and 5 having a big impact on your business)

Respondents identified extreme weather as the main adverse factor, while on the other side, output prices were the main positive factor.

Surprisingly, Brexit scored relatively low: potentially due to the unknown impact it may have in the future.

Exporting had the lowest impact.

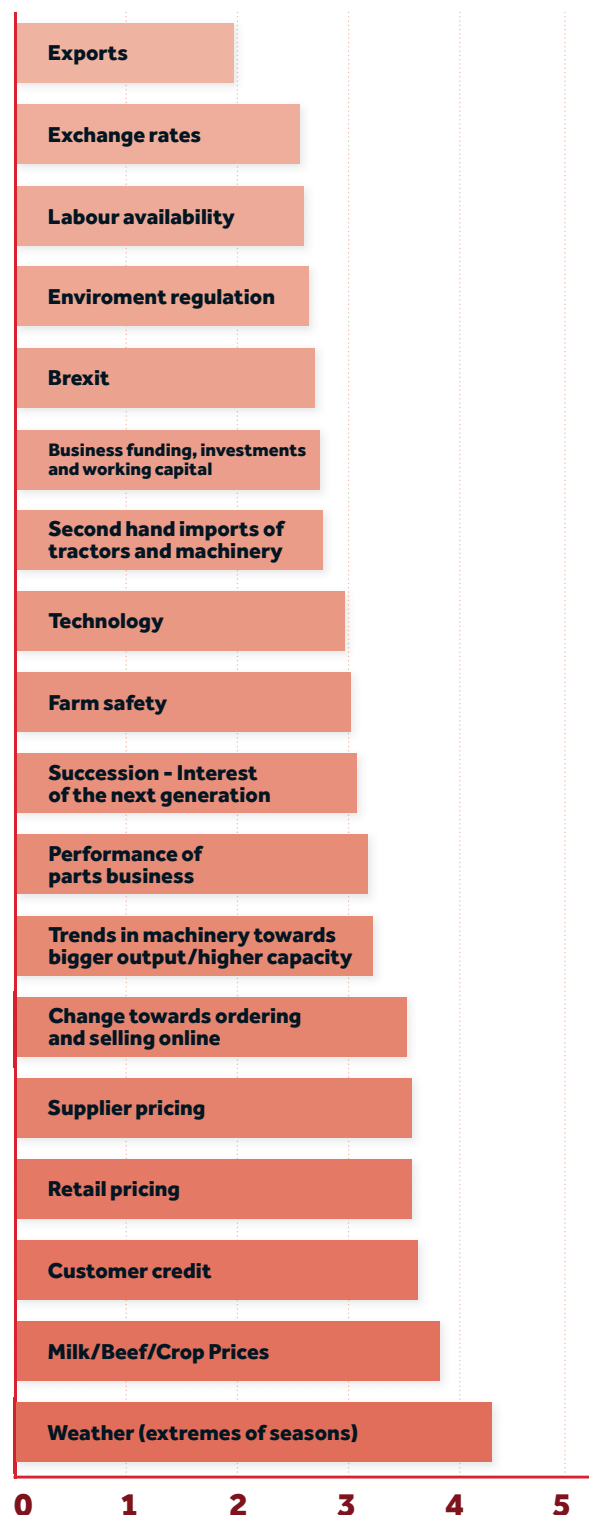
"Supplier Pricing has come down and I can sell a lot more competitively"

"Labour Availability - there is very little interest in this type of career"

"Weather - it affects us both positively and negatively. When you have good weather farmers tend to do more work and spend money. When there's a spell of bad weather there's nothing happening. The extra long winter meant that farmers had to use a lot more animal feed. Quite a number of farmers needed extended credit which didn't help our cash flow"

"Pricing - a negative impact if they can get a product cheaper elsewhere, like online"

"Weather positively impacts on seed, negatively impacts on reseeding, fertiliser and silage making"

