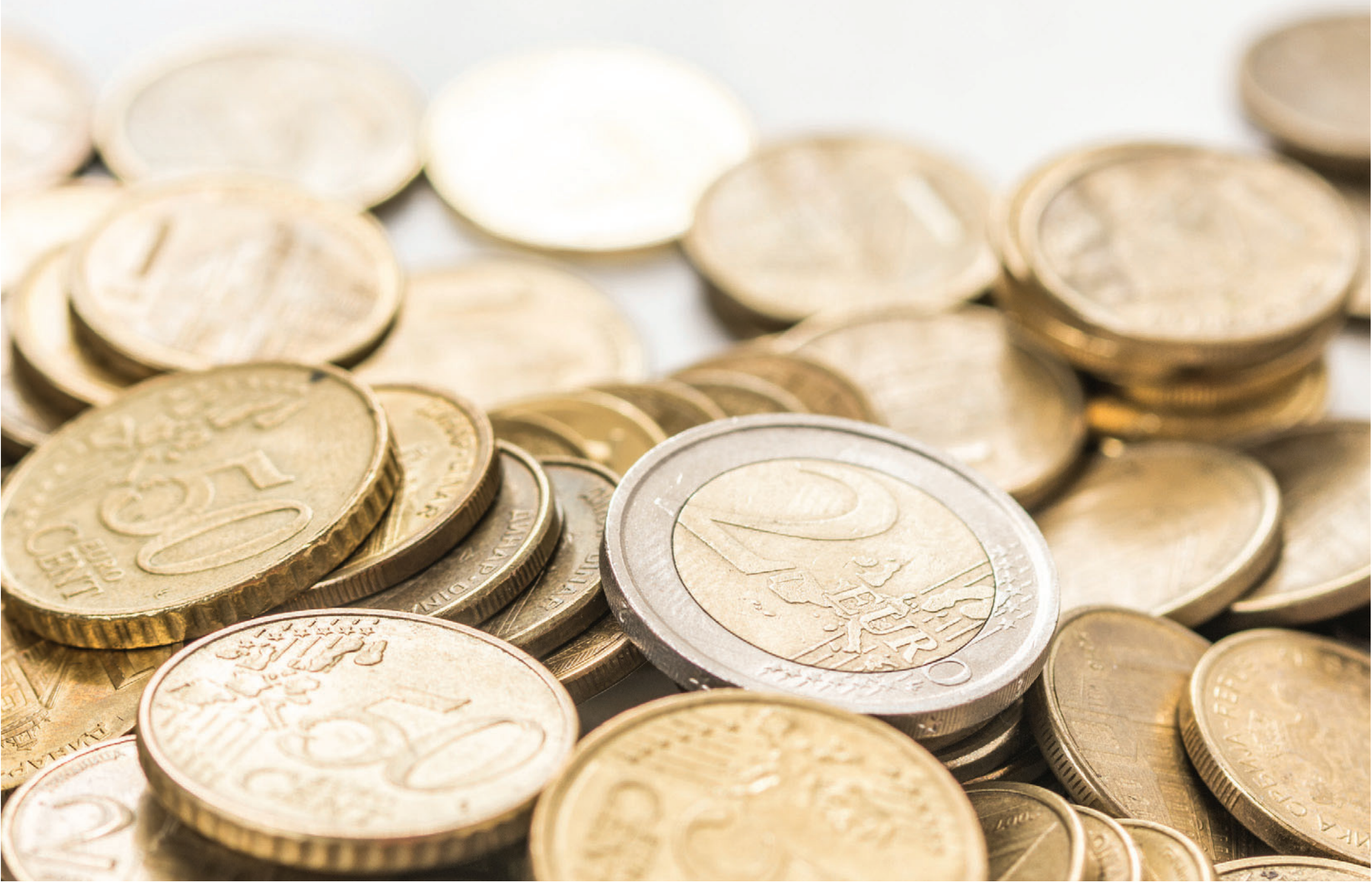
Funding for Business

Insights for better decision making

July 2018



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KPMG M&A Outlook 2018

We surveyed many of Ireland's top corporate executives and leading M&A advisers about their views on M&A trends.

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.

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.

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.

DEAL FAILURE

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

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.

DEAL DRIVERS

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

SECTORS

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

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.

To download the full report go to **www.kpmg.ie/maoutlook**

KPMG M&A Outlook 2018

David O'Kelly
Partner, Corporate Finance,
KPMG in Ireland

2017 – AN ACTIVE M&A MARKET

The M&A market in Ireland was relatively robust and consistent throughout the year following on from an eventful 2016 which was adversely impacted by macro shocks and political turbulence.

2017 saw growing strength in domestic and international capital markets with significant IPOs including AIB, Ardagh and Glenveagh Properties. Global stock markets continue to experience buoyant levels into early 2018.

The number of domestic deals reached 210 in 2017 compared to 181 in 2016*. The increase in deal volumes reflected a strong Irish economy, access to capital/funding, availability of suitable targets and a renewed conviction to execute deals following a period of pronounced geo-political uncertainty.

Irish corporates were at the forefront of international M&A with CRH, Kingspan, DCC, Kerry Group, Icon, UDG and One51 all active in the M&A market in 2017. Highlights included a number of landmark transactions including CRH's acquisitions of Ash Grove Cement and Fels-Werke for €2.9 billion and €0.6 billion respectively.

2017 also saw the further emergence of private equity both in the context of international investment in Ireland and the prominent role played by Irish PE funds, with Carlyle Cardinal Ireland and Broadlake enjoying exits in recent months.

2018 – RENEWED SENSE OF OPTIMISM

Our survey indicates a greater optimism in the deal making community with 57% of respondents expecting 2018 deal volumes above previous year levels. Growth in M&A could be further stimulated by developing awareness of potential targets within the buyer community and through enhanced deal preparation efforts by vendors.

