

PART 3/3

ACTIVATE

Investor Sentiment
Study 2023

MinterEllison.

METHODOLOGY >

MinterEllison conducted an independent survey study involving global decision makers considering investing in Australia. This study was conducted in partnership with Mergermarket. The study gathered insights into the investment intentions and perceptions of the Australian market among 192 decision makers. These respondents were evenly distributed across North America, Asia Pacific, and Europe. 85 per cent represented corporations and industrial participants, and 15 per cent represented financial sponsors, funds, or private equity firms. The survey encompassed various primary industries, including TMT, energy and resources, financial services, financial buyers, real estate and construction, agribusiness, consumer, and healthcare. Over the past 12-24 months, 79 per cent of respondents completed at least one investment in Australia.

The study is presented in a three-part series. Part 1 was released earlier this year, offering an overview of investment trends in Australia. Part 2 focused on sector-specific trends and overarching megatrends. This report (Part 3) brings the series to its conclusion by examining success factors pertinent to the evolving global landscape.

All responses were treated anonymously, and the results are presented in aggregate.

Investor Sentiment Study 2023

We trust you will enjoy reading this report which is the final part of our Investor Sentiment Study.

Please click here to read Parts [1 \(Evaluate\)](#) and [2 \(Magnify\)](#).

Produced in association with  **Mergermarket**

Contents

PART 1 – EVALUATE

PART 2 – MAGNIFY

PART 3 – ACTIVATE

Foreword Activate successful investments >

Brendan Clark
Managing Partner
International



Australia is an inviting and prosperous nation, with a multitude of investment opportunities. The nation's location within the Asia-Pacific region, along with its political stability and well-defined legal framework, provides certainty and security. With our educated workforce, a robust financial system, and abundant natural resources, Australia is a major player in global trade and investment.

Australia's proximity to China, Japan, South Korea, Singapore and Indonesia has elevated it as a significant hub for trade and investment, and its cultural ties to Asia, coupled with its language proficiency

Jeremy Blackshaw
Managing Partner
Corporate and Capital Markets



and regional insights have established its position as a gateway to the continent.

Australia boasts a small yet affluent population, a high standard of living, and a well-developed consumer market, making it a sought-after destination for businesses looking to introduce their products and services.

Australia's business-friendly atmosphere, supportive governmental policies, and robust infrastructure make it an ideal choice for enterprises seeking a foothold in the Asia-Pacific region before venturing further afield.

In this third and final part of our Investor Sentiment Study Report, we expand on the critical factors for consideration when investing into Australian projects and entering the Australian market.

Please click here to read Parts **1 (Evaluate)** and **2 (Magnify)**.

It is no surprise that numerous international businesses have chosen to expand their presence or establish themselves for the first time in Australia, recognising the opportunities this dynamic market affords.



In our 3-part series, we reveal insights into the investment perceptions and intentions of the Australian market by international decision makers."

Foreword – Activate successful investments

In this third and final part of our series, we explore key considerations that investors should take into account when investing in Australian projects or seeking to enter the Australian market.

These include the impact of ESG, Digitisation and Valuations. We also touch on the factors that come into play when assessing a deal and the challenges and risks that investors should consider to ensure successful investment ventures.

Despite economic and political headwinds, foreign investors remain cautiously optimistic about Australia.

They continue to see Australian as a source of opportunity, where challenges are outweighed by attractive rewards. We anticipate a positive trajectory, underlining the nation's resilience and allure for investors in 2023 and beyond.



Part 3

Activate successful investments



Focus #1: ESG

Australian businesses offer advantages regarding sustainability standards.

Australia is no stranger to the devastating effects of climate change. Australia's natural environment, economy, and society are all being impacted by its vulnerable ecosystems, unique wildlife, and delicate balance of water resources, coupled with rising temperatures, changing rainfall patterns, and more frequent extreme weather events.

As a result, there is a growing recognition that Environmental, Social, and Governance (ESG) issues are not only important for the well-being of the planet, but also for the long-term sustainability and success of businesses operating in Australia.

When making key investment decisions, foreign investors are increasingly putting ESG considerations in the centre of the investment process. This has the tendency to add to the already abundant complexities of investing for foreign investors, particularly with regard to due diligence.

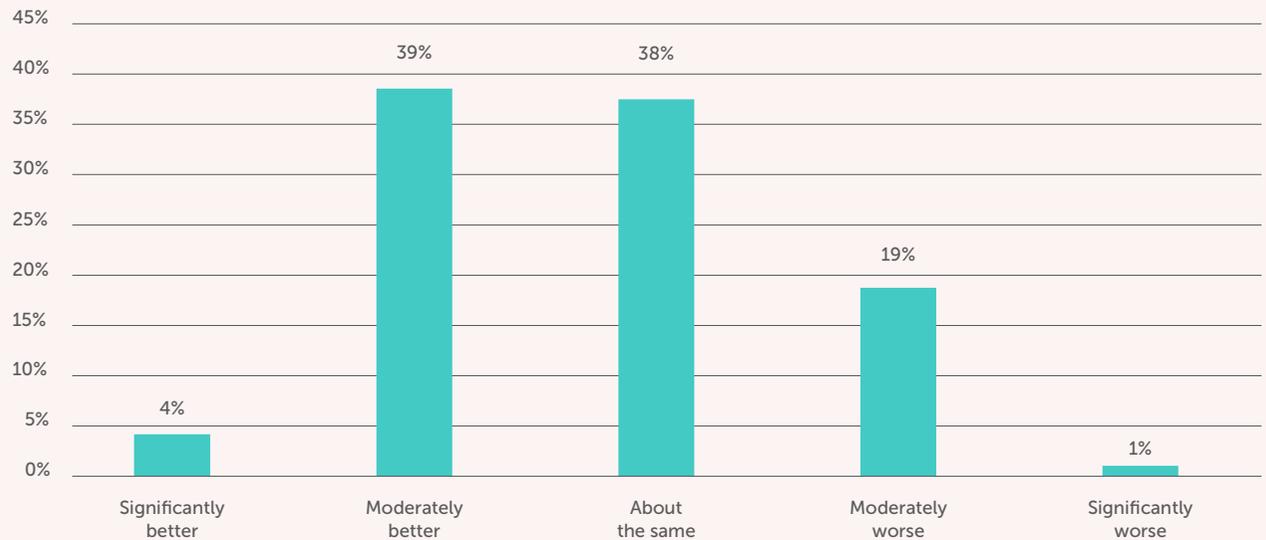


However, many respondents feel Australian businesses are advanced in this domain relative to their counterparts across the region.

