



M&A Outlook 2018

**Deal insights for Northern Ireland
and the Republic of Ireland**



Foreword

We are delighted to present the findings from our survey on the outlook for Irish M&A activity in 2018. This survey was conducted with leading corporate executives and M&A advisors in Northern Ireland (NI) and the Republic of Ireland (RoI). It provides valuable insights into their views on M&A trends for the year ahead.



Russell Smyth

Partner, Corporate Finance,
KPMG in Ireland

While 2017 was a busy year for M&A activity across the island, with deal volume in RoI increasing by around 16% year on year, Northern Ireland statistics actually suggest a modest decline of 6% in deal volume last year.* This somewhat mirrors our survey, with NI respondents having a more cautious outlook on deal volume in 2018 - 27% of NI respondents forecast an increase in deal volume compared to 57% of RoI respondents.

This trend is broadly consistent with the general macroeconomic conditions observed in the two jurisdictions, with RoI showing a higher forecast GDP growth of 4.9% this year, compared to 1.4% in NI, a key driver of deal activity.

Despite differing views on transaction volumes, there is commonality on which will be the active sectors in 2018, with agribusiness and food, technology and healthcare expected to dominate in both jurisdictions.

While both NI and RoI expect a broad mix of funding to support transactions in 2018, only 42% of NI respondents expect debt to be the primary funding source, significantly lower than the 55% in RoI. Consequently NI respondents expect cash reserves to be more prevalent in transactions, possibly representing a more cautious approach to funding.

While Brexit features on the radar of deal makers, there is no consistent view in either jurisdiction on its likely impact on deal activity, suggesting too much uncertainty remains to predict its impact on business or business decisions.

NI respondents were asked whether the ongoing political uncertainty in Northern Ireland will have a negative impact on deal activity. It is no surprise that the overwhelming majority of respondents believe it will. Let's hope we see the return of a fully functioning Executive sooner rather than later in 2018.

While the survey suggests the NI market in particular has a number of headwinds impacting deal activity, it is by no means all negative. Strong capital availability in the market, including increased private equity and alternative lender activity, robust investor confidence and more developed M&A strategies among both NI and RoI corporates will ensure a healthy pipeline of deals are completed in 2018.

Finally, we would like to thank all those who took the time to complete the survey.

Highlights



2018 DEAL VOLUMES

A renewed sense of optimism among respondents with 2018 deal activity predicted to grow on already buoyant 2017 levels. **57%** expect an increase in activity this year.



FINANCING

Availability of capital has and will continue to drive deal activity. **Debt funding** is seen as the most obvious source of financing for transactions with **private equity** expected to take a more prominent position than in recent years.



EXIT

Trade/strategic buyers are once again considered to be the most likely exit route in 2018. Meanwhile, sales to **financial buyers** are seen as a more likely option in 2018 vs 2017. IPOs continue to be considered as a viable exit route.



SECTORS

Agribusiness and food, technology, healthcare and property are the sectors expected to continue to see the most deal flow in 2018.



M&A GROWTH STIMULANTS

More than half of respondents believe deal activity can be further stimulated by building awareness of available targets and more sophisticated vendor preparation.



DEAL FAILURE

55% of Irish M&A executives believe deals fail for avoidable reasons.



DEAL DRIVERS

Strategic growth, a desire to enhance the **customer base** and **geographic reach** are the top 3 motivations for acquisitions.



BREXIT

The **impact of Brexit on deal activity** in the medium to long term **remains uncertain**. However many respondents say business can't stand still and they see opportunities in Brexit – only one third (**34%**) say Brexit will negatively impact activity in 2018.

Where Northern Ireland differs



2018 DEAL VOLUMES

A **significant difference** in deal activity expectations across Ireland. Only 23% of NI respondents predict an increase in 2018, compared with 57% in RoI. This possibly reflects different GDP growth expectations in wider NI and RoI economies.



FINANCING

Both NI and RoI respondents expect a **broad mix of funding** to support transactions however RoI respondents have a higher debt appetite, with 55% expecting debt to be the primary funding compared with 42% in NI. This may indicate a more cautious approach to transactions by the NI market.



