Investec Europe Market Bulletin January 2021

Out of the Ordinary®

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Contents

Executive Summary

There is very much a forward-looking theme to our first Market Bulletin of 2021. We highlight five things to look out for in the Irish economy this year, including a potential resurgence in property prices and a strong domestic recovery, albeit one that may be slower to arrive than in the UK.

We round-up events in the Irish M&A market last year, courtesy of Investec Corporate Finance, and assess market conditions for the year ahead. Investec Treasury looks at what has been behind the recent strength in Sterling as well as taking on some oil market crystal ball-gazing.

As ever, please contact us if we can be of any assistance.

Economic Update: Ireland

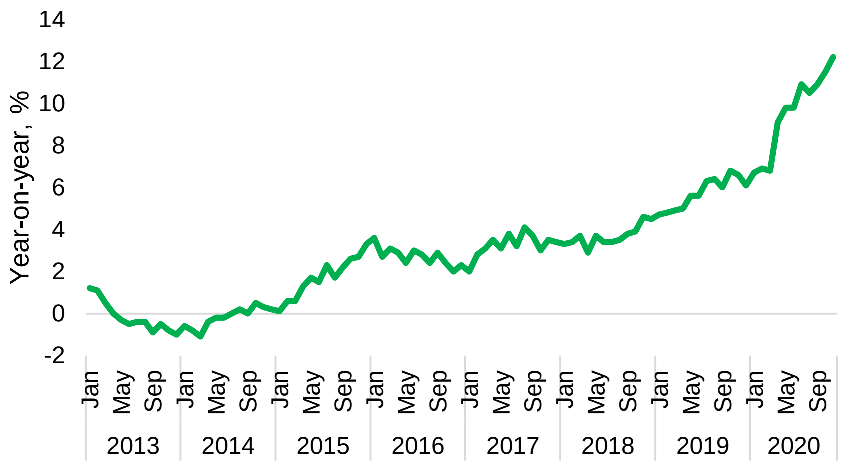
5 things to watch for in 2021

1. A strong domestic recovery…

- Although economic growth in Ireland likely remained positive in 2020, this was entirely due to strength in the export sector. Personal consumption was €12bn (11%) lower year-on-year by our estimates as consumer shock took hold, spending opportunities diminished and uncertainty reigned.

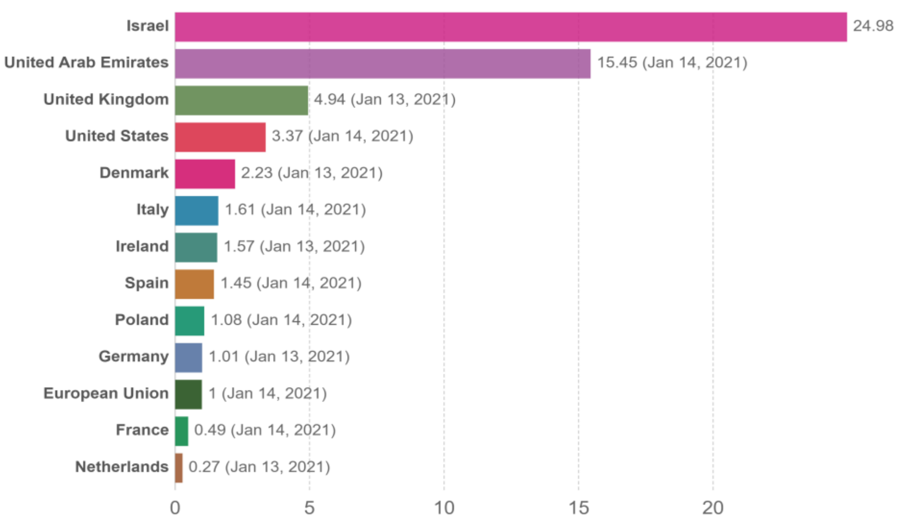
- Much of this sum has accumulated in deposit accounts however. Total household deposits in the banking system were €13bn (12%) higher in the 12 months to November – a record rate of increase. Remarkably resilient Income Tax receipts last year attest to the resiliency of household earnings despite the large hit to employment. Government income supports have been key, and a €3.4bn recovery fund will be deployed to stimulate demand when conditions allow. Once restrictions are lifted on foot of the mass vaccination programme and confidence returns, the domestic consumer will have a lot of firepower resting in its (low-yielding) deposit account.

