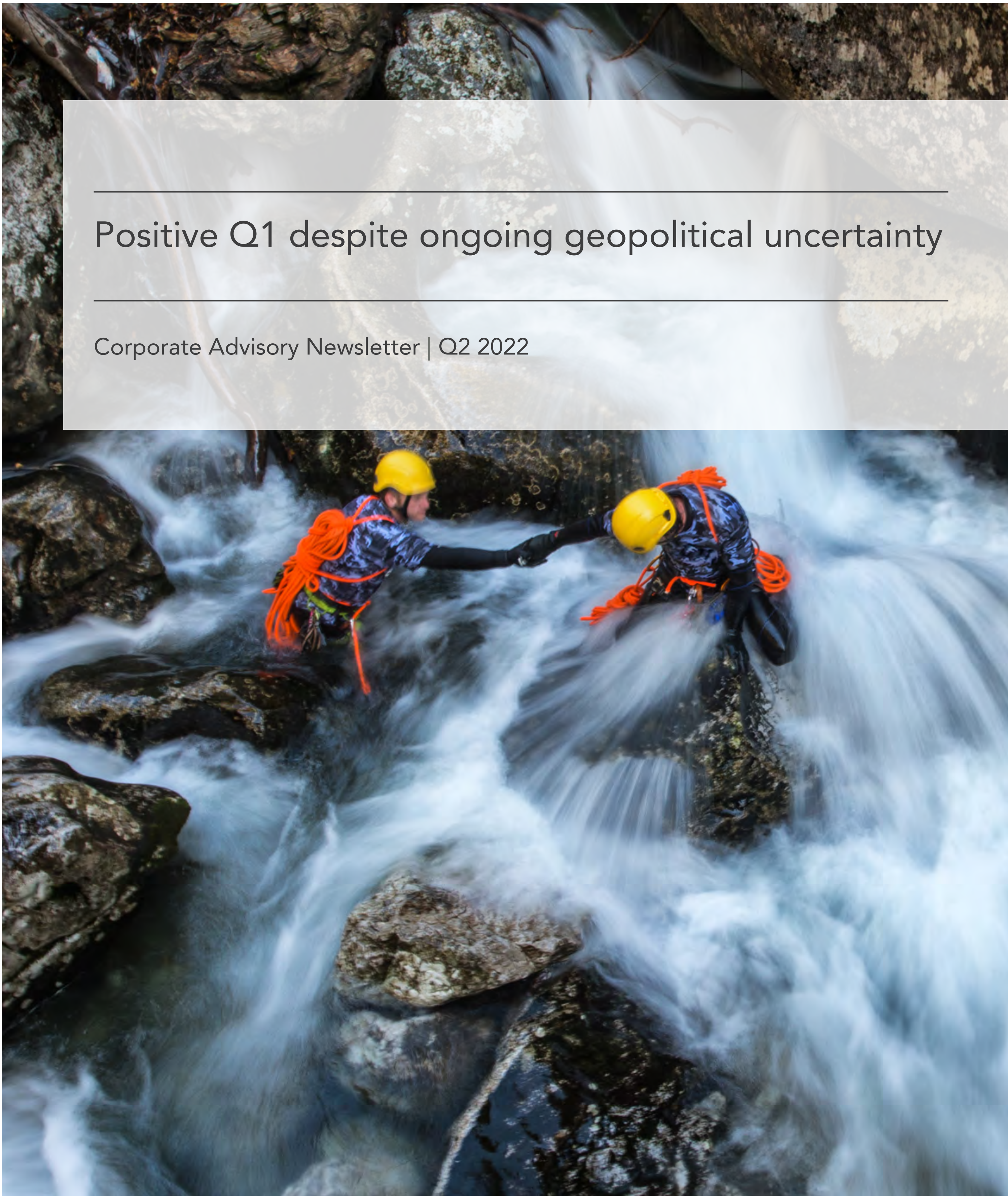
