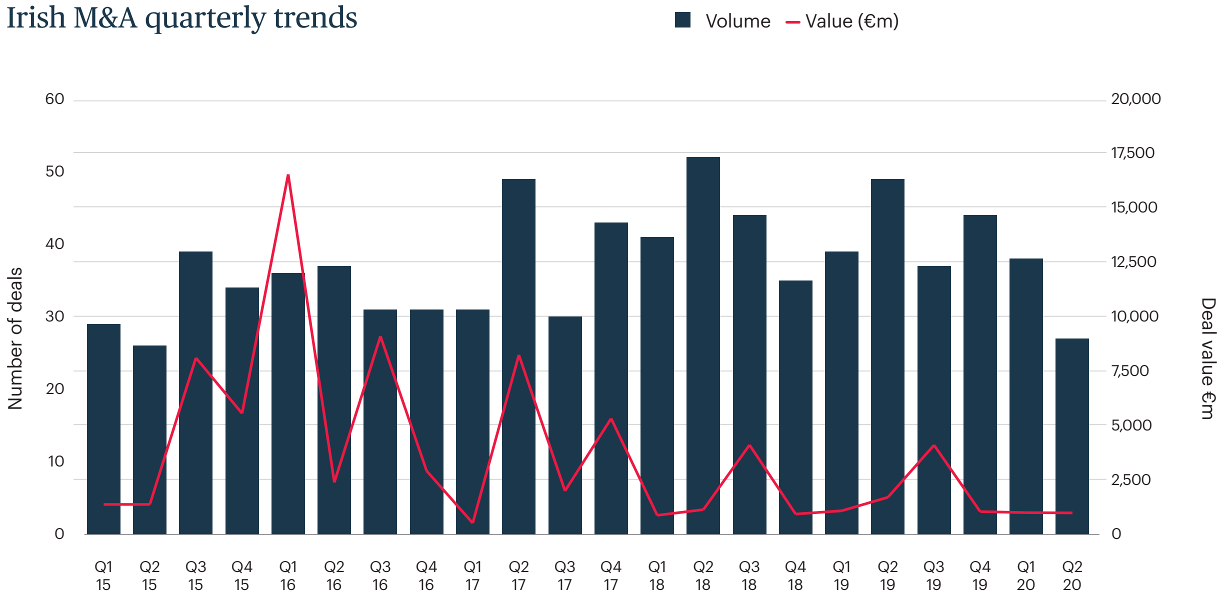
WILLIAM FRY

Mid-year M&A Review 2020

Overview

The first six months of 2020 have been exceptional not only for Ireland but the world at large. It should come as no surprise that the Covid-19 pandemic has upended both the Irish economy and its dealmaking activity. In comparison to the UK, Ireland took early proactive steps to contain the spread of coronavirus, shutting schools, banning mass gatherings and encouraging working from home as early as 12 March, before issuing a full countrywide lockdown on 24 March.