Unprecedented growth in household deposits



Source: CBI

Vaccination doses per 100 people



Source: Our World in Data

2. …but a (relatively) delayed one

- It is too early to cast judgment on the speed of the rollout of vaccination programmes across Europe and globally. Although legitimate questions were initially raised about the planned pace of vaccinations in Ireland, progress in the past week has been much more encouraging and Ireland currently ranks well in a European context.

- One point has already become obvious however – the UK is greatly outpacing the rest of Europe and all other major economies. It has already vaccinated 6% of its population and is targeting 20% coverage by mid-February. Based on current targets, it will be the end of April by the time Ireland will have vaccinated a similar proportion of our population.

- Although this could place us upper-mid-table in a European context, our tendency to compare ourselves with our closest neighbour may leave us feeling like our recovery has been unfairly delayed, particularly as it has become clear that vaccination is key to sustained economic recovery.

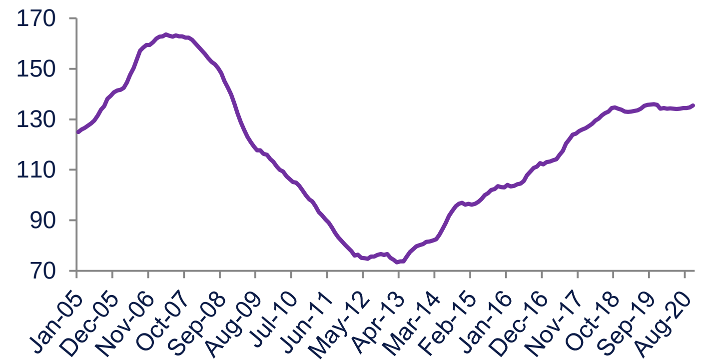
Economic Update: Ireland

5 things to watch for in 2021

3. A property market rebound?

- One of the surprising things of 2020 was the resiliency of the residential property market. Prices were more stable last year than at any point in the past 15 years.
- A number of indicators are now pointing towards emerging upward price pressure, including meaningful increases in the average price of properties listed on the daft.ie and myhome.ie websites and the size of the average mortgage approval.
- Underlying this emerging momentum is a new housing supply deficit that is being exacerbated by the pandemic. With developers focusing their efforts on completing already-started units, new housing commencements were -26% y/y in the April-November period. Although mortgage activity slumped mid-year, and in contrast to new housing starts, it rebounded strongly in H2 and mortgage approval volumes hit record highs in Q4.

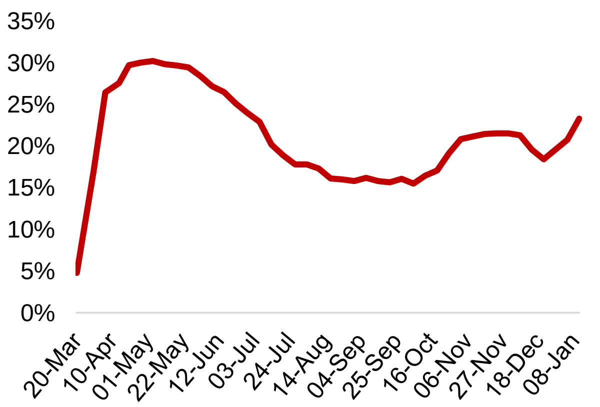
Residential Property Price Index



Source: CSO

4. A slow labour market rebound?

COVID-adjusted unemployment rate



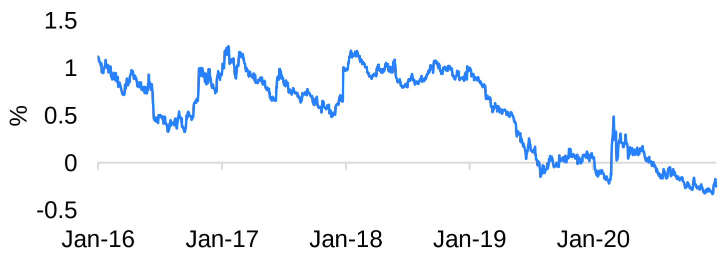
Source: CSO, Investec

- A defining feature of the pandemic in Ireland has been surging unemployment. Including those temporarily laid-off, the unemployment rate has not been below 15% since March.
- The aim of the government's supports is that as many as possible of these workers can resume their positions when restrictions are finally lifted and the shift to permanent unemployment can be minimised.
- However it remains unclear however how many businesses will not survive the crisis and how much employment has been lost.

