

TOP 10 AUSTRALIAN M&A PREDICTIONS FOR 2020

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Legal Briefings - By **Tony Damian and Andrew Rich**

Our annual top 10 Australian M&A predictions for the coming year are set out below. We also look back at how accurate last year's predictions turned out to be.

1. 2020: A BREAKOUT YEAR FOR AUSTRALIAN M&A

There are a number of indicators to suggest that 2020 will be one of the busiest years for M&A that we have seen in some time. Expect a number of large public M&A deals and private processes to drive a very buoyant outcome. Deal value growth has been steady the last few years. For instance, public M&A deal values have climbed from \$23.4 billion in FY 2017 to \$45.9 billion in FY 19. But 2020 should be a breakout year. The main risk to this outcome will be a reversal of political tailwinds back into headwinds.

2. POLITICAL TAILWINDS EMERGE

For years, political headwinds, both domestic and foreign, have hindered M&A markets, depriving deal decision makers of the most vital ingredient of all: confidence. There are suggestions that this may reverse. A decisive UK election victory and talk of US-China trade progress may be markers of a changing tide. So too the 2019 Australian election. But all of this can change quickly and so this variable remains the most critical one to the Australian M&A outcome for 2020.

3. IGNITING THE DRY POWDER

For years, talk of the vast quantities of dry powder held by PE funds (and more recently other players such as sovereign funds and super funds) has dominated the M&A landscape. 2020 will be the year of ignition when material amounts of powder are unleashed, driving deal volumes and activity. Much of this will need to be aimed at large deals given the scale of the funds involved.

4. MANY SECTORS ACTIVE: INFRASTRUCTURE, ENERGY AND MINING KEY ONES TO WATCH

Another key driver of a strong 2020 result will be that activity will be across a range of sectors. Infrastructure continues to attract interest, as does energy. These sectors will attract interest across a range of players, both traditional and new. Some pockets of the mining sector should also see heightened activity. We expect gold to be an area of focus in 2020.

5. REGULATORS CENTRE STAGE

For the past few years we have rolled out this reliable prediction. It has not failed and we do not expect it to do so next year. From the ACCC to FIRB but also ASIC, the current regulatory environment is intense and shows no signs of abating. Watch out also for some cameos from foreign regulators on Australian deals.

6. SHAREHOLDERS: DON'T YOU FORGET ABOUT ME

The role of shareholders in M&A situations (and pre-M&A situations) has changed a great deal over the last decade. This will continue. Fund managers looking for fame and glory will continue to make known their views on deals in a very public way, making it all the more important for target boards to have conviction on their views.

7. DEMERGERS GIVE WAY TO BREAK-UP DEALS

The last few years has seen much demerger activity. Some of this will continue. The commercial dynamic is usually the question of whether a particular set of businesses ought to be housed together. That dynamic can however be addressed in a number of ways, including with bids from third parties and consortia. Expect to see more of this in 2020.

8. CAPTAIN (NORTH) AMERICA

Our geographical prediction for 2020 is North American inbound M&A. Importantly, Canadian pension funds will have a significant role alongside US bidders, both PE and corporate. We expect this to be spread across sectors. Always an important corridor, expect 2020 to see increased activity levels from this part of the world.

9. RETURN OF THE RESTRUCTURING DEAL

In an interesting moment in the economic cycle, one area of interest will be distressed M&A. Often attracting fund buyers, 2020 should see an array of these sorts of deals. It is a difficult area of deal-doing with many technical rules that do not appear on the non-distressed M&A radar. But being able to navigate those rules can lead to value-enhancing transactions and we expect to see a healthy deal flow in this part of the spectrum next year.

10. RETURNING TO EVEREST?

And last but not least, there is talk that 2020 could see the 4th edition of *Schemes, Takeovers and Himalayan Peaks*. The rumours suggest this edition could crack one thousand pages. It's not a given though - very busy deal flow has caused writing delays - though if the writing gets done, the good news is that a new cover has been identified!

REVIEW OF THE 2019 PREDICTIONS

We think we can award ourselves decent marks for [last year's predictions](#), which by and large, did play out.

1. **Is it a bird, is it a plane? No, it's superfunds!**
2. **Boards take control**
3. **Political risk**
4. **Stub equity deals on the rise**
5. **More of the urge to demerge**
6. **PE on the hunt**
7. **Property, financial services and health ones to watch**
8. **Think big**
9. **Infrastructure**
10. **Truth in takeovers**

The Herbert Smith Freehills M&A team thanks all our clients for their valued support in 2019 and wishes everyone the best for 2020.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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