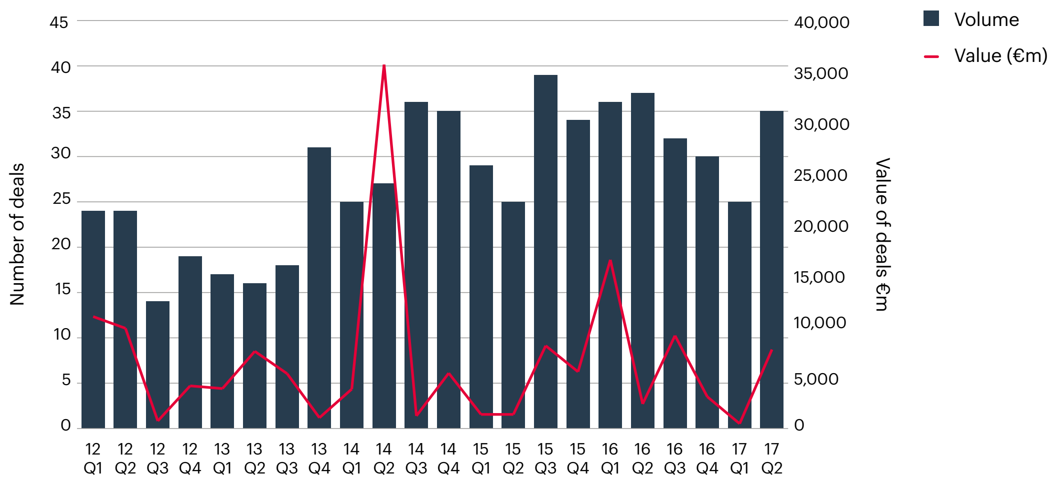
WILLIAM FRY

Mid-year M&A Review 2017

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 2017, as well as the likely developments for the rest of the year.

M&A Quarterly Trends



The first six months of 2017 have proven to be an active period for mergers and acquisitions and it is clear that Ireland continues to be an attractive destination for international investment. IDA Ireland's provisional results for 2017 expect the country to continue to be one of the strongest performers in Europe in the foreign direct investment sector. As we noted in our previous edition of the Irish M&A Review, this can be attributed to the strength of Ireland's economic fundamentals. National accounts published in July 2017 by the Central Statistics Office show that Ireland's GDP in the first quarter of 2017 grew by 6.1% annually, reflecting strong leading indicators.

Despite geopolitical uncertainty in the face of Brexit and the new presidential regime in the US, solid economic foundations continue to drive Irish M&A activity. There have been 60 deals worth €8.2bn announced, down from 73 deals worth €18.9bn in the first half of 2016. This represents steady activity, particularly bearing in mind that the H1 2016 figure included Johnson Control's €15bn acquisition of Tyco International.

Activity within the mid-market, the engine of the M&A market in Ireland, remains robust. Deal activity has increased considerably as this year has progressed and indications are that this will follow through in an increase in announced deals in the second half of this year.

The long-term effects of Brexit on the Irish M&A market remain to be seen, but Ireland's stable currency, strong growth trajectory and status as a member of the European Union (EU) stand it in good stead. That said, market uncertainty is a major deterrent of deals. While many companies have decided to progress with dealmaking, there are also those who are adopting a "wait and see" approach for strategic led transactions largely due to the opaque negotiations surrounding the UK's withdrawal from the EU.

Ireland has nonetheless upheld its status as a base for firms looking to expand into Europe, demonstrated by the record level of inbound deals into the country, and is one of the leading destinations of choice for financial services companies looking at their European bases post-Brexit. Meanwhile, an influx of deals from international buyers has caused Irish private equity (PE) activity to reach an H1 record.

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Mid-market moves

A shift in activity towards the mid-market was seen in the first half of the year. This was driven by both domestic and international companies looking for strategic growth. A total of 24 deals valued under €250m were announced in H1, accounting for 92% of all deals disclosed in H1, up from 82% in 2016.

