



# M&A Outlook 2019

Deal insights for Ireland



# Foreword

We are delighted to present the findings from our survey on the outlook for Irish M&A activity in 2019. This fifth annual survey was conducted with many of Ireland's leading corporate executives and M&A advisors. We hope that it provides valuable insights into M&A trends for the year ahead.



**Mark Collins**

Partner, Head of Transaction Services



**David O'Kelly**

Partner, Corporate Finance

## 2018 – A BUOYANT M&A MARKET

The 2018 M&A market in Ireland remained buoyant, building upon the already strong levels of activity in 2017. This reflected the general confidence in the Irish economy, availability of funding at attractive terms and the re-emergence of M&A as a strategic imperative in Irish corporate boardrooms.

Large Irish corporates remained very prominent on the international M&A landscape in 2018. The year was bookended with Total Produce's acquisition of 45% of the agricultural multinational Dole Food Company for US\$300 million and Greencore's disposal of its US operations for US\$1.1 billion. Other highlights during the year included the disposal of Adapt Pharma to specialty biopharmaceutical company Emergent BioSolutions for up to US\$735 million and Smurfit Kappa's robust defence from International Paper's multi-billion dollar bid.

Notwithstanding volatility in domestic and international global markets towards the latter half of 2018, Irish plcs such as DCC, Applegreen and Glenveagh utilised capital markets during the year to fund their current and future acquisition pipeline. However, a number of planned IPOs in Q4 were shelved and capital markets remain subdued.

Private equity continued to feature as a major player in the Irish M&A environment, a trend that has increased year on year during the five year lifetime of our M&A Outlook. 2018 also saw a further wave of private equity exits from initial investments as funds refreshed their capital for the next round of M&A activity. This cycle of investment, growth and exit is now well established as a clear and attractive funding option for Irish companies and is anticipated to continue throughout 2019.

## 2019 – MIXED SENTIMENT

In the five years we have been conducting this survey, 2019 is undoubtedly one of the most difficult to predict. The deal making community is cautiously optimistic about the year ahead, with the majority of respondents expecting deal volume at or above prior year levels, despite prevailing global macro-economic uncertainties.

M&A executives believe that it continues to be a seller's market having regard to strong valuations and access to funding. Depending upon the strength of the global economy and sustainability of corporate earnings, this balance may shift towards buyers over time.

Concern about the potential impact of Brexit negotiations, which are at a hyper-sensitive point, is evidenced by a widely held view amongst survey respondents that a no deal / hard Brexit can only be negative for Irish M&A. However, many respondents note that Brexit may present opportunities should UK businesses seek to mitigate associated regulatory and supply chain risks through strategic acquisitions of Irish operations.

Respondents anticipate (i) Technology, (ii) Healthcare and (iii) Food and Agribusiness will be the most active sectors for M&A transactions, with these sectors consistently attracting global interest.

Separately, many respondents attribute post-deal integration failures to cultural misalignment, people related challenges and inadequate diligence.

An overarching survey sentiment is the positive impact of the robust funding environment, with increased competition for targets amongst well funded trade and financial buyers. Debt continues to be the funding source of choice, with attractive terms and new entrants / alternatives in the Irish market.

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

# Highlights



## 2019 DEAL VOLUMES

Respondents remain optimistic for the year ahead, with 87% forecasting activity at or above 2018 base levels, reflecting **Ireland's continuing appeal as an attractive location for M&A.**



## SELLER'S MARKET

**60% of respondents expect 2019 to be a seller's market,** with increasing numbers of domestic and foreign investors competing for Irish targets.



## BREXIT

The **majority of respondents expressed concern that Brexit will have a negative or neutral effect** on deal activity in 2019. However, many M&A executives cited that this **period of uncertainty could also provide M&A opportunities for Irish companies.**



## FINANCING

**Debt will once again be the primary source** of deal funding, with attractive terms, flexible instruments and increased presence of new lenders in the market. **Global and domestic private equity is also expected to feature prominently.**

# Highlights



## DEAL DRIVERS

An increasing proportion of M&A executives expect **strategic merit / fit to be the primary driver of acquisitions.**



## M&A GROWTH STIMULANTS

Respondents generally assert that deal activity can be further stimulated by **building awareness of available targets and more sophisticated vendor preparation.**



