

PART 1/3

EVALUATE

Investor Sentiment
Study 2023

MinterEllison.

METHODOLOGY >

MinterEllison engaged Mergermarket in the second half of 2022 to conduct an independent survey of 192 international decision makers. The objective of the research was to gain insights into their investment intentions and perceptions of the Australian market.

Respondents were domiciled in North America (33 per cent), Asia Pacific (33 per cent) and Europe (33 per cent). 85 per cent of organisations were corporations/industrial participants and 15 per cent were financial sponsors/funds/private equity.

Respondents were from the following primary industries: TMT (18 per cent), energy and resources 16 per cent, financial services (14 per cent), financial buyers (15 per cent), real estate and construction (13 per cent), agribusiness (4 per cent), consumer (9 per cent) and healthcare (13 per cent). Over the past 12-24 months, 79 per cent had completed at least one investment in Australia, while the remaining 21 per cent had completed none. All responses are anonymous, and results are presented in aggregate.

The review is presented in a 3 part series, with this first part providing an overview of investment trends into Australia. In Parts 2 and 3, we provide updates on the investment trends in key industries, with Part 3 focusing on megatrends and success factors investors should take into account given the changing global landscape.

Produced in association with  Mergermarket

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Foreword

The Australia opportunity >

Brendan Clark
Managing Partner
International



Jeremy Blackshaw
Managing Partner
Corporate and Capital Markets



Why Australia?

Australia is a prosperous and stable nation that offers a wealth of opportunities for foreign investment across a wide range of industries.

The country's strategic location in the Asia-Pacific region, stable political environment and clear legal framework provides certainty and protection, in the midst of global economic slowdown. Australia has a highly educated and skilled workforce, a robust financial system, and abundant natural resources, all of which contribute its position as a key player in global trade and investment.

The country's close proximity to major markets such as China, Japan, and South Korea has made it an important hub for trade and investment, particularly in industries such as mining, agriculture, and finance. Australia's cultural and historical ties to Asia, combined with its language skills and understanding of the region, have further enhanced its position as a gateway to Asia.

The country's small but affluent population, high standard of living, and developed consumer market make it an attractive destination for businesses seeking to introduce products or services to the market. Australia's business-friendly environment, supportive government



There are a number of growth niches and value opportunities in the Australian market for astute international investors"

policies, and well-developed infrastructure also make it an ideal location for businesses looking to establish a foothold in the Asia-Pacific region before expanding further afield.

It is no surprise that many international businesses, have chosen to either expand their presence or set up shop for the first time in Australia.

Having been widely praised for its prudent and considered response to the COVID-19 crisis, Australia is open for business and investors are keen to take advantage of its potential, especially as global markets start contract or protect their local business environment.

Australia is a beacon in stormy global economic conditions

A post-pandemic boom in investment and mergers and acquisition (M&A) activity saw foreign investment into Australia skyrocket to previously unseen heights in 2021. While 2022 saw more moderate activity, investment remains in line with historically positive levels.

Investors are becoming more cautious. Economic and geopolitical headwinds

are buffeting the global economy, giving investors every reason to proceed with care. But while Australia is not immune to these issues, foreign investors in this research are expecting to make further investments in the market during 2023 and beyond – albeit with a sense of cautious optimism.

Despite the expected slowdown of global economies, we expect the outlook to be positive for foreign investment into Australia. There will inevitably be challenges, but well-prepared investors will find that Australia continues to offer attractive rewards.

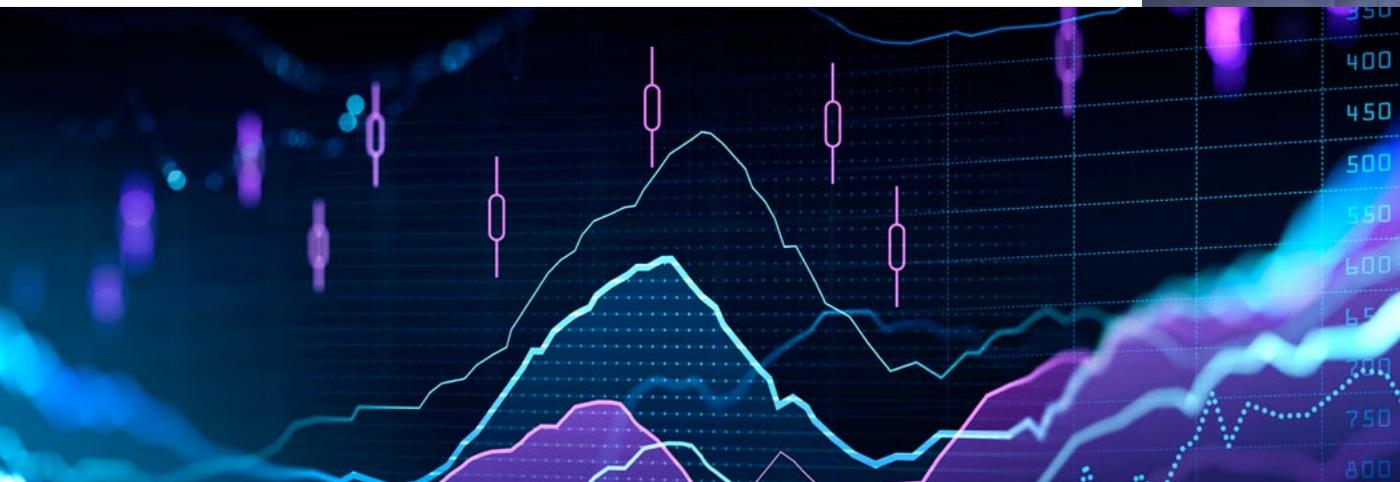
About this report series

This report provides a snapshot of foreign investment activity and sentiment about future opportunities in Australia. It highlights opportunities across a number of important sectors, and looks at challenges foreign investors need to consider.

