



M&A Outlook 2017

Deal insights for Ireland





Foreword



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We are delighted to present the findings from our survey on the outlook for Irish M&A activity in 2017. This survey was conducted with many of Ireland's leading corporate executives and M&A advisors. It provides valuable insights into their view of M&A trends in the year ahead.

2016 – An eventful year

An eventful 2016 resulted in a mixed year as regards M&A activity levels. The political landscape dominated the agenda with the Irish general election, the UK referendum decision to leave the EU and the outcome of the US presidential election.

In the first quarter of 2016, M&A activity reached significant highs. Many factors contributed including an improved economy, buoyant stock markets and cash-heavy balance sheets. Irish companies were involved in a number of large-scale transactions both at home and overseas including Couche-Tard's acquisition of Topaz Group for approximately €450 million and completion of the Paddy Power plc and Betfair Group plc merger.

The initial optimism gave way to uncertainty in the lead up to and following the UK's Brexit decision. M&A activity levels declined markedly as boardrooms grappled with what the referendum decision might mean to their organisation and deal-making prospects, with inevitable consequences for investment levels.

Despite continued uncertainty, there was a pick-up in activity levels in the final quarter of 2016. During this period a number of landmark transactions were announced including Avolon's US\$10 billion acquisition of the aircraft leasing business of CIT Group, Sumitomo Corporation's acquisition of Fyffes for €750 million and Greencore's acquisition of US-based Peacock Foods for US\$746 million.

Private equity has emerged in recent years as a major force in the Irish M&A sector. Carlyle Cardinal Ireland's €157 million acquisition of AA Ireland was the eye catching domestic private equity deal in 2016.

2017 – Cautiously optimistic

Current sentiment amongst the deal making community is positive with 81% of survey respondents anticipating 2017 deal volumes at or above prior year levels. Interestingly, less than half of respondents expect that deal activity will be negatively impacted by Brexit in the short term. Respondents acknowledged the US presidential election outcome but most do not anticipate a significant impact in 2017. The longer term impact of these two events is less certain.

A number of respondents commented on the need to progress M&A strategy design and implementation notwithstanding uncertainty surrounding international events. Business can't simply stand still.

Respondents anticipate that the most active sectors for M&A activity in 2017 will be the technology, agribusiness, healthcare and property sectors.

Current year survey data indicates a shift in preference towards Irish based assets over UK assets. Meanwhile, debt is the preferred form of finance for deals and disposals to strategic / trade buyers the preferred exit route.

We go to print in the week that Donald Trump was inaugurated and Theresa May gave her long awaited speech in which she further clarified the position on a "hard Brexit". M&A will continue to have a significant role in the fortunes of domestic and international companies, but will have to do so navigating ever choppy waters.

We would like to thank all the M&A executives and advisors who took the time to complete the survey and inform our analysis.



Highlights



Deal activity

2017 deal activity predicted to grow on 2016 levels.



Brexit

Just under half of survey respondents expect Brexit to negatively impact M&A activity in the short term. Longer term impact is less certain.



Sectors

Technology, agribusiness, healthcare and property sectors are expected to continue to see the most deal flow in 2017.



Deal Drivers

Strategic growth and a desire to enhance customer base are the primary motivations for acquisitions.



Financing

Debt funding is the clear preference for financing transactions.



Geography

Ireland and the UK remain key target locations for Irish companies. There is a preference for Irish based assets over UK assets.



Exit

Trade / strategic buyers are considered the most likely exit route.



Tax system

Participants generally believe that the Republic of Ireland's tax system continues to be supportive of M&A activity.

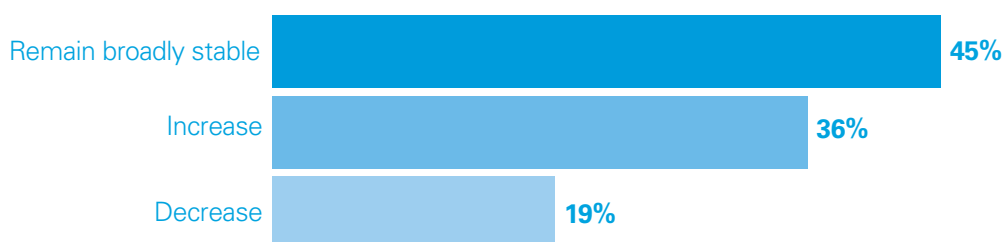
Results & Insights

Q1

How do you expect deal volume in Ireland in 2017 will compare to 2016?

