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Japan-Australia M&A Year in Review 2016

17 JANUARY 2017



Agenda

**Session 1:
Overall trends in
Japanese cross-
border M&A**

**Session 2:
Key legal updates**

**Session 3:
2017 M&A
predictions and deal
opportunities**



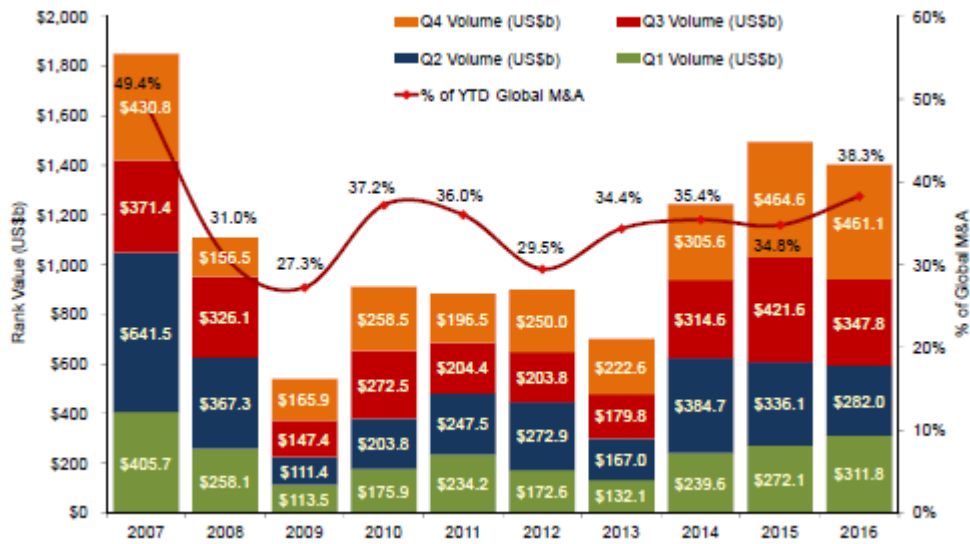
Session 1

OVERALL TRENDS IN JAPANESE CROSS-BORDER M&A

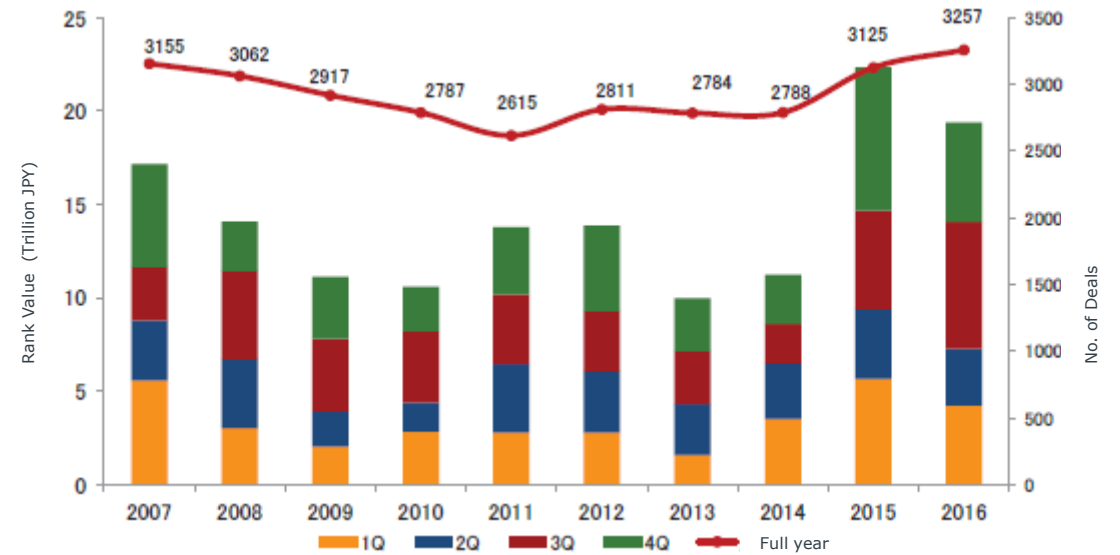
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M&A 2016: Value & Volume