Irish M&A quarterly trends

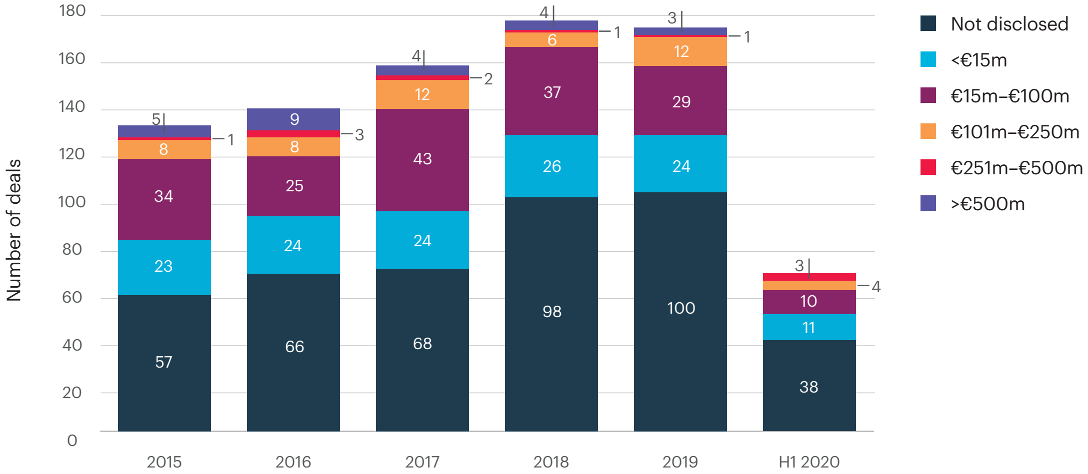


This decisiveness and a longer quarantine duration than the neighbouring UK proved highly effective in mitigating the health crisis, the trade-off being a significant economic hit. After expanding by 5.5% in 2019, the highest growth rate of any EU nation, the European Commission has forecast a 7.9% contraction in Ireland's GDP for 2020. The unemployment rate, meanwhile, is expected to rise to 7.4% this year, having fallen to a five-year low of 5% in 2019.

Deal value and volume fell substantially over the period – M&A in H1 2020 amounting to €2bn invested across 65 deals, representing falls of 26% in value and 29% in volume. A significant decline in activity was to be expected given the unprecedented circumstances in which we find ourselves, yet these falls are far less steep than the global decline in M&A. Worldwide deal value sunk by as much as 53% over the same period, and volume dropped 49%, as investors adopted a highly risk-averse mindset.

A potential second wave of coronavirus notwithstanding, it is expected that deal activity will kick back into motion in the second half of the year, riding on an economic rebound. The newly formed government, a historic coalition between the main Fine Gael and Fianna Fáil parties and the Green party, has its work cut out for it in steering the country back to economic recovery. Ireland is by no means alone in this regard. Even with a return of deal activity in the latter half, for most markets 2020 is likely to represent one of the lowest, if not the lowest, watermarks in M&A since the global financial crisis more than a decade ago.

Irish M&A split by deal size



Deal focus

Notwithstanding a robust Q1, the first half of Q2 2020 was marked by apprehension over the lack of new deals. Many transactions that had been prepped and negotiated in months prior still went ahead but there was a notable lull in April, especially when it came to larger transactions.

Over the course of H1, the mid-market (€5m-€250m) was once again the dominant segment in Ireland's M&A landscape, claiming 89% of deals with disclosed value, but in contrast to most previous years, there were no large deals worth €500m or more.

The largest deal of the period was the €363m sale of Dublin semiconductor innovator Decawave to US-based Qorvo. Decawave, a specialist in GPS that works both indoors and outdoors, designs advanced chips which allow distance to be measured exactly through obstructions, for use in mobile phones, cars and wearables. This deal is a strong endorsement of Ireland's high-tech sector. Qorvo is set to benefit

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from the rising deployment of this technology in mobile devices and the increasing adoption of the Industrial Internet of Things. It is worth noting that the deal was negotiated before the magnitude of the health and financial crisis in Europe had become clear.

The second largest deal of the period was telco eircom's €300m sale of tower assets, Emerald Tower, to Blackstone Group's telecom infrastructure owner Phoenix Tower. The deal is part of a global trend of telcos carving out their tower infrastructure assets to financial sponsors. Blackstone's opportunistic investment platform Tactical Opportunities raised US$1.4bn of dedicated capital for Phoenix in early February to execute on its global business plan to amass strategic telecoms infrastructure.

Notably, the deal was announced in May, which saw the return of parties to the dealmaking table after the quiet months of March and April during the height of the first wave of the pandemic in Europe. While it can be misleading to draw firm conclusions from monthly data, there does appear to be a willingness to re-engage after the market gathered its bearings following the initial outbreak of the virus. There is reason to be cautiously optimistic that there may be a gradual rise in dealmaking in the second half of the year, including larger deals. The buoyancy of the M&A market will hang on the recovery of the economy and on the government and health system's ability to manage any potential local flare-ups of coronavirus.

Sector watch

Ireland's rich technology sector means that TMT typically contributes strongly to M&A activity and the first half of 2020 was no different. The aforementioned Decawave and Emerald Tower acquisitions alone accounted for 33% of overall deal value so far in 2020 and helped to ensure that TMT was by far the most dominant sector, taking up 54% of value in total and 34% of volume. Three of the top five deals of H1 were in the TMT sector.