Close to half of respondents (43 per cent) say Australian businesses are more mature in the way they deal with ESG issues, such as corporate approaches to strategy and risk management as demonstrated in Figure 1.

Another 38 per cent say they are at least equal with their peers in other APAC and global markets. Many corporates in other regions are focusing on greenwashing as opposed to a straightforward risk management approach," says the Head of Strategy at a TMT company in Japan. "Australia fares better than them."

Figure 1. Overall, how do you perceive the maturity of corporate approaches to strategy and risk management in relation to ESG issues in Australia compared to those in other APAC markets and global markets (North America and Western Europe)?



Investment trends

Focus #1: ESG

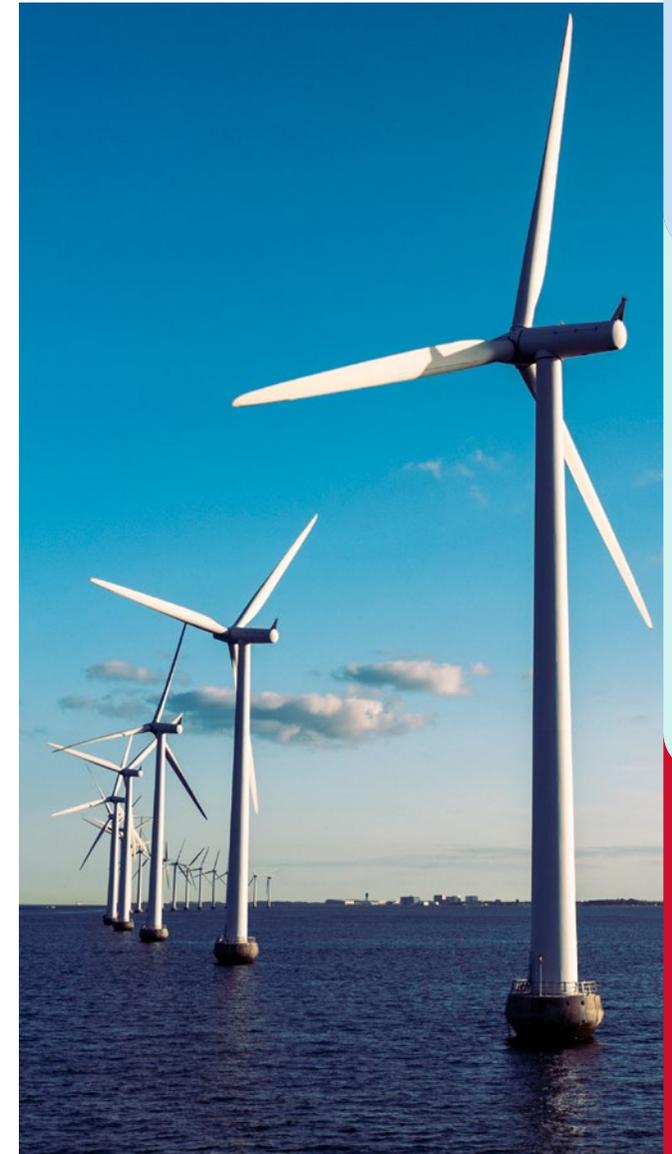
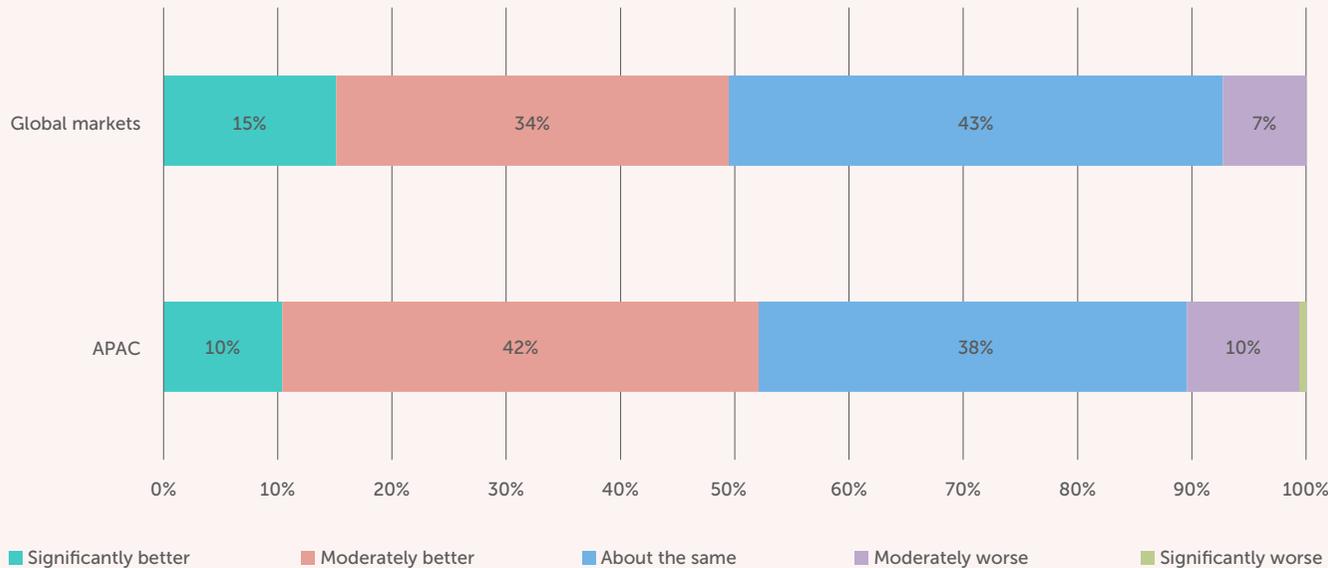
Equally, respondents say that regulatory obligations regarding corporate management of ESG issues are stricter in Australia than elsewhere (Figure 2).

