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Where deals are made

The New State of M&A

Australia & New Zealand

Contents

Executive Summary
Spotlight on Australia & New Zealand

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence and asset marketing process in Australia and New Zealand (ANZ)?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 101 ANZ-based M&A practitioners from corporates, private equity firms, investment banks, law and professional services firms, for their views on the subject.

The respondents, who form part of a global survey of 2,235 practitioners, not only provide insight on the current and future state of the dealmaking process, their responses reveal some interesting regional similarities and differences in opinion.

101 ANZ-based M&A practitioners surveyed

Conservative digital maturity and technological sophistication expectations vs APAC peers

While most ANZ practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, notably more of them than their peers across APAC said practices were already at a high level.

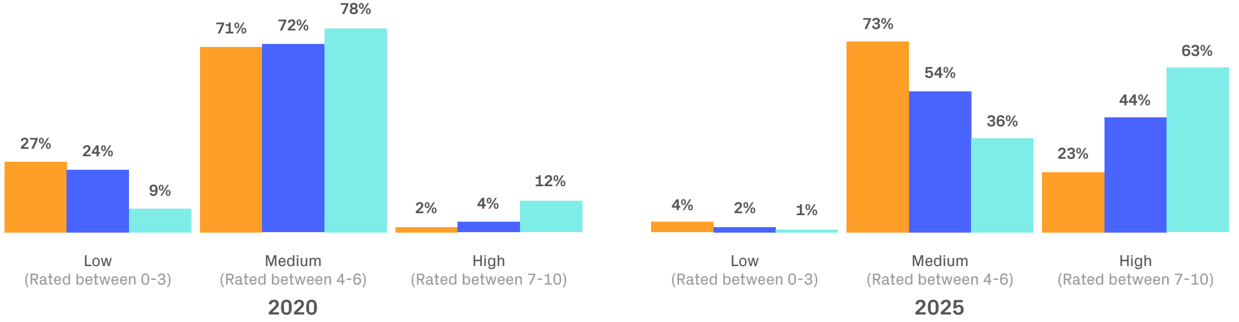
What's particularly interesting is that, in five years' time, most ANZ practitioners (73%) assess that their company is still likely to have a medium level of maturity and sophistication, whereas in most other regions outside of APAC, most practitioners believe a high level will be achieved.

So, within their companies, what's holding digitization back in ANZ?

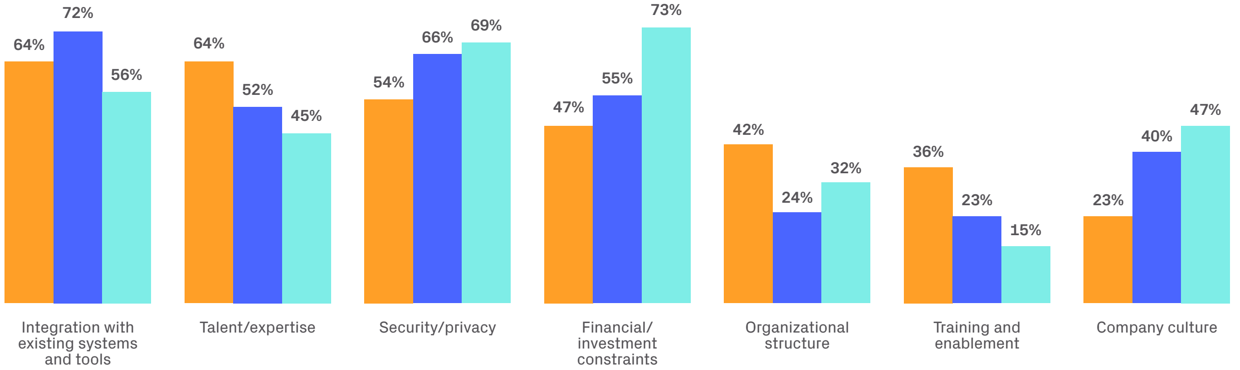
Most ANZ practitioners say that the main barriers to them adopting M&A process related digital technologies are being able to access the best talent and expertise, challenges in integrating new technology with existing systems, and security and privacy concerns.

What level of digital maturity and technological sophistication would you assign to the M&A process at your company?

On a rating between 0 (Low Level) to 10 (High Level)



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?

