A&L Goodbody

M&A Activity in Ireland: A Positive Outlook

A&L Goodbody explains the key factors that are driving Ireland's growing M&A market.

The Irish M&A market is in a very healthy state. Ireland's cost competitiveness, talent and business friendly environment are driving international investment from the United States, the UK and Asia, and international acquirers continue to dominate the Irish M&A scene across a number of sectors.

The pick-up in the domestic M&A market through 2014 has continued in 2015 and is a good indicator of the broad based recovery in the Irish economy. With the European Commission forecasting that Ireland would grow by 6.5% in 2015, we expect the return of domestic buyers to continue.

Continued domestic and international business confidence has seen deal values of $237bn so far in 2015; the highest ever recorded in Ireland.

KEY FACTORS BEHIND THE CONTINUED GROWTH IN IRISH M&A IN 2015

Corporate Migrations

While 2015 has seen more of a variety of deals in terms of sector and type than in recent years, there is still no denying the impact which corporate migrations / inversion deals have had on the market in 2015. While moves were taken by the US Treasury Department in the latter half of 2014, and once again in 2015, to deter such deals, inversions remained a key driver behind M&A growth in 2015, with a number of deals in the pharmaceutical sector continuing the trend of recent years. In particular, the stand-out deal during the course of 2015 was Pfizer Inc.'s proposed $160bn merger with Irish based healthcare company Allergan plc, which was announced in November 2015. This deal, the largest global deal announced in 2015, would if completed create the world's largest pharmaceutical company and demonstrates the position of Ireland as a key jurisdiction in the international M&A market.

Throughout 2015, a particular feature of the Irish M&A market has been significant bolt-on acquisitions by previously migrated companies using their Irish platforms. Companies that have moved to Ireland are using that platform to drive M&A growth. For example Actavis (now Allergan plc) since its 2013 inversion into Ireland by way of an $8.5bn acquisition of Warner Chilcott, has completed an $18bn acquisition of Forest Labs, a $66bn acquisition of Allergan and several smaller deals. As mentioned above, it is now proposing to merge with Pfizer Inc. in a $160bn deal. Others who have been active throughout the year include Endo which completed an $8bn acquisition of Par Pharmaceuticals and a $2.6bn acquisition of Auxilium – and Perrigo which completed the €4bn acquisition of Omega Pharma and several smaller deals. Horizon Pharma, XL and Mallinckrodt have also all been on the acquisition trail in the last year.

Hostile Takeovers

2015 was also the year which saw the advent of US style hostile takeover activity in Ireland. A&L Goodbody acted for Perrigo Company plc on its successful defence against Mylan N.V.'s $26bn hostile takeover offer. This was the largest hostile takeover in global history to go right down to the wire of the shareholder tenders. Ultimately, the Perrigo shareholders' decision was decisive, with over 60% in support of the Perrigo Board's rejection of Mylan's offer as fundamentally undervaluing the long-term prospects for the company.

Despite a hard fought seven months' long campaign involving the first ever pre-conditional firm offer under the Irish Takeover Rules, despite litigation in each of the United States, Ireland and Israel, despite arbitrage funds holding approximately 25% of Perrigo and despite Perrigo's inability to adopt typical US defences because of the Irish Takeover Rules restrictions, Perrigo's long term shareholders stood by the Perrigo Board who were vindicated.

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RESIDENT PARTNER IN A&L GOODBODY'S NEW YORK OFFICE

Onward Sales of Former Distressed Assets

One evolving feature is the increase in secondary sales by the purchasers of Irish businesses and assets via distressed debt sales during or immediately following the economic crisis. Many of these purchasers were private equity and hedge funds (a significant proportion of which are US based) and a number have already sold on the acquired debt books. The more recent development in the M&A market has involved the sale of underlying businesses acquired through debt enforcement. Such examples include the recently announced sale by Denis O'Brien of the Topaz Group for a reported €400m+, having acquired the business through a purchase of related debt in 2013 for €150m. Mr O'Brien made some significant investments in, and bolt-on acquisitions to, the business in the interim. A further recent example was the sale of Arnott's department store to Selfridges Group by Fitzwilliam Capital Partners, who had previously acquired the debt relating to the business from Apollo and the National Treasury Management Agency.

State Assets

As part of its external funding program, the State had committed to the sale of a number of State assets over the last few years which continued in 2015. The aviation sector saw International Consolidated Airlines Group, S.A, the UK based and listed airline company, acquire Irish flag carrier Aer Lingus in a €1.3bn deal. InfraVia Capital Partners, a French investment fund, agreed to purchase the Telecoms Infrastructure business of Coillte (state forestry). 2016 will also see the sale of part of the Irish Government's stake in the largest Irish bank, Allied Irish Banks, in respect of which the Irish Government currently holds a 99.8% stake.

Loan Sales

Ireland continued to be one of the busiest loan sales markets in Europe in 2015. This has been a key factor in driving M&A activity with a large number of loan portfolios coming to the market from the likes of RBS/ Ulster Bank, Bank of Scotland, KBC and the National Asset Management Agency, being Ireland's "Bad Bank". US acquirers were to the fore with groups such as Cerberus, Lone Star, Davidson Kempner and Avenue Capital all acquiring various assets and loan pools. While there are likely to be a smaller number of loan portfolio sales during 2016, on the basis that the Irish banks have now largely completed their deleveraging processes, it is likely that 2016 will see an increase in the number of smaller secondary loan sales with the various funds who acquired such portfolios looking to sell down those assets.

Mid-market

The mid-market sector is also active and we are seeing a return of domestic buyers, sometimes funded by private equity rather than traditional bank debt. Ireland has also seen an increase in alternative capital providers, primarily in the area of property financing but it is likely that mezzanine finance providers such as these will also look to expand into other areas in 2016 and beyond.

While activity in the mid-market space is cross sectoral, two areas which have seen a significant increase in activity are the Medtech and technology sectors. Significant pharmaceuticals, medical and bio-tech transactions announced during 2015 included US company Upco Health's takeover of Eirgen Pharma for $135m and the Irish listed Malin Corporation plc taking a 65% stake in drug maker Altan Pharma for $39m. In the technology space, significant deals announced in 2015 included Insight Venture Partners and the state-backed Ireland Strategic Investment Fund, acquiring a stake in AMCS Group, a Ireland-based company engaged in designing, developing, implementing and supporting integrated environmental software and solutions, for $50m. Thermo King, the US-based manufacturer of transport temperature control systems also acquired Celtrak, the Ireland-based company engaged in developing customized and integrated vehicle tracking and fleet management solutions. As lending from both traditional and non-traditional sources continues to increase we expect to see an increased level of activity within this sector.

Legislative Change

Another positive development in 2015 was the enactment of the Irish Companies Act 2014, the "Act" which introduced the most significant reform in Irish company law in 50 years, consolidating the existing legislation as well as a number of court judgments. The Act adds greater clarity to the existing Irish company law framework, further enhancing Ireland's attractiveness as an investment location. The Act is aimed at reducing red tape and streamlining company law and should facilitate further cross-border business going forward.

Funding of Transactions

We are seeing transactions being structured with a combination of bank-leveraged debt and funding from PE providers who will lead other forms of funding. As business confidence has returned to the Irish market, we have begun to see more Irish companies tapping the equity capital markets both in Ireland and overseas such as Cairn Homes, Malin Corporation, Hibernia REIT, Dalata, Prothena Corporation and Presbia. In the leisure sector, Cairn Homes floated on the London Stock Exchange in March 2015. Cairn raised circa €400m from investors in Ireland, the United States, the United Kingdom and several other jurisdictions. Cairn's IPO was the first Irish house builder to float on the stock exchange since 1997. Other IPO deals included petrol forecourt retailer, Applegreen's IPO on the Irish Stock Exchange and London Stock Exchange. Ophthalmic device company, Presbia also launched and IPO on the NASDAQ.

A notable interesting development during 2015 was that venture capital is moving out of the US and into Europe, as a result of a realisation that Europe is beginning to compete with the US. Looking forward to early 2016, we expect to see acquisitions of Irish companies by conventional private equity, with more competition from a number of Irish players – particularly with the improved availability of acquisition debt financing.

FUTURE PROSPECTS FOR THE IRISH M&A MARKET

The steady Irish economic recovery has created a far more attractive investment environment than we have seen in recent years. Positive sentiment is supported by increasingly positive statistics. The Irish budget deficit stood at 3.1% at the end of 2014 and this puts it well inside the EU target of 5%. The Government had set a target to cut the deficit to below 3% by the end of 2015 but it would seem that they can easily exceed this target now. The economic statistics and increased business confidence are driving the continued return of domestic buyers. This allied to the high levels of international activity means that M&A remains in growth mode in Ireland with aggregate deal values at their highest point in history. We expect that the US will remain the number one source of direct investment into Ireland and a key driver of M&A activity. ■

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