Indeed, new regulation, such as the Climate Change Act 2022, is coming into force and the Labor Government's focus on decarbonisation will likely see further legislation.

For investors in Australia – many of whom are highly ESG-conscious – this is weighing heavily on their perceptions of the market.

There are a number of Australia-specific ESG factors that offshore investors will need to be aware of and take into account. Some of these include aboriginal rights, biodiversity and environmental issues.

Figure 2. How do you perceive the stringency of regulatory obligation in relation to corporate management of ESG issues in Australia compared to those in other APAC markets and global markets (North America and Western Europe)?



Investment trends

Focus #1: ESG

Australia is ranked sixth in the world on EY's latest Renewable Energy Country Attractiveness Index for renewable energy investment and deployment opportunities. There is significant potential for both renewable investment and broader green economy investment in Australia, driven by growth in government funding, abundant natural resources, and Australia's ability to develop solutions for global supply chains, especially in critical and battery minerals.

By way of example, Australia is tackling climate change by legislating a respectable emissions reduction target of 43 per cent by 2030 and to net zero by 2050. This provides investors with confidence on Australia's transition to net zero.¹

The Australian Government's committed focus on climate change has firmly placed Australia among the most appealing markets for renewable energy investment as it evolves to be a serious exporter of renewable energy by 2030, thanks to its ample natural resources and abundance of rare earth and other minerals. This strategic national goal from Government combined with its vast natural resources makes Australia a significant potential destination for investors who want to export renewable energy.²

¹ Why Australia – Benchmark Report 2023, Australian Trade and Investment Commission (pages 2, 31 and 36)

² Why Australia – Benchmark Report 2023, Australian Trade and Investment Commission (pages 2, 31 and 36)

According to fDiMarkets, Australia has already attracted 10 renewable energy projects in the first half of 2022, worth a total of US\$6.4 billion. This includes investments by Italy's Enel Green Power and Belgium-based Nyrstar. These companies recognise that Australia's natural advantages offer extensive investment opportunities in:

- clean hydrogen
- renewables – wind, solar, energy storage
- microgrids and storage solutions
- future fuel technologies.

Over the last year, Australia has signed significant bilateral arrangements with Singapore (Green Economy Agreement) and Japan (Critical Minerals Partnership) amongst others to promote opportunities and collaborate around research, investment and commercial projects.



Investment trends

Focus #1: ESG

Whilst not of the size and scale of the US Inflation Reduction Act and other measures, the Australian Government has committed record funding of almost A\$25 billion to clean and renewable energy spending, providing greater direction and backing the Government's net zero commitment by 2050.

Some of the major components include:

- **Rewiring the Nation:** A\$20 billion to modernise Australia's electricity grid, including investing in the Marinus Link to connect Tasmania's Battery of the Nation pumped hydro and renewables to the East Coast transmission network, as well as fast-track Victoria's Renewable Energy Zones and its industry-leading offshore wind developments.
- **The Driving the Nation Fund:** A\$500 million to help reduce transport emissions, including building electric vehicle charging infrastructure and hydrogen highways for key freight routes.
- **Powering the Regions Fund:** A\$1.9 billion. The fund will support Australian industry to decarbonise, develop new clean energy industries and help build Australia's new energy workforce.
- **Community Batteries for Household Solar Program:** A\$224.3 million to deliver up to 400 community batteries to store excess solar energy.



Focus #2: Digital transformation

The digital agenda has never been more important – and respondents are turning to Australia to bolster their innovative edge.

Using digital transformation to boost growth and revitalise business models is top of mind for many foreign investors. It is the second greatest priority for respondents as they source opportunities – and Australian businesses and target investments have not failed to deliver in this domain. In fact, Australia is proving to be a rewarding market in which to develop digital technologies, evidenced by the fact that Australia's stand alone A\$167 billion technology sector has grown by 80 per cent in 5 years and is now the third biggest contributor to GDP in Australia according to the Why Australia – Benchmark Report 2023 by the Australian Trade and Investment Commission (Austrade).³

Rapid digital adoption in Australia

As technology continues to advance and consumer expectations shift, companies in Australia are rethinking how they operate to stay competitive. According to the Senior Vice President of a European TMT business, "The digital environment in Australia is strong. We are considering cross-sector investments to improve our technology applications."

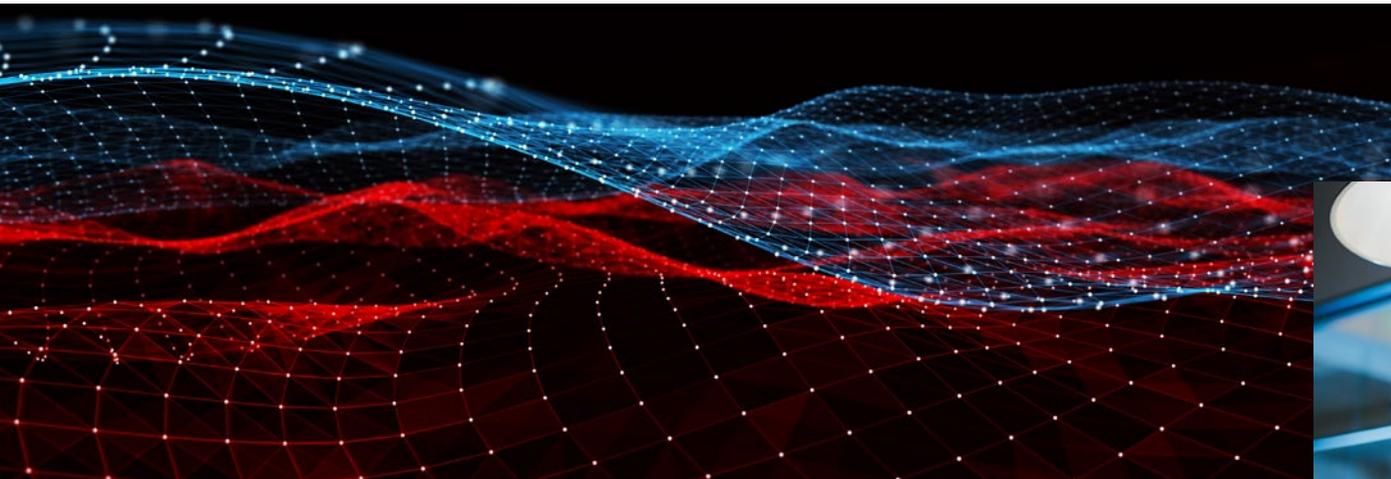
Another respondent goes on to say that "There is an innovation culture in Australia. Companies are always focused on optimising their operations by including new technologies in their business activities."

