WILLIAM FRY

M&A Review 2018

Contents

The first half of the year was particularly strong in terms of volume. Indeed, the 50 deals announced in Q2 2018 matched the record for the number of transactions in a single quarter set in Q2 2017.

Key Trends in Irish M&A

M&A Deal Volume

Deal volume rose in 2018, with activity in the first three quarters notably strong

151 DEALS IN 2017

162 DEALS IN 2018

Inbound Activity

Highest annual volume

108 DEALS WORTH **€6.3BN**

Private Equity

Volumes steady, value down

34 DEALS WORTH **€2.5BN**

Mid-market Activity

93% OF TOTAL VOLUME*

OVER **50%** OF MID-MARKET DEALS WERE IN THE €15M-€100M BRACKET

Key Sectors by Deal Volume

A number of key sectors saw strong activity by volume, including:

19% BUSINESS SERVICES

16% TELECOMS, MEDIA AND TECHNOLOGY

15% PHARMA, MEDICAL & BIOTECH

12% FINANCIAL SERVICES

*based on the number of deals where pricing was made publicly available

Foreword

Shane O'Donnell
Head of Corporate/M&A
T. +353 1 639 5112
E. shane.odonnell@williamfry.com

Welcome to the eighth edition of William Fry's Irish M&A Review, published in association with Mergermarket.

Despite being a volatile year, which led to a 57% drop in total Irish M&A deal value compared to 2017, to €7bn, there are signs pointing to a healthy M&A scene across the Republic. Deal count, unlike value, is up, with 162 deals recorded in 2018. Activity was strongest in the first three quarters of the year, with both the value and volume of M&A deals falling as 2018 drew to a close, as it did across global M&A.

In this year's review, we outline some of the risks faced by domestic, inbound and outbound dealmakers. Key among these is, of course, the lack of certainty around how the UK's exit from the EU will affect its future trading relationship with its closest neighbour and what the impact will be on the border with Northern Ireland.

Yet what brings disruption also brings opportunity. Our 2018 review explains how certain business sectors in Ireland have already benefitted from the prospect of Brexit and the signs are that this will continue to be the case in 2019. The strong Irish economy, which is outperforming other EU states (and has been doing so for the last five years), and its English-speaking and skilled labour force are proving to be attractive to those looking to relocate their operations or establish a European base. This could be particularly relevant for the financial services sector – recent surveys from two of the 'Big Four' accounting firms have shown Ireland to be the destination of choice for organisations in the sector.

An October 2018 survey from PwC stated that 39% of European asset managers are looking to relocate their UK functions to Ireland – higher than any other European city. Meanwhile, in the same month, respondents in the EY *Brexit Tracker* saw Dublin as the frontrunner for relocation of financial services jobs.

As in previous years, mid-market deals dominated the M&A scene, reflecting the strength of Ireland's smaller and medium-sized businesses, with 93% of disclosed deals falling into the €5m-€250m transaction size bracket.

Private equity (PE) remained steady year on year, with the likes of Cinven Partners, Apollo Global and Brookfield Asset Management Inc., all transacting in 2018, attesting to the continued growth of the industry in Ireland and the increased acceptance of this form of capital and support from Irish companies.

Meanwhile, at the larger end of the scale, international buyers continue to see considerable strategic value in Ireland's businesses. Nine out of the ten largest deals of 2018 were inbound transactions, with acquirers emanating from as far afield as Japan and China, as well as from markets that have long held strong ties with Ireland, such as the UK and the US.

Although 2019 is likely to be another uncertain year both politically and economically, Ireland could well benefit. Once more clarity is reached around Brexit, in the second half of the year, there is hope that corporates and institutions return to dealmaking activity. Some of the key fundamentals remain solid – the country is economically sound, politically stable and in the most recent World Bank *Doing Business* report, was ranked as the 23rd easiest country in the world in which to do business – ahead of both Germany and France.

We hope you find reading this year's edition of the Irish M&A Review informative and, as always, we welcome your feedback.

Shane O'Donnell
Head of Corporate/M&A

Overview

M&A activity in 2018, for the most part, replicated the same robust performance as seen in 2017. That said, ongoing uncertainty around how Brexit may affect the Republic's economy and the emergence of trade tensions between the EU and the US – one of Ireland's biggest trading partners – were factors leading to a fall-off in deal activity as the year drew to a close.

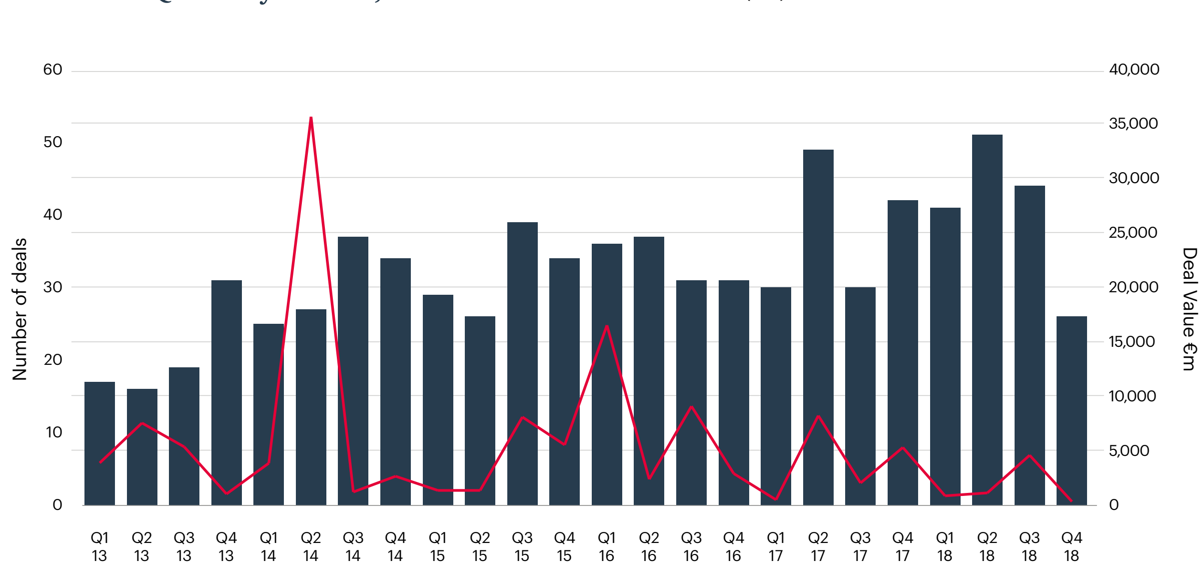
The first three quarters of 2018 were promising, recording €6.7bn in deal value, high relative to historical norms, only for deal value to fall precipitously in Q4, to €360m in quarterly deal value.

Up until that last quarter, many sellers were keen to capitalise on strong pricing and, in some instances, take capital off the table ahead of the UK's proposed exit from the EU in March 2019.

Deal count was up 7% to 162, highlighting the continued buyer appetite of both domestic and inbound bidders, even against macro unease. While uncertainty loomed over the global economy towards the end of 2018, in Ireland, robust domestic growth continued to boost the backbone of Ireland's economy – middle-market businesses. As with previous years, mid-market deals made up the lion's share of transactions with a disclosed deal value in 2018, accounting for 93% of volume. While the spread of M&A deals by sector was broad, TMT had a particularly strong showing in mid-market deals last year, with all 14 of the deals in the sector with disclosed values falling into the mid-market. There were also a number of significant inbound deals in the €5m to €250m transaction size range in the food & consumer sector, real estate and financial services sector, such as US-based Oaktree Capital Management's €250m purchase of real estate business Indego and UK-based frozen foods business Nomad Food's €226m acquisition of Green Isle Foods.

