M&A Outlook 2016

Deal insights for Ireland

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Foreword

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Welcome to the 2016 edition of KPMG's M&A Outlook for Ireland.

The findings of last year's survey identified a renewed sense of optimism amongst the Irish deal-maker community. This was reflected in buoyant M&A activity during 2015, with Irish companies involved in a number of transformational transactions both domestically and overseas, including the Paddy Power-Betfair €8 billion merger, CRH plc's acquisition of Lafarge-Holcim assets for an enterprise value of €6.5 billion and One51 plc entering new markets through the strategic acquisition of a majority stake in the North American plastics producer, IPL Inc.

Enhanced access to capital assisted M&A growth in 2015 as more and more deal-makers looked to finance new acquisitions through debt and equity markets, with notable equity fundraisings by newcomer PLCs such as the Dalata Hotel Group, Malin Corporation and Cairn Homes. Despite global equity markets remaining volatile, initial public offerings and equity fundraisings remain an attractive option for organisations seeking to raise funds. These trends are set to continue in the coming year based on the findings of our latest survey, where once again, in order to better understand the 2016 M&A environment, we sought the opinions of many of Ireland's top corporate executives and leading M&A deal-makers. The survey results outlined in this report clearly illustrate the continued confidence in the M&A community that deal volumes in 2016 will be at or above 2015 levels. Valuable insights into funding sources, emerging sectors and exit strategies are also to be found in the survey results.

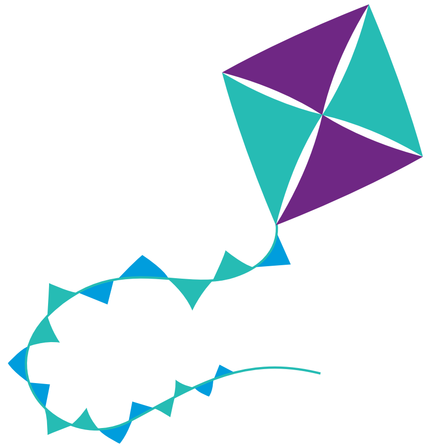
The health of the Irish economy continues to be a barometer for M&A activity. Following a period of austerity and economic uncertainty, the Irish economy is growing at one of the fastest rates in the euro zone (c. 7% GDP growth in 2015 according to latest CSO figures). Consumer sentiment is at a 10 year high, unemployment levels continue to fall, access to capital remains buoyant and exchequer returns are exceeding expectations. A weak euro also enhances the attractiveness of Irish assets. These factors positively influence demand and ability to execute transactions in the Irish market.

While Ireland and the United Kingdom remained a key focus of M&A activity, 2015 also witnessed large scale transactions by Irish companies further afield. Notable transactions included Aryzta's investment in French food retailer Picard and Glanbia's acquisition of US food company ThinkThin.

At the time of going to print, we would, however, sound a cautionary note regarding the potential impact on investment decisions of recent developments such as ongoing concerns over a slowdown in the Chinese economy, volatility in global equity markets, depressed oil prices and the weakening of sterling. Upcoming elections in Ireland and the US as well as a probable vote on a British exit from the EU in 2016 will inevitably influence M&A sentiment.

We hope this survey is beneficial in informing your M&A decisions in the coming year.

Highlights



2016 deal activity predicted to top buoyant 2015 levels.

The Healthcare, Pharmaceuticals and Life Sciences sector is expected to see most deal flow in 2016.

Ireland and the UK remain key geographical markets for the Irish M&A community.

Enhanced price expectations is the factor considered most likely to inhibit deal activity in 2016.

Debt funding forecast to be the primary source of funding for acquisitions in 2016.

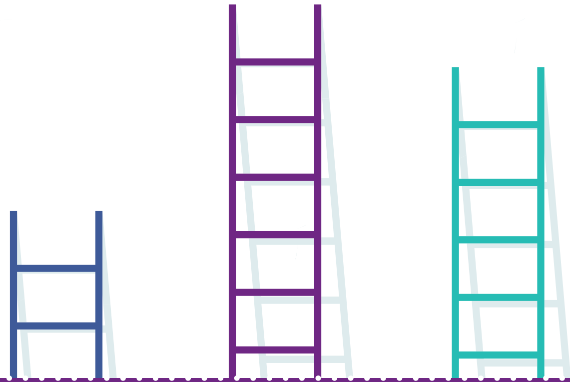
Ireland's current tax system is considered to be supportive of M&A activity.