Respondents are positive about the outlook for deal activity in 2017. Key decision makers stress the need to continue acquisition activity to drive growth, particularly in sectors where organic growth prospects are limited. Various executives point to the role of M&A as potentially both strategic and opportunistic during this time of heightened uncertainty. Other executives highlight the need for a stable domestic political landscape to continue to attract inward investment.

The renewed optimism should be considered in the context of a very mixed year for M&A activity in 2016.



“Despite the various headwinds, we remain positive on the overall outlook for M&A activity. Dealmaking will play an important role for Irish organisations in achieving strategic objectives”

Mark Collins

Head of Transaction Services, KPMG in Ireland

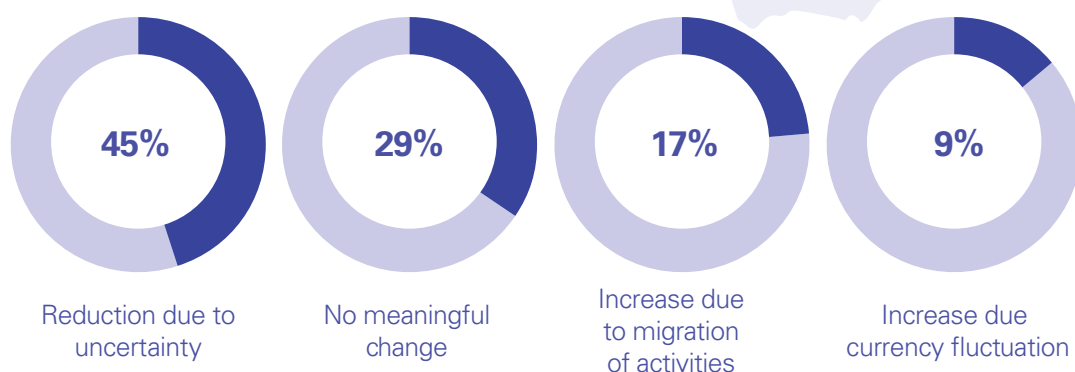
Q2

What is the likely impact of Brexit on deal activity involving Irish companies in 2017?

Despite widely reported concerns, less than half of participants expect that Brexit will negatively impact deal activity levels in 2017. A number of respondents noted that Brexit should not be used as a rationale for parking M&A activity. Business can't simply stand still in the interim. In fact according to survey data, Brexit may present a number of benefits including:

- Migration of activities outside the UK;
- Asset re-pricing; and
- Catalyst for diversification programmes.

It must be acknowledged that uncertainty remains as to how Brexit will affect a wide range of factors impacting trade. These factors include the UK tax policy, border controls, cross-border tariffs and the UK regulatory environment. Consequently, it is likely the full impact of Brexit will not be known for some time and it may have a more pronounced impact on M&A activity levels beyond 2017. However, business will adapt to the new era of uncertainty in due course and start to factor in the impact of that on deals.



"The immediate impact of Brexit has been largely currency related with little or no impact on underlying trading activity – however the longer term investment case for the UK in a "hard Brexit" scenario will require considered appraisal"

