M&A market: Where the fearless dare tread

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Merger and acquisition (M&A) work is not for the faint-hearted. It’s all about chasing one-off deals and getting enough of them on a regular basis to keep you ahead of the game. It’s the ultimate high-stakes, make-or-break strategy.

Most of the money is made through success or completion fees after weeks or months of work while hoping your client’s bid doesn’t go down the tubes at the eleventh hour.

The two latest headlines from the Thomson Financial league tables, the official score-board for M&A, say it all.

At the end of 2003 it was “New Zealand M&A goes sky high. But three months later it read: “New Zealand M&A activity falls significantly.”

Last year’s big deals included the sale of the National Bank, Central North Island Forests Partnership, Carter Holt’s tissue business and Whitcoulls’ parent WH Smith.

Little has so far happened this year but that could easily change, Cameron & Co partner Steve Greenwood says.

Possible deals include an NGC/Powerco merger, PRG’s retail assets, Wrightson, Tenon, some forestry assets and “whatever happens to Contact Energy.”

He also thinks IT could be a sector to watch.

The trends he sees are industry consolidation and companies offloading non-core assets for strategic reasons rather than through financial distress.

The state sector could also be a source of business for investment bankers/corporate financiers – as a buyer rather than as a seller with the Labour government.

For example, last year Meridian Energy bought Southern Hydro in Australia, Genesis bought strategic assets such as some of NGC’s retail customers and NZ Post is talking about a joint venture courier deal.

While Thomson Financial’s figures show M&A activity going from boom last year to a slump, they don’t tell the whole story. Not all deals are included. And, it depends which figures you look at.

Thomson compiles several sets of figures. They include announced deals and completed deals, first for “any New Zealand involvement,” then for “New Zealand target, any acquirer nation.”

Then it has separate sub-totals for deals with and without a financial adviser.

The real action is for those deals with advisers.

For calendar year 2003, for “any NZ involvement” 282 deals worth a combined $US8,550.1 billion were announced, of which 76 worth $US7,666.0 billion had financial advisers. For “deals completed” it was 225 deals worth $US7,656.6 billion of which 82 worth $US7,139.0 billion had financial advisers.

In all, according to Thomson Financial, the total value of completed M&A deals involving NZ companies in 2003 was more than double (104.98%) the total for 2002.

However, this year got off to a slower start.

At $US392.5 million, announced deals for the first quarter were 51.64% down on the 2003 first quarter result of $US811.7 million while for completed deals the quarter’s $US99.6 million total was 87.19% down on the March 2003 quarter’s $US777.7 million.

The top players also differ.

Last year, Deutsche Bank was first and Morgan Stanley second for all four of Thomson’s tables.

For the third and fourth places, ABN AMRO scored three third places and a fourth, Goldman Sachs, scored one third and two fourths, while Cameron & Co scored one-fourth.

For the large institutional firms, top rankings matter. For smaller players, they are less relevant.

Dave Belcher, co-principal of Clavell Capital, says he doesn’t file his figures with Thomson Financial as people often read too much into the tables. He takes the view he’s better off staying out of them.

Take last year. His firm completed four M&A deals worth around $150 million, making it his second or third-ever best year. That would have given him a ninth for “deals completed – any NZ involvement.”

He was surprised to find Clavell Capital was ranked 15th equal with one deal worth $13.5 million announced during the year. He reckons, one of the other parties to one of his deals included his name when they filed their own figures.

As he sees it, if he choose to participate in the league tables, his firm’s ranking would fluctuate annually because M&As are only part of the work it does.

“The market would read that as ‘What’s gone wrong at Clavell Capital?’,” he says.

Take 1998. That year he brokered his largest-ever takeover deal, the $300 million sale of Sovereign Assurance to Commonwealth group.

It probably would have given him a top five ranking but the following year he would have lost rank despite it being another busy year for his firm.

He adds this year he had two sizeable deals settle in April, so he would have missed out on the first quarter rankings despite being active over the period.