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Investor Sentiment Study 2023

We trust you will enjoy reading this report which is Part 1 of the Foreign Investor Sentiment Series. Parts 2 and 3 will be published shortly. To receive them direct to your inbox:



Key findings

51%

of foreign investors say they will **increase investments** in Australia in the year ahead

53%

say Australia is among the **top investment destinations** outside their home markets, behind only the US (76%) and Europe (70%)

44%

say Government policies are **supportive of foreign investment** – another 27% say they are at least neutral

78%

say Australia's **TMT industry** offers the most opportunities, followed by 61% who say the same for Financial Services

49%

say **achieving economies of scale** will be the top driver for their investments in the year ahead

47%

say investments will be driven by **digital transformation** as they search for new tech and IP opportunities

43%

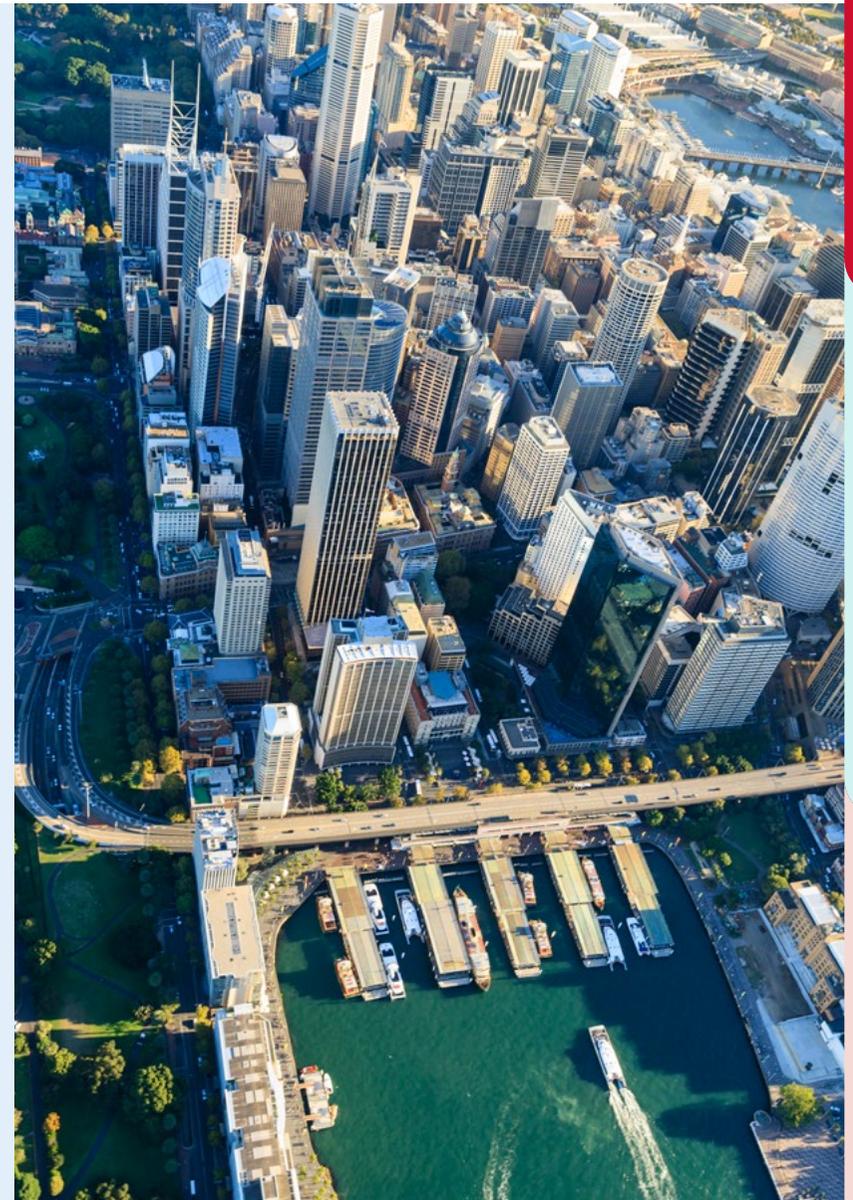
say Australian businesses are **more sophisticated in the way they deal with ESG issues**, such as corporate approaches to strategy and risk management

69%

say **valuations** will be the biggest challenge they expect to face in the year ahead

49%

say their most recent Australian investment was a **success** and another 43% say it was at least neutral – only 8% say investments failed to produce the desired results