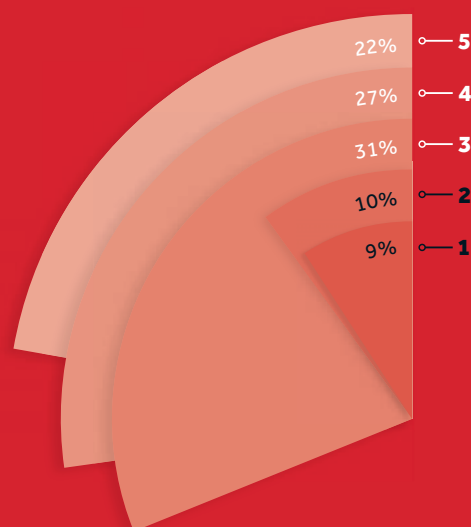


THE IMPACT OF TECHNOLOGY ON THE FARMING SECTOR

Q. Does your business embrace new technologies?

(Please rate between 1-5, with 1 meaning you're less likely to try new technology and 5 indicating that you're always looking for new technological ways to improve your business)

With 49% at the top end of the scale (4-5) versus 19% at the lower end (1-2), participants showed they were willing to try new technology to boost business.

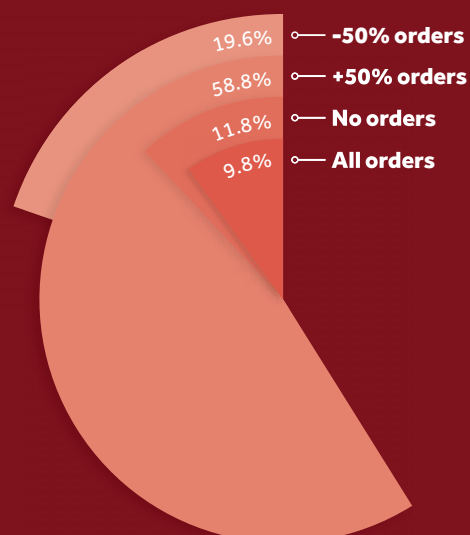


Q. What proportion of your purchasing is conducted online?

The majority of respondents told us they conduct more than 50% of their purchasing online, with many explaining that it's quicker and easier than buying face-to-face or over the phone.

Only 11.8% of respondents didn't order online at all.

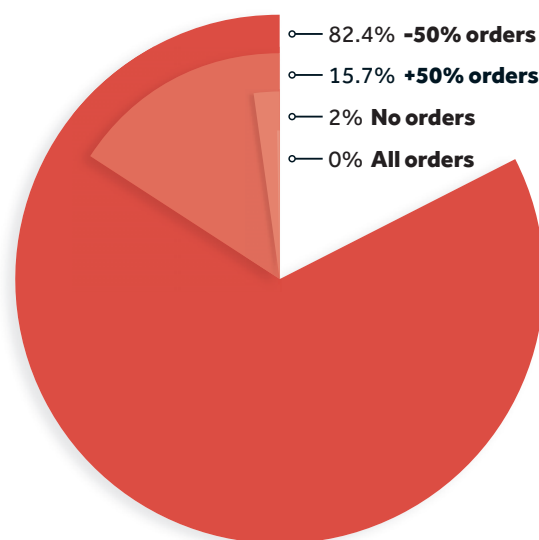
However, what's clear from the data is that there are still many who are more than happy to buy in person.



Q. What proportion of your sales are conducted online?

Although a small proportion of sales are made online, face-to-face continues to be the dominant method of capturing orders.

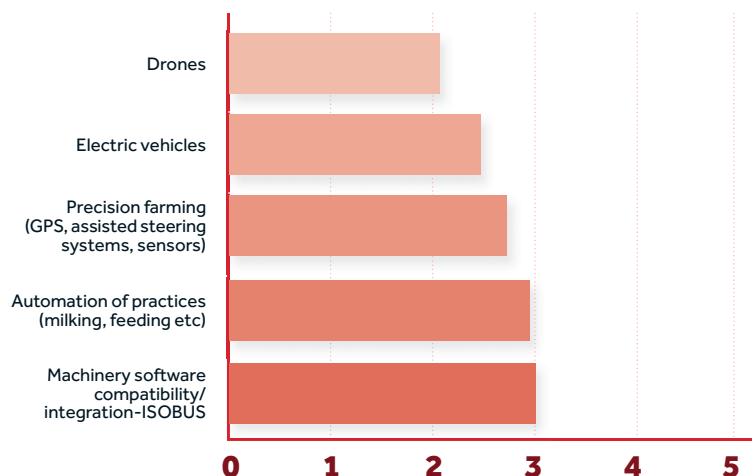
Online sales, at the moment, are a potentially disruptive talking point – but this will surely change in future.