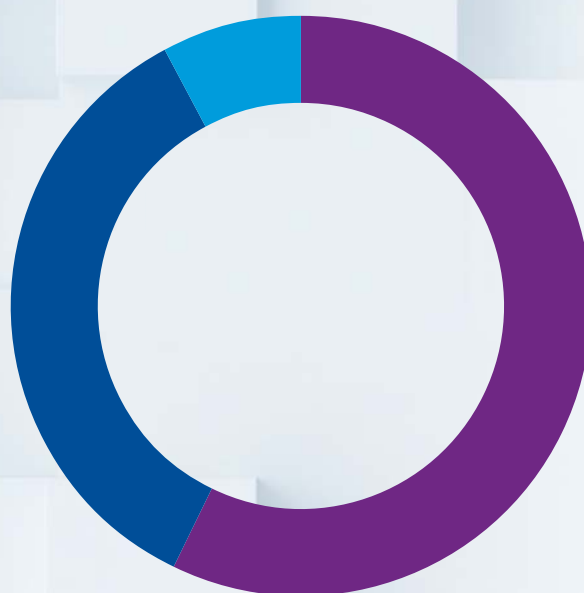
INVESTMENT LOCATIONS

NI companies (12%) are less **likely to target** investments in the US and emerging markets than their RoI counterparts (28%). This may suggest a less international outlook by NI companies.



POLITICAL UNCERTAINTY

Unsurprisingly, there are **strong views** on the issue of the current political uncertainty in NI, with almost all those who expressed a view expecting Stormont's suspension will negatively impact deal activity.



Deal volume expectations

- Increase 57%
- Remain broadly stable 35%
- Decrease 8%

Q1. Deal volume

How do you expect deal volume in Ireland in 2018 will compare to 2017?

Respondents are positive about the outlook for deal activity in 2018, with participants citing strong investor confidence and an availability of targets as the main drivers. M&A executives also pointed to:

- easier access to financing;
- accumulated cash reserves and balance sheet strength;
- realistic valuations; and
- opportunities presented by Brexit.

Key decision makers continue to believe that acquisition activity continues to play a role in growth.

This overall positivity builds on the already buoyant 2017 levels.

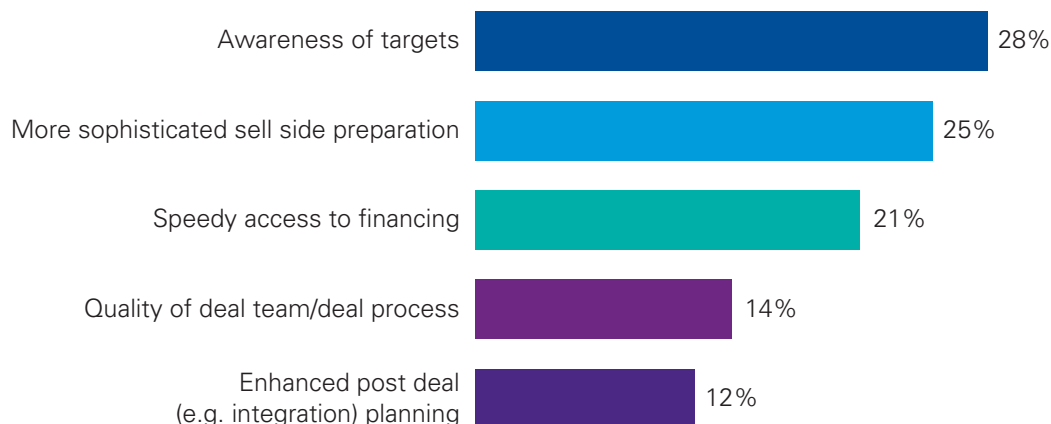
“The current environment continues to be favourable for deal making. This is underpinned by more robust corporate profits, access to capital and lower stock market volatility, all of which contribute to enhanced confidence levels.”

MARK COLLINS

Partner, Head of Transaction Services, KPMG in Ireland



Factors in increased deal making



Q2. Deal making

What factors would you consider will enable greater deal making in Ireland in 2018?

The growth in the Irish economy in recent years has driven a steady increase in deal activity. The expectation from participants is that activity will continue to increase as the economy grows at one of the fastest rates in the eurozone.

However, participants believe greater deal activity would be enabled by a wide range of factors including awareness of targets, more sophisticated sell side preparation and speed of access to financing.