Alan Walsh

Chief Executive Officer, One51 plc

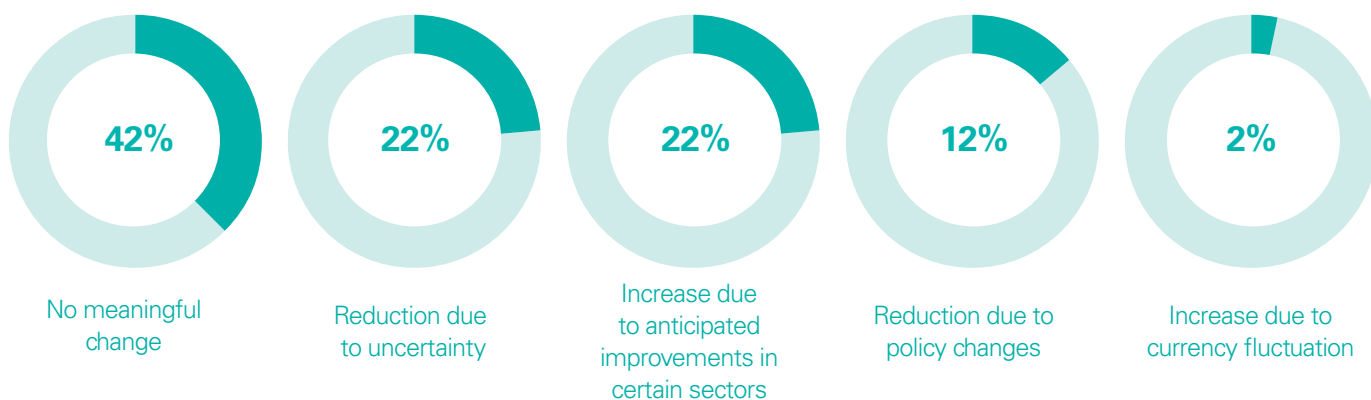
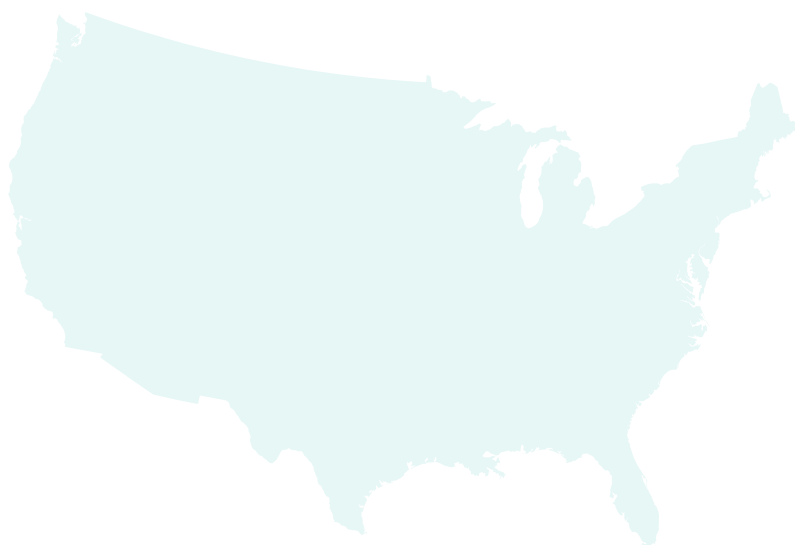
Q3

What is the likely impact of the US presidential election on deal activity involving Irish companies in 2017?

The majority of respondents expect that the US presidential election results will not give rise to a meaningful change in deal activity in 2017. It is likely further time will be required to assess whether the change in administration at the White House will impact deal activity in the medium to longer term. This will largely depend on:

- Timing and execution of revised corporate policies in respect of corporate tax rates, repatriation of funds and trade restrictions; and
- Response of capital markets to the new administration.

The out-going administration introduced inversion blocking legislation in 2016. This will significantly impact Irish aggregate deal values in 2017 relative to prior years.



“Over time, we will continue to target the US for further investment opportunities. There is good positive momentum in the US economy and early indicators suggest that the new administration will be business and deal friendly”.

