

WILLIAM FRY

Mid-year M&A Review 2018



Overview

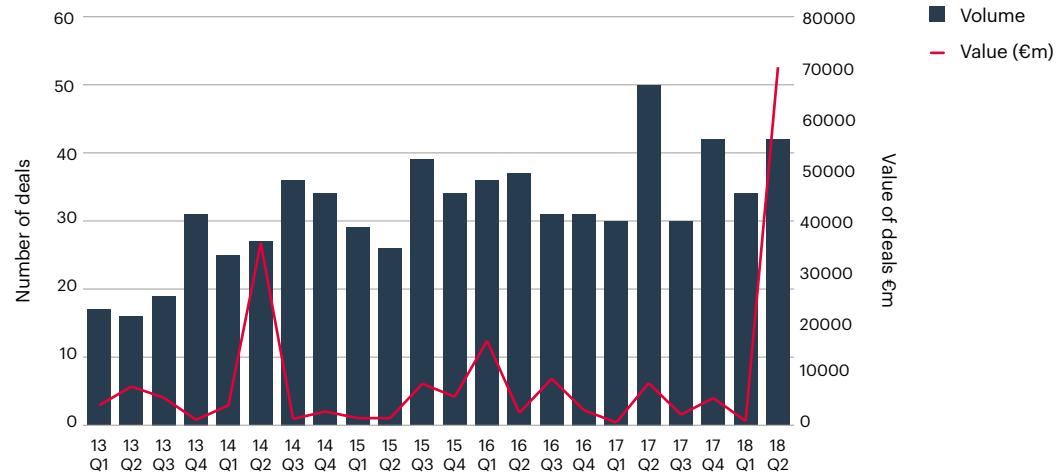
Welcome to William Fry’s mid-year M&A Review, published in association with Mergermarket. In this edition, we look at deal activity in H1 2018, as well as the likely developments for the rest of the year.

The first six months of 2018 have been notably buoyant for Ireland’s mergers and acquisitions (M&A) market. Dealmakers were kept busy with a pipeline of transactions, in a continuation of the active market that was evident last year. In the first half of 2018 there were 76 deals worth €70.9bn targeting Irish firms – a record half-year deal value, due to Japan’s Takeda Pharmaceutical Co’s €67.1bn proposed takeover of Shire Pharmaceuticals.

In tune with the global market trend, Ireland has seen a spate of impressive big-ticket deals launched in the first half of the year. Yet the Irish M&A story is not just about one-off blockbuster transactions. This is evidenced by stable deal volumes, down just four deals from the 80 transactions recorded in H1 2017. Alongside activity in the top end of the market, mid-market activity (€5m-€250m) – traditionally the engine of Irish M&A – was also extremely robust, accounting for 92% of deals with a disclosed deal value.

The healthy activity witnessed in the first half of the year is underscored by strong economic

M&A Quarterly Trends



fundamentals. The European Commission estimated Irish economic growth at an impressive 7.3% in 2017 as the economy expanded on the back of domestic activity. Growth is expected to moderate to 4.4% in 2018 and 3.1% in 2019, but remains comfortably above the EU average (1.7%). This will have a significant bearing on M&A activity in Ireland and also on Irish companies seeking to expand abroad.

While concerns surrounding the impact of the UK’s exit from the EU cloud the outlook, there are upsides from this that may drive M&A activity into the second half of the year with financial services