Global M&A

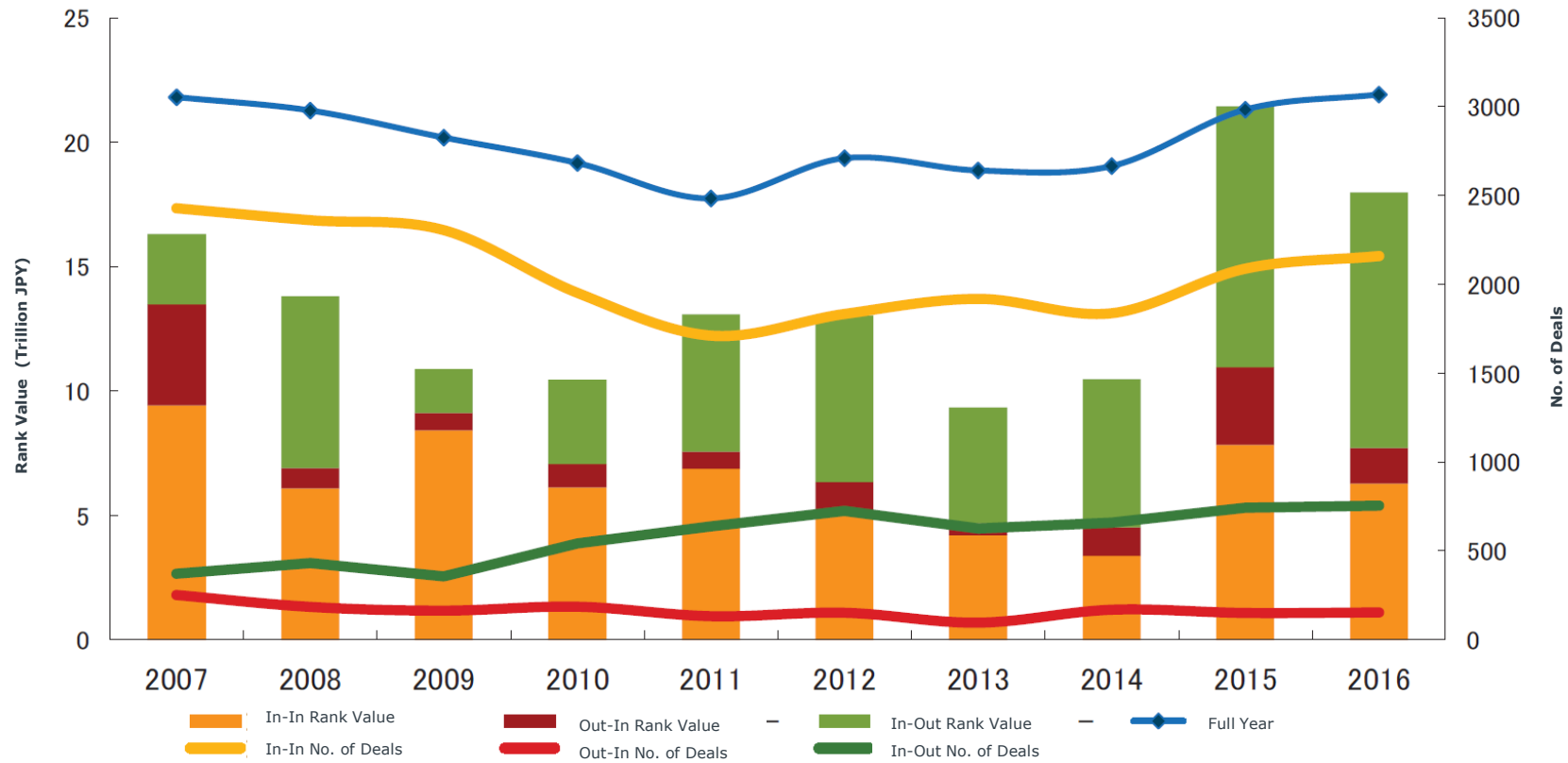


Japanese M&A



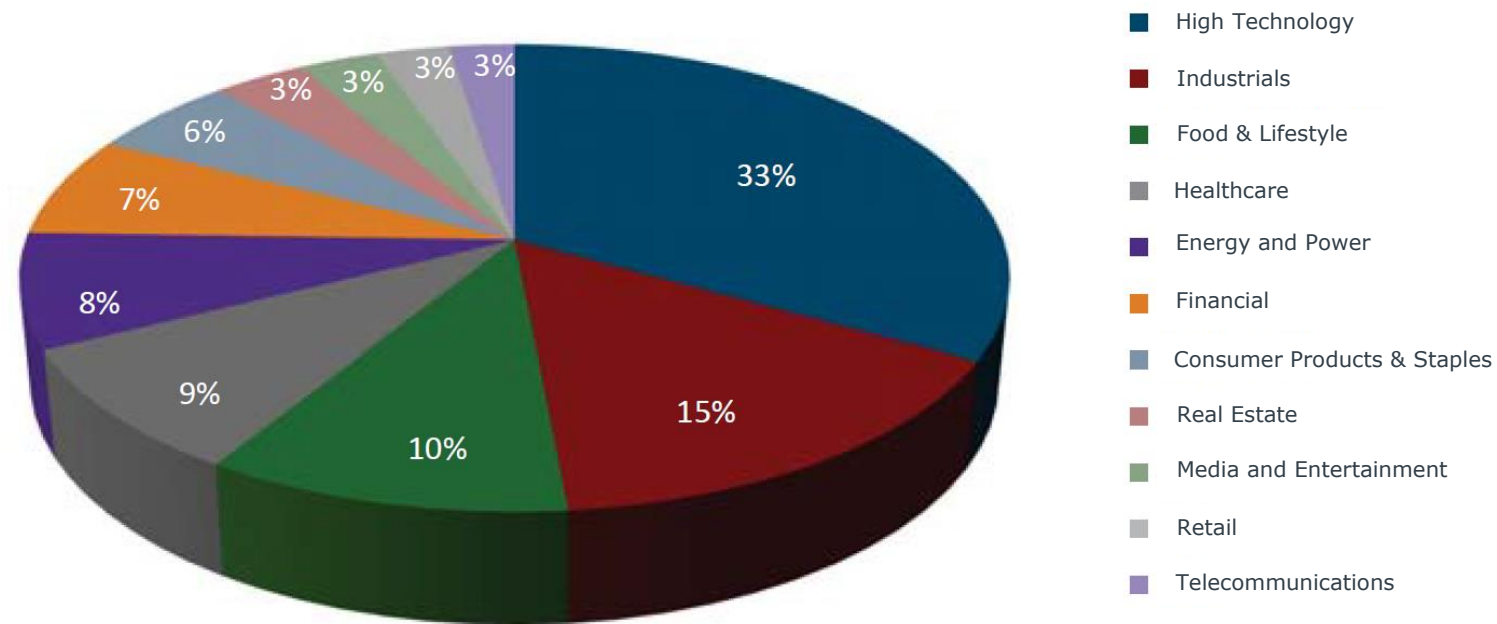
Source: Thomson Reuters, 2016.

Japan M&A 2016: Inward v Outbound



Source: Thomson Reuters, 2016.

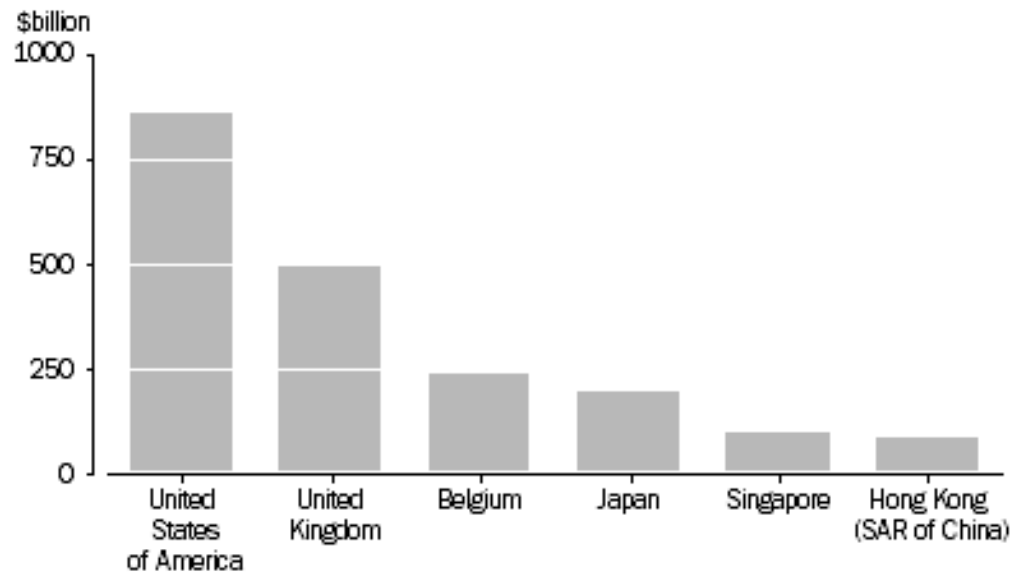
Japan M&A 2016: Sectors



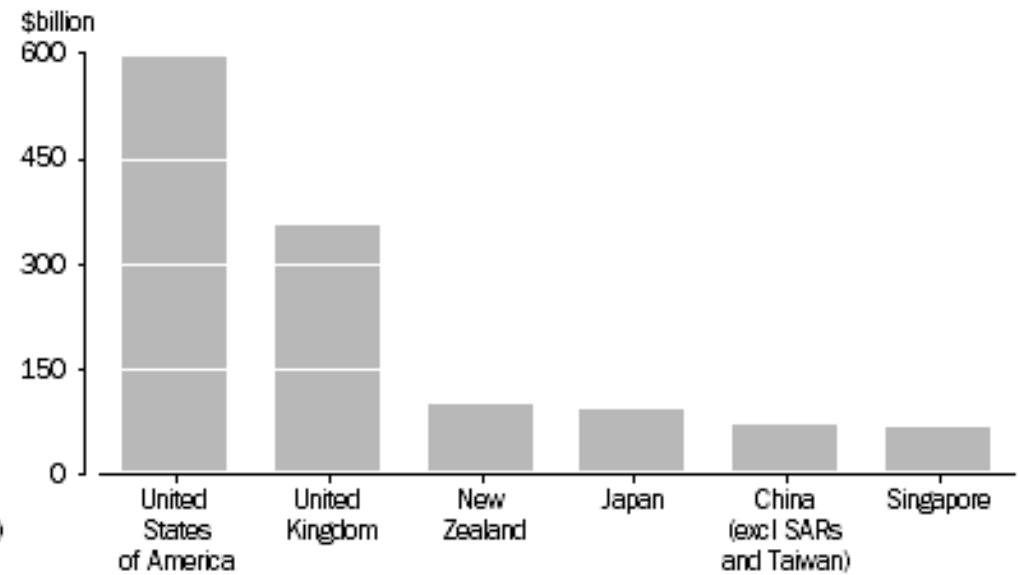
Source: Thomson Reuters, 2016.

