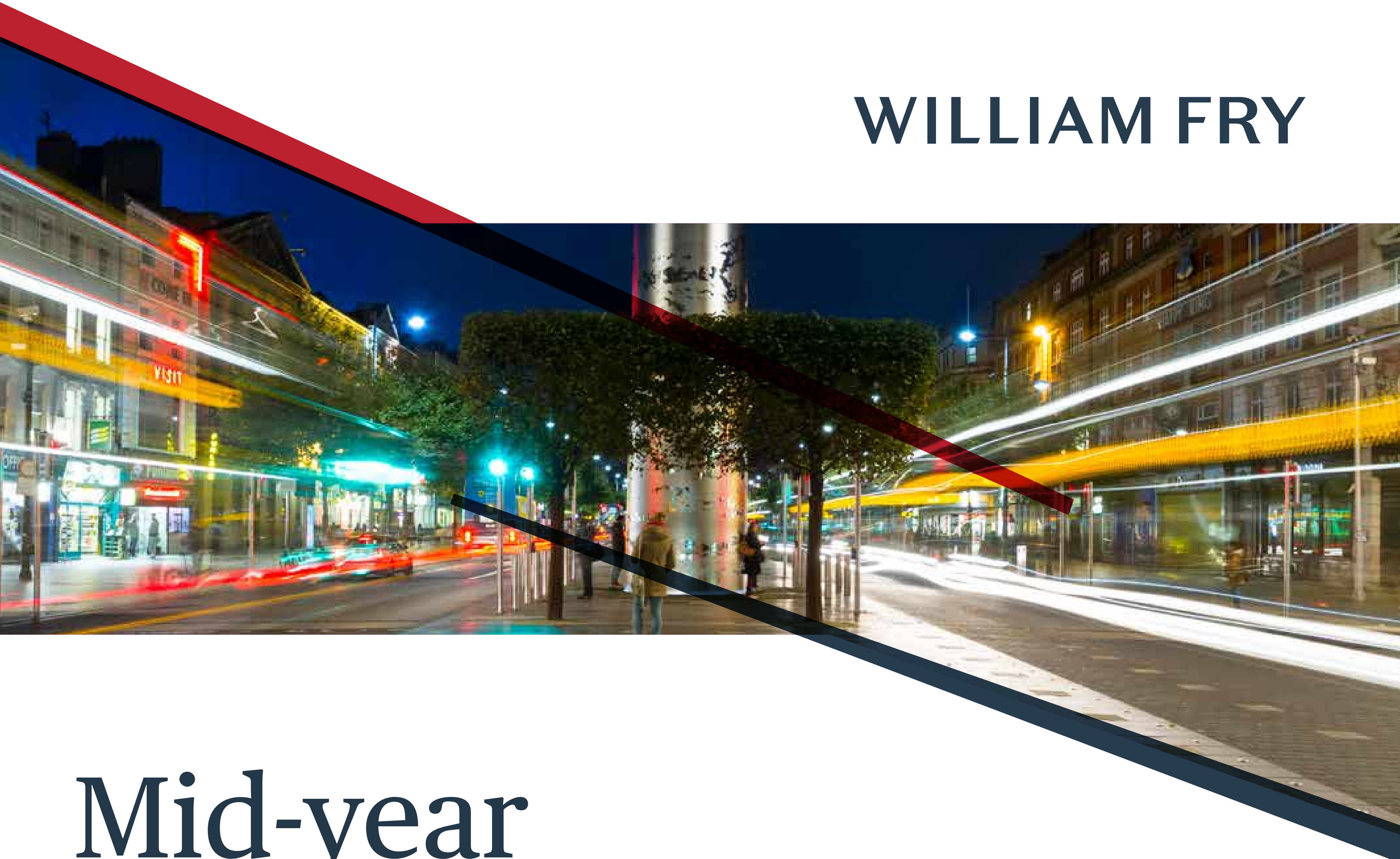
WILLIAM FRY




# Mid-year M&A Review 2019

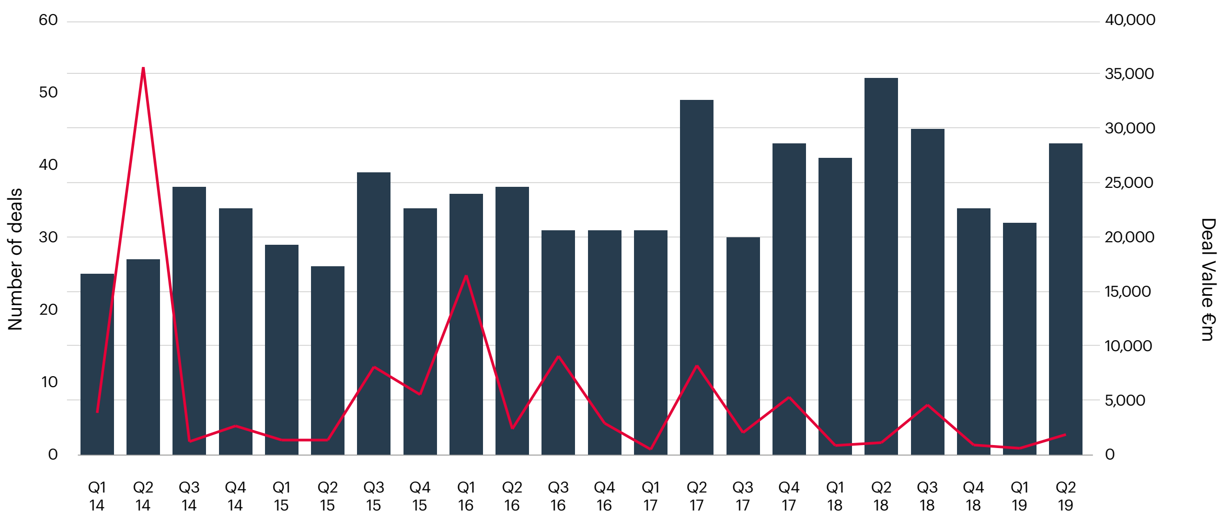
# Overview

Welcome to William Fry's mid-year M&A Review. In this edition, we look at M&A activity for the first six months of 2019 and the outlook for the rest of the year. The Irish M&A market has grown steadily over the last six years, with announced deal volume rising from 84 deals in 2013 to 172 deals in 2018. Several of the key fundamentals of the Irish economy that supported this dealmaking during these years have remained in place in H1 2019.

According to the European Commission, the Irish economy grew by 7.2% and 6.7% in 2017 and 2018 respectively, and although GDP growth is forecast to moderate to 3.8% this year, Ireland is still expected to be one of the fastest growing markets within the European Union. Unemployment, meanwhile, is set to fall to 5.4% this year and inflation is not expected to rise by more than 1%.