PE activity also remained strong in volume terms, with 34 deals announced in 2018, a figure that almost matches the highs of 2017. There were fewer large transactions in this space over the year than during the previous 12 months, which affected value totals, yet as a relatively nascent industry, such fluctuations in values are to be expected. With success stories now starting to emerge from funds raised over the past decade, PE interest and activity will continue to grow over the coming years.

Irish M&A Quarterly Trends, 2013-2018



In October 2018, MML Growth Capital Partners Ireland Limited exited its investment in H&MV Engineering Limited after supporting the initial management buy-out of the company in October 2015. Rory Quirke, Co-Head Investing, MML Growth Capital Partners Ireland Limited, said: "We are thrilled with our successful exit from H&MV. It has been a privilege to partner with P.J., John and their management team on what has been an exciting journey, growing the business into a recognised leader in international markets."

The first half of the year was particularly strong in terms of volume. Indeed, the 51 deals announced in Q2 2018 matched the record for the number of transactions in a single quarter set in Q2 2017.

By contrast, Q4 2018 saw a decline compared with previous years. With the March 2019 Brexit deadline approaching and the European Central Bank's (ECB) decision to stop its expanded asset purchase programme from 19 December 2018, M&A volumes began to moderate. Many businesses adopted a wait-and-see attitude towards expansion plans in Ireland. This cautious approach was backed by a November 2018 survey by Deloitte and Enterprise Ireland, in which 95% of Irish CEOs thought that a 'no-deal' Brexit would have a negative impact on the Irish economy and 68% indicated that they had already acted to mitigate against any potential impact.

Meanwhile, the well-trailed tapering of quantitative easing may have led some companies to bring forward M&A plans earlier in the year while financing conditions remained favourable.

Developments in the US are also likely to have had an impact on M&A in Ireland as US companies have sought to repatriate cash held overseas following the signing of the Tax Cuts and Jobs Act in late 2017. By lowering the domestic corporate tax rate from 35% to 21% and encouraging US businesses to bring home foreign earnings, US tax reforms provide an incentive for US companies to invest domestically rather than overseas.

It seems likely that M&A activity will be more muted in the early part of 2019 as the adjustment to a UK outside the EU takes place. Nevertheless, Ireland's business-friendly environment; flexible multi-skilled workforce; competitive corporate taxation rates (currently 12.5%); and government incentives for investment in highly skilled manufacturing, professional and business services, technology, and pharmaceuticals, medical and biotechnology industries will continue to draw interest from international and domestic acquirers as the year moves on.

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Indeed, Ireland is seen as an attractive location for many businesses seeking to relocate operations post-Brexit. Financial services is a key beneficiary of this trend, with 19 deals valued at €3.2bn announced in 2018. The last two years have also seen M&A activity in this sector increase significantly compared with the years before the UK's referendum. It was reported in November that Ireland's Central Bank had seen a wave of applications from financial services firms seeking to set up or extend their organisations in the Republic. The likes of Barclays, Lloyds of London and Bank of America Merrill Lynch have all moved their EU headquarters from London to Dublin. The Irish government also announced in January 2018 that it was seeking to promote Ireland as a leading centre globally for international legal services post-Brexit.

Economic and financing climate

Ireland's strong economy attracted domestic and international acquirers alike, with interest at the larger end of the deal spectrum coming from not just the UK and US, which have long been major investors in Ireland, but also from China, Japan and France. Having reported a 9.1% GDP growth for the first half of the year, driven in some degree by multinational company activities, the economy is estimated to have grown 6.8% over the whole of 2018, according to the European Commission (EC).

This is significantly higher than the growth projection for all eurozone countries, which are expected to expand by 1.9% in 2018. While growth in Ireland is expected to be moderate over the coming two years – to 4.1% in 2019 and 3.7% in 2020 – the EC still anticipates expansion that will far outperform that of the eurozone. In an even more stark comparison, the EC forecast that UK GDP growth will be just 1.3% in both 2019 and 2020 (with many now believing that even this may be overstated).

Ireland's robust economic performance was also reflected in its healthy employment statistics, with the number of people in work hitting a new record in the third quarter of 2018, increasing 3% year on year, according to the Irish Central Statistics Office. Unemployment was at 5.7%, well below the eurozone average of 7.9%. Employment rates may well rise further as Ireland attracts more jobs through Brexit relocation plans. Ireland's ambassador to the US has suggested that Brexit could turn Ireland into "a bridge between the EU and the US both for investment and influence". According to global recruitment services provider Morgan McKinley's Irish *Employment Monitor*, recruitment activity in October 2018 was notably higher than the same month the previous year, a rise they attributed to Brexit. Dublin's emergence as a post-Brexit hub for financial services has pushed wages for some financial services positions in Dublin 15% higher than a year before, according to a report in *Reuters*.

With job creation on the rise, Ireland also announced that it was to record its first budget surplus since the financial crisis, a trend that will enable further investment into the economy as 2019 unfolds.

As previously noted, the prospect of a normalisation of monetary policy may have encouraged some businesses to bring forward their M&A plans. The ECB has already halted its asset purchase scheme and signalled a return to more normal policies during 2019. This may impact financing costs for those doing deals this year, although the ECB has said it expects

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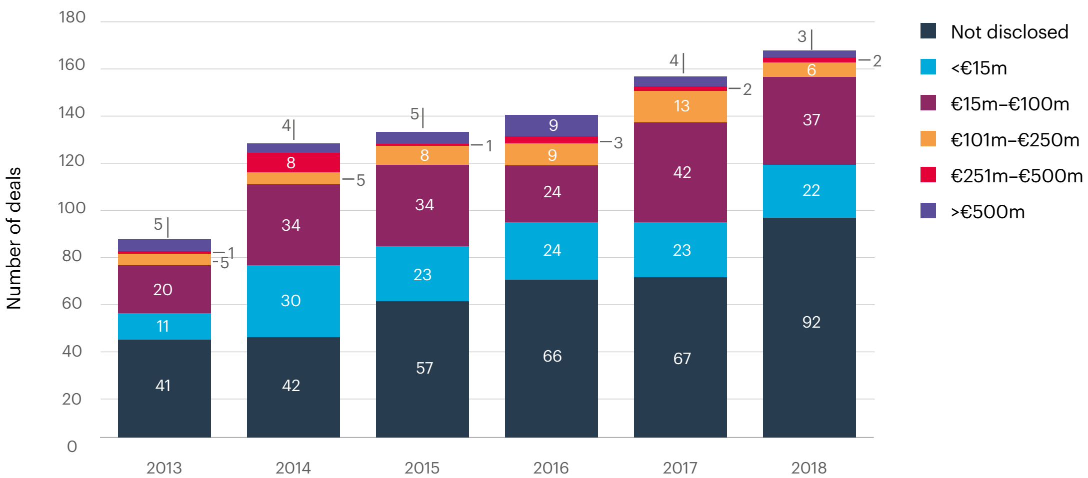
to keep interest rates at record low levels until at least late 2019 and many predict this may not happen until as far out as 2020. A *Reuters* poll of 80 economists last year found that they did not expect inflation in the eurozone to reach the ECB's 2% target until next year.

