



TAKEOVERS + SCHEMES REVIEW

KEY HIGHLIGHTS

2017

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GILBERT + TOBIN PRESENTS THE 2017 TAKEOVERS AND SCHEMES REVIEW

On 17 March 2017, Gilbert + Tobin released the 2017 edition of its Takeovers and Schemes Review, providing an in-depth review of 2016's public company M&A transactions valued over \$50 million. It gives G+T's perspective on the trends for M&A in 2016 and what that might mean for 2017.

Commenting on the Review, Partner Neil Pathak said:

"A number of interesting issues surfaced in public M&A in 2016. In an uncertain political and economic environment, M&A stakeholders have an increasing preference for certainty in transactions. In that respect, 2016 saw a higher number of deals with cash consideration and a significant preference for the scheme of arrangement process over takeover bids as a mechanism for acquiring public companies. At the same, we are seeing an increasingly activist approach by regulators including the ACCC and ASIC as well as widespread commentary on the foreign investment approval process. Despite this, foreign bidders still showed interest in Australian public companies and deals generally still got done. We have analysed the data, drawn our conclusions on 2016 and have looked into our crystal ball for what 2017 might hold. We trust our clients and colleagues find our Review to be a useful resource."

The following pages provide a summary of a number of the key highlights from the Review.

TRANSACTION ACTIVITY DOWN, BUT DEAL VALUES STEADY

There were 30 public M&A transactions valued over \$50 million in 2016, a decline from 37 transactions in each of the last 2 years.

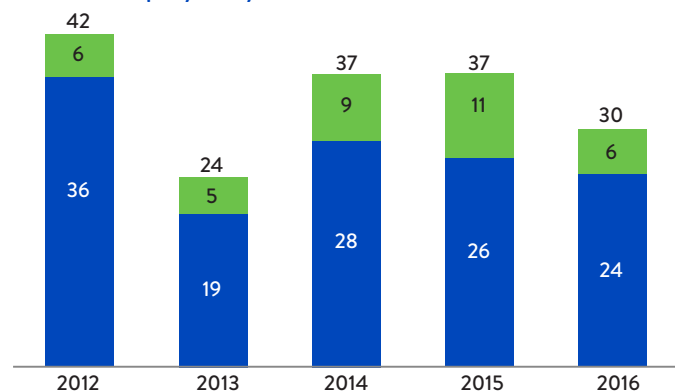
That said, aggregate transaction values in 2016 were \$24.6 billion. If 2015 (which in our view was an outlier with an unusual number of very high value transactions) is excluded, it's clear that the aggregate value of transactions in 2016 was strong relative to recent years.

In that respect, 2016 may be best characterised as an unspectacular, but solid, year for public company M&A in Australia.

The prospects for activity levels in 2017 seem mixed. The global political climate appears challenging with Trump and Brexit. In Australia, the slim parliamentary majority of the Government and the rise of independent parties makes for a difficult environment.

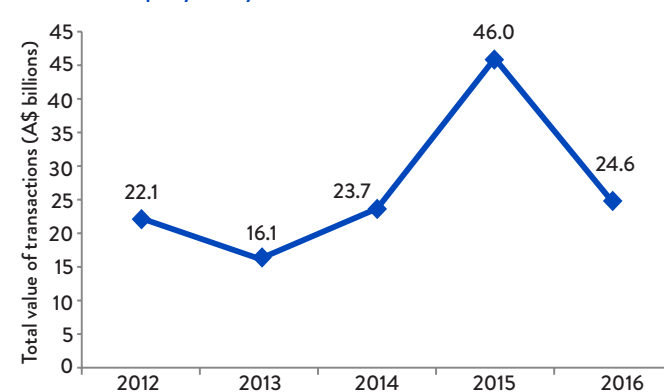
As our Review went to print, however, a number of significant M&A processes are works in progress and we are busier than ever on M&A. It could be that the stage is set for stronger public M&A in 2017.

