



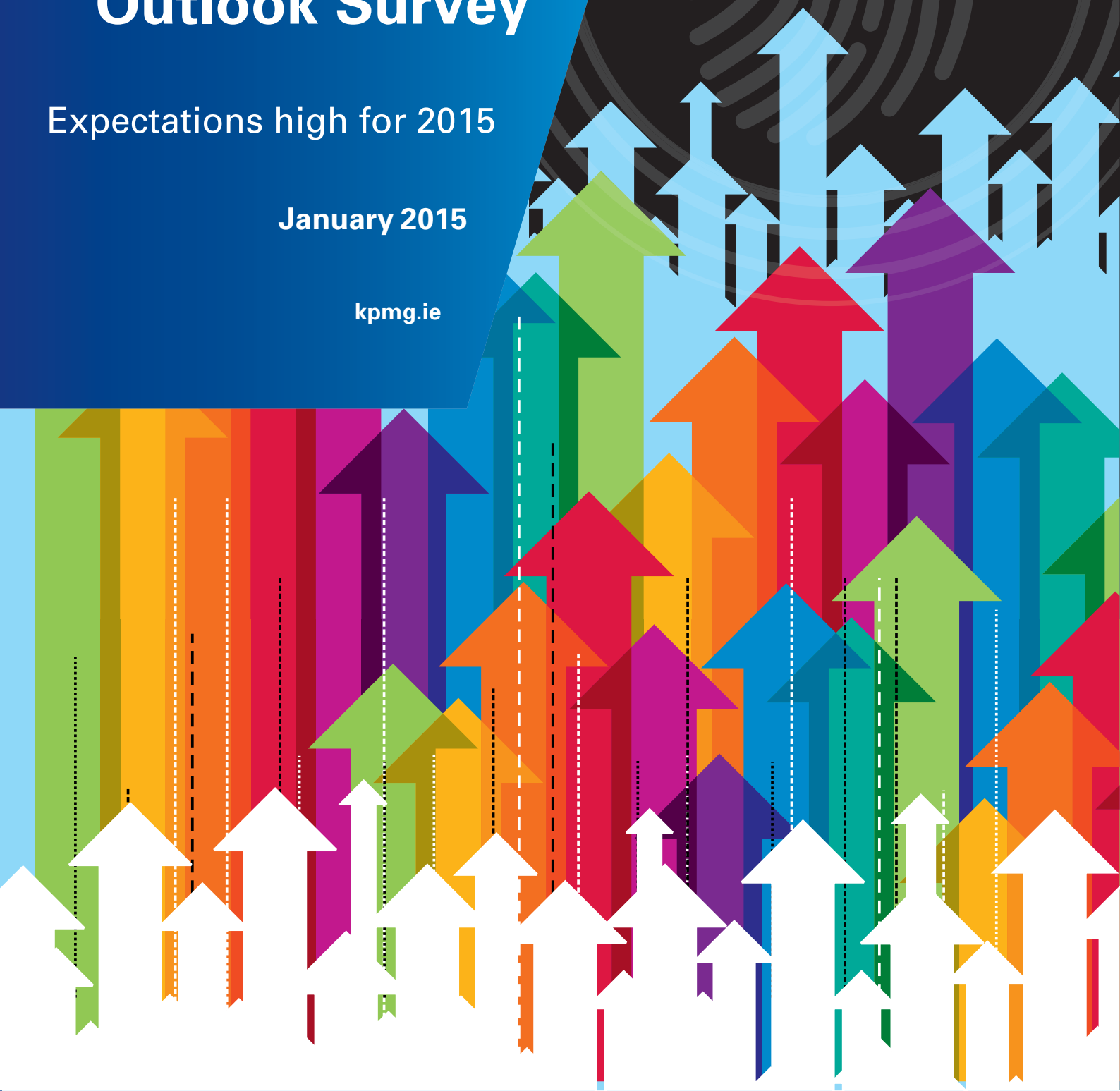
*cutting through complexity*

# 2015 M&A Outlook Survey

Expectations high for 2015

January 2015

[kpmg.ie](http://kpmg.ie)



# Foreword



**Mark Collins**

*Head of Transaction Services*  
KPMG Ireland

2014 saw a marked improvement in the Irish economy, with GDP growth at approximately 5%, falling unemployment, record low bond yields and the exit from the IMF bailout programme. While overall EU economic performance remains sluggish, the Irish economy has undoubtedly turned the corner and capitalised on a return to confidence within the international markets.

