

M&A DEALS

AUSTRALIAN YEAR IN REVIEW

FY2021



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INTRODUCTION

The financial year ended 30 June 2021 (FY2021) has been an 'interesting year' for M&A and economies in general. Following the initial impacts of the COVID-19 pandemic and level of uncertainty in the market, we saw M&A activity drop in Q4 of FY2020.

However, FY2021 saw increased certainty on how Australia would live with COVID. Many individuals increased savings as a result of strict restrictions, governments pumped cash into the business economy at unprecedented rates and banks continued to provide access to cheap capital. As a result, we saw resilience in local and global markets as deal activity increased during FY2021.

This report analyses deal volume, pricing and industries, as well as providing an overview of deal activity in the SME space and highlighting some of the deals HLB Mann Judd assisted with.

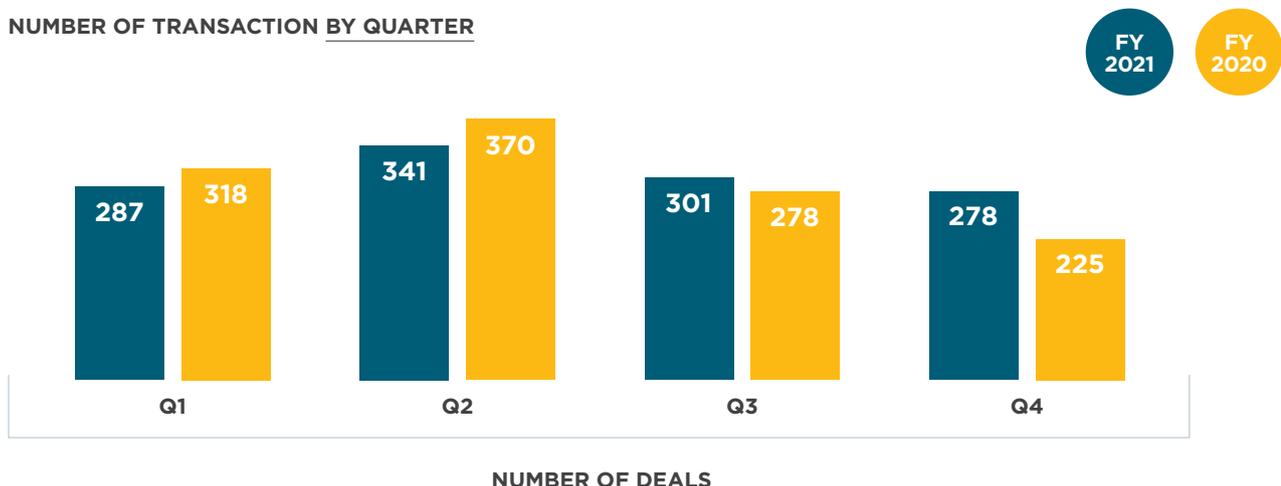
In our analysis we have excluded transactions with a gross transaction value greater than \$5 billion.

NUMBER OF TRANSACTIONS

Following a decline in deal values in the final quarter of FY2020 as a result of economic uncertainty stemming from the COVID-19 pandemic, FY2021 saw a rebound in deal activity. Based on publicly available data, 1,207 deals completed in FY2021, a slight increase from 1,191 in FY2020.

The graph below shows deal values by quarter, with Q2 FY2021 coming in with the highest number of deals in FY2021, likely from the push to complete transactions before the calendar year end. This trend is consistent with FY2020.