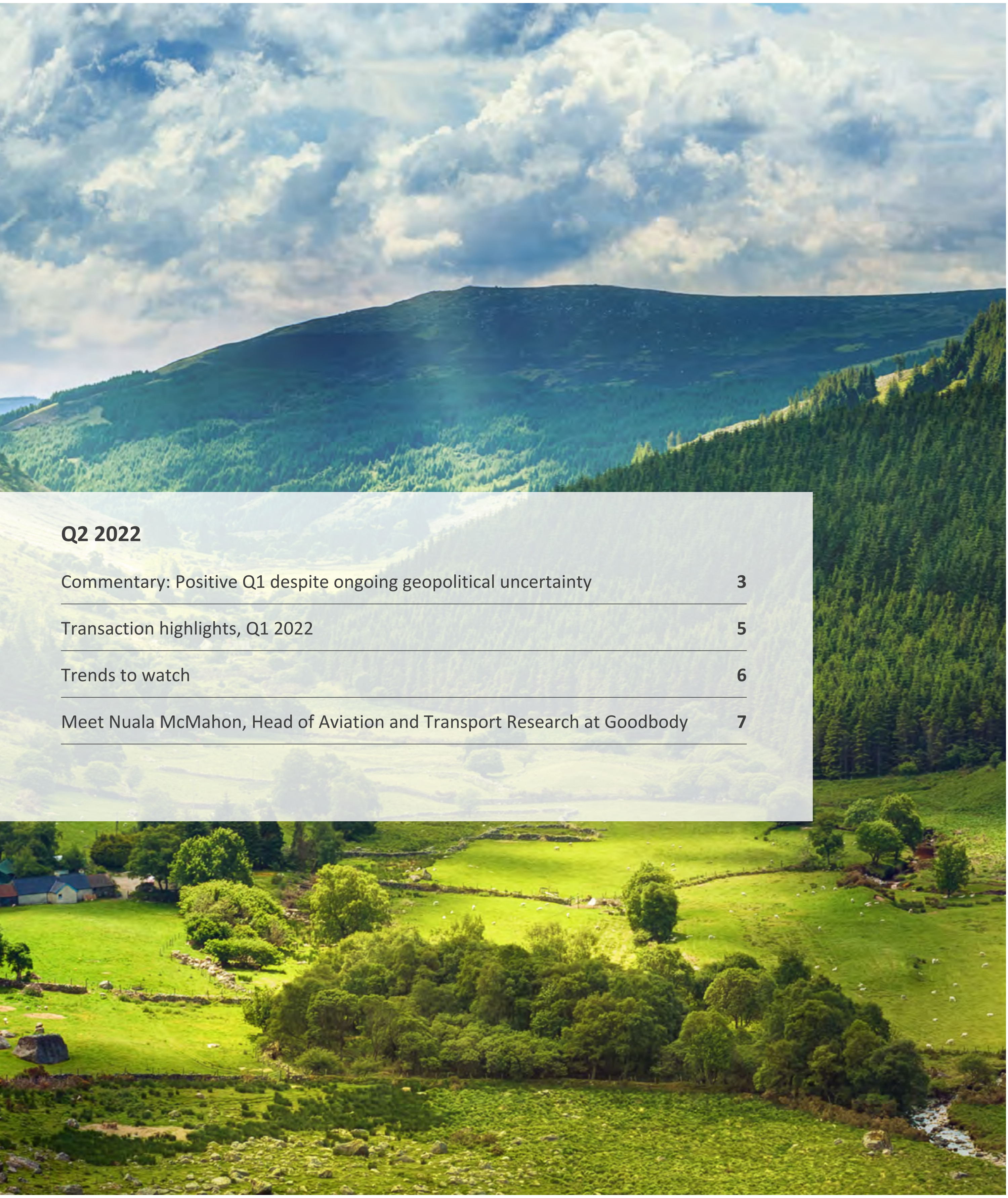
Goodbody