FDI Flow: Australia & Japan

Investment into Australia



Investment from Australia



* Australian Bureau of Statistics, 2016 (2015 figures)

Key Deals for 2016

- Nippon Life completes its acquisition of MLC from NAB
- Softbank acquires ARM Holdings
- Softbank sells stake in Supercell to Tencent
- TonenGeneral merger/acquisition with JX Holdings
- Canon acquires Toshiba Medical Systems
- Asahi acquires European brands from Anheuser-Busch InBev
- Sompo Holdings acquires Endurance Specialty Holdings
- Foxconn acquires Sharp
- KKR acquires Calsonic Kansei stake from Nissan
- Komatsu acquires Joy Global

Japan-Australia M&A deals in past 12 months

Sector	Deal	Date
Business & Professional Services	<ul style="list-style-type: none"> Nomura Research acquires of ASG Group Outsourcing Inc. acquires subsidiaries of Beddison Group (Hoban recruitment, Luxxe Outsourced Hotel Services Pty Ltd, The Beddison Group Pty Ltd, Clicks Recruit (Australia) Pty Ltd and Index Consultants Pty Ltd) 	<ul style="list-style-type: none"> September 2016 April 2016
Finance / Insurance	<ul style="list-style-type: none"> Nippon Life's completes acquisition of an 80% shareholding in MLC, National Australia Bank's life insurance business Sony Life acquires 15% of ClearView Wealth Tokio Marine acquires eSentry Underwriting Rakuten Securities acquires FX Asia 	<ul style="list-style-type: none"> October 2016 November 2016 December 2016 August 2016
Construction / Real Estate	<ul style="list-style-type: none"> Sumitomo Forestry acquires 51% interest in Wisdom Properties Group Nishio Rent All acquires Skyreach Group Holdings 	<ul style="list-style-type: none"> July 2016 April 2016
Power / Energy and Resources	<ul style="list-style-type: none"> Mitsui sale of Bald Hills Wind Farm Taiyo Nippon Sanso acquires Supagas Holdings Pty Ltd Hitachi Zosen acquires a 70% interest in Osmoflo Holdings from Shine Investments Australian Pacific Coal acquires remainder of Dartbrook Coalmine from Marubeni Coal 	<ul style="list-style-type: none"> sale process under way December 2016 January 2017 June 2016
Transport & Logistics	<ul style="list-style-type: none"> Nishi-Nippon Railroad acquires Malta Coat Logistics Yusen Logistics's acquires Hitech Asia Pacific 	<ul style="list-style-type: none"> February 2016
Food and Beverage / Agriculture	<ul style="list-style-type: none"> Itochu sells down its interest in Burra Foods Australia Lion sells Fine Wine Partners to Accolade Wines Lion acquires Byron Bay Brewing Company 	<ul style="list-style-type: none"> September 2016 November 2016 May 2016
Manufacturing and distribution	<ul style="list-style-type: none"> Kito Corporation acquires PWB Anchor Hitachi Construction Machinery Co., Ltd acquires Bradken Ltd 	<ul style="list-style-type: none"> April 2016 Takeover underway
Other	<ul style="list-style-type: none"> Park 24 Co., Ltd acquires Secure Parking 	<ul style="list-style-type: none"> December 2016