Part 1

Australia's investment outlook is optimistic

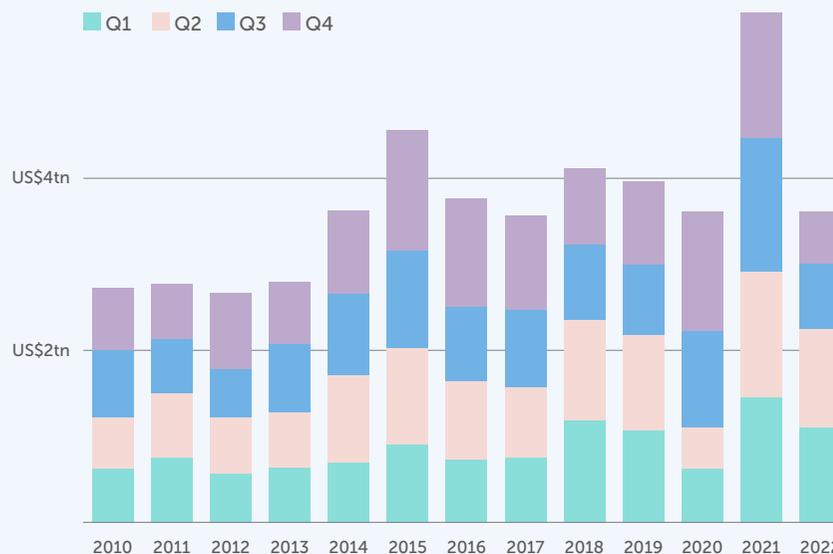
Australia's investment outlook is optimistic

Looking towards the longer-term, the outlook is positive, as international interest remains focused on Australian assets, even through economic headwinds and major megatrend disruptions.

State of the market: Reflecting global sentiment – but relative strong performance and growth in recent times

After the investment records of 2021 (where global M&A deal values totalled a record US\$5.9 trillion), the global economy experienced a number of headwinds. Surging inflation, rising interest rates, war in Europe and lockdowns in China created further global uncertainty and a drop in all categories of investments in 2022. For example, deal values fell to US\$3.6 trillion in 2022 (down 38.8 per cent) and was 9.3 per cent lower than the pre-pandemic five-year average (2015-19), according to Dealogic data. However, foreign investors have consistently shown confidence in the Australian market.

Figure 1. Global M&A deal value (2010 – 2022; US\$)



Source: Dealogic



Despite the global shocks, the Australian economy has continued to be resilient and outperform in global rankings. Australia is home to just 0.3 per cent of the world's population, but accounts for 1.7 per cent of the global economy (nominal GDP of US\$1,724.78 billion (ranked 14th according to IMF; and ranked 9th by GDP per capita).

Australian GDP was 6.7 per cent larger than it was pre-pandemic 2019, a rate of growth far exceeding the 3.7 per cent average for advanced economies.

During 2021, Australia outperformed peer economies, growing by 4.0 per cent.

Looking forward, the IMF's latest World Economic Outlook Projections from April 2023 has forecast Australia's growth to remain but is expected to slow to 1.6 per cent in 2023 and 1.7 per cent in 2024, which is still higher than advanced economies at 1.3 per cent in 2023 and 1.4 per cent in 2024.

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This matches much of the broader FDI inflow data of the last few years. Australia generally ranks around 15th – 17th in direct foreign inward investment in the world (See Figure 2).

The United States and United Kingdom are traditionally the biggest investors in Australia (representing between 40 and 45 per cent of direct investments into Australia). This is followed by Asian neighbours Japan, Singapore and Hong Kong, European portfolio investors of Belgium, Luxembourg and Netherlands, and growing foreign investor Canada (Figure 3).

Figure 3. Which economies invest in Australia? Direct, portfolio investment and other investment (2022, A\$bn)

Rank	Economy	2022 (\$m)	2021 (\$m)	2020 (\$m)	2019 (\$m)	2018 (\$m)	% of total (2022)	5 year trend % growth (pa)
1	United States of America	1,092,200	1,049,528	925,949	1,015,134	957,926	24.1%	2.8%
2	United Kingdom	1,007,007	722,130	770,060	723,567	615,323	22.2%	12.7%
3	Belgium	359,016	393,912	408,639	347,962	315,313	7.9%	2.8%
4	Japan	257,369	257,954	265,094	244,532	234,392	5.7%	2.0%
5	Singapore	148,606	121,497	115,933	98,885	89,202	3.3%	13.3%
6	Hong Kong (SAR of China)	132,864	124,075	139,280	143,222	123,163	2.9%	1.6%
7	Canada	99,619	75,523	64,739	59,517	53,323	2.2%	17.4%
8	Luxembourg	88,961	92,382	106,997	87,469	78,536	2.0%	2.7%
9	Netherlands	87,575	88,349	84,403	88,926	83,926	1.9%	0.9%
10	China (excludes SARs and Taiwan)	85,138	91,437	81,164	80,554	69,584	1.9%	4.5%
11	Switzerland	74,128	69,488	61,926	58,441	50,558	1.6%	9.3%
12	New Zealand	72,197	69,145	68,358	66,462	48,652	1.6%	9.7%
13	France	54,048	43,427	42,928	34,596	49,136	1.2%	2.0%
14	Germany	52,519	48,596	46,903	50,133	48,500	1.2%	1.7%
15	Bermuda	45,361	42,542	42,449	45,145	46,964	1.0%	-0.7%
	Total all countries	4,530,657	4,104,146	4,013,483	3,910,137	3,601,304	100.0%	5.2%

Source: Australian Bureau of Statistics, International Investment Position, Australia: Supplementary Statistics 2022

Figure 2. FDI inflows, top 20 host economies, 2020 and 2021 (US\$bn)



Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>)

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Australia's investment outlook is optimistic

Australia recently signed up to the AUKUS security partnership with the United Kingdom, and the United States. The partnership is aimed at enhancing security and defence cooperation among the three countries, particularly in the Indo-Pacific region. The partnership involves significant cooperation on a range of security and defence issues between the three countries, including cyber capabilities, artificial intelligence, quantum technologies, and additional joint military exercises and operations in the Indo-Pacific region.