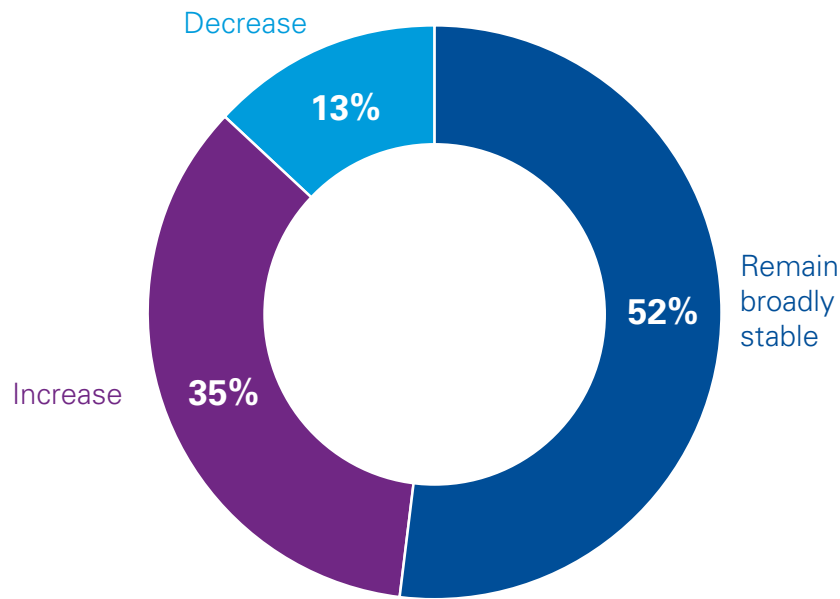
## INTEGRATION

**Cultural misalignment, people related challenges and inadequate diligence and planning** are the main factors cited for post-deal integration failures.



## EXIT

Compared with previous years, a growing share of respondents think **disposals to financial buyers will be the most likely exit option.**



## Deal volume

### How do you expect deal volume in Ireland in 2019 will compare to 2018?

Respondents are optimistic that 2019 deal volume will continue to at least track the buoyant levels of activity evidenced in 2018, with (somewhat surprisingly) just 13% anticipating a reduction in deal flow.

Ireland continues to be viewed as an attractive business environment, particularly in the mid-market M&A space. This is attributed to the ability to achieve sustainable growth through strategic acquisition, together with the availability of finance at attractive rates, private equity funds with capital to deploy, a resurgent domestic banking sector and strong corporate balance sheets.

Irish deal makers are cautious but broadly optimistic for the year ahead, while calling out current macro-economic and geopolitical headwinds, most notably: (i) the outcome of Brexit negotiations; (ii) international trade wars (US / China in particular); and (iii) capital market volatility.

**“Despite various macro headwinds, our survey indicates sustained deal activity through 2019. A carefully designed approach to M&A, now more than ever, forms a key plank in the strategic foundations of Irish businesses.”**

**MARK COLLINS**

Partner, Head of Transaction Services  
KPMG in Ireland



## 2019 market

### Will 2019 be a buyer's or a seller's market?

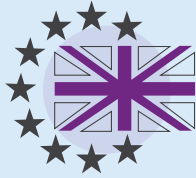
The majority of participants believe that 2019 will primarily be a seller's market as prevailing market conditions are expected to continue:

- Strong pipeline of attractive Irish assets, with sound post-recession financial track records;
- Competition for Irish target assets amongst domestic and foreign investors;
- Persistence of strong valuations; and
- Availability of financing.

Deal makers are increasingly wary that these market dynamics may not prevail and the balance could begin to shift towards buyers over time.

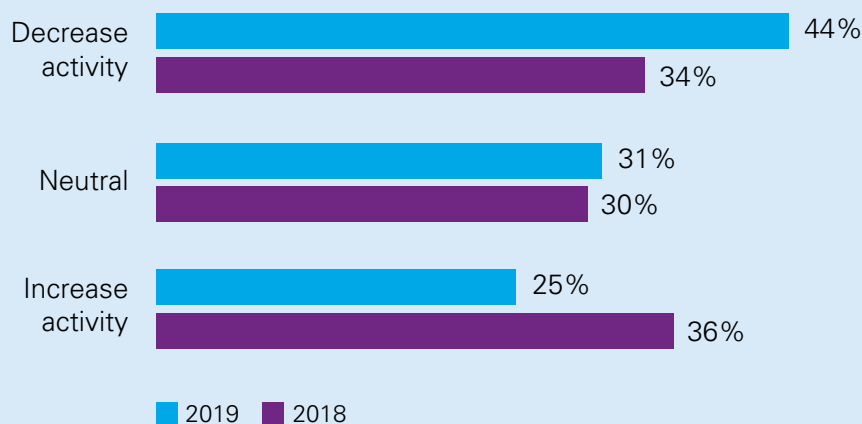
**“We see great potential to transform and grow our core business while scaling new opportunities. This can be achieved by exploiting organic growth opportunities and pursuing acquisitions in selected markets that fit within our existing business segments. While there are always specific and global risk factors which will influence our business expansion plans, we have a significant pipeline of business opportunities as we look into 2019 and beyond.”**