Results & Insights

Q1 Which factors do you think will most drive deal activity in Ireland in 2016? [Ranked in order of preference]

1. Investor confidence
2. Availability of finance
3. Continued improvement in market conditions
4. Accumulated cash reserves / balance sheet strength
5. Increased supply of acquisition targets
6. Attractive valuations
7. Currency volatility

Ireland's leading M&A executives and advisors are optimistic about the coming year, with participants citing increased investor confidence / market conditions, easier access to credit and build-up of cash reserves as the key factors that will drive M&A growth over the next twelve months.

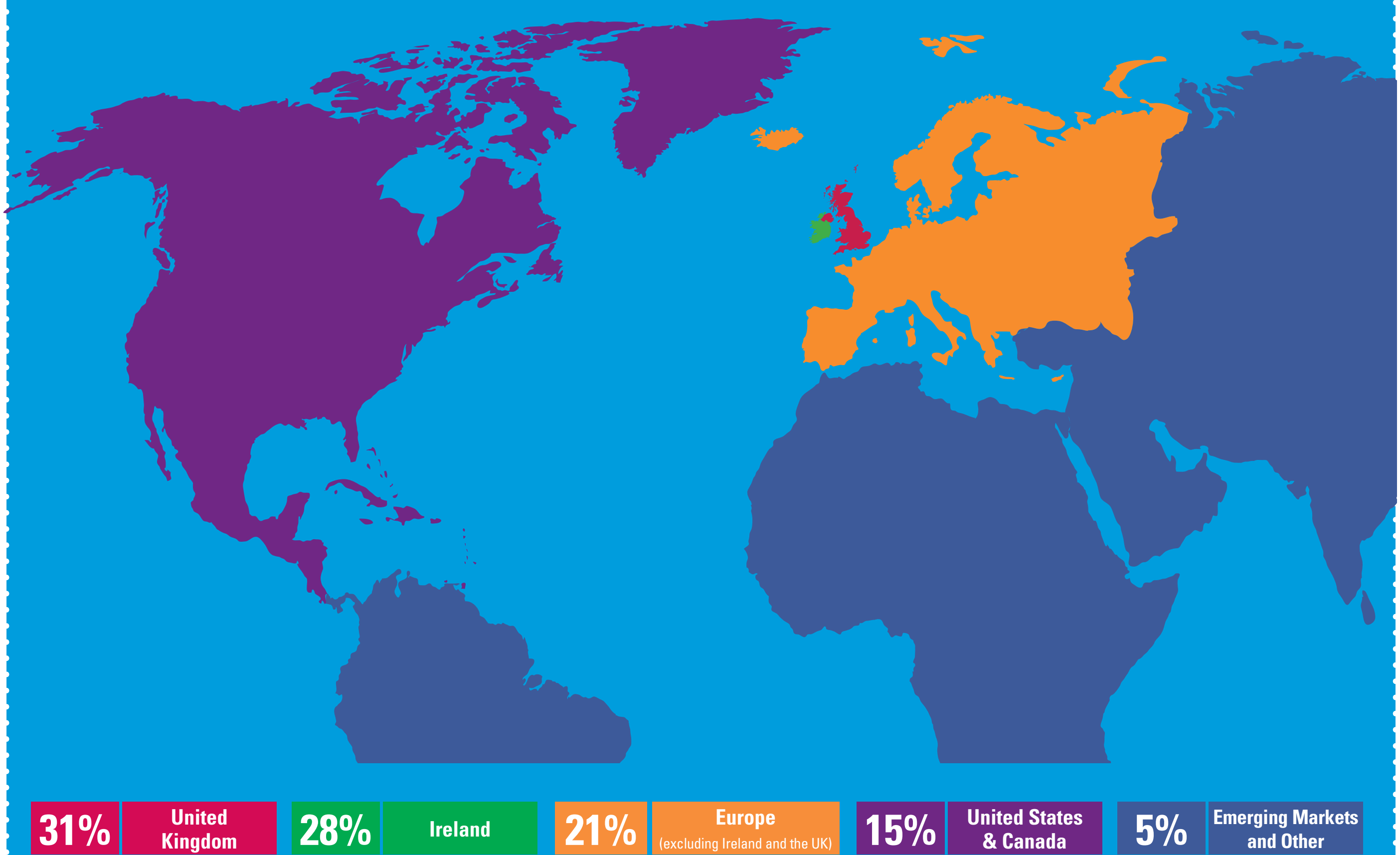


Q2 Within which sectors would you anticipate most acquisitions to occur in Ireland in 2016? [Ranked in order of preference]

