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Corporate Advisory Newsletter

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The rate tightening dilemma – taming inflation without overcorrecting

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.

On the 27 July 2022, the European Central Bank (ECB) increased interest rates for the first time in 11 years in an effort to tackle high inflation rates across the EU. Exactly one year on, the ECB announced its ninth consecutive rate hike on the 27 July 2023, taking its main refinancing rate to 4.25%, a rate not seen since July 2008. Notes from the June policy meeting showed that officials generally agreed that the ECB would consider raising interest rates beyond July due to concerns about prolonged high inflation, but any future decisions will be data-dependant.

In the UK, the Bank of England (BoE) also raised rates twice in Q2– moving from a 25bps rise in May to a 50bps rise in June – in a sign that it appears to be reaccelerating its rate increases on the back of a stronger-than-expected labour market, wage growth and core inflation remaining high.

After 12 months of consecutive rate rises, inflation in Europe and the UK still shows some signs of persistence. Headline inflation in the euro area fell from 5.5% in June to 5.3% in July. However, core inflation (excludes energy, food, alcohol & tobacco) remained unchanged at 5.5%. In the UK, headline inflation dropped to 7.9% in June, down from 8.7% in May, with core inflation at 6.9% in June, down from 7.1% in May.

With some sources of inflation beginning to fade (e.g. falling energy prices, resolution of supply chain issues etc) and signs of a slowing economy (growth data showed the eurozone in a "technical" recession at the start of 2023 with GDP declines of -0.1% in both Q4 2022 and Q1 2023), policy makers are faced with a tricky balancing act of continuing to pursue a rate tightening policy on the back of optimistic growth outlooks, while running the risk of tipping the eurozone and the UK into recession if growth begins to falter. And with every rate rise taking time to feed through into the economy, this task looks ever more daunting as the risk of overcorrecting becomes a threat to these economies.

> *"After 12 months of consecutive rate rises, inflation in Europe and the UK still show some signs of persistence."*

Rising interest rates, high inflation and concerns of a recession have impacted confidence and capital has become more expensive. Whilst the number of deals have been relatively stable year-on-year there has been a substantial decrease in the value of transactions. Mergermarket data shows that there were 148 M&A transactions announced in Ireland in Q2 2023 (where the target, acquirer or seller were Irish) with total disclosed value of €2.7bn. The largest of these was I Squared Capital's acquisition of Enva Ireland from Exponent Private Equity for €780m and UKG Inc, a United States based software company who acquired Immedis Ltd, the Ireland based provider of payroll and tax obligation services from Terry Clune. The deal value was €575m. Transaction values in the same period last year, were higher at €13.8bn, but this was skewed in part by the acquisition of SMBC Aviation Capital by Sumitomo Mitsui Financial for €6.3bn.

In the UK, there were 1,215 transactions announced in Q2 2023 (where the target, acquirer or seller were British) with a total disclosed value of £91bn. Some of the larger transactions included Vodafone's proposed acquisition of Hutchinson 3G UK Ltd valued at approx. £6bn, the acquisition of Dechra Pharmaceuticals by UK PE firm EQT AB for £4.8bn and the acquisition of luxury fragrance company Orange Square Co by Kering – the French luxury goods manufacturer. Deal volumes in the same period in 2022 were 1,534 with total disclosed values of £190bn – skewed by three transactions which were collectively valued at +£30bn.

> *Data from the London Stock Exchange shows there were 13 IPOs in the UK market in Q2 2023, raising new capital of approx.*
> **£500m**

Data from the London Stock Exchange shows there were 13 IPOs in the UK market in Q2 2023, raising new capital of approx. £500m, compared with seven IPOs in the same period last year raising capital of £204m. The largest IPO to come to market was Admiral Acquisition Ltd (LSE:ADMR) a Special Purpose Acquisition Vehicle (SPAC) which began trading on the 22 May having raised £435m in new equity. While the SPAC IPO market began to wane in the US in 2021, it would appear that rule changes introduced in August 2021 on the London stock market have allowed it to continue to attract SPACs to list in London.