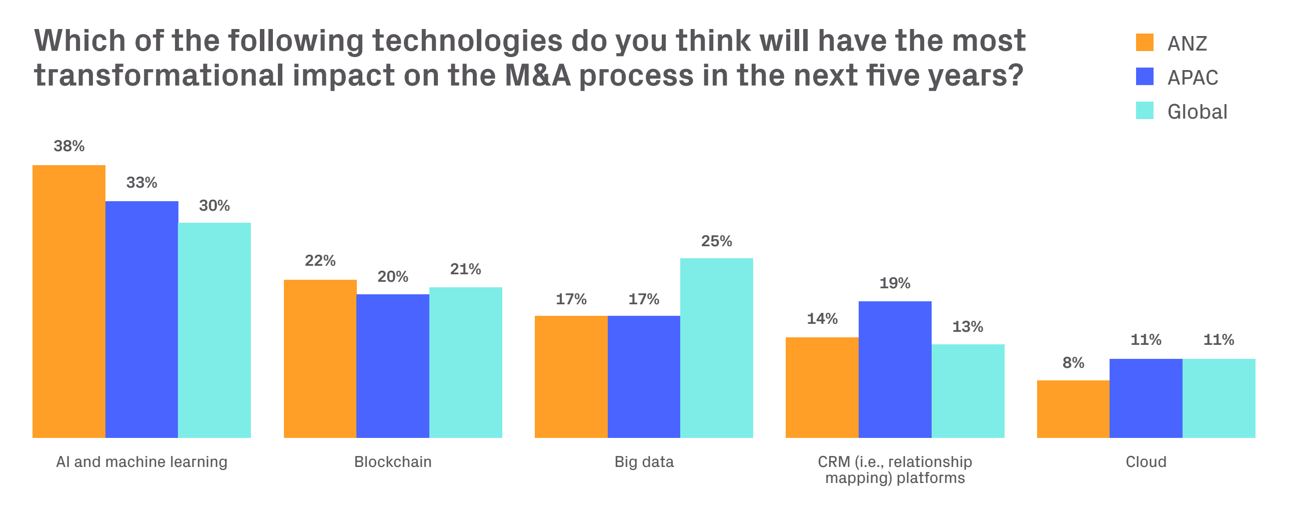


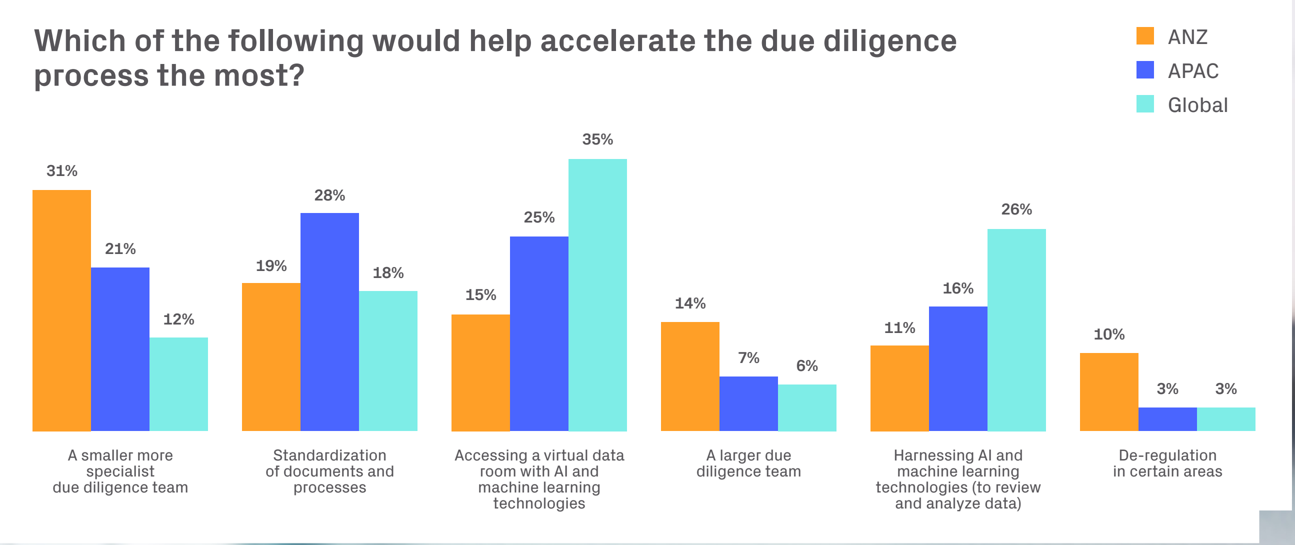
Big data, AI and ML, and blockchain to enhance M&A processes

Advances are, however, being made. And over the next five years, most ANZ practitioners believe that technologies such as big data, AI and machine learning, and blockchain, could potentially have the most transformational impact on the M&A process, and in specific areas of it.

ANZ practitioners, for instance, believe areas such as deal preparation, sourcing, and due diligence – the most time-consuming phase – could be enhanced most by new technologies and digitization.

Indeed, most ANZ practitioners expect technology to enable greater analytical capability, and security, in the diligence process over the next five years. In particular, they believe AI and machine learning technologies, especially as part of virtual data rooms, as well as having a more specialist due diligence team, would help speed-up the due diligence process. They also see technology helping to improve analytics and reporting, data management and communications, and scenario analysis.





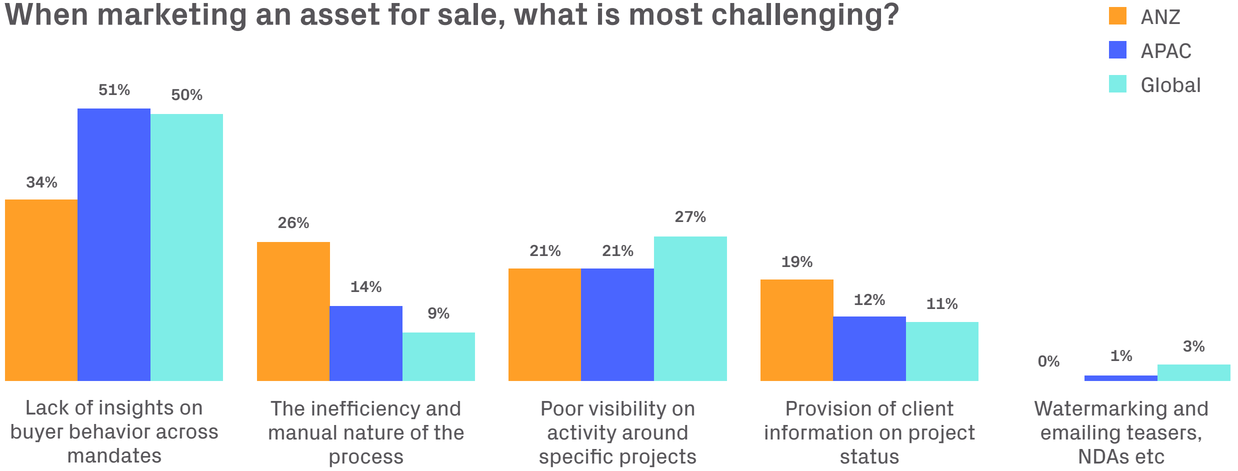
Technological benefits to and advances in other areas of M&A