As expected, the improved confidence in the Irish economy has given rise to growth in Mergers and Acquisitions (M&A) coupled with more pronounced capital market activity. Access to appropriate and competitively priced sources of finance has also contributed to these activity levels.



**Paul Hollway**

*Head of Corporate Finance*  
KPMG Ireland

To gain a deeper appreciation of the 2015 M&A landscape, we surveyed many of Ireland's top corporate executives and leading M&A advisors. The survey findings set out in this report clearly indicate that M&A is high on the boardroom agenda once more and M&A activity levels are expected to experience continued growth.

The survey provides thoughtful and valuable insight into market expectations for 2015 and examines what will drive investment/exit decisions, in which sectors and in which geographies.

We hope you find it of interest.



# Survey highlights



## 2015 deal activity expected to be greater than the prior year.

There is an overwhelming level of confidence in the Irish M&A outlook with 96% of survey respondents expecting deal activity to increase in 2015 over the prior year. Improved market confidence, the availability of debt and equity financing and a return to more reasonable valuations are expected to drive investment activity.

## Irish investors to primarily consider opportunities at home and in the UK.

Irish investors are expected to primarily seek investment targets within Ireland and the United Kingdom. Opportunities within the US and Europe will also be pursued albeit to a lesser extent. Irish investors appear less enthusiastic about opportunities in Asia at this time.

## M&A deal expectations high within specific sectors.

It is expected that most acquisitions in 2015 will occur within the following sectors: (1) Agribusiness and Food; (2) Technology; (3) Property and Construction; (4) Healthcare, Pharmaceutical and Life Sciences; and (5) Financial Services.

## Investor confidence and funding are key to driving deal activity.

Investor confidence and the availability of credit on favourable terms were considered as the key factors driving deal activity in the Irish market. Following years of challenges inhibiting investment activity in Ireland, the need to more aggressively pursue growth and investment strategies is now high on the corporate agenda.

## Respondents have identified people as the top driver of deal success.

The respondents have cited the most important factor for deal success as identifying the right management team to steer the newly acquired entity. The identification of an appropriate target and a well executed integration plan were also high on the list of success factors. Over 70% of respondents indicated that cultural and HR issues were the most challenging areas to overcome for deal success.

## Most likely exit strategy is a sale to a strategic buyer.

Respondents considered the most likely exit strategy to be a sale to a strategic buyer over a sale to a financial buyer, a refinance or an IPO. Threats to successful exits include valuation expectations, the funding environment and any instability in the political landscape.



# Continued growth in M&A activity

Survey respondents were extremely positive about the outlook for the Irish M&A market, with **96% expecting an increase in deal activity in the coming year.**

Stabilisation of the Irish economy and growth in investor confidence through 2014 provides for a favourable environment for M&A growth to occur in 2015.

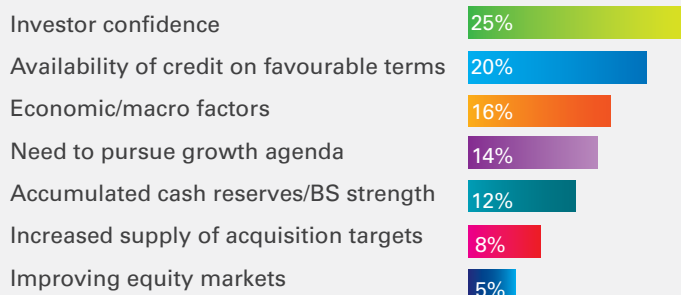
Respondents expect the key factors that will drive M&A growth will be higher market confidence levels together with an increase in the availability of credit on more favourable terms. The enhanced access to capital should assist growth in 2015 as more and more deal makers look again to the debt markets to finance new acquisitions. Furthermore, it is likely that indigenous investment funds will become even more active in 2015.

