

Deal Drivers:

Australia & New Zealand

A spotlight on mergers and
acquisitions trends in **2020**

Despite reopening, Australia & New Zealand face **slow M&A recovery**

Australia and New Zealand have been among the countries most lauded for their COVID-19 response, with rapid measures preventing widespread outbreaks of the disease. Nonetheless, as is the case elsewhere, the shutdown has made a severe economic impact, which the region could find challenging to bounce back from.

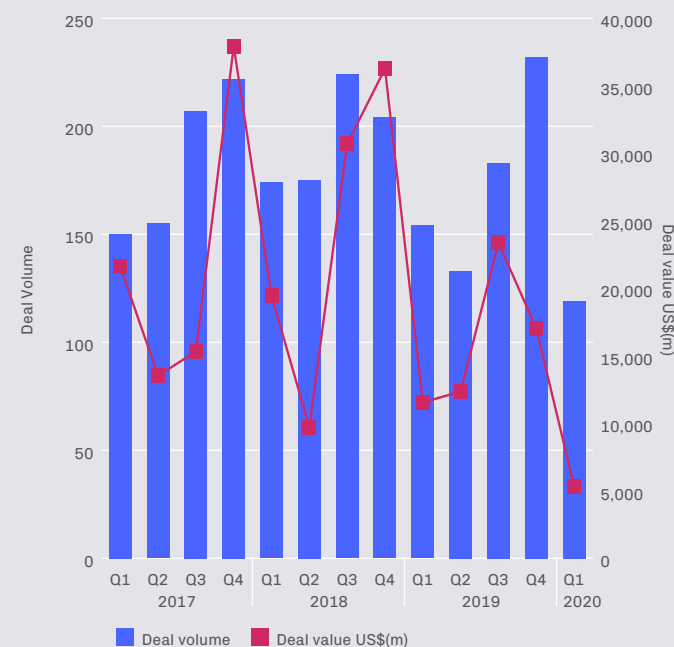
In line with a global drop in M&A activity amid the pandemic, M&A deal value in Australia and New Zealand dropped 54% year on year in Q1 2020, to US\$5.3bn. Volume also fell substantially, down 23% to 119 deals.

Looking beyond the first quarter, April witnessed an even more dramatic fall in deal activity, although there were signs of recovery visible in May. There were only 14 M&A deals in April, totaling US\$595m, a decline of 65% and 89%, respectively, in terms of volume and value compared to April of the previous year. Although the 20 transactions worth US\$2bn in May were 56% below both value and volume the year before, they are still an indication of a bounce back.

The majority of the M&A activity in the region in Q1 was for Australian targets – not unusual, given that Australia's economy is far larger than New Zealand's. But the rate of decline in New Zealand M&A was far steeper, reflecting the fact that the country's COVID-19 response came earlier and was stricter. There were just nine transactions in New Zealand in Q1, only two of which had disclosed deal values, coming to a total of US\$23m.

As New Zealand has eased lockdown measures and allowed businesses to return to work, M&A activity may return faster. Already, Q2 has seen a significant transaction, the US\$521m sale of broadband internet provider Ultrafast Fibre to Australia-based First Sentier Investors.

Australia & New Zealand M&A activity, 2017-Q1 2020



Source: Mergermarket

Private equity holds on

Private equity deal volume held up better in Q1, rising by 61% to 29 transactions compared to Q1 2019, despite value dropping by 54% to US\$3bn.

Much of total PE value in Q1 was due to the largest deal of the quarter in the region, Macquarie's US\$1.8bn acquisition of an undisclosed majority stake in data center services firm AirTrunk from Goldman Sachs and TPG Capital.

Other significant PE transactions include US-based Madison Dearborn's first investment in an Australian firm, the US\$539m acquisition of employment and community care services provider Advanced Personnel Management International (APM) from Australian PE Quadrant. The transaction, announced on 10 March, is intended to give APM the opportunity to expand its operations in North America.

As we enter H2, deal activity overall is likely to remain muted but PE firms – with vast sums of dry powder at their disposal and access to cheap financing – could remain more acquisitive than corporates.

TMT and business services stay strong

The AirTrunk deal helped to ensure that business services would take the crown in terms of top sector by value in the first quarter, but the sector also tied for top spot by volume, along with technology, media and telecoms (TMT). In total, there were 22 transactions in business services, worth US\$2.6bn in total. This was nonetheless a 39% drop year on year in terms of volume, although value rose by 43% during that time.

TMT was among the two largest sector by volume, it was one of the few sectors which registered a year-on-year gain in deal numbers. This suggests a relatively robust middle market – although, again a caveat must be made, as Q1 2019 was relatively weak in terms of TMT deal volumes. There were 22 transactions in the sector in the first quarter of the year – compared to only nine in the same quarter the year before – worth US\$174m.