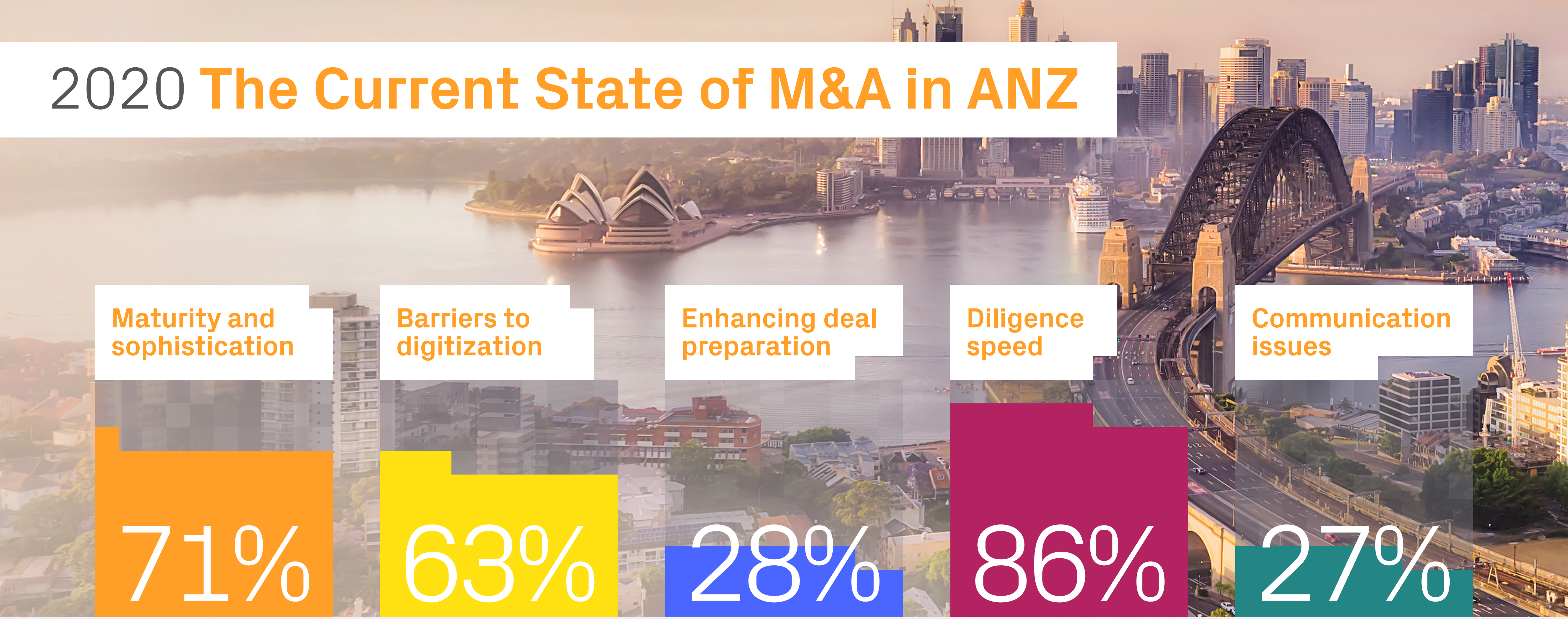
What's more, technology can have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most ANZ practitioners.

Without doubt there has been some significant technological advances across the M&A process in recent years.

Yet, in the next five years, there is an expectation among ANZ practitioners, that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could transform key areas of the process. They may even transform the process entirely.

When marketing an asset for sale, what is most challenging?





2020 The Current State of M&A in ANZ

Maturity and sophistication

71%

of ANZ practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 61% of practitioners assess the same level industry-wide.

Barriers to digitization

63%

of ANZ practitioners say accessing the best talent and expertise, and challenges with integrating new technology with existing systems and tools, are two of the main barriers to their company adopting M&A process related digital technologies.

Enhancing deal preparation

28%

of ANZ practitioners believe that deal preparation is the stage of M&A that could be enhanced most by technology and digitization – the highest response percentage for this across APAC.

Diligence speed

86%

of ANZ practitioners say due diligence takes on average 3-6 months to complete on a successful deal.

Communication issues

27%

of ANZ practitioners say poor communication between parties on a deal is the factor that slows the due diligence process the most.

2025 The Future State of M&A in ANZ

Maturity and sophistication

73%

of ANZ practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process come 2025. By comparison, some 82% of ANZ practitioners assess a high level industry-wide.

Transformational tech

38%

of ANZ practitioners expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years.

Advanced analytics

36%

of ANZ practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Diligence speed

84%

of ANZ practitioners believe due diligence on a successful deal will accelerate to 1 to 3 months in five years' time.