Although economic indicators for Ireland continue to be positive and suggest an active M&A market, deal figures for the first six months of 2019 paint a more mixed picture. Deal volume of 75 transactions over H1 2019 is down nearly 20% on the 93 deals announced in H1 2018. While deal value is up 24% to €2.5bn, deal volume has always served as a clearer barometer of the Irish M&A story.

## Irish M&A quarterly trends

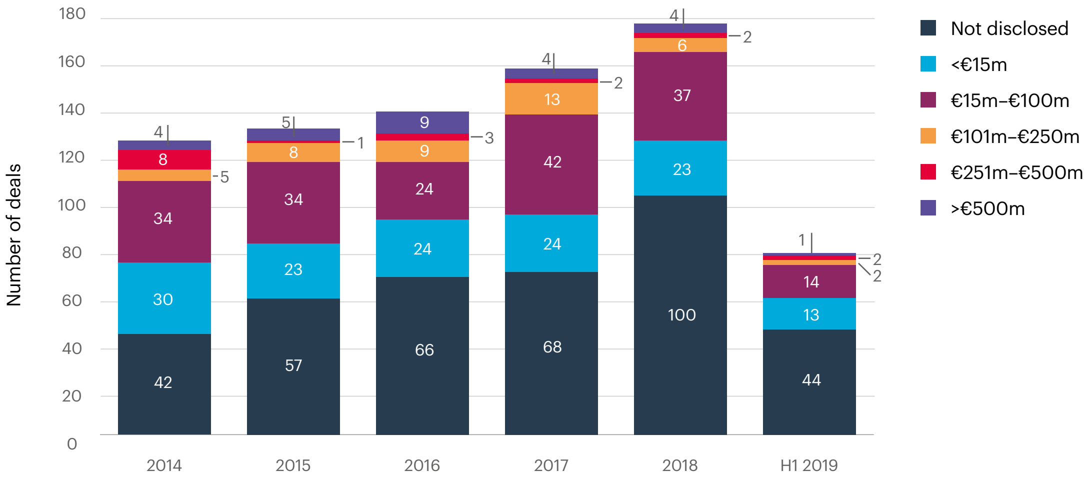



Brexit related uncertainty and a lack of clarity on what Ireland's future trading relationship with the UK will look like has given dealmakers reason for pause. Globally, concerns that the economy is reaching the peak of the cycle is a further cause for unease, with record-high valuations and escalating trade tensions between the US and China a constant news story over the last number of months.