5. More free money

- Of immense support to the State has been the ultra-low interest rate environment and unprecedented ECB support. This has enabled the government to fund its support programmes with negative interest costs. The NTMA has already raised 30% of its full-year requirement following a €5.5bn 10-year bond issue at a yield of -0.26% in early January.

10-yr Irish government yield



Source: Bloomberg

2020 M&A Market and Outlook for 2021

Overview

There were a total of 291 transactions announced in the 12 months to December 2020, 29 transactions less than the prior year. Deal volume increased in the second half of the year as the initial shock caused by Covid-19 started to recede somewhat. This saw a 25% increase in deal volume in H2'20 (162 deals), but no doubt some of this was due to delays in deals that would have ordinarily closed in Q2'20.

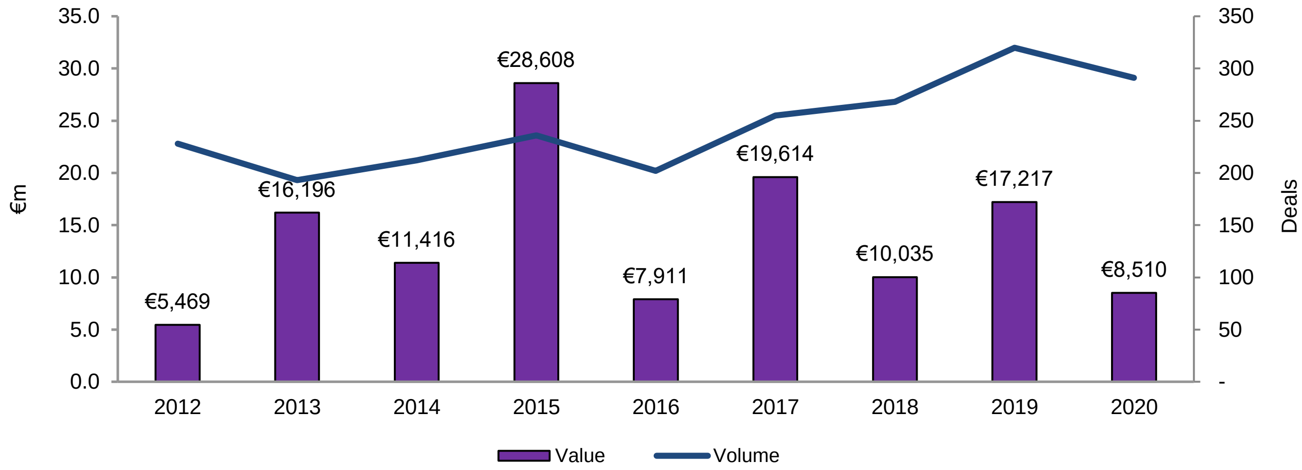
Following a slow start to the year in terms of value, we saw over €4.6bn in M&A activity in Ireland in the final quarter of 2020. This represented more than 54% of the total disclosed value for the entire year, bringing the total disclosed deal value for the year to €8.5bn. Not surprisingly, due to Covid-19, there was a decrease in the total number of deals in 2020 versus 2019 – however a reduction of deals by only 9% is much less than one would have thought likely earlier in the year, and the market for deals has been shown to be very resilient. For the second year in a row, gaming giant Flutter Entertainment was involved in the largest transaction of any Irish company with its acquisition of a 37.2% stake in FanDuel Inc. for a reported €3.4bn

Cross border transaction activity remained strong with Irish companies making a reported 100 foreign acquisitions, with broadly the same number, 87, of Irish companies being bought by a foreign buyer.

By sector, IT & Telecoms was the busiest, accounting for c. 24% of all deals recorded, followed by Professional & Technical and Health & Pharmaceutical.

Private Equity and Financial Buyers were active across 35 deals during 2020 and, while this was down on 2019, it is a long way ahead of levels seen several years ago when the average was typically 20 deals per annum.

M&A deals by Value and Volume



Source: Investec

Significant Transactions

The ten most significant transactions during 2020 by deal value are listed in the table below.

