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PwC Deal Talk

Doing Deals in Australia from a Swiss Investor's Perspective

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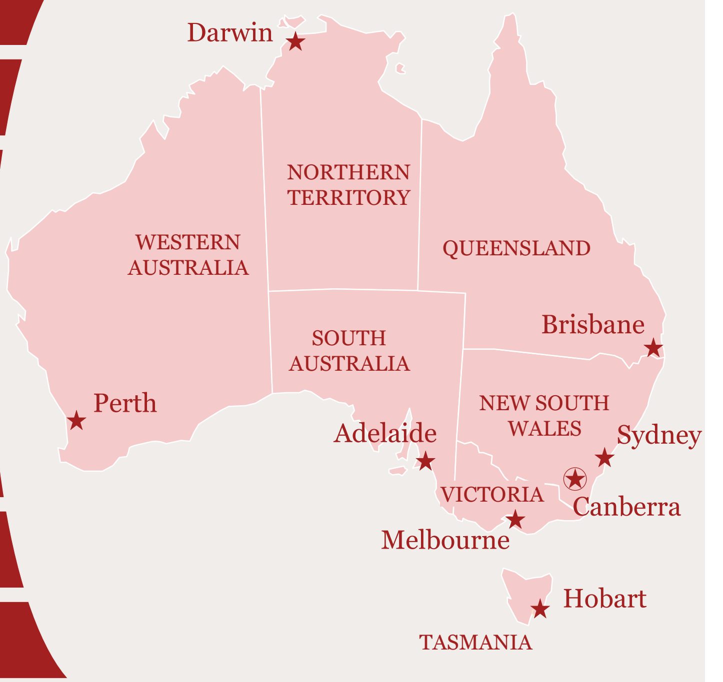
Key facts about Australia

		
Area	7,692,024 km²	41,285 km²
Population	24.4 m	8.4 m
Capital	Canberra	Berne
Primary languages	English	German, French, Italian
GDP (nominal)	USD 1.2 trillion	USD 0.7 trillion
GDP per capita	USD 49,930	USD 80,400
Economic ranking (GDP)	14th	19th
Exports	USD 0.8 bn to Switzerland	USD 2.4 bn to Australia



Sixth largest country by total area

Australia consists of six states and two territories, with the latter being areas within Australia's borders that are not claimed by any of the six states. With a total area of 7.7 million square kilometers, it is the world's sixth largest country.

Australia's population is mainly concentrated along the coastal region from Melbourne to Brisbane, with a small concentration around Perth, Western Australia. The centre of Australia is sparsely populated.

Australia has not had a recession in 26 years, and emerged from the Global Financial Crisis (GFC) relatively unscathed. The country managed to reduce its dependency on mining, resources and manufacturing, driven by a transition to a more services-oriented economy.

M&A environment in a nutshell

Deal volume has increased at a CAGR of 6.5% between FY12 to FY17, reflecting attractive fundamentals such as the availability of cheap debt, close proximity to Asia and the relatively weak AUD.

Going forward, certain hot topics such as privatisation of government assets, an ageing population (making health and elderly care an attractive industry) and the availability of incentives to promote inbound investment will drive M&A activity.

Unique commercial, tax and accounting regulations exist and need to be considered.

Significant inbound investments require approval from a government body to ensure their alignment with "national interests".

(*) FY = Financial Year, Australia's financial year ends 30 June

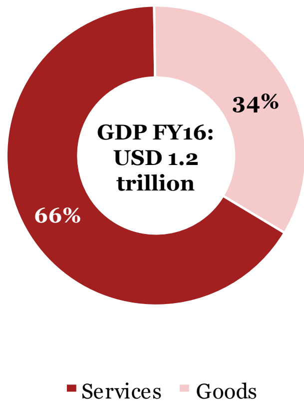
Sources: Australian Government, Australian Bureau of Statistics, Worldbank, Trademap

Australia has transitioned to a service-oriented economy

Industry breakdown (FY16*)

Top industries
(in % of GDP)

1	Finance and insurance	9.4%
2	Construction	8.7%
3	Mining	7.4%
4	Healthcare and social assistance	7.3%



Top growth industries
(CAGR FY13-FY16)

7.9%	Mining	1
7.0%	Rental, hiring and real estate services	2
5.3%	Information, media and telecommunications	3
4.8%	Healthcare and social assistance	4

Source: Australian Bureau of Statistics

(*) Australia's financial year ends 30 June

Being historically dependent on mining and manufacturing, Australia is now a diversified services provider with strong links to Asian and US markets.

Services industry accounts for two thirds of Australia's GDP

Finance and insurance is Australia's largest industry sector and emerged from the GFC relatively unscathed compared to other mature economies.

Australia's banking sector, dominated by four big banks, is highly consolidated and regulated.

Mining still amongst top 3 industries

Despite Australia's reduced dependence on natural resources, the mining sector is still important and relies heavily on demand from Asia, particularly China.

An abundance of natural resources helped Australia to become a global supplier of mining products, and drove the economy's success in the past two decades.

Post GFC, demand for iron ore and coal dropped with a direct, adverse impact on the sector.