Q. What are the most important technologies that will affect the future of farming in Ireland?

(Please rank each factor between 1 and 5, with 1 not impacting your business and 5 having a big impact on your business)

No one technology stood out, but ISOBUS (an international communication protocol), process automation (e.g. feeding and milking) and precision farming (e.g. GPS aiding application of fertilizers/spray/seed) were identified as being significant.

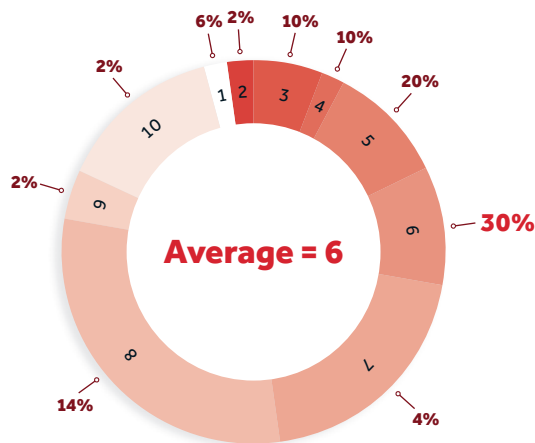


2019 AND BEYOND

Q. How do you rate the prospects for the farming sector in 2019?

(1 being poor, 10 being excellent)

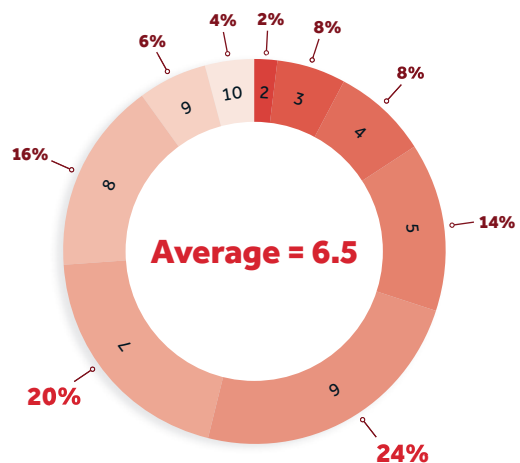
Respondents are optimistic about the future, scoring an average of 6, however the scores are more spread out suggesting a level of uncertainty compared to 2018.



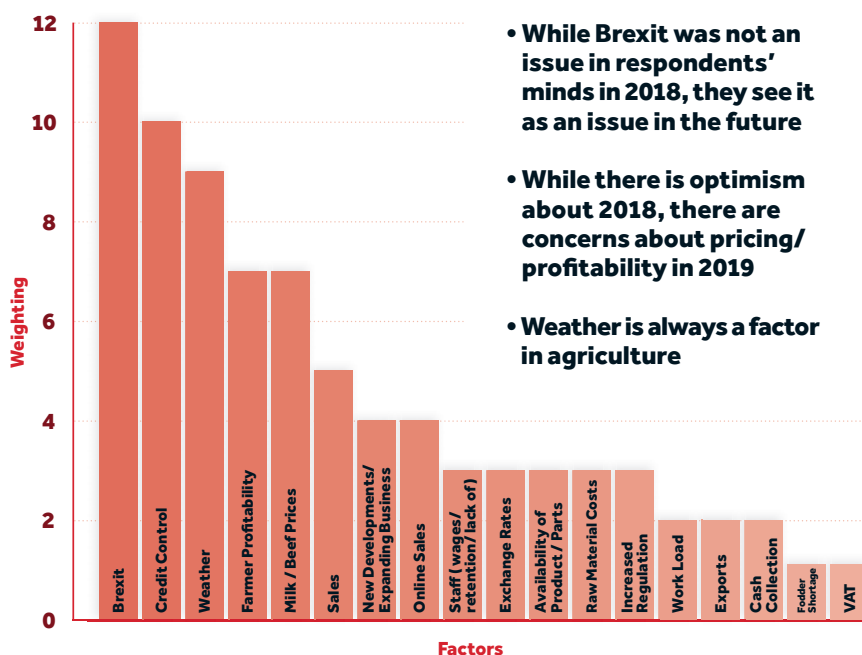
Q. How do you rate the future for your business in 2019?

(1 being poor, 10 being excellent)

Versus the market the individual businesses are slightly more optimistic about 2019, with a higher average score of 6.5 and a greater weighting towards the higher numbers on the scale.