Positive Q1 despite ongoing geopolitical uncertainty

Corporate Advisory Newsletter | Q2 2022





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Positive Q1 despite ongoing geopolitical uncertainty

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.

It's been a volatile first quarter: geopolitical instability, surging inflation driven by a rise in commodity and energy prices, concerns over tighter monetary policy and the brief inversion of the US Treasury yield curve dominated news flow.

Like so many across the world, we are shocked and saddened by Russia's unrelenting assault on Ukraine and the escalating humanitarian crisis. Our thoughts are with all those affected by the ongoing conflict – and in response to the war, Goodbody and our parent AIB made donations to support GOAL'S Ukraine Crisis Appeal, who are working to support the humanitarian response in Ukraine and border countries.

We have been monitoring market developments and the economic impact as the crisis continues. After record-high levels of global IPO activity in 2021, volatile market conditions have resulted in a slowdown in both IPO volumes and proceeds raised in the first quarter of 2022. In Q1 2022, there were 19 IPOs in the UK market raising just £400m, compared to Q1 2021 where there were 23 IPOs raising total capital of £4bn. Seven of the 19 entities that listed in Q1 2022 were special purpose acquisition companies, or SPACs (there were no SPAC listings in the same period in 2021), which reflects the Financial Conduct Authority's August 2021 change in listing rules for SPACs designed to make the UK a more attractive listing jurisdiction for these entities. Despite the ongoing market volatility, we are beginning to see some tentative signs of IPO interest re-emerging, with a handful of "early look" processes commencing in Q2 2022. The tide can turn in equity markets quite quickly and, with a positive change in sentiment, we could see IPO activity bounce back. Current tentative signs could translate into a return to more normalised IPO activity levels in early 2023 (David Kearney, Head of Corporate Broking, examines the signs for optimism in his commentary on page six).

M&A market activity in the UK remained robust in Q1 2022. Mergermarket reported UK transaction volumes of 3,875 for Q1 2022 with a total disclosed value of £655bn, comfortably exceeding the 1,168 transactions reported in Q1 2021 which had a total disclosed value of £195bn. In Ireland, however, transaction volumes in Q1 2022 were notably lower than the same period last year, with Mergermarket reporting 95 deals in Q1 2022 with a total disclosed value of €15.24bn compared to 132 deals with a total disclosed value of €67.89bn for the same period in 2021. There have been a total of 26 transactions in the Irish market since 1 April 2022, which would suggest that transaction volumes in Q2 2022 are currently trending slightly lower than those seen in Q1.

> "We were delighted to act as joint lead manager on AIB's inaugural social bond - the first social bond issuance by an Irish bank."

Against this backdrop, Goodbody advised on a number of transactions in the first quarter: we acted as sole financial adviser and broker to Yew Grove REIT on its sale to Canadian property group Slate Office REIT for €127.8m. We advised Glanbia Co-Op in relation to a private placement to institutional investors. Concurrently with the equity placement, we also acted as adviser to Glanbia Co-Op on an offer of €250m senior secured bonds. We are currently advising Origin Enterprises on its share buyback programme to repurchase up to €40m of its ordinary shares and Cairn Homes plc in relation to a €75m buyback programme. Finally, we are acting as adviser to Hibernia REIT in relation to its takeover offer from Benedict Real Estate Bidco, a subsidiary of Brookfield Asset Management.

We were also delighted to act as joint lead manager on AIB's inaugural social bond – the first social bond issuance by an Irish bank – which raised €1bn for lending to projects which will support positive societal change, provide social and affordable housing and support access to education and healthcare. The transaction, which targeted an ESG-focused international investor base, garnered orders of over €1.85bn from over 90 investors, spread across 21 countries, at the final price (to examine our Q1 transactions in more detail, see page five).

> “In Q1, Goodbody Equity Research initiated coverage of healthcare following the appointment of Dr. Adam Barker as Healthcare Equity Research Analyst.”

In Q1, Goodbody Equity Research initiated coverage of healthcare following the appointment of Dr Adam Barker as Healthcare Equity Research Analyst. In this role, he 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. We recognise that healthcare is a critical sector – and Adam's appointment bolsters our best-in-class research capability which will help us better serve our clients.

Staying with our equity research, we have long covered Airlines and Travel – and in this newsletter, we sit down with Nuala McMahon, Head of Aviation and Transport Research, to delve into her views about the sector's recovery from the pandemic and sustainability strategies (see page seven).

Another highlight in the first quarter was the 2022 Goodbody Annual Spring UK and Irish Equities Conference. Our Corporate Broking team were proud to bring together 29 leading UK and Irish companies with a combined market cap of more than €100bn across our specialist sectors with over 100 institutional investors from all over the world.

