WILLIAM FRY

MID-YEAR M&A REVIEW 2016

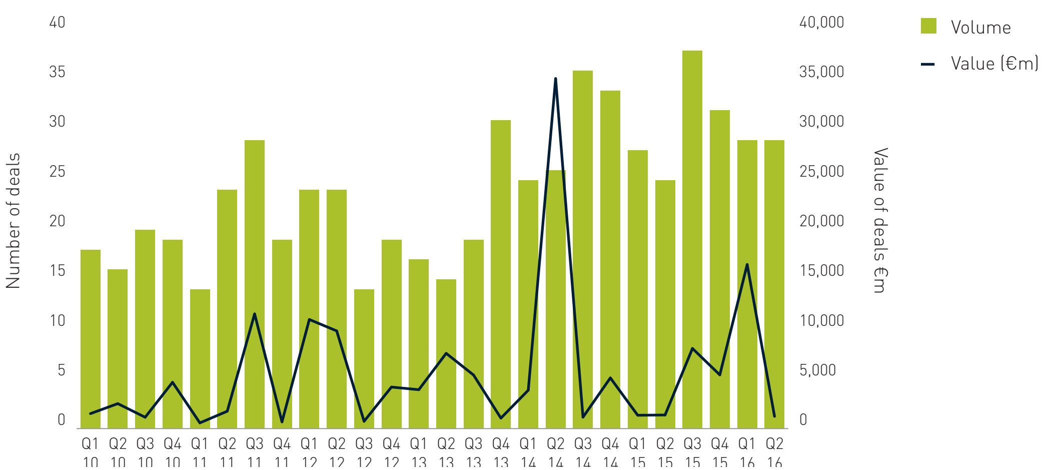
OVERVIEW

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 2016, as well as the likely developments for the rest of the year.

Following the surge in Irish M&A activity in 2014 and 2015, we noted in our last report that the pace of Irish dealmaking was slowing at the start of 2016 due to a number of political and macroeconomic factors affecting global markets, but we were cautiously optimistic that Ireland's strong fundamentals would drive momentum as the year progressed. From a slow start in the first two months, M&A value jumped sixfold to €17.7bn in H1 2016 year-on-year, while volume increased 9% to 58 deals. The increase in value was largely attributable to the year's biggest deal, which saw Johnson Controls purchase Irish fire and security provider Tyco International for nearly €15bn. Absent this one outlier, value for H1 2016 totalled of €2.8bn, similar to the €2.7bn total value seen in H1 2015. In general M&A activity has been more muted in 2016, returning to more normalised levels from the buoyant years of 2014 and 2015.

While activity levels have thus far remained robust, evidently the effects of recent political developments in the UK and beyond are starting to have an impact on Irish dealmaking. With foreign investors traditionally making a significant contribution to Irish M&A figures, it is not unexpected that global factors have influenced deal activity, and, in particular, the number of inbound acquisitions. Although the challenges highlighted in our 2015 report remain relevant, the guarded expectation is that there will be similar levels of activity in H2 2016 as investors seek to close out on transactions which had been postponed and as the markets adjust to the fallout from the Brexit vote.

IRISH M&A DEALS, 2010 — H1 2016



BREXIT, STAGE LEFT

The UK's decision to leave the EU had a big short-term effect on global markets, with the pound plunging to a 31-year low and the Dow Jones falling 500 points in the immediate aftermath. However, from an M&A perspective, it is possible that the weakened sterling in the wake of Brexit may offer some opportunities. Attractive valuations attached to UK companies could pique the interest of foreign buyers, including Irish firms.

Moreover, after the initial paralysis in markets, the UK's decision is likely to result in some increased activity as many businesses, including those based in the UK with strong trading links with the EU, explore their options in the months and years ahead, and seek to exploit the post-Brexit environment as best as they can.

