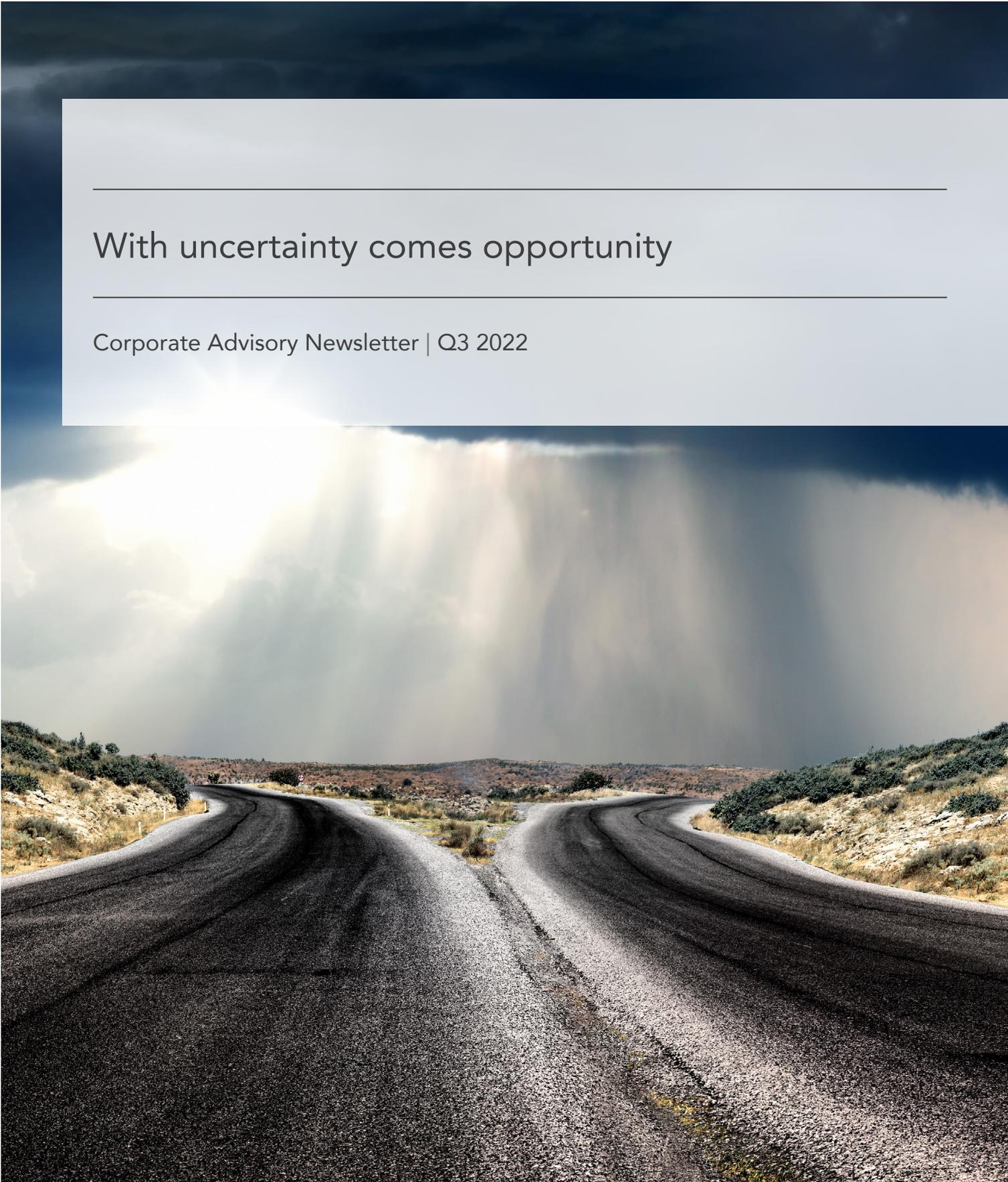


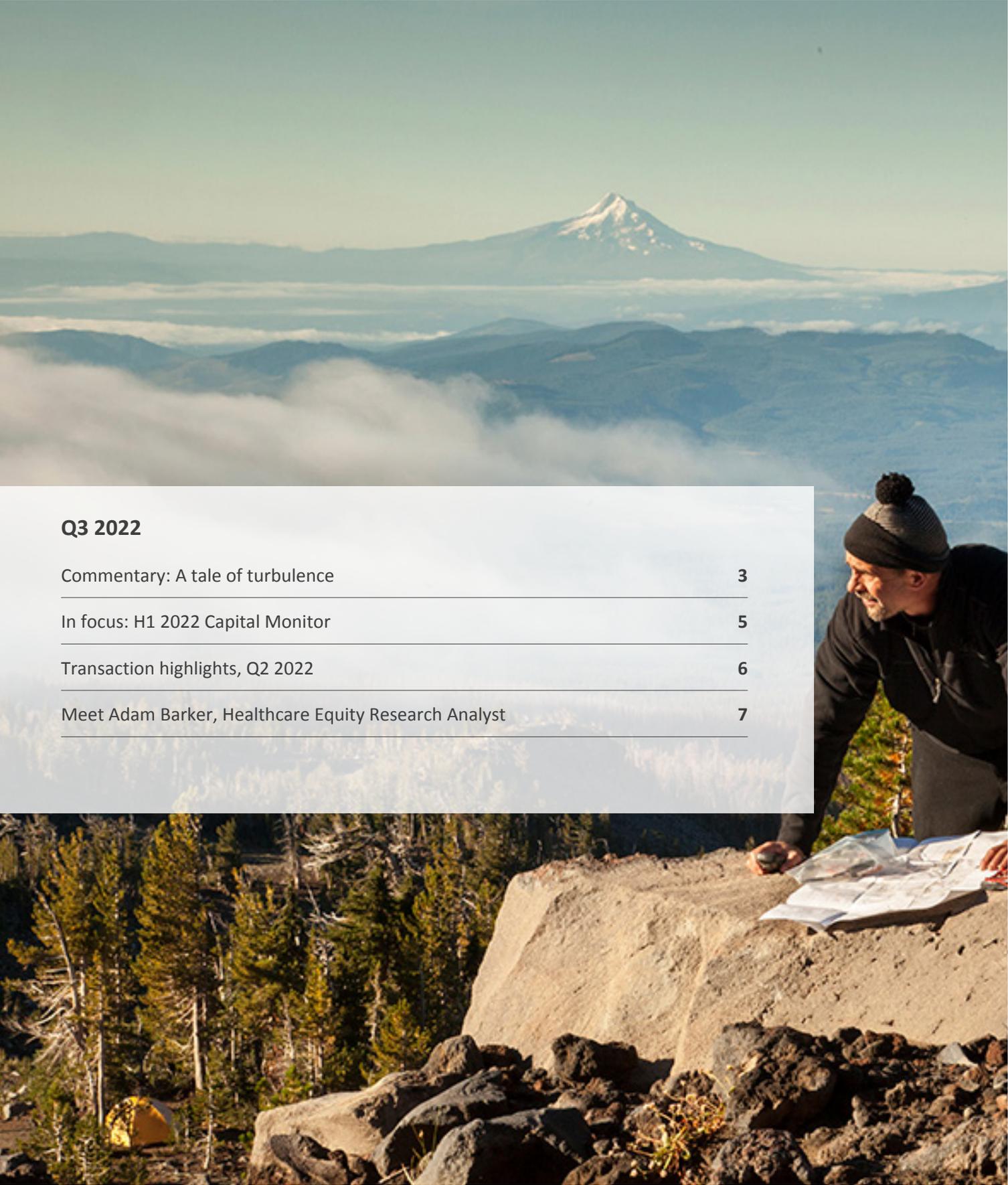
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## With uncertainty comes opportunity

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Corporate Advisory Newsletter | Q3 2022





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# A tale of turbulence

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## Finbarr Griffin, Head of Corporate Advisory

As Head of Corporate Advisory, Finbarr is responsible for developing the overall strategy for Corporate Advisory within Goodbody's Investment Banking division. The Corporate Advisory team comprises over 30 senior financiers and advisers based in Dublin and London who work collaboratively as one unit.



The first half of 2022 was one of the most turbulent that global markets have ever seen. The protracted war in Ukraine, the resignation of the UK and Italian prime ministers, a 50bp interest rate increase by the European Central Bank (double what had been guided), and the growing potential for large scale interruption in the supply of oil and gas from Russia have all resulted in heightened market volatility and record high inflation. Real GDP is forecast to grow by 2.6% in 2022 and 1.4% in 2023 in the euro area, with inflation predicted to hit 7.6%, compared to the previous forecast of 6.1%. UK inflation in June was 9.4%.