Notable trends in Japan-Australia M&A

Insurance and financial services sector focus

Acquisition of mature businesses

Australia as a profitable market

Strategic alliances

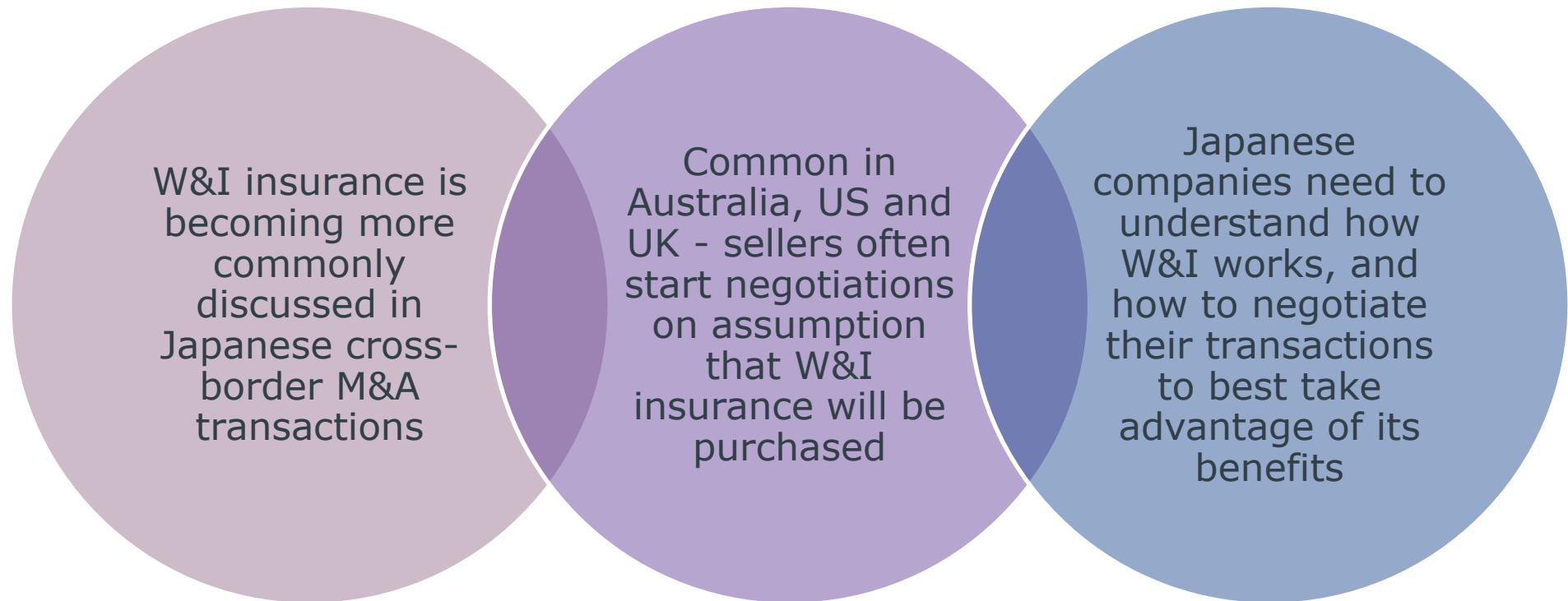
SMEs very active

Sell side activity increasing

Use of W&I Insurance increasing

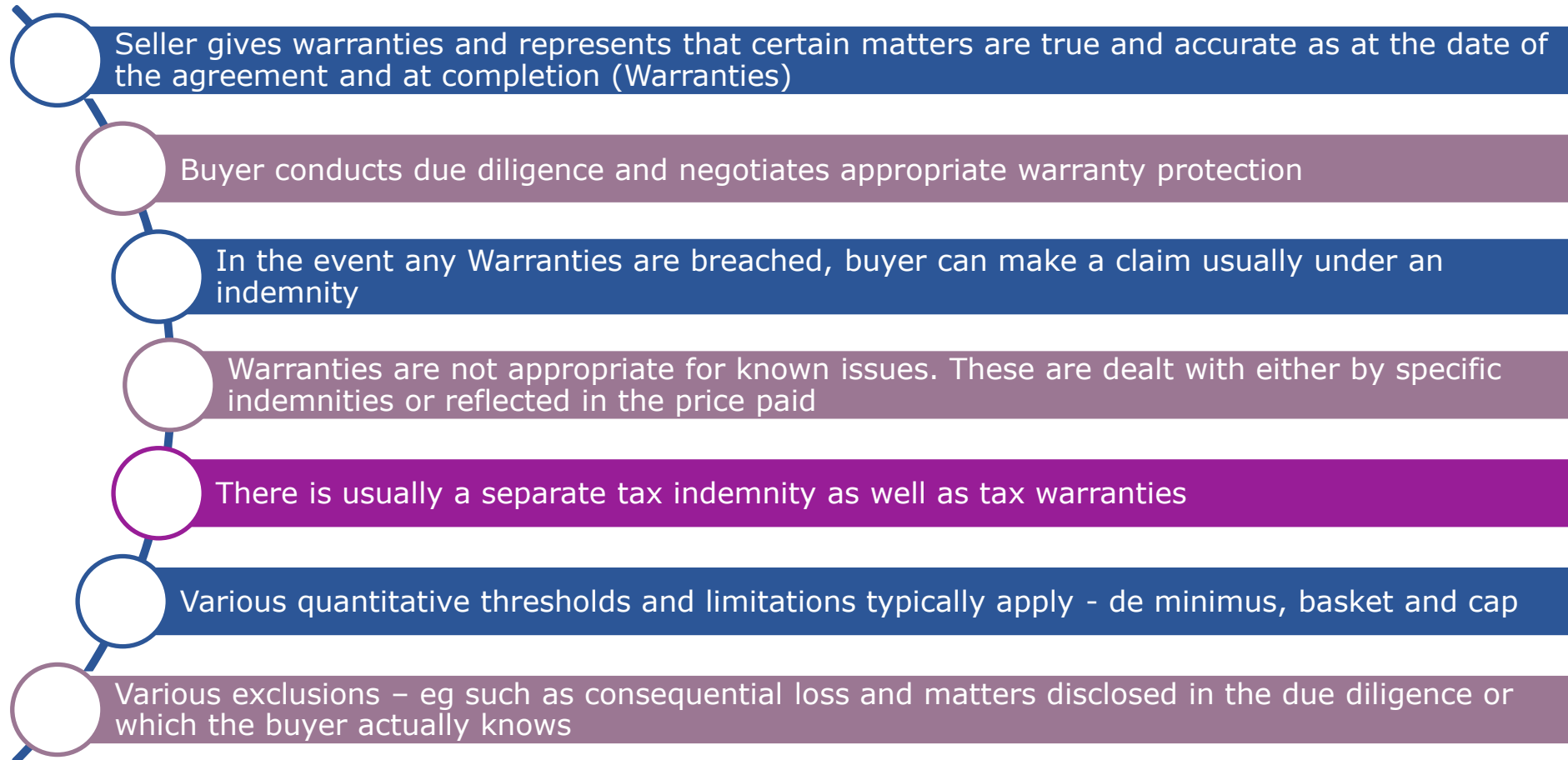
Public company deals increasing?

Why is W&I insurance a "hot" topic in Japanese M&A?



Warranty and indemnity regimes

TYPICAL APPROACH IN AUSTRALIAN M&A



Key features of warranty and indemnity insurance

Protection	Removal	Enhancement	Filling	Running
Protects a buyer, or a seller, from financial loss resulting from a breach of warranty or indemnity	Removes concerns about a vendor's ability to meet warranty or indemnity obligations Allows vendor a clean exit	Enhances a "warranty cap" Security rating of insurer	Fills a "warranty gap"	Usually runs concurrently with the duration of the warranty claim period. Eg: <ul style="list-style-type: none">• Non-tax warranties: 2-3 years• Tax warranties and indemnities: 5-7 years

Warranty and indemnity insurance drivers

PURCHASER

Certainty

Greater certainty in valuations and negotiations

Financial status

Seller's financial status / enforceability of seller's indemnity

Protection

Protection if cap on claims exceeded, up to agreed cover

Avoidance

Avoids lengthy litigation
Reduces negotiations

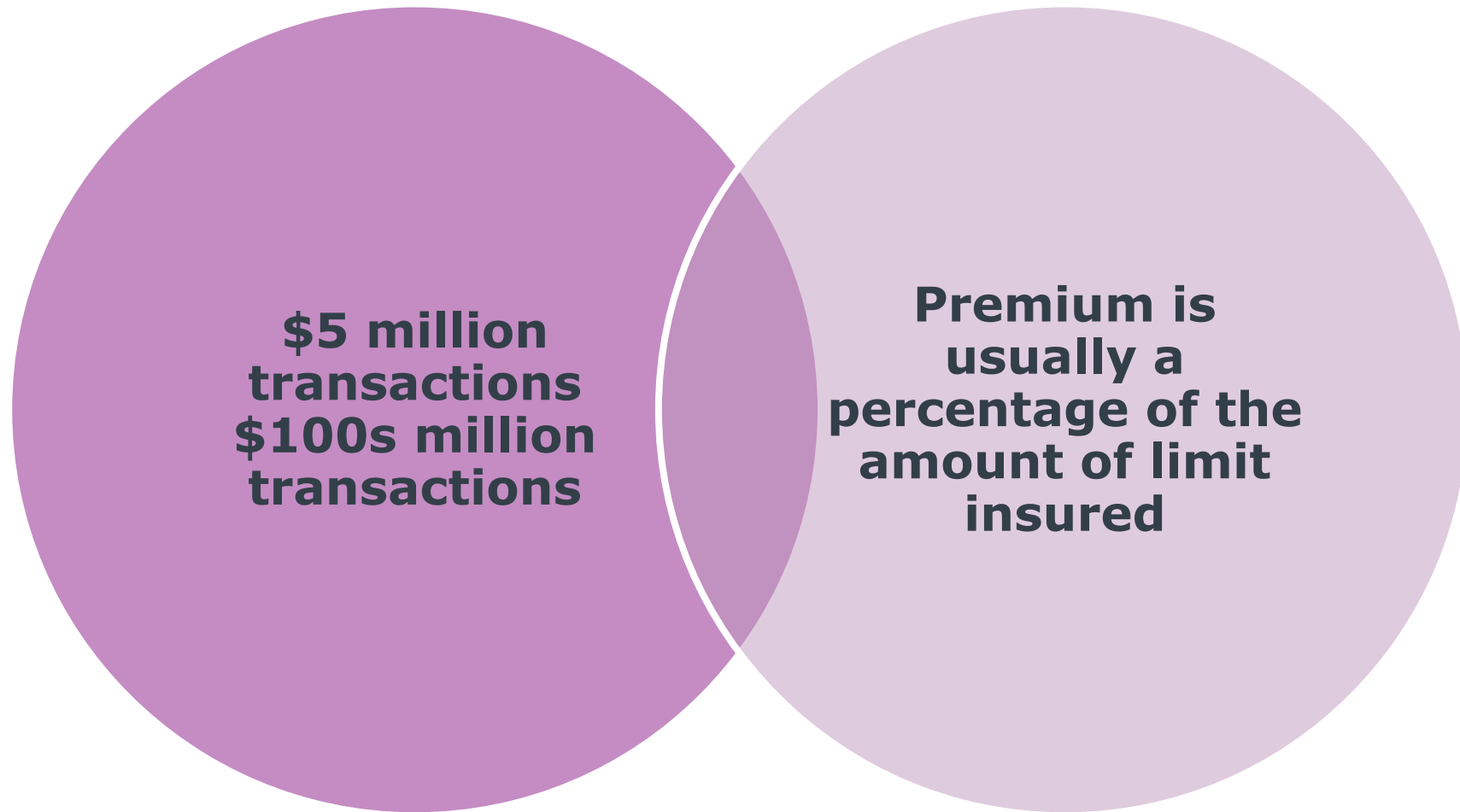
Focus

Focus on business
Maintain good relationships with seller or management if they will remain involved in the business post-Completion

