

Food for thought

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Agri-food in Ireland

M&A activity

The agri-food sector in Ireland has experienced much activity in the past 12 months arguably more that would have been expected by many against the backdrop of Brexit.

The background

Agri-food is a key contributor to Ireland's economic performance and as a major food-exporting nation will be a key driver in future growth:

- in 2016, Irish agri-food and drink exports increased by an estimated 2% to approximately €11.15 billion;
- in 2016 the UK was the main destination for Irish agri-food and drink exports accounting for 37% of all exports, in which 32% went to the continental EU market while the remaining 31% went to international markets;
- the latest estimates of the distribution of Ireland's agri-food and drink exports in 2016 by sector are as follows:
 - dairy products and ingredients (30%);
 - beef (21%);
 - prepared consumer foods (17%);
 - beverages (13%);
 - pig meat (6%);
 - seafood (5%);
 - poultry (3%);
 - sheep meat (2%);
 - edible horticulture and cereals (2%); and
 - live animals (1%).
- the land area of Ireland is 6.9 million hectares, of which 4.4 million hectares is used for agriculture and a further 730,000 hectares for forestry; and
- the agri-food sector in Ireland in 2015 generated 5.7% of gross added value (€13.54 billion), 9.8% of Ireland's merchandise exports and provided 8.5% of national employment. When employment in processing, inputs and marketing is included, the agri-food sector accounts for almost 10% of employment.

The activity

Pre-Brexit, the agri-food sector would have been expected to be one of the main areas of M&A activity in 2016. Given its unique links, Ireland has invested heavily in the UK and as such, Brexit has the potential to significantly impact future investment or change the dynamics in the industry. However, to date the impact has not been as severe as many may have expected.

Per Mergermarket, activity in the food sector was relatively subdued generally, however of the 298 deals announced across Europe for 2016, the UK and Ireland experienced the majority of activity with 47 deals totalling €1.13 billion value.

There has been much M&A activity locally in Ireland, particularly in the meat sector. Dawn Meats have recently announced their acquisition of Dunbia's Irish operations and the establishment of a joint venture between the parties in the UK. This follows another major merger in the Irish beef sector between Larry Goodman owned ABP Group and Slaney Meats in 2016. Kepak, who are active across meat, convenience and frozen food, has also been acquisitive, with an outright acquisition of Clare based, John Kelly Meats and the acquisition of Green Farm Foods, in partnership with Oliver Carty.

While market consolidation is evident, the rationale for many transactions is a 'future-proofing' of the core business. In the case of Dunbia, given the uncertainty posed by Brexit, this partnership is designed to underpin the competitiveness of both operations to the benefit of all stakeholders in the UK, Ireland and across Europe. Dunbia's considerable presence in the UK provides a natural hedge for Brexit and cements its UK supply chain.

Much of the M&A activity in Ireland in 2016 occurred in the latter half of the year, with many investments made by Irish companies in foreign markets or vice versa. One of the largest transactions in the period was the acquisition of Fyffes plc by the Japanese group, Sumitomo Corporation for €751 million and was a major boost for foreign investment. This comes off the back of Fyffes itself having just completed significant acquisitions of Highline Produce (€98 million deal value) and All Seasons Mushrooms (€41 million deal value) both of which are Canadian mushroom producers. Redbrook Ingredient Services Limited, a producer of speciality savoury taste solutions, was also acquired by the Israeli, Frutarom Industries Limited. Manor Farm (Irish chicken processors) was also sold to Scandi Standard in recent weeks.

Irish companies with activity abroad include:

- Dunbia and Fyffes (as outlined);
- Ornu who acquired F.J. Need (Food) Limited; UK based cheese ingredients company;
- Glanbia who recently invested c. €181 million in the acquisition of Amazing Grass (USA) and Body and Fit (Netherlands) to enhance its performance nutrition division; and
- Greencore's acquisition of Peacock Foods for \$747.5 million (€695.4 million), in a major expansion into the US convenience food market.

The future

The agri-food sector is ever-changing, with economic and political activity, as well as changing consumer demand, shaping the environment in which it operates.

Many agri-food businesses are experiencing a need to diversify and develop more innovative product in order to stay competitive. Technological advances in food production/manufacturing, the prominence of nutrition, both in terms of healthy eating, performance nutrition and Vitamins, Minerals and Supplements (VMS) are driving change and it will be important that businesses remain adaptable.

