



# Global M&A snapshot 2015

## *Transaction momentum building*

Grant Thornton International Business Report



# An Irish perspective

**Irish companies are actively pursuing M&A opportunities as a catalyst for growth and to expand into new markets but are risk averse to fund growth via external sources.**

The findings of the Grant Thornton International Business Report shine a light on the current mind-set of Irish businesses and their outlook for the short to medium term. Firstly, it shows that Irish companies are actively pursuing M&A opportunities as a catalyst for growth and to expand into new markets. Secondly, the report illustrates that the majority of Irish businesses are risk averse to fund growth via external sources.

The attitude to M&A emanating from the survey is consistent with the current surge in both the volume and value of deals in the market place. In fact, the

43% of Irish businesses considered at least one acquisition.

value of deals for 2014 was the highest since 2000 and the volume of deals also surpassed pre-recession levels.

Furthermore, the current wave of deal activity does not show any signs of abating – a favourable macroeconomic environment, low interest rates and a proliferation of financing options are allowing businesses to pursue acquisitions as part of their growth strategy.

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The range of financing available in the market place gives Irish SME's genuine options to help fund their growth plans.

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Despite the favourable economic winds, Irish businesses are reluctant to fund growth via external means. The recession has clearly left an impact on businesses' attitude to external financing.

The obvious merit in this conservative approach is that businesses will not increase leverage and therefore eliminate the risks associated with such a strategy. On the contrary, a reluctance to utilise external finance to spur growth may be hindering the true potential of Irish businesses in the renewed growth environment.

For businesses that are looking outside of their own resources to fund growth, there have been a number of positive developments in the Irish financing landscape in the recent past, both bank and non-bank. In addition, there is range of private equity players, including the state-backed Irish Strategic Investment Fund, active in the SME market space. Overall, this means that for 2015 and beyond, Irish companies have genuine options to help fund their growth plans.



Michael Neary  
Partner  
Grant Thornton Ireland

# Irish businesses: returning to growth

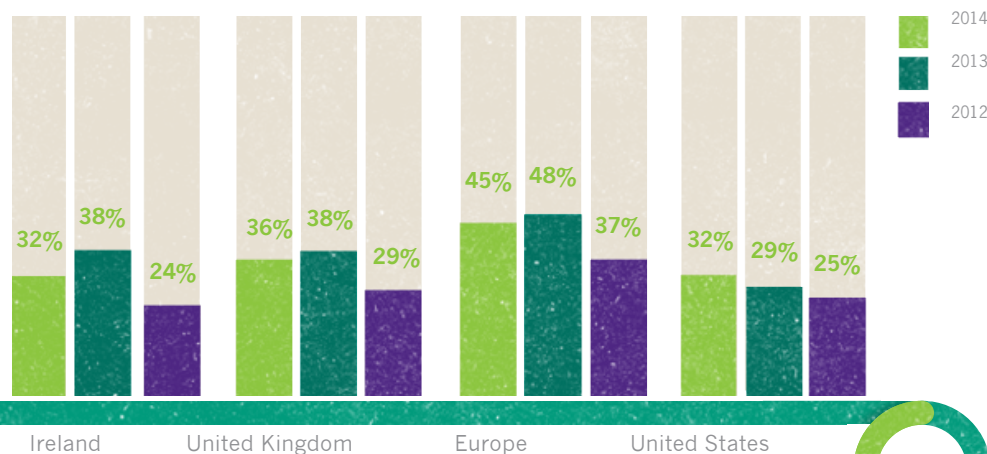
## Growth through acquisition

Ireland's return to growth has reinvigorated M&A deals. We expect this trend to continue in the short to medium term.

The key highlights of the survey from an Irish perspective are:

- 43% of Irish companies gave serious consideration to at least one acquisition opportunity in 2014;
- building scale has been identified as the key driver for businesses' plans to grow through acquisition; and
- 15% of Irish companies anticipate a change in ownership of their business in the next three years.

