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THE AUSTRALIAN

Tide finally turning on M&A after change of government

EXCLUSIVE

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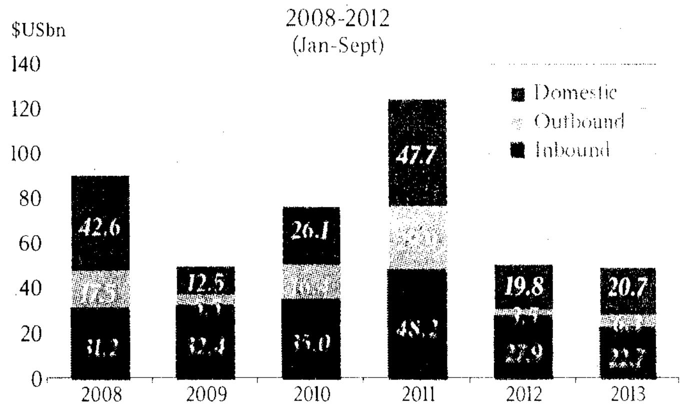
DEALS

AUSTRALIAN MERGERS & ACQUISITIONS VOLUMES



Source: Thomson Reuters

CORPORATE Australia's appetite for deals is slowly awakening as the change in government and a growing fear of missing out inspires hopes of more takeovers and floats.

With three months of the year to go, the market is swarming with potential initial public offerings and company chiefs are dusting off takeover opportunities long left on the shelf.

Announced mergers and acquisitions for the year to date are down 6.4 per cent to $US58.8 billion ($63.1bn), according to Thomson Reuters data exclusive to *The Australian*, making it the lowest nine-month period since 2009. Completed M&A — critical to investment banks' success fees — are down 44.8 per cent to $US39.1bn compared with the same period last year, highlighting the number of deals falling over.

While IPO activity is the strongest since 2008, equity issuance overall has slumped 17.2 per cent to $US11.9bn, the softest since 2003, as follow-on raisings and convertible note deals have dried up.

One senior banker said the flood of IPOs mooted for the next six months, including Nine Entertainment and the Pacific Equity Partners-owned Veda, was dominating bankers' time.

"I quickly counted this morning 15 or so high-profile rumoured deals and there's a couple I know about that are not yet rumoured," said Minter Ellison equity capital markets partner Daniel Scotti.

While not a panacea after two years of pain, bankers agree the change of government will improve things. A lower Australian dollar and the improving global economy will also help, but bankers caution it is too early to claim a dramatic change has occurred. Tony Osmond, head of investment banking at Citi, said that after a tough period the leading indicators had improved, with large M&A deals in the US, the stockmarket around 5300 points and some IPOs doing well.

"There have been two pretty lean years, but obviously people

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Tide turning on M&A with new government

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don't sit on their hands during that period," he said, adding companies had "lots of dry powder".

"A lot of people have been thinking about things, just waiting for the right conditions to be there, and I think confidence has now been somewhat restored — you see it with boards, management and investors as well.

"The missing element has been confidence, but it was almost like a switch turned on two weeks before the election when everyone could see the Coalition was going to win."

Bank of America Merrill Lynch head of M&A Grant Chamberlain echoed the sentiment, saying deals had been held up by the election and that the government's planned repeal of the mining and carbon taxes might also unleash some activity.

"Earlier in the year clients were content to take a wait-and-see approach, but in the last couple of months sentiment is a lot more positive," he said.

"Between growing momentum in equity markets and favourable financing markets, clients are beginning to recognise that if they don't move forward now there is a risk that competition for quality assets will increase and they will get more expensive.

"(But) we will probably have to wait until next year to see a clear pick-up in the number of announced deals."

Signs are improving, with announced M&A in the third quarter up 3 per cent on the previous three months and 35 per cent on the same quarter last year. On Friday, Queensland Motorways bought RiverCity Motorway Group out of receivership for $618 million.

Barclays head of investment banking Tim Lindley said the power, utilities and infrastructure sectors would continue to be busy next year, mostly in the unlisted space, and there would be further consolidation in small and mid-cap natural resources companies.

"The financial services and real estate sectors are also areas of focus, and private equity houses are increasingly on the hunt," he said. "It's getting harder to see where the large deals will come from, given the consolidation that has already occurred in sectors like banking, food and beverages and retail. The pipeline of privatisations will be a reliable source of activity for the next few years."

Michael Firmin, founder of boutique advisory firm Record Point, said companies remained "guarded" about taking risks and moving too quickly, despite the opportunities.

He said equity capital markets activity could improve overall conditions next year, which was "certainly feeling like having a heightened level of activity".

Minter Ellison's Mr Scotti said a big positive for IPO hopefuls, compared to six months ago, was the "reasonable track record" of Quadrant Private Equity's float of Virtus Health, which debuted at $5.68 but last traded at $8.01.

But he cautioned recent property IPO hopefuls that failed to get away showed it "wasn't all beer and skittles" and calm market conditions would be vital.