Q. Over the next 12 months what are the three key issues your business will face?



- While Brexit was not an issue in respondents' minds in 2018, they see it as an issue in the future
- While there is optimism about 2018, there are concerns about pricing/ profitability in 2019
- Weather is always a factor in agriculture

"I expect the aftersales business to increase, less new machine sales, increased repairing of old machines and therefore a need for more specialised labour"

"Farming looks bleak for next year, fodder crisis a serious concern over fodder v reasonable milk price future"

"Farmers facing big bills for fodder and new buildings. Will not have money to spend freely"

"Business is growing every year since we opened. My business is still growing at 50% per year and the order book is full for next 8 months." (OEM supplier)

"Gaining of certification has allowed us to sell one of our best product lines all over the world. This, coupled with a US customer we secured at the end of 2017, means we are very positive for 2019"

"Long winter, warm summer, I feel farm incomes will be very undermined due to weather so very little spending. The industrial side of the business should be ok though"

"The younger generation is not getting involved in farming as the older generation did and therefore there will be a labour issue in the not so distant future"

2018: THE OUTCOME REMAINS UNCERTAIN

In summary, our online survey shows:

2018 has been relatively positive for both the industry and the individual businesses within it.

Weather has been the biggest negative factor of the year, although with consistently positive Milk and Beef prices the sector has remained optimistic, with the final months set to determine overall performance. The key questions are:

- Will grass growth be sufficient to rebuild feed stocks for the winter?
- When will the weather dictate that animals are brought in from the fields?

The survey's participants are suggesting that 2019 will be less positive, due partly to the uncertainty caused by this year's weather, and partly to the effect Brexit could have on the sector as a whole.

Overall, people are cautious about 2019, but prepared for what might be ahead. It is a sign that farming might be changing its attitudes and strategies in light of more unpredictability.



A CLOSER LOOK AT THE MARKET PLACE FACTORS AFFECTING PERFORMANCE IN 2018

Face-to-face interviews and expert group

WHAT THE FACE-TO-FACE MEETINGS AND EXPERT GROUP DISCUSSIONS REVEALED

In contrast to the online survey respondents, the interviewees and expert group communicated a mixed or negative view of the market place year to date, averaging a score of **4.72 out of 10 and on a par with the previous year. The main word being used to describe the market place was 'Uncertainty'.**

There were significant differences in views depending on business type and geographic location. For example:

- Meanwhile, regional weather in Ireland affected domestic dairy and Beef farmers. The South and East faced a drought and potential fodder issue, while the West of Ireland enjoyed better weather (in relative terms, this region is a relatively small proportion of the market)
- The OEM businesses were refocusing on export to ensure their positive growth was future-proofed in light of Brexit. But they faced their own challenges, for example, heavy snow in Norway and complicated legislation in Australia. Factors such as these negatively affected overall cash flow

As this report goes to print the second cut is well under way, even if there are regional differences. The real question concerns whether there will be enough quality feed for winter and when cattle should be brought in from the fields.

A POSITIVE MILK PRICE: PREDICTED TO STAY IN 2019

Milk price, while still volatile, has been more stable throughout 2018 than in 2017.

Agriculture - Manufacturing Milk Prices

Manufacturing Milk Prices (including VAT) (Euro per Litre) by Product and Month

Product	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18
Milk, actual fat and protein	0.394	0.428	0.438	0.441	0.426	0.398	0.372	0.342	0.320	0.321	0.326	0.327
Milk, 3.7% fat and 3.3% protein	0.384	0.370	0.369	0.373	0.375	0.371	0.362	0.331	0.314	0.314	0.320	0.318

Source: Central Statistics Office

- The Milk price in 2018 has been strong; in addition, the consensus among both face-to-face interviewees and the expert group was that the Milk price will remain strong. This boosts confidence and encourages farmers to invest
- The removal of Milk quotas resulted in a dramatic increase in product, at a time when there was a reduction in demand for dairy products. The price has recovered because major producers (notably New Zealand) culled herds and there has been a recovery in demand, driven by an improving global economy
- Dairy products are and always will be global commodities there will be times when the price is high relative to the cost of production and times when it is not. The challenge is for the industry to adapt, whether by controlling costs or output. Can a fragmented industry do this?
- In parallel to Milk, Beef prices have also been strong and remain stable in 2018

