KPMG

M&A Outlook 2019

Deal insights for Northern Ireland and the Republic of Ireland

Foreword

We are delighted to present the findings from our survey on the outlook for Irish M&A activity in 2019. This annual survey was conducted with many leading corporate executives and M&A advisors in Northern Ireland (NI) and the Republic of Ireland (RoI). We hope that it provides valuable insights into M&A trends for the year ahead.

Russell Smyth
Partner, Corporate Finance

2018 – THE YEAR IN REVIEW

The M&A market across the island of Ireland remained buoyant in 2018, as predicted by the respondents to last year's survey. Interestingly, while deal values increased across both jurisdictions, the volume of activity declined slightly on 2017.

Overall deal value in NI grew strongly, despite there being an absence of deals greater than £500m as was the case in previous years, with Lagan's sale to Breedon being the largest at £455m. Therefore, the increased deal value can be attributed to an increase in the number of medium to large deals in the market such as the sale of Simple Power, the investment in Devenish Nutrition, and the sale of Brockabhoy Windfarm.

Deal value in RoI was lifted by increased M&A activity by a number of the large Irish plcs. The year was bookended with Total Produce's acquisition of 45% of the agricultural multinational Dole Food Company for US$300 million and Greencore's disposal of its US operations for US$1.1 billion. Other highlights during the year included the disposal of Adapt Pharma to specialty biopharmaceutical company Emergent BioSolutions for US$735 million and Smurfit Kappa's robust defence from International Paper's multi-billion dollar bid.

Private equity continued to emerge as a major player in the M&A market across the island, a trend that has increased year on year during the lifetime of our M&A Outlook. In NI, examples of companies that received new private equity investments include Elite Electronics and Prestige Insurance. 2018 also saw a further wave of private equity exits from initial investments as funds refreshed their capital for the next round of M&A activity such as the exit from Lowe Refrigeration in NI. This cycle of investment, growth and exit is now well established as a clear and attractive funding option for companies across the island and is anticipated to continue throughout 2019. Interestingly, in our survey, RoI respondents expected PE to play a bigger role in the funding mix (27%) than NI respondents (17%).

2019 – MIXED SENTIMENT

The year ahead is undoubtedly one of the most difficult to predict. Surprisingly, the survey suggests that the deal making community is cautiously optimistic about the coming year, with the vast majority of respondents expecting 2019 deal volumes at or above prior year levels (77% in NI and 87% in RoI). This is despite the current local and global macro-economic uncertainties.

Concern about the potential impact of Brexit negotiations are at a hyper-sensitive point and this is evidenced by a widely held view amongst survey respondents that a no deal / hard Brexit can only be negative for M&A across the island. This is more pronounced in NI with 53% expecting Brexit to reduce M&A activity in 2019.

The different views on the NI and RoI M&A markets by respondents is also reflected in that the majority of RoI respondents (60%) expect 2019 to be a seller's market, while in NI the majority (67%) believe it will be a buyer's market. This could be attributed to the potential impact of Brexit and the political uncertainty in NI impacting on valuation and deal appetite.

Despite some differing views on the M&A market in both jurisdictions by respondents, there is clear commonality on Technology and Food and Agribusiness as being among two of the most active sectors for M&A transactions. However in NI, Energy and Infrastructure is also a sector that respondents expect significant activity in 2019. Tellingly these are all sectors that are consistently attracting global interest.

An overarching survey sentiment is the positive impact of the robust funding environment, with increased competition for targets amongst well-funded trade and financial buyers. Debt continues to be the funding source of choice for 67% of respondents in NI with attractive terms and new entrants / alternatives across the island.

Finally, we would like to thank all those who took the time to complete the survey and inform our analysis.

Highlights

2019 DEAL VOLUMES

Respondents remain optimistic for the year ahead, with 87% forecasting activity at or above 2018 base levels, reflecting **Ireland's continuing appeal as an attractive location for M&A.**

SELLER'S MARKET

60% of respondents expect 2019 to be a seller's market, with increasing numbers of domestic and foreign investors competing for Irish targets.