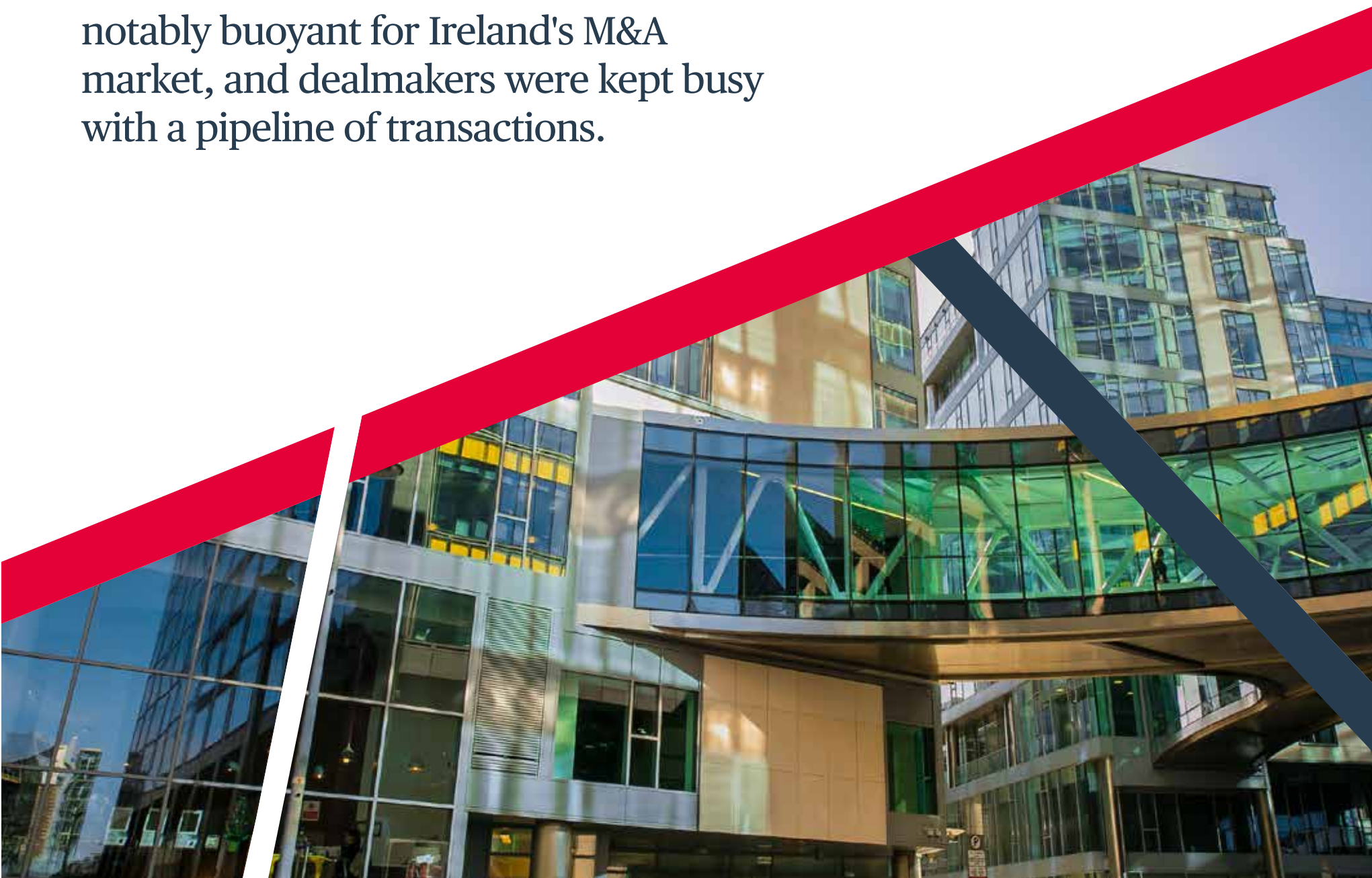
companies viewing Ireland as a potential base for servicing the European market.

Deal focus

The first half of 2018 saw Ireland continue to attract large-scale deals, and none came bigger than Japan’s Takeda’s €67.1bn bid for drugmaker Shire (a UK-listed entity, domiciled in Ireland), announced in May. If the deal is finalised, the company will be propelled into the ranks of the world’s largest pharmaceutical companies.

Other blockbuster deals had a more distinctive Irish flavour. A proposed €8.9bn takeover

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bid by the US' International Paper for Smurfit Kappa ("Smurfit"), an Irish leader in paper-based packaging, was rebuffed by Smurfit for undervaluing the business. Nonetheless, it highlights the continued appeal of Irish corporate assets to growth-minded overseas buyers.