Transactions per year by number



■ Number of \$50m to \$1bn transactions ■ Number of \$1bn+ transactions

Transactions per year by value



◆ Total value of transactions

30 PUBLIC M&A TRANSACTIONS

VALUED OVER \$50 MILLION IN 2016, A DECLINE FROM
2014 AND 2015 WHICH HAD 37 TRANSACTIONS EACH

2

FOREIGN BIDDERS ARE STILL BUYING AUSTRALIAN COMPANIES

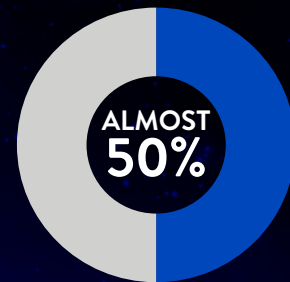
Foreign investment attracted headlines in 2016, often for the wrong reason.

Despite negativity in respect of the Government/FIRB's approach to the Ausgrid and Kidman transactions and concerns about the overall approval process, almost 50% of bidders were foreign, led by Asia and North America.

The success rates for transactions by foreign bidders in 2016 was 92%, up from 67% in 2015. In fact, all of the successful M&A transactions valued over \$1 billion involved a foreign bidder. This adds weight to the Federal Government's position that it welcomes foreign investment, as the large majority of transaction were approved and only in rare circumstances was approval not granted.

We expect that foreign interest will be solid, if not strong in 2017.

Despite concerns about foreign investment approvals



OF BIDDERS WERE FOREIGN



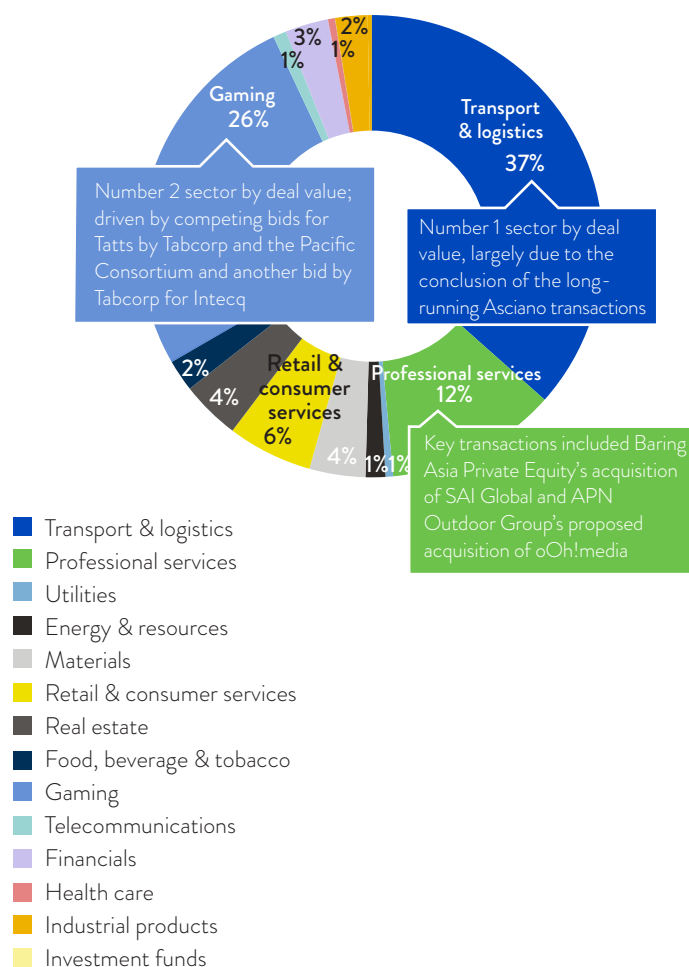
TRANSPORT & LOGISTICS AND PROFESSIONAL SERVICES ARE THE KEY SECTORS

The top 3 sectors by value in 2016 were transport & logistics, gaming and professional services. The economy appeared to continue its pivot away from energy & resources, with transactions in this sector representing just 1% of aggregate transaction values in 2016, the lowest on our records.