Eoin Tonge

Chief Financial Officer, Greencore Group plc

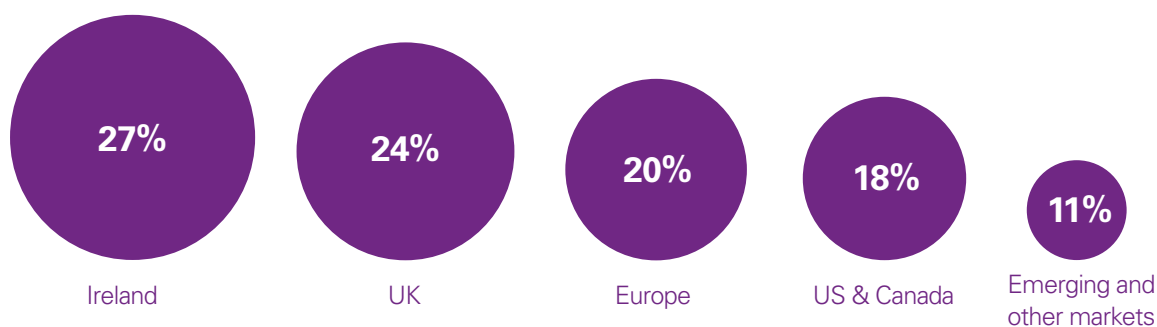


Q4

Where do you expect Irish investors to primarily seek acquisition targets in 2017?

In the year ahead it is anticipated that dealmakers will primarily seek targets in Ireland closely followed by targets in the UK. This reflects a shift from prior year results away from UK assets. This can be attributed to uncertainty associated with the prospect of a “hard Brexit”. It is too early to say if UK assets could represent good value for deals given recent currency fluctuations. In time companies will be better able to assess risks against value.

There is an expectation that deal flow will increase in emerging and other markets.



Q5

Which macro factors do you think will most influence deal activity in Ireland in 2017?

Participants anticipate deal activity will be influenced by a wide range of factors including investor confidence, market improvement, strong pipeline and attractive valuations.

Investor confidence, the highest ranked factor, has stabilised somewhat in recent months as the economy continues to grow. This is evidenced by improved M&A activity levels in the final quarter of 2016.





Q6

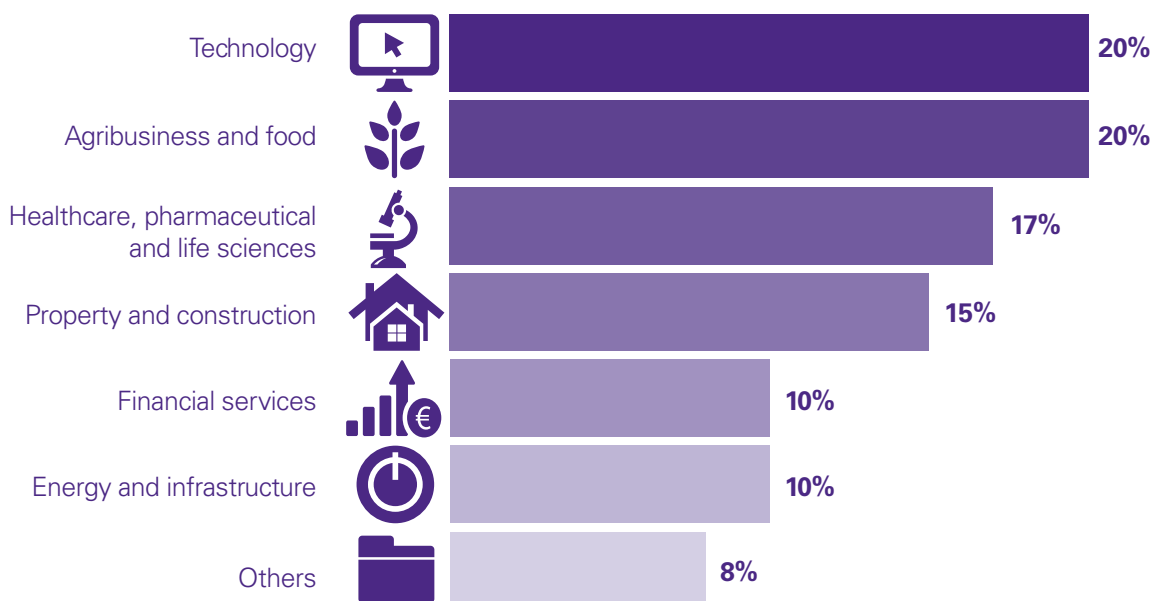
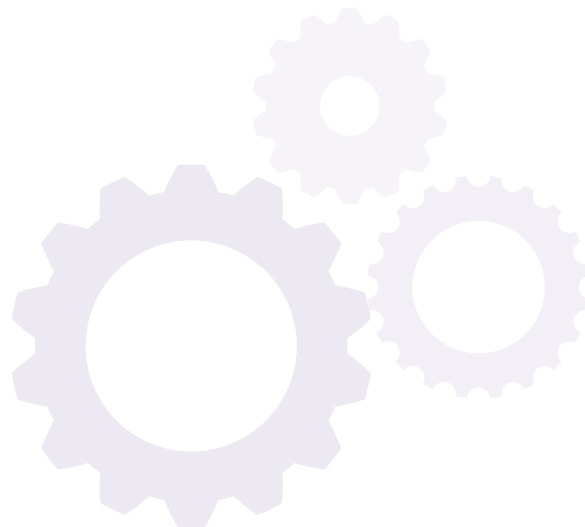
Within which sectors would you anticipate the most acquisitions to occur in Ireland in 2017?