The guarded expectation is that there will be similar levels of activity in the second half of 2016

TOP IRISH M&A DEALS BY VALUE, 2016 YTD

Announced Date	Target Company	Target Dominant Sector	Bidder Company	Bidder Dominant Country	Seller Company	Seller Dominant Country	Deal Value EUR (m)
25/01/2016	Tyco International plc	Industrial products and services	Johnson Controls, Inc.	USA			14,973
02/02/2016	Creganna-Tactx Medical	Services (other)	TE Connectivity Ltd.	Switzerland	Permira Advisers LLP	United Kingdom	824
04/02/2016	Xtralis Pty Ltd.	Industrial products and services	Honeywell International Inc.	USA	Blum Capital Partners LP; Pacific Equity Partners	Australia	438
31/05/2016	ION Trading (10% Stake)	Computer software	Carlyle Partners VI LP	USA	TA Associates Management, L.P.	USA	359
10/06/2016	eircom Group limited	Telecommunications: Carriers	GIC Private Limited	Singapore			230
24/04/2016	Cordal wind farm project	Energy	Element Power Limited	United Kingdom	Saorgus Energy Ltd	Ireland (Republic)	160
29/06/2016	AA Ireland Limited	Services (other)	Carlyle Global Financial Services Partners II L.P.; Carlyle Cardinal Ireland Fund, L.P.	Ireland (Republic)	AA plc	United Kingdom	157
29/04/2016	Argentum Property Holdco Limited	Construction	Cairn Homes Plc	Ireland (Republic)	Newlyn Developments Limited; Anchorage Capital Partners Pty Ltd	Australia	106
17/05/2016	Paddy Whiskey Limited	Consumer: Other	Sazerac Company, Inc.	USA	Irish Distillers Limited	France	90
30/04/2016	ATA Tools Group Limited (65% Stake)	Industrial products and services	Management Vehicle	Ireland (Republic)	MML Capital Partners LLP	United Kingdom	52

STRONG FUNDAMENTALS

In spite of Brexit's impact, there are many indicators suggesting positive momentum in the Irish market. Revised GDP forecasts for Ireland predict that the economy will grow by approximately 4.8% in 2016, one of the fastest growth rates in the EU. Blue-chip multinationals continue to be drawn to Ireland's hospitable business climate and skilled workforce — not least in light of BEPS — while indigenous Irish firms are growing to increase market share.

On top of this, a survey of Irish employers by ManpowerGroup Ireland, published in mid-June, found the country's net employment outlook to be at its strongest point since Q2 2007. The recent sale of motoring group AA Ireland to Carlyle Global

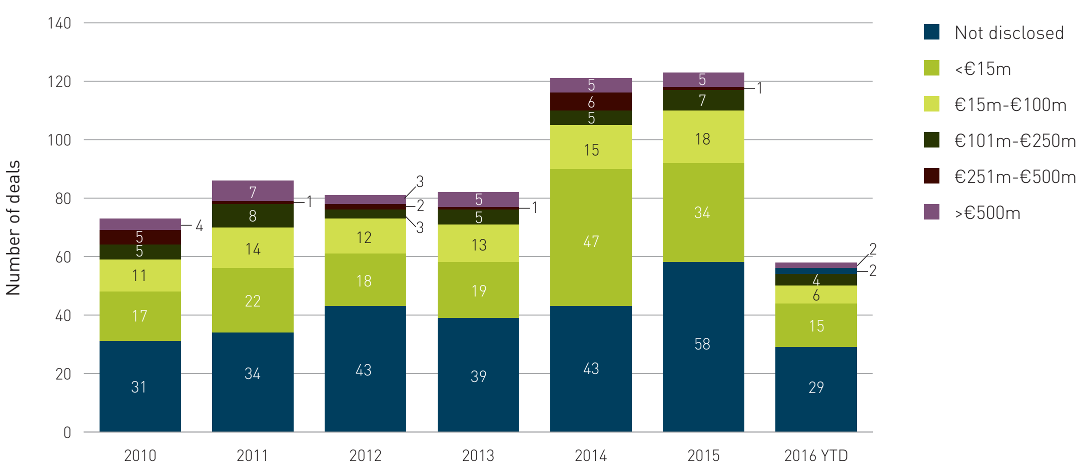
Financial Services Partners and Carlyle Cardinal Ireland for €156.6m demonstrates how Irish companies continue to be attractive targets for acquirers.