**PAT DALTON**  
CFO, IPL Group plc



# Brexit negotiations

## What is the likely impact of Brexit negotiations on deal activity involving Irish companies in 2019?



There is understandable uncertainty within the Irish deal making community surrounding the outcome of the ongoing Brexit negotiations and the consequences from an Irish perspective. We go to print at a time when a range of outcomes remain possible, with far reaching consequences.

A significant proportion of survey participants (75%) believe that Brexit will have an adverse / neutral effect on deal activity in 2019 - a far more negative outlook in comparison to 2018. The imminence of a Brexit decision with its wide ranging impact on trade, border controls, cross-border tariffs, the tax and regulatory environment and foreign exchange markets make accurate forecasting and managing 2019 expectations challenging for the Irish M&A community. It has potential to create significant overhang in the M&A market.

Conversely, many note the increased attraction for UK businesses to acquire Irish companies during 2019 as a defensive restructuring mechanism and a means of de-risking in the context of regulatory and supply chain uncertainty. Similarly, 2019 may present a window for opportunistic Irish companies to acquire / build positions in the UK market through strategic acquisitions.

**“Irish organisations with interests in the UK need to undoubtedly prepare for Brexit related business disruption. However, if focusing on preserving and driving a ‘local’ UK strategy, they also need to continue to position themselves to capitalise on acquisition opportunities that will inevitably present.”**

**EOINTONGE**  
CFO, Greencore Group plc





## Deal making

**What factors will enable greater deal making in Ireland in 2019?**



The prevailing economic environment in Ireland has supported the continued increase in deal activity in recent years. The view of participants is that an increased awareness of targets would enable deal making, with a heightened emphasis placed on this factor in comparison to 2018. A more systematic approach to identifying targets and an awareness of increasing competition in the market can greatly enhance deal activity and success.

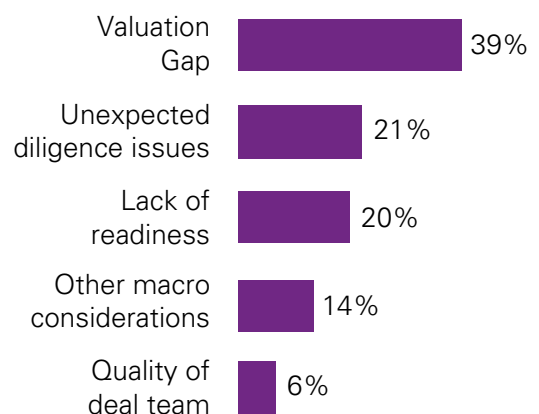
Participants continue to view more sophisticated sell side preparation and speed of access to financing as important enablers of deal making.

Prior to entering a sales process, it is essential that potential diligence issues are identified on a timely basis in order to encourage remediation actions to be taken to avoid value erosion. This can pre-empt bidder issues and provide solutions that can be put in place prior to commencing a process.