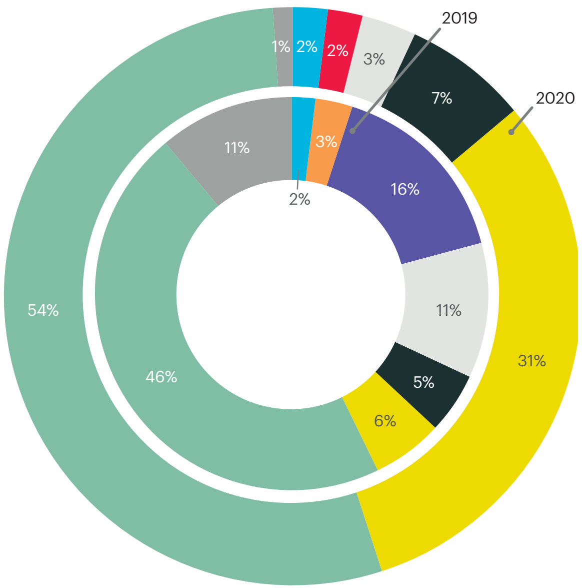
While TMT is broadly defined, the variety of deals in recent months demonstrates the breadth of Ireland's business expertise and the vibrancy of its TMT industry. Deals have spanned semiconductors, telecoms infrastructure, enterprise software and, in the case of Pomo Search, retail technology. Google acquired Pomo for an undisclosed sum in January, although the deal is reported to be worth US$160m (€143.8m). The Irish start-up, whose platform is known as Pointy, allows small retailers to make their stock visible online without having to invest in a full e-commerce system.

TMT is likely to continue to perform well amid the recession of 2020 and not only because of its broad definition. The technology and telecoms sectors have performed exceptionally well so far in 2020 – enforced distancing measures showed how critical digital tools and infrastructure are for keeping businesses operating and supporting economic activity, as made further evident by the share prices of the likes of Zoom, Microsoft and Amazon, which have surged above pre-pandemic levels.

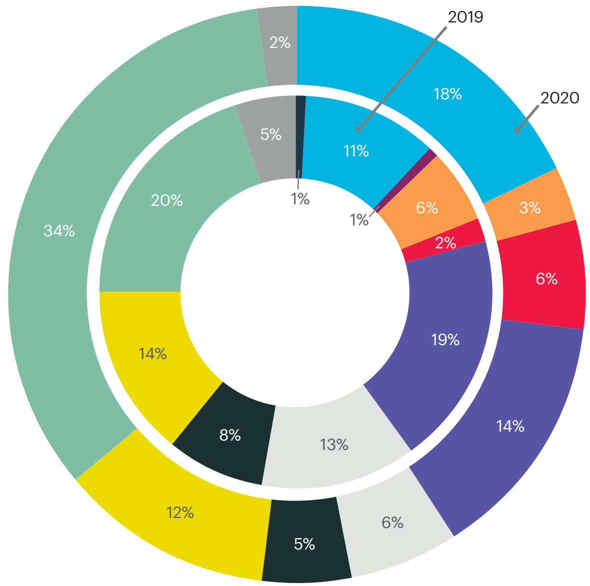
Another defensive sector is pharmaceuticals, medical & biotech (PMB), which also plays to Ireland's strengths as a base for a significant number of pharma firms. By value, PMB was the second-largest sector in H1 after TMT and recorded deal value of €613m, or 31% of total M&A value. Much of this was due to US-based PE firm Blackstone's €299m acquisition of Medtronic MiniMed, a manufacturer of diabetes management equipment, from medical technology firm Medtronic – the third-largest transaction of H1. Another significant PMB deal was the €150m sale of care home provider TLC Group to France-based Orpea, which operates care homes in 22 countries. The deal represents Orpea's entry into the Irish market.

PMB is likely to remain a strong contributor to deal activity over the next 12 months. As a non-cyclical industry, not only does it typically outperform during recessions regardless of their cause, the viral pandemic giving rise to the current economic crisis means that businesses in this space will see increased demand for their products and services. In principle, this ought to result in a strong pipeline of deals; however, foreign direct investment (FDI) in the sector could be impacted by sensitivity around the strategic value of PMB assets in light of the pandemic – concerns which have been raised by the EU (see *Inbound activity* section on page 6).