The deal's rejection led to another sizeable transaction for Smurfit. In a bid to build up its recycled containerboard capacity in Europe, Smurfit acquired Dutch paper and recycling business Reparenco for €460m. The acquisition, announced in May, is a pointer to the continued international influence of Irish companies

in Europe and their commitment to growth opportunities on the continent.

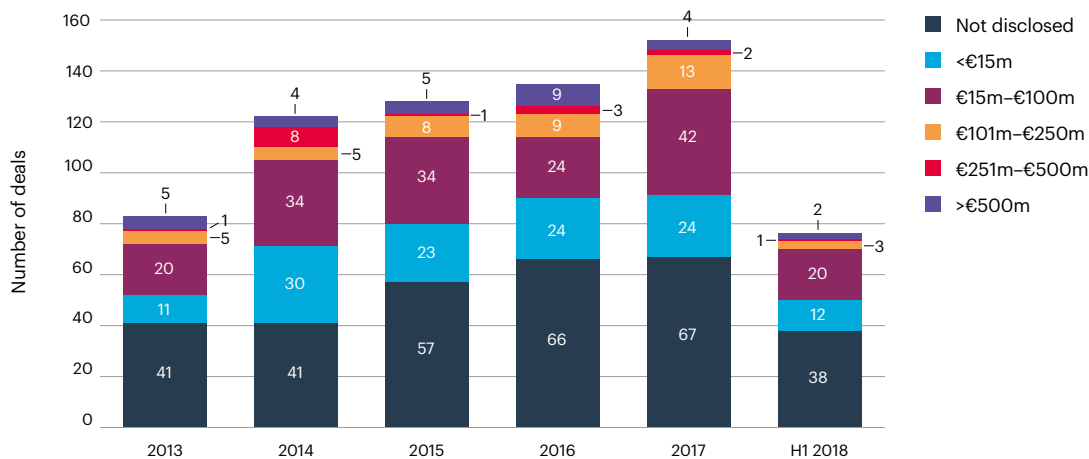
Irish corporates will continue to look overseas to continue the M&A dealmaking theme. Overall outbound M&A activity in H1 2018 was slightly up on the equivalent period in 2017. While in volume terms the 41 transactions were down by two on the first half of last year, outbound deal value jumped sharply to €3.5bn, up from €717m in H1 2017.

Alongside strong activity in the top end of the market, mid-market activity in the €5m-€250m range remained positive – acting as a more

representative guide to the state of the Irish economy and its M&A market than ad hoc high value deals. The mid-market accounted for 92% of total deals, with a disclosed deal value in the first half of 2018. This is in line with 2017, where 93% of activity took place within the mid-market. The steady flow of transactions coming to market is a good barometer of the mid-market's abiding health and its position as the cornerstone of the Irish M&A scene.

Key deals in this space announced in H1 2018 include UK-based Nomad Foods' €226m purchase of Green Isle Foods, Ireland's largest frozen food maker, and Martello Finance Company's €75m purchase of Stellwagen Finance Company, a conduit for aviation investment. This continues a trend seen in 2017, driven by both local and foreign entities looking for strategic growth opportunities within Ireland.

M&A Split by Deal Size



Sector watch

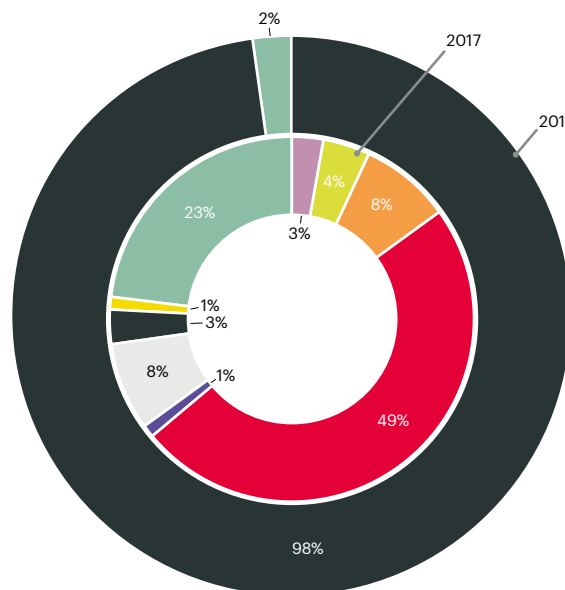
Irish M&A volumes showed an even spread of deals across the sectors. Business Services and TMT both saw clear increases in their share in overall Irish M&A volume year-on-year, each accounting for 20% of overall activity. In terms of M&A values, the Pharmaceuticals sector clearly dominated as a result of the milestone Takeda/ Shire deal.