BREXIT

The **majority of respondents expressed concern that Brexit will have a negative or neutral effect** on deal activity in 2019. However, many M&A executives cited that this **period of uncertainty could also provide M&A opportunities for Irish companies.**

FINANCING

Debt will once again be the primary source of deal funding, with attractive terms, flexible instruments and increased presence of new lenders in the market. **Global and domestic private equity is also expected to feature prominently.**

DEAL DRIVERS

An increasing proportion of M&A executives expect **strategic merit / fit to be the primary driver of acquisitions.**

M&A GROWTH STIMULANTS

Respondents generally assert that deal activity can be further stimulated by **building awareness of available targets and more sophisticated vendor preparation.**

INTEGRATION

Cultural misalignment, people related challenges and inadequate diligence and planning are the main factors cited for post-deal integration failures.

EXIT

Compared with previous years, a growing share of respondents think **disposals to financial buyers will be the most likely exit option.**

Where Northern Ireland Differs

BUYER'S MARKET

While RoI respondents firmly expect FY19 to be a seller's market, nearly two thirds of NI respondents expect it to be a **buyer's market**. This possibly suggests slight nervousness in NI on the buyer population / appetite in FY19.

SECTORS

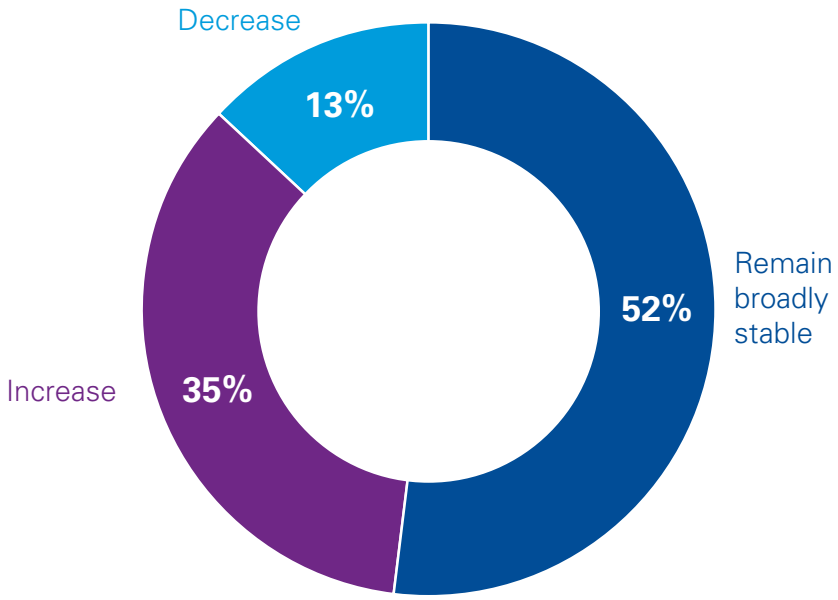
Agribusiness and **Technology** are expected to be the most active sectors for M&A transactions in both NI and RoI. While **Energy** and **Infrastructure** is also highlighted for NI, Healthcare features more strongly in RoI, possibly reflecting the different dynamics in that market.

POLITICAL UNCERTAINTY

Once again there are **strong views** on the continuing political stalemate at Stormont. Most respondents expect a negative impact on deal activity.

FINANCING

Both NI and RoI respondents expect to use a **broad mix of funding** for acquisitions. Unlike the 2018 survey, it was NI which showed the greater appetite for debt this year, with equity being a larger component in RoI. This perhaps reflects the increased number of private equity investment options available.



Deal volume

How do you expect deal volume in Ireland in 2019 will compare to 2018?

