The increasingly influential role of private equity in Irish M&A

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There is strong expectation that deals between private equity players will increase in the Irish market in coming months and years ahead, writes partner Oisín McLoughlin from Ogier's Corporate team in Ireland.

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For owner-managed businesses, there are a number of reasons why a decision to sell is made - the cost of capital, taking cash off the table, retirement, making way for the next generation, handing over to a motivated management team or sometimes because of an offer out of the blue.

Typically for businesses that have taken on previous investment, the reasons for selling can be tied to the investment life cycle of investors, cashing out after key milestones have been achieved or management looking to double down on their experience with private equity to go again with another private equity investor.

The reasons for selling will, of course, directly impact the structure of any deal a seller does and the type of buyer they sell to, and it is likely we will see a mix of deal types over the coming months in the Irish market, from trade deals and bank debt, to private equity investment.

These might include full exits, where a seller cashes out fully with the intention of cutting all ties with the business; making way for the next generation; a management buy-out (or buy-in); a new role or taking some cash off the table, where an owner-manager wants to de-risk but remain involved in the business; or a secondary sale to private equity.

In the private equity context in particular, over the past ten years many Irish businesses have taken on investment from private equity and we are starting to see a number of exits so that gains can be realised or capital recycled.

The strong expectation is that there is going to be a strong private equity to private equity secondary market over the coming months and years in Ireland.

The private equity market in Ireland

It is estimated that there are more than 200 businesses in Ireland that have taken on investment from private equity in the last 10 years or so. Investment criteria from private equity investors can vary, with some focusing on particular niche industries and others being industry or sector agnostic. A common theme for private equity is that they are focused on growth and maximising return on investment within a certain period of time. Typical key milestones for achieving this and recycling capital or doubling down/going again on the investment being three, five or seven years.

All private equity investors have a strong focus on management, financial information and reporting. This in many cases means imposing quarterly and annual accounting and financial deliverables and key performance indicators. Frequently, this includes bringing in some new management or whole new management teams, an independent chairperson and/or board members to help with growth strategy. Often for a company receiving investment from private equity there can be a period of upskilling and transition to a more professional and finance orientated management style which is recognisable internationally.

Because of this trend for standardisation of management and financial operation, when a private equity investor in a business is coming up to a milestone, it can be attractive for another private equity player in Ireland or internationally to acquire their stake/substitute in. This is especially so as the existing management team will be very familiar with how private equity operates and the opportunities for growth with it. Also, there are common approaches by all private equity investors to incentivising management teams and this is sometimes the reason why management teams can be those behind approaches to new private equity investors where there remains opportunity for growth in the business.

Where private equity sell their stake in a business to another private equity operator this is called a secondary investment or transactions. Some recent examples of private equity investments, exits and secondary transactions in Ireland include:

• BGF's exit from RiverRidge (a waste management company), where Cube Infrastructure Managers and Equitix Investment Management took a stake

• Investment by Accel-KKR (a tech focused private equity investor) in eyecare software provider Ocuco

• Investment by Phoenix Equity Partners in IT services company Nostra

• The acquisition by Erisbeg of EMR Integrated Solutions, a telcommunications and cyber security provider

• The sale of Causeway Capital backed Celtic Linen to Johnson Service Group

In turn, depending on the type of business being sold and also the motivation of the vendors, it can be clear from the outset what type of sales process will be run. It is likely in the months ahead we will see a mix of more discrete bilateral process deals as owner managers look for certainty in closing deals, and more open 'auction' type deals in an attempt to drive up the value achieved for sellers.

Irish business attracts private equity investors

As interest in attractive Irish businesses continues to rise from both trade buyers and private equity investors, both domestic and international, Irish business owners should familiarise themselves with the options open to them to ensure they can fully realise their objectives.

With many transaction processes likely to have been in preparation mode over the summer months, global high interest rates, and inflationary measures potentially easing, the indications are that the Irish market can expect an intensification of M&A activity in the months ahead.

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