IRISH DEAL MAKEUP

In terms of the Irish market in H1 2016, mid-market and smaller-cap deals, a useful indicator of the broader M&A climate, have decreased year-on-year in terms of numbers. M&A deals valued between €5m and €25m fell by 21%, dropping from 19 deals in H1 2015 to 15 in H1 2016. Nonetheless, it is clear more generally that mid-market acquisitions rather than blockbuster deals continue to be at the forefront of Irish M&A. Of the 29 deals where the consideration was disclosed, 27 of them had a valuation of under €500m. Similarly, there were 28 deals in the same size range in H1 2015.

The experience this year in terms of large-cap deals continues to reflect a trend of multinational firms making strategic plays in Ireland. For instance, the largest Irish transaction of 2016 to date was US-based conglomerate Johnson Controls' €15bn acquisition of Tyco International, an Ireland-based fire and security manufacturer.

IRISH M&A SPLIT BY DEAL SIZE



SECTOR WATCH

In the TMT sector, the theme of foreign players targeting Irish companies as part of bolt-on strategies, as discussed in our 2015 M&A Review, looks set to continue. Games maker Hasbro, for example, purchased animation firm Boulder Media and another notable TMT deal in H1 of 2016 was the sale of UTV Ireland to telecoms firm Virgin Media.

Leisure, which performed strongly in H1 2015, did not register any new deals in H1 2016; however, we expect to see some activity in the sector in the latter part of this year. In particular, Irish hotels continue to attract international interest.

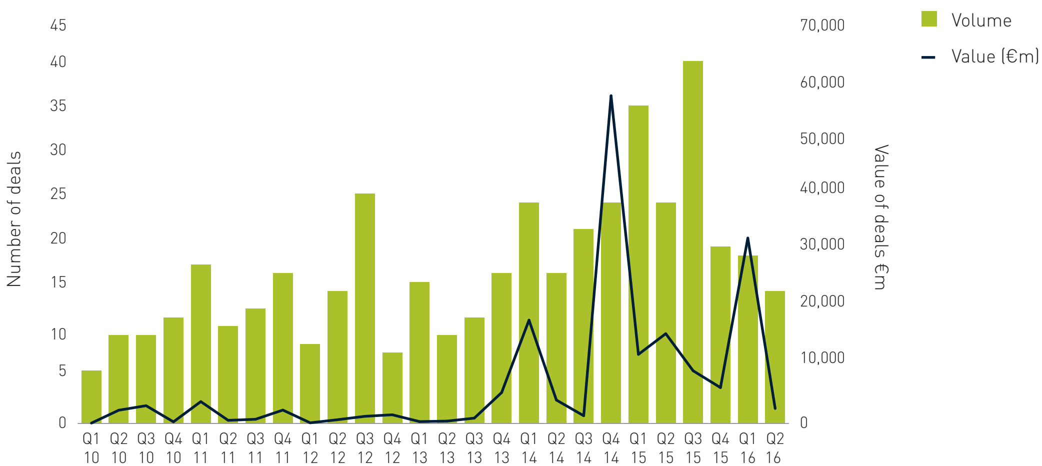
Meanwhile, pharmaceuticals, medical and biotech (PMB), which in recent years has dominated the Irish M&A landscape, certainly in terms of deal value, has seen value decrease considerably in H1. This may have been influenced by the U.S. Treasury Department rules impacting corporate inversions, which, in a high profile example, put paid to US pharma giant Pfizer's proposed acquisition of Dublin-based Allergan. Yet PMB continues to remain a major sector for Irish deal-making, contributing 13% of all inbound deals in the first half of 2016.