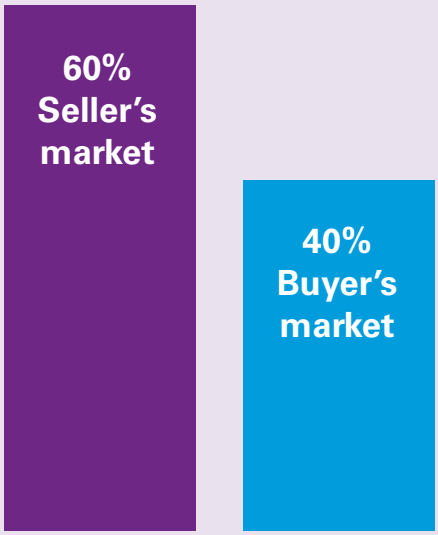
Respondents are optimistic that 2019 deal volume will continue to at least track the buoyant levels of activity evidenced in 2018, with (somewhat surprisingly) just 13% anticipating a reduction in deal flow.

Ireland continues to be viewed as an attractive business environment, particularly in the mid-market M&A space. This is attributed to the ability to achieve sustainable growth through strategic acquisition, together with the availability of finance at attractive rates, private equity funds with capital to deploy, a resurgent domestic banking sector and strong corporate balance sheets.

Irish deal makers are cautious but broadly optimistic for the year ahead, while calling out current macro-economic and geopolitical headwinds, most notably: (i) the outcome of Brexit negotiations; (ii) international trade wars (US / China in particular); and (iii) capital market volatility.

"Despite various macro headwinds, our survey indicates sustained deal activity through 2019. A carefully designed approach to M&A, now more than ever, forms a key plank in the strategic foundations of Irish businesses."

MARK COLLINS
Partner, Head of Transaction Services
KPMG in Ireland



2019 market

Will 2019 be a buyer's or a seller's market?

The majority of participants believe that 2019 will primarily be a seller's market as prevailing market conditions are expected to continue:

- Strong pipeline of attractive Irish assets, with sound post-recession financial track records;
- Competition for Irish target assets amongst domestic and foreign investors;
- Persistence of strong valuations; and
- Availability of financing.

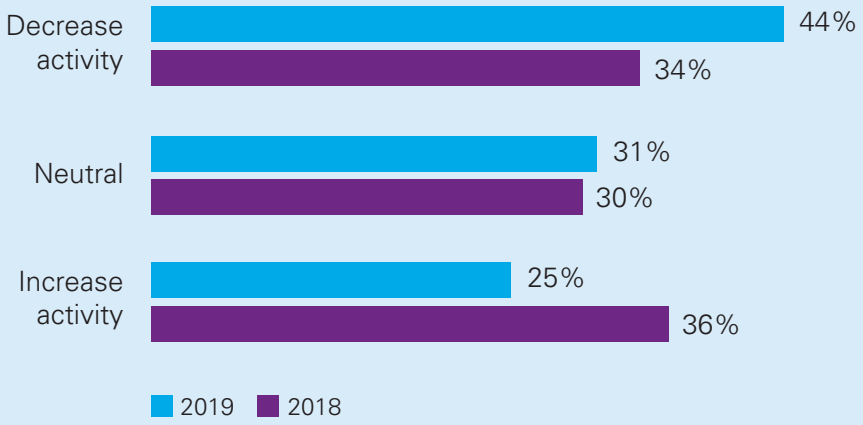
Deal makers are increasingly wary that these market dynamics may not prevail and the balance could begin to shift towards buyers over time.

"We see great potential to transform and grow our core business while scaling new opportunities. This can be achieved by exploiting organic growth opportunities and pursuing acquisitions in selected markets that fit within our existing business segments. While there are always specific and global risk factors which will influence our business expansion plans, we have a significant pipeline of business opportunities as we look into 2019 and beyond."

PAT DALTON
CFO, IPL Group plc

Brexit negotiations

What is the likely impact of Brexit negotiations on deal activity involving Irish companies in 2019?



There is understandable uncertainty within the Irish deal making community surrounding the outcome of the ongoing Brexit negotiations and the consequences from an Irish perspective. We go to print at a time when a range of outcomes remain possible, with far reaching consequences.