In keeping with previous years, respondents expect that the most active sectors for M&A activity will be the agribusiness and food, technology, healthcare and property sectors. Debt is unsurprisingly the preferred source of finance for deal activity. However, respondents anticipate a greater level of private equity funding in 2018 – this reflects the greater prominence of private equity in the market with many success stories throughout 2017.

While Brexit features on the radar of deal makers, there appears to be an acceptance that business cannot stand still. A number of respondents noted that while Brexit poses risks to investor confidence, it also presents strategic opportunities.

M&A executives are looking forward to another active year in 2018. This is underpinned by sound macro economic fundamentals, more developed M&A strategies on the part of Irish corporates, availability of funding and a pipeline of attractive target assets coming to the market.

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

KPMG M&A Outlook 2018 - Irish Times Special Supplement

Insights from **Michele Connolly**, Head of Corporate Finance, KPMG in Ireland and **Mark Collins**, Head of Transaction Services, KPMG in Ireland that appeared in a special report in *The Irish Times*, 25 January 2018.

"People have adjusted to uncertainty being the new reality and they have figured out how to factor that uncertainty into their day-to-day decision-making. They're recognising there is significant capital available and also that they need to look beyond the shores of Ireland to be able to expand and grow their businesses, in many cases"

Michelle Connolly, Head of Corporate Finance, KPMG in Ireland

"The main surprise was the fact that Brexit didn't have the impact we thought it might. International events didn't really have an impact except on UK and sterling-denominated assets. If anything, we have seen money migrating to Ireland because of it, as Irish assets are seen to be more strategic. Perversely, Brexit could be an opportunity for Ireland in this case."

Mark Collins, Head of Transaction Services, KPMG in Ireland

"Where a lot of the due diligence side might have been sorted out at the end of the transaction, the emphasis now is on the business getting itself fully ready for sale and unearthing and dealing with any of the problem factors before they actually bring themselves to market. It gives them a better price and leads to a smoother process for any of the interested acquirers. Certainty of financing continues to be a big one but again, in days gone by, you would have had a scenario where the finance for the acquirer was being sorted out after the price had been agreed and accepted. That's no longer as acceptable as it once was and you're expected to come to the table ready to write the cheque,"

Michele Connolly, Head of Corporate Finance, KPMG in Ireland

"Deal volumes increased significantly in 2017 and this reflected a strong Irish economy, improved access to capital, the availability of suitable targets and a greater willingness to carry out deals following a period of pronounced geopolitical uncertainty."

Mark Collins, Head of Transaction Services, KPMG in Ireland

"Food and agri is one of the few sectors where Ireland truly plays on the global stage. Kerry and Glanbia and some of the larger co-ops have the firepower when it comes to balance-sheet strength and debt capacity to take on major deals."

Mark Collins, Head of Transaction Services, KPMG in Ireland

There is no doubt that Brexit continues to present a challenge to investor confidence and this is something that deal makers will keep a close eye on. Overall, respondents to the KPMG M&A survey are looking forward to another active year in 2018."

Mark Collins, Head of Transaction Services, KPMG in Ireland

Global deal-making - M&A Predictor

Global deal making is set to increase for the remainder of 2018 according to KPMG's Global M&A Predictor with transactions worldwide already topping US$1 trillion by the end of Q1.

KPMG International's 2018 M&A Predictor report anticipates a robust year of global M&A deal-making in 2018 compared with 2017, when appetite was relatively flat at 1 percent.

Globally, the year is off to an encouraging start and continues what was a strong Q4 in 2017, with M&A deals worldwide in the first quarter of 2018 soaring just past US$1 trillion – a healthy jump from US$749 billion in the first quarter of 2017. Average deal value in the first quarter of this year was also up significantly, rising about 30 percent to a 10-year high of US$124 million and returning above the US$100 million mark seen in 2015-2016.

Key insights include

- Predicted appetite and capacity for deals are both expected to increase by 5 percent and 17 percent, respectively.
- Global activity reflected in Ireland where recent research highlights a significantly higher expected volume of transactions in 2018.
- Cross-sector deals worldwide peak at 53 percent of all deal volume and more than one-third of deal value in 2017 with rebound already underway in 2018 amid strong volume of mid-market deals.
- Geopolitical concerns make a minimal dent on cross-border deals in 2017.

The M&A Predictor is a forward-looking tool that helps forecast worldwide trends in mergers and acquisitions. Data looks at cross-regional, cross-border and cross-sector deal flows, combined with sector specialist, to provide a more in-depth analysis of the next 12 months.

Commenting on the situation in Ireland, **David O'Kelly, Partner, Corporate Finance, KPMG Ireland** said "The relatively positive global outlook for deal activity is reflected here at home. Our own research in January showed that one of the drivers for this higher expected volume is increased activity in the Irish market by private equity. Notwithstanding the risks posed by Brexit, Ireland continues to be seen as an attractive target market given the strong fundamentals in our economy. Agribusiness & food, technology, healthcare and property remain the most likely sectors for significant activity."

M&A deals a look back - The global Top 5 of 2017

According to the Institute of Mergers, Acquisitions and Alliances, the total global value of M&A deals exceeded $4 trillion during 2017. Here are the top five:

1

United Technologies acquires Rockwell Collins: Avionics specialist Rockwell Collins' merged with aircraft Engines and parts business United Technologies to create new aviation giant in a deal worth $23 billion.

2

Intel buys Mobileye: In a strategic move into the self-driving car space, Intel bought Israeli autonomous vehicle technology firm Mobileye in a deal worth $15.3 billion.