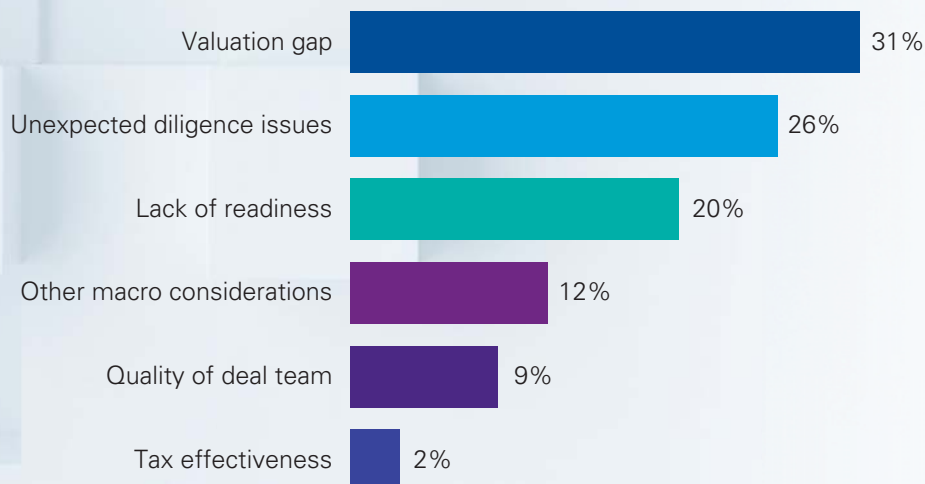
Interestingly, participants have put less of a priority on the post deal process, instead focusing more on the early stage factors.



"I believe we will continue to see significant levels of M&A discussions. Whether or not these discussions will translate into transactions is less certain. These discussions/ transactions will be fueled by relatively cheap and plentiful debt as well as the pressure certain organisations are under to execute growth plans. Companies however must be careful that they don't chase growth at any cost."

AENGUS KELLY
CEO, AerCap

Reasons for deal failure



Q3. Deal failure

In your opinion, what are the primary reasons for deal failure?

Interestingly, 55% of respondents believe deals fail for avoidable reasons including unexpected diligence issues, lack of readiness and quality of deal team. This highlights the importance of robust preparation and a clearly defined sales process. Buyers and sellers should be aware that due diligence can mitigate many challenges, enhance the sale process and ensure that investors are fully aware of risks and opportunities prior to execution.

Tax effectiveness was not viewed as a significant reason for deal failure. However, respondents did view reduced CGT rates as an opportunity for increased activity.

“Corporate M&A strategy is a key agenda item for PLCs today. The right acquisitions can deliver real long term value, but they need to be carefully designed and executed. A clear pre and post deal roadmap can greatly enhance this.”

MARK BUCKLEY

Deputy Chief Executive & COO,
Cpl Resources plc

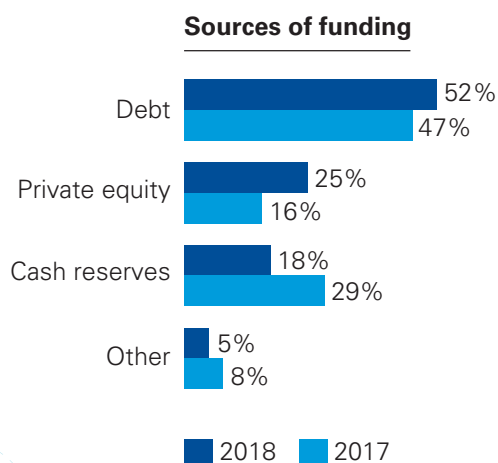


Q4. Funding

What is likely to be the primary source of funding for acquisitions which you anticipate undertaking in 2018?

Unsurprisingly, over half of respondents consider debt to be the primary source of funding for acquisitions. The landscape for debt funding in the Irish markets continues to improve as pillar banks are more advanced in their balance sheet deleveraging strategy and now put greater focus on new lending. Debt financing of transactions is expected to continue to grow in 2018.

Survey data points to an increase in the use of private equity funding, partly as a result of more competitive terms being offered, driven by demand amongst funds. Knowledge of private equity options has also increased amongst business owners, particularly in light of some successful exits by private equity players.