At the heart of the AUKUS partnership is the phased pathway to nuclear-powered submarines. This will include the acquisition of 3 Virginia Class nuclear-powered submarines from the US (subject to US Congressional approval); and the production of AUKUS nuclear-powered submarines, which will be based on the UK's next generation design that incorporates technology from all three nations, including propulsion plant systems and components, and a common vertical launch system and weapons.

The pathway is set to cost between A\$268 billion and A\$368 billion over the next 30 years, which is the same scale as the US\$25.8 billion, when adjusted for inflation, that it cost to build and launch the Saturn V rockets that put astronauts on the moon.

We anticipate significant opportunities for industry and foreign companies looking to participate directly or adjacently in these significant government strategic commitments.



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Australia's investment outlook is optimistic

Investment and dealmaking in Australia largely mirrored international trends over the last few years - with 18 months of record breaking activity followed by a slowdown in 2022 (but still with higher value than some pre-pandemic years).

As Figure 4 shows, foreign investors accounted for 38 per cent of M&A deals in Australia last year, and 45 per cent by value. Last year's inbound deal total was the second highest of the past five years.

The sources of dealmaking replicates the FDI figures, with the United States and United Kingdom the largest source of foreign investment across the last five years (Figure 5).

Top inbound geographies (2018-22)		
Country	Investment totals	Investment value (US\$m)
USA	458	\$ 82,785
United Kingdom	139	\$ 25,662
Canada	89	\$ 28,018



Figure 4. Australian M&A: Domestic and inbound investment trends

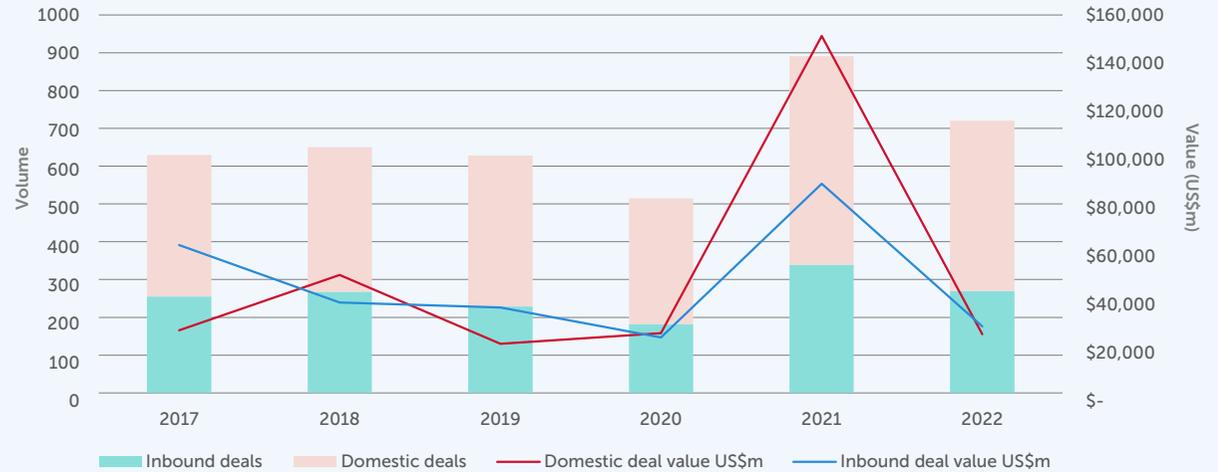
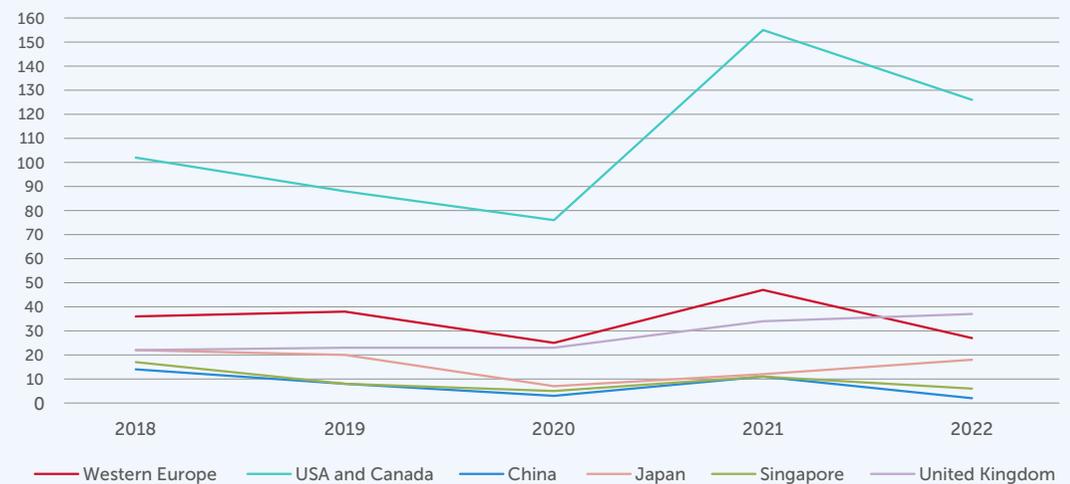