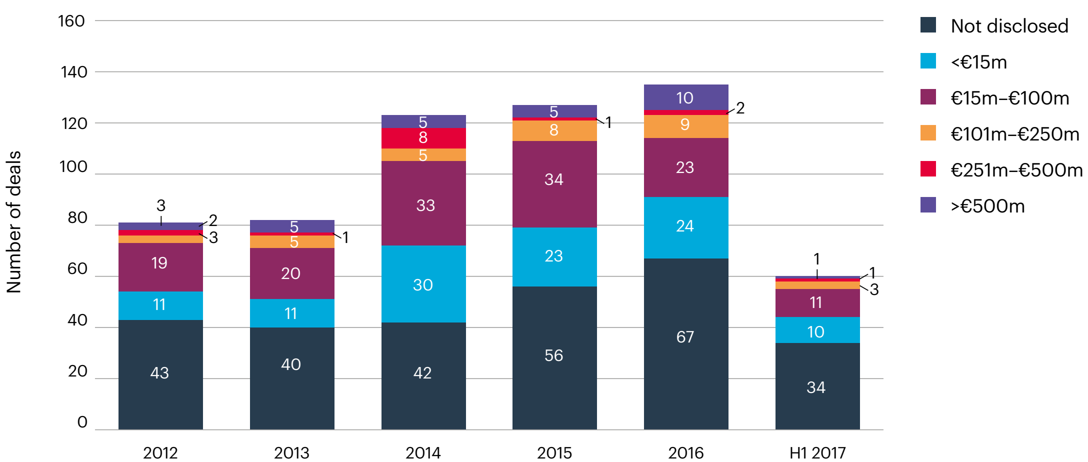
There was an influx of activity from European corporates despite ongoing political volatility across the continent. In a clear sign of confidence in the Irish market, German insurance firm Allianz acquired its remaining 33.5% stake in Allianz-Irish Life Holdings for €160m. Meanwhile, Netherlands-based Fortuna Entertainment purchased sports betting software company Hattrick Sports Group for €85m as part of its ongoing expansion across Europe. “The transaction will add significant geographical reach and market diversity to Fortuna and will allow the group to further strengthen its position in the core markets and beyond" said Carsten Sundberg, CEO of Hattrick Sports Group.

PE firms have also been active within the Irish mid-market, displayed by French investment firm InfraVia’s €70m acquisition of Dublin-based retirement and nursing home Carechoice from UK PE firm Emerald Investment partners. “Having InfraVia as the new owners allows us to significantly expand the business and specifically to address an unmet need for additional high-quality new nursing home beds in the Dublin area”, said Paul Kingston, CEO of Carechoice.

Alongside interest from international players, domestic mid-market activity continues to be vibrant. In January, Dublin based petrol forecourt retailer Applegreen Plc acquired a 50% stake in the Joint Fuels Terminal in Dublin port, from Topaz Energy Group Limited for €16m. The acquisition enables Applegreen to import fuel directly from refineries, providing a competitive supply for the majority of its Irish fuel requirements.

Restructuring deals are increasingly coming into focus within Ireland’s domestic market as companies look to increase profitability and gain a competitive edge. Irish food conglomerate Glanbia’s shares hit a record high after it announced a €112m restructuring plan to spin off its dairy division in March. Restructuring plays such as this are likely to generate more deals during the second half of the year as companies look towards unlocking synergies in order to maximise opportunities.

M&A Split by Deal Size



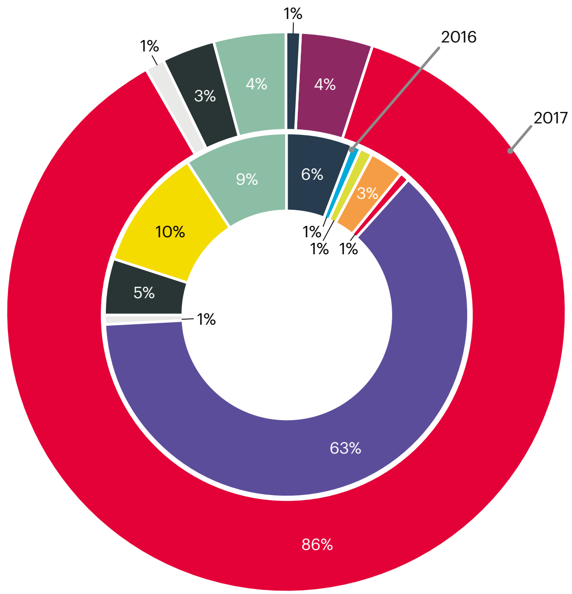
Sector watch

Although the traditionally attractive sectors of tech, pharma and financial services accounted for a large slice of deal activity in H1, it is was the consumer sector that saw the largest increase in value year-on-year. This increase in consumer deals reflects a global trend – it was the largest valued sector worldwide in H1. Changing customer habits, digital disruption and the relative stability and less regulated nature of the consumer market have made it attractive from an M&A perspective amid potentially turbulent markets. In the highest valued deal in the sector, US consumer giant Church & Dwight acquired hair growth vitamin supplement producer Viviscal from Irish beauty products firm Lifes2good for €150m.