## Percentage of businesses planning to grow through acquisition

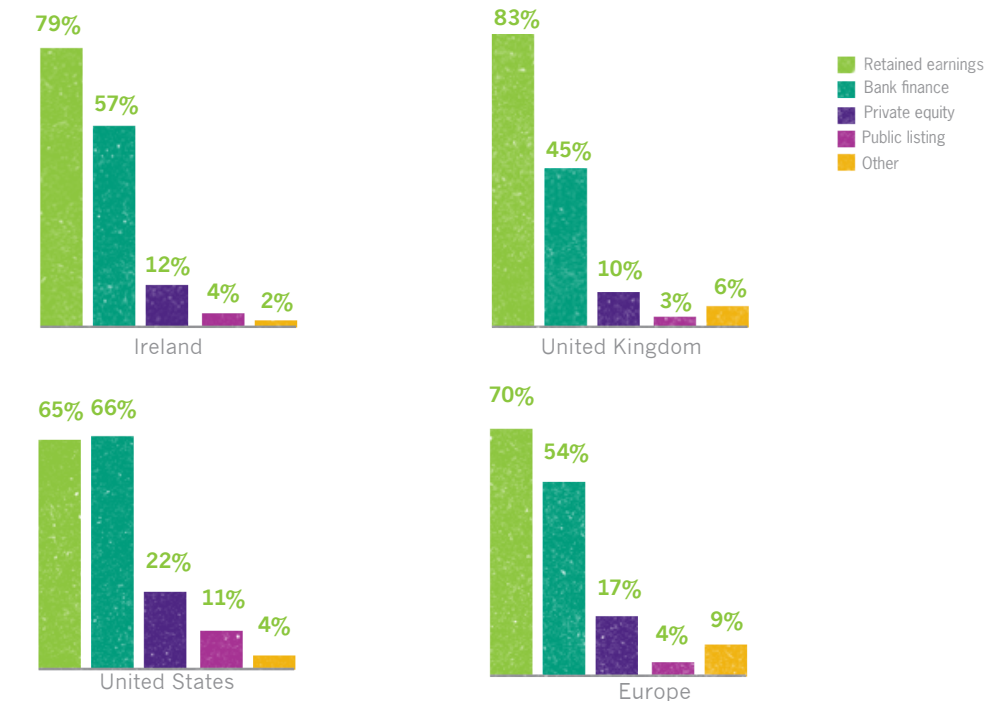


## Financing growth

Bank finance and retained earnings still remain the options for SME's to finance growth. In the new financing landscape, however, there are much more choices available to Irish Businesses.

- 79% of Irish companies intend to finance growth via retained earnings;
- 57% of Irish companies intend to finance growth through bank finance;
- 12% of Irish companies intend to finance growth through private equity; and
- only 4% of Irish companies intend to list over the next three years.

## How businesses intend to finance their growth over the next three years?



# Overview

**Companies are increasingly focused on high-quality strategic transactions, with less time spent on investigating peripheral opportunities, according to our International Business Report (IBR), a survey of 5,000+ business leaders in 35 economies.**

The results confirm that the M&A market has rediscovered its vigour, with the most dynamic businesses embracing acquisitions as a vital growth tool.

M&A activity, both current and forecast is becoming more focussed as the quality of available targets improves and is matched this year by a five year high in the willingness of potential vendors to contemplate a sale. However, there are considerable regional variations - ranging from a bullish North American outlook to a fragile Eurozone.

A GROWING NUMBER OF  
BUSINESSES ARE LOOKING

AT BANK FUNDING  
TO SUPPORT M&A

There is also less activity in some of the previous powerhouses such as China - indicating that transaction activity will be far from uniform across the globe.

2015 represents an excellent window of opportunity to transact, where the objectives and valuations of buyers and sellers are broadly aligned.

We have also seen a significant shift in the funding landscape with a growing number of businesses ready again to look at bank funding to support their M&A strategy, reflecting increased liquidity in the market.

2015 will undoubtedly present some new challenges and uncertainties in particular economies around the world. Overall, underlying growth remains relatively strong in many of the most developed regions. Key metrics such as interest rates, employment and availability of funding are positive, 2015 would appear to represent an excellent window of opportunity to transact. In a historically cyclical transaction market we may well be at a point where the objectives and valuations of buyers are broadly aligned.



**Mike Hughes**  
International service line leader – M&A  
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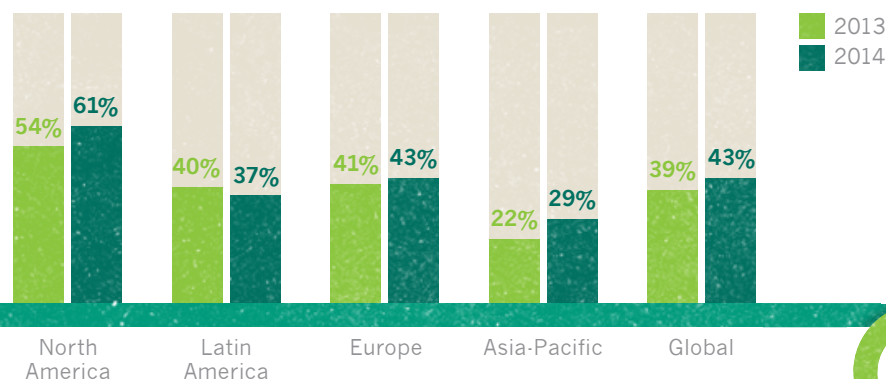
# A growing appetite for acquisitions

## Increasing strategic focus

In an improving M&A market, acquirers are becoming more selective about which opportunities they spend their time on.