## Deal failure

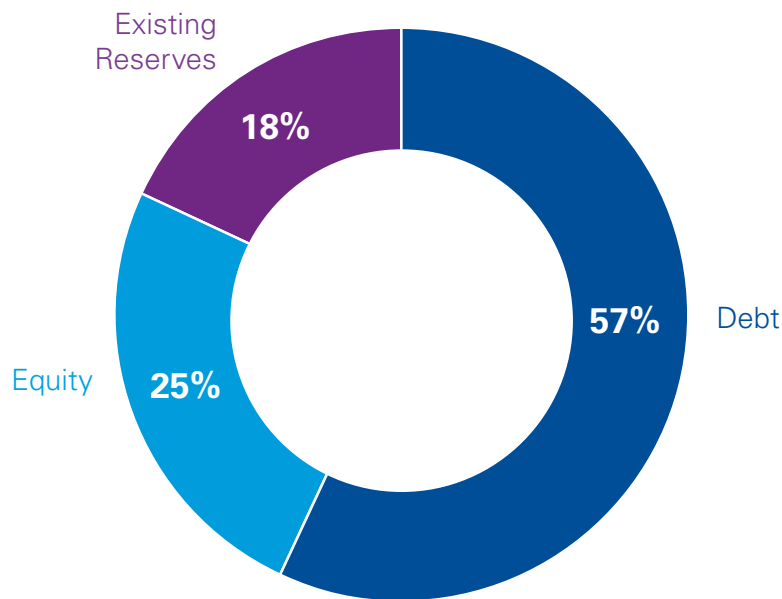
**In your opinion, what are the primary reasons for deal failure?**



As captured in previous surveys, price / valuation is the rock on which many deals perish. This highlights the importance for sellers of educating potential buyers about the value proposition and the specific market dynamics which drive their valuation expectations.

Sellers should ensure that significant issues are appropriately flagged at the outset of a process giving time for management and advisors to effectively manage and communicate the issues.

From a buyer's point of view, an even-handed, fact-based approach to due diligence can expedite the resolution of price adjusting diligence findings.



## Acquisition funding

### What is likely to be the primary source of funding for acquisitions which you anticipate undertaking in 2019?

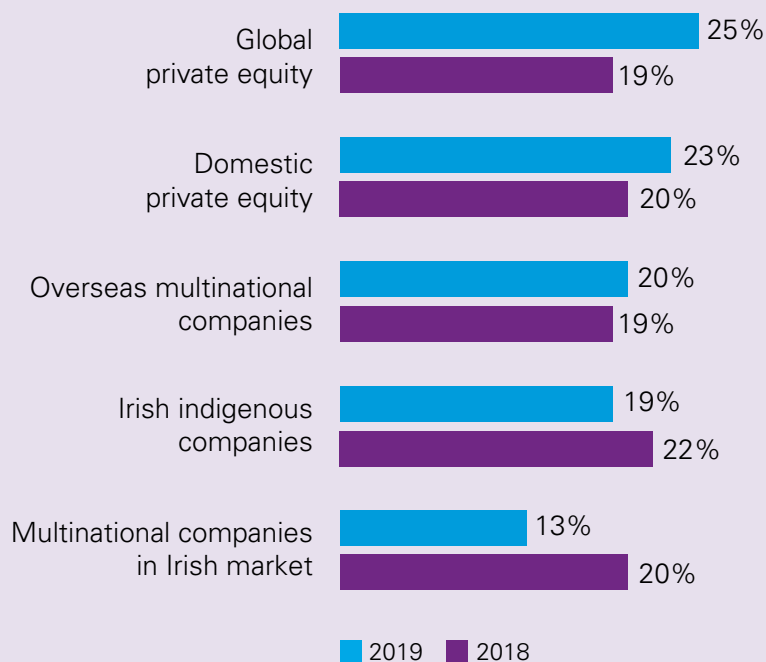
The majority of respondents intend to use external funding for acquisitions in 2019. A consistent trend of this survey is that debt is the most common type of financing for acquisitions, with the debt markets having a positive effect on credit availability and attractiveness of terms.

The variety of lending options available continues to increase, driven by the presence of international banks, non-bank lenders and the use of flexible instruments. Global and domestic private equity remain very active in the Irish market, with significant levels of capital to deploy. Private equity concerns continue to invest through a variety of innovative structures, in both majority and minority deals.

**“We funded Irish companies doing innovative deals across a variety of sectors in 2018. Looking forward, we plan on continuing to support the growth ambitions of Irish business.”**

**SIMON SCROOPE**

Head of Corporate Banking, AIB



## Acquisition volume

### Which of the following groups would you consider the most likely to complete the highest volume of acquisitions in Ireland in 2019?

The proportion of respondents expecting financial buyers to be the most acquisitive group within the domestic marketplace has increased significantly, underlining the growing importance of private equity for Irish M&A activity. However, it remains a very competitive landscape with a relatively even spread across multiple buyer groups / types.

Respondents believe that Irish indigenous / multinational companies will remain very relevant and active participants in auction processes and will continue to compete with financial buyers for strategic acquisitions.