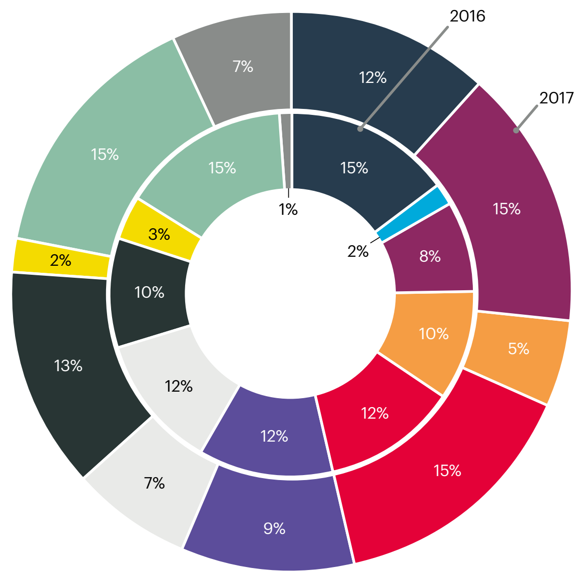
Yet with €7.1bn spent across nine deals, it was financial services firms which saw the bulk of deal value during H1. The sector had the highest valued deal of the period – Dubai Aerospace's €6.9bn acquisition of Dublin-based AWAS Aviation Capital – demonstrating the continued strength of Ireland's renowned aircraft leasing sector.

The deal further highlights Ireland's draw for investors as a base for international firms to expand their influence globally. While the AWAS deal skews the value percentage figure, it is worth noting that volume in financial services

Sector Split by Value



Sector Split by Volume



Key for above two charts:

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

M&A also increased from 12% to 15% year-on-year. Brexit represents an opportunity for Ireland particularly within the financial services sector, however, it is also expected that we will see an increasing number of Brexit motivated investments across other sectors.

In the Irish agri-food sector, M&A activity has proven to be active throughout H1. Despite the uncertainty for the Irish export market caused by Brexit, there is a growing level of confidence among Irish players within the sector and the continuing push for scale will drive activity in the short term. Carton Brothers recently sold Manor Farm to Scandi Standra in a deal valued at €69m, and JBS have announced their intention to sell Moy Park.

Technology remains the stalwart of Irish M&A activity, with access to Irish companies' technological capabilities and the country's skilled workforce continuing to drive deals. A developed tech and VC market has supported this growth. Openness from potential investors in relation to innovation has led to an active M&A market, with the technology, media and telecommunications (TMT) sector taking joint lead in the volume table with a 15% share of total deal count targeting Irish firms.

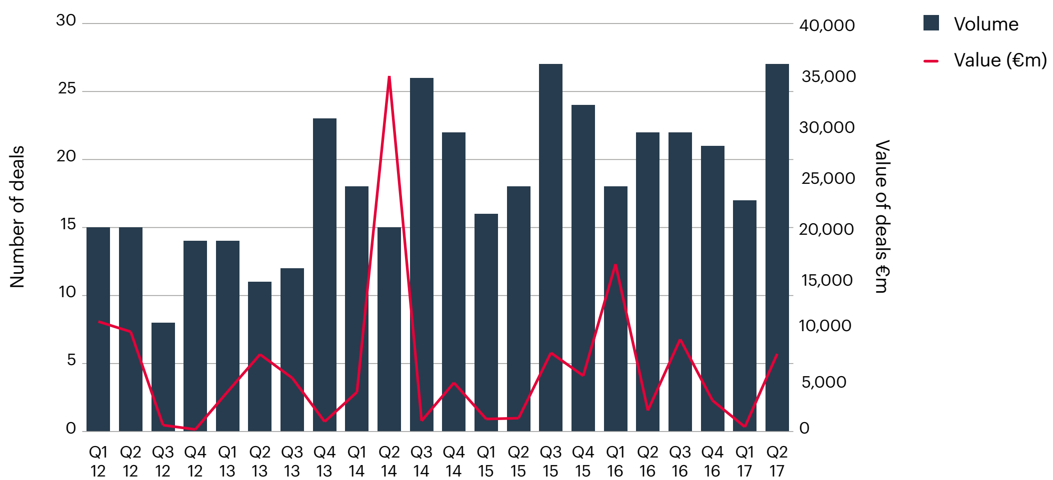
The theme of foreign players implementing bolt-on strategies targeting Irish companies continues to drive activity in the TMT sector, with the top three deals in H1 all conducted by North American investors. US-based PE firm Vector Capital's €281m purchase of Experian's cross-channel marketing business marked the highest value TMT deal. This was followed by US PE firm CIP Capital's €25m buyout of Moneymate and Canada-based Information Services Corporation's €10m acquisition of Enterprise Registry Solutions.