- 43% of businesses reported looking seriously at one or more acquisition in the last year, up from 39% in 2013.
- Only 4% of businesses considered more than six acquisitions, down from 7% in the previous 12 month period.
- The USA remained the major driver of M&A activity with 61% (2013: 54%) of respondents seriously exploring at least one acquisition in 2014.
- 11% of the businesses surveyed in the European Union stated that they had seriously considered more than three transactions in 2014.
- 70% of Chinese businesses stated that they had not seriously explored any acquisitions in 2014, possibly reflecting a softening in business confidence in China.

## Proportion of businesses who seriously considered at least one acquisition over the past 12 months

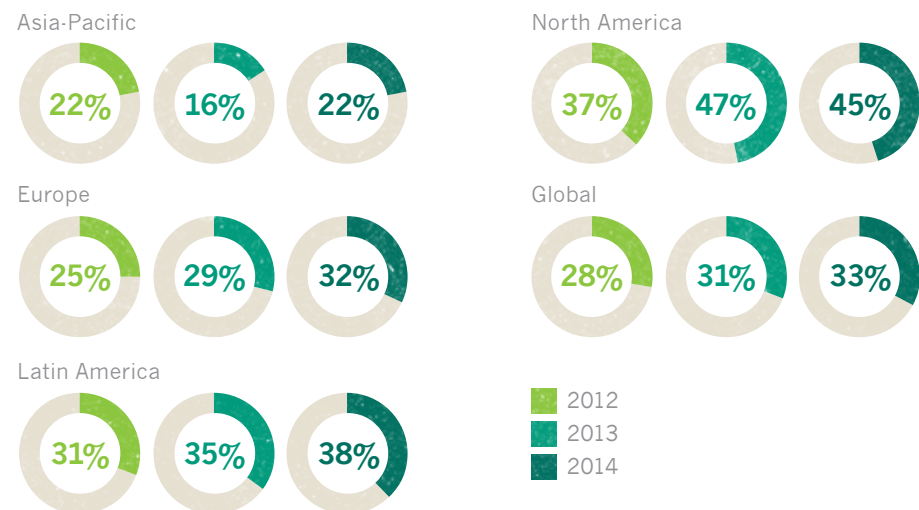


## Growing prospects for strategic M&A

With market activity increasing, the prospects for strategic M&A activity over the next three years are also on the rise.

- 33% of businesses globally stated that they had plans to look at M&A opportunities during this period, up from just 28% two years ago.
- Europe and Latin America have seen steady increases over the past three years.
- North America remains the most bullish region following a big rise in 2013.