Looking ahead, we are delighted to be the anchor sponsor of University College Cork's Food and Beverage Finance 2022 summit – an event designed to connect industry leaders and financiers from the global food sector – which takes place from 19-20 May. Ken Murphy, CEO of Tesco, Gerry Murphy, Chairman of Tate & Lyle, Tim Clarkson, Head of Strategy for Zespri, Noel Keeley, CEO of Musgraves, and Caroline Keeling, CEO of Keelings, are among those taking part in interviews on key themes concerning the future of the food industry – and there are plenty more lively and engaging debates, interviews and panel discussions planned during the course of the two-day summit.

Transaction highlights, Q1 2022

PLC Advisory and Corporate Broking

- Sole financial adviser and broker to Yew Grove REIT on its sale to Canadian property group Slate Office REIT for €127.8m
- Adviser to Hibernia REIT in relation to its takeover offer from Benedict Real Estate Bidco, a subsidiary of Brookfield Asset Management (ongoing)
- Joint lead manager to AIB on its inaugural social bond – the first social bond issuance by an Irish bank
- Adviser to Cairn Homes on its €75m buyback programme (ongoing)
- Adviser to Origin Enterprises on its €40m buyback programme (ongoing)
- Adviser to Glanbia Co-Operative on the launch of €250m of exchangeable bonds into Glanbia Plc shares and an offer representing approximately 2% of Glanbia Plc's share capital through a combined offering

Cleantech, Energy, Infrastructure and Semi-State

- Engagement as financial adviser to Aer Lingus in relation to debt fundraising – a €200m three-year debt facility was agreed with the Irish Strategic Investment Fund

Growth Companies

- Adviser to Leeson Telecom Ltd on its sale to Triple Point's Digital9 Infrastructure Plc

Trends to watch, Q2 2022

David Kearney, Head of Corporate Broking

Despite a challenging first quarter for financial markets against a backdrop of rising interest rates, high inflation and Russia's invasion of Ukraine, David Kearney, Head of Corporate Broking, explains why there are signs of optimism.

Even a cursory glance at the business pages suggests that financial markets are having a challenging 2022. Headline indices are down double digits (Eurostoxx 600 is -9%, S&P 500 -12.2% and NASDAQ is -20% as I write) and bond markets have rolled over more aggressively with 10-year US Treasury yields up c.150bps from 150bps at the start of the year.

Just as we are emerging from the pandemic, Q4 2021 and the early part of 2022 saw the markets debate the emerging inflationary warning signs, the potential for a hawkish policy response, and the potential impact on global growth. Financial markets were relatively sanguine, and while the rotation from "growth" to "value" stocks had started in Q4 and bond yields were starting to move, both were too modest a signal it seems, with US financial markets bearing the brunt in developed markets.

Only two months ago, the near uniform central bank stance on inflation was that it was transitory – policymakers code for a relatively neutral position to avoid moving too quickly and impacting economic activity. The war in Ukraine has moved the dial further as energy and commodity prices soar, compounding the inflationary backdrop and introducing yet another set of supply chain challenges and increased uncertainty.

It is becoming increasingly apparent that both policymakers and the markets were too relaxed for too long, and the rapid evolution of rate expectations in the last few weeks (if history is any guide) suggest an elevated risk of recession. Bond markets, as is often the case, reacted first with nominal yields rising rapidly while equity markets pondered (c.100bps of the 130bps increase in 10-year US Treasuries have come since the start of March). Early April saw inversion in the bond markets (longer-dated maturities yielding less than shorter dated maturities), and while that isn't necessarily sustained, it highlights that markets are now taking the likely policy responses seriously and reflects recessionary concerns. In the same vein, growth stocks have markedly underperformed value stocks as future cashflows get discounted more aggressively.

Closer to home, we continue to see outflows from European equities for the last 10/11 weeks. The reasons are reasonably clear – geopolitical uncertainty, the sharp decline in consensus expectations for European GDP growth since the start of Russia's invasion of Ukraine (GDP growth forecasts have been cut from 4% to 2.8% in the last two months) and the European Central Bank (ECB) as a laggard on rate increases has seen the euro closing in on parity with the dollar. All of which suggests a potentially volatile near term for financial markets.