Mid-market dominates

The Irish mid-market continues to attract considerable attention from buyers across a good mix of sectors. The health of this portion of the market is demonstrated by the fact that there were 65 deals with a disclosed value of between €5m and €250m, or 93% of the number of deals where pricing was made publicly available. Of these, over half (37) were in the €15m-€100m bracket.

Ireland's mid-market businesses are attracting considerable international attention, with the largest four deals in this part of the market all

Irish M&A Split by Deal Size



inbound transactions. The biggest deal in the mid-market was US-based Oaktree Capital Management's €250m purchase of real estate business Indego from the National Asset Management Agency. The acquisition sees the US PE player acquire The Square shopping centre in the Dublin suburb of Tallaght, with plans for expansion and development of the site which could provide a major boost to the local economy. "The Square Town Centre has remained in fractured ownership since its opening in 1990," said adviser to Oaktree Marcus Wren, co-founder of Sigma Retail Partners, when speaking to *The Irish Independent*. "As a consequence, it had not been possible, until relatively recently, to meaningfully adjust or manage the centre to reflect the needs and wants of today's shopper." The UK's Nomad Food's €226m acquisition of Green Isle Foods, the manufacturer and distributor of Goodfella's pizza, is another larger mid-market deal. NYSE-listed Nomad sees the acquisition as a significant part of its Western European expansion. "Goodfella's represents an important step in expanding our share of the frozen food category in Western Europe," said CEO Stefan Descheemaeker.

The €150m purchase by France's Groupe Circet of KN Group was described by Circet CEO Philippe Lamazou as "a transformative development" for his company, representing the first step in its European expansion strategy.

The number of larger deals in 2018 reduced slightly compared with 2017. There were two deals with a disclosed value in the €251m-€500m bracket and three mega-deals (€500m and above), compared with six across these categories in 2017. The largest deal of 2018 was the €1.9bn acquisition of a 30% stake in aircraft leasing business Avolon by Japanese business ORIX Aviation Systems from Bohai Leasing. The deal was struck to diversify Avolon's shareholder base and improve its credit rating – three days after the transaction completed, Moody's upgraded the company's rating to Ba1 with a stable outlook. This is the second year in a row that M&A involving aircraft leasing has hit the top spot by value after 2017 saw the €6.9bn acquisition of Dublin-based AWAS Aviation Capital by Dubai Aerospace.

Sector watch

Ireland's broad-based economy is reflected in the range of sectors that attracted M&A activity in 2018. Deals were fairly evenly split across industries by volume, although financial services was the standout sector by value (see *A focus on finance*, page 14, for more).

Top 10 Irish M&A Deals in 2018

Announced date	Target company	Target dominant sector	Bidder company	Bidder dominant country	Deal value (€m)
08/08/2018	Avolon Holdings Limited (30% Stake)	Financial Services	ORIX Aviation Systems Limited	Japan	1,906
18/09/2018	AXA Life Europe DAC	Financial Services	Cinven Partners LLP	United Kingdom	925
28/08/2018	Adapt Pharma Limited	Pharma, Medical & Biotech	Emergent BioSolutions Inc	USA	586
10/09/2018	Tifco Hotel Group	Leisure	Apollo Global Management, LLC	USA	500
31/05/2018	Mater Private Group	Pharma, Medical & Biotech	InfraVia Capital Partners	France	495
01/02/2018	Indego Ltd.	Real Estate	Oaktree Capital Management LP	USA	250
17/01/2018	Green Isle Foods, Ltd.	Consumer	Nomad Foods Limited	United Kingdom	226
11/08/2018	KN Group	TMT	Groupe Circet S.A.	France	150
11/08/2018	Sliabh Bawn wind farm (25% Stake); Raheenleagh wind farm (50% Stake); Cloosh Valley wind farm (50% Stake); Castlepook wind farm (50% Stake)	Energy, Mining & Utilities	Greencoat Renewables PLC	Ireland (Republic)	136
10/05/2018	Imagine Communications	TMT	Brookfield Asset Management Inc.	Canada	120

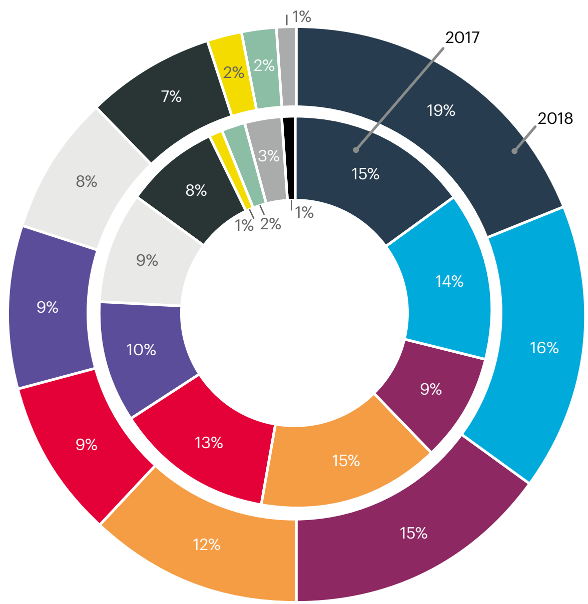
Business services accounted for 30 deals, the highest volume of any sector, although the transactions were, on average, towards the lower end of the mid-market: total deal value across the sector was €62m. Corporate learning software company Learnosity, for example, received a “significant investment” from tech-focused investor Battery Ventures in May 2018. “With this investment, Learnosity can further promote innovation in the EdTech industry ... and create better educational products for students around the world,” according to Battery Ventures’ partner Russell Fleischer.

TMT was the second most active by volume, with 26 deals announced, or 16% of total numbers, attesting to Ireland’s strong reputation for technology businesses and the need for companies across sectors to adapt to increasingly digital and automated operations. Media deals were among the largest examples of this trend, with radio group Global's acquisition of Exterion Media, which has significant operations in Ireland, being a key example. Ashley Tabor, founder and executive president of Global said, "The Exterion Media inventory also affords many opportunities and synergies with our current business." Trinity Mirror’s deal to acquire Northern & Shell Network brought the firm, now known as Reach, a 50% joint venture interest in the *Irish Daily Star*, in a move that characterises the media industry’s response to competition from internet-based information sources and dwindling newspaper sales.

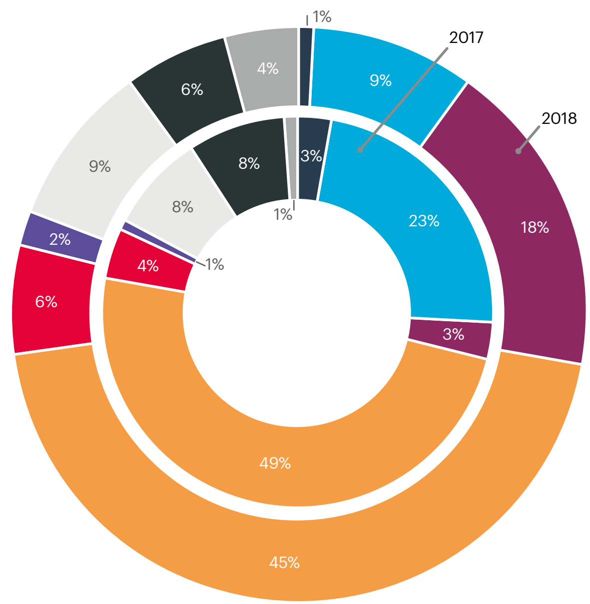
The past year has also seen major decisions to invest in Ireland from some of the world's largest technology businesses with a base in the Republic, including Google, which announced a €150m investment in its Dublin data centre in May 2018; Facebook, which said in November 2018 it was to acquire the long-term lease of 14 acres for a new campus development, providing capacity for a further 5,000 employees; and Amazon subsidiary AWS, which confirmed in June 2018 that it would create 1,000 new jobs in Ireland. In addition, further state-backed support for fintech in Ireland, in the form of a €750,000 Competitive Start Fund, underscores the importance of the technology sector to the Irish economy.