The above observations are in line with the rapid digital uptake by Australian businesses. As reported by Austrade, Australian businesses increased their IT spend in 2022 by 13 per cent from the prior year to A\$117 billion. This is compared to a global growth rate of only 4 per cent.⁴

The Australian Government, states and territories are strong supporters of digital investment and uptake by Australian enterprises. The Tech Council of Australia has set a target for technology to deliver A\$250 billion per annum to Australia's GDP by 2030. This would be the equivalent of growing the tech workforce in Australia by 40 per cent to 1.2 million in 2030.

³ Why Australia – Digital Technology Report (pg 4), Australian Trade and Investment Commission | Why Australia – Benchmark Report 2023 (pg 17), Australian Trade and Investment Commission.

⁴ Why Australia – Digital Technology Report (pg 4), Australian Trade and Investment Commission | Why Australia – Benchmark Report 2023 (pg 23), Australian Trade and Investment Commission.



Investment trends

Focus #2: Digital transformation

The extent to which investors in Australia are prioritising the acquisition of new technology or intellectual property varies by both sector and – to a lesser extent – by the geography of the acquirer. Investors in the technology sector, along with their counterparts in healthcare are particularly focused on this driver when making investments (Figure 3).

Similarly, while 53 per cent of investors in Europe expect their next investment in Australia to be focused on technology and intellectual property, only 38 per cent of their peers in North America say the same (Figure 4).



Figure 3. Industry split of respondent sentiments regarding “Acquiring new technology and/or IP”

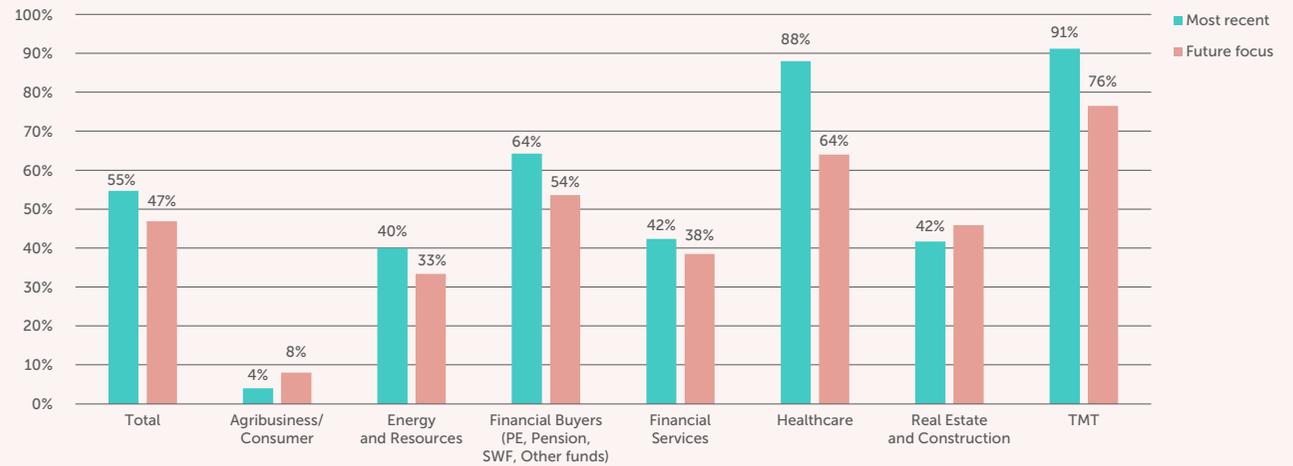
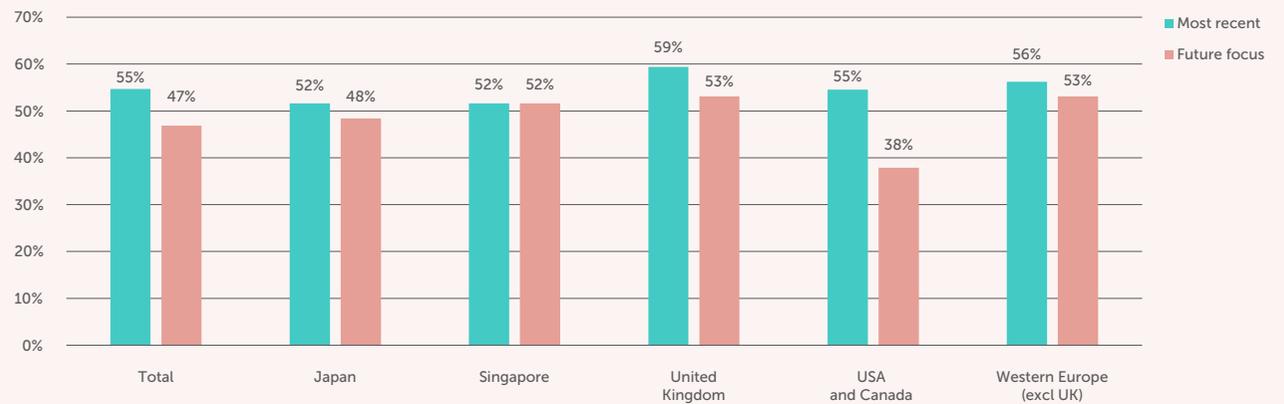


Figure 4. Geographic split of respondent sentiments regarding “Acquiring new technology and/or IP”



Focus #3: Valuations and other challenges

Respondents warn that finding common ground on price can prove costly in terms of time and resources.