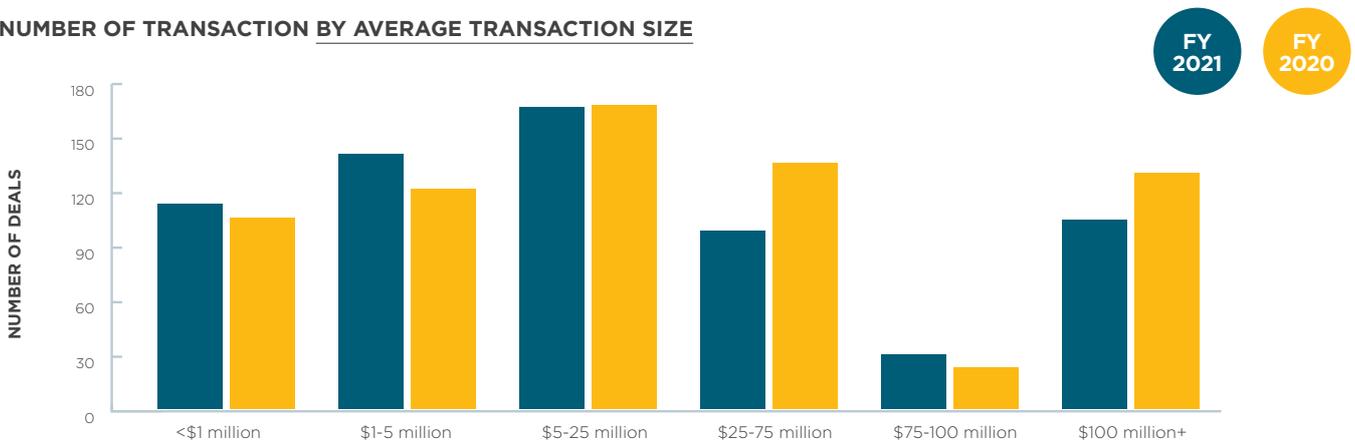
NUMBER OF TRANSACTION BY QUARTER



TRANSACTION VALUES

While the number of deals increased in FY2021, the average transaction size decreased from \$113.2 million in FY2020 to \$88.6 million in FY2021. As shown in the graph below, the decrease in the average deal size was driven by a redistribution in the size of deals, with more deals in FY2021 below \$5 million and deals completed over \$25 million. This may reflect opportunism within the market as a result of the ongoing COVID-19 pandemic with companies keen to complete opportunistic smaller deals that presented themselves.

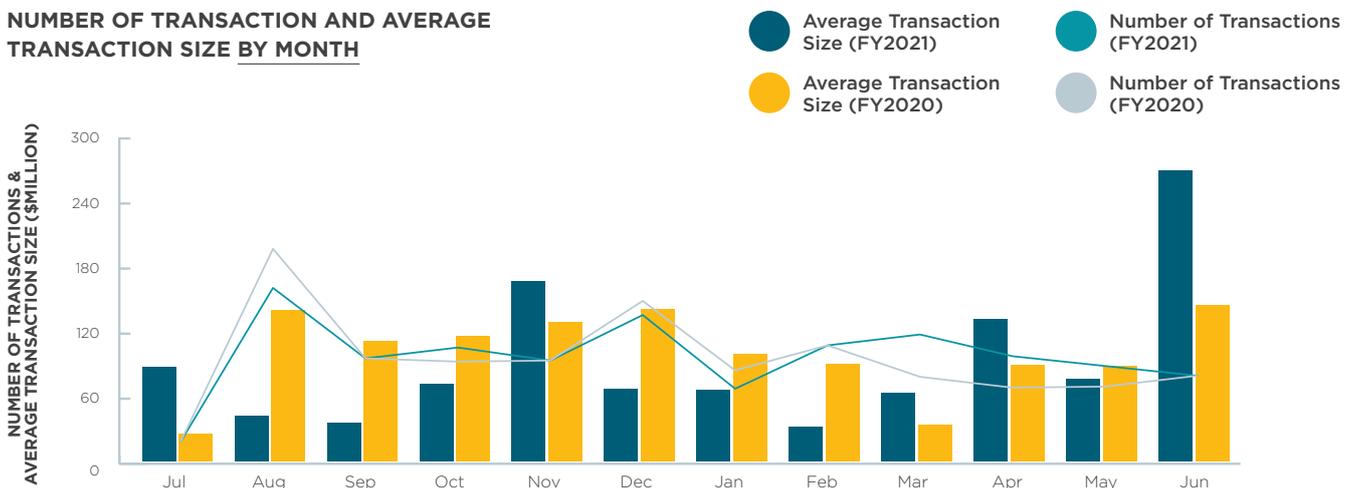
NUMBER OF TRANSACTION BY AVERAGE TRANSACTION SIZE