The pharmaceuticals, medical and biotechnology (PMB) sector in Ireland also attracted a great deal of attention during 2018. The sector saw volumes increase from 9% of total deals in 2017 to 15% last year, with 24 announced transactions. As a proportion of deal values, the sector's profile increased markedly – from just 3% to 18% (or €1.26bn), although much of this rise is accounted for by one deal. The €586m acquisition of Adapt Pharma by US-based Emergent Biosolutions made up 46% of the sector's deal value. The US company was drawn to Ireland by Adapt's R&D pipeline of opioid overdose and addiction treatments in a bid to address one of the most pressing health issues in the US and beyond.

Sector Split by Volume



Sector Split by Value



Key for above two charts:

- Business Services
- TMT
- Pharma, Medical & Biotech
- Financial Services
- Consumer
- Industrials & Chemicals
- Leisure
- Energy, Mining & Utilities
- Construction
- Transportation
- Real Estate
- Agriculture

The strong deal volumes reflect a buoyant market in Ireland's PMB industry. Nine of the world's top ten largest pharma companies have a base in Ireland and exports of medical and pharmaceuticals accounted for over a quarter of the Republic's exports in 2017, according to the Central Statistics Office, with €35.4bn of products sold overseas, an annual increase of 17%.

A focus on finance

As in 2017, financial services had a strong year by value, accounting for 45% of Ireland's total M&A value for the year, at €3.2bn across 19 deals announced in 2018. Two of these, which were among Ireland's top five by value, accounted for a significant share of the value. These were ORIX Aviation System's purchase of a 30% stake in airplane leasing firm Avolon for €1.9bn and PE firm Cinven's €925m acquisition of AXA Life Europe. The PE deal is predicated on consolidation in the life insurance industry, with further M&A in Ireland likely to result from the acquisition, as Cinven pointed out in a statement: "The European variable annuity and life insurance market remains fragmented and represents a compelling consolidation opportunity for AXA Life Europe, particularly in Ireland and the Isle of Man."

2018 also saw Brookfield Asset Management Inc. acquire a strategic stake in LCH European Portfolio Holdings Limited, a European alternative credit investment manager, aimed at growing the company's leading asset management and credit servicing business globally. Paul Burdell, CEO, said: "We are very excited to announce our strategic partnership with Brookfield, with whom we can further develop our business, not only as one of Europe's leading credit asset management and loan servicing firms but to become one of the pre-eminent firms globally."

The rise of large financial services transactions over the last two years are in part a reflection of Ireland's strength in the aircraft leasing sub-sector, but it also demonstrates the attractiveness of Dublin as a base for businesses in the sector looking for alternatives to London. A September 2018 poll of financial services firms by EY found that 25% had already started relocating functions to Europe ahead of Brexit, with Dublin and Frankfurt viewed as the preferable relocation destinations.

Dublin has positioned itself as a hub for previously UK-based firms that need to service EU clients and has attracted names such as Barclays and Bank of America Merrill Lynch, which have both received authorisation to expand in Ireland, with the former having around €250bn of assets in the country and the latter €50bn. A *Financial Times* article in early January 2019 quoted an Irish official as saying the authorities were examining applications from more than 100 financial institutions in areas such as asset management, investment and insurance. It also quoted head of IDA Ireland Martin Shanahan as saying: "The expectation is that between now and the end of March we will see more of those [approvals for financial groups] coming through."

Fintech is also making waves further down the deal spectrum, with companies such as Gecko Governance, a regtech firm based in Dundalk, seeking innovative financing options. In mid-2018, it launched an initial coin offering to raise US$20m from international investors. And it is not alone: nearly one in five Irish fintech companies are planning to raise US$5m or more for their next funding round, the *Ireland Fintech Census 2018* found.

Indeed, a recent KPMG report, *The Pulse of Fintech 2018*, said that "Ireland's fintech market continued to punch above its weight" in fintech investment activity in H1 2018 as global companies make significant investments in the country to provide a "European launch platform or to take advantage of Ireland's strong fintech innovation ecosystem". Mastercard announced plans to hire 175 people in its Irish research lab. Further, Stripe said it would establish an R&D centre in the Republic.

Already employing around 5,000 people, according to Deloitte's *FinTech in Ireland*, the figure could well double this by 2020, particularly given the government's aim of supporting fintech as it updates its international financial services strategy.

However, despite these highly positive signs, Brexit poses some challenges for financial services firms in Ireland. Central Bank governor Philip Lane warned in early November of the impact of a "hard Brexit": "If a hard Brexit generates sharp movements in asset prices and in the sterling-euro exchange rate or is associated with a significant macroeconomic downturn in the UK, the balance sheets of firms with exposures to the UK will be affected." He added, however, that Ireland's Central Bank would take measures to mitigate any adverse impacts of Brexit.

Inbound activity

Ireland continues to attract investment on a global stage. Nine of the top ten M&A deals by value in 2018 were from overseas buyers. Legal reforms over the last year – including consolidation of the law on voluntary mediation thus strengthening the Republic's contract enforcement framework and improved access to credit information through the establishment of a new credit registry – have helped place Ireland 23rd on the World Bank's *Doing Business 2019* report, an index of 190 countries that measures the ease of conducting business in each country. Dublin came out top in a world ranking of large cities for foreign direct investment (FDI) and for economic potential in the *Global Cities of the Future 2018/2019* report.

Ireland's capital also ranked third in Europe in the top regions for finance in FDI projects for 2017, according to EY's 2018 Attractiveness Survey for Europe. The survey noted that: "Some companies appear to be re-engineering their European footprint in response to changes in almost every facet of the European landscape. Individually, the changes appear incremental in ... hourly wage costs, talent supply and tax regimes; and in technological progress."

These are all areas in which Ireland has a competitive advantage. IDA Ireland figures suggest that, for example, while household incomes have risen, the hourly wage remains below the eurozone average. In addition, the country's tax regime remains highly favourable on an international stage, with a headline corporation tax of 12.5%, half the OECD average of 24.9%.

Indeed, the country has done much to promote FDI over the last decade, with specific initiatives from organisations such as IDA Ireland. Its FDI strategy has sought to attract investors looking for a base for advanced manufacturing or highly

skilled office activities, focusing on information & communications technology, knowledge-based industries and biotechnology. This has led, according to IDA's 2017 annual report, to companies such as Microsoft adding a further 800 jobs in Dublin, S&P Global Ratings choosing the city as its post-Brexit European hub and fund administration specialist Northern Trust announcing 400 new jobs in Limerick.