1. Healthcare, Pharmaceutical and Life Sciences
2. Agribusiness and Food
3. Technology
4. Property and Construction
5. Financial Services
6. Energy and Infrastructure
7. Aviation
8. Media and Communications

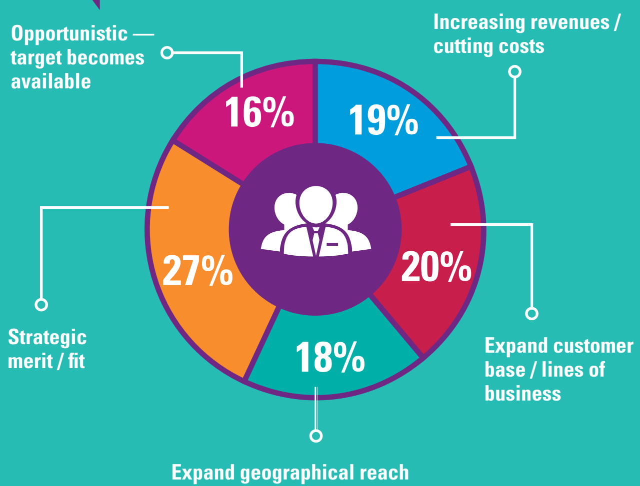
The healthcare and pharmaceutical sector is expected to be at the forefront of deal flow following a year in which the sector spawned many of the largest domestic and international M&A transactions. This was in part due to a number of high profile corporate inversions featuring Irish domiciled companies, including Pfizer-Allergan and Shire-Baxalta. Transactions of this scale and nature are considered unlikely to be repeated in 2016, however, respondents still anticipate substantial acquisitive activity involving pharma and biotechnology companies. Other sectors expected to see substantial deal-making include technology and the agribusiness and food sectors, consistent with the trend identified in last year's findings. Many respondents also identified 2016 as the year in which transactions within the Irish construction sector will continue to recover, with the prospect of secondary buy-outs from loan portfolio disposals.

Q3 Where do you expect Irish investors to primarily seek acquisition targets in 2016?



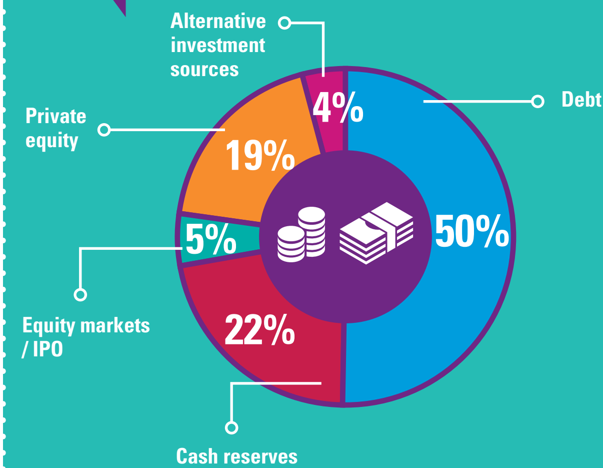
In overall terms, the UK has overtaken Ireland in this year's survey as the territory where respondents expect to see most deal flow for their companies. The recent weakening of sterling may be somewhat influencing the change in sentiment. Executives from PLCs indicated that they are focusing more on transactions outside of Ireland and the UK, with North America the favoured destination, although, the survey indicates that mainland Europe and emerging markets are now coming more into focus for large organisations.

Q4 What will be the primary shareholder considerations in selecting an acquisition target?