When looking at transactions on a monthly basis (in the graph below), the impact of the COVID-19 pandemic is apparent. While the number of transactions in each month appears relatively consistent when comparing FY2021 and FY2020, there was a noticeable drop in the number of transactions during March to June 2020, when the effects of the COVID-19 pandemic were first being experienced. In addition, the average transaction size was lower in 2020 compared to 2021 during the same months. The average transaction size remained below \$100 million through to October 2020.

The number of transactions is comparable to the prior year before COVID-19, supporting the idea that transactions rebounded, but did not reach the transaction sizes seen during calendar year 2019. The average multiple for deals decreased from 16.9x in FY2020 to 11.0x in FY2021, reflecting the increased risk perceived by purchasers.

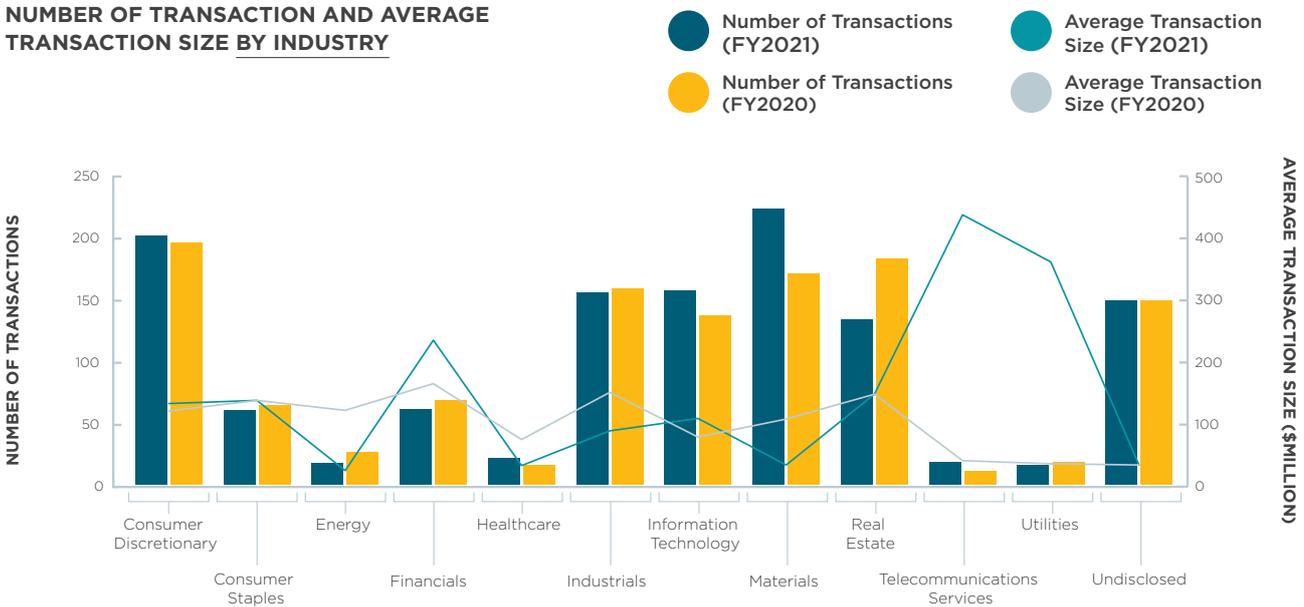
NUMBER OF TRANSACTION AND AVERAGE TRANSACTION SIZE BY MONTH



INDUSTRY ANALYSIS

While the materials and information technology industries saw an increase in the number of transactions during FY2021, the average transaction size was approximately the same or lower compared to FY2020. The financials, telecommunications and utilities industries experienced an increase in the average transaction size in FY2021, suggesting that they may not have been as heavily impacted by the COVID-19 pandemic other industries.