3

Amazon gobbles Whole Foods: The Amazon Whole Foods acquisition may not have been the largest of the year but it may well go down as the most significant of all. Valued at $13.7 billion, the deal represents the internet giant's first real foray into the bricks and mortar world.

4

Kite Pharma sale to Gilead: Without a doubt, Gilead's acquisition of Kite Pharma will go down as one of 2017's most important biotech deals. Biotech giant Gilead paid nearly $12billion for research firm Kite Pharma, which specialises in immune-oncology therapies.

5

Panera Bread to JAB Holdings: In a move which dwarfed the Gallagher's Bakery sale in Ireland, German group JAB Holdings purchased fast-casual chain Panera Bread for $7.5 billion. JAB already owned the Krispy Kreme, Einstein Bros Bagels, and Keurig Green Mountain breakfast brands.

This article originally appeared in The Irish Times and is reproduced here with their kind permission.

Getting the right funding fit for your business

By **Barry McCall**, Irish Times Special Supplement

There is near universal agreement that business finance is in plentiful supply at the moment. The banks have loosened the purse strings somewhat, there are numerous Government backed schemes to assist businesses seeking to grow and improve capability, and there is no shortage of private equity and venture funds looking for investment opportunities.

The question tends to be one of matching the funding to the business need. A short-term loan is clearly not the right solution for a business wanting to buy a premises or acquire another business, while raising funds by selling equity would hardly be an appropriate means for a retailer to finance the purchase of new stock.

The good news is there is a wide range of financing options spanning these two extremes which business owners can choose from. The most common of these at the start-up and early-growth stages of a business are friends and family, with bank lending such as personal loans and overdrafts also coming into play. After that, there are State grants and other supports, seed and venture funds, non-bank lending, and peer-to-peer to name but a few.

Donnchadh Cullinan, growth capital and banking relations manager with Enterprise Ireland, stresses the importance of getting the right fit. "We see a lot of clients with many different funding needs and it's a question of finding the appropriate means of finance for them." he explains.

"For example, there is a lot of finance available out there through venture funds and so on at the moment but sometimes a company just doesn't fit the model. You have to look at what type of return an investor is looking for. A venture fund is typically looking for a multiple of 10 terms of return. If your business is growing at 2 per cent a year it is never going to get funding from that source."

However, that type of business might be perfectly suited to bank or another type of loan finance.

In order to encourage seed and venture capital funds to invest in early-stage companies which might be seen as higher risk or having an insufficient track record to justify hazarding capital, Enterprise Ireland has made finance available to a number of the funds. A total of €685 million is under management in these Enterprise Ireland supported funds.

These include the AIB Seed Capital Fund with €53 million under management, the Atlantic Bridge Venture Fund (€67 million), the Bank of Ireland Early-Stage Equity Fund (€32 million), Delta Partners (€105 million), and Seroba Kernel Lifesciences with €75 million.

Business angels

Cullinan also believes that many Irish companies may be best suited to business angel investment. Business angels are private individuals who invest relatively small amounts of money in new businesses in return for a share in the company and also contribute their expertise in business management and their personal network of contacts. They typically invest between €20,000 and €250,000.

Enterprise Ireland is directly involved in supporting Business Angel activity through the Halo Business Angel Network, a joint initiative between it and InterTradeIreland, which is aimed at developing angel investor syndicates across the island of Ireland. The agency has also joined forces with the European Investment Fund to launch the €20 million European Angels Fund Ireland, which will co-invest with approved Irish business angels in Irish-based internationally trading SMEs with investments ranging from €250,000 to €4 million over 10 years.

"There are so many good Irish companies with so many good products," says Cullinan. "There are some amazing companies out there and they need to get better at selling themselves and their products. Business angels invest in stuff that they know about. They have money to invest and time to devote to other companies. Very-early-stage companies can find it challenging to get funding but angels are domain specialists and can bring expertise and capital to help them grow."

KPMG Partner David O'Kelly points to the emergence of so-called family offices as another source of funding for growth companies. These are effectively private equity funds owned and run by wealthy families. "You find them active throughout Europe and we've done an amount of investments with family offices here in Ireland over the past number of years," he says. "The great advantage is that the business gets the money but also gets people on board who know about family businesses and understand how they work. That's very important."

Growth plan

Another source of funding is the Employment and Investment Incentive Scheme (EIIS), which replaced the old Business Expansion Scheme. This scheme provides income tax relief to qualifying investors for investments in certain qualifying small and medium sized companies. The scheme is attractive to investors as it offers one of the few remaining income tax reliefs and is one of the last sources of total income tax relief which includes, for example, rental income. It is attractive to SMEs as it is a way of raising risk capital without having to give away equity in return.

"There are three or four EIIS funds active in the market at the moment," says O'Kelly. "They don't have unlimited funds and they tend to be active in areas like nursing home developments but they are an important part of the mix."

Not all SMEs have a five-year growth plan or anything like it, of course. They might have an immediate need for new equipment to add to production capacity or to add a new vehicle to a fleet to support sales growth. Fortunately, there is a highly competitive lending market for that business as well, with firms such as Convertibill offering a range of trade finance products to meet just about every need.

The company offers order finance, supplier finance, invoice finance, sales finance, distribution finance, and lease finance with no requirement for personal guarantees or liens, and a speedy approval process. "We can provide finance where the banks won't and because we are smaller, we can approve faster," says marketing manager Damian Kenny.

"We offer end-to-end trade finance options from order and supplier to invoice finance. We help companies unlock the value tied up in their business and allow them to use it to fund growth. We set businesses free to trade without the shackles imposed by banks and other lenders."

"The great advantage is that the business gets the money but also gets people on board who know about family businesses and understand how they work. That's very important."

