CARPE DIEM - AUSTRALIAN PUBLIC M&A SOARING IN FY22 ON THE BACK OF STELLAR MARKET CONDITIONS AND ESG DRIVERS

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News

Australian public M&A activity rebounded with full force in FY21 and the boom shows no sign of cooling off, according to a new report launched today by global law firm Herbert Smith Freehills.

The thirteenth edition of the firm's annual Australian Public M&A Report examines the A$44.4 billion worth of control transactions involving Australian targets listed on the ASX conducted by way of a takeover bid or scheme of arrangement in the 2021 financial year.

The Report found that M&A made a strong recovery in FY21, with total deal value significantly above FY20 levels, reaching an aggregate A$31 billion higher than the A$13.4bn in FY20, and still higher than the five year average of A$31.4bn.

The Report also revealed that the number and value of mega deals (deals valued at A$1bn or higher) in FY21 was significantly above FY20 levels and the previous five-year average. There were seven mega deals announced in 2021, the largest being Coca-Cola European Partners' A$9.8b acquisition of Coca-Cola Amatil Limited, which alone accounted for 22% of total deal value for the year.

Overall deal success rates were also higher in FY21 than in previous years (77%, up from 63% in FY20 and compared to a five-year average of 69.6%), likely encouraged by the fact that 72% of all deals were launched with target board support.

Herbert Smith Freehills partner and co-author of the Report, Nicole Pedler, said, "In FY21 we witnessed an M&A boom, owing largely to a highly deal-friendly environment driven by a vast amount of capital overdue for deployment, historically low interest rates and expansionary government fiscal policies."

“When combined with the sense of urgency for making the most of the moment following the surprises of early 2020, the attractiveness of pursuing inorganic growth in the current environment, and the limited availability of privileged and strategic assets, investors had very strong incentives to pursue acquisitions in FY21.

“With these favourable conditions still in play, and boardroom confidence growing as the pandemic recedes, we are set to see another record year of public M&A activity.

“Two of the largest deals in Australian M&A history are already setting the scene for FY22, with the cash A$23.64 billion proposed takeover of Sydney Airport by a consortium of infrastructure investors led by the Sydney Aviation Alliance announced just days into the new financial year, and Square’s proposed scrip acquisition of Afterpay valued at A$39 billion less than a month later”.

While favourable deal-making conditions certainly contributed to the recent wave of M&A activity, they are not the only relevant factor. Environmental, social and governance (**ESG**) considerations are also proving a catalyst for major acquisitions, divestitures and restructures.

In fact, ESG activity in the form of demergers was a clear trend in FY21. This included the announcement of AGL Energy’s demerger into two separate listed entities and Woolworths Group Limited’s demerger of its drinks and hospitality business.

Herbert Smith Freehills partner and co-author of the Report, Kam Jamshidi, said, “ESG as an M&A driver is just getting started. In particular, we predict market players to continue to position themselves for the next phase of the energy transition. We see this as a multi-industry theme that will play out in many different phases over many years.

“We expect to see companies that are operating in industries trading in products or services that are subject to ESG related focus, look to get big or get out. We also expect to see more companies divest non-core assets, and eventually expect to some bidders making opportunistic acquisitions of unpopular assets.”

He added, “A multitude of M&A drivers are firing and, it’s clear that FY22 is going to be a busy year for dealmakers. Boardroom confidence is palpable and bidders are boldly placing their bets on assumed post-Covid scenarios by pursuing landscape-changing deals. That same Boardroom confidence is shared by targets, whose conviction on fundamental value looks to have strengthened.”

Additional findings of the Report include:

- The energy and resources sector continued in strength in FY21, making up 38% of deals by value. The trend is largely driven by the number and volume of gold deals, with the majority targets in the sector involved in the industry. Deals involving targets in the gold industry amounted to over A$7bn worth of deals, compared to just over A$1bn in FY20

- FY21 saw a steep increase in the number of unsolicited 'hostile' takeover offers. 73% of takeovers were unsolicited, compared with 63% in FY20 and 62% in FY19.
- In a noticeable change to previous years, FY21 saw significantly more Australian bidders by both deal volume and deal value, with foreign bidders accounting for only 33% of deals by number and 32% of deals by value. In particular, the number and value of Asian bidders decreased significantly – Asian bidders represented less than 1% of total deal value in FY21 compared with 30% in FY20.
- Competition levels were significantly higher in FY21 compared to the previous five years. Fifteen target companies (representing 26% of all deals) were subject to competing bids.
- FY21 saw a departure from the previous continued rise in activity from private equity bidders, with only 18% of deals involving a private equity bidder
- There was an increase in bidders offering scrip consideration in FY21, with 47% of all deals involving some element of scrip consideration (compared with 33% in FY20). The use of scrip consideration featured prominently in mega deals, with 57% of these deals offering scrip only or a choice of scrip consideration.

For more information or a copy of the report visit: https://www.herbertsmithfreehills.com/latest-thinking/australian-public-ma-report-2021.

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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