A significant proportion of survey participants (75%) believe that Brexit will have an adverse / neutral effect on deal activity in 2019 - a far more negative outlook in comparison to 2018. The imminence of a Brexit decision with its wide ranging impact on trade, border controls, cross-border tariffs, the tax and regulatory environment and foreign exchange markets make accurate forecasting and managing 2019 expectations challenging for the Irish M&A community. It has potential to create significant overhang in the M&A market.

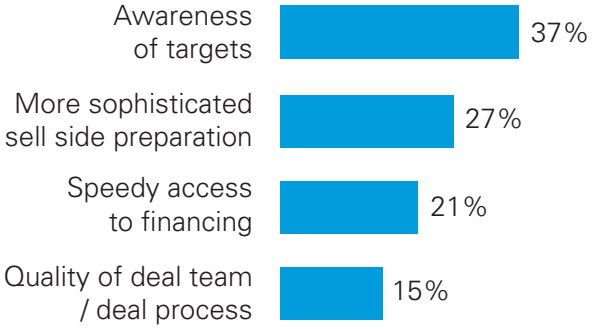
Conversely, many note the increased attraction for UK businesses to acquire Irish companies during 2019 as a defensive restructuring mechanism and a means of de-risking in the context of regulatory and supply chain uncertainty. Similarly, 2019 may present a window for opportunistic Irish companies to acquire / build positions in the UK market through strategic acquisitions.

"Irish organisations with interests in the UK need to undoubtedly prepare for Brexit related business disruption. However, if focusing on preserving and driving a 'local' UK strategy, they also need to continue to position themselves to capitalise on acquisition opportunities that will inevitably present."

EOIN TONGE
CFO, Greencore Group plc

Deal making

What factors will enable greater deal making in Ireland in 2019?



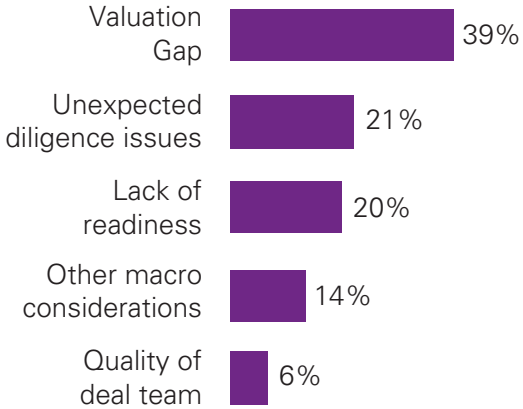
The prevailing economic environment in Ireland has supported the continued increase in deal activity in recent years. The view of participants is that an increased awareness of targets would enable deal making, with a heightened emphasis placed on this factor in comparison to 2018. A more systematic approach to identifying targets and an awareness of increasing competition in the market can greatly enhance deal activity and success.

Participants continue to view more sophisticated sell side preparation and speed of access to financing as important enablers of deal making.

Prior to entering a sales process, it is essential that potential diligence issues are identified on a timely basis in order to encourage remediation actions to be taken to avoid value erosion. This can pre-empt bidder issues and provide solutions that can be put in place prior to commencing a process.

Deal failure

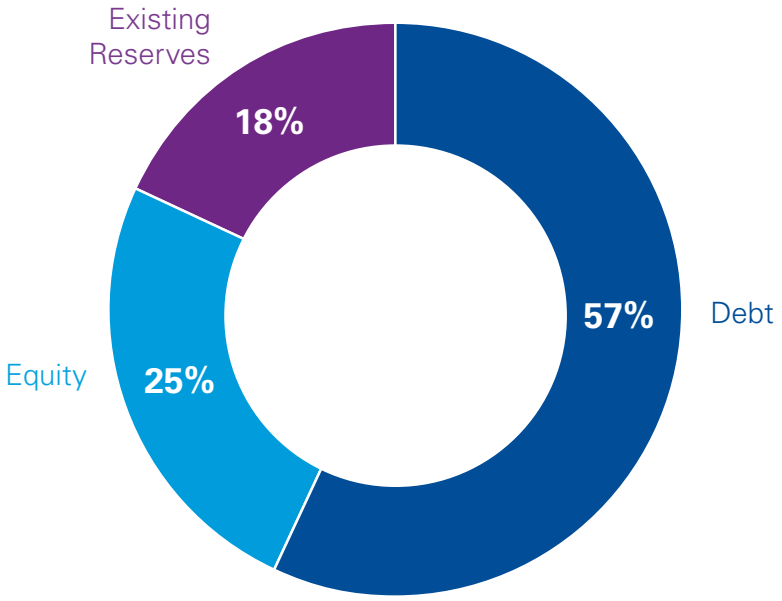
In your opinion, what are the primary reasons for deal failure?