## Percentage of businesses planning to grow through acquisition (next three years)



# Vendor confidence returns

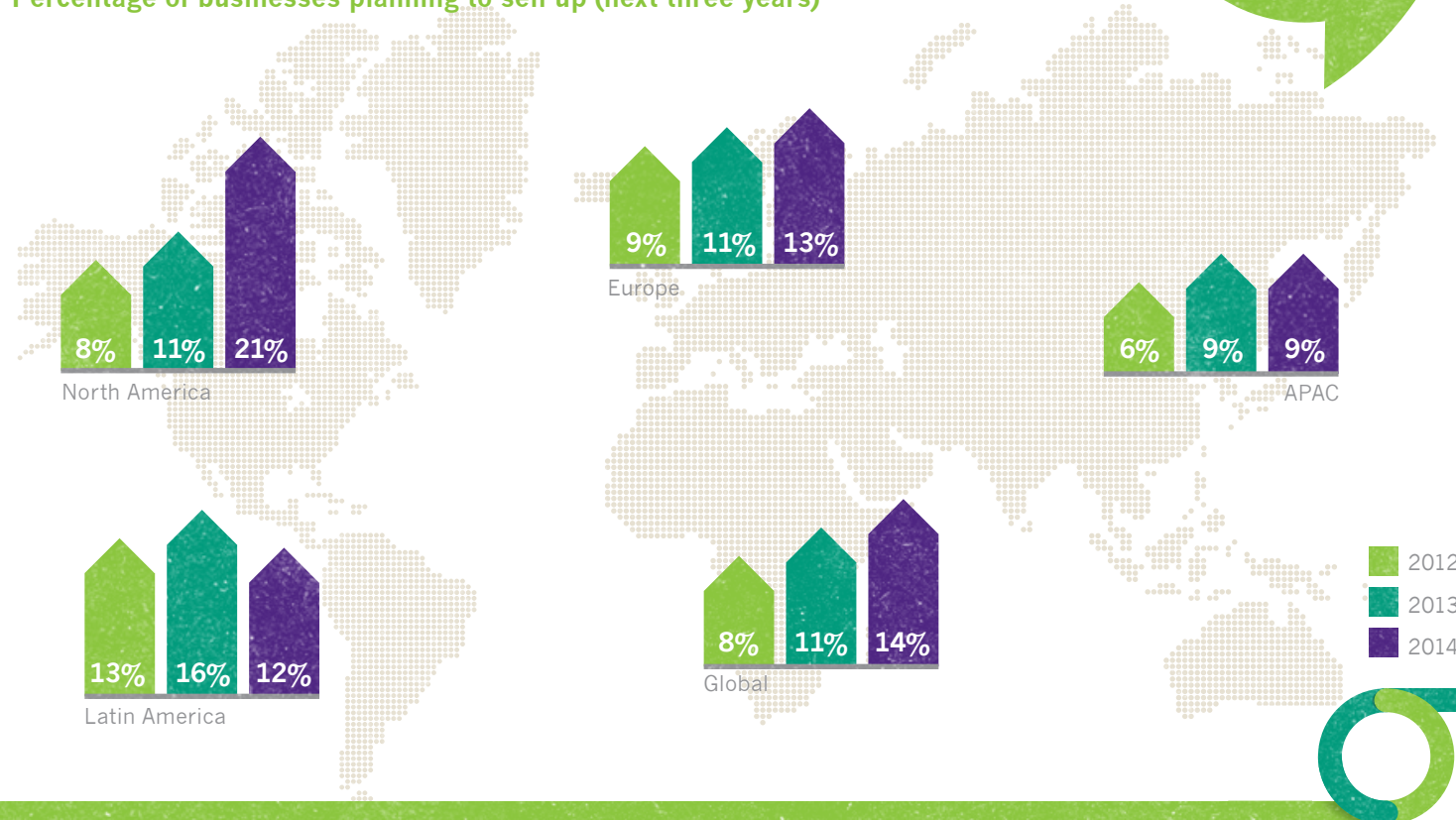
## A stronger climate for exits

The supply of available targets is key for a successful M&A market. Since the financial crisis, potential vendor's confidence in achieving a successful exit has been low, driven by modest financial performance, valuation concerns and perceived transaction risks, such as availability of buyer funding.

The first signs that these constraints on the M&A market were lifting had been identified in our report last year and our 2015 report indicates a further significant increase.

- The proportion of businesses expecting a change in ownership in the next three years rose from 11% to 14% over the past year, and is up from 8% two years ago.
- This rise is driven by the more mature economies of North America and Europe.
- Potential vendors in Latin America and Asia-Pacific remains more cautious.

Percentage of businesses planning to sell up (next three years)



# A changing funding landscape

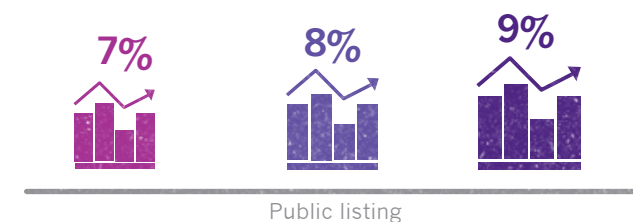
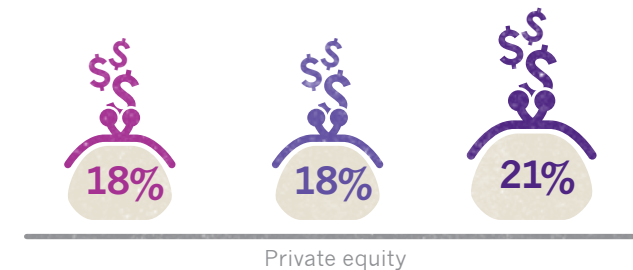
## Banks back in play

A key element in an active M&A market is confidence in the ability to fund transactions. Whilst retained earnings remain a significant source of funding, our 2015 report indicates a major breakthrough in the confidence to secure bank funding. This reflects the increasing liquidity in the debt market, particularly as the alternative lending sector continues to grow. 57% of respondents expect to finance deals through debt compared to only 48% in each of the last two years.

- Rise driven mainly by emerging Asia-Pacific economies - China, Indonesia and Thailand.
- North American businesses remain most likely to use bank finance (65%).



### How do you plan to finance growth in your business over the next three years? (Percentage of business)



2012  
2013  
2014



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**Integrated approach**  
**Maximising value**  
**Highly motivated teams**  
**Deep seated knowledge**



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## IBR 2015 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held companies all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 business leaders in over 35 economies on an annual basis, providing insights on the economic and commercial issues affecting the growth prospects of companies globally.

The data in this report are drawn from more than 10,000 interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses in 35 economies conducted between February and November 2014. Data for 2015 is drawn from 5,000 interviews conducted in September to December 2014.

The definition of mid-market varies across the world: in mainland China, we interview businesses with 100-1000 employees; in the United States, those with US\$20m to US\$2bn in annual revenues; in Europe, those with 50-499 employees.

### More information:

<http://www.grantthornton.global/insights>

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