Not unexpectedly, this has translated into lower volumes of IPO and M&A market activity in the UK and Ireland, as negative market sentiment and increased costs impact the timing of companies' investment decisions and potentially delay investment plans. The slowdown in IPO activity witnessed in Q1 was more pronounced in Q2, with just seven IPOs in the UK market raising £204m in new capital. This compares to 26 IPOs in Q2 2021. For our own analysis of follow-on issues on the London Stock Exchange Main Market and Alternative Investment Market, see our H1 Capital Monitor on page five.

On the M&A side, Mergermarket reported 940 UK transactions in Q2 with a total disclosed value of £225bn (where the company in any role was British) – a 17% decrease on the same period last year. In Ireland, transaction volumes in Q2 2022 were also lower, with Mergermarket reporting 142 deals in Q2 2022 (where the company in any role was Irish) with a total disclosed value of €18.02bn. This compared to 157 deals in Q2 2021. Irish transaction activity was spread across a wide variety of sectors with the largest volume of activity in the tech sector where 34 deals were completed, followed by the medical/pharma sector which also saw strong volumes with 17 transactions completed.

A recent Bloomberg survey signalled a 45% chance of a recession in the next year – up from 30% just a month ago. History has taught us that transaction volumes and values typically decline during a recessionary period.

While some companies will pause M&A activity in the short term to focus on the potential impact of a recession on their business, companies with strong corporate balance sheets will seek to capitalise on opportunities for inorganic growth as valuations decline.

**“Companies with strong corporate balance sheets will seek to capitalise on opportunities for inorganic growth as valuations decline.”**

In addition, private equity firms with record levels of dry powder with which to buy companies will also continue on the hunt for opportunities in the near-term.

Despite the ongoing turbulence in financial markets, we advised clients on 13 transactions during the quarter with a combined deal value of over €2.5bn. We advised Finance Ireland in relation to a series of shareholder transactions, Mzuri Group on the acquisition of S:Craft, Leeson Telecom in relation to its sale to Digital 9 Infrastructure Plc and Cairn Homes on a €227.5m sustainability-linked syndicate facility (to examine our Q2 transactions in detail, see page six).

## “We acted as joint bookrunner for the Department of Finance on the sale of c. 5% of AIB for €305m.”

We were delighted to act as joint lead manager on AIB’s €750m green bond issuance, the proceeds of which will go towards the financing of projects with climate change and environmental benefit. We also acted as joint bookrunner for the Department of Finance on the sale of c. 5% of AIB for €305m.

Meanwhile, we were very proud to be among the winners of the Finance Dublin Deals of the Year Awards 2022 for our role in the HealthBeacon IPO and Vertex Inc’s acquisition of Taxamo.

In Q2, we also held a number of important events: as anchor sponsor of the Food and Beverage Finance Summit alongside our parent AIB, A&L Goodbody and KPMG, we brought together CEOs, CFOs, Heads of Sustainability and Chairs from across the

industry with investors and capital providers at University College Cork in May. In June, we partnered with the LSEG (London Stock Exchange Group) to host a Capital Markets Forum on the topic of ‘Life on Public Markets’, while the Goodbody Aviation Investor Forum returned for its third event with an engaging discussion on aircraft fleet strategy and funding. Elsewhere, Cairn Homes, IRES REIT and Hammerson, among others, joined Colm Lauder, Head of Real Estate, and Dermot O’Leary, Chief Economist, for their Irish Property Industry Leaders event in Dublin.

Meanwhile, we continue to strengthen our team and are delighted to announce that Tom Nicholson and Nick Donovan recently joined our London team as directors. Aidan O’Mahony joined our Dublin team and will now lead our ESG Advisory initiatives.

The ongoing expansion of our research coverage within existing and new sectors continues, with the appointment of George O’Connor as a Technology Equity Analyst. With 30 years industry experience, he joins us from Stifel Financial Corp where he covered the Software & IT services sector. Recently, we also caught up with our Healthcare Equity Analyst Adam Barker, who joined the firm in March, to discuss his views on the trends shaping the healthcare sector – see page seven for his Q&A.