Figure 5. Australian dealmaking – Foreign inbound investment (Total deals)



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Australia's investment outlook is optimistic

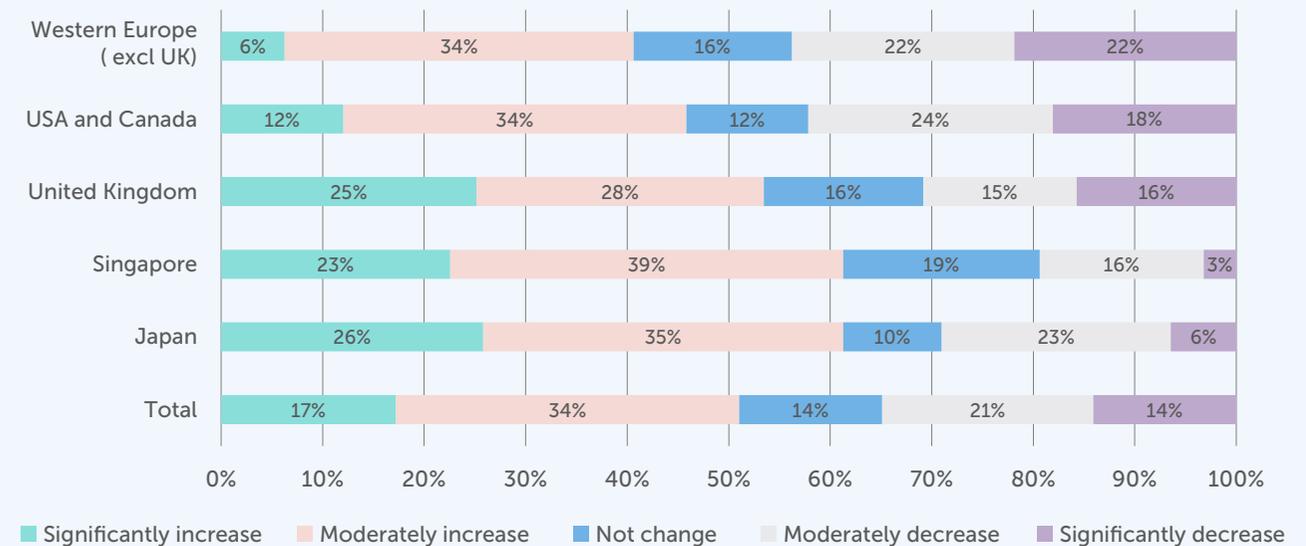
Uncertainty is the new norm – yet investment sentiment remains high

Global economic uncertainty has seen business leaders become less optimistic. As a result, there has been a shift towards more conservative deal flows and an overall atmosphere that is more austere.

Despite that, investment sentiment towards Australia amongst our respondents is relatively high. Foreign investors have Australia in their sights as they look outside their home markets for investment opportunities.

Even among the 35 per cent who say they will be scaling back investment, many note that this is being done on a global scale and reflects a worldwide retreat in transactions. Faced with a deteriorating global economic outlook, some are cutting back on investment everywhere, not just in Australia.

Figure 6. Are you planning to increase, decrease or not change your current level of investment into Australia in the next 12 months?



*NOTE: Geography split by respondent domicile market

More than half of respondents in the Sentiment Survey (51 per cent) intend to increase investments in Australia in the year ahead – and 17 per cent are planning to step up their activity significantly (Figure 6).



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Australia's investment outlook is optimistic

For investors braving uncertain market conditions in search of value, sentiment towards Australia remains highly positive. More than half (53 per cent) say Australia is among the top investment destinations outside their home markets where they will be looking for opportunities in the near-term. Only the United States (76 per cent)

and Western Europe (70 per cent) score higher – and Australia is well ahead of any other market in Asia Pacific (Figure 7).

Part of this may reflect respondents success in having met the original objectives of past investments. Respondents have suggested that geographical expansion,

acquisition of new technologies and vertical integration have been key objectives for past investments. However, as Figure 8 highlights, economies of scale, acquiring new technology and reaching new customers are front of mind for future investments into Australia.

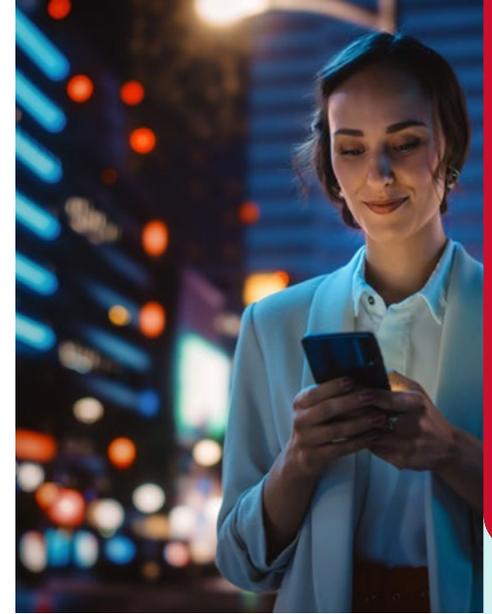


Figure 7. Outside of your home market, in which other markets are you actively looking to make investments in the next 12 months?

