

FOREIGN BIDDERS AND COMPETITION FOR KEY TARGETS CREATING POSITIVE OUTLOOK FOR AUSTRALIAN PUBLIC M&A

14 November 2016 | Australia
News

Australian public mergers and acquisitions activity continued to contract in FY16 with the volume of deals slightly down on the previous year.

However, a significant jump in the level of competition for Australian targets, a number of mega deals (valuing the target at more than A\$1 billion), continued interest from foreign bidders and strong performance in certain sectors provide cause for a level of optimism for FY17, according to the eighth annual [Herbert Smith Freehills Australian Public M&A Report 2016](#).

The Report shows that there were 50 public M&A deals announced in the 12 months to 30 June 2016, down from 55 in FY15 and 77 in FY14.

[Paul Branston](#), Herbert Smith Freehills partner and co-author of the Report explained that although FY16 started off promisingly, the expected levels of deal-making did not eventuate.

“We saw a number of big ticket transactions being announced at the beginning of FY16 and we expected that level of activity to continue throughout the remainder of the year. However, activity tailed off in the third quarter and never fully recovered, meaning overall activity levels were relatively low.”

“While the number of mega deals remained consistent year on year at seven, the total value of mega deals in FY16 reached A\$27bn (up from A\$22.4bn in FY15). This was due, in part, to competing proposals for Asciano which valued the company at ~\$9b, making it one of Australia’s largest M&A deals on record.”

FY16's mega deals came from a broad range of sectors, including industrials (Asciano and Veda), consumer products (Pacific Brands), diversified financials (Investa Office Funds), telecommunications (M2 Group) and utilities (Energy Developments).

FY16 saw a significant rebound in the level of competition in Australian public M&A, with seven of the 43 targets attracting multiple bidders (up from just two in FY15), primarily in the \$100m - \$500m category.

"This increased level of competition is a positive sign for future M&A activity levels in Australia, and in FY16 it allowed target shareholders to reap significant benefits, receiving on average a 97% premia from successful bidders in competitive scenarios," Mr Branston said.

Levels of foreign investment into Australia also remained healthy throughout FY16, with 41% of bidders from outside Australia and New Zealand contributing A\$14.4bn to total deal value.

There was a shift in the origin of foreign capital in FY16, with a marked reduction in bidders from Asia relative to previous years. Asian bidders represented only three of the 20 foreign bids (6% of deals down from 25% in FY15).

However, where Asian bidders may have been circumspect, North American bidders became a renewed force in Australian M&A. The proportion of bidders from North America increased in FY16 to 27% (up from only 15% in FY15).

Three of the seven mega deals also involved North American bidders (Brookfield's proposal for Asciano, HanesBrand's acquisition of Pacific Brands and Equifax's acquisition of Veda).

In terms of sectors, in FY16 the industrials and utilities sectors featured strongly, contributing A\$23.3bn to overall deal value and accounting for 30% of all deals by number (up significantly from just 13% in FY15).

In contrast, FY16 proved to be a challenging year for the energy and resources sectors, characterised by consistently low prices for many commodities and uncertainty. While there were still a reasonable number of energy and resources deals, they were significantly smaller than previous years, with the energy and resources sectors contributing A\$1.1bn to total deal value, the lowest value seen since the firm commenced the Report in FY09. There were no energy or resources mega deals.

Mr Branston remains optimistic on the outlook for Australian public M&A.

"The economic climate remains conducive to M&A in Australia, with modest domestic growth rates driving companies to look to M&A for growth. What's more, continuing low commodity prices, the low Australian dollar and low interest rates will continue to drive interest in Australian assets from overseas."

"We are also seeing a significant uptick in the capital markets pipeline in Australia which should generate further market confidence and, in time, create new M&A participants."

“While it’s true that there are a number of potential headwinds, such as rising US interest rates and continuing uncertainty around the impact of Brexit and the recent US election, boards’ long-term strategic plans are unlikely to be impacted.”

“Our conversations with clients reveal a desire to grow via acquisition, with opportunities being actively pursued and a strong degree of confidence in the market . Many companies have fine-tuned their growth strategies and will be keen to execute where they believe the opportunity is the right one strategically and they can do so at a reasonable price - I would expect to see a greater volume of deal activity in FY17.”

The annual Herbert Smith Freehills [Australian Public M&A Report](#) examines the trends and structure of Australian public M&A transactions. Now drawing on eight years of data and analysis, the Report gives readers a detailed insight into how market conditions have evolved in recent years and the future outlook for M&A.

Additional findings in the Report include:

- Schemes of arrangement continued to feature prominently, particularly in the mega deals category, where 6 out of the 7 mega deals were structured as schemes (the same as in FY15). Of all deals in FY16, 44% were schemes of arrangement (just shy of 45% in FY15).
- Cash consideration featured prominently in FY16. It was the sole form of consideration in 62% of transactions.
- Despite being a competitive year by historic standards, 73% of completed deals were successful.
- Private equity activity remained consistently robust, with 18% of deals launched by private equity bidders (the same as in FY15 and FY14).
- Target shareholders were particularly receptive to scrip only consideration in FY16. It was the most successful form of consideration in FY16, with 83% of completed transactions offering scrip only consideration being successful, which is noticeably higher than the success rates of scrip only consideration in previous years.

KEY CONTACTS

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



PAUL BRANSTON
PARTNER, PERTH

+61 8 9211 7880
Paul.Branston@hsf.com

MEDIA CONTACT

For further information on this news article, please contact:

**KELLY MURRAY, EXTERNAL
COMMUNICATIONS LEAD**

SYDNEY

Tel: +61 2 9322 4472

Email: kelly.murray@hsf.com