Sector split by value



Sector split by volume



Key for above two charts:

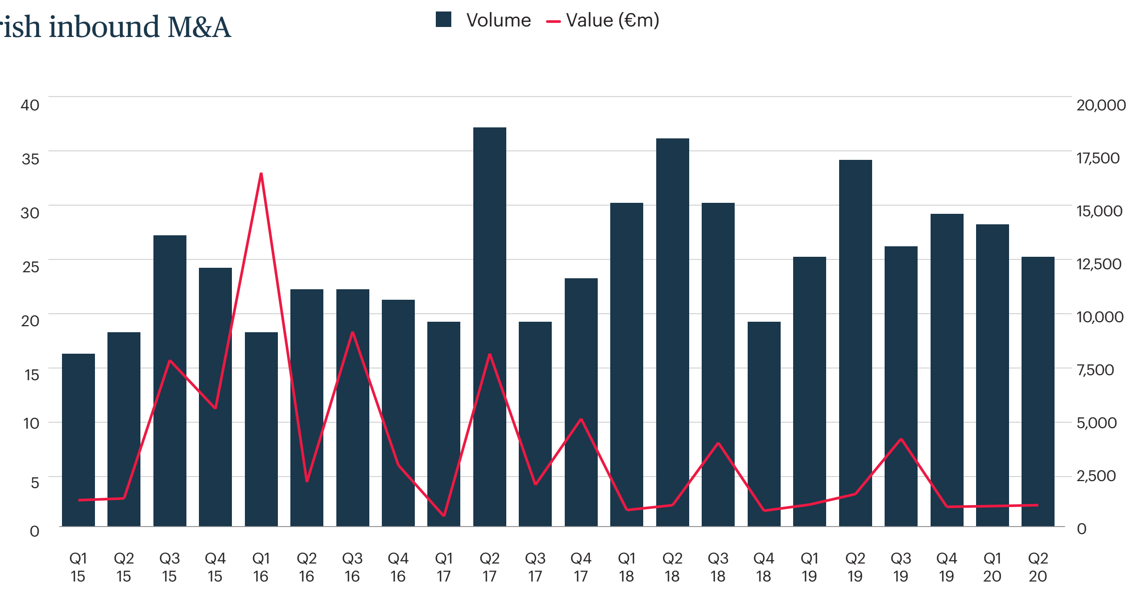
- Agriculture
- Business services
- Construction
- Consumer
- Energy, mining & utilities
- Financial services
- Industrials & chemicals
- Leisure
- Pharma, medical & biotech
- TMT
- Transportation

One area to watch over the next 12-24 months is the renewables space. Although a relatively small deal, the €35m sale of a 14.1MW wind farm in Letteragh to Greencoat Renewable – the largest domestic deal of the year so far across all sectors, as well as the largest deal in the energy, mining and utilities (EMU) sector – could be a sign of what's to come.

Among the key concessions for the Green party in the new coalition is a government commitment to target average annual carbon emissions cuts of 7%. This is an ambitious goal but closely aligned with the EU's Green Deal, a roadmap of policy initiatives agreed by the European Commission in December 2019 with the overarching aim of making Europe climate neutral by 2050. The pandemic has not tempered those ambitions. On the contrary, there have been calls to make Ireland's economic stimulus as green as possible.

Ireland's Environmental Protection Agency in June launched a €600,000 fund for Irish innovators to develop and demonstrate business-ready solutions for the circular economy. The current situation, then, represents an opportunity to fund a more sustainable economy. With the Greens part of the new coalition government, this could lead to an increasing representation of renewable energy deals and transactions with a green flavour more generally.