IPO and M&A Recap

UK IPOs Q2 2023
13 IPOs
£500m of new capital

UK IPOs Q2 2022
7 IPOs
£204m of new capital

Irish M&A Q2 2023
148 deals
€2.7bn value

Irish M&A Q2 2022
156 deals
€13.5bn value

UK M&A Q2 2023
1,215 deals
£91.1bn

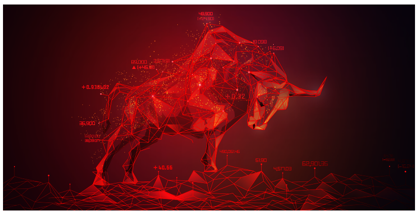
UK M&A Q2 2022
1,499 deals
£183bn

Source: Mergermarket, UK Stock Exchange

Energy & Infrastructure Appointment

We are delighted to announce the addition of Tara Reale to our Corporate Advisory team. Tara has been appointed as a director to further strengthen and develop our growing energy advisory offering in Ireland and the UK. She brings a wealth of experience and deep technical expertise in renewable energy, and is a board member of the Irish Solar Energy Association. Tara joins us from Lightsource bp, where she was Head of Business Development for UK and Ireland. Tara is a key hire as we continue to develop our sustainability offering and follows the recent appointments of Ken Rumph from Jefferies as Cleantech and Renewables Analyst and of Aidan O'Mahony as Head of ESG Advisory.

Upcoming Events



Goodbody Tech Summit 2023, Dublin. 5 October.

Our Tech Summit returns this year and is taking place on 5 October at The Stella Cinema, Rathmines, Dublin 6. The focus of the day will be to profile high growth tech companies. There will be presentations from approx.25 technology CEOs covering Enterprise Software, Regtech, Fintech, Cyber, and DeepTech. There will be a mix of early, growth and late-stage tech businesses.

Goodbody Annual Video Gaming Event 2023, London. 12 October.

Our annual Video Gaming event is taking place on 12 October at The Soho Hotel, 4 Richmond Mews, London, W1D 3DH. This afternoon event will comprise of panel discussions with key industry figures.

Speakers include:
Nick Button Brown, Chair, Outright Games / Steve Collins, CTO, King
Joe Adams, CFO, Kepler Interactive / Jaime Gine, CEO, Amber
Li Ma, Director, Tencent / Cherry Freeman, Partner, Hiro VC
Carl Cavers, CEO, Sumo / Patrick O'Luanaigh, CEO, nDreams
Maria Sayans, CEO, Ustwo Games

Investing in Aviation, Cork. 18 October.

"Investing in Aviation" will take place in UCC Cork on 18 October. This invite only event will bring together CEOs and thought leaders with investors and financiers to debate the future of aviation.

A series of one-on-one interviews will take place with:
Willie Walsh, Director General, IATA
Kenny Jacobs, CEO, Dublin Airport Authority (DAA)
Peter Barrett, CEO, SMBC Aviation
Sean Doyle, CEO, British Airways
Declan Ryan, Founder, Irelandia
Conor McCarthy, Executive Chairman, Emerald Airlines
Yvonne Moynihan, Chief Corporate and ESG Officer, Wizz Air

This event led by Goodbody, AIB, Irelandia and UCC to support and promote investment in the aviation industry.

In need of more information on upcoming events?

Contact us directly

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Interview with Jason Molins

Head of Food and Beverage Equity Research

Pictured (L-R): Jason Molins, Patrick Higgins and Fintan Ryan.

1. Jason, tell us about the Food and Beverage team?

Given Ireland's strong heritage in food and beverage, the sector is an integral element of Goodbody's capital markets research offering. Over the last few years, we have more than doubled the number of listed stocks that we cover, expanding into predominantly UK companies. At present we cover just under 25 companies right across the spectrum from small and mid-cap to large-cap. Our coverage has a total market capitalisation of approx. €150bn. Unlike other sector research teams who tend to either look at a specific product category or sales channel, we take a more holistic approach. This provides insights that we share with investors along the value chain from upstream suppliers to speciality ingredients, to manufacturers/processors and hospitality/out-of-home consumption channels. Alongside myself, Patrick Higgins has been part of the team for over 10 years and earlier this year Fintan Ryan joined us, bringing a wealth of experience having worked at some of the large UK-based investment banks. By this time next year, we aim to have over 30 companies under coverage.