Strategic fit is once again cited as the main consideration discussed in Irish executive boardrooms when identifying potential acquisitions. M&A executives are seeking to maximise shareholder value by identifying suitable targets in similar industries which will facilitate earnings growth through the addition of top line revenue (for instance as a result of new sales channels for existing products, new technologies, complementary products acquired etc.) and/or achieve cost synergies (elimination of duplicate back-office functions, reduced accommodation requirements, leveraging increased buying power etc.). Interestingly, opportunistic acquisitions are deemed to be the least attractive of rationales provided, indicating that Irish deal-makers are interested in accretive acquisitions that enhance shareholder value over the long term rather than short term fixes.

Q5 What is likely to be the primary source of funding for acquisitions which you anticipate undertaking in 2016/2017?



Half of all respondents intend to finance potential acquisitions in 2016 through debt funding, which is reflective of the availability of credit to support Irish entrepreneurs and corporations on very acceptable terms. It also reflects that debt providers, and in particular Irish banks, are willing to extend credit to fund sound, local transactions on more attractive terms. A build-up of cash reserves following a period of relatively low investment, balance sheet strengthening and cash flow management is also a significant factor facilitating growth opportunities through acquisitions.

Q6 What are your expectations for 2016 valuation multiples versus the prior period?

Increase in 2016	Flat in 2016	Decrease in 2016
48%	48%	4%

Following a period where a significant proportion of transactions involved the sale of assets or portfolios at discounted prices, M&A executives now overwhelmingly believe that we have entered a cycle where price multiples are more likely to increase than decrease. This is as a result of companies being able to point to a track record of sustainable earnings, availability of funding and growth prospects fuelled by a resurgent Irish economy. This enhanced confidence in available financial and commercial information allows for more informed valuations for both the vendor and acquirer.

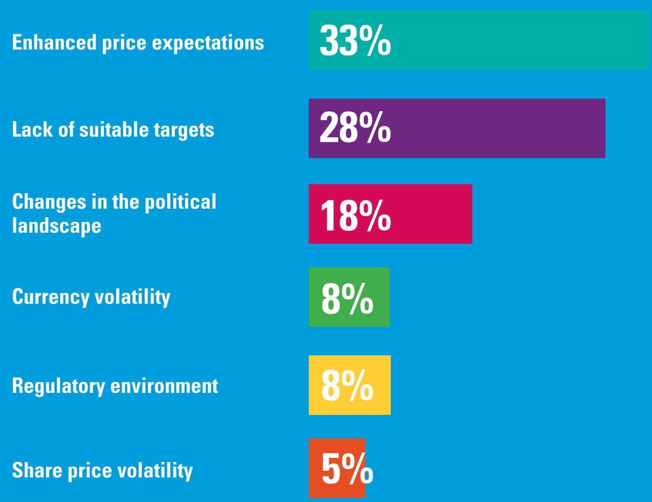
Q7 Which of the following groups would you most likely consider to complete the highest volume of acquisitions in Ireland in 2016?

[Ranked in order of preference]

1. Irish indigenous companies
2. Multi-national companies in the Irish market
3. Overseas multi-national companies
4. Global private-equity
5. Domestic private-equity

Strategic corporate players rather than private equity are anticipated to be the most active in the M&A market in 2016, with deal volume expected to be evenly split amongst indigenous Irish companies and domestic / overseas multinationals. This represents a change from 2015 with the private equity players reducing their dominance as market conditions continue to stabilise and values improve. Interestingly, a high proportion of respondents believe global private equity funds may seek to capitalise on the higher valuations in the Irish market to cash out on quality assets bought at depressed prices during 2008 – 2012. This trend started to emerge in 2015 and is expected to become more pronounced in the coming year.

Q8 What factors do you think could most inhibit deal activity in 2016?