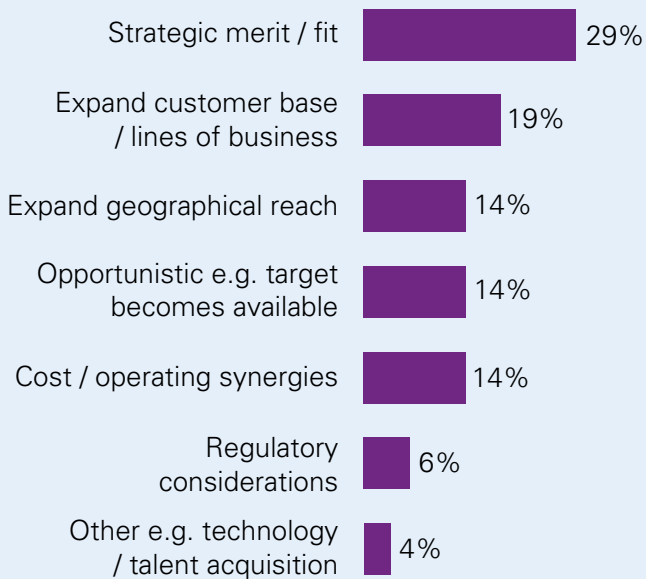
**“Private equity remains a prominent feature of the Irish M&A market given the advantages of private equity to founder and family-owned businesses both in funding long-term growth and supporting succession planning.”**

**JONATHAN COSGRAVE**  
Managing Director, The Carlyle Group



# Deal considerations

## Acquisitions

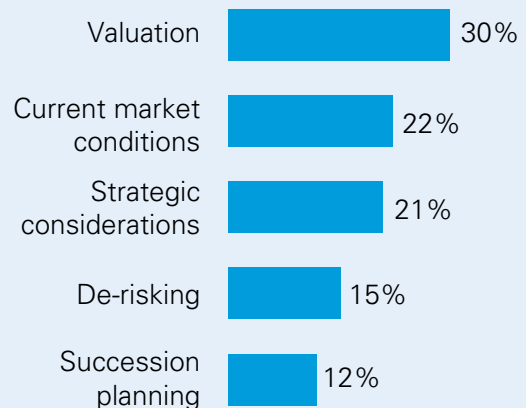


It is telling that the alignment and compatibility of long-term goals is deemed of greatest importance and ranks higher in executive decision-making than the availability of targets or the opportunity to grow customer bases or boundaries.

It illustrates that M&A has become a central tenet of Irish boardroom strategy and is increasingly to be found towards the top end of the order of business at executive meetings.

A surprising feature of the survey results is that regulatory and technology considerations were ranked by just 6% and 4% respectively as the main imperatives for deal making in 2019. It will be interesting to note whether a greater proportion of respondents identify these factors as the main drivers of acquisitions when we conduct future surveys.

## Disposals



Perhaps unsurprisingly, survey respondents highlighted valuations as the key driver they consider when assessing whether to initiate a disposal process, reflecting the strong multiples achieved by well-managed, profitable Irish businesses in recent times.

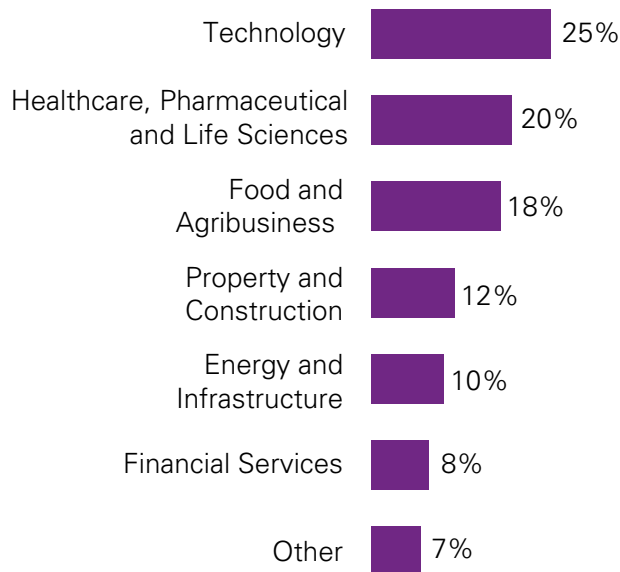
This has been possible due to the increased competition in the Irish M&A marketplace for targets amongst well-funded trade and financial buyers.