The pharma, medical and biotech (PMB) sector remains a major player in Irish M&A, attracting 13% of total deal volume. The largest PMB deal in H1 – Gurnet Point Capital's €75m acquisition of Irish specialty drugmaker Innocoll Holdings – saw the US PE firm add a suite of collagen-based medicines to its portfolio. PMB also dominates outbound Irish deal value on the back of Allergan's €2.1bn purchase of ZELTIQ Aesthetics, adding its flagship body contouring technology to its aesthetics portfolio.

Ireland: Open for business

Irish companies continue to attract interest from global investors looking to enhance their European presence. The number of transactions climbed from 40 in H1 2016 to 44 in H1 2017 to reach the highest half year deal count on Mergermarket record (since 2001). According to Frances Fitzgerald TD, Tanaiste and Minister for Enterprise and Innovation: "We continue to have a great product to sell. We have a talented and dynamic workforce. We have a competitive and transparent taxation regime. We have a proven track record as a successful home to global businesses. And we have a hard-earned reputation as a country that supports and fosters enterprise".

Inbound M&A Trends by Quarter



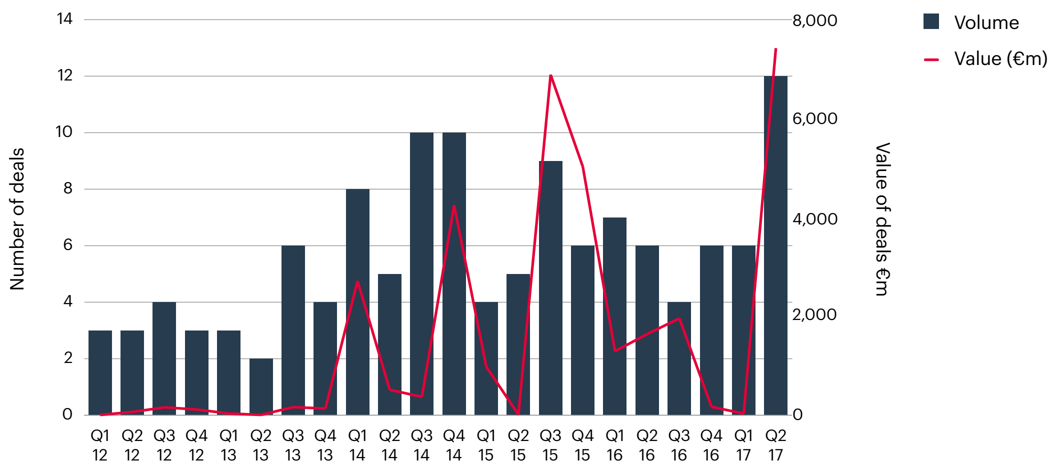
Ireland's status as an EU member marks it out as a safe bet for international investors looking for a launching pad into Europe. The €40.5bn merger between German industrial company Linde and US-based Praxair will see their new holding company based in Ireland, highlighting its continued attraction to global firms.

Meanwhile, the UK's upcoming exit from the EU continues to hold potential for the financial services sector. Firms such as Morgan Stanley and Legg Mason are reporting to be investigating relocation opportunities in Dublin in order to keep a foothold in the EU's single market. Brussels-based research group Bruegel estimates €1.8tn worth of assets could relocate to the EU following Britain's withdrawal from the EU, putting up to 30,000 UK jobs at risk.

The US remains the most active acquirer into Ireland in terms of deal count, accounting for four of the top ten deals in H1. Church & Dwight's acquisition of hair growth vitamin supplement producer Viviscal from Irish beauty products firm Lifes2good for €150m is a good example of this trend.

Due to Ireland and the US's historically close trading relationship, the direction of the new administration's policies will be an important influencer for Irish M&A at the top end of the market. However, while Trump's proposed policy changes on repatriation, trade restrictions and tax inversions may have an effect on the nature of Irish-US transactions in the near future, there are strong indicators that dealmakers will not change their business plans based on a presidential term. The fact that deal volume has remained strong following Trump's ascendancy to the presidency indicates that Ireland's economy is still proving a draw for international investors, notwithstanding some challenging changes in policy.

Private Equity Deals



PE picks up pace

PE activity has gathered momentum in the first half of the year, with 18 transactions worth €7.5bn representing the highest H1 figure on Mergermarket record.