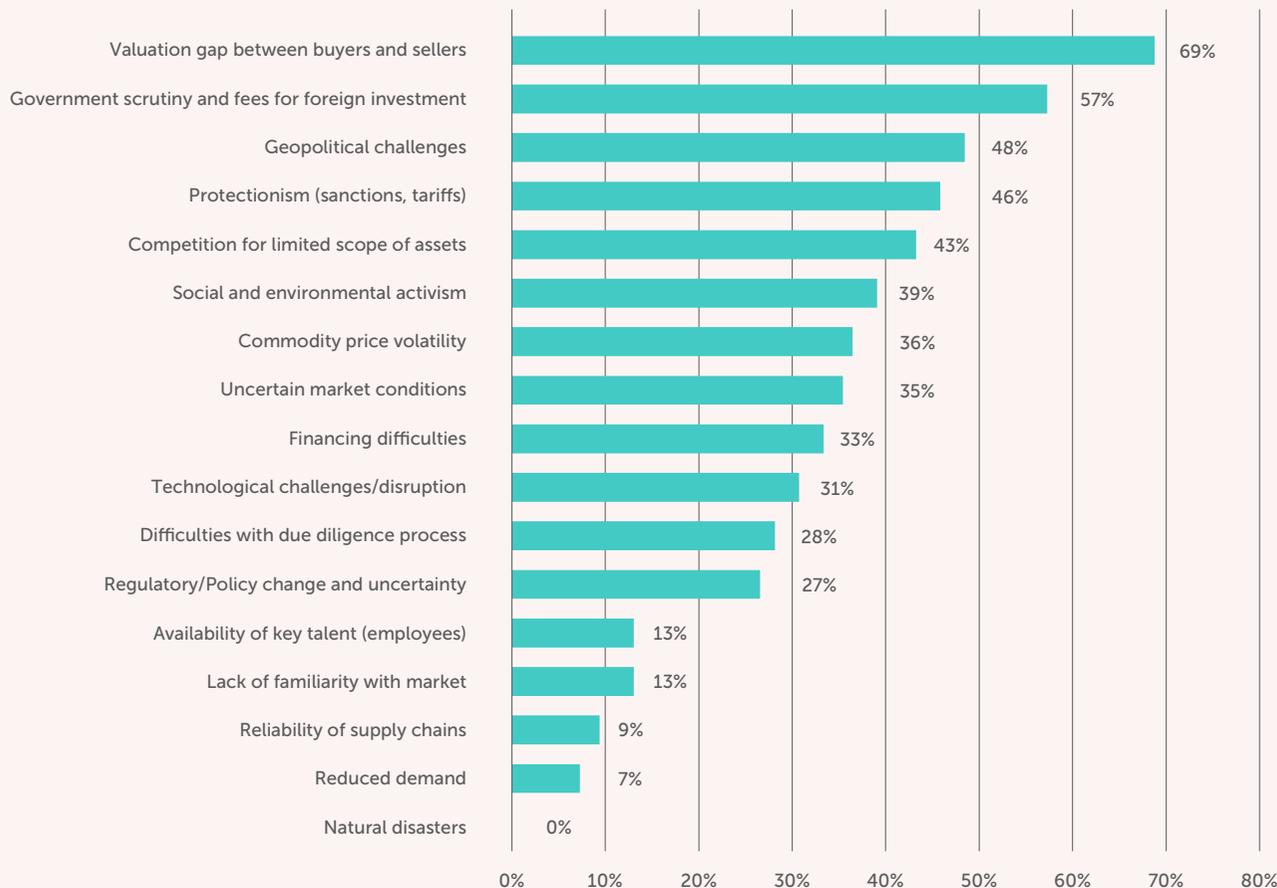
Given the strength of investment activity – particularly the surge in M&A in 2021 – valuation is an inevitable issue in the current market. With so much demand for Australian assets, sellers have become used to premium prices, and while the market may now be adjusting to levels of activity closer to historic norms, expectations will take some time to subside.

Overall, 69 per cent of respondents see the gap in price expectations between buyers and sellers as the main challenge they will face – and a standout figure and one particularly higher than other expected future risks (Figure 5).

Elevated inflation, supply chain disruption, labour shortages, rapidly rising interest rates, regulatory change, geopolitical instability and global recessionary fears have all contributed to the valuation gap.

Dealing with this challenge is not straightforward. “Sellers and buyers have different perceptions about the company’s financials,” says the Senior Director of a North American TMT company, who also points out that the disruptions to trading caused by Covid-19 make it difficult to get an accurate picture of recent performance. “Sellers will insist that their operations would have remained profitable under the usual circumstances.”

Figure 5. What are the greatest challenges facing foreign investors into Australia in the year ahead? (Select all that apply)