Irish inbound M&A



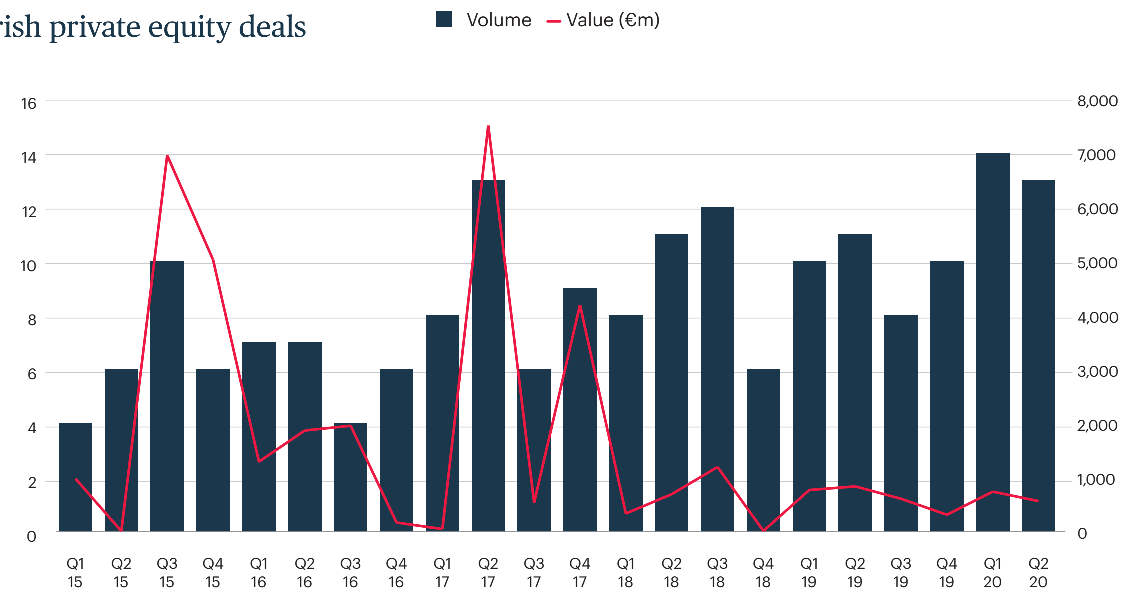
Inbound activity

Ireland has an international economy that openly welcomes foreign investment. Of the 65 deals announced in H1, 53 (82%) featured overseas buyers, who invested €1.9bn, or 95% of the total sum invested.

Remarkably, this activity held up relatively robustly, in spite of the travel bans that came with the global quarantine period. Inbound deal volume fell by only 10% on H1 2019, whereas domestic volume dropped far more steeply, by 59%.

Ireland's small indigenous economy and limited local M&A market makes it especially sensitive to recent border closures and newly risk-averse foreign investors. This has the potential to make the current situation particularly challenging for dealmaking in the country. As mentioned in previous editions of this report, the global tilt towards greater trade protectionism in recent years is not generally favourable for the Irish M&A market. Protectionism has only heightened in direct response to the global coronavirus pandemic.

Irish private equity deals



The EU urged member states on 25 March to be "particularly vigilant to avoid that the current health crisis does not result in a sell-off of Europe's business and industrial actors". Countries including Spain, Italy and France have responded by making specific amendments to their FDI regimes to address these concerns. These measures have included expanding the list of sensitive sectors subject to review and lowering the thresholds that trigger the review of deals by foreign investors. Significantly, healthcare, including medical research and biotechnology, is specifically identified in the guidelines as a sector which is considered to be particularly vulnerable to opportunistic strategic takeovers in light of the Covid-19 pandemic.

These guidelines are non-binding and the EU is only encouraging member states to take action, not mandating them to do so. The advice is also contrary to the ethos of all Irish governments to date and the new coalition government is unlikely to raise the drawbridges to outside investment. Doing so would be an extreme policy departure, although it is reasonable to expect that closer attention may be paid to PMB deals over the next 12 months.

Private equity

Private equity featured heavily in Ireland's M&A market in H1, as financial sponsor activity held up incredibly well. In fact, the largest M&A deal to date in 2020 – the Qorvo/Decawave deal – represented an exit for a number of VC funds including Atlantic Bridge, Act Venture Capital, Enterprise Ireland and Kernel Capital.

Overall, there were 27 PE transactions across H1, the highest half-yearly volume of the past seven years. This in spite of a 19% annual fall in deal value to €1.3 billion.

The second-largest PE transaction after Decawave – and the largest buyout – was Blackstone's aforementioned €299m purchase of Medtronic MiniMed and the third was JMI Equity's €179m sale of HR software firm CoreHR to UK-based software developer The Access Group.

PE firms have even proven themselves ready to invest in leisure, among the hardest-hit sectors of the economy in the aftermath of the Covid-19 outbreak. An example of this is UK-based CVC Capital Partners' acquisition of a 28% stake in rugby union competition Guinness PRO14 for

€130m in a deal announced on 22 May. The transaction is part of CVC's ambitious investment plans in the sport. The firm has also invested in the UK's Premiership Rugby, and is reportedly in talks with World Rugby, and with the sport's governing bodies in South Africa and New Zealand.