The trade deals and tariffs agreed as part of Brexit negotiations will be key to the sustainability of many business in the agri-food sector in terms of trade and competitiveness. Regardless of the

threats, Brexit will inevitably create opportunities for well-placed investors (especially private equity), who will be keen to identify opportunities in the market.

It is clear that it will take some time for Brexit negotiations to conclude and for their impact on Ireland's' agri-food sector to be determined with any certainty. In the meantime, we are likely to continue to see activity in this sector, both in the form of defensive and opportunistic transactions.

Grant Thornton advises SMEs and larger corporates in the agri-food sector, ranging from fresh produce to branded consumer food products/ingredients. We have advised across a range of transactions, including acquisitions and divestments, debt restructuring, refinancing and valuations.



Change is coming - lessons learned from Alltech One

The average Irish farm changes hands outside of the family once every 550 years and it's not uncommon to see three generations working on the one farm. In Irish society we see farmers pass their skills and knowledge down from generation to generation but big changes are coming whether we like it or not.

Leaders within global agriculture recently assembled in Lexington Kentucky to hear from world renowned speakers at the Alltech One symposium. The theme of the event was **disruption**.

Technological disruption

The emergence of new technologies will change how the entire agri-food supply chain operates over the next ten years. The impact of technology has already affected the sector with the emergence of precision agriculture and consumer conversion to online shopping. With Amazon set to acquire Whole Foods Markets it may only be a matter of time before Amazon Prime Air is delivering groceries by drone.

Alltech's Chief Innovation Officer, Aidan Connolly, highlighted eight key trends that are likely to cause technological disruption in the agri-food industry:

- 3D printing;
- robots;
- drones;
- sensors;
- Artificial Intelligence (AI);
- data analytics;
- virtual reality for training people; and
- blockchain.

The Internet of Things will link these eight emerging technologies and revolutionise the agri-food sector. While a world where

a robot replaces a human may seem farfetched, we already have robotic milking machines which diminish the need for farm operatives. Drones are already being used, not only for product delivery but also in precision agriculture. Irish companies like Moocall are already using sensors to inform farmers when a cow is due to calf. Individually these technologies are changing aspects of how food is produced and processed. As they evolve and integrate they will cause disruption to what is considered business as usual.

Macro-economic disruption

From the development of the steam powered plough to mechanical irrigation, evolutions in technology have always been a cause of disruption. However, there is more uncertainty and therefore more disruption in the world than ever before.

A certain degree of 'normal uncertainty' can be expected. Actions that result in minor changes to 'business as usual' have become common in society and businesses have built in sufficient agility to manage these changes. What's troubling is the concept of 'dangerous uncertainty' and the questions, how far can our politicians go before people stop them? Professor Damien McLoughlin of UCD notes that nationalism is on

the rise globally and protectionism is being actively pursued. This has been illustrated by the UK's decision to leave the EU. Further to this he indicated that 96% of the top ten firms in China are state owned enterprises. Philip Wilkinson of Two Sisters examined the concept of how countries are buying agriculture land in more fertile jurisdictions to ensure security of food supply for their citizens.

By 2050 there will be demand for between 60-100% more food than what is already produced today in order to cater for a population of 9.7 billion people. This increase in demand for food is accelerating innovation in the agri-food industry and fundamentally changing how the industry works. As pressure to produce more food increases, so too will the rate of disruption. Embracing this change and being agile enough to adapt will be fundamental to the survival of all sectors of the agri-food industry.

Grant Thornton's dedicated Agri-food team has a wealth of national and international experience in helping companies develop and review their strategies. In a world of increased disruption agri-food companies need to assess if their strategy is fit for purpose?

Deal activity in the meat industry in Northern Ireland

The recent Grant Thornton UK Food and Beverage Insights report indicated that Merger and Acquisitions (M&A) activity was sluggish in quarter one 2017, 15% below quarter four 2016. General uncertainty due to Brexit and increased costs due to currency impacting corporate profitability are sighted as the main reasons for the drop in activity.

The fundamentals of corporates still demanding strong turnover and profit growth requiring acquisition, drives to secure competitiveness through cost synergies and the level of money for investment all point to more activity in the market later in 2017. Pressures on consumer spending, grocery retailer price competition and the additional costs of Brexit will all force producers to review their cost bases again and indeed consider the option of consolidation. The fall in sterling in the latter half of 2016 has made UK assets even more attractive to foreign buyers.

