REPORT SHOWS AUSTRALIAN M&A IN FY15 WAS A TALE OF TWO HALVES

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News – By **Paul Branston**

Activity in Australian mergers and acquisitions retreated in financial year 2015-16 (**FY15**) with both the volume and total value of deals down on the previous year.

However, a number of significant mega deals across a range of sectors demonstrated the resilience of the market and offered renewed confidence for a strong FY16, according to the seventh annual Herbert Smith Freehills Australian Public M&A Report 2015 (**Report**).

The Report, released today, shows that there were 55 public M&A deals announced in the 12 months to 30 June 2015, well below the 77 deals of FY14, and just shy of the then-historic lows of FY13 (59 deals).

While the number of mega deals in FY15 dropped to seven (down from 16 in FY14), some high value mega deals, including Japan Post's A$6.5 billion acquisition of Toll, helped to bolster overall deal value and market confidence.

Total deal value in FY15 reached A$28 billion, which was down from A$43 billion in FY14 but significantly higher than the A$12.1 billion achieved in FY13. The total value of mega deals in FY15 was A$22.4 billion (80% of overall value).

Paul Branston, Herbert Smith Freehills partner and co-author of the Report, said: *"We were expecting big things for Australian public M&A in FY15, especially in light of the resurgence in activity we observed in FY14. The high level of competition in FY14 also suggested that Australia was poised for a very active year, but the anticipated overall levels of public M&A activity did not eventuate.*

"Despite the wide-ranging volatility that was a feature of FY15 and clearly impacted deal making, there were a number of large and strategically important mega deals, showing the foundations of the Australian M&A market remain robust.

“We saw a shift in momentum in the second half of FY15, with all of the mega deals being announced in this period. Performance in the first quarter of FY16 has been strong, with a number of very large deals announced, a marked increase in competitive bids and growth by acquisition clearly on the agenda.

“So whilst the rapid rate of global M&A in FY15 did not translate to similar activity levels in Australia, current conditions appear favourable for an increase in activity and the Australian experience should be different this year. We are seeing a strong increase in activity and we expect that to continue.”

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

Additional findings in the Report include:

- Deals accounting for 84% of overall value were announced in the second half of FY15, including all of the mega deals.

- The majority of bidders in FY15 were from Australia or New Zealand. However, foreign bidders continued to play a significant role, in particular bidders from Asia, who launched 25% of the deals in FY15.

- The energy and resources sectors continued to provide a baseload of activity in the Australian public M&A market, accounting for 60% of transactions by number, though deal values were down.

- Private equity activity remained relatively robust, with 10 deals launched by private equity bidders (the same as in FY14).

- Schemes of arrangement featured prominently, particularly in the mega deals category, where 6 out of the 7 mega deals were structured as schemes.

- Only 2 targets were the subject of multiple bidders. This drop in competition was accompanied by high success rates at 70% overall and almost 90% in friendly deals.

- Target shareholders were particularly receptive to cash consideration, with 75% of transactions offering cash only being successful, compared to 54% for scrip only transactions. The use of private debt to fund cash consideration rose to 34%, a considerable increase from both FY13 and FY14.

- In FY15 there was an increase in the proportion of deals with premia in the 20-40% range and reduction in the above 40% range. Premia size had a strong positive correlation with success rates, which has not often been the case in previous years.

- An increased proportion of transactions included a break fee of more than 1%.

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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