Reassurance

Reassure shareholders

Transaction size and insurance cost



Practical tips

Decide on W&I insurance position early in the deal

Due diligence is critical

Engage reputable advisers

Don't be afraid to negotiate



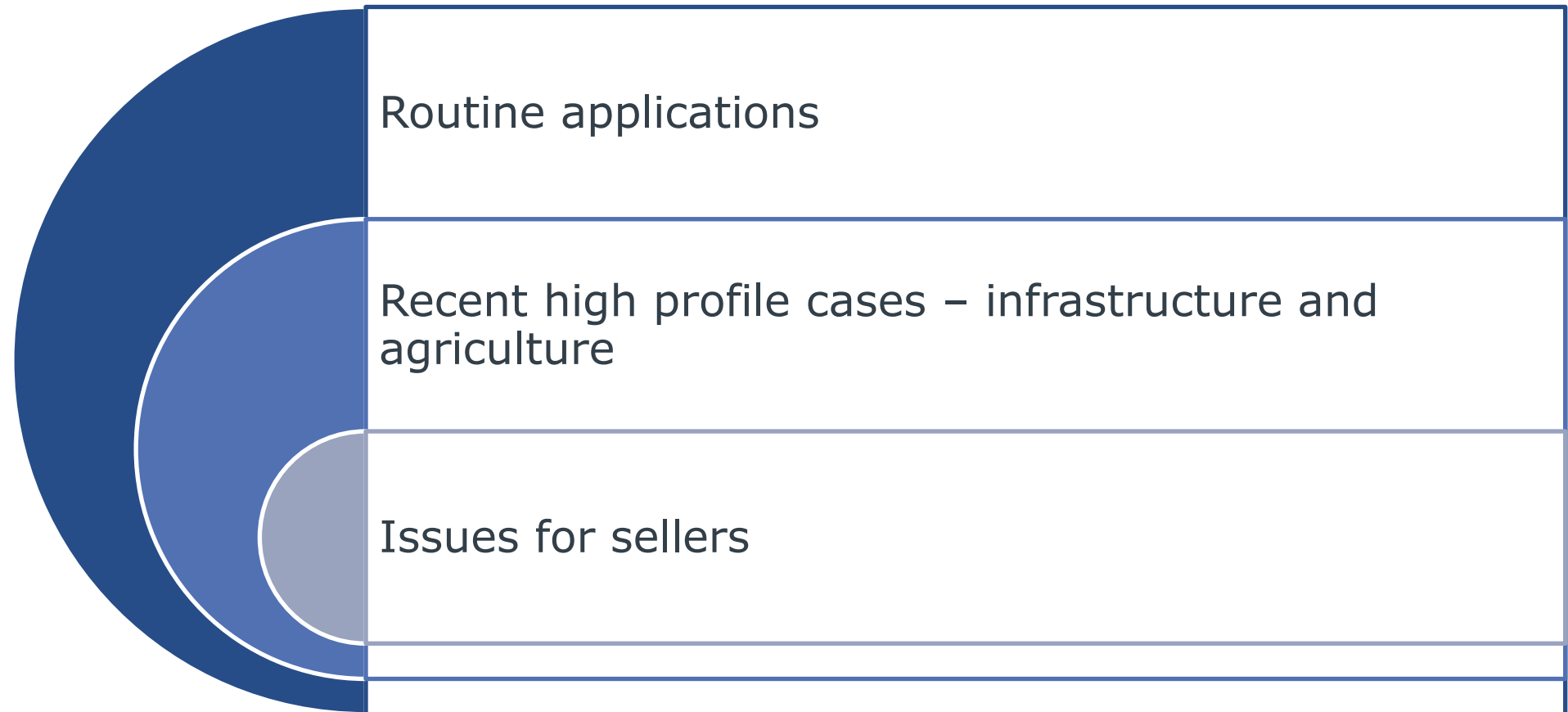
Session 2

KEY LEGAL UPDATE – FOREIGN INVESTMENT

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FIRB – key developments

THE FIRST 12 MONTHS UNDER THE AMENDED FOREIGN INVESTMENT FRAMEWORK



Recap - Australia's foreign investment framework

Foreign persons or persons controlled by a foreign person need to obtain the prior clearance from the Federal Treasurer, through the Foreign Investment Review Board (**FIRB**), to acquire a substantial interest (ie 20% or more) in an Australian entity, where the entity is **valued above \$252 million**.

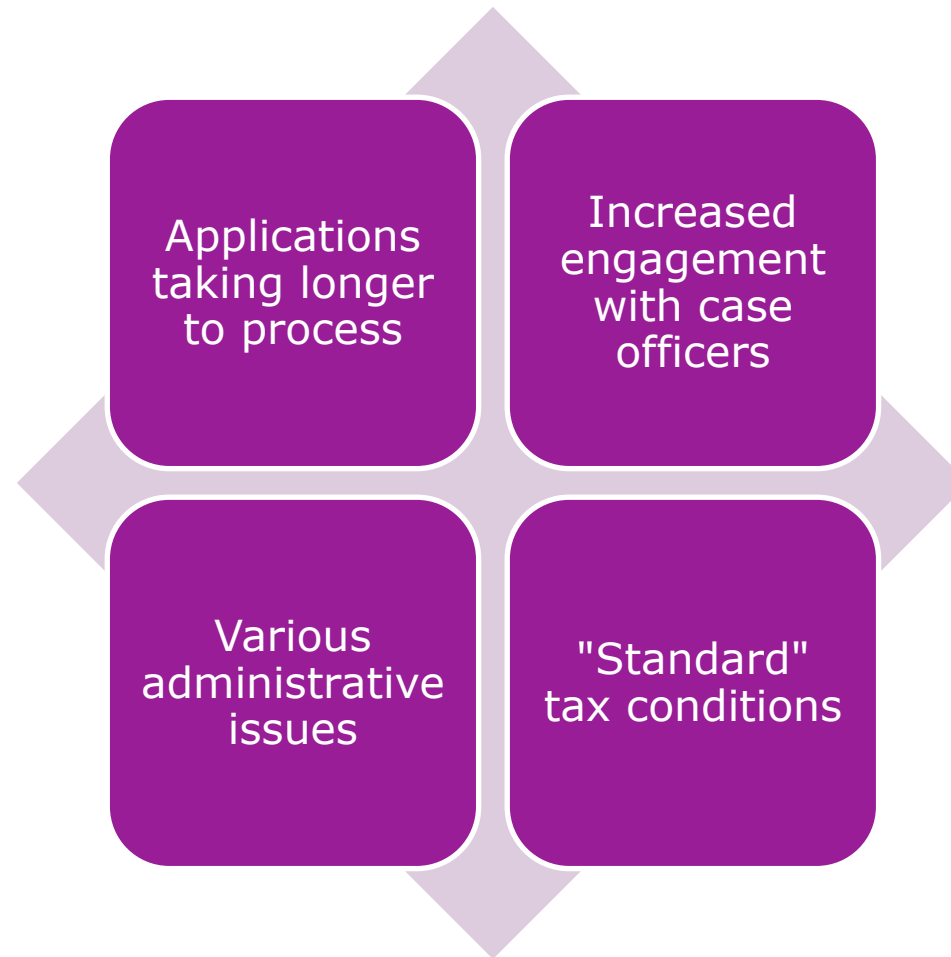
The Treasurer has the power to block foreign investment proposals that are considered **contrary to Australia's national interest**. Alternatively, the Treasurer may impose conditions on any approval that is given.

National interest considerations include:

- **National security** – the extent to which the investment affects Australia's ability to protect its strategic and national interests.
- **Competition** – whether the investment affects diversity of ownership and competition within Australian or global industries.
- **Australian Government policies (incl. tax)** – the extent to which the investment is consistent with the Government's policy objectives, and the impact that the investment may have on Government revenues.
- **Impact on the economy and the community** – a range of factors including the nature of the funding for the investment, Australian participation in the target enterprise following the investment, and the interests of employees, creditors and other stakeholders.
- **Character of the investor** – the extent to which the foreign investor operates on a transparent and commercial basis and is subject to adequate and transparent regulation.