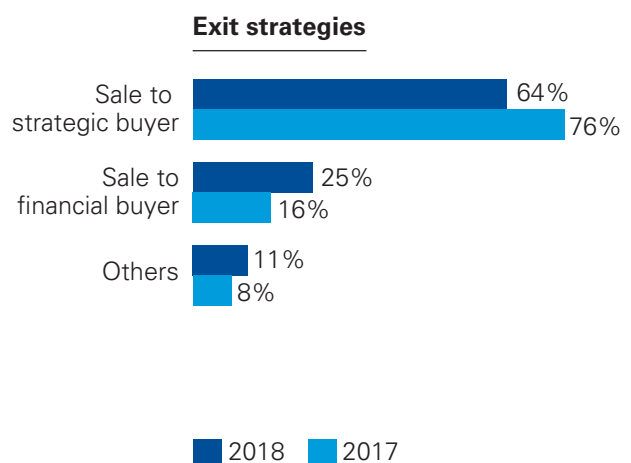
Q5. Exit strategy

In your opinion, which exit strategy will be most preferred in 2018?

Respondents continue to see strategic/trade buyers as the most likely and preferred exit strategy.

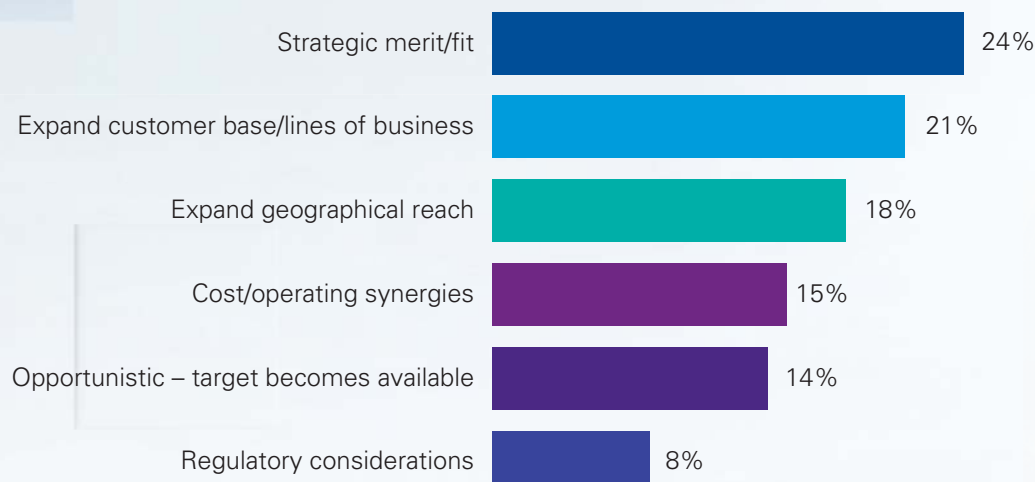
An interesting trend in our 2018 survey is the growth in the proportion of participants who see a sale to a financial buyer as the preferred option. This growth, when compared to 2017 results, reflects greater visibility of private equity in the market with many private equity success stories in the news throughout 2017 together with the increased availability of funds among financial buyers.

Interest appears to be rising in MBOs potentially as a result of the increased availability of debt financing while IPOs continue to be considered a viable exit route.





Acquisition drivers



Q6. Acquisition drivers

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

Strategic merit and fit will be the primary driver for acquisitions in 2018 according to respondents, ranking ahead of expansion of customer base or geographic reach. These continue to be key themes in driving acquisitions which is broadly consistent with the 2017 outlook.

It is interesting to note the increased role which regulatory considerations will play in driving acquisitions. The ever changing macro landscape as a result of Brexit, US tax reforms and domestic regulatory changes will cause businesses to consider deals both defensive and strategic in nature as well as opportunistic.



“We are seeing that ambitious companies are finding opportunities to grow their businesses inorganically. Increased access to funding and greater deal volumes are allowing clients execute transformational deals that could drive the next wave of growth in their businesses. Our survey also suggests that greater awareness of opportunities will further increase deal flow.”