As captured in previous surveys, price / valuation is the rock on which many deals perish. This highlights the importance for sellers of educating potential buyers about the value proposition and the specific market dynamics which drive their valuation expectations.

Sellers should ensure that significant issues are appropriately flagged at the outset of a process giving time for management and advisors to effectively manage and communicate the issues.

From a buyer's point of view, an even-handed, fact-based approach to due diligence can expedite the resolution of price adjusting diligence findings.



Acquisition funding

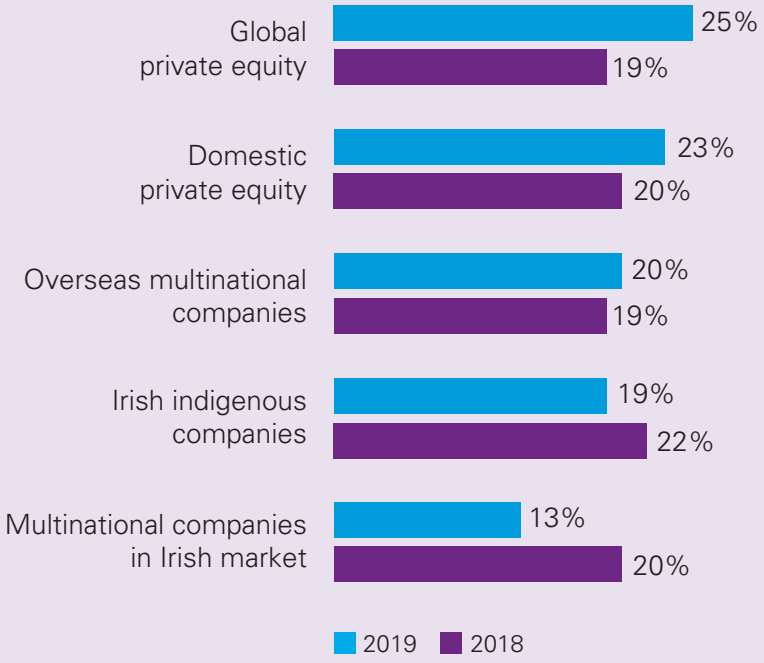
What is likely to be the primary source of funding for acquisitions which you anticipate undertaking in 2019?

The majority of respondents intend to use external funding for acquisitions in 2019. A consistent trend of this survey is that debt is the most common type of financing for acquisitions, with the debt markets having a positive effect on credit availability and attractiveness of terms.

The variety of lending options available continues to increase, driven by the presence of international banks, non-bank lenders and the use of flexible instruments. Global and domestic private equity remain very active in the Irish market, with significant levels of capital to deploy. Private equity concerns continue to invest through a variety of innovative structures, in both majority and minority deals.

"We funded Irish companies doing innovative deals across a variety of sectors in 2018. Looking forward, we plan on continuing to support the growth ambitions of Irish business."

SIMON SCROOPE
Head of Corporate Banking, AIB



Acquisition volume

Which of the following groups would you consider the most likely to complete the highest volume of acquisitions in Ireland in 2019?

The proportion of respondents expecting financial buyers to be the most acquisitive group within the domestic marketplace has increased significantly, underlining the growing importance of private equity for Irish M&A activity. However, it remains a very competitive landscape with a relatively even spread across multiple buyer groups / types.