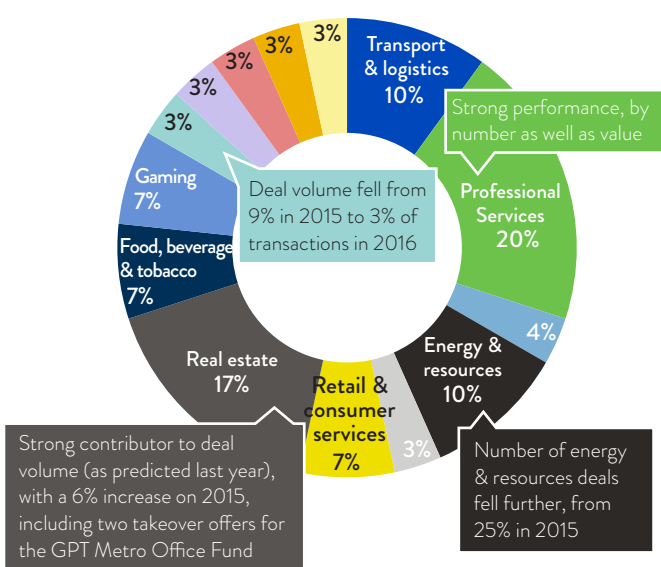
We expect that M&A activity in 2017 will be driven by the professional services, infrastructure, utilities and the food/ FMCG sectors, among others. We also anticipate continued consolidation in the real estate sector in 2017.

We also feel confident that energy & resources has hit the bottom of the cycle, with some significant M&A in that sector in the works.

Total value of transactions per sector (2016)



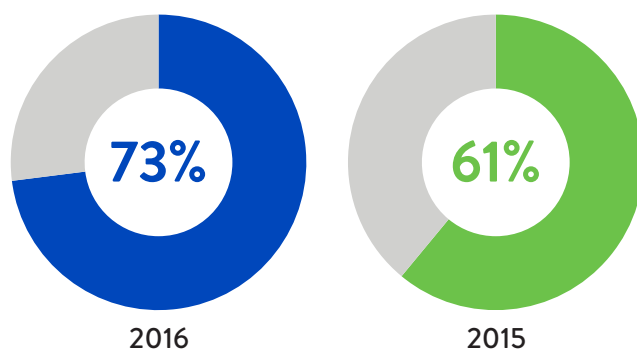
Total number of transactions per sector (2016)



IN AN UNCERTAIN POLITICAL AND ECONOMIC ENVIRONMENT, SIMPLICITY AND CERTAINTY CAN GET DEALS DONE

2016 saw a record number of all-cash transactions. 73% of all transactions offered all-cash consideration, translating to a 95% success rate in 2016. By contrast, combination scrip/cash deals were successful in only one-third of cases.

Transactions offering cash consideration



80% of schemes offered solely cash



88% of transactions involving a foreign bidder were all-cash

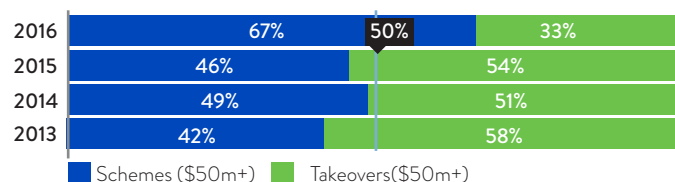


Transactions offering only scrip dropped to 13% in 2016, compared to, on average, 20% since 2012

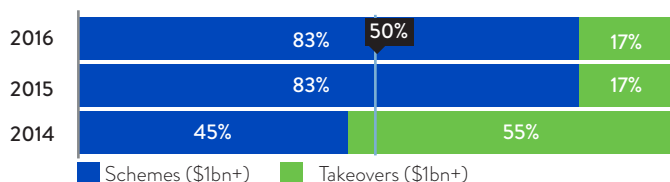
The average premium to pre-offer trading prices in 2016 was 39%, materially less than 50% in 2015.

Schemes of arrangement were also overwhelmingly preferred over takeover bids, unlike previous years where the scheme/takeover split was more finely balanced around 50%.