In 2019, we expect further carve-outs of business segments or the strategic disposal of non-core assets as companies seek to maximise shareholder return and utilise capital raised to focus on driving growth in markets and areas of core competencies.



## Sectors

**Within which sectors would you anticipate the most acquisitions to occur in Ireland in 2019?**



For the second consecutive year, respondents anticipate that Technology, Healthcare and Food and Agribusiness will be the most active sectors for M&A transactions.

These results come as no surprise as Ireland is well established as a global leader in the Food and Agribusiness sector while Irish based Technology and Healthcare sectors continue to develop innovative, best in class businesses.

Sector convergence and consolidation is likely to be an emerging theme in 2019.

**“We have completed a number of innovative minority deals, across a range of sectors, with private equity investing and founders taking significant value off the table. We expect both of these trends to continue in 2019.”**

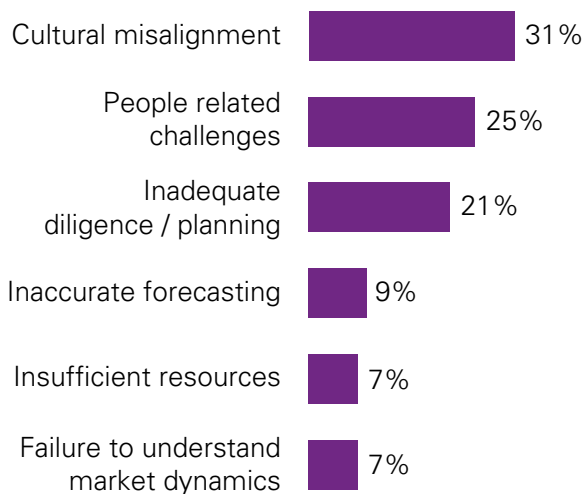
**DAVID O’KELLY**

Partner, Corporate Finance  
KPMG in Ireland



## Integration

**In your opinion, why does post-deal integration fail?**



Cultural misalignment, people related challenges and inadequate diligence and planning are the reasons most frequently cited by respondents for the failure of businesses to successfully integrate post-acquisition.

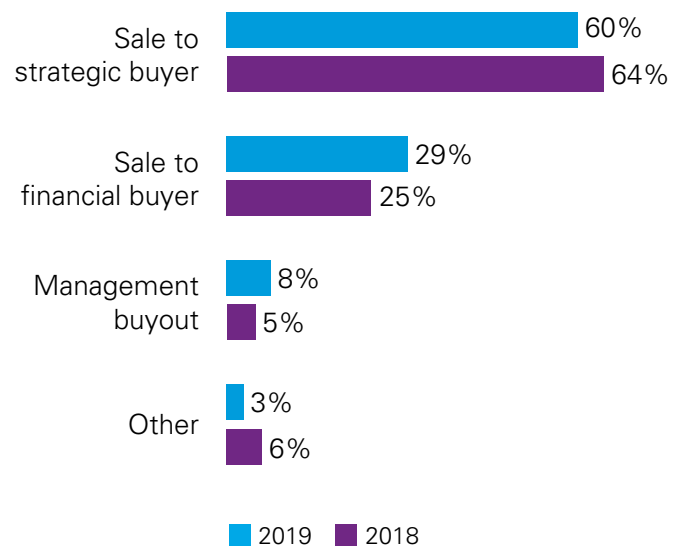
The absence of a formalised cultural alignment plan with appropriate resources to implement has resulted in post-deal complications on a wide range of Irish M&A transactions.

Inadequate diligence / planning is a largely avoidable impediment to successful integration, yet it continues to frustrate and even derail transactions.



## Exit strategy

**In your opinion, which exit strategy will be most preferred in 2019?**



The majority of M&A executives expect that strategic buyers will continue to compete effectively with financial buyers for Irish assets given their sectoral presence and expertise, ability to exploit synergies and long-term value realisation perspective.

However, a growing share of respondents view disposals to a financial buyer as a more likely exit option in the coming 12 months.

It also appears that survey participants will be taking a more cautious approach to the capital markets in 2019, a consequence of the recent turbulence in global markets.

# Methodology

M&A Outlook 2019 is based on research conducted in December 2018 amongst a wide cross section of Ireland's leading M&A executives and advisors:

- Indigenous private Irish: 30%
- Corporate finance, legal and other advisors: 29%
- Irish PLCs: 21%
- Private equity: 13%
- Multinational companies in Irish markets: 7%

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