Quality over quantity

31%

of ANZ practitioners believe having a smaller more specialist team, would help accelerate due diligence the most – one of the highest response percentages for this across APAC.

Case Study
Gilbert + Tobin

Data-driven insights to enhance advice and decision-making

Similar to some other markets, M&A activity in Australia has rebounded over the past few months and deal volumes are expected to remain robust throughout much of 2021.

Key factors driving this include expectations for a strong economic recovery, buoyed by Covid-19 vaccination plans, attractively low financing rates and cash-rich companies and private equity firms. It is a resurgent appetite for deals that Neil Pathak, Partner and Co-Head of Gilbert + Tobin's Corporate Advisory Group, says is happening across most sectors, whether in mining and natural resources, in industrials more generally, or, on other side, among technology companies.

"Appetite feels really strong right across the board," says Pathak. He adds that while the pursuit of growth is a primary objective of acquisitions, other important strategic issues such as climate change and digital transformation are also influencing deal activity, particularly divestments.

"Some companies are certainly looking to rollout of 'old world' businesses such as coal that impact the environment. To some extent we see that happening in the infrastructure and telecoms sectors, where businesses are being divested and the proceeds re-invested in new technologies. It feels like we're at an inflection point for this," says Pathak.

Gilbert + Tobin is a leading corporate law firm, providing a full-service legal offering to corporates and governments throughout Australia, and around the world.

Neil Pathak
Partner and Co-Head of Corporate Advisory Group

Costas Condoleon
Partner and Co-Head of Corporate Advisory Group

GILBERT + TOBIN

Digital transformation: Slowly but surely

To be sure, digital transformation is now a boardroom priority for almost all companies across industries, requiring substantial investment. Law firms are no exception, although their need to transform their operations are not as acute as companies in other industries.

In more specific areas, especially advising on M&A, Costas Condoleon, Partner and Co-Head of Gilbert + Tobin's Corporate Advisory Group, says digital transformation has been happening, but that "the pace of change has not been as quick as what we would have expected, especially around AI".

He explains that while AI is being applied to various repetitive tasks or processes, such as reviewing information and searching contracts for keywords or clauses, the technology is not yet helping lawyers in a more valuable way.

"AI can help us find where the change of control or termination clause is," says Condoleon. "But it won't actually tell us whether it has been triggered or in the context of the transaction, whether it's relevant. We still need the lawyers to do that."

Technology to bring more disruption in the future

Lawyers are still heavily involved in the advisory process, and that is unlikely to change. Yet Condoleon does believe some areas of the M&A process, such as due diligence, are going to be more disrupted by technology in the future.

For its part, Gilbert + Tobin already uses a proprietary digital platform or tool called 'DDI' that assists their lawyers on various aspects of due diligence, from project management to deal data collation and analysis, which Condoleon says is probably the most valuable capability.

"It has enabled us to create a database of all the deals that we have worked on over a number of years, which is powerful because it means we can look at, say, the last 20 deals we've done, and analyze their characteristics and the issues that arose in each and all of the transactions," he says.

"That's probably where the real value and advantage is in technology, around collating and analyzing data and being able to use insights from the analysis to inform the advice we provide."

Pathak agrees, adding that this can support clients in their decision making and ultimately in making the right call. It is this human judgement, however, that he says will be hard for AI or any other technology to replicate at least for some years to come.

"And that's probably a good thing to keep us all employed," he quips.

Case Study
Pencarrow

Small steps towards a more technological future

The need to invest in and use advanced technology in the investment or M&A process is not unilateral. Some large, global private equity firms, for instance, are likely spending substantial sums in this area to enhance efficiencies and give them a competitive advantage over their rivals.

For many smaller, local-market-focused private equity firms, the need is unlikely to be as great. They are also unlikely to have the technology investment budget of their larger peers.

This is the case for Pencarrow, New Zealand's oldest private equity firm. While a sophisticated investor, using sophisticated investment processes and technologies such as virtual data rooms, the firm would be the first to admit that it's not pushing technological boundaries.

But then, it doesn't have to in order to succeed.

This is partly due to the small size of the firm, says Nigel Bingham, Managing Partner of Wellington-based Pencarrow. It is also because there isn't such a great need for technology to help them in certain key areas, such as sourcing or identifying potential investments.

Pencarrow is one of the most experienced private equity managers in New Zealand. Since its founding, the firm has invested over NZ$500 million of equity capital in mid-sized New Zealand businesses.

Nigel Bingham
Managing Partner

PENCARROW
PRIVATE EQUITY

Personal connections still outweigh need for digital networking

New Zealand is a "small and well-networked country, which means deals tend to be sourced through personal connections," says Bingham.

He explains that Pencarrow's sweet spot for investments are small to medium sized companies with an enterprise value of between NZ$20 million (US$14.5 million) and NZ$100 million (US$72.3 million). As such, he reckons the investment universe Pencarrow targets probably composes around 5,000 companies in the country, which while quite large, is small enough for the firm to leverage their connections.

In addition to this, "we'll identify interesting sectors to invest in through good old desktop research among our team," says Bingham.

He adds that they are supported in the investment process by a software platform called Dynamo Software, which, among other capabilities, enables them to log and track potential deals, helping give them better visibility on the opportunities they are pursuing.

"We might have done that sort of tracking on spreadsheets in the past, so this is a small advancement, making us a little more sophisticated," says Bingham. "We're just not yet at the level of using AI or advanced analytics."