There has been a recovery in recent years following increased demand from China. It remains to be seen how Australia will manage the effects of reduced growth rates of the Chinese economy.

Shifts within other industries

Housing demand continues to be strong in both the residential and commercial real estate segments.

House prices have increased fivefold over the past twenty years, raising concerns over a potential housing bubble.

Manufacturing, a historically significant industry in Australia, has declined in recent years. Of particular significance is the planned closure of the remaining automobile manufacturing plants in Australia.

Healthcare and social assistance on the rise

An ageing population has increased demand for elderly care facilities, fuelled investment and M&A activity in the sector.

In 2016, 15% of Australia's population (circa 3.7m) were aged 65 and over, with the Australian Bureau of Statistics forecasting that almost 20% of the population (circa 5.8m) will be in the respective category by 2031.

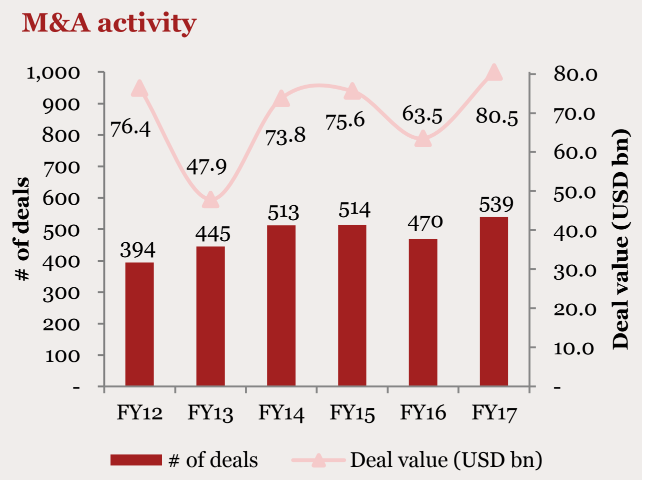
There has been significant focus on constructing elderly care facilities to accommodate increased demand from this "ageing population". This sector has also attracted private investment.

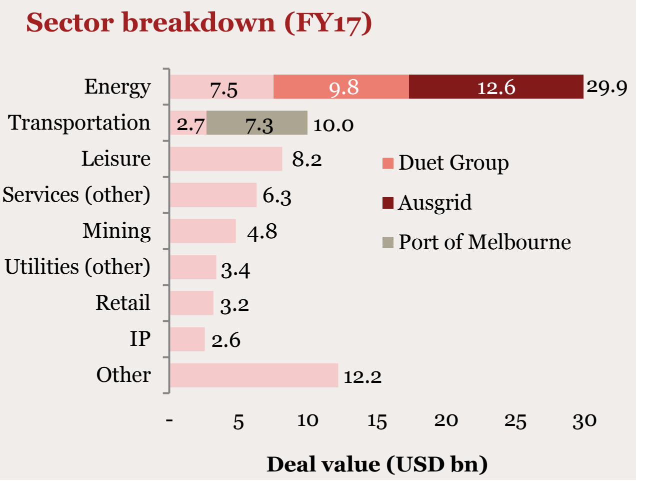
Education sector driven by demand from Asia

International education is the country's largest service export and the third-largest export overall (behind iron ore and coal).

Close to 30% of education exports are attributable to Chinese students. Demand from Asia (incl. India) is expected to drive growth in this sector, supported by the continued weakness of the AUD.

Steady growth in M&A activity





Source: MergerMarket

Steady growth in M&A deal flow

There has been steady growth in the Australian M&A market in recent years, supported by a stable economy, strong interest from Asian investors and widespread optimism among market participants and investors.

The largest contributors to M&A deal activity are the energy, transportation, leisure, services, mining and utilities sectors.

Megadeals have driven growth

The megadeals of Duet Group, Ausgrid and Port of Melbourne have significantly increased the total value of transactions in FY17. With further privatisation initiatives in sectors such as infrastructure to come, we expect megadeals to continue to be part of the M&A landscape.

Asian buyers are hungry for more

The Australian economy is closely interlinked with its Asian neighbours. In a nutshell, the focus is on China (as they look for resources, capabilities and IP) and Japan (as they seek growth and technological advancement).

Positive outlook despite regulatory uncertainty for Asian investors

Large inbound acquisitions are subject to approval by Australia's Foreign Investment Review Board (FIRB). In recent years, there has been increased scrutiny on foreign companies acquiring stakes in Australian companies.

The FIRB's blocking of the NSW Ausgrid and Kidman cattle station deals may be a sign of things to come. China, the largest inbound investor into Australia, has also been subject to its own restrictions, with its government looking to restrict outbound fund flows from the country.

Assuming no further restrictions are placed on inbound acquirers, we believe banking, consumer & retail and healthcare to be the most promising sectors. Key drivers of M&A activity will include low interest rates, corporates divesting non-core assets, and the privatisation of government assets.

From a Swiss investor's perspective

Switzerland-based corporates have been investing in Australian companies for decades. The majority of acquisitions in recent years have been related to the resources sector and acquisitive companies such as Glencore and Trafigura. Other prominent Switzerland-based corporate buyers include Kühne + Nagel, Gategroup, Sika and Zurich Insurance Group.