“There are a lot of good businesses out there where the owners want to take some money out. And there’s a lot of capital trying to find a home outside the bank. People are scanning the market and finding the same opportunities,” he says.
But that won’t always show up in the Thomson tables.
Robert Bogers, head of corporate finance at ABN AMRO, also cautions against following the league tables too closely.
“Whether your horse got across the line can have a huge impact on your ranking. The league tables in any one year aren’t a particularly good indication of your commitment to the market,” he says.
While his firm had one of the top rankings last year, it could have been higher.
ABN AMRO acted for Westpac, one of the bidders for last year’s top prize, the National Bank. However, Westpac dropped out of contention two weeks before the final sale.
But that disappointment aside, he is also bullish.
“We’ve got players in New Zealand with very strong balance sheets and very positive earnings growth. Overall, the picture is one of pretty strong corporate health.”
He’s not surprised buyers are circling. It’s just a question of when they bite and then how long deals take to go through.
Greenwood suggests when the market picks up, the impetus is likely to come from offshore, possibly from US pension funds.
Mark Averill, corporate finance partner at PricewaterhouseCoopers, agrees. He says in recent years the buying pressure has been coming more from finance buyers rather than trade investors, that is, professional investors rather than trade competitors.
“Three or four years ago, when we were advising on a sale, it wasn’t uncommon to have three or four trade buyers doing the due diligence contemporaneously. Now it’s more likely to be one trade buyer and three finance buyers,” he says.
That can mean a more hands-on role for advisers managing the due diligence process.
Bancorp also reports increased institutional interest in M&A. Picking the market levels to stay buoyant, it launched New Zealand’s first M&A arbitrage hedge fund in February to invest in announced Australasian M&A activity. However, the fund won’t invest in deals Bancorp is advising on.
Its strategy is to short bidders and go long on targets. When it can’t find suitable investments, it will stay cashed up.
The issue sought to raise up to $30 million from a combination of retail and institutional investors but fell short of $20 million.
Bancorp consequently restructured it as a wholesale fund but may restructure it in 18 months’ and re-try the retail market.
Bancorp managing director Craig Brownie won’t say what the fund is currently invested in, adding the list of potential investments should be self-evident to an informed market watcher.
He also wants to be careful not to be seen talking his book.
“A lot of the buying [in takeover targets] is through nominees. So it could be a company like us, a white knight building a stake or a greenmailer,” he says.
Knowing which of those parties are investing in which companies could influence share prices, he says.
The current high level of partial, and frequently hostile, takeover activity suits his fund.
Minter Ellison Corporate Commercial team partner Joe Windmeyer says partial bids are a recent phenomenon here. The main reasons they occur are probably cost and convenience.
One of the first was GPG’s partial bid for Rubicon. It was disallowed by the Takeovers Panel because it was incorrectly structured. Since then, partial bids include Rubicon’s bid for Tenon, PRI for Wrightson, H&G’s for Rural Equities and St Laurence making first a full bid for Rural Equities, then a partial bid and then withdrawing both.
“If you’re not going for 100% [ownership of a company] is there a lot of benefit in going for more than 50.1%?” he asks. On the negative side, he says, you usually don’t get the chance to do due diligence with a partial bid.
While a partial bid can make good commercial sense, he says such bids are being made because of the Takeovers Code. That said, he adds the Code “doesn’t seem to be perfect for partial bids” but it certainly allows them.
Bogers adds the Code and Takeovers Panel are doing a good job. Given that the Code became operative in July 2001, he says it’s still “very much an interim phase” and he’ll watch with interest to see how the takeovers market settles.
He says the Code’s and Panel’s existence facilitate takeover, including partial takeover, activity. They’ve also made takeovers more transparent.
“There is now far more by way of public scrutiny of the change of control of a company. The degree of media comment around takeovers is akin to IPOs.
“It [the Takeovers Panel’s high workload] reflects the fact that the Panel is a relatively accessible body and is pretty activist. Costly and time-consuming appeals to the courts aren’t a major focus.”
Takeovers Panel chairman John King also notes the high level of partial takeovers.

As he sees it, the Code's, and his, job is to enable business and ensure fair play to "get the issues sorted and let the market activity proceed.
"Whilst we have an enforcement role, more importantly, we are here to be seen as a facilitator so that the Takeovers Code operates smoothly.
"The Code has provided a structure within which we can see takeover activity being carried on in an orderly fashion," he says, adding that the general level of compliance with the Code has been "pretty good". Where there has been non-compliance he says it's usually "a genuine mistake or oversight."
While he says it is still early days, he is comfortable with how the Code is operating, although the Panel has recommended a number of technical amendments.
One feature of the Code he considers noteworthy is where an independent appraisal report is required on the merits to shareholders of a takeover. He thinks it has lifted the standard of work advisers must do, resulting in a better-informed market.
"Our market was not used to the concept of 'merits.' It was used to valuation-based reports," he says.
"An independent adviser needs to comment on the wider impact and not just look at valuation. It took some time to adjust. What's happened is that independent advisers and the quality of their reports in dealing with the wider issue of merits are improving."
He adds the market for independent advisers is thin as accountants are often conflicted.
"As a panel, we're trying to encourage people to move into that market. You do want contestability," he says.
The increase in aggressive or hostile takeovers activity is also seen as a sign of the increasing "americanisation" of our market.
Brownie says market behaviour tends to be cyclical. "You can chart these things."
He reckons market activity became more aggressive around 1997-98, and then started to fall off in 2000 before picking up again last year.
Belcher agrees, saying it's a global phenomenon making cross-border deals easier for local players.
While allowances must be made for local regulations, doing an M&A deal in New Zealand is scarcely different from doing one in Australia or the US, he says. He adds around 40% of his business is done in Australia.
"We can service Brisbane, Sydney and Melbourne as well as the Aussies can."
Rather than Kiwis being amateurs on the global scene, he thinks the M&A environment here is better than offshore. The reason? Less litigation.
"A lot of commercial disputes are now settled by arbitration. It's quick and it's done behind closed doors," he says.
In contrast, if you end up in court, it takes longer, costs more and there's too much grand-standing for the press.