David O'Kelly, Partner, KPMG in Ireland

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It's time to look beyond the banks for funding

By **Sandra O'Connell**, Irish Times Special Supplement

Time was when funding a business began and ended at the bank. About the only upside of the banking crisis is that there are now more alternative sources of finance available, and, equally important, a greater propensity for businesses to use them.

In his capacity as manager of banking relations and growth capital at Enterprise Ireland, the State's business development agency, Donnchadh Cullinan has a bird's eye view of the transformation that has taken place with regards to SME finance.

"Enterprise Ireland supports exporting companies with a turnover of €1 million-plus and 10-plus people, anything from food to technology, at every stage of development, from university spin-outs to the Glanbias of this world. My team's job is to make sure there is an appropriate funding environment for all of them. But what's appropriate for a software start-up is going to be different than for an established company with plenty of assets, so the key for each business is to establish 'what is appropriate for us'," says Cullinan.

It could be bank debt, it could be investor capital or it could be monies raised from alternative sources of finance. It's increasingly likely to be a blend of all three. That's because business reliance on bank lending here was sorely in need of correction. According to ISME, the small and medium business lobby group, in Europe, only 30 percent of small businesses depend solely on bank finance. In Ireland, the figure is closer to 70 percent and, by some estimates, even higher.

Part of the problem is that raising finance is not a subject business owners have traditionally been strong on. "Entrepreneurs are typically very good at the making side of building a business, are weaker on the selling side, and find the funding challenging," says Cullinan.

"At Enterprise Ireland we don't care about the 'widget' or the 'revs'. We want you to tell us why someone will buy it. Similarly, when it comes to securing finance or funding,

businesses don't always come prepared with an investor value proposition."

When it comes to finding, and paying for, the right kind of finance, this homework is required. "For example, a venture capitalist will expect a certain return, perhaps from three to 10 times their investment. A bank will take a lower rate of return, but will expect a lower risk proposition too. Entrepreneurs need to know what the investor-value proposition is. But too often, what we see is the sales deck with a couple of finance slides tacked on at the back. That's not good enough."

Funding gaps

During the banking crisis, over-reliance on bank debt emerged as a major problem, particularly as so much of that debt was secured against property. "We ended up with companies that were profitable, good businesses but with bad balance sheets and big property 'overhangs'," says Cullinan.

To help plug emerging funding gaps, EI launched its Development Capital Scheme, seeding the ground for the advent of private equity funds such as MML Capital (worth €125 million), BDO Development Capital (€75 million) and the Cardinal Carlyle Ireland Fund (€290 million).

Typically these funds provide equity funding of between €2 million and €10 million, to mid-sized, export oriented businesses, particularly manufacturing and technology companies in traditional sectors including engineering, food, life sciences, services and electronics, "adding another string to SMEs' bow", says Cullinan. "Ironically, the massive challenge was getting people to use it."

To many - particularly family businesses - the mere idea of relinquishing equity was anathema. "Very many said, 'We're going back to the banks instead'," says Cullinan. What they found, however, was that the banks, which themselves learned lessons from the crisis, are no longer keen on backing projects that are 100 percent dependent on bank debt.

"It's only now that we are seeing entrepreneurs recognising that the days of 100 percent senior debt are gone," he says.

Not all deal spaces are equally well served, however, with competition greatest for big ticket deals of between €2 million and €10 million, but less so for SMEs looking for between €750,000 and €2 million.

Get Creative

Consequently, SMEs requiring these amounts are having to "get creative", he says, including making better use of EI's angel investment infrastructure.

The growth of trade finance and the advent of crowd-based funding initiatives are also changing the funding landscape. Banks will continue to play a central role for SME finance, he points out.

But while their appetite to lend is increasing, it is the "safer stuff" they are looking to back. "How you present yourself to your bank is therefore key, again it's about knowing your investor value proposition," he says.

This is all the more so given the work of the Strategic Banking Corporation of Ireland (SBCI), the Government backed dedicated SME company whose funds are distributed - at a discount- through the pillar banks. As of last July, it had lent €350 million to SMEs.

It is also channelling money to SMEs through non-bank lenders. In 2015, the SBCI and Finance Ireland, the country's biggest non-bank lender, announced €50 million in new funding for small businesses. Last year, the Ireland Strategic Investment Fund announced plans to invest €30 million in equity into Finance Ireland. In all, Finance Ireland is estimated to have provided in excess of €300 million in new lending to Irish customers by the end of last year. The lessons learned about business funding during the recession will not lightly be cast away either.

"What the recession did to many small businesses was to make them switch from expansion mode to one where every euro was held hostage. If you are in a mode where you don't have access to capital, opportunities are lost and you are more risk averse," says David O'Kelly, Partner in KPMG's Corporate Finance practice.

"We are now in a more buoyant time but we can see that the people who have done very well are those that had access to capital."

For SMEs looking to secure access to finance today, education about the expanded menu of options open to them is vital.

"In the past, SMEs were used to having banks look after all their financial requirements," says Ray Murphy, sales director of First Auto Ireland Finance, a provider of lease finance and a division of Finance Ireland.

"Now there is recognition of the need to have other providers too, to look after areas such as asset finance, while letting the banks look after your cash flow needs. Above all, SMEs need options."

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Looking beyond the traditional lending sources

By **Barry McCall**, Irish Times Special Supplement

The latest statistics from the Central Bank show that SME lending in Ireland had grown to €2.7 billion annually at the beginning of 2016, almost 5 percent up on a year earlier and a full 38 percent higher than 2014. Another welcome statistic was that rejection rates were down 11 percent from the 15 percent rate of a year earlier. This was accompanied by a significant decline in the number of SMEs seeking credit, however, so it is difficult to tell if this figure represents a real improvement.