Such initiatives are clearly bearing fruit, with the TMT sector taking top spot for a number of inbound deals during 2018, with 24 M&A transactions announced, or 22% of the total number. Business services, another knowledge-based sector, was not far behind, with 23 deals, or 21% of the number of inbound deals for 2018. These underscore Ireland's reputation for highly skilled workers, often available at a lower cost relative to many other markets.

Overall, the volume of inbound deals suggests that Ireland remains an attractive destination for overseas investors. The number of deals announced remained steady compared with 2017's high figures, with 108 deals announced by overseas buyers versus 97 in 2017, which had been the highest number on record.

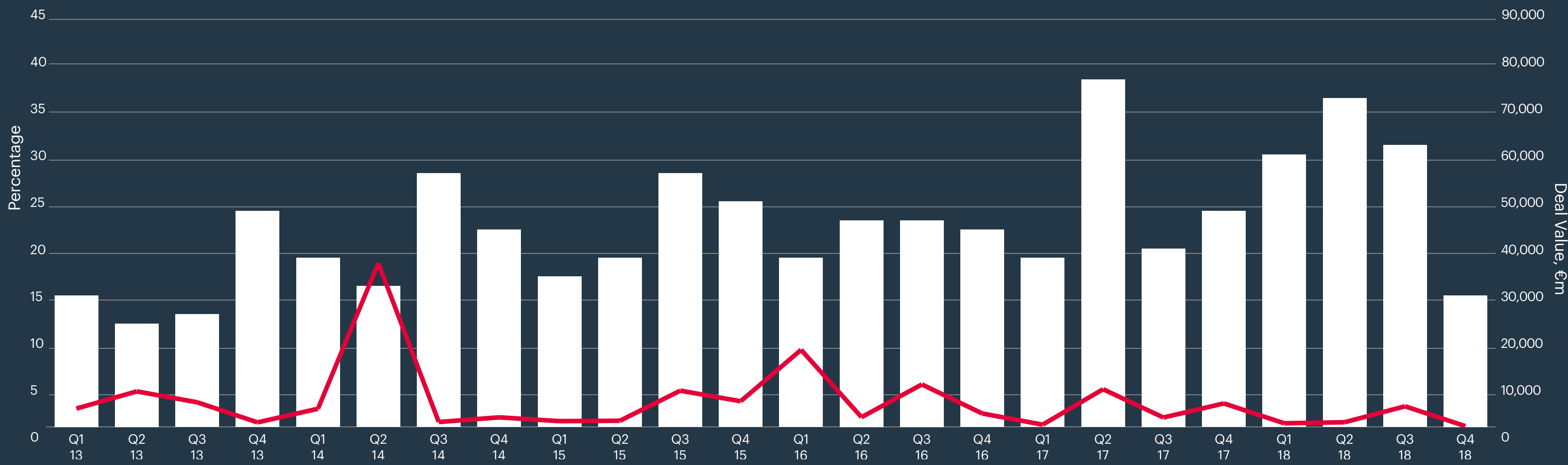
Nevertheless, the value of inbound M&A fell significantly in 2018. Cross-border inbound deals worth €6.3bn were announced through the year, a fall of 59% from 2017's €15.5bn. Financial services was the clear outperformer by value, with over €3bn of inbound M&A activity announced during the year, accounting for 49% of total inbound value. This was boosted by the €1.9bn Avolon-ORIX Aviation deal and Cinven's €925m acquisition of AXA Life Europe. PMB businesses also attracted attention, taking a 19% share of inbound deal value, with the €586m acquisition of Adapt Pharma by US-based Emergent Biosolutions accounting for a large share of this.

Trading ties between the US and Ireland remain robust, with around 700 US-owned companies operating in Ireland and employing 150,000 people, according to the US Department of State, in areas such as technology, medical supplies and pharmaceuticals as well as retailing, banking and finance. The strength of the relationship between the two countries is apparent in the fact that three of the top ten deals by value for 2018 involved US buyers.

Yet, as the volume figures show, the overall trend for inbound M&A is for smaller deals, attesting to the vibrancy of Ireland's mid-market as overseas buyers seek access to talent and intellectual property. Yet this may also reflect a less bullish attitude on the part of international buyers against a background of macropolitical issues.

Some caution is now entering the market as the outcome of UK-EU negotiations and their effect on Ireland remain unclear. Mid-market deals naturally entail less risk than mega and large transactions and the figures seem to suggest that overseas acquirers had a lower appetite for risk in Ireland during 2018.

Irish Inbound M&A, 2013-2018



Top 10 Irish Inbound M&A deals in 2018

Announced date	Target company	Target dominant sector	Bidder company	Bidder dominant country	Deal value (€m)
08/08/2018	Avolon Holdings Limited (30% stake)	Financial Services	ORIX Aviation Systems Limited	Japan	1,906
18/09/2018	AXA Life Europe DAC	Financial Services	Cinven Partners LLP	United Kingdom	925
28/08/2018	Adapt Pharma Limited	Pharma, Medical & Biotech	Emergent BioSolutions Inc	USA	586
10/09/2018	Tifco Hotel Group	Leisure	Apollo Global Management, LLC	USA	500
31/05/2018	Mater Private Group	Pharma, Medical & Biotech	InfraVia Capital Partners	France	495
01/02/2018	Indego Ltd.	Real Estate	Oaktree Capital Management LP	USA	250
17/01/2018	Green Isle Foods, Ltd.	Consumer	Nomad Foods Limited	United Kingdom	226
11/08/2018	KN Group	TMT	Groupe Circet S.A.	France	150
10/05/2018	Imagine Communications Group Ltd (50.1% stake)	TMT	Brookfield Asset Management Inc.	Canada	120
09/11/2018	Gift Voucher Shop Limited	Consumer	Blackhawk Network Holdings	USA	100

Irish M&A then and now – Five years in review

The Irish M&A scene has changed considerably over the past five years. In 2013, the economy was just emerging from the post-crisis recession and many deals announced that year were a direct consequence of the downturn, particularly in financial services. Over the intervening period, the Irish economy has performed strongly to provide robust, strategic growth opportunities for buyers. In 2013, there were just 83 deals announced, almost half the 162 tally for 2018.

Financial services

This is particularly evident in financial services, where deal volumes as a proportion of the overall number of deals remained relatively stable at around 12%-15%. However, values have increased markedly – in 2013, the sector accounted for just 10% of value, while in 2018, 45% of the value of deals in Ireland were in financial services.

The sector has moved to the fore among dealmakers who recognise some of Ireland's strengths in specialist areas, such as aircraft leasing, as an EU base for expanding international banking operations and in its fast-growing fintech industry. While, back in 2013, many financial services deals – such as the sale of nationalised Irish Life to Canada-based Great-West Lifeco – were born out of the issues following the financial crisis, more recent M&A has been much more forward-looking.

The rationale for Cinven's 2018 acquisition of AXA Life Europe, for example, was to consolidate a fragmented market. Brookfield Asset Management's acquisition of a strategic stake in LCH European Portfolio Holdings, announced in the same year, is also about growth, while the fintech industry continues to draw investor attention.

PE

Meanwhile, PE activity continues to grow. Back in 2013, there were only 15 transactions in Ireland involving PE, less than half the 34 seen in 2018. Five years ago, distressed situations accounted for many of the PE deals announced, such as Mount Kellett Capital Management's acquisition of Jury's Inn hotels from the Irish Bank Resolution Corporation and the purchase of waste business Greenstar by Cerberus out of insolvency.