Pragmatic approach to adopting new technologies

He does, however, see the potential for these technologies to be used in due diligence, albeit used at this time by their financial or legal advisors instead of the firm.

Pencarrow runs its own commercial due diligence on deals, bringing in advisors once their conviction is solid. From beginning to end, Bingham says the diligence process takes about six weeks on average, adding they will always take the time they need to ensure the deal is the right for the firm.

Looking to the future, Bingham does believe Pencarrow will, in time, invest in and use more advanced technologies in their investment process, some perhaps similar to those used at large, global private equity firms. Part of the reason for this is because techniques and experiences led and developed at the upper end of the scale tend to get transferred down to the smaller end over time.

"So, for instance, we adopted and adjusted the operating partner model Blackstone and KKR developed some time ago. I suspect we'll take a similar approach to technology, where we will see what works for them, bring it in and adjust it for us," says Bingham.

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Negotiation

Closing

PMI

Value capture

The M&A Lifecycle

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Research Methodology
Australia and New Zealand

The analysis in this report is based on the survey responses from 101 Australia and New Zealand based M&A practitioners.

These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were evenly split between companies and private equity firms (45%), representing acquirers; and investment banks, professional services and law firms (55%), representing M&A advisors.

By seniority, board and executive management level executives comprised 33% of respondents, with managing partner, managing director and partner level executives comprising 23%.

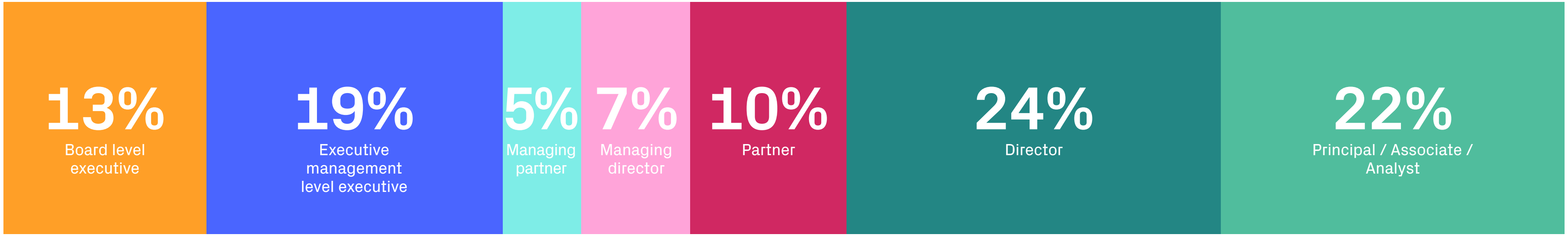
Director, principal, associate level executives comprised 44%.

The global survey was conducted by Euromoney Thought Leadership Consulting between February and April, 2020.

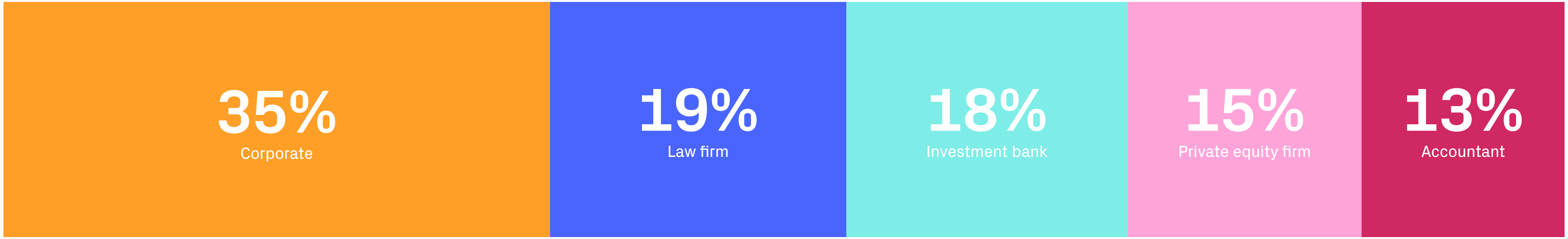
Research Demographics
Australia and New Zealand