THE WEATHER AND THE POTENTIAL FODDER ISSUE

- There is a consensus that weather has been the dominant factor in 2018
- Cattle were brought in from the fields early at the end of 2017 and remained in sheds until mid-late April, creating feed shortages which saw farmers purchasing feed concentrates – and adding significantly to their costs
- The first silage cut was largely completed by mid-June, by which point the drought had taken hold and grass growth had stalled. This meant that by July, farmers in some parts of the country were feeding animals recently-cut silage - increasing the likelihood of a fodder crisis in the coming winter
- The impact of the drought has varied across the country, with the South and South East suffering most
- The extent of a fodder crisis will be determined by the yield and quality of second/third cuts, and how long animals can remain in the fields before being brought into sheds
- It is encouraging that, probably for the first time, there is an awareness of the latent threat. Farming organisations, Co-Ops and various State Agencies are already responding

THE WEATHER AND THE POTENTIAL FODDER ISSUE

So what is the impact of the weather pattern in 2018?

- In simple terms, “no fodder no cash”, as farmers use any cash to buy feed to get through the winter
- With herd sizes increasing over the years, some larger farms will experience difficult decisions to feed or slaughter in order to survive
- More importantly, this will delay investment into machinery, as cash flow becomes tight and peaking in January and February 2019. Grants may mitigate the problem
- Farmers are aware of the looming fodder issue, but the feeling is one of optimism with Milk prices remaining higher. The industry has experienced worse

“We have been through this before. We will survive and we have more strategies now than previously”

Unlike previous “fodder issues”, the industry has anticipated the problem and is focused on dealing with it:

- The Media (farming, general, traditional and digital) is already talking about the looming challenge, increasing awareness
- Farming organisations are lobbying government for support, and have already achieved some success
- Teagasc farm advisors are encouraging farmers not to rely solely on a good second cut, and are actively suggesting other means of managing the fodder issue – offering short term (e.g. herd reduction) and long term strategies (e.g. other feed types such as maize)
- Co-Ops are running seminars for farmers, offering advice on managing the likely challenges

Respondents were clear that they are not waiting for third parties to resolve the fodder issue; they are adapting their businesses to minimise risk by:

- Reviewing and developing product offerings
- Exploring entry to export markets such as Scandinavia, Holland, France and Germany
- Creating new revenue streams (e.g. service), promotions and incentives



So what can we learn from this?

- We are too grass-dependent and must consider a security crop e.g. maize
- Adapt to the reality of changing weather patterns and plan accordingly
- Develop plans for sustainable growth, rather than uncontrolled opportunistic growth: skills before scale
- With 3 months remaining the year is far from over, and it is premature to conclude that a ‘fodder crisis’ is inevitable. Terminology is important and at this stage a ‘fodder issue’ might be a more accurate description

BREXIT: NO IMPACT, BUT MASSIVE AMOUNTS OF UNCERTAINTY

It's a 2019 issue and one that we have little direct control over. There is evidence that the processors are adapting their strategies and tactics to reduce the industry's dependence on the UK market (Ornua and Glanbia).

Currency is likely to be a dominant issue, with significant exchange rate movements impacting competitiveness.

- Despite the fact that Brexit is clearly on everyone's mind, there has been no impact on day-to-day business this year. This is the same conclusion as we found in 2017
- Given the high levels of uncertainty, a few more months of kicking the can down the road can be expected



CREDIT AND FINANCE: EASIER TO GET BUT WILL IT MEAN INVESTMENT IS MADE OR WILL THEY PLAY IT SAFE?

Unlike previous years, credit and grants have been easier to access, with lower interest rates and more government initiatives such as GLAS.

- The 'fodder issue' may divert spend, but cash is available and incentivised to use on investments such machinery and tractors
- Young farmers are buying bigger, more powerful tractors. The question is, is this necessity or just vanity?

MACHINERY AND LACK OF 2ND HAND TRACTORS: WHERE IS THE SUPPLY GOING TO COME FROM ?

