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HD **Lower exchange rate drives M&A activity**

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markets: The mergers and acquisitions space could see more activity in coming months if the Australian dollar slips further, bankers and officials involved in deals say.

The dollar fell 6.2 per cent against the US dollar in September, and is down 8 per cent since July. It is currently trading at about US87.9c, after hitting US86.68c on Wednesday, close to its lowest level for the year. Analysts believe it is still overvalued against the US greenback, given weak commodity prices and slowing economic growth for major trading partner China.

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A lower exchange rate could make Australian assets more attractive, especially for foreign bidders in the commodities and energy sectors, and could help in sealing negotiations for many in a robust pipeline of deals.

“In terms of value discussion, the bridge between the buyer and seller is often in the 5-10 per cent range,” said Simon Reed, a partner at legal firm Herbert Smith Freehills, which specialises in M&A.

“This level of currency movement means it’s easier for both parties to negotiate the deal.” Australia’s M&A market has had a resurgence over the past year, with 77 deals announced in the 2014 financial year worth a total value of $44 billion, compared with a total deal value of $11.6bn in the previous year, according to a recent report on M&A activity by Herbert Smith Freehills.

Foreign bidders play a large role in the local M&A landscape, being involved in almost 80 per cent of deals of more than $1bn, and 25 per cent of deals of less than $100m. Most foreign bidders offer cash consideration, the report found, which brings into play the sharp fall in the Australian dollar.

The expectation is that inbound M&A for Australian-listed targets may benefit by the fall in the dollar, Mr Reed said.

It will have a particular impact on deals involving the sale of commodities or products traded in other currencies (commodities are globally sold in US dollars), or targets exposed to locations where payments are received in other currencies, such as in construction or infrastructure companies. In both cases, the revenue stream of the target company is not contingent on the Australian dollar, M&A bankers say.

But not all believe that currency fluctuation is a significant issue in dealmaking, given the current economic environment, which has seen sharp falls in prices of coal and iron ore, as well as a slide in global crude oil prices.

“The No 1 consideration in M&A is boardroom management confidence,” said Tim Woodall, managing director at boutique corporate advisory Miro Advisors, which focuses on deals in the energy and resources sectors.

“In an environment where oil prices and commodity prices are falling, it is difficult for boards to have that confidence even if the exchange rate turns favourable.” Mr Woodall, whose firm is advising Nido

Petroleum on its takeover by Thailand's BCP **Energy** International, said while the present level of fall in the currency rate was an important consideration, it would not be a driver by itself.

While the drivers for a deal are almost always strategic, bankers say valuations, which include the impact of currency fluctuations, are an important consideration.

"We would expect an impact on deal flow if the fall (in the local currency) is sustainable and bigger," said the **M**&A head at a large investment bank.The inbound **M**&A pipeline in Australia appears quite strong, dealmakers say, with numerous deals under discussion in the **energy** and resources space and cheaper valuations also attracting interest from global private **equity** players.

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