Yet while many of the larger deals seen over the past five years have been in financial services, such as 2017's €6.9bn sale of AWAS Aviation by Terra Firma and CPPIB, much of the rest of the activity has been across other sectors, with the computer and business services and medical sectors strongly represented. In 2018, for example, Bregal Milestone acquired computer services business Arkphire Group, TA Associates bought financial reporting software company insightsoftware.com and Temasek bought a 30% stake in pharmaceutical business Aerogen.

TMT

In the TMT sector, dealmakers are increasingly looking to take advantage of the vibrant Irish tech scene. While deal volumes have remained fairly constant as a proportion of the number of overall deals – at between 14% and 20% – the profile of Ireland's TMT deals has increased.

Software deals such as Activision's €4.3bn acquisition of King Digital in 2016 have helped to boost the market. Back in 2013, there were only six deals in the software subsector, worth €151m in total; this year saw 14 deals worth €244m, including the €100m waste management software developer AMCS Group received from a group of investors for an undisclosed stake.

The AMCS deal also indicates the willingness of investment firms to make significant investments in exchange for partial or minority stakes in Irish growth-stage tech businesses. AMCS was founded in 2003, but New York-based Insight Ventures saw an opportunity to expand the business further. Similarly, in 2016, Carlyle Group invested €359m into banking software business ION in exchange for a 10% stake to help the business grow. In contrast, there were no deals for minority stakes in the software sector in 2013.

Outbound dealmaking

Ireland's small population of just under five million, plus its global connections, mean that the country's companies have long looked outward for growth opportunities, and 2018 was no exception. Through the year, there were 102 outbound M&A deals from Irish companies, worth a total €6.1bn, a slight decline from the 101 deals with a value of €6.6bn seen in 2017.

Most of the activity in 2018 occurred in the first half of the year, with a drop off in deal value in the second half. While the first half witnessed €3.7bn of deals, the second half only saw €2.4bn, well below €5.9bn in H2 17 and €7.2bn in H2 16 (although it is worth noting that this statistic only includes deals with a disclosed value).

The decline may suggest that, following several years of readily available finance as a consequence of the ECB's quantitative easing (QE) initiatives, companies are looking towards a period of lower liquidity as the asset purchase programme drew to a close at the end of 2018. However, the fall appears more closely linked to increased caution that has crept into the market throughout the year, with continued uncertainty around Brexit and the political and economic implications for the border with Northern Ireland. With much outbound Irish M&A accounted for by larger corporates, many of which derive a significant proportion of their earnings from the UK market, this uncertainty may have dampened enthusiasm for overseas acquisitions.

Notwithstanding this, the UK accounted for a significant proportion of the top ten outbound deals by value in 2018, with three deals, including the largest – financial trading software developer ION's €1.7bn acquisition of Fidessa Group. Backed by PE group Carlyle, ION beat a competing offer from Switzerland's Temenos to win the auction. ION has been highly acquisitive over recent times and 2018 also saw the firm acquire US-based Openlink Financial for an undisclosed sum.

Other significant UK-bound Irish deals included Applegreen's €362m acquisition of a 55% stake in leisure business Welcome Break; Experian's purchase of Clear Score Technology for €311m; and Ingersoll Rand's deal to acquire industrials and chemicals company ICS Group Holdings for €165m.

The US also featured highly in the top outbound M&A deal list, again underscoring transatlantic ties. Kerry Group's acquisition of US-based Fleischmann's Vinegar Group was the largest such deal, valued at €350m, followed not far behind by two other consumer-related deals: SlimFast (and its sister company Hyper Network Solutions) was acquired by Glanbia for €303m and Total Produce bought a 43% stake in Dole Food Company for €241m. The Total-Dole deal was announced as a merger of equals, with the two fresh produce companies having complementary market positions in product segments and geographies, according to a statement released by the companies.

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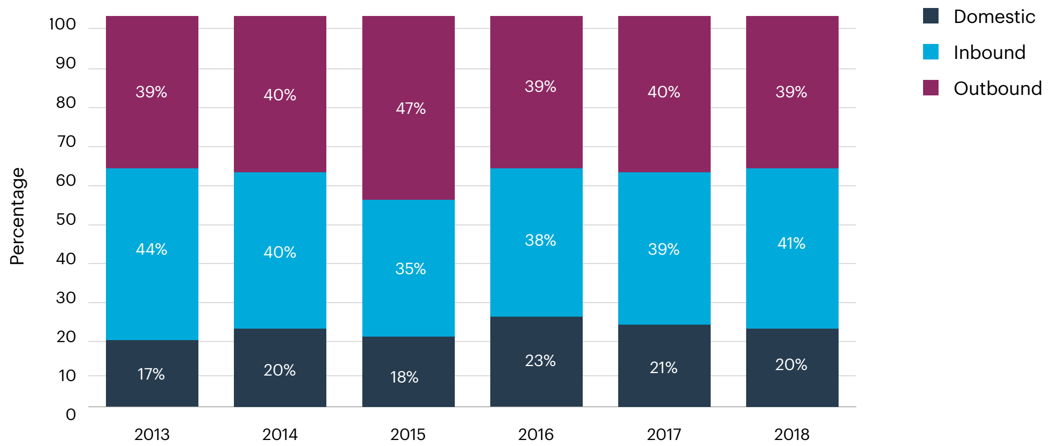
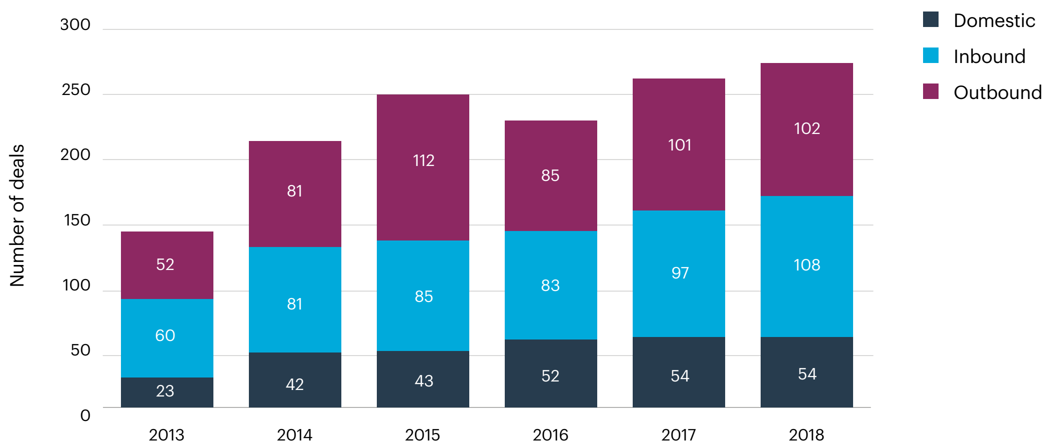
By sector, Ireland's strength in TMT was uppermost in outbound deal values and volumes, with the industry accounting for 27% and 29%, respectively. Industrials and chemicals were also active sectors for outbound M&A activity, making up 20% by volume and 21% by value. The largest deal in this sector was packaging corporate Smurfit Kappa's €460m acquisition of paper and board recycling business Reparenco, based in the Netherlands. The deal was announced as Smurfit Kappa itself rejected a bid from US acquirer International Paper, which would have been valued at €9bn, in a sign that paper and cardboard-based packaging is benefitting from environmental concerns around plastic.