- The lack of 2nd hand tractors is a big issue. In previous years it was significantly easier to find a good, consistent stock from the UK. Now supply has reduced significantly, so the issue is; repair with parts, invest in new or even lease?
- With Brexit around the corner maybe the time is now to look for a new source of 2nd hand machinery from Holland or Germany

THE IMPACT OF ONLINE COMPETITORS ON THE SMALLER LOCAL SUPPLIERS

- Online competition was mentioned by every single interviewee outside the OEM segment, highlighting the very real issue of online competition from other markets or direct suppliers - with those at the extreme end of the scale stating it is "Crippling my business"
- However, online suppliers require payment up front and there is no service support. The upside was time saving and efficiency, with simple websites and one-click buying. It is not always about price but time
- Online buying also means more informed customers, either arriving with pricing information or finding advice and products in-store and then ordering direct. Sometimes from international suppliers with 'fast to customer' delivery
- As farmers adopt more technology, such as mobile, the convenience of online ordering is a key area of opportunity or risk

The question remains, is online competition as big a threat as reported?

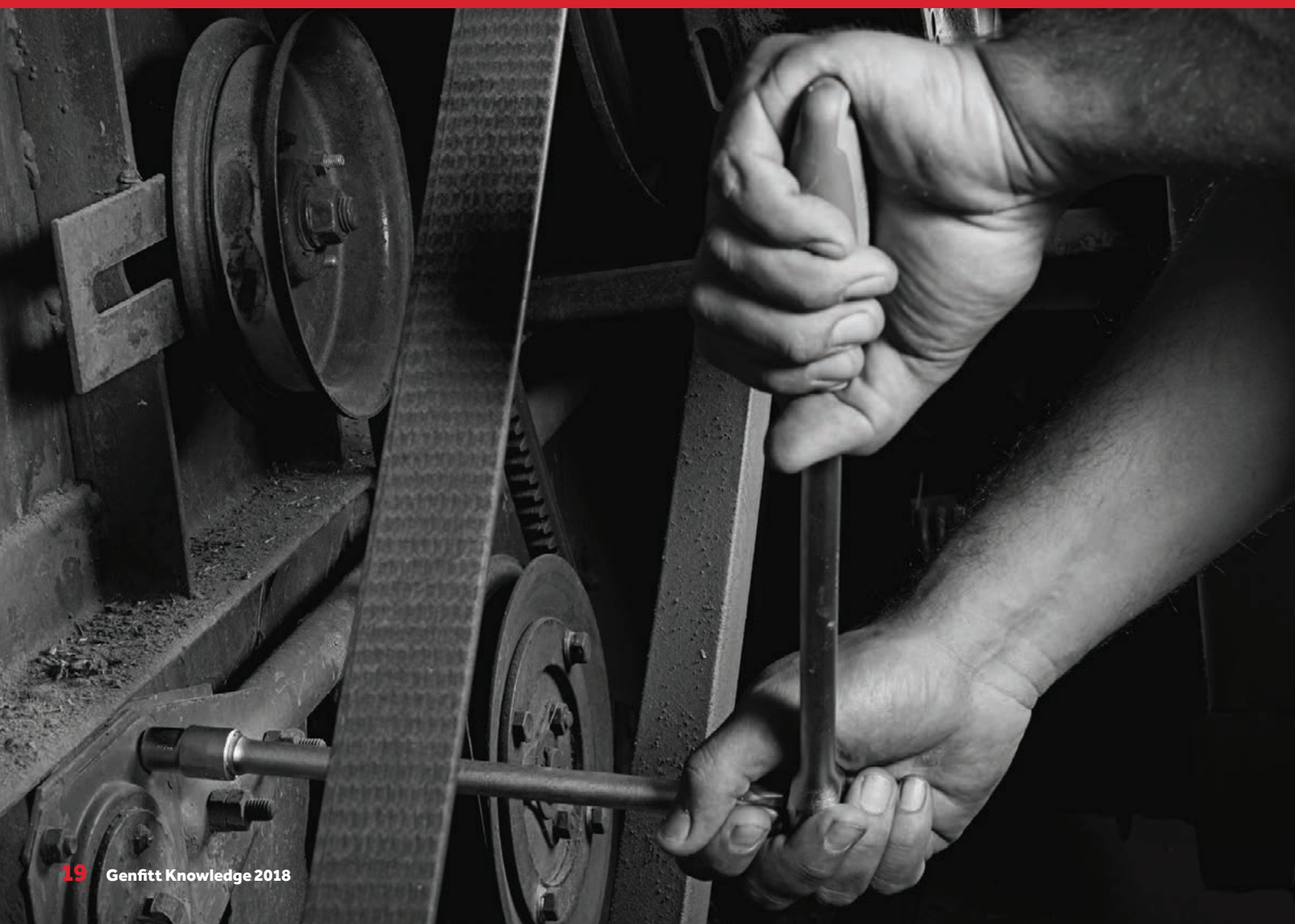
Sales data does not yet confirm this market perception.