DAVID O’KELLY

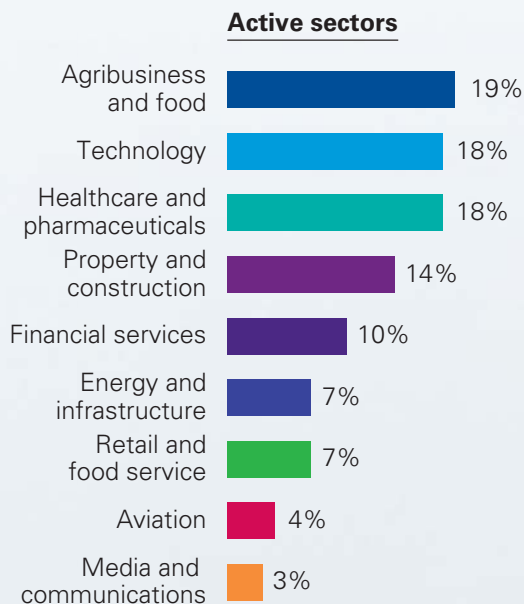
Partner, Corporate Finance,
KPMG in Ireland

Q7. Sector activity

Within which sectors would you anticipate the most acquisitions to occur in Ireland in 2018?

Survey participants anticipate that the most active sectors for M&A activity will be the agribusiness and food, technology, healthcare and property sectors. This reflects the scale and presence of these sectors in the Irish economy, as well as the perceived opportunity in these areas.

The responses of M&A executives is underpinned by actual activity levels in 2017 with the property and construction, technology, healthcare and agribusiness and food sectors all seeing large levels of deal flow.

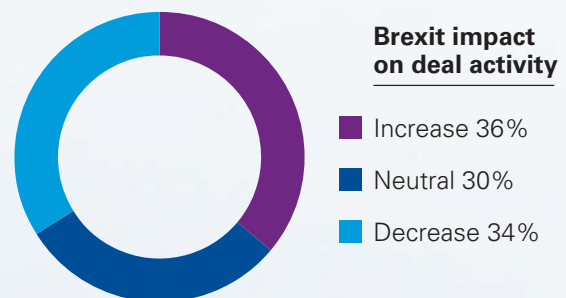


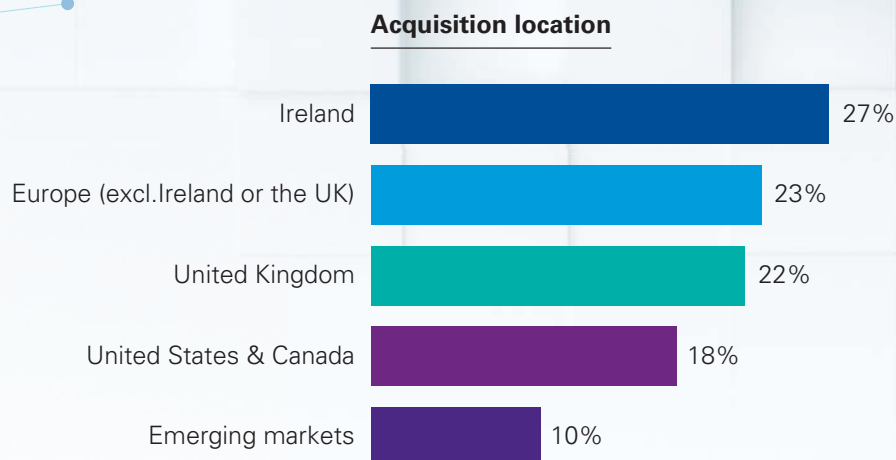
Q8. Brexit

What is the likely impact of Brexit negotiations on deal activity involving Irish companies in 2018?

There remains a high level of uncertainty surrounding Brexit and the ongoing negotiations, with a wide range of factors which respondents feel will impact trade. These include UK tax policy, potential border controls, cross border tariffs and the UK regulatory environment.

However, there now appears to be an acceptance that business cannot stand still with a number of respondents noting that while Brexit does carry risks it also presents significant strategic opportunities.





Q9. Investment locations

Where do you expect Irish investors to primarily seek acquisition targets in 2018?

In the year ahead it is anticipated that dealmakers will primarily seek targets in Ireland, closely followed by targets in mainland Europe and the UK.

A number of contributors noted some migration of capital out of the UK towards Ireland.