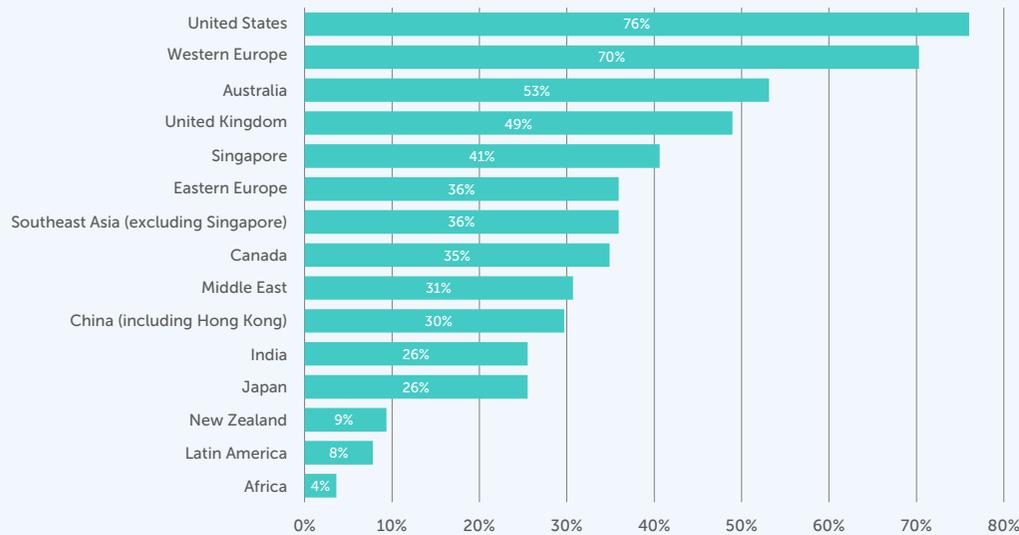
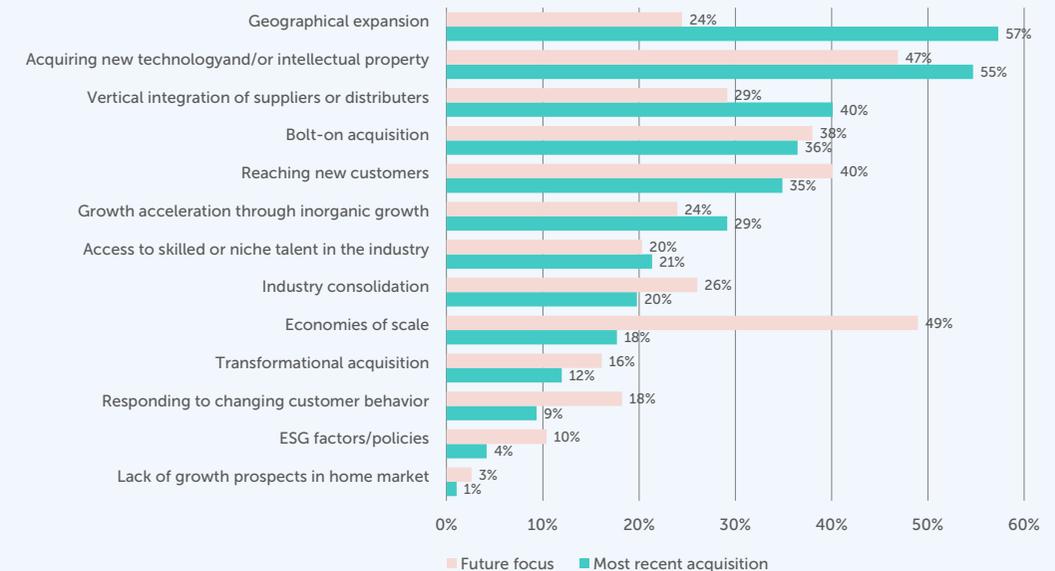


Figure 8. Which of the following best describes the key objectives of your most recent investment in Australia (please select all that apply)? What do you anticipate will be the focus of future investments? (select all that apply)



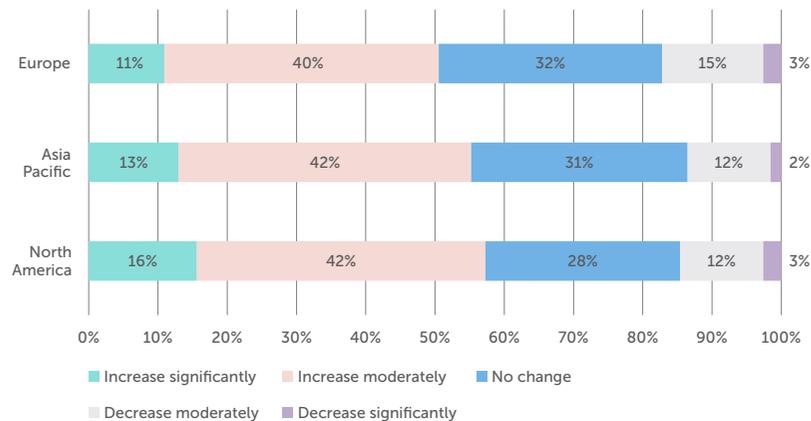
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Sentiment by geographic location

The international focus on Australia is genuinely global with most survey respondents foreseeing rising levels of interest and investment from buyers in every region over the next 12-24 months (Figure 9). It is not only Australia's nearest regional neighbours that are predicted to boost investments, North American and European investors will likewise play an active role through 2023 and 2024.