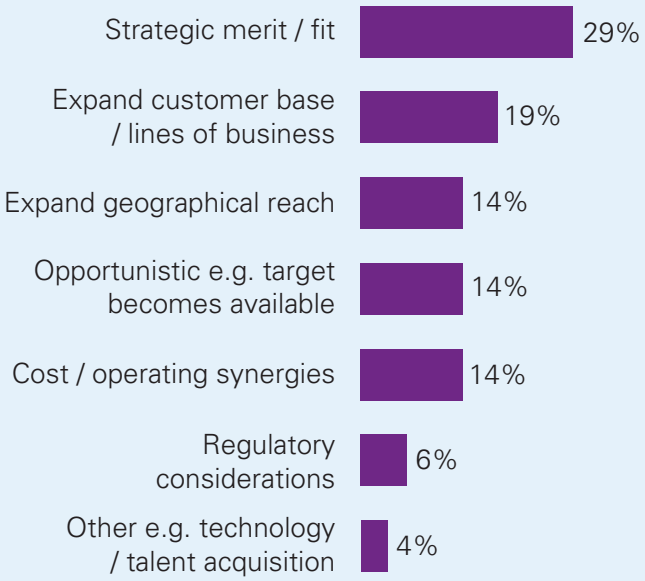
Respondents believe that Irish indigenous / multinational companies will remain very relevant and active participants in auction processes and will continue to compete with financial buyers for strategic acquisitions.

"Private equity remains a prominent feature of the Irish M&A market given the advantages of private equity to founder and family-owned businesses both in funding long-term growth and supporting succession planning."

JONATHAN COSGRAVE
Managing Director, The Carlyle Group

Deal considerations

Acquisitions

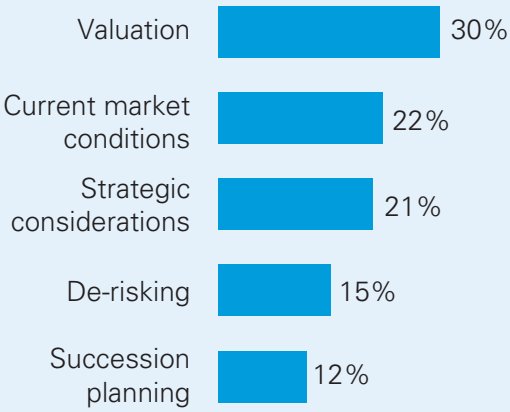


It is telling that the alignment and compatibility of long-term goals is deemed of greatest importance and ranks higher in executive decision-making than the availability of targets or the opportunity to grow customer bases or boundaries.

It illustrates that M&A has become a central tenet of Irish boardroom strategy and is increasingly to be found towards the top end of the order of business at executive meetings.

A surprising feature of the survey results is that regulatory and technology considerations were ranked by just 6% and 4% respectively as the main imperatives for deal making in 2019. It will be interesting to note whether a greater proportion of respondents identify these factors as the main drivers of acquisitions when we conduct future surveys.

Disposals



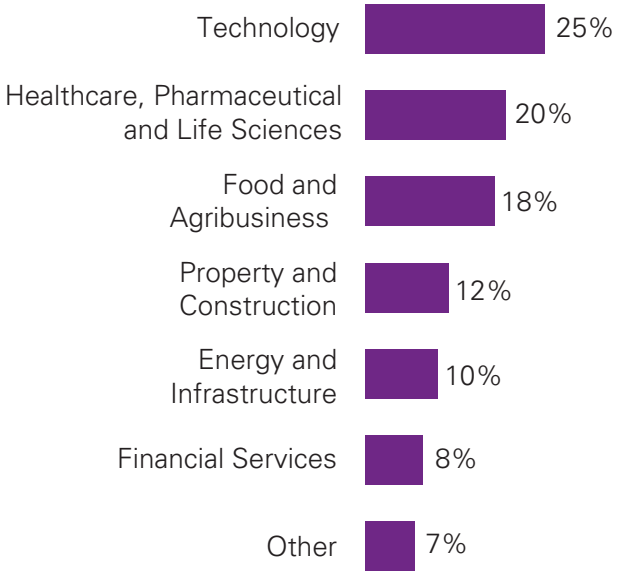
Perhaps unsurprisingly, survey respondents highlighted valuations as the key driver they consider when assessing whether to initiate a disposal process, reflecting the strong multiples achieved by well-managed, profitable Irish businesses in recent times.