"I can get the same product at one click delivered in 24 hours to my location, I don't need to leave the farm and for that I don't mind paying more"

LABOUR: A POTENTIAL ISSUE FOR THE FUTURE

Labour was a big, consistent theme of The Knowledge Report 2018. It was being felt first-hand by farmers, as well as debated at industry level with the Association and Trade Bodies.

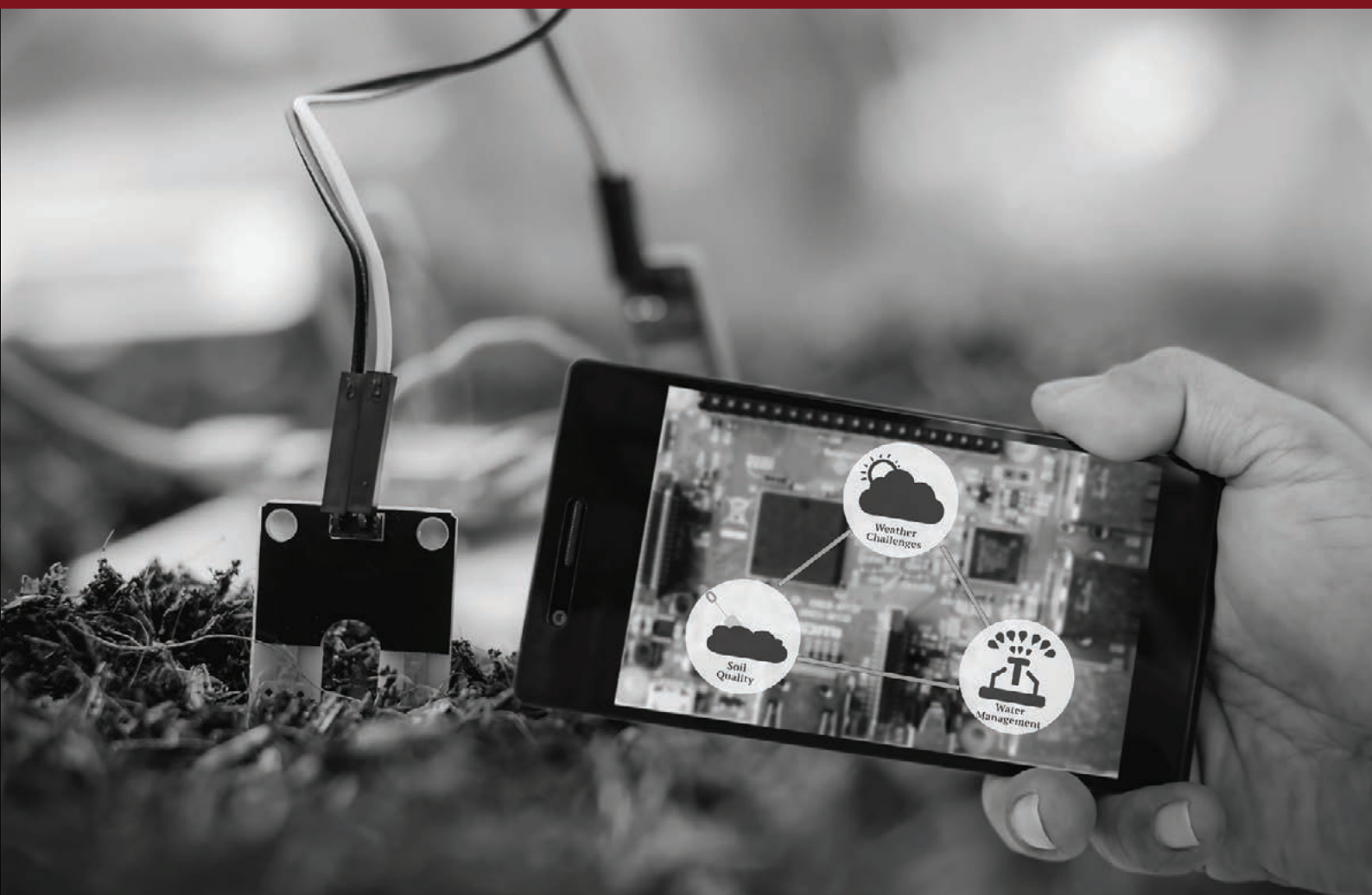
- At a farm level, the issue is availability. Not enough people want to work in the sector, therefore farm businesses are recruiting labour from Poland, Latvia and Brazil to fill the void
- The reason cited is more young people are attending secondary education, with less people taking apprenticeships, as more receive third level education. No longer is farming a family business, as we see the rise in bigger, more commercial farms
- At an industry level, the challenge is to change the business of farming, making jobs more appealing and giving farmers the skills to manage people better. No longer are people willing to work for poor pay, in poor conditions, with long and irregular hours (80/90-hour weeks). We need to train farmers in management, coupled with better resource solutions such as shared labour, contracting or automation