# H1 2022 Capital Monitor: Capturing opportunity amid volatility

## Piers Coombs, Head of London Office



Every six months, we conduct an analysis of follow-on issues on the London Stock Exchange Main Market and Alternative Investment Market. In our H1 2022 Capital Monitor, we detail how capital raising has fallen to a decade low amid global growth and inflation fears. Nevertheless, our clients remain focused on the controllables – and while much IPO activity has been pushed out to 2023, undertaking preparation work and relationship building with investors in H2 will be key.

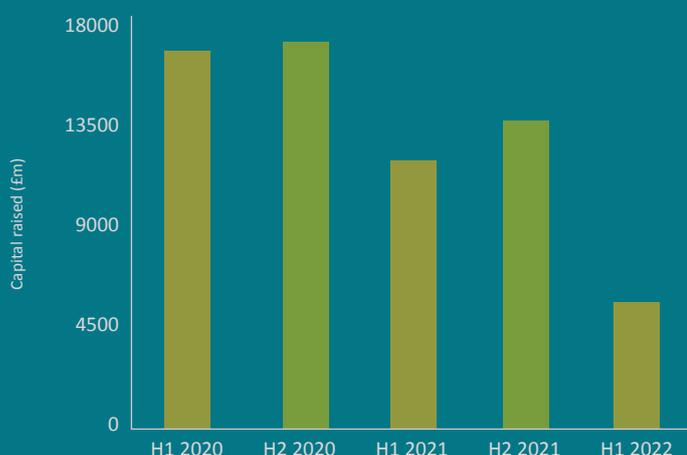
Capital raising from UK-listed corporates fell very significantly in the first half of 2022 as concerns about growth and inflation were compounded by the war in Ukraine and economic uncertainty.

After the record pace of fundraising during the pandemic, the sharp move in valuations across nearly all sectors has dissuaded UK PLCs from raising new capital, instead choosing to hone strategy, start buyback programmes, if appropriate, and focus on what they can control.

Our analysis shows that in H1 2022, just £5.7bn in new capital was raised by UK PLCs, the slowest start to a year in nearly a decade. When excluding listed investment vehicles, this figure falls to £2.5bn.

The analysis demonstrates a marked shift from the last two years, where corporates adversely impacted by the pandemic turned to investors to shore up their balance sheets. Capital raising in the first six months of 2022 is less than 50% of that in the first half of 2021, and around a third of the amount raised in the first half of 2020.

Figure 1. Capital raising falls to decade low



Source: London Stock Exchange; Goodbody, as at 30 June 2022

Weakening market confidence has meant the number of large transactions has declined very significantly in comparison to figures from 2021. In H1, no companies raised more than £1bn in a single transaction, while Ocado Group was the only corporate to raise more than £500m, as it looks to expand its technology arm in the second half of this year.

### Consumer industries most active out of necessity

Those businesses that are choosing to raise capital have done so mostly on a needs must basis, with particular and time sensitive requirements.

The most active sectors for capital market activity continue to be consumer industries impacted by the pandemic and currently facing reduced consumer confidence. Consumer Discretionary businesses raised the most capital (£692m), followed by Consumer Staples (£588m), Industrials (£373m), Utilities (£257m), Energy (£188m), Healthcare (£164m), Basic Materials (£164m), Financials (£115m), Technology (£104m), Telecommunications (£8m) and Real Estate (£1m).

### Stay focused - and control the controllables

While it is difficult to say with certainty when activity will begin to pick up, our view is that this will happen once there is more clarity on the interest rate cycle in Europe and the US and, importantly, some visibility on inflationary pressures subsiding. The latter could reasonably come through in late Q3/Q4 this year, not least as we start to lap into higher comparatives from this time last year. For now, corporates are focusing on what they can control, and considering buyback programmes if appropriate while valuations are depressed.

Having expected another active IPO year as we started 2022, it is now much more likely that companies looking to list will plan on 2023 timetables. For those that are doing so, there is plenty of opportunity throughout the rest of this year to undertake the preparation work and relationship building with investors that is needed.