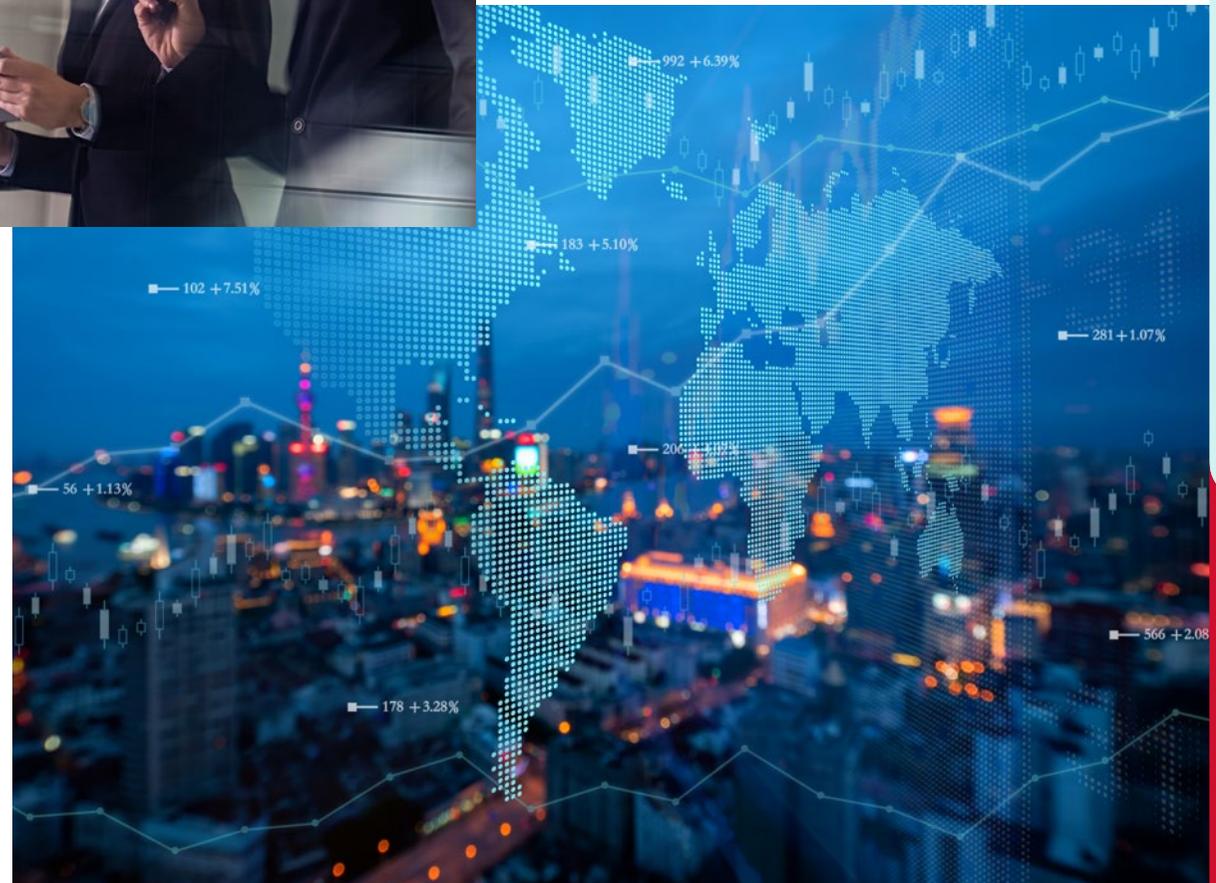
Investment trends

Focus #3: Valuations and other challenges

The danger is that resolving these disagreements adds time and cost to the investment process – at worst, it can result in the transaction collapsing altogether. “Valuation gaps will result in extended timelines,” warns the Director of International Development at a US real estate business. “The negotiation process cannot be completed within the desired time and the cost of acquisition or investment will be higher.”

The next most common challenge facing foreign investors relates to Government scrutiny, with 57 per cent of respondents pointing to this issue. Certainly, the higher charges introduced by the FIRB are part of this story, but this figure may also reflect anxiety about potential reforms to come from Australia’s new Government.

More broadly, investors worry about geopolitical issues and economic challenges. The war in Ukraine continues to cast a shadow, but deteriorating relationships between Western countries and China are an issue closer to home. On the economy, inflation in Australia had risen above 7 per cent by the end of 2022, prompting warnings of further interest rate rises to come.



Focus #4: Assessing the deal

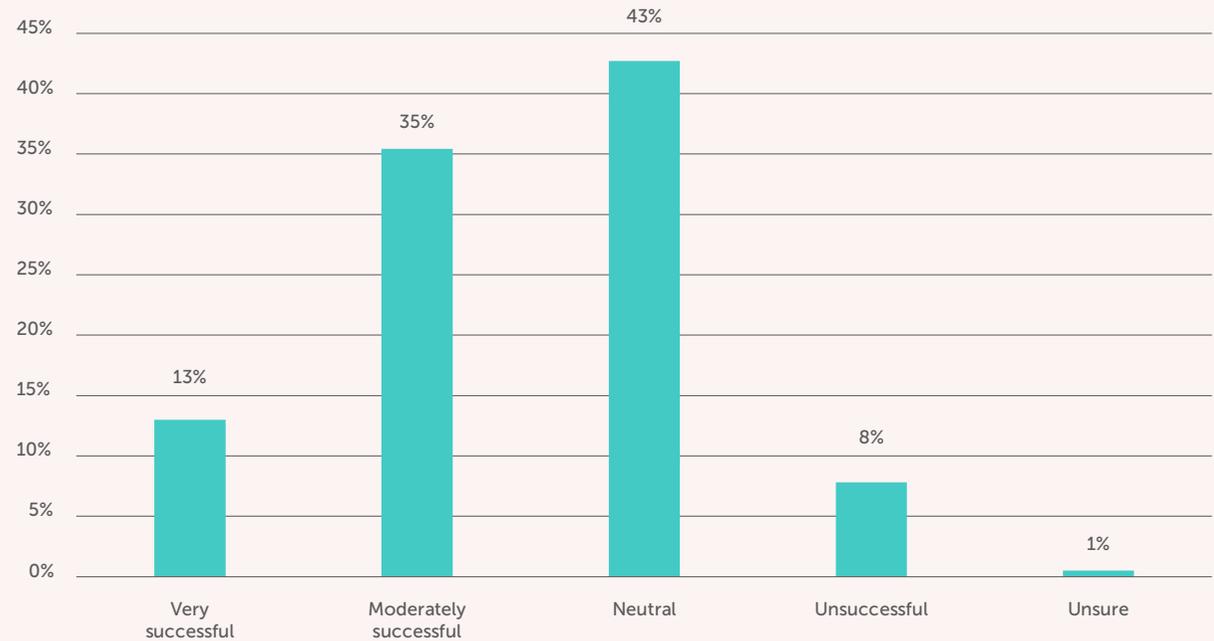
Respondents are split on whether recent investments yielded expected value – although this may be due to a lack of planning and resource commitment.