Respondents anticipate that the most active sectors for M&A activity will be the technology, agribusiness, healthcare and property sectors.

Within the technology sector participants cite an expectation for consolidation within the FinTech space and in particular the emerging payment and regulatory solutions.

The agribusiness sector has been engaged in significant M&A activity in recent years. It is anticipated that this trend will continue, albeit on the global stage.

There is an expectation that private equity investors will continue to participate in buyouts of property loan portfolios in a market which has become highly competitive.



“Ireland's continued move towards a focus on "value add" business sectors is reflected in the sectors topping the poll for anticipated activity. This is equally applicable in the deal activity at the larger end of the spectrum and the SME sectors”

Michele Connolly

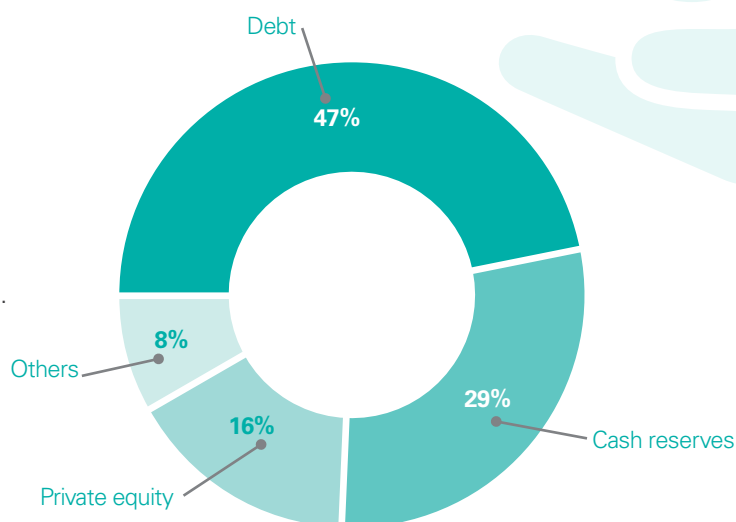
Head of Corporate Finance, KPMG in Ireland

Q7

What is likely to be the primary source of funding for acquisitions which you anticipate undertaking in 2017?

Debt and cash reserves will continue to represent the primary sources of acquisition finance. However, it is noteworthy that survey data indicates an increase in the use of cash reserves as many corporates built cash reserves while adopting a 'wait and see' approach following the Brexit vote in June 2016.

Debt still remains challenging to source for some entities. Leverage levels remain lower than pre-recession which looks more like a permanent structural shift. The rise of the non-bank lender is an interesting development to watch in the future.

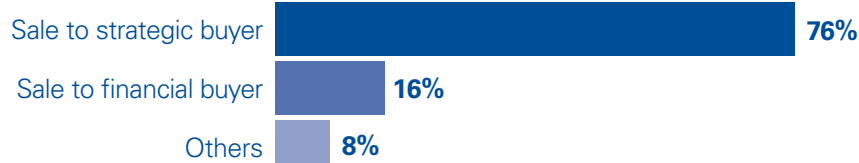


Q8

In your opinion, which exit strategy will be most preferred in 2017?