Routine FIRB applications

PRACTICAL EXPERIENCE UNDER NEW FRAMEWORK



Recent high profile cases

- FIRB application process has become increasingly politicised
- Security concerns over Chinese investors acquiring Australian land and infrastructure assets

S Kidman & Co

- Sale of largest private land holding in Australia
- Agricultural land and close to Australian Defence properties
- Delays in application – over 6 months and investor withdrew before a final decision was made
- Likely to have been rejected

Ausgrid

- NSW electricity distribution network
- Lease for 50.4% of Ausgrid
- Security issues identified with no possible measures to mitigate risks

Port of Darwin (no FIRB involvement)

- Lease of port and control of port operator to Chinese foreign investor
- Decision made by Northern Territory
- Significant public criticism
- Urgent government inquiry launched over decision

Issues for sellers

FIRB APPROVAL NO LONGER JUST A BUYER ISSUE

Pre-package target information

- Prepare an information pack on target to provide to FIRB and the bidders early in the sale process
- Facilitates a consistent message being presented to FIRB

Open communication channels with FIRB

- Provide a briefing to FIRB on the proposed sale
- Allows seller to control the message in the first instance and ensures FIRB understands the proposed sale

Align FIRB application dates for bidders

- Synchronise bidder applications by including a deadline for submissions
- Aligning the applications will streamline the process - FIRB can evaluate all applications together
- May provide some insight into whether a bidder is serious about the transaction (ie if it complies with the deadline or not)

Retain control over FIRB process

- Require the bidders to disclose application documents to Ashurst and allow Ashurst to discuss any part of the applications with FIRB
- This allows seller to monitor the FIRB process, ask questions in respect to each bidder application and react to any issues if and when they arise

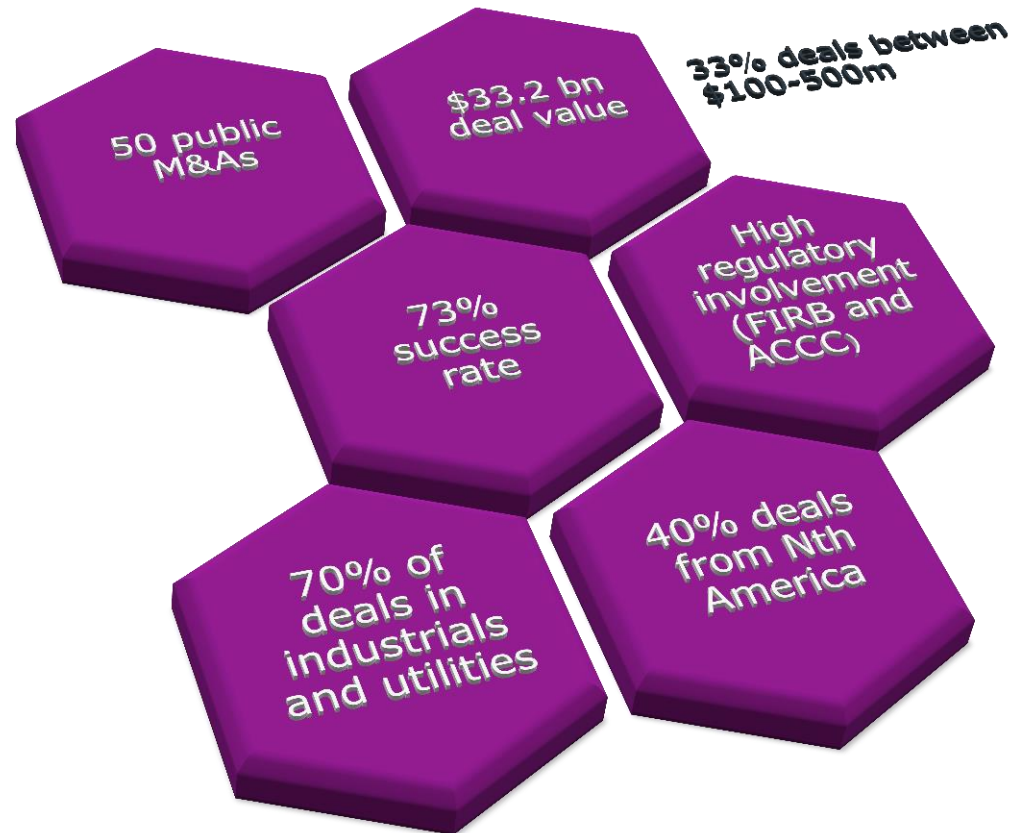


Session 3

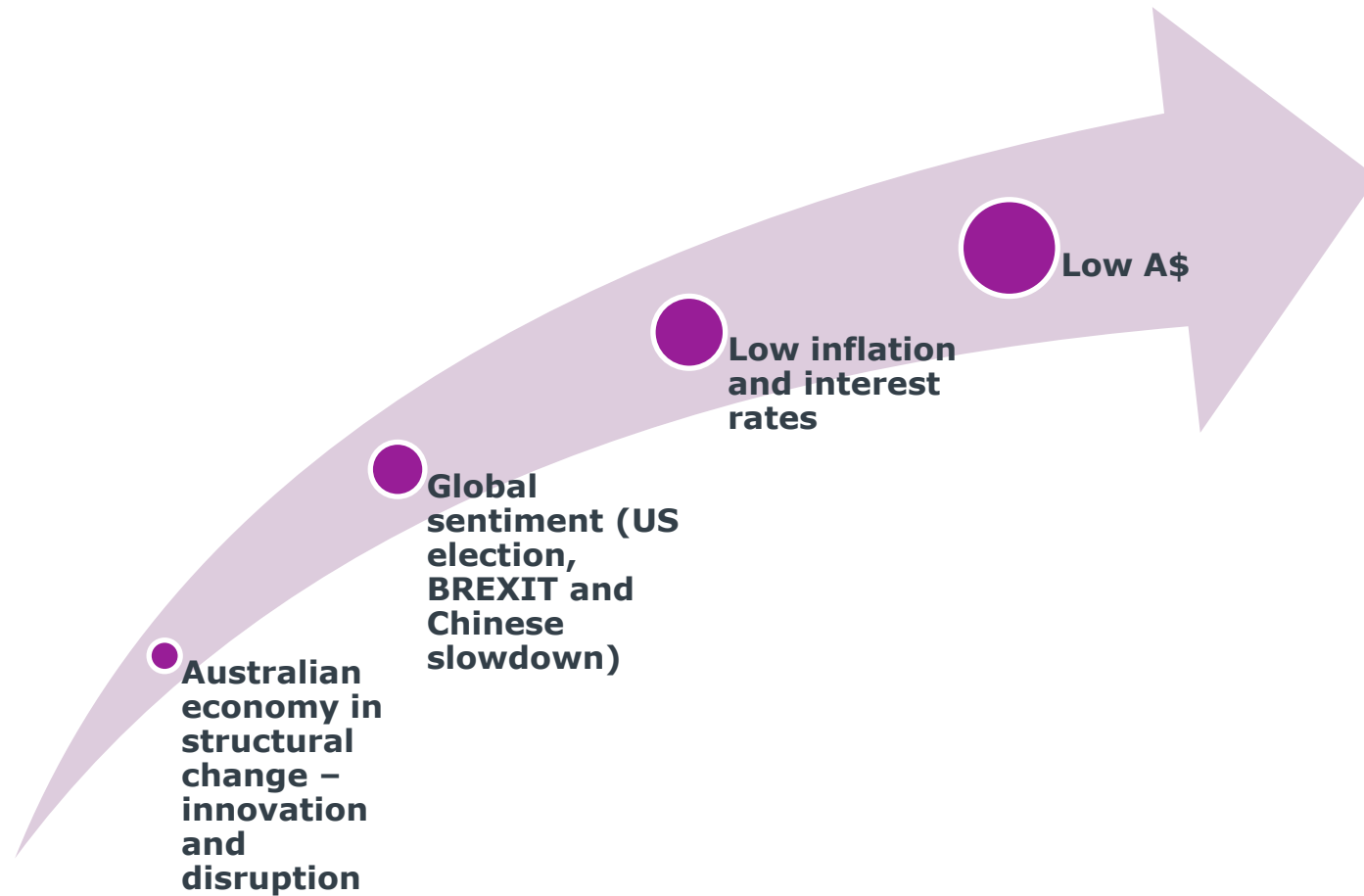
2017 M&A PREDICTIONS AND DEAL OPPORTUNITIES