Respondents highlighted the general improvement in economic conditions and stability within the political landscape as drivers of deal activity in 2015 and beyond.

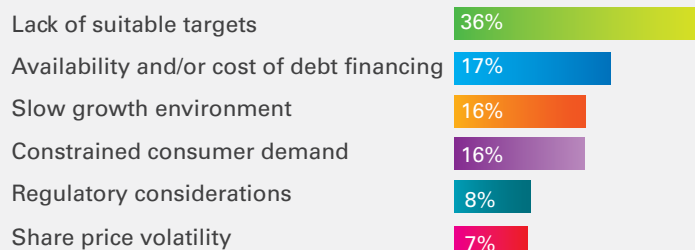
Irish investors expect to seek opportunities principally in the Irish and UK markets and in the US and European markets to a lesser extent. PLCs are more likely to undertake deals overseas than private Irish businesses.

Overall, investment into Ireland is anticipated to continue to be dominated by global private equity investors and overseas multinational companies, who are likely to seek opportunities from the ongoing Irish bank loan sales processes. Secondary markets in this area are emerging and this will continue throughout 2015.

## Q Which factors do you think will most drive deal activity in Ireland in 2015?



## Q What factors do you think could most inhibit deal activity in 2015?





## Predicted M&A activity in 2015 by industry



Deal activity within the agribusiness/food and technology sectors is anticipated to be highest in 2015 in line with trends experienced in 2014. Interestingly, the property and construction sector is also expected to be a focus area for investors. The Irish pillar banks, and other international debt providers, are actively supporting deals in all key sectors highlighted by the survey.

It is encouraging that private Irish businesses, including SMEs, are now more confident of accessing higher levels of debt, equity and mezzanine finance.

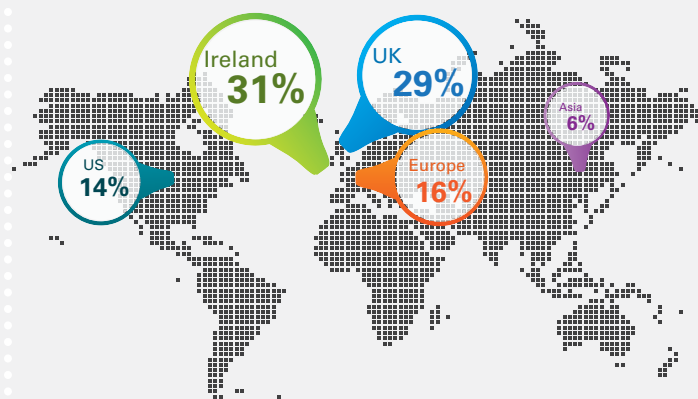
The principal factor identified that could inhibit deal activity was the lack of suitable targets in the Irish market. This will always be a limiting factor in a relatively small economy which has historically seen Irish investors seek acquisitions in the UK and elsewhere. Notwithstanding this, the sentiment from respondents was that there are opportunities in the Irish market given the lower volume of transactions in more recent years.

Certain respondents, in particular those that form part of larger international organisations, also pointed to the need for continued political stability as a key feature for underpinning investment decisions in Ireland.

## Q Which of the following groups would you consider most likely to complete the highest value of acquisitions in Ireland in 2015?