Vendors continue to perceive strategic buyers as the most preferred exit route. This is based largely on their ability to extract value through existing platforms, cost synergies, operational change and balance sheet efficiency. However, the scale of funds available to local private equity concerns together with a track record of executed deals has seen them emerge as a significant force in the Irish M&A market.

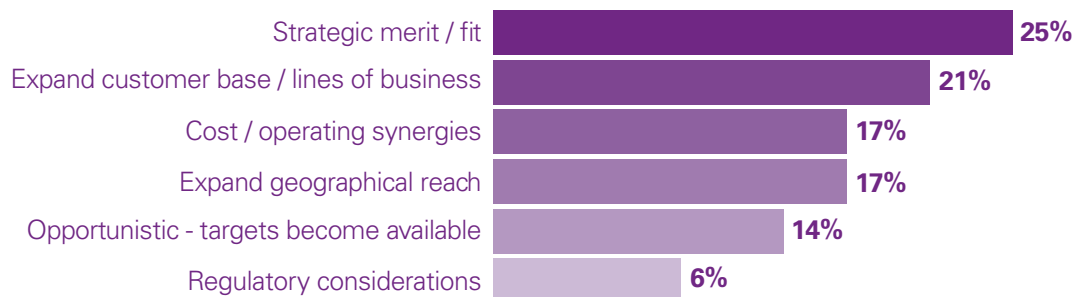
Interestingly, given the strength of equity markets over the last number of months, feedback suggests that IPOs are back on the agenda for a number of organisations.



Q9

What will be the primary shareholder considerations / drivers for acquisitions?

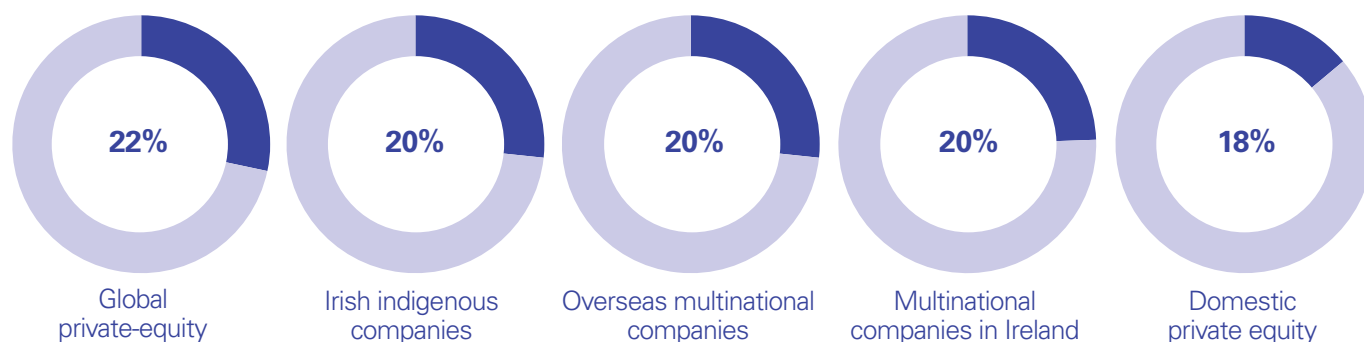
Despite the significant political events that occurred in 2016, the motivations for dealmakers remain as before. Respondents recognise synergistic and geographical benefits that can be achieved but focus on strategic reasons followed by a desire to expand the customer base.



Q10

Which of the following groups would you consider most likely to complete the highest volume of acquisitions in Ireland in 2017?