Another noteworthy statistic is the continuing dominance of the three main banks in SME lending, with a combined market share of 95 percent. But there is a lot of choice out there for SMEs who wish to look beyond these traditional lending sources.

"Invoice discounting is a growth area," says KPMG Partner David O'Kelly. "If you have a growing business and there is a lag between getting paid for new sales and when you have to pay your suppliers, that can create difficulties with working capital. It's a good problem to have, of course, but you need access to finance if you want to deal with the problems associated with overtrading. Invoice finance is very helpful in this regards."

Invoice finance effectively involves selling unpaid invoices to a lender who advances cash equal to a proportion of the invoices handed over. The company gets paid upfront and the lender gets a fee when the invoices are paid by the debtor.

"It provides fast access to cash tied up in outstanding customer invoices," says Ciaran McAreavey, managing director of Close Brothers Commercial Finance. "It's an alternative solution to traditional types of business finance and is much more flexible than an overdraft or loan. A lot of SMEs were funded through term loans or overdrafts during the crisis and the banks have been reducing overdrafts and this put a strain on their cash flows. Invoice discounting is a very flexible tool for growing businesses."

Credit crunch

Close Bros set up in Northern Ireland in 2007 and entered the Republic of Ireland market in 2011, just as the credit crunch was at its most severe, and now has 60 people employed in Ireland. Another area in which the company specialises is asset finance. This covers traditional hire-purchase lending and loans against specific assets already owned by a business, such as a piece of machinery.

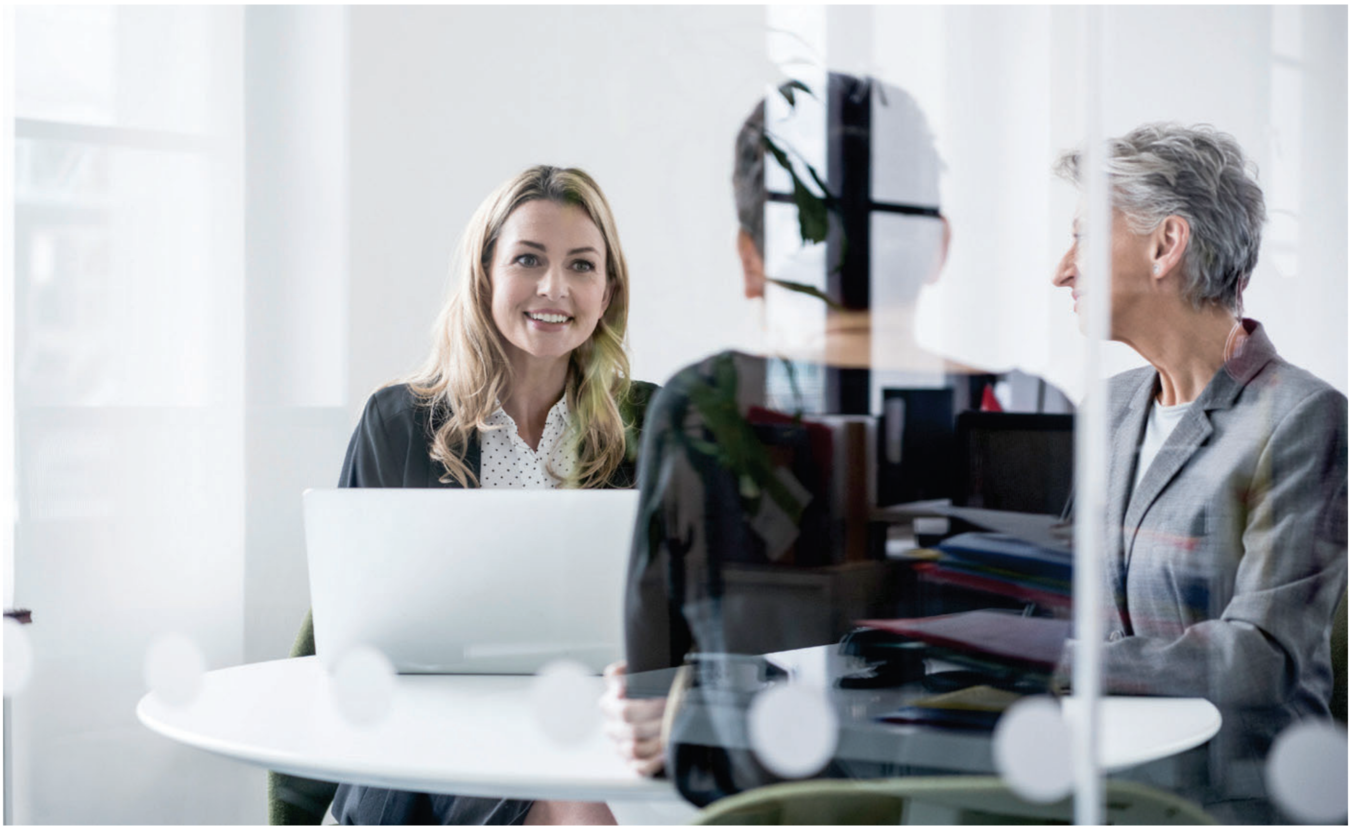
"We will cover all asset types and all sectors," says McAreavey. "A lot of lenders will just specialise in particular types of asset such as cars or trucks; we will look at everything from a piece of agricultural machinery to a space shuttle part. We have our own team of experts in our in-house valuations department so we know the value of what we are lending against.

"We will also re-finance assets and this is quite unique in the market. A farmer or factory owner might have a piece of machinery or equipment that they have paid off and they need cash to invest in the business. We will lend against those assets."

