State of the Deal 2019
An Irish Perspective
Our M&A colleagues in the US have just released their sixth M&A trends report, which is based on a survey of 1,000 executives at US corporations and private equity firms. It focuses on deal activity in 2018 and the expectations of senior management teams for the next 12 months.

Given Ireland’s open economy, the importance of US capital here and the number of Irish businesses engaging in inbound & outbound M&A in the US and beyond, a number of key messages are particularly relevant for Irish dealmakers and those engaged in M&A more generally. We have distilled down the key messages which are relevant for an Irish audience, namely:

01. Respondents forecast strong deal activity in 2019 despite rising uncertainty
02. There is significant appetite for cross border deals
03. Divestures continue to be a critical element of the M&A landscape
04. There is ample funding available for deals
1. Respondents forecast strong deal activity in 2019 despite rising uncertainty

The survey yielded some interesting results as respondents forecast strong deal activity over the short and medium term, despite the rising uncertainties facing dealmakers. In fact, the majority of dealmakers anticipate further acceleration of deal flow in 2019. This is all in the face of a potential trade war between the US and China, US capital markets volatility and slower than anticipated tax reform and before taking account of macro-economic uncertainty in Europe. As you can see from below, the results are striking: 79% of those surveyed expected deal flow to increase in 2019, up 9 percentage points and coming from a strong base in 2018.

What does this mean for Irish M&A?

While the Irish M&A landscape will be aided by the positive sentiment cited by our US colleagues, it is fair to say that Brexit, an overhaul of top ECB roles and upcoming European Parliament elections will all dominate dealmaker’s agendas on this side of the Atlantic. While we do expect these issues to have an impact on deal volume in the Irish market this year, we believe that activity levels and positive sentiment will remain strong across our client base.

As the results from our US colleagues suggest, uncertainty can also drive an increase in deal flow. Investors, and private equity funds in particular, may look to take advantage of rising investment opportunities brought about from this uncertainty. They may also look to ‘weather-proof’ their portfolio companies with bolt-on acquisitions or diversify their revenue streams and geographic footprints more generally. Indeed, we are actively engaging with a number of UK investors who see this market uncertainty as a key pillar of their thesis for investing in quality Irish businesses and are actively targeting Irish companies across a range of business sectors.

We are also continuing to see strong deal flow between US and Irish corporates. This US-Irish deal corridor saw some significant transactions during 2018. Some of the notable outbound deals that completed during the year include:

- CRH Plc (which is headquartered in Rathfarnham) bought Ash Grove Cement company, the US based cement company headquartered in Kansas, for c.€2.9bn.
- Total Produce Plc (which is headquartered in Smithfield) acquired a 45% stake in the US business, Dole Food Company, for c.€300m.
- DCC Plc (which is headquartered in Sandyford) bought a portfolio of retail propane businesses from NGL Energy Partners, the listed US-based midstream operator engaged in crude oil logistics, water treatment services and retail of propane, for c.€173m.

These important deals highlight the continued international influence of Irish corporates in the US and further afield.

We believe that 2019 will be another strong year for Irish M&A, as international investors look to take advantage of market uncertainty, secure their supply chains and mitigate currency volatility. We also believe we’ll see strong outbound activity from Irish corporates acquiring in international markets.
2. Significant appetite for cross border deals

About a third of respondents expect to reach across borders to make deals in 2019 and while there was a surge in interest for deals in Asia, parts of Europe did continue to be an attractive target.

As expected, macro-economic uncertainty and in particular, Brexit, led to a decline in interest for certain deals, with 24% of corporate respondents choosing the UK as a likely place to deploy capital this year, down from 31% in 2017.

What does this mean for Irish M&A?
The key message for Irish dealmakers is that US investors are still keen on investing in Europe. While their interest in the UK is perhaps less certain, at least in the short-term, Ireland should continue to be an attractive location for investment. It is critical that Irish dealmakers communicate effectively with US investors to highlight the attractions of Ireland as a European investment hub. They must show that Ireland is still an attractive destination for US capital due to its ability to compete internationally across a range of key indicators such as economic performance, government business support and business efficiency. With our US team we are certainly seeing strong continued US / Ireland M&A activity; both inbound and outbound.