# Transaction highlights, Q3 2022



## PLC Advisory and Corporate Broking

- Adviser to AIB Group on a €92m capital distribution (share buyback and directed share buyback)
- Lead Manager on a €750m green bond for AIB
- Joint Bookrunner for the Department of Finance on the sale of c.5% of AIB for €305m
- Co-manager on PTSB's €300m Senior HoldCo MREL issuance
- Cairn Homes: financial adviser on €277.5m sustainability linked syndicate facility
- Cairn Homes: €75m share buyback
- Origin Enterprises: €40m share buyback
- Adviser to Playtech Plc on the completion of its disposal of Finalto
- Grafton Group: £100m share buyback



## Cleantech, Energy, Infrastructure and Semi-State

- Valuation advice to Future Energy on certain renewable energy assets



## Growth Companies

- Adviser to Mzuri Group on the acquisition of S: Craft
- Adviser to Leeson Telecom in relation to its sale to Digital 9 Infrastructure Plc
- Adviser to Finance Ireland in relation to a series of shareholder transactions

MZURI



Please get in touch if you would like to hear more

For more information on our corporate advisory capabilities, please contact us using the details below and a member of our team will be in touch.

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# Meet Adam Barker, Healthcare Equity Research Analyst

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Adam is responsible for producing equity research on pharmaceutical, biotech, medtech, and healthcare services companies and for helping to facilitate investment in companies delivering medical innovation. He holds a Masters in Biochemistry from Oxford University and a Masters in Epidemiology and a PhD in Epidemiology from Cambridge University. He is also an ACA chartered accountant. Recently, we sat down with Adam, to discuss the key themes and trends shaping the healthcare industry.



## **COVID-19 was arguably a watershed moment for the pharmaceutical (pharma) and biotechnology industry – what challenges did it create for the industry?**

Well, the biggest challenge was simply the pace at which a solution to the pandemic was required. It usually takes up to 10 years to develop new vaccines and the industry delivered one in 11 months. This took a lot of innovative thinking and different ways of working together. But it is also important to remember that this unprecedented pace of delivery came in the context of the industry also having to restructure its workforce and way of working because of the virus itself. Running clinical trials and overseeing large-scale manufacturing is no simple task in normal times and so, doing it whilst also maintaining employee safety in the face of the virus was challenging. So, the industry had the double challenge of finding rapid solutions to COVID-19, whilst also maintaining day-to-day operations to make sure that the many other lifesaving medicines it produces kept being delivered to patients.

## **What are the main investment themes of the pharma sector at present?**

From a macro perspective, large healthcare stocks are often seen as “defensive” meaning they are more resilient in times of economic difficulty and so, can be seen favourably for that reason. In contrast, many biotech companies do not generate cash for many years into the future and so, tend to suffer when interest rates rise as we’ve seen this year. From a fundamental perspective, the underlying drivers of healthcare stocks remain robust (e.g., aging populations and growing access to healthcare) and the investment themes are largely consistent with recent years including the pace of innovation and behaviour of regulatory bodies, a focus on price sustainability and value-based care models, and the potential for drug price reform (particularly in the US). Most recently, we’ve also seen the issue of drug safety come well into view with investors focusing on upcoming litigation surrounding a drug called Zantac and its potential cancer risk. This is a timely reminder that drug safety and the highest quality controls remain very important for the industry.

## **The issue of drug pricing reform in the US continues to be a topic that generates plenty of debate, do you see any chance of reform?**

There tends to be a lot of noise around US drug pricing reform because prices in the country remain elevated relative to peers. So, I have no doubt that noise will continue. I think you will see a lot of suggestions on improving competition, increasing transparency on pricing and initiatives to get cheaper medicines (generics/biosimilars) to market quicker. However, the most significant change recently has been surprise progress made by US Democrats in passing a bill that would allow Medicare to directly negotiate US drug prices. This is the most significant change in some time and although I do think the industry can manage the consequences, there will be a lot of discussion around this issue and particularly what precedent it could set with respect to getting the balance right between drug prices and innovation.

## **What is your outlook for the healthcare and pharma industry?**

It is a very interesting time ahead. The pandemic has reminded people of how critical a vibrant life sciences sector is for all of us. It has also shown people what is possible when the industry uses innovative ways of working. I think there will be higher expectations on the industry now to deliver solutions to problems in a much quicker time frame and I’d assume that will include both previous areas of concern (e.g., antimicrobial resistance) and new areas highlighted because of COVID-19 (e.g., infectious disease). I do expect to continue to see huge innovation from the sector and I am hopeful that will mean even more effective medicines over time. However, the issue of sustainability will be very much in focus. The question of how to ensure equitable access to new and expensive medicines, in the face of aging populations, is one that the industry will have to grapple with for some time.



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