## Q Where do you expect Irish investors to primarily seek acquisition targets in 2015?



North and South America (not including the U.S.): 3% Asia Middle East/Africa: 1%

# Strategic fit motivates buyers

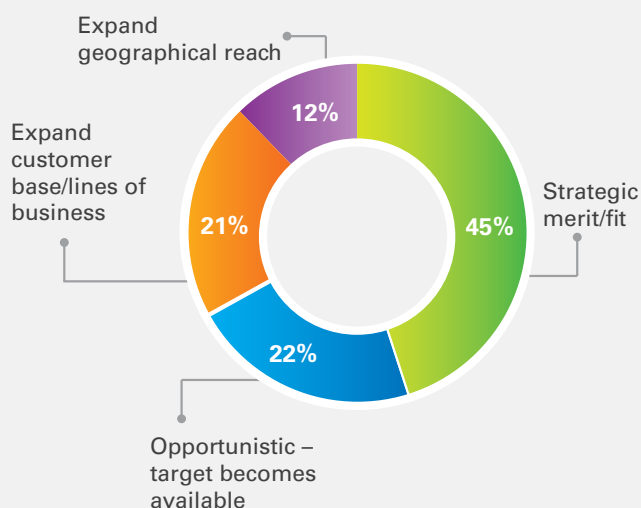
**Identifying and integrating the right management team is the key determinant of success.**

Growth and investment strategies are high on the Irish corporate agenda. While expanding geographical reach and the customer base were put forward as important factors, finding the right strategic fit is the overwhelming reason for an acquisition. Over 20% of respondents are expecting opportunistic acquisitions to present during 2015.

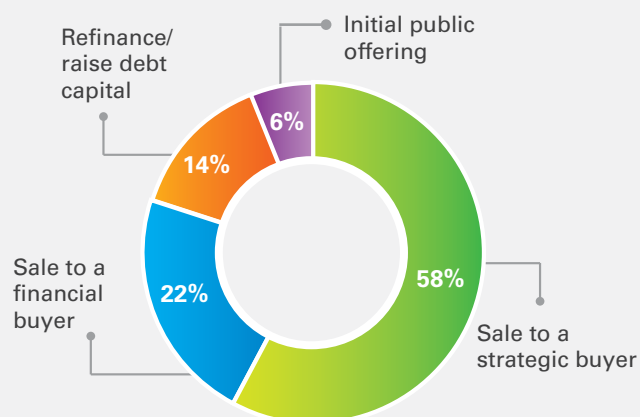
Specifically, Irish PLC respondents indicated a renewed appetite for deals. In many cases, respondents pointed to more reasonable price expectations from vendors as a driver for renewed M&A activity.

A number of PLCs surveyed indicated a desire to undertake a transformational acquisition during 2015.

**Q Beyond increasing revenues or cutting costs, what is the primary reason for the acquisitions you undertake?**



**Q Which exit strategy will be most preferred by companies in 2015?**



The largest percentage of respondents noted that identifying the right management team was paramount for a successful acquisition. Notably, cultural and HR issues were cited as the most challenging integration areas to overcome post acquisition. Other important criteria to enhance deal success included a well-executed integration plan, the identification of an appropriate target and settling on an agreeable price.

Interestingly, 58% of respondents expect the preferred exit strategy for companies will be a sale to a strategic buyer. Other strategies include a sale to a financial buyer, a refinancing or debt raising and an IPO.

Buyers and sellers recognise that financial and tax due diligence can mitigate many challenges, enhance the sale process and ensure that investors are fully aware of the risks and opportunities prior to execution. Understanding the issues early in deal process is likely to enhance deal value.

## Key Due Diligence Areas

Performing effective due diligence is key to any investment appraisal. Respondents ranked due diligence considerations in the following order:

- ▶ quality of underlying earnings and operating cash flows;
- ▶ assessment of assumptions underpinning the target's projections;
- ▶ quality of assets;
- ▶ cost synergies;
- ▶ underlying working capital; and
- ▶ tax exposure analysis.

### Q In your experience, what factor is most important for deal success?



### Q In your experience which of the following integration areas is the most challenging to execute?



## Get in touch!

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 Paul:



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