The fact that many of the largest PE-related transactions of 2020 so far were exits may come as a surprise. In downmarket scenarios, it is generally expected that funds shift their attention and activity away from divestments towards new investment opportunities. The buyout industry has spent years accumulating dry powder which, as of June 2019, stood at a record US$1.46 trillion globally, according to data provider Preqin. In recent years, funds have had difficulty putting that capital to work at sensible entry prices. Facing a recession, financial sponsors will pounce on opportunities to buy high-quality companies as earnings multiples recede – if in fact multiples (and vendor expectations) do come down.

Complicating matters is the astonishing rebound in public markets in H1. Central banks and governments have provided historic levels of stimulus and signalled to investors that they will do whatever it takes to prop up companies and markets, resulting in the sharpest and steepest market downturn and correction in history.

Assuming that the stock market recovery is not a short-term phenomenon, PEs may stick to private market assets.

Outlook

Ireland's M&A market, reliant as it is on international investment, is especially prone to any future waves of the coronavirus, not just at home but in its key trading markets such as the US, UK and the EU. The country's recent track record shows a decisiveness that should give investors comfort in its ability to contain any further stages of the crisis and the early preventative efforts already taken stand the country in good stead for localised flareups that may emerge.

Certainly, a number of deal processes were put on hold in March and April, but there are early signs that the M&A market is thawing, with renewed activity in May a promising sign that dealmakers are coming back to the table. We have seen some terms on frozen deals renegotiated, especially as far as deferred payments and earn-out conditions are concerned. This is to be expected and buy- and sell-sides will have to keep open lines of communication and be prepared to compromise to get deals over the line during the remainder of 2020 in what are unprecedented circumstances – in living memory at least.

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Ireland's fundamentals, its historically strong economic growth combined with its technology and pharma expertise, are likely to remain a draw for investors not in spite of, but because of, the challenges of the particular economic and health crisis the world finds itself in. The EC is projecting that Irish GDP will return to growth in 2021 at a rate of 6.1%, above the EU average of 4.8%. The new coalition government promises to be resolute in tackling the recession as an immediate priority and putting Ireland back on track as swiftly as possible.

About the Research

The underlying data in this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2015 to 30/06/2020, excluding lapsed or withdrawn bids or deals valued below €5m.

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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. 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 440, the Firm operates a large international practice with offices in Dublin, Cork, 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.

Recent awards include:

Finance Dublin's Deals of the year Awards 2020 –

- M&A – Acquisition, Public Markets: Avenue Capital's Investment in Castlehaven Finance
- M&A – Domestic FS: AIB & First Data's Acquisition of Payzone
- M&A – Private - Deal of the Year: Fane Valley Co-Operative Society Acquisition of Silver Hill Foods
- M&A – Mid-Market: Carlyle Cardinal Ireland Investment in The City Bin Co
- M&A – Acquisition Financing – Deal of the Year: ATA Group Acquisition of Karnasch Professional Tools GmbH
- Equity Capital Markets Deal of the Year: Uniphar IPO

Recent rankings include:

- Consistently ranked in the top three of Irish advisers for Corporate/M&A work by leading M&A league table houses and legal directories including Mergermarket, Thomas Reuters, Chambers Global, Legal 500 and IFLR1000
- Top three for total deal volume in Irish M&A activity since 2010 (Mergermarket)

Recent directory commentary includes:

- William Fry are known for their "excellent international reach" which is highlighted by sources, who appreciate the firm's ability to "manage overseas law firms on the client's behalf," as well as providing "one point of contact." They're noted by one client for "understanding cross-border financing extremely well," whilst another commends the team for "being helpful and willing to engage on matters relating to US and UK companies and subsidiaries." The Corporate team have been described as "outstanding" with a "strong client base in insurance, pharmaceuticals and financial services." Chambers Global 2020
- Clients appreciate the team's ability to explain complicated legal matters. "The lawyers were able to break down complex issues to help ensure that everyone involved fully understood," says one interviewee, who also highlights the lawyers' "clear, robust and commercially focused advice." Another satisfied client adds that "their main strengths are their knowledge of our business and their instant availability when we need it." Chambers Europe 2020
- The Corporate team at William Fry is noted for its "pragmatic approach". Clients have noted they have "excellent turnaround times and they're very good at explaining issues in layman's terms and a very pragmatic approach which worked well." Legal 500 2020
- A client states "very professional firm with a good team in place. Their strength is their people and breadth of experience on various projects". Another client states: "responsive, comprehensive and thorough advice. William Fry are available with advice on tight deadlines when required". IFLR 1000 2019

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