Ireland has a long-held status as one of Europe’s leading locations for Business Services due to the availability of high quality IT, quality infrastructure and human resource skills. The number of people employed in Ireland’s services industry is now at its highest level on record, according to the OECD, covering 75% of total employment.

Ireland’s TMT sector continues to attract global interest, and has become the global technology hub of choice when it comes to attracting the strategic business activities of ICT companies. Ireland has the second highest concentration of ICT multinationals in the world, second only to Silicon Valley. The first half of the year saw some major decisions. In June, AWS, a subsidiary of online group Amazon, said it would create 1,000 jobs in Ireland over the next two years, based at the company’s Dublin sites. Also in June, social media giant Facebook revealed plans for a new €300m data centre beside its existing facility in Co Meath. In May, search giant Google announced a €150m expansion at its Dublin data centre, taking its total investments in Ireland to €1bn.

A substantial 40% of Ireland’s GDP – about €72bn a year – emanates from its Technology sector, which employs more than 105,000 people. The industry generates €35bn in exports annually.

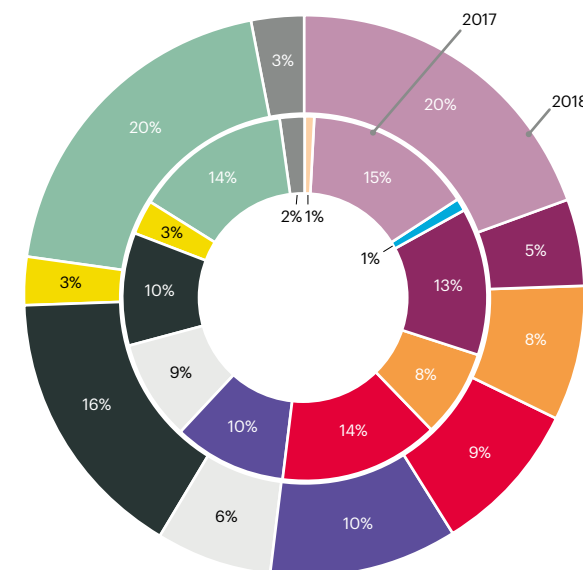
Sector Split by Value



Key for above two charts:

- Agriculture
- Consumer
- Business Services
- Energy, Mining & Utilities
- Construction
- Financial Services

Sector Split by Volume



- Industrials & Chemicals
- Real Estate
- Leisure
- TMT
- Pharma, Medical & Biotech
- Transportation

Irish fintech firms are also attracting increasing attention, combining the ICT and Financial Services sectors.

According to the IDA, Ireland’s inward investment agency, Ireland won 139 projects in the first six months of the year, compared with 114 in the first half of 2017. Technology, Financial Services and Pharmaceuticals performed particularly strongly during this period.

Dealmaking in this wider space is underscored by a sophisticated tech and venture capital sector, with the government proving an active supporter of start-up activity through initiatives such as the relaxation of visa requirements for non-EU citizens with the requisite IT skills. An investor-friendly corporate tax rate of 12.5% remains a strong draw for foreign buyers looking to invest across all sectors, and affirms the government’s sustained encouragement of an active M&A market by positioning Ireland as a stable place to invest.