The impact of geopolitical uncertainty was also observed in Q4 2018, when volume dropped to 34 deals from 45 for the corresponding quarter in 2017. With dealmakers no clearer on how these matters will conclude, the slowdown has carried over to 2019.

Whilst Ireland's market has offered compelling value and opportunity for both domestic and international investors, dealmakers are likely to adopt a more cautious approach until a clearer picture emerges of Ireland's economic future.

## Irish M&A split by deal size




## Deal focus

2019 has seen a more active public M&A market in Ireland. In June US-based pharma group AbbVie announced its agreement to acquire Ireland's Allergan in a US$8bn (€77.4bn) blockbuster deal. Allergan had been domiciled in Ireland since 2015 following a merger with Ireland-based Actavis in a so-called 'tax inversion' led transaction. In addition to this mega merger to date in 2019 there has been a number of public quoted companies which were the subject of takeover speculation. Belgian headquartered publishing company Mediahuis, for example, took Ireland's largest newspaper group Independent News & Media (INM) private in a deal valuing the company at €145.6m. The deal was the first by Antwerp-based Mediahuis beyond its core Dutch and Belgian markets, where it publishes *De Standaard* in Belgium and *De Telegraaf* in the Netherlands. Its offer for INM represented a 44% premium to INM's share price before takeover talks were announced. Mediahuis plans to lever its own experience of navigating the shift from print to digital in its domestic markets to assets

further afield. Plans for INM's titles are said to include installing a paywall and ways for INM to charge for its content online. Mediahuis believes that the investment in technology required to charge for content online requires scale, which was one of the main appeals of buying INM.

UK-based private equity firm Epiris' delisting of IFG Group in a €208m deal, meanwhile, dovetailed with its strategy of backing companies in complex sectors that are going through market shifts. IFG Group, a financial services company that runs self-invested personal pension (SIPP) operator James Hay and asset manager Saunderson House, had been exploring options to improve shareholder value and at one point had considered selling Saunderson House. The Epiris offer, made at a 46% premium to the share price the day before the offer was announced, provided shareholders with an opportunity to cash out and the business a chance to adapt to the shifts in the asset management industry, where business models have been disrupted by robo-advisory and rising regulatory costs.

Green REIT, the first Irish real estate investment trust to float on the Irish stock market, also put itself in place to secure a better valuation to its stock market price, where the share price traded at a significant discount to NAV. Having attracted strong interest, Green REIT recently announced its decision to sell to Henderson Park, demonstrating ongoing international interest in Irish assets.

We believe that there will be continued interest through the remainder of 2019 in Irish quoted public companies where stock prices do not fully reflect the inherent value of the underlying companies. We also believe that the relative health of the larger end of the market, where the top five deals of H1 2019 together totalled €1.9bn, compared to only €1.2bn in H1 2018, suggests that dealmakers are more comfortable backing larger, strategic opportunities at a time of market volatility.

## Sector watch

Over the last five years the technology, media and telecoms (TMT), pharma, and financial services sectors have consistently accounted for a significant proportion of the M&A activity in Ireland. In H1 2019 these industries have led in the M&A activity rankings once again.

TMT was by far the dominant sector, accounting for 55% of disclosed deal value (€1.4bn) and 22% of deal volume (17 deals). Technology has been a steady source of deal flow in Ireland, with investors drawn to the country's position as the world's second largest exporter of computer software and information and communications technology (ICT). The sector employs 37,000 people and generates €35bn in exports annually. This has seen Ireland benefit from a growing M&A appetite for technology and digital assets, transforming the way businesses sell and market their products to customers and deliver services.