Rank	Acquiror	Country	Target	Country	€m	Date
1	Flutter Entertainment plc	Ireland	FanDuel, Inc. (37.2% Stake)	USA	3,441.3	Dec-20
2	Greencoat Capital LLP; Greencoa	Ireland	Humber Gateway Wind Farm	UK	729.0	Nov-20
3	Madison Dearborn Partners, LLC	US	IPL Plastics Inc.	Ireland	624.1	Jul-20
4	Roche Holding AG	Switzerland	Inflazome Ltd.	Ireland	380.0	Sep-20
5	Qorvo Inc.	USA	Decawave Ltd	Ireland	363.0	Jan-20
6	Phoenix Tower International	USA	Emerald Tower Limited	Ireland	300.0	May-20
7	Blackstone Group L.P.	USA	Medtronic MiniMed, Inc.	Ireland	298.8	Jun-20
8	Outsourcing Inc.	Japan	CPL Resources Plc	Ireland	254.2	Nov-20
9	Amdocs Limited	US	Openet Telecom Limited	Ireland	157.3	Jul-20
10	Orpea SA	France	TLC Group	Ireland	150.0	Mar-20
	Total				6,697.7	

Flutter Entertainment took the number one spot with its aforementioned acquisition of 37.2% stake in FanDuel Inc. Financial Investors accounted for 3 (Madison Dearborn Partners, Greencoat Capital and Blackstone) of the top ten deals. The 3 largest deals of the year amounted to c. 56% of the annual total, with the top 10 transactions representing c. 79% of the annual total. 8 out of the top ten transactions involved Irish businesses or divisions of Irish businesses as targets, with Irish companies taking the buyer role in the remaining two transactions. 3 of the top ten transactions took place in the IT & Telecoms sector, with the Health & Pharmaceutical sector also accounting for 3. The Industrial sector made up 2 of the top ten with the Leisure & Travel and Support Services sectors recording 1 each.

Outlook for 2021

2020 has been a challenging year on so many fronts but, as with many sectors, markets and valuations deal activity proved resilient despite the impact of the pandemic and Brexit uncertainty continuously bubbling below the surface. So it is a credit to buyers, sellers and the underlying businesses the subject of transactions during the year that so many deals got completed. Looking ahead to 2021, if deal levels continued at 2020 levels it would be an acceptable level of activity all round and we believe the market would take it. We would expect the second half of 2021 to see more deal activity as there may yet be a final negative 2020 pandemic impact with less deals having commenced during the middle part of 2020 such that ordinarily they would be on track to complete in early 2021. The most active sectors next year are likely to be IT & Telecoms, Healthcare & Pharmaceutical as well as Industrials. Private Equity deals are likely to rise given the emergence of a number of new funds focused on the Irish market during 2020 which should see maiden transactions from them in 2021 and we expect well capitalised Irish corporates and, increasingly, privately owned one remaining active buyers of foreign businesses.