There are signs for optimism, however. Investor sentiment is at its lowest ebb for several years, suggesting a lot of negativity may already be priced in. Increasingly, we are hearing from fund managers looking for new investment ideas as they continue to limit their risk exposure. Despite valuations having retreated somewhat, companies continue to recognise that the perpetual capital on the equity markets are generally supportive of strategic intent. Pre IPO marketing has picked up from a very low base in Q1 and new IPOs in H2 and into 2023 will be a strong indicator of market recovery. We are in the early stages of working with several companies on that front and look forward to bringing new companies to market over the next 12-18 months.

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 Nuala McMahon, Head of Aviation and Transport Research at Goodbody

Nuala McMahon is Head of Aviation and Transport Research at Goodbody. The focus of the team is on producing daily research insights, longer term fundamental thematic research documents and hosting niche sector-specific events in order to support active engagement with our institutional client base. The team's combined coverage of the aviation and transport sector spans a market capitalisation of €51bn. Recently, we sat down with Nuala to discuss the key themes shaping the industry.

Covid-19 caused widespread and prolonged groundings for airlines, how is the sector recovering from the pandemic? And what challenges does it face post Covid?

The same way we are all recovering, it's been staggered! Long haul operators continue to be impacted by the stop-start nature of the reopening in some international markets such as China, while the North Atlantic recovery has been evident since the lifting of US restrictions in early November. The biggest and most obvious recovery in Europe can be seen from the short haul carriers such as Ryanair, Wizz Air and easyJet. Volumes for these operators are expected to be back at close to or at pre-pandemic levels for summer '22, highlighting people's willingness to travel after two years of travel and social curfews. The industry's cargo and shipping operators were the one bright spot during the pandemic and the supportive trends witnessed during Covid-19 have continued into 2022, with Irish Continental Group a key beneficiary of this trend.

Overall, while the recovery in domestic and international travel is clearly evident, the industry is now being impacted by geopolitical risks which is manifesting in higher fuel costs. As such, operators need to manage their capacity and pricing accordingly to offset part or all of these costs. Operationally, the anticipated volumes this summer require the industry to re-hire and re-train staff to ensure the traveller's journey doesn't see further disruption. While some operators, such as Ryanair, took these costs on in advance of this year, the disruption from not being operationally ready is currently being seen in longer wait times at airports and some cancelled flights for airlines.

Sustainability is a key theme for the sector: how advanced are airlines with integrating sustainability into their strategy? And what will it take to scale sustainable aviation fuel (SAF)?

As guided by the UN Sustainable Development Goals and various industry bodies, a large proportion of the industry is aware of what needs to happen in order to support a more sustainable strategy. Given this, some industry operators are more advanced in terms of how sustainability is built into their strategy. For example, some management teams have linked their remuneration to achieving their stated sustainability objectives while other airlines are more advanced in investing in new SAF technology and initiatives. At this stage, you are lagging not leading if you haven't accounted for it.

The key in terms of achieving SAF scale for airlines will be through investments in partnerships with producers, such as SkyNRG, Neste and Velocys. However, achieving scale will unfortunately take time given less than 1% of flights globally are powered by SAF. European Union (EU) regulations are aiming for 5% of flights to be powered by SAF by 2030 and 20% by 2035 but further government support is needed through the issuance of grants in order to help with R&D on new technologies to support SAF initiatives, while more funding is expected to come through from the EU Emissions Trading System (ETS) carbon offsetting scheme.

Finally, what does the future for the aviation and transport industry look like?

There's no question one of the biggest issues the sector needs to grapple with is ESG concerns and how to accelerate initiatives on SAF and the associated technology to support operators. AI adoption within airlines has started but not on mass scale so more digitally savvy airlines will be a feature of the future and provide a competitive advantage to those that invest in digitalisation now. Furthermore, and while we're behind our US counterparts on this one, the industry will see further consolidation in Europe, which will make for some interesting clashes in strategies and management teams! More broadly, consumer-related concerns will remain at the core of the industry for obvious reasons, so in terms of trying to navigate investors through the sector over the next few years, our approach remains to find best-in-class operators who can effectively and efficiently manage ESG headwinds while keeping a handle on costs in order to continue delivering the required returns to shareholders.

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