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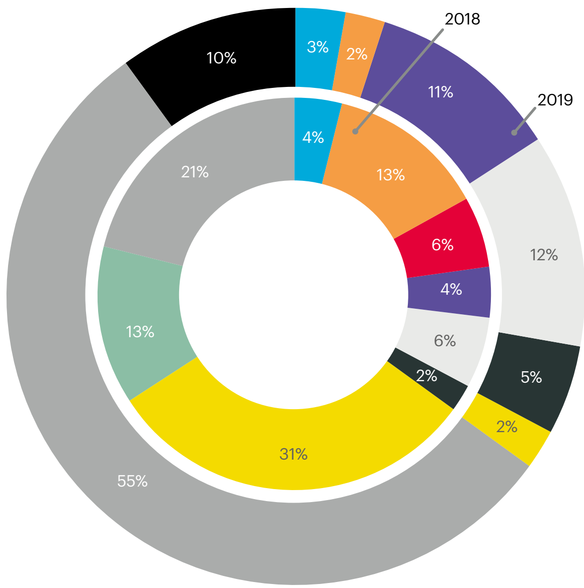
Private equity firms have been especially keen to invest in tech-enabled assets, with deals like the Kaseya investment by TPG and Insight, and the €30m purchase of E-Search DAC by US firm Susquehanna Growth Equity. Globally, buyout firms are looking to the technology space and are attracted to the rapid growth and recurring revenues companies in the sector are generating as businesses across all industries digitalise and come to rely on technology to deliver services competitively.

In terms of deal volume, there was a more even split between sectors. Financial services came in second in terms of deal volume, with 11 deals, representing 15% of all announced deals. Notable deals in the space included the acquisition of Payzone, Ireland's largest consumer payments network, by Allied Irish Bank and First Data. The deal was driven by the need for established financial institutions to build up their fintech capabilities and customer offerings.

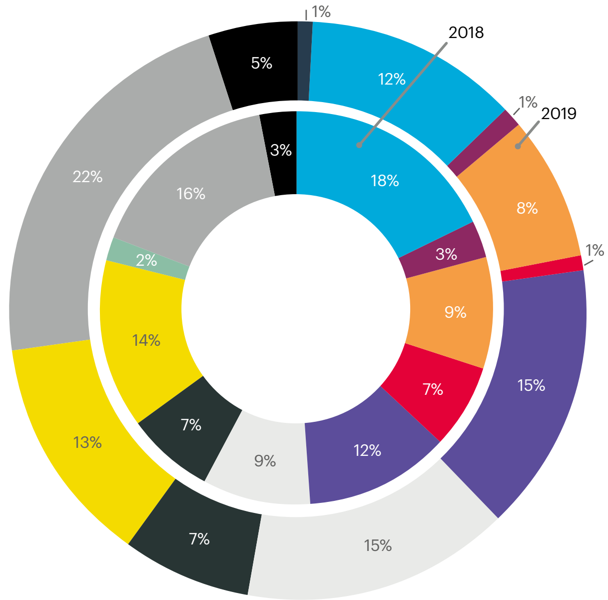
Other financial services deals, like Brewin Dolphin's acquisition of Investec Capital & Management from its parent for €44m, were informed by consolidation across the sector. In these deals, institutions seek scale to leverage synergies, increase assets under management and reduce costs in an industry where margins have been squeezed by regulation and digital players that have been able to offer technology-enabled services at lower costs than their more traditionally minded competitors.

In terms of value the industrial and chemicals sector ranked second, although there were only two deals with disclosed values, and the majority of this disclosed value was attributed to the €300m acquisition of the shutters and awnings

## 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
- Real estate
- TMT
- Transportation

business of CRH by PAI Partners-backed Stella Group. Although the size of the CRH transaction attributed towards the bulk of value for industrials and chemicals transactions, the sector was nevertheless the third largest by volume, accounting for 15% of deals.

Sectors likely to face the most challenges in the second half of the year include the consumer, construction and leisure sectors, which may come under the greatest pressure given their exposure to the business cycle. However, the fact that these sectors together represent a single digit percentage of overall Irish deal volume indicates that Irish M&A, which is driven by the resilient pharmaceuticals, financial services and technology sectors, will be more insulated should the market turn.

## Inbound activity

Ireland's capital, Dublin, is ranked the most attractive large city for foreign direct investment according to FDI Intelligence. The country has long-promoted itself as a jurisdiction open to international investment with the lowest corporation tax rates in the EU (12.5%) and the support of the IDA, a specialist agency set up to promote inward investment. According to the IDA, Ireland secured investment for 140 projects in H1 2019, while the number of jobs generated from FDI climbed 19% year-on-year to 13,500.

Against this favourable backdrop for inward investment Ireland continues to draw M&A interest from international buyers: inbound M&A value in H1 2019 totalled €2.2bn, a 28% increase on H1 2018. Volume dipped from 65 to 53 deals, in-line with overall M&A figures. Overseas investors led the five largest deals in Ireland over H1 2019 too.