The acquisition of the Guardian Early Learning Group by Partners Group in 2016 shows that financial investors also have their eye on the Australian market.

Investment hot topics

Privatisation and government investments

The Australian Government is planning the long-term lease or sale of a number of quality assets over the next two to three years (mainly ports) as a means to fund major economic and social infrastructure projects (e.g. the reconstruction of the transport network in New South Wales for A$ 20 billion).

Government incentives

Switzerland has been identified by the Australian government as a strategic priority country under its National Innovation and Science Agenda. As such, new government funds have become available for collaboration initiatives with Switzerland such as the Global Connections Fund, which supports SME research between Switzerland and Australia.

The Australian Trade Commission (Austrade), with offices in Zurich and Frankfurt, is the primary government body established to promote and encourage foreign investment in Australia. In relation to international buyers and investors, Austrade can provide assistance throughout the investment process and in establishing operations in Australia.

Capital markets

The Australian Securities Exchange is among the 15 largest listed exchanges in the world and Australia consistently ranks among the top countries in the world by number of IPOs per annum.

Access to Asian market

Offshore investors consider the Australian market an attractive proxy for exposure to rapid growth and expansion into Asia in general and to China and Japan in particular. Key will also be how China manages its slowing growth and transitions into a mature economy, given Australia's current reliance on the Chinese economy.

Pension system

With A$ 2 trillion of assets, the Australian superannuation system is the fourth largest in the world and is expected to grow to A$ 9.5 trillion by 2035, which will be a major driver for investing activities.

Ageing population

Australia has an ageing population that is a key driver of demand for healthcare and pharmaceutical products. This should lead to greater investment and opportunistic M&A, particularly in life sciences, biotech and pharmaceutical companies.

What’s the deal in Australia?

Regulation

The government can block certain significant proposals that are deemed not to be in line with national interests.

The Foreign Investment Review Board (FIRB) is a non-statutory body that assesses proposed inbound investments. The FIRB makes recommendations to the Treasurer on whether proposals are suitable for approval under the Government’s Foreign Investment Policy, and whether they are in compliance with the Foreign Acquisitions and Takeovers Act 1975 (Cth) (FATA).

Taxation

Australia’s taxation system is complex and we recommend undertaking a detailed assessment of potential tax risks and exposure prior to any investment. Some considerations are as follows:

- Tax losses of target companies can only be carried forward if they pass the Same Business Test (SBT) or Continuity of Ownership Test (COT).
- Fully franked dividends (i.e. dividends paid out of profits subject to Australian corporate tax) paid by an Australian subsidiary to its foreign parent do not attract dividend withholding tax.
- A Swiss-Australian tax treaty exists for the avoidance of double taxation.

Visa

Australia has a successful track record of attracting skilled labor. The migration programme targets specific professions which are maintained as part of the Skilled Occupation List (SOL).

Companies typically sponsor individuals on a Subclass 457 Temporary Work (Skilled) visa. Individuals sponsored on these visas are able to work in a specified position within the company or associated company as defined under the Corporations Act.

Accounting standards

The Australian Accounting Standards (AAC) are almost identical to IFRS. Contrary to Switzerland and other parts of the EU, the majority of Australian companies use 30 June as their financial and tax year-end. However, the fiscal year end can be aligned to a Swiss parent company by notifying the Australian Securities and Investments Commission (ASIC).

Locked box and W&I insurance

Locked box mechanisms and warranty & indemnity insurance have gained traction in Australia over the recent years as domestic deal parties and advisors are becoming more comfortable with these concepts, closing the gap to major international M&A markets in Europe and the US. Traditionally being concepts for PE exits, they have now also become a common feature in corporate transactions.

Contacts and credentials

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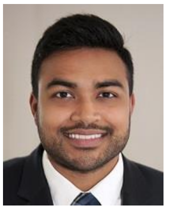

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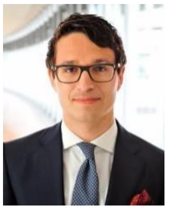
Marc spent three years at PwC Australia, where he was mainly involved in financial services, technology and healthcare deals.



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Pablo spent two years at PwC Australia where he was involved in a number of cross-border M&A transactions.

Selected Australian deals with involvement from PwC Switzerland team members

Rubik was sold to TEMENOS

Buyer advised by pwc

In 2017, PwC advised Temenos on the acquisition of Rubik Financial, an Australian-based financial software provider.

MACQUARIE sold its life insurance business to ZURICH

Seller advised by pwc

Marc Huber advised Macquarie on the sale of its Australian life insurance business to Zurich Financial Services Australia in 2016.

AUSFUEL was sold to PUMA ENERGY

Seller advised by pwc

Roshan Emmanuel advised Archer Capital on the sale of the Australian fuel retailer and distributor (Ausfuel) to Puma Energy International in 2013.

Cover-More GROUP LIMITED

Initial Public Offering

Investigating Accountant work by pwc

Marc Huber worked on the IPO of Cover-More, advising the seller Crescent Capital Partners in 2014.

Note that Cover-More was acquired by Zurich Financial Services in 2016.

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