Brexit considerations

Ireland has burnished its reputation as an attractive jurisdiction to locate some of those services. That has helped galvanise an influx of financial services groups and other entities minded to preserve their access to the European markets ahead of Brexit. The prospect of the

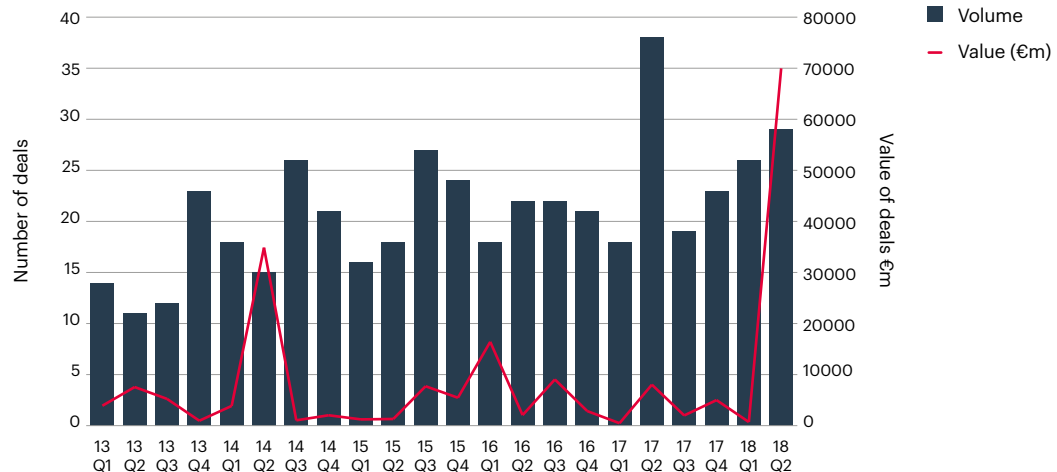
UK leaving the EU at the end of March 2019 has prompted some strategic plays in Ireland, with financial services companies looking at new ways to deploy their services throughout Europe. For example, Bermuda-based Aspen Insurance Holdings announced plans in May to set up an Irish subsidiary to service clients in the European Economic Area (EEA) after Brexit in early 2019. Another insurer, XL Group, is moving its main European insurance company from London to Dublin.

As Ireland’s neighbour’s EU departure point nears, the expectation is that deals similar to these will

be more commonplace. “Brexit forms part of the backdrop to all investment engagements we have with clients these days – we estimate that in excess of 40 companies have chosen Ireland as a result of the planned exit by the UK from the European Union, with Brexit being a factor in other decisions” said Martin Shanahan, IDA Ireland CEO.

There will be some notes of caution for Ireland’s M&A sectors in H2 2018. Macro-economic issues and geopolitical risks are clouding the horizon. Divisions in Europe, concerns over a US trade war with China and the prospect of a hard border

Inbound M&A Trends by Quarter



between the Irish Republic and the UK – and cross-border tariffs – are giving decision makers reasons to reflect. A correction on equity markets could also affect investors' M&A appetites.

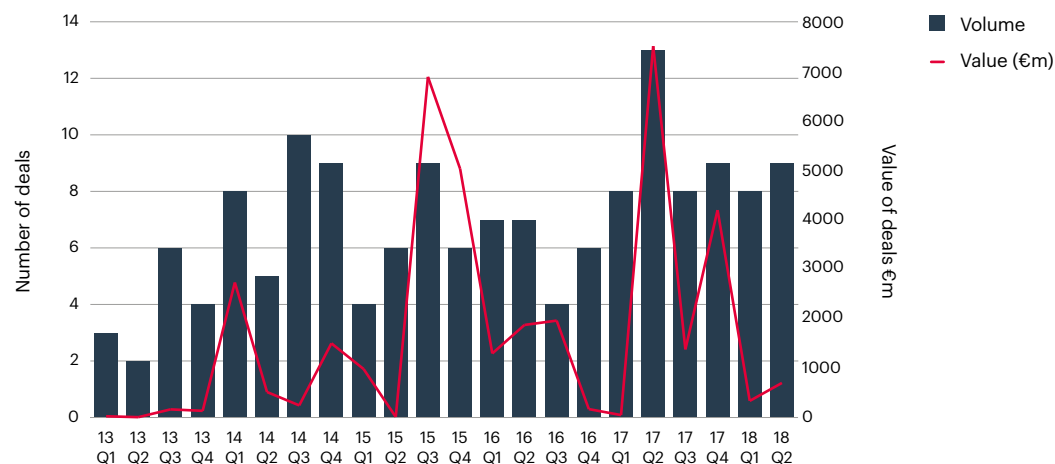
In the context of Brexit, Irish officials are redoubling efforts to secure new investment markets and trading partners, with Asia proving a case in point. Recent Asian investments in Ireland have come from the likes of China's WuXi, South Korea's SK Biotek and India's Leetha.