From a sectoral perspective, an interesting development in the market this year has been the focus on the industrials and chemicals sector. The industry has had seven transactions in H1 2016 — 23% of total inbound deal volume — compared with just two in the first half of 2015. Deal value in the sector was heavily impacted by the Johnson deal, but removing this deal, value for the sector still saw a rise, standing at €480m in H1 2016, compared with €49m for 2015 as a whole.

The real estate sector is also showing an increase in deal flow, reflecting attractive valuations and expectations of high returns. Following on from the buoyant M&A market experienced by the sector in the last couple of years, the first half of 2016 has seen three real estate acquisitions. For instance, Oaktree Capital Management, a USA-based private equity (PE) firm, purchased two Hazel Portfolio retail parks for a combined total of €50m. Meanwhile, in June, US PE firm Blackstone announced it would buy the Blanchardstown retail centre in Dublin for approximately €950m.

Outbound M&A has seen a dip in volume alongside an increase in value in the first half of 2016. The number of Irish firms buying targets overseas slid by almost 45% in H1 this year to 34, compared with 61 in the same period in 2015. By contrast, deal value rose by 25% from €28bn in H1 2015 to €35bn in H1 2016. However, 91% of this value total is made up by just one deal – pharma group Shire's €32bn bid for US-based pharmaceutical firm Baxalta. There was only one other deal with a value of more than €1bn in H1 2016. In May, Ireland-based Jazz Pharmaceuticals announced its acquisition of Celator Pharmaceuticals for €1.1bn. By contrast, there were six €1bn-plus outbound deals in H1 2015. Considering overall Irish outbound M&A, H1 2016 saw 24 deals with disclosed values of below €1bn for a combined €2.3bn, while H1 2015 had 42 similar deals worth €3.4bn.

IRISH OUTBOUND M&A 2010 — 2016 YTD



While PMB has dominated outbound Irish deal value on the back of the Shire deal, volume by sector saw a more even split. The industrials and chemicals sector had six outbound deals, PMB had seven and business services had eight deals, which is reflective of a broad and healthy spread of M&A activity.

PRIVATE EQUITY SNAPSHOT

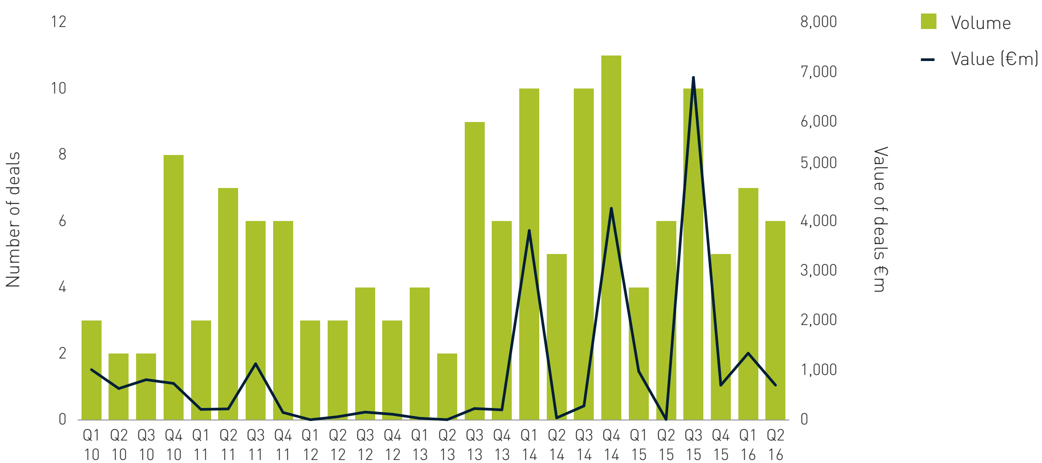
PE activity has continued to grow in the first half of 2016 with volume increasing to 13 deals from 10 year-on-year. Deal value jumped 106% to €2bn.

The rise in value is reflected in six PE deals featuring in the top 10 transactions of the year so far, compared with just two in H1 2015. One deal in particular accounted for the substantial jump in deal value: Switzerland's TE Connectivity's €824m acquisition of Creganna-Tactx Medical from Permira Advisers, the UK-based PE firm. This deal allows TE Connectivity entry into the market for medical devices providing minimally invasive surgery, anticipated to be a high-growth PMB segment.