TECHNOLOGY: LESS OF AN IMPACT THAN PREVIOUSLY THOUGHT

- It's been widely discussed at industry level, but technology has had less of an impact at farm level than previously thought
- There is lots of noise about drones (for tillage), automated farming (for milking) and driverless vehicles, but the reality is that the market place is 5 years away from the real impact of such technology, due to the cost of entry and skills required to work with the new systems
- As new farmers enter the market, we will see a sharp rise in the adoption of technology for frictionless systems, with improved mobile communication and efficient, farm-specific software rather than a step change in investments. It will be more about a tech-enhanced farming process than a fundamental change of business

GPS and precision farming are having the biggest effect, as farm suppliers need to keep up with tractor manufacturers on software integration and ISOBUS.



THE FUTURE: 2019 AND BEYOND



‘Optimistic but uncertain’ is the prediction for 2019.

- There is much discussion of “no fodder no cash”, but many are suggesting they will get through 2019 as per this year (depending on the last 3 months of 2018). No uplift but no decline
- The positive spin is that the industry is seeing these challenges as an opportunity to learn and improve, rather than a threat. The year ahead might be unpredictable, but the industry needs to see this as the norm. Perhaps we can learn from other countries on planning for weather extremes

While cash flow will be an issue, grants and credit will mean there are still investments.

With Brexit looming some may adopt a strategy of doing nothing, at least until the yield and quality of the second cut is known.

SUMMARY

In 2018, the day-to-day participants were more optimistic in their outlook than the experts: 7.5/10 versus 4.75/10. That said, there were distinct variations in opinion due to location and type of business.

The market reports a general feeling of uncertainty. Over the next three months this is due to the weather. Over the year ahead, it's caused by the potential impact of Brexit and - on a bigger scale - world trade.

Initially, talk of a 'fodder crisis' was reported by the Expert Group. This was scaled down to a "fodder issue", thanks to confidence in the sector's ability to cope using alternative strategies, a consistent milk price of +30 cents per litre, and the availability of credit and grants.

Labour availability was high on the agenda of all participants, both now and in the future. The focus of trade bodies being "making the industry a better employer".

On a day-to-day level there were two very real issues. Firstly, a lack of 2nd hand tractors (stock is not available). Secondly, the affect of rising online competition on trade. Is this a market perception or a real issue? It's a question that's still unanswered.

The reality of technology is that it is not about major change, but improvements to process throughout the industry as farmers become more mobile and software-savvy.

In the short term, the big questions regarding weather for the rest of 2018 are:

- Will grass growth be sufficient to rebuild feed stocks for the winter?
- When will the weather dictate that animals are brought in from the fields?

Looking ahead to 2019, the participants are suggesting a less positive year than 2018, with a huge amount of uncertainty due to the impact of weather this year, coupled with the changes Brexit will bring.

The overall conclusion is that uncertainty and change is the only constant, and as an industry we must adapt. While we're seeing signs of this, there is still room to grow.

FINAL WORD

- We hope you have found this report useful as a barometer of market place trends, allowing you to better think and plan your business.
- We would like to thank all the customers, trade bodies, associations and expert commentators for their participation in 2018, and a big thank you to our key sponsor KPMG.

We look forward to the year ahead and will continue to build our knowledge with a bigger version of this project in 2019.

**We would be delighted if you would like to take part next year.
If you are interested in participating, or would like more detail on
this year's results, please contact Genfitt on:**

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