Figure 9. What do you expect will happen to the level of investment into Australia from the following international investor groups in the next 12-24 months?



North America

North America is tapped to lead investment through 2023, in line with historical trends where US and Canadian investors have far surpassed their peers in other regions (Figure 9). While activity in 2022 fell back from the year prior, it remained strong compared to previous years.

North American private equity investors have been particularly active in Australia, conducting a string of deals, such as KKR's purchase of Ramsay Health Care, Brookfield Asset Management's acquisition of telecoms group Uniti and Blackstone's deal for the casino operator Crown. There has also been significant North American interest in Australian infrastructure, including in the energy sector, where the country is increasingly focused on switching to renewables. This has recently been evidenced by the proposed takeover of Australia's Origin Energy by Brookfield and EIG. Demand for battery and critical minerals is also set to drive North American investment.



The sourcing process in Australia is very straightforward - we can find targets within the ideal valuation range."
- Head of Strategy at a Canadian energy company.

Brightmark (US), a waste solutions provider is building a A\$260 million advanced plastics renewal facility in Parkes Special Activation Precinct, the largest facility of its type outside the US. It will be able to process 200,000 tons of waste plastics.

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Australia's investment outlook is optimistic



ENGIE (France) has formed a joint venture with Mitsui & Co. Ltd (Japan) to build one of the world's first industrial-scale renewable hydrogen projects in the Pilbara region of Western Australia. The A\$87 million Yuri project includes:

- a 10-megawatt (MW) electrolyser to produce renewable hydrogen
- an 18 MW solar PV system to power the electrolyser
- an 8 MW / 5 MWh lithium-ion battery.

Once completed, the electrolyser is expected to be the largest in Australia.

In April 2023, it was announced that L'Oréal (France) acquired Melbourne based Aēsop for US\$2.523 billion. Aēsop is a luxury cosmetics brand, known for its plant-based and natural ingredients for skin, hair and body products. The transaction, which is subject to regulatory approvals, was conducted across numerous jurisdictions and is the largest brand acquisition by the French global beauty giant and the largest for any luxury brand in Australia.

MinterEllison acted as Australian and New Zealand legal advisor to L'Oréal on the acquisition.

Europe

For European investors, Australia offers a respite from many of the problems closer to home, including the war between Russia and Ukraine, which has hit supply chains and driven inflation. Australia's commodities sector also offers value – witness Rio Tinto's deal to buy Rincon Mining, for example. Given supply chain vulnerability to China, appetite for investments that provide security, and access to goods and commodities will likely continue to feature strongly in Australia.

Investment from Europe has remained consistent in recent years with Western Europe and the UK accounting for the second and third largest number of M&A deals. In value terms, the UK replaced the US and Canada as the top investor group in 2022 with US\$12.8bn in transactions.



Australia is a relatively attractive market ... There are strong economic developments, and the government is also involved in economic betterment plans.”
- Head of Finance at a European financial services firms

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Australia's investment outlook is optimistic

Asia Pacific

The strength of the Australian economy is a stand-out in the region, particularly given the headwinds that have battered the Chinese economy in recent years. Deals such as South Korea's Posco International's purchase of majority shares in Senex Energy highlight the demand in the region for Australian investments.

Japanese dealmakers were also busy in Australia last year. Conversely, there were small declines in the number of transactions that originated in both China and Singapore.



Companies in Australia have been very innovative in designing solutions that complement their business objectives."

- Director of Finance at a Japanese healthcare company

Hanwha Defence Australia, a subsidiary of Hanwha Corporation, South Korea's largest defence company commenced the construction on a new Armoured Vehicle Centre of Excellence at Avalon, Victoria. The state-of-the-facility will manufacture defence vehicles and is part of a A\$1 billion defence contract awarded to Hanwha Defence Australia in December 2021. It will be the first major manufacturing base for a South Korean defence company.



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Australia's investment outlook is optimistic

Australia vital to growth and restructuring

International investors now see Australia as vital to growth strategies and restructuring efforts as they prepare for challenging market conditions.

Deal objectives are shifting as foreign investors assess past Australian transactions and prepare for future moves. For many, this will take shape in changing priorities – from rapid expansion to improving efficiency and defensive manoeuvres to prepare for future uncertainty.

More than half of respondents (57 per cent) say recent investments were driven by geographical expansion priorities and new market opportunities (Figure 8). To a lesser but still important extent (40 per cent), this also involved vertical integration of suppliers and distributors. In this sense, some respondents say that investing in Australia was the first step in a broader strategy to expand within APAC.

Having achieved access to new markets, many respondents are putting greater focus on achieving economies of scale (cost advantages as they scale up their operations) in their future deals as they prepare to fight inflationary pressures and other macro challenges. Many will be looking for bolt-on acquisitions rather than transformative deals to reinforce core businesses.

More broadly, two macro-trends stand out that will drive foreign interest and provide a compelling reason to invest:

Positive demographics – The relative affluence of the Australian population provides opportunities; 35 per cent of respondents saw the need to reach new customers as a driver of their last transaction, while 40 per cent expect this to be an objective of future deals. The skill of Australia's workforce is also an attraction.

Innovation and tech disruption – Acquiring new technology and IP in Australia remains a clear strategic imperative as disruption sweeps industries, forcing many businesses to transform or perish. Investments in this field remain a top priority, with almost half (47 per cent) saying it will be a key objective for future Australian investments. We discuss this further in Part 3 of this series where we examine the impact and success factors businesses need to take into account as a result of Digital Transformation.



