Finance priorities for Irish corporates

TONY GOLDEN and LOUISE O'MARA from Citi's Banking, Capital Markets and Advisory division address key corporate finance priorities for Irish companies. To help clients navigate the economy's most demanding challenges they have identified key areas of focus for corporate finance executives.

The first half of 2019 has brought challenges for the Irish corporate sector, with mixed signals for the remainder of the year. On the one hand, economic fundamentals remain sound – continued Irish GDP growth, low unemployment and healthy corporate balance sheets. On the other hand, exogenous risks including Brexit, trade wars and rising equity volatility, point to additional challenges for corporate treasurers. To help our Irish clients anticipate future themes and trends in a fast-changing environment, we have set out what we see as the top corporate priorities for the remainder of the year and beyond.

Navigate macroeconomic and geopolitical uncertainty

The last 12 months have been characterised by growing uncertainty around trade arrangements, Brexit, and higher emerging market volatility. Looking ahead the market will continue to be impacted by global political developments including trade tensions and tariffs, ongoing Withdrawal Agreement negotiations, and the US 2020 Presidential elections. Against this backdrop, Irish corporates should be prepared to proactively defend their valuations and manage disruptive threats to their competitive positions. Should market volatility remain elevated, there will be substantial rewards for those firms that have flexibility to deploy capital prudently.

Manage complexity of M&A

By the end of 2018, global M&A volume had reached $4.2 trillion. However, uncertainty from tariffs, China-US trade disputes and geopolitical risks, are weighing on volumes in 2019. Nevertheless, the imperative of responding to technological disruption and changing consumer patterns requires ongoing transformation of business models through M&A. Recent significant M&A activity in Ireland includes the acquisition of Sky Leasing by Goshawk Aviation, Smurfit Kappa's purchase of Reparenco and the acquisition of SlimFast by Glanbia. In July 2019, Citi was named Best Investment Bank Ireland in the *Euromoney* Awards for Excellence 2019, recognition of the strategic support we provide to our Irish clients.


Tony Golden


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Much of the M&A activity in 2018 was fuelled by large transformational deals ($5 billion and greater). Investor response was mixed, reflecting growing completion risks and a rise of cancelled deals. For $10bn+ transactions, the volume of cancelled deals was almost as large as that of completed deals in 2018. Regulatory involvement is a major contributor to deal withdrawal, with 40 per cent of large cancelled deals in Europe having faced some sort of regulatory scrutiny. Smurfit Kappa was the subject of take-over interest from International Paper (IP) who approached the company with two unsolicited offers. Citi acted as lead financial advisor to Smurfit Kappa in its successful strategic defence against IP.

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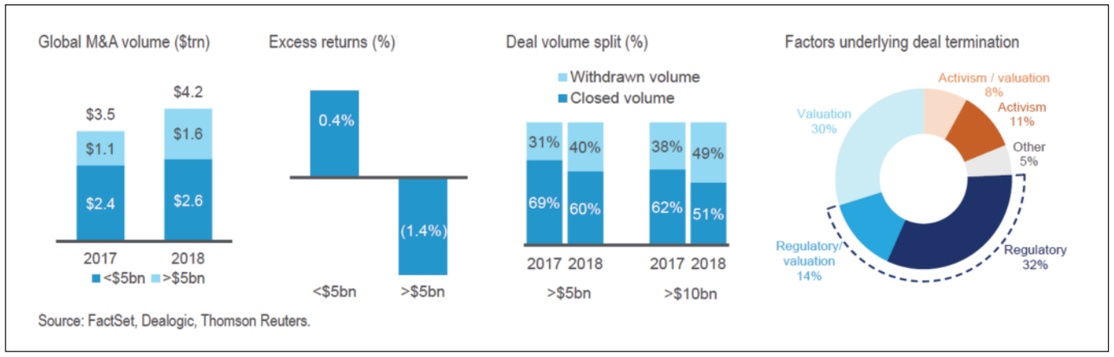
Rebalance the corporate portfolio

Irish conglomerates constantly review their portfolio composition and utilise stringent financial discipline to drive value for shareholders. Across the globe divestiture volume reached $766 billion in 2018. Companies divested for a variety of reasons, such as sharpening management focus, exploiting valuation opportunities, responding to technological disruption, complying with anti-trust laws and raising capital. Recent strong M&A activity is likely to support future divestiture activity as large acquisitions often leave the acquirer with assets that are not core to its strategy. Additional tailwinds for divestiture include the US tax reform and increased private equity activity. Furthermore, as Golden points out: 'Divestitures can improve a company's growth profile. Assets that are declining or even growing slowly can hinder efforts to attract the right investors or premium valuation their faster growing businesses warrant.'



Source: FactSet, Dealogic, Thomson Reuters.

Optimise capital deployment firepower

Robust cash generation by Irish corporates has helped offset increases in both capital spending and shareholder distribution, resulting in significant cash on corporate balance sheets. Irish firms should consider strategic use of their capital deployment firepower to generate growth amidst the risk of technological disruption while at the same time meeting investor demands for shareholder distributions.

Capital firepower is strong, as O'Mara highlights: 'Citi estimates corporate capacity for acquisitions and capital distributions to be over $10 trillion globally. In the absence of attractive strategic investments, well-capitalised companies will feel pressure from investors to deploy capital towards shareholders distributions.'

Irish corporates including Ryanair, CRH, ICON plc and AerCap are returning to investors through ongoing share buy-back programmes. Share repurchases are likely to remain an attractive capital allocation in the next twelve months. Citi's Financial Strategy and Shareholder Advisory Groups regularly meet with our Irish client base to advise on debt capacity, credit ratings and shareholder return strategy.

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Think like tech Titans

Dublin is home to tech giants such as Google, Apple, and Amazon, among others. The tech Titans are disrupting a multitude of industries by crossing boundaries in ways rarely seen before. The ability to leverage artificial intelligence, big data, cloud computing and digital connectivity is allowing these firms to dramatically disrupt business models and capture a larger fraction of global growth. Harnessing the power of information technology, tech Titans combine scalable, asset-light strategies to generate superior operating margins, higher returns on capital, and growth in shareholder value. Tech titans achieved a median return on invested capital (ROIC) of 19.8 per cent versus 8.5 per cent for legacy conglomerates in 2018. These firms are also adept in leveraging significant balance sheet flexibility and identifying inorganic growth opportunities early on in a firm's life cycle. Irish corporates should assess potential digital disruption to their underlying business models and manage threats by harnessing technology developments. Leveraging big data to understand analytical issues such as consumer behaviour and supply chain dynamics can provide important competitive advantages to drive performance.

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