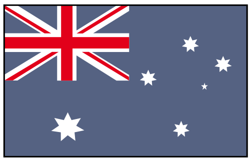
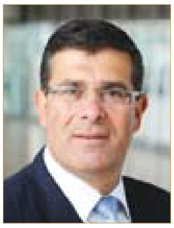


Australasia
Australia

The return of consumer confidence has led to increased M&A volumes and the re-opening of the IPO market. This upswing is expected to continue in 2010.



Tom Fenton
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Current Environment

In the second half of 2009, the Australian economy has shown several encouraging signs that it has weathered the worst of the global financial crisis. Several key economic indicators announced over the past six months exceeded market expectations, suggesting that the economy is now well into a recovery phase, driven in part by the government's stimulus packages implemented in the past six months.

At the forefront of this positive information was the release of the National Accounts in September, which indicated 0.6% GDP growth in the second quarter of 2009. This was greater than the figures posted by all other developed nations' economies with the exception of Japan. This growth was largely driven by household consumption and new machinery and equipment, offset by contractions in new building construction and imports. The economy continued to expand in the third quarter of the year, with GDP growth of 0.2%. Whilst the headline rate of growth was below that of the previous quarter, this was largely due to the drop off of the effects of the government's stimulus packages implemented in the first half of the year while the National Accounts still show a healthy set of numbers which would indicate a positive outlook for 2010.

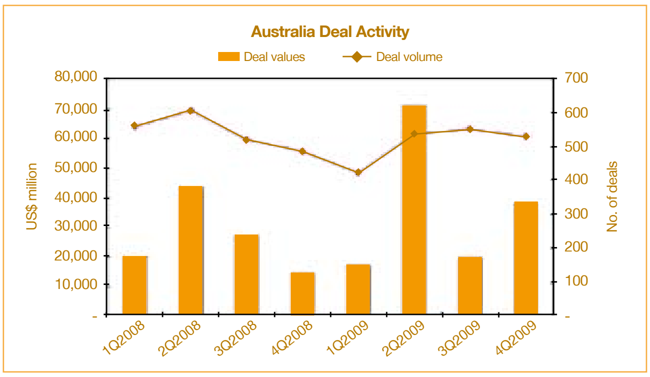
Unemployment remained at 5.75% at the end of December 2009. Many businesses still appear to recall the tight labour market conditions and skill shortage faced during the last economic growth period. As such, several businesses looked to increase part-time and flexible working arrangements in order to reduce costs in the short term while keeping their workforce intact, and considered this a more attractive alternative to making redundancies. However, continued growth in the population and participation levels is likely to result in some level of growth in the unemployment rate in 2010.

The underlying Consumer Price Index rose 1% in the third quarter to an annual rate of 3%, which was above most market forecasts. The most significant price rises came from electricity (11.4%), petrol (4%), and house purchases (1.1%).

As a result of the positive GDP growth and employment indicators noted above, combined with strong retail sales data and a continued rise in inflation, interest rates have now begun to rise. The Reserve Bank of Australia (RBA) decided to implement three consecutive monthly rate increases from October, with the base rate ending 2009 at 3.75%. In the early months of the second half of the year, the RBA made it clear that the previous 3% rate was considered an emergency rate that would not be sustained going forward, and further increases are expected in early 2010.

The Australian dollar has performed spectacularly in the last six months against most major currencies. In the second half of 2009, the Australian dollar was mostly trading in the 90 to 95 cents range against the US dollar, and was even stronger than the first half of the year at 80 to 85 cents. This performance is attributed to global confidence in the Australian economy stemming from the economic indicators noted above, Australia's relationship with China, and the carried trade in the Australian dollar as a high yield currency relative to other major currencies. In addition to these factors, unfavorable data coming from the US economy over the last six months have also strengthened the Australian dollar's position.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

Deal volumes increased from 961 deals in the first half of 2009 to 1,084 deals in the second half. Total deal value dropped from US$88.1 billion to US$57.6 billion over the

same period, although the figure from the first half of 2009 is somewhat inflated by the US$58 billion joint venture between BHP Billiton and Rio Tinto which was announced in May 2009. The two mining giants looked to merge their iron ore operations in Western Australia. Binding agreements for the joint venture were signed on 5 December 2009, and submissions to the European and Australian Competition commissions are currently under review. Both parties expect the completion of the joint venture in the second half of 2010.

The key feature of the transactions landscape in Australia for the past six months has been the reopening of the IPO market, following a break of around 18 months during the global financial crisis. Key listings on the ASX during the second half of 2009 are:

- Online automotive sales business carsales.com.au listed in September in an IPO valued at US$148 million;
- Department store giant Myer followed suit in November in an IPO valuing the business at US$2 billion, with private equity group TPG exiting the investment they made in March 2006;
- Outdoor supplies retailer Kathmandhu was dual listed on both the Australian and New Zealand stock exchanges in November, valuing the business at US$300m after three years of private equity ownership;
- Property group Investa also looked to raise US$900 million, however, the float of their office trust was subsequently aborted due to expectation gaps in the valuations between investors and Investa's advisors. Despite this setback, there are several other IPOs in the pipeline for 2010;
- In addition to IPOs, a number of companies undertook capital raisings during the second half of 2009 including SIMS Metal, Macquarie Media Group, GrainCorp Ltd. and Sigma Pharmaceuticals.