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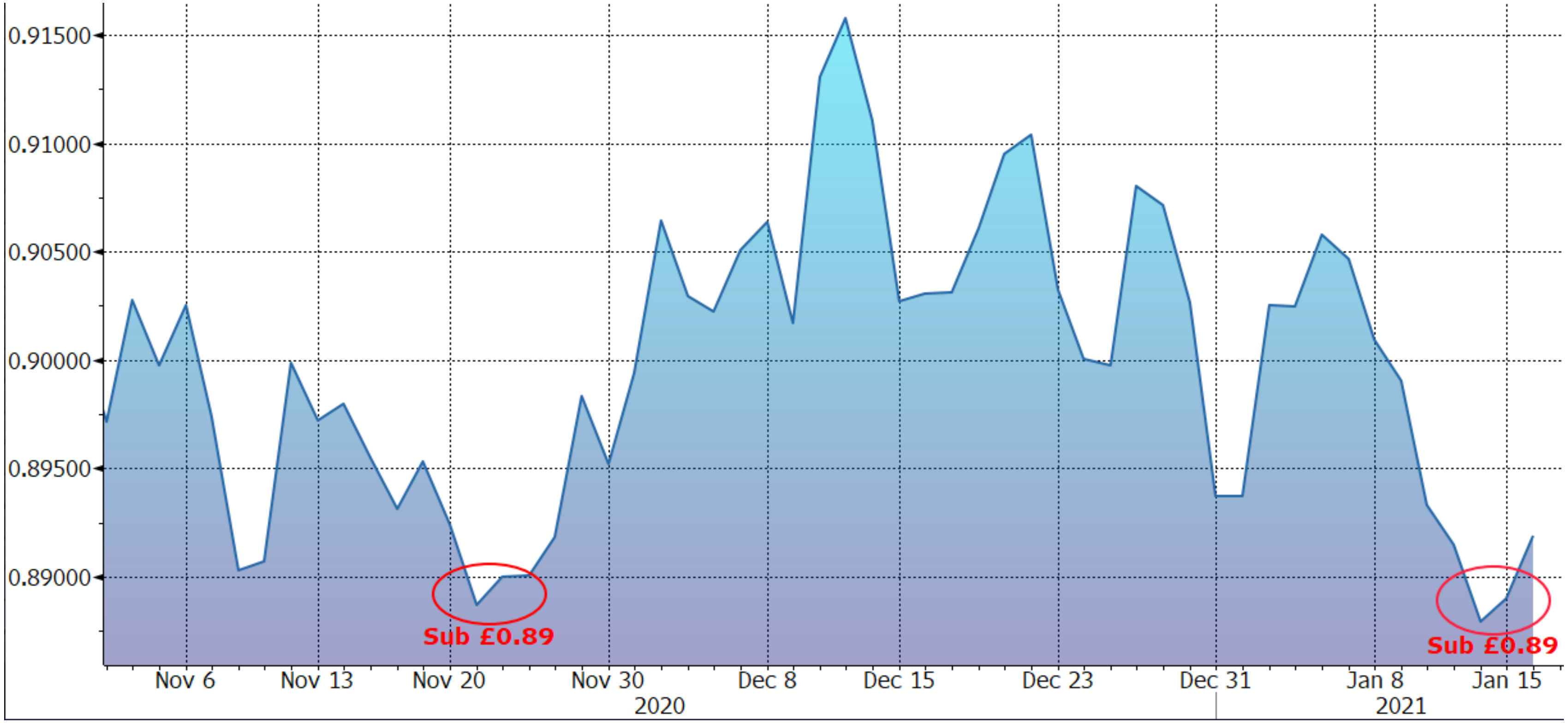
Investec Treasury: Currencies

Sterling boosted by BoE rate chatter and better UK growth data

EUR/GBP rate



Source: Bloomberg

- Better news for the Irish export sector (into the UK) as the pound hit multi-week highs late last week following a double whammy of good news pushed the benchmark EUR/GBP rate to (sub £0.89) levels not seen since late November. The past week had seen a considerable amount of speculation over negative rates in the UK. This came on the back of less dovish chatter from BOE members who seem more reluctant than expected to move the UK into negative interest rate territory for the short to medium term at least. The Governor of the Bank of England, Andrew Bailey, said last week that he sees 'lots of issues' with negative interest rates even though they (BOE) are working with retail banks on whether negative interest rates are practical.

cont. overleaf…

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Investec Treasury: Currencies

Sterling boosted by BoE rate chatter and better UK growth data

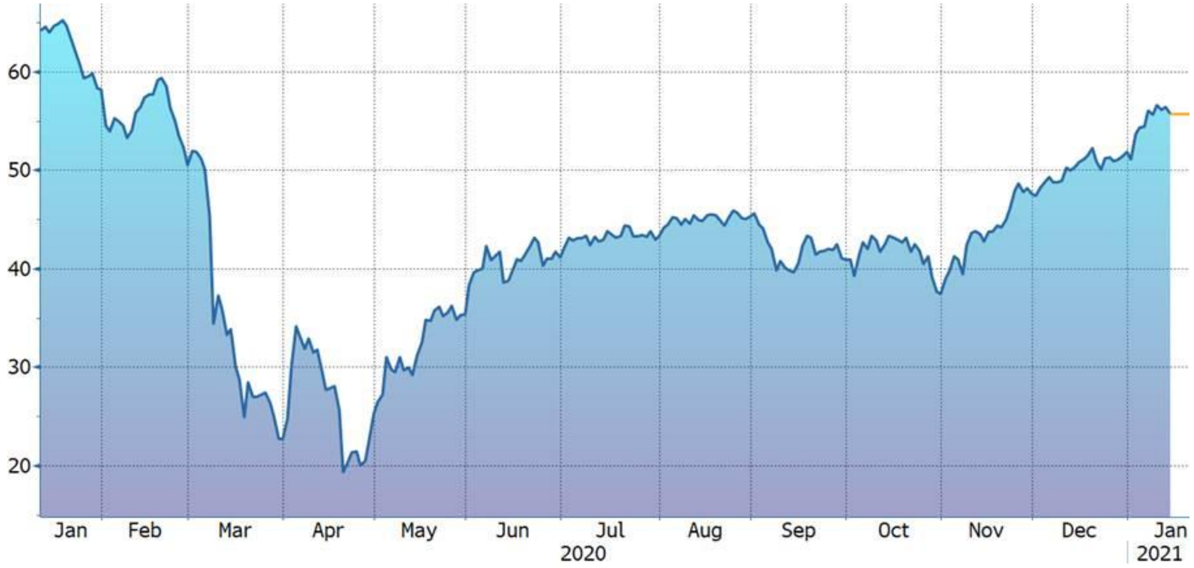
- Market pricing suggests that the short end of the yield curve is factoring in a 50% chance of a 25 basis point cut in the Bank rate to -0.15% by mid-2022. By contrast our baseline case continues to be that the policy rate will not drop into sub-zero territory. Indeed, in the near-term, last week's figures may give the MPC a modest degree of comfort on the extent of the downside risks facing the economy. Even so, we would not be surprised if the Bank of England takes out an insurance policy and increases the pace of QE at its next meeting on 4 February by raising gilt purchases beyond the £4.4bn per week which prevailed through much of the second half of 2020.