Inbound drivers

Ireland reinforced its credentials as a strong draw for international dealmakers in H1 2018, with a total of 55 deals worth €70.7bn announced over the first half of the year remaining stable with H1 2017 (56). The most actively-targeted sectors in terms of deal volume were TMT (25%), Business Services (22%) and Pharma, Medical & Biotech (16%).

Many foreign buyers are compelled by the country's low corporate tax rate (12.5%), on top of its much-heralded policy stability across commercial and taxation sectors. The Government is also considering whether to reduce 1% stamp duty on share trading in Irish companies in October's budget. While President Trump's steps to limit foreign investment abroad may cause a decrease in deals in the future,

Private Equity Deals



such an effect has yet to be seen. The Trump administration's reduction in corporate rate tax rates – cutting the federal rate from 35% to 21% – as well as speaking out against US companies investing capital abroad, has not fully registered on outbound US dealflow.

Private equity performs

International interest continues to drive deals at the top end of the private equity (PE) market, with the top five PE deals of H1 2018 conducted by foreign firms. Notable deals include Oaktree capital management's €250m buyout of shopping complex manager Indego, and Insight Venture Partners, Highland Europe

and Ireland Strategic Investment Fund's €100m purchase of an undisclosed stake in AMCS Group, an Ireland-based supplier of smart resource software and vehicle technology solutions for the waste, recycling and resource industry. Brookfield Asset management's €120m buyout of telecommunications firm Imagine Communications was another sizeable PE deal that took place in H1 2018.

Half year figures reveal deal volume at 17, on a relative par with the 21 seen in the same period last year. Yet a deal value of €1bn in H1 2018 was down sharply from the €7.6bn recorded in H1 2017. The latter amount was the highest PE transaction

level on Mergermarket record, bumped up by the €6.9bn sale of AWAS to Dubai Aerospace Enterprise by Terra Firma Capital and the Canada Pension Plan Investment Board.

PE-backed investment is likely to account for an increasing share of overall M&A funding in Ireland, with prominent funds such as Carlyle Cardinal Ireland active in the market. PE investors may focus on the Irish tech sector, as managers look to Ireland as a tech hub for their investment strategies.

PE fund MML Growth Capital Partners Ireland has been a particularly active investor in local SME businesses over the past couple of years. This continued into 2018 when, in February, the firm acquired a controlling stake in Irish tour operator Travel Department Ltd.

Ireland remains an active M&A market and the confluence of a handful of mega-mergers, and a brimming pipeline of mid-market transactions - Irish M&A advisors' bread and butter deals - should deliver more of the same in H2.

It is not surprising that PE interest has been strong across the Financial Services sector. In June, Sovereign Capital Partners, a UK PE buy & build specialist, announced that portfolio company Arachas Corporate Brokers, an Irish insurance brokerage, had acquired Covercentre, a Dublin-based underwriting agency. This is the third acquisition Arachas has made since Sovereign backed the management buyout of the business last year. Covercentre is seen as a strong strategic fit for Arachas, and the group is continuing to seek growth through synergistic acquisitions.

Outlook for 2018

Ireland remains an active M&A market and the confluence of a handful of mega-mergers, and a brimming pipeline of mid-market transactions - Irish M&A advisors' bread and butter deals - should deliver more of the same in H2 2018.

While a few clouds of uncertainty will dim the outlook for the rest of 2018, with talk of trade wars and a hard Brexit stalking the market, there is much to suggest that both foreign and domestic buyers will still be prepared to mount bids for well-positioned Irish assets. Ireland's tradition of policy continuity is widely understood and appreciated, with the government committed to incentivising the entry of foreign buyers. Such a firm focus on driving up inward investment is

both valued and necessary if Ireland's services-centred economy is to flourish.