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



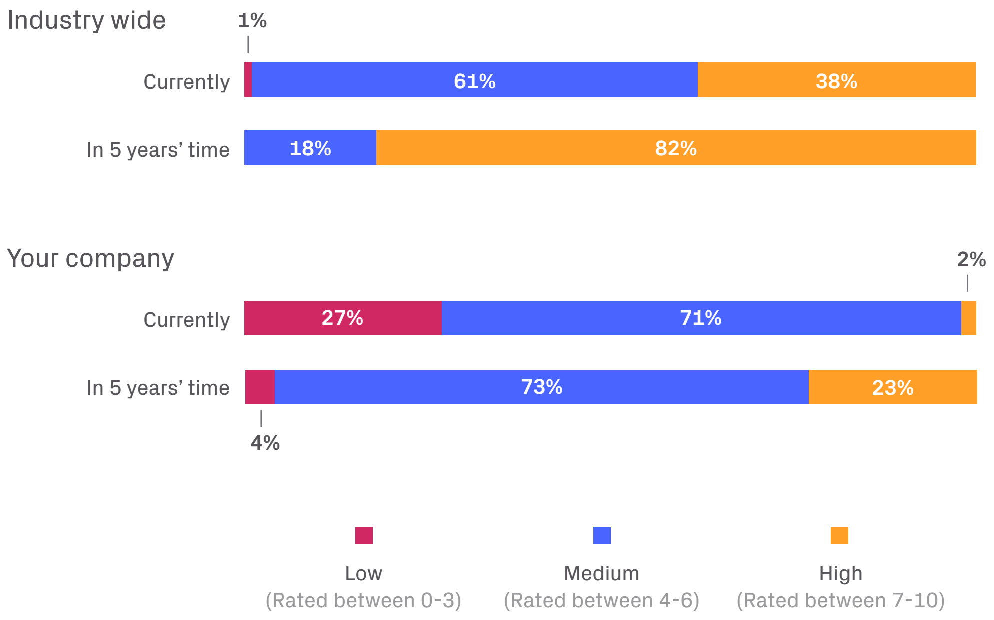
Company type



Digitization
Australia and New Zealand

What level of digital maturity and technological sophistication would you assign to the M&A process?

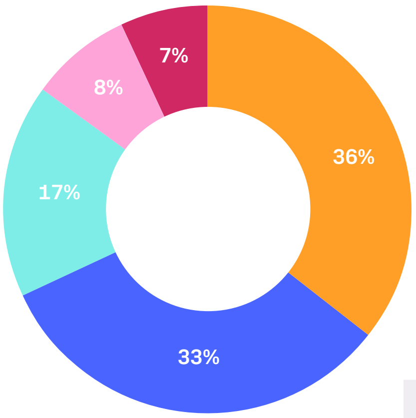
On a rating between 0 (Low Level) to 10 (High Level)



Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

28% Deal preparation
26% Sourcing
13% Due diligence
11% Strategy
8% Closing
4% Exit
4% Negotiation
4% Post-merger integration
3% Asset marketing

In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

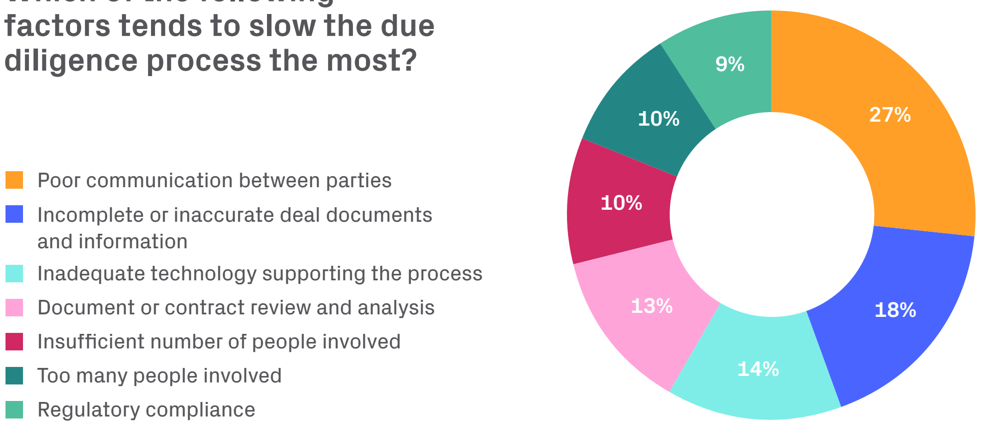


New technologies should...

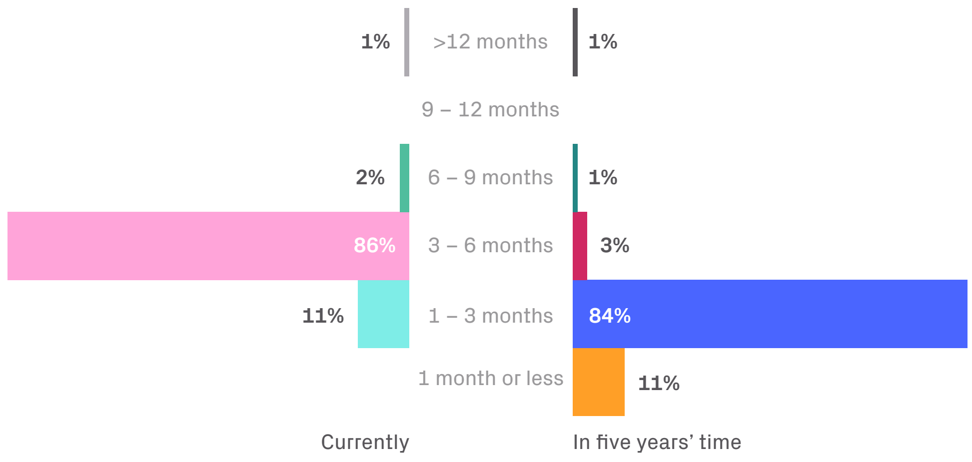
- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Reduce the total deal (resources and time) cost
- Make it faster to close deals

Due Diligence Process
Australia and New Zealand

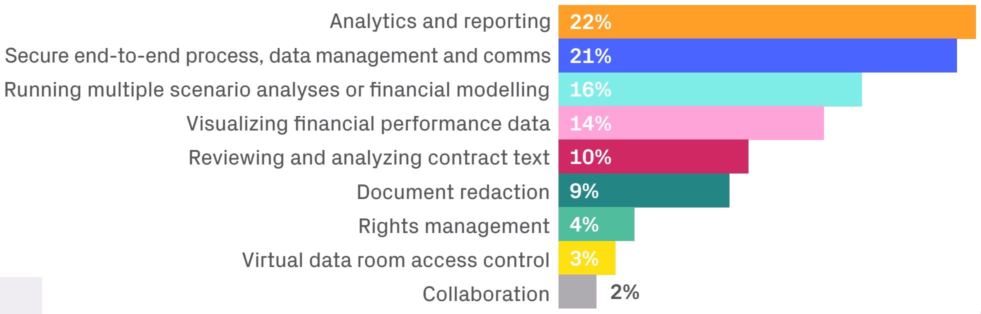
Which of the following factors tends to slow the due diligence process the most?