Looking back on recent investments into Australia, respondents are split regarding the outcome of their efforts. While almost half (49 per cent) say they were satisfied with the results, most of the remaining respondents (43 per cent) felt outcomes were lukewarm at best (Figure 6).

This is not to suggest that the latter half were necessarily disappointed with their investments – and furthermore, only a small minority (8 per cent) say their investments ultimately failed to produce desired results – but it does beg the question as to factors contributing to these sentiments.

In some instances, it may simply be a matter of timing and that some investors are only beginning to realise the benefits of their investments. Short-term issues could eventually yield long-term positives and synergies.

Figure 6. How would you rate your most recent investment into Australia?



Investment trends

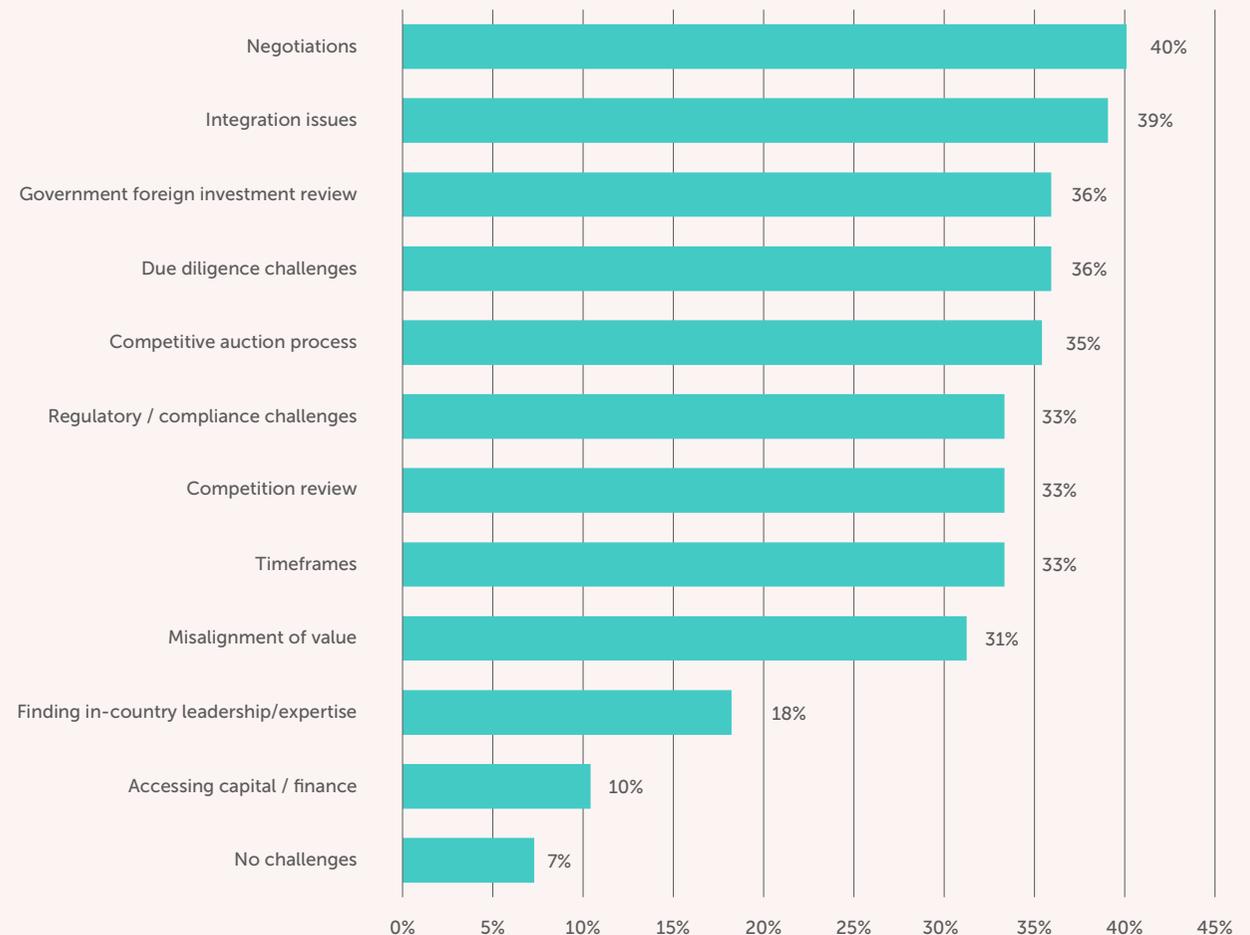
Focus #4: Assessing the deal

It is important to consider the nature of investments over the past two years. Particularly regarding M&A, the frenetic pace of dealmaking saw investors rushing to scoop up assets against rising competition. Many investors today may simply be experiencing buyer's remorse having not completed effective due diligence on assets or overpaying on valuations.

Indeed, in the rush to find and complete transactions, many investors may have overestimated the challenges involved. Specifically, 40 per cent of respondents state that negotiations created problems in their recent investments, with an equally large number (39 per cent) noting that integration issues impacted the process (Figure 7). Many also point to due diligence, uncovering details about how assets and target businesses may have been impacted by the pandemic. This includes how they are positioned to weather new challenges arising from inflation and interest rate hikes.



Figure 7. Were there any particular issues which made your recent investment process challenging?



Investment trends

Focus #4: Assessing the deal

Navigating challenges: The value of advisors and local experts

One area foreign investors may be overlooking are the advantages of partnering with local advisors and knowledge-experts in Australia. Overall, only 38 per cent of respondents have used an advisor in recent investments – but of this cohort, most (79 per cent) say these local experts added value and support to the process and outcome (Figures 8 and 9).

Specifically, respondents note that they were able to complete transactions in a timely manner and secure the value they had hoped for. Others point to the invaluable guidance provided in navigating the Australian market, particularly from a regulatory and risk management perspective.

Figure 8. Have you consulted local advisors to assist with previous investments into Australia?