PE is also targeting Ireland in order to use it as a bridge to expand into the UK. In March, for example, US infrastructure fund I Squared Capital purchased energy firm Viridian for €1bn.[1] At the time, I Squared partner Gautam Bhandari said that the deal could be used as a launchpad to explore options in the UK.

Exits have grown in the first half of the year — a shift from previous years, where buyouts have historically dominated. Furthermore, in 2016 thus far, Ireland has seen only one secondary buyout. This compares with three secondary buyouts in the first half of 2015. The increase in exits to strategics may indicate that pricing is stabilising and corporates are increasingly willing to pay PE sellers' premiums.

IRISH PRIVATE EQUITY DEALS, 2010 — 2016 YTD



OUTLOOK

The continued stablility in Irish M&A in early 2016 is a positive indicator for the economy more generally. While 2014 and 2015 were particularly buoyant, M&A activity is still relatively resilient against the backdrop of a more challenging economic climate.

While the UK's vote to leave the EU increased uncertainty and will have particular resonance in Ireland — just four Irish deals were announced in June — it is expected that, over the coming months, market reaction will stabilise. When this happens, deal-makers will start to look at acquisitions which were suspended either with a view to implementation or with an alternative strategy, and it is to be expected that there will be reasonable levels of deal-making in the latter part of 2016, certainly in the mid-market.

Much still remains unknown for Irish/UK M&A until a clear structure around Brexit is established. However, regardless of the structure of the deal negotiated, interest in Irish targets is not expected to recede significantly — in particular, the sectoral strongholds remain solid against a background of strong fundamentals. We would also expect there will be opportunities for Irish outbound acquirers in the UK and further afield as Irish corporates continue to pursue growth strategies internationally.

[1] This deal is classified by Mergermarket as a UK deal, as the company is based in Belfast and, therefore, is not included in total Irish M&A figures.

There will continue to be opportunities for Irish outbound acquirers in the UK and further afield

ABOUT THE RESEARCH

The underlying data to this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2010 to 30/06/2016, excluding lapsed or withdrawn bids or deals valued below €5m.

Remark, the research and publications division of The Mergermarket Group, publishes over 60 thought leadership reports and holds over 70 events across the globe each year which allow clients to demonstrate their expertise and underline their credentials in a given market, sector or product.

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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 460, 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:

- M&A Deal of the Year - IAG's acquisition of Aer Lingus - Finance Dublin Deals of the Year 2016
- Financial Services (Ireland) - Banking: AIB Capital Reorganisation Programme - Finance Dublin Deals of the Year 2016
- European Corporate Deal of the Year (IAG acquisition of Aer Lingus) – The Lawyer European Awards 2016
- Loans & Financing Deal of the Year - SME Sector: Ding - Finance Dublin Deals of the Year 2016
- Law Firm of The Year – International Trade, Ireland - M&A Today Global Awards 2016
- 'The Most Diverse Firm' in Ireland by gender diversity in 'The Lawyer European 100 2016'
- Most Outstanding Law Firm of 2016, Ireland - Wealth & Finance INTL 2016
- Most Innovative Law Firm of 2016, Ireland - Acquisition International Magazine 2016
- Ireland's Most Innovative Law Firm and the 6th Most Innovative European Law Firm (Non-UK) - FT Innovative Lawyers Report 2015

Recent rankings include:

- The only law firm to be consistently ranked in the top three law firms for Irish M&A activity every year since 2010 - Mergermarket
- Consistently ranked in tier one by all legal directories – Chambers Global, Legal 500 EMEA and IFLR1000.

Recent directory commentary includes:

- "Exceptional firm William Fry has expertise in technology, pharmaceuticals, healthcare, aviation and agriculture, among other areas." (Legal 500 EMEA, 2016)
- "All the people there are exceptional. There is remarkable strength in depth throughout the team." (Chambers Europe, 2016)

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