Another company to set up here in 2011 is Finance Ireland and its First Auto Finance subsidiary. "We set up here in 2011 at a time when a lot of the major players had exited the market," says sales director Ray Murphy. "We have had a great market there for asset finance for SMEs and the agricultural sector. We will fund anything from

"If you have a growing business and there is a lag between getting paid for new sales and when you have to pay your suppliers, that can create difficulties with working capital..."

David O'Kelly, Partner, KPMG in Ireland



cars to vans to tractors to road scrapers. One of the big advantages we offer is speed. Our customers tell us it can take weeks for a bank to process an application for even quite a small loan amount. We can do it in days or even in hours."

Big barriers

Another alternative is Convertibill, which provides a range of trade finance products to enable businesses to finance their capital requirements. According to marketing manager Damian Kenny, its products allow business owners to control how they finance and grow their businesses. "Trade finance can also remove the need for personal guarantees, liens and other restrictive practices common amongst traditional lenders," he says.

The main products offered by the company include order finance, supplier finance, invoice finance, sales finance, distribution finance, and lease finance.

"Our customers tell us the banks' requirements, time to make a decision and the amount of information they need is a big barrier to approval," says Kenny. "That's why many businesses choose Convertibill. We can provide finance where the banks won't and because we are smaller, we can approve faster. "Also, our customers know where they stand at all times and they are not locked into onerous contracts with punishing exit clauses. Where a bank might take three weeks to make a decision, we will make it in a matter of days."

The different forms of finance offered by Convertibill are designed to meet the varying needs of business. Supplier finance helps businesses manage their supply chains by providing them with the finance to manage supplier payments while maintaining the cash flow they need to continue trading.

"By providing the cash to enable customers to finance their supply chain, we remove the barriers to business success and allow them to take advantage of bulk buying and early payment discounts," Kenny explains.

The personalised level of service which these lenders can offer is also critically important, according to Kenny. "We sit down with our customers to understand their business so that we can provide them with the finance they need to help them grow and develop. No two businesses are alike and we pride ourselves on offering solutions which meet the specific needs of each individual customer."

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Ten things to do before you sell

When the time to sell your business comes, be prepared to get the most out of it, writes **David O'Kelly**, Partner, KPMG in Ireland

The Irish mergers and acquisitions (M&A) market is recovering quickly, and both buyers and sellers are finding it easier to complete attractive deals. The drivers of increased M&A activity range from a more active banking market, purchasers with strong balance sheets, significant amounts of dry powder in private equity funds and a return to valuations that work for both buyer and seller.

For most, selling a business is a huge personal and financial decision. When advising on a sale, we aim to maximise value by positioning the business in the best light, ensuring that value is not inadvertently left on the table and maintaining competitive tension throughout the deal.

In this article we have outlined ten tips that we think will help you maximise your outcome in a transaction in 2017.

1 Focus on goals

While it might seem simple, it is vitally important to spend time clarifying your objectives prior to engaging in a transaction. Typical issues that require consideration include whether you intend to sell the entire business or part of the business; will you or a family member remain employed in the business after the transaction; or will you allow management to formulate an MBO? Having clear objectives at the outset will guide complex decision making later in the transaction.

2 Assemble your selling team

Selling a business is an incredibly time consuming activity. A lot of effort is required to prepare the business for sale, assemble all of the required information, manage negotiations with purchasers and in project-managing the transaction to completion. It is critically important that key management are enabled to run the business and are not distracted by the sales process. Should financial performance deteriorate during the transaction, regardless of whether it is temporary or permanent, bidders will often seek to take advantage and reduce pricing.

The critical roles in any well managed transaction include a transaction leader with experience of closing deals, such as a corporate finance advisor, a primary point within the business to assemble the required information and an experienced sounding board, along with the various tax and legal professionals

3 Recurring profits

It's not unusual for profits in private companies to be lower due to one-off expenses, investments in the future growth of the business and shareholder costs, such as dividends taken as income.

Many of these items may lead to justifiable adjustments that help demonstrate higher recurring profitability than may originally be perceived from an initial review of financial information. It is important to highlight and get value for these adjustments to ensure a fair transaction value.

4 Tidy up your balance sheet

Similar to hidden profits, private companies often own assets that a purchaser may not value. While most people will remember to take the racehorse out of the company, there can be other assets such as currently unused property, unnecessary stock or old production equipment that may yield more value if extracted prior to a sale.

5 Working capital

Maximising your position on working capital can often be a significant determinant of your ultimate disposal proceeds. Often purchasers seek to take advantage in negotiating the working capital position. Vendors should ensure that they prepare for any negotiations by analysing the business's stock, debtors and creditors to form a strong argument about the normal level of working capital and the level of surplus cash that can be retained by the vendor.

Consideration should also be given as to whether customer and supplier terms are in line with market norms and whether they should be normalised as part of pre-sale preparations.

6 Mind your tax

From a tax point of view, the key tip is to be prepared! Review the ownership structure of your business well in advance of sale to determine what exactly is likely to be sold (for example, which companies, assets or parts) and how the beneficiaries of the sale will be taxed.

Specific tax reliefs should be investigated, including capital gains tax retirement relief and the participation exemption – a complete relief from capital gains tax for companies selling shares in certain other companies.

7 Eye up buyers

You will probably be aware of the likely domestic trade buyers. Your advisor should know the priorities of foreign purchasers and how to get access to the right person in those organisations.

In the current environment, there is significant interest from domestic and foreign private equity funds in strong private Irish business. Consideration should be given whether your business would suit a private equity buyer. Key concerns for private equity include the strength of the management team, a strong organic or acquisition growth story, potential for eventual exit and key risks or dependencies within the business.

8 Prepare upfront

When an approach is made, willing vendors are often tempted to commence sale discussions before they are ready. The time spent preparing upfront is very valuable to help position the opportunity, ensure that any pitfalls are managed and to maintain momentum in the process, even when significant demands are placed on resources by purchasers requesting large volumes of information during the diligence process.