Ireland's robust macro fundamentals are buoying M&A appetites. As such, the financing climate for M&A is set to remain healthy. With a wealth of new entrants to the market place, whether PLCs, institutional investors or PE buyers, these will be seeking new ways to deploy their capital effectively.

Brexit's impact may be viewed as a negative for Ireland's economy, but the country's position as a thriving member of the Eurozone renders it an appealing market for many financial services players looking to service the EU market, should London lose its appeal as a post-Brexit base of operations. That could compel more acquisitive plays in the next six months to a year. The TMT sector, one of Ireland's strongest suits, will also continue to attract the interest of acquisition-minded tech companies. With these trends underpinning the deal market, Irish M&A looks set for another busy year.

About William Fry

As one of Ireland's largest law firms, William Fry offers unrivalled legal and tax expertise across the full breadth of the business sector. We advise a substantial number of leading Irish and international companies, covering both the public and private sectors.

With a staff of over 470, the Firm operates a large international practice with offices in Dublin, London, New York, San Francisco and Silicon Valley, and regularly acts in cases involving other jurisdictions, including the United Kingdom, the United States, Asia, the Netherlands, Germany, France, Spain, Italy, Poland and Eastern Europe.

M&A is core to our practice at William Fry. Our team has top-tier credentials, a wealth of experience and an impressive depth of expertise. We are consistently involved in the most sophisticated and complex corporate transactions in Ireland, including large cross-border deals. We focus on identifying and delivering on our clients' priorities.

Recent awards include:

- *International Law Firm of the Year* – Legal Business Awards 2018
- *Bryan Bourke named European Managing Partner* – The Lawyer European Awards 2018
- *Ranked 5th Most Diverse Law Firm in Europe* – The Lawyer European 100 2018 Report
- *Equity Deal of the Year: Allied Irish Bank plc's IPO* – IFLR Europe Awards 2018
- *Deal of the Year Equity Capital Markets: AIB Initial Public Offering* – Finance Dublin's Deals of the Year Awards 2018
- *M&A (Public): Sale of Stake in Glanbia plc's Dairy Ireland* – Finance Dublin's Deals of the Year Awards 2018
- *Equity Capital Markets Most Innovative Deal: Greencoat Renewables* – Finance Dublin's Deals of the Year Awards 2018

- *Equity Capital Markets Initial Public Offering: Glenveagh Properties plc IPO* – Finance Dublin's Deals of the Year Awards 2018
- *Equity Capital Markets International IPO: Ardagh plc* – Finance Dublin's Deals of the Year Awards 2018

Recent rankings include:

- Only law firm to be consistently ranked in the top three for Irish M&A deal activity since 2010 (Mergermarket, 2010-2017)
- Advised on 50% of all venture capital deals in Ireland in 2017 in which advisers were recorded by the Irish Venture Capital Association (<http://www.ivca.ie/category/publications/>) – more than any other law firm
- Consistently ranked in tier one by all legal directories – Chambers Global, Legal 500 EMEA and IFLR1000

Recent directory commentary includes:

- Interviewees indicate the firm's approach is "*the perfect balance of knowledge and getting things done*". Sources extol the range of the firm's practice: "*They are a strong firm and deal with issues which we raise with them, across a wide spectrum of areas, in a straightforward way.*" Market observers also note that "*William Fry is capable of handling issues for a large multinational and has lots of experience with everything*". Chambers Global, 2018
- William Fry's "*excellent execution skills*" reflect the fact that this is a key practice area for the firm; both managing partner Bryan Bourke and former managing partner Myra Garrett are part of the team. Practice head Shane O'Donnell, is highly regarded in the market. The sizeable practice also includes David Fitzgibbon, who is "*very good in front of a board of directors*", the "*superb*" Stephen Keogh and the "*well-prepared*" Mark Quealy
- "*Strong advice backed up with full support, and very accessible and willing to listen. Strong personal relationships*". IFLR1000, 2018

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About the Research

The underlying data to this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2013 to 30/06/2018, excluding lapsed or withdrawn bids or deals valued below €5m.

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