This has been possible due to the increased competition in the Irish M&A marketplace for targets amongst well-funded trade and financial buyers.

In 2019, we expect further carve-outs of business segments or the strategic disposal of non-core assets as companies seek to maximise shareholder return and utilise capital raised to focus on driving growth in markets and areas of core competencies.

Sectors

Within which sectors would you anticipate the most acquisitions to occur in Ireland in 2019?



For the second consecutive year, respondents anticipate that Technology, Healthcare and Food and Agribusiness will be the most active sectors for M&A transactions.

These results come as no surprise as Ireland is well established as a global leader in the Food and Agribusiness sector while Irish based Technology and Healthcare sectors continue to develop innovative, best in class businesses.

Sector convergence and consolidation is likely to be an emerging theme in 2019.

"We have completed a number of innovative minority deals, across a range of sectors, with private equity investing and founders taking significant value off the table. We expect both of these trends to continue in 2019."

DAVID O'KELLY
Partner, Corporate Finance
KPMG in Ireland

Integration

In your opinion, why does post-deal integration fail?

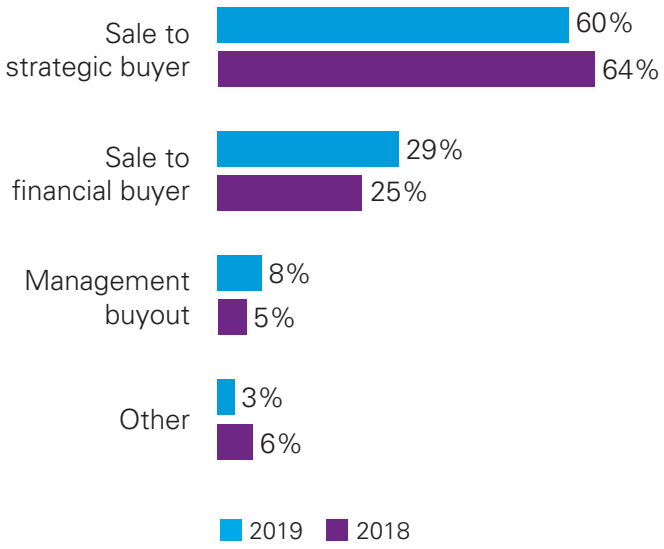
Cultural misalignment, people related challenges and inadequate diligence and planning are the reasons most frequently cited by respondents for the failure of businesses to successfully integrate post-acquisition.

The absence of a formalised cultural alignment plan with appropriate resources to implement has resulted in post-deal complications on a wide range of Irish M&A transactions.

Inadequate diligence / planning is a largely avoidable impediment to successful integration, yet it continues to frustrate and even derail transactions.

Exit strategy

In your opinion, which exit strategy will be most preferred in 2019?



The majority of M&A executives expect that strategic buyers will continue to compete effectively with financial buyers for Irish assets given their sectoral presence and expertise, ability to exploit synergies and long-term value realisation perspective.

However, a growing share of respondents view disposals to a financial buyer as a more likely exit option in the coming 12 months.

It also appears that survey participants will be taking a more cautious approach to the capital markets in 2019, a consequence of the recent turbulence in global markets.

Methodology

M&A Outlook 2019 is based on research conducted in December 2018 amongst a wide cross section of Ireland's leading M&A executives and advisors:

- Indigenous private Irish: 30%
- Corporate finance, legal and other advisors: 29%
- Irish PLCs: 21%
- Private equity: 13%
- Multinational companies in Irish markets: 7%

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