From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

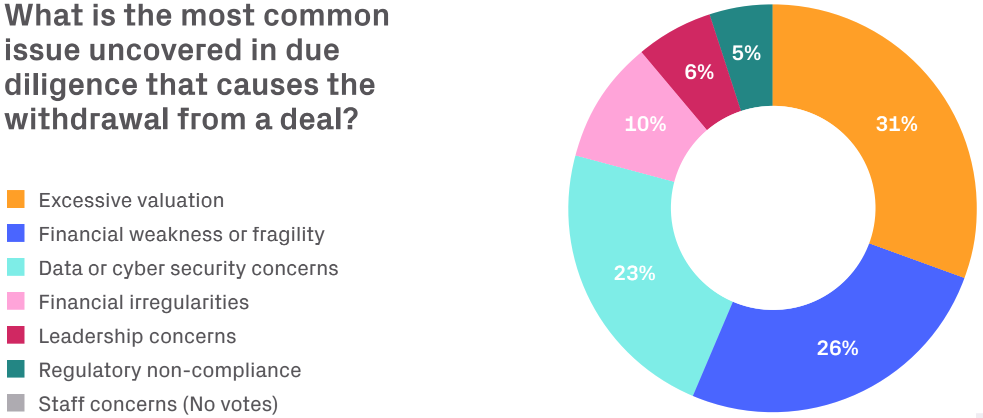


Which of the following do you believe technology could help improve the most?

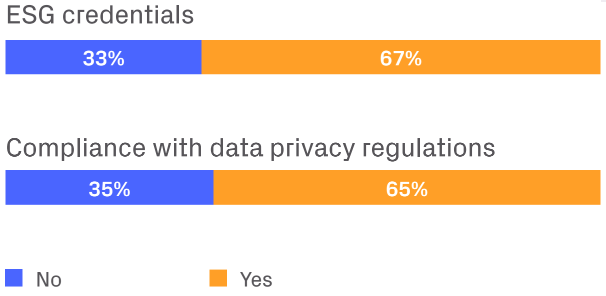


Due Diligence Concerns
Australia and New Zealand

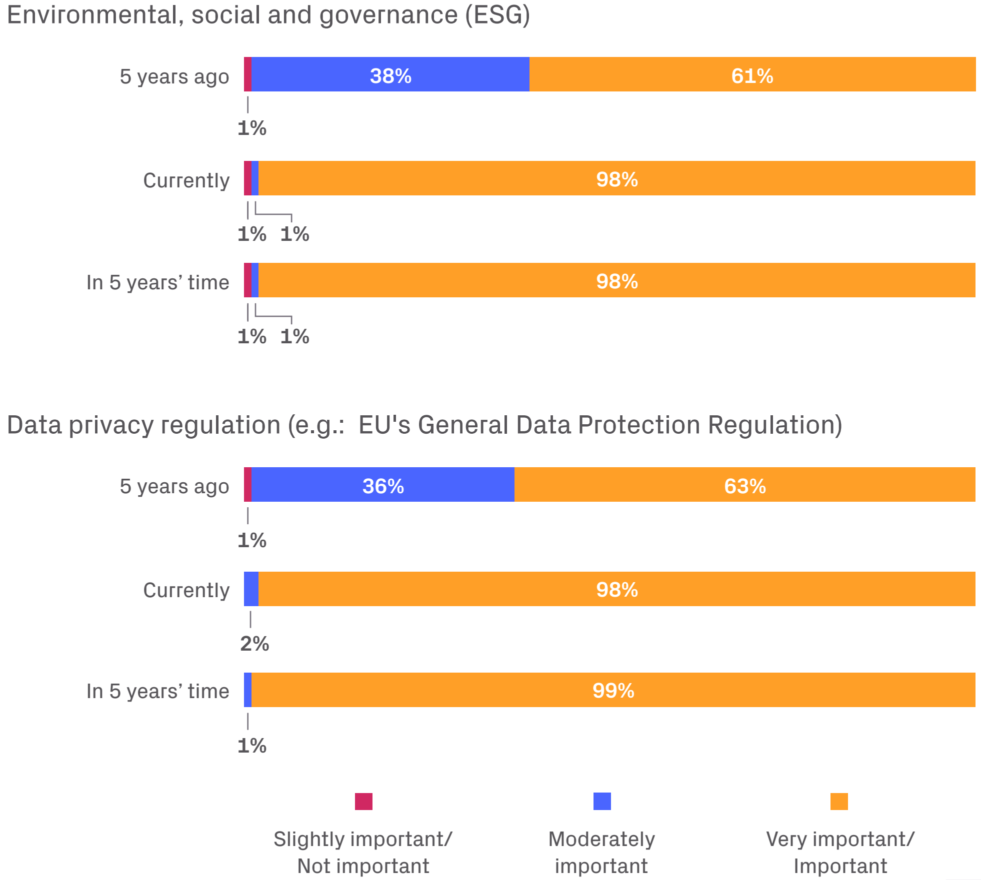
What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?



Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



As a consideration in M&A due diligence, assess the importance of the following issues:



Asset Marketing and Acquisitions
Australia and New Zealand

When marketing an asset for sale, what is most challenging?

34% Lack of insights on buyer behavior across mandates

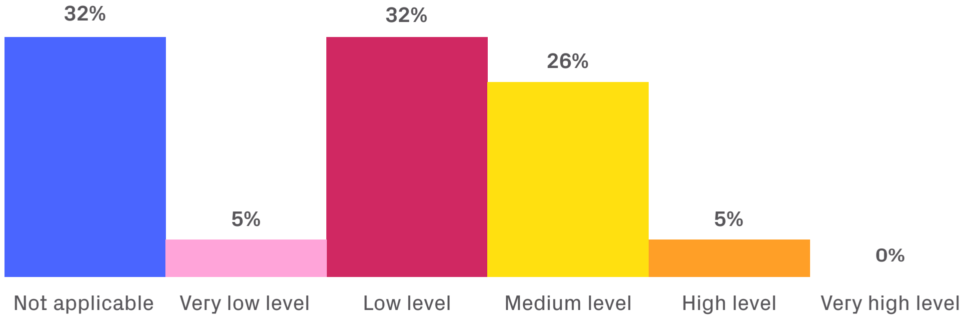
26% The inefficiency and manual nature of the process

21% Poor visibility on activity around specific projects

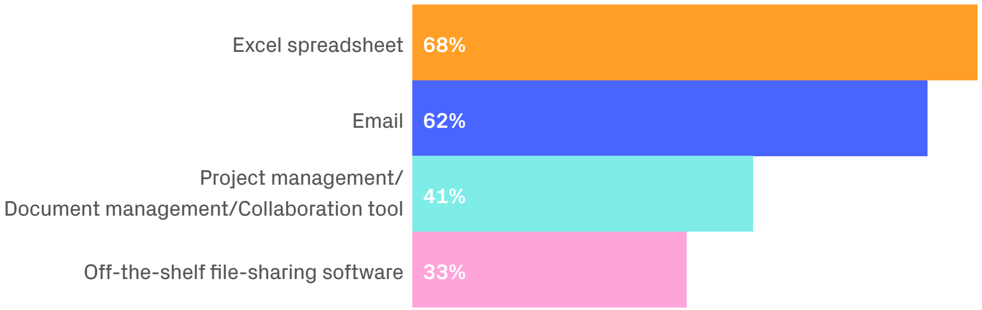
19% Provision of client information on project status

0% Watermarking and emailing teasers, NDAs etc

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?

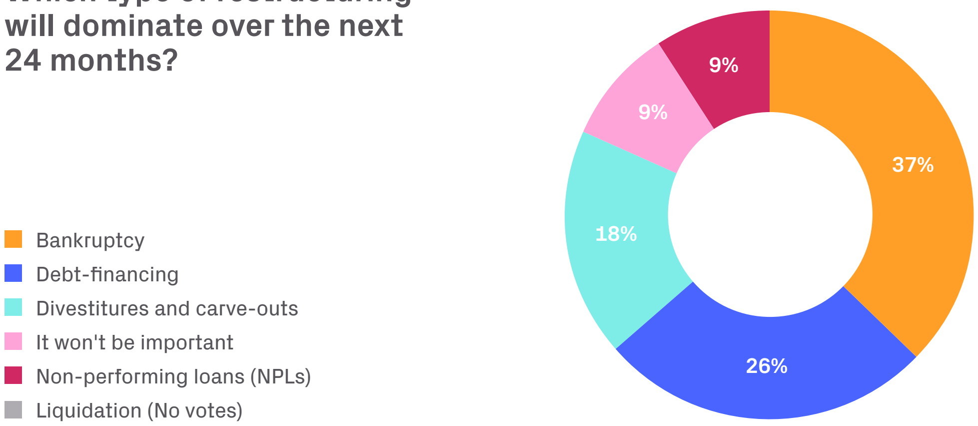


What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?

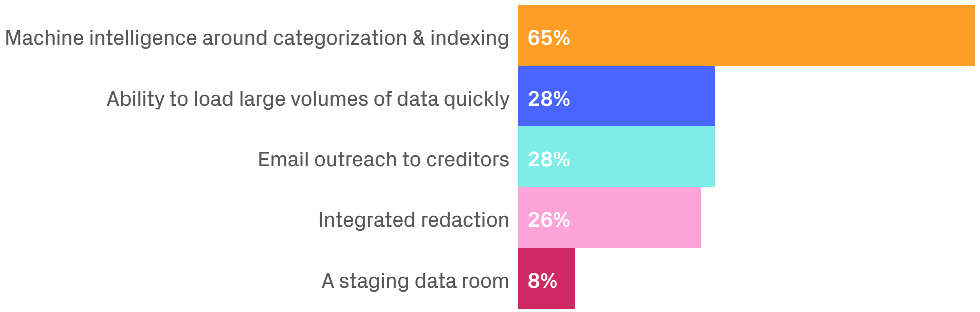


Restructuring
Australia and New Zealand

Which type of restructuring will dominate over the next 24 months?



What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specialises in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

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Get in touch, visit www.datasite.com **or contact:** info@datasite.com | **APAC** +852 3905 4800 | **AMERS** +1 888 311 4100 | **EMEA** +44 20 3031 6300

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