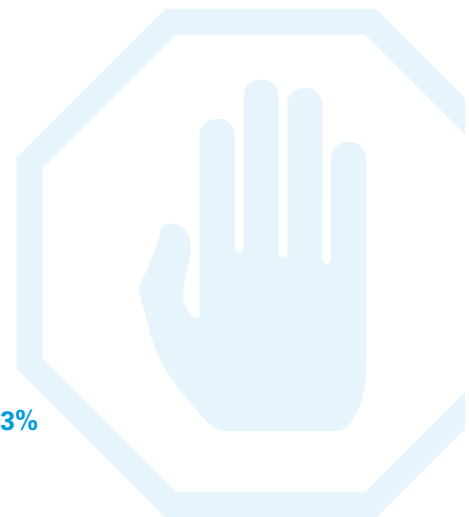
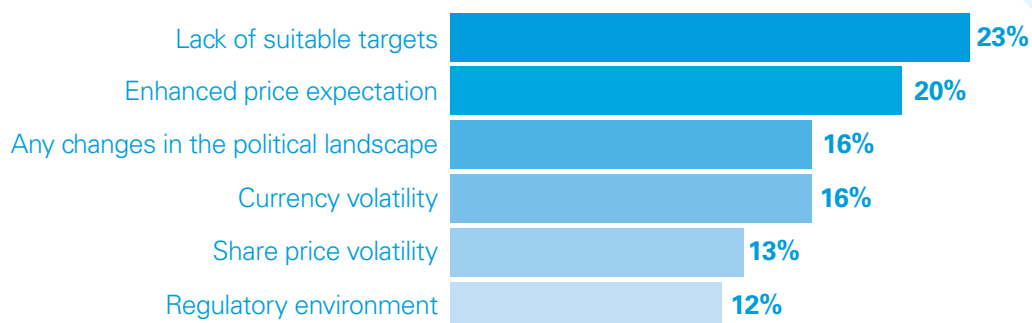
Survey participants anticipate that deal volumes will be largely evenly split amongst the various buyer groups in 2017. This confirms how competitive the landscape has become for attractive assets. It is likely that in 2017 various funds may seek to capitalise on higher valuations and cash out of current investments, especially in real estate. This applies particularly in light of the time horizon since their original investment.



Q11

What factors do you think could inhibit deal activity in Ireland in 2017?

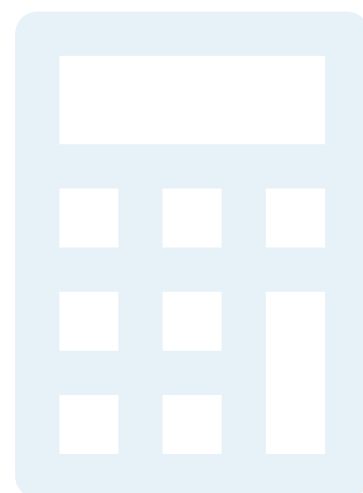
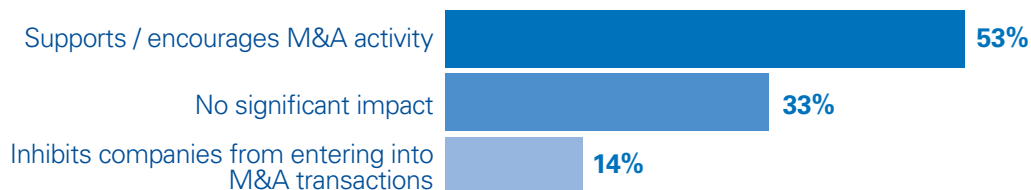
Respondents have cited a wide range of factors that could inhibit deal activity in Ireland in 2017. It is interesting that respondents are more wary of enhanced price expectations than political changes or currency volatility.



Q12

In your opinion, how does the current tax system in the Republic of Ireland impact M&A activity?

There continues to be uncertainty in the international tax landscape. It is imperative that the Government continues to defend the integrity of the Irish tax system as the majority of respondents believe the system is a contributory factor in deal making success and a key driver of M&A investment into the Republic of Ireland.





M&A outlook 2017 is based on research conducted in December 2016 amongst many of Ireland's leading M&A executives and advisors. Survey participants represented a wide cross section of senior M&A Executives and Advisors:

- Indigenous private Irish: 39%
- Corporate Finance, legal and other advisors: 21%
- Irish PLCs: 20%
- Private equity: 15%
- Multinational companies in Irish markets: 5%

Contact us

KPMG is a leading M&A advisor to Irish based business.

If you are looking to buy or sell a business, raise finance or want to discuss our survey, please contact Mark or Michele:



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