

PRIVATE EQUITY A RENEWED FORCE IN AUSTRALIAN PUBLIC M&A

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News

A significant jump in the appetite of private equity investors in Australian assets boosted the total value and volume of public M&A transactions during FY19, according to a new report by Herbert Smith Freehills.

The firm's eleventh annual [Australian Public M&A Report](#), released today, shows that over one in five public M&A deals announced in FY19 involved a private equity bidder (up from 10% in FY17 and 18% in FY18).

The Report examines the 63 control transactions involving Australian targets listed on the ASX that were conducted by way of takeover or scheme of arrangement in FY19.

Public M&A activity continued to grow in FY19, with 63 deals announced compared to 56 deals in FY18 and 59 deals in FY17. Total deal value increased to A\$45.9b (up from A\$40.9b in FY18 and almost double the A\$23.4b seen in FY17).

Herbert Smith Freehills partner and co-author of the Report [Paul Branston](#) explained that the increased appetite of private equity in Australian assets was the result of several factors including the country's economic climate.

"Our low interest rates, the low Australian dollar, and lower levels of political unrest compared to private equity's typical regions of interest such as the US and Europe, make Australia an increasingly attractive destination for private equity investment.

"Given these conditions, we can expect private equity to continue to play a significant role in Australian public M&A markets this year.

“Private equity's increased willingness to undertake public deals has also been driven by intense competition for unlisted opportunities. After record fundraising, there is a large amount of undeployed capital burning, all vying for a relatively small number of available assets.”

The Report showed that private equity played across the value spectrum of deals in FY19, chasing targets at the smaller end of the market as well as in the mega deals space, and across a number of different sectors including consumer, energy and resources, healthcare and telecommunications.

Private equity deals enjoyed a 75% success rate in FY19, which was broadly equivalent to the overall FY19 success rate of 74%.

Additional findings of the Hebert Smith Freehills Report included:

- The energy and resources sector accounted for 30% of public M&A activity by number of deals. The consumer and diversified financials sectors also featured strongly, each representing 16% by number of deals.
- FY19 saw the use of schemes at a record high (54% of all deals). 100% of mega deals in FY19 were structured as schemes.
- FY19 saw a significant increase in the number of deals involving scrip (37% compared to just 19% in FY17 and 18% in FY18). Despite this, success rates were highest where target shareholders were given a choice of consideration which included cash or offered only cash. This suggests that cash is still king for target shareholders.
- FY19 saw a marked increase in the number of process deeds between bidders and targets being entered into and announced before any binding proposal is made. These process deeds operate at the outset of a potential deal, usually giving the bidder exclusivity and due diligence access, and requiring the parties to negotiate formal transaction documentation.
- FY19 saw a slight reduction in foreign bidder activity by number compared to FY18 (38% in FY19, 52% in FY18) and value (80% in FY19, 90% in FY18). 17% of bidders were from North America.

For more information or to download a copy of the Report, please visit:

<https://www.herbertsmithfreehills.com/latest-thinking/australian-public-ma-report-2019>

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