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2016FY M&A results



2017 M&A – on the way up



A closer look at "disruptive innovation"



Innovation creating new market and value networks eventually disrupting existing market and value networks

Australian Government policy - National Innovation and Science Agenda (December 2015)

Start-ups will have the capacity to grow their business by leveraging Government support

Consumer behaviour and preferences are changing – the private sector is creating and improving new products/services

Australian business activity and "disruptive innovation"

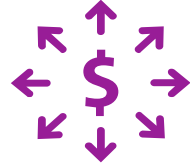
- Some companies will seek business growth through adaptation and creation
- Those companies will be ones that are ahead of the technology curve or smaller start-ups
- Acquisitions of smaller companies by larger companies seeking to improve technological innovation by bolt-on acquisitions may become more frequent in 2017 and beyond
- Acquisition of Nomura Research Institute by ASG Group for \$349 million



Other sectors ripe for "disruptive innovation"



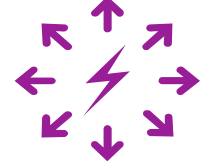
Tourism/Leisure



Finance



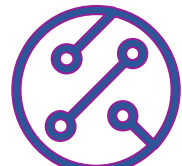
Telecommunications



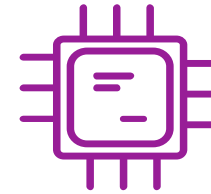
Utilities



Retail



IT services

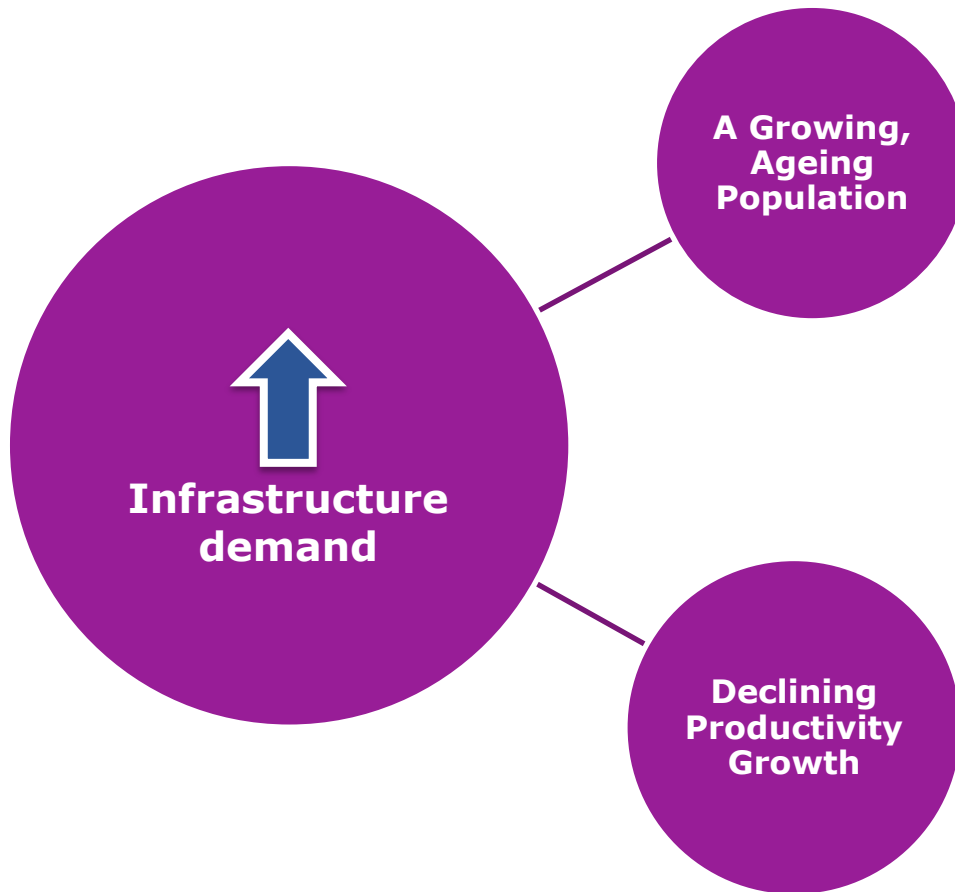


Cloud Services/Software



Digital Security

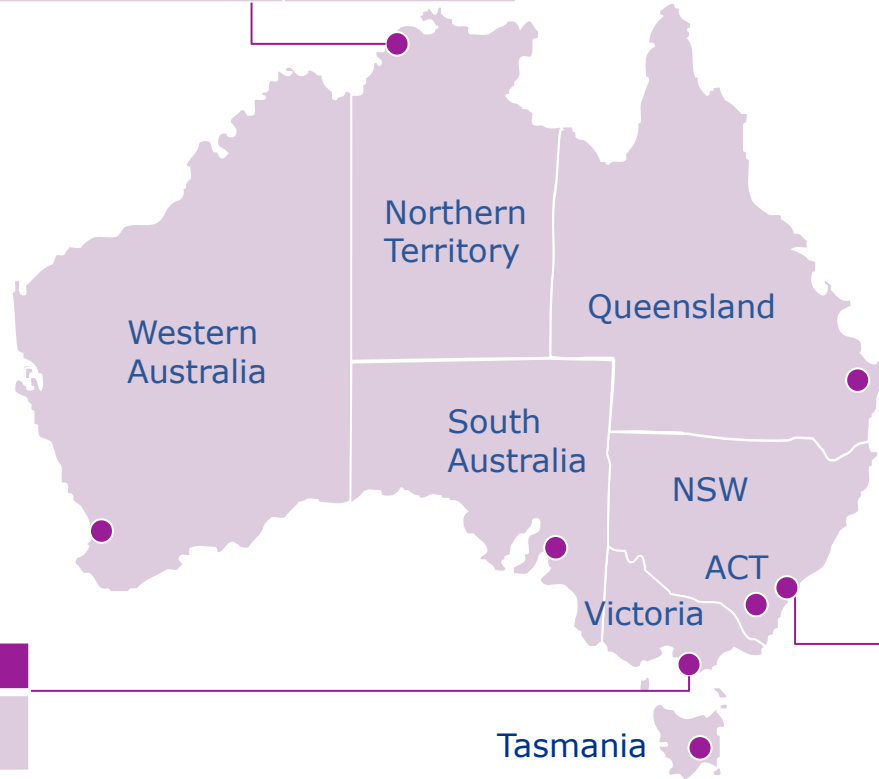
The infrastructure opportunity



- By 2050, Australia will have 36 million people, 50 per cent more than we have today.
- Productivity growth is forecast to slow to 1.4 per cent a year over the next decade compared to 2.1 per cent in the 1990s.
- **In Australia, the infrastructure deficit is estimated to be \$300 billion.**
- Australian Infrastructure Plan (2016) – Government commitment to infrastructure development.