Reflecting the importance of PE activity to the Irish M&A market, five of the top ten transactions in the first half of the year were PE related. These included the aforementioned sale of AWAS to Dubai Aerospace Enterprise by Terra Firma Capital and the Canada Pension Plan Investment Board.

Interest from overseas buyout firms resulted in the highest valued deals of the first half, including US-based Vector Capital's €281m acquisition of Experian's email marketing business, announced in April. According to a company statement, the deal allows the leading tech investor to create an independent, global, SaaS platform focused solely on the marketer.

However, rising inflation and uncertainty surrounding Brexit suggest that a rise in interest rates, currently at record lows, may be on the horizon. A hike in interest rates could hit PE firms hard and could put a dampener on future deals in Ireland.

PE firms are also facing tough competition from corporates with competitive auctions. The recent disposal by Capita plc of its Capita Asset Services business saw strong interest from a number of PE houses but ultimately Link Administration Holdings, the Australian financial services firm, secured the deal with a bid of STG£888m.

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Outlook

The Irish M&A market has remained robust in the face of considerable political and economic headwinds during the first half of the year. The record level of inbound investment demonstrates that Ireland retains its draw for international investors. Meanwhile, the increase in activity in the mid-market reflects a healthy domestic M&A scene.

The Brexit negotiations look set to redraw the map of European economic trading relations, and Ireland is not immune from the ramifications this holds for European countries. As an EU member with a stable economy, Ireland could benefit from the expected influx of banking firms looking to stay in the single market. However, Ireland's historic trading relationship with the UK is under threat. The UK is Ireland's largest trading partner, with an estimated €1.2bn of goods and services traded every week. Increased tariffs could damage this longstanding relationship.

This ongoing period of uncertainty between the EU and UK poses the greatest risk to dealmaking in 2017 and beyond. Volatility will inevitably cause some dealmakers to put transactions on hold until a clearer picture emerges. In response to this changing deal climate, it is essential that Ireland focuses on further enhancing its competitiveness to ensure it can capitalise on investment at both a domestic and international level.

Although dealmakers will need to navigate unpredictable terrain, there remain strong economic fundamentals underpinning Irish M&A activity and a healthy pipeline of deals. These factors will continue to encourage activity in the latter half of the year, with the Irish market offering a steady platform for investment against a backdrop of political and economic uncertainty.

About the Research

The underlying data to this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2012 to 30/06/2017, 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 has a longstanding reputation for advising on the leading deals and cases. We advise a wide array of global and domestic corporations together with financial institutions, investment funds and governmental bodies on all aspects of their corporate activity in Ireland.

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. 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.

Recent awards include:

- M&A (Public) Deal of the Year: Sumitomo's acquisition of Fyffes – Finance Dublin Deals of the Year 2017
- Merger Deal of the Year: Paddy Power Betfair merger – Finance Dublin Deals of the Year 2017
- Equity Capital Markets Redomiciliation Deal of the Year: Innocoll's cross border merger into Ireland – Finance Dublin Deals of the Year 2017
- Corporate Law Award 2017 – International Advisory Experts Award 2017
- Standout ranking in 'Innovation in Legal Expertise' category of the Financial Times Innovative Lawyers Report 2016

Recent rankings include:

- Only law firm to be consistently ranked in the top three for Irish M&A deal activity for the last seven years (Mergermarket 2010-2016)
- Advised on 60%of all reported Venture Capital deals in Ireland in 2016, more than any other law firm (IVCA "VenturePulse" survey 2016)
- Consistently ranked in Tier 1 by all international legal directories – Chambers Global, Legal 500 EMEA, IFLR1000

Recent directory commentary includes:

- William Fry has a "proactive and resourceful team' with "outstanding legal strategists" and "tremendous dealmakers". Legal 500, EMEA 2017
- Clients appreciate that the lawyers "made an effort to get to know us, were practical, commercial, strong in negotiations and could explain Irish law in a clear way to US buyers." "It has always been a pleasure to work with them", say clients. "The drafting is first class, they are good negotiators and their manner is conducive to getting the deal done." Chambers Global, 2017
- "All the people there are exceptional – whoever you work with can take you through the whole process and you will be in excellent hands. There is remarkable strength in depth throughout the team." "Provides constructive and focused solutions." Chambers Global, 2016
- William Fry is "an exceptional firm". Legal 500 EMEA, 2016
- "The legal advice is always given in a digestible, user-friendly format, and the team understands market practices well, not just in Ireland but internationally. It is sophisticated in what it does." "The team is good at cutting through to the key issues and comprehensive in terms of identifying risks. The team is responsive, the level of care and attention is strong and the advice is clear to understand." Chambers Global, 2015

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