Uncertainty over Brexit has in some respects played to Ireland's advantage. According to think tank New Financial, Dublin has attracted the largest number of relocations as a result of Brexit, with over 100 firms moving jobs to the Irish capital. Brexit, however, could also have adverse consequences for Ireland, especially if the UK's departure is disorderly, as it is Ireland's largest European trading partner.

Ireland's export-focused economy (the country has run a trade surplus over each of the last ten years) could be vulnerable in the event of a global downturn or more protectionist policies on trade. The fact that a significant portion of Ireland's exports derive from pharmaceuticals and computer services – industries that are less likely to be affected by a downturn, according to the European Commission – will provide something of a soft landing if there is a downturn.

## Private equity

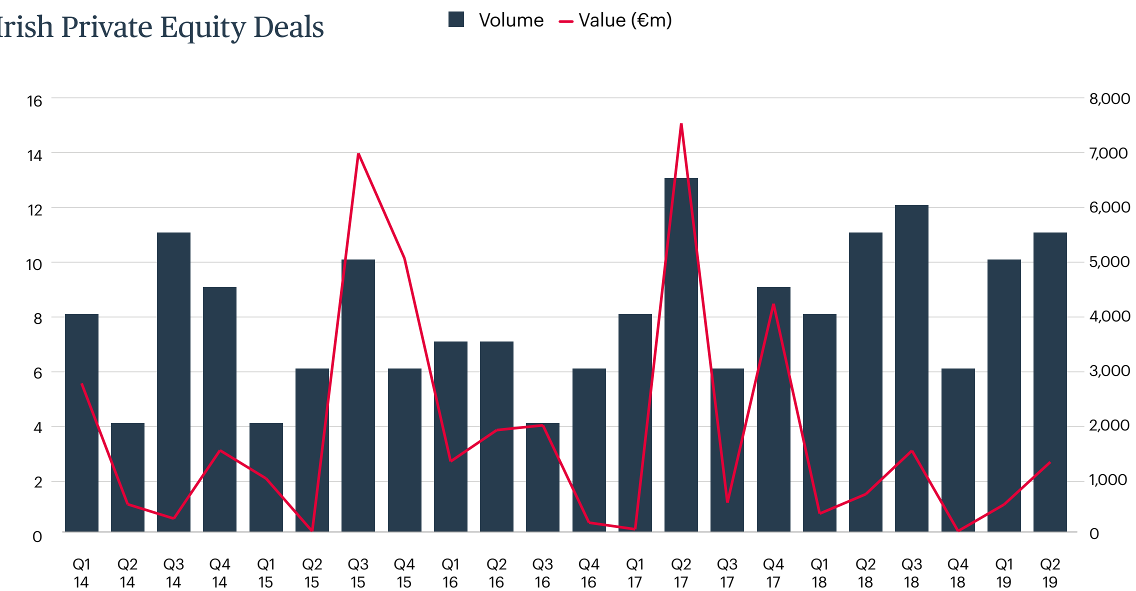
Private equity (PE) firms were one of the major contributors to deal activity in H1 2019. PE activity in Ireland totalled €1.8bn over the first six months of the year, a 74% rise compared to H1 2018.

Although PE deal value is still well below the €3.2bn registered in H1 2016 and the €7.6bn posted in H1 2017 (inflated by Dubai Aerospace's €6.9bn acquisition of Dublin-based AWAS Aviation Capital), PE firms are responsible for around three quarters of the overall deal value in Ireland in H1 2019. PE deal volume, meanwhile, has risen slightly from 19 to 21 deals, compared to H1 2018, even though overall deal volume in Ireland over the period dropped by 19%.

International private equity firms were active buyers, closing four of the top five deals of the year, including the sale of aviation services firm ASL to UK house Star Capital for €208m.

With international private equity firms sitting on dry powder of around $1.2tn, more mature houses have begun to explore younger private equity markets like Ireland for deal flow. The fact that Ireland will be the only English-speaking country in the EU after the UK leaves the bloc serves as an added attraction to firms from North America seeking a springboard into Europe. A period of steady GDP growth has

## Irish Private Equity Deals




> As is the case for all M&A, the Brexit overhang could weigh on private equity appetite in the coming months, with firms potentially waiting to observe the outcome before paying high prices for assets in a competitive but increasingly uncertain deal market.

also supported the development of the buyout space in Ireland, with a maturing domestic group of managers such as Carlyle Cardinal, MML and Broadlake, as well as overseas firms, recognising that the market has moved on from the special situations and distressed opportunities that emerged post-crisis and now provides attractive deal targets for mid-market and large-cap PE houses.