Schemes v Takeovers (\$50m+)



Schemes v Takeovers (\$1bn)



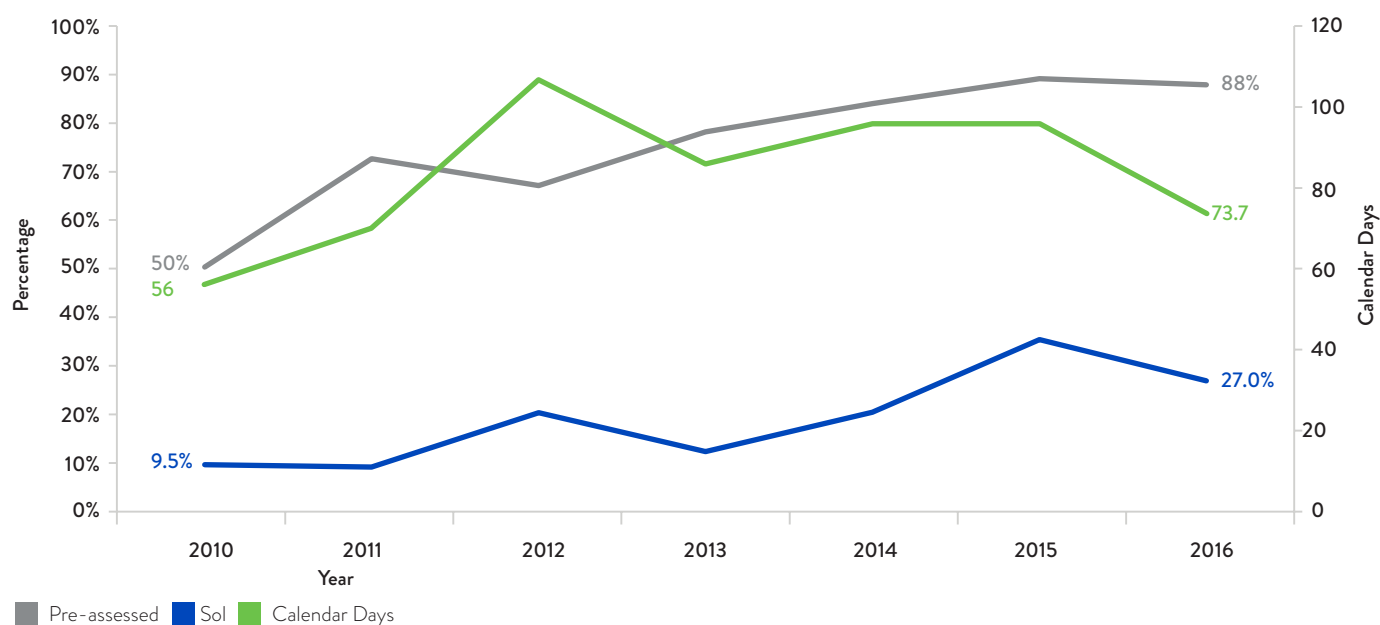
IT SEEMS THAT IN 2016'S UNCERTAIN POLITICAL AND ECONOMIC CLIMATE, TARGET BOARDS AND SHAREHOLDERS WERE WILLING TO ACCEPT A LOWER PRICE AS LONG AS THERE WAS CERTAINTY OF EXIT AND VALUE.

ASIC AND THE ACCC HIGHLY ACTIVE IN REVIEWING TRANSACTIONS

ASIC was an active regulator of Australian M&A transactions in 2016. Its activities in other areas, such as its strong focus on IPO disclosure, also impacted on takeovers. For transactions involving novel or complex issues, it remains important for bidders to engage with ASIC early in the process, and to expect the entire transaction to be scrutinised if relief is required.

The ACCC also intensified its consideration of M&A transactions with its Chairman Mr Rod Sims saying that companies need to consider avenues for growth other than the “easy route” of M&A. We can expect the ACCC’s already hard line approach to further strengthen as the ACCC Chair’s term progresses towards maturity.

ACCC merger reviews



* Statistics based on date merger assessment commenced, some mergers commenced in 2016 are incomplete at date of calculation (February 2017)



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