- More good news for the pound came in the shape of monthly UK growth data. Released last week, UK GDP only fell by 2.6% on the month in November as the second national lockdown hit home. Consensus estimates had been for a much larger 4.6% decline. We were pencilling in a drop of 3.0%. Revisions to back data were consistent with quarterly national accounts numbers late in December, which on balance pushed up prior estimates. In addition this time, October's outturn was revised up to +0.6% on the month, from +0.4%.

- As was widely expected, the service sector took the brunt of the hit from the tighter social restrictions. Last week's figures underline our view that a decline in GDP over Q4 as a whole is not a done deal. As the figures stand at the moment, helped by the revision to October, it would take a monthly drop in GDP of 1.0% or more in December to cause a contraction in Q4. The much awaited 'double-dip' recession may not happen and our inclination right now is that it will not. Some may argue that this is only of passing interest. Either way, a more useful lesson is how the economy appears to be adapting to the pandemic. In terms of the service sector, November's 3.4% decline is much more modest than the 7.9% drop in March, let alone the 17.0% fall in April, when the first lockdown was imposed. Admittedly the latest data start from a lower base (i.e. various areas of the service sector remain closed or partly closed). But shifts to online retailing, and perhaps more efficient homeworking, now appear to be giving the economy something of a cushion.

Oil Market – 2021 Outlook

Brent Crude Front Contract



Source: Bloomberg

- The outlook for 2021 is incredibly uncertain. The usual approaches used to estimate supply and demand for oil are of limited use as demand is now dependent on a competition between medical science and a virus. The rally so far this year has been propelled by Saudi Arabia keeping more oil out of the market than seems necessary, but the Saudi move might be quite a reasonable action given the dangers facing demand in the coming weeks.

- Investors have bought oil enthusiastically of late, presumably feeling the market was undervalued relative to the moves higher seen in equities. With vaccines offering a route out of the virus abyss in the not too distant future, equity investors have been keen to buy into the Covid recovery story now that there are only, perhaps, a few months more of poor corporate earnings to discount into the current price.

- This logic does not work so well for oil though, as the physical product needs to be stored in tanks, not as digits in the memory of a computer. Consequently it is harder to look beyond short-term negativity in oil than it is for equities. It seems odd that the forward prices to the end of 2021 or ‘22 are well below the spot price. We need to go back to 2005 to see the 12-month future trading below the front contract with the market as low as it is now. But investors mainly look to the front when taking bullish positions. In combination with (still) limited demand from consumers such as airlines to buy oil forwards, which might otherwise have helped long-dated prices, this has allowed the inversion in the forward curve. As ever, oil prices will be susceptible to any large pull-back in equity markets.

- The recovery in demand will become more firmly entrenched in time. Provided there is no further significant demand disruption in the first quarter, OPEC will need to restore its production over the summer of 2021 or someone else will need to come in to fill the void. At which point OPEC will return to the perennial dilemma over how to manage non-OPEC production. The organisation will be looking closely at how producers in the US, in particular, react to prices now being well above 50 $/b

- Overall, we can say with confidence that 2021 will be an interesting year, but hopefully not as interesting as last year!