In addition to the grooming mentioned above, it is worthwhile positioning the opportunity clearly in marketing documents, preparing robust forecasts that demonstrate increasing value, spending time assembling all of the information that a purchaser is likely to require in a data-room and assessing how a bank and a purchaser might consider the deal. In recent times, some vendors have taken the additional step of commissioning their own financial due diligence so that they are aware of issues in advance of the prospective purchaser and are afforded an opportunity to rectify the situation.

9 Structure your deal for success

It is essential to structure your transaction so that you receive the best outcome and to ensure the deal is completed in an efficient manner. While pricing and the timing of payments is important, other vital factors often get less attention.

For example, many transactions include a deferred consideration element which can form a bridge between the vendor's expectation and the amount the purchaser is willing to commit today.

To the degree that a transaction includes a deferred payment, it is important to clearly specify measurable events that trigger the payment. Vendors should also receive satisfactory confirmations of the ability of the purchaser to fund the additional consideration.

10 Stay focused

Transactions can absorb a huge amount of time and effort and it is important to maintain momentum throughout the deal. Often, the parties can lose momentum when exclusivity is granted, as a false sense of completion descends. It is critical to maintaining value and closing the deal that work streams are actively managed at all stages, through to the completion of the transaction.

In conclusion, it is important to plan and prepare for a process that is executed in a professional manner in a short period of time. By taking this approach, the risk to the business can be minimised and the outcome for the shareholders improved by achieving tension between competing bidders.

David O'Kelly advises private Irish business on M&A and financing in KPMG.

Doing deals?

Our Corporate Finance team is at the heart of significant transactions in Ireland. Our expertise and experience helps ensure that strategic growth through M&A and funding solutions is delivered.

Advised to Barchester Healthcare on the sale of its Irish assets

M&A

Sell-side advisor to Arytza AG on its disposal of La Rousse Foods

M&A

Advisor to Bridge Energy Services (NI) on the acquisition of a controlling stake in Bridge Energy (NI)

M&A

Advisor on the disposal of Ashdale Care, a specialist residential care provider, to MML Growth Partners

M&A

Financial advisor to PlanNet 21 on the acquisition of Agile Networks, an Irish provider of IT network integration services

M&A

Advisor to RiverRidge Recycling on the acquisition of Amber Merchants Ltd

M&A

Advised on the merger of RHP Radiators with 2iM, a Welsh metal recycling company

M&A

Advisor to Cannon Kirk Group on the refinancing of their loans with NAMA by Oaktree Capital Management

Funding

Advisor to Shaw Academy in its procurement of a venture debt facility to support growth

Funding

Advisor to Hermitage Medical Clinic on financing

Funding

Advisor to RiverRidge Recycling on its equity fundraising from BGF private equity fund

Funding

Financial and procurement adviser to the Department of Communications, Climate Action and Environment.

Infrastructure

Financial adviser to TII on a range of road and rail infrastructure projects.

Infrastructure

Adviser to NTA across a range of strategic public transport projects.

Infrastructure

KPMG are advising Councils in Northern Ireland on the design and structuring of a Belfast Region City Deal

Infrastructure

PPP Projects

Financial adviser a range of PPP projects undertaken in Ireland over the last 20 years

Infrastructure

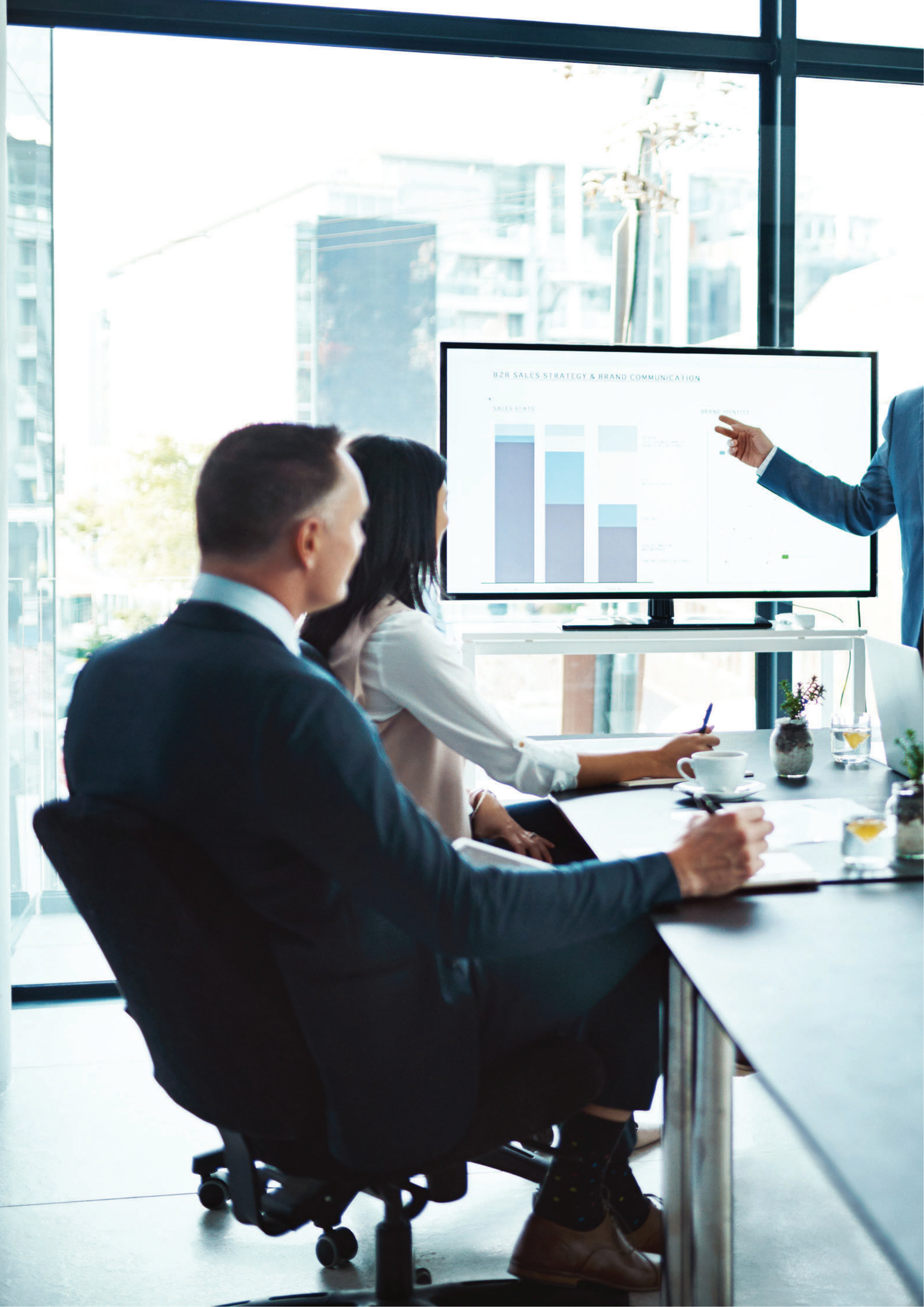
A number of intangible assets valuations / purchase price allocations have been carried out for Glanbia