NUMBER OF TRANSACTION AND AVERAGE TRANSACTION SIZE BY INDUSTRY



“The number of transactions [in FY2021] is comparable to the prior year before COVID-19 but did not reach the transaction sizes seen during calendar year 2019.”

MAJOR DEALS

THE TOP DEALS BY TRANSACTION VALUE IN FY2021 WERE:

SECTOR	TARGET	ACQUIRER	SELLER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)
TELECOMMUNICATION SERVICES	Vocus Group Limited	Aware Super Pty Ltd; Macquarie Infrastructure and Real Assets	Shareholders (public company, delisted)	100	4,635.0
REAL ESTATE	Australian Logistics Property Portfolio	GIC Pte. Ltd.; ESR Cayman Limited	The Blackstone Group Inc.	100	3,800.0
INFORMATION TECHNOLOGY	Stream Group Limited	Mayfield Group Investments Pty Ltd	Neiser Beteiligungs GmbH	100	3,115.7
FINANCIALS	The Colonial Mutual Life Assurance Society Limited and ASB Group (Life) Ltd.	AIA International Limited	Commonwealth Bank of Australia	100	2,400.0
INDUSTRIALS	Business of Virgin Australia Holdings Limited	Bain Capital, LP	Virgin Australia Holdings Limited	100	1,650.0
UTILITIES	Infigen Energy Limited	Iberdrola Renewables Australia Pty Ltd	Shareholders (public company, delisted)	100	1,559.2
FINANCIALS	MLC Wealth Management Limited	IOOF Holdings Ltd	National Australia Bank Limited	100	1,440.0
CONSUMER DISCRETIONARY	Village Roadshow Limited	VRG Bidco Pty Limited	Shareholders (public company, delisted)	100	1,426.4
MATERIALS	USG Boral	Gebr. Knauf KG	Boral Limited	50	1,420.7
REAL ESTATE	Grosvenor Place Office Building in Sydney, Australia	China Investment Corporation	Canada Pension Plan Investment Board; DEXUS Office Partnership; Dexus	50	925.0

SME DEALS

Whilst the financial metrics of most SME transactions are not publicly disclosed, in those that are we have seen a number of businesses achieve high implied enterprise value / EBITDA multiples on the sale of their businesses, such as the transactions listed below. The highlighted entry is a transaction in which HLB Mann Judd acted as a transaction and tax advisor to the sellers.

SECTOR	TARGET	ACQUIRER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)	IMPLIED EV/EBITDA MULTIPLE
INFORMATION TECHNOLOGY	Signifo Limited	Elmo Software Limited	100	58.3	58.3x
CONSUMER DISCRETIONARY	Hobby Warehouse Pty Ltd	Funtastic Limited (nka:Toys'R'Us Anz Limited)	100	18.9	37.8x
INFORMATION TECHNOLOGY	Sateva Pty Ltd/Sateva Development Pty Ltd	K2fly Limited	100	4.0	22.1x
CONSUMER DISCRETIONARY	Hampers & Gifts Australia Pty Ltd	Maggie Beer Holdings Limited	100	55.0	12.5x
CONSUMER DISCRETIONARY	Australian Fitness Management Pty. Ltd.	Viva Leisure Limited	100	20.0	11.1x
HEALTHCARE	Direct Radiology Pty Ltd	Capitol Health Limited	100	14.3	10.2x
INFORMATION TECHNOLOGY	Load Point Pty Ltd	Freightlancer Pty Limited	100	7.7	10.1x

HLB DEALS

During FY2021, HLB assisted many stakeholders achieve their transaction goals via the provision of M&A advisory services, due diligence reviews, valuations and general transaction advice, suggesting that deal activity remains strong following the initial drop at the start of the COVID-19 pandemic. This trend is likely to continue as economies and businesses adapt to the “new normal”.

