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# THE ALTUM DEAL PODCAST

**Inside the \$9.1bn deal for Altium - a new benchmark on reverse break fees and Japanese buyers return**

**KWM Corporate M&A Partners Dan Natale and David Friedlander recently advised Altium in its \$9.1bn acquisition by business partner, Japanese electronics manufacturer Renesas. They spoke with fellow Partner Antonella Pacitti about the transaction - Australia's largest public M&A deal for 2024 so far. The trio discuss the strength of Japanese interest in Australian markets and analysing its most noteworthy point - the substantial reverse-break fee protecting Altium if the deal did not win regulatory approval. The key question – what does it mean for future deals?**

Below is an edited transcript of that conversation. You can listen to their full discussion by searching for KWM Podcasts on Apple or Spotify.

## **ANTONELLA PACITTI**

Dave, you've been with Altium on its journey for 20 - 25 years? From fledgling company to now... Tell us about what it does, about your relationship and our relationship with Altium as a firm?

## **DAVID FRIEDLANDER**

Altium is an Australian founded, now multinational software company headquartered in California, with a focus on computer-assisted design of printed circuit boards and embedded system development. Founded in 1995 in Tasmania, we worked on its IPO, we helped it through all its different stages as an ASX listed company. It partnered with Renesas about 2 years ago. And that's where the negotiations [for this deal] began.

## **ANTONELLA PACITTI**

A real credit to the power of relationships. For the benefit of the audience, let's jump a little bit forward first, Dan, can you talk us through the terms of the deal that you and Dave have extracted for this acquisition?

## **DANIEL NATALE**

The deal values the company at about \$9.1 billion. Renesas will purchase all Altium's shares for \$68.50 per share in cash. It has the unanimous support of both companies' boards. The price represents a whopping premium of approximately 34% to the closing price the day prior to the transaction announcement.

## **ANTONELLA PACITTI**

Dave, late last year we were saying 'watch out for the Japanese buyers, they're coming back'. Are they well and truly back?

## **DAVID FRIEDLANDER**

Absolutely. I mean, all the conditions are right for Japanese M&A. The two biggest deals in the last few months - Link market services, and then this one - both billion-dollar deals, both Japanese acquirers.

Why do you think that is, Dan?

## **DANIEL NATALE**

It's simple macroeconomics at one level. Low interest rates in Japan compared to the rest of the world. You've got a lot of money washing around looking for a strategic home. Australia is a particularly good jurisdiction to put that money to work. We've got a good system for takeovers, and we're part of the overall Asian growth story. We're hearing multiple inbounds from Japanese acquirers.

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Antonella, what are you seeing and hearing in Perth, the crucible for resources, energy, deal-making?

**ANTONELLA PACITTI**

Much more Japanese interest especially in critical minerals. There's undoubtedly more ability to partner with the Japanese commodity houses than other global partners - without potentially compromising access to all-important government funding in Australia and the US.

The Japanese are known quantity when it comes to making deals happen to support manufacturing, innovation and accessing natural resources. There's often cash involved as well. When Japanese buyers come knocking, it can be a real benefit for target shareholders.

OK Dan and Dave, let's get back to this deal. Two key points for our listeners: One, this is not the first time that Altium has been approached. Two, it's got a really noteworthy protection which you've negotiated for Altium. Dave, talk us through the earlier Autodesk approach?

**DAVID FRIEDLANDER**

Several years back Altium had been approached quite publicly by Autodesk, an offer that also wound up in the public domain. At that time, its strategy projected a value well in excess of the offer price. This deal ultimately proves that the strategy was right. It's significantly higher. And the Renesas negotiation importantly remained confidential right up until announcement.

**ANTONELLA PACITTI**

A really interesting feature - which the AFR picked up on - was the very substantial 4.5% reverse break fee. Dan, talk us through how you went about this for Altium?

**DANIEL NATALE**

It's tied to Renesas winning regulatory approval which includes approval from the US, which is very rare in this market at least - to have a reverse break fee tied to winning regulatory approval.

Negotiating this protection for Altium addresses an issue for target companies since Dave's earlier Pendal deal with Perpetual. There the bidder had argued that it could assume it's rather paltry reverse break fee of 1% of deal value acted like an option - they could simply pay it and walk away if they found a better deal. That was first time the Australian court considered the issue - and found a bidder couldn't simply walk away without an express right. The court had a discretion to hold the bidder to its bargain. But the important point there is, it was only ever a discretion.

Obviously a higher break fee deters any bidder from trying to walk away. That's what we've negotiated here - it heavily incentivizes them to obtain the regulatory approvals.

Antonella, you were involved in one of the largest deals of the last 12 months, Newmont's \$26bn acquisition of fellow miner Newcrest. What would have happened in that case, had the deal fallen over?

**ANTONELLA PACITTI**

I think the key difference there is, of course, team KWM acting for the foreign bidder in that one and pushing hard in that case for suitable equivalency between the break fee and the reverse break fee! We landed on a reverse break fee of about 2.2%. - So, dwarfed by what you were able to achieve for Altium, and without a trigger for regulatory approval. That trigger was limited to reimbursement of actual third-party costs.

The point is you must take the full circumstances of bidder, target and the deal into account negotiating what is legitimate for both parties. In Newmont we viewed regulatory approval and risk as a shared problem. We had some very common shareholders already between Newmont and Newcrest. So maybe there was a broader perspective for Newcrest's board as to what they were willing to extract, to maintain deal certainty and obtain those regulatory approvals.

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Dan, Dave. Any other reflections on reverse break fees before we wrap up?

**DANIEL NATALE**

***We haven't heard the last on the reverse break fee dance. Our transaction marks first time we've had a fee of that magnitude, and I thin'it opens the door for the more nuanced discussion...***

than the discussion to date, which is on equivalency between the break fee and the reverse fee.

**DAVID FRIEDLANDER**

Having lived through Pendal - Perpetual, it's absolutely crystal clear that there's no equivalency. As the target you are toast if the bidder walks. I always say this: The bidder is the one who's marched you up the hill. It can't leave you stranded there. 1% isn't going to help you or your shareholders.

One last reflection on Altium, having been on the journey with them. There's nothing like watching a client be consistent and single minded about its strategy - and being clear to the market about its strategy. What that means is that your shareholders will have faith in you when you say no to Autodesk, but also have faith in you when you say yes to a Renesas - that we've partnered with Renesas on number of things as a client. We got to know each other, and we realize that our next stage of growth needs to be together. That's why you can look at this not from a 2023, 2024 perspective, but really as a very successful deal in the whole life of that company.





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