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Climate ripe to pique offshore M&A interest

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A change in government and softer Australian dollar have paved the way for a resurgence in merger and acquisition activity led by offshore buyers, according to law firm Minter Ellison.

Minter Ellison's head of M&A **James Philips** said macro-economic conditions had become favourable for an uplift in M&A activity, and there were signs that company boards had become more receptive to M&A opportunities.

"Foreign acquisitions [of Australian companies or assets] make up a large component of the Australian M&A market, and when investors are evaluating offshore opportunities two of the main things they look at are currency risk and sovereign risk," he said.

Dealogic released global M&A data for the first nine months of the year on Tuesday. Global M&A volume reached $US2.02 trillion ($2.15 trillion) in the year to date, up 13 per cent on the same period in 2012. The number of deals fell 20 per cent to 26,194.

Asia Pacific (excluding Japan) targeted M&A volume was $US327.9 billion in the first nine months of 2013, a drop of 3 per cent from $US337.1 billion in the comparable 2012 period.

Activity also dropped, down 13 per cent, year-on-year, to 6482 deals.

Mr Philips said while he expected inbound M&A activity to improve, Australia still faced several challenges competing with other nations for foreign investment.

Chief among these were Australia's high labour and energy costs, the small size of the domestic market, subdued growth, a heavily indebted household sector and a slow-down in the resources sector.

However, he said some of the capital that once headed for the resources sector would now seek new opportunities, and M&A was likely to be driven by further investment in agribusiness and infrastructure assets.

"We continue to see very strong interest in infrastructure assets," Mr Philips said.

"If you can get someone to accept that it's an asset with infrastructure characteristics – predictable long-term cash flows with low credit and regulatory risks – you can get good prices for those assets now."

In other good signs for the M&A market, Mr Philips said management consultants were fielding more requests for strategic advice, as opposed to inquiries about how to improve efficiency.

Investment banks, meanwhile, were reporting larger pipelines of work, though there remained a question over how many of those would reach execution.

"You still hear stories of banks working on transactions for six months with management, only to put it to the board and find the board has no appetite," he said. "The key is to get the balance between the macro and the specific. The macro environment has created an environment where things are possible, but whether they will happen is highly specific to particular companies and particular sectors."

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