The Irish government, meanwhile, has also made moves to support private equity investment in the country, approving the drafting of the Investment Limited Partnership Bill that aims to make the jurisdiction more attractive to fund managers, which in turn could see more capital directed towards Irish deals.

Most private equity investment has focused on the sectors where Irish M&A has always been strong, like TMT, financial services, life sciences and pharma. There are also opportunities for firms to find value in Ireland's fast-growing but still relatively underdeveloped and capital-hungry renewable energy and solar infrastructure space.

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## Outlook

Ireland's M&A market has developed into an attractive space for foreign and domestic dealmakers to invest across a range of sectors, including resilient industries like technology, financial services and pharma.

As an export-based economy, Irish dealmaking could face headwinds in the coming months as uncertainty around the UK's Brexit deal, wider tensions in global trade and a lean towards protectionism take hold at the same time as the economic cycle shows signs of moving into a downswing. The effects have already been felt – deal volumes over the first six months of the year are down by nearly one third on the corresponding period in 2018.

This uncertainty has seen dealmakers adopt a cautious approach to closing transactions. Even though investors are eager to strike deals, most are taking longer to make decisions, adopting a continued stance of protectionism and are putting decisions on hold until issues like Brexit come to a definitive conclusion.

Despite these obstacles, Ireland's deal market is well positioned to navigate any ups and downs. The Irish economy is one of the fastest growing in Europe; the ease of transacting and its low corporate tax rate make the country an attractive option for overseas buyers and private equity firms, who have been the main drivers of deal flow over the last six months. Meanwhile, opportunities in the fast-growing but robust sectors of technology and pharmaceuticals will also continue to draw both local and international interests as corporates continue to deploy capital in these 'hot' industries.

Ireland, like many other jurisdictions globally, may encounter more of a bumpy road over the next six months, however, the easing of trade tensions and Brexit reaching a stable outcome could bring significant improvements. Further, Ireland's solid fundamentals suggest that it will continue to deliver plenty of M&A opportunities for buyers who want to invest in H2 2019.

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# About the Research

The underlying data in this report comes from the Mergermarket database. Historical data contained in this report includes deals announced from 01/01/2014 to 30/06/2019, 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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# 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 470, the Firm operates a large international practice with offices in Dublin, Cork, London, New York, San Francisco and Silicon Valley.

**Recent awards include:**

- M&A Deal of the Year: NJJ acquisition of 66% of eir – Finance Dublin Deal of the Year 2019
- Private Equity: Funding & Acquisition of Netwatch – Finance Dublin Deal of the Year 2019
- Funded Acquisition: Uniphar Acquisition of Sisk Healthcare – Finance Dublin Deal of the Year 2019
- 2019's Leading Expert in Corporate Law, Ireland – Corporate Excellence Awards
- Law Firm of the Year – International Trade, Ireland – The Legal 100 – 2019
- 2019's Leading Expert in Corporate Law, Ireland – CV Magazine 2019 Corporate Excellence Awards
- Ranked 8th Most Diverse Law Firm in Europe – The Lawyer European 100, 2019

**Recent rankings include:**

- Advised on over 50% of all reported Venture Capital deals in Ireland (IVCA VenturePulse Report 2018), more than any other Irish Law firm
- 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:**

- A client lauds the group as being "one of the top firms in Dublin. They deliver a top service and deep resources". – Chambers Europe 2019
- Sources appreciate the team's "knowledge and understanding of Irish law, thorough approach and flexibility in incorporating concepts of different jurisdictions into the work". – Chambers Europe 2019
- "The team at William Fry handles domestic and cross-border corporate transactions and has acted on landmark deals in the Irish marketplace" – Legal 500 EMEA, 2019
- "The team at William Fry is 'super responsive, gives thorough and comprehensive advice and is particularly good at handling foreign-based commercial clients'". – Legal 500 EMEA 2019
- A client states "responsive, comprehensive and thorough advice". – IFLR 1000 2019
- "Their strength is their people and breadth of experience on various projects" – IFLR1000, 2019

# Contacts

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

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

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

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

**David Fitzgibbon**
Partner
T. +353 1 639 5154
E. david.fitzgibbon@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, FDI
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, Head of San Francisco office
T. +353 1 639 5120
E. paul.white@williamfry.com

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

WILLIAM FRY

DUBLIN • CORK • LONDON • NEW YORK • SAN FRANCISCO • SILICON VALLEY

www.williamfry.com