Dealmaking in Australia has increased because of its favourable policy and taxation regime ... The policies play a key role in driving more investor interest to the region”
- Chief Financial Officer of a US energy firm.



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Australia's investment outlook is optimistic

Regulatory outlook: A new government, a positive economic direction

It has been a year since the change of change of Australian Government in 2022, with Prime Minister Anthony Albanese so far proving to be a moderate – key economic policies around managing the cost of living, improving access to housing, and supporting manufacturing, as well as transitioning to a greener economy.

Fourty four per cent of respondents describe the Government's policies as very or moderately supportive of foreign investment (Figure 10). A further 27 per cent view their policy as neutral.

A cloud on the horizon?

In July 2022, the Australian Treasurer announced important changes to the Foreign Investment Review Board (FIRB) application fee regime, effectively doubling charges.

For 50 per cent of respondents, changes like these are regarded as likely to have a negative impact on their dealmaking decisions over the coming 12 months (Figure 11). And there is also some concern that the changes could presage further problems to come. "So far, [the new Government's] policies have not posed any major threats to investors," says the Director of Strategy at a US healthcare firm. "However, I anticipate many new changes that will make them more unsupportive; investors have to prepare well."

Figure 10. How supportive do you think Australian government policies are toward foreign investment at present?

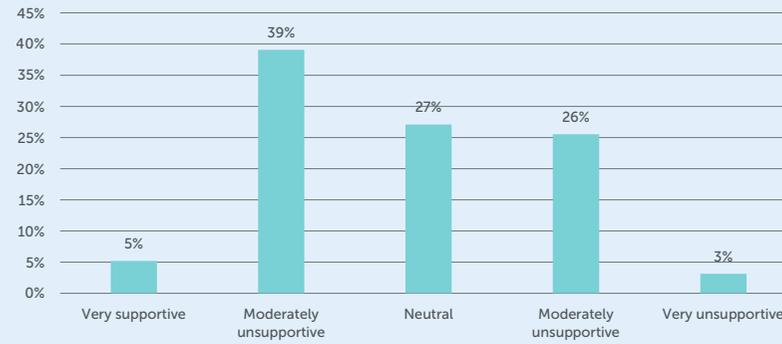
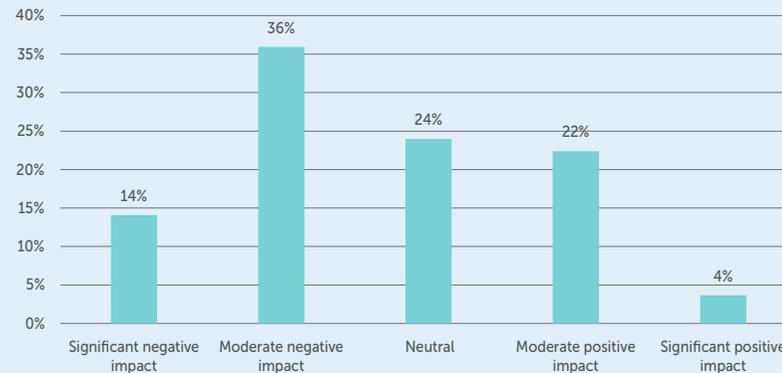


Figure 11. What impact will Australia's Foreign Investment Board developments (including its new fee regime) have on your deal making decisions during the next 12 months?



Look out for our next release in the series which touches on industry investment trends, due for release in the second half of 2023.

In closing

Despite global economic headwinds, Australia's investment outlook remains comparatively positive.

In Parts 2 and 3 of our Investor Sentiment Series to be released soon, we will further explore investment trends by sector and examine the factors that investors should take into consideration to set themselves up for success.

To obtain an advanced release of our upcoming reports, please sign up here.

In the meantime, we invite you to browse our other insight pieces that might be of interest.

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Meet our team



Brendan Clark
Managing Partner International
M +61 421 617 096



Jeremy Blackshaw
Managing Partner
Corporate and Capital Markets
M +61 411 206 218



Peter Bartlett
Partner
M +61 411 415 065



Mike Hales
Partner, UK Practice Leader
M +61 411 343 313



Rebecca Bedford
Partner,
Europe Co-Practice Leader
M +61 402 891 051



Geredad Dooley
Partner, Japan Practice Leader
M +61 437 080 653



Tom Shon
Partner, Korea Practice Leader
M +61 401 993 626



Adam Handley
Partner, China Practice Leader
M +61 478 486 825



Ker Wei Tiam
Partner,
Malaysia Practice Leader
M +61 432 220 074



Steven Wang
Partner,
Singapore Co-Practice Leader
M +61 421 587 374



Kate Koidl
Partner,
Singapore Co-Practice Leader
M +61 402 891 374



Ben Smith
Partner,
Asia and India Practice Leader
M +61 411 131 869



Wissam Abwi
Partner,
Middle East Practice Leader
M +61 410 603 506



Daniel Scotti
Partner,
North America Practice Leader
M +61 412 226 090



Bi Chen
Partner,
Chief Representative – Beijing
M +86 138 1165 8620



Michael Wadley
Senior Consultant,
Chief Representative – Shanghai
M +61 437 080 653



Michael Wallin
Partner, London and
Europe Co-Practice Leader
M +44 7921 940 563



Nicola Marley
Partner, London
M +44 7881 914 799

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