Key Rankings for Ireland in 2018 IMD World Competitiveness Yearbook

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<tr>
<th>Economic Performance</th>
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<tr>
<td>1st for real GDP growth</td>
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<td>4th for international investment</td>
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<th>Government Efficiency</th>
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<tr>
<td>1st for investment incentives</td>
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<td>2nd for foreign investor rights</td>
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<td>4th for corporate tax on profit</td>
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<tr>
<th>Business Efficiency</th>
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<tr>
<td>1st for productivity in industry</td>
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<td>1st for flexibility and adaptability</td>
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<td>2nd for efficiency of large corporations</td>
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Source: Facts About Ireland Report 2018
The survey found that respondents think that divestures will be a critical component of M&A activity in 2019. More than 80% of the combined corporate and private equity respondents say they will sell units or portfolio companies in 2019, up from 70% a year earlier.

For private equity firms, in particular, divestitures will be a central part of their business model; and 90% of private equity respondents say they plan to shed assets in the year ahead.

When asked about valuations, more than half (53%) of private equity respondents say they anticipate higher multiples in the year ahead, with 10% saying that multiples will be much higher.

**Divestiture expectations**

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<th>2019</th>
<th>2018</th>
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<td>81%</td>
<td>70%</td>
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What does this mean for Irish M&A?

No different to the US; Irish corporates and private equity funds are following similar trends to their US counterparts. With respect to private equity, given that the current wave of domestic and international private equity investors began to invest in Ireland around 2013 / 2014, we are beginning to see these funds successfully monetise their first investments at strong transaction multiples; both in secondary PE buyouts and in disposals to strategic buyers.

There have been a number of notable private equity exits over the last twelve months, including:

- Cardinal Carlyle Ireland sold their interest in Lily O’Briens to a Polish food manufacturer, Colian Holdings, after revenues and global export revenues increased by almost 50%.
- MML sold their stake in Lowe Rental to Perwyn (UK private equity) after a successful number of years where they helped increase EBITDA threefold since their investment.
- Broadlake sold their stake in Vita Liberata Limited, the UK-based manufacturer of self-tan beauty products, to PE-backed Crown Laboratories, Inc., the US-based pharmaceutical company after a period of strong growth.

There are a number of others but these successful exits are important examples to both business owners and other investors, of how private equity can help Irish business owners partially de-risk their initial investment, while also supporting the business to achieve their growth plans and monetise greater value upon their ultimate exit.

We have also seen significant corporate divestments recently as publically held Irish businesses rationalise their portfolios. These have included:

- Aryzta divested its interests in Signature Flatbreads UK Ltd, the UK-based producer of flatbreads and Cloverhill Pastry-Vend, LLC, the US-based producer of baked goods, for c.€34m and c.€22m, respectively. These transactions allowed Aryzta to focus on its core business activities of frozen B2B bakery operations and exit its non-core businesses.
- Greencore Group sold its interests in its US-based provider of contract packaging services and producer of convenience foods for c.€929m. This transaction will enable Greencore to focus on its UK operations while maintaining sustained growth for its shareholders.
- CRH sold its DIY business in the Netherlands and Belgium for c.€510m. The divestment was in-line with CRH’s strategy of pivoting towards its European distribution division and is expected to strengthen CRH’s balance sheet, allowing it to pursue its medium-term growth ambitions.

As with our colleagues in the US, we fully expect the theme of divestments to continue in 2019, as initial private equity investors look to recycle their capital and business owners embrace the idea of private equity investment.

This wave of exits will be augmented by Irish corporates that will continue to rationalise, divesting their non-core units in order to utilise their capital more efficiently, enabling them to focus on potential inorganic growth in their ‘core’ businesses.

For Irish businesses seeking to make acquisitions in the US, the continued strong level of deal activity and in particular PE exits coming to market should continue to provide opportunities for acquisitions; albeit typically in competitive processes.
4. There is ample funding available for deals

More than two-thirds of corporate respondents said their cash reserves have increased over the past two years, and many of these stated that they primarily intended to use that cash to strike M&A deals.

Many investors also have additional financing in the form of buoyant capital markets. Share prices, despite a spike in volatility, have been at record highs as markets continue their historic bull run. Debt is also relatively cheap in the US with interest rates still only modestly above historical lows.

What does this mean for Irish M&A? Quantitative easing and cheaper debt has led to US / European corporates and private equity investors with bulging balance sheets and unprecedented levels of “dry powder”. Given the appetite for cross border deals, the destination for much of this capital is overseas as investors hunt for yield in international markets. The M&A team here in Dublin have seen evidence of this with the steady stream of international investors who are keen to be included as potential buyers when quality Irish businesses come to market. Our Debt Capital Advisory team have also seen a surge in inquiries from US & European corporates looking to raise debt financing to achieve their business plans with inorganic growth.

We expect to see this trend continue in 2019 as international buyers continue to dominate buyer lists for quality Irish businesses. Overall, the strong availability of capital, both equity and debt, Irish and international, should continue to be a key driver of deals in 2019.
Conclusion – key takeaways for those in Irish M&A

As the Irish M&A landscape matures and sophisticated international investors continue to focus on the Irish market, it is helpful to understand key trends that are shaping decisions that allocate this capital. The majority of the trends in the US survey resonate in the Irish market; and we are seeing similar drivers of transaction activity and expectations for continued high deal volumes in our local market.

This insightful survey shows that, even in the face of uncertainty, M&A is expected to continue to be an integral driver of growth for US investors portfolios, as they look to divest mature businesses and deploy capital in overseas markets, all with the help of significant ‘war chests’.

The US market is vast; and leveraging relationships with the right funds and buyers for the right Irish assets is key. US buyers and investors also operate in highly competitive processes and have quite a different approach to their European counterparts; which need to be carefully managed. Continued strong activity levels in the US should create opportunities for Irish businesses acquiring in that market. However, readily available capital and strong competition is driving premium valuations for attractive businesses in competitive processes. As such, understanding the foreign market dynamics while also positioning with a trusted local partner will be crucial for Irish businesses looking to successfully acquire in the US.

In order to help drive sustained M&A activity, it’s up to those engaged in M&A here to ensure that Ireland is on the radar as an attractive destination for international capital. It’s also crucial that Irish companies are marketed and positioned correctly with key private equity decision makers and corporate acquirors. Overall, we believe that this all should translate into another year of strong M&A activity, even in the face of rising macro-economic uncertainties.

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No. 1 European M&A Financial Advisor 2018
Deal volume as awarded by MergerMarket

#1
Financial Advisor to European M&A by deal volume

#1
Financial Advisor to Global Cross-border M&A by deal volume

#1
Financial Advisor to Global M&A by deal volume

A selection of our recent transactions

**Cross Rental Services**
Advised the shareholders of Cross Rental Services on the PE investment by Lonsdale Capital Partners.
December 2018

**ActionPoint Technology Group**
Advised ActionPoint on their purchase of the trade of P2V Systems, a technology management services specialist.
December 2018

**BGF**
Provided transaction advisory services to BGF on their recent investment in Brindley Healthcare.
January 2019

**MHI**
Advised MHI (Modern Homes Ireland) on its recent investment by construction group BAM.
January 2019

**iNua Hospitality Group**
Advised iNua Hospitality Group on the acquisition of the Tullamore Court Hotel.
February 2019

**Zeus**
Provided transaction advisory services to Zeus Packaging on its acquisition of Essential Supplies Ireland Ltd.
February 2019

Deloitte.ie/M&A-Deals

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