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HD **Brace for foreign M&A wave: Greenhill**

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Exclusive When Joe Hockey hit the kill switch on the $3.4 billionArcher Daniels Midland bid for GrainCorp in December last year, it sparked a range of different reactions in the Australian business community.

There was a mixture of jubilation and outrage depending on which side of the foreign investment debate you were on.

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Cooler heads in some investment banks, however, were sensing opportunity. In their view the GrainCorp rejection was a one-off, meaning any foreign bidder who came knocking after that had a pretty good chance of getting a bid for an Australian company approved.

On a visit to Australia the global chief executive of boutique advisory firmGreenhill & Co, Scott Bok, smiles at the suggestion that the GrainCorp veto gave a virtual green light for every other deal.

“Clearly that decision did surprise people overseas,’’ Bok says. “But I think that companies and investors accept that in every market you are going to get a number of decisions that surprise from a regulator.’’ He cites the example of BHP Billiton’s bid for Potash Corp of Saskatchewan, which was shot down by local politicians in 2009, as an example of the rare occasions a sensitive deal is blocked.

“Canada doesn’t have too many of those bullets; they are not going to exercise that veto right so many times that they do deter bidders from thinking about Canada.

“That is not a good outcome for Canada, and I think the (potential suitors) probably view the GrainCorp decision likewise,’’ Bok says.

Greenhill was on the receiving end of that rejection, which cruelled more than a year’s work advising the board of GrainCorp at first to reject a hostile bid, then to accept a significantly higher revised bid.

Bok says the Australian market should be prepared to see many more foreign bids for Australian companies as their counterparts in the US and Europe start to search for growth after years of torpor, and activist investors push boards to shake up Continued on Page 23 Continued from Page 19 companies that have struggled to increase their sales. “We have seen a sea change in propensity of companies to consider (mergers and acquisitions),’’ Bok tells The Australian. “It has gone from an off switch to an on switch and that will come to Australia as well.’’ While the number of deals in the US has not changed much in the year to date, the number of billion-dollar transactions is up to 40 per cent and volumes a lot more than that.

The optimistic take on the GrainCorp rejection has proved pretty prescient so far.

The Treasurer followed up shortly after his surprise rejection with approvals for the State Grid of China to purchase of billions worth of Singapore Power’s Australian assets, and a waiving of some conditions on Yanzhou Coal’s controlling stake in Yancoal Australia.

Just last week Cheung Kong Infrastructure topped a bid for Envestra from APA, while Wilmar International of Singapore launched a bid for Goodman Fielder. That followed a swift and seemingly conclusive $2.2bn bid for department store group David Jones from Woolworths of South Africa, and a steady stream of foreign pension and sovereign funds teaming with local players to pick over big-ticket infrastructure and property assets.

"The investor world is saying, 'Where is the growth going to come from?' '' Bok says. "I think that has companies shifting back into **acquisition** mode.

"It is almost like the **wind** shifting, it's not like you notice, but all of a sudden the whole driving force of the way boards and CEOs are thinking has shifted from 'Hunker down, cut my costs, buy back more stock' to 'The economy looks like it is growing, where am I going to go to grow my earnings this time?' '' Greenhill has been going through its own remodelling, with two of the three founders of the original Caliburn Partnership — Ron Malek and Simon Mordant — leaving the **firm** in March, four years after the $181m buyout by Greenhill.

Peter Hunt remains as local chairman overseeing a new triumvirate running the local **operations** including 14-year veteran Roger Feletto, Kevin Costantino, who was brought in from New York, and Michelle Jablko, who joined from UBS.

The **firm** has seen a couple of years of leaner pickings, with the local entity's 2013 profit down 43 per cent to $6.3m before tax. In 2010 it booked a $24.2m profit.

Bok says the transition to new leadership has been in mind since Greenhill took over in 2010 and the new team — particularly Constantino — aims to draw more heavily on the resources of the **firm**'s 70 partners to do more international deals.

"With any merger the next generation is going to be more interested in integrating with the new **firm** than the original founder generation would,'' Bok says.

Part of the experience they are hoping to transfer to Australia is the rise of activist investors who have tackled some of the giants of corporate America — Apple, Microsoft, PepsiCo, Dow Chemical — to force buybacks, big dividends and demergers of some divisions.

"It is definitely huge in the US and it is going to be one of those exports that is not appealing to the places it arrives but it is going to come anyway,'' Bok says.

Being prepared is the best defence against their usually unwelcome advances. While many companies capitulate — inviting the activist on to the board and negotiating rather than fighting — a better approach is for the board to put itself in the activist position.

Boards should consider if there is a weakness in their strategy; can they afford a higher dividend or capital return? Are there acquisitions or demergers that could drive growth?

"Try to think from an activist perspective before the activist shows up."When one shows up you have the strategy ready.''

CO arch : Archer Daniels Midland Company | greeh : Greenhill & Co Inc | grncrp : GrainCorp Ltd

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