Summarised below is a selection of completed, publicly announced engagements HLB Sydney was involved in during FY2021:

Plus Fitness



JULY 2020
TRANSACTION ADVISOR

Sale of business
to Viva Leisure

PARTs DB



JANUARY 2021
TRANSACTION ADVISOR

Sale of business to
GPC asia pacific

PACK & SEND



FEBRUARY 2021
TRANSACTION ADVISOR

Sale of business to
MBE worldwide

HLB is actively involved in the sale processes of a number of businesses in the engineering, media, information technology, aged care and industrial sectors.

SALES PROCESS

- Engineering
- Media
- Information Technology
- Aged care
- Industrials

DUE DILIGENCE

- Green Energy
- Recruitment
- Technology & mining
- Online retailing
- Hardware retail

VALUATION

- Funds Management
- Science & technology
- Clean Energy
- Media
- Legal

During FY2021, HLB completed numerous due diligence reviews for companies operating green energy, recruitment, technology and mining, online retailing, and hardware retail businesses. While the appetite for acquisitions remains strong in the market, we observed some transactions stalled in the diligence phase, due to identified risks which suggests some buyers remain nervous in relation to undisclosed uncertainties in the current market. As always vendors who are well prepared prior to the commencement of a sale process avoid surprises in the diligence phase, mitigate transaction risks and achieve optimum outcomes.

FY2021 also saw many valuation engagements completed for financial reporting and tax purposes. Valuations for tax purposes are typically sought after for an internal restructure such as to bring new shareholders in or allow existing shareholders to exit. It was interesting to explore how COVID-19 impacted businesses differently, depending on factors such as industry and geographical reach. We saw some businesses experience lower valuations while other businesses were impacted neutrally by the pandemic, and some accelerated growth to record significantly higher values.

FY2022 OUTLOOK >>>

We are seeing an increase in deal appetite in the Australian market.

Furthermore, as observed in the HLB Mann Judd IPO Watch July 2021, favourable macroeconomic and capital market conditions in addition to strong investor sentiment is driving IPO activity with a strong pipeline of new listings at the end of June 2021.

As New South Wales and other states in Australia continue to experience lockdowns which inevitably impact businesses, the initial shock of such changes has been overcome and overall businesses and individuals are better able to adapt to these changing circumstances and continue to operate as best as possible, however we note this varies by industry. With the vaccine rollout ramping up in Australia and around the world, we expect the M&A market will produce deal numbers and values similar to FY2021, or even increase.

A recent HLB International report cited technology and healthcare as sectors that will remain at the forefront. AgTech is another sector which is expected to perform well where field robotics, artificial intelligence and machine learning will play a huge part. Remote work technology and cloud companies are also expected to fair well as well as fintechs and businesses related to enterprise, health and wellness. FoodTech, where we see innovative companies creating lab-grown meat and technology run insurance companies, will be essential as well as mobility, retail health and wellness companies. Finally, anything connected with supply chain technology that makes it easier to move things is expected to perform well.

If you are considering how to write the next chapter for your business, such as growth, acquisition, restructure or exit planning:

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The Australasian network has 85 Partners with offices in all major Australian business centres. Through our membership of HLB International, the global advisory and accounting network (a global network of accounting firms with 700 offices in 150 countries), our clients also have access to worldwide expertise.

The Sydney firm has over 32 Partners and Directors and over 160 staff members and is located at 207 Kent Street, Sydney.

We are a viable alternative to the larger accounting firms with parallel expertise, but still with Partners' individual involvement... and a more cost-effective fee structure. The bottom line always matters and so does the service.

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- Corporate Advisory
- Restructuring & Risk Advisory
- Tax Consultancy & Compliance
- Wealth Management

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