The survey indicates a continued focus on assets in mainland Europe reflecting strategic decisions to seek assets outside the UK.



“While the healthcare landscape kicked off the year in a somewhat subdued fashion on the M&A front, it is fully expected that once corporates have made their way through the year end process around the tax changes in the US, that the pace will most certainly pick up over the next 12 months. This pick up in pace is primarily expected at a mega merger level creating a possible domino effect further down the industry.”

BRENDAN BRENNAN
CFO, ICON plc



Buyer groups

- Irish indigenous companies 22%
- Domestic private-equity 20%
- Multi-national companies in Irish market 20%
- Overseas multi-national companies 19%
- Global private-equity 19%

Q10. Buyer types

Which of the following groups would you consider most likely to complete the highest volume of acquisitions in Ireland in 2018?

Participants anticipate that deal activity will be largely split amongst the various buyer groups in 2018, which is consistent with 2017 expectations.

The split among buyer types reflects the level of competition that exists for Irish assets including that from foreign investment. This is underpinned by high levels of foreign investment throughout 2017 in particular from US and UK acquirers with respondents expecting this trend to continue in the coming year.

“Private equity investment has become a cornerstone of the Irish M&A market. We expect that to continue, particularly as recent successful exits have demonstrated the benefits of private equity investment to business owners and management teams.”

PETER GARVEY

Managing Director, The Carlyle Group



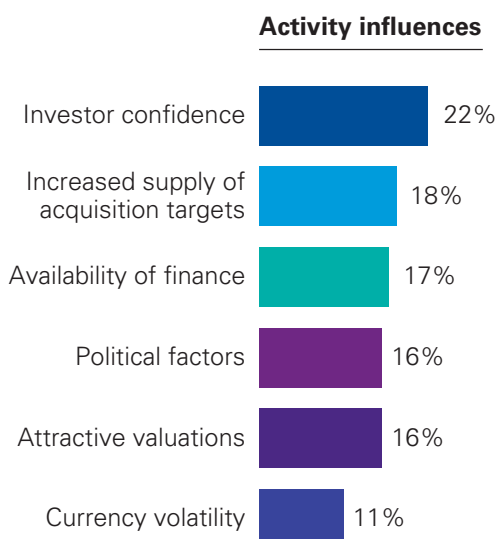
Q11. Deal influences

Which macro factors do you think will most influence deal activity in Ireland in 2018?

Participants anticipate deal activity in Ireland will be influenced by a broad range of factors including investor confidence and the increased supply of acquisition targets.

Investor confidence remains the highest ranked factor reflecting continued growth in the domestic economy.

Availability of finance takes greater prominence as a factor in 2018 compared with 2017. This reflects continued stability in Irish banks and greater availability of financing from specialist lenders who have taken a more prominent role in funding in Ireland.

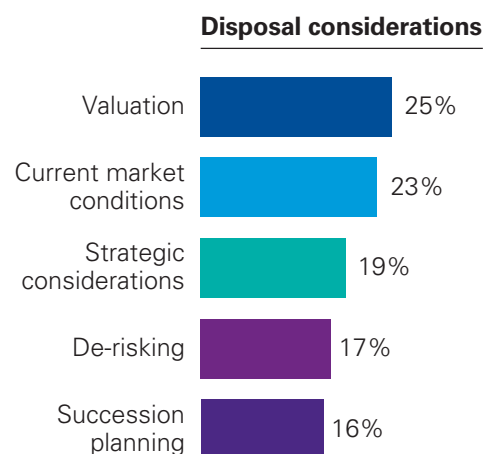


Q12. Disposal factors

What will be the primary shareholder considerations/drivers for disposals in 2018?

Respondents have cited a wide range of considerations/drivers for disposals in 2018. It is interesting that respondents are less concerned about de-risking in comparison to other options, potentially a reflection of improving market conditions.

Family businesses in particular should consider succession planning as a critical aspect of long term success.



METHODOLOGY

M&A Outlook 2018 is based on research conducted in December 2017 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: 42%
- Corporate finance, legal and other advisors: 20%
- Private equity: 17%
- Irish PLCs: 16%
- Multinational companies in Irish markets: 5%

*Source: mergermarket.com (Rol stat);
Experian M&A Review 2017 (NI stat)

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