Other key Australian M&A transactions during the second half of 2009 included:

- AMP Limited and the National Australia Bank (NAB) battled for control of the Australian and New Zealand businesses of AXA Asia Pacific (AXA AP), with the remainder of the Asia Pacific business to be bought by AXA AP's 51% shareholder, AXA SA. Although the board of AXA AP has recommended NAB's offer of US$5.5 billion to shareholders, the deal is yet to be concluded and AMP is thought to be considering a revised offer;
- Yanzhou Coal Mining Co. Ltd., a 53%-owned unit of Chinese state-owned Yan Kuang Group Co. Ltd., acquired the entire share capital of Felix Resources Ltd., a Queensland-based coal, gold and silver mining company, for US$2.8 billion in the biggest investment by a Chinese company in Australian assets since Chinalco's failed attempt to take over Rio Tinto earlier in the year;
- Macarthur Coal Ltd. (Macarthur) planned to launch a tender offer to acquire the entire share capital of Gloucester Coal Ltd. (Gloucester), a New South Wales-based coal mining company, from Noble Group Ltd. (a 87.7% shareholder) and other undisclosed sellers, for US$588 million;
- An investor group comprising the Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan of Canada launched an unsolicited tender offer to acquire the remaining 74.5% interest which they did not already own, in Transurban Group, a Melbourne-based owner and operator of toll roads, for a total value of US$4.6 billion. Price negotiations are ongoing at the time of writing;
- Private equity group Pacific Equity Partners launched a tender offer (which subsequently became unconditional and subject to a 50% minimum acceptance condition which was recently reached) to acquire the entire share capital of Energy Developments Limited, a Brisbane-based owner and operator of power assets in a deal valuing the company at US$396 million;
- The receivers of ABC Learning Limited, the failed Brisbane-based provider of childcare and education services, agreed to sell the remaining profitable centres to the not-for-profit Goodstart syndicate for US$141 million;
- Australia & New Zealand Banking Group Ltd. (ANZ) acquired the remaining 51% of its wealth management and life insurance joint venture in Australia and New Zealand from its partner ING Groep NV. The transaction had a value of US$1.5 billion;
- In line with its previously announced strategy to become a leading super regional bank by 2012, ANZ also announced an agreement with the Royal Bank of Scotland (RBS) to acquire selected RBS businesses in Asia for around US$550 million. These businesses included RBS' retail, wealth management and commercial operations in Singapore, Taiwan, Indonesia and Hong Kong;

- As a result of a prolonged period of financial stress, the Canadian media conglomerate Canwest Global Communications Corp. was forced by its lenders to dispose of its majority stake in the Australian media group Ten Network Holdings Limited by the means of a block trade for approximately US$630 million, using Macquarie Capital Advisors Limited as brokers, with the majority of shares acquired by institutional investors.

Outlook

From an economic perspective, the Australian economy's comparatively strong performance over the past six months gives rise to the distinct possibility of further interest rate rises in the coming year, as the RBA looks to adopt a more aggressive monetary policy following the "emergency" settings of the past 18 months. The prospect of further rate rises is not expected to harm the strength of the Australian dollar, although the announcement of positive data from the US economy at the end of the second half of 2009 suggests the performance against the US dollar may not exceed the heights reached in the last six months.

In terms of transactions, we believe the following areas will provide significant activity in the coming months:

IPOs

With the IPO window once again open, there has been much speculation that a number of companies will look to follow the lead of Myer and Kathmandhu. In particular, Queensland Rail's freight assets, Ascendia Retail (operator of the Rebel Sports chain), the Australian arm of the German construction group Bilfinger Berger, and pallet manufacturer Loscam are all expected to seek listings on the ASX in the first half of 2010. As is the case with Ascendia and Loscam, a number of IPOs in 2010 are likely to be driven by private equity funds looking to exit portfolio company investments made prior to the global financial crisis.

Resources and Mining

With demand for Australia's resources from China and other Asian economies once again increasing, and the recommencement of several capital projects previously postponed in the wake of the global financial crisis, the resources and mining sector is likely to prosper. In addition to the core mining companies, the growth in demand for resources is also likely to benefit those companies on the periphery of the mining industry including asset hire, logistics, engineering, consultancy and equipment providers, and as a result may make them attractive takeover targets in the coming months.

Financial Services

Although the financial services sector in Australia has undergone a significant period of consolidation over the past 18 months, current activity and speculation around both the Big Four banks of Australia, and industries within the sector (such as financial planning, life insurance and funds management) suggests further transactions are likely. In particular, the battle for control of AXA AP is still to be played out, whilst regulatory developments are likely to result in changes to the wealth management landscape.

Infrastructure

The governments of both New South Wales and Queensland are currently going through a privatisation process for several state assets. In particular, the Queensland government has made significant progress in their plans to sell off various assets including Abbot Point Coal Terminal and Queensland Motorways, whilst the Port of Brisbane has already been sold. Further activity in this sector may be generated as the Rudd Government's US$38 billion National Broadband Network project gathers momentum. Renewable energy assets are also believed to be attractive targets as the introduction of formal climate change legislation appears to move closer to reality. In addition, many observers are keen to see the final outcome of the Transurban transaction detailed previously. In 2009, many disposal processes were started, however, in the uncertain economic environment very few resulted in a sale. If the Transurban deal completes, this may signal a return of investor confidence in this sector and prompt further activity. ■