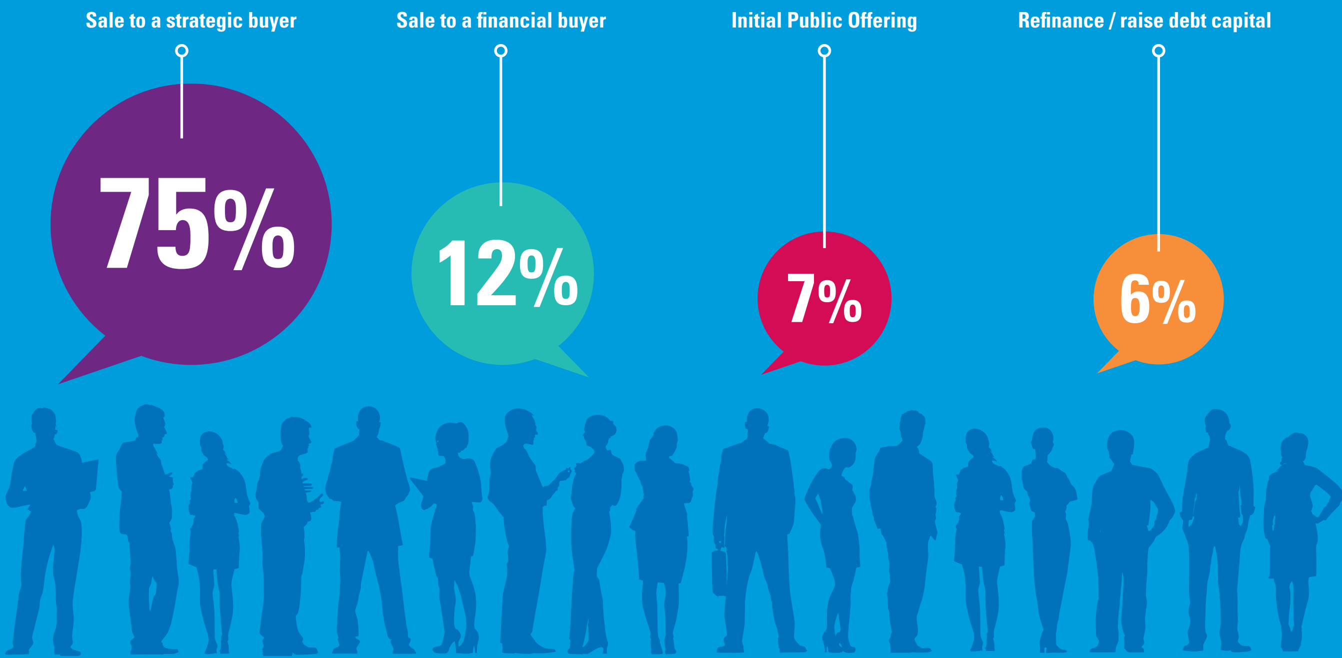


Respondents are wary that enhanced vendor price expectations, rather than a lack of suitable targets will inhibit the level of deal activity in 2016. Deal makers are also cautious about the impact on investment decisions of potential changes in the political landscape, with upcoming elections in Ireland and the US and the impending vote on a British exit from the EU.

Q9 In your opinion, how does the current tax system in Ireland impact M&A activity?

The majority of survey respondents believe the tax system in Ireland is a contributory factor in deal-making success and a key driver of M&A investment into Ireland. Ireland's corporation tax rate and initiatives supporting innovation such as the R&D tax credits are highlighted by respondents as positive factors for Irish companies engaged in M&A transactions.

Q10 In your opinion, which exit strategy will be most preferred in 2016?

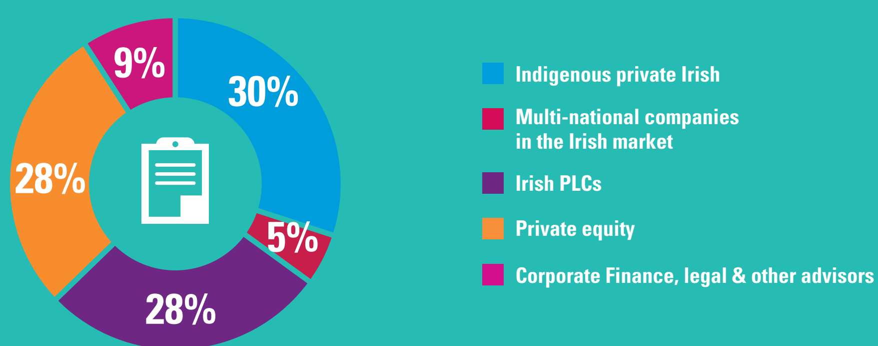


Notwithstanding the availability of private equity funds, the majority of respondents expect trade disposals to dominate, reflecting ability to extract synergies, stronger balance sheets of corporates and renewed confidence levels.

Methodology

M&A Outlook 2016 is based on research conducted in December 2015 amongst approximately 100 of Ireland's leading M&A executives and advisors.

Survey participants represented a wide cross section of senior M&A Executives and Advisors



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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