Goodbody Food & Beverage stock coverage

Ingredients	Food Manufacturers	Agri-food distribution	Food restaurants	Beverages	Pubs
Glanbia	Bakkavor	Dole Inc	Dominos	A.G. Barr	Marston's
Kerry	Cranswick	Origin Enterprises	Greggs	Britvic	Mitchell and Butler
Tate & Lyle	Greencore		SSP	C&C	J D Wetherspoons
	Hilton Food Group		Restaurant Group	Coca Cola Hellenic	
			WH Smith	Diageo	
				Fever-Tree	

2. How have companies been performing given the current economic backdrop?

Like many others, food and beverage companies have faced unprecedented input cost inflation headwinds over the past 12-24 months. Given the magnitude and widespread nature of the cost increases, most companies have simply passed them on to the retail or foodservice customer and then ultimately to the eventual end consumer. So far, we have been positively surprised by the resilience of consumer demand across the retail and hospitality channels, despite the well-documented cost-of-living challenges that they have been facing. That said, there have been some shifts in consumer behaviour. For example, within the retail channel, whilst volumes are broadly flat this year across Ireland and the UK, there has been share gains for private label products as well as the discount retailers. Within the hospitality sector we have seen venues that have a compelling value offering also perform well and gain market share.

3. How is Environmental Social Governance (ESG) impacting the sector?

Sustainability or ESG investing to a large degree has always been an implicit part of how we would analyse a company, particularly governance. However, we have clearly seen a step-change in terms of its prioritisation across most stakeholders including governments, regulators, and financial institutions. This has led to more explicit requirements in terms of reporting and analysis of key risks and opportunities facing companies across ESG factors. The food and beverage sector is no different though areas of focus can vary considerably depending on sub-sector or region etc. Carbon footprint and energy consumption is a common thread across most industries, some of the key areas of focus worth calling out for the food and beverage sector include: i) Food waste; ii) Water stewardship; iii) Sustainable sourcing and packaging; iv) Ecological impacts; and v) Customer welfare in terms of health and nutrition, product safety and quality.

> *Like many others, food and beverage companies have faced unprecedented input cost inflation headwinds over the past* **12-24** *months.*

> *Sustainability or ESG investing to a large degree has always been an implicit part of how we would analyse a company, particularly governance.*

Read more

4. You recently released a report 'The Future of Food', tell us about it?

Goodbody hosted the Food and Beverage Finance 2023 event in May in Cork. This was the second year of the conference bringing together industry leaders, investors and financiers in the food and beverage sector. Ahead of this, we produced the 'Future of Food' report highlighting several challenges facing the world, given the need to feed an increasing population. Against finite resources of land, water, and energy, we will need to produce approx. 60% more food by 2050 We looked at a number of areas that can help deliver a more sustainable food ecosystem, such as precision agriculture, vertical farming and food waste. We also looked at solutions that help deliver better health outcomes for individuals – which is increasingly in focus given the rising level of obesity and the pressure and cost that puts on the healthcare system.

> *Given the uncertain consumer and interest rate environment, strategic corporate activity in public markets is quite muted currently.*

5. What has been the backdrop for M&A and other corporate activities that you are seeing in the sector?

Given the uncertain consumer and interest rate environment, strategic corporate activity in public markets is quite muted currently. Many of our companies are fine-tuning their portfolios (both buying and selling assets/businesses) but there is little major M&A activity ongoing. It is notable that there seems to be a disconnect in valuation expectations between private and public markets. Many of our clients tell us that they are still willing to grow their businesses via M&A but given the financing environment, and the fall in public market valuations, prices for assets in private markets appear to be elevated. Despite the strong long-term prospects for products that play to health and wellness and premium trends, in the current cost-of-living environment, some more niche brands and categories seem to have stalled (e.g. plant-based meat alternatives), with pressures on revenues, input costs and financing costs/availability. This could create some opportunities for consolidation going forward, once the external environment stabilises.

> *Notwithstanding the resilience shown by the sector so far, we continue to maintain a cautious view on the outlook for the consumer over the next 6-12 months.*

6. What does the outlook look like for the sector for the rest of the year?

Notwithstanding the resilience shown by the sector so far, we continue to maintain a cautious view on the outlook for the consumer over the next 6-12 months. Firstly, we believe it is far too early to think that the headwinds from inflation are behind us. Yes, they might be easing, but in our view labour inflation is going to result in the headline level of food inflation remaining elevated for longer. We also believe that the energy crisis that was the talking point in mid-2022 hasn't disappeared and therefore we will continue to keep a close eye on how the energy markets unfold heading into the crucial winter months. Finally, while the interest rate cycle appears to be approaching its peak, rising mortgage costs will continue to put the squeeze on consumer wallets. With this in mind, we prefer companies that have the least exposure to commoditised categories and the most volatile input costs (especially labour), we like those who have demonstrated the most pricing-power and ability to mitigate cost increases with the least volume impact.

Want to talk to us?

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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