Major infrastructure assets recently sold in Australia

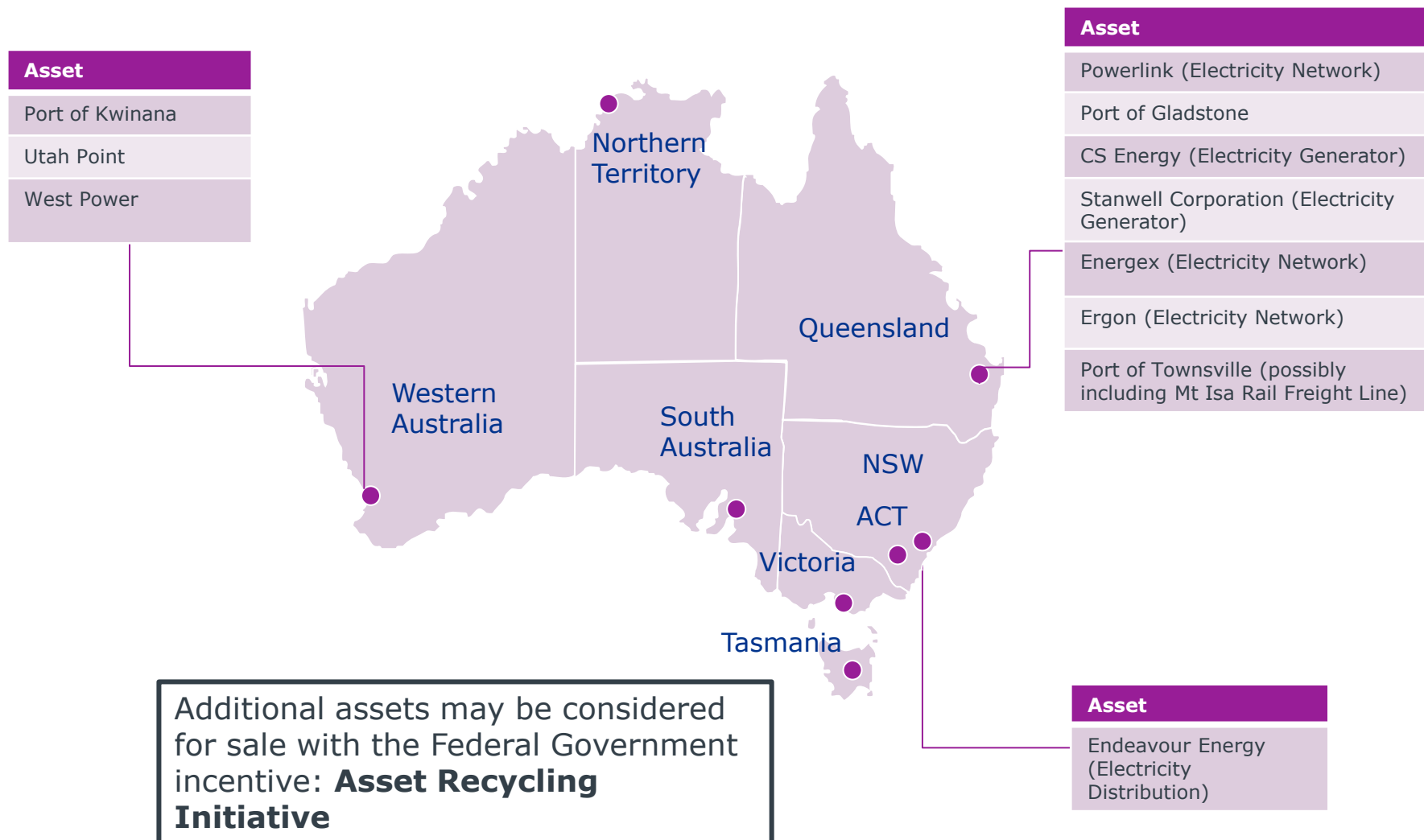
NT Asset	Value
Port of Darwin	\$390 million



Asset	Value
AusGrid (Electricity Distribution)	\$16 billion
Transgrid (Electricity Transmission)	\$10.3 billion

Asset	Value
Port of Melbourne	\$9.8 billion

Some other assets expected to be sold in Australia

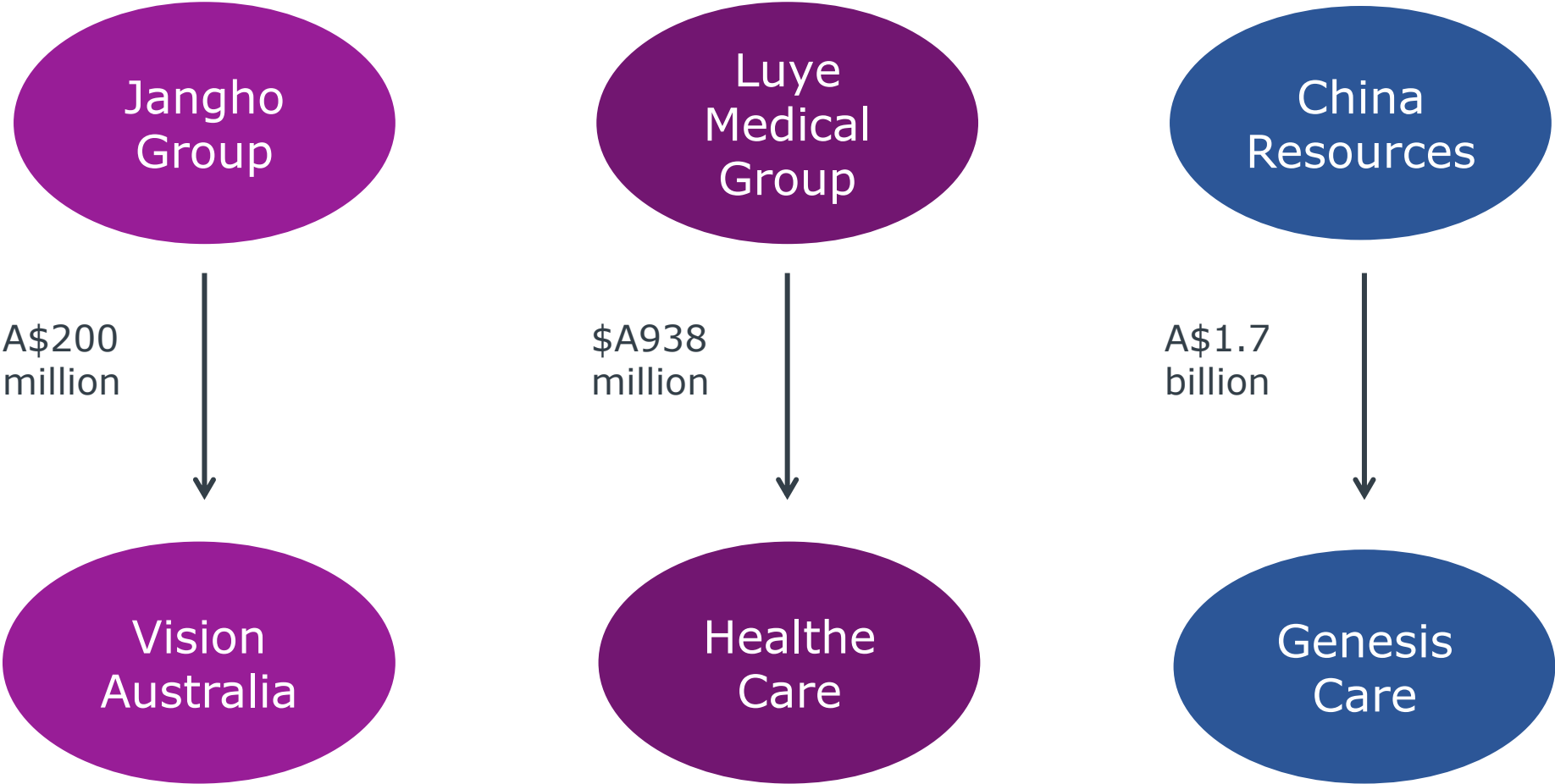


Opportunities in the Australian health sector

- Ageing population: the proportion of people >65 years old is expected to grow from 13% of the population to 25% of the population.
- Increasing health-consciousness among the general population.
- Demand for health care and associated products and services set to increase



Recent foreign M&A activity in the Australian health sector



Potential opportunities in state-owned health assets

- Possible trend in the privatisation of state-owned health assets
- NSW state government has indicated its intention to consider privatising five hospitals in regional NSW



Japanese investment in the Australian health sector

- Australian investment opportunities a natural synergy for Japanese investors.
- Record of strong Japanese investment in the health sector across Asia.
- Leverage investments in Australia to service demand for health and medical products and services.





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