Investec Private Finance Ireland Limited

Property Market Update

- As we start 2021 the fallout from ongoing Covid 19 restrictions continues to impact all sectors in Irish real estate.

- While much uncertainty remains and we are in the midst of another lockdown, with the vaccine roll-out programme now in train there is hope and expectation that many sectors of the economy will return to a more normal way of doing business towards the end of this year. However the impact of the past 12 months will stay with many sectors of the market for many years to come.

- The overnight movement to working from home may have long lasting impacts on the Office sector. New and existing Investors must take account of tenants changing needs and uses of office accommodation in the new normal that will emerge towards the end of 2021.

- To the surprise of many, the residential sector has performed well over the past 12 months. According to recent figures from the Central Statistics Office residential property prices decreased nationally by just 0.4% in the year to October 2020 and, as discussed earlier in this Bulletin, upward price pressures appear to be building.

- Other sectors too have performed well. According to CBRE's 2021 Real Estate Outlook the one asset class that was largely unaffected throughout 2020 was the logistics sector. According to CBRE transactional activity remained buoyant, boosted by increased demand for logistics buildings throughout the year.

Investec Private Finance Ireland Limited

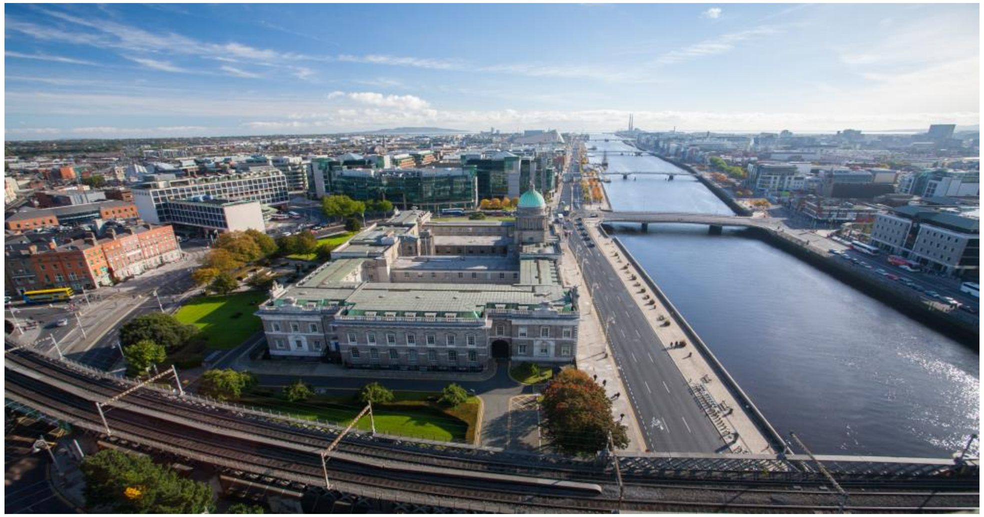
Property Market Update

IPFIL Perspective:

- In the first few weeks of 2021 the IPFIL experience has been that there continues to be a cohort of Irish citizens who have created wealth overseas, seeking to return to Ireland to put down roots or acquire new real estate investment assets.

- Likewise there are existing Irish Private Clients whose wealth has not been impacted by the pandemic, they too are looking at investment opportunities in the current year.

- New enquiries are being received and we are actively engaged on new opportunities.



- One influencing factor in the decision to look to acquire now is that while it has always been possible to commute within Europe and work from home a few days a week, the possibility of being more permanently based in Ireland and commuting once a month has become a reality for many due to health restrictions in place across the globe for almost a year. This opens up the real possibility to acquire a premium home in Ireland and maintain business connections overseas.

- We are currently working with a number of such prospect clients and supporting them in exploring the right structure for their Irish residential and commercial investments.

- Throughout 2020 IPFIL continued to complete high end real estate lending transactions in the €2.0m - €8.0m range.We believe the opportunity exists to continue to service this niche sector in 2021, where other alternative lenders or commercial banks have limited appetite to lend in the current macroeconomic environment.

- If you would like to hear more about our lending appetite or recently completed transactions please do not hesitate to contact John.McWeeney@investec.ie, David.Gilligan@investec.ie or helen.fitzgerald@investec.ie

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