The largest deal in TMT was the US\$70m sale of hotelier software developer SiteMinder to a consortium which included BlackRock Private Equity and AustralianSuper, a pension fund, among other partners.

ANZ top sectors by value | Q1 2020

	US\$(m)
Business Services	2,610
Energy, Mining & Utilities	1,176
Agriculture	677
TMT	203
Leisure	162

ANZ top sectors by volume | Q1 2020

	Deal count
Business Services	22
TMT	22
Energy, Mining & Utilities	14
Leisure	14
Consumer	10

ANZ top bidders by value | Q1 2020

	US\$(m)
Australia	3,955
USA	694
South Korea	390
Singapore	107
Belgium	46

ANZ top bidders by volume | Q1 2020

	Deal count
Australia	64
USA	18
United Kingdom	7
New Zealand	4
Germany	4

Uncertain times ahead

Back during the 2008 financial crisis, Australia was one of the few advanced economies not to suffer a recession, thanks to its ability to tap into the voracious Chinese market to sell its commodities. This time around, the same strategy may prove more challenging.

Both Australia and New Zealand acted decisively at the start of the coronavirus pandemic and managed to contain the outbreak effectively and have begun to ease social distancing measures. Nonetheless, economic recovery in the region could prove challenging. Australia's economy, in particular, is in a vulnerable position. The country has enjoyed uninterrupted economic growth since 1991, but this record period of growth has led to a boom in housing prices and high levels of household debt, which is among the highest in the world, equivalent to 119.5% of the country's GDP as of Q4 2019, according to the Bank for International Settlements.

Though lower than Australia's, New Zealand's household debt is also relatively high, at 94.4% of GDP. The IMF forecasts that New Zealand's real GDP will contract 7.2% in 2020, while Australia's will contract by 6.2%, worse than the expected 6.1% contraction for advanced economies as a whole.

Moreover, Australia's recovery prospects are marred by a developing diplomatic dispute with its largest trade partner China. In the 2018-2019 financial year, 33% of Australia's exports went to China – a trade relationship which is now under strain after Australia called for an independent inquiry into the origins of COVID-19. The Chinese government has retaliated by imposing an 80% tariff on Australian barley and threatening a consumer boycott.

Yet Australian bank Westpac estimates that exports of commodities like iron ore, metallurgical and thermal coal, and liquefied natural gas actually rose by 6% in April 2020 compared to the year before, in terms of metric tons, although by value, this has fallen due to a drop in commodity prices.

With China in need of stimulating its economy through infrastructure projects, Australia's strong natural resources sector and trade ties with China could continue to prove beneficial, despite the tensions.

Overall though, the response to the COVID-19 crisis from Australia and New Zealand is certain to be good news for M&A. Already, M&A activity in May saw a notable increase from April, with deals announced including two US\$500m-plus transactions – KKR's acquisition of Colonial First State Investment for US\$1.2bn and First Sentier's acquisition of Ultrafast Fibre for US\$521m – a positive step for M&A in the region post-COVID.

Australia & New Zealand top deals, Q1 2020

1

Macquarie Infrastructure and Real Assets (MIRA) acquired a majority stake in AirTrunk, a data center platform provider and one of Australia's most successful homegrown technology companies.

US\$1,817m

2

The second-largest deal of the quarter saw GrainCorp spin off its subsidiary United Malt. As a standalone company, United Malt is now the fourth-largest malt producer in the world.

US\$618m

3

The sale of employment services firm Advanced Personnel Management International (APM) to US-based PE firm Madison Dearborn will allow the Australian company to expand their overseas business.

US\$539m

Sector Watch:

Energy, Mining and Utilities

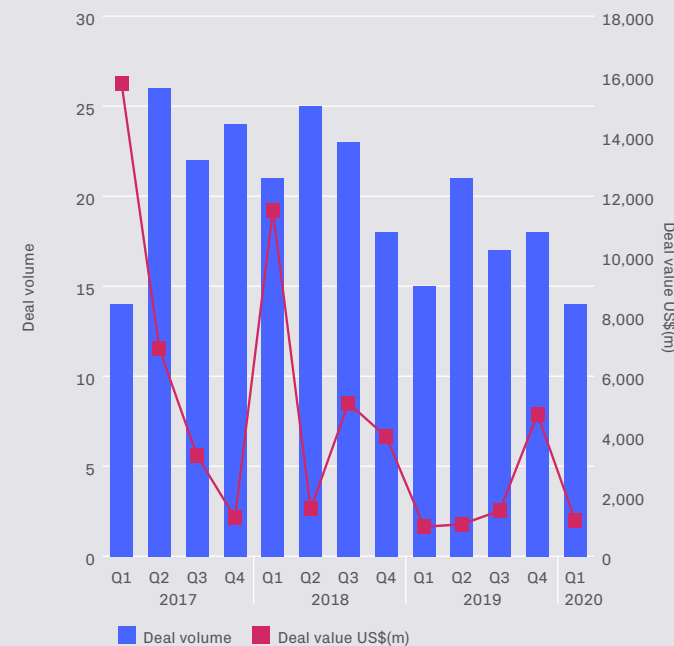
As the coronavirus pandemic all but shut down transportation and travel around the world, demand for fuel has fallen off a cliff, and with it, M&A in the energy, mining and utilities (EMU) sector. Globally, M&A value in the sector has dropped 40% in Q1 compared to the same quarter the prior year, while volume has decreased by 36%.

Against those figures, dealmaking activity in the sector in Australia and New Zealand looks strong – M&A value rose 20% to US\$1.2bn year on year, even as volumes declined 7% to 14 transactions. This, however, was against an already subdued quarter for M&A in the EMU sector – there were only 15 deals worth US\$981bn in Q1 of last year, marking the lowest total quarterly value of the last three years.

The largest deal in the sector in Q1 2020 was Santos' sale of 25% stakes in both the Bayu-Undan gas field and the Darwin LNG facility to South Korea conglomerate SK E&S for US\$390m. The Bayu-Undan project is an offshore field 250km off the coast of Timor-Leste which supplies gas to Darwin LNG, a liquefaction and storage facility, via a 500km pipeline.



Australia & New Zealand EMU M&A activity, 2017-Q1 2020



Source: Mergermarket

LNG on the rise

Deal activity in the LNG markets in the region has been boosted by the growing popularity of the energy source in Asia-Pacific, and particularly in China, where the government has championed it as a cleaner alternative to other fossil fuels. The growth in Chinese demand for LNG in recent years has prompted investment in some previously economically unfeasible projects. One example is the offshore Scarborough gas field. Originally discovered in 1979, the field sat undeveloped for decades as it was seen to be too remote to be profitable, but rising prices prompted Australia firm Woodside to acquire a 50% stake in the project in 2018 for US\$744m with a view to begin extracting gas by 2023.

Awaiting policy decisions

Going forward, whether M&A in the LNG sector will remain active is heavily dependent on government policy. Not only is the Australian LNG industry vulnerable to trade tensions between Australia and China, domestic policy could also severely impact the sector. Australia is among the biggest per capita polluters, and there have been calls to use the COVID-19 crisis as an opportunity to transition the economy towards greener alternatives.

According to leaked documents, however, it would appear that a manufacturing taskforce advising the Australian government is considering supporting development of gas pipelines to transport fuel from the gas fields of western Australia to the more metropolitan areas in the east of the country. The idea is controversial as critics argue that the distance between the gas extraction sites and their ultimate destination makes it economically unviable.

Greener shoots

There may, however, be opportunities for M&A in the sector as a result of the COVID-19 crisis. Italy-based energy firm ENI is reportedly looking at selling its Australia-based assets, due to financial pressures as a result of the pandemic.

Moreover, concerns about climate change and decarbonization can also be a catalyst for dealmaking. The second-largest transaction of the sector, Yancoal's US\$217m acquisition of a 10% stake in the Moolarben coal mine. Seller Sojitz, a Japanese conglomerate, said in a press release that the decision to sell the stake is "a vital step in its commitment towards a low-carbon/carbon-free society."

The decarbonization theme was already present in the EMU sector before the COVID-19 outbreak. Whether the pandemic will accelerate adoption of greener alternatives, however, remains to be seen.

Australia & New Zealand top EMU deals

1

SK E&S's acquisition of 25% stakes in both the Bayu-Undan gas field off the coast of Timor-Leste and the Darwin LNG refinery project is part of a trend of LNG growing in popularity, especially in Asia-Pacific.

US\$390m

2

Japanese conglomerate Sojitz's sale of a stake in the Australia-based Moolarben coal mine is part of its sustainability strategy. Sojitz has stated its intention to halve its ownership of coal assets by 2030.

US\$217m

3

Australian PE firm Pacific Equity Partners made a takeover bid for remote power company Zenith in early March on its own, but in June was joined in a consortium by OPSEU Pension Trust (OPTTrust), a Canadian pension fund.

US\$165m

About this report

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For a full version of the Mergermarket M&A deal database inclusion and league table criteria, go to: www.mergermarket.com/pdf/deal_criteria.pdf



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