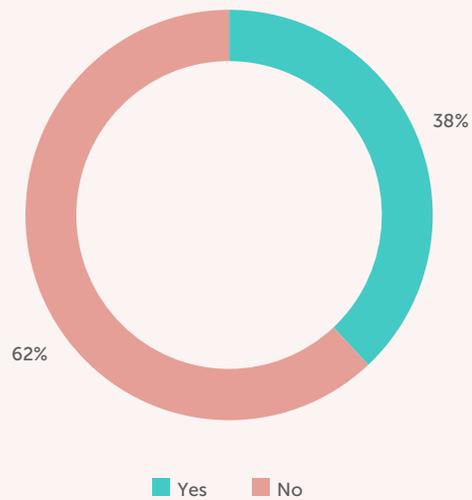
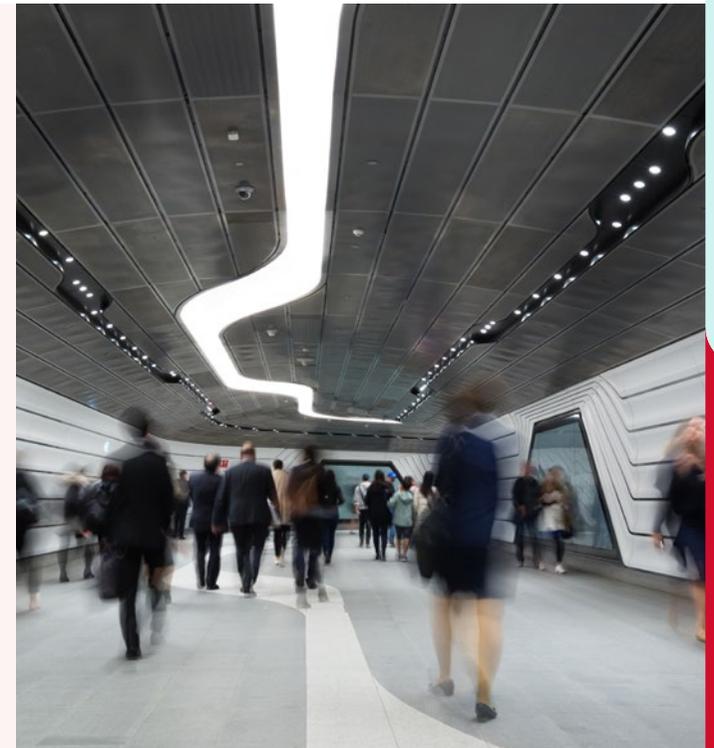
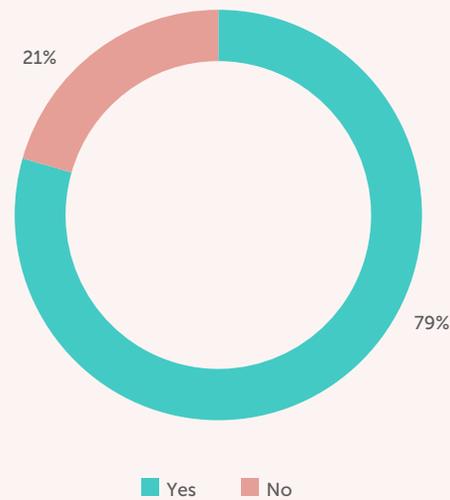


Figure 9. If 'Yes', were these advisors helpful to completing your transaction in a timely manner and yielding the intended value from the investment?



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Conclusion

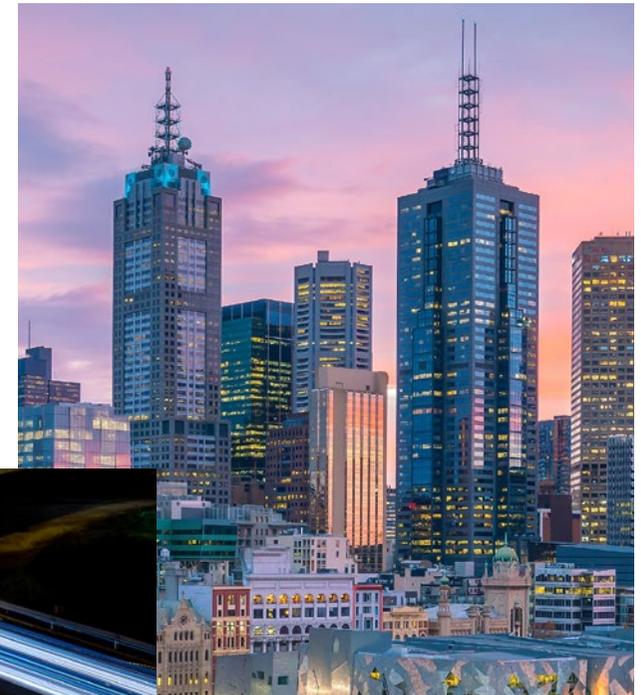
In a world characterised by increasing volatility and uncertainty, Australia has much to offer foreign investors. Across multiple sectors, it is home to a range of attractive opportunities, all set against a backdrop of stability and economic resilience.

However, success for investing in Australia is not guaranteed.

To exploit this potential, investors need to be well prepared. Target selection is more important than ever – the imperative is to identify businesses that clearly align to investors’ strategic and commercial goals, rather than to rush in. Similarly, in an environment where sellers have become accustomed to commanding premium valuations, buyers must be ready to negotiate hard – and accept that this may mean investments take longer to conclude. And once deals are agreed, the work on the integration required to secure value must begin at once.

The political and economic environment cannot be taken for granted. Australia’s economy is not immune to global headwinds, even if it is coping with them better than most. Inflation and supply chain disruption, for example, are problems that are unlikely to go away anytime soon. Likewise, the political landscape can change quickly – the new Labor Government has so far proved benign for foreign investors, but its approach could harden. The new fee scale at the FIRB has already alarmed some.

Overall, however, Australia remains a land of opportunity. Investors from every region of the world will continue to explore its potential to improve their business performance. Destination Australia is a continuing story for foreign investors.



MAGNIFY

EVALUATE

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PART 3/3

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