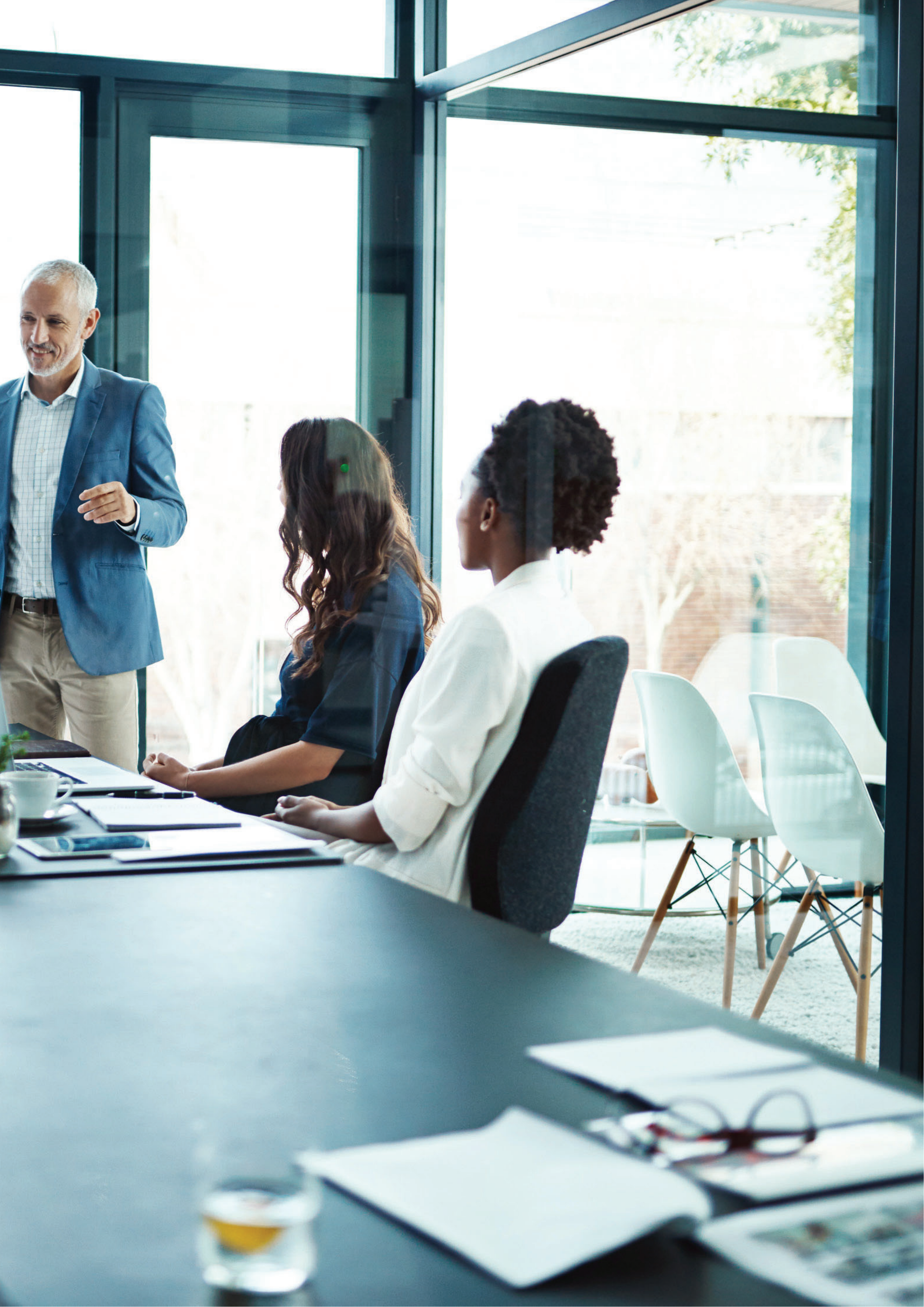
Valuations

Deleveraging

Leading deleveraging advisor in the Irish market (> €35bn par value across multiple transactions)

Deleveraging


B2B SALES STRATEGY & BRAND COMMUNICATION



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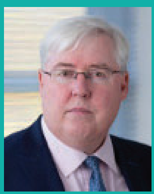

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