Looking to the balance between domestic, inbound and outbound M&A, the figures remained stable relative to historical patterns. In 2018, 20% of M&A deals announced were domestic, 41% were inbound and 39% were outbound. With a relatively small domestic market of just under five million, Ireland's companies will continue to look overseas for expansion opportunities. A recent Deloitte and Enterprise Ireland survey of CEOs found that 84% were planning to expand over the next 12 months, with the eurozone, UK and North America as the top new markets for growing exports.

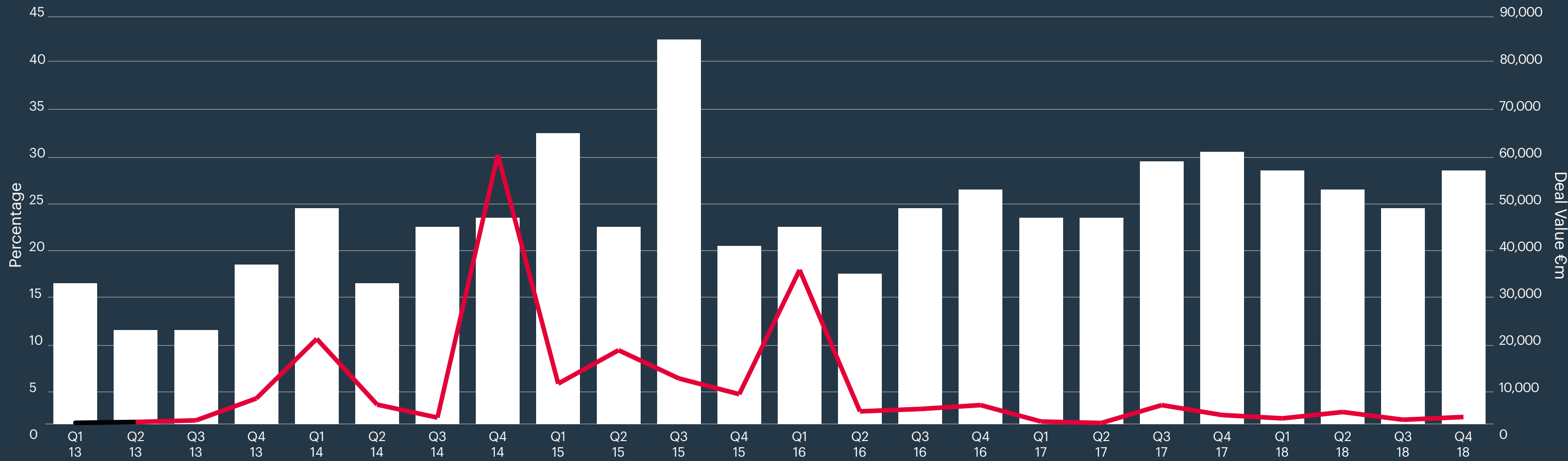
Proportion of Domestic, Inbound and Outbound M&A



Domestic, Inbound and Outbound M&A, Number of Deals



Irish Outbound M&A, 2013-2018



Top 10 Irish Outbound M&A Deals in 2018

Announced date	Target company	Target dominant sector	Bidder company	Bidder dominant country	Deal value (€m)
20/04/2018	Fidessa Group Plc	TMT	ION Investment Group Limited	Ireland	1,659
24/05/2018	Parenco B.V; Reparco Nederland B.V.	Industrials & Chemicals	Smurfit Kappa Group Plc	Ireland	460
02/08/2018	Welcome Break Limited (55.02% Stake)	Leisure	Applegreen Plc	Ireland	362
25/10/2018	Fleischmann's Vinegar Company, Inc.	Industrials & Chemicals	Kerry Group plc	Ireland	350
15/03/2018	Clear Score Technology Limited	Business Services	Experian Plc	Ireland	311
11/10/2018	SlimFast ; Hyper Network Solutions of Florida LLC	Consumer	Glanbia Plc	Ireland	303
01/02/2018	Dole Food Company, Inc. (45% Stake)	Consumer	Total Produce plc	Ireland	241
10/12/2018	Compuscan Holdings International (Pty) Ltd.	Business Services	Experian Plc	Ireland	231
14/12/2018	Southeastern Mills, Inc. (North American coatings and seasonings business)	Consumer	Kerry Group plc	Ireland	169
14/09/2018	Bonti, Inc.	Pharma, Medical & Biotech	Allergan plc	Ireland	167

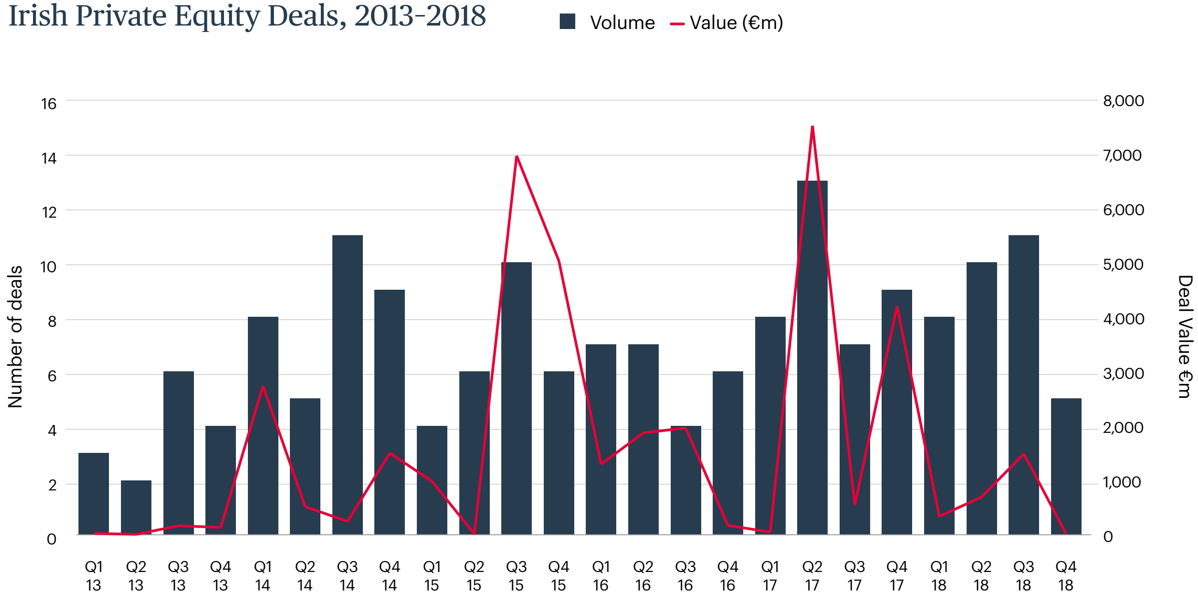
Private equity in the spotlight

With strong fundraising over the last few years, PE firms globally have significant amounts of capital to deploy. In June 2018, the amount of dry powder available for investment by global PE houses reached $2.1trn, a record sum, according to figures released by Preqin, the alternative assets data provider. However, the value of PE activity in Ireland fell in 2018, relative to 2017, from over €12bn to €2.5bn. Volumes, by contrast, have remained steady year on year, with 34 PE deals in 2018 compared with 37 in 2017, and both the last two years have seen more deals than Ireland attracted in previous years. There were just 24 PE deals in 2016, for example.

As a relatively small PE market, the value totals for Ireland tend to vary considerably from year to year, a characteristic compounded by the fact that not all deal values are disclosed – in Q4 2018, for example, only one deal value (worth €15m) was made public.

In addition, the €12.3bn figure for 2017 was heavily skewed by two multi-billion euro deals – Terra Firma and CPPIB's €6.9bn exit of AWAS Aviation to Dubai Aerospace Enterprise and Iliad; and NJJ's acquisition of a 64.5% stake in Eircom for €2.9bn from creditors.

Irish Private Equity Deals, 2013-2018



By contrast, the largest PE deal in Ireland for 2018 was the Cinven acquisition of AXA Life Europe, which was valued at under €1bn. Other larger PE deals were Apollo's €500m acquisition of hotel management business Tifco and Oaktree's €250m deal to acquire shopping complex owner Indego.

Far more indicative of trends in Irish PE are the volume figures, which have been high for the last two years relative to historical levels. Rising volumes demonstrate growth in Ireland's PE scene, with further expansion to come as some of the newer funds raised over the last five years start to exit.

One example is the Carlyle Cardinal Ireland Fund, a joint venture between global PE player the Carlyle Group and local firm Cardinal Capital, which was raised in 2014. Following on from its sale in 2017 of chocolate brand Lily O'Brien's, the fund made a further exit in 2018. It sold its cash-in-transit business General Secure Logistics Services to European fund manager STAR Capital for an undisclosed sum, which is just one example of a successful exit that will generate further interest in Ireland. The fact that this deal was a secondary buyout is also a testament to the maturing of the PE industry in Ireland. In a statement on the acquisition, STAR Capital said: “STAR will work closely with GSLS’s existing management team to identify new opportunities for growth and build on GSLS’s success to date. STAR’s backing will also enable the company to continue to innovate and make investments in the company’s fleet, employee base and IT operations as well as add new services."

Over time, these kinds of success stories will create a bigger market for PE as Irish businesses become more accustomed to the PE modus operandi and owners and management teams understand better some of the benefits that may come from partnering with PE investors.

Outlook for 2019

As we move into 2019, the outlook for M&A activity in Ireland is more mixed than has been the case over recent years and it is difficult to ascertain how the political and financial concerns outlined below will affect M&A.

The first few months of the year may well be more subdued in terms of both value and volume than in 2017 and 2018 as Brexit reduces appetite for dealmaking. We have already seen some caution creeping into the market towards the end of 2018 and this sentiment will likely continue in Q1 2019 as many businesses adopt a wait-and-see attitude to buying.

Depending on the shape of any deal that emerges from EU-UK discussions, a softening of the market may well continue through the first half of the year as companies go through an adjustment phase. The fact that many of Ireland's larger businesses rely on the UK market for earnings suggests that Ireland's M&A market at the larger end of the spectrum may be more affected than deals in other parts of the EU.

The tapering off of the ECB's QE programme may also have a dampening effect on M&A in the early part of 2019. With less liquidity in the financial system and economy, the availability of credit, which has boosted M&A activity over the last few years, may well reduce. Allied to this is a general sense among many executives that M&A globally is reaching the top of the cycle after a long run of strong activity. There may therefore be a slowing down worldwide of cross-border M&A as the cycle turns.

Together, these three factors are likely to lead to less demand from buyers and therefore lower company valuations. Such shifts in pricing can often lead to gaps in expectations between acquirers and vendors, which can block M&A markets, albeit only temporarily. If this turns out to be the case, both sides may need to think flexibly around pricing structures if they are to complete deals successfully.

However, Ireland benefits from a number of strong fundamentals that should bolster M&A as the year progresses. Labour costs in the Republic remain competitive by European standards and the Irish economy is projected to grow at a faster pace than other EU countries, making Ireland an attractive market in which to establish a base or expand.

Brexit presents Ireland with significant opportunity as well as the challenges noted above. As the only English-speaking member of the EU post-Brexit, it has a natural advantage over other states when it comes to relocations and the establishment of European bases for many international businesses. Recent examples include Barclays, Lloyds of London and Bank of America Merrill Lynch moving their EU headquarters from London to Dublin. In addition, those companies that have already chosen Ireland as a new post-Brexit base will boost the Republic's economy further as staff and operations move over the Irish Sea.

Finally, the fact that the mid-market accounts for such a significant share of Irish M&A activity will mitigate against downward pressure that may be seen in some other markets where larger deals are more prevalent. Absent of any major shock, overseas and domestic companies will continue to make acquisitions of businesses in this bracket as they seek to respond to challenges posed by an ever-evolving economic and political landscape.

About the Research

The underlying data in this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2013 to 31/12/2018, excluding lapsed or withdrawn bids or deals valued below €5m.

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For more information, please contact:

Nadine Warsop
Publisher, Acuris Studios,
Acuris
Tel: +44 (0)20 3741 1370
Email: nadine.warsop@acuris.com

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- Equity Deal of the Year for 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
- M&A Law Firm of the Year, Ireland – Corporate Intl Magazine Global Awards 2019
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- "A friendly approach while providing hawk-like legal analyses" – Legal 500 EMEA, 2018
- "First-rate client focus and a strong bench of talent" – Legal 500 EMEA, 2018

Contacts

Shane O'Donnell
Head of Corporate and M&A
T. +353 1 639 5112
E. shane.odonnell@williamfry.com

Eavan Saunders
Partner
T. +353 1 639 5208
E. eavan.saunders@williamfry.com

Mark Talbot
Partner
T. +353 1 639 5162
E. mark.talbot@williamfry.com

Barbara Kenny
Partner
T. +353 1 639 5146
E. barbara.kenny@williamfry.com

Barry Conway
Partner
T. +353 1 639 5284
E. barry.conway@williamfry.com

John O'Connor
Partner
T: +353 1 639 5183
E: john.oconnor@williamfry.com

John Magee
Partner
T: +353 1 489 6532
E: john.magee@williamfry.com

Bryan Bourke
Managing Partner
T. +353 1 639 5106
E. bryan.bourke@williamfry.com

David Fitzgibbon
Partner
T. +353 1 639 5154
E. david.fitzgibbon@williamfry.com

Ivor Banim
Partner, Head of London office
T. +44 20 7961 0897
E. ivor.banim@williamfry.com

Mark Quealy
Partner
T. +353 1 639 5130
E. mark.quealy@williamfry.com

Susanne McMenamin
Partner
T: +353 1 639 5166
E: susanne.mcmenamin@williamfry.com

Shane Kelleher
Partner
T. +353 1 639 5148
E. shane.kelleher@williamfry.com

David Cullen
Partner
T. +353 1 639 5202
E. david.cullen@williamfry.com

Myra Garrett
Partner
T. +353 1 639 5122
E. myra.garrett@williamfry.com

Stephen Keogh
Partner
T. +353 1 639 5144
E. stephen.keogh@williamfry.com

Andrew McIntyre
Partner, Head of San Francisco office
T. +353 1 639 5184
E. andrew.mcintyre@williamfry.com

Adam Synnott
Partner
T. +353 1 639 5108
E. adam.synnott@williamfry.com

Paul White
Partner
T. +353 1 639 5120
E. paul.white@williamfry.com

Leo Moore
Partner
T. +353 1 639 5152
E. leo.moore@williamfry.com