Last month the long anticipated announcement of the creation of a joint venture between the UK meat businesses of Dawn Meats and Dunbia was made. The deal which is still subject to Competition Commission approval, will see Dawn Meats own a majority stake in the combined UK entity. Strategically this should allow the combined group to achieve significant synergy savings as the business competes in the highly competitive meat sector.

Private equity continues to invest in the sector from turnaround/consolidation through to high growth segments. The recent sale of Karro Meats Group (including our beloved Cookstown sausages) by Endless to CapVest for £180 million shows the potential for super return in what might be seen traditionally as a low return sector.

In 2016 the number of deals involving international buyers have more than doubled in the UK. Recent deals included the purchase by a subsidiary of Thai firm Charoen Pokphand Foods of Westbridge Foods for £60 million advised by Grant Thornton. The deal offers the purchaser a significant customer base in the UK and provides a platform for potential further growth in the western European markets.

Grant Thornton anticipates further M&A activity in the market in the latter half of 2017 and into 2018.

Grant Thornton with its experience of the agri-food sector and its national and international network are ideally placed to support those businesses seeking strategic acquisitions or selling their businesses. A key element for success is careful planning in advance of a transaction to ensure that value can be maximised on exit.

Tax risk management focus - is your organisation ready?

The evolving global tax environment is encouraging companies across all sectors including agri-food to make tax a key priority at boardroom level and across the organisation. Today's business leaders face unrelenting scrutiny from wider stakeholders, who are increasingly demanding more than just shareholder return but also good citizenship and corporate reputation to succeed.

Senior management must scrutinise every act and decision as though it could be tomorrow's news headline. They must ensure this behaviour is embedded in the culture of their organisation into the future. Progressive organisations are firmly placing tax risk at the forefront of their tax approach, identifying and assessing each decision and its impact.

To effectively manage tax risk, all stakeholders in the business must understand the scale of taxes under management, the controls and processes supporting its management, (people, IT systems, etc.) the strategic direction of the business and its approach to risk management.

Large corporates must expand their focus beyond annual tax compliance and planning. They must change their mind-set to a risk and control philosophy and take a closer look at all taxes under management.

We identify the five main categories of risk which stem from a rapidly changing tax environment.

Reputation

With increased public interest and political debate combined with global operations and increased speed of

communication, proactively managing your tax reputation has never been more important than now.

Operations

Effective compliance, relies on robust enterprise wide processes and authorities are increasingly intolerant of instances of failure. Advanced data management technology enable firms to test risks, controls and ensure that the finance systems are adequate from both a tax risk and reporting perspective.

Legislative change

The pace of change in tax laws and practices both internationally and domestically is more rapid than ever. The OECD is driving greater transparency from multinational organisations and consistency from governments in designing tax legislation, with the introduction of measures including Country by Country (CbC) reporting and the Base Erosion and Project Shifting (BEPS) and compliant Knowledge Development Box (KDB).

Authorities

The attitude of tax authorities continues to harden and their statutory powers for information gathering are increasing.

Investment in data analytic software enables tax authorities to benchmark companies in similar sectors and identify potential errors in tax reporting.

Financial risk

Assessments and penalties for tax underpayments can result in significant financial losses. The degree of penalties applied by tax authorities is often more severe where the underpayment relates to a fiduciary tax (i.e PAYE and VAT).

Tax risk is an important area of consideration across the whole organisation. Interlinking different levels of the organisation in relation to tax risk is key and having processes and a focus for each, i.e. at board room level, for head of tax and for the wider finance teams. Future proofing the tax structure of your business is key and also timely given where we are with the impending implementation of the various BEPS action plans.

Grant Thornton can work with all levels of your business and assist with understanding the specific priorities and objectives. We provide a cross functional suite of services to enable you to review and improve your existing tax governance across your entire organisation.

We are Grant Thornton

At Grant Thornton we work with over 200 Irish agri-food business across the entire value chain. Our dedicated agri-food team has a wealth of national and international experience in the agri-food sector providing bespoke professional services to companies of all sizes. If you require further